

Jaiprakash Associates Ltd. ----- Maintain NEUTRAL
Funding concerns now alleviated
EPS: ◀▶ TP: ▲

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- The treasury shares created on account of the merger of its four group companies with itself provides an opportunity for JPA to raise funds, which would not only address the concerns about its high gearing but also improve the visibility for its planned capex to be implemented.
- JPA's free cash flow requirements of about Rs39 bn over FY10-11E would be completely met if all the treasury shares (201 mn) are sold at a 10% discount to its current market price.
- Key catalysts for JPA in our view are: 1) timely implementation of key projects – Yamuna Expressway, cement and power capacities, 2) a pick-up in real estate volumes and realisations, and 3) a favourable swap ratio for the proposed merger of JPVL (unlisted) with JHPL.
- We continue to value only those projects that have high visibility of being implemented. However, we no longer apply discounts to their fair values on financing-related concerns.
- Led by the reduced risks of financing, we also lower our cost of discounting for its key projects. Consequently we raise our target price for JPA to Rs198 from Rs123.

Bbg/RIC	JPA IN / JAIA.BO	Price (25 Jun 09, Rs)	218.00		
Rating (prev. rating)	N (N) [V]	TP (Rs) (prev. TP)	198 (123)		
Shares outstanding (mn)	1,401.90	Est. pot. % chg. to TP	(9)		
Daily trad vol-6m avg (mn)	15.1	52-wk range (Rs)	232.10 - 54.50		
Daily trad val-6m avg (US\$ mn)	53.6	Mkt cap (Rs/US\$ bn)	305.6/ 6.0		
Free float (%)	62.7	Performance	1M 3M 12M		
Major shareholders		Absolute	25.7 179.7 40.4		
		Relative	21.1 83.6 37.3		
Year	3/07A	3/08A	3/09E	3/10E	3/11E
Revenues (Rs mn)	34,779	39,851	57,784	79,110	92,704
EBITDA (Rs mn)	9,427	10,970	16,146	21,682	25,554
Net profit (Rs mn)	4,130	5,962	8,829	9,578	10,714
EPS (Rs)	3.77	5.09	6.30	6.83	7.64
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rs)	n.a.	n.a.	5.70	7.40	7.60
EPS growth (%)	45.4	35.1	23.8	8.5	11.9
P/E (x)	57.9	42.8	34.6	31.9	28.5
Dividend yield (%)	0.3	0.4	0.2	0.3	0.3
EV/EBITDA (x)	36.7	33.8	24.4	19.1	17.2
P/B (x)	8.3	5.6	5.4	4.8	4.3
ROE (%)	14.9	16.0	17.3	16.0	15.9
Net debt/equity (%)	141	141	158	173	187

Note 1: JPA is an Infrastructure conglomerate focused on E&C of hydro power plants. It is planning to emerge as the 3rd largest cement producer in India, has interests in hydro & thermal power plants, toll roads, real estate, hotels & hospitality sectors.

Figure 2: JPA valuation – key changes summary

(Rs/share)	Earlier	Now	% change	Key changes
EPC	28	46	63	At 13x FY10E EPS versus 8x earlier – in line with the mid-cap construction players
Jaypee Infratech	8	13	69	Cost of equity at 14.5% versus 16.4% earlier
JP Greens	2	2	5	Cost of equity at 14.5% versus 16.4% earlier
Himalayan & Ganga Expressway Power	1	1	-	N.A.
				Cost of equity at 13.1% versus 15% for Baspa & Vishnuprayag, 13.6% versus 15.5% for Karcham and 14.8% for plants under development versus 16.1% and no discount to fair value versus 30% earlier
Cement	23	28	24	WACC at 11.8% versus 12.4% earlier
Hotels	1	1	-	N.A.
Treasury shares	15	26	75	Increase in CMP; valued at a 15% discount to CMP
Total	145	198	37	
Discount to SoTP	15%	0%		No discount versus 15% earlier on gearing concerns
Target price	123	198	61	

Source: Credit Suisse estimates.

Treasury shares can meet free cash needs over FY10-11E

JPA has significant growth plans across all its business lines – EPC, cement, power plants, real estate and expressways. It plans to: 1) implement about 2.4x its existing cement capacity by FY11E, 2) ramp up by over 16x its attributable power capacity, 3) develop aggressively its real estate land bank, and 4) add significant visibility to its EPC order book aided by internal orders. We believe that JPA's plans are aggressive and are likely to face delays on several counts led by: 1) problems in achieving financial closures, 2) environmental clearances and land acquisitions, and 3) a slowdown in real estate sales volumes, etc. We therefore incorporate execution delays in our assumptions.

However, we believe that the availability of finance to implement its growth plans would improve significantly led by the 201 mn treasury shares created on account of the merger of its four companies – allaying one of the key concerns until currently. As per press reports, JPA recently sold 25 mn treasury shares to raise Rs5 bn.

Figure 1: JPA – free cash flow requirements

(Rs mn)	FY09E	FY10E	FY11E	Total (FY10-11E)
Cash flow from operations	8,902	10,556	15,884	26,440
Capex	(25,959)	(17,330)	(17,203)	(34,534)
Investments	(6,232)	(11,248)	(19,443)	(30,691)
Free cash flow	(23,289)	(18,022)	(20,762)	(38,785)

Source: Credit Suisse estimates.

Target price raised to Rs198

We continue to value only those projects that have high visibility of being implemented and attribute no value to projects at an early stage of implementation such as: 1) Ganga Expressway, 2) 5,000 acres of land bank along the Yamuna Expressway, 3) F1 race track and related real estate development, 4) 720 MW of hydro power plants in Meghalaya, and 5) 3.3 GW of thermal power plants in Uttar Pradesh. However, we no longer apply a discount relating to financing concerns to the fair values of the projects being valued. Led by the reduced risk profile, we also lower our cost of discounting for projects. We value its construction business at 11x FY10E EPS led by increased execution visibility – in line with the mid-cap construction companies under our coverage. Led by these changes, we revise our target price upwards to Rs198 versus Rs123.

Companies Mentioned (Price as of 25 Jun 09)

Jaiprakash Associates Ltd. (JAIA.BO, Rs218.00, NEUTRAL [V], TP Rs198.00)
 Jaiprakash Hydro-Power Ltd (JAPR.BO, Rs92.10, NOT RATED)

Disclosure Appendix

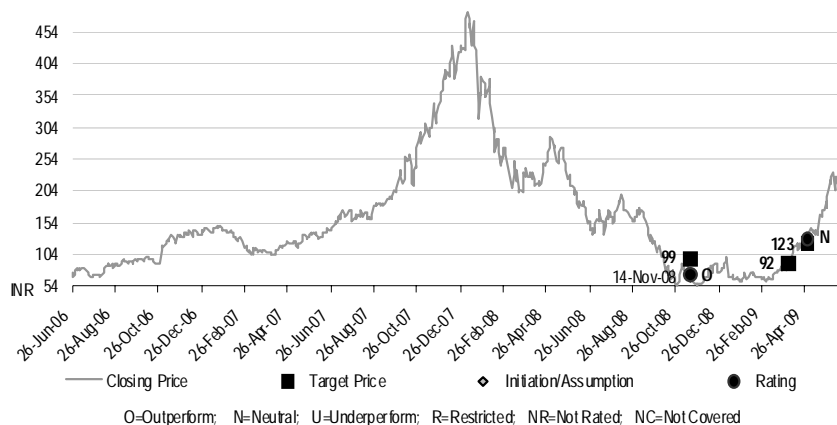
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See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for JAIA.BO

JAIA.BO Date	Closing Price (INR)	Target Price (INR)	Initiation/ Rating Assumption
14-Nov-08	73.15	99	O X
1-Apr-09	85.35	92	
28-Apr-09	130.4	123	N



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Price Target: (12 months) for (JAIA.BO)

Method: Our target price of Rs198 for JPA is based on the sum-of-the parts valuation. We have valued the core construction business at 13x FY10E earnings - in line with that of mid-cap construction companies. We have valued the power plants, cement business through standalone accounts, real estate business and Taj Expressway project based on discounted cash flow (DCF). We have ascribed the book value of investments for its Ganga and Himalayan Expressway and the cement business planned to be executed through JVs/ subsidiaries. We have valued the treasury stock at ~Rs183/ share.

Risks: Potential risks to our target price of Rs198 for Jaiprakash Associates include 1) foreign currency risk, 2) commodity price fluctuations, 3) political risk 4) risk of economic slowdown 5) project execution 6) interest rates 7) protests relating to land acquisitions at Jaypee Infratech, Ganga Infrastructure 8) cancellation of rights issue 9) rights issue launched at substantial discount to its market price 10) traffic/ revenue risk at BOT projects 11) potential equity issuances and 12) other industry specific risks such as shortage of manpower, slowdown in government capex, government regulations, competition etc.

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