

BSE Code: 532627 **NSE Code:** JPPOWER **Reuters Code:** JAPR.NS **Bloomberg Code:** JPVL:IN

Jaiprakash Power Ventures Ltd. (JPVL), a part of the Jaypee Group is the largest private hydropower generator of India. The company owns and operates 1700 MW of run-of-the-river hydroelectric power projects and is all set to be a 13,470 MW power producer by 2019. With over 2500 MW power projects lined up to commence production by the end of 2013, the growth outlook of the company seems firm. The company, with strategic approach to maintain a balance between merchant power and long-term power purchase agreements, look attractive due to zero fuel cost factor.

Investor's Rationale

JPVL is the country's largest private sector hydro power producer having operational capacity of 1,700 MW across three projects-Baspa (300 MW), Vishnuprayag (400 MW) and Karcham Wangtoo (1,000 MW). Further, the company has 3920 MW of hydro projects in pipeline to be executed by 2019.

JPVL is diversifying its fuel mix for power plants in line with the Government of India's objective of 60:40 Thermal: Hydro mix, by 2019. It has lined up various projects to expand its hydro-thermal power capacity to 13,470MW by 2019. Its 1820 MW of projects are going to commission by 2013, i.e. the first phase of 500 MW of the Bina project is to be commissioned in April 2012 and the second phase in July 2012 and Nigrie project (1,320 MW), likely to be commission in September 2013.

On March 6, 2012, 217 Kms long, 400 kV D/C (quad conductor) Karcham Wangtoo-Abdullapur transmission line built by Jaypee Powergrid Limited (JPL), was successfully synchronized with the Northern Regional Grid of Powergrid. This transmission project will also add to the profitability of JPVL, as line will be used for evacuation of Power from the pothead yard of 1000 MW Karcham Wangtoo Plant.

Coal India Ltd (CIL) has signed Fuel Supply Agreement (FSA) on April 17, 2012 which ensures 80% of its supply to power providers. This would be positive for JPVL, as the availability of coal is main concern for thermal power projects, which will now be taken care of by the agreement.

During Q3FY12, JPVL recorded substantial revenue growth of 130% at ₹4,177.0 million. It expects to generate around ₹430 million from sale of Verified Emission Reductions in FY12. We expect JPVL's revenue to grow at over 90% CAGR between FY11-FY13E.

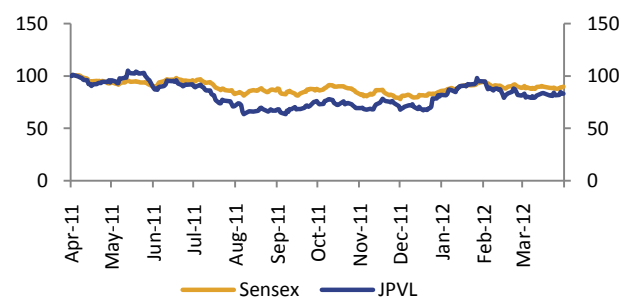
Market Data

Rating	BUY
CMP (₹)	42
Target (₹)	53
Potential Upside	~26%
Duration	Long Term
52 week H/L (₹)	54.0/31.2
All time High (₹)	84.0
Decline from 52WH (%)	22.2
Rise from 52WL (%)	34.6
Beta	1.6
Mkt. Cap (₹ bn)	110.2
Enterprise Value (₹ bn)	222.1

Fiscal Year Ended

	FY10A	FY11A	FY12E	FY13E
Revenue (₹bn)	6.5	6.9	16.6	26.5
Net Profit(₹bn)	2.4	1.7	4.6	6.3
Share Capital	20.9	26.2	26.2	26.2
EPS (₹)	1.2	0.7	1.8	2.4
P/E (x)	36.4	64.0	23.6	17.3
P/BV (x)	2.6	2.1	2.1	2.0
EV/EBITDA (x)	20.7	29.3	16.7	13.5
ROE (%)	7.2	3.3	8.9	11.6
ROCE (%)	5.1	3.5	6.0	7.0

One year Price Chart



Shareholding Pattern

	Dec'11	Sep'11	Diff.
Promoters	76.1	76.5	(0.4)
FII	0.9	0.9	-
DII	4.0	3.7	0.2
Others	19.1	18.9	0.2



Owns and operates 1700 MW of run-of-the-river hydroelectric power projects and is rapidly growing to be a 13,470 MW power producer by 2019.

Growth outlook remains firm with over 2500 MW power projects lined up to commence production

A ~₹110 billion Company

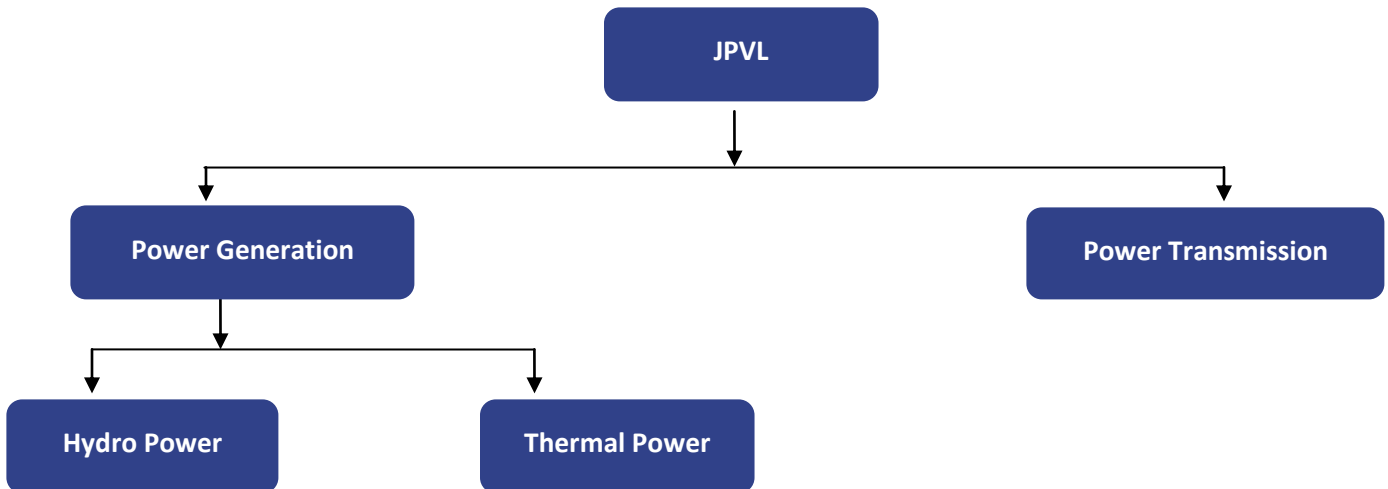
JPVL, a part of the Jaypee Group was incorporated in 1994. JPVL was incorporated with the objective of development and operation of power projects in India. JPVL is engaged in major segments that include – Power Generation and Power Transmission.

The company owns and operates the 300 megawatt (MW) Baspa-II Hydroelectric Project at District Kinnaur, Himachal Pradesh and 400 MW Vishnuprayag Hydroelectric project, at District Chamoli, Uttarakhand and 1,000 MW Karcham-Wangtoo (Himachal Pradesh). All the plants are run-of-the-river hydroelectric power projects. JPVL has also acquired Bina Power Supply Company Limited (BPSCL) from the Aditya Birla Group to set up a 1,250 MW coal fired Thermal Power Plant at Bina in the State of Madhya Pradesh. Meanwhile, the first phase of 500 MW thermal power of the 1,250 MW Bina thermal projects in Madhya Pradesh expected to begin commercial operation by mid-2012. The company is also implementing the 1,320 MW (2X660 MW) super critical technology boiler pit head based Nigrie Thermal Project at District Singrauli in the state of Madhya Pradesh and is poised to begin commercial operation in calendar year 2013. The Group is poised to be a 13,470 MW power producer by 2019.

Outlook remains bright

The company is likely to witness substantial growth in the coming years with the first phase of 500 MW thermal power of the 1,250 MW Bina thermal project in Madhya Pradesh expected to begin commercial operation by mid-2012, 1320 MW Nigrie Thermal Power plant poised to begin commercial operation in calendar year 2013. The transmission project of Jaypee Powergrid Limited, a subsidiary of the company, which is, 214 km long power transmission system to evacuate power from the Karcham-Wangtoo project has commercialized the operation from March'2012.

JPVL's business overview



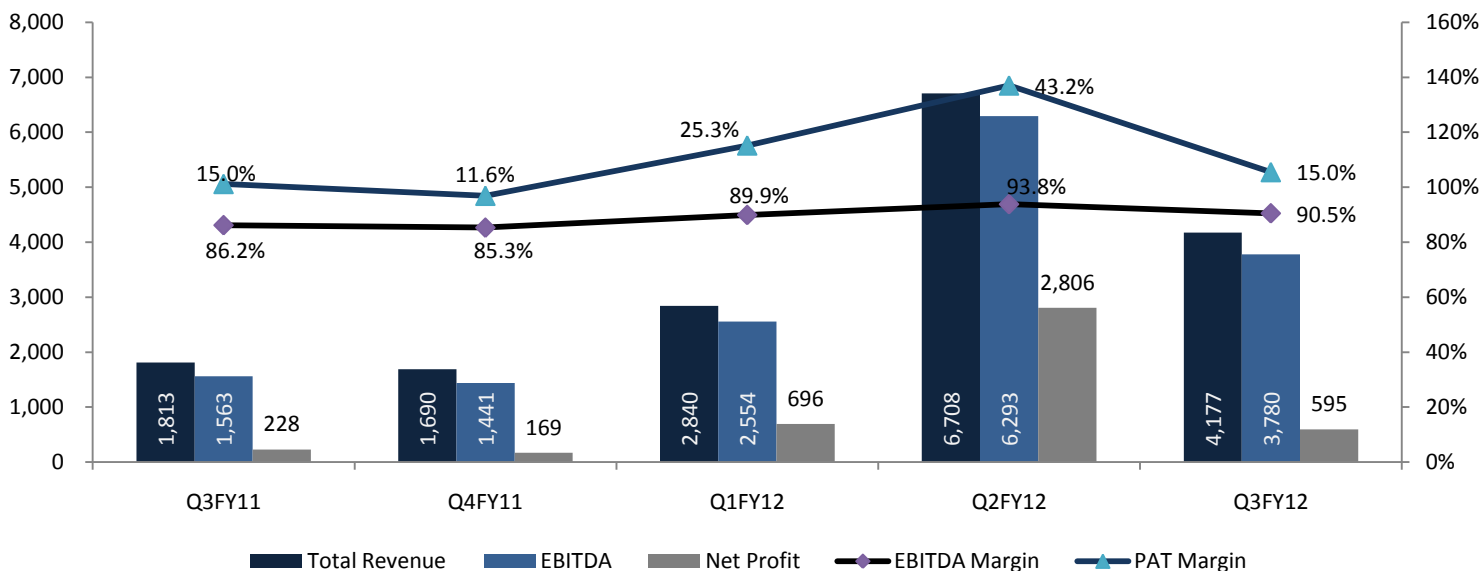


Stellar performance in Q3FY'12 on higher merchant rates

JPVL registered a substantial growth in its revenues during Q3FY'12 up 130%, to ₹4,177.0 million as compared to ₹1,813.0 million in the corresponding period of the previous year. In addition to this, lower operating costs helped improved EBITDA 142% to ₹3,780.1 million as compared to ₹1,563.3 million in the year ago period. As a result, the EBITDA margins have improved by 648bps yoy to 90%, though declined by 362bps sequentially. Further, the PAT surged by 161% to ₹595.2 million driven by robust topline growth along with higher revenues booked from sale of Verified Emission Reductions (₹292 million, +30% yoy) and better merchant realizations at Karcham (₹4.7/unit). However, the interest cost surged by 129% YoY on account of commissioning of Karcham Wangtoo. The full impact of Karcham Wangtoo commissioning will be visible in FY13. Meanwhile, the company expects to earn ~₹2,000 million per annum from Karcham Wangtoo project in FY14. Further, on the power generation front, the gross generation volumes of the company grew by 75% to 1,172 million units for the quarter. Besides, the average realisation during Q3FY'12 stood at ₹3.17/kwhr and the average realisation from Karcham Wangtoo project was ₹4.7/kwhr. Moreover, the company expects to generate around ~₹430 million from sale of Verified Emission Reductions in FY12.

Karcham Wangtoo project to emerge as a major revenue driver by FY14

Quarterly trend of Revenue, EBITDA, Net Profit and Margins



Coal India's fuel supply agreements with private power producers to reduce supply bottleneck

Coal India's fuel supply pact with power producers to help ease the coal constraints

Coal India Ltd (CIL) has agreed to sign fuel supply agreements with power producers and will sign the pact within 15 days from the date of government directive. The agreement which puts CIL in commitment to supply at least 80% fuel to power producers and will meet the burgeoning demand in energy-starved India, power producers. The availability of coal for power sector continued to be critical input for thermal generation growth, the generation from coal based plants grew on account of improved supply of coal. JPVL has a portfolio of 5,879 MW of thermal power projects under its kitty. Further, the company is diversifying its fuel mix for power plants in line with the Government of India's objective of 60:40 Thermal: Hydro mix, by 2019.



The demand for coal has increased significantly with the commissioning of new coal-fired generation capacity. A lower-than-expected increase in domestic coal production, mainly due to delays in the development of captive coal blocks allocated to the power generators, has widened the demand-supply gap. Coal will remain the dominant catalyst for the Indian power sector, given the lower-than-expected gas production from existing fields with no new major gas discoveries. Coal India is expected to sign fuel supply pacts with power producers for 20,000 MW capacities first and the agreement for an additional 40,000 MW capacity will be signed later.

Leading private hydro power player

With a capacity of 1,700 MW, JP Power is the country's largest private sector hydro power producer. The company has three hydro projects-Baspa (300 MW), Vishnuprayag (400 MW) and Karcham Wangtoo (1,000 MW) which are less affected by insufficient water flow as they feed on rainwater as well as water from melted snow. The 300MW Baspa stage II project is the first independent power producer project after the Government of India liberalized the power policy by inviting private sector participation to set up hydropower project on build, operate and transfer basis. Its Baspa-II HEP is accredited for 1 million VER's per annum and 400 MW Vishnuprayag HEP is accredited for 1.32 million VERs. These two projects has assured 16% ROE + incentives. For Karcham Wangtoo (1,000MW) project, JPVL had executed a PPA power with Power Trading Corporation (PTC) on 21st Mar 2006 for a term of 35years. Further, the company is exempted to pay income tax for 10 years under these three projects and have to pay only MAT during this duration. Moreover, it is well insulated against increase in coal prices as currently, it has zero exposure to imported coal so far and meanwhile it has pass-thru PPAs and relatively lower exposure to merchant (~20% in long term).

JPVL is also developing 2,700 MW hydroelectric project (the Lower Siang project), expected to commence operations in 2016 (1500 MW Phase I) and a 500 MW hydroelectric project (the Hirong project), expected to commence operations in 2018, in the state of Arunachal Pradesh. The company has also entered into implementation agreement with Government of Meghalaya to set up 270 MW Umngot and 450 MW Kynshi Stage – II hydropower projects. The projects in pipeline reflect strong revenue visibility for the company.

Early entry into the hydro power space with 300MW Baspa project

Tax benefit and zero exposure to imported coal augurs well for future growth

Details of hydro power projects under implementation

Project Name	Location	Capacity (MW)	CoD	Off-take arrangements
Baspa II	Himachal Pradesh	300	Jun-03	100% under PPA to HPSEB, incl 12% free power through concession period.
Vishnuprayag	Uttarakhand	400	Oct-06	100% under PPA to UPPCL, 12% free power through concession period.
Karcham Wangtoo	Himachal Pradesh	1,000	Jun-11	80% under PPA with PTC (sub-judice) incl. 12% free power for 12years and 18% thereafter; 20% on merchant basis
Lower Siang Phase I	Arunachal Pradesh	1,500	FY16	50% under PPA incl. 12% free power for 10 years and 15% thereafter; 50% on merchant basis
Lower Siang Phase II	Arunachal Pradesh	1,200	FY18	50% under PPA incl. 12% free power for 10 years and 15% thereafter; 50% on merchant basis
Hirong	Arunachal Pradesh	500	FY18	50% under PPA incl. 12% free power for 10years and 15% thereafter; 50% on merchant basis
Kynshi	Meghalaya	450	FY19	50% under PPA incl. 13% free power; 50% on merchant basis
Umngot	Chhattisgarh	270	FY19	50% under PPA incl. 13% free power; 50% on merchant basis



Expansion of hydro-thermal power capacity to augment growth

First phase of 1250 MW Jaypee Bina Thermal Power Plant set to be commissioned in April 2012 and the second phase in July 2012.

JPVL has lined up various projects to expand its hydro-thermal power capacity to 13,470MW by 2019. The company has bought Bina power Supply Company from the Aditya Birla Group and implementing 1,250 MW Jaypee Bina Thermal Power Plant in two phases. The first phase of 500 MW of the Bina project is to be commissioned in April 2012 and the second phase in July 2012. Though the company has obtained fuel linkage from Coal India for these phases, it plans to use coal from its captive mines in Amelia and Dongri as a stop-gap arrangement. Moreover, Power Purchase Agreement has also been executed with MP Power Trading Corporation Limited and the company shall supply 70% of installed capacity of Phase-I for 25 years at the rate determined by the appropriate regulatory commission. Further, balance installed capacity will be available for sale to other parties for which requisite arrangements are being made.

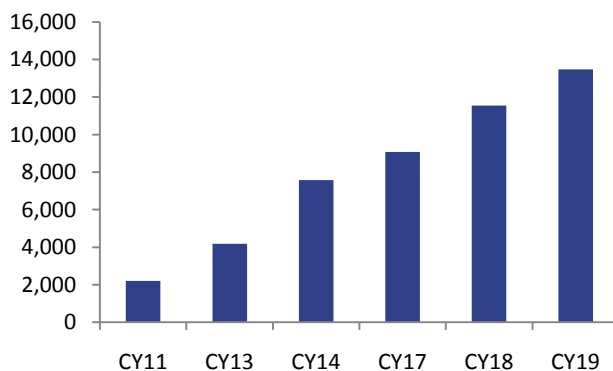
The company is also implementing 1,320MW (2X660MW) Jaypee Nigrie Super Thermal Power Project in Madhya Pradesh for which all major statutory approvals has been obtained. Total requirement of 5 Million MTPA coal for the project will be met through Amelia (North) and Dongri Tal-II Coal Blocks. Unit-I of the project is scheduled for commissioning in April, 2013 and Unit-II is likely to be commissioned in October, 2013.

Moreover, it has many other projects lined up to be executed by 2019. The commissioning of Vishnuprayag project potentially ahead of schedule by JPVL reflects its strength in project execution and its track record of managing large and complex projects. Moreover, the execution capability of the company renders significant comfort to the smooth rollout of the planned 13,470MW of additional hydro and thermal power projects over the next seven years.

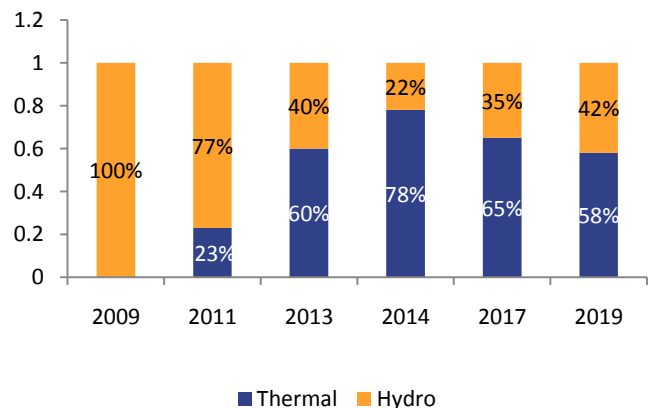
Details of thermal power projects under implementation

Project Name	Location	Capacity (MW)	CoD	Off-take arrangements
Bina Phase I	Madhya Pradesh	500	Jun-Sept 12	65% under CERC regulated returns to GoMP; 5% at variable cost to GoMP; 30% on merchant basis
Nigrie	Madhya Pradesh	1,320	Jun-Oct 13	30% under CERC regulated returns to GoMP; 7.5% at variable cost to GoMP; 50% on merchant basis; 12.5% not tied-up
Karchana Phase I	Uttar Pradesh	1,320	Sept-Oct 14	90% sold under PPA to GoUP; 10% sold on merchant basis
Bara Phase I	Uttar Pradesh	1,980	Apr-Oct 14	90% sold under PPA to GoUP; 10% sold on merchant basis

Power capacity addition (MW)



Thermal: Hydro Mix of Power Capacity





Power purchase agreements ensures fuel cost on hydro power assets

Funds to the tune of ₹3500bn to meet the funding requirements for the Company's ongoing projects

Karcham Wangtoo Hydro Electric Project, designed as a high capacity power transmission corridor and will benefit both existing as well as future projects in the Satluj basin.

Operating at higher margins led by zero fuel cost

JPVL is operating at higher EBITDA margins, mainly due to zero fuel costs on hydro power assets. The margins are expected to come down in future with the commissioning of thermal power projects; the high hydro mix will cushion its margins. Meanwhile, the company is maintaining a strategic mix between merchant power and long-term power purchase agreements (PPAs). PPAs will allow the company to pass through all of its fuel cost.

While PPAs ensure stable cash flows, merchant sale provides an upside to realisations and is expected to remain high given the nation's power deficit. Merchant power rates fetched ₹4.8 a unit in the third quarter of FY12 while PPAs fetched only ₹2.2-2.6 a unit.

JPVL gets board approval to raise ₹35bn

JPVL's board has approved raising of funds to the tune of ₹3500bn through issue of various securities, including QIP / ECB with conversion into shares/ FCCBs/ ADRs/ GDRs/ FPO/ Optionally or Compulsorily Convertible Redeemable Preference Shares etc, in order to meet the funding requirements for the Company's ongoing projects and/or the projects of its joint venture and subsidiary companies. Further, the company could also raise funds through issuance of further Equity Shares under Institutional Placement Programme (IPP). Besides, the company's board has also proposed to enter into Cement business by putting-up Cement Grinding Units at Nigrie and Bina. This is aimed at optimally utilising fly ash to be generated by the firm's thermal power plants at Nigrie and Bina, an initiative directed towards environment protection.

Commercialisation of Karcham Wangtoo-Abdullapur transmission line will add to profitability

On March 6, 2012, 217 Kms long, 400 kV D/C (quad conductor) Karcham Wangtoo-Abdullapur transmission line built by Jaypee Powergrid Limited (JPL), was successfully synchronized with the Northern Regional Grid of Powergrid. JPL, a joint venture of Power Grid Corporation of India Limited and JPVL, was granted transmission license under the Electricity Act 2003 by Central Electricity Regulatory Commission in October 2007 to build, operate and maintain this transmission line. JPVL has a 74:26 JV with Powergrid to set up and operate a 217km transmission network for evacuating power from Karcham Wangtoo project.

This transmission line connects Wangtoo switchyard of Jaypee's 1000 MW Karcham Wangtoo Hydro Electric Project with 400/220 kV Substation of Powergrid at Abdullapur in Haryana. In addition, it provides a linkage with the 400 kV Baspa Jhakri line for system security. This line is designed as a high capacity power transmission corridor and will benefit both existing as well as future projects in the Satluj basin.

Domestically employed equipment would have long term positive effect

JPVL has employed a domestic equipment supplier which has proven more expensive as compare to the option of placing turnkey contracts on Chinese equipment suppliers. The capital cost of thermal power projects of the company results in ~25% higher than other peers. This is mainly because JPVL has sourced Boiler, Turbine and Generator from BHEL and L&T as against Chinese equipment suppliers which are employed by other players. JPVL is the only one which has placed supercritical BTG orders on BHEL and L&T so far. Higher capital cost results in higher fixed cost component in tariff due to higher depreciation and interest cost per unit of electricity generated.

However, the move may have a long term positive pay-off for JPVL as there is no any long term operating track record of Chinese equipment on the Indian coal.



Balance Sheet (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Share Capital	20,956.8	26,247.6	26,247.6	26,247.6
Reserve and surplus	12,723.7	25,416.2	26,152.5	28,588.8
Net Worth	33,680.5	51,663.8	52,400.1	54,836.4
Loan funds	68,114.7	133,458.7	173,964.2	218,242.6
Minority Interest	585.0	650.0	650.0	650.0
Deferred Tax Liability	2,339.7	3,130.2	3,130.2	3,130.2
Capital Employed	104,719.9	188,902.7	230,144.5	276,859.2
Total Fixed assets	66,201.3	149,424.7	199,287.7	241,152.5
Investment	4,000.0	19,859.4	10,042.2	10,882.5
Net Current Assets	34,518.6	19,618.6	20,814.6	24,824.2
Capital Deployed	104,719.9	188,902.7	230,144.5	276,859.2

Key Ratios

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	86.9	88.0	90.0	83.5
EBIT Margin (%)	73.8	78.7	77.5	69.8
NPM (%)	37.2	24.7	28.0	22.9
ROCE (%)	5.1	3.5	6.0	7.0
ROE (%)	7.2	3.3	8.9	11.6
EPS (₹)	1.2	0.7	1.8	2.4
P/E (x)	36.4	64.0	23.6	17.3
BVPS	16.1	19.7	20.0	20.9
P/BVPS (x)	2.6	2.1	2.1	2.0
EV/Operating Income (x)	20.1	31.8	16.2	11.8
EV/EBITDA (x)	20.7	29.3	16.7	13.5
EV/EBIT (x)	24.7	33.5	19.4	16.2

Profit & Loss Account (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Net Sales	6,496.1	6,986.8	16,661.4	26,504.8
Other income	681.8	1,420.6	1,264.2	1,320.4
Expenses	851.1	837.5	1,799.4	4,594.2
EBITDA	6,326.8	7,569.9	16,126.2	23,231.0
<i>EBITDA Margin %</i>	86.9	88.0	90.0	83.5
Depreciation	1,026.1	949.3	2,236.2	3,821.8
EBIT	5,300.7	6,620.6	13,890.0	19,409.2
Interest	2,364.3	4,484.4	8,048.2	11,442.4
Profit Before Tax	2,936.4	2,136.2	5,841.8	7,966.8
Tax	518.5	413.5	1,168.4	1,593.4
Net Profit	2,417.9	1,722.7	4,673.4	6,373.4
<i>NPM %</i>	37.2	24.7	28.0	22.9

Valuation and view

Keeping in view the performance of the two Hydro-Electric Power Plants of the Company, viz. 300 MW Baspa-II Hydro-Electric Power Plant, 400 MW Vishnuprayag Hydro-Electric Power Plant, full generation from 1000 MW Karcham Wangtoo Hydro-Electric Power Plant during the next year, commissioning of 500 MW Jaypee Bina Thermal Power Plant and the company's further expansion in Hydro and Thermal Power enabling the Company (including its subsidiaries) to generate aggregate power capacity of 13,470 MW, we expect a strong growth for the company in the power sector. Further, signing of FSA by CIL will ensure coal availability over the next few years. Therefore we rate the stock as 'BUY'. At the current market price of ₹42.0, the stock is trading at a PE of 23.6x on FY'12E EPS of ₹1.8 and 17.3x on FY'13E EPS of ₹2.4.



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