

JAIPRAKASH ASSOCIATES



Firing on all cylinders

A robust performance in real estate and construction; cement in-line

Jaiprakash Associates' (JPA) reported a strong set of operational performance backed by robust revenues in construction and real estate. While Construction revenues increased by 80% Q-o-Q to INR 16.4 bn; an increase in PBIT margins to 25% saw the PBIT increase by 125%. Real estate also delivered a positive surprise in its' operational performance, reporting PBIT of INR 1.5 bn vis-à-vis INR 292 mn in Q2FY10. Real estate margins also expanded from 33% to 42.5%. Cement revenues grew by 12% Q-o-Q growth in revenues led by 35% volume growth. Realizations dipped ~INR 34/bag Q-o-Q. Cement PBIT/tonne stood at INR 852 for Q3FY10 vis-à-vis INR 1077 in Q2FY10.

Ongoing projects at Gr Noida nearing completion; new launches to drive further growth

Till date, JPA has recognized revenues of ~INR 12.3 bn from real estate, of the total estimated transaction value of ~INR 17 bn (3.1mnsqft at an average realization of INR 5,500/sqft). At the current run-rate of revenue recognition, we anticipate JPA to fully recognize the balance revenues by early FY11, indicating delivery of the sold stock. Accordingly, we expect JPA to announce follow through launches in the Greater Noida project in H1FY11E.

One-off expenses on account of ESOPs impacts reported PAT

The company has charged INR 2.12bn as an extra-ordinary expense towards issue of shares under ESOP scheme. JPA issued 12.5mn shares (pre-bonus) on 16th Dec '09 at INR 60/share to employees. The difference between issue price and market price has been charged to P&L (post bonus, 18.75mn shares issued at INR 40/share, implying a discount of ~INR 113/share).

Outlook and valuations: Power gains momentum; upgrade to 'BUY'

JPA has reiterated its' strong management capability by attaining financial closure for the power projects in Karchana (1320 MW) and Bara (1980MW) – adding ~INR 65 bn (INR 35/share) to our valuations for their power business. Further, rollover of other projects to FY12E add additional upsides to our valuations. We arrive at an SOTP valuation of INR 198/share factoring in 25.7mt of cement installed capacity, 6820MW of operational/under-construction power projects, 600 acres of real estate on development basis and 5225 acres at land bank valuation. Accordingly, we upgrade the stock to '**BUY**' to account for 21% valuation upside from current levels. On a relative return basis, the stock is rated as **Sector Performer**.

January 18, 2010

Reuters : JAIA.BO

Bloomberg : JPA IN

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	High
Sector Relative to Market	Overweight

Note:

Please refer last page of the report for rating explanation

MARKET DATA

CMP	:	INR 163
52-week range (INR)	:	180 / 40
Share in issue (mn)	:	2,121.8
M cap (INR bn/USD mn)	:	345.8 / 7,584.5
Avg. Daily Vol. BSE ('000)	:	31,688.3

SHARE HOLDING PATTERN (%)

Promoters*	:	46.1
MFs, FIs & Banks	:	9.4
FIIIs	:	26.5
Others	:	18.0
* Promoters pledged shares (% of share in issue)	:	0.1

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Const. Index
1 month	10.4	4.4	4.3
3 months	(2.4)	2.8	(0.3)
12 months	281.2	91.9	163.6

Financials

Year to March	Q3FY10	Q3FY09	% change	Q2FY10	% change	FY09	FY10E
Net revenues (INR mn)	29,638	13,882	113.5	18,889	56.9	60,470	101,567
EBITDA (INR mn)	8,852	3,138	182.1	5,204	70.1	19,587	28,220
Core profit (INR mn)	3,140	1,655	89.7	1,164	169.9	8,926	10,610
Diluted core EPS (INR)	1.7	1.4	20.1	0.6	169.9	7.5	5.7
Diluted P/E (x)						21.6	28.8
EV/EBITDA (x)						12.8	11.2
ROAE (%)						15.8	13.6

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Table 1: We value JPA at INR 198/share

Segment	Valuation rationale	(INR mn)	INR/share
1 Standalone		EV	
(a) Cement	25.7 mtpa at 10% premium to replacement cost	127,353	39
(b) Construction	FY12E EV/EBITDA of 8x	119,792	37
(c) Hospitality	Jaypee Greens real estate- NPV	18,891	6
	Hotels at 9x FY11E EV/EBITDA	12,757	4
(d) Wind Power	2x Price/equity Investment	1,500	0
	Total standalone EV	280,293	
	FY11E net debt	118,732	
	Target standalone equity Value	161,561	86
2 Jaiprakash Hydro Power Ltd		Equity value	
	Total Equity Value of JHPL post merger	148,007	
	JAL's stake in JHPL	76.51%	
	JHPL value for JAL	113,247	61
3 Jaypee Karcham Hydro Corp.			
	NPV	26,739	
	JAL's stake in JHPL	44.64%	
	JKHC value for JAL	11,936	6
5 Jaypee Infratech			
	BOT project - NPV	(19,480)	
	Real Estate - development value of 600 acres, plot value of 5225 acres	98,375	
	Equity value of Jaypee Infratech	78,895	
	JAL's stake in Jaypee Infratech	98.96%	
	Jaypee Infratech for JAL	78,074	42
6 Jaypee Himalayan Expressway			
	Book Value	1,242	
	JAL's stake in JHL	100%	
	JHL for JAL	1,242	1
	Total JAL equity value	369,775	198

Source: Edelweiss research

Standalone		(INR mn)						
Year to March	Q3FY10	Q3FY09	% change	Q2FY10	% change	FY09	FY10E	FY11E
Revenues	29,638	13,882	113.5	18,889	56.9	60,470	101,567	111,147
Direct construction, mfring & hotel expenses	14,959	7,548	98.2	10,800	38.5			
Staff costs	1,067	1,227	(13.1)	1,069	(0.2)			
Other expenses	2,813	1,953	44.0	2,584	8.9			
Total expenditure	20,786	10,744	93.5	13,685	51.9	40,883	73,348	81,218
EBITDA	8,852	3,138	182.1	5,204	70.1	19,587	28,220	29,929
Interest	2,762	992	178.5	2,588	6.8	5,043	10,485	11,069
Depreciation	1,109	646	71.7	1,100	0.8	3,090	4,716	5,194
Other income	39	589	(93.5)	237	(83.7)	1,012	2,138	2,487
PBT	5,019	2,089	140.3	1,752	186.4	12,466	15,157	16,152
Tax	1,879	434	333.0	589	219.2	3,540	4,547	5,492
Adjusted net profit	3,140	1,655	89.7	1,164	169.9	8,926	10,610	10,660
Extraordinary items	(2,110)	-		7,541				
Net profit	1,030	1,655	(37.8)	8,704	(88.2)	8,926	10,610	10,660
Diluted equity capital (FV INR 2)						2,368	3,739	3,739
No. of shares (mn)						1,184	1,869	1,869
Diluted EPS (INR)	1.7	1.4	20.1	0.6	169.9	7.5	5.7	5.7
PE (x)						21.6	28.8	28.6
EV/EBITDA (x)						12.8	11.2	10.5
Market cap / Revenues (x)						5.0	3.0	2.7
as % of net revenues								
Direct construction, mfring & hotel expenses	50.5	54.4		57.2				
Staff costs	3.6	8.8		5.7				
Other expenses	9.5	14.1		13.7				
EBITDA	29.9	22.6		27.5		32.4	27.8	26.9
Net profit	10.6	11.9		6.2		14.8	10.4	9.6

Construction

Standalone

Absolute share (INR mn)	Q3FY10	Q3FY09	Y-o-Y change (%)	Q2FY10	Q-o-Q change (%)
Segment revenue					
Cement	9,483	5,773	64.3	8,452	12.2
Construction	16,431	7,517	118.6	9,168	79.2
Hospitality & golf course	461	73	530.6	287	60.7
Unallocated	399	71	460.0	322	24.1
Hydro and wind	24	37	(35.2)	145	(83.6)
Real estate	3,456	664	420.2	884	290.7
Investments	39	665	(94.2)	237	(83.7)
Total	30,292	14,801	104.7	19,494	55.4
less: Inter-segment revenue	615	329	86.8	369	66.6
Net revenue	29,676	14,471	105.1	19,125	55.2
Segment PBIT					
Cement	2,364	1,552	52.4	2,203	7.3
Construction	4,107	919	346.7	1,832	124.2
Hospitality & golf course	85	13	NM	(57)	NM
Hydro and wind	(12)	21	(157.9)	138	(108.8)
Real estate	1,470	272	439.7	292	403.3
Investments	39	665	(94.2)	237	(83.7)
Less: Unallocable expenditure	260	361		308	
Total	7,791	3,081	152.9	4,338	79.6
Segment PBIT margin					
Cement	24.9%	26.9%		26.1%	
Construction	25.0%	12.2%		20.0%	
Hospitality & golf course	18.3%	17.5%		-19.7%	
Unallocated	0.0%	0.0%		0.0%	
Hydro and wind	-51.1%	57.1%		95.4%	
Real estate	42.5%	41.0%		33.0%	
Investments	100.0%	100.0%		100.0%	
Total	26.3%	21.3%		22.7%	

■ Company Description

JPA began operations as a civil engineering company in 1979; it diversified into hospitality and cement sectors in 1980 and 1983, respectively. Subsequently, the company has successfully made entry in to road, real estate, and power segments.

■ Investment Theme

With its diversified asset classes (cement, construction, power, real estate, and road projects), JPA is an opportunity to play the Indian infrastructure story:

- Cement capacity poised to expand to 19.4 mtpa by FY10E end
- 700 MW of operational hydro power capacity, another 6,120 MW under construction: Assured RoEs of 20% plus for the two operational plants and another 2,820 MW expected to be commissioned by FY12. Projects till FY15E have fuel linkages and have achieved financial closure.
- ~3000 acres of land in possession at ~INR 80/sq ft. Against acquisition cost of ~INR 80/sq ft, JPA has been able to sell Noida real estate at various price points ranging from INR 2100/sq ft to INR 6400/sq ft.

■ Key Risks

- With huge expansions planned across segments, execution risk remains.
- Sharp cement price correction in FY11.
- JPA is exposed to the risk of political upheaval or any exigencies in Uttar Pradesh.
- Increase in working capital costs.

Financial Statements

Income statement					(INR mn)
Year to March	FY08	FY09	FY10E	FY11E	FY12E
Total volume (nos)	6.2	7.0	10.1	14.8	18.2
% Growth	(0.8)	11.8	45.9	46.2	22.8
Revenue	42,008	60,470	101,567	111,147	139,660
EBIDTA	13,127	19,587	28,220	29,929	35,878
Depreciation and amortisation	2,033	3,090	4,716	5,194	6,096
EBIT	11,094	16,497	23,503	24,735	29,782
Interest	3,391	5,043	10,485	11,069	11,693
Total other income	731	1,012	2,138	2,487	2,487
Profit before tax	8,434	12,466	15,157	16,152	20,576
Provision for tax	2,337	3,540	4,547	5,492	6,996
Core net profit	6,097	8,926	10,610	10,660	13,580
Extraordinary income/(loss)	0	44	8,162	0	0
Profit after tax	6,097	8,970	18,771	10,660	13,580
Shares outstanding (mn)	1,172	1,184	1,869	1,869	1,869
EPS (INR) basic	5.2	7.5	5.7	5.7	7.3
Dividend payout (%)	19.2	19.2	19.2	19.2	19.2

Common size metrics- as % of net revenues

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Total operating expenses	68.8	67.6	72.2	73.1	74.3
Depreciation and amortisation	4.8	5.1	4.6	4.7	4.4
Interest expenditure	8.1	8.3	10.3	10.0	8.4
EBIDTA margins	31.2	32.4	27.8	26.9	25.7
Core net profit margins	14.5	14.8	10.4	9.6	9.7

Growth metrics (%)

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Revenues	18.6	43.9	68.0	9.4	25.7
EBIDTA	30.9	49.2	44.1	6.1	19.9
PBT	36.0	47.8	21.6	6.6	27.4
Net profit	46.9	46.4	18.9	0.5	27.4
EPS	37.5	44.9	(24.7)	0.5	27.4

Cash flow statement

Year to March	FY08	FY09	FY10E	FY11E	FY12E
PBIT	11,825	17,509	25,641	27,221	32,269
Less: Actual tax paid	1,641	3,540	4,547	5,492	6,996
Less: Tax shield on interest	940	1,427	3,145	3,764	3,976
Add: Tax on interest & investment income	202	286	641	845	845
NOPLAT	9,446	12,829	18,590	18,812	22,143
Add: Depreciation	2,033	3,090	4,716	5,194	6,096
Gross cash flow	11,479	15,919	23,307	24,005	28,239
Less: capital expenditure	29,837	42,783	23,458	25,530	11,715
Less: Working capital investment	914	5,036	6,542	658	3,754
Less: Increase in other assets	10,127	14,109	(1,814)	0	0
Add: Increase in other liabilities/provisions	11,296	12,020	(12,282)	(1,548)	0
Free cash flow	(18,103)	(33,989)	(17,161)	(3,731)	12,769

Balance sheet**(INR mn)**

As on 31st March	FY08	FY09	FY10E	FY11E	FY12E
Equity capital	2,343	2,368	3,739	3,739	3,739
Equity warrants	3,985	436	336	336	336
Reserves & surplus	39,652	64,177	84,809	93,699	104,949
Shareholders funds	45,980	66,980	88,884	97,774	109,023
Secured loans	46,403	73,383	73,383	73,383	73,383
Unsecured loans	36,653	57,679	57,679	72,289	73,265
Borrowings	83,056	131,062	131,062	145,672	146,647
Deferred tax (Net)	5,712	6,896	6,896	6,896	6,896
Sources of funds	134,747	204,938	226,842	250,343	262,567
Gross block	51,662	86,192	116,915	119,143	173,141
Depreciation	14,547	18,013	22,729	27,923	34,020
Net block	37,115	68,179	94,186	91,220	139,121
Capital work in progress	42,190	50,819	43,555	66,857	24,575
Investments	32,248	44,652	49,733	49,733	49,733
Inventories	9,813	12,286	17,867	18,301	21,389
Sundry debtors	5,862	10,220	17,167	18,786	23,605
Cash and bank balances	18,154	29,086	10,157	11,115	13,966
Loans and advances	22,219	33,081	33,081	33,081	33,081
Other current assets	3,696	6,943	5,128	5,128	5,128
Total current assets	59,744	91,616	83,399	86,411	97,169
Sundry creditors and others	33,491	45,544	39,247	39,094	43,246
Provisions	3,061	4,823	4,823	4,823	4,823
Total current liabilities & provisions	36,551	50,367	44,070	43,917	48,069
Net current assets	23,193	41,249	39,329	42,494	49,100
Misc expenditure	1	39	39	39	39
Uses of funds	134,747	204,938	226,842	250,343	262,567
Book value per share (BV) (INR)	39	57	48	52	58

Ratios

Year to March	FY08	FY09	FY10E	FY11E	FY12E
ROAE (%)	16.3	15.8	13.6	11.4	13.1
ROACE (%)	12.8	12.6	13.9	13.1	14.4
Inventory (days)	85	74	64	60	56
Debtors (days)	51	62	62	62	62
Assets turnover (x)	0.4	0.4	0.5	0.5	0.5
Debt/Equity (x)	1.8	2.0	1.5	1.5	1.3
Interest cover (x)	3.3	3.3	2.2	2.2	2.5

Valuation parameters

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Core EPS (INR)	5.2	7.5	5.7	5.7	7.3
Y-o-Y growth (%)	37.5	44.9	(24.7)	0.5	27.4
CEPS (INR)	6.9	10.2	8.2	8.5	10.5
P/E (x)	31.4	21.6	28.8	28.6	22.5
Price/BV(x)	4.2	2.9	3.4	3.1	2.8
EV/Sales (x)	4.8	3.4	3.1	2.8	2.3
EV/EBITDA (x)	17.1	12.8	11.2	10.5	8.8



RATING & INTERPRETATION

Company	Absolute reco	Relative reco	Relative risk
Simplex Infrastructure	Buy	SU	M
BL Kashyap and Sons	Buy	SO	H
C & C Constructions	Buy	SP	H
Nagarjuna Construction Co.	Buy	SO	L
Gammon India	Hold	SU	M
IVRCL Infra	Buy	SO	L
Patel Engineering	Buy	SP	M
Jaiprakash Associates	Hold	SU	H
IRB Infrastructure	Buy	SO	L

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect



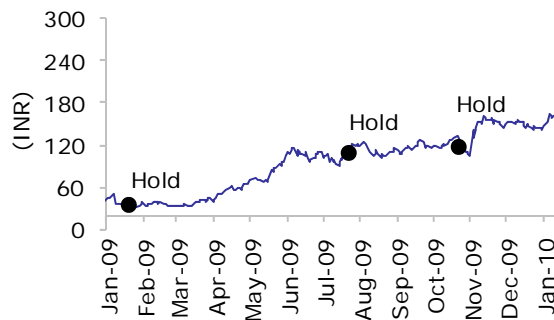
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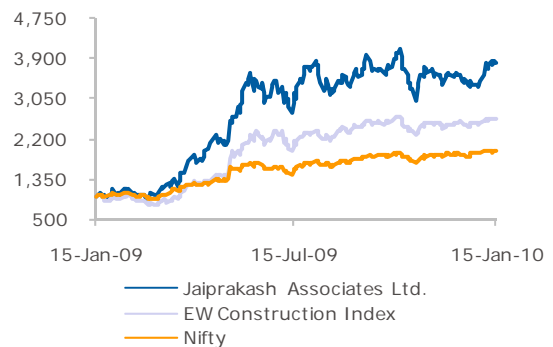
Coverage group(s) of stocks by primary analyst(s): Construction:

BL Kashyap & Sons, Gammon India, Hindustan Construction, IVRCL Infrastructures & Projects, JMC Projects (India), Madhucon Projects, Nagarjuna Construction, Patel Engineering and Simplex Infrastructures.

Jaiprakash Associates



EW Indices



Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	95	54	11	162

* 2 stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	104	46	12

Recent Research

Date	Company	Title	Price (INR)	Recos
07-Jan-10	IRB Infra.	Going great guns; Visit Note	238	Buy
24-Nov-09	Construction	Regulatory makeover to speed-up NHAI project award; Sector Update		
03-Nov-09	Gammon India	Strong topline; EBITDA margins dip sharply; Result Update	212	Buy

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