

# Jaiprakash Associates

Rs87

OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs186bn: US\$4.1bn

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**Comment:** Below estimates led by poor cement business performance; FY12 consolidated earnings downgraded 13.7%

**Last report:** 1 November 2010 (Rs125; Recommendation: Outperformer)

## Key valuation metrics

Year to March (Rs mn)	Sales	chg yoy (%)	Net Profit	EPS (Rs)	chg yoy (%)	PER (x)
FY08	46,041	21	7,387	6.7	(72)	13.0
FY09	63,518	38	9,200	6.6	(2)	13.3
FY10	106,914	68	13,950	8.7	32	10.1
FY11E	151,703	42	18,140	8.5	(2)	10.2
FY12E	203,515	34	24,668	11.6	36	7.5

## Key highlights

- JPA reported Q3FY11 PAT at Rs2.3bn (-26% yoy), below estimates of Rs2.9bn, as better-than-expected performance of the real estate division was offset by a sharp deterioration in cement business profitability.
- Revenues at Rs28.9bn (+1% yoy) were below estimates, led by lower cement as well as construction revenues. Despite a robust 32% yoy jump in volumes to 3.63mn tons, cement revenues trailed estimates due to sharply lower-than-expected growth in realizations (-Rs117/tonne qoq). After a strong 53% growth in H1FY11, revenues in the construction division fell by 23% yoy to Rs12.6bn, led by quarterly variations in revenue recognition, as also due to the fact that Karcham Wangtoo and Yamuna Expressway projects are in final stages of completion. Real estate revenues increased by 23% yoy to Rs4.3bn, led by strong sales and execution of projects at Jaypee Greens Noida and Greater Noida.
- Construction EBIT margins came in ahead of estimates at 21.4%, partly led by a pick-up in execution at the Srisailam tunneling site in the previous quarter. Cement profitability fell sharply to an EBITDA of Rs765/ton (down 32% yoy and Rs123/tonne qoq) on the back of the lower realizations. Real estate EBIT margins surprised positively, jumping to 69% during the quarter, on the back of a favorable mix of projects crossing the profit-booking threshold.
- Led mainly by the lower cement revenues and margins, total EBITDA fell 1% yoy to Rs7.9bn, below our estimate of Rs8.7bn. However, EBITDA margins at 27.4% came in ahead of estimates (25.3%) on the back of the better-than-expected construction and real estate profitability.
- Interest expenses increased by 22% yoy to Rs3.4bn (estimates of Rs3.4bn), led by net debt of Rs173bn on the books as of 31 December 2010. Net debt increased from Rs140bn as of 31 March 2010 due to capex on the large cement expansions as well as equipment purchases for the construction division.
- Reported earnings include a prior-period tax provision of Rs9m, which we have treated as an extraordinary item. On a comparable basis, reported PAT in Q3FY10 was Rs1bn.

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## Segmental performance

### □ Cement

- Cement revenues grew by 31% yoy to Rs12.4bn, led mainly by a 32% yoy jump in volumes to 3.63mn tonnes, as realizations fell by 1% yoy. On a sequential basis, realizations declined by Rs117/tonne on the back of weak cement prices across JPA's key markets in the northern and central regions.
- Led by the fall in realizations, EBITDA fell by 32% yoy to Rs765/tonne, sharply below estimates. As a result, total EBITDA declined by 11% yoy to Rs2.8bn.

### □ Construction

- Construction revenues fell by 23% yoy to Rs12.6bn as the Yamuna Expressway and Karcham Wangtoo hydropower projects are now in final stages of completion.
- EBIT margins, although better than estimated, fell by 370bp yoy to 21.4%, led by recommencement of work on the Srisailam tunneling project in the previous quarter. Therefore, EBIT fell by 34% yoy to Rs2.7bn.

### □ Real estate

- Revenues increased by 23% yoy to Rs4.3bn on strong sales and project completion at the company's Jaypee Greens property in Greater Noida and Noida. This led to a 100% jump in EBIT to Rs2.9bn.

### Segment highlights (standalone)

mn	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	% yoy
<b>Revenues</b>								
Cement	9,482	8,452	9,483	9,661	14,415	12,084	12,374	30.5
Construction	10,552	9,168	16,346	20,399	14,373	15,710	12,639	(22.7)
Real Estate	952	884	3,456	1,219	3,661	3,233	4,255	23.1
<b>EBIT</b>								
Cement	3,016	2,203	2,364	2,996	2,863	1,883	1,422	(39.8)
Construction	1,819	1,832	4,107	3,952	1,048	3,279	2,706	(34.1)
Real Estate	447	292	1,470	388	1,558	1,332	2,942	100.2
<b>EBIT margin (%)</b>								
Cement	31.8	26.1	24.9	31.0	19.9	15.6	11.5	-1,344 bps
Construction	17.2	20.0	25.1	19.4	7.3	20.9	21.4	-371 bps
Real Estate	46.9	33.0	42.5	31.9	42.6	41.2	69.1	2,660 bps

Source: Company

### □ Valuations & View

We have adjusted our standalone earnings estimates for JPA to account for the sharply lower cement business profitability. We also factor in higher interest costs going forward (increase in debt levels and increased charge to P&L on commissioning of cement capacities) as also a greater decline in construction revenues than earlier estimated. Therefore, we have downgraded our standalone earnings by 4% for FY11E and by 18% for FY12E. Considering recent changes to our earnings estimates for JPVL (6.4% upgrade in FY11E earnings; no change for FY12E) and the changes to Jaypee Infratech's estimates by our real estate analyst (25% upgrade to FY11E earnings; 8% downgrade to FY12E earnings), our consolidated earnings estimates stand upgraded by 17% for FY11 and downgraded by 14% for FY12. Our revised estimates are Rs8.5/share for FY11 and Rs11.6/share for FY12.

JPA's cement earnings are likely to be under pressure from an overall weakness in pricing due to an imminent oversupply in the domestic market. However, led by strong volumes from large capacity additions, we expect JPA's cement EBIT to register a 20% CAGR over FY11-12E. Construction earnings are also expected to decline in the near term due to a slowdown in revenue growth for an intermittent period between completion of existing large projects and commencement of profit recognition from new orders. However, with robust earnings growth in JPVL and Jaypee Infratech, we expect JPA's consolidated earnings to grow at 33% CAGR over FY10-12E. While high gearing, especially in

the current rising interest rate scenario, remains a concern, we believe that with the Yamuna Expressway (Jaypee Infratech) project now independently funded and possibilities of separately raising funds in JPVL to finance the large power development pipeline, the pressure on JPA's balance sheet is likely to ease over the next 12-18 months. We believe the commissioning of Karcham Wangtoo and Yamuna Expressway would be key triggers for the stock in the near term. Hence, we find JPA attractively valued at 7.5x FY12E earnings and 9.5x FY12E EV/EBITDA. We maintain our Outperformer rating with a revised 12-month target price of Rs164/share.

#### Quarterly results

Standalone (Rs mn)	1Q10	2Q10	3Q10	4Q10	FY10	1Q11	2Q11	3Q11	FY11E
<b>Net Sales</b>	<b>20,671</b>	<b>18,243</b>	<b>28,786</b>	<b>33,189</b>	<b>100,889</b>	<b>31,742</b>	<b>29,933</b>	<b>28,937</b>	<b>129,928</b>
% yoy chg	79.9	54.3	117.8	59.2	75.0	53.6	64.1	0.5	28.8
Total Expenditure	15,254	13,685	20,786	24,886	74,610	25,321	23,122	21,022	98,320
<b>EBITDA</b>	<b>5,417</b>	<b>4,558</b>	<b>8,000</b>	<b>8,304</b>	<b>26,279</b>	<b>6,421</b>	<b>6,811</b>	<b>7,915</b>	<b>31,608</b>
% yoy chg	73.5	31.0	223.6	17.8	56.8	18.5	49.4	(1.1)	20.3
OPM (%)	26.2	25.0	27.8	25.0	26.0	20.2	22.8	27.4	24.3
Other Income	498	883	891	394	2,665	436	820	588	2,308
Interest	2,219	2,588	2,762	2,989	10,558	3,279	3,234	3,382	13,942
Depreciation	1,017	1,100	1,109	1,334	4,561	1,503	1,528	1,542	6,312
<b>EBIT</b>	<b>4,898</b>	<b>4,340</b>	<b>7,782</b>	<b>7,364</b>	<b>24,383</b>	<b>5,354</b>	<b>6,607</b>	<b>7,211</b>	<b>27,604</b>
<b>PBT</b>	<b>2,679</b>	<b>1,752</b>	<b>5,019</b>	<b>4,375</b>	<b>13,826</b>	<b>2,074</b>	<b>2,869</b>	<b>3,580</b>	<b>13,662</b>
Tax	903	301	813	767	2,784	405	569	708	2,971
Deferred Tax	(141)	287	1,067	1,123	2,336	611	1,172	537	2,459
Tax Rate (%)	28.5	33.6	37.4	43.2	37.0	49.0	60.7	34.8	39.8
<b>Profit After Tax</b>	<b>1,917</b>	<b>1,164</b>	<b>3,140</b>	<b>2,485</b>	<b>8,705</b>	<b>1,058</b>	<b>1,128</b>	<b>2,335</b>	<b>8,231</b>
% yoy	50.6	(42.7)	89.7	(35.5)	(2.6)	(44.8)	(3.1)	(25.6)	(5.4)
Extra-ordinary Items	2,994	7,538	(2,110)	(44)	8,378	4,102	27	(9)	4,102
Reported Profit After Tax	4,911	8,702	1,030	2,441	17,084	5,160	1,155	2,327	12,333
% yoy	285.9	328.4	(37.8)	(36.7)	91.2	5.1	(86.7)	125.8	(27.8)
OPM (%)	26.2	25.0	27.8	25.0	26.0	20.2	22.8	27.4	24.3
NPM (%)	9.3	6.4	10.9	7.5	8.6	3.3	3.8	8.1	6.3
EPS (Rs)	8.8	5.3	2.7	2.1	7.5	4.8	5.1	2.0	7.1
PER (x)	3.6	6.0	11.8	14.8	17.0	6.6	6.2	15.8	17.9

## JPA SOTP

Rs mn	Valuation metric		FY12E
<b>Construction</b>			
	<b>EV/EBITDA</b>		
EBITDA		9,139	
EV / EBITDA multiple		8	
<b>Construction EV</b>			<b>73,112</b>
<b>Cement</b>			
	<b>EV / ton</b>		
Capacity (mn tons)		35.6	
EV / ton (US\$)		85	
<b>Cement EV</b>			<b>137,312</b>
<b>Power *</b>			
JPVL Equity value	DCF	187,221	
(% stake)		76.3%	
Karcham Wangtoo Equity value	DCF	57,374	
(% stake)		45.0%	
<b>Total Power</b>			<b>168,668</b>
<b>Real Estate</b>			
Jaypee Greens	NPV of cashflows @ 16% equity rate	16,809	
(% stake)		100%	
Yamuna Expressway	Net NPV of road and real estate cashflows	158,993	
(% stake)		83.1%	
<b>Total Real Estate</b>			<b>148,852</b>
<b>Others</b>			
180mn ton coal mine in MP	Per ton basis		5,940
<b>Total EV</b>			<b>533,884</b>
Less: Consolidated Debt			218,426
<b>Market Capitalisation</b>			<b>315,457</b>
No of share (m shares)			1,929
<b>Target price (Rs/share)</b>			<b>164</b>

Source: IDFC Securities Research

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