RESULTS REVIEW

Share Data

Market Cap	Rs. 72.9 bn
Price	Rs. 61.55
BSE Sensex	8,674.4
Reuters	JAIA.BO
Bloomberg	JPA IN
Avg. Volume (52 Week)	4.8 mn
52-Week High/Low	Rs.422.8/47.05
Shares Outstanding	1,183.8 mn

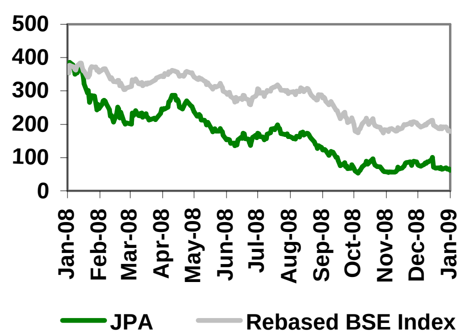
Valuation Ratios (Standalone)

Year to 31 March	2009E	2010E
EPS (Rs.)	5.5	4.5
+/- (%)	(2.4%)	(17.5%)
PER (x)	11.2x	13.6x
EV/ Sales (x)	3.1x	2.6x
EV/ EBITDA (x)	12.7x	12.3x

Shareholding Pattern (%)

Promoters	45
FIIs	22
Institutions	13
Public & Others	20

Relative Performance



Jaiprakash Associates Ltd — Sell

Facing strong headwinds

Weak business environment: Around 80% of the Company's sales come from businesses that have been adversely impacted by the credit crunch. The cement, construction, real estate, and hotels segments are facing strong headwinds as demand has slowed down tremendously and credit availability remains weak; we believe the situation is not likely to improve in the near-to-medium term. Thus, we expect standalone EPS to decline by 2% yoy and 17% yoy in FY09 and FY10, respectively.

Highly leveraged balance sheet to adversely affect funding: Considering the current balance sheet position of the Company and the funding arrangement related to the ongoing expansion plans, we expect the debt-to-equity ratio to increase in the coming quarters. On a consolidated level, the ratio was 2.3 in FY08 and is expected to reach 2.8 by FY10. At the same time, the reducing segmental margins are likely to put pressure on the Company's interest-servicing ability. Though funds for the Yamuna Expressway and the 1,000-MW hydro power plant have been arranged, funding for projects such as the Ganga Expressway, new cement plants and additional 3,000-MW hydro power plants remains a cause for concern.

Valuation: We have valued the Company by using the Sum-of-the-Parts method. Our SOTP–based target price of Rs. 56 reflects a downside of 9% from the current market price. In addition, the Company's practice of releasing minimal disclosures apart from the statutory requirements point towards weak corporate governance standards. Meanwhile, the possibility of further negative news flow cannot be ruled out in the coming quarters, especially with regard to the real estate, cement, and construction sectors. Considering these factors, we expect the stock to languish at current levels in the medium term. Hence, we reiterate our Sell rating.

Key Figures (Standalone)

Quarterly Data	Q3'08	Q2'09	Q3'09	YoY%	QoQ%	9M'08	9M'09	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	8,998	11,826	13,217	46.9%	11.8%	27,047	36,530	35.1%
EBITDA	2,659	3,478	3,062	15.2%	(12.0%)	7,414	9,663	30.3%
Net Profit	1,558	2,031	1,655	6.2%	(18.5%)	3,993	4,959	24.2%
Margins(%)								
EBITDA	29.6%	29.4%	23.2%			27.4%	26.5%	
NPM	17.3%	17.2%	12.5%			14.8%	13.6%	
Per Share Data (Rs.)								
EPS	1.36	1.57	1.29	(5.1%)	(17.8%)	3.43	3.86	12.5%

Result Highlights (Standalone)

- Net sales increased 46.9% yoy, led by a strong performance by the construction segment. Revenues for the construction segment grew 70.7% yoy as work on the Yamuna Expressway project gained momentum. The cement segment's revenue increased 15.4% yoy, primarily on the back of a 15% yoy increase in cement sales volume to 1.9 million tonnes.
- EBIT margin for the Company fell 560 bps yoy to 18.3% because of weak performances by the cement and construction segments. The cement segment's margin improved marginally on a sequential basis but fell 630 bps yoy due to high coal and fuel prices. The construction segment's margin fell 250 bps yoy, probably due to increased contribution of the low-margined BOT projects as opposed to the hydro projects.

Segmental Performance

Quarterly Data	Q3'08	Q2'09	Q3'09	YoY %	QoQ%
(Rs. in mn)					
Revenue					
Cement	5,004	5,209	5,773	15.4%	10.8%
Construction	4,403	6,584	7,517	70.7%	14.2%
Real Estate	-	265	664	NA	150.7%
EBIT					
Cement	1,659	1,315	1,552	(6.5%)	18.0%
Construction	648	2,055	919	41.8%	(55.3%)
Real Estate	-	100	272	NA	172.3%
EBIT Margin					
Cement	33.2%	25.2%	26.9%		
Construction	14.7%	31.2%	12.2%		
Real Estate	NA	37.7%	41.0%		

Source: Company data

- A 25.9% yoy increase in the interest expense dampened the growth in net profit, which grew only 6.2% yoy even after a 12.5% yoy rise in the EBIT. The interest coverage ratio also decreased, from 3.4 in Q3'08 to 3.1 in Q3'09, indicating a reduction in the interest servicing capability and a higher debt burden.

Cement segment: capacity addition – no short-term gains

The cement segment contributes around 40% to the standalone net revenues of the Company. Jaiprakash Associates has a total installed capacity of 11.5 mtpa, and as per the management, more than 4 mtpa of new capacity is expected to be commissioned in the next 2–3 months. We expect that in the current scenario of slowing demand and increasing capacity, the Company will not be able to utilise its new capacity at an optimal level. A major part of its new and existing capacity is located in the northern and central regions, which are already facing an excess supply scenario and a slowdown in demand growth vis-à-vis the other regions. Many cement manufacturers in these regions have been forced to shut down their plants for a limited period because of piling inventory. Thus, we expect the Company's overall capacity utilization rate to fall from the current 75% to 62% in FY10.

Margins to remain under pressure

During Q3'09, the cement segment's EBIT margin fell 630 bps yoy to 26.9% as the average realisation rate remained flat and input costs went up. Though cement prices remained stable for the most part of Q3'09 due to weakening demand, pricing pressure has started to intensify, resulting in a cement price decline of ~2% recently. Though the cement manufacturers seem to have passed only the excise duty cut benefit to the customers, we believe that they will be forced to reduce prices further in order to lift demand. Moreover, with the emergence of an excess supply scenario, we expect cement prices to fall by around 10–15% over the next 12 months. Though input costs are likely to ease off in the coming quarters, we don't expect margins to improve as manufacturers are most likely to pass on the benefit to the consumers amid the slowing down demand. Consequently, we expect the segment's margins to fall from the current 25% to 16% in FY10.

Construction segment: driven by in-house projects

Presently, in-house projects account for more than 90% of the construction segment's order book. We expect revenues from the segment to register a CAGR of 33% over the next three years as the Company is ramping up its two major projects—Yamuna Expressway (Taj Expressway) and the 1,000-MW

Karcham Wangtoo Hydro Electric Plant (HEP). Though the Company has stated that the Yamuna Expressway project is proceeding on schedule, we have considered a delay of one year in the valuation as the work on the project started quite late, around April 2008. As per the management, the 1,000-MW Karcham Wangtoo HEP is expected to be commissioned six months before the scheduled commissioning in November 2011.

Hydro Power segment: providing lone support

The Company's two hydro power plants—the 300-MW Baspa plant and the 400-MW Vishnuprayag plant—have power purchase agreements that provide an RoE of 16%; therefore, it is not likely to derive benefit from the new Central Electricity Regulatory Commission (CERC) guidelines. As per the new guidelines, the base rate for allowing RoE has been raised from 14% to 15.5% for 2009–14. However, the new 1,000 MW Karcham Wangtoo plant, which is likely to commence operations six months before the scheduled date in November 2011, will benefit from the revised guidelines.

We expect the segment's revenues and margins to register marginal growth in the next two years as both plants are already working at 99% plant availability factor. However, with the commissioning of the 1,000-MW Karcham Wangtoo hydro power plant, the segment's revenues and margins should register a significant growth.

Real Estate and Hotel businesses: reeling under the slowdown effect

With the deepening global economic slowdown, we expect the tourism industry to continue facing a downturn, which in turn will negatively impact the hotel industry. Accordingly, we expect the occupancy rate and the average room rate to fall by 8% and 10%, respectively, in FY09.

The real estate sector is also facing strong headwinds as the ongoing liquidity crunch, high interest rate scenario, and low loan-to-value ratio has dried up the demand for property. Though the Reserve Bank of India is making efforts to improve the liquidity conditions by reducing the CRR (reduced by 4% during Q3'09), we don't expect any significant improvement in demand as banks are adopting a cautious approach towards lending to the sector and are not increasing their loan-to-value ratios. Thus, we expect the offtake related to Jaypee Greens to fall in the coming quarters. At the same time, we don't expect the real estate construction, along the Yamuna Expressway, to start before 2010.

Yamuna Expressway: positive earnings contribution a long shot

The Company is constructing a 165-km expressway, which we expect will be completed by 2011. As per our valuation, the project's NPV comes out to be negative, which indicates that the project will put a strain on the already worsening cash flow position of the Company. Though the Company will also be allotted 6,250 acres (out of which 900 acres have already been allotted) of land along the expressway for real estate development, the cash flow is unlikely to improve in the near term due to the slowdown in the real estate sector.

Merger to adversely impact the EPS

The Company's Board of Directors approved the merger of Jaiprakash Associates Ltd with four of its subsidiaries—Jaypee Cement Ltd (JCL), Gujarat Anjan Cement Ltd (GACL), Jaypee Hotels Ltd (JHL), and Jaiprakash Enterprises Ltd (JEL)—with effect from April 01, 2008.

As per the scheme of the merger, the swap ratio will be 1:1 for JHL, 1:10 for JCL, 3:1 for JEL, and 1:11 for GACL. Since the Company is planning to transfer the cross-holding to a trust instead of cancelling it, it is likely to issue 220 million new shares, which will result in the dilution of earnings. However, we have not factored this in our valuation because the requisite approvals and the High Court's sanction are pending.

Outlook

We hold a cautious outlook towards the Company as all its operational segments except hydro power are expected to face strong headwinds in the coming quarters. This, along with the deteriorating balance sheet, is likely to create funding problems for the Company's new projects such as the Ganga Expressway and the hydro power plants with a capacity of more than 3,000 MW. The Company could also look at the possibility of bringing out a rights issue to raise funds for these projects; however, this will further result in the dilution of earnings, thereby negatively impacting the EPS.

Valuation

We have valued the Company by using the Sum-of-the-Parts method. Our SOTP–based target price of Rs. 56 reflects a downside of 9% from the current market price. Hence, we reiterate our Sell rating.

Key Figures (Standalone)

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY08-10E)
Net Sales	31,662	34,779	39,851	54,989	65,682	28.4%
EBITDA	6,675	9,866	11,454	13,372	13,865	10.0%
Net Profit	3,638	4,443	6,447	6,497	5,362	(8.8%)
Margins(%)						
EBITDA	21.1%	28.4%	28.7%	24.3%	21.1%	
NPM	11.5%	12.8%	16.2%	11.8%	8.2%	
Per Share Data (Rs.)						
EPS	3.48	3.80	5.63	5.49	4.53	(10.3%)
PER (x)	27.1x	28.3x	10.9x	11.2x	13.6x	

SOTP Valuation	Total in Rs. mn	Per share in Rs.
Cement	36,897	31
Jaypee Hotels	894	1
E&C	33,914	29
Hydro power plants	71,400	60
Jaypee greens	7,471	6
Malvika steel	2,070	2
Taj expressway	23,572	20
Real Estate	34,866	29
Zirakpur BOT Project	1,501	1
Total	212,584	180
Net Debt (FY09E)	(138,687)	(117)
	73,897	62
Conglomerate Discount	10%	10%
	66,508	56

Source: Indiabulls research

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