investors eye

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Jaiprakash Associates

Ugly Duckling

Stock Update

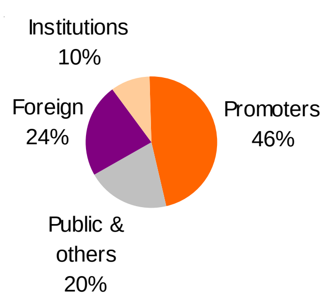
Well placed to benefit from infrastructure creation

Buy; CMP: Rs123

Company details

Price target:	Rs157
Market cap:	Rs26,099 cr
52 week high/low:	Rs180/108
NSE volume: (No of shares)	90 lakh
BSE code:	532532
NSE code:	JPASSOCIAT
Sharekhan code:	JPASSOCIAT
Free float: (No of shares)	114.6 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-1.4	-2.6	-18.2	-26.6
Relative to Sensex	-6.3	-14.4	-28.6	-39.2

- Jaiprakash Associates, has underperformed the broader market by around 39% in the past one year on account of some overhangs in terms of a potential sale of its treasury stock, a delay in the execution of its Yamuna Expressway project due to farmers' protests and its plan to enter into the non-related fertiliser business.
- With regards the farmers' protests against the Yamuna Expressway project in Uttar Pradesh for a justifiable compensation for land to be surrendered by them, the government has decided to go back to the drawing board to create an expressway authority and decide the funding pattern for the projects. Due to the farmers' protests, the work of the company suffered for about 20 days at a particular stretch on the expressway. We believe the issue is negative for the company as it may lead to a delay in the execution time of the project or could lead to an increase in the cost of the project. On the real estate front, the company could sell about 5.1 million square feet (sq ft; as on August 31). At the moment the company is constructing almost 20 million sq ft and hopes to start deliveries next year from June 2011.
- Further, the company is also looking to make a foray in the business of manufacturing and marketing of fertilisers, either on its own or through a special purpose vehicle (SPV). As per media reports, JP Associates is looking to acquire a controlling stake of nearly 74% in the fertiliser division of Duncans Industries. The fertiliser division of Duncans Industries is proposed to be hived off into a separate entity. Duncans Industries' fertiliser unit is located at Panki in Uttar Pradesh and is non-operational at present. We believe the company's likely foray into the fertiliser business is also an overhang on the stock as it is not related to its present business model.
- The re-rating triggers for the stock will be an improving outlook for the real estate companies, better than expected execution of its expressway and power projects, and a better than expected performance of its cement division, which contributes around 40% of its overall revenue.
- Jaiprakash Associates, India's leading cement and construction company, is well placed to reap the benefits of India's infrastructure spending. The company has also monetised well on the real estate properties of the Yamuna Expressway. In terms of valuation, we continue to value the stock using the sum-of-the

Valuation table (stand-alone)

Particular	FY2008	FY2009	FY2010	FY2011E	FY2012E
Reported net profit (Rs cr)	610	897	1708	910	1102
Adjusted net profit (Rs cr)	610	897	706	910	1102
Shares in issue (cr)	212.8	212.8	212.8	212.8	212.8
EPS (Rs)	2.9	4.2	3.3	4.3	5.2
PER (x)	43	29.2	37.1	28.8	23.7
RoCE (%)	11.0	10.5	10.3	10.2	10.9
RoNW (%)	13.3	13.4	8.3	10.0	11.1

parts (SOTP) valuation methodology. We have valued the cement business at 6x FY2011 enterprise value (EV)/earnings before interest, tax, depreciation and amortisation (EBITDA), which implies an EV/tonne of approximately $100. We have valued the construction division at 8x EV/EBITDA, which is at a discount of around 40% to Larsen and Toubro. We continue to value the real estate business of the company at 1x its net asset value. For power projects, we have considered those projects in our valuations that are either operational or are financially closed. In terms of the hotel business, we have valued the same at 7x FY2011E EV/EBITDA. The fair value based on the SOTP model works out to Rs157 per share. We maintain our Buy recommendation on the stock with a price target of Rs157. At the current market price, the stock is trading at a price/earnings (PE) of 28.8x FY2011 and 23.7x FY2012 estimated earnings.

Sharekhan Stock Ideas

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys Technologies
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bajaj Finserv
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Corporation Bank
Crompton Greaves
Glenmark Pharmaceuticals
Godrej Consumer Products
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Piramal Healthcare (Nicholas Piramal India)
Punj Lloyd
Sintex Industries
State Bank of India
Tata Global Beverages (Tata Tea)
Wipro

Cannonball

Allahabad Bank
Andhra Bank
IDBI Bank
Madras Cements
Phillips Carbon Black
Shree Cement
Tourism Finance Corporation of India

Emerging Star

3i Infotech
Allied Digital Services
Axis Bank (UTI Bank)
Cadila Healthcare
Emco
Greaves Cotton
IL&FS Transportation Networks
IRB Infrastructure Developers
Max India
Opto Circuits India
Patels Airtemp India
Thermax
Zydus Wellness

Ugly Duckling

Ashok Leyland
BASF India
Deepak Fertilisers & Petrochemicals Corporation
Federal Bank
Gayatri Projects
Genus Power Infrastructures
India Cements
Ipca Laboratories
ISMT
Jaiprakash Associates
JB Chemicals & Pharmaceuticals
Orbit Corporation
Pratibha Industries
Provogue India
Punjab National Bank
Ratnamani Metals and Tubes
Selan Exploration Technology
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Sunil Hitech Engineers
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
United Phosphorus
V-Guard Industries
Zensar Technologies

Vulture's Pick

Mahindra Lifespace Developers
Orient Paper and Industries
Tata Chemicals
Unity Infraprojects