

January 31, 2011

Reco	Previous Reco
Buy	Accumulate
CMP	Target Price
Rs84	Rs110
EPS change FY11E/12E (%)	-19 / -13
Target Price change (%)	-26.7
Nifty	5,512
Sensex	18,396

Price Performance				
(%)	1M	3M	6M	12M
Absolute	(15)	(29)	(26)	(35)
Rel. to Nifty	(6)	(22)	(28)	(43)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Construction
Bloomberg	JPA@IN
Equity Capital (Rs mn)	4253
Face Value(Rs)	2
No of shares o/s (mn)	2126
52 Week H/L	163/86
Market Cap (Rs bn/USD mn)	186/4,067
Daily Avg Volume (No of sh)	12961761
Daily Avg Turnover (US\$m)	31.1

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	46.0	45.9	46.0
FII/NRI	24.4	25.1	24.8
Institutions	10.0	9.3	10.3
Private Corp	6.9	6.9	6.6
Public	12.8	12.7	12.3

Source: Capitaline

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- **APAT at Rs 2.3bn (-26% yoy) sharply below estimates (Rs 2.8bn) led by lower Cement & Construction rev. Topline +0.5% yoy (Rs28.9 bn vs est-Rs33.9bn), EBITDA declines 1%**
- **Execution issues drag construction revenues down -22.7%, flat realisations restricts cement revenues growth to 30%. Real estate revenues up 23.1% – surprises positively**
- **Increasing cost pressures drag cement EBIT down by ~40% yoy- Slower execution & 350 bps decline in EBIT margins lead to 33% decline in construction EBIT. RE EBIT doubles**
- **Downgrade earnings by -19.1%/-12.9% for FY11E/FY12E. Valuations at and 7.3X FY12 EV/EBITDA looks attractive post sharp stock price decline. Upgrade to BUY. Target Rs110.**

Flat topline impacted by execution issues in construction & flattish cement realization

JPA reported a lower than expected Q3FY11 performance with a meager 0.5% yoy revenue growth to Rs 28.9bn (our exp – Rs 33.9bn). The quarter saw significantly lower than expected construction booking due to obstruction of work at Yamuna Expressway. Also cement revenues growth was restricted to 30.5% as cement realisations stood flat at Rs3411/t, significantly lower than estimates of Rs3628/t. Real estate continue to surprise positively with a topline growth of 23% yoy to Rs 4.25bn

EBIDTA down 1.1% yoy dragged by lower cement & construction margins

Overall EBIDTA at Rs8.25 bn declined 1.1% as 100% jump in real estate EBIT was negated by sharp 39.8% and 33.4% decline in Cement & Construction EBIT. With slower execution in key projects like Yamuna Expressway, Construction segment registered a 346 bps yoy decline in EBIT margins to 21.4%. With cement realisation remaining flat yoy, increasing coal & fly ash costs dragged cement EBIT margins to 11.5%, registering a sharp decline of 1343 bps yoy. Real estate EBIT doubled yoy to Rs 2.9 bn with EBIT margins of 39.1% improving by 2660 bps yoy.

APAT decline of -26% yoy-sharply below estimates

With 22.4% jump in interest outgo (~Rs175 bn of net debts) & 39% jump in depreciation charge on account of cement capacity addition APAT for the quarter at Rs2.32 bn declined 26.1% yoy, sharply below our estimates of Rs2.81 bn.

Financial Snapshot

								Rs Mn		
YE-	Net	EBITDA		EPS	EPS	RoE		EV/	P/	
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	BV
FY09	61,479	20,643	33.6	8,970	4.2	-0.4	16.8	19.9	10.6	2.8
FY10	103,554	28,907	27.9	8,933	4.2	-0.4	12.2	20.0	8.5	2.2
FY11E	133,809	32,496	24.3	7,597	3.6	-15.0	8.8	23.5	7.9	1.9
FY12E	150,477	35,809	23.8	9,833	4.6	29.4	10.3	18.2	7.3	1.8

Results table

Rs mn	Q310	Q410	Q111	Q211	Q311A	YoY (%)	QoQ (%)	YTD11	YTD10	YoY (%)
Revenue	28,786	32,995	31,742	29,933	28,937	0.5	-3.3	90,612	67,894	33.5
Expenditure	20,786	24,915	25,321	23,122	21,022	1.1	-9.1	69,465	49,725	39.7
<i>as % of sales</i>	72.2	75.5	79.8	77.2	72.6			76.7	73.2	
(increase) / Decrease in stock in Trade	1,948	-1,741	330	-1,164	-586	-130.1	-49.7	-1,420	2,572	-155.2
<i>as % of sales</i>	6.8	-5.3	1.0	-3.9	-2.0			-1.6	3.8	
Direct construction, manufacturing	14,880	21,227	19,935	19,086	16,821	13.0	-11.9	55,842	36,033	55.0
<i>as % of sales</i>	51.7	64.3	62.8	63.8	58.1			61.6	53.1	
Staff costs	1,130	1,415	1,465	1,453	1,492	32.1	2.7	4,410	3,119	41.4
<i>as % of sales</i>	3.9	4.3	4.6	4.9	5.2			4.9	4.6	
Other expenditure	2,829	4,015	3,591	3,747	3,295	16.5	-12.1	10,633	8,001	32.9
<i>as % of sales</i>	9.8	12.2	11.3	12.5	11.4			11.7	11.8	
EBITDA	8,000	8,080	6,421	6,811	7,915	-1.1	16.2	21,147	18,170	16.4
Depreciation	1,109	1,334	1,503	1,528	1,542	39.0	0.9	4,573	3,227	41.7
EBIT	6,891	6,746	4,918	6,724	6,373	-7.5	-5.2	18,015	14,859	21.2
Other Income	891	590	436	820	588	-33.9	-28.2	1,844	2,076	-11.2
Interest	2762	2989	3279	3234	3382	22.4	4.6	9895	7569	30.7
Prior period adjustments								0	0	
PBT	5,019	4,347	2,074	2,869	3,580	-28.7	24.8	8,523	9,450	-9.8
Total Tax	1,879	1,890	1,016	1,741	1,245	-33.8	-28.5	4,002	2,966	34.9
Adjusted PAT	3,140	2,457	1,058	1,128	2,335	-25.6	107.1	4,521	6,483	-30.3
(Profit)/loss from JV's/Ass/MI										
APAT after MI	3,140	2,457	1,058	1,128	2,335	-25.6	107.1	4,521	6,483	-30.3
Extra ordinary items	-2129	16	4116	-27	9	-100.4		4097	8142	-49.7
Reported PAT	1030	2441	5160	1155	2327	125.8	101.4	8642	14643	-41.0
Adjusted EPS	1.5	1.2	0.5	0.5	1.1	-26.1	101.4	2.1	3.9	

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	27.8	24.5	20.2	22.8	27.4	-44.0	459.9	23.3	26.8	-342
EBIT	27.0	22.2	16.9	20.4	24.1	-297.4	367.1	19.9	21.9	-201
EBT	17.5	13.1	6.5	9.7	12.3	-512.9	266.5	9.4	13.9	-451
PAT	10.9	7.4	3.3	3.9	8.0	-290.1	418.1	5.0	9.5	-456
Effective Tax rate	37.4	43.6	49.2	60.1	34.8	-252.2	-2526.5	47.0	31.4	1,556

Segmental Results

Segment revenue	Q310	Q410	Q111	Q211	Q311A	YoY (%)	QoQ (%)	YTD11	YTD10	YoY (%)
Cement & Cement Products	9,483	12,334	14,415	12,084	12,374	30.5	2.4	38,873	27,417	41.8
Construction	16,346	19,912	14,410	15,710	12,639	-22.7	-19.5	42,759	35,980	18.8
Hydro Electric & Wind Power	24	40	110	122	43	79.3	-65.2	275	280	-1.9
Investments	39	119	33	40	39	1.3	-2.3	112	275	-59.3
Hotel/Hospitality & Golf course	461	458	369	375	549	19.1	46.5	1,293	1,085	19.2
Real Estate	3,456	1,244	3,661	3,233	4,255	23.1	31.6	11,149	5,292	110.7
Un-allocated/investments	484	415	296	344	348	-28.0	1.3	988	1,073	-7.9
Total	30,292	34,522	33,295	31,907	30,248	-0.1	-5.2	95,449	71,402	33.7
Inter-segment revenue	615	938	1,117	1,155	722	17.4	-37.5	2,994	1,431	109.2
Total sales / Income from operations	29,677	33,584	32,178	30,752	29,526	-0.5	-4.0	92,455	69,971	32.1

Segment results

Cement & Cement Products	2,364	2,997	2,863	1,883	1,422	-39.8	-24.5	6,168	7,582	-18.7
Construction	4,067	4,030	1,055	3,279	2,706	-33.4	-17.5	7,040	7,681	-8.3
Hydro Electric & Wind Power	-12	-35	70	81	2	-112.4	-98.1	152	197	-22.9
Investments	39	119	33	40	39	1.3	-2.3	112	275	-59.3
Hotel/Hospitality & Golf course	85	39	-13	-15	93	9.9	-711.2	65	50	29.2
Real Estate	1,470	388	1,558	1,332	2,942	100.2	120.9	5,831	2,208	164.1
Unallocated	40	-8	5,132	9	8	-81.4	-14.8	5,148	13,241	-61.1
Total	8,052	7,530	10,698	6,607	7,211	-10.4	9.1	24,516	31,235	-21.5
Interest	2,762	2,989	3,279	3,234	3,382	22.4	4.6	9,895	7,569	30.7
Other Un-allocable expenditure Net of Un-allocable income	260	211	219	477	258	-0.9	-46.0	955	2,060	-53.7
PBT	5,029	4,330	7,199	2,896	3,571	-29.0	23.3	13,666	21,607	-36.7

EBIT Margin (%)						(bps)	(bps)				(bps)
Cement & Cement Products	25%	24%	20%	16%	11%	-1343.5	-408.9	16%	28%	1195.4	
Construction	25%	20%	7%	21%	21%	-346.5	54.3	17%	21%	409.3	
Hydro Electric & Wind Power	-51%	-87%	63%	66%	4%	5458.4	-6259.2	44%	36%	-829.9	
Investments	100%	100%	100%	100%	100%	0.0	0.0	100%	67%	-3333.3	
Hotel/Hospitality & Golf course	18%	9%	-3%	-4%	17%	-140.7	2097.5	3%	2%	-139.1	
Real Estate	43%	31%	43%	41%	69%	2659.6	2793.7	51%	41%	-1013.3	
Unallocated	8%	-2%	1732%	3%	2%						

Segmental Performance

Cement volume up 29.8% yoy – realisation up 0.6% yoy

Cement revenues at Rs12.37 bn grew by 30.5% yoy driven by 29.8% volume growth (3.63 mt) while cement realisation remained flat at Rs3411/t. We would like to highlight that JPA cement realisation declined 3.3% as cement prices remained subdued in JPA key Central & Northern markets, on account of subdued cement offtake. Volumes grew as JPA commissioned new capacities and ramped up utilization at recently commissioned units. Segment's performance was severely impacted by lower than expected volumes, flat cement realization along with increasing cost pressures particularly Coal & fly ash. The segment's EBIT/ton stood at Rs392/t, declining by 53.6% yoy and 28.7% qoq. EBIT margins also fell 1343 bps yoy & 409 bps qoq to 11.5%.

Cement division performance

Cement Business	Q310	Q410	Q111	Q211	Q311A	YoY (%)	QoQ (%)
Sales volume (Million Tonne)	2.8	3.6	3.8	3.4	3.6	29.8	5.9
Realisation (Rs/Ton)	3392	3426	3763	3528	3411	0.6	-3.3
Sales (Rs mn)	9483	12334	14415	12084	12374	30.5	2.4
EBIT (Rs mn)	2364	2997	2863	1883	1422	-39.8	-24.5
EBIT(%)	24.9%	24.3%	19.9%	15.6%	11.5%	-1343.5	-408.9
EBITA/Ton	845	832	747	550	392	-53.6	-28.7
Op Cost /Ton	2546	2594	3015	2978	3019	18.6	1.4

Construction revenues down 22.7% dragging the Q3FY11 performance

The quarter saw construction segment posting a decline of 22.7%yoy to Rs12.4 bn (our estimates Rs18.07bn). We would like highlight that the segment's performance was impacted by obstruction of work at Yamuna Expressway. However the EBIT margins flared in line with expectation and witnessed a correction of 346 bps yoy to 21.4%. Construction EBIT stood at Rs 2.71bn vs our expectation (Rs 3.4bn) due to lower than expected execution.

Realty revenues continue to surprise positively

Realty segment was a big surprise as the revenues realty segment delivering a whopping 23% yoy growth in Real estate revenues and 100% growth in EBIT to Rs 2.94 bn.

Downgrade earnings by -19.1%/12.9% for FY11E/FY12E- cut target to Rs110

On account of disappointing Q3FY11 numbers by both cement & construction segment we are downgrading our FY11E/12E earnings by 19.1%/12.9%. With downgrade in earnings we lower our target price on JPA to Rs110 (Earlier Rs150). We continue to value JPA's cement business at EV/t on USD 100/t for its FY12 cement capacity. With downgrade in EBIDTA of construction segment we have also lowered our target EV/EBIDTA multiple from 7.0x to 6.5x EV/EBITDA due to declining growth visibility. The lowering of price target are also driven by significant correction in market price for JPA's listed subsidiaries namely Jaiprakash Power Ventures & Jaypee Infratech.

Rs Mn	FY11E			FY12E		
	Earlier	Revised	change	Earlier	Revised	change
Sales	139,078	133,809	-4%	156,771	150,477	-4%
EBIDTA	32,842	32,496	-1%	36,481	35,809	-2%
EBIDTA (%)	23.6	24.3	67.1	23.3	23.8	52.7
APAT	9,359	7,597	-19%	11,296	9,833	-13%
EPS	4.4	3.6	-18%	5.3	4.6	-13%

Sharp stock price correction makes valuation attractive – Upgrade to BUY

Reflecting the disappointing earnings performance and execution issues at key projects like Yamuna expressway, JPA stock has significantly underperformed broader indices and has corrected ~30% over last 3 months. However with earnings set to recover in FY12E (FY12E net profit growth of 29%) we find valuation at 7.3X EBIDTA attractive. We upgrade the stock from ACCUMULATE to BUY.

SOTP	Valuation Measure	Multiple	Value	Value/Share
Cement Business	Enterprise Replacement Cost/Ton	100	140495	66
Construction Business	EV/EBIDTA	6.5	80647	38
Hotel & Hospitality	EV/Sales	2	3504	2
Jaypee Greens	NAV	100%	18100	9
Jaypee Infratech	NAV	100%	75075	35
Power				
Residual stake in JP Karcham Wangtoo	NPV	43%	13366	6
Jaiprakash Power Ventures	CMP		73508	35
Total Enterprise Value			404695	190
Less: Debt			190725	90
Target Market Capitalisation			213970	101
ADD: Value of treasury stock	Target Value	1	19470	9
Fair Value			233440	110

Financials

Income Statement

Y/E, Mar (Rs. m)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	61,479	103,554	133,809	150,477
Growth (%)	44.3	68.4	29.2	12.5
Total Expenditure	40,837	74,647	101,312	114,669
Variable divisional exps	33,466	63,778	88,586	100,875
Selling & Dist exps	611	1,158	1,274	1,529
Manpower Exps	3,308	4,534	5,758	6,621
Others	3,452	5,177	5,695	5,644
EBIDTA	20,643	28,907	32,496	35,809
Growth (%)	49.0	40.0	12.4	10.2
EBITDA margin (%)	33.6	27.9	24.3	23.8
Depreciation	3,090	4,561	6,347	7,169
EBIT	17,553	24,347	26,150	28,640
EBIT margin (%)	28.6	23.5	19.5	19.0
Other Income	0	0	0	0
Interest	5,043	10,558	13,488	13,964
EBT	12,510	13,789	12,662	14,676
Tax	3,540	4,855	5,065	4,843
Effective tax rate (%)	28.3	35.2	40.0	33.0
Adjusted PAT	8,970	8,933	7,597	9,833
Growth (%)	47.1	-0.4	-15.0	29.4
Net Margin (%)	14.6	8.6	5.7	6.5
(Profit)/loss from JVs/Ass/MI				
Adj. PAT After JVs/Ass/MI	8,970	8,933	7,597	9,833
E/O items	0	10,028	4,109	0
Reported PAT	8,970	17,084	11,706	9,833
Growth (%)	47.1	90.4	-31.5	-16.0
EAT (%)	14.6	16.5	8.7	6.5

Cash Flow

Y/E, Mar (Rs. m)	FY2009	FY2010	FY2011E	FY2012E
PBT (Ex-Other income)	12,510	13,789	10,437	12,429
Depreciation	3,090	4,561	6,347	7,169
Interest Provided	5,043	10,558	13,488	13,964
Other Non-Cash items			0	0
Chg in working cap	-9,002	-23,198	-17,739	-7,215
Tax paid	3,540	4,855	-5,065	-4,843
Operating Cashflow	3,058	-1,553	7,468	21,503
Capital expenditure	-43,159	-30,376	-7,500	-14,805
Free Cash Flow	46,217	28,823	-32	6,698
Other income	0	0	2,225	2,247
Investments	-12,404	-11,111	-19,700	-6,482
Investing Cashflow	-55,563	-41,487	-24,975	-4,235
Equity Capital Raised	0	2,985	0	0
Loans Taken / (Repaid)			11,638	0
Interest Paid	5,043	10,558	-13,488	-13,964
Dividend paid (incl tax)	-1,427	-2,224	-2,054	-1,726
Income from investments			4,109	0
Others			0	0
Financing Cashflow	46,579	48,787	205	-15,689
Net chg in cash	-5,926	5,747	-17,302	-13,226
Opening cash position	18,154	29,086	38,792	21,489
Closing cash position	29,086	38,792	21,489	8,263

Balance Sheet

Y/E, Mar (Rs. m)	FY2009	FY2010	FY2011E	FY2012E
Equity share capital	2,804	4,249	4,249	4,249
Reserves & surplus	62,589	80,758	90,409	98,517
Net worth	66,980	85,007	94,659	102,766
Secured Loans	73,383	113,580	121,080	121,080
Unsecured Loans	57,679	65,507	69,645	69,645
Loan Funds	131,062	179,087	190,725	190,725
Net Deferred Taxes	6,896	9,233	9,233	9,233
Total Liabilities	204,938	273,327	294,616	302,724
Gross Block	86,192	128,471	135,971	150,776
Less: Acc Depreciation	18,013	22,285	28,631	35,800
Net block	68,179	106,187	107,340	114,976
Capital WIP	50,819	38,916	38,916	38,916
Investment	44,652	55,763	75,462	81,944
Current Assets	91,616	130,990	145,400	147,609
Inventories	12,286	15,536	21,996	24,736
Projects under dev.	6,814	13,561	18,330	20,613
Sundry Debtors	10,220	22,850	27,495	30,920
Cash and Bank	29,086	38,792	21,489	8,263
Other Current Assets	128	304	1,100	1,237
Loans and Advances	33,081	39,947	54,990	61,840
Current Liab & Prov	50,367	58,529	72,502	80,723
Current liabilities	45,544	52,014	65,988	74,208
Provisions	4,823	6,515	6,515	6,515
Net current assets	41,249	72,461	72,898	66,887
Miscellaneous Exps	39	0	0	0
Total Assets	204,938	273,327	294,616	302,724

Key Ratios

Y/E, Mar	FY2009	FY2010	FY2011E	FY2012E
Profitability (%)				
EBITDA Margin	33.6	27.9	24.3	23.8
Net Margin	14.6	8.6	5.7	6.5
ROCE	10.5	10.3	9.3	9.7
ROE	16.8	12.2	8.8	10.3
RoIC	30.2	22.7	17.9	17.6
Per Share Data (Rs)				
EPS	4.2	4.2	3.6	4.6
CEPS	5.7	6.4	6.6	8.0
BVPS	30.1	38.6	43.1	46.9
DPS				
Valuations (x)				
PER	19.9	20.0	23.5	18.2
P/CEPS	14.8	13.2	12.8	10.5
P/BV	2.8	2.2	1.9	1.8
EV / Sales	3.6	2.4	1.9	1.7
EV / EBITDA	10.6	8.5	7.9	7.3
Dividend Yield (%)				
Gearing Ratio (x)				
Net Debt/ Equity	1.60	1.71	1.85	1.83
Net Debt/EBIDTA	4.94	4.85	5.21	5.10
Wkg cap. cycle (days)	72.2	118.7	140.2	142.2

Recommendation History: Jaiprakash Associates – JPA IN

Date	Reports	Reco	CMP	Target
01/11/2010	JP Associates Q2FY11 Result Update	Accumulate	120	150
26/07/2010	JP Associates Q1FY11 Result Update	Accumulate	129	150
01/06/2010	JP Associates Q4FY10 Result Update	Buy	125	175
19/01/2010	JP Associates Q3FY10 Result Update	Buy	160	185

Recent Research Reports

Date	Reports	Reco	CMP	Target
28/01/2011	IRB Infrastructure Q3FY11 Result Update	Accumulate	214	304
27/01/2011	Grasim Industries Q3FY11 Result Update	Accumulate	2,359	2,730
25/01/2011	Ultratech Cement Q3FY11 Result Update	Reduce	1,019	1,040
21/01/2011	Orient Paper & Industries Q3FY11 Result Update	Buy	50	77

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