

Cement & Construction performance remains muted

May 16, 2011

Reco	Previous Reco
Accumulate	Buy
CMP	Target Price
Rs88	Rs96
EPS change FY12E/13E (%)	+2.7 / NA
Target Price change (%)	-12.7
Nifty	5,545
Sensex	18,531

Price Performance

(%)	1M	3M	6M	12M
Absolute	(11)	15	(32)	(34)
Rel. to Nifty	(5)	8	(26)	(39)

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	141/70
Market Cap (Rs bn/USD mn)	186/4,145
Daily Avg Volume (No of sh)	4666682
Daily Avg Turnover (US\$m)	9.2

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	46.9	46.0	45.9
FII/NRI	21.8	24.4	25.1
Institutions	10.8	10.0	9.3
Private Corp	7.0	6.9	6.9
Public	13.6	12.8	12.7

Source: Capitaline

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- APAT at Rs 2.9bn (+17% yoy) inline with estimates (Rs 3.0bn), led by real estate EBIT +7.3x yoy to Rs 2.9bn. Const. EBIT was -46% yoy to Rs 2.2bn, Cement EBIT +57% yoy to Rs 2.2bn
- Revenues at Rs 40bn (+21.4% yoy) led by real estate revenue up 4.8x yoy to Rs 6bn - positive surprise, Cement realizations +8.7% restricts revenue growth to 27.2% yoy at Rs 15.7bn
- Massive expansion of cement capacity, continue to pose pressure on realizations, coupled with input cost pressures resulted in EBITA/ton falling 36% to Rs 529
- Upgrade FY12E earnings by 2.7% to Rs4.7/share. Reduce to an ACCUMULATE & revised target price to Rs96 factoring lower const. revenue, delay in cement capacity addition

Revenue growth of 21.4% yoy to Rs40 bn

JPA reported Q4FY11 performance in line with our expectations, revenue growth of 21% yoy to Rs 40bn (our exp – Rs 38.5bn). Quarter was marred by lower than expected performance from the cement vertical, which reported a revenue growth of 27.2% to Rs15.6bn, Overall cement realization stood at Rs 3,726/t significantly lower than our expectation of Rs 3811/t resulting in a subdued EBITA/t of Rs 529 during Q4FY11. Lower than expected execution in the construction vertical impacted the E&C vertical which reported a decline of -10.8% yoy to Rs 17.8bn. Real estate continues to surprise positively with a topline growth of 380% yoy to Rs 6bn

EBIDTA grew 8.8% yoy to Rs 8.6bn dragged by construction margins

Overall EBIDTA at Rs8.66 bn grew 8.8% yoy. Real estate witnessed a significant 7.3x yoy growth in EBIT to Rs 2.8bn. However, performance was negated by a 45.6% yoy decline in construction EBIT at Rs 2.2bn & a 25.6% yoy decline in Cement EBIT at Rs 2.2bn. With slowed execution in key projects like Yamuna Expressway & Karcham Wangtoo on the verge of completion, Construction segment registered a 785 bps yoy decline in EBIT margins to 12.7%. With cement realisation grew 8.7% yoy, however, increasing coal & fly ash costs dragged cement EBIT margins to 14.2%, registering a dip of 1009 bps yoy. Real estate EBIT margins remained healthy at 47.8% improving by 1661 bps yoy.

APAT grew 17.1% yoy to Rs 2.9bn led by 47.4% decline in tax provisions

APAT growth of 17.1% yoy supported by relatively lower growth of 13% in depreciation charge & 47% decline in tax provisioning at Rs 997mn adjusted for tax credit has led to APAT growth of 17.1% for Q4FY11, better than EBITDA growth, however below our estimates of Rs3.0 bn. Interest witnessed a 35.4% jump in Q4FY11 (~Rs175 bn of net debts)

Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	103,554	28,914	27.9	7,063	3.3	-21.3	9.7	25.3	8.5	2.2
FY11E	133,202	32,424	24.3	6,521	3.1	-7.7	7.5	27.4	7.9	2.0
FY12E	146,568	36,816	25.1	10,099	4.7	54.9	10.5	17.7	7.1	1.8
FY13E	161,459	39,786	24.6	11,491	5.4	13.8	11.0	15.7	6.6	1.7

Results table

Rs Mn	Q410	Q111	Q211	Q311	Q411A	YoY (%)	QoQ (%)	YTD11	YTD10	YoY (%)
Revenue	32,923	31,742	29,933	28,937	39,977	21.4	38.2	130,701	101,283	29.0
Expenditure	24,915	25,321	23,122	21,022	31,316	25.7	49.0	100,778	74,640	35.0
as % of sales	75.7	79.8	77.2	72.6	78.3			77.1	73.7	
(inc) / Dec. in stock in Trade	-1,741	330	-1,164	-586	208	-111.9	-135.4	-1,627	831	-295.8
as % of sales	-5.3	1.0	-3.9	-2.0	0.5			-1.2	0.8	
Direct construction, manufacturing	21,189	19,935	19,086	16,821	24,056	13.5	43.0	79,898	57,260	39.5
as % of sales	64.4	62.8	63.8	58.1	60.2			61.1	56.5	
Staff costs	1,384	1,465	1,453	1,492	1,550	12.0	3.9	5,960	4,534	31.5
as % of sales	4.2	4.6	4.9	5.2	3.9			4.6	4.5	
Other expenditure	4,084	3,591	3,747	3,295	5,915	44.8	79.5	16,547	12,016	37.7
as % of sales	12.4	11.3	12.5	11.4	14.8			12.7	11.9	
EBITDA	8,007	6,421	6,811	7,915	8,661	8.2	9.4	29,923	26,643	12.3
Depreciation	1,334	1,503	1,528	1,542	1,507	13.0	-2.3	6,079	4,561	33.3
EBIT	6,674	4,918	7,133	6,373	7,154	7.2	12.3	23,844	22,083	8.0
Other Income	661	436	820	588	769	16.3	30.7	2,501	2,271	10.1
Interest	2989	3279	3234	3382	4048	35.4	19.7	13942	10558	32.1
Prior period adjustments										
PBT	4,346	2,074	2,869	3,580	3,873	-10.9	8.2	12,402	13,796	-10.1
Total Tax	1,890	1,016	1,741	1,245	997	-47.2	-19.9	5,881	6,733	-12.7
Adjusted PAT	2,456	1,058	1,128	2,335	2,875	17.1	23.1	6,521	7,063	-7.7
(Profit)/loss from JV's/Ass/MI										
APAT after MI	2,456	1,058	1,128	2,335	2,875	17.1	23.1	6,521	7,063	-7.7
Extra ordinary items	16	4116	-27	9	138	764.8		5140	10021	-48.7
Reported PAT	2440	5160	1155	2327	3020	23.8	29.8	11661	17084	-31.7
Reported EPS	1.1	0.5	0.5	1.1	1.4	18.0	23.7	3.5	5.0	-30.4

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	24.3	20.2	22.8	27.4	21.7	-265.7	-568.8	22.9	26.3	-341
EBIT	22.3	16.9	20.4	24.1	19.8	-245.8	-423.8	18.2	21.8	-356
EBT	13.2	6.5	9.7	12.3	9.7	-345.6	-264.5	9.5	13.6	-413
PAT	7.4	3.3	3.9	8.0	7.2	-21.0	-84.0	5.0	7.0	-198
Effective Tax rate	43.6	49.2	60.1	34.8	25.7	-1791.6	-911.6	47.4	48.8	(138)

Segmental Results

Segment revenue	Q410	Q111	Q211	Q311	Q411A	YoY (%)	QoQ (%)	YTD11	YTD10	YoY (%)
Cement & Cement Products	12,334	14,415	12,084	12,374	15,685	27.2	26.8	54,558	39,751	37.2
Construction	19,958	14,410	15,710	12,639	17,806	-10.8	40.9	60,527	55,892	8.3
Hydro Electric & Wind Power	40	110	122	43	39	-3.0	-8.2	314	320	-2.0
Investments	119	33	40	39	924	677.7	2269.0	1,036	394	163.0
Hotel/Hospitality & Golf course	458	369	375	549	517	12.8	-5.8	1,810	1,543	17.3
Real Estate	1,244	3,661	3,233	4,255	5,968	379.8	40.3	17,117	6,536	161.9
Un-allocated/investments	369	296	344	348	435	17.7	24.8	1,460	1,488	-1.9
Total	34,522	33,295	31,907	30,248	41,374	19.8	36.8	136,823	105,924	29.2
Intersegment revenue	938	1,117	1,155	722	627	-33.1	-13.1	3,621	2,370	52.8
Total sales / Income from operations	33,584	32,178	30,752	29,526	40,746	21.3	38.0	133,202	103,554	28.6

Segment results

Cement & Cement Products	2,997	2,863	1,883	1,422	2,229	-25.6	56.7	8,396	10,579	-20.6
Construction	4,015	1,055	3,279	2,706	2,185	-45.6	-19.3	9,267	11,711	-20.9
Hydro Electric & Wind Power	-35	70	81	2	-30	-14.9	-2080.0	122	162	-24.6
Investments	119	33	40	39	924	677.7	2269.0	1,036	394	163.0
Hotel/Hospitality & Golf course	39	-13	-15	93	100	153.3	7.4	165	90	83.6
Real Estate	388	1,558	1,332	2,942	2,855	635.1	-2.9	8,686	2,597	234.5
Unallocated	7	5,132	9	8	-14	-300.0	-281.3	5,092	13,233	-61.5
Total	7,530	10,698	6,607	7,211	8,249	-10.4	9.1	32,765	38,765	-15.5
Interest	2,989	3,279	3,234	3,382	4,048	22.4	4.6	13,942	10,558	32.1
Other Un-allocable expenditure net of income	211	219	477	258	326	-0.9	-46.0	1,280	2,271	-43.6
PBT	4,330	7,199	2,896	3,571	3,876	-29.0	23.3	17,542	25,936	-32.4

EBIT Margin (%)						(bps)	(bps)			(bps)
Cement & Cement Products	24%	20%	16%	11%	14%	-1008.7	271.7	15%	27%	1122.3
Construction	20%	7%	21%	21%	12%	-784.7	-914.1	15%	21%	564.2
Hydro Electric & Wind Power	-87%	63%	66%	4%	-76%	1066.2	-7968.3	39%	51%	1166.7
Investments	100%	100%	100%	100%	100%	0.0	0.0	100%	100%	0.0
Hotel/Hospitality & Golf course	9%	-3%	-4%	17%	19%	1070.7	238.5	9%	6%	-329.1
Real Estate	31%	43%	41%	69%	48%	1661.0	-2128.9	51%	40%	-1101.3
Unallocated	2%	1732%	3%	2%	-3%					

Segmental Performance

Cement volume up 27.2% yoy – realisation up 8.7% yoy, volume up 16.9% yoy

Cement revenues at Rs 15.6bn grew by 27.2% yoy driven by 16.9% volume growth (4.21 mt) while cement realisation grew 8.7% to Rs3726/t. 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, lower than expected growth in cement realization along with increasing cost pressures particularly Coal & fly ash. The segment's EBIT/ton stood at Rs529/t, declining by 36.4% yoy and increasing 35.1% qoq. EBIT margins also fell 1009 bps yoy & increased 272 bps qoq to 14.2%.

Cement division performance

Cement Business	Q410	Q111	Q211	Q311	Q411A	YoY (%)	QoQ (%)
Sales volume (Million Tonne)	3.6	3.8	3.4	3.6	4.2	16.9	16.0
Realisation (Rs/Ton)	3426	3763	3528	3411	3726	8.7	9.2
Sales (Rs mn)	12334	14415	12084	12374	15685	27.2	26.8
EBIT (Rs mn)	2997	2863	1883	1422	2229	-25.6	56.7
EBIT(%)	24.3%	19.9%	15.6%	11.5%	14.2%	-41.5	23.6
EBITA/Ton	832	747	550	392	529	-36.4	35.1
Op Cost /Ton	2594	3015	2978	3019	3196	23.2	5.9

Construction revenues down 10.8% dragging the Q4FY11 performance

The quarter saw construction segment posting a decline of 10.8%yoy to Rs17.8 bn (our estimates Rs17bn). We would like highlight that the segment's performance was impacted by obstruction of work at Yamuna Expressway and Karcham Wangtoo project on the verge of completion. EBIT margins came in below our expectation witnessing a correction of 785 bps yoy to 12%. Construction EBIT stood at Rs 2.18bn vs our expectation (Rs 3.2bn).

Realty revenues continue to surprise positively

Realty segment was a big surprise as the revenues realty segment delivering a whopping 4.8x increase in Real estate revenues to Rs 6bn and 7.3x increase in construction EBIT to Rs2.85bn.

Upgrade earnings by 3% to Rs 4.7 per share for FY12E & introducing FY13E at Rs 5.4 per share

We have fine tuned our expectation of the construction and cement vertical, we have reduced our construction booking by 11% from Rs 65bn to Rs 58.5bn in FY12E at the same time we expect gross realization/ per bag to increase from Rs 237/bag to Rs 250/bag for our cement vertical. The increase is mainly on account of input cost pressures which will be passed on to the customers. Based on higher than expected coal cost per tonne, we have assumed coal cost of Rs 5932/ ton compared to our earlier assumption of Rs 5222/ton for JP Associates which is leading to an upgrade in FY12E earning by 3% to Rs 4.7 per share. We also introduce our FY13E estimates for JPA with Revenues of Rs 161bn & APAT of Rs 11.5bn

Rs Mn	FY12E			FY13E Introducing
	Earlier	Revised	change	
Sales	150,477	146,568	-3%	161,459
EBIDTA	35,809	36,816	3%	39,786
EBIDTA (%)	23.8	20.2	-357.2	19.8
APAT	9,833	10,099	3%	11,491
EPS	4.6	4.7	3%	5.4

Cut in target price to Rs 96 – Reduce to an Accumulate rating

JPA operating numbers are too dependent on the operation of the cement vertical, the overall cement vertical continues to witness oversupply issues and rising input cost pressures is not auguring well for the entire industry. Owing to a reduced visibility on account of drying order inflow for E&C vertical, we have reduced our fair value for the construction vertical by Rs6/share to Rs 32/share. We have also reduced the valuation of Jaypee infratech from Rs 35/share to Rs 31/share. Coupled with reduction in cement value by Rs 4/share to Rs 62/share due to delays built in the capacity addition schedule for cement capacity addition.

SOTP	Valuation Measure	Multiple	Value	Value/Share
Cement Business	Enterprise Replacement Cost/Ton	100	132532	62
Construction Business	EV/EBIDTA	6.5	68384	32
Hotel & Hospitality	EV/Sales	2	3620	2
Jaypee Greens	NAV	100%	18100	9
Jaypee Infratech	NAV	100%	65258	31
Power				
Residual stake in JP Karcham Wangtoo	NPV	43%	13366	6
Jaiprakash Power Ventures	CMP		75665	36
Total Enterprise Value			376926	177
Less:Debt			190725	90
Target Market Capitalisation			186200	88
ADD: Value of treasury stock	Target Value	1	16929	8
Fair Value			203129	96

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Net Sales	103,554	133,202	146,568	161,459
Growth (%)	68.4	28.6	10.0	10.2
Total Expenditure	74,640	100,778	109,752	121,674
Variable divisional exps	63,778	88,993	96,240	107,159
Selling & Dist exps	1,158	1,274	1,401	1,541
Manpower Exps	4,534	5,960	6,467	7,113
Others	5,170	4,551	5,644	5,860
EBIDTA	28,914	32,424	36,816	39,786
Growth (%)	40.1	12.1	13.5	8.1
EBITDA margin (%)	27.9	24.3	25.1	24.6
Depreciation	4,561	6,079	7,169	7,798
EBIT	24,354	26,345	29,648	31,988
EBIT margin (%)	23.5	19.8	20.2	19.8
Other Income	0	0	0	0
Interest	10,558	13,942	14,575	14,837
EBT	13,796	12,402	15,073	17,151
Tax	6,733	5,881	4,974	5,660
Effective tax rate (%)	48.8	47.4	33.0	33.0
Adjusted PAT	7,063	6,521	10,099	11,491
Growth (%)	-21.3	-7.7	54.9	13.8
Net Margin (%)	6.8	4.9	6.9	7.1
(Profit)/loss from JVs/Ass/MI				
Adj. PAT After JVs/Ass/MI	7,063	6,521	10,099	11,491
E/O items	10,021	5,140	0	0
Reported PAT	17,084	11,661	10,099	11,491
Growth (%)	90.4	-31.7	-13.4	13.8
EAT (%)	16.5	8.8	6.9	7.1

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
PBT (Ex-Other income)	13,796	10,677	12,825	14,325
Depreciation	4,561	6,079	7,169	7,798
Interest Provided	10,558	13,942	14,575	14,837
Other Non-Cash items		0	0	0
Chg in working cap	-23,198	-17,476	-5,786	-6,446
Tax paid	6,733	-5,881	-4,974	-5,660
Operating Cashflow	-1,553	7,341	23,809	24,853
Capital expenditure	-30,376	-7,500	-14,805	-10,364
Free Cash Flow	28,823	-159	9,004	14,490
Other income	0	1,725	2,247	2,826
Investments	-11,111	-19,700	-6,482	16,875
Investing Cashflow	-41,487	-25,474	-4,235	19,701
Equity Capital Raised	2,985	0	0	0
Loans Taken / (Repaid)		11,638	0	1
Interest Paid	10,558	-13,942	-14,575	-14,837
Dividend paid (incl tax)	-2,224	-2,046	-1,772	-2,017
Income from investments		5,140	0	0
Others		0	0	0
Financing Cashflow	48,787	790	-16,347	-16,852
Net chg in cash	5,747	-17,344	-11,578	17,339
Opening cash position	29,086	38,792	21,448	9,870
Closing cash position	38,792	21,448	9,870	27,209

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Equity share capital	4,249	4,249	4,249	4,249
Reserves & surplus	80,758	90,373	98,699	108,174
Net worth	85,007	94,622	102,948	112,423
Secured Loans	113,580	121,080	121,080	121,080
Unsecured Loans	65,507	69,645	69,645	69,646
Loan Funds	179,087	190,725	190,725	190,726
Net Deferred Taxes	9,233	9,233	9,233	9,233
Total Liabilities	273,327	294,580	302,906	312,382
Gross Block	128,471	135,971	150,776	161,140
Less: Acc Depreciation	22,285	28,364	35,533	43,331
Net block	106,187	107,607	115,244	117,809
Capital WIP	38,916	38,916	38,916	38,916
Investment	55,763	75,462	81,944	65,069
Current Assets	130,990	144,797	145,596	176,725
Inventories	15,536	21,896	24,093	26,541
Projects under dev.	13,561	18,247	20,078	22,118
Sundry Debtors	22,850	27,370	30,117	33,177
Cash and Bank	38,792	21,448	9,870	27,209
Other Current Assets	304	1,095	1,205	1,327
Loans and Advances	39,947	54,740	60,233	66,353
Current Liab & Prov	58,529	72,203	78,795	86,138
Current liabilities	52,014	65,688	72,280	79,624
Provisions	6,515	6,515	6,515	6,515
Net current assets	72,461	72,593	66,802	90,587
Miscellaneous Exps	0	0	0	0
Total Assets	273,327	294,580	302,906	312,382

Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
Profitability (%)				
EBITDA Margin	27.9	24.3	25.1	24.6
Net Margin	6.8	4.9	6.9	7.1
ROCE	10.3	9.4	10.0	10.5
ROE	9.7	7.5	10.5	11.0
RoIC	22.7	18.0	18.3	18.4
Per Share Data (Rs)				
EPS	3.3	3.1	4.8	5.4
CEPS	5.5	5.9	8.1	9.1
BVPS	38.6	43.1	47.0	51.5
DPS				
Valuations (x)				
PER	25.3	27.4	17.7	15.7
P/CEPS	15.4	14.2	10.3	9.4
P/BV	2.2	1.9	1.8	1.7
EV / Sales	2.4	1.9	1.8	1.6
EV / EBITDA	8.5	7.9	7.1	6.6
Dividend Yield (%)				
Gearing Ratio (x)				
Net Debt/ Equity	1.71	1.85	1.81	1.49
Net Debt/EBIDTA	4.85	5.22	4.91	4.11
Wor Cap Cycle (days)	118.7	140.1	141.8	143.3

Recommendation History: Jaiprakash Associates – JPA IN

Date	Reports	Reco	CMP	Target
31/01/2011	JP Associates Q3FY11 Result Update	Buy	84	110
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

Recent Research Reports

Date	Reports	Reco	CMP	Target
12/05/2011	Grasim Industries Q4FY11 Result Update	Accumulate	2,362	2,672
03/05/2011	Global Offshore Services Q4FY11 Result Update	Hold	133	128
02/05/2011	ILFS Transportation Q4FY11 Result Update	Accumulate	210	261
28/04/2011	Orient Paper & Industries Q4FY11 Result Update	Buy	60	74

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