



Jaiprakash Associates

| BSE SENSEX 18,202 | S&P CNX 5,532 | CMP: INR86 | TP: INR106 | Buy |
|-----------------------|------------------|------------|------------|-----|
| Bloomberg | JPA IN | | | |
| Equity Shares (m) | 2,126.5 | | | |
| 52-Week Range (INR) | 103/50 | | | |
| 1,6,12 Rel. Perf. (%) | 31/42/2 | | | |
| M.Cap. (INR b) | 182.9 | | | |
| M.Cap. (USD b) | 3.7 | | | |

* Not Fully Diluted; FCCB O/s of INR14b at conversion price of INR166/sh (dilution of ~5%)

- 3QFY12 operating performance above estimates:** During 3QFY12, JPA reported revenues of INR33.1b (up 14% YoY), EBIDTA of INR8.2b (up 3% YoY) and net profit of INR2.1b (down 12% YoY). This is above our estimates of INR1.4b. EBIDTA too was higher than our estimate of INR7.0b. Better than estimated performance is driven by strong performance of Cement business, claims receipt towards group EPC project boosting EPC profits (Karcham Wangtoo, etc) and higher dividend income from Jaypee Infratech (large part of other income, attributable could be INR1.2b+). Thus, the better than estimates were driven partly by operating performance and partly aided by one-offs.
- Cement business performance robust:** Cement division volumes stood at 4.25m tons (up 17% YoY), while realisation improved by INR765/ton and EBIDTA by INR500/ton+ QoQ, leading to EBIT of INR1.7b, vs negative EBIT of INR295m in 2QFY12. EPC business too recorded higher margins at 30%, owing to claims receipt. EBIT for division stood at INR3.7b, vs INR2.7b YoY. Real estate division however saw bit moderation with revenues of INR3.1b (down 28% YoY), while EBIT stood at INR1.5b (down 50% YoY)
- E&C business:** prior claims boost EPC margin: E&C revenues at INR12.5b, flat YoY; as several large scale projects are completed, near completion (Yamuna Expressway, F1 circuit, Karcham Wangtoo, etc). Margins in E&C however stood at 29.8% (up 840bp YoY), and was higher than estimates.
- Upgrading FY12/13E estimates, maintain Buy:** We have upgraded our FY12/13E earnings estimate for JPA by 8% and 25%, respectively to factor in superior performance for Cement business (FY12/13E), one-off gains in EPC division and higher other income (FY12E). We value JPA on SOTP and arrive at TP of INR106/sh, comprising of: Cement business at INR75/sh (6x FY13E EV/EBIT and balance capacity at USD110/ton), EPC business at INR39/sh (8x FY13E EV/EBIT), Jaiprakash Power at INR38/sh (based on our TP of INR46/sh), Jaypee Infratech at INR30/sh (based on our TP of INR55/sh), other Real Estate (Jaypee Greens, Land at NOIDA, etc) at INR11/sh less net debt on books (less of cash, investment valued at BV in other subsidiaries) at INR87/sh. Maintain **Buy**.

| Y/E March | Quarterly Performance | | | | | | | | | | (INR Million) | |
|------------------------|-----------------------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------------|--|
| | FY11 | | | | FY12 | | | | FY11 | FY12E | | |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4QE | | | | |
| Sales | 31,742 | 29,933 | 28,937 | 39,053 | 31,833 | 31,324 | 33,054 | 51,381 | 129,665 | 149,367 | | |
| Change (%) | 53.6 | 64.1 | 1.4 | 16.7 | 0.3 | 4.6 | 14.2 | 31.6 | 28.5 | 15.2 | | |
| EBITDA | 6,421 | 6,811 | 7,915 | 7,740 | 7,728 | 7,482 | 8,160 | 10,493 | 28,887 | 33,837 | | |
| Change (%) | 18.5 | 49.4 | 2.3 | -9.3 | 20.4 | 9.9 | 3.1 | 35.6 | 10.1 | 17.1 | | |
| As of % Sales | 20.2 | 22.8 | 27.4 | 19.8 | 24.3 | 23.9 | 24.7 | 20.4 | 22.3 | 22.7 | | |
| Depreciation | 1,503 | 1,528 | 1,542 | 1,507 | 1,721 | 1,761 | 2,022 | 2,449 | 6,079 | 7,952 | | |
| Interest | 3,279 | 3,234 | 3,382 | 4,048 | 4,284 | 4,049 | 4,485 | 4,774 | 13,942 | 17,591 | | |
| Other Income | 436 | 820 | 588 | 1,693 | 74 | 560 | 1,205 | 1,665 | 3,537 | 3,504 | | |
| Extra-ordinary income | 5,125 | 27 | -9 | -3 | -2 | -3 | 16 | 0 | 5,140 | 0 | | |
| PBT | 7,199 | 2,896 | 3,571 | 3,876 | 1,796 | 2,228 | 2,873 | 4,936 | 17,542 | 11,797 | | |
| Tax | 2,039 | 1,741 | 1,245 | 857 | 726 | 942 | 824 | 1,548 | 5,881 | 4,039 | | |
| Effective Tax Rate (%) | 28.3 | 60.1 | 34.8 | 22.1 | 40.4 | 42.3 | 28.7 | 31.4 | 33.5 | 34.2 | | |
| Reported PAT | 5,160 | 1,155 | 2,327 | 3,020 | 1,070 | 1,287 | 2,050 | 3,388 | 11,661 | 7,758 | | |
| Adj PAT | 1,058 | 1,155 | 2,335 | 2,883 | 1,072 | 1,287 | 2,034 | 3,388 | 7,404 | 7,758 | | |
| Change (%) | -51.5 | -0.5 | -25.7 | 17.8 | 1.3 | 11.4 | -12.9 | 17.5 | -17.1 | 4.8 | | |

Nalin Bhatt (NalinBhatt@MotilalOswal.com); Tel: +9122 39825429

Satyam Agarwal (Agarwals@MotilalOswal.com) / Pooja Kachhawa (Pooja.Kachhawa@MotilalOswal.com)

3QFY12 operating performance above estimates

- During 3QFY12, JPA reported revenues of INR33.1b (up 14% YoY), EBIDTA of INR8.2b (up 3% YoY) and net profit of INR2.1b (down 12% YoY). This is above our estimates of INR1.4b. EBIDTA too was higher than our estimate of INR7.0b. Better than estimated performance is driven by strong performance of Cement business, claims receipt towards group EPC project boosting EPC profits (Karcham Wangtoo, etc) and higher dividend income from Jaypee Infratech (large part of other income, attributable could be INR1.2b+). Thus, the better than estimates were driven partly by operating performance and partly aided by one-offs.
- Cement business performance was robust with EBIT of INR1.7b, vs loss of INR295m in 2Q. This is driven by robust realisation growth, vs moderate cost increase. Similarly, the EPC business has EBIT of INR3.7b, vs INR2.7b YoY, led by past claims receipt. Real Estate business witnessed bit moderation with EBIT declining to INR1.5b, vs INR2.9b YoY.
- Interest cost for JPA stood at INR4.5b, up 33% YoY led by commissioning of cement capacity, while depreciation for the quarter stood at INR2b (vs INR1.5b YoY and INR1.8b QoQ). Lower Tax/PBT ratio for the quarter represents distorted picture and adjusted for tax free dividend receipt, tax/PBT ratio stood at 49%, in sync with 42% in 2Q and 40% in 1Q. This is owing to higher deferred tax provisions.

Cement Business: volume up 17% YoY; EBIDTA up sizably (INR500/ton+ QoQ)

- During 3QFY12, cement business revenues stood at INR17b, up 37% YoY; led by increase in volumes as well as realizations. Volumes stood at 4.25m tons (vs 3.6m tons in 3QFY11 and 4.1m ton in 2QFY12), while realizations stood at INR3,994/ton (vs INR3,411/ton in 3QFY11 and INR3,229/ton for 2QFY12).
- EBIDTA for the quarter thus stood at INR811/ton, significantly higher than INR306/ton in 2QFY12 and compares with INR723/ton in 3QFY11. Realisation for the division was up ~INR765/ton QoQ, while cost increases stood at INR260/ton QoQ, leading to EBIDTA improvement of INR500/ton+ QoQ.
- Thus, despite higher depreciation on capacity commissioning, EBIT for cement division increased 19% YoY at INR1.7b, translating into EBIT of INR400ton in 3QFY12 vs INR392/ton in 3QFY11 (and negative EBIT of INR72/ton in 2QFY12).
- We understand that cement capacity now stands at 28m tons (up from 26m tons as at end-FY11), while management expect installed capacity to reach 33m tons by March 2012.

Cement Business

| | FY11 | | | | FY12 | | | | FY11 | FY12E |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4QE | | |
| Volumes (m ton) | 3.90 | 3.43 | 3.63 | 4.20 | 3.88 | 4.10 | 4.25 | 6.02 | 15.15 | 18.25 |
| Revenues (INR m) | 14,415 | 12,084 | 12,374 | 15,685 | 15,272 | 13,238 | 16,973 | 25,257 | 54,558 | 70,740 |
| Realization (INR/t) | 3,696 | 3,528 | 3,411 | 3,734 | 3,936 | 3,229 | 3,994 | 4,194 | 3,600 | 3,876 |
| EBIT (INR m) | 2,863 | 1,883 | 1,422 | 2,229 | 1,940 | (295) | 1,698 | 4,169 | 8,396 | 7,494 |
| EBIT (INR/t) | 734 | 550 | 392 | 531 | 500 | (72) | 400 | 692 | 554 | 411 |
| EBIDTA (INR/t) | 1,042 | 871 | 723 | 852 | 861 | 306 | 811 | 1,011 | 874 | 774 |

Source: Company/MOSL

E&C business: prior claims boost EPC margin

E&C revenues at INR12.5b, flat YoY; as several large scale projects are competed, near completion (Yamuna Expressway, F1 circuit, Karcham Wangtoo, etc). Margins in E&C however stood at 29.8% (up 840bp YoY), and was higher than estimates.

EPC business (INR m)

| | FY11 | | | | FY12 | | | | FY11 | FY12E |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4QE | | |
| Revenues (INR m) | 14,373 | 15,710 | 12,639 | 17,806 | 12,748 | 15,540 | 12,421 | 19,776 | 60,527 | 60,485 |
| EBIT (INR m) | 1,048 | 3,279 | 2,706 | 2,185 | 2,500 | 5,458 | 3,707 | 2,963 | 9,267 | 14,628 |
| EBIT margin (%) | 7.3 | 20.9 | 21.4 | 12.3 | 19.6 | 35.1 | 29.8 | 15.0 | 15.3 | 24.2 |

Source: Company/MOSL

Real Estate: Revenue bookings marginally impacted

JPA booked revenues of INR3b from real estate business in 3QFY12, as compared to INR4.3b in 3QFY11. However, EBIT from division stood at INR1.5b, translating into EBIT margin of 48%, vs 69% in 3QFY11 and 43% in 2QFY12.

Real estate business (INR m)

| | FY11 | | | | FY12 | | | | FY11 | FY12E |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4QE | | |
| Revenues (INR m) | 3,661 | 3,233 | 4,255 | 5,968 | 3,469 | 2,018 | 3,078 | 6,435 | 17,117 | 15,000 |
| EBIT (INR m) | 1,558 | 1,332 | 2,942 | 2,855 | 1,851 | 872 | 1,477 | 2,850 | 8,686 | 7,050 |
| EBIT margin (%) | 42.6 | 41.2 | 69.1 | 47.8 | 53.4 | 43.2 | 48.0 | 44.3 | 50.7 | 47.0 |

Source: Company/MOSL

Upgrading FY12/13E estimates, maintain Buy

- We have upgraded our FY12/13E earnings estimate for JPA by 8% and 25%, respectively to factor in superior performance for Cement business (FY12/13E), one-off gains in EPC division and higher other income (FY12E).
- We now expect JPA to report standalone PAT of INR7.8b in FY12E (up 5% YoY) and INR8.8b in FY13E (up 14% YoY). At the CMP, the stock trades at a PER of 20.7x on FY13E basis.
- We value JPA on sum of parts methodology and arrive at TP of INR106/sh, comprising of: Cement business at INR75/sh (6x FY13E EV/EBIT and balance capacity at USD110/ton), EPC business at INR39/sh (8x FY13E EV/EBIT), Jaiprakash Power at INR38/sh (based on our TP of INR46/sh), Jaypee Infratech at INR30/sh (based on our TP of INR55/sh), other Real Estate (Jaypee Greens, Land at NOIDA, etc) at INR11/sh less net debt on books (less of cash, investment valued at BV in other subsidiaries) at INR87/sh. Maintain **Buy**.

Jaiprakash Associates: an investment profile

Company description

Jaiprakash Associates (JPA) is diversified infrastructure player with presence in Cement, Power, Roads, Real Estate and Hospitality. The company is set to become third largest cement player by FY11 with target capacity of 33.5m tons, is amongst the top 10 private sector power project developer currently in terms of project under development/ pipeline (13GW) and has access to ~3.7bsf of land bank in and around NOIDA.

Key investment arguments

- JPA plans to ramp-up cement capacity to ~35m ton by FY13E, up from 13.5m ton in FY09.
- Of the 13GW of power projects under development, 700MW is operational while equipment award have been placed for 3.8GW, indicating good progress. It has also begun the commissioning of 1GW of Karcham Wangtoo hydro project, beginning July 2011.
- JPA is an EPC contractor for the Real Estate project development at NOIDA, own power projects (~13GW), etc. This provides good revenue visibility for E&C division.

Key investment risks

- Downturn in cement business and lumpy nature of earnings.

Recent developments

- JPA has announced restructuring of the cement business with transfer of cement plants in Gujarat (4.8m tons) and Andhra Pradesh (5.0m tons) to Jaypee Cement (100% subsidiary). Jaypee Cements is also implementing capacity addition of 3m tons in Karnataka (under initial stages of construction).
- Local farmers have raised agitation against the on-going Yamuna Expressway project and proposed township by UP state government.

Valuations and view

- We now expect JPA to report standalone PAT of INR7.8b in FY12E (up 5% YoY) and INR8.8b in FY13E (up 14% YoY). At the CMP, the stock trades at a PER of 20.7x on FY13E basis.

EPS: MOSL forecast v/s consensus (INR)

| | MOSL Forecast | Consensus Forecast | Variation (%) |
|------|------------------|-----------------------|------------------|
| FY12 | 4.7 | 4.6 | 0.9 |
| FY13 | 4.9 | 5.7 | -13.8 |

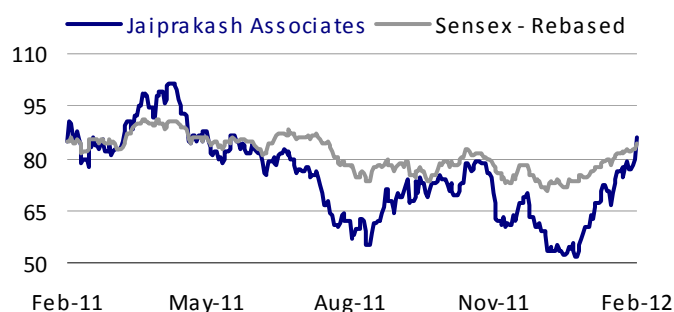
Target price and recommendation

| Current Price (INR) | Target Price (INR) | Upside (%) | Reco. |
|------------------------|-----------------------|---------------|-------|
| 86 | 106 | 23.3 | Buy |

Shareholding pattern (%)

| | Dec-11 | Sep-11 | Dec-10 |
|---------------|--------|--------|--------|
| Promoter | 46.8 | 46.9 | 46.0 |
| Domestic Inst | 12.9 | 12.9 | 10.0 |
| Foreign | 19.1 | 19.7 | 24.4 |
| Others | 21.1 | 20.6 | 19.7 |

Stock performance (1 year)



Financials and Valuations

| Income Statement | | (INR Million) | | | |
|------------------------|----------------|----------------|----------------|----------------|--|
| Y/E March | 2010 | 2011 | 2012E | 2013E | |
| Net Sales | 100,889 | 129,650 | 149,367 | 158,758 | |
| Change (%) | 75.0 | 28.5 | 15.2 | 6.3 | |
| Cons. & Manufact. Exp. | 58,091 | 78,297 | 87,684 | 87,981 | |
| Staff Cost | 6,653 | 5,957 | 7,744 | 10,068 | |
| Selling & Dist. Exp. | 6,839 | 10,706 | 13,383 | 16,327 | |
| Other Expenses | 6,194 | 5,801 | 6,720 | 7,713 | |
| Total Expenses | 77,776 | 100,762 | 115,530 | 122,089 | |
| EBITDA | 23,114 | 28,889 | 33,837 | 36,669 | |
| % of Net Sales | 22.9 | 22.3 | 22.7 | 23.1 | |
| Depreciation | 4,561 | 6,078 | 7,952 | 8,755 | |
| Interest | 10,558 | 13,942 | 17,591 | 17,181 | |
| Other Income | 15,829 | 8,668 | 3,504 | 2,780 | |
| PBT | 23,824 | 17,537 | 11,797 | 13,514 | |
| Tax | 6,733 | 5,867 | 4,039 | 4,689 | |
| Rate (%) | 28.3 | 33.5 | 34.2 | 34.7 | |
| Adjusted PAT | 8,933 | 7,421 | 7,758 | 8,825 | |
| Change (%) | -0.4 | -16.9 | 4.5 | 13.8 | |

| Balancesheet | | (INR Million) | | | |
|----------------------------------|----------------|----------------|----------------|----------------|--|
| Y/E March | 2010 | 2011 | 2012E | 2013E | |
| Share Capital | 4,249 | 4,253 | 4,253 | 4,253 | |
| Reserves | 80,758 | 89,721 | 95,710 | 102,522 | |
| Net Worth | 85,007 | 93,974 | 99,963 | 106,775 | |
| Loans | 179,088 | 217,076 | 212,528 | 196,999 | |
| Deffered Tax Liability | 9,233 | 11,940 | 12,440 | 12,940 | |
| Capital Employed | 273,328 | 322,990 | 324,931 | 316,714 | |
| Gross Fixed Assets | 128,471 | 147,964 | 191,626 | 210,964 | |
| Less: Depreciation | 22,284 | 28,395 | 36,348 | 45,103 | |
| Net Fixed Assets | 106,187 | 119,569 | 155,278 | 165,862 | |
| Capital WIP | 38,916 | 63,527 | 23,390 | 6,597 | |
| Investments | 55,763 | 64,838 | 59,861 | 61,840 | |
| Curr. Assets | 130,990 | 131,523 | 148,056 | 148,048 | |
| Inventory | 29,097 | 32,833 | 39,280 | 41,487 | |
| Debtors | 22,850 | 28,106 | 32,738 | 35,231 | |
| Cash & Bank Balance | 38,792 | 24,625 | 25,888 | 17,235 | |
| Loans & Advances | 39,947 | 45,697 | 49,889 | 53,832 | |
| Other Current Assets | 304 | 262 | 262 | 262 | |
| Current Liab. & Prov. | 58,529 | 56,467 | 61,655 | 65,631 | |
| Creditors | 12,971 | 18,967 | 22,359 | 24,200 | |
| Other Liabilities | 39,043 | 31,943 | 32,628 | 33,429 | |
| Provisions | 6,515 | 5,556 | 6,668 | 8,001 | |
| Net Current Assets | 72,461 | 75,057 | 86,402 | 82,417 | |
| Misc. Expenses | 1 | 0 | 0 | 0 | |
| Application of Funds | 273,328 | 322,990 | 324,931 | 316,714 | |

| Ratios | | (INR Million) | | | |
|---------------------------------|------------|---------------|------------|------------|--|
| Y/E March | 2010 | 2011 | 2012E | 2013E | |
| Basic (INR) | | | | | |
| Adjusted EPS | 4.2 | 3.5 | 3.6 | 4.1 | |
| Growth (%) | -0.4 | -17.0 | 4.5 | 13.8 | |
| Consolidated EPS | 1.4 | 5.4 | 4.7 | 4.9 | |
| Growth (%) | -59.8 | 275.4 | -13.2 | 4.8 | |
| Cash EPS | 6.4 | 6.3 | 7.4 | 8.3 | |
| Book Value | 40.0 | 44.2 | 47.0 | 50.2 | |
| DPS | 0.9 | 0.7 | 0.7 | 0.8 | |
| Payout (incl. Div. Tax.) | 12.6 | 14.5 | 22.8 | 22.8 | |
| Valuation (x) | | | | | |
| P/E (standalone) | | 24.6 | 23.6 | 20.7 | |
| P/E (consolidated) | | 16.0 | 18.5 | 17.6 | |
| Cash P/E | | 13.5 | 11.6 | 10.4 | |
| EV/EBITDA | | 13.0 | 10.9 | 9.9 | |
| EV/Sales | | 2.9 | 2.5 | 2.3 | |
| Price/Book Value | | 1.9 | 1.8 | 1.7 | |
| Dividend Yield (%) | | 0.8 | 0.8 | 1.0 | |
| Profitability Ratios (%) | | | | | |
| RoE | 11.8 | 8.3 | 8.0 | 8.5 | |
| RoCE | 14.4 | 10.6 | 9.1 | 9.6 | |
| Turnover Ratios | | | | | |
| Debtors (Days) | 83 | 79 | 80 | 81 | |
| Asset Turnover (x) | 0.4 | 0.4 | 0.5 | 0.5 | |
| Leverage Ratio | | | | | |
| Debt/Equity (x) | 2.1 | 2.3 | 2.1 | 1.8 | |

| Cash Flow Statement | | (INR Million) | | | |
|------------------------------|----------------|----------------|----------------|----------------|--|
| Y/E March | 2010 | 2011 | 2012E | 2013E | |
| PBT before EO Items | 23,817 | 17,546 | 11,797 | 13,514 | |
| Add : Depreciation | 4,561 | 6,078 | 7,952 | 8,755 | |
| Interest | 10,558 | 13,942 | 17,591 | 17,181 | |
| Less : Direct Taxes Paid | 6,733 | 5,867 | 4,039 | 4,689 | |
| (Inc)/Dec in WC | -21,505 | -16,762 | -10,082 | -4,668 | |
| CF from Operations | 10,697 | 14,936 | 23,219 | 30,092 | |
| (Inc)/Dec in FA | -30,667 | -44,070 | -3,525 | -2,545 | |
| (Pur)/Sale of Investments | -11,112 | -9,075 | 4,977 | -1,979 | |
| CF from Investments | -41,778 | -53,145 | 1,452 | -4,524 | |
| (Inc)/Dec in Net Worth | 5,474 | 1,688 | 500 | 500 | |
| (Inc)/Dec in Debt | 48,026 | 37,988 | -4,548 | -15,529 | |
| Less : Interest Paid | 10,558 | 13,942 | 17,591 | 17,181 | |
| Dividend Paid | 2,156 | 1,692 | 1,769 | 2,012 | |
| CF from Fin. Activity | 40,787 | 24,042 | -23,408 | -34,221 | |
| Inc/Dec of Cash | 9,705 | -14,167 | 1,263 | -8,653 | |
| Add: Beginning Balance | 29,086 | 38,792 | 24,625 | 25,888 | |
| Closing Balance | 38,791 | 24,625 | 25,888 | 17,235 | |

E: MOSL Estimates

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Jaiprakash Associates

- | | |
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Motilal Oswal Securities Ltd

3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021
Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com