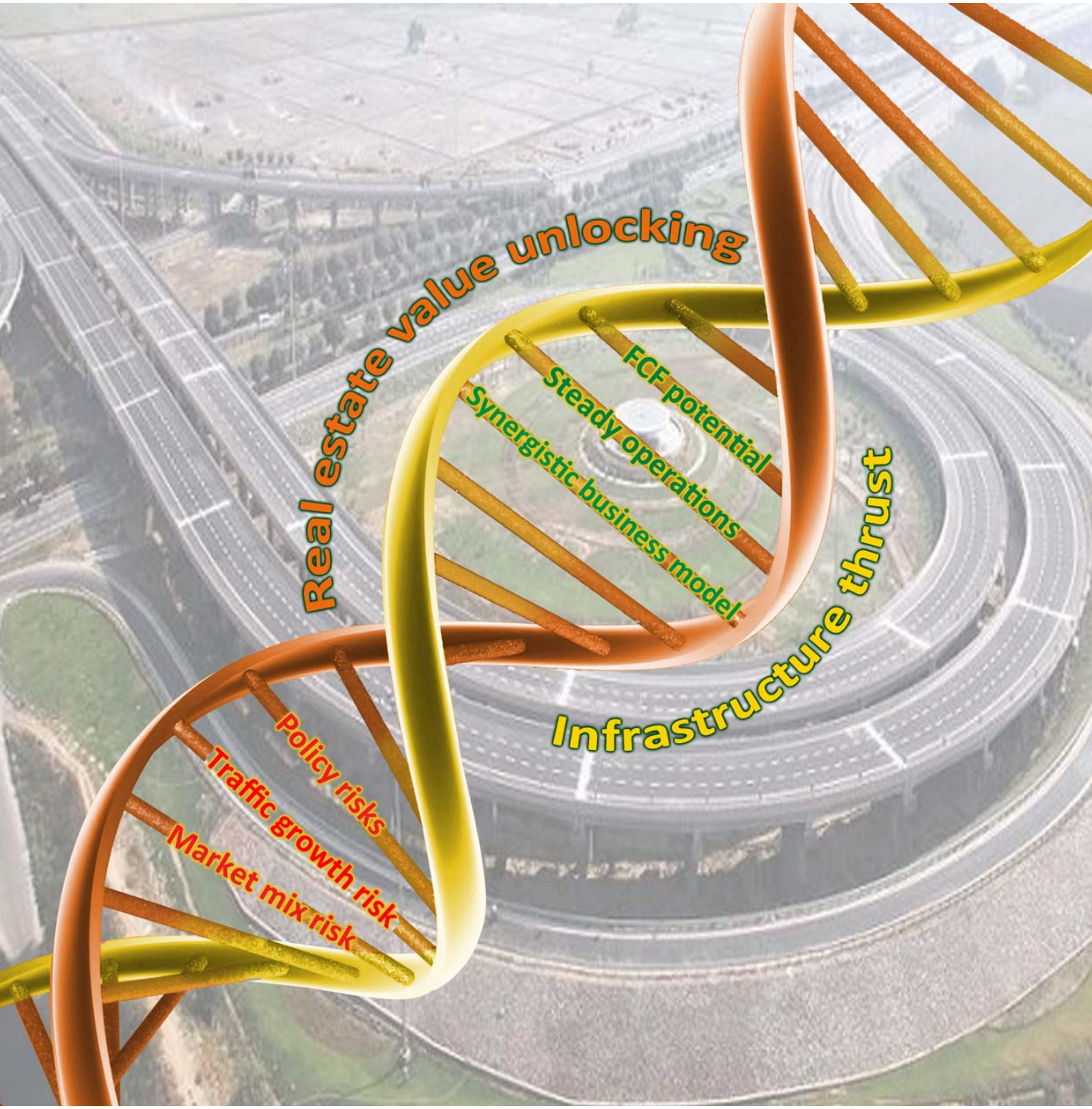
Initiating Coverage | 18 September 2012

Sector: Real Estate

Jaypee Infratech



The value DNA

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Investors are advised to refer through disclosures made at the end of the Research Report.

Jaypee Infratech: The value DNA

Jaypee Infratech

BSE SENSEX	S&P CNX
18,496	5,600

CMP: INR49 **TP: INR60** **Buy**

Bloomberg	JPIN IN
Equity Shares (m)	1,388.9
52-Week Range (INR)	66/33
1,6,12 Rel. Perf. (%)	-1/-11/-12
M.Cap. (INR b)	67.7
M.Cap. (USD b)	1.3

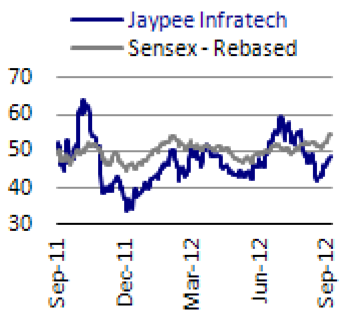
Financial summary (INR b)

Y/E March	2012	2013E	2014E
Net Sales	31.6	38.1	47.3
EBITDA	16.5	17.5	21.7
NP	12.9	9.3	10.0
EPS (INR)	9.3	6.7	7.2
EPS Gr. (%)	-10.1	-27.6	7.0
BV/Sh. (INR)	41.6	47.2	53.2
P/E (x)	5.3	7.2	6.8
P/BV (x)	1.2	1.0	0.9
EV/EBITDA (x)	8.1	7.6	6.0
EV/ Sales (x)	4.2	3.5	2.7
RoE (%)	24.5	15.2	14.3
RoCE (%)	13.8	12.2	14.0

Shareholding pattern %

As on	Jun-12	Mar-12	Jun-11
Promoter	83.3	83.3	83.3
Dom. Inst	9.0	9.0	9.7
Foreign	0.9	0.7	0.6
Others	6.8	7.1	6.4

Stock performance (1 year)



The value DNA

Synergistic benefits, FCF visibility, but some gray areas too

- **JPIN offers a unique synergistic business model of infrastructure development (Yamuna Expressway) and real estate value unlocking.**
- **Expect free cash flow (FCF) beginning FY13 itself, given (1) expressway going ex-capex, and (2) strong operating performance in real estate. FCF will be Utilizied for debt repayment and potential growth in payout.**
- **Value unlocking story is sustainable, though negated by prevailing concerns over (a) traffic growth at expressway, (b) relative weakness in market mix, and (c) risk of policy actions. Some of the concerns are easing off.**
- **Valuations are inexpensive; Buy with a target price of INR60 (23% upside).**

Unique business model with synergistic value unlocking: Jaypee Infratech (JPIN) offers a unique blend of infrastructure and real estate development through (a) Yamuna Expressway (165km, the longest access-controlled six-lane BOT project connecting Agra to Greater Noida), and (b) five proposed integrated townships in surrounding land parcels, with huge development potential of ~6,175 acres (~530msf). We expect its business model to enjoy strong synergistic benefits, with the expressway commencing operations in August 2012, aiding robust connectivity and increasing economic activity in the surrounding areas.

Steady FCF visibility - rare in liquidity-strapped sector: With capex for Yamuna Expressway (YE) already over, JPIN is set to generate steady free cash flows (FCF) beginning FY13 itself. This will be driven by (1) superior operating performance (strong pre-sales of ~INR151b, INR64b receivable), (2) execution focus and steady collections (57% of pre-sales), and (3) annuity stream from YE (expect annualized toll of ~INR2.7b). We estimate net surplus (FCF - interest) of ~INR2.1b/5.2b in FY13/14, which would preferably be utilized for repayment of YE debt over the next 12-13 years, along with potential growth in payout.

Value unlocking story partially constrained by prevailing uncertainties: JPIN offers an excellent play on sustainable value unlocking from huge real estate potential. However, immediate upside may be constrained by prevailing concerns over (a) traffic growth at YE, (b) relative weakness in market-mix, and (c) risk of policy actions by the new government in Uttar Pradesh. Some of the concerns over YE and market mix are easing off. JPIN being the cash cow of JP Group, confidence over beneficial usage of cash surplus would be a key positive.

Convincing potential, steady cash, subsiding concerns; Buy: Post recent correction, JPIN offers a good entry point. The stock trades at (a) P/E of 7.2x FY13E and 6.8x FY14E, (b) P/BV of 1x FY13E and 0.9x FY14E vis-à-vis RoE of ~15%. Valuations are inexpensive and operational outlook is improving. We initiate coverage with **Buy**, and SOTP-based target price of INR60 (23% upside).

Story in charts Synergistic play; strong operating performance

#1 JPIN's business model offers a unique blend of infrastructure building and real estate development through destination creation.

#2 Yamuna Expressway and surrounding land parcels offer value unlocking story with strong synergistic bearings.

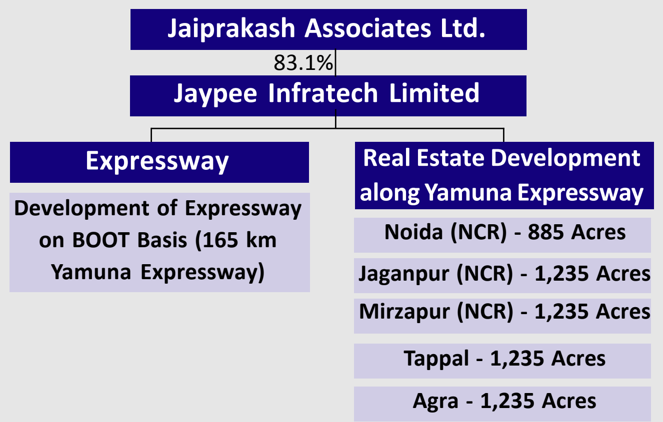
#3 Expressway commenced operations in August 2012. We expect toll revenue to render ~INR2.7b of annualized stream in FY14

#4 Real estate projects in Jaypee Greens Wish Town, (Noida) and Sports City (GB Nagar) have been enjoying strong pre-sales and collections.

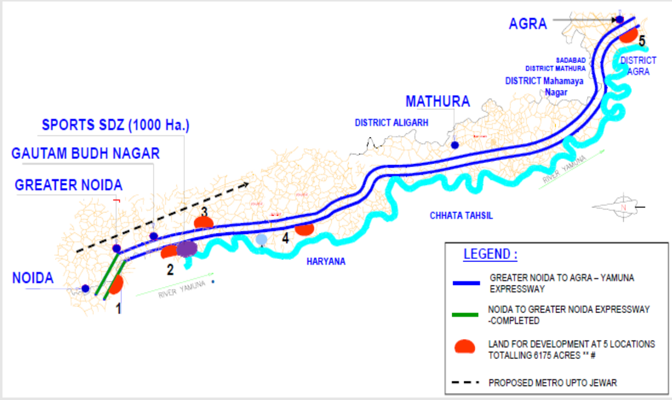
#5 Historically and even during the downturn, JPIN emerged among the best performers in terms of sales among real estate players.

#6 Change in debtors as a percentage of revenue suggests that JPIN enjoys superior cash collections over peers.

#1 Combination of infrastructure and real estate



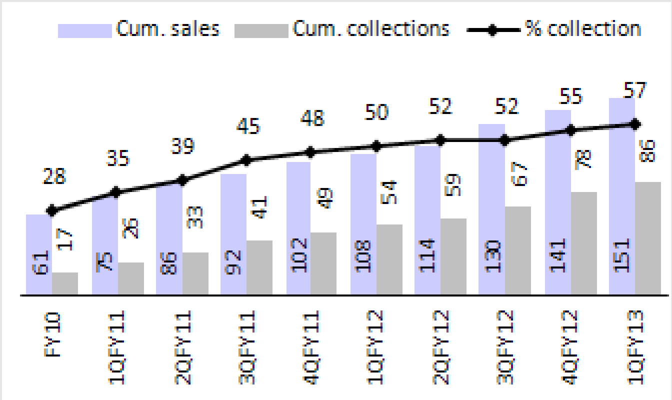
#2 Expect synergistic impact in growth of individual verticals



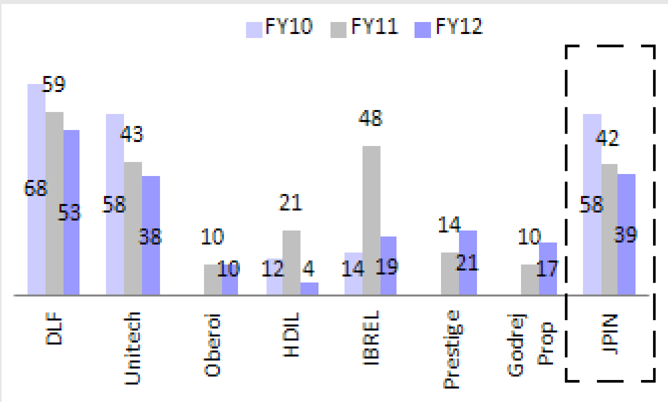
#3 Yamuna Expressway to render ~INR2.7b of annuity stream

Length (Km)	165
Existing PCUs	
Noida - Greater Noida	60,000-70,000
NH2	50,000
Traffic estimates (FY14 PCUs)	**21,000**
Growth (%)	
FY13-15	8
FY16-25	6
FY26-48	4
Toll rate (INR)	**343**
Growth (%)	4
FY14 Toll (INR m)	**2,683**

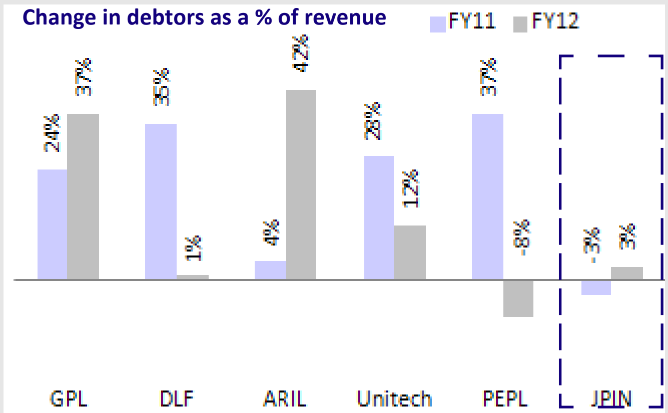
#4 Healthy cash conversion along with steady sales(INR b)



#5 Consistently been the best performer in sales (INR b)



#6 JPIN had better customer collection than peers



Source: Company/MOSL

Story in charts FCF visibility, inexpensive valuations partially eclipsed by uncertainty

#7 Ex-capex YE and surplus cash from real estate offer FCF visibility from FY13.

#8 Operating surplus would primarily be utilized towards repayment of Yamuna Expressway debt, along with potential growth in payout

#9 Despite growth in cash earnings, PAT to post negative 12% CAGR over FY12-14, due to commencement of depreciation and interest

#10 Valuations seem inexpensive at (a) P/E of 7.2x FY13E and 6.8x FY14E, (b) P/BV of 1x FY13E and 0.9x FY14E vis-à-vis RoE of ~15%.

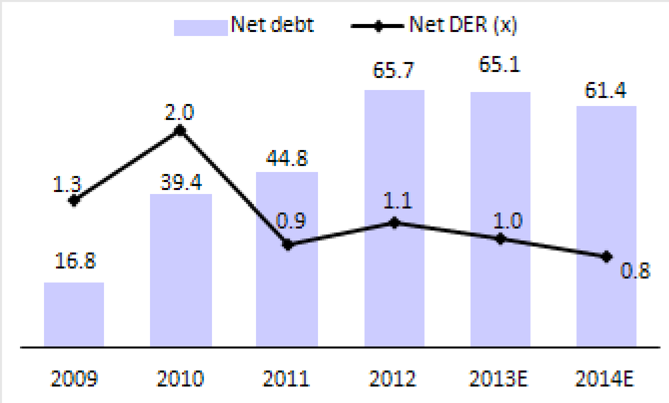
#11 SOTP value suggests that ongoing land parcels at Noida and Parcel-3 offer cushion to downside risk.

#12 Some macro and micro indicators have to turn favorable and encouraging to overcome prevailing concerns.

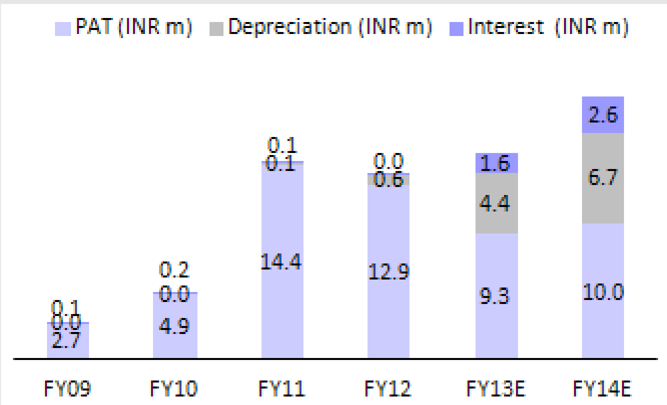
#7 Expect JPIN to generate positive FCF from FY13

Cash based P&L	FY12	FY13E	FY14E
CF from Real Estate	**30.3**	**33.8**	**39.0**
Construction cost	19.6	21.4	23.9
Net cash from Real Estate	**10.6**	**12.4**	**15.1**
Steady State YE annuity	**-23.8**	**-1.0**	**2.3**
Operating expense	1.5	1.8	2.1
Gross cash profit	**-14.6**	**9.9**	**15.5**
Interest payment	1.4	5.4	7.8
Cash PBT	**-16.0**	**5**	**8**
Tax	3.3	2.4	2.6
Cash PAT	**-19.3**	**2.1**	**5.2**
FCF	**-17.9**	**7.5**	**13.0**
FCF / Interest (x)		1.4	1.7

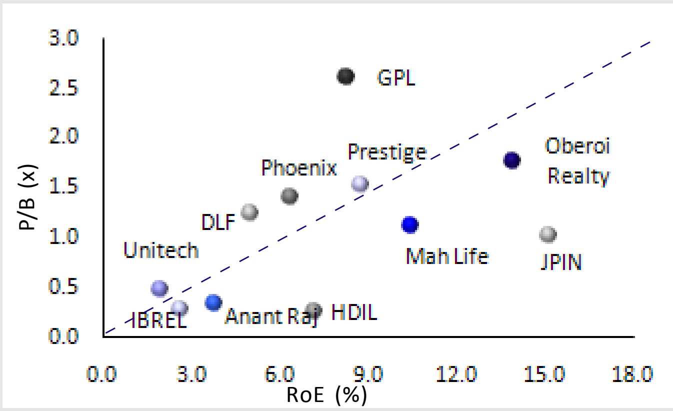
#8 Operational surplus to moderate gearings (INR b)



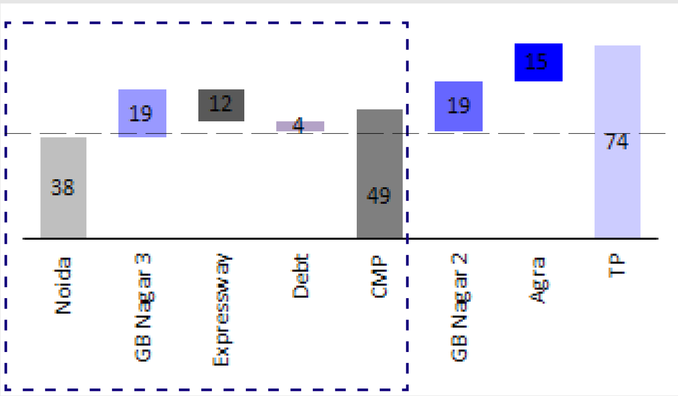
#9 PAT to post de-growth due to depreciation and interest



#10 JPIN's valuations seem inexpensive compared to peers



#11 Ongoing projects offer cushion to downside



#12 Awaiting re-rating triggers

Comfort on new Government's development policies

General improvement in Noida market outlook

Certainty over expressway traffic

Usage of operating cash surplus

Source: Industry, Company, MOSL

Unique business model with synergistic value unlocking

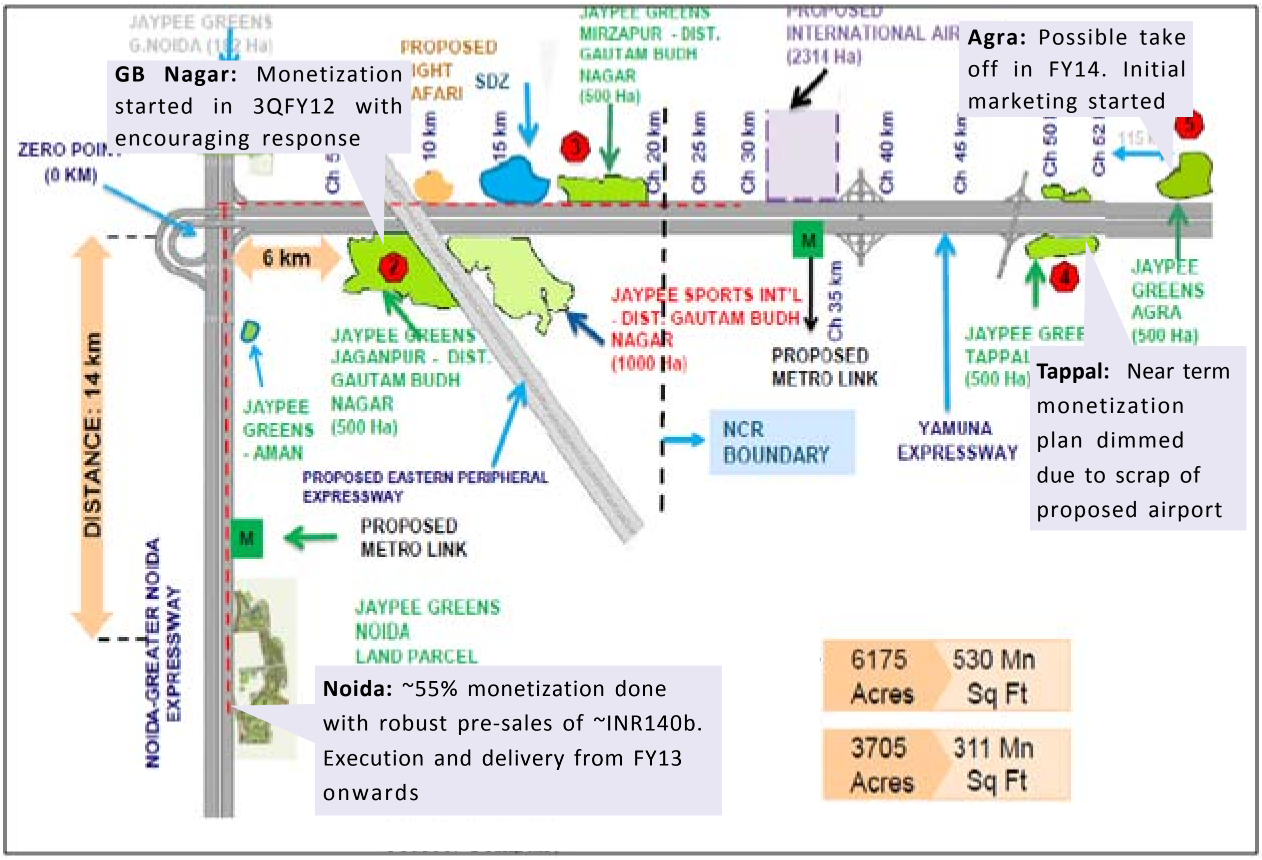
Creating destinations by building infrastructure, developing real estate

- **JPIN offers a unique blend of infrastructure building and real estate development through (a) Yamuna Expressway and (b) five proposed integrated townships in surrounding land parcels of ~6,175 acres.**
- **The land parcels have the potential to generate ~530msf (~59% in NCR) of real estate development and almost 98% of these lands is already acquired.**
- **We expect JPIN to enjoy strong synergistic benefits of both the verticals – the expressway aiding robust connectivity, and in turn, increasing economic activity around Jaypee Sports City at Gautam Budh Nagar (Formula-1 event, proposed Special Development Zone, etc).**

Agra-Noida connectivity to have positive bearing on real estate

Jaypee Infratech (JPIN) offers a unique business model, with synergistic benefits between infrastructure building and real estate development. Its 165km-long access controlled six-lane BOT project connecting Agra to Greater Noida, the Yamuna Expressway (YE) commenced operations in August 2012. JPIN would have the right of toll collection for 36 years for the YE as well as for the existing 23.8km Noida-Greater Noida Expressway. YE is likely to reduce travel time by ~50% as compared with NH2 and also passes through future destinations like proposed SDZ, formula-1 track in peripheral regions, which should aid steady traffic growth, along with economic interest in surrounding real estate. The potential time saving owing to smooth traffic

JPIN's proposed townships along Yamuna Expressway are surrounded by existing/upcoming infrastructure developments



Source: Company, MOSL

movement at the access control expressway would offer strong marketability for the real estate projects in its integrated sports city (5,000 acres) at Gautam Budh Nagar.

Real estate development: Medium-term value unlocking potential

Rising activity post expressway commencement and peripheral developments to enhance marketability of land parcels

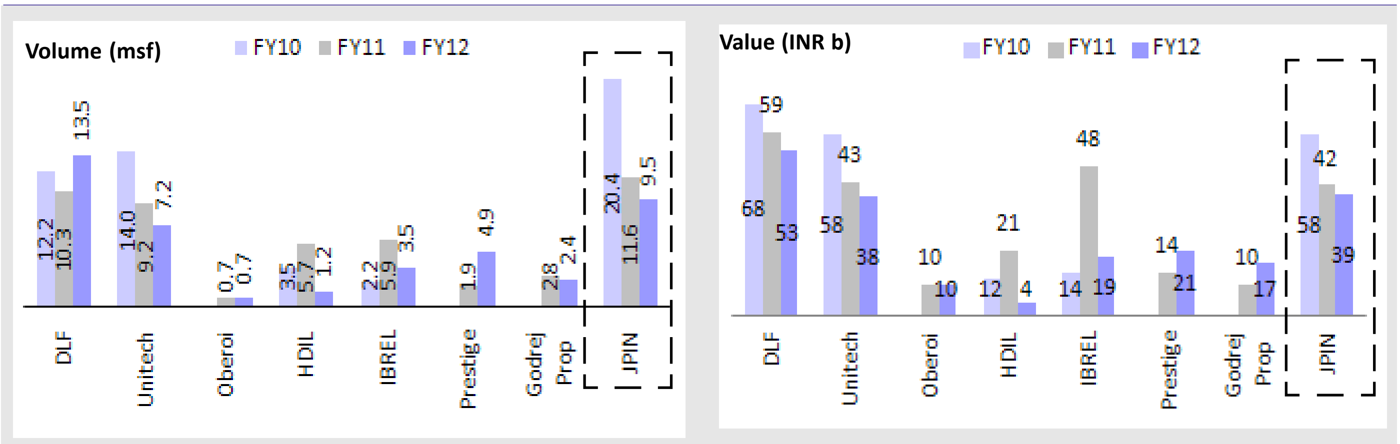
JPIN's real estate projects of over 6,000 acres across the expressway are divided into five proposed integrated townships projects. The development potential is huge (~530msf) and ~59% of the area is located in the NCR. Almost 98% of the land has already been acquired at a very competitive price (implied cost of ~INR30/sf) and is ready for monetization. With rising economic activity and better connectivity through expressway, we expect the land parcels to generate meaningful interest among buyers, investors and various companies (especially IT/ITES) to set up office spaces. This implies significant value unlocking potential over the medium-to-long term. The recent success in ongoing projects has been encouraging; further, positive bias on UP's growth expectations under the new government should provide additional momentum.

Superior track record in established market

JPIN has consistently been among the top three real estate players in terms of annual sales, despite several challenges in operating market

JPIN started developing its Noida land parcel – "Jaypee Greens Township" in 2009, and witnessed strong response over the last 3-4 years with cumulative sales of ~43msf (~INR141b) of the total area of 78msf. With this, the company has consistently been among the top three real estate players since FY10 in terms of annual sales (both volume and value). While the initial momentum in sales (i.e. FY09 to early FY11) can be attributed to the overall upswing in the Noida market, JPIN has shown commendable resilience even during the downturn of FY11-12.

JPIN has consistently been the best performer in terms of annual sales



Source: Company, MOSL

Noida has been a very competitive market with the presence of a large number of local developers. However, we believe JPIN's projects enjoy superior saleability compared to peers due to its (a) balanced product mix, with mid/high-end focus, (b) superior product proposition, and (c) stronger execution track record. Pricing flexibility on the back of low cost land (~INR30/sf) offers additional edge.

Propositions attractive in new parcels – initial sales encouraging

Relatively cheaper option and ease of commuting should also bolster demand for IT/ ITES based commercial offices in the Sport City, which has witnessed impressive initial response

During 3QFY12, JPIN began monetizing GB Nagar parcel-3 as a flagship project christened "Sports City". The project is planned to be part of the mega 5,000 acres township project, combining 2,500 acres of JPIN (parcel 2 & 3) and 2,500 acres of parent company across 15km frontage stretch of expressway and contiguous to each other. The Sports City offers attractive marketability due to strong infrastructure and connectivity to be provided by congestion-free expressway (would take 20 minutes from Noida parcel which is 20km away) and emerging destinations like Formula 1 track, etc. Relatively cheaper option and ease of commuting should also bolster demand for IT/ITES based commercial offices.

JPIN has also started preliminary marketing activities for its Agra project, where it plans to launch plotted sales initially. With this, visibility has emerged for four out of five land parcels. Parcel-4 (Tappal) is the only one which faces a setback, due to recent shifting of proposed airport from Jewar.

Execution back-up commendable

JPIN outsources the construction of its projects to its parent, JP Associates, which has 40+ years of experience in the EPC business. Its execution prowess is evident in the Yamuna Expressway (YE), Fomula-1 race track, etc. Robust execution track record and slew of deliveries scheduled over FY13-14 should bolster demand for its projects. We do not see any conflict of interest in outsourcing construction to the parent, as it operates under cost+mid-teen margin basis, a common industry practice.

FCF visibility – rare in liquidity strapped sector

Estimate surplus cash flow of INR2.1b/5.2b in FY13/14

- **JPIN will generate meaningful free cash flows from FY13, with Expressway going ex capex.**
- **This will be driven by (1) superior operating performance (strong pre-sales of ~INR151b, INR64b receivable), (2) execution focus and steady collections (57% of pre-sales), and (3) annuity stream from YE (expect annualized toll of ~INR2.7b).**
- **We estimate net surplus (FCF - interest) of ~INR2.1b/5.2b in FY13/14, which would preferably be utilized towards repayment of YE debt over the next 12-13 years, along with potential growth in payout.**

Expressway commencement has a lot more to offer beyond annuity stream

Yamuna Expressway (YE) has commenced operations in August 2012. It is expected to generate a steady and growing annualized revenue stream of ~INR2.7b (~12% CAGR assumed over FY13-15). However toll revenue apart, we expect the expressway to have a larger synergistic impact on the demand potential and value accretion of surrounding real estate projects (as discussed in the previous section).

Annuity streams - certainty to emerge over FY13

In the absence of any true comparables, our traffic estimates are largely based on qualitative assumptions

In the absence of any true comparables, our traffic estimates are largely based on qualitative assumptions, coupled with associated risks. Key assumptions:

- **Traffic growth:** We assume ~20,000 equivalent PCUs (passenger car units) for YE in FY13, with ~8% YoY traffic growth till FY15, moderating to 6% YoY (v/s 50-60,000 PCUs per day for toll-free NH2). Our recent interaction with the management suggests initial PCUs of ~10,000 in the month of August 2012. Traffic growth, coupled with ~4% YoY growth in toll rates should result in ~12% CAGR in annuity steam over FY13-15. As per the concession agreement, JPIN is also allowed to collect toll from the 23.8km existing Noida-Greater Noida Expressway. However, we have not assumed any revenue from this due to lack of clarity commuters have been objecting to the toll.

- **Toll rates:** Industrial Development Authority had recommended INR2.10 as toll tax per km for cars and jeeps, INR3.23 for mini buses, INR6.60 for buses and trucks and INR10.10 for other heavy vehicles. The rates have been given an in-principle approval by the state government. However, these rates are the ceiling that has

Key milestones of Yamuna Expressway project

- Yamuna Expressway was conceived in 2003, but was stalled for a long period till 2007, before it revived with a deadline of 2013.
- The deadline was advanced to 2010 in view of the Commonwealth Games, but farmers' agitation in places against allotment of land delayed the project by a year.
- The expressway has six interchanges, 70 vehicular underpasses, 41 minor bridges, 76 cart track underpasses and 183 culverts. To ensure commuters' safety, CCTV cameras have been installed at regular intervals.
- While there are five proposed inter-junctions, initially, the toll will start at three out of five plazas at Greater Aligarh, Mathura and Agra.
- The concession on the 24km Noida-Greater Noida Expressway could be delayed/reviewed due to objections from commuters against toll

Our assumptions for Yamuna Expressway

Length (Km)	165
Existing PCUs	
Noida - Greater Noida	60,000-70,000
NH2	50,000
Traffic estimates (FY14 PCUs)	**21,000**
Growth (%)	
FY13-15	8
FY16-25	6
FY26-44	4
Toll rate (INR)	**343**
Growth (%)	4
FY14 Toll (INR m)	**2,683**

been fixed by the state government and JPIN can charge less, if it wishes. The management has guided for an average effective toll rate of INR2/km (for 165km).

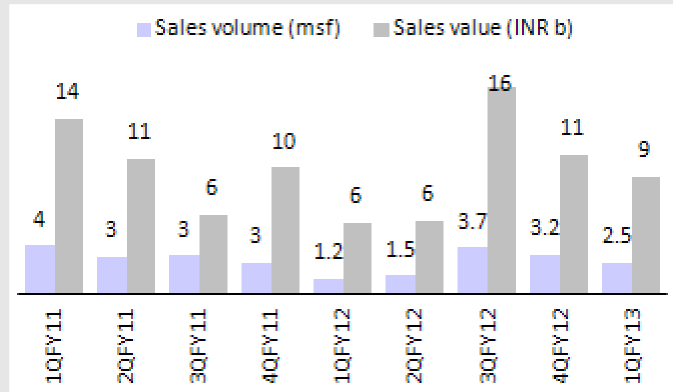
Recent channel checks on YE have revealed positive feedback on the travel time and high fuel efficiency

- **Channel checks indicate positive feedback on time/ fuel efficiency:** The travel time from Delhi to Agra through YE is expected to be reduced by ~50% (~2 hours) compared with NH2, which runs through various congested towns. Post commencement of the expressway, our interactions with travel agency drivers, individuals have revealed positive feedback on the travel time and high fuel efficiency. However, a few indicated that when one includes travel time on connecting roads to both ends of the expressway, the effective time saving could be lower than 2 hours.
- **Rise in economic activities key to migration of commercial vehicles:** We expect the near-term PCU growth to be driven largely by passenger vehicles, while traffic migration from commercial vehicles (not so time sensitive) could be slower. Growth in commercial traffic would also depend on rise in economic activities in neighboring areas, along with induced demand from (a) real estate development in Sports City and several other launches along side the expressway by other developers, and (b) future land parcels, which could emerge as attractive destination for IT/ITES related offices. Initial success in GB Nagar launches, Formula 1 race track, proposed SDZ (Special Development Zone), etc are some positive signs, which should incentivize the government to induce further growth elements.
- **Certainty on toll revenue to emerge over FY13:** We expect meaningful clarity over toll income to emerge in its first 6-9months of operations. Any delay or slowdown in real estate activities in the proposed townships and other infrastructure plans could have negative bearing on the annuity stream from the toll project.

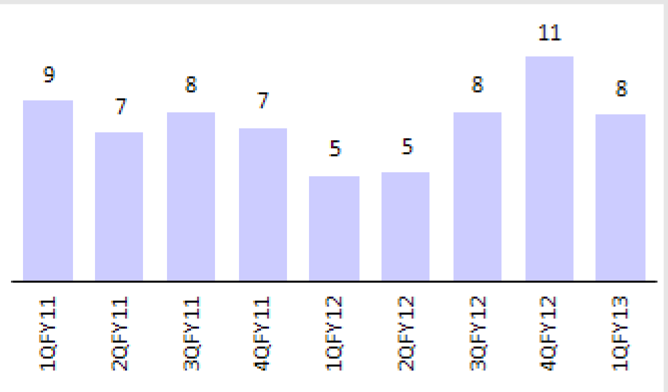
Encouraging recovery in real estate sales since 2HFY12 …

After a subdued 1HFY12 (quarterly sales run rate down 60-70%), there has been an impressive recovery in sales volume since 2HFY12. Despite prevailing weakness in the Noida real estate market, JPIN's 2HFY12/1QFY13 sales momentum was commendable, with 2.5x jump in bookings run-rate. JPIN achieved sales of 9.5msf/ 2.5msf (~INR39b/INR9.3b) in FY12/1QFY13, taking total pre-sales to ~46msf (~INR151b),

Encouraging sales recovery since 2HFY12

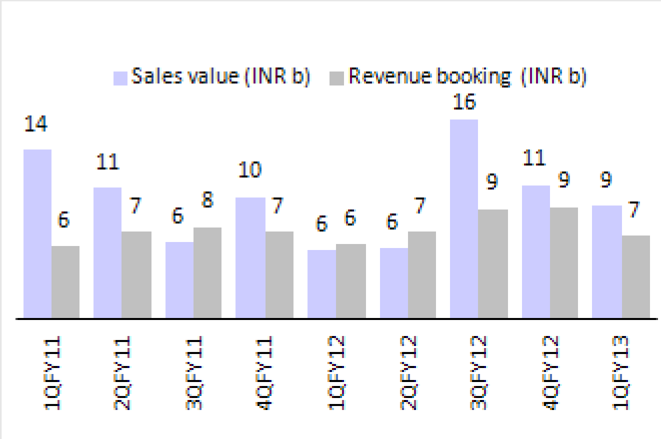


Collection run-rate has been impressive as well (INR b)

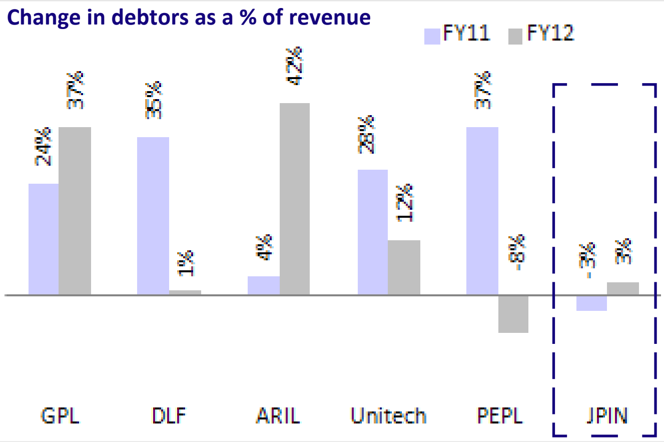


Source: Company, MOSL

Strong revenue booking indicates commensurate execution



JPIN had better customer collection than peers



Source: Company, MOSL

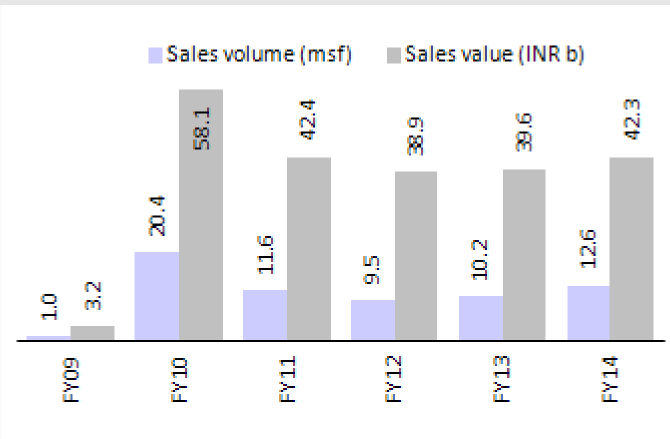
JPIN is entering into ex-capex phase in Expressway project. This, coupled with cash positive real estate vertical to make the company FCF generator FY13 onward

from its Noida and GB Nagar land parcel. In 3QFY12, it started monetizing its GB Nagar land (parcel-3), with encouraging sales response. Over the past 6 months, it has achieved encouraging sales of ~INR7b in parcel-3, including (a) Plotted (0.1m sq yards at INR3.5-4b), and (b) Commercial shops plus office space (~INR2.5b). Stronger sales and focus on execution have also improved revenue booking run rate.

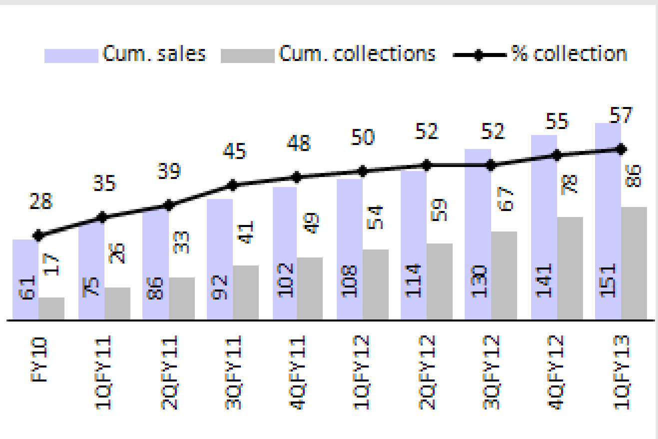
… augurs well for healthy collections and strong demand

JPIN has maintained a robust collection run-rate - largely commensurate with sales momentum (collected almost 57% of presales). Steady execution pace in ongoing construction has been the key attributable factor. The management intends to prioritize execution over new launches in 1HFY13, before reviving fresh projects in 2HFY13. While the strategy could lead to lower sales during 1HFY13, with meaningful delivery lined up over FY13-15, JPIN projects are likely to gain significant interest, going forward. We expect superior connectivity following the commencement of the expressway to play a strong role in improving the marketability of new parcels. We estimate sales of ~INR40b/44b (3-4msf of quarterly volume run-rate) in FY13/14 v/s INR39b in FY12.

Expect INR40b+ sales run-rate over FY13-14



Healthy cash conversion to continue, backed by steady customer collection (INR b)

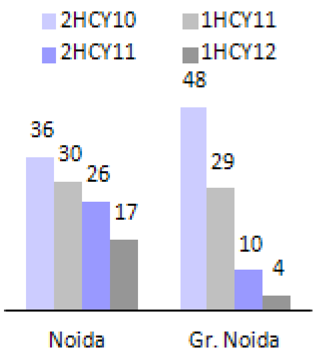


Source: Company. MOSL

Operational concerns are weakening

Our sales expectations for JPIN come with concerns on (1) relative weakness in the Noida market, (2) untested new land parcels, and (2) high proportion of brokers' underwriting in NCR markets. However, we believe there are reasonably strong mitigants as well.

Noida and Gr. Noida among worst performing markets



Source: Industry

❶ Outlook of Noida market improving; JPIN has shown resilience

JPIN's core market, Noida has been impacted with several operational and political overhangs over the past two years. This has resulted in its severe under-performance in recent times. The rosy growth story of Noida/ Greater Noida over FY08-11 has been severely diluted due to (a) oversupply concern and severe execution slippages, (b) slow and incommensurately low commercial development, and (c) political risks owing to events like farmers' protest, changing government, etc.

Despite weakness in general sentiment over Noida market, JPIN has managed to maintain superior sales performance in recent times. This is largely attributable to the fact that Noida has been a very scattered market, with the presence of a large number of local developers, which makes the negative impact uneven. The political risk over land protests had been more chronic in Noida extension villages, while JPIN's land parcel is located in the less affected expressway zone. Additionally, JPIN's stronger brand, better products, and execution have been the key to steady operations.

Moreover, there are signs of broad based recovery for Noida/Greater Noida markets, with (a) developers (Unitech, Jaypee) posting better sales over the past six months, and (b) NCR Planning Board (NCRPB) approving the Master Plan-2021 for Greater Noida.

Ongoing projects enjoying decent demand

Project	Launched (msf)	Sold (msf)	Sold (%)	Avg. price (INR)	Value (INR b)	Delivery Date
Aman Apartment I	3.3	3.3	100	3,000	10	2012
Aman Apartment II	1.3	1.3	100	3,000	4	2012
Klassic Apartment	5.5	5.2	94	3,400	18	2012
Kosmos	8.5	8.3	98	3,500	29	2012
Kensington Park	2.9	2.8	99	3,003	8	2013
Kensington Boulevard	2.9	2.8	97	3,288	9	2013
Kingswood Oriental	0.2	0.2	85	3,300	1	2013
Kasa Isles	2.4	2.3	97	3,413	8	2013
Kube Appts	1.5	1.4	90	3,413	5	2013
Krescent Homes	4.3	4.2	97	4,314	18	2014
Orchard	2.7	2.6	94	4,904	13	2014
Anant	1.9	0.3	18	3,000	1	2014
Pebble Beach	0.3	0.3	90	10,785	3	2014
Garden Isle	4.9	2.7	55	4,131	11	2015
Sports City (Built-up)	1.1	0.4	35	6,000	2	2015
Residential Plots	6.0	5.9	98	2,700	16	
Commercial Plots	3.1	3.1	100	2,600	8	
Total	**52.8**	**47.0**			**163***	

* Gross value before price discount; updated till 1QFY13 Source: Company, MOSL

❷ **Untested new parcels - flurry of upcoming projects a step towards market maturity**

While JPIN's recent launch at Sports City (GB Nagar) can be termed as entry to a new market, we believe with improving connectivity and several projects announced alongside the expressway, these locations moving towards market maturity. Besides JPIN's Sports City, other ongoing projects include (a) Upcountry and Golf Country (Supertech): two integrated townships of 100 acres each, (b) Lotus City (3C), (c) NRI Yamuna Township (SDS), (d) Earth Sapphire (Earth Infrastructure) etc. While the average rate for plotted development is hovering around ~INR30,000/sq yard, apartments and commercial spaces are trading at INR3000/sf+ and INR6,000/sf +. A few projects have already witnessed 25-30% appreciation since launch 1.5-2 years ago. We expect the JP brand to be preferred and enjoy early mover advantage on account of the execution credibility it has established in the surroundings.

❸ **Broker sale a common practice, but JPIN's steady collection dilutes risk**

Commensurate collection mitigates the concerns over delayed cash conversion in a typical broker sales practice

Higher proportion of broker sales has been a common practice in the NCR. The biggest impact of such practice is delayed cash conversion, despite strong pre-sales. While this could raise concerns on the quality of large sales achieved by JPIN, a healthy collection run-rate should mitigate the risk. The company has collected almost 57% of its ~INR151b pre-sales, with delivery periods of these projects set for FY13-15.

Rare FCF visibility in stressed sector

We see JPIN as one of the few free cash flow (FCF) generators in the liquidity-strapped realty sector. Severe cost over-run in the YE project (~INR36b over past 12 months) has dented FY12 cash flows. However with toll road commencing operations, we expect ex-capex annualized toll revenue of ~INR2.7b (FY14), coupled with cash-positive real estate operations (~INR64b receivable from pre-sales) to render visibility to healthy cash generation. Steady execution and new launches in ongoing projects are likely to improve cash conversion to INR9b-10b/quarter (v/s INR7.5b-8.5b/quarter currently). We estimate positive FCF of INR7.5b/13b in FY13/14, which translates into 1.4/1.7x interest expense.

Our estimated FCF translates into 1.4-1.7x interest expense

Expect JPIN to generate positive FCF from FY13

Cash based P&L	FY12	FY13E	FY14E
Cash flow from Real Estate	**30.3**	**33.8**	**39.0**
Construction cost	19.6	21.4	23.9
Net cash from Real Estate	**10.6**	**12.4**	**15.1**
YE Annuity income	0.0	1.2	2.7
Opex and Capex	23.8	2.2	0.4
Steady State YE annuity	**-23.8**	**-1.0**	**2.3**
Operating expense	1.5	1.8	2.1
Other income	0.1	0.2	0.2
Gross cash profit	**-14.6**	**9.9**	**15.5**
Interest payment	1.4	5.4	7.8
Cash PBT	**-16.0**	**5**	**8**
Tax	3.3	2.4	2.6
Cash PAT	**-19.3**	**2.1**	**5.2**
Dividend Payment	1.6	1.6	1.6
Debt repayment	-7.8	0.5	3.6
FCF	**-17.9**	**7.5**	**13.0**
FCF / Interest (x)		1.4	1.7

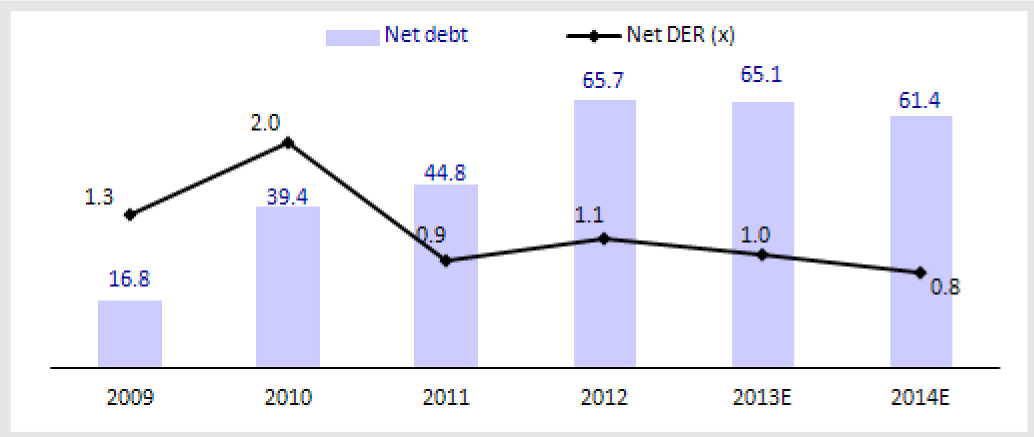
Source: Company, MOSL

Operational surplus to moderate gearing

Expectation of a strong dividend payment, led by visibility over operating surplus, has been an integral part JPIN's story. However, we believe the dividend story could be deferred and partially diluted owing to the management's preferred plan to de-leverage. While cost escalations in the YE project have led to a significant increase in debt-equity to 1.1x (net debt of ~INR65.7b), we expect no major capex commitment from FY13. This would free up the entire positive surplus from real estate projects to address de-leveraging, along with potential improvement in dividend payout. JPIN's infra debt of ~INR60b (for YE) is scheduled to be repaid from the 11th year of concession period. However, given the visibility of operating surplus, the management plans to retire the entire debt early (we assume repayment over the next 13 years).

Focus on debt reduction could defer dividend growth expectations

Operational surplus to moderate gearing (INR b)



Source: Company, MOSL

Value unlocking partially constrained

YE traffic risks | Weaker market mix | New UP government policy

- **JPIN's integrated business model renders substantial comfort on the potential value unlocking opportunity over the medium to longer term.**
- **Yet, near-term upside could be constrained by prevailing concerns over (a) traffic growth at YE, (b) relative weakness in market-mix, and (c) risk of policy actions by the new government in UP. Some of the concerns over YE and market-mix are easing off.**
- **JPIN, being the cash cow of JP Group, confidence over beneficial usage of cash surplus would be a key positive.**

Growth story partly eclipsed by near-term concerns

While JPIN's synergistic business model and long-term growth potential offers meaningful comfort, near-term upside could be curbed by some prevailing concerns.

❶ Downside risks to expressway traffic growth assumptions

Our traffic assumptions for the Yamuna Expressway (YE) are conservative, but they are qualitatively decided due to the absence of any true comparables. Growth in traffic is also a factor of economic development in surrounding areas. Any delay or slowdown in real estate activities in the proposed townships and other infrastructure plans could have significant negative bearing on the annuity stream from the toll project. We also understand from discussions that as per the concession agreements, the government shall not permit any other expressway or road between Noida and Agra without mutual agreement and in case the competing road facility is provided, adversely affecting the revenues of the company, then the concession period shall be increased to compensate for the loss.

The illustration suggests strong sensitivity of value addition by toll project to traffic growth assumptions

Sensitivity of Yamuna Expressway valuation to traffic assumptions

FY13/14	Annuity Stream (INR b)	EPS (INR)		FCF - Interest (INR b)	
PCUs assumption	FY14E	FY13E	FY14E	FY13E	FY14E
20% Lower	2.1	6.6	6.9	1.9	4.8
Base case (21,000/day)	2.7	6.7	7.2	2.1	5.2
20% Higher	3.2	6.9	7.5	2.3	5.6

Yamuna Expressway NPV (INR/share)	PCU Growth over FY13-15			
PCU Growth over FY16-25	10%	8%	6%	4%
10%	-0.1	-2.5	-4.8	-7.0
8%	-5.6	-7.7	-9.7	-11.6
6%	-10.3	-12.1	-13.9	-15.6
4%	-14.4	-16.0	-17.5	-19.0

Base Case Source: MOSL

Recent media report suggests that SP government has scrapped the Greenfield international airport project at Jewar (near JPIN's land parcel 4) owing to unavailability of the Center's clearance. The airport is now being proposed between Mathura and Agra (towards the end of the 165km expressway). While this could have an adverse effect on monetization of land parcel-4 (although this land parcel has not been under immediate plan), it could as well impact the medium term traffic growth expectation for Yamuna Expressway. Developments like this could augment the uncertainty factor to our growth estimates.

We require more clarity on the near-term revenue visibility of the YE project, which is likely to emerge over the next 6-12 months, post commencement.

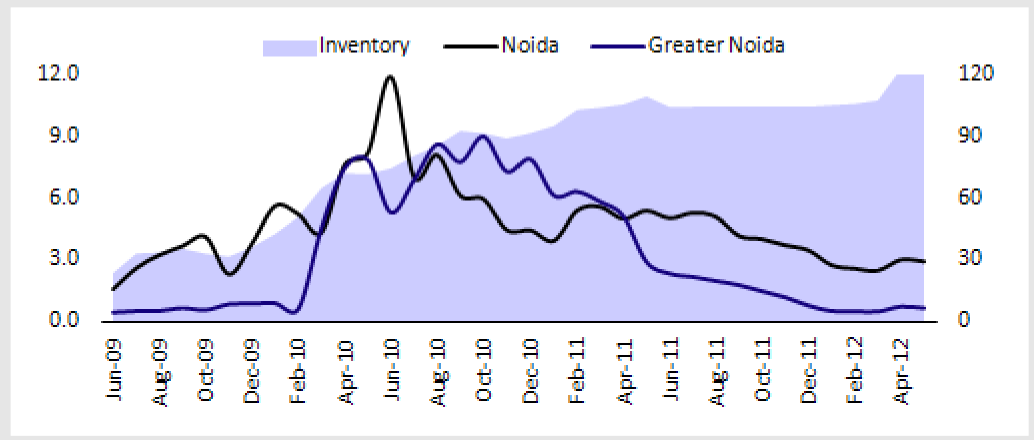
Noida and other land parcels, despite offering the most affordable product proposition in NCR, coupled with established infrastructure, fell in prey of uncertain operational and political headwinds

However, early signs of receding overhangs and improving absorption/ price appreciation are positives

❷ Subdued Noida market still in recovery stage

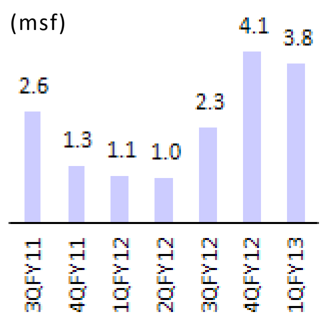
Although JPIN has posted strong operating performance and encouraging sales recovery over 2HFY12, the broader outlook of the Noida market has not yet turned positive. The market has been impacted by issues like oversupply, several delivery backlogs, protests by farmers, and other political uncertainties. While there are early signs indicating resolution of some of these issues, any major delay in the recovery of market sentiment could negatively impact our sales assumptions for JPIN.

Noida market growth story diluted, with ebbing sales (msf) and rising inventory



Source: Prop Equity Data from Industry sources

Unitech's Noida sales also improved over past 9months



Source: Company, MOSL

However, risk perception seems to be improving

Noida offers attractive mid-segment proposition: We believe that Noida and other expressway land parcels of JPIN offer the most attractive value and product proposition with mid-segment affordability, when compared with competing markets like Gurgaon. Given a large number of projects with unit ticket sizes of INR4-5m, we expect demand drive to remain strong. Good road infrastructure and better connectivity through expressway would further augment attractiveness. Recent healthy offtake and price rises in JPIN's own projects substantiate the same.

Higher visibility on resolution of land acquisition issues: There are visible signs that some land issues are getting resolved: (1) higher compensation to farmers, (2) recent news on NCR Planning Board (NCRPB) approving Greater Noida 2012 master plan, (3) some fast-track steps undertaken by the new government, etc. We believe any definite development in this regard would boost buyers/investors' lost confidence in the Noida market, with spin-off benefits to JPIN.

Expressway, Formula-1 could change the dynamics of YE area: The success of the Formula 1 race in GB Nagar, which happens to be an annual event, should boost interest level in Sports City real estate. The commencement of the expressway has lot more to offer beyond toll revenue, in terms of improving connectivity and economic activity in the surrounding regions over medium term. This coupled with favorable government initiatives would provide the necessary thrust to JPIN's growth story.

❸ Policy risk matters, but expect growth agenda to sustain

Change of political equation in UP is a risk, as future government action could have a strong bearing on real estate potential. However, current dynamics appear to have had lower-than-expected impact on JPIN, unlike in the past. [The company had faced significant difficulties in land acquisition for the Yamuna Expressway in 2003 under the Samajwadi Party (SP) government.] But growth has been the agenda for the success of newly elected governments in neighboring states. We expect this to hold true in UP as well, mitigating the political risk for JPIN.

Convincing potential, steady cash, subsiding concerns

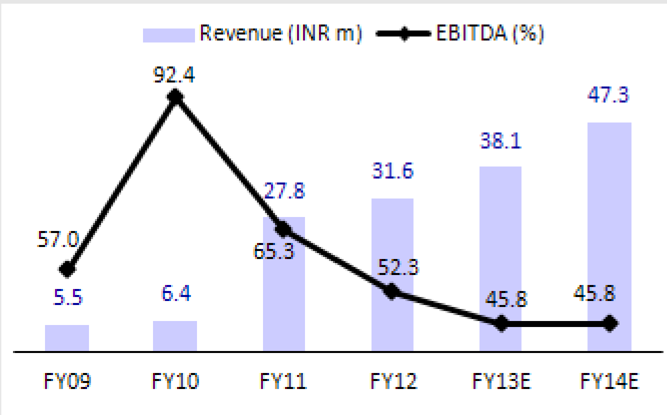
Buy with target price of INR60 (23% upside)

- **Post recent correction, JPIN trades at inexpensive valuations — FY13/14 P/E of 7.2/6.8x and P/BV of 1x/0.9x vis-a-vis RoE of 15%.**
- **We are assigning a Buy rating to JPIN (SOTP based target price of INR60), due to its sustainable value unlocking story, steady operations and inexpensive valuations.**
- **We understand that near-term upside potential is linked with some macro indicators (comfort over government's policy, Noida market) and micro factors (certainty over toll revenue, usage of operating cash surplus) turning favorable and encouraging.**

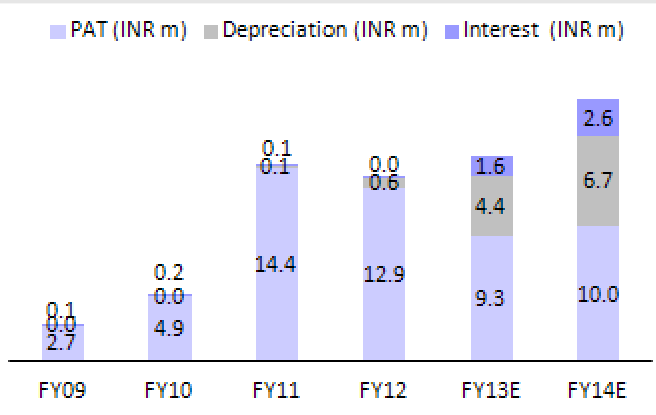
Earnings growth to be capped by YE depreciation and interest

We expect JPIN's steady pre-sales, execution and slated delivery to drive ~22% revenue CAGR over FY12-14. Revenue from GB Nagar projects is likely to cross recognition threshold partially by 2HFY13. We expect EBITDA margin to stabilize at 45-46% over FY13/14, translating into ~15% EBITDA CAGR. However, PAT is likely to post a compounded annual de-growth of ~12% over FY12-14 on account of commencement of depreciation and interest expense related to the Yamuna Expressway (YE) project. This would lead to moderation in RoCE/RoE from 13.8%/24.3% to 14%/14.3% in FY14. Nonetheless, we expect the cash profit and FCFE to improve meaningfully over FY12-14, with (a) the completion of YE capex, and (b) strong visibility of cash flows from core real estate operations.

Margins to moderate amidst steady revenue growth



PAT to post de-growth due to depreciation and interest



Source: Company, MOSL

Valuations are inexpensive; SOTP-based target price of INR60/share

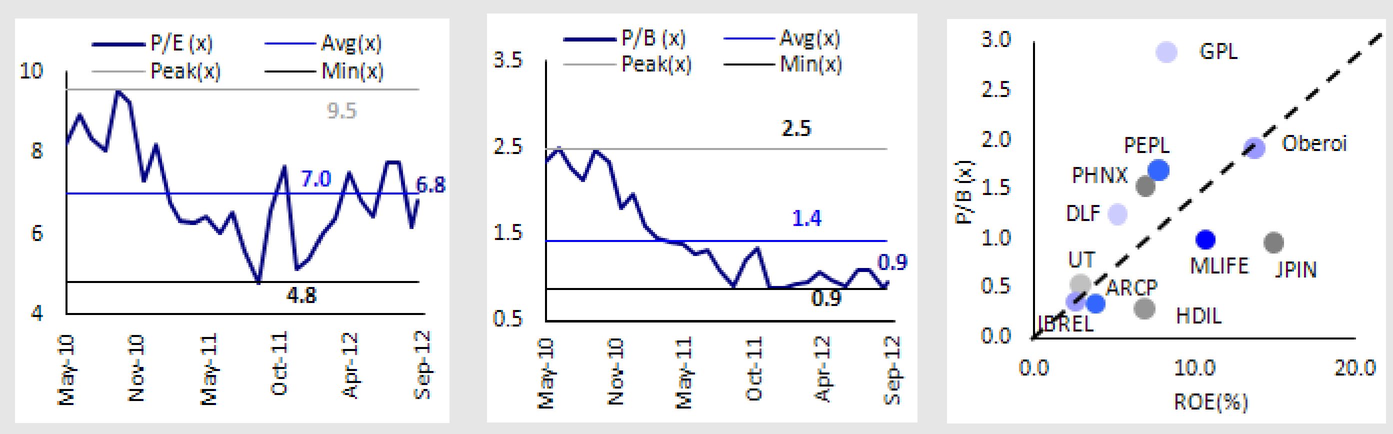
JPIN trades at (a) P/E of 7.2x FY13E and 6.8x FY14E, (b) P/BV of 1x FY13E and 0.9x FY14E vis-à-vis RoE of ~15%. Asset based valuations are inexpensive (20% discount to medium-term average P/B) when compared to peers, although its earning based valuations are hovering almost at par with the historical average of 7x. However, when adjusted for expressway-led depreciation, its cash P/E is at below the historical average (6.2x FY13E and 5.4x FY14E). We value JPIN at INR60/share based on 20% discount to our SOTP-based value of INR74, which captures land parcels with near-to-medium term visibility (parcels 1, 2 & 3 and 5) based on NPV and excludes parcel-4.

Estimate JPIN's SOTP value at INR74/share

NAV Calculations	(INR m)	NAV/Share	% of NAV
Ongoing Parcels			
Parcel 1 (Noida)	77,627	56	42
Parcel 3 (Mirzapur)	38,558	28	21
Parcels with high near-to-medium term visibility			
Parcel 2 (Jaganpur)	38,508	28	21
Parcel 5 (Agra)	30,121	22	16
NPV based value	30,121		
Land cost based value	12,875		
Parcels with less near-to-medium term visibility			
Parcel 4 (Tappal)	0	0	0
NPV based value	18,041		
Land cost based value	2,900		
GAV from Real estate	**184,814**	**133**	**100**
Less: Tax	40,659	29	22
Less: Operating Exp	18,481	13	10
Less: Ex YE debt	5,679	4	3
NAV	**119,395**	**86**	**65**
Yamuna Expressway	-16,839	-12	-9
SOTP	**102,555**	**74**	**55**

Source: Company, MOSL

P/E at par with historical average, albeit cash P/E cheaper; appears attractive when compared with peers



Source: Company, MOSL

Initiating with Buy, awaiting re-rating triggers...

We are assigning a **Buy** rating to JPIN (TP of INR60), due to its convincing story, steady operations and inexpensive valuations. However, we understand that for JPIN's growth story to gain investor confidence, some macro and micro indicators have to turn favorable and encouraging.

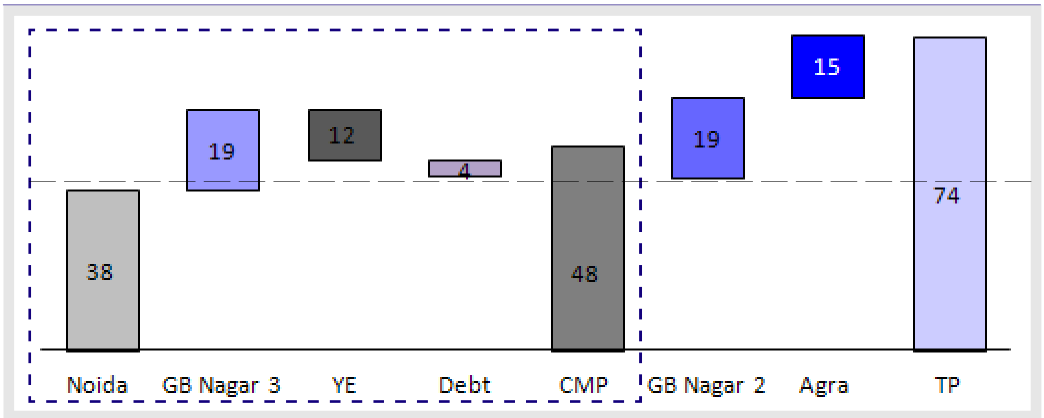
Key macro indicators: (1) Comfort on new government's development policies
(2) General improvement in Noida market outlook

Key micro factors: (1) Certainty over expressway toll revenue
(2) Usage of operating cash surplus FY13 onwards

Easing of above mentioned concerns and faster monetization in remaining land parcels are the potential re-rating triggers.

Our asset-based SOTP value suggests that ongoing land parcels at Noida and Parcel-3 offer cushion to downside risk at current market price, while the remaining parcels aid strong potential value unlocking with economic growth and subsiding overhangs.

Ongoing projects offer cushion to downside **Potential value unlocking from remaining parcels**



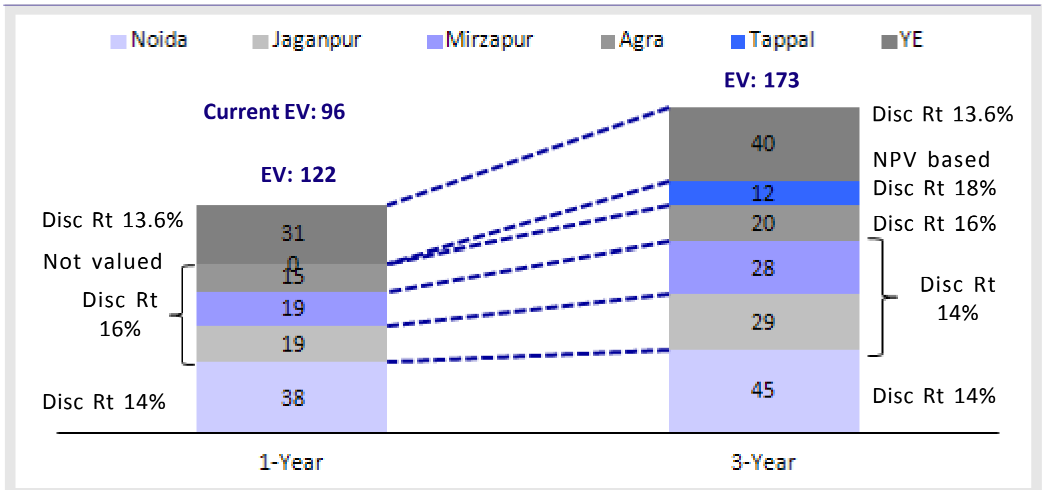
Source: Company, MOSL

... to steer growth towards true asset valuations

JPIN's long-term outlook is largely dependent on its ability to transform some unexplored locations into attractive real estate destinations. The initial process has started encouragingly, with infrastructure developments like expressway connectivity, F-1 track and various others proposed developments. Therefore, its true asset value unlocking is likely to play out only with the success in demand creation over medium term. Demand visibility over Parcel 2/4/5 and steady sales at ongoing parcels could place the company in a strong position over next 3-5years.

Ability to transform some unexplored locations into attractive real estate destinations could place the company in a strong position over the next 3-5years

Higher clarity on development potential to unlock significant real estate value (INR/sh)



Source: Company, MOSL

Annexure

REALITY CHECK: Interactions with IPCs on Noida market

Demand supply dynamics improving gradually

Noida has been one of the worst affected realty markets in the recent downturn. Other than overall sluggishness in the realty space, the pain was further aggravated by strong farmers' protests over land acquisition in Noida Extension. The protests had a strong bearing on sales and execution momentum of several ongoing projects, and thwarted the quantum upsurge story of this market over FY08-10. We interacted with real estate consultants and developers to get a sense of the current happenings and outlook.

Our key takeaways

- Uproar over farmers' agitations significantly impacted the Noida Extension projects in FY12. Absorption run-rate has declined by 80-90% in Greater Noida region. Oversupply and execution risk are the biggest concerns in the area. However, the plummeting sales in remaining locations are more cyclical in nature.
- Nonetheless, volumes at Expressway projects have been better and these projects have seen 8-10% price appreciation also. Prices are expected to remain stagnant with only a slow volume recovery.
- Effects of the Noida Extension agitations are unlikely to flow to other locations. Spillover demand from Extension projects should benefit locations like Faridabad, Ghaziabad, etc.
- Despite adversities, Noida market offers some of the best affordable propositions in NCR markets with flurry of projects with average ticket sizes of INR3-6m. This should revive the buyers' interests once concerns subside.
- Success of the formula-1 race as an annual event is likely to improve interest for township projects across the Yamuna Expressway (YE). Monetization of industrial land around the YE also offers long-term growth potential.

Flashback: Encouraging growth over 2008-10 ...

- The Noida real estate growth story has largely been attributed to the emergence of Noida Extension in 2008-09 as a key supply engine. While projects within the main city and on Noida Expressway offer higher-end opportunities, the subsidized land bank that several developers obtained from the government led to a flurry of launches (30-40 projects/quarter) in the mid-income segments.
- This resulted in a massive growth in absorption (~4k/annum in 2007-08 to 35k/annum in 2010-11) and inventory levels (25-30k in 2008 to 100k in 2010-11). Easy connectivity with Delhi, good infrastructure and plethora of affordable houses (wide price difference with Gurgaon) were the major USPs of Noida Extension projects.

... but sharp slowdown since FY11 thwarted momentum

- Launches by numerous local developers with limited track record resulted in concerns of oversupply and execution risk. The concerns transformed into genuine sluggishness, with the eruption of farmers' agitations (on compensation by the government, land usage, etc) and subsequent unfavorable judgment against the UP government's land acquisition.

- While the court's decision to de-notify land or award higher compensation led to uncertainty among buyers and developers, it also stalled the progress of under-construction projects.

Is the problem contagious to other parts of Noida? Unlikely

- Overall sales in Noida/Greater Noida slowed down in FY12 and the deterioration is mainly attributable to continuing decline in the high volume Noida Extension market. With limited clarity and confidence among buyers, only a few sales have opened up (barring a few developers like Amrapali, Supertech, etc).
- Land acquisition-linked agitation has also erupted on a smaller scale in other micro-markets of Noida. However, they haven't been as vocal and contemporary as Noida Extension. Structurally also, the issues in Noida extension were different due to the typicality of land acquisition process followed over there. Thus, the contagious effect of litigation/protests is unlikely to play havoc in other parts of Noida. Projects at Noida Expressway have seen comparatively better absorption, with even price appreciation of 8-10%.

Can spillover demand from Extension area benefit rest of Noida?

- The spillover demand from Noida Extension is unlikely to significantly benefit Noida Expressway projects due to difference in price points in these two micro-markets. The actual demand would flow down to tier-III cities, viz. Ghaziabad and Faridabad.
- After the success of the formula-1 race as an annual event, even land parcels across the Yamuna Expressway have been witnessing improvement in interest and activity.

Summing up...

- **Gradual recovery expected:** The oversupply concern likely to subside gradually due to new launches over past 12months. The market momentum has started turning positive over past 2-3quarters with developers like Jaypee, Unitech posting improvement in Noida-market sales. Overall prices are likely to remain unaltered in the near-term, albeit prices may increase in Noida extension because of factors such as hike in compensation to farmers and rising input cost.
- **Some structural challenges:** Despite being an affordable market, recent pricing uptick in Expressway projects suggests growing investor participation. Incommensurately slower commercial growth (unlike Gurgaon) remains a key concern for Noida market, which is a critical factors behind residential demand growth on a sustainable basis.
- **Some positive flavor:** Commencement of expressway, and rising economic activity around formula-1 location should uplift interest level for both residential, and industrial demand. Approval of Greater Noida Master Plan by NCR authorities is a key positive development, which is expected to revive the stalled execution and new launches.

Financials and Valuation

Income Statement (INR Million)

Y/E March	2009	2010	2011	2012	2013E	2014E
Net Sales	**5,546**	**6,407**	**27,787**	**31,559**	**38,097**	**47,293**
Change (%)	-43.1	15.5	333.7	13.6	20.7	24.1
Construction expenses	1,722	367	9,215	14,598	20,125	25,059
Staff Cost	39	69	86	127	139	153
Selling & Adminstrative exp	626	49	352	343	377	415
EBITDA	**3,159**	**5,921**	**18,134**	**16,492**	**17,456**	**21,666**
% of Net Sales	57.0	92.4	65.3	52.3	45.8	45.8
Depreciation	140	162	86	16	1,550	2,583
Interest	0	8	101	632	4,373	6,721
Other Income	17	122	199	130	219	214
PBT	**3,036**	**5,874**	**18,146**	**15,974**	**11,753**	**12,575**
Tax	369	999	3,796	3,077	2,409	2,578
Rate (%)	12.1	17.0	20.9	19.3	20.5	20.5
Reported PAT	**2,667**	**4,875**	**14,351**	**12,897**	**9,343**	**9,997**
Adjusted PAT	**2,667**	**4,875**	**14,351**	**12,897**	**9,343**	**9,997**
Change (%)	304.6	82.8	194.4	-10.1	-27.6	7.0

Balance Sheet (INR Million)

Y/E March	2009	2010	2011	2012	2013E	2014E
Share Capital	9,660	12,260	13,889	13,890	13,890	13,890
Reserves	2,794	7,669	33,740	43,887	51,605	59,978
Net Worth	**12,454**	**19,929**	**47,629**	**57,777**	**65,495**	**73,867**
Loans	18,675	57,210	63,321	71,096	70,596	66,596
Capital Employed	**31,129**	**77,139**	**110,951**	**128,873**	**136,091**	**140,463**
Gross Fixed Assets	588	628	645	769	93,769	93,769
Less: Depreciation	235	396	481	497	2,047	4,630
Net Fixed Assets	**353**	**232**	**164**	**272**	**91,722**	**89,139**
Capital WIP	25,363	51,883	68,306	92,026	0	0
Curr. Assets	**10,402**	**44,858**	**73,785**	**75,447**	**87,234**	**96,565**
Inventory	5,501	19,100	33,378	45,284	49,477	54,360
Debtors	0	1,026	5,379	4,096	6,342	7,911
Cash & Bank Balance	1,909	17,830	18,509	5,417	5,536	5,149
Loans & Advances	2,976	6,869	16,151	20,349	25,577	28,843
Other current asset	15	34	369	303	303	303
Current Liab. & Prov.	**4,989**	**20,123**	**31,304**	**38,873**	**42,865**	**45,240**
Creditors	4,616	18,746	25,065	28,778	31,760	33,025
Provisions	373	1,377	6,239	10,095	11,105	12,215
Net Current Assets	**5,413**	**24,735**	**42,481**	**36,574**	**44,369**	**51,324**
Application of Funds	**31,129**	**77,139**	**110,951**	**128,873**	**136,091**	**140,463**

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2009	2010	2011	2012	2013E	2014E
Basic (INR)						
Adjusted EPS	**2.8**	**4.0**	**10.3**	**9.3**	**6.7**	**7.2**
Growth (%)		44.0	159.8	-10.1	-27.6	7.0
Cash EPS	2.9	4.1	10.4	9.3	7.8	9.1
Book Value	12.9	16.3	34.3	41.6	47.2	53.2
DPS	1.0	1.0	1.3	1.0	1.0	1.0
Payout (incl. Div. Tax.)	42.4	29.4	14.2	12.6	17.4	16.3
Valuation (x)						
P/E				5.3	7.2	6.8
Cash P/E				5.2	6.2	5.4
EV/EBITDA				8.1	7.6	6.0
EV/Sales				4.2	3.5	2.7
Price/Book Value				1.2	1.0	0.9
Dividend Yield (%)				2.1	2.1	2.1
Profitability Ratios (%)						
RoE	21.4	30.1	42.5	24.5	15.2	14.3
RoCE	9.8	10.9	19.4	13.8	12.2	14.0
Turnover Ratios						
Debtors (Days)	0	63	68	58	55	61
Inventory (Days)	0	750	560	484	497	444
Creditors. (Days)	706	2,969	1,577	795	619	511
Asset Turnover (x)	0.0	0.1	0.2	0.2	0.3	0.3
Leverage Ratio						
Net Debt/Equity (x)	1.3	2.0	0.9	1.1	1.0	0.8

Cash Flow Statement (INR Million)

Y/E March	2009	2010	2011	2012	2013E	2014E
PBT before Extraordinary Items	3,036	5,874	18,146	15,974	11,753	12,575
Add: Depreciation	140	162	86	16	1,550	2,583
Interest	0	8	101	632	4,373	6,721
Less : Direct Taxes Paid	369	999	3,796	3,077	2,409	2,578
(Inc)/Dec in WC	3,504	3,402	17,067	7,185	7,675	7,343
CF from Operations	**-777**	**1,643**	**-2,528**	**6,361**	**7,590**	**11,959**
(Inc)/Dec in FA	-25,856	-26,561	-16,441	-23,845	-974	0
(Pur)/Sale of Investments	0	0	0	0	0	0
CF from Investments	**-25,856**	**-26,561**	**-16,441**	**-23,845**	**-974**	**0**
(Inc)/Dec in Net Worth	10,916	3,746	15,670	-1,124	0	0
(Inc)/Dec in Debt	18,675	38,535	6,111	7,775	-500	-4,000
Less: Interest Paid	0	8	101	632	4,373	6,721
Dividend Paid	1,130	1,434	2,031	1,625	1,625	1,625
CF from Fin. Activity	**28,462**	**40,838**	**19,649**	**4,393**	**-6,498**	**-12,346**
Inc/Dec of Cash	**1,829**	**15,920**	**680**	**-13,091**	**118**	**-388**
Add: Beginning Balance	80	1,909	17,830	18,509	5,417	5,536
Closing Balance	**1,909**	**17,830**	**18,510**	**5,417**	**5,535**	**5,149**

E: MOSL Estimates

N O T E S

Disclosure of Interest Statement	Jaypee Infratech
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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