

**BSE SENSEX**  
18,358

**S&P CNX**  
5,568


Bloomberg	JPIN IN
Equity Shares (m)	1,388.9
M.Cap. (INR b)/(USD b)	54.1/1.0
52-Week Range (INR)	62/35
1,6,12 Rel. Perf. (%)	-1/-21/-27

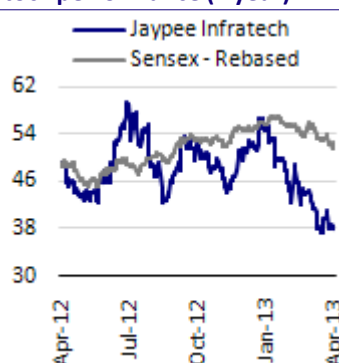
### Valuation summary (INR b)

Y/E March	2013E	2014E	2015E
Net Sales	32.5	41.3	43.8
EBITDA	14.8	19.0	20.7
Adj PAT	7.0	9.0	10.6
Adj EPS (INR)	5.0	6.4	7.7
EPS Gr. (%)	-45.7	27.8	18.8
BV/Sh. (INR)	45.5	50.7	57.2
RoE (%)	11.6	13.4	14.2
RoCE (%)	11.3	13.9	14.7
Payout (%)	23.2	18.1	15.3
<b>Valuation</b>			
P/E (x)	7.4	5.8	4.9
P/BV (x)	0.8	0.7	0.7
EV/EBITDA (x)	8.1	5.9	5.0
Div. Yield (%)	2.6	2.6	2.6

### Shareholding pattern %

As on	Mar-13	Dec-12	Mar-12
Promoter	83.3	83.3	83.3
Dom. Inst	9.0	9.0	9.0
Foreign	1.4	1.0	0.7
Others	6.4	6.7	7.1

### Stock performance (1 year)



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

**CMP: INR39**
**TP: INR56**
**Buy**

## Gearing to decline by 30% over the next 12-18 months

**Limiting capex; focusing on delivery at Noida and monetization at Parcel-3**

We attended the Analyst Meet organized by Jaypee Infratech (JPIN), where we interacted with the top management, including Chairman, Mr Manoj Gaur. We also visited key projects and interacted with a few local brokers and sales persons to get a sense on the recent trends and outlook for real estate in Noida/Greater Noida. Our key takeaways:

- JPIN targets to lower leverage by ~INR20b over the next 12-18 months, driven by land divestment and abandonment of major capex plans for the next 2-3 years.
- The management has guided delivery of 13msf in Wish Town (Noida), annual toll revenue of INR3b over the next two years and annual pre-sales run rate of INR35b-40b, broadly contributed by Parcel-3 and Agra.
- Our channel checks and site visits suggest only a gradual shift in real demand for Yamuna Expressway projects with economic development in surrounding areas. Hence, despite the long-term positive outlook, the next 2-3 years' sales could be slow.
- We are lowering our (1) pre-sales and OCF estimates by 15-20%, (2) EPS estimates for FY13-15 by 4-18%, and (3) target price by 15% to INR56/share. We maintain our Buy rating.

### Management commentary: Emphasis on gearing moderation, Wish Town delivery Land divestment, no capex plan to moderate debt by ~30%

JPIN targets to lower its leverage (current net debt of INR68b) by ~INR20b to INR48b over the next 12-18 months. Barring positive FCF generation, its game plan to achieve this would be divestment of land/FSI at Sports City (Parcel-3) to the tune of ~INR20b. In the first leg, it has guided 50-100 acres of land sales over the next six months. Also, the management has strongly guided that it has no major capex plans over the next 2-3 years.

### Recent refinancing to lower cost of debt, improve liquidity

The recent ~INR66b loan from IDBI Bank at favorable interest rate (12-12.75%) to repay high cost debt (average cost of 14.5%) would help to reduce cost of debt by ~200bp and extend repayment period by almost six years (to FY31 from FY25). Medium to longer term liquidity has improved (short term liquidity too, as the first repayment on new loan is scheduled for FY16 as against FY12 earlier). The refinancing is divided into three tranches:

1. INR20b (CoD 12.0% payable after 22 months, i.e. in FY16)
2. INR20b (CoD 12.5% payable after three years and before 15 years, i.e. FY16-28)
3. INR26b (CoD 12.75% payable after five years and before 18 years, i.e. FY18-31)

### Toll run rate to improve to ~INR3b over next two years

While Yamuna Expressway's current annual toll revenue run rate (~INR1b) has been lower than our initial anticipation, the management hopes to achieve INR3b annuity over the next two years. It has seen almost 40% jump in toll (INR2.5m per month) in the last four months. To further improve the Expressway's end-point connectivity, it plans to construct/improve a 9km stretch near Mathura.

**Guides delivery of 13msf at Wish Town (Noida) in FY14**

At Wish Town (Noida), the group is set for delivery of ~13msf over the next 12 months, which includes 4-5msf of JPIN projects (the balance are JAL projects) in Klassic and Kosmos. JPIN has 10-11msf of residential area left for monetization in Noida, which it plans to churn at a slower pace, with premium proposition (INR7,500/sf+) to enjoy gradual value accretion. Sports City and Wish Town (Agra) would be the key volume drivers, hereon.

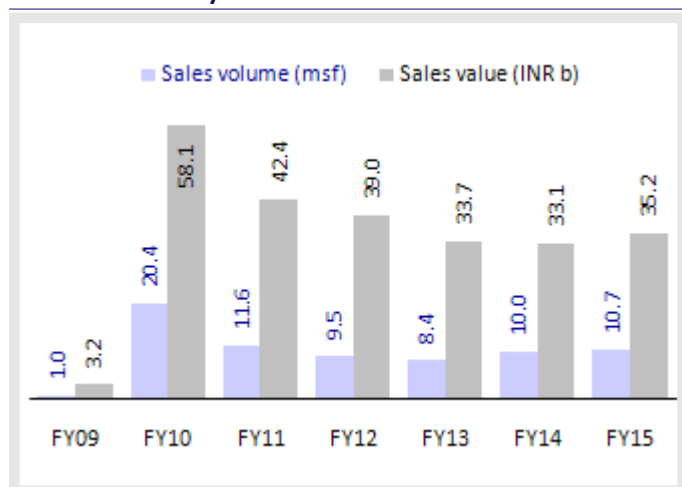
**4QFY13 sales run rate remains weak**

Overall pre-sales momentum remained weak in 4QFY13, in the absence of Agra contribution (owing to certain farmers' objections) and weak incremental sales in Noida and Parcel-3. JPIN sold 1.4msf (INR6.5b)/8.1msf (INR33b) in 4QFY13/FY13. The management has guided annual pre-sales run rate of INR35b-40b, with 20-25% contribution from the Noida parcel.

**Lowering pre-sales and core OCF estimates by 15-20%**

- Our interactions with local brokers and sales teams of other developers suggest relatively slower near term demand growth outlook for distant-Noida projects due to impending delivery of a huge number of under-construction units over the next 2-3 years in Central Noida, Noida-Greater Noida Expressway and Noida Extension.
- Steady economic growth with the arrival of commercial units would be the key to achieve real demand growth in Yamuna Expressway projects, including Jaypee's Sports City. However, the current development trend augurs for only a gradual shift of commercial demand from Noida to Greater Noida to distant projects on Yamuna Expressway.
- Despite attractive longer term prospects and prevailing pricing difference with city projects, the overall monetization velocity and price growth at Sports City could be moderate in the near term (we anticipate another 2-3 years). The management's strategy to divest land at Parcel-3 is an apt strategy to manage liquidity if the core presales fail to post strong growth.
- We expect encouraging response to the planned launch of JPIN's studio apartments at Sports City East. Nonetheless, given strategic slow monetization in Wish Town (Noida), we lower our annual pre-sales run rate estimate to INR33b-35b in FY13-15 (v/s INR40b earlier). Any delay in resolving the Agra project issue could render further downside risk.
- This implies reduction in core operating FCFE (excluding INR15b-20b of land divestment plan) to INR0.3b/INR2.2b (v/s INR2.3b/INR6.1b earlier). We assume annual land sales of INR9b in Parcel-3 over FY14 and FY15 to trigger debt reduction of ~INR16b by FY15 (v/s management guidance of INR20b) to INR51.9b (net D/E of 0.7x).

### Expect JPIN to maintain pre-sales run rate of INR33b-35b over the next 2-3 years



### Project wise developments in Jaypee Green Sports City

Sports City	Area (msf)	Units	Sold
<b>Jaypee Associate Projects</b>			
Country Home	2.3	928	
Krown	0.9	557	
Kassia	1.6	1,129	
Kove	1.8	1,369	
Green Crest	1.2	568	
Commercial	0.6	208	
Country Home II	1.5	717	
Bougainvillea	1.5	43	
1BHK Studio	1.1	-	
<b>Jaypee Infratech Projects</b>			
Jaypee Square East	1.1	416	
Yamuna Vihar	1.6	822	
Sunnyvale	0.8	556	
Studio Apartment	1.0	-	

1.5msf  
(@INR3.8K/  
sf)

1.5msf  
(@INR30K/sq  
yard)

Source: Company, MOSL

### Cash flow trend : Despite positive FCFE, debt reduction hinges on land divestment at Parcel-3

Cash flow (INR b)	FY13E	FY14E	FY15E
<b>CF from Real Estate</b>	<b>34.6</b>	<b>34.6</b>	<b>35.0</b>
Construction cost	20.8	23.0	22.6
<b>Net cash from Real Estate</b>	<b>13.8</b>	<b>11.6</b>	<b>12.4</b>
<b>Parcel 3 FSI/Land sales</b>		<b>8.8</b>	<b>8.8</b>
YE Annuity income	0.5	1.4	2.0
Opex and Capex	2.2	0.6	0.6
<b>Steady State YE annuity</b>	<b>-1.7</b>	<b>0.8</b>	<b>1.4</b>
Operating expense	1.9	1.7	1.9
<b>Gross cash profit</b>	<b>10.4</b>	<b>19.6</b>	<b>20.9</b>
<b>Core cash EBITDA</b>	<b>10.2</b>	<b>10.8</b>	<b>12.1</b>
Interest payment	9.6	8.3	7.3
Tax	1.8	2.2	2.7
<b>FCFE</b>	<b>-0.9</b>	<b>9.0</b>	<b>10.9</b>
<b>Core FCFE</b>	<b>-0.9</b>	<b>0.3</b>	<b>2.2</b>

Source: Company, MOSL

### Near-term operations a bit worrying; cutting target price by 15%

- We remain positive on JPIN's long-term value creation story due to (a) its presence in future growth corridor, (b) cheap land cost coupled with strong execution ability, and (c) projects with attractive value proposition. Planned deleveraging would strengthen liquidity further.
- However, near-term operational performance, which is largely dependent on the success of monetization in Parcel-3 and Agra, could disappoint if the real demand growth surrounding the Yamuna Expressway gets delayed.
- Downgrade in our pre-sales estimates has led to 4-18% downgrade in our EPS estimates for FY13-15. While our SOTP value stands at INR75/share, we are increasing the discount factor to 25% (20% earlier) to factor in the immediate challenges and concerns. Our target price of INR56 is equivalent to ascribing partial (50-70%) value to Agra and Sports City projects, and implies 12x FY15 cash EBITDA
- The stock trades at 4.9x FY15E EPS and 0.7x FY15E BV (13-14% RoE in FY14-15). Maintain **Buy**; our revised target price still implies 46% upside.

### Takeaways from key project visits and operational updates

- Execution progress was visible across the huge ongoing construction at Wish Town (Noida), with 280 towers (~50msf). While the first set of handovers for JPIN projects seems to be another 12 months away, the delivery of a few towers (under JAL) before that should improve the township's overall proposition. Current premium projects are quoting north of INR9,000/sf.

**Noida Wish Town is likely to see the first set of deliveries in JAL projects. The management has guided delivery of 13msf in FY14**



**Klassic and Kosmos together have ~10msf of construction in advanced stages, with 4-5msf to be delivered by FY14...**



**Construction is at advanced stages in JPIN projects. Noida is witnessing ongoing execution of 280 towers, simultaneously. JPIN has sub-contracted its projects to multiple contractors.**



**...followed by Kasa Isle and Kresence. JPIN has sold ~95% of its 50msf launches in Wish Town, with delivery scheduled over the next 2-3 years.**



Source: Company, MOSL

- In **Jaypee Sports City East** (JPIN's Parcel-3, which is part of the 5,000-acre integrated city), the company has launched three projects of ~3.5msf, and sold 1.6msf (INR5.5b), largely in its plotted project, Yamuna Vihar. Over the next month, JPIN plans to launch studio apartments of ~1msf (@INR3,800/sf), which have been a great success as a product in JAL's Sports City. Sports City projects have witnessed ~50% price appreciation since 2010.
- **Wish Town (Agra)** has posted pre-sales of 1.5msf (INR1.2b), though JPIN is yet to register the booking due to certain operational hurdles related to farmers' compensation protest. However, it is confident of sorting out the issue and recognising the sales in the current quarter.
- We travelled from **Greater Noida to Jewar Toll Naka via Yamuna Expressway**, both sides of which have new launches from local developers like Supertech, Oris, Subhakama, Khushi, etc. Most projects are large townships and execution has not yet started. Commercial development is very little and currently restricted to the first 5km (NIIT campus and Galgotia University among the mentionable few).

**Jaypee Green Sports City: Construction on full swing for JAL's Kassia and Kove. Simplex is one of the sub-contractors. The initial plotted projects are set for handing over.**



**Master plan of 5,000-acre Sports City: The highlighted portion is JPIN's Parcel-3, where it has sold 1.6msf of residential projects and plans to launch 1msf of studio apartments next month.**

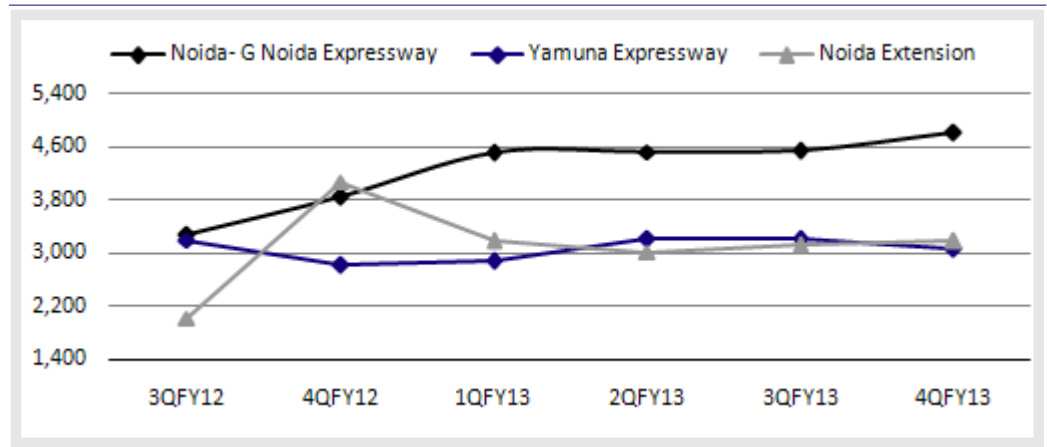


Source: Company, MOSL

#### **Takeaways from channel checks with local brokers and sales teams**

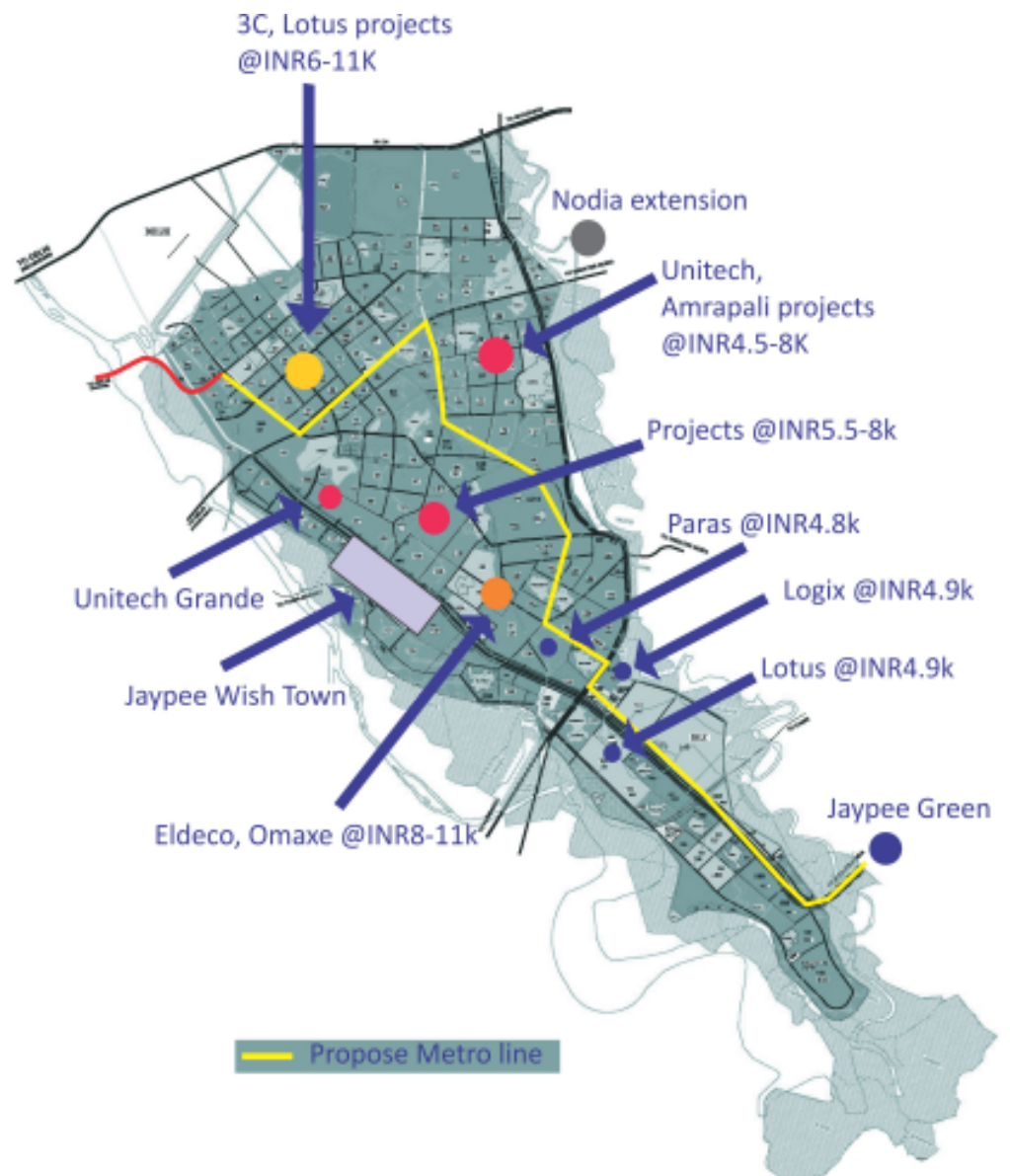
- Noida has oversupply concern with a slew of FY08-10 launches with high investors' proportion coming for delivery over similar period of next 2-3 years. Average delay in these projects' delivery has been 2-4 years.
- Expressway and Central Noida remain the most active and preferred markets, with projects from developers like Jaypee, 3C, Logix, Paras, Supertech, Amrapali, Eldeco, etc.
- Proposed metro connectivity has resulted in 30-40% price appreciation in these micro markets over the past 18 months. Current prices are 4k-8k/sf depending on stage of construction. Expressway has almost 33k units under construction (3.4k unsold inventory of 10 months), including Jaypee Wish Town, Unitech Grande, etc.
- Yamuna Expressway projects are available at 30-40% discount and could provide a good proposition for affordable projects. However, resumption of construction (post operational logjam related to land acquisition) in Noida Extension projects, with huge number under-construction units may pose a threat to Yamuna Expressway projects. Noida Extension is at present relatively advanced location with greater certainty on delivery timelines.
- Incommensurate commercial development (unlike Gurgaon) and supply pressure would keep Noida and Greater Noida market pricing under check in the near term. Growth in commercial spaces would be the prerequisite for real growth in the residential segment in distant suburbs.
- Assuming phased progress in commercial demand, gradually moving from Noida to Greater Noida, and then to Yamuna Expressway, a lot of brokers believe that the real growth in end-user demand for Yamuna Expressway projects may still be sometime away.

Recent pricing trends for group housing projects in key competing markets (INR/sf) suggest controlled movement across micro-locations. However, Central Noida (Sector 51, 76-78, 82, 92-93, 100-110) has witnessed 30-40% appreciation in the last 18 months, partly driven by proposed metro rail connectivity.



Source: Industry, MOSL

**Noida Master Plan 2021**



Source: MOSL

## Financials and Valuation

<b>Income Statement</b>		<b>(INR Million)</b>				
<b>Y/E March</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	
<b>Net Sales</b>	<b>27,787</b>	<b>31,559</b>	<b>32,544</b>	<b>41,302</b>	<b>43,843</b>	
Change (%)	333.7	13.6	3.1	26.9	6.2	
Construction expenses	9,215	14,598	17,216	21,700	22,509	
Staff Cost	86	127	139	153	169	
Selling & Administrative exp	352	343	377	415	456	
<b>EBITDA</b>	<b>18,134</b>	<b>16,492</b>	<b>14,811</b>	<b>19,034</b>	<b>20,708</b>	
% of Net Sales	65.3	52.3	45.5	46.1	47.2	
Depreciation	86	16	172	603	1,206	
Interest	101	632	6,046	7,335	6,291	
Other Income	199	130	162	96	84	
<b>PBT</b>	<b>18,146</b>	<b>15,974</b>	<b>8,755</b>	<b>11,193</b>	<b>13,295</b>	
Tax	3,796	3,077	1,751	2,239	2,659	
Rate (%)	20.9	19.3	20.0	20.0	20.0	
<b>Reported PAT</b>	<b>14,351</b>	<b>12,897</b>	<b>7,004</b>	<b>8,954</b>	<b>10,636</b>	
<b>Adjusted PAT</b>	<b>14,351</b>	<b>12,897</b>	<b>7,004</b>	<b>8,954</b>	<b>10,636</b>	
Change (%)	194.4	-10.1	-45.7	27.8	18.8	

<b>Balance Sheet</b>		<b>(INR Million)</b>				
<b>Y/E March</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	
Share Capital	13,889	13,890	13,890	13,890	13,890	
Reserves	33,740	43,887	49,266	56,595	65,606	
<b>Net Worth</b>	<b>47,629</b>	<b>57,777</b>	<b>63,156</b>	<b>70,485</b>	<b>79,496</b>	
Loans	63,321	71,096	70,596	63,196	53,896	
<b>Capital Employed</b>	<b>110,951</b>	<b>128,873</b>	<b>133,751</b>	<b>133,680</b>	<b>133,391</b>	
Gross Fixed Assets	645	769	93,769	93,769	93,769	
Less: Depreciation	481	497	669	1,272	2,478	
<b>Net Fixed Assets</b>	<b>164</b>	<b>272</b>	<b>93,100</b>	<b>92,497</b>	<b>91,292</b>	
Capital WIP	68,306	92,026	0	0	0	
<b>Curr. Assets</b>	<b>73,785</b>	<b>75,447</b>	<b>81,825</b>	<b>83,879</b>	<b>86,969</b>	
Inventory	33,378	45,284	55,159	57,364	60,892	
Debtors	5,379	4,096	4,821	5,590	4,260	
Cash & Bank Balance	18,509	5,417	2,661	2,163	2,017	
Loans & Advances	16,151	20,349	18,882	18,460	19,497	
Other current asset	369	303	303	303	303	
<b>Current Liab. &amp; Prov.</b>	<b>31,304</b>	<b>38,873</b>	<b>41,173</b>	<b>42,696</b>	<b>44,869</b>	
Creditors	25,065	28,778	30,068	31,036	32,626	
Provisions	6,239	10,095	11,105	11,660	12,243	
<b>Net Current Assets</b>	<b>42,481</b>	<b>36,574</b>	<b>40,651</b>	<b>41,183</b>	<b>42,100</b>	
<b>Application of Funds</b>	<b>110,951</b>	<b>128,873</b>	<b>133,751</b>	<b>133,680</b>	<b>133,391</b>	

E: MOSL Estimates

## Financials and Valuation

### Ratios

Y/E March	2011	2012	2013E	2014E	2015E
<b>Basic (INR)</b>					
Adjusted EPS	10.3	9.3	5.0	6.4	7.7
Growth (%)	159.8	-10.1	-45.7	27.8	18.8
Consolidated EPS	10.3	9.3	5.0	6.4	7.7
Growth (%)					
Cash EPS	10.4	9.3	5.2	6.9	8.5
Book Value	34.3	41.6	45.5	50.7	57.2
DPS	1.3	1.0	1.0	1.0	1.0
Payout (incl. Div. Tax.)	14.2	12.6	23.2	18.1	15.3
<b>Valuation (x)</b>					
P/E		4.2	7.4	5.8	4.9
Cash P/E		4.2	7.2	5.4	4.4
EV/EBITDA		7.3	8.1	5.9	5.0
EV/Sales		3.8	3.7	2.7	2.4
Price/Book Value		0.9	0.8	0.7	0.7
Dividend Yield (%)		2.6	2.6	2.6	2.6
<b>Profitability Ratios (%)</b>					
RoE	42.5	24.5	11.6	13.4	14.2
RoCE	19.4	13.8	11.3	13.9	14.7
<b>Turnover Ratios</b>					
Debtors (Days)	68	58	51	51	42
Inventory (Days)	560	484	572	556	507
Creditors. (Days)	1,577	795	655	558	512
<b>Leverage Ratio</b>					
Net Debt/Equity (x)	0.9	1.1	1.1	0.9	0.7

### Cash Flow Statement

(INR Million)

Y/E March	2011	2012	2013E	2014E	2015E
PBT before Extraordinary Items	18,146	15,974	8,755	11,193	13,295
Add : Depreciation	86	16	172	603	1,206
Interest	101	632	6,046	7,335	6,291
Less : Direct Taxes Paid	3,796	3,077	1,751	2,239	2,659
(Inc)/Dec in WC	17,067	7,185	6,833	1,029	1,063
<b>CF from Operations</b>	<b>-2,528</b>	<b>6,361</b>	<b>6,389</b>	<b>15,862</b>	<b>17,070</b>
<b>CF from Investments</b>	<b>-16,441</b>	<b>-23,845</b>	<b>-974</b>	<b>0</b>	<b>0</b>
(Inc)/Dec in Networkth	15,670	-1,124	0	0	0
(Inc)/Dec in Debt	6,111	7,775	-500	-7,400	-9,300
Less : Interest Paid	101	632	6,046	7,335	6,291
Dividend Paid	2,031	1,625	1,625	1,625	1,625
<b>CF from Fin. Activity</b>	<b>19,649</b>	<b>4,393</b>	<b>-8,171</b>	<b>-16,360</b>	<b>-17,216</b>
<b>Inc/Dec of Cash</b>	<b>680</b>	<b>-13,091</b>	<b>-2,756</b>	<b>-498</b>	<b>-147</b>
Add: Beginning Balance	17,830	18,509	5,417	2,661	2,163
<b>Closing Balance</b>	<b>18,510</b>	<b>5,417</b>	<b>2,661</b>	<b>2,163</b>	<b>2,017</b>

E: MOSL Estimates



**N O T E S**

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3. Broking relationship with company covered	No
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