

Jaiprakash Associates

BSE Sensex
17,705S&P CNX
5,327

CMP: INR77

TP: INR103

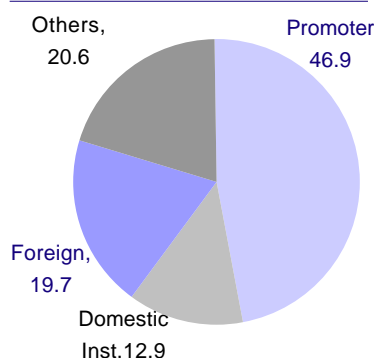
Buy



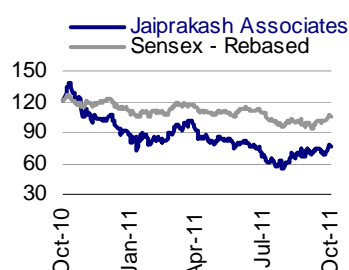
Bloomberg	JPA IN
Equity Shares (m)	2,126.5
52-Week Range (INR)	141/54
1,6,12 Rel. Perf. (%)	-2/-9/-24
M.Cap. (INR b)	163.7
M.Cap. (USD b)	3.4

Y/E March	2011	2012E	2013E
Sales (INR b)	129.7	144.0	151.6
EBITDA (INR b)	28.9	32.4	35.9
NP (INR b)	7.6	7.2	9.2
EPS (INR)	3.6	3.4	4.3
EPS Gr. (%)	-15.3	-5.3	28.5
BV/Share (INR)	44.2	46.8	50.1
P/E (x)	21.6	22.8	17.8
P/BV (x)	1.7	1.6	1.5
EV/EBITDA (x)	12.3	10.8	9.5
EV/Sales (x)	2.7	2.4	2.3
RoE (%)	8.5	7.4	8.9
RoCE (%)	10.6	8.7	9.5

Shareholding pattern % (Sep-11)



Stock performance (1 year)



On the fast track

Project commissioning to aid earnings growth, cashflow generation

- JPA group hosted India's first F1 race, at a best in class circuit developed by it, which reflects the group's sound execution capabilities.
- Real estate development of ~4,000 acres could now be in focus after successful hosting of F1 event, providing a value maximizing opportunity.
- CY11/12 would see projects worth INR250b+ commissioning across cement, power, etc, which will drive earnings and cash-flow over FY12-14.
- Equity funding for current projects is largely met, but expansion may call for fund raising. Consolidated net DER of 3.5x (FY11) is high.

F1 race track development showcases JPA group's impressive execution skills:

Jaiprakash Sports International Limited (JPSI), a 90.6% subsidiary of Jaiprakash Associates (JPA), successfully developed the Buddh International Circuit (BIC), hosting India's first ever F1 Grand Prix. This is an important milestone, reflecting the face of a 'modern and bold' India and is among the largest investments in India towards creating world-class sports infrastructure.

RE development offers options to maximize value: Real estate development at Jaypee Sports City could be ~1,500 acres, which along with two land parcels of 1,250 acres each associated with Yamuna Expressway (part of Jaypee Infratech), offers meaningful value maximization opportunities. Successful completion of the F1 race track and the associated publicity could now help to increase focus on surrounding real estate. We have not factored in any possible upside from real estate monetization and have valued Jaypee Sports City at INR5b (book value of equity investment).

Large-scale project commissioning in CY11/12 to drive earnings, cash-flow:

CY11/12 will be an eventful period for the JPA group due to its large-scale project commissioning in areas of cement, power and expressways. The projects have a cumulative cost of INR250b and most of the capacities will start contributing to its profitability from FY13, leading to improvement in earnings and operating cash flow.

Equity funding gap exists for expansion projects, consolidated net DER high at 3.5x (FY11):

JPA has announced plans to further ramp-up its cement capacity to 50mt and power capacity to 14GW (by 2019). Though the large part of equity funding for the existing cement and expressway projects is met, there exists gap for funding power projects (working on 3.8GW currently). Any further expansion of cement capacity and other diversification could mean fund raising. Consolidated net DER of 3.5x (FY11) is also on the higher side and thus judicious use of cashflows from new project commissioning is key. We note that JPA's business model has higher sensitivity to cement and RE bookings and thus could throw up a positive surprise.

Standalone earnings CAGR of ~20% over FY11-14; Buy: We expect JPA to post standalone net profit CAGR of ~20% over FY11-14, driven by higher cement, EPC and real estate revenue. We expect operating cash-flow to improve from INR15b in FY11 to INR30b in FY14. We value JPA on an SOTP methodology and arrive at a target price of INR103. Maintain **Buy**.

Sports City Development Capex of ~INR17b

Particulars	INR b
Construction cost	~8.5-9
Contract fee to F1 for 5 years)	~9 (1.8b p.a.)

Source: Company/Media

Revenue Sources

- JPSC will get its revenue only through F1 ticket sales (estimated at INR800m in FY12).
- The track can also be used for high-profile motor sports events such as MotoGP, motorbike racing and superbike racing (a global racing series for 750-1,200cc bikes).
- Setting up of a driving academy and related infrastructure.
- Options to organize concerts, conferences, exhibitions to leverage the 20,000 seater grandstand.

F1 race track development showcases JPA group's impressive execution skills

- Jaiprakash Sports International Limited (JPSI), a 90.6% subsidiary of Jaiprakash Associates (JPA), successfully developed the Buddh International Circuit (BIC), hosting India's first ever F1 Grand Prix. This is an important milestone, reflecting the face of a 'modern and bold' India and is among the largest investments in India towards creating world-class sports infrastructure.
- BIC is part of Jaypee Sports City, spread over 2,500 acres. Land was allotted by Yamuna Expressway Industrial Development Authority (YEA) to develop a Special Development Zone (SDZ) with sports as the core activity (including a motor-race track and a cricket stadium to accommodate over 100,000 spectators). Total development capex is estimated at INR17b and as at March 2011, JPA invested equity of INR5b in JPSI.
- The construction of the sports complex commenced at the end of FY08, after the signing of an agreement with Formula One Administration (F1's organizers) in October 2007 to host India's first F1 race.

Buddh International Circuit: The 5.14km long Buddh International Race Circuit was designed by renowned German architect and racetrack designer, Herman Tilke, who also designed world-class race circuits in Malaysia, Bahrain, China, Turkey, Indonesia, the UAE, South Africa, South Korea and the US. The Buddh International race track was designed as one of the fastest, most exciting circuits in the world, given the track's combination of straights, corners and elevation changes. Buddh International is one of the safest racetracks in the world adhering to safety norms and regulations, has run-off areas and medical facilities. In addition to the F1, the track is expected to host other top-level international motorsports events from 2012.

Integrated land development of 5,000 acres

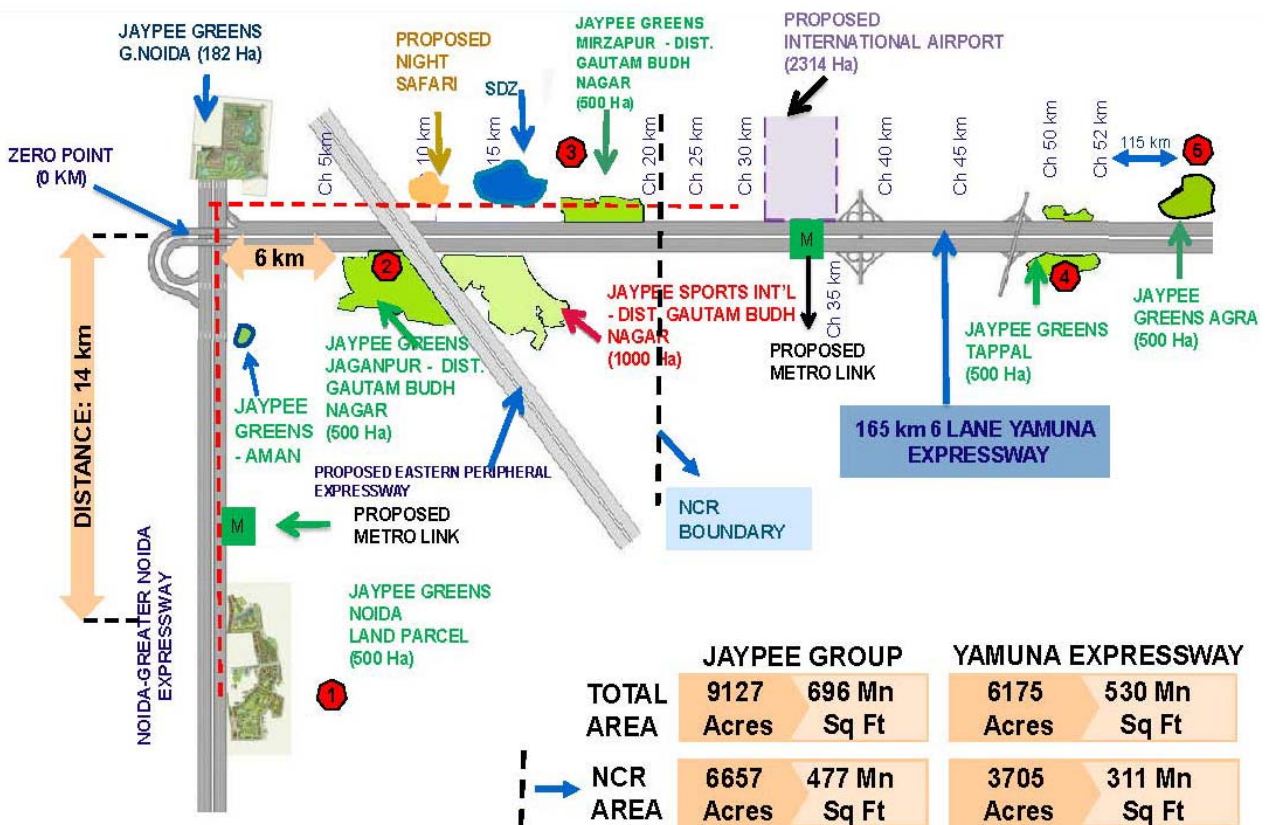
Particulars	Land (acres)
Jaypee Sports	2,500
- Sports complex	1,700
- RE development	~800
Yamuna Expressway	2,500
- Parcel 2 (Jaganpur)	1,250
- Parcel 3 (Mirzapur)	1,250

Source: Company

Integrated development of ~5,000 acres offers options to maximize value through RE monetization

- Jaypee Sports City is spread over ~2,500 acres and we understand potential land available for real estate monetization is over ~1,500 acres. Besides, there are two land parcels, near the sports city, each measuring 1,250 acres (land parcel 2 and 3 of Yamuna Expressway, a part of Jaypee Infratech). The project will entail integrated development of 5,000 acres. We believe this provides meaningful value maximization opportunities.
- Successful completion of the F1 race track and the associated publicity could hasten the company's real estate launch plans. It will also enable the company to shift the volume strategy to this area, while the land in Noida (1,250 acres) could incorporate a more premium monetization strategy, going forward.
- We have not factored in any possible upside from real estate monetization and have valued Jaypee Sports City at INR5b (book value of equity investment).

Layout of the development plans along Yamuna Expressway



Source: Company

CY11/12 to witness large-scale project commissioning, driving earnings, cash-flow

- CY11/12 will be an eventful period for the JPA group, given its large-scale project commissioning. The group aims to (i) increase cement capacity to 37mt (ii) commission the Karcham Wangtoo 1GW hydro power project, (iii) commission the Yamuna Expressway road by the end of FY12, (iv) make the F1 race circuit fully operational and (v) commission the Bina 500MW project by 3QFY12. The projects entail a cumulative project cost of over INR250b.
- Most of the capacities will start contributing meaningfully to profitability from FY13. To illustrate, JPA's cement volume in FY11 was 14.6mt and we expect FY12 volumes of 17.5mt, against proportionate capacity of 33mt. Contribution from the Karcham Wangtoo and Bina power projects will increase in FY13, the first full year of project commissioning. This will lead to meaningful improvement in operating cash-flow for the company.

Equity funding largely met for current projects, expansion may call for fund raising

- JPA plans to ramp-up cement capacity to 50mt and power capacity to 14GW by 2019, develop real estate associated with the Yamuna Expressway project (~6,500 acres), a sports complex (1,500+ acres), and enter the fertilizer business. We believe this continued phase of project expansion is a key risk.
- Near-term funding requirement is largely for the power portfolio, with equity investment of INR15b a year. Due to funding issues, Jaiprakash Power Ventures (67% stake)

curtailed its project portfolio and is executing the Nigrie (1,320MW), Bara (1,980MW) and Bina (500MW) projects.

Leverage high at 3.5x as at FY11, could taper off by FY13/14

- On a consolidated basis, JPA has gross debt of INR444b, cash on books is INR68b and net DER is 3.5x. Consolidated net DER of FY11 is also on the higher side and thus judicious use of cashflows from new project commissioning is key. JPA's high leverage is given the developer business model with normative project DER being 2.5-3:1. On a standalone basis however, gearing is 2x and net debt on books is INR193b.
- Increased capacity utilization and subsequently increased contribution will help to lower DER over the next 2-3 years. However, the workings do not assume incremental addition to cement and power capacity of just 5.7GW over FY11-14. We expect JPA's consolidated net DER to decline to 3x by FY14. However, we note that JPA's business model has higher sensitivity to cement and RE bookings in the near term and a positive surprise could boost operational performance.

We expect ~20% net profit CAGR over FY11-14; Maintain Buy, TP INR103

- We expect JPA to post standalone net profit CAGR of ~20% over FY11-14, driven by higher cement, EPC and real estate revenue. We expect JPA to report net profit of INR7.2b (down 5% YoY) in FY12, INR9.2b in FY13 (up 29% YoY) and INR12.5b in FY14 (up 36% YoY). At a CMP of INR78, the stock trades at a PER of 22x and 17x on FY12E and FY13E basis, respectively. We expect operating cashflow to improve from INR15b in FY11 to INR30b in FY14.
- We value JPA on a sum of the parts methodology and arrive at a target price of INR103, comprising: the cement business at INR75/share (6x FY13E EV/EBIT and balance capacity at USD110/ton), EPC business at INR37/share (8x FY13E EV/EBIT), Jaiprakash Power at INR38/share (based on our target price of INR46/share), Jaypee Infratech at INR30/share (based on our target price of INR55/share), other real estate (Jaypee Greens, Land at Noida) at INR11/share less net debt on books (less cash, investment valued at BV in other subsidiaries) at INR87/share. **Maintain Buy.**

Sum of the parts valuation

Standalone Business	Business Segment	Method	Valuation Multiple	Value (INR m)	Value (INR/sh)	Rationale
E&C Business	Construction	FY13E EV/EBIT	8.0	78,226	37	At par with Industry Average
Cement Business	Cement	FY13E EV/EBIDTA	6.0	158,952	75	In-line with large cap cement players
Cash / Cash equivalent		Book Value		28,977	14	Book value FY11
Firm Value				266,155	125	
Debt		Book Value		228,865	108	Book value FY11
Equity Value (A)				37,290	18	
Subsidiary Companies						
Jaiprakash Power Ventures Ltd.	Hydro Power	Target price		81,586	38	68% stake valued at our Target price of INR46/sh
Jaypee Ganga Infra	Road project/ Real Estate	Book Value		5,660	3	Advances towards equity and equity investment
Jaypee Sports Intl	Integrated Sports complex	Book Value		4,999	2	Advances towards equity and equity investment
Other investment		Book Value		3,729	2	FY10 book value
Total (B)				95,973	45	
Real Estate / BOT						
Jaypee Greens	Real Estate	NPV of project development		16,000	8	At project NAV
Jaypee Infratech	Road Deve/ Real Estate	Target price		63,395	30	83.1% stake valued at our Target price of INR55/sh
Land bank at NOIDA	Real Estate	NPV/acre		7,200	3	INR60m/acre based on project NPV for Yamuna Expressway
Total (C)				86,595	41	
Total (A + B + C)				219,859	103	

Source: MOSL

Formula One: Story in pictures

Grand opening



Best in class infrastructure...



World class race track



Raring to go



View of the stand from the race track



On the go



Full house



Closing ceremony



Financials and Valuation

Income Statement			(INR Million)		
Y/E March	2009	2010	2011	2012E	2013E
Net Sales	57,642	100,889	129,650	144,021	151,631
Change (%)	45.3	75.0	28.5	11.1	5.3
Cons. & Manufact. Exp.	29,953	58,091	78,297	83,798	81,630
Staff Cost	3,308	6,653	5,957	7,744	10,068
Selling & Dist. Exp.	4,164	6,839	10,706	13,383	16,327
Other Expenses	3,455	6,194	5,801	6,720	7,713
Total Expenses	40,880	77,776	100,762	111,644	115,737
EBITDA	16,762	23,114	28,889	32,376	35,894
% of Net Sales	29.1	22.9	22.3	22.5	23.7
Depreciation	3,090	4,561	6,078	8,144	8,966
Interest	5,043	10,558	13,942	17,108	16,431
Other Income	3,881	15,829	8,668	3,835	3,588
PBT	12,510	23,824	17,537	10,959	14,084
Tax	3,540	6,733	5,867	3,788	4,866
Rate (%)	28.3	28.3	33.5	34.6	34.6
Adjusted PAT	8,970	8,933	7,569	7,171	9,218
Change (%)	47.1	-0.4	-15.3	-5.3	28.5

Balance Sheet			(INR Million)		
Y/E March	2009	2010	2011	2012E	2013E
Share Capital	2,368	4,249	4,253	4,253	4,253
Reserves	64,177	80,758	89,721	95,257	102,373
Net Worth	66,980	85,007	93,974	99,510	106,626
Loans	131,062	179,088	217,076	212,528	196,999
Deffered Tax Liability	6,896	9,233	11,940	12,440	12,940
Capital Employed	204,938	273,328	322,990	324,478	316,565
Gross Fixed Assets	86,191	128,471	147,964	191,626	210,964
Less: Depreciation	18,013	22,284	28,395	36,539	45,505
Net Fixed Assets	68,178	106,187	119,569	155,087	165,459
Capital WIP	50,819	38,916	63,527	23,390	6,597
Investments	44,651	55,763	64,838	59,861	61,840
Curr. Assets	91,617	130,990	131,523	146,084	146,813
Inventory	19,547	29,097	32,833	38,518	40,433
Debtors	10,220	22,850	28,106	31,566	33,650
Cash & Bank Balance	29,086	38,792	24,625	26,173	18,637
Loans & Advances	32,635	39,947	45,697	49,564	53,832
Other Current Assets	129	304	262	262	262
Current Liab. & Prov.	50,367	58,529	56,467	59,944	64,143
Creditors	8,808	12,971	18,967	21,006	22,712
Other Liabilities	36,736	39,043	31,943	32,270	33,429
Provisions	4,823	6,515	5,556	6,668	8,001
Net Current Assets	41,250	72,461	75,057	86,140	82,670
Misc. Expenses	40	1	0	0	0
Application of Funds	204,938	273,328	322,990	324,478	316,565

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2009	2010	2011	2012E	2013E
Basic (INR)					
Adjusted EPS	4.2	4.2	3.6	3.4	4.3
Growth (%)	47.1	-0.4	-15.3	-5.3	28.5
Consolidated EPS	3.6	1.4	5.4	5.0	5.1
Growth (%)	-30.0	-59.8	275.4	-7.1	1.6
Cash EPS	5.7	6.4	6.4	7.2	8.6
Book Value	56.5	40.0	44.2	46.8	50.1
DPS	0.6	0.9	0.7	0.7	0.9
Payout (incl. Div. Tax.)	15.6	12.6	14.8	22.8	22.8

Valuation (x)

P/E (standalone)			21.6	22.8	17.8
P/E (consolidated)			14.3	15.4	15.2
Cash P/E			12.0	10.7	9.0
EV/EBITDA			12.3	10.8	9.5
EV/Sales			2.7	2.4	2.3
Price/Book Value			1.7	1.6	1.5
Dividend Yield (%)			0.9	0.9	1.1

Profitability Ratios (%)

RoE	15.9	11.8	8.5	7.4	8.9
RoCE	10.3	14.4	10.6	8.7	9.5

Turnover Ratios

Debtors (Days)	65	83	79	80	81
Asset Turnover (x)	0.3	0.4	0.4	0.4	0.5

Leverage Ratio

Debt/Equity (x)	2.0	2.1	2.3	2.1	1.8
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Cash Flow Statement

(INR Million)

Y/E March	2009	2010	2011	2012E	2013E
PBT before EO Items	12,510	23,817	17,546	10,959	14,084
Add: Depreciation	3,090	4,561	6,078	8,144	8,966
Interest	5,043	10,558	13,942	17,108	16,431
Less: Direct Taxes Paid	3,540	6,733	5,867	3,788	4,866
(Inc)/Dec in WC	-7,239	-21,505	-16,762	-9,536	-4,067
CF from Operations	9,864	10,697	14,936	22,888	30,549
(Inc)/Dec in FA	-42,782	-30,667	-44,070	-3,525	-2,545
(Pur)/Sale of Investments	-12,403	-11,112	-9,075	4,977	-1,979
CF from Investments	-55,185	-41,778	-53,145	1,452	-4,524
(Inc)/Dec in Net Worth	14,694	5,474	1,721	500	500
(Inc)/Dec in Debt	48,006	48,026	37,988	-4,548	-15,529
Less: Interest Paid	5,043	10,558	13,942	17,108	16,431
Dividend Paid	1,403	2,156	1,726	1,635	2,102
CF from Fin. Activity	56,255	40,787	24,042	-22,791	-33,562
Inc/Dec of Cash	10,933	9,705	-14,167	1,548	-7,537
Add: Beginning Balance	18,154	29,086	38,792	24,625	26,173
Closing Balance	29,087	38,791	24,625	26,173	18,637

E: MOSL Estimates

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Jaiprakash Associates

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|---|----|
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