

Jaiprakash Associates

BSE Sensex 19,461	S&P CNX 5,898
Bloomberg	JPA IN
Equity Shares (m)	2,126.5
M.Cap. (INR b)/(USD b)	154.6/2.9
52-Week Range (INR)	107/58
1,6,12 Rel. Perf. (%)	-21/-14/-15

CMP: INR73
TP: INR115
Buy
Financials & Valuation (INR b)

Y/E March	2013E	2014E	2015E
Sales	137.9	160.3	171.3
EBITDA	32.8	36.6	38.3
NP	6.1	9.8	11.5
Adj. EPS (INR)	2.9	4.6	5.4
EPS Gr. (%)	-40.2	60.4	18.0
BV/Sh. (INR)	54.4	58.0	62.2
RoE (%)	5.1	8.2	9.0
RoCE (%)	10.3	12.2	12.4
Payout (%)	22.8	22.8	22.8
Valuations			
P/E (x)	25.4	15.8	13.4
P/BV (x)	1.3	1.3	1.2
EV/ EBITDA (x)	8.2	7.2	6.6
Div. Yield (%)	0.8	1.3	1.5

- Jaiprakash Associates reported 3QFY13 standalone PAT of INR1.1b, lower than our estimate of INR1.3b. Key deviation has been higher interest cost at INR5.3b v/s estimate of INR4.8b.
- Higher interest cost is due to ECB/FCCB fund raising, higher finance charges and higher interest cost on capitalization of cement capacity. Other income for the quarter was higher due to EPC work carried out for an associate company (Heavy Engineering Work) as also due to income received on waste management project.
- Performance across division remained divergent. Higher revenues for real estate division was a key positive (INR6.1b v/s est of INR4.8b), while cost absorption restricted the decline in EBIT/ton (by INR95/ton) for cement division despite a steep fall in realization (by INR250/ton). EPC division revenues remained muted, while margins continued to remain healthy at 22% (v/s est of 19%).
- Consolidated net debt as at Mar-12 stood at INR440b, entailing DER of 3.8x. Divestment of stake in Jaypee Cement would enable JPA to raise funds and de-leverage the balance sheet.
- We cut FY13E earnings by ~17% to factor the higher interest cost and realigning assumption across the division. We expect JPA to report net profit of INR6.1b in FY13E (down 40% YoY) and INR9.8b in FY14E (up 60% YoY). The stock trades at FY14E PER of 15.8x and P/B of 1.3x on FY14E. **Buy.**

Quarterly Performance

Y/E March	(INR Million)								Est.	Var.	
	FY12				FY13						
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		3QE	(%)
Sales	31,833	31,324	33,054	40,621	29,636	29,825	33,984	43,631	128,531	137,854	37,922
Change (%)*	0.3	4.6	14.2	4.0					-0.9		-10
EBITDA	7,728	7,482	8,160	10,194	7,713	7,711	7,625	8,964	34,397	32,752	7,679
Change (%)*	20.4	9.9	3.1	31.7					19.1		-1
As of % Sales	24.3	23.9	24.7	25.1	26.0	25.9	22.4	20.5	26.8	23.8	20.3
Depreciation	1,721	1,761	2,022	1,638	1,763	1,778	1,813	1,909	6,142	7,263	1,800
Interest	4,284	4,049	4,485	5,800	4,653	4,544	5,327	5,236	17,817	19,759	4,750
Other Income	74	560	1,205	317	731	448	1,176	624	2,645	2,979	650
Extra-ordinary income	-2	-3	16	49	9	33	8	0	61	0	81
PBT	1,796	2,228	2,873	3,123	2,037	1,870	1,670	2,443	13,143	8,710	1,779
Tax	726	942	824	285	649	590	561	814	2,880	2,613	552
Effective Tax Rate (%)	40.4	42.3	28.7	9.1	31.8	31.6	33.6	33.3	21.9	30.0	31.0
Reported PAT	1,070	1,287	2,050	2,838	1,388	1,280	1,109	1,630	10,264	6,097	1,228
Adj PAT	1,072	1,287	2,034	2,789	1,379	1,280	1,101	1,630	10,203	6,097	1,228
Change (%)*	1.3	11.4	-12.9	-3.3					37.8		-10

E: MOSL Estimates, *Change (% YoY) is not comparable due to Jaypee Cement de-merger

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3QFY13 operational results marginally below estimates

- During 3QFY13, Jaiprakash Associates reported standalone revenues of INR34b (our estimate INR37.9b), EBITDA of INR7.6b (our estimate INR7.7b) and reported PAT at INR1.1b (our estimate INR1.3b).
- Despite lower revenues, operating performance was in-line with our estimates given higher than expected margin for EPC business and higher RE division revenues. Key deviation has been higher other income at INR1.2b, vs our est of INR650m.
- Other income for the quarter was higher due to EPC work carried out for associate (Heavy Engineering work), as also due to income received on waste management project. JPA has begun to accumulate, process municipal waste in Chhattisgarh state for creating biomass fuel.
- Interest cost for the 3QFY13 stood at INR5.3b vs INR4.5b QoQ (est of INR4.8b). Provision of coupon rate on FCCB, ECB fund raising and higher finance charges, coupled with capitalisation of remaining cement capacity led to higher interest cost.
- On segmental front, Cement revenues were lower while EBIT stood higher than estimate. EPC margins remained healthy, while revenue growth was constrained. Most importantly, the real estate division revenues looked up, since last 2 quarters of lull performance.

Cement business performance strong on operating front, realization tad lower

- For 3QFY13, cement business revenue stood at INR14.7b, led by improved realisation. Management indicated that the production/sales for 3QFY13 stood at 3.71m tons, vs 3.44m tons on comparable basis, leading to a volume growth of 8% YoY.
- Average realisation for the division went down QoQ by INR250/ton (vs our est of INR200/ton decline). However, better fixed cost absorption / variable cost savings, restricted EBIT/ton decline by INR95/ton, despite steep decline in realisation.
- EBIT for the division thus stood at INR1.2b, entailing an EBIT margin of 8%, down 1.8ps QoQ and 2ps YoY.

Cement business performance

Revenues	1QFY12*	2QFY12*	3QFY12*	4QFY12*	1QFY13	2QFY13	3QFY13	4QFY13E	FY12	FY13E
Volumes (m ton)	3.88	4.10	4.25	4.25	3.59	3.25	3.71	4.45	13.49	15.00
Revenues (INR m)	15,272	13,238	16,973	16,867	15,629	13,719	14,747	19,135	54,650	63,231
Realization (INR/t)	3,936	3,229	3,994	3,969	4,354	4,221	3,971	4,304	4,051	4,215
EBIT (INR m)	1,940	(295)	1,698	2,128	2,266	1,337	1,179	1,695	6,526	6,477
EBIT (INR/t)	500	(72)	400	501	631	411	317	381	484	432
EBITDA (INR/t)	861	306	811	847	1,035	873	735	741	941	838

* Including volumes of units transferred to Jaypee Cements and thus not comparable

Source: Company, MOSL

EPC division revenue muted - 3 consecutive quarter of near flat revenues, margin however remains healthy:

- EPC division revenues stood at INR12.8b, flat since 1QFY13 on QoQ basis. The executable order book for JPA has declined as Yamuna Expressway project was completed and execution is now largely restricted to Real estate/Thermal project of the group, as new hydro power projects under development will take time to pick-up in execution. This has impacted revenue growth, and reported revenues were lower than our estimate at INR16b.
- EBIT margin for the division remained at 22% (vs our est of 19%), though declined by 11.5ps QoQ and 7.2ps YoY.

E&C business performance

Revenues	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13E	FY12	FY13E
Revenues (INR m)	12,748	15,540	12,421	17,706	12,160	12,859	12,757	17,243	58,423	55,019
EBIT (INR m)	2,500	5,458	3,707	4,232	3,603	4,393	2,896	3,414	16,054	14,305
EBIT margin (%)	19.6	35.1	29.8	23.9	29.6	34.2	22.7	19.8	27.5	26.0

Source: Company, MOSL

Real Estate revenue up as delivery improves, margin impacted as mix change

- Real Estate revenue for JPA stood at INR6.1b, highest since 1QFY12. Management indicated that faster completion of project and handing over of possession had culminated in improved revenue bookings for the division.
- However, the EBIT margin for the division stood at 36%, flat QoQ and down 12ppt YoY. Management indicated that margin for the division is impacted as mix changes - plot sale may entail higher margin, while ticket size/value could be lower. Also, the delivery mix in premium housing, vs economic/mid-class apartments would have bearing on margin profile of the division.

Real Estate business performance

Revenues	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13E	FY12	FY13E
Revenues (INR m)	3,469	2,018	3,078	5,604	1,651	2,678	6,124	6,548	14,170	17,000
EBIT (INR m)	1,851	872	1,477	2,447	666	951	2,210	2,463	6,647	6,290
EBIT margin (%)	53.4	43.2	48.0	43.7	40.4	35.5	36.1	37.6	46.9	37.0

Source: Company, MOSL

Cement divestment under active consideration, de-leveraging is key focus area

- JPA group has been focusing on consolidation and de-leveraging and plans to lower debt through project cashflows, stake sale in Cement business, divestment in Jaypee Infratech.
- We understand that plans to hive off/sale majority stake in Jaypee Cement is under active consideration. JPA's standalone debt stands at INR195b as at Sep-12 and DER at 1.6x. However, on consolidated basis, the total net debt for JPA stands at INR440b as at March 2012, entailing net DER of 3.8x.

Cut earnings, maintain Buy

- We cut FY13E earnings for JPA by ~17% to factor in higher interest cost, lower EPC revenues and margins for RE division. We expect JPA to report net profit of INR6.1b in FY13E (down 40% YoY), and INR9.8b in FY14E (up 60% YoY).
- The stock trades at PER of 15.8x and P/BV of 1.3x on FY14E basis. 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 with target capacity of ~36m 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

- Sizable increase in installed cement capacity (up to 36m tons, vs 13.5m ton in FY09) would drive operating cashflow.
- Of the 13GW of power projects under development, 2.2GW is operational while additional 3.8GW is under construction stage.
- 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.
- Adverse ruling on regulatory front (Cement plant environment clearance, K Wangtoo PPA issues for JPVL) can hamper earnings growth, valuations.

Recent developments

- JPA raised INR5.3b at a issue price of INR83/share to qualified institutional buyers via QIP issue of USD 100m.
- In 3QFY13 FCCB's aggregating ~ USD40m have been converted in to equity shares at predetermined price of INR77.5/share.

Valuations and view

- We expect JPA to report net profit of INR6.1b in FY13E (down 40% YoY), and INR9.8b in FY14E (up 60% YoY). The stock trades at PER of 15.8x and P/BV of 1.3x on FY14E basis. Maintain **Buy**.

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	4.1	4.1	-
FY14	6.3	6.0	5.6

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
73	115	57.5	Buy

Stock performance (1 year)



Shareholding pattern (%)

	Dec-12	Sep-12	Dec-11
Promoter	46.1	46.7	46.8
Domestic Inst	13.9	14.4	12.9
Foreign	23.2	21.0	19.1
Others	16.8	17.9	21.1

Financials and Valuations

Income Statement		(INR Million)			
Y/E March	2012	2013E	2014E	2015E	
Net Sales	128,531	137,854	160,295	171,270	
Change (%)	-1.8	7.3	16.3	6.8	
Cons. & Manufact. Exp.	70,454	77,341	91,474	95,545	
Staff Cost	6,613	7,275	8,002	8,802	
Selling & Dist. Exp.	12,109	14,773	17,727	21,273	
Other Expenses	4,959	5,714	6,490	7,393	
Total Expenses	94,135	105,102	123,693	133,013	
EBITDA	34,397	32,752	36,602	38,257	
% of Net Sales	26.8	23.8	22.8	22.3	
Depreciation	6,142	7,263	7,388	7,513	
Interest	17,817	19,759	17,031	16,502	
Other Income	2,706	2,979	2,932	3,466	
PBT	13,143	8,710	15,115	17,709	
Tax	2,880	2,613	5,337	6,167	
Rate (%)	21.9	30.0	35.3	34.8	
Reported PAT	10,264	6,097	9,779	11,542	
Extra-ord. Inc. (net of exp)	61	0	0	0	
Adjusted PAT	10,203	6,097	9,779	11,542	
Change (%)	37.5	-40.2	60.4	18.0	
Consolidated PAT	6,336	8,710	13,471	24,770	
Change (%)	-54.2	37.5	54.7	83.9	

Balancesheet		(INR Million)			
Y/E March	2012	2013E	2014E	2015E	
Share Capital	4,253	4,253	4,253	4,253	
Reserves	118,790	111,497	119,046	127,956	
Net Worth	123,043	115,750	123,299	132,209	
Loans	161,163	130,099	133,368	136,809	
Deffered Tax Liability	12,437	12,437	12,937	13,437	
Capital Employed	296,643	258,286	269,604	282,456	
Gross Fixed Assets	142,756	145,256	147,756	150,256	
Less: Depreciation	33,309	40,572	47,960	55,473	
Net Fixed Assets	109,447	104,684	99,796	94,783	
Capital WIP	44,815	1,545	1,591	1,639	
Investments	68,825	83,913	86,784	89,691	
Curr. Assets	184,357	133,688	156,020	176,592	
Inventory	40,278	43,758	48,835	50,579	
Debtors	44,353	30,592	36,012	38,477	
Cash & Bank Balance	10,222	16,228	25,996	40,229	
Loans & Advances	43,092	24,546	26,612	28,742	
Other Current Assets	46,412	18,565	18,565	18,565	
Current Liab. & Prov.	110,800	65,544	74,587	80,250	
Creditors	34,085	36,384	42,853	46,082	
Other Liabilities	74,095	26,016	27,961	29,640	
Provisions	2,620	3,144	3,773	4,527	
Net Current Assets	73,557	68,144	81,433	96,342	
Misc. Expenses	0	0	0	0	
Application of Funds	296,643	258,286	269,604	282,456	

E: MOSL Estimates

Ratios		2012	2013E	2014E	2015E
Basic (INR)					
Adjusted EPS	4.8	2.9	4.6	5.4	
Growth (%)	37.5	-40.2	60.4	18.0	
Consolidated EPS	3.0	4.1	6.3	11.6	
Growth (%)	-54.2	37.5	54.7	83.9	
Cash EPS	7.7	6.3	8.1	9.0	
Book Value	57.9	54.4	58.0	62.2	
DPS	1.0	0.6	0.9	1.1	
Payout (incl. Div. Tax.)	22.7	22.8	22.8	22.8	
Valuation (x)					
P/E (standalone)	15.2	25.4	15.8	13.4	
P/E (consolidated)	24.4	17.7	11.5	6.2	
Cash P/E	9.5	11.6	9.0	8.1	
EV/EBITDA	8.9	8.2	7.2	6.6	
EV/Sales	2.4	1.9	1.6	1.5	
Price/Book Value	1.3	1.3	1.3	1.2	
Dividend Yield (%)	1.3	0.8	1.3	1.5	
Profitability Ratios (%)					
RoE	9.4	5.1	8.2	9.0	
RoCE	10.4	10.3	12.2	12.4	
Turnover Ratios					
Debtors (Days)	80	81	82	82	
Asset Turnover (x)	0.4	0.5	0.6	0.6	
Leverage Ratio					
Debt/Equity (x)	1.3	1.1	1.1	1.0	
Cash Flow Statement					
(INR Million)					
Y/E March	2012	2013E	2014E	2015E	
PBT before EO Items	13,143	8,710	15,115	17,709	
Add : Depreciation	6,142	7,263	7,388	7,513	
Interest	17,817	19,759	17,031	16,502	
Less : Direct Taxes Paid	2,880	2,613	5,337	6,167	
(Inc)/Dec in WC	-32,976	11,418	-3,520	-676	
CF from Operations	1,247	44,536	30,677	34,880	
(Inc)/Dec in FA	15,093	40,770	-2,546	-2,548	
(Pur)/Sale of Investment:	-3,987	-15,088	-2,871	-2,908	
CF from Investments	11,106	25,682	-5,417	-5,455	
(Inc)/Dec in Net Worth	21,629	-12,000	500	500	
(Inc)/Dec in Debt	-28,240	-31,064	3,269	3,442	
Less : Interest Paid	17,817	19,759	17,031	16,502	
Dividend Paid	2,326	1,390	2,229	2,632	
CF from Fin. Activity	-26,755	-64,213	-15,492	-15,192	
Inc/Dec of Cash	-14,402	6,005	9,769	14,233	
Add: Beginning Balance	24,625	10,222	16,228	25,996	
Closing Balance	10,222	16,228	25,996	40,229	

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3. Broking relationship with company covered	No
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