

Jaiprakash Associates

Sharp decline in real estate revenues

OUTPERFORMER

13 August 2014

BSE Sensex: 25919

Sector: Construction

Stock data

CMP (Rs)	54
Mkt Cap (Rsbn/USDn)	130 / 2.1
Target Price (Rs)	78
Change in TP (%)	-8.8
Potential from CMP (%)	+44.7
Earnings change (%)	
FY15E	NM
FY16E	-29
Bloomberg code	JPA IN
1-yr high/low (Rs)	90/28
6-m avg. daily volumes (m)	37.73
1-yr avg. daily traded value (Rsm /US\$m)	2344.2 / 38.27
Shares outstanding (m)	2,219.1
Free float (%)	54.9
Promoter holding (%)	45.1

Q1FY15 result highlights

- JPA reported Q1 net loss of Rs806m (est of loss of Rs684m) led by lower real estate revenues.
- Cement volumes grew 2.5%yoy to 3.7mt. Realizations grew 7.2%yoy to Rs4534/tonne and EBIDTA grew 1.8%yoy to Rs882/tonne. EBIT remained flat yoy at Rs1.7bn. EPC revenues declined 4.3%yoy to Rs16.8bn with EBIT margin at 35.2% (24.2% last year). Real estate revenues declined 84%yoy to Rs744m with EBIT declining 93%yoy to Rs112m.
- Overall, EBIDTA grew 0.9%yoy to Rs7.9bn (est of Rs8bn). EBIDTA margin grew to 26.1% from 23.7% last year. Interest costs grew 33.8%yoy to Rs7.9bn led by higher debt levels and higher borrowing costs. The Gujarat cement plant sale has been completed on June 12 2014 and company has repaid Rs12bn debt from the proceeds.

Key positives: Growth in cement and construction business margins

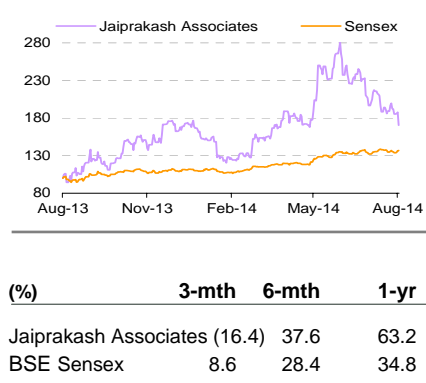
Key negatives: Sharp drop in real estate sales and higher debt levels

Impact on financials: Earnings downgrade led by lower real estate sales. Estimate consolidated net loss of Rs4.8bn in FY15 (loss of 1.4bn earlier) and PAT of Rs5.1bn in FY16 (downgrade of 29%).

Valuations & view

JPA remains committed to its de-leveraging efforts and its asset sales over the last 12 months will reduce consolidated debt by ~Rs160bn. Going forward we expect further de-leveraging through sale of more cement capacities and thermal power plants. Revival in cement demand led by a pick-up in infrastructure capex remains a key trigger for an operational turnaround. Stock trades at P/B of 0.8x on FY15 basis. Maintain Outperformer with a revised price target of Rs78.

Price performance – relative and absolute



Key financials (quarterly - standalone)

Rs m)	1Q14	4Q14	1Q15	% ch qoq	% ch yoy	% var from est
Net sales	33,149	34,659	30,304	(12.6)	(8.6)	(12.0)
EBITDA	7,847	9,351	7,917	(15.3)	0.9	(1.6)
OPM (%)	23.7	27.0	26.1	-85 bps	245 bps	275 bps
Other inc.	371	272	112	(59.0)	(69.9)	(78.5)
Interest	5,900	7,564	7,896	4.4	33.8	4.6
Dep. & Amort.	1,943	1,862	2,146	15.2	10.5	7.3
PBT	375	197	(2,013)	NM	NM	NM
PAT	223	927	(802)	NM	NM	NM
Reported PAT	3,345	1,004	(806)	NM	NM	NM
EPS (Rs)	0.1	0.4	(0.4)	NM	NM	NM

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Quarterly results (Standalone)

In Rsm	FY13	1Q14	2Q14	3Q14	4Q14	FY14	1Q15	FY15E	Comments
Net sales	132,089	33,149	31,761	31,635	34,659	131,203	30,304	129,556	
Expenditure	100,333	25,302	23,857	24,189	25,308	98,655	22,387	98,237	
EBIDTA	31,755	7,847	7,904	7,447	9,351	32,548	7,917	31,319	Cement and EPC margins were above estimate. Real estate revenues and margins sharply below estimate
<i>EBIDTA margin (%)</i>	<i>24.0</i>	<i>23.7</i>	<i>24.9</i>	<i>23.5</i>	<i>27.0</i>	<i>24.8</i>	<i>26.1</i>	<i>24.2</i>	
Other income	3,034	371	1,245	183	272	2,071	112	2,074	
Interest	20,114	5,900	6,542	7,515	7,564	27,521	7,896	28,579	
Depreciation	7,261	1,943	1,962	1,968	1,862	7,736	2,146	8,480	
PBT	7,415	375	645	(1,854)	197	(638)	(2,013)	(3,666)	
Tax Provision	2,495	151	(21)	(968)	(730)	(1,568)	(1,211)	(1,650)	
PAT	4,920	223	665	(886)	927	930	(802)	(2,017)	
Extra-ordinary Items	93	3,121	11	(1)	78	3,209	(4)	0	
Reported PAT	5,013	3,345	677	(887)	1,004	4,139	(806)	(2,017)	
<i>OPM (%)</i>	<i>24.0</i>	<i>23.7</i>	<i>24.9</i>	<i>23.5</i>	<i>27.0</i>	<i>24.8</i>	<i>26.1</i>	<i>24.2</i>	
<i>NPM (%)</i>	<i>3.7</i>	<i>0.7</i>	<i>2.1</i>	<i>(2.8)</i>	<i>2.7</i>	<i>0.7</i>	<i>(2.6)</i>	<i>(1.6)</i>	
Other income/PBT	40.9	98.9	193.1	(9.9)	138.3	(324.6)	(5.5)	(56.6)	
Weighted average Shares O/S	2,146	2,146	2,146	2,146	2,219	2,219	2,219	2,379	
EPS (Rs)	2.3	0.1	0.3	(0.4)	0.4	0.4	(0.4)	(0.8)	
Cash EPS (Rs)	5.7	1.0	1.2	0.5	1.3	3.9	0.6	2.7	
yoy growth (%)									
Net sales	3.7	11.9	6.5	(6.9)	(10.3)	(0.7)	(8.6)	(1.3)	
EBIDTA	(4.6)	1.7	(0.1)	(2.3)	9.9	2.5	0.9	(3.8)	
Other income	(19.0)	(49.3)	178.0	(84.5)	(59.9)	(31.8)	(69.9)	0.2	
Interest	12.9	26.8	40.9	41.1	37.8	36.8	33.8	3.8	
Depreciation	18.2	10.2	10.4	8.6	(2.4)	6.5	10.5	9.6	
PBT	(43.3)	(81.5)	(66.7)	NM	NM	NM	NM	NM	
PAT	(51.8)	(83.8)	(46.6)	NM	NM	NM	NM	NM	
Reported PAT	(51.2)	140.9	(47.1)	NM	NM	(17.4)	(124.1)	(148.7)	

Source: Company data, IDFC Securities Research

Other highlights

- Cement volumes grew 2.5%yoy to 3.7mt below estimate of 3.9mt. Cement realizations grew 7.2%yoy to Rs4534/tonne and EBIDTA grew 1.8%yoy to Rs882/tonne. Cement revenues grew 9%yoy to Rs16.8bn and EBIT margins were 10.2% against 11.2% last year
- Construction revenues declined 4.3%yoy to Rs12bn and EBIT margins were 35.2% against 24.2% last year
- Real estate revenues declined 84%yoy to Rs744m and were sharply below estimate of Rs5bn. EBIT margin declined to 15.1% from 33.8% last year.
- Standalone gross debt has come down by Rs12bn from proceeds of sale of Gujarat cement plant sale.
- JPA has approved the amalgamation of Jaypee Sports (100% owned) with itself, subject to regulatory and other approvals.

Segmental results

(Rs m)	FY13	1Q14	2Q14	3Q14	4Q14	FY14	1Q15	FY15E
Construction								
Revenues	53,143	12,508	14,528	14,593	14,627	56,256	11,973	53,505
EBIT	13,778	3,032	4,251	4,327	5,356	16,966	4,214	16,709
Revenues - % yoy growth	(9.0)	2.9	12.6	14.4	(4.6)	5.9	(4.3)	(4.9)
EBIT - % yoy growth	(14.2)	(15.8)	(3.2)	49.4	85.5	23.1	39.0	(1.5)
EBIT margin	25.9	24.2	29.3	29.7	36.6	30.2	35.2	31.2
Cement								
Volumes (mn tonnes)	14.7	3.6	3.3	3.3	3.9	14.2	3.7	15.2
Avg. realisations (Rs/tonne)	4,118	4,231	4,066	4,090	4,203	4,168	4,534	4,456
Revenues (Rs mn)	60,459	15,393	13,633	13,711	16,452	59,189	16,775	67,602
EBIT (Rs mn)	7,021	1,718	638	276	1,098	3,729	1,716	6,739
Volumes - % yoy growth	3.5	0.4	3.8	(10.1)	(2.6)	(3.3)	2.5	6.8
Avg. realisations - % yoy growth	6.9	(2.7)	(4.7)	3.0	4.9	1.2	7.2	6.9
Revenues - % yoy growth	10.6	(1.5)	(0.6)	(7.0)	0.5	(2.1)	9.0	14.2
EBIT - % yoy growth	7.6	(24.2)	(52.3)	(76.6)	(50.9)	(46.9)	(0.1)	80.7
EBITDA/tonne	806	866	627	540	694	686	882	873
Real Estate								
Revenues (Rs mn)	16,860	4,543	2,958	2,542	2,755	12,797	744	5,079
EBIT (Rs mn)	5,853	1,535	1,314	1,033	1,221	5,103	112	1,114
Revenues - % yoy growth	19.0	175.2	10.5	(58.5)	(57.0)	(24.1)	(83.6)	(60.3)
EBIT - % yoy growth	(11.9)	130.4	38.1	(53.2)	(39.7)	(12.8)	(92.7)	(78.2)
EBIT margin (%)	34.7	33.8	44.4	40.7	44.3	39.9	15.1	21.9

Source: Company data

SOTP based price target of Rs78

Business	Basis	Base value	Multiple	Valuation Rsm	JPA's equity (%)	JPA's share Rsm
Construction	EV/EBIDTA (FY15E)	19,544	5.0	97,721	100.0%	97,721
Cement	EV / ton of capacity (\$/tonne)	27.8	130	217,058	100.0%	217,058
Power	@ fair value of Rs35/share	35.0			68.7%	51,796
Real estate - JP Infratech	@ fair value of Rs50/share	50.0			71.8%	41,357
Real estate - JP Greens	NPV @ 16% COE	8,404	1.0	8,404	100.0%	8,404
JPA Sports city	P/B	5,149	0.5	2,574	100.0%	2,574
180m ton coal mine	\$/ton of reserves	180	1.0	10,800	100.0%	10,800
Total of above				336,558		429,711
Less: standalone/Holdco debt						249,579
Net Equity value						180,132
Valuation per share (Rs/share)						78

Source: Company data, IDFC Securities Research

Income statement (Consolidated)

Year to 31 Mar (Rs m)	FY12	FY13	FY14	FY15E	FY16E
Net sales	148,735	189,708	198,344	202,815	251,088
% growth	30.8	27.5	4.6	2.3	23.8
Operating expenses	94,088	122,065	134,588	127,576	160,054
EBITDA	54,647	67,643	63,756	75,240	91,034
% change	10.1	23.8	(5.7)	18.0	21.0
Other income	2,470	1,579	1,420	1,341	1,009
Net interest	(31,341)	(45,688)	(60,942)	(60,233)	(55,365)
Depreciation	9,516	14,360	17,080	19,632	23,737
Pre-tax profit	16,260	9,172	(12,847)	(3,285)	12,941
Deferred tax	1,320	(1,463)	(1,362)	1,500	1,500
Current tax	5,463	2,946	(353)	(2,236)	1,448
Profit after tax	9,477	7,690	(11,132)	(2,549)	9,993
Minorities	(3,141)	(3,153)	(1,222)	(2,257)	(4,896)
Non-recurring items	(7)	81	4,106	-	-
Net profit after non-recurring items	6,329	4,618	(8,248)	(4,806)	5,097
% change	(64.7)	(27.0)	(278.6)	n/a	n/a

Balance sheet

As on 31 Mar (Rs m)	FY12	FY13	FY14	FY15E	FY16E
Paid-up capital	4,253	4,438	4,438	4,865	4,865
Reserves & surplus	110,527	121,091	98,264	103,938	107,428
Total shareholders' equity	144,246	164,131	146,942	158,170	166,207
Total current liabilities	98,750	132,729	135,189	143,540	160,455
Total debt	531,742	631,110	726,009	623,735	587,157
Deferred tax liabilities	14,104	12,641	12,994	9,565	10,259
Other non-current liabilities	3,921	4,872	5,627	4,480	5,336
Total liabilities	648,517	781,351	879,819	781,320	763,207
Total equity & liabilities	792,762	945,482	1,026,761	939,490	929,414
Net fixed assets	532,539	648,590	725,585	619,525	624,331
Investments	32,312	34,683	30,418	32,142	27,256
Total current assets	227,912	262,209	270,758	287,823	277,827
Working capital	129,163	129,480	135,568	144,282	117,372
Total assets	792,762	945,482	1,026,761	939,490	929,414

Cash flow statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14	FY15E	FY16E
Pre-tax profit	16,260	9,172	(12,847)	(3,285)	12,941
Depreciation	9,516	14,360	17,080	19,632	23,737
Chg in Working capital	909	(1,085)	(10,564)	12,600	(3,713)
Total tax paid	(5,463)	(2,946)	353	2,236	(1,448)
Ext ord. Items & others	784	1,032	4,861	(1,147)	856
Operating cash Inflow	22,006	20,532	(1,117)	30,036	32,373
Capital expenditure	(148,281)	(130,411)	(94,075)	86,428	(28,543)
Free cash flow (a+b)	(126,276)	(109,879)	(95,193)	116,464	3,830
Chg in investments	(1,201)	(2,373)	4,264	(1,724)	4,886
Debt raised/(repaid)	89,106	99,367	94,899	(102,274)	(36,577)
Capital raised/(repaid)	1,513	7,880	1,013	14,994	-
Dividend (incl. tax)	(1,662)	(854)	(1,901)	(61)	(547)
Misc	(1,061)	5,525	(9,460)	(5,598)	(2,214)
Net chg in cash	(39,580)	(333)	(6,377)	21,800	(30,623)

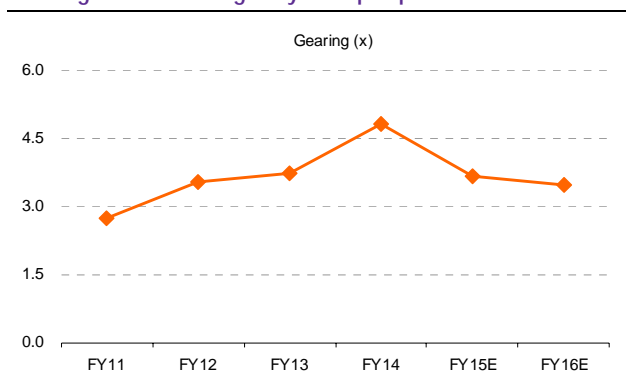
Key ratios

Year to 31 Mar	FY12	FY13	FY14	FY15E	FY16E
EBITDA margin (%)	36.7	35.7	32.1	37.1	36.3
EBIT margin (%)	30.3	28.1	23.5	27.4	26.8
PAT margin (%)	4.3	2.4	(6.2)	(2.4)	2.0
RoE (%)	4.5	2.9	(7.9)	(3.2)	3.1
RoCE (%)	7.0	7.1	5.5	6.6	8.6
Gearing (x)	3.5	3.7	4.8	3.7	3.5

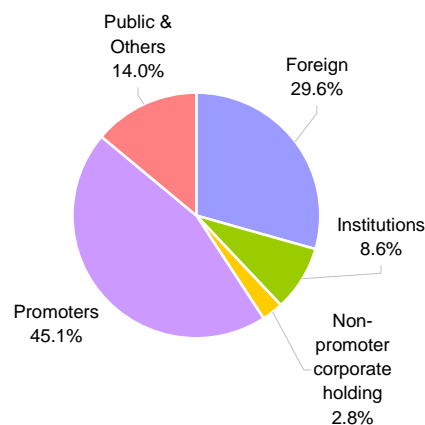
Valuations

Year to 31 Mar	FY12	FY13	FY14	FY15E	FY16E
Reported EPS (Rs)	3.0	2.2	(3.7)	(2.0)	2.1
Adj. EPS (Rs)	3.0	2.1	(5.6)	(2.0)	2.1
PE (x)	18.0	25.4	n/a	n/a	25.6
Price/ Book (x)	0.8	0.7	0.8	0.8	0.8
EV/ Net sales (x)	4.3	4.0	4.4	3.7	3.0
EV/ EBITDA (x)	11.8	11.2	13.6	10.1	8.3
EV/ CE (x)	0.9	0.9	1.0	1.0	1.0

Gearing to reduce marginally as capex peaks



Shareholding pattern



As of June 2014

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