

Jaypee Infratech

PRICE BAND: Rs 102 - 117
SUBSCRIBE AT LOWER PRICE BAND

Issue Details

Issue Size	Rs 2262 / 2352
Face Value	Rs 10
Bid opens	29/APR/2010
Bid closes	04/MAY/2010
Price band (Rs)	Rs 102 / 117
(Retail Investors to get 5% discount)	
Lead Managers	
Morgan Stanley, BofA Merrill Lynch, Axis Bank, Enam, ICICI Securities, IDFC Capital, JM Financial, Kotak, SBI Capital	
Registrar	
Karvy	

Issue Structure	No Share (Cr)
Total Shares offered to Public	22.17 / 20.10
QIB Portion	13.30/12.06
Non Institutional Portion	2.21/2.01
Retail Portion	6.65/6.03

No of Issued, subscribed and paid up shares before the issue	122.6 Cr
No of Issued, subscribed and paid up shares after the issue	138.8 /136.7 Cr

Background & Business

Jaypee Infratech is an Infrastructure Development Company incorporated in 2007. It is currently developing the 165 KM Yamuna Expressway and associated real estate projects. The company is the part of the Jaypee Group which is one of the well known business conglomerates in the country having interest in Power, Cement, Real Estate, Expressways and Hospitality. Upon successfully completing the construction of the Yamuna expressway, Jaypee Infratech is entitled to collect toll for 36 years and is also entitled to develop real estate projects on 5 land parcels along the expressway each around 1235 acres.

Objectives of the Issue

The funds received for the offer for sale will be received by the selling entity and Jaypee Infratech will not receive any inflow on this front.

Of the funds received from Fresh issue of shares, Rs 1500 Cr will be utilized to fund the Yamuna Expressway and the remaining funds will be utilized for general corporate purpose including strategic initiatives, brand building exercise and strengthening of marketing capabilities.

Valuation

We believe Jaypee Infratech to benefit immensely from the strong parentage of the Jaypee Group with its strong execution track record across the infrastructure verticals. At the upper and lower band of the issue, the stock is valued at P/E multiples of 60 and 53 respectively. While this looks expensive, we believe that the company's projects are yet to takeoff. The expressway is expected to start generating revenues later in FY11 whereas real estate projects too are yet to gain momentum.

We remain bullish on the long term prospects of toll collections as the expressway connects Noida with one of the most popular tourist destination Agra. While in the short – medium term the outlook on real estate in India continues to be cautious, we believe that in the long term, all the business segments offer good long term growth potential. We advise clients to SUBSCRIBE to the issue with a long term view.

Sector: Construction

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Business

Yamuna Expressway

Yamuna Expressway is a 165 kilometer access-controlled six lane concrete pavement expressway along the Yamuna River with the potential to be widened to an eight lane expressway. The expressway connects Greater Noida to Agra and lies entirely in the state of Uttar Pradesh. It will begin at the existing Noida-Greater Noida Expressway, pass through various proposed SDZs and the proposed Taj International Hub Airport and end at District Agra.

The principal objectives of the expressway are to minimize travel time for Delhi to Agra, facilitate faster uninterrupted movement of passenger and freight traffic, connect the main existing and proposed townships and commercial centers on the eastern side of the Yamuna River, relieve traffic congestion on the NH-2 and Old Grand Trunk Road and generally enhance development in the region.

As the project is based on a BOT model, the company is entitled to earn toll revenue for a period of 36 years after the completion of construction.

Associated Real Estate Development

Under the concession agreement, the company is granted right to develop 6175 acres of land (5 parcels of 1235 acres each) on 90 years lease. Of these, 1 location is in Noida, 2 in Gautam Budh Nagar district and 1 location each in Aligarh and Agra district. The company has so far taken possession of approximately 3745 acres. The company plans to develop residential projects on half of the total land, commercial projects on one third of the land and remaining area will utilized for institutional and open space.

Investment Rationale

Impeccable Execution Skills of the Parent

Jaypee Infratech is likely to benefit from Jaypee Group's expertise and resources in executing, operating and selling projects. Jaiprakash Associates – the flagship company of the Jaypee Group has proven track record for project implementation for various infrastructure projects over 40 years. On the real estate front, JAL has developed more than 650000 square feet of real estate projects since 2005 and is currently executing 2 road projects. The company will have access to JAL's execution capabilities and will also be benefited from the cement operations of JAL in terms of steady and reliable source of concrete and aggregate for the Yamuna Project.

Strength of the Jaypee Greens Brand

JAL is active in the development of the golf centric integrated townships in India under its Jaypee Greens brand. Jaypee Group's first integrated community with exclusive residences located on an 18 hole PGA certified gold course in Noida was marketed under Jaypee Greens. The real estate development aspect of this project was launched in 2004 and approximately 3.15 msf of saleable area had been sold till date. The fact that the jaypee Greens brand is well known and associated with quality development, will immensely benefit Jaypee Infratech.

Strong Regional Growth along the Yamuna Expressway

The entire Yamuna Expressway is located in the northwest region of Uttar Pradesh which is India's most populous state. The real estate projects of the company are likely to benefit from the expressway and visa vie the development along the expressway will benefit the expressway in terms of higher traffic growth. YEA in its master plan notified approximately 44000 hectares land as planned development zones in the vicinity of Yamuna Expressway. The proposed infrastructure development gives visibility to the toll collection of the expressway.

Concerns

Highly Dependent on Economic Potential & Political Conditions in UP

The fact that the entire Yamuna Expressway lies in UP, it makes it vulnerable to any adverse political and/or economic conditions in the state. In the long term geographical diversification would provide comfort and smoothened revenue to the company. In past there were political issues surrounding the Yamuna expressway and further issues cannot be ruled out on this front in future.

Real Estate Plans Challenging

Real estate constitutes a significant chunk of the overall valuations of the company and any adverse development in the real estate market will hamper the overall valuations of Jaypee Infratech. In India, the real estate market has recently recovered from a year long recession and the prospects of the industry remains debatable as we are expecting high interest rate scenario in the short to medium term. Also, in the north Indian market, the company will face competition from real estate biggies like Unitech and DLF which would also pose a significant challenge.

Financials

	9MFY10	FY09	Rs Cr FY08
Sales	525.5	554.5	0.0
Expenditure	41.0	238.7	1.6
Operating Profit	484.5	315.9	-1.6
Other Income	7.5	1.7	0.8
Other Expenses			2.0
EBIDTA	492.0	317.6	-2.8
Deporeciation	11.5	14.0	8.5
EBIT	480.5	303.6	-11.3
Interest Exp	0.0	0.0	0.0
PBT	480.5	303.6	-11.3
Tax	81.7	36.9	0.1
PAT	398.9	266.7	-11.4

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