

Recommendation	Not Rated
Price Band	Rs.102-117
Bidding Date	29th April – 4thMay 2010
Book Running Lead Manager	Morgan Stanley, BofA Merrill Lynch, Enam, Axis Bank, ICICI Securities, IDFC Capital, JM Financial, Kotak, SBI Caps
Sector	Road Infrastructure & Real Estate
Retail Application- Detail At Cut off Price	
Number of Shares	850
Application Money	99450
Amount Payable	99450
Valuation	
P/BV (U/L) *	3.79/3.43
Diluted P/E (U/L)*	30.12/26.66
* 9M FY10 Annualized	
No of Equity Shares Offered (U/L)	14.32/16.42 Cr
No of Equity Shares Offered by JAL	6 Cr
Post Issue Promoter Holding (U/L)	84.36/83.08%
Offer structure for different categories	
QIB	60.0%
Non-Institutional	10.0%
Retail	30.0%
Lot Size	50
Post issue Equity (Rs. in crs) (U/L)	1369.2/1390.2
Issue Size (Rs. in crs) Fresh Issue	1650
Offer for sale by JAL (U/L) (Rs. in crs)	702/612
Face Value (Rs.)	10
Shareholding pattern (Pre issue)	
Promoter & Promoter Group	99.10%
BCCL	0.08%
Others	0.82%
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Background

Jaypee Infratech Limited (JIL), a part of the Jaypee Group, was incorporated on April 5, 2007 as a special purpose company to implement the concession from the Yamuna Expressway Industrial Development Authority (YEA) to develop, operate and maintain the Yamuna Expressway in the state of Uttar Pradesh, connecting Noida and Agra. The Concession also provides for the right to develop 25 million square metres (approximately 6,175 acres) of land along the Yamuna Expressway at five locations for residential, commercial, amusement, industrial and institutional purposes.

JIL expects to generate toll revenues from the Yamuna Expressway project in the Fiscal year 2012, following completion of construction of the expressway.

Jaypee Associates Ltd. (JAL), which is part of the Jaypee Group, is the flagship company of the Jaypee Group. The Jaypee Group is a diversified infrastructure conglomerate in India with interests in the areas of civil engineering and construction, cement, power, real estate, expressways, hospitality, golf courses and education. JAL has over 40 years of experience in the civil engineering and construction sectors in India, as a well-known construction company or as a member of consortia and joint ventures. JIL will greatly benefit from the strong technical and management expertise of JAL.

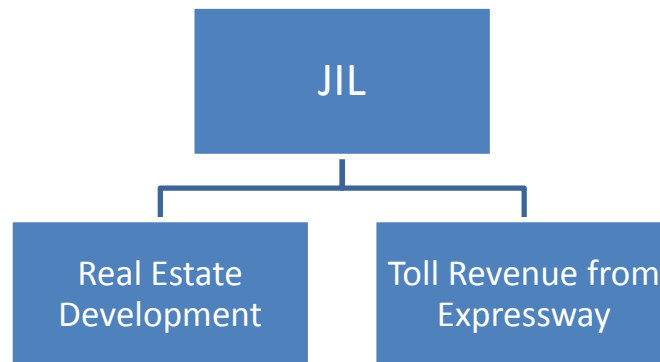
JIL recorded revenues of Rs.525.5 crs for 9M FY10 with EBITDA of Rs. 484.49 crs. The company registered PAT of Rs.398.85 crs for the same period.

The IPO has received a rating of IPO Grade 3 from CARE indicating average fundamentals.

A discount of 5% of the issue price is offered to all retail investors (investing below Rs.1 lakh).

Business Model

JIL's business model consists of earning revenues from traffic and related facilities on the expressway during the 36-year Concession period and development of associated real estate pursuant to the Concession.



Yamuna Expressway

Yamuna Expressway is a 165-kilometre access-controlled six-lane concrete pavement expressway along the Yamuna river, with the potential to be widened to an eight-lane expressway. The expressway will be entirely in the state of Uttar Pradesh. The expressway is planned to 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 Concession follows a build operate- transfer(BOT) model pursuant to which JIL has the right to earn toll revenue for a period of 36 years following the award of a certificate of completion of the expressway. JIL has taken possession of approximately 3987 acres of land as on March 31st 2010 out of the total 4042 acres of land required for the project. The total cost of this project is estimated to Rs.9738 crs out of which Rs. 6250 has already been deployed by the company.

Real Estate Development along the Yamuna Expressway

JIL have been provided the right to develop 6,175 acres of land which is to be acquired by the YEA which would be then leased to the company for a period of 90 years. This land parcel is further divided into five land parcels of 1,235 acre each at different locations along the Yamuna Expressway. One location is in Noida, two locations in District Gautam Budh Nagar (part of NCR) and one location in each of District Aligarh and District Agra. 55% of the leased land currently is in the NCR. JIL plans to develop 50% of the land as residential projects, one third as commercial projects and the remaining as institutional use and open space. Over the period of next 10 – 15 years the company plans to develop 530 million square feet of land along the entire expressway.

Objects of the Issue

JIL will raise Rs. 1650 crs through fresh issue and in addition to that the group company JAL will be selling 6 crore shares through this IPO. Out of the total proceeds Rs. 1500 will be allocated to the expenses towards the Yamuna Expressway Project and balance towards general corporate purpose of the company.

Strengths

Strong Regional Growth prospects

Yamuna Expressway Project is located entirely in the state of Uttar Pradesh, which is India's most populous state. According to CRISIL Research, Uttar Pradesh has one of the lowest levels of road length per one million of population. The Government of Uttar Pradesh is focused on improvements of the road infrastructure in the state. The government incurred capital expenditures of Rs. 44 billion, Rs. 48 billion and Rs. 543 billion in Fiscal 2007, 2008 and 2009, respectively, the highest by any state government in the country. The expressway is in a strategic location that is expected to strengthen connectivity, considerably reduce travel time and give impetus to industrial and commercial growth between Noida and Agra. Connectivity is expected to be further enhanced by the recent expansion of the Delhi metro to Noida, the proposed Taj International Hub Airport and a proposed aviation hub in Jewar (including the planned expansion of the Delhi metro to Jewar), and the presence of Mathura, a well-known religious pilgrimage site located along the expressway. Therefore the Real estate development along the expressway will benefit greatly ensuring speedy progress of the project.

Ability to leverage Jaypee Group's technical capabilities and project management skills

Jaypee Group's project management expertise and resources will help JIL develop the Yamuna Expressway Project, in a timely and cost-effective manner. Also access to Jaypee Associates Ltd. (JAL)'s project implementation capabilities, supported by reputed international and domestic third party project consultants will help JIL to achieve international standards in execution and implementation of projects. Furthermore, we believe the Jaypee Group's cement production operations and captive aggregate mines offer JIL with a steady and reliable source of concrete and aggregate, respectively, for the construction of the planned Yamuna Expressway, which is being constructed of concrete pavement and aggregate.

Integrated Development of Projects

The model of the Concession is such that project revenues are expected to be derived from a combination of expressway tolls and land development. The real estate developments are likely to benefit from the expressway, as it would entice residents, businesses and institutions to its developments. Approximately 55% of the land that the company expects to lease from the YEA for the real estate projects is located in the national capital region (NCR).

Key Concerns

Real estate development solely dependent on the performance of the Expressway

A large portion of the land parcel is situated along the expressway and therefore the development of the land parcels hugely depends on the success of the expressway. Any shortcomings in the desired expectations on the expressway will result in slow progress on the real estate developments which will stem the flow of revenues. Apart from the NCR the remaining areas are still underdeveloped and therefore the development of these land parcels are still uncertain.

Land acquisition for the expressway is still incomplete

YEA has agreed to lease the entire land requirement for development of the Yamuna Expressway and the real estate developments. In certain cases, the process of taking possession of the land has not yet been completed. For the Expressway alone the total land requirement is 5060.29 acres out of which 981.1 acres of land is yet to be leased. For the real estate developments, out of the 6175 acres of land requirement, 2429.69 acres of land is still to be leased out. If the process of land acquisition is not completed in time then the project will suffer from delays in timelines.

Long Gestation period of Real Estate Projects

JIL expects to monetize the 530 mn sft land parcel over a period of 10-15 years. It is still very unclear as to what kind of projects the company plans to implement in the coming years. Also the occurrence of any foreseen event like political changes may hamper the real estate developments in the region.

Concession is the only business for the company

JIL's sole business is the development of the Yamuna Expressway Project pursuant to the Concession Agreement. Following the Concession period, which will expire 36 years after the award of the certificate of completion for the Yamuna Expressway, the Yamuna Expressway will be transferred to the YEA and will not earn toll revenues from the expressway. Similarly, all of the land for real estate development will be leased pursuant to the Concession for a term of 90 years, and following the sale of any real estate, JIL will not earn revenues therefrom.

Valuations

We have valued JIL using the NAV method for its Real Estate business and used DCF method for valuing its Toll business. We have arrived at a fair value of Rs. 137 per share and at the upper band of the issue price of Rs. 117 the stock will be trading at a discount of 17.5% to the fair value. Most of the real estate companies are currently trading at a discount of 30-35% to their NAVs. Therefore we believe that the issue is fully priced.

Income Statement

Particulars (Rs. Cr.)	FY 2008	FY 2009	9M FY 10
Income from Operations	0.0	554.5	525.5
Total expenditure	3.6	238.7	41.0
EBITDA	(3.6)	315.9	484.5
EBITDA Margins	-	57.0%	92.2%
Depreciation	8.5	14.0	11.5
EBIT	(12.1)	301.9	473.0
EBIT Margins	-	54.4%	90.0%
Other income	0.8	1.7	7.5
Interest	0.0	0.0	0.0
PBT	(11.3)	303.6	480.5
Total Tax	0.1	36.9	81.7
PAT	(11.4)	266.7	398.9
PAT Margins	-	48.1%	75.9%

Source: Nirmal Bang Research

Balance Sheet

Particulars (Rs. Cr.)	FY 2008	FY 2009	9M FY 10
Share capital	965.0	966.0	1,226.0
Reserves & surplus	(11.4)	279.4	678.2
Networth	953.6	1,245.4	1,904.2
Secured Loan	200.0	1,867.5	4,200.0
Other Unsecured Loans	0.0	0.0	0.0
Total Debt	200.0	1,867.5	4,200.0
Deferred tax Liability (Net)	0.0	0.0	0.0
TOTAL	1,153.6	3,112.9	6,104.2
Application of funds			
Gross block	30.5	58.8	54.6
less:accumulated Depn	9.5	23.5	34.9
Net book value	20.9	35.3	19.7
Capital WIP	1,000.9	2,536.3	4,188.8
Investments	0.0	0.0	0.0
Sub total	1,021.8	2,571.6	4,208.5
Current assets, loans & advances			
Inventories	2.0	2.3	1.6
Cash & bank balance	8.0	190.9	772.9
Loans & advances	346.2	297.6	537.1
Project under development	300.9	547.8	1,650.2
Other Current assets	0.0	1.5	5.0
Total C.Assets	657.1	1,040.2	2,966.9
Less: Current Liab & provisions			
Current liabilities	525.3	461.6	1,042.3
Provisions	0.1	37.3	119.2
Net current assets	131.8	541.3	1,805.4
Misc Expenditure	0.0	0.0	0.0
TOTAL	1,153.6	3,112.9	6,104.2

Source: Nirmal Bang Research

Note

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