

Jain Irrigation Systems

Rs979
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs70.8bn; US\$1.57bn

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Result: Q4FY10

Comment: MIS business growth at 46%!

Last Report: 28 January 2010 (Price Rs771; Recommendation: Outperformer)

Key valuation metrics

Year	Net Sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	EV / E (x)	PER (x)
FY08	23,185	81.9	1,343.3	18.7	32.1	23.8	52.5
FY09	29,362	26.6	1,355.7	18.7	0.4	17.4	52.3
FY10	35,041	19.3	2,756.9	38.1	103.4	13.2	25.7
FY11E	42,771	22.1	3,329.2	46.0	20.8	10.2	21.3
FY12E	51,108	19.5	4,371.6	60.4	31.3	8.2	16.2

Highlights of Q4FY10 results and our interaction with the management

- Jain Irrigation Systems (JISL) reported a revenue growth of 37% at Rs9.6bn (estimates of Rs9.5bn), EBITDA growth of 26% at Rs2bn (estimates of Rs2.2bn) and reported PAT stood at Rs1.17bn (estimates of Rs1bn).
- Reported PAT includes forex gains of Rs339m in Q4FY10 as against forex losses of Rs206m in Q4FY09. Adjusted for the forex gains (post tax), PAT came in at Rs946m.
- While Profit before tax grew by 39%yoy, JISL has reported full tax on a quarterly basis in FY10 vis-à-vis full year tax being reported in Q4 for FY09.
- During the quarter growth was led by the MIS business (46% yoy growth), PVC pipes (25%), onion dehydration (37%), fruit processing (74%) and PVC sheets business (48%).
- Growth in the MIS business is driven by multifold growth in Himachal Pradesh and Punjab, and 75%+ growth in states such as Tamil Nadu, Maharashtra, Gujarat and Rajasthan. JISL continues to maintain its all time high margins of 32%+.
- PVC Pipes business has recorded a strong growth of 25% at Rs1.6bn with strong growth in the Northern regions and states such as Karnataka, Tamil Nadu and Gujarat.
- During the quarter, the PE pipes business garnered a growth of 12% at Rs1.04bn, with the gas distribution segment growing by 141%
- JISL's PVC sheets business has finally hit the recovery path garnering a growth of 48% during the quarter at Rs420m on the back of uptick in the signage market in US, Europe and Middle East.
- Onion Dehydration business has picked up momentum and registered a growth of 37% at Rs662m. We expect the growth to be sustained as the order book remains healthy at over Rs1bn.

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- Fruit processing business has grown by a strong 74% at Rs1.04bn. Order book for the year remains very strong with Coke's order worth Rs1.5bn per year for fruit pulp supply.
- Segmental EBITDA margins have contracted by 127bp at 21.1%, with fastest growing businesses such as fruit processing and onion dehydration witnessing margin contraction.
- Margins in the onion dehydration business have contracted by 1870bp on account of higher onion prices and rupee appreciation and contraction of 412bp in fruit processing on account of mix
- Overall corporate EBITDA margins have contracted by 180bp at 20.7% with a 156bp increase in material cost, 57bp increase in manufacturing costs and 23bp increase in selling and administration cost. Employee costs however, were lower by 55bp during the quarter.
- During the quarter, interest cost stood at Rs502m. JISL currently has a net debt of Rs13.3bn in the standalone books and Rs17bn on the consolidated books.
- For the full year FY10, JISL's reported a standalone revenue growth of 24% at Rs27.8bn, EBITDA margin expansion of 87bp at 21% and PBT growth of 26% at Rs3.3bn. During the year, MIS business registered a 37% growth while agro processing a growth of 34%.
- With regards JISL's international operations, we estimate revenues to the tune of Rs7.5bn and EBITDA of Rs600m for the full year FY10.

Scale (40% CAGR on revenues over FY05-10E) and execution (ability to handle three most volatile variables – farmer, weather and government) – aptly define JISL's agri focused business model. Thus, we believe JISL's dominance (55% market share) in the rapidly growing and highly under-penetrated Indian MIS landscape (only 3-4m ha of the potential 69m ha under implementation currently) is poised to stay. With governments increased focus towards MIS (allocation doubled at Rs25bn in FY11 budget) and newer states implementing the concept, growth is set to accelerate with JISL being the biggest beneficiary. Incrementally, budding businesses such as food processing and onion dehydration will lend further growth to the resilient core MIS business. While organic growth will underpin JISL's growth going forward, we see inorganic opportunities in food processing as a plausible trigger. We expect JISL to garner a 26% CAGR in earnings over the next two years. Further, with food security emerging as the next big theme on the global landscape, we see JISL as the perfect proxy. At 16x FY12E earnings, we maintain Outperformer with a 12-month target price of Rs1210.

Segmental performance

	Revenues (Rs m)			EBITDA (Rs m)		EBITDA Margin (%)		
	Q4FY10	Q4FY09	% growth	Q4FY10	Q4FY09	Q4FY10	Q4FY09	Changes (bp)
MIS / SIS	4,778	3,279	45.7	1544	1062	32.3	32.4	(7.3)
PVC Pipes	1601	1279	25.2	139	113	8.7	8.8	(15.3)
PE Pipes	1039	930	11.7	132	117	12.7	12.6	12.4
PVC Sheets	420	284	47.9	34	47	8.1	16.5	(845.4)
PC Sheets	-	146	-	-	15	-	10.3	-
Onion Dehydration	662	484	36.8	13	100	2.0	20.7	(1,869.7)
Fruit Processing	1041	599	73.8	150	111	14.4	18.5	(412.2)
Total	9,541	7,001	36.3	2012	1565	21.1	22.4	(126.6)

Quarterly results

(Rs Mn)	Q4FY09	FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	FY10	FY11E	FY12E
Net Sales	6,985.2	29,361.8	5,730.3	5,625.1	6,410.3	9,585.6	35,041.3	42,770.9	51,108.0
% yoy	16.6	26.6	20.4	18.2	19.2	37.2	19.3	22.1	19.3
EBITDA	1,569.5	4,994.8	1,261.0	1,217.8	1,303.8	1,981.4	6,507.0	8,336.4	10,089.1
EBITDA	22.5	17.0	22.0	21.6	20.3	20.7	18.6	19.4	19.7
Net interest	489.2	1,809.1	476.7	460.9	453.2	502.4	2,155.2	2,337.1	2,412.1
Depreciation	143.8	737.5	148.9	160.2	168.2	178.7	940.2	1,033.4	1,191.3
Other Income	31.3	196.2	0.9	2.6	(0.6)	49.7	-	-	-
Profit before Tax	967.8	2,644.5	636.3	599.3	681.8	1,350.0	3,411.6	4,942.8	6,460.2
Tax	628.6	659.9	285.6	207.9	241.9	515.6	1,251.0	1,535.9	1,987.6
Adjusted PAT	339.2	1,984.6	350.7	391.4	439.9	834.4	2,160.6	3,406.9	4,472.6
% yoy growth	(7.3)	57.8	(32.0)	(15.7)	(33.9)	146.0	8.9	57.7	31.3
Extraordinary Items	206.5	(648.9)	(205.3)	(34.2)	(131.7)	(339.0)	658.0	-	-
Minority Interest		(41.0)					61.7	77.7	101.1
Reported PAT	132.7	1,376.6	556.0	425.6	571.6	1,173.4	2,756.9	3,329.2	4,371.6

Full year numbers for consolidated entity

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