IDFC INSTITUTIONAL SECURITIES
India Research

Jain Irrigation Systems

Rs225
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs81.6bn; US$1.8bn

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Result: **Q3FY11**

Comment: **Tough quarter…likely capital raise**

Key valuation metrics

Year	Net Sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	EV / E	PER (x)
FY08	23,185	81.9	1,343.3	3.7	32.1	26.9	60.4
FY09	29,362	26.6	1,355.7	3.7	0.4	19.5	60.2
FY10	34,369	17.1	2,484.9	6.9	83.3	16.1	32.8
FY11E	41,392	20.4	3,033.5	8.4	22.1	12.9	26.9
FY12E	50,242	21.4	4,223.7	11.7	39.2	9.8	19.3

Source: Company, IDFC Securities Research

Highlights of Q3FY11 results and our interaction with the management

- In line with estimates, JISL's Q3FY11 results have been subdued. Operational revenues have grown by 10% at Rs7.05bn, EBITDA has grown by 9% at Rs1.42bn and PBT has declined by 5% at Rs647m.
- Reported revenues for the quarter stood at Rs7.36bn which includes a one-time income of Rs314m towards VAT refunds for prior periods from the Maharashtra government. Reported PAT for the quarter stood at Rs715m, which includes forex gains of Rs72m (as against forex gains of Rs132m in Q3FY10). Adjusted for the forex gains and one-time VAT refunds (post tax), operational PAT came in at Rs448m.
- JISL would receive ongoing VAT refunds of Rs84m on a quarterly basis in accordance with the Industrial Promotion Scheme of the Maharashtra government. This would imply ~Rs60m of benefit post tax on a quarterly basis.
- In line with expectations, the MIS business performance during the quarter has been subdued with the segment garnering a 19% growth against a traditional growth of 35%+. The lower growth during the quarter is attributable to the extended and above average rainfall in the country. During the quarter, growth in the MIS business was driven by a 144% growth in Gujarat, 132% growth in Rajasthan, 59% growth in Andhra Pradesh and strong growth in Karnataka and Maharashtra. JISL continues to maintain margins of the segment at 30%+.
- With regards the PVC Pipes segment, extended monsoon has impacted the segment performance with revenue growth at 2% (or Rs1.4bn) for Q3FY11. Similarly, the PE pipes business also witnessed pressure with the duct segment declining by over 50%. Revenues from PE Pipes have grown by 0.7% at Rs721m for Q3FY11.
- JISL's PVC sheets business continues to sustain the recovery path garnering a growth of 15.5% during the quarter at Rs366m on the back of uptick in the signage market in US and Europe. However, increase in raw material prices has led to a 470bp decrease in EBITDA margins for the segment.
- Non-availability of onions has resulted in a 48% decline in JISL's onion dehydration business at Rs150m. Further, profitability of the segment was severely impacted with the segment reporting EBITDA losses of Rs41m.
- During the quarter, the fruit processing business has grown by a strong 14% at Rs755m, backed by improved product mix (higher Alphonso sales). Order book for the year remains very strong at ~Rs3bn for the segment.

- With respect to segmental EBITDA margins, the increase in contribution from MIS (from 47% of revenues in Q3FY10 to 51.7% in Q3FY11) have aided in off-setting part of the margin erosion in the Pipes (197bp erosion), PVC sheets (470bp) and onion dehydration segment.
- Thus segmental EBITDA margins have contracted by 58bp at 19.7% in Q3FY11.
- Overall corporate EBITDA margins have remained almost flat yoy at 20.2%. Gross margin improvement of 143bp and 86bp savings in manufacturing expenses were negated by the 145bp increase in employee expenses and 101bp increase in ASP expenses.
- During the quarter, interest cost stood at Rs574m. JISL continues to witness pressure in working capital on account of delayed government receivables as also a tighter interest rate environment.
- In order to bring down the leverage and thereby interest costs, the Board of Directors have approved fund raising via the equity route upto USD150m.
- Further, the Board has recommended the issuance of bonus equity shares with differential voting rights (DVR) in the ratio of 1 DVR equity share for every 20 equity shares held. 10 DVR equity shares will carry voting rights equivalent to 1 equity share.
- The Board has also approved plans to setup an NBFC and intends to apply to the RBI for the same. JISL is looking to provide credit to farmers through this arrangement which in turn would help JISL bring down receivables and improve WC cycle in the MIS business. Additionally, the Board has also approved the transfer of the solar business into a separate subsidiary in order to have a focused expansion plan for the business.

While JISL is backed with a commendable track record of a 40% CAGR in revenues over FY05-10, the last six months have been challenging for the business. Extended and above average monsoon has hurt the core MIS business demand, while other business verticals such as pipes and onion dehydration have also faced pressure due to the external environment and raw material swings. While JISL is witnessing operational challenges in the near term, long term growth drivers remain intact given JISL's ability to sustain its dominance (50%+ market share) in the rapidly growing and highly under-penetrated Indian MIS landscape. Only 4m ha of the potential 69m ha is under implementation currently and recent moves by the government (National Mission on MIS to achieve 2.85m ha over next 2 yrs; Rs80bn of outlay) reflect the urgency and thereby push towards the space. Incrementally, budding businesses such as agro processing will lend further growth to the resilient core MIS business. Though a very small business today – Solar, we also see a high growth potential in the coming years as we move to renewable source of energy. While we remain confident of 22%+ growth traction in the Indian operations, profitability in the business also looks robust with MIS now accounting for over 50% of revenues and 70%+ of profits. Given the tightening money market scenario as also the stretched WC cycle for JISL, we believe fund infusion via equity (approval of USD150m taken) will aid in sustaining the ongoing growth momentum for JISL. With food and water security emerging as the next big theme on the global landscape, we see JISL as the perfect proxy. Maintain Outperformer.

Segmental performance

Segmental breakup	Revenues (Rs m)			EBITDA (Rs m)		EBITDA Margin (%)		
	Q3FY11	Q3FY10	% growth	Q3FY11	Q3FY10	Q3FY11	Q3FY10	Changes (bp)
MIS / SIS	3,602	3,026	19.0	1104	942	30.6	31.1	(48.1)
PVC Pipes	1374	1348	1.9	79	104	5.7	7.7	(196.5)
PE Pipes	721	716	0.7	59	80	8.2	11.2	(299.0)
PVC Sheets	366	317	15.5	29	40	7.9	12.6	(469.5)
PC Sheets	-	72	-	0	7	-	9.7	-
Onion Dehydration	150	288	(47.9)	(41)	7	(27.3)	2.4	-
Fruit Processing	755	662	14.0	146	127	19.3	19.2	15.3
Total	6,968	6,429	8.4	1376	1307	19.7	20.3	(58.2)

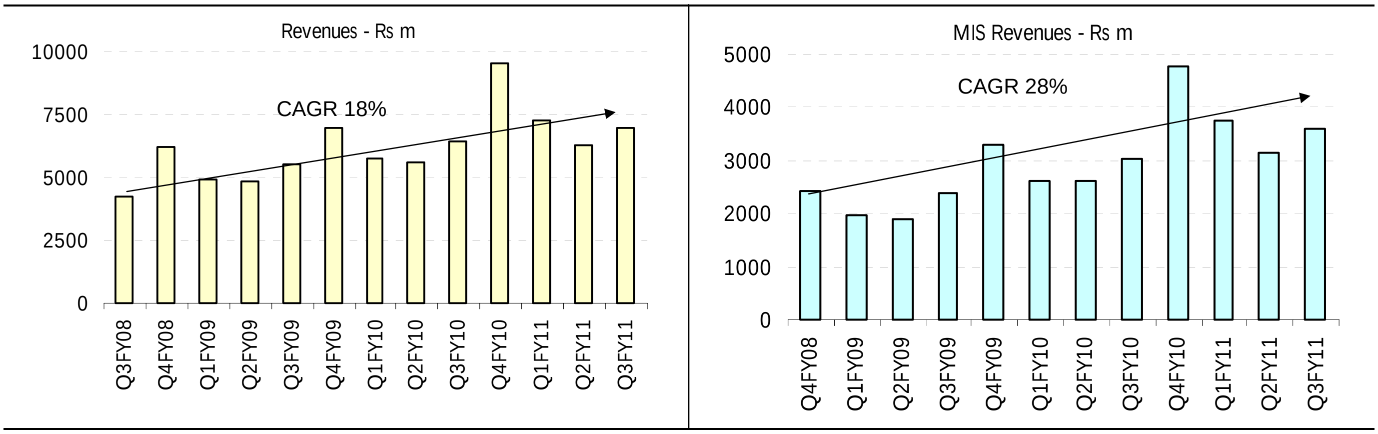
Source: Company, IDFC Securities Research

Quarterly results

(Rs Mn)	Q3FY10	Q4FY10	FY10	Q1FY11	Q2FY11	Q3FY11	FY11E	FY12E
Net Sales	**6,410.3**	**9,585.6**	**34,368.7**	**7,256.6**	**6,410.6**	**7,047.1**	**41,391.6**	**50,241.6**
% yoy	*19.2*	*37.2*	*17.1*	*26.6*	*14.0*	*9.9*	*20.4*	*21.4*
EBITDA	**1,303.8**	**1,981.4**	**5,988.0**	**1,652.3**	**1,395.3**	**1,421.0**	**7,542.8**	**9,917.6**
EBITDA (%)	20.3	20.7	17.4	22.8	21.8	20.2	18.2	19.7
Net interest	451.2	502.4	2,154.0	490.6	521.0	574.0	2,325.2	2,400.2
Depreciation	168.2	178.7	1,020.4	203.2	208.7	204.4	1,051.1	1,213.4
Other Income	(0.6)	49.7	-	2.6	6.5	4.6	-	-
Profit before Tax	683.8	1,350.0	2,813.6	961.1	672.1	647.2	4,166.4	6,303.9
Tax	241.9	515.6	1,203.1	240.6	268.2	318.0	1,398.0	2,060.8
Adjusted PAT	**441.9**	**834.4**	**1,610.5**	**720.5**	**403.9**	**329.2**	**2,768.5**	**4,243.1**
% yoy growth	*(33.6)*	*146.0*	*(18.8)*	*105.4*	*2.5*	*(25.5)*	*71.9*	*53.3*
Extraordinary Items	(131.7)	(339.0)	885.9	197.4	(216.0)	(385.5)	280.0	-
Minority Interest			11.5				15.0	19.4
Reported PAT	**573.6**	**1,173.4**	**2,484.9**	**523.1**	**619.9**	**714.7**	**3,033.5**	**4,223.7**

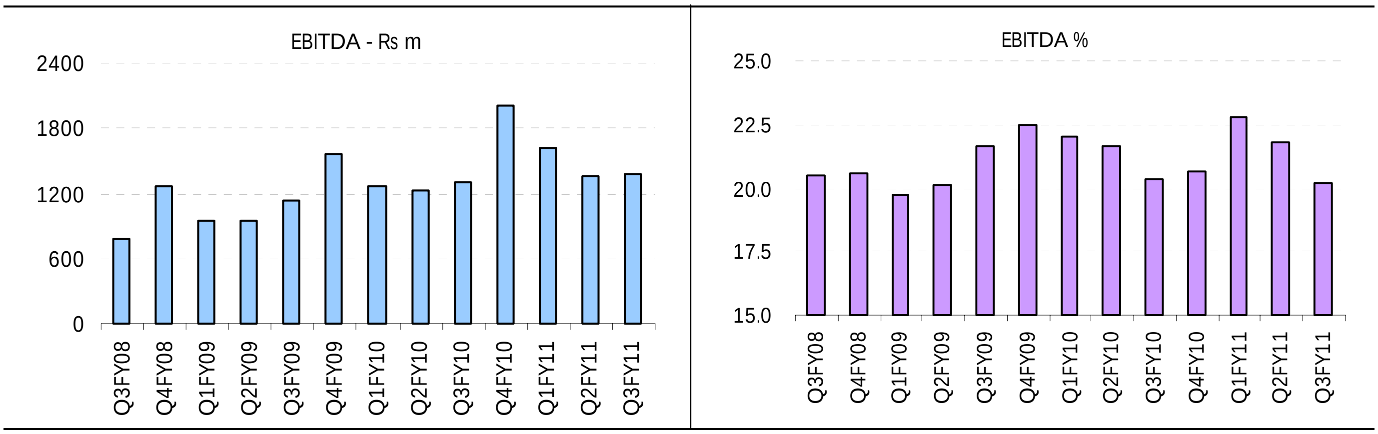
Quarterly numbers are for standalone entity; full year numbers for consolidated entity

Exhibit 1: JISL's consistent growth track record continues, driven by MIS growth



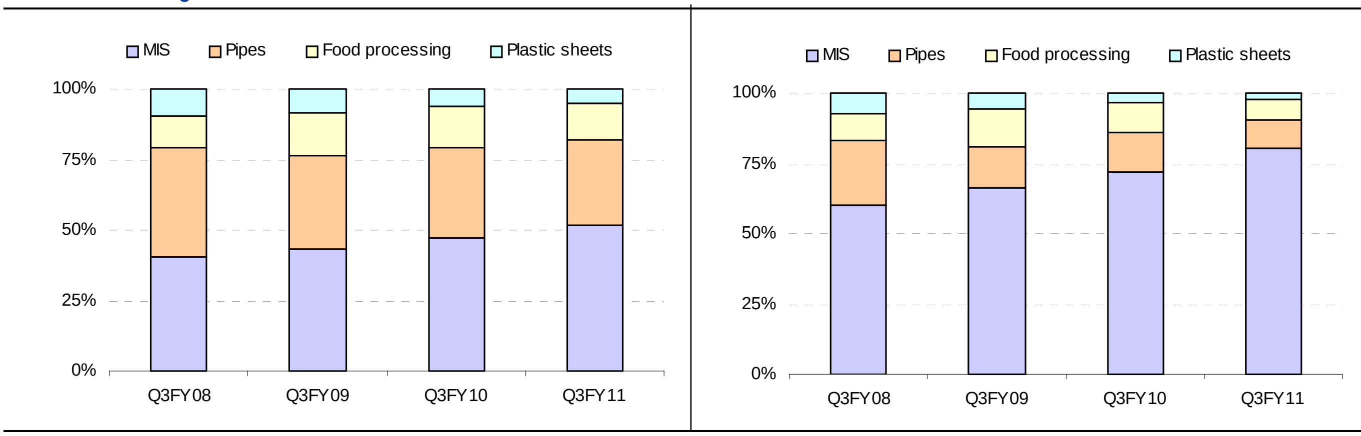
Source: Company, IDFC Securities Research

Exhibit 2: EBITDA has grow at 21% CAGR with margins remaining steady



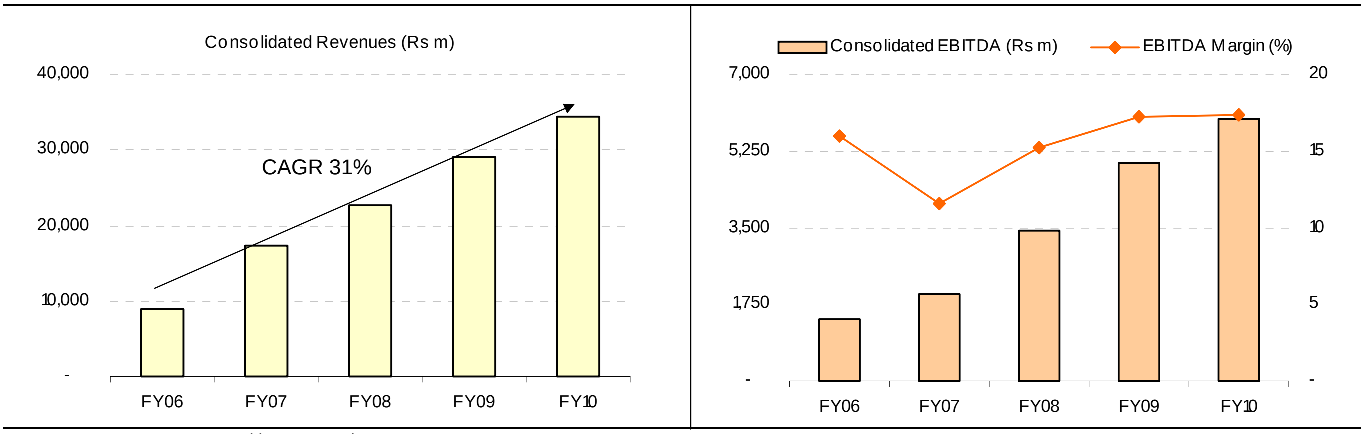
Source: Company, IDFC Securities Research

Exhibit 3: Growing relevance of MIS business – 50%+ of revenues and 80% of EBITDA



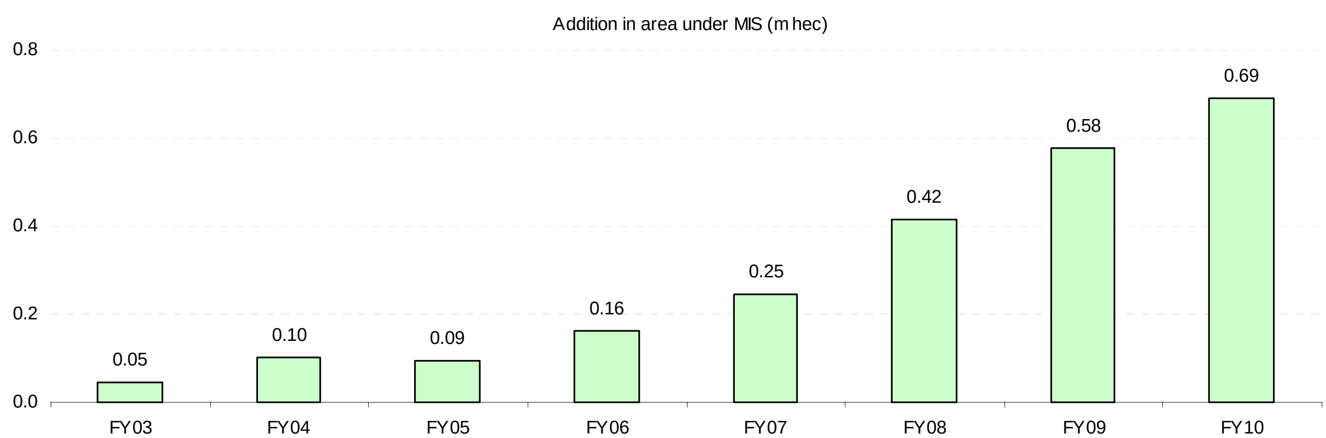
Source: Company, IDFC Securities Research

Exhibit 4: JISL consolidated – 31% 5 yr revenue CAGR and 33% EBITDA CAGR



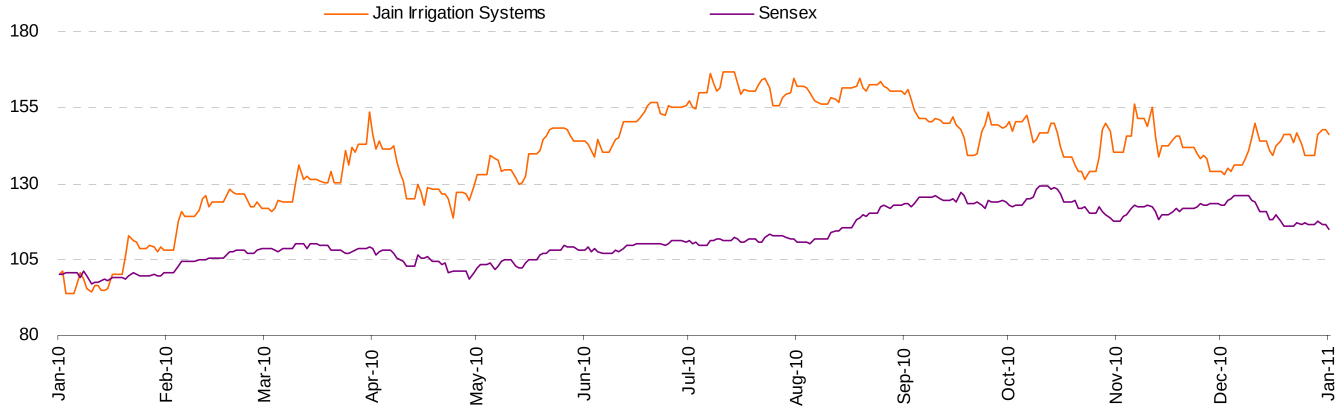
Source: Company, IDFC Securities Research

Exhibit 5: MIS industry – increasing momentum



Source: IDFC Securities Research

Exhibit 6: Strong business performance reflecting in JISL's outperformance



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