INDIA RESEARCH

Jain Irrigation Systems

Rs808
OUTPERFORMER

FY09 ANNUAL REPORT ANALYSIS - STANDALONE

Mkt Cap: Rs60.6bn; US$1.24bn

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Key valuation metrics

(Rs m)	Net Sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	EV / E (x)	PER (x)
FY07	12,745	40.3	805	14.1	32.4	28.4	55.7
FY08	23,037	80.8	1,324	17.8	26.3	20.9	45.3
FY09*	29,446	27.8	1,294*	16.8	(5.8)	22.2	48.1
FY10E	36,895	25.3	2,578	34.4	104.8	12.3	23.5
FY11E	42,421	15.0	3,232	43.1	25.4	10.3	18.8

** Includes Rs777m of MTM losses; Consolidated financials*

BALANCE SHEET HIGHLIGHTS

❑ Gross Block – 34% increase!

- While JISL has demonstrated innate ability to expand capacity consistently over the past few years, FY09 has seen one of the sharpest increase with gross block increasing by 34% (a 23% increase in FY08).
- During the year, gross block has increased by Rs3.36bn, from Rs9.79bn in FY08 to Rs13.12bn in FY09. This has been on the back of capacity expansion as also upgradation across business segments.
- Capacity of the MIS segment has been increased by 65% in FY09, taking the total capacity to 121,160MT. Further, the plastic piping capacity has been enhanced by 38% during the year.
- The highest capacity augmentation took place in the tissue culture plant where the capacity was increased by 67% (or 8m plantlets).
- Capacity enhancements across other segments include a 23% increase in the onion dehydration segment and a 30% increase (or 24,975MT) in the capacity of the fruit processing division.
- Further, the aggressive capacity expansion is indicative of the future growth visibility in JISL.

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Manufacturing capacity

Products	Unit	Installed Capacity			Production		
		FY09	FY08	Increase	FY09	FY08	Increase
Plastic processing							
Micro Irrigation Systems	MT	121,160	73,430	47,730	57,887	44,915	12,972
Plastic Piping Systems	MT	205,420	149,020	56,400	97,459	83,439	14,020
Plastic Sheets	MT	36,300	36,300	-	14,181	17,480	(3,299)
Agro Processing							
Dehydrated Onions & Vegetables	MT	18,214	14,860	3,354	12,346	10,280	2,066
Fruit Puree & Concentrate	MT	109,575	84,600	24,975	38,142	41,059	(2,917)
Solar Systems							
Solar Water Heating Systems	LTR	1,200,000	1,200,000	-	755,735	680,425	75,310
Solar Photo voltaic Systems	Watts	500,000	500,000	-	411,832	207,965	203,867
Tissue Culture Plants	No's	20,000,000	12,000,000	8,000,000	14,101,527	10,467,185	3,634,342
Slabs / Tiles	Sq Mtr	45,000	45,000	-	5,645	-	5,645
Monuments	C.Ft	15,000	15,000	-	755	-	755

Source: Company

❑ Debt and interest cost

- During the year, overall debt has increased by Rs4.5bn, from Rs9.1bn in FY08 to Rs13.55bn in FY09.
- Of the Rs4.5bn raised, Rs3.4bn has been deployed towards capacity expansion.
- Additionally, increased activity in the MIS and food processing business segments led to an increase in working capital loan by Rs1.88bn during the year.
- The funds raised include Rs2.3bn of fresh secured loan of which Rs1.2bn is in foreign currency (constitutes debt of US$25.5m and CHF1.84m).
- Interest costs during the year stood at Rs1.56bn.
- Cash on books stood at Rs879m as on 31st March 2009.

❑ Investments

- During the year, JISL has infused Rs1.14bn in its 100% owned Mauritius subsidiary. The same has been deployed in the company's overseas businesses in USA, Israel, Switzerland and Turkey.
- Others investments include Rs400m invested in mutual funds.

❑ Working capital cycle

- JISL has seen a substantial improvement in the working capital cycle in FY09, with net WC days down from 198 days in FY08 to 178 days in FY09.

❑ Inventory

- During the year, inventory has increased by Rs351m, from Rs4.8bn in FY08 to Rs5.2bn in FY09.
- With regards raw material inventory, decline in polymer prices used for plastic processing has led to a decrease of Rs241m during the year.
- Inventory days have reduced from 117 days in FY08 to 95 days in FY09.

❑ Debtor days

- The strong growth of 28% in sales, have increased net debtors to Rs7.8bn in FY09 from 5.9bn in FY08.
- During the year, net debtor days have remained unchanged in comparison to the previous year, at 144 days.

- However, sales were skewed towards the second half of the year with H2FY09 contributing 57% to the overall sales. Taking this into consideration, debtor days would be lower at 115 days.

❑ Loans and Advances

- During the year, Loans & Advances have increased by Rs982m, from Rs2.3bn in FY08 to Rs3.2bn in FY09.
- This includes incremental advances to the tune of Rs328m by JISL to their 100% subsidiary in Mauritius.

❑ Preference capital

- During the year, redemption of preference shares has resulted in reduction in the preferential capital from Rs885m in FY08 to Rs449m in FY09.

OPERATIONAL HIGHLIGHTS

- Gross revenues of JISL have increased by 28% in FY09 with business mix shifting towards the higher margin MIS business.
- Contribution of the MIS segment to the overall revenues has increased from 37% in FY08 to 44% in FY09, with EBITDA margins of the segment expanding by 105bps.

Segmental revenues

	Segmental revenues (Rs m)			% of total	
Segments	**FY09**	**FY08**	**yoy growth (%)**	**FY09**	**FY08**
Micro Irrigation Systems	9,509	6,179	53.9	44	37
Piping Systems	7,445	6,601	12.8	35	40
Agro processed Products	3,217	2,417	33.1	15	15
Plastic Sheets	1,717	1,891	(9.2)	8	11
Other Products	485	373	30.0	2	2
Total Gross Sales	22,373	17,460	28.1	-	-
Less: Excise Duty	863	879	-	-	-
Net sales	**21,509**	**16,582**	**29.7**	**100**	**100**

Source: Company, IDFC-SSKI Research

❑ Micro-irrigation business – momentum sustained!

- During the year, the MIS business has garnered a 54% growth in value terms backed by a 46% volume growth.
- Domestic sales increased by 48% in FY09 to Rs8.8bn from Rs5.9bn in FY08, primarily due to increased retail sales in states like Maharashtra, Andhra Pradesh, Karnataka, MP and UP as also project sales in Andhra Pradesh, Tamil Nadu and Gujarat.
- Key states contributing to the growth included sales from Maharashtra growing by 38%, Tamil Nadu by 2.6x, AP by 42%, MP by 80% and Karnataka by 44%.
- Further, exports in the segment increased by 213% to Rs662m in FY09 from Rs211m in FY08 mainly due to sales to overseas subsidiaries.

❑ Piping business – domestic industry still strong

- Within the piping business, PVC Pipes have grown by 43%, while revenues from PE Pipes segment declined by 11% on account of slowdown in telecom projects.
- Domestic revenues of the piping segment increased by 26% to Rs6.8bn in FY09 from Rs5.4bn in FY08.
- The retail business in Maharashtra and Madhya Pradesh contributed to the increased domestic sales of PVC pipes while slowdown in demand from telecom duct segment led to a marginal increase in domestic sales of PE pipes.
- However, exports in the piping segment decreased by 46% to Rs647m in FY09 from Rs1.2bn in FY08. This was on account of slowdown in exports of PE pipes to a telecom MNC ducting exports to the African continent.

❑ Agro-processed products – growth led by exports

- Onion dehydration business has grown by 52% and fruit processing business has grown by 31%, significantly led by volume growth.
- Revenue from exports of agro-processed products increased by 49% to Rs2.4bn in FY09 from Rs1.6bn in FY08 mainly on account of higher exports of mango puree and dehydrated onions to the European and US markets.
- However, domestic revenues from the segment saw a muted growth of 3.2% to Rs865m in FY09 from Rs838m in FY08.

❑ Plastic sheets segment

- Slowdown in US housing market resulted in a revenue decline of 9.2% in the plastic sheets segment to Rs1.7bn in FY09 from Rs1.9bn in FY08.
- Among the primary application areas of plastic sheets, slowdown is visible in the usage of plastic sheets in trim boards and siding products as a replacement to cedar wood, in the USA housing segment.
- However, application of plastic sheets in signage and the advertisement industry is growing at 5-8% in Europe and USA.

❑ Other products

- Other products include solar water heating systems, solar photovoltaic systems, tissue culture plants and agricultural products.
- Revenues from the above increased by 30.2% in FY09 to Rs485m from Rs373m in FY08. The growth has come primarily on the back of higher sales of tissue culture plants and solar products.

❑ Cost structures – favourable business mix expanding margins

- During the year, raw material consumption has increased by 19% as against a revenue increase of 28%. This is primarily on the back of change in business mix towards MIS and agro-processing segments.
- Change in business mix towards higher margin businesses resulted in gross margins improving from 26.4% in FY08 to 32.8% in FY09.
- While polymer prices were at an all time high in H1FY09, they witnessed a correction in H2FY09. Thus, while polymer consumption increased by 10% in volume terms, it translated into an increase of 15% in value terms.
- With regards consumption of fruits and vegetables, there was an increase of 19% in volume terms corresponding to a 22% increase in value terms.
- In FY09, employee expenses have seen a growth of 23%, from Rs658m in FY08 to Rs810m in FY09 with 806 new associates joining the company.
- Selling & distribution expenses increased by 22% during the year, primarily on the back of increase in cash discount, commission and brokerage on sales.

Operating expenditure

	Expenses (Rs m)		% of sales	
Expenses	**FY09**	**FY08**	**FY09**	**FY08**
Raw material expenses	12,898	10,808	60.0	65.2
Manufacturing expenses	1,537	1,395	7.1	8.4
Employee expenses	810	658	3.8	4.0
Selling and distribution expenses	1,447	1,185	6.7	7.1
Administrative expenses	537	391	2.5	2.4
Total operating expenditure	**17,228**	**14,437**	**80.1**	**87.1**

Source: Company, IDFC-SSKI Research

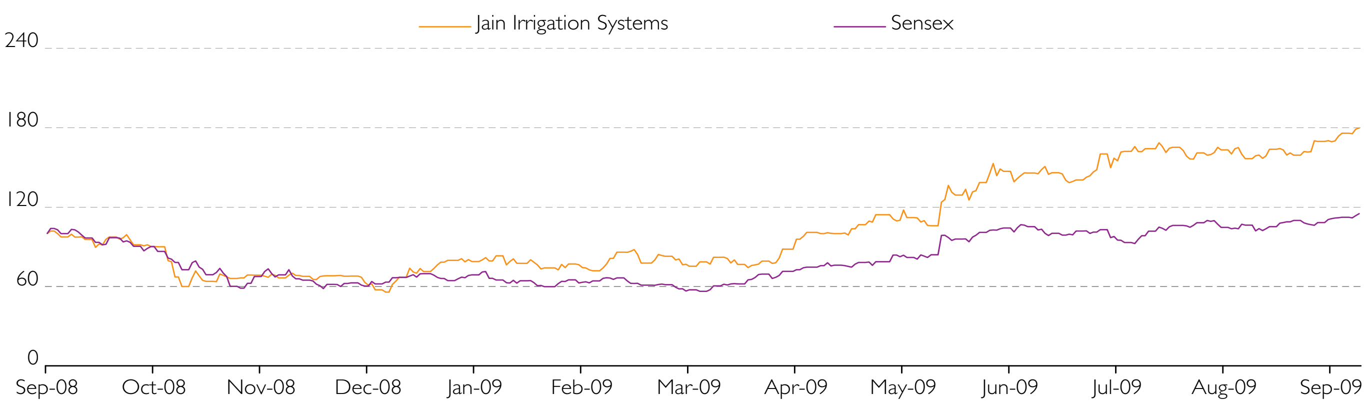
❑ Forex fluctuation

- During the year, JISL has accounted for Rs777m of MTM forex losses.
- In FY08, JISL had a booked a gain of Rs150m against the same.

VIEW

With an agri based business model focused on micro irrigation and its ecosystem, JISL is uniquely placed with an intrinsic ability to manage the three most difficult variables - weather, farmers and the government. The sustained double digit growth in every single quarter over the past 5 years, only further vindicates the resilience of JISL's business model. With MIS only headed to gather higher momentum going forward as newer states tap the potential and subsidies apportioned by the central government and existing states increase, JISL's MIS business assures a 25%+ growth in the foreseeable future. Incrementally, the rapidly growing food processing business renders further growth to the resilient business model. With the business mix now moving towards to the higher margin MIS and food processing segments, the earnings trajectory would only sharpen going forward. We remain bullish.

Relative price performance



Source: IDFC-SSKI Research

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