



INDIA RESEARCH

# Jain Irrigation Systems

**Rs775**  
**OUTPERFORMER**
**RESULT NOTE**
**Mkt Cap: Rs58.1bn; US\$1.23bn**

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**Result:** Q2FY10

**Comment:** Strong deliverance continues!

**Last Report:** 30 July 2009 (Price Rs687; Recommendation: Outperformer)

**Key valuation metrics**

Year	Net Sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	EV / E	PER (x)
FY08	23,145	81.6	1,343.8	18.7	32.2	19.5	41.5
FY09E	30,974	33.8	1,251.0	16.7	(10.6)	14.4	46.4
FY10E	36,895	19.1	2,586.1	34.5	106.7	11.9	22.5
FY11E	42,421	15.0	3,241.5	43.2	25.3	10.0	17.9

*\* Includes Rs755m of MTM losses; Consolidated financials*
**HIGHLIGHTS OF Q2FY10 RESULTS AND OUR INTERACTION WITH THE MANAGEMENT POST RESULTS**

- Ahead of our estimates, Jain Irrigation Systems (JISL) standalone operation has reported revenue growth of 18.2% at Rs5.63bn (estimates of Rs5.52bn), EBITDA of Rs1.22bn (estimates of Rs1.1bn) and operational net profit of Rs391m (estimates of Rs353m).
- Reported PAT shows a growth of 74% on account of Rs34m of forex MTM gains as against Rs220m of forex loss in Q2FY09. Operational Profit before tax has grown by 27% at Rs599m.
- Growth during the quarter was driven by MIS business – 38%, PE Pipes – 14% and PC sheets – 11%.
- Growth in the MIS business is driven by multifold growth in Himachal Pradesh, Haryana and Gujarat and 89% in Tamil Nadu. MIS business is expected to sustain high growth momentum with order book of over Rs5.5bn
- PVC Pipes business has declined by 5% at Rs826m on the back of 63% decline in export and 34% decline in institutional sales.
- However, PE Pipes business has positively surprised with a growth of 14% on account of 95% growth in the gas distribution application and 42% growth in the water distribution application. JISL continues to witness decline in telecom projects
- While continued slow down in US and European housing market has resulted in 30% decline in PVC Sheets business, PC Sheets business has garnered a strong growth of 11%.
- Onion Dehydration business has grown by 5.5% at Rs304m. We expect the growth to pick up as the order book remains healthy at over Rs1bn.
- Fruit processing business has grown by 3% at Rs625m, partially impacted by lower realization. Also the offtake from Coke was tad lower. However, order book for the year remains very strong with Coke's order worth Rs1.5bn per year for fruit pulp supply.
- Overall EBITDA margins have improved by 153bp at 21.6% with highest margin MIS business growing the fastest. While JISL has witnessed 320bp of savings on material cost, savings on selling and administration expenses stand at

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110bp. However, part of these gains is offset by 230bp increase in manufacturing operations and 60bp of higher employee cost.

- EBITDA margins in MIS business have expanded by 253bp at 29.5%. However, with polymer prices beginning to firm up, we expect MIS margins to remain in narrow range. Margins in the fruit processing business have improved by 620bp on the back of better pulp yields
- On the other hand, Onion dehydration margins have shrunk by 214bp on account of sharp increase in onion prices. Further PC sheets business has also witnessed a margin contraction of 590bp.
- Interest cost stood at Rs461m as against Rs478m in Q1FY10 and Rs380m in Q2FY09.
- JISL currently has debt of Rs15.05bn on the standalone books (Rs7.9bn of long term and Rs7.15bn of short term debt) and Rs18bn on the consolidated books.

Resilience and scalability of JISL's business model is evident in the high double digit registered for every single quarter in the past 5 years. An agri focused model built around Micro Irrigation, JISL has demonstrated sound ability to manage three of the most difficult variables – weather, farmer and government. Incrementally, with food security taking the center stage across the globe, JISL stands to be a key catalyst to bridge the gap and thereby an important beneficiary. Also, as MIS business strengthens further with newer states joining the MIS bandwagon and existing states and central government increase the subsidy contribution, we are confident of the MIS business growing at 25%+ in the foreseeable future. Further, improving sales mix (in favour of highest margin MIS and food processing businesses) would ensure sharper earnings growth trajectory. Albeit JISL's 53% outperformance to Sensex in the past one year, we maintain our Outperformer call on the stock with 30% earnings growth CAGR over FY09-11. Maintain Outperformer.

#### Segmental performance

	Revenues (Rs m)			EBITDA (Rs m)		EBITDA Margin (%)		
	Q2FY10	Q2FY09	% growth	Q2FY10	Q2FY09	Q2FY10	Q2FY09	Changes (bp)
MIS / SIS	2,620	1,898	38	773	512	29.5	27.0	252.8
PVC Pipes	826	874	(5)	63	84	7.6	9.6	(198.4)
PE Pipes	854	747	14	116	97	13.6	13.0	59.8
PVC Sheets	185	263	(30)	27	32	14.6	12.2	242.7
PC Sheets	157	141	11	13	20	8.3	14.2	(590.4)
Onion Dehydration	304	289	5	85	87	28.0	30.1	(214.3)
Fruit Processing	625	609	3	154	112	24.6	18.4	624.9
<b>Total</b>	<b>5,571</b>	<b>4,821</b>	<b>16</b>	<b>1231</b>	<b>944</b>	<b>22.1</b>	<b>19.6</b>	<b>251.6</b>

#### Quarterly results

(Rs Mn)	Q2FY09	Q3FY09	Q4FY09	FY09E	Q1FY10	Q2FY10	FY10E	FY11E
<b>Net Sales</b>	<b>4,758.9</b>	<b>5,376.9</b>	<b>6,985.2</b>	<b>30,974.4</b>	<b>5,730.3</b>	<b>5,625.1</b>	<b>36,894.6</b>	<b>42,420.6</b>
% yoy	44.5	29.7	16.6	33.8	20.4	18.2	19.1	15.0
<b>EBITDA</b>	<b>957.6</b>	<b>1,164.6</b>	<b>1,569.5</b>	<b>5,064.5</b>	<b>1,261.0</b>	<b>1,217.8</b>	<b>6,224.6</b>	<b>7,315.3</b>
EBITDA	20.1	21.7	22.5	16.4	22.0	21.6	16.9	17.2
Net interest	379.9	381.4	489.2	1,739.6	476.7	460.9	1,898.9	1,996.3
Depreciation	108.2	111.8	143.8	731.2	148.9	160.2	831.4	899.7
Other Income	1.0	0.1	31.3	147.8	0.9	2.6	147.8	147.8
Profit before Tax	470.5	671.5	967.8	2,741.5	636.3	599.3	3,642.1	4,567.0
Tax	6.0	6.0	628.6	758.4	285.6	207.9	1,002.1	1,260.0
<b>Adjusted PAT</b>	<b>464.5</b>	<b>665.5</b>	<b>339.2</b>	<b>1,983.1</b>	<b>350.7</b>	<b>391.4</b>	<b>2,640.1</b>	<b>3,307.0</b>
% yoy growth	96.8	48.5	(7.3)	57.7	(32.0)	(15.7)	33.1	25.3
Extraordinary Items	(219.5)	(109.1)	(206.5)	(756.0)	205.3	34.2	-	-
Minority Interest				(36.8)			54.0	65.5
<b>Reported PAT</b>	<b>245.0</b>	<b>556.4</b>	<b>132.7</b>	<b>1,263.9</b>	<b>556.0</b>	<b>425.6</b>	<b>2,586.1</b>	<b>3,241.5</b>

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2. Neutral: Within 0-10% to Index
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