Quick Take

Jain Irrigation - BUY

AGRI

09 February 2010

Long-term outlook remains sunny

Jain Irrigation was represented at IIFL's conference by Anil Jain (Managing Director) and Deepak Mundra (Senior-Vice President Finance). Key takeaways from the presentation: 1) agro-processing's long-term potential intact; 2) leverage set to ease from the current 1.8: 1; 3) Africa to emerge as the next growth driver; 4) government schemes to boost spending on micro-irrigation.

Agro-processing's long-term potential intact: Although this division's near-term prospects do not look strong as a drought badly hit the onion crop, long-term prospects remain strong. JISL's key customer Coca Cola India has indicated it would almost triple its procurement of processed mangoes in the next five years for its rapidly growing product *Maaza*. Margins for this segment have also improved over the years, from 16-18% to 18-20% currently, owing to better pricing power. Management believes EBITDA margins are sustainable at these levels.

Leverage should ease as discounting of receivables has gained steam: Investor concerns were mainly on how the management plans to reduce its debt: equity, which currently stands at 1.8: 1. Management said discounting of micro-irrigation receivables has found favour with bankers (since it also qualifies for priority sector lending). This should reduce pressure on working capital significantly, thus leading to a reduction in leverage. Management believes a leverage of 1:1 (D/E) would be optimal. However, should it identify any interesting acquisition opportunities, it would pursue them, as long as debt: equity does not exceed 2: 1.

New markets can emerge as growth drivers over five years: While India remains the company's main focus area of growth, management believes Africa could be the next largest source of growth. Given the abundance of agricultural land and groundwater availability, Africa represents the largest unpenetrated market for micro-irrigation companies.

CMP	**Rs730**
12-mth Target price (Rs)	***816***
Market cap (US$ m)	**1,184**
Bloomberg	**JI IN**
52Wk High/Low (Rs)	932/316
Diluted o/s shares (m)	76
Daily volume (US$ m)	3
Dividend yield FY10ii (%)	0.7
Free float (%)	69.0

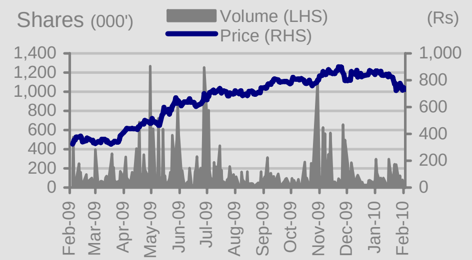
Shareholding pattern (%)

Promoters	31.0
FIIs	48.0
Domestic MFs	4.0
Others	17.0

Price performance (%)

	1M	3M	1Y
Jain Irrigation	-16.1	-12.1	131.7
Rel. to Sensex	-6.1	-10.7	60.3
IVRCL	-18.7	-14.9	195.2
Lakshmi Ener	-14.7	15.6	-14.0
Finolex	-12.6	11.7	94.9

Stock Performance



Financial Summary

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenues (Rs m)	22,159	28,584	33,638	41,655	51,974
EBITDA Margins (%)	15.5	17.5	18.4	19.8	19.7
Pre-Exceptional PAT (Rs m)	1,325	1,299	2,859	3,293	4,190
Reported PAT (Rs m)	1,325	1,299	2,859	3,293	4,190
EPS (Rs)	18.3	17.9	39.5	43.6	55.4
Growth (%)	28.8	-2.0	120.1	10.3	27.2
PER (x)	**39.9**	**40.7**	**18.5**	**16.8**	**13.2**
ROE (%)	19.6	13.6	26.4	24.3	24.4
Debt/Equity (x)	1.4	1.9	1.8	1.7	1.5
EV/EBITDA (x)	**11.2**	**8.7**	**7.7**	**6.4**	**5.4**
Price/Book (x)	6.7	6.2	4.8	3.8	3.0

Source: IIFL Research, Priced as on 08 February 2010

Sangeetha Saranthan ● sangeetha@iiflcap.com ● 91 22 4646 4644

Government's rural schemes can support buoyant growth for micro-irrigation: The government's plan to include spending on private farm lands within the schemes allowed under NREGA can give a significant boost to demand for micro-irrigation, as labour costs for installation will be fully borne by the government. With spending under NREGA likely to triple over the next four years, growth in micro-irrigation spending can remain well above 35-40% annually during the next few years.

Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.
SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.
Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.

We have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

India Infoline or any persons connected with it do not accept any liability arising from the use of this document. The recipients of this material should rely on their own judgment and take their own professional advice before acting on this information.

India Infoline or any of its connected persons including its directors or subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in this publication.

India Infoline and/or its affiliate companies may deal in the securities mentioned herein as a broker or for any other transaction as a Market Maker, Investment Advisor, etc. to the issuer company or its connected persons. India Infoline generally prohibits its analysts from having financial interest in the securities of any of the companies that the analysts cover. In addition, the company prohibits its employees from conducting F&O transactions or holding any shares for a period of less than 30 days.