

Jain Irrigation Systems (JI IN)

Rating: **2**

National Mission on micro-irrigation strong positive development for Jain, in our view

Capital goods: India

Target price: **Rs1,100.00**

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Price (11 Jun)	Rs1,080.40
Reuters code	JAIR.NS
ADR/GDR code	none
Shares per ADR/GDR	0.00

Market data

SENSEX Index	17,064.95
Market cap (US\$bn)	1.74
EV (US\$bn: 10E)	2.13
3-mth avg daily T/O (US\$m)	4.85
Shares outstanding (m)	76
Free float (%)	69.0
Major shareholder	Jain family (31.1%)
Exchange rate	Rs/US\$ 46.970

Performance (%)*	1M	3M	6M
Absolute	10.4	13.3	25.1
Relative	10.9	14.0	25.5

Source: Daiwa

Note: *Relative to SENSEX Index

Investment indicators

	2010E	2011E	2012E
PER (x)	36.0	24.8	18.8
PCFR (x)	21.3	13.6	12.5
EV/EBITDA (x)	15.4	12.1	10.1
PBR (x)	6.8	5.5	4.4
Dividend yield (%)	0.3	0.4	0.5
ROE (%)	22.2	24.5	25.8
ROA (%)	5.5	7.0	8.2
Net debt equity (%)	142.9	117.1	89.6
Relative to peers			Above
Relative to history			In line

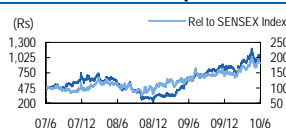
Source: Daiwa forecasts

Income summary (Rs m)

Yr to 31 Mar	2009	2010E	2011E	2012E
Revenue	28,584	36,042	43,379	51,738
YoY (%)	29.0	26.1	20.4	19.3
EBITDA	5,016	6,480	8,247	9,870
YoY (%)	44.4	29.2	27.3	19.7
Net profit	1,658	2,276	3,306	4,348
YoY (%)	41.1	37.3	45.3	31.5
EPS (Rs)	22.933	30.043	43.638	57.391
YoY (%)	28.5	31.0	45.3	31.5
CFPS (Rs)	31.399	50.635	79.673	86.154
DPS (Rs)	2.604	3.632	4.364	5.739

Source: Company, Daiwa forecasts

Price and relative performance



Source: Bloomberg, Daiwa

Forecasts revisions (%)

	FY10E	FY11E	FY12E
Revenue change	0.0	0.0	0.0
Net profit change	0.0	0.0	0.0
EPS change	0.0	0.0	0.0

Source: Daiwa forecasts

Fair value

Valuation (Rs/shr)	1,100.00
Methodology	DCF
Key assumption	Revenue growth and EBITDA margins

Source: Daiwa forecasts

What has changed?

- The cabinet committee on economic affairs on 10 June approved the implementation of the existing centrally sponsored scheme for micro-irrigation as a National Mission Mode project.

Impact

- The mission aims to bring 2.85mHa under micro-irrigation. The cabinet approved an outlay of Rs80bn for the mission to be implemented under the *11th Plan* (FY08-12).
- The current plan for micro-irrigation is a centrally sponsored scheme wherein the central and state governments subsidize 50% of the cost of a micro-irrigation system (MIS), and the beneficiary farmer contributes the remaining 50%. The scheme is coordinated at the national, state, and district level by the executive, state, and district micro-irrigation committees. The scheme was implemented in FY06, and the central government has allocated Rs4-5bn every year since then.
- With micro-irrigation now getting into the Mission Mode project, we believe the central government is taking a more direct and impactful approach to help farmers adopt MIS. We await further details on the project, but we believe the new scheme will be more elaborate than the earlier one.
- The National Mission plan is likely to involve the introduction of advanced MIS components such as 'fertigation' (a combination of fertilization and irrigation) systems, sand filters, valves, etc. The government is also likely to try implementing MIS in closely spaced crops such as vegetables, spices, etc. We believe the scheme is likely to include specific yearly targets, implementation mechanisms, and progress-monitoring systems.
- Central and state subsidies have been a key driver in the spread of MIS, and the National Mission project would assure the continuance of this support at a higher level than before. In addition, we believe the company may be able to expand its MIS product portfolio to include technologically advanced and high-value components and newer crop types. We think the new mission may also affect Jain's receivables, depending on the mode of the payment of subsidies. Overall, we believe this is a highly positive development for Jain, as it should strengthen the revenue and earnings prospects for its MIS business. We currently forecast a 38% EPS CAGR for FY10-12.

Valuation

- We maintain our **2 (Outperform)** rating and six-month target price of Rs1,100. Although we believe the current development is very positive for Jain, we retain our earnings forecasts pending additional details on the mission project.

Catalysts and action

- Strong government support is likely to result in high revenue and earnings momentum for the company, which we believe remains the key catalyst for the stock.

Company background

Jain Irrigation is an agro input company. Its main business is selling Micro Irrigation Systems to farmers. It also has an agroprocessing business where it sells processed onions and fruits to domestic and export customers

Jain Irrigation Systems – financial summary

Profit and loss (Rs m)

Year to 31 Mar	2008	2009	2010E	2011E	2012E
India MIS	6,199	9,515	13,023	17,715	22,880
India Pipes	6,626	7,472	8,420	9,471	10,795
Others	9,334	11,597	14,599	16,193	18,063
Total revenue	22,159	28,584	36,042	43,379	51,738
Other income	0	0	0	0	0
COGS	(13,695)	(17,756)	(22,263)	(26,681)	(31,803)
SG&A	(4,208)	(5,216)	(6,480)	(7,743)	(9,416)
Other op. expenses	(1,357)	(1,333)	(1,940)	(1,933)	(2,008)
EBIT	2,898	4,279	5,359	7,022	8,511
Net-interest inc./(exp.)	(1,327)	(1,809)	(1,997)	(2,014)	(1,973)
Assoc/forex/extraord./others	336	(474)	857	63	103
Pre-tax profit	1,907	1,995	4,219	5,071	6,641
Tax	(540)	(659)	(1,395)	(1,676)	(2,195)
Min. int./pref. div./others	(84)	(77)	(73)	(88)	(97)
Net profit (reported)	1,283	1,258	2,752	3,306	4,348
Net profit (adj.)	1,175	1,658	2,276	3,306	4,348
EPS (reported) (Rs)	19.487	17.400	36.316	43.638	57.391
EPS (adj.) (Rs)	17.847	22.933	30.043	43.638	57.391
DPS (Rs)	2.418	2.604	3.632	4.364	5.739
EBIT (adj.)	2,898	4,279	5,359	7,022	8,511
EBITDA (adj.)	3,473	5,016	6,480	8,247	9,870

Balance sheet (Rs m)

As at 31 Mar	2008	2009	2010E	2011E	2012E
Cash & short-term investment	1,036	1,174	926	984	575
Inventory	8,099	9,859	12,571	15,231	18,242
Accounts receivable	6,556	8,663	9,738	10,336	11,727
Other current assets	3,039	3,424	3,424	3,424	3,424
Total current assets	18,731	23,119	26,658	29,975	33,967
Fixed assets	8,963	12,903	15,082	17,857	20,098
Goodwill & intangibles	1,201	1,669	1,669	1,669	1,669
Other non-current assets	766	496	496	496	496
Total assets	29,661	38,189	43,906	49,998	56,231
Short-term debt	610	623	70	70	70
Accounts payable	5,134	5,982	7,613	9,248	11,075
Other current liabilities	1,659	2,806	2,806	2,806	2,806
Total current liabilities	7,403	9,410	10,489	12,124	13,951
Long-term debt	12,146	17,546	18,066	18,409	17,330
Other non-current liabilities	730	1,556	2,549	3,684	5,232
Total liabilities	20,279	28,513	31,105	34,217	36,513
Share capital	1,606	1,172	781	758	758
Reserves/R.E./others	7,126	7,798	11,264	14,180	18,020
Shareholders' equity	8,732	8,971	12,045	14,938	18,777
Minority interests	649	705	757	844	941
Total equity & liabilities	29,661	38,189	43,907	49,998	56,231
Net debt/(cash)	11,720	16,995	17,211	17,495	16,825

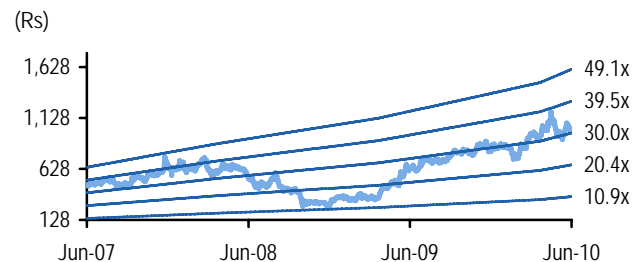
Cash flow (Rs m)

Year to 31 Mar	2008	2009	2010E	2011E	2012E
Profit before tax	1,907	1,995	4,219	5,071	6,641
Depreciation and amortisation	558	684	1,121	1,225	1,359
Tax paid	(233)	(225)	(488)	(587)	(768)
Change in working capital	(6,072)	(2,043)	(2,155)	(1,624)	(2,574)
Other operational CF items	1,231	1,859	1,140	1,951	1,870
Cash flow from operations	(2,610)	2,271	3,836	6,037	6,528
Capex	(2,655)	(4,644)	(3,300)	(4,000)	(3,600)
Net (acquisitions)/disposal	(699)	(40)	0	0	0
Other investing CF items	(74)	(14)	147	63	103
Cash flow from investing	(3,428)	(4,698)	(3,153)	(3,937)	(3,497)
Change in debt	5,965	5,303	1,158	343	(1,079)
Net share issues/(repurchases)	1,782	0	20	0	0
Dividends paid	(197)	(227)	(257)	(343)	(388)
Other financing CF items	(1,330)	(2,226)	(1,853)	(2,041)	(1,973)
Cash flow from financing	6,220	2,849	(931)	(2,041)	(3,440)
Forex effect/others	(71)	(38)	0	0	0
Change in cash	111	384	(249)	59	(409)

Key ratios

Year to 31 Mar	2008	2009	2010E	2011E	2012E
Sales – YoY %	59.2	29.0	26.1	20.4	19.3
EBITDA (adj.) – YoY %	85.3	44.4	29.2	27.3	19.7
Net profit (adj.) – YoY %	67.6	41.1	37.3	45.3	31.5
EPS (adj.) – YoY %	49.1	28.5	31.0	45.3	31.5
EBITDA margin % (adj.)	15.7	17.5	18.0	19.0	19.1
EBIT margin % (adj.)	13.1	15.0	14.9	16.2	16.4
Net-profit margin % (adj.)	5.3	5.8	6.3	7.6	8.4
ROAE (%)	21.2	20.3	22.2	24.5	25.8
ROAA (%)	4.9	4.9	5.5	7.0	8.2
ROCE (%)	16.6	17.1	18.2	21.5	23.8
ROIC (%)	12.4	12.0	12.7	14.9	16.3
Net debt to equity (%)	134.2	189.5	142.9	117.1	89.6
Effective tax rate (%)	28.3	33.1	33.1	33.1	33.1
Accounts receivable (days)	83.5	97.2	93.2	84.5	77.8
Payables (days)	75.4	71.0	68.8	70.9	71.7
Net interest cover (x)	2.2	2.4	2.7	3.5	4.3
Net dividend payout (%)	12.4	15.0	10.0	10.0	10.0

PER bands



Source: Company, Daiwa forecasts

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