

JAIN IRRIGATION

Subdued quarter, optimistic outlook

India Equity Research | Miscellaneous



Jain Irrigation Systems (JISL) posted an adjusted PAT, below estimates, owing to a steep decline in MIS (17.5% down YoY) and lower EBITDA margin. The management is confident to achieve positive sales growth in Q4FY13 (vs decline for past four consecutive quarters) and 20% YoY growth in MIS during FY14. Further, recent fund raising will lead to lower interest outgo by INR0.8bn-INR1bn in FY14. We believe that JISL's MIS business is likely to stabilize and show positive growth in coming quarters including an improved balance sheet. We maintain 'BUY'

MIS business growth tempered to improve balance sheet

Net sales dipped 7.4% YoY owing to a steep decline of 17.5% YoY in MIS business primarily on account of JISL's focus on improving balance sheet. EBITDA margin fell 590bps YoY and 300bps QoQ to 16.5% primarily on account of 1) higher raw material cost 2) higher power and fuel cost and 3) lower contribution of better margin business i.e MIS. Adjusted PAT was down 64.9% YoY to INR254mn vs our estimate of INR425mn.

Key highlights

- JISL maintains its guidance for positive sales growth in Q4FY13 (vs decline for past four consecutive quarters) and 20% YoY growth in MIS during FY14.
- MIS receivable down to INR13.2bn (from INR17.2bn in March 31, 2012 and INR14.7bn in Sept 30, 2012).
- Shown commendable reduction in standalone receivable days to 208 days (from 242 days in March 31, 2012 and 222 days in Sept 30, 2012)
- Will save interest to the tune of INR0.8-1bn in FY14 due to recent fund raising.
- Upped tax guidance from 15-16% to 20% for FY13 and maintain 20% for FY14.

Outlook and valuations: Positive; maintain 'BUY'

Factoring in lower MIS growth, higher interest and tax, we lower our FY13/14E PAT estimate by ~26%/11%. We believe that MIS business is likely to stabilize in coming quarters post witnessing a consolidation phase, owing to a change in business model. We believe that most negatives have been factored in CMP. We maintain 'BUY' with a revised target of INR91 based on DCF (INR95 earlier).

Financials (Standalone)						(INR mn)		
Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	FY12	FY13E*	FY14E*
Net revenues	7,710	8,330	(7.4)	6,150	25.4	49,206	48,901	55,986
EBITDA	1,272	1,864	(31.7)	1,199	6.1	9,208	8,248	9,599
Core profit	254	724	(64.9)	84	203.6	3,514	2,097	3,563
Adj. EPS (INR)						7.6	4.3	7.2
Diluted P/E (x)						8.9	15.8	9.4
EV/EBITDA (x)						6.7	7.6	6.4
ROAE (%)						20.9	10.1	14.3

* Annual numbers are on consolidated basis

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: JAIR.BO, B: JI IN)

CMP	: INR 68
Target Price	: INR 91
52-week range (INR)	: 122 / 59
Share in issue (mn)	: 435.6
M cap (INR bn/USD mn)	: 30 / 569
Avg. Daily Vol. BSE/NSE ('000)	: 3,859.2

SHARE HOLDING PATTERN (%)

	Current	Q2FY13	Q1FY13
Promoters *	27.5	31.0	31.0
MF's, FI's & BKs	0.9	1.0	0.7
FII's	49.1	46.0	50.5
Others	22.5	22.0	17.8
* Promoters pledged shares (% of share in issue)	:		2.9

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(6.2)	(14.1)	(8.0)
3 months	3.5	0.5	(3.0)
12 months	13.5	(32.5)	(46.0)

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Key takeaways of Q3FY13 conference call

- Fruit processing, tissue culture and green energy businesses have shown growth of 29.5%, 12.0% and 12.7% YOY. Piping business remains flat on YoY basis.
- MIS growth will be in positive territory during Q4FY13 and expecting 20% YoY growth in FY14. Key growth driver for FY14 would be growth in Maharashtra state, new projects, exports and low base.
- Expecting marginal positive consolidated top-line growth in FY13 with EBITDA of INR8.5bn (India – INR7.5bn and Subsidiaries – INR1bn).
- To rationalize receivables in the MIS business, JISL has started implementation of a change in its business model wherein it is asking farmers to pay a higher proportion of the cost upfront besides seeking them to collect receivables from the government. As JISL extended this model to more regions, the growth in MIS has been impacted. Nevertheless, this is helping it lower the outstanding subsidy receivables from the government, thus improving the working capital cycle.
- During Q1FY13, JISL received approval for setting up an NBFC. It guides that the NBFC coupled with the new business model for MIS business and expected increment in efficiency of disbursal of outstanding subsidies by various state governments would help JISL lower the receivables over the next few quarters, thus improving the WC cycle. NBFC started functioning in Q3FY13 and expected to lend INR200-250mn in Q4FY13.
- Gross receivable down from INR25.2bn in March 31, 2012 to INR19.9bn in Dec31, 2012 (Sept 30 – INR21.7bn). Receivable days down from 242 days (March 31, 2012) to 208 days in Dec 31, 2012 (Sept 30, 2012 – 222 days).
- Inventory level was higher as on Dec 31, 2012 as Q4FY13 is peak season for JISL. Present inventory level of INR11bn will come down by INR2.5-3bn by March'13. Inventory days up from 74 days in March 31, 2012 to 111 days in Dec31, 2012 (Sept 30, 2012 – 105 days).
- Capex plan for FY13 and FY14 stands at INR2bn/PA.
- JISL raised long term funds of USD215mn by a mix of equity, convertible bonds and ECBs which will reduce the interest burden by INR0.8bn-INR1bn/PA. Out of USD215mn, USD24m is yet to receive. Interest cost is expected to lower by INR100-120mn QoQ in Q4FY13.
- Consolidated and standalone net debt stood at INR39bn and INR29bn, respectively. Company is expected to reduce debt by INR4-5bn in FY14.

Financial snapshot

(INR mn)

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	YTD13	FY13E*	FY14E*
Net revenues	7,710	8,330	(7.4)	6,150	25.4	22,509	48,901	55,986
Raw material	4,531	4,632	(2.2)	3,250	39.4	12,419	25,983	29,591
Staff costs	428	402	6.4	405	5.8	1,245	4,890	5,599
Other expenses	1,478	1,432	3.2	1,296	14.1	4,561	9,780	11,197
Total expenditure	6,437	6,466	(0.4)	4,950	30.0	18,224	40,653	46,387
EBITDA	1,272	1,864	(31.7)	1,199	6.1	4,285	8,248	9,599
Depreciation	308	244	26.4	274	12.1	856	1,633	1,714
Other income	108	21	420.3	20	449.5	180	600	400
Interest	1,028	916	12.2	1,019	0.9	3,075	4,658	3,833
Profit before tax	44	725	(93.9)	(75)	NA	534	2,558	4,453
Tax	(210)	1	NA	(158)	NA	(430)	460	891
Core profit	254	724	(64.9)	84	203.6	963	2,097	3,563
Extraordinary items	(566)	(711)	NA	279	NA	(1,081)	-	-
PAT	(312)	12	NA	363	NA	(118)	2,097	3,563
Minority interest							51	51
Profit after tax and min. int.							2,046	3,511
Equity capital (FV INR 2)							910	925
Diluted shares (mn)							478	485
Adj. Diluted EPS (INR)							4.3	7.2
As % of net revenues								
Raw material	58.8	55.6		52.8		55.2	53.1	52.9
Employee cost	5.6	4.8		6.6		5.5	10.0	10.0
Other expenses	19.2	17.2		21.1		20.3	20.0	20.0
EBITDA	16.5	22.4		19.5		19.0	16.9	17.1
Reported net profit	(4.0)	0.1		5.9		-	4.2	6.3

* Annual numbers are on consolidated basis

Change in estimates

	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	48,901	50,826	(3.8)	55,986	58,707	(4.6)	Considered lower Micro irrigation sales growth in India
EBITDA	8,248	9,049	(8.9)	9,599	10,209	(6.0)	Due to lower Micro irrigation sales growth in India
EBITDA Margin	16.9	17.8		17.1	17.4		
Core profit	2,097	2,827	(25.8)	3,562	3,986	(10.6)	Considered lower MIS sales growth, interest and tax rate in-line with management guidance
PAT Margin	4.2	5.5		6.3	6.8		
Capex	2,079	2,033	2.3	1,067	2,055	(48.1)	

Company Description

Established in 1986, Jain Irrigation Systems (JISL) is currently the world's second largest and India's largest micro irrigation company. It has four major business divisions—micro irrigation systems (MIS), piping systems, agro processing, and plastic sheets. Apart from these, it also derives a minor portion of revenues from tissue culture, hybrid & grafted plants, and solar devices. In FY12, at a consolidated level, MIS revenue share was at 54%, piping products at 17%, agro processed products at 20%, plastic sheets at 4% and others at 5%. JISL has a global presence in more than 100 countries with a robust dealer and distribution network; it has 24 plants and employs over 6,000 people. JISL has been named by Standard & Poor's in May 2007 as one of the eight Indian companies expected to emerge as challengers to the world's leading companies.

Investment Theme

India is likely to have an opportunity of ~INR 450 bn under micro irrigation over the next six to seven years. JISL stands to gain the most, being the market leader in this space. Standalone sales of JISL's MIS segment have posted a CAGR of 56% during 2005-12. While JISL is currently sacrificing some growth to rationalise their high receivables in MIS, we expect JISL to get multiple re-rating from the point when it shows improvement in working capital cycle by lowering the receivables and commencing the NBFC.

Key Risks

Poor monsoon, seasonality and cyclical nature of agriculture could impact the company's agro-processing division by hitting the availability as well as prices of agro commodities. Though poor monsoon is unlikely to impact MIS in the short term, in case of recurring monsoon failure, the segment's growth may slow down.

Competition from the unorganized sector as well as supply from China may impact the MIS business. However, only from the context of manufacturing MIS systems, it is a low entry barrier business, and competencies needed to manage the inherent issues of weather, dealing with government, small holdings by Indian farmers etc., limit the scope of most players in the Indian MIS market.

Most of JISL's activities are working capital intensive, which may constrain the company from achieving targeted growth.

USD/INR volatility may impact export revenues as well as margins. As the company is having high D/E, interest rate tightening may impact profitability.

Financial Statements

Key Assumptions

Year to March	FY12	FY13E	FY14E	FY15E
Macro				
GDP(Y-o-Y %)	6.5	5.5	6.5	7.0
Inflation (Avg)	8.8	7.8	6.0	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	47.9	54.5	54.0	52.0
Company				
MIS revenue growth (%)	15.0	(8.6)	16.0	14.8
Piping products revenue growth (%)	4.1	10.0	12.2	12.2
Agro-processing revenue growth (%)	42.2	15.0	16.9	17.0
Cost Assumptions				
Raw Material Cost as % Net Revenue	54.8	53.1	52.9	52.8
Employee cost as % of sales	9.6	10.0	10.0	10.0
Other expenses as % of net revenues	16.9	20.0	20.0	20.0
Financial Assumptions				
Net borrowings (INR mn)	34,662	32,999	30,938	29,539
Capex (INR mn)	4,918	2,103	1,064	2,170
Debtor days	147	174	161	150
Inventory days	199	218	203	185
Payable days	226	242	213	187
Cash conversion cycle (days)	120	150	151	148
Depreciation as % of gross block	5.1	5.1	5.1	5.1

Income statement

(INR mn)

Year to March	FY12	FY13E	FY14E	FY15E
Net revenue	49,206	48,901	55,986	63,818
Materials costs	26,969	25,983	29,591	33,686
Gross profit	22,237	22,919	26,395	30,133
Employee costs	4,716	4,890	5,599	6,382
Other Expenses	8,314	9,780	11,197	12,764
Operating expenses	13,030	14,670	16,796	19,145
EBITDA	9,208	8,248	9,599	10,987
Depreciation and amortisation	1,441	1,633	1,714	1,796
EBIT	7,767	6,615	7,886	9,191
Other income	340	600	400	440
Interest expenses	4,157	4,658	3,833	3,350
Profit before tax	3,951	2,558	4,453	6,281
Provision for tax	436	460	891	1,507
Net profit	3,514	2,097	3,563	4,773
Extraordinary income/ (loss)	(1,228)	-	-	-
Profit After Tax	2,286	2,097	3,563	4,773
Minority interest + pre-	51	51	51	51
Profit after minority interest	2,235	2,046	3,511	4,722
Basic EPS (INR)	8.5	4.5	7.6	10.2
Shares outstanding (mn)	455	478	485	485
Diluted EPS (INR)	7.6	4.3	7.2	9.7
CEPS (INR)	11.8	8.1	11.3	14.1
Dividend per share (INR)	1.0	1.0	1.0	1.1
Dividend payout (%)	11.7	22.2	13.2	10.8

Common size metrics

Year to March	FY12	FY13E	FY14E	FY15E
Operating expenses	26.5	30.0	30.0	30.0
Gross margin	45.2	46.9	47.1	47.2
Interest expenditure	8.4	9.5	6.8	5.2
EBITDA margins	18.7	16.9	17.1	17.2
EBIT margins	15.8	13.5	14.1	2.8
Net profit margins	7.0	4.2	6.3	7.4

Growth ratios (%)

Year to March	FY12	FY13E	FY14E	FY15E
Revenues	18.5	(0.6)	14.5	14.0
EBITDA	23.1	(10.4)	16.4	14.5
PBT	3.5	(35.3)	74.1	41.0
Net profit	30.3	(40.3)	69.9	34.0
EPS	32.0	(43.8)	69.0	34.5

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13E	FY14E	FY15E	
Equity capital	810	910	925	925	
Reserves & surplus	16,726	21,933	25,375	29,502	
Shareholders funds	17,537	22,843	26,299	30,426	
Minority interest (BS)	498	549	600	652	
Short term debt	8,295	8,000	6,000	6,000	
Long term debt	29,690	31,000	28,000	27,000	
Borrowings	37,986	39,000	34,000	33,000	
Deferred tax liability	1,037	1,063	1,196	1,448	
Sources of funds	57,057	63,455	62,096	65,526	
Gross block	30,968	33,071	34,134	36,304	
Accumulated depreciation	9,401	11,034	12,748	14,544	
Tangible assets	21,567	22,036	21,386	21,760	
Intangible assets	2,168	2,168	2,168	2,168	
CWIP (incl. intangible)	1,980	1,956	1,960	1,915	
Total net fixed assets	25,715	26,161	25,514	25,843	
Investments	236	836	1,236	1,236	
Non current investments	226	826	1,226	1,226	
Current Investments	10	10	10	10	
Cash and equivalents	3,324	6,001	3,062	3,461	
Inventories	14,614	16,417	16,509	17,618	
Sundry debtors	22,712	23,918	25,374	27,174	
Loans and advances	3,145	3,145	3,145	3,145	
Other current assets	4,386	4,386	4,386	4,386	
Total current assets (ex cash)	44,856	47,866	49,413	52,323	
Trade payable	13,497	16,416	15,697	15,233	
Others current liabilities	3,576	993	1,432	2,103	
Total current liabilities &	17,073	17,409	17,129	17,336	
Net current assets (ex cash)	27,783	30,457	32,284	34,987	
Uses of funds	57,057	63,455	62,096	65,526	
Book value per share (INR)	43.3	50.2	56.9	65.8	

Free cash flow		(INR mn)			
Year to March	FY12	FY13E	FY14E	FY15E	
Net profit	2,235	2,046	3,511	4,722	
Depreciation	1,441	1,633	1,714	1,796	
Others	3,268	4,683	3,966	3,601	
Gross cash flow	6,943	8,362	9,191	10,120	
Less: Changes in WC	6,094	2,674	1,827	2,702	
Operating cash flow	850	5,688	7,364	7,417	
Less: Capex	5,270	2,079	1,067	2,125	
Free cash flow	(4,420)	3,609	6,297	5,293	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted PE (X)		EV/EBITDA (X)		ROAE (%)	
		FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Jain Irrigation	568	15.8	9.4	7.6	6.4	10.1	14.3
Sintex Industries Ltd	366	6.0	5.9	5.4	4.7	11.2	10.2
Supreme Industries	725	14.7	11.8	8.3	6.8	33.9	34.2
Median	-	14.7	9.4	7.7	6.4	11.2	14.3
AVERAGE	-	12.2	9.0	7.2	6.0	18.4	19.6

Source: Edelweiss research

Cash flow metrics		FY12	FY13E	FY14E	FY15E
Year to March					
Operating cash flow		850	5,688	7,364	7,417
Investing cash flow		(5,340)	(2,627)	(1,416)	(2,073)
Financing cash flow		3,658	(313)	(8,887)	(4,945)
Net cash flow		(832)	2,748	(2,939)	399
Capex		(5,270)	(2,079)	(1,067)	(2,125)
Dividends paid		(471)	(532)	(541)	(595)

Profitability & efficiency ratios

Year to March	FY12	FY13E	FY14E	FY15E
ROAE (%)	20.9	10.1	14.3	16.6
ROACE (%)	15.1	11.1	12.8	14.7
ROA	6.8	3.5	5.7	7.5
Inventory day	199	218	203	185
Debtors days	147	174	161	150
Payable days	226	242	213	187
Cash conversion cycle (days)	120	150	151	148
Current ratio	2.6	2.7	2.9	3.0
Debt/EBITDA	4.1	4.7	3.5	3.0
Debt/Equity	2.2	1.7	1.3	1.1

Operating ratios

Year to March	FY12	FY13E	FY14E	FY15E
Total asset turnover	0.9	0.8	0.9	1.0
Fixed asset turnover	2.5	2.2	2.6	3.0
Equity turnover	3.0	2.4	2.3	2.3

Valuation parameters

Year to March	FY12	FY13E	FY14E	FY15E
Diluted EPS (INR)	7.6	4.3	7.2	9.7
Y-o-Y growth (%)	32.0	(43.8)	69.0	34.5
CEPS (INR)	11.8	8.1	11.3	14.1
Diluted PE (x)	8.9	15.8	9.4	7.0
Price/BV (x)	1.6	1.4	1.2	1.0
EV/Sales (x)	1.3	1.3	1.1	0.9
EV/EBITDA (x)	6.7	7.6	6.4	5.5
Dividend yield (%)	1.5	1.5	1.5	1.6
Market Capitalisation	27,491	30,866	31,375	31,375

Additional Data

Directors Data

Bhavarlal H. Jain	Chairman	Ashok B. Jain	Vice Chairman
Anil B. Jain	Managing Director	Ajit B. Jain	Joint Managing Director
Atul B. Jain	Joint Managing Director	R. Swaminathan	Director - Technical
Devendra Raj Mehta	Director	Ghanshyam Dass	Director
Ramesh C. A. Jain	Director	Radhika Pereira	Director
Vasant V. Warty	Director	Arunkumar Jain	Director

Auditors - Haribhakti & Co.

**as per last available data*

Holding Top -10

	Perc. Holding		Perc. Holding
Janus Investment Funds	6.14	Pictet Water	2.35
Ashmore EMM LLC	4.64	Capital Group Companies Inc	2.34
Emerging Markets Growth Fund	4.47	Dunearn Investments Mauritius	2.01
Ameriprise Financial Inc	4.42	Temasek Holdings Pvt. Ltd.	2.01
Macquarie Bank Limited	2.84	Govt Pension Fund Global	1.72

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
15 Feb 2012	Ward Ferry Mgt Ltd A/C Wf Asian Smaller Co Fund Ltd	Sell	2284604	110.05
24 May 2012	Macquarie Bank Ltd	Buy	2250000	70.23
25 May 2012	Macquarie Bank Ltd	Buy	2250000	70.23
07 Jun 2012	Macquarie Bank Ltd	Buy	4416577	74.20
07 Jun 2012	Fundamental Investors Inc	Sell	4416577	74.20
16 Aug 2012	Columbia Acorn International	Sell	2178207	81.36
17 Aug 2012	Columbia Acorn International	Sell	1996572	80.62
28 Aug 2012	Edumatrix Services India Pvt Ltd	Buy	2288623	70.87
03 Sep 2012	Clsa (Mauritius) Ltd	Sell	2346880	62.35

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
03 Apr 2012	Jain Brothers Industries Private Limited	Buy	2441131
24 Apr 2012	Jain Brothers Industries Private Limited	Buy	47705

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s): Miscellaneous

EID Parry India, Jain Irrigation, PI Industries, Shree Renuka Sugars, United Phosphorus

Recent Research

Date	Company	Title	Price (INR)	Recos
01-Feb-13	Shree Renuka Sugars	Refining, cogeneration drive the quarter; <i>Result Update</i>	30	Hold
31-Jan-13	EID Parry India	Not a sweet quarter; <i>Result Update</i>	178	Buy
29-Jan-13	United Phosphorus	Volume boost; <i>Result Update</i>	137	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	118	46	17	181
* - stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	117	57	7	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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