

# JAIN IRRIGATION

## Growth bounces back; outlook strong

India Equity Research | Midcap Agri

Jain Irrigation (JISL) reported an all-round strong Q3FY18 with revenue jumping 31% YoY to INR18.9bn (3% above estimate). Hi-tech agri input grew 49% YoY (standalone up 36% YoY) and plastic segment too surged 22% YoY. However, agro processing grew mere 6% YoY as it was impacted by the warehouse fire incident and muted performance in UK. Margins across segments (except agro processing) were stable and EBITDA rose 18% YoY to INR2.2bn, leading to ~10x YoY PAT spurt, also aided by higher other income. As we introduce FY20 estimates, we factor 12% revenue growth with all segments expected to post double digit growth and 51% PAT spurt driven by improved margin and falling interest cost. We value JISL 15x FY20E EPS, yielding revised TP of INR162 (INR129 earlier). We maintain 'BUY'.

### Q3FY18: Key highlights

**1) Hi-tech agri input segment:** Consolidated revenue jumped 49% YoY to INR9.8bn driven by additional revenue from US acquisition. Standalone revenue surge was also strong, increasing 36% YoY to INR5.7bn. This was driven by project and export segments, which grew 111% and 108%, respectively. **2) Agro processing division:** The division grew 6.2% on account of sales spurt in India. Its exports were lower due to loss of onion & garlic inventory in fire; **3) Plastic division:** The division grew 22% riding robust surge in PE pipes & also PVC pipes & PVC sheet business after many quarters. Overall, margins for all segments were stable, except for agro processing, which was impacted by the warehouse fire incident and muted performance in UK.

### Debt rises on acquisition, but interest cost down

Akin to Q2FY18, net debt increased by ~INR2.1bn YoY. This includes incremental debt of INR3.2bn taken for the US acquisition. Consolidated net working capital marginally improved by 5 days YoY driven by lower inventory in MIS and agro segments.

### Outlook and valuations: Growth across segments; maintain 'BUY'

JISL has posted a strong Q3FY18, which has helped the company partially recoup the muted performance in H1FY18. As we introduce FY20 estimates, we build in 12% growth in revenue with all segments expected to post double digit growth and 51% PAT growth driven by improved margin and falling interest cost. We value JISL 15x FY20E EPS, yielding target price of INR162. We maintain 'BUY'.

#### Financials (Consolidated)

	(INR mn)							
Year to March	Q3FY18	Q3FY17	% change	Q2FY18	% change	FY17	FY18E	FY19E
Net revenues	18,896	14,449	30.8	15,982	18.2	67,698	76,457	88,186
EBITDA	2,222	1,885	17.9	1,988	11.8	9,402	10,479	12,237
Adjusted PAT	670	61	989.1	106	529.5	1,695	2,570	4,191
Adj. EPS (INR)	1.4	0.1	982.4	0.2	529.5	3.1	4.4	7.2
Diluted P/E (x)						45.6	31.9	19.6
EV/EBITDA (x)						10.6	10.2	8.6
ROAE (%)						4.2	5.9	8.5

#### EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

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

CMP	: INR 140
Target Price	: INR 162
52-week range (INR)	: 150 / 83
Share in issue (mn)	: 496.4
M cap (INR bn/USD mn)	: 71 / 1,118
Avg. Daily Vol. BSE/NSE ('000)	: 7,004.4

#### SHARE HOLDING PATTERN (%)

	Current	Q2FY18	Q1FY18
Promoters *	28.5	28.5	60.8
MF's, FI's & BKs	8.6	7.8	11.5
FII's	34.8	36.0	14.5
Others	28.2	27.7	13.2
* Promoters pledged shares (% of share in issue)	:		2.9

#### PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(1.3)	15.1	16.4
3 months	6.2	44.1	37.9
12 months	35.3	52.3	17.0

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### Q3FY18 conference call: Key highlights

- Increase in other income is due to INR220mn reversal related to conversion of FCCB. Other expense also increased by similar amount.
- Tax rate was lower due to deferred tax asset written back.

#### MIS:

- The 11% growth reported in MIS retail sales is also positive due to disruption/confusion related to GST.
- With GST rate cut to 6%, growth is expected to spurt.
- US business:
  - Distributors are doing reasonably fine. Revenue growth has been as per target.
  - Looking at achieving 10% EBITDA margin.
  - The company had some hiccups as competitors withdrew their products post acquisition by JISL.
- In the retail business, JISL believes growth will be in the 10-20% range. This year it was impacted by GST.
- For growth to pick up further, agri prices have to increase.

#### Piping :

- Growth in retail and project businesses.
- Volume growth much higher than value growth.
- Growth in PVC segment was driven by pick up in Maharashtra. There was also benefit of base.

#### Food processing business:

- Onion business declined 2.1%. This was mainly due to the fire which happened.
- Also, the UK business reported slower sales due to certain weather-related issues.
- JISL is confident of recovering some of the food business in Q4FY18.
- Looking at growth in the agro business being in high teens.
- The company posted higher volume growth in the food business, especially in mango, but realisations contracted.
- JISL is also in the process of launching its retail products which also impacted margin marginally.
- JISL is planning to add processed oranges by next year.
- The company is expecting Q4FY18 to be strong for this division. With the addition of new product line, FY19 is expected to be much better.
- Targeting revenue of INR18bn in FY18.
- Plans to add various other commodities to be processed.

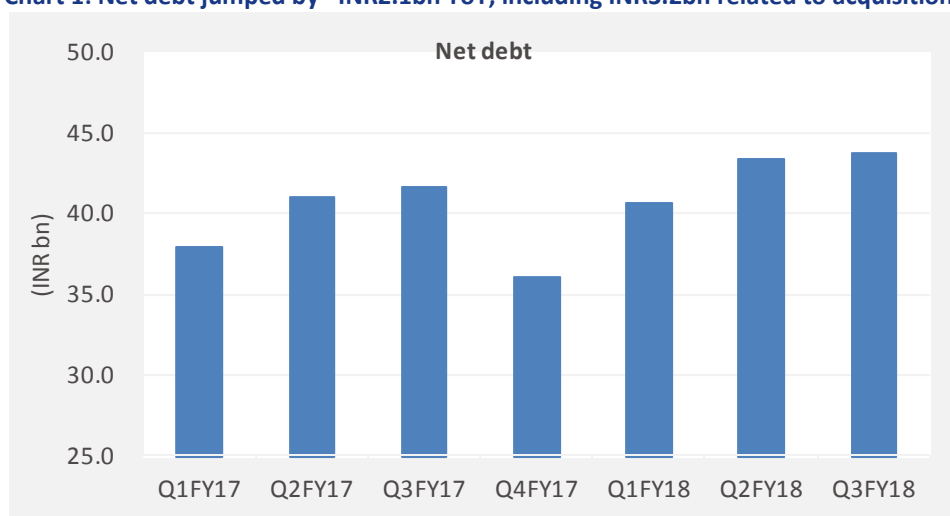
**Working capital:**

- During the quarter, Cash flow from operations has been INR2.2bn. For FY18, JISL anticipates to have a positive free cash flow.
- PVC business has negative working capital.
- MIS has inventory due to seasonality. Internal target in MIS is to try to bring receivables from 180 days to 120 days.

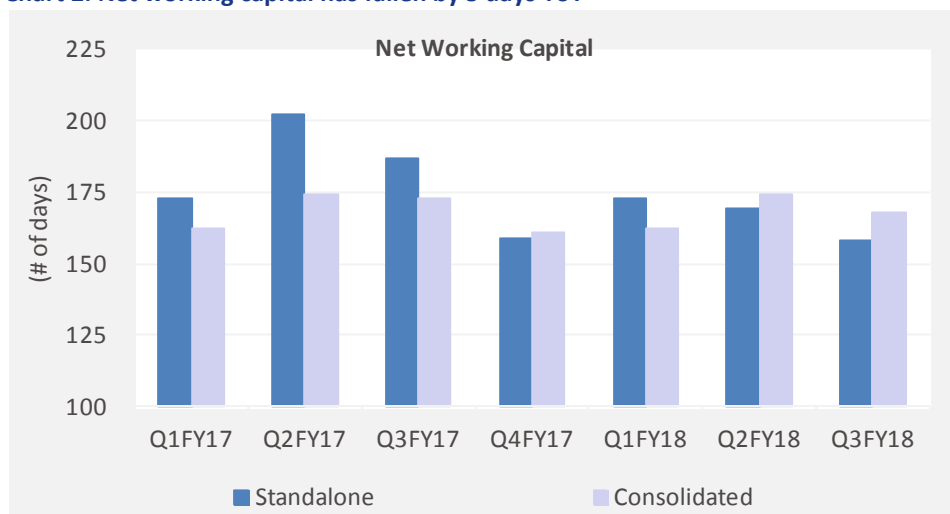
**Guidance:**

- Targeting EBITDA of INR11-12bn for FY18.
- Capex till Q3FY18: INR3.7bn.
- Debt:EBITDA of 3.0x.

**Chart 1: Net debt jumped by ~INR2.1bn YoY, including INR3.2bn related to acquisition**



**Chart 2: Net working capital has fallen by 5 days YoY**



Source: Company, Edelweiss research

**Financial snapshot**

(INR mn)

Year to March	Q3FY18	Q3FY17	% change	Q2FY18	% change	YTD18	FY18E	FY19E
Net revenues	18,896	14,449	30.8	15,982	18.2	51,691	76,457	88,186
Raw material	9,901	7,509	31.9	8,204	20.7	26,397	42,200	48,524
Staff costs	2,324	1,806	28.7	2,251	3.2	6,703	8,028	9,260
Other expenses	4,450	3,250	36.9	3,540	25.7	12,038	15,750	18,166
Total expenditure	16,675	12,565	32.7	13,994	19.2	45,138	65,978	75,950
EBITDA	2,222	1,885	17.9	1,988	11.8	6,552	10,479	12,237
Depreciation	841	744	13.0	824	2.1	2,516	3,382	3,438
EBIT	1,380	1,140	21.0	1,164	18.6	4,036	7,096	8,799
Other income	382	41	834.7	149	156.9	665	734	808
Interest	1,180	1,167	1.1	1,125	4.9	3,460	4,534	4,284
Add: Prior period items								
Profit before tax	583	14	3,945.1	188	209.8	1,241	3,297	5,323
Provision for taxes	(85)	(52)	NA	55	NA	(24)	626	1,011
Minority interest	-	-	-	-	-	-	100	120
Associate profit share								
Profit- Discontinued Ops								
Exceptional Items								
Reported net profit	670	61	989.1	106	529.5	1,220	2,570	4,191
Adjusted Profit	670	61	989.1	106	529.5	1,220	2,570	4,191
Diluted shares (mn)	479	477		479		479	586	586
Adjusted Diluted EPS	1.4	0.1	982.4	0.2	529.5	2.5	4.4	7.2
Diluted P/E (x)	-	-		-		-	31.9	19.6
EV/EBITDA (x)	-	-		-		-	10.2	8.6
ROAE (%)	-	-		-		-	5.9	8.5
<b>As % of net revenues</b>								
Raw material	52.4	52.0		51.3		51.1	55.2	55.0
Employee cost	12.3	12.5		14.1		13.0	10.5	10.5
Other expenses	23.5	22.5		22.1		23.3	20.6	20.6
EBITDA	11.8	13.0		12.4		12.7	13.7	13.9
Reported net profit	3.5	0.4		0.7		2.4	3.4	4.8

**Change in Estimates**

	FY18E			FY19E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	76,457	77,496	(1.3)	88,186	89,613	(1.6)	
EBITDA	10,479	10,685	(1.9)	12,236	12,511	(2.2)	Lower margins in Agro processing segment
EBITDA Margin	13.7	13.8		13.9	14.0		
Adjusted PAT	2,570	3,091	(16.8)	4,191	5,051	(17.0)	
Net Profit Margin	3.5	4.1		4.9	5.8		
Capex	5,857	5,945	(1.5)	2,322	2,362	(1.7)	

## Company Description

Jain Irrigation Systems (JISL) is currently the world's second largest and India's largest micro irrigation company. It has 4 major business divisions—micro irrigation systems (MIS), piping systems, agro processing and plastic sheets. JISL also manufactures dehydrated onions, vegetable products, aseptic fruit purees, concentrates, clarified juices, IQF, and frozen products. It markets these products under the brand name 'Jain Farm Fresh'. JISL is present in more than 100 countries with a robust dealer and distribution network; it has 30 plants globally.

## Investment Theme

The Government of India has been implementing Centrally Sponsored Scheme on Micro Irrigation with the objective to enhance water use efficiency in the agriculture sector by promoting appropriate technological interventions like drip & sprinkler irrigation technologies and encourage the farmers to use water saving and conservation technologies. India is likely to have an opportunity of ~INR450bn under micro irrigation over the next 6-7 years. JISL stands to gain the most, being the market leader in this space.

## Key Risks

Withdrawal of subsidies for micro irrigation is a key risk that could cause JISL's growth rates to slow down drastically.

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	FY17	FY18E	FY19E	FY20E
<b>Macro</b>				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	65.0	66.0
<b>Company</b>				
Raw Material (% net rev)	53.1	55.2	55.0	54.2
Other exp (% net rev)	22.1	20.6	20.6	20.6
Capex (INR mn)	3,054	5,857	2,322	2,569
Net borrowings (INR mn)	31,886	34,122	31,870	27,384
Employee cost (% of rev)	10.9	10.5	10.5	10.5
MIS revenue growth (%)	11.2	21.6	17.1	14.5
Piping prod rev gwth (%)	13.4	6.0	14.2	10.0
Agro-proc. rev gwth (%)	4.9	2.2	14.5	8.2
Debtor days	120	119	120	123
Inventory days	215	205	198	206
Payable days	146	134	126	131
Cash conversion cycle	189	191	192	198
Dep. (% gross block)	4.7	5.0	4.8	4.8

### Income statement

(INR mn)

Year to March	FY17	FY18E	FY19E	FY20E
Net revenue	67,698	76,457	88,186	98,595
Materials costs	35,947	42,200	48,524	53,441
Gross profit	31,751	34,257	39,662	45,154
Employee costs	7,383	8,028	9,260	10,353
Other Expenses	14,966	15,750	18,166	20,311
Operating expenses	22,349	23,778	27,426	30,663
EBITDA	9,402	10,479	12,237	14,491
Depreciation	3,014	3,382	3,438	3,550
EBIT	6,389	7,096	8,799	10,941
Add: Other income	612.00	734.4	807.84	888.62
Less: Interest Expense	4,594	4,534	4,284	3,776
Profit Before Tax	2,407	3,297	5,323	8,054
Less: Provision for Tax	667	626	1,011	1,611
Less: Minority Interest	68	100	120	120
Associate profit share	23	-	-	-
Reported Profit	1,695	2,570	4,191	6,323
Adjusted Profit	1,695	2,570	4,191	6,323
Shares o/s (mn)	479	513	513	513
Basic EPS (INR)	3.5	5.0	8.2	12.3
Diluted shares o/s (mn)	552	586	586	586
Adj. Diluted EPS (INR)	3.1	4.4	7.2	10.8
Adjusted Cash EPS	9.8	11.6	14.9	19.2
Dividend per share (DPS)	0.6	0.7	0.7	0.7
Dividend Payout Ratio(%)	21.3	14.0	8.6	5.7

### Common size metrics

Year to March	FY17	FY18E	FY19E	FY20E
Operating expenses	33.0	31.1	31.1	31.1
Gross margin	46.9	44.8	45.0	45.8
Interest Expense	6.8	5.9	4.9	3.8
EBITDA margins	13.9	13.7	13.9	14.7
EBIT margins	9.4	9.3	10.0	11.1
Net Profit margins	2.6	3.5	4.9	6.5

### Growth ratios (%)

Year to March	FY17	FY18E	FY19E	FY20E
Revenues	7.1	12.9	15.3	11.8
EBITDA	14.9	11.4	16.8	18.4
PBT	279.0	37.0	61.5	51.3
Adjusted Profit	250.3	51.7	63.1	50.9
EPS	248.4	43.0	63.1	50.9

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18E	FY19E	FY20E	
Share capital	959	1,026	1,026	1,026	
Reserves & Surplus	40,619	45,291	51,584	60,008	
Shareholders' funds	41,578	46,317	52,610	61,034	
Minority Interest	1,089	1,189	1,309	1,429	
Short term borrowings	12,348	13,000	11,000	9,000	
Long term borrowings	22,199	25,000	23,000	21,000	
Total Borrowings	34,547	38,000	34,000	30,000	
Long Term Liabilities	1,269	1,269	1,269	1,269	
Def. Tax Liability (net)	3,394	3,394	3,394	3,394	
<b>Sources of funds</b>	<b>81,876</b>	<b>90,168</b>	<b>92,581</b>	<b>97,126</b>	
Gross Block	64,781	70,516	72,720	75,185	
Net Block	43,572	45,924	44,691	43,606	
Capital work in progress	642	765	882	986	
Intangible Assets	4,203	4,203	4,203	4,203	
Total Fixed Assets	48,417	50,891	49,775	48,794	
Non current investments	1,068	1,068	1,068	1,068	
Cash and Equivalents	2,661	3,878	2,130	2,616	
Inventories	23,196	24,286	28,457	31,893	
Sundry Debtors	22,822	26,975	31,079	35,415	
Loans & Advances	937	937	937	937	
Other Current Assets	10,965	10,965	10,965	10,965	
Current Assets (ex cash)	57,920	63,163	71,437	79,210	
Trade payable	15,380	15,522	18,021	20,253	
Other Current Liab	12,810	13,310	13,810	14,310	
Total Current Liab	28,191	28,833	31,831	34,564	
Net Curr Assets-ex cash	29,729	34,331	39,607	44,646	
<b>Uses of funds</b>	<b>81,876</b>	<b>90,168</b>	<b>92,581</b>	<b>97,126</b>	
BVPS (INR)	86.7	90.3	102.5	119.0	

Free cash flow		(INR mn)			
Year to March	FY17	FY18E	FY19E	FY20E	
Reported Profit	1,695	2,570	4,191	6,323	
Add: Depreciation	3,014	3,382	3,438	3,550	
Interest (Net of Tax)	3,078	3,038	2,870	2,530	
Others	(1,154)	1,496	1,414	1,246	
Less: Changes in WC	(106)	4,601	5,276	5,040	
Operating cash flow	6,738	5,886	6,637	8,609	
Less: Capex	3,054	5,857	2,322	2,569	
<b>Free Cash Flow</b>	<b>3,684</b>	<b>29</b>	<b>4,315</b>	<b>6,040</b>	

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Jain Irrigation	1,118	31.9	19.6	10.2	8.6	5.9	8.5
Bayer Cropscience	2,457	34.0	27.8	22.5	18.0	21.2	21.8
Dhanuka Agritech	584	29.1	25.0	19.5	15.9	22.9	23.0
PI Industries	1,932	28.3	23.6	20.8	16.8	23.8	23.3
Rallis India	765	26.7	21.6	16.6	13.6	15.7	17.5
UPL	6,012	19.7	16.3	12.3	9.9	23.7	23.8

Source: Edelweiss research

Cash flow metrics					
Year to March	FY17	FY18E	FY19E	FY20E	
Operating cash flow	6,738	5,886	6,637	8,609	
Investing cash flow	(4,169)	(5,757)	(2,202)	(2,449)	
Financing cash flow	(5,200)	1,088	(6,182)	(5,674)	
Net cash Flow	(2,631)	1,217	(1,748)	486	
Capex	(3,054)	(5,857)	(2,322)	(2,569)	
Dividend paid	(289)	(432)	(432)	(432)	

## Profitability and efficiency ratios

Year to March	FY17	FY18E	FY19E	FY20E
ROAE (%)	4.2	5.9	8.5	11.1
ROACE (%)	9.0	9.6	11.1	13.1
ROA	2.0	3.0	4.6	6.7
Inventory Days	215	205	198	206
Debtors Days	120	119	120	123
Payable Days	146	134	126	131
Cash Conversion Cycle	189	191	192	198
Current Ratio	2.1	2.3	2.3	2.4
Gross Debt/EBITDA	3.7	3.6	2.8	2.1
Gross Debt/Equity	0.8	0.8	0.6	0.5
Adjusted Debt/Equity	0.8	0.8	0.6	0.5
Net Debt/Equity	0.7	0.7	0.6	0.4
Interest Coverage Ratio	1.4	1.6	2.1	2.9

## Operating ratios

Year to March	FY17	FY18E	FY19E	FY20E
Total Asset Turnover	0.8	0.9	1.0	1.0
Fixed Asset Turnover	1.4	1.6	1.8	2.0
Equity Turnover	1.6	1.7	1.7	1.7

## Valuation parameters

Year to March	FY17	FY18E	FY19E	FY20E
Adj. Diluted EPS (INR)	3.1	4.4	7.2	10.8
Y-o-Y growth (%)	248.4	43.0	63.1	50.9
Adjusted Cash EPS (INR)	9.8	11.6	14.9	19.2
Diluted P/E (x)	45.6	31.9	19.6	13.0
P/B (x)	1.6	1.6	1.4	1.2
EV / Sales (x)	1.5	1.4	1.2	1.0
EV / EBITDA (x)	10.6	10.2	8.6	6.9
Dividend Yield (%)	0.4	0.5	0.5	0.5

## Additional Data

### Directors Data

Ashok B. Jain	Chairman	Anil B. Jain	Vice Chairman & 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	Radhika Pereira	Director
Vasant V. Warty	Director	Harishchand Prasad Singh	Director

Auditors - Haribhakti & Co.

*\*as per last available data*

### Holding – Top10

	Perc. Holding		Perc. Holding
Mandala Rose	7.29	Dimensional Fund Advisors	2.93
Franklin Resources	2.90	College Retirement Equities Fund	2.90
JAF Products Ltd	2.84	International Finance Corp	2.65
MKCP Institutional Investor	2.34	Morgan Stanley	1.78
Vanguard Group	1.75	Didner & Gerge Fonder AB	1.70

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
30 Mar 2017	Citigroup Global Markets Mauritius Pvt Ltd	Sell	5220000	93.05
23 Feb 2017	Nomura Singapore Ltd	Sell	3379000	93.59

*\*as per last available data*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

*\*as per last available data*



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**Coverage group(s) of stocks by primary analyst(s): Midcap Agri**

Bayer Cropscience, Dhanuka Agritech, Jain Irrigation, PI Industries, Rallis India, Sharda Cropchem, UPL

**Recent Research**

Date	Company	Title	Price (INR)	Recos
26-Jan-18	<b>UPL</b>	Volume growth in line, currency plays spoilsport again; <i>Result Update</i>	769	Buy
23-Jan-18	<b>Rallis India</b>	Growth returns at the cost of margins; <i>Result Update</i>	252	Hold
14-Nov-17	<b>Dhanuka Agritech</b>	Stable quarter but guidance pruned; <i>Result Update</i>	659	Buy

**Distribution of Ratings / Market Cap**

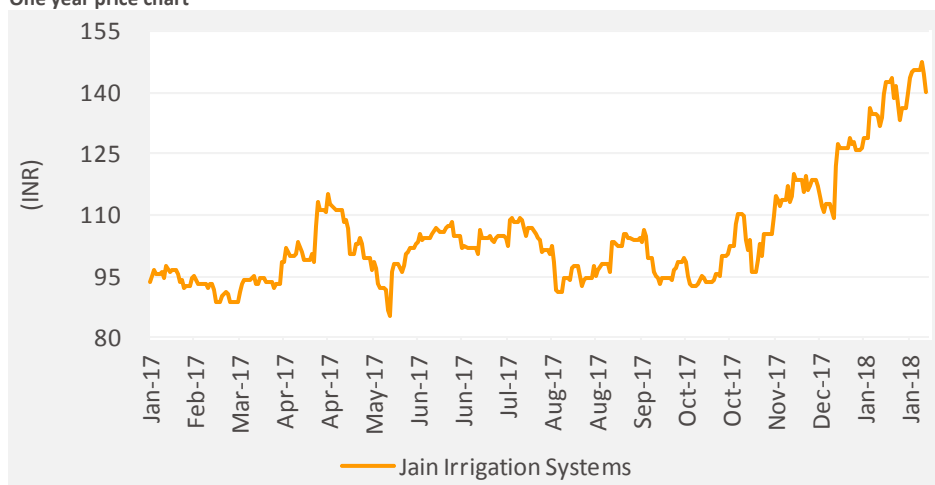
**Edelweiss Research Coverage Universe**

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

**Rating Interpretation**

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

**One year price chart**



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