

August 20, 2018

## Q1FY19 Result Update

## Jain Irrigation Systems Ltd

## Better growth across businesses

Buy

Jain Irrigation Systems Ltd (JISL), for Q1FY19 on a consolidated basis, reported good numbers. Revenue grew 24% YoY to ₹2,092 crore, with better growth across business segments – Hi-Tech Agri Input products (48% of Q1FY19 revenue) up 17%, Plastic (28%) up 15% and agro processing (22%) up 39%. EBITDA grew 15% to ₹270 crore, with margins contracting by 101bps to 12.9%, due to high value inventory in the food business. Higher other income (impact of ₹30 crore due to mark to market - MTM gain on listed bond in Singapore), led to net profit growth of 84% to ₹82 crore. As per JISL, net debt increased by 13% YoY to ₹4,579 crore due to acquisition cost and currency volatility as of 30 Jun'18. Net working capital improved by 14 days YoY to 157 days, as of 30 Jun'18.

**Management Guidance:** For FY19, revenue growth guidance of 15-18% is maintained. JISL expects, free cash flow (FCF) of ₹500 crore and debt/EBITDA at 3x (aiming at reducing net debt by ₹300 crore to ₹3,600 crore).

**Valuation and View:** JISL is witnessing good growth across its business segments. We are optimistic on the company's potential to capitalize on the opportunities: a) in the Micro irrigation systems and Piping space provided by the government, b) in the food division with the launch of new products (spices) and potential value unlocking with the IPO and c) in the synergetic benefits with the 3 acquisitions. We maintain revenue and PAT CAGR of 13% and 45%, respectively over FY18P-20E. We believe better performance across business segments would aid working capital improvement; however, the movement in debt levels would be a key monitorable. Since our Q4FY18 result update (29 May'18 @ ₹106, Rating: Buy), the stock price has corrected by ~27%, which we believe could be over concerns of elevated debt levels along with market volatility. At the CMP, JISL trades at 8.3x its FY20E EPS. We maintain our Buy rating with a target price of ₹129 (14x FY20E EPS).

## Q1FY19 Consolidated Result Summary

Y/E Mar (₹ Cr.)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Revenue	2,092	1,681	24.4	2,778	(24.7)
EBITDA	270	234	15.4	400	(32.5)
Margin (%)	12.9	13.9	-101bps	14.4	-149bps
PAT	82	44	84.4	97	(16.0)
EPS (₹)	1.65	0.89		1.96	

Source: Company, Centrum Wealth Research

**Growth in business segments aiding future prospects:** MIS business revenue during Q1FY19 grew ~17% YoY to ₹490 crore (domestic revenue up 20% to ₹426 crore and exports down 3% to ₹64 crore). Growth in MIS business was led by that of the domestic project business up 534% and the same trend is likely to continue. Retail business continued to remain subdued. Agro processing division, witnessed 39% growth with better sales in the US and UK subsidiaries, however margins were impacted due to higher value of inventory. The same is likely to stabilize with the onset of the new season. Plastic division witnessed improvement with better contribution from the PE segment (up 60%). We believe the company is well poised to capitalize on the opportunities from all business segments.

**Movement in debt – key monitorable:** As of 30 Jun'18, JISL's net debt as stated stood at ₹4,579 crore (up ₹688 crore QoQ and ₹517 crore YoY). Higher debt level was on account of acquisitions made, working capital requirement owing to inventory build-up and INR depreciation. With business segments gaining traction and contribution from acquisitions made, the working capital is likely to witness improvement. Given the working capital intensive nature of the business, stability in debt levels would be a key monitorable. For FY19E/20E, we anticipate positive free cash flow generation with debt to equity at <1.0x.

**Risk factors:** 1) Higher working capital cycle, 2) Unpredictable weather, 3) Increase in competitive intensity from unorganised players, 4) Forex volatility.

## Financial Summary - Consolidated

Y/E Mar (₹ Cr.)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj.PAT	YoY (%)	EPS (₹)	P/E (x)	EV/EBITDA (x)	RoE (%)
FY16A	6,322	2.8	818	12.9	48	(63.3)	0.98	78.9	8.7	1.6
FY17A	6,770	7.1	940	13.9	169	250.2	3.41	22.5	7.4	4.1
FY18P	7,947	17.4	1,055	13.3	219	29.4	4.42	17.4	7.1	5.2
FY19E	8,773	10.4	1,202	13.7	290	32.3	5.85	13.2	6.2	6.5
FY20E	10,114	15.3	1,416	14.0	459	58.1	9.24	8.3	5.2	9.6

Source: Company, Centrum Wealth Research, P = Provisional

## Key Data

Current Market Price (₹)	77
Target Price (₹)	129
Potential upside	68.3%
Sector Relative to Market	NA
Stock Relative to Sector	NA

## Stock Information

BSE Code	500219
NSE Code	JISLJALEQS
Face Value (₹/Share)	2.0
No. of shares (Cr.)	49.6
Market Cap (₹ Cr.)	3,817
Free float (₹ Cr.)#	2,440
52 Week H / L (₹)	150/72
Avg. Daily turnover (12M, ₹ Cr.)	94.0

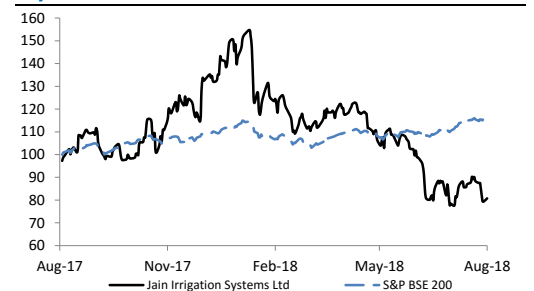
#Free float is net of the amount pledged by promoters (3.7 crore shares)

## Shareholding Pattern (%)

	Jun-18	Jun-17
Promoters	28.5	30.7
Mutual Funds	6.4	4.3
FPIs	31.0	41.5
Others including Public	34.1	23.5

Issue and allotment of 3.62 crore of ₹2 each at premium of ₹78 in conversion of 3.62 crore compulsory convertible debentures of ₹80 each to Mandala Rose Co-Investment, Mauritius on preferential basis

## 1 year Indexed Price Performance



## Price Performance (%)

	1M	3M	6M	1YR
JISL	3.0	(24.2)	(35.1)	(21.6)
S&P BSE 200	5.7	7.9	9.4	15.6

Source: Bloomberg, Centrum Wealth Research

Mrinalini Chetty, Research Analyst

**Q1FY19 Concall Takeaways**

- Domestic market contributed 47% to the Q1FY19 consolidated revenue, with Rest of the world contributing 53%.
- **Segment-wise update:**
  - **Hi-Tech Agri Input Products:**
    - Domestic MIS retail revenue declined by 10% to ₹302 crore, whereas project revenues grew 534% to ₹124 crore. The management expects project business growth trajectory to continue and envisages a growth of 80-100% in FY19, whereas retail business is likely to remain flat.
    - MIS standalone EBITDA margin expectation is at 20-22%. EBITDA margins in the international markets (Mexico, Brazil and Turkey) have come down by 0.5% due to currency related issues. Consolidated EBITDA margins for the segment are at 17%+.
    - Agri-Valley Irrigation Inc and Irrigation Design and Construction Inc, the two US acquisitions, have performed well in-line with expectation.
  - **Plastic:**
    - Plastic division in India grew 24%, whereas global plastic revenue grew 27%.
    - PVC pipe segment grew in low single digits, PE grew by 60%, while sheets decreased.
    - EBITDA margins have improved towards double digit vs FY18 margin of 10%. Earlier, these margins were at 7-8% earlier. Given the better product mix these margins could go closer to 12% in over 2 years.
    - For FY19, the management expects a growth of 15%.
  - **Agro Processing:**
    - Food business revenue in India grew 27%, whereas global consolidated food business revenue grew 41%, on account of higher sales in the UK and US subsidiaries along with additional contribution from the Innovafood acquisition.
    - In the food business, margins were impacted due to higher value inventory, the same is expected to stabilize with the onset of the new season. The management expects margins in H2FY19 to be better.
    - Innovafood revenue for Q1FY19 stood at \$4.7 million and EBITDA margin at 17%.
    - For FY19, management expects revenue from food business to grow 25-30% and EBITDA by 30%+. EBITDA Margins to inch up back to double digits.
    - The management is exploring the opportunity of the listing of the food business, the timing for the same is uncertain as it depends on the market situation and opportunity.
    - The company has invested ₹100 crore in the Spices segment last year. It has started B2B business for now. Post Diwali, the company intends to launch its own product in the retail market. The Spices business has a capability to generate revenues of ₹600-700 crore. For FY19, revenue expectation is at ₹100 crore.
- Current global order book stands at ₹4,637 crore (up 15% QoQ), with Hi-Tech orders standing at ₹2,645 crore, Plastic at ₹1,025 crore, Agro processing at ₹888 crore and Others at ₹80 crore. Domestic orders contribute ~32% to the order book. During the quarter, JISL has secured orders worth ₹240 crore for an Integrated Drip Irrigation project in Vidarbha region (Maharashtra) and received a letter of intent (LOI) for an order worth ₹980 crore from Water Resources Department, Government of Madhya Pradesh.
- Net working capital cycle, as stated by the company, has improved by 14 days YoY to 157 days.
- Historically, JISL has been having elevated debt levels in Q1 as the company starts investing in inventory. For FY19, the company is looking at reducing net debt level by ₹300 crore to be closer to ₹3,600 crore. Debt to EBITDA is targeted at 3x.
- In FY18, JISL generated FCF of ₹200 crore. For FY19, it aims to generate FCF of ₹500 crore. During Q1FY19, capex incurred was ₹60 crore. For FY19, JISL plans to incur capex of ₹350 crore.
- Over the next 2 years, the company is looking at reducing share of pledged shares, from the current level of 5-7%.

**Exhibit 1: Consolidated Quarterly Performance**

Y/E Mar (₹ Cr.)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
<b>Revenue</b>	<b>1,681</b>	<b>1,598</b>	<b>1,890</b>	<b>2,778</b>	<b>2,092</b>
YoY Growth %	1.3	9.9	30.8	25.6	24.4
Raw Materials	829	820	990	1,555	1,132
% of sales	49.3	51.3	52.4	56.0	54.1
Personnel Expenses	213	225	232	219	234
% of sales	12.7	14.1	12.3	7.9	11.2
Other Expenses	405	354	445	604	456
% of sales	24.1	22.1	23.5	21.7	21.8
<b>EBIDTA</b>	<b>234</b>	<b>199</b>	<b>222</b>	<b>400</b>	<b>270</b>
<b>EBIDTA margin %</b>	<b>13.9</b>	<b>12.4</b>	<b>11.8</b>	<b>14.4</b>	<b>12.9</b>
Depreciation	85	82	84	87	87
Interest	116	112	118	133	135
Other Income	13	15	38	(9)	61
Share of profit in associate	0.6	1.0	0.5	1.5	(0.4)
PBT	48	20	59	173	109
Provision for tax	1	5	(9)	80	24
Effective tax rate %	1.3	27.7	(14.5)	46.4	21.9
<b>Net Profit</b>	<b>47</b>	<b>14</b>	<b>67</b>	<b>93</b>	<b>85</b>
Minority Interest (MI)	2.7	3.7	0.3	(4.7)	3.4
<b>Net Profit after MI</b>	<b>44</b>	<b>11</b>	<b>67</b>	<b>97</b>	<b>82</b>
YoY Growth %	(24.2)	(62.1)	987.3	26.9	84.4
<b>PAT margin %</b>	<b>2.6</b>	<b>0.7</b>	<b>3.5</b>	<b>3.5</b>	<b>3.9</b>

Source: Company, Centrum Wealth Research

**From the Technical & Derivative Desk**

- The stock had given a breakdown from 'Megaphone' pattern in the last week of June 2018 and sustaining below the same.
- From last couple of weeks, stock is taking resistance around the breakdown trendline, which also coincided with '50 DEMA', and corrected (please refer exhibit 2).
- At current juncture, there is no sign of reversal seen on chart; thus the positional view remains negative on the stock.
- However, since a strong support is placed around ₹70 – ₹72 zone, we won't be surprised to see a bounce towards ₹85 – ₹88 level.

**Exhibit 2: Technical Chart**

Source: Centrum Wealth Research

## Financials - Consolidated

## Income Statement

Y/E Mar (₹ Cr)	FY16	FY17	FY18P	FY19E	FY20E
<b>Revenue</b>	<b>6,322</b>	<b>6,770</b>	<b>7,947</b>	<b>8,773</b>	<b>10,114</b>
Growth %	2.8	7.1	17.4	10.4	15.3
Raw Materials	3,489	3,595	4,195	4,650	5,361
% of sales	55.2	53.1	52.8	53.0	53.0
Personnel Expenses	666	738	889	1,035	1,193
% of sales	10.5	10.9	11.2	11.8	11.8
Other Expenses	1,348	1,497	1,808	1,886	2,144
% of sales	21.3	22.1	22.7	21.5	21.2
<b>EBIDTA</b>	<b>818</b>	<b>940</b>	<b>1,055</b>	<b>1,202</b>	<b>1,416</b>
<b>EBIDTA margin %</b>	<b>12.9</b>	<b>13.9</b>	<b>13.3</b>	<b>13.7</b>	<b>14.0</b>
Depreciation	297	301	339	362	374
Interest	491	459	479	514	495
Other Income	33	61	57	61	64
Share of profit in assoc.	3	2	4	-	-
PBT	67	243	299	387	612
Provision for tax	18	67	78	97	153
Effective tax rate %	27.0	27.5	26.0	25.0	25.0
<b>Net Profit</b>	<b>49</b>	<b>176</b>	<b>221</b>	<b>290</b>	<b>459</b>
<b>Adj.Net Profit</b>	<b>48</b>	<b>169</b>	<b>219</b>	<b>290</b>	<b>459</b>
Growth %	(63.3)	250.2	29.4	32.3	58.1
<b>PAT margin %</b>	<b>0.8</b>	<b>2.5</b>	<b>2.8</b>	<b>3.3</b>	<b>4.5</b>

Source: Company, Centrum Wealth Research, P = Provisional

## Balance Sheet

Y/E Mar (₹ Cr)	FY16	FY17	FY18P	FY19E	FY20E
Share capital	95	96	103	103	103
Reserves & surplus	3,969	4,062	4,248	4,478	4,878
Shareholder's fund	4,064	4,158	4,351	4,582	4,981
Loan fund	3,751	3,455	4,147	3,947	3,847
Minority Interest	102	109	130	130	130
Deferred Tax Liab.	480	488	463	463	463
<b>Total cap. employed</b>	<b>8,398</b>	<b>8,210</b>	<b>9,091</b>	<b>9,122</b>	<b>9,421</b>
Net fixed assets	4,893	4,867	5,406	5,344	5,170
Deferred Tax Assets	162	149	116	116	116
Investments	38	2	2	2	2
Eq. Accounted Inv.	68	79	83	-	-
Income Tax Assets	44	39	21	-	-
Cash and bank	399	292	419	316	273
Inventories	1,875	2,258	2,457	2,764	3,187
Debtors	2,174	2,282	2,527	2,764	3,187
Loans & adv and OCA	1,125	1,187	1,237	1,316	1,517
Total current assets	5,574	6,019	6,640	7,161	8,164
Current lia. and prov.	2,380	2,946	3,177	3,501	4,031
Net current assets	3,194	3,073	3,463	3,660	4,133
<b>Total assets</b>	<b>8,398</b>	<b>8,210</b>	<b>9,091</b>	<b>9,122</b>	<b>9,421</b>

Source: Company, Centrum Wealth Research. OCA – Other Current Assets

## Cash Flow

Y/E Mar (₹ Cr)#	FY17	FY18P	FY19E	FY20E
Net Profit Before Tax	243	299	387	612
Depreciation	301	339	362	374
Others	534	421	453	430
Change in working capital	(376)	(263)	(299)	(516)
Tax expenses	(28)	(78)	(97)	(153)
<b>Cash flow from Ops</b>	<b>674</b>	<b>718</b>	<b>806</b>	<b>747</b>
Capex	(300)	(607)	(300)	(200)
Other investing activities	(117)	71	61	64
<b>Cash flow from Invest</b>	<b>(417)</b>	<b>(536)</b>	<b>(239)</b>	<b>(136)</b>
Proceeds from equity	15	34	-	-
Borrowings/(Repayments)	(52)	692	(200)	(100)
Dividend paid	(29)	(60)	(60)	(60)
Interest paid	(455)	(479)	(514)	(495)
<b>Cash flow from financing</b>	<b>(520)</b>	<b>187</b>	<b>(774)</b>	<b>(655)</b>
<b>Net Cash Flow</b>	<b>(263)</b>	<b>369</b>	<b>(207)</b>	<b>(43)</b>

Source: Company, Centrum Wealth Research

#Note: With the implementation of the new Indian accounting standards IndAS, figures for prior years are not comparable.

## Key Ratios

Y/E Mar	FY16	FY17	FY18P	FY19E	FY20E
<b>Return ratios (%)</b>					
RoE	1.6	4.1	5.2	6.5	9.6
RoCE	7.6	8.4	8.9	9.9	11.9
<b>Turnover Ratios (days)</b>					
Inventory	108	111	108	109	107
Debtors	119	120	110	110	107
Creditors	78	78	81	89	89
Fixed asset turnover (x)	1.2	1.0	1.1	1.2	1.3
<b>Solvency Ratio (x)</b>					
Debt-Equity	0.9	0.8	1.0	0.9	0.8
Interest coverage	1.1	1.5	1.6	1.8	2.2
<b>Per share (₹)</b>					
Adj. EPS	1.0	3.4	4.4	5.8	9.2
BVPS	81.9	83.8	87.7	92.3	100.3
CEPS	7.0	9.5	11.2	13.1	16.8
<b>Dividend Ratios</b>					
DPS (₹)	0.5	0.7	1.0	1.0	1.0
Dividend Yield (%)	0.6	0.9	1.3	1.3	1.3
Dividend Payout (%)	59.3	25.5	27.2	20.6	13.0
<b>Valuation (x)</b>					
P/E	78.9	22.5	17.4	13.2	8.3
P/BV	0.9	0.9	0.9	0.8	0.8
EV/EBIDTA	8.7	7.4	7.1	6.2	5.2
EV/Sales	1.1	1.0	0.9	0.8	0.7

Source: Company, Centrum Wealth Research

## Appendix

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