

Jain Irrigation Sys. Ltd. ₹ 76*Fit for all Sizes***Buy**

Dec 21, 2012

Company Background

Established in 1986, Jain Irrigation Systems Limited (JISL) is a diversified integrated company with more than 7500 employees and a product portfolio encompassing irrigation products, piping products, plastic sheets, dehydrated foods, fruit puree and juice concentrates. JISL has pioneered drip irrigation for small farmers in India and has a major market share in one of the fastest growing irrigation markets in the world and is also the largest drip irrigation company in the world. JISL's annual turnover stands at \$1bn with global presence in 120 countries and 4 continents. It was named among 8 Indian companies expected to be challengers to the World's leading companies by Standard & Poor.

Key Highlights

- ➔ JISL has announced fund raising of ~USD200mn via a mix of equity, FCCBs, and ECBs. The company expects to complete the exercise within 60 days post approval, with IFC contributing a significant chunk of FCCBs. The fund raising will lead to deleveraging of balance sheet and reduction in interest cost by ~INR800-1,000mn; however it will also result in 17.3% equity dilution.
- ➔ JISL expects annualised savings on interest to be in the INR 800 - 1,000mn range, resulting in better bottom line. However, this will lead to equity dilution of 17.3% (with FCCB conversion). JISL stated that this fund raising will provide crucial support during the current phase of business model change. It also added that receipt of government subsidies has gained momentum and the it expects to have significantly improved position in remaining FY13.
- ➔ JISL has committed investment and projects of USD 375 mn to build sustainable agriculture and to improve income of small farmers in Sub-Saharan Africa. In the coming years, JISL will partner and collaborate with governments of Kenya, Rwanda, Ethiopia, Mozambique, and many others.
- ➔ During Q1FY13, JISL received approval to set up an NBFC. It will be incorporated as a JV. Initially be promoted by JISL, promoter entities of JISL and International Finance Corporation (IFC) – a member of the World Bank group. Post the launch & the initial phase of its expansion, JISL plans to bring in some banks and financial institutions into the equity shareholding of the JV.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	28,140.6	34,063.5	38,543.1
Rev. growth (%)	28.57	21.05	13.15
EBITDA (INR mn)	6,607.7	8,031.4	8,954.3
Net profit (INR mn)	2,712.4	2,952.6	2,683.0
Shares outstanding (mn)	76.0	385.7	405.2
EPS (INR)	35.7	7.7	6.6
EPS growth (%)	114.86	(78.54)	(13.50)
P/E (x)	5.4	23.3	14.9
RONW (%)	24.3	19.6	12.1
ROCE (%)	10.0	8.4	5.1

Nishant Chopra

nishantc@indiratrade.com

Info Codes

Reuters	: JAIR.BO
Bloomberg	: JI@IN
NSE	: JISLJALEQS
BSE	: 500219

Market Data

52 Wk Range (₹)	: 59 / 122
Shares in Issue (mn)	: 405.2
Mkt. Cap (₹ bn)	: 33.77
BSE 2 Wk Avg Vol	: 704000

Share Holding Pattern (%)

Promoters	: 31.00
DII's	: 01.03
FII's	: 46.00
Others	: 21.97

Investment Theme

JISL's key strategy going forward would be to reduce exposure of MIS in southern state and to compensate such loss in revenue from Northern states & increase exports, Focus on improving working capital days by reduction in inventory and receivable days, reduction in debt and improvement in cash flows, rollout of NBFC to further ease the pressure of receivable days on the company's MIS business & raise contribution of acquired overseas businesses. JISL and TALIS Management Holdings GMBH (Rodgau, Germany) entered a global strategic cooperation to bundle TALIS products as part of JISL's product offerings by integrating high technology JISL's micro irrigation products. JISL has signed an agreement with Kibbutz Naan to acquire the remaining 50 % of the jointly owned Israeli company NaanDanJain. These developments point to a brighter future.

Cause every Drop counts

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	27936.5	34271.7	22.68	38761.0	13.10
Other Income	907.1	761.1	(16.10)	711.4	(6.53)
Change in Stocks	1063.8	2473.5	132.52	(616.0)	(124.90)
Raw Material Con.	13970.1	21945.3	57.09	21237.2	(3.23)
Employee Exp.	1036.5	1503.2	45.03	1721.8	14.54
Indirect Taxes	755.7	989.0	30.87	938.2	(5.14)
Other Exp.	7537.4	5037.4	(33.17)	6004.9	19.21
Operating Exp.	22235.9	27001.4	21.43	30518.1	13.02
Operating Profit	5700.6	7270.3	27.54	8242.9	13.38
Total Interest	1943.0	2916.9	50.12	4912.7	68.42
Gross Profit	4664.7	5114.5	9.64	4041.6	(20.98)
Net Dep.	733.0	852.1	16.25	873.0	2.45
Total Taxation	1219.3	1309.8	7.42	485.6	(62.93)
Net Profit/Loss	2712.4	2952.6	8.86	2683.0	(9.13)

4 Years Balance Sheet

(₹ mn)

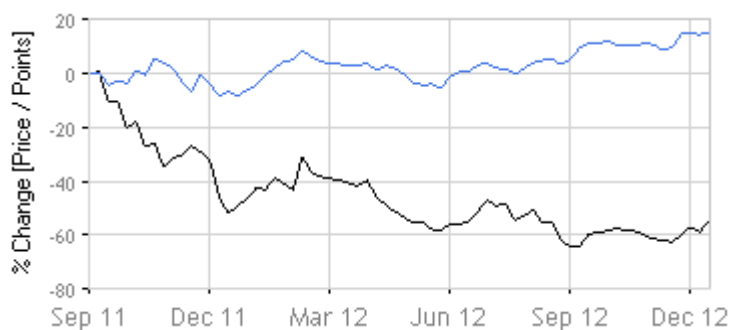
Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	23,390.0	31,265.2	38,967.9	47,360.7
Equity Share capital	723.8	760.3	771.5	810.4
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	448.5	23.1	0.0	0.0
Reserves & Surplus	8,662.6	12,646.1	16,071.3	18,309.2
Long Term Loans	8,032.3	9,149.0	9,308.6	12,541.1
Short Term Loans	5,522.8	8,686.7	12,816.5	15,700.0
USES OF FUNDS	23,390.0	31,265.2	38,967.9	47,360.7
Gross Block	13,148.7	16,309.5	20,080.8	24,000.6
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	3,637.5	4,283.3	5,128.3	6,141.8
Net Block	9,511.2	12,026.2	14,952.5	17,858.8
Capital Work in Progress	998.3	1,215.8	832.6	1,773.9
Investments	3,905.7	3,964.7	4,032.9	4,307.5
Current Assets	17,294.2	24,388.9	34,101.0	39,480.6
Less : Current Liabilities	8,540.0	10,581.9	14,951.1	16,060.1
Total Net Current Assets	8,754.2	13,807.0	19,149.9	23,420.5
Misc. Expenses not written	220.6	251.5	0.0	0.0
NOTE				
Bk Val Unquoted Investments	3,905.6	3,954.6	4,022.8	4,297.4
Mkt Val. Quoted Investments	0.2	10.2	0.4	0.2
Contingent Liabilities	5,936.7	8,498.2	7,466.6	9,009.5
Dividend (%)	25	45	50	50

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 11	Mar 12	Jun 12	Sep 12
Net Sales	126.40	257.80	126.90	233.30
Cost Of Sales	117.00	245.10	125.00	244.00
Operating Profit	9.40	12.70	1.90	(10.70)
Recurring Income	0.20	0.00	0.00	12.20
Adjusted PBDIT	9.60	12.70	1.90	1.50
Financial Expenses	3.70	6.60	3.00	5.10
Depreciation	1.90	4.10	1.80	2.10
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	4.00	2.00	(2.90)	(5.70)
Tax Charges	1.50	1.40	0.00	0.00
Adjusted PAT	2.50	0.60	(2.90)	(5.70)
Non Recurring Items	0.00	0.00	0.70	2.60
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	2.50	0.60	(2.20)	(3.10)

52 Week Index Relative Percentage Appreciation



JISL vs SENSEX

Points to ponder

Historically, India has had large freshwater reserves. Increasing population and overexploitation in the last few decades, however, has resulted in water scarcity in some regions. With farming consuming almost 90% of water resources – which is much higher than the global average of 70% – resolving the water scarcity challenge means working with local farmers. Three-quarters of India's farmers are smallholders who, collectively, cultivate half of the total agricultural land in the country. They often use wasteful flood irrigation due to lack of financing and the knowledge needed to run modern irrigation systems, which are expensive and designed for large farms. The company has developed a drip irrigation system designed specifically for smallholder farmers. Tailored to smallholder incomes and farming conditions, it reduces water usage considerably. To encourage customers to purchase JISL helps them in government subsidies as well as bank loans.

Risks Associated

The company has witnessed a challenging FY12 on account of slowing sales growth, increasing delay in release of government subsidy receivables and consequent high working capital and high interest cost and depreciating rupee resulting in mark to market notional losses due to long term foreign currency assets. Slower growth in MIS was mainly due to deliberate strategy by the company on improving collections and also due to slightly lower demand from rural areas where farmers were getting lower realisations for their produce. However, strong growth was seen in pipes, solar and tissue culture businesses. Going forward we expect slower growth in MIS business to continue as the company focuses on improving its receivable days in MIS business.

In a Nutshell

JISL was established in 1986. Its product portfolio encompasses Irrigation Product, Piping Products, Plastic Sheets, Dehydrated Foods, Fruit Puree and Juice concentrates. JISL is pioneer in the irrigation systems in India. It is not only trying to bring more area under irrigation but more crops as well. It has been marketing its products by showing the farmers the increase in productivity after use. It enjoys great relationship with farmers and has crucial position in the chain and tries to exploit its position. The plans to set up a NBFC would help it fortify its position around its core agri related business. In India agriculture sector remains unorganized. With the largest land under cultivation in the world, we believe there is huge room for the growth of irrigation systems. With the focus coming on agriculture sector due to recent scare of high food inflation, we believe there would be significant investment in the sector. JISL has developed a comprehensive and unique model for the agro-industrial sector, serving as a One Stop Shop. The concern exists in a complete value chain of agri inputs: From planting material to piping systems, irrigation systems, fertilisation systems, filtering systems and knowhow, leading to the purchase of the agricultural produce for the establishment of food processing plants. JISL as a market leader in Micro Irrigation, has shown robust earnings growth during FY06-12. Stock has been sharply corrected and de-rated in the past couple of quarters on account of balance sheet concerns, moderation in growth and expectation of equity dilution (QIP). Management is focusing on balance sheet improvement and we expect that it would lead to improvement in earnings as well as re-rating of stock, going forward.

Indira Group Offices

Registered Office	: Singh House, 3rd Floor, 23/25 Ambalal Doshi Marg, Fort, Mumbai 400023	Tel : +91-22-22656812	Fax : +91-22-22656985	Email : im@indiratrade.com
Administrative Office	: Ramavat House, E-15 Saket Nagar, Indore 452018	Tel : +91-731-2566361	Fax : +91-731-2562117	Email : ii@indiratrade.com
Institutional Dealing Unit	: Africa House, 3rd Floor, 5 Topiwala Lane, Lamington Road, Mumbai 400007	Tel : +91-22-30080675	Fax : +91-22-23870767	Email : ie@indiratrade.com

Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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