

# Jain Irrigation Systems

₹ 71

*More Crop per Drop***Buy**

Jun 01, 2012

## Company Background

Established in 1986, Jain Irrigation Systems Ltd. (JISL) is a diversified integrated company with 7500+ employees and a product portfolio encompassing irrigation products, piping products, plastic sheets, dehydrated foods, fruit puree & 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 \$1 billion with global presence in 120 countries and 4 continents. The company was named as one of the eight Indian companies expected to emerge as challengers to the World's leading companies by Standard and Poors.

## Key Highlights

- ➔ JISL is into projects of USD 375 mn to build sustainable agriculture & to improve income of small farmers in Sub-Saharan Africa. In the coming years, JISL will partner and collaborate with the governments of Kenya, Rwanda, Ethiopia, Mozambique, Tanzania, Ghana, Coted'Ivoire, Burkina Faso, Nigeria.
- ➔ 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 Hydraulic Control Valves, Butterfly Valves, Gate Valves and Fittings with 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.
- ➔ JISL has developed a unique model for the agro-industrial sector, serving as a One Stop Shop. It exists in a complete value chain of agri inputs: From planting material to piping systems, irrigation systems, fertilisation systems, filtering systems & knowhow, leading to the purchase of produce for food processors.
- ➔ 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.

## Key Financials

Year Ended 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11
Revenue (INR mn)	21888.2	28140.6	33510.0
<b>Rev. growth (%)</b>	<b>27.01</b>	<b>28.57</b>	<b>19.08</b>
EBITDA (INR mn)	4709.3	6607.7	620.1
Net profit (INR mn)	1201.8	2712.4	2952.6
Shares outstanding (mn)	72.4	76.0	385.8
EPS (INR)	16.6	35.7	7.7
<b>EPS growth (%)</b>	<b>(17.79)</b>	<b>114.86</b>	<b>(78.54)</b>
P/E (x)	20.6	26.9	23.3
EV/ EBITDA	8.2	13.7	146.7
<b>ROCE (%)</b>	<b>5.76</b>	<b>10.01</b>	<b>8.47</b>

Arpit Jain

aj@indiratrade.com

## Previous Report

Date	: Sep 28, 2007
Recommendation	: Buy
Price	: ₹ 553
Target	: ₹ 664
Target Reached	: 03 Dec, 2007
Peaked at	: ₹ 770
% High in 1 Yr	: 39.24%

## Market Data

52 Wk Range (₹)	: 183 / 69
Shares in Issue (mn)	: 693.8
Mkt. Cap (₹ bn)	: 28.00
BSE 2 Wk Avg Vol	: 967000

## Share Holding Pattern (%)

Promoters	: 30.35
DII's	: 0.99
FII's	: 52.99
Others	: 15.67

## Investment Theme

JISL's key strategy in future would be :

1. To reduce exposure of MIS in southern state and to compensate such loss in revenue from Northern states (Rajasthan, Haryana) and increase exports
2. Focus on improving working capital days by reduction in inventory and receivable days
3. Reduction in debt and improvement in cash flows
4. Rollout of NBFC to further ease the pressure of receivable days on the company's MIS business
5. Increase contribution of acquired overseas businesses. These developments clearly points to a brighter future.

**Buy when you see a Drop !**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Total Sales + Excise	22674.8	27936.5	23.21	34228.8	22.52
Other Income	130.4	907.1	595.63	250.6	(72.37)
Change in Stocks	82.2	1063.8	1194.16	2473.5	132.52
Raw Material Con.	11789.7	13970.1	18.49	21945.3	57.09
Employee Exp.	804.6	1036.5	28.82	1503.1	45.02
Indirect Taxes	947.1	755.7	(20.21)	1035.1	36.97
Other Exp.	4636.7	7537.4	62.56	4991.2	(33.78)
Operating Exp.	18095.9	22235.9	22.88	27001.2	21.43
Operating Profit	4578.9	5700.6	24.50	7227.6	26.79
Total Interest	2387.9	1943.0	(18.63)	2363.6	21.65
Gross Profit	2321.4	4664.7	100.94	5114.6	9.64
Net Dep.	469.2	676.6	44.20	789.7	16.72
Total Taxation	650.4	1275.7	96.14	1372.3	7.57
Net Profit/Loss	1201.8	2712.4	125.69	2952.6	8.86

### 4 Years Balance Sheet

(₹ mn)

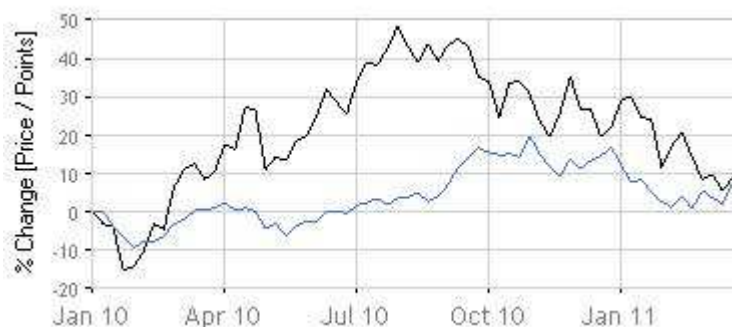
Balance Sheet as on 31 <sup>st</sup>	Mar 08	Mar 09	Mar 10	Mar 11
<b>SOURCES OF FUNDS</b>	<b>18721.7</b>	<b>23390.0</b>	<b>31265.2</b>	<b>38967.9</b>
Equity Share capital	720.6	723.8	760.3	771.5
Share Application Money	0.0	0.0	0.0	347.9
Preference Share Capital	885.3	448.5	23.1	0.0
Reserves & Surplus	8045.2	8662.6	12646.1	15723.4
Secured Loans	8537.0	12918.6	14022.6	16964.1
Unsecured Loans	533.6	636.5	3813.1	5161.0
<b>USES OF FUNDS</b>	<b>18721.7</b>	<b>23390.0</b>	<b>31265.2</b>	<b>38967.9</b>
Gross Block	9789.9	13148.7	16309.5	19829.4
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	3156.9	3637.5	4283.3	5122.8
Net Block	6633.0	9511.2	12026.2	14706.6
Capital Work in Progress	847.0	998.3	1215.8	1645.1
Investments	3158.3	3905.7	3964.7	4032.9
Current Assets	14417.9	17294.2	24388.9	33264.2
Less : Current Liabilities	6508.2	8540.0	10581.9	14927.0
Total Net Current Assets	7909.7	8754.2	13807.0	18337.2
Misc. Expenses not written	173.7	220.6	251.5	246.1
<b>NOTE</b>				
Bk Val Unquoted Investments	2758.2	3905.6	3954.6	4022.8
Mkt Val. Quoted Investments	400.4	0.2	10.2	10.4
Contingent Liabilities	3454.9	5936.7	8498.2	5102.2
Dividend (%)	20	22	25	45

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Jun 11	Sep 11	Dec 11	Mar 12
Net Sales	9513.10	7711.10	8329.80	12199.00
Cost Of Sales	7365.60	6509.30	7177.50	10023.10
Operating Profit	2147.50	1201.80	1152.30	2175.90
Recurring Income	8.00	2.50	20.70	321.20
Adjusted PBDIT	2155.50	1204.30	1173.00	2497.10
Financial Expenses	775.70	814.40	916.30	964.60
Depreciation	238.90	247.70	243.50	268.70
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	1140.90	142.20	13.20	1263.80
Tax Charges	316.60	26.50	0.80	142.70
Adjusted PAT	824.30	115.70	12.40	1121.10
Non Recurring Items	(0.80)	0.00	0.00	613.20
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	823.50	115.70	12.40	1734.30

**52 Week Index Relative Percentage Appreciation**



**JISL vs SENSEX**

**Risks Associated**

JISL 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. Apart from Drip segment, the other segments of JISL especially food processing which carries a significant part in revenue is driven by crop yields & crop pattern. Further major market to which JISL caters to is sensitive to the policies of Govt and may transform into a volatile state with a change in the supportive Government policies. Cold chain infrastructure is an issue for the agriculture industry due lack of power and lack of proper transport. So the companies have to deal with them either by setting their own which cost very high directly affecting the profitability. When the traditional ways of irrigations are available freely, majority of the farmers are reluctant to install such systems in India. In micro irrigation, around two-third parts get replaced within five to seven years. The remaining parts, which include steel filters, get replaced in 10-20 years. Most of the farmers are not financial strong enough to bear this cost.



**In a Nutshell**

JISL was established in 1986 in Jalgaon, Maharashtra. It is a diversified Company with more than 7,500 employees. 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. The company 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 using its products. The company has customized its products to be suitable even for very small farmers. 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 a market leader worldwide and early entrant in the sector is positioned very well to gain most from this and therefore recommend to accumulate this stock at every dips.

**Indira Group Offices**

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

**Rating Interpretation**

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

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