

Jain Irrigation Systems Ltd. ₹ 59**Drop Buy Drop****Accum.**

Feb 28, 2014

Company Background

Jain Irrigation Systems Ltd. (JISL) is an Indian Multinational Company with more than 9000 associates and a revenue of Rs. 50 bn. It has plants at 28 locations across the globe. It is engaged in manufacturing of Micro Irrigation Systems, PVC Pipes, HDPE Pipes, Plastic Sheets, Agro Processed Products, Renewable Energy Solutions, Tissue Culture Plants, Financial Services and other agricultural inputs since the last 27 years. It has pioneered silent revolution with modern irrigation systems and innovative technologies for millions of small farmers in India and has a major market share in one of the fastest growing irrigation markets in the world. JISL is also the largest drip irrigation company in the world. Its latest concepts are Large Scale Integrated Irrigation Projects. With overall presence in 120 countries JISL 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

- ➔ The company has reported a consolidated sales of Rs 13.52 bn and a Net Profit of Rs 0.26 bn for the quarter ended Dec 2013.
- ➔ JISL has also bagged a prestigious Rs 3.86 bn micro-irrigation project in Karnataka. Covering 30,381 acres of land and catering to over 7000 farmers in 35 villages this would be the largest micro irrigation project in the world.
- ➔ Recently the water regulatory authority of Maharashtra in a bid to prevent wastage of irrigated water has decided to make drip irrigation mandatory for cash crops with effect from July 2015. This brings on a lot of potential business for JISL in its home state.
- ➔ SAFL the NBFC arm of JISL commenced operations in 2013 and has raised Rs. 60 crores equity and is expecting soon contribution from International Finance Corporation (IFC), Washington, an arm of World Bank (WB) who intends to hold 10% Equity stake for Rs. 69 million in the NBFC. This whole exercise should ease out liquidity concerns for JISL.
- ➔ JISL has to still to receive a large amount of money in the form of Government subsidies. A full payout of the same can change the picture altogether.

Key Financials

Year Ended 31 st	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	34,063.5	38,543.0	35,589.6
Rev. growth (%)	21.05	13.15	(7.66)
EBITDA (INR mn)	8,145.0	9,145.9	7,114.3
Net profit (INR mn)	2,952.6	2,683.0	301.1
Shares outstanding (mn)	385.7	405.2	454.9
EPS (INR)	7.7	6.6	0.7
EPS growth (%)	(78.54)	(13.50)	(90.00)
P/E (x)	23.3	14.9	93.1
RONW (%)	19.6	12.1	1.1
ROCE (%)	8.4	5.1	0.5

Nishant Chopra

nishantc@indiratrade.com

Previous Reports

Recommended BUY at Rs. 71 on Jun 1, 2012 reached a peak of Rs 92 on Jul 09, 2012 (an appreciation of 31%)

Info Codes

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

Market Data

52 Wk Range (₹)	: 46 / 75
Shares in Issue (mn)	: 435.62
Mkt. Cap (₹ bn)	: 25.78
BSE 2 Wk Avg Vol	: 220000

Share Holding Pattern (%)

Promoters	: 27.46
DIIs	: 1.56
FIIs	: 52.44
Others	: 18.54

Investment Theme

The Revenue of JISL for the QE Dec 2013 was Rs. 9.94 bn with a growth of 24%. Nearly each division has shown positive growth in the quarter (MIS 25%, PE Pipes 89%, Tissue Culture 106%, Fruit 36% and PVC 22%). Exports from India have also grown 34% in QE Dec 13. Management is strongly positive on the export momentum in Q4. The new developments in the micro-irrigation business too pose a lot of opportunity in JISL. Backing on the figures and its orderbook we believe the outlook of the company is highly positive. We look forward to better performance in coming quarters despite challenging external environment, high interest rates and high raw material prices.

Doing Micro Eyeing Macro

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	34271.7	38761.0	13.10	36293.1	(6.37)
Other Income	761.1	711.3	(6.54)	408.0	(42.64)
Change in Stocks	2473.5	(616.0)	(124.90)	1317.8	(313.93)
Raw Material Con.	21945.3	21237.2	(3.23)	22166.5	4.38
Employee Exp.	1503.2	1721.9	14.55	1737.4	0.90
Indirect Taxes	989.0	938.2	(5.14)	1155.9	23.20
Other Exp.	5037.4	6004.7	19.20	6030.1	0.42
Operating Exp.	27001.4	30518.0	13.02	29772.1	(2.44)
Operating Profit	7270.3	8243.0	13.38	6521.0	(20.89)
Total Interest	2916.9	4912.7	68.42	5045.7	2.71
Gross Profit	5114.5	4041.6	(20.98)	1883.3	(53.40)
Net Dep.	852.1	873.0	2.45	1425.7	63.31
Total Taxation	1309.8	485.6	(62.93)	156.5	(67.77)
Net Profit/Loss	2952.6	2683.0	(9.13)	301.1	(88.78)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 10	Mar 11	Mar 12	Mar 13
SOURCES OF FUNDS	31,265.2	38,967.9	47,360.7	51,994.4
Equity Share capital	760.3	771.5	810.4	909.8
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	23.1	0.0	0.0	0.0
Reserves & Surplus	12,646.1	16,071.3	18,309.2	22,456.8
Long Term Loans	9,149.0	9,308.6	14,642.2	12,371.2
Short Term Loans	8,686.7	12,816.5	13,598.9	16,256.6
USES OF FUNDS	31,265.2	38,967.9	47,360.7	51,994.4
Gross Block	16,309.5	20,080.8	24,000.6	27,071.6
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	4,283.3	5,128.3	6,141.8	7,346.9
Net Block	12,026.2	14,952.5	17,858.8	19,724.7
Capital Work in Progress	1,215.8	832.6	1,773.8	599.1
Investments	3,964.7	4,032.9	4,307.5	7,559.5
Current Assets	24,388.9	34,101.0	39,480.5	40,612.6
Less : Current Liabilities	10,581.9	14,951.1	16,059.9	16,501.5
Total Net Current Assets	13,807.0	19,149.9	23,420.6	24,111.1
Misc. Expenses not written	251.5	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	3,954.6	4,022.8	4,297.4	7,549.4
Mkt Val. Quoted Investments	10.2	0.4	0.3	0.2
Contingent Liabilities	8,498.2	6,202.9	7,815.3	8,286.2
Dividend (%)	45	50	50	25

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 13	Jun 13	Sep 13	Dec 13
Net Sales	12,658.40	9,889.70	8,064.20	9,624.50
Cost Of Sales	10,661.70	9,277.50	7,688.60	8,189.80
Operating Profit	1,996.70	612.20	375.60	1,434.70
Recurring Income	412.70	52.60	71.30	59.70
Adjusted PBDIT	2,409.40	664.80	446.90	1,494.40
Financial Expenses	1,036.20	983.60	970.90	967.00
Depreciation	339.00	335.40	344.30	352.50
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	1,034.20	(654.20)	(868.30)	174.90
Tax Charges	615.20	0.00	0.00	0.00
Adjusted PAT	419.00	(654.20)	(868.30)	174.90
Non Recurring Items	0.00	189.10	218.00	163.50
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	419.00	(465.10)	(650.30)	338.40

52 Week Index Relative Percentage Appreciation



JISL vs SENSEX

Risks Associated

Government policies and allocation amount towards central subsidy could influence the growth prospects of JISL. Extended cash-flow, could, apart from causing pressure on managing the working capital requirements, also have negative impact on the profitability. With very high working capital requirements causing higher interest cost, the net profit margin remains under pressure. The growth in industry requires a large pool of trained sales people on a continuous basis, skilled people are required for implementation of the system and a dedicated dealer network is required in the far flung areas of the country. The uneven distribution of rainfall in the country, consecutive drought like situation for 1 or 2 years and fluctuations in the polymer prices are constant threats faced by the industry. Due to fragmented land holding in the country, the average farmer holds very small piece of land but irrespective of his size of holding the level of services required are almost the same. This fragmented holding therefore results in high transaction cost for the Company. There are a large number of players in the industry whose influence is restricted to a small surrounding area, who neither maintain quality of the product nor are able to give any quality service. These players tend to spoil the market due to their practices and may provide backlash against the concept of Micro Irrigation. Also there has been significant growth of players in unorganized sector. These companies with their low cost and non-system oriented products are taking away certain market share from organized sector, especially in replacement market.

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 is helping 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

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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