

Jain Irrigation (DVR)

₹ 40

*Piped Piper!***Buy**

Feb 26, 2016

Company Background

Established in 1986, Jain Irrigation Systems (Jain Irrig) is currently the world's second largest and India's largest micro irrigation company. It has four major business divisions - micro irrigation systems (MIS), piping systems, agro processing, and plastic sheets. Apart from these, it also derives a minor portion of revenues from tissue culture, hybrid & grafted plants, and solar devices. In FY15, at a consolidated level, MIS revenue share was at 46%, piping products at 21%, agro processed products at 23%, plastic sheets at 2% and others at 9%. JISL has a global presence in more than 100 countries with a robust dealer and distribution network; it has 24 plants and employs over 6,000 people. JISL has been named by Standard & Poor's in May 2007 as one of the eight Indian companies expected to emerge as challengers to the world's leading companies.

Key Highlights

- ➔ Jain Irrig was successful in raising Rs 7.9 bn via equity in parent and stake sale in food processing business. The company proposes to use the funds to prune debt which will result in interest saving of Rs. 0.8 bn in FY17.
- ➔ The performance of the Pipe Segment of the Company Pipe jumped 12.8% YoY led primarily by 23.8% YoY growth in PE pipe division on account of large orders from institutional players. Inventory loss did impacted margins however Overall order book stood at Rs. 13.4bn. Order book of food processing, MIS & piping stands at Rs. 4.6 bn, Rs. 6 bn and Rs. 1.5 bn respectively.
- ➔ Jain Irrig has bagged the Maharashtra State Electricity Distribution Company's (MSEDCL) most awaited tender worth INR473cr for supply and installation of 8,959 solar agripumps. This is the first pilot phase out of the world's biggest solar agri-pump project for 500,000 pumps launched by the Government of Maharashtra through MSEDCL. The company has also received USD33mn (INR 2.2 bn) contract by DAR Es Salaam Water and sewerage authority.
- ➔ Polymers are the raw materials for piping as well as irrigation business; and are the derivatives of crude oil. Softening crude oil prices could decline the raw material costs. With a presumption of lower crude oil prices, the margins could expand during the coming years.

Key Financials

Year Ended 31 st	Mar 13	Mar 14	Mar 15
Revenue (INR mn)	35,589.6	41,787.1	42,770.2
Rev. growth (%)	(7.66)	17.41	2.35
EBITDA (INR mn)	7,114.3	7,260.7	7,257.3
Net profit (INR mn)	301.1	39.0	493.9
Shares outstanding (mn)	454.9	462.4	462.4
EPS (INR)	0.7	0.1	1.1
EPS growth (%)	(90.00)	(87.26)	1166.41
P/E (x)	-	367.56	36.75
RONW (%)	1.13	(0.60)	1.77
ROCE (%)	0.49	(0.27)	0.78

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Info Codes

Reuters	: JAIR.BO
Bloomberg	: JI@IN
NSE	: JISLDVREQS
BSE	: 570004

Market Data

52 Wk Range (₹)	: 33 / 52
Shares in Issue (mn)	: 462.4
Mkt. Cap (₹ bn)	: 0.76
BSE 2 Wk Avg Vol	: 27000

Share Holding Pattern (%)

Promoters	: 30.37
Public	: 69.63
Others	: 00.00

Past Performance

Recommended BUY at 37 on Jun 26, 2015 with a target of 20% appreciation Reached its target on Aug 3, 2016. and thereafter racked up a high of Rs. 52 after the recommendation.

Investment Theme

India is likely to have an an opportunity of ~INR 450 bn under micro irrigation over the next six to seven years. Jain Irrig stands to gain the most, being the market leader in this space. Standalone sales of the company's MIS segment has posted a CAGR of 31.16% during 2005-15. While Jain Irrig is currently sacrificing growth to rationalise their high receivables in MIS, we expect it to get multiple re-rating from the point when it shows improvement in working capital cycle by lowering the receivables and commencing the NBFC. The scrip prices should also react to some immediate announcements expected in the budget. The reduction in debt & the NBFC should be a gamechanger for the company.

Expects budding shoots in Budget !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Total Sales + Excise	36,293.1	42,971.7	18.4	43,983.5	2.4
Other Income	408.0	381.6	(6.5)	348.1	(8.8)
Change in Stocks	1,317.8	184.2	(86.0)	115.6	(37.2)
Raw Material Con.	22,166.5	26,081.8	17.7	25,746.6	(1.3)
Employee Exp.	1,737.4	2,302.0	32.5	2,430.9	5.6
Indirect Taxes	1,155.9	1,575.0	36.3	1,577.8	0.2
Other Exp.	6,030.1	6,482.9	7.5	7,646.1	17.9
Operating Exp.	29,772.1	36,257.5	21.8	37,285.8	2.8
Operating Profit	6,521.0	6,714.2	3.0	6,697.7	(0.2)
Total Interest	5,045.7	5,773.2	14.4	4,568.9	(20.9)
Gross Profit	1,883.3	1,322.6	(29.8)	2,476.9	87.3
Net Dep.	1,425.7	1,623.5	13.9	2,132.4	31.3
Total Taxation	156.5	(339.9)	(317.2)	(149.4)	(56.0)
Net Profit/Loss	301.1	39.0	(87.0)	493.9	1,166.4

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 12	Mar 13	Mar 14	Mar 15
SOURCES OF FUNDS	47,360.7	51,994.4	52,917.1	54,452.5
Equity Share capital	810.4	909.8	924.8	924.8
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	18,309.2	22,456.8	22,603.8	22,689.9
Long Term Loans	14,642.2	12,371.2	12,659.1	15,306.0
Short Term Loans	13,598.9	16,256.6	16,729.4	15,531.8
USES OF FUNDS	47,360.7	51,994.4	52,917.1	54,452.5
Gross Block	24,000.6	27,071.6	28,416.5	29,358.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	6,141.8	7,346.9	8,392.9	10,282.3
Net Block	17,858.8	19,724.7	20,023.6	19,075.7
Capital Work in Progress	1,773.8	599.1	207.0	315.2
Investments	4,307.5	7,559.5	7,318.4	7,335.9
Current Assets	39,480.5	40,612.6	42,229.9	45,696.6
Less : Current Liabilities	16,059.9	16,501.5	16,861.8	17,970.9
Total Net Current Assets	23,420.6	24,111.1	25,368.1	27,725.7
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	4,297.4	7,549.4	7,314.3	7,326.8
Mkt Val. Quoted Investments	0.3	0.2	0.2	0.2
Contingent Liabilities	7,815.3	8,286.2	7,852.8	7,169.6
Dividend (%)	50.0	25.0	25.0	25.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 15	Jun 15	Sep 15	Dec 15
Net Sales	15,485.6	10,924.9	8,300.3	8,952.4
Cost Of Sales	13,155.4	9,173.4	7,291.8	7,730.8
Operating Profit	2,330.2	1,751.5	1,008.5	1,221.6
Other Income	108.7	96.7	73.9	433.7
Adjusted PBDIT	2,438.9	1,848.2	1,082.4	1,655.3
Financial Expenses	1,017.6	1,035.3	1,032.2	1,052.2
Depreciation	444.3	442.6	451.5	481.7
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	977.0	370.3	(401.3)	121.4
Tax Charges	147.6	48.9	0.0	0.0
Adjusted PAT	829.4	321.4	(401.3)	121.4
Non Recurring Items	(3.8)	(117.2)	129.3	15.1
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	825.6	204.2	(272.0)	136.5

52 Week Index Relative Percentage Appreciation



Jain Irrg vs SENSEX

Risks Associated

Government policies and allocation amount towards central subsidy could influence the growth prospects of Jain Irrg. 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

Jain Irrigation 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. Jain Irrigation is pioneer in the irrigation systems in India. It operates in more than 120 countries. 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. Jain Irrigation a market leader worldwide and early entrant in the sector is positioned very well to gain most from this and therefore recommend to buy this stock.

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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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