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NSE Code: JISJALEQS

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Bloomberg Code: JI:IN

Jain Irrigation Systems Ltd (JISL), founded in 1989, is a transnational company headquartered in Jalgaon, Maharashtra. Being a diversified company of irrigation products, JISL's entire activities are centered on and around the farmer, farm and farming. The company operates mainly across three segments, namely, Hi-tech agri input products, industrial products and Non-conventional energy. Having a multi-product profile, the company is engaged in the manufacturing of Drip and Sprinkler Irrigation Systems and Components; PVC, Polyethylene & Polypropylene Piping Systems; Plastic Sheets; Dehydrated Onions and Vegetables; Processed Fruits; Tissue Culture, Hybrid & Grafted Plants; Greenhouses, Poly and Shade Houses; Bio-fertilizers; Solar Water Heating Systems and Solar Photovoltaic Appliances and Bio-Energy sources. JISL, the largest processor of fruits and vegetables within India, is also the second-largest irrigation company and third-largest dehydrated onion producer in the world.

Investment Rationale

Micro Irrigation Systems (MIS) to clock 20% revenue growth in FY15E :

Being the world's second largest player and India's largest in the Micro-Irrigation industry with over 50% market share, JISL is perfectly poised to take advantage of adequate funding available for MIS. In budget 2014-15, the government of India has allocated ₹15.7 bn subsidy for micro irrigation, which is about 21% higher than ₹13 bn spent in FY14. Thus, we believe that persistent efforts of the government to push MIS as a tool to conserve the water and address the issue of food security opens up wide opportunity for JISL. We expect MIS to post 20% revenue growth in FY15E.

Switch to NBFC-based model to improve working capital efficiency -

From the old business model, JISL has shifted to new NBFC business model for MIS, which is now fully operational in Maharashtra. This new MIS business model resulted in improving receivables cycle for its MIS business. Thus, with significant reduction in receivables, we believe JISL will continue with its growth trajectory through sustainable business models over the long-term. We expect that JISL will garner 70%-80% domestic MIS revenues from this new model in next 2-4 years, through pan India application of the model, barring a few states.

Improving debt profile of JISL to result in more sustainable growth level -

JISL is targeting to improve its debt position by lowering the debt burden at least by ₹3 bn in FY15 through better working capital management. We expect net debt to equity to decline from 1.6x to 1.1x as cash generated from improved working capital is utilized towards retiring of debt. With JISL's persistent effort to bring down the debt level, reduce interest cost and improve the micro irrigation business, we expect JISL's business to regain its healthy stature.

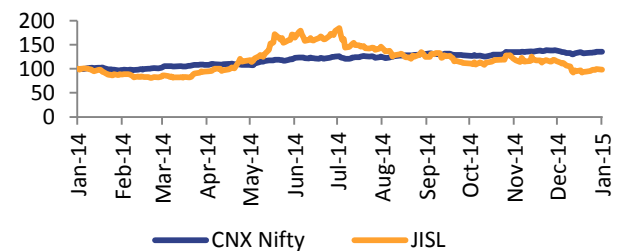
Market Data

Rating	BUY
CMP (₹)	69
Target (₹)	85
Potential Upside	~23%
Duration	Long Term
Face Value (₹)	2.0
52 week H/L (₹)	133.4/56.4
Adj. all time High (₹)	1,239.9
Decline from 52WH (%)	48.2
Rise from 52WL (%)	22.5
Beta	2.2
Mkt. Cap (₹bn)	32.0
Enterprise Value (₹bn)	67.1

Fiscal Year Ended

Y/E	FY13A	FY14A	FY15E	FY16E
Revenue (₹bn)	50.2	58.3	68.6	79.8
EBITDA (₹bn)	6.3	7.9	9.3	11.2
Net Profit (₹bn)	0.03	(0.4)	2.6	4.8
Adj EPS (₹)	0.1	(0.9)	5.7	10.3
P/E (x)	1,020.6	(80.2)	12.0	6.7
P/BV (x)	1.4	1.5	1.3	1.1
EV/EBITDA (x)	10.1	8.5	7.1	5.8
ROCE (%)	13.9	15.9	18.6	21.3
ROE (%)	0.1	-	11.0	16.7

One year Price Chart



Shareholding Pattern

Shareholding Pattern	Sep'14	Jun'14	Diff.
Promoters	30.3	30.4	(0.1)
DII	3.3	3.3	-
FII	0.5	0.0	0.5
Others	65.9	66.3	(0.4)

JISL is one of the leading agriculture solution providers in India offering a wide range of products with a presence across the agro-business value chain.

The company's business can be bifurcated into hi-tech Agri input products and industrial products.

JISL - the largest manufacturer of micro irrigation systems in India

JISL is one of the leading agriculture solution providers in India offering a wide range of products with a presence across the agro-business value chain. The company's products includes drip and sprinkler irrigation system, PVC & PE piping systems, plastic sheets, bio-fertilizers, solar products including water-heating systems, photovoltaic appliances and solar pumps. The company also processes fruits and vegetables into aseptic concentrates, frozen fruits and dehydrated vegetables and provides various services that include turnkey project services, education and training services, and consultancy services. The company's business can be bifurcated into hi-tech agri input products and industrial products. The former segment includes micro irrigation systems, PVC piping products, tissue culture plants and agri research & development activities, whereas the latter segment includes PE piping products, plastic sheets, agro processed products and solar products.

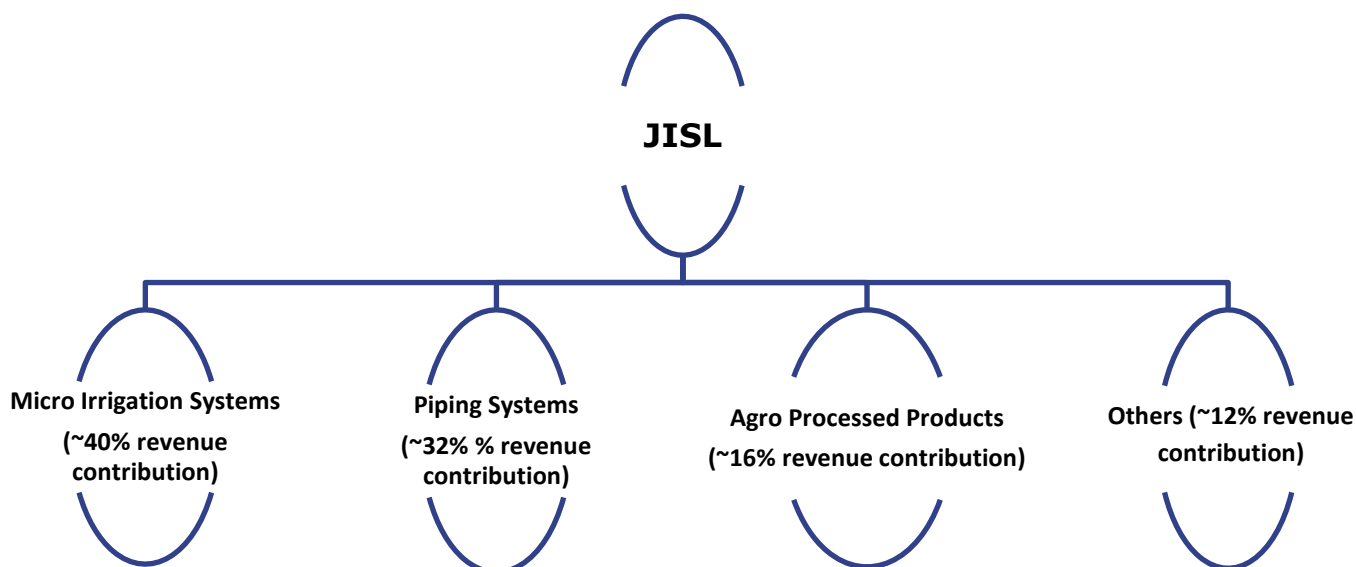
Micro Irrigation Systems (MIS): JISL enjoys a leadership position in this segment in India with 55% and 35% market share in drip and sprinkler irrigation segment respectively. Recently, the concept has started gaining popularity as it helps to save water and obtain a high crop yield. However, the penetration of MIS in India is very less compared to the global average. This provides JISL an immense potential to tap the highly untapped MIS market in India.

PVC Piping Products: Growth in this segment comes from irrigation and construction segments. So the demand for the segment is highly correlated to the growth of agriculture, housing and construction segments. JISL is one of the leading players in the organized PVC segment in India.

Agro-processing: JISL is also involved in the processing of fruits like Mango, Guava, Papaya and vegetables such as Tomato. With rising demand for processed food due to lifestyle changes and storage advantages, the processed food segment is witnessing a strong growth.

Others: Other business segment of the company like solar products, PE Piping, Plastic sheets and contract farming are also high on revenue generation.

JISL business structure



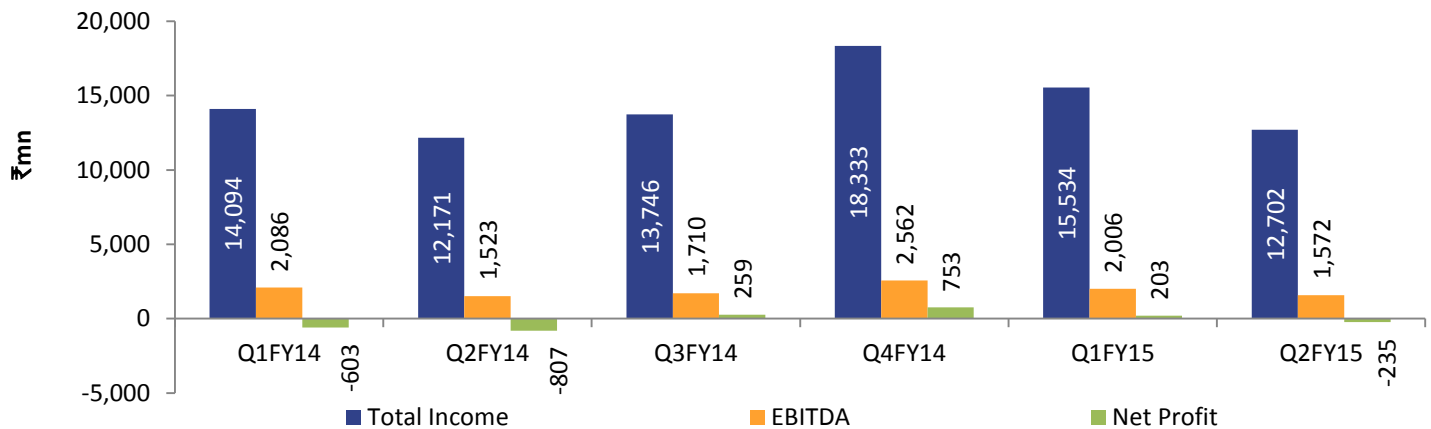
During the second quarter ended September 2014, JISL reported a 4.4% YoY growth in total income. Net profit, on the other hand, declined substantially by 70.9% YoY.

Going forwards, JISL expects an improved performance on the back of a decline in crude related polymer prices and recent price hikes (~5%) allowed in Maharashtra and Gujarat.

Witnessed mixed performance in Q2FY15; while domestic MIS reported strong growth, exports and PE pipes dragged down the growth

JISL reported mixed numbers for the quarter ended September 2014, with a 4.4% YoY growth in consolidated total income at ₹12.7 bn as against ₹12.1 bn in the corresponding quarter a year ago. The slower growth in revenue was primarily on account of mixed performance across the segments. During the quarter, while the overall revenue from MIS grew by 29.6%, domestic MIS grew by 67.6%, within which retail business grew by 37% and project business grew by 184%. Revenue from the PVC pipes business also posted a 21.5% growth, during the quarter. Further, working capital trajectory for domestic MIS continued to progress well with sequential decline in receivable days by 32 days (from 242 to 211 days). However, a decline in exports by 64% YoY coupled with a decline in PE pipe business by 55.5% YoY weakened the growth. A decline in revenue by 12.2% in fruit processing business also impacted the top-line. Moving ahead, JISL's EBITDA stood at ₹1.6 bn in Q2FY15 with EBITDA margins at 12.4% YoY. The company registered a huge decline in net profit by 70.9% YoY to ₹235 mn impacted by forex loss of ₹254 mn due to the MTM impact of rupee depreciation on forex loans. Going forward, we expect an improvement in the company's performance as MIS margins will be positively impacted by the decline in crude related polymer prices and recent price hikes (~5%) allowed in Maharashtra and Gujarat.

Quarterly Trend



JISL has fully implemented its new business model in Maharashtra and is focusing on key states like Gujarat, Rajasthan and Karnataka where the payment cycles are conducive

New business model to enhance revenue visibility

In a move to improve its financial performance, JISL has shifted to a new NBFC business model in FY13 so as to rule out the problem of extended working capital cycle due to delay by the Government in disbursing subsidies to the farmer to get the balance payment. Under the old model, JISL was getting about 50%-70% amount from the farmers as and when the State Governments disbursed the subsidies which normally took from 6-12 months.

With an aim to leverage its strengths by expanding its business across geographies in long-term as well as in short to medium term, the company has launched a new business model for its main business of MIS in FY13. Under the new model, JISL has floated a NBFC named Sustainable Agro-commercial Finance Ltd (SAFL) in 2012, which provides finance to the farmers. This new model helps in reducing its working capital cycle as the company now gets the full amount on delivery of the product (MIS). This loan mechanism has shifted the burden of debtors from JISL to the dealers. Dealers in conjunction with farmers are expected to ensure a more timely recovery of subsidy from the government. Instead of waiting for 6 months to 1 year for getting 50%-70% of the amount from government by way of subsidy, SAFL funds the farmer the subsidy amount at a net interest rate of 12% which is paid to JISL for installation of the product. This is expected to improve cash conversion cycle.

Strong operational performance under new business model

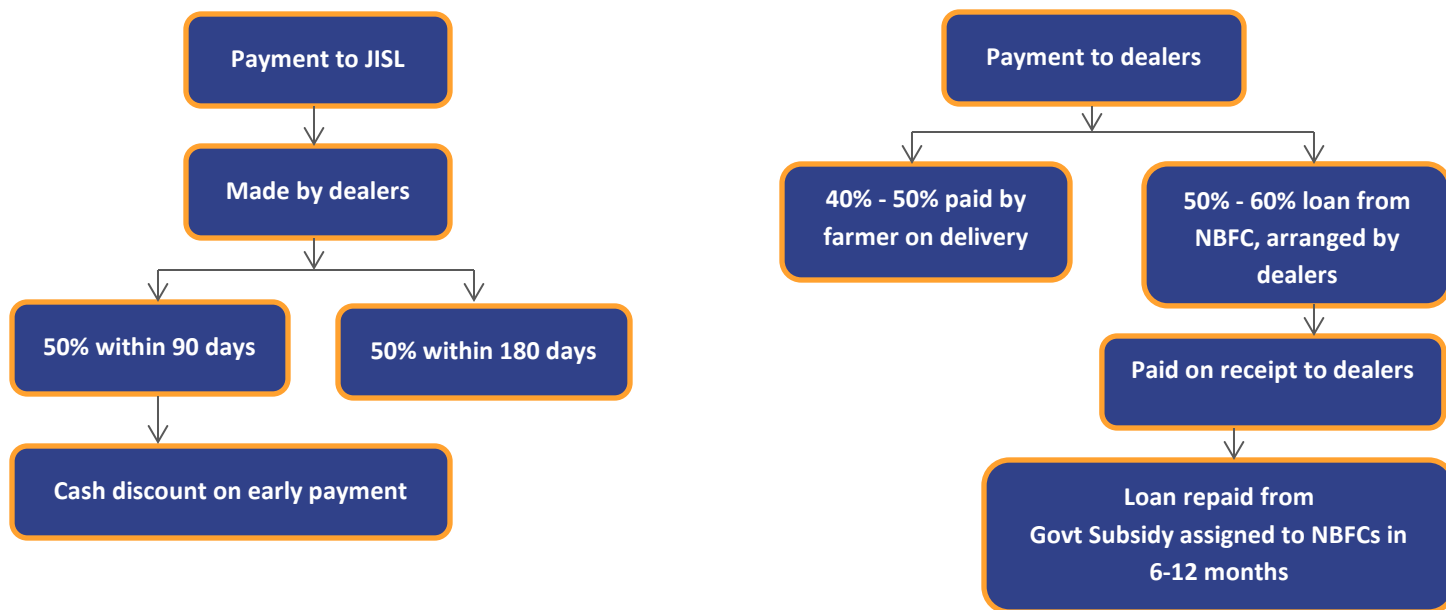
During FY14, JISL has posted 16.2% YoY growth in its consolidated revenue at ₹58,344 mn led by 18% YoY and 12% YoY growth from its domestic and overseas operation. After change in business model, FY14 was the first full year of operation under new model. JISL has adopted this model in Maharashtra which contributes 50% to the domestic MIS revenues. EBITDA grew by 24.6% YoY to ₹7,873 mn, as a result EBITDA margin rose to 13.5% in FY14 as compared to 12.6% in FY13.

A massive decline in other income by 56.6% YoY to ₹290 mn in FY14 coupled with an increase in depreciation cost by 20.6% to ₹2,045 mn caused the company to post a net loss of ₹398 mn during the year. Besides, mark to market (MTM) forex loss also contributed to the discouraging performance by the company. However, we believe that government effort to arrest volatility in currency fluctuations is expected to reverse some MTM write downs.

Any deficiency in rainfall may impact agriculture productivity and can have an adverse impact on JISL's business. However, we believe that the company's focus on drip irrigation is the only effective solution for small farmers to deal in drought like situations. On the back of the supportive budget announcement for MIS business, the company expects stronger performance in the quarters to come. We believe that the new government's agenda of promotion of micro irrigation and food processing industries is likely to accelerate revenue growth.

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New Business Model of JISL



Robust growth in MIS bodes well for JISL; ~20% growth is expected in FY15E

Over the past 5 years, JISL's revenue from MIS segment has grown ~3 folds to over ₹16 bn and has been the largest revenue contributor to the sales basket. JISL enjoys a leadership position in the MIS segment in India with ~55% and ~35% market share in drip and sprinkler irrigation, respectively. With a strong brand name, extensive agricultural expertise and a broad network of dealers, JISL has recorded impressive growth in India.

In FY14, revenue from the MIS business of the company, which contributes ~40% to the total domestic revenue, witnessed ~20% YoY growth led by a strong push in the project and export business, which grew by 34% YoY and 129% YoY to ₹3,250 mn and ₹3,034 mn, respectively.

In FY14, revenue from MIS business of the company, which contributes ~40% to the total domestic revenue, witnessed ~20% YoY growth led by a strong push in the project and export business.

Exports recorded strong growth mainly due to large order amounting to ₹1,250 mn from Africa, which was executed during the year. Whereas, revenue from the company's MIS retail business saw a marginal growth of 2% YoY at ₹10,556 mn largely due to impact of hailstorms, which resulted in carry-forward of orders from Q4FY14 to Q1FY15. The company expects MIS business to record more than 20% growth in FY15E.

Revenue contribution from the domestic and overseas business in FY14



JISL's proposed shift from the capital-intensive southern region will help in reducing the interest burden and hence will help to churn the wheel of profitability.

During budget 2014-15, the government of India has allocated ₹15.7 bn subsidy for micro irrigation, which is about 21% higher than ₹13 bn spent in FY14.

Recovery in government subsidy receivables to augur well for JISL

With the reduction in Government subsidy receivables from ₹9.7 bn in FY12 to ₹3.9 bn in FY14, the company has shifted its focus to more progressive states like Maharashtra, Gujarat and Rajasthan and greater proportion of business through NBFC model, which in turn would help the company to reduce the subsidy realization cycle to 90 days. Subsidy realization in southern India takes more than 7-8 months, which has resulted in higher borrowing by JISL to fund its working capital needs. JISL's proposed shift from the capital-intensive southern region will help in reducing the interest burden and hence will help to churn the wheel of profitability. The concept of MIS has gained attention in the recent times as it helps to save water and obtain a high crop yield. However, the penetration of MIS business in India is very less compared to the global average, which provides JISL an immense potential to tap the highly untapped MIS market in India.

Budget 2014-15 to boost MIS implementation

During budget 2014-15, the government of India has allocated ₹15.7 bn subsidy for micro irrigation, which is about 21% higher than ₹13 bn spent in FY14. However, the recent reduction in subsidy by the Centre from 50% to 35% for small and marginal farmers (<2 Ha) and from 40% to 25% for other farmers (>2 Ha) has been done with an objective to bring more farmers under the ambit of MIS. But, the total subsidy rate for farmers remains unchanged as states are contributing to maintain the overall subsidy rate. Besides an increase in allocation to ₹98 bn for Rashtriya Krishi Vikas Yojana (RKVY) by the government in the last interim budget presented in February 2014 also bodes well for the company's MIS business. Further, in order to provide the farmers full access to irrigation, the government has allocated fund worth ₹86 bn and ₹10 bn to its newly introduced programmes called Accelerated Irrigation Benefit Programme (AIBP) and Pradhan Mantri Gram Sinchai Yojana, (PMKSY), respectively. With the highly supportive budget allocation through various government schemes, the company is confident of adequate funding availability for its MIS

business and expects to maintain a similar growth trajectory of ~20% in FY15E. Thus, we expect that policy action from the new government is likely to boost MIS implementation, which is a thrust area for the new government.

Budget allocation under various government schemes

Government Scheme	Allocation for FY15 as per interim budget (₹bn)	Allocation for FY15 as per final budget (₹bn)	% Change
Rashtriya Krishi Vikas Yojana (RKVY)	77.0	99	41%
Accelerated Irrigation Benefit & Flood Management Programme (AIBP)	-	87	-
Pradhan Mantri Krishi Sinchayee Yojana (PMKSY)	-	10	-

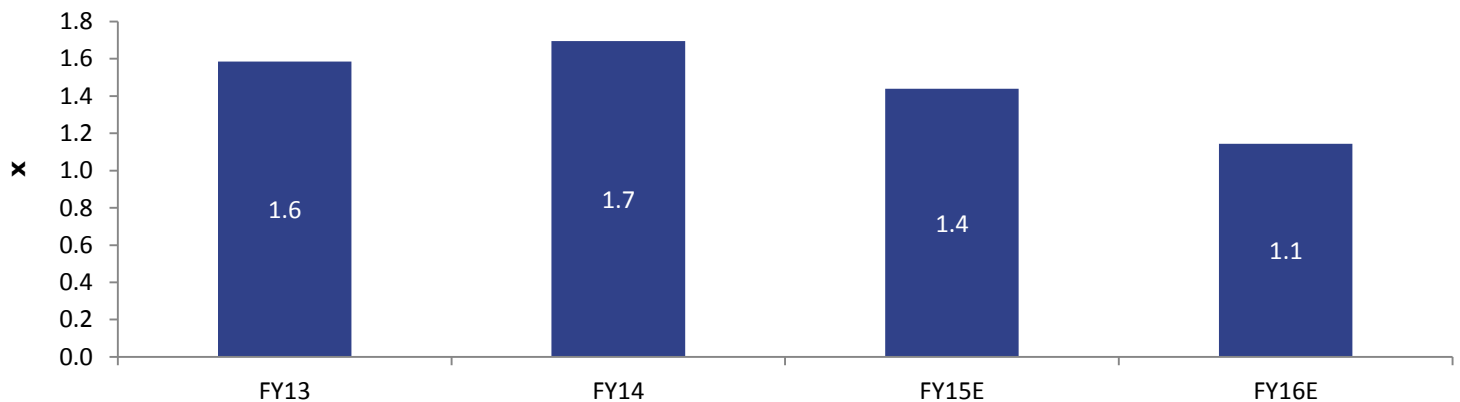
With further working capital efficiency and better business model, the company is targeting least ₹3 bn of debt retirement annually over the next couple of years.

Debt profile to improve in the coming year

With improving working capital efficiency, the consolidated net debt of JISL, reduced to ₹38.9 bn at the end of Q4FY14 as against ₹42 bn in Q3FY14. However, on a yearly basis, debt increased by ₹3 bn, largely due to higher rupee volatility against US dollar as ~50% of the company's total debts was in foreign currency. But with further working capital efficiency and better business model, the company is targeting at least ₹3 bn of debt retirement annually over the next couple of years.

Thus, we expect that strong free cash generation should help in reducing debt-equity level from 1.6x in FY14 to 1.1x in FY16E, which in turn is expected to result in more sustainable growth level, lower interest cost and better debt position to compete in the market place.

Debt-equity ratio trend



Balance Sheet (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Share capital	910	925	925	925
Share warrant	162	-	-	-
Reserve and surplus	20,608	20,831	23,210	27,656
Net worth	21,680	21,756	24,135	28,581
Minority interest	0	205	205	205
Loans	14,329	14,977	14,263	13,584
Long-term provisions	49	64	64	64
Other liability	75	178	183	197
Deferred tax liability	1,841	1,412	1,412	1,412
Current liabilities	40,233	43,454	43,310	43,945
Total equity & liabilities	78,208	82,045	83,572	87,988
Fixed assets	25,076	26,386	26,914	27,452
Goodwill	1,759	2,192	2,192	2,192
Investments	38	14	14	14
Loans & advances	2,264	3,261	3,554	3,874
Other asset	1,695	1,051	1,156	1,271
Deferred tax liability	929	1,194	1,194	1,194
Current assets	46,446	47,946	48,547	51,990
Total assets	78,208	82,045	83,572	87,988

Key Ratios (Consolidated)

Y/E	FY13A	FY14A	FY15E	FY16E
EBITDA Margin (%)	12.6	13.5	13.5	14.0
EBIT Margin (%)	10.5	10.5	10.9	11.7
NPM (%)	0.1	-	3.9	6.0
ROCE (%)	13.9	15.9	18.6	21.3
ROE (%)	0.1	-	11.0	16.7
EPS (₹)	0.1	(0.9)	5.7	10.3
P/E (x)	1,020.6	(80.2)	12.0	6.7
BVPS (₹)	47.7	47.0	52.2	61.8
P/BVPS (x)	1.4	1.5	1.3	1.1
EV/Net sales (x)	1.3	1.1	1.0	0.8
EV/EBITDA (x)	10.1	8.5	7.1	5.8

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Net Sales	50,217	58,344	68,591	79,805
Expenses	43,898	50,471	59,332	68,633
EBITDA	6,319	7,873	9,260	11,173
Other Income	668	290	325	364
Depreciation	1,696	2,045	2,107	2,170
EBIT	5,291	6,117	7,478	9,366
Interest	5,166	4,677	4,158	3,404
Profit Before Tax	125	1,441	3,320	5,962
Exceptional Item	0	2,300	0	0
Tax	80	(462)	664	1,192
Minority Int	(14)	0	0	0
Net Profit	31	(398)	2,656	4,770

Valuation and view

Given the government's thrust on agriculture, the company looks forward to strong earnings growth visibility in FY15E. We believe that the present valuation is comfortable, considering JISL's strong business model and increased focus on improving its balance sheet. JISL is well placed to cater to the incremental demand in all of its business segments. Overall, we see the top-line of the company to grow at a CAGR of 11% between FY14-16E. With strong hold in agro-processing and presence across the entire agri-business value chain, JISL's stock is also expected to gain buyer's attention in the coming year.

Considering the above aspects, we rate the stock as 'BUY' at a current CMP of ₹69, attractively placed at P/E of ~12.0x and ~6.7x, for FY15E and FY16E, respectively to arrive at a target price of ₹85, with a potential upside of ~23% for the coming 12 months.



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