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Jain Irrigation Systems (JISL), is a market leader in Micro Irrigation, has shown robust earnings growth in the past 5 years. However, its stock has seen sharp correction and de-rating in the past couple of quarters, on account of balance sheet concerns, moderation in growth and expectation of equity dilution. With JISL's persistent focus to improve the balance sheet as well as with the arrival of monsoon, we expect improvement in earnings and arrival of good days for JISL in the coming six months.

Investor's Rationale

JISL enjoys a leadership position in Micro Irrigation system (MIS) segment in India. Presently, it is working out a change in its business model for the micro irrigation segment, under which it intends to go slow in the southern states, where the subsidy element is high, and raise its exposure in Northern states such as Gujarat, Rajasthan and Haryana. This move of the company is expected to improve its receivables position in the micro-irrigation systems (MIS) business and thereby improve its balance sheet. The company intends to reduce its borrowing by ₹7-8 billion by the end of Dec'12.

JISL also has strong presence in the agro processing business, which generally sees good demand during summer and stays moderate during the monsoon and winter season. JISL's agro-processing division with a strategic shift in focus from the usual products such as Citrus and Apple to more exotic products like Mango, Guava, Mosambi, and Pomegranate etc, is all set to hit consumers this summer and is likely to grow in the range of 20-30% in FY13E.

Under JISL's efforts to bring down its debt and get rid of enlarging interest payouts, the company has cut down the average debtor receivable period from 370 a year back to 340 now and aims to bring them down to 270 in near term. The company carries ₹11 billion of debtors presently with 80% from Maharashtra, Andhra Pradesh, Tamil Nadu, Karnataka and Madhya Pradesh put together. The management expects to recover these outstanding bills in of 2012.

Under JISL's strategy to improve its balance sheet, the company doesn't intend to launch any large capex programme for FY13. Besides, expected cash flow from the current inventory receivable amount; the company doesn't see much increase in working capital. With JISL's persistent effort to bring down the debt level, reduce interest cost and improvement in the micro irrigation business, we expect JISL's business to regain its healthy stature.

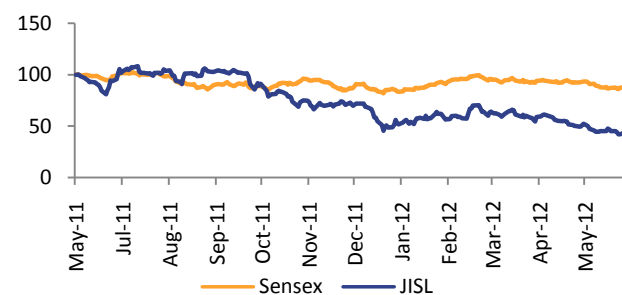
Market Data

Rating	BUY
CMP (₹)	71
Target (₹)	100
Potential Upside	~40%
Duration	Long Term
52 week H/L (₹)	183.7/69.1
Decline from 52WH (%)	61.4
Rise from 52WL (%)	2.7
Beta	1.5
Mkt. Cap (₹ bn)	273.6
Enterprise Value (₹ bn)	536.3

Fiscal Year Ended

	FY10A	FY11A	FY12E	FY13E
Revenue (₹mn)	34,199.9	41,528.4	47,254.3	54,342.5
Net Profit (₹mn)	2,475.9	2,807.1	3,728.4	5,060.6
Share Capital	783.4	771.5	771.5	771.5
EPS (₹)	6.3	7.3	9.7	13.1
P/E (x)	11.2	9.7	7.3	5.4
P/BV (x)	2.3	1.8	1.5	1.3
EV/EBITDA (x)	6.8	6.5	6.6	5.1
ROE (%)	20.3	18.0	21.0	23.6
ROCE (%)	15.5	14.6	12.2	16.8

One year Price Chart



Shareholding Pattern	Mar'11	Dec'11	Diff.
Promoters	30.3	30.3	-
FII	53.0	55.4	(2.4)
DII	1.0	1.0	-
Others	15.7	13.3	2.4



JISL enjoys strong leadership in MIS segment. The segment' growing favoritism due to its water saving nature opens up wide opportunity of established players in the industry

JISL's presence across the entire agro-business value chain and across 4 continents reduces its revenue dependency on a particular product or segment or territory.

A ~₹28 billion Company, leadership in Micro Irrigation Systems

Jain Irrigation Systems Ltd (JISL), incorporated in 1986, is one of the leading agriculture solution providers in India. With 27 manufacturing units and 6700 distributors, across 120 nations, JISL offers a wide range of products with presence across the agro-business value chain. Its products includes drip and sprinkler irrigation systems, 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.

Business Segments:

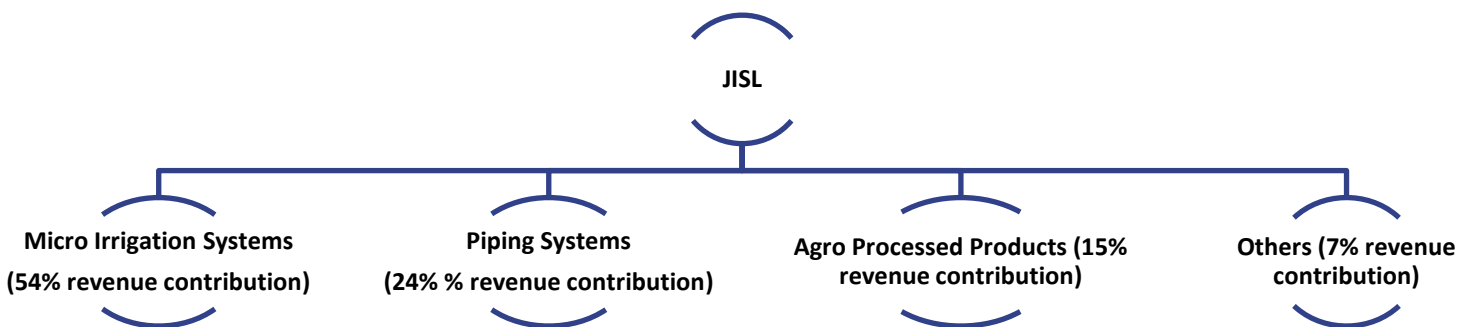
Micro Irrigation Systems (MIS): JISL enjoys a leadership position in this segment in India with 55% and 35% market share in drip and sprinkler irrigation respectively. Recently, the concept has started gaining popularity as it helps to save water and obtain high crop yield. However, the penetration of MIS in India is very less compared to global average. This provides JISL 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 growth in the agriculture, housing and construction segments. JISL is one of the leading players in the organized PVC segment in India and enjoys 15% market share.

Agro-processing: JISL is also involved in the processing of fruits like Mango, Guava, Papaya and 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



JISL's revenue from the MIS segment has grown 3 fold in the past 5 years and has been the largest revenue contributor to the sales basket.

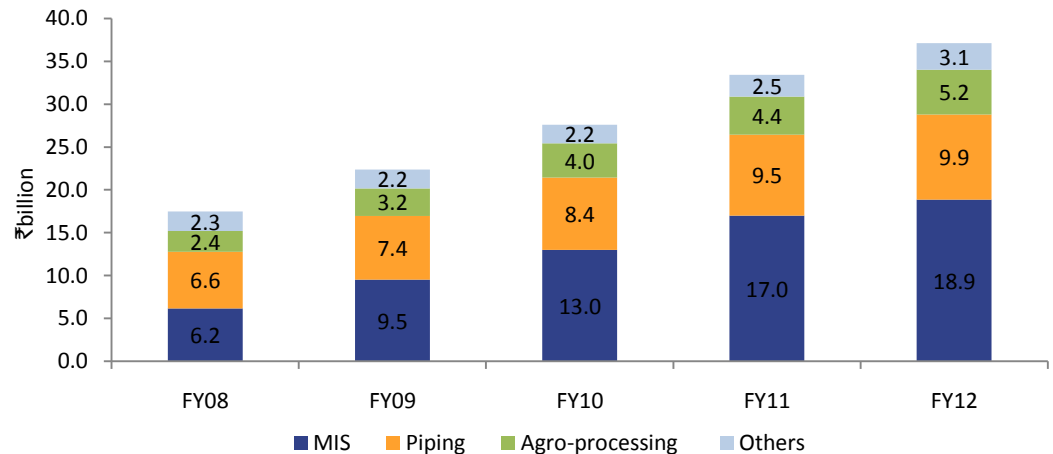
JISL revenue grows at 21% CAGR in the past 5 years

Despite impressive Q4FY12 profitability, the yearly bottom line numbers records sluggish growth

JISL's MIS business to shift focus in North India

JISL enjoys a leadership position in Micro Irrigation system (MIS) segment in India with 55% and 35% market share in drip and sprinkler irrigation, respectively. Over the past 5 years, JISL's revenue from this segment has grown 3 fold to over ₹18 billion and has been the largest revenue contributor to the sales basket. With strong brand name, extensive agricultural expertise and broad network of dealers, JISL has recorded aggressive growth in India. And with the development of new products such as automated greenhouses, developing micro irrigation system education efforts for paddy and new crops such as pulses, oil seeds and cotton and high density plantations, the company intends to extend its manufacturing and distribution focus to the northern states of the country while holding the same interest in southern India. Shifting focus to northern India will also help the company to reduce the subsidy realization cycle to 90 days. Subsidy retaliation in southern India takes more than 7-8 months, which has resulted in JISL's borrowing heavily 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 high crop yield. However, the penetration of MIS in India is very less compared to global average. This provides JISL immense potential to tap the highly untapped MIS market in India.

5 Year segmental revenue trend



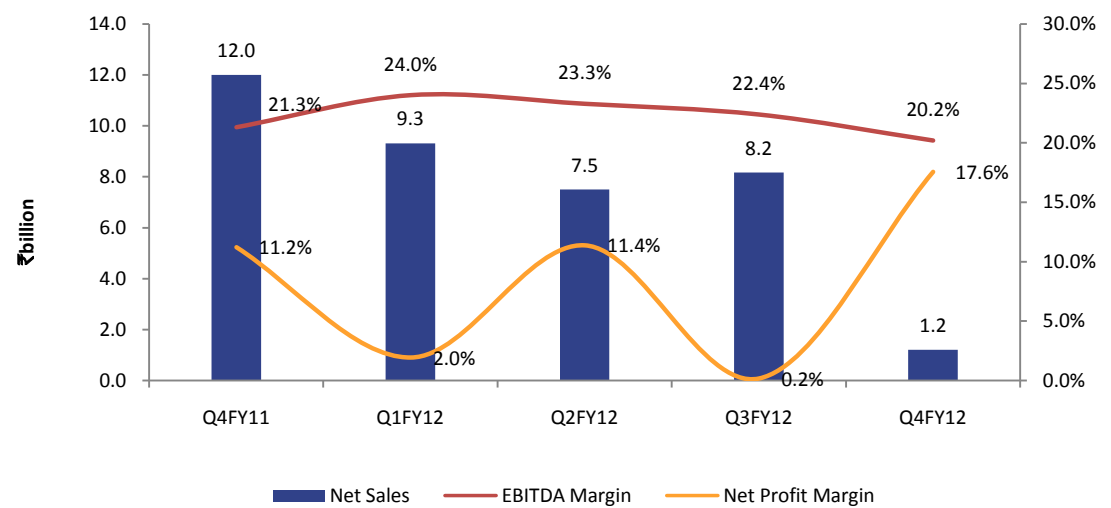
Q4FY12 profitability high on availed tax holidays

On Standalone basis, JISL's Q4FY12 net sales recorded a mere 0.1% growth at ₹12.1 billion (y-o-y) due to sluggish sales growth in micro irrigation systems (MIS) and Pipe business. Lower credit period to farmers and company's efforts to reduce high receivable/improve cash collection, primarily in Karnataka and Tamil Nadu pulled back sales growth in the MIS division by 5%. Meanwhile, other businesses like piping and agro also shown muted performance during the quarter. Despite, high working capital utilization and high interest rate regime, JISL recorded an impressive 59% growth in net profits at ₹1.7 billion, on account of tax holidays in some of the activities and approval from competent authority as 'In-house R& D Centre' which is eligible for higher deduction.

Meanwhile, for the fiscal ended FY12, JISL's net sales came in 14% (y-o-y) higher at ₹37.0 billion. Net sales of MIS grew 11%, Pipe business grew by 4% and agro processing business recorded a growth of 18%. However, with significant mark to market foreign exchange losses, the yearly net profit of the company came down 9% (y-o-y) at ₹2.6 billion.



One year quarterly margin trend



NaanDanJain acquisition to open new markets for JSIL

JISL has recently completed an acquisition deal with Israel based Kibbutz Naan, to acquire the remaining 50% of the irrigation solutions Company, NaanDanJain. This acquisition was subjected to a put and call agreement entered into with the promoters by JISL to buy out the remaining stake in NaanDanJain.

Earlier in 2007, JISL bought 50% stake in NaanDanJain, which offers the broadest range of irrigation systems, devices and technologies. NaanDanJain has 9 subsidiaries around the world, and 6 production sites – two of which are located in Israel (Kibbutz Naan and Kibbutz Dan). Since signing the first agreement in 2007, NaanDanJain has increased its sales turnover more than 25%. Meanwhile, JISL employs over 7,500 workers, having 24 manufacturing plants, manufactures a number of products, including drip and sprinkler irrigation systems and components, integrated irrigation automation systems, PVC and PE piping systems, plastic sheets, greenhouses, bio-fertilizers, solar water-heating systems, biogas plant on turnkey basis, wind hybrid energy and photovoltaic system.

Synergies of the deal

- The deal would enrich JISL’s products offering with world-class technological know-how, which includes the widest range of products and services in the world - thus realizing the One Stop Shop concept and paving the way for strengthening JISL’s leadership in the industry.
- Growing cooperation between JISL and NaanDanJain would open new markets for both the companies and hence poises a big opportunity for JISL to expand its activities in the world in areas that provide solutions to the growing global climate change, water, food and energy crises.
- Since the engagement between the duo, more than ₹1.2 billion have been invested in the Company in innovative drip irrigation and sprinklers equipment both in Israel and in NaanDanJain subsidiaries worldwide and hence increased investment in research and development is expected to come in future.
- The alliance will also create opportunities for the cross-fertilization of technical capabilities and pave the way for transfer of knowledge, especially best practices and expertise within the two companies.

Acquisition of NaanDanJain was subjected to a put and call agreement entered dated back to 2007

NaanDanJain deal to bring in multiple synergies in terms of 4Ps (Product, Price, Place and Promotion) of marketing



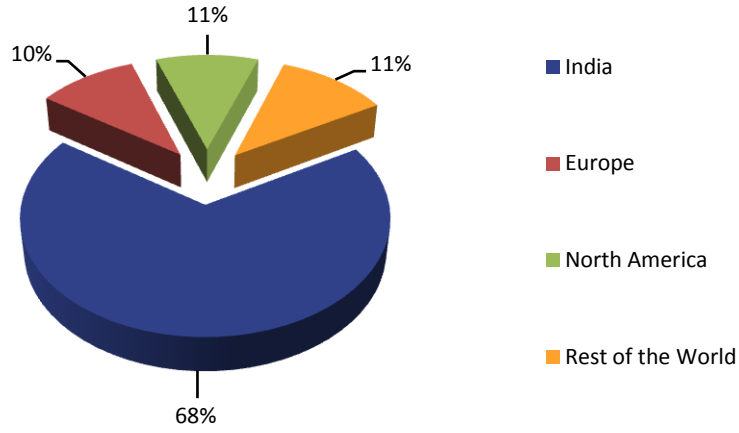
Growing demand for Micro irrigation technology in the overseas market fuels up JSIL's export business

JISL's revenue from export business has grown 30% from ₹5.1 billion in FY11 to ₹6.7 billion in FY12 against 14% growth in domestic business, aided by robust demand from the overseas market. Though JISL's export business only contributes around 18% of the total revenue generation of the company, growing favoritism of Micro irrigation technology, especially in the water scarce areas of developed countries like United States, Israel and Europe, has served as a new growth trigger for the company.

Hence, after JISL's lucrative establishments in Mauritius, the United Kingdom and the United States, the company is now focusing on African nations to sustain on its high growth strategy, as it has slowed down sales of micro irrigation systems (MIS) due to slow subsidy pay-outs. Under its strategic foray in to the African markets, the company initially intends to make its presence with product distribution as per the need of the local market and then setup a manufacturing plant, with gradual increase in demand. JISL has committed investment and projects of US\$ 375 million over the next few years to build sustainable agriculture and to improve the incomes of smallholder farmers in Sub-Saharan Africa. In the coming years, JISL will also partner and collaborate with the governments of Kenya, Rwanda, Ethiopia, Mozambique, Tanzania, Ghana, Cote d'Ivoire, Burkina Faso, Nigeria and others for the same. JSIL would also invest in creation of storage, handling, supply chain and processing infrastructure in the African countries.

JISL's increased focus to cater the growing overseas demand for Micro irrigation technology, is expected to offset the delayed subsidy concern on domestic soil

Geographic Revenue Split



Strong presence in dehydrated products

Demand for dehydrated products is globally high due to their ease of storage and long shelf life. JISL has four vegetable dehydration plants (one in Maharashtra and US, and two in Gujarat) with total capacity of over 26000MT where it processes primarily white onions. This makes the Company the third largest dehydrated onion producer in the world. Rising demand for dehydrated vegetables in India provides ample scope for expansion for players like JISL, who is the largest manufacturer of dehydrated onions in India. The Company estimates that with growing demand of its finished products and general upward movement of food prices globally, the Company will be able to achieve further growth in sale and better realization in the coming year. The Company is also looking at increasing production of value added products like fried onion, frozen onion and other vegetables in the coming years.

Growing demand for dehydrated products is expected to favor JSIL's growth route in the Agro-processed business



SWOT Analysis of JISL

STRENGTHS:

- **Strong brand and leadership position in India:** JISL is leading manufacturers of micro irrigation systems, piping systems and agro-processed products.
- **Diverse revenue streams:** Diversification helps to insulate sales and operations from adverse conditions affecting any particular segment or product or a particular region
- **Flexible and scalable business model:** Scalability of JISL's nine manufacturing facilities helps to handle a wider product portfolio and hence meet customer specifications
- **Wide dealer and distribution network:** JISL has over 2,600 dealers in India with deep understanding of the consumer needs

WEAKNESSES:

- **Seasonality in agriculture:** JISL's performance is also dependent on the seasonality in agriculture sector. The uneven distribution of rainfall in the country and consecutive drought like situation for 2/3 years are constant threats faced by the agriculture industry players.
- **Currency fluctuations:** Adverse changes in the exchange rates leading to erosion in export income. Also large amount of Company borrowing is in foreign currency.
- **Aggressive strategies of competition:** The competition in the industry adopts aggressive strategies and competition from unorganised sector (aggressive pricing) results in pressure on sales or margins.

OPPORTUNITIES:

- **Government thrust towards agriculture:** Persistent efforts of the government on pushing the micro-irrigation as a tool to conserve the water and address the issue of food security opens up wide opportunity for JISL to bank on.
- **Increase focus in the overseas market:** To de-risk its business portfolio against increasing delay in subsidy payment, JISL is increasing its focus on northern and overseas market to sustain its high growth strategy.
- **Floating of NBFC:** JISL is planning to set up an NBFC which will finance the farmer for MIS and help the company improve its receivables cycle and hence will help the company to create a more sustainable business model over the long-term.

THREATS

- **Slowing sales growth:** Over the past four years, the company sales growth has shown sequential slowdown of ~2,390 bps.
- **Increasing delay in release of government subsidy receivables:** Nearly half of JISL's revenues come from sale of micro-irrigation systems to farmers, which enjoy over 50% capital subsidy from the government.
- **High debt scenario:** Delay in government's subsidy payments has resulted in JISL's borrowing heavily to fund its working capital needs.
- **High working capital:** JISL's working capital cycle to concerning level
- **High interest cost:** Higher interest costs have taken a toll on net profit in the past last two quarters of FY12.



Balance Sheet (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Share Capital	783.4	771.5	771.5	771.5
Share Warrants	-	347.9	347.9	347.9
Reserve and surplus	11,383.9	14,438.7	16,675.8	20,298.3
Net Worth	12,167.3	15,558.1	17,795.2	21,417.7
Loan funds	24,447.5	29,887.8	37,359.7	30,359.7
Minority Interest	570.7	524.2	524.2	524.2
Deferred Tax Liability	610.1	661.6	661.6	661.6
Capital Employed	37,795.7	46,631.7	56,340.7	52,963.2
Total Fixed assets	17,923.3	21,782.4	25,091.0	25,438.2
Investment	210.8	211.1	211.1	211.1
Net Current Assets	19,661.5	24,638.2	31,038.7	27,314.0
Capital Deployed	37,795.7	46,631.7	56,340.7	52,963.2

Key Ratios

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	20.4	19.6	20.1	20.2
EBIT Margin (%)	17.1	16.3	14.5	16.4
NPM (%)	7.2	6.7	7.9	9.3
ROCE (%)	15.5	14.6	12.2	16.8
ROE (%)	20.3	18.0	21.0	23.6
EPS (₹)	6.3	7.3	9.7	13.1
P/E (x)	11.2	9.7	7.3	5.4
BVPS (₹)	31.1	40.3	46.1	55.5
P/BVPS (x)	2.3	1.8	1.5	1.3
EV/Operating Income (x)	1.4	1.3	1.3	1.0
EV/EBITDA (x)	6.8	6.5	6.6	5.1
EV/EBIT (x)	8.1	7.9	9.1	6.3

Profit & Loss Account (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Net Sales	34,199.9	41,528.4	47,254.3	54,342.5
Other income	196.9	274.0	164.4	165.0
Expenses	27,394.7	33,591.2	37,898.0	43,474.0
EBITDA	7,002.2	8,211.2	9,520.8	11,033.5
Depreciation	1,019.6	1,216.2	1,459.4	1,751.3
EBIT	5,875.6	6,810.8	6,861.4	8,914.2
Interest	2,193.9	2,716.5	3,175.6	2,580.6
Profit Before Tax	3,681.7	4,094.2	3,685.8	6,333.6
Tax	1,203.4	1,201.1	43.3	1,359.0
PAT	2,478.3	2,893.1	3,642.5	4,974.6
Prior period Adj.	9.2	12.4	12.4	12.4
Minority Interest	11.6	73.5	73.5	73.5
Net Profit	2,475.9	2,807.1	3,728.4	5,060.6

Valuation and view

JISL stock has seen a steep correction of over 50% in the past one year, battered by challenging FY12 business environment on account of slowing sales growth, increasing delay in release of government subsidy receivables and consequent high working capital followed by high interest cost and depreciating rupee. We believe that the present valuation is comfortable, considering JISL's strong business model and increased focus on improving its balance sheet. 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 ongoing summer season as well as during monsoons. And hence, rate the stock as BUY. At the current market price of ₹70.9, the stock is trading at a PE of 5.4x on FY'13E EPS of ₹13.1.



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