



VISIT NOTE

# JAIN IRRIGATION

## Ample growth catalysts

India Equity Research | Midcap Agri



We met Mr. Anil Jain, MD, Jain Irrigation (JISL), to gain insights into the company's business strategy. While it continues to perceive domestic MIS segment as a high potential opportunity, in the agro processing business JISL is eyeing entry in the complementary spices segment with the target of being a branded food player in the long run. Along with driving growth, JISL continues to focus on keeping debt at a manageable level and is targeting to prune net debt to INR20bn (FY17: INR31bn) aided by value unlocking in international MIS and agro processing segment. Maintain 'BUY'.

### MIS opportunity to drive growth; projects gaining heft

MIS remains the cornerstone of growth for JISL—estimates 20% plus growth in India in FY18 (FY17: 7%). The company is also bullish on the projects segment on account of the robust order intake. It has already bagged 3 large project orders, giving it the confidence of achieving its growth target. Also, the recent Maharashtra government order for implementing drip irrigation for sugarcane presents an INR1.5-2.0bn opportunity. In the international MIS business, JISL's target is to transform into a water solution provider and is planning to provide complete project implementation.

### Entering spices market; eyeing branded play in agro processing

JISL is also eyeing spices market (current export market ~INR150bn, 2x current mango pulp & dehydrated onion export market) and is planning to commission a facility in coming 2-3 months. The company believes its current onion customers and trading business provide an established customer base to tap into. Moreover, in the long run, JISL is mulling entry in domestic juice and fruit pulp market via launch of own brand.

### Planning to pare debt driven by value unlocking

Despite nil debt repayment expected in FY18 due to the US acquisition, JISL is planning to pay down ~INR3bn by FY19E. In addition, its target is to prune net debt to INR20bn over the next 3 years (FY17: INR31bn) driven by value unlocking in international MIS and agro processing segment.

### Outlook and valuations: Robust growth; maintain 'BUY'

With strong cash flow generation, net D/E falling to 0.4x in FY19E from 0.7x and FY17-19E EPS CAGR of 75%, we maintain 'BUY' with TP of INR142 (15x FY19E EPS).

#### Financials

Year to March	FY16	FY17	FY18E	FY19E
Revenues (INR mn)	63,222	67,698	85,924	96,405
EBITDA (INR mn)	8,183	9,402	11,735	13,303
Adjusted PAT (INR mn)	484	1,695	4,011	5,563
Adjusted Diluted EPS (INR)	0.9	3.1	6.8	9.5
Diluted P/E (x)	125.5	36.0	16.1	11.6
ROAE (%)	1.5	4.2	9.1	10.9
ROACE (%)	7.8	9.0	11.6	12.5

EDELWEISS RATINGS			
Absolute Rating	BUY		
Investment Characteristics	Growth		
MARKET DATA (R: JAIR.BO, B: JI IN)			
CMP	: INR 110		
Target Price	: INR 142		
52-week range (INR)	: 120 / 69		
Share in issue (mn)	: 460.2		
M cap (INR bn/USD mn)	: 52 / 807		
Avg. Daily Vol. BSE/NSE ('000)	: 50.8		
SHARE HOLDING PATTERN (%)			
	Current	Q2FY17	Q1FY17
Promoters *	30.7	30.7	30.7
MF's, FI's & BKs	7.3	5.4	4.9
FII's	41.5	42.7	41.0
Others	20.5	21.3	23.5
* Promoters pledged shares (% of share in issue)	:		2.9
PRICE PERFORMANCE (%)			
	BSE Midcap Index	Stock	Stock over Index
1 month	2.2	1.5	(0.7)
3 months	4.8	(3.4)	(8.2)
12 months	24.6	54.5	29.9

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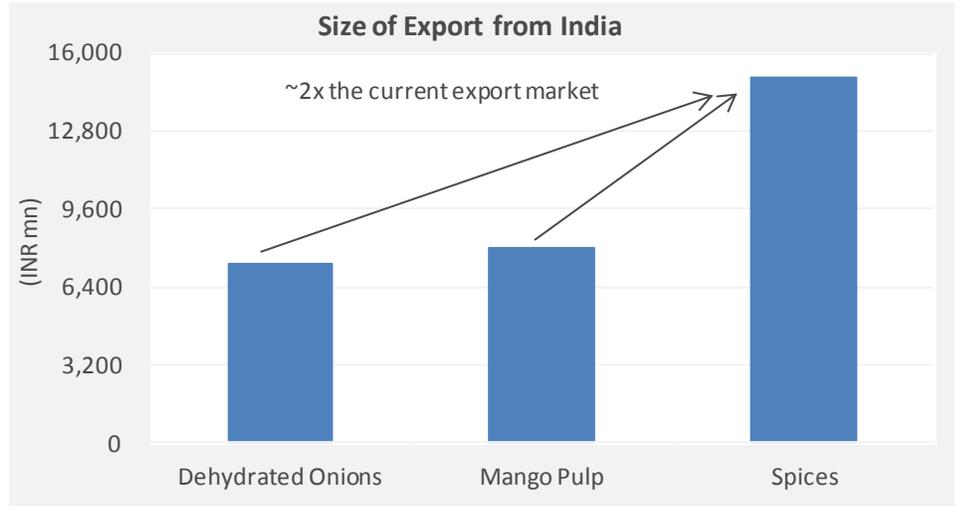
July 20, 2017

### Eyeing new product categories and retail expansion in agro processing

Post restructuring of the food business in FY16, JISL wants to focus on business growth and branching out in related new lines of business like juices, fresh fruit export and spices manufacturing, among others. The company is working on innovating new and advanced techniques of processing fruits and vegetables.

JISL is also eyeing spices market (current export market ~INR150bn, 2x current mango pulp & dehydrated onion export market) and is planning to commission a facility in coming 2-3 months. The company believes its current onion customers and trading business provide an established customer base to tap into. Moreover, in the long run, JISL is mulling entry in domestic juice and fruit pulp market via launch of own brand.

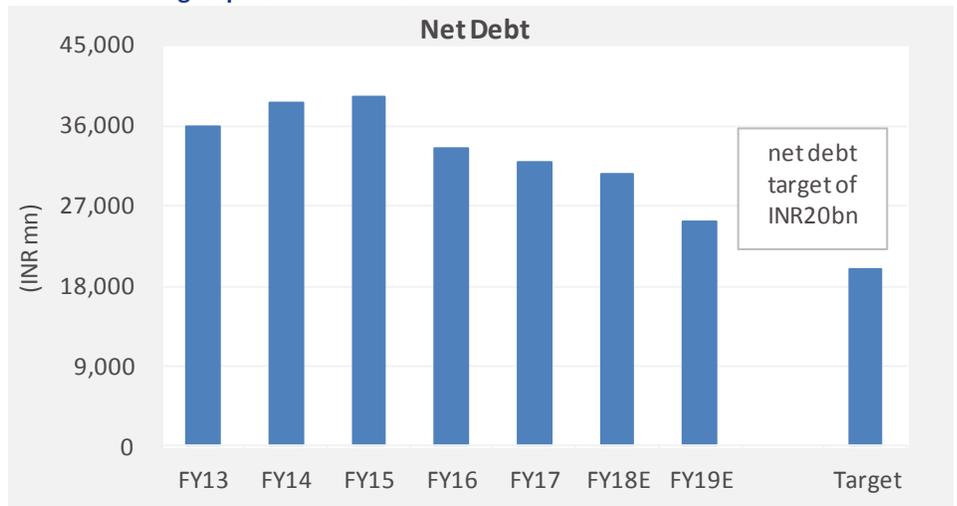
**Chart 1: Spices export size is ~2x current mango pulp & dehydrated onion market**



Source: Company, Edelweiss research, Agri Exchange

Note: Mango pulp & dehydrated onion export for FY16, Spices export market from JISL

**Chart 2: Planning to pare debt further**



Source: Company, Edelweiss research

## Company Description

Established in 1986, Jain Irrigation Systems (JISL) 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 FY12, at a consolidated level, MIS revenue share was at 54%, piping products at 20%, agro processed products at 17%, plastic sheets at 4% and others at 5%. 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.

## Investment Theme

India is likely to have an opportunity of ~INR 450 bn under micro irrigation over the next six to seven years. JISL stands to gain the most, being the market leader in this space. Standalone sales of JISL's MIS segment have posted a CAGR of 56% during 2005-12. While JISL is currently sacrificing some growth to rationalise their high receivables in MIS, we expect JISL to get multiple re-rating from the point when it shows improvement in working capital cycle by lowering the receivables and commencing the proposed NBFC.

## Key Risks

Withdrawal of subsidies for micro irrigation is a key risk that could cause JISL's growth rates to slow down drastically.

Poor monsoon, seasonality and cyclical nature of agriculture could impact the company's agro-processing division by hitting the availability as well as prices of agro commodities. Though poor monsoon is unlikely to impact MIS in the short term, in case of recurring monsoon failure, the segment's growth may slow down.

Competition from the unorganized sector as well as supply from China may impact the MIS business. However, only from the context of manufacturing MIS systems, it is a low entry barrier business, and competencies needed to manage the inherent issues of weather, dealing with government, small holdings by Indian farmers etc., limit the scope of most players in the Indian MIS market.

Most of JISL's activities are working capital intensive, which may constrain the company from achieving targeted growth.

USD/INR volatility may impact export revenues as well as margins. As the company is having high D/E, interest rate tightening may impact profitability.

## Financial Statements

## Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
<b>Macro</b>				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.3	6.3	6.3
USD/INR (Avg)	65.0	67.5	67.0	67.0
<b>Company</b>				
Raw Material (% net rev)	55.2	53.1	55.2	55.1
Employee cost (% of rev)	10.5	10.9	10.5	10.5
Other exp (% net rev)	21.3	22.1	20.6	20.6
MIS revenue growth (%)	(1.2)	11.2	37.7	11.8
Piping prod rev gwth (%)	9.7	13.4	12.2	12.2
Agro-proc. rev gwth (%)	6.5	4.9	21.8	14.1
Net borrowings (INR mn)	33,368	31,886	30,682	25,225
Capex (INR mn)	22,884	2,492	6,661	2,515
Debtor days	119	120	102	101
Inventory days	197	215	182	179
Payable days	141	146	123	126
Cash conversion cycle	175	189	161	155
Dep. (% gross block)	5.8	4.7	4.5	4.5

## Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	63,222	67,698	85,924	96,405
Materials costs	34,890	35,947	47,466	53,120
Gross profit	28,332	31,751	38,458	43,284
Employee costs	6,664	7,383	9,022	10,123
Other Expenses	13,485	14,966	17,700	19,859
Operating expenses	20,149	22,349	26,722	29,982
EBITDA	8,183	9,402	11,735	13,303
Depreciation	2,970	3,014	3,060	3,259
EBIT	5,213	6,389	8,675	10,043
Add: Other income	332.8	612.00	642.6	674.73
Less: Interest Expense	4,910	4,594	4,146	3,580
Profit Before Tax	635	2,407	5,172	7,138
Less: Provision for Tax	181	667	983	1,356
Less: Minority Interest	3	68	179	219
Associate profit share	32	23	-	-
Reported Profit	484	1,695	4,011	5,563
Adjusted Profit	484	1,695	4,011	5,563
Shares o/s (mn)	477	479	513	513
Basic EPS (INR)	1.0	3.5	7.8	10.8
Diluted shares o/s (mn)	549	552	586	586
Adj. Diluted EPS (INR)	0.9	3.1	6.8	9.5
Adjusted Cash EPS	7.2	9.8	13.8	17.2
Dividend per share (DPS)	0.5	0.6	0.7	0.7
Dividend Payout Ratio(%)	61.3	17.0	9.0	6.5

## Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	31.9	33.0	31.1	31.1
Gross margin	44.8	46.9	44.8	44.9
Interest Expense	7.8	6.8	4.8	3.7
EBITDA margins	12.9	13.9	13.7	13.8
EBIT margins	8.2	9.4	10.1	10.4
Net Profit margins	0.8	2.6	4.9	6.0

## Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	2.8	7.1	26.9	12.2
EBITDA	(4.4)	14.9	24.8	13.4
PBT	(65.4)	279.0	114.9	38.0
Adjusted Profit	(76.7)	250.3	136.7	38.7
EPS	(79.4)	248.4	123.1	38.7

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	953	959	1,026	1,026	
Reserves & Surplus	39,690	40,619	46,731	54,396	
Shareholders' funds	40,643	41,578	47,757	55,422	
Minority Interest	1,025	1,089	1,268	1,486	
Short term borrowings	21,315	12,348	12,348	10,348	
Long term borrowings	16,198	22,199	22,199	20,199	
Total Borrowings	37,513	34,547	34,547	30,547	
Long Term Liabilities	1,253	1,269	1,269	1,269	
Def. Tax Liability (net)	3,186	3,394	3,394	3,394	
<b>Sources of funds</b>	<b>83,620</b>	<b>81,876</b>	<b>88,234</b>	<b>92,118</b>	
Gross Block	62,547	64,781	71,226	73,636	
Net Block	44,351	43,572	46,956	46,107	
Capital work in progress	604	642	859	964	
Intangible Assets	3,976	4,203	4,203	4,203	
Total Fixed Assets	48,931	48,417	52,018	51,273	
Non current investments	707	1,068	1,068	1,068	
Cash and Equivalents	4,145	2,661	3,865	5,322	
Inventories	19,064	23,196	24,013	28,218	
Sundry Debtors	21,743	22,822	25,246	28,123	
Loans & Advances	891	937	937	937	
Other Current Assets	10,686	10,965	10,965	10,965	
Current Assets (ex cash)	52,383	57,920	61,161	68,243	
Trade payable	13,405	15,380	16,568	19,980	
Other Current Liab	9,143	12,810	13,310	13,810	
Total Current Liab	22,548	28,191	29,879	33,790	
Net Curr Assets-ex cash	29,836	29,729	31,282	34,453	
<b>Uses of funds</b>	<b>83,620</b>	<b>81,876</b>	<b>88,234</b>	<b>92,118</b>	
BVPS (INR)	85.3	86.7	93.1	108.0	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	484	1,695	4,011	5,563	
Add: Depreciation	2,970	3,014	3,060	3,259	
Interest (Net of Tax)	3,290	3,078	2,778	2,399	
Others	1,769	2,161	1,368	1,181	
Less: Changes in WC	(2,844)	(106)	1,553	3,171	
Operating cash flow	11,357	10,053	9,664	9,232	
Less: Capex	22,884	2,492	6,661	2,515	
<b>Free Cash Flow</b>	<b>(11,528)</b>	<b>7,561</b>	<b>3,002</b>	<b>6,717</b>	

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		11,357	10,053	9,664	9,232
Investing cash flow		(23,180)	(2,447)	(6,483)	(2,296)
Financing cash flow		9,189	(8,319)	(1,977)	(5,479)
Net cash Flow		(2,634)	(713)	1,204	1,457
Capex		(22,884)	(2,492)	(6,661)	(2,515)
Dividend paid		(287)	(346)	(432)	(432)

Profitability and efficiency ratios		FY16	FY17	FY18E	FY19E
Year to March					
ROAE (%)		1.5	4.2	9.1	10.9
ROACE (%)		7.8	9.0	11.6	12.5
ROA		0.7	2.0	4.7	6.2
Inventory Days		197	215	182	179
Debtors Days		119	120	102	101
Payable Days		141	146	123	126
Cash Conversion Cycle		175	189	161	155
Current Ratio		2.5	2.1	2.2	2.2
Gross Debt/EBITDA		4.6	3.7	2.9	2.3
Gross Debt/Equity		0.9	0.8	0.7	0.5
Adjusted Debt/Equity		0.9	0.8	0.7	0.5
Net Debt/Equity		0.8	0.7	0.6	0.4
Interest Coverage Ratio		1.1	1.4	2.1	2.8

Operating ratios		FY16	FY17	FY18E	FY19E
Year to March					
Total Asset Turnover		0.9	0.8	1.0	1.1
Fixed Asset Turnover		1.7	1.4	1.7	1.9
Equity Turnover		2.0	1.6	1.9	1.8

Valuation parameters		FY16	FY17	FY18E	FY19E
Year to March					
Adj. Diluted EPS (INR)		0.9	3.1	6.8	9.5
Y-o-Y growth (%)		(79.4)	248.4	123.1	38.7
Adjusted Cash EPS (INR)		7.2	9.8	13.8	17.2
Diluted P/E (x)		124.8	35.8	16.1	11.6
P/B (x)		1.3	1.3	1.2	1.0
EV / Sales (x)		1.4	1.3	1.0	0.9
EV / EBITDA (x)		10.6	9.1	7.5	6.3
Dividend Yield (%)		0.5	0.5	0.6	0.6

## Additional Data

### Directors Data

Ashok B. Jain	Chairman	Anil B. Jain	Vice Chairman & Managing Director
Ajit B. Jain	Joint Managing Director	Atul B. Jain	Joint Managing Director
R. Swaminathan	Director - Technical	Devendra Raj Mehta	Director
Ghanshyam Dass	Director	Radhika Pereira	Director
Vasant V. Warty	Director	Harishchand Prasad Singh	Director

Auditors - Haribhakti & Co.

*\*as per last available data*

### Holding – Top10

	Perc. Holding		Perc. Holding
Dimensional Fund Advisors	3.55	MKCP Institutional Investor	2.52
College Retirement Equities Fund	3.45	Manulife Financial Corp	1.81
Franklin Resources	3.32	TIAA Cref International Equities Fund	1.74
JAF Products Ltd	3.06	SR Global	1.74
International Finance Corp	2.86	Morgan Stanley	1.58

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
30 Mar 2017	Citigroup Global Markets Mauritius Pvt Ltd	Sell	5220000	93.05
23 Feb 2017	Nomura Singapore Ltd	Sell	3379000	93.59
14 Sep 2016	Tiaa-Cref Funds-Tiaa-Cref Emerging Markets Equity Fund	Buy	3300060	93.44
14 Sep 2016	College Retirement Equities Fund Stock Account	Sell	3848210	92.68

*\*as per last available data*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

*\*as per last available data*

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**Coverage group(s) of stocks by primary analyst(s): Midcap Agri**

Bayer Cropscience, Dhanuka Agritech, Jain Irrigation, PI Industries, Rallis India, Sharda Cropchem, UPL

**Recent Research**

Date	Company	Title	Price (INR)	Recos
23-May-17	<b>Dhanuka Agritech</b>	Growth tepid; pinning hopes on monsoon; <i>Result Update</i>	782	Buy
17-May-17	<b>PI Industries</b>	Revenue growth muted; margin spurts; <i>Result Update</i>	843	Buy
28-Apr-17	<b>UPL</b>	Scaling growth track; shedding debt pangs;	806	Buy

**Distribution of Ratings / Market Cap**

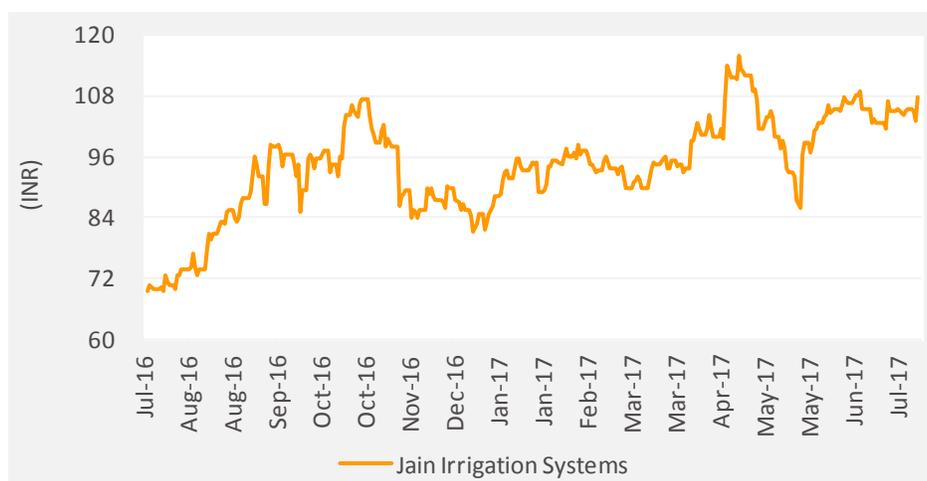
**Edelweiss Research Coverage Universe**

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

**Rating Interpretation**

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

**One year price chart**



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