

Jain Irrigation

 BSE Sensex
 25,229

 S&P CNX
 7,527

CMP: INR106
TP: INR170
Buy


Stock Info

Bloomberg	JI IN
Equity Shares (m)	443.1
52-Week Range (INR)	133/46
1, 6, 12 Rel. Per (%)	-6/32/74
M.Cap. (INR b)	48.4
M.Cap. (USD b)	0.8

Financial Snapshot (INR Million)

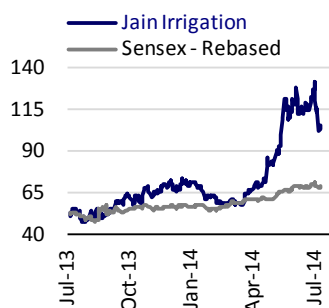
Y/E March	2015E	2016E	2017E
Net Sales	70,249	84,071	99,517
EBITDA	9,663	11,787	13,953
Adj PAT	2,773	4,921	6,935
EPS (INR)	6.0	10.6	15.0
Growth (%)	315.8	77.4	40.9
BV/Sh. (INR)	52.3	62.0	75.9
RoE (%)	12.1	18.6	21.7
RoCE (%)	12.8	16.3	19.1
P/E (x)	17.7	10.0	7.1
P/BV (x)	2.0	1.7	1.4

Shareholding pattern (%)

As on	Mar-14	Dec-13	Mar-13
Promoter	28.7	27.5	27.5
DII	13.4	1.6	1.3
FII	39.5	53.0	51.0
Others	18.4	18.0	20.2

Note: FII Includes depository receipts

Stock Performance (1-year)



Budget supportive of strong growth for MIS

Subsidy for MIS in FY15 Budget increased by 21% to INR15.6b

- In a conference call hosted by us, JI's Managing Director, Mr Anil Jain highlighted that the Budget has been highly supportive for MIS business, with direct subsidy allocation for MIS increasing by 21% to INR15.6b. Also, he stated that state governments can draw proceeds from other schemes like RJVY, AIDP and PMKSY which will ensure that funding for MIS will not be a constraint.
- Mr Jain reiterated that the recent cut of 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. However, total subsidy rate for farmers remains unchanged as states are contributing to maintain the overall subsidy rate.
- Management remains confident of clocking 20% growth for MIS business in FY15 and is hopeful of policy action from the new government to boost MIS implementation, which is a thrust area for the new government.
- We maintain a Buy rating on the stock with a target price of INR170, valuing it at 16x FY16E earnings.

Budget allocation increased by 21% to INR15.6b

MIS subsidy in the Budget has been hiked by 21% to INR15.6b for FY15, over FY14 amount spent of INR13b. Further, there are many government schemes under which subsidy for MIS can be augmented like Rashtriya Krishi Vikas Yojana (RKVY) (total allocation of INR98b, up 41% against the interim budget), Accelerated Irrigation Benefit Programme (AIBP) (INR86b allocation, newly introduced), Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) (INR10b, newly introduced). Management is thus confident of adequate funding availability for MIS and expects growth for FY15 at 20%.

Cut in subsidy rate to ensure more farmers come under MIS ambit

Recent cut in subsidy rate per farmer will induce more farmers to come under the ambit of MIS. Further, there is no credit risk associated with receivables and concerns on the same are unfounded as MIS implementation by JI is commenced only after it gets subsidy approval receipt from the state government.

Maintain Buy with a target price of INR170

With a focus on progressive states and switch to cash-based model, we expect JI's working capital concerns to be allayed over FY14-16E. Hence, we expect strong free cash generation which should aid to reduce debt equity from 1.6x in FY14 to 1.1x in FY16E. We believe JI is on track to post 20% revenue growth in FY15E. Management targets to raise INR5b through a 25% stake sale in its food processing business. We maintain a **Buy** with a target price of INR170 (16x FY16E EPS) and believe recent correction provides a good buying opportunity.

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Budget allocation increased by 21% to INR15.6b

As per budget for FY15, direct amount available for micro irrigation subsidy stood at INR15.6b which is 21% percent higher than INR13b spent in FY14. From FY15 budget, direct funding for micro irrigation subsidy is provided under National Mission for Sustainable Agriculture (“NMSA”) and Mission for Integrated Development of Horticulture (“MIDH”). Earlier till FY14, budget allocation for MIS was assumed only under National Mission on Micro Irrigation, (“NMMI”). Further, additional funding support for micro irrigation also comes under various other schemes from different ministries. Allocation in budget has been increased in all these schemes as enumerated below. This will further augment growth potential of the business.

Allocation under various government schemes

Ministry of Govt. of India	Scheme	Allocation for FY15 as per interim budget (INR b)	Allocation for FY15 as per final budget (INR b)	% Change
Agriculture	Rashtriya Krishi Vikas Yojana (RKVY)	77.00	99	41%
Water Resources	Accelerated Irrigation Benefit & Flood Management Programme (AIBP)	-	87	-
Water Resources	Pradhan Mantri Krishi Sinchayee Yojana (PMKSY)	-	10	-

Source: Company, MOSL

Rashtriya Krishi Vikas Yojana (RKVY)

Provision includes sub-components, viz. (i) Special Initiative for pulses and oilseeds development in selected pulses/oilseed growing villages as a supplementary programme, specifically targeted to rainfed areas and will be implemented on same parameters as ongoing programmes for oilseed and pulses, (ii) Scheme to bridge yield gap in agriculture in eastern India, (iii) Requirement for Saffron Mission in Jammu & Kashmir, (iv) Promotion of oil palm; (v) Initiative on vegetable clusters, (vi) Nutri-cereals, (vii) Accelerated fodder development programme, and (viii) National Mission for Protein Supplement to promote livestock development, dairy farming, piggery, goat rearing and fisheries in selected block and Rainfed Area Development Programme.

Accelerated Irrigation Benefit & Flood Management Programme (AIBP)

The scheme supports Major, medium and minor projects of the states and also provides for national projects, Command Area development and management, flood management and Repair, Renovation and Restoration of Water Bodies.

Pradhan Mantri Krishi Sinchayee Yojana (PMKSY)

Bulk of our farm lands are rain fed and dependent on monsoons. Therefore, there is a need to provide assured irrigation to mitigate risk. To improve access to irrigation we propose to initiate the scheme “Pradhan Mantri Krishi Sinchayee Yojana”. Allocation for micro irrigation under this scheme is not yet known.

State wise allocation of MIS subsidy for FY15

		₹ in Crore
S.No.	State	Outlay 2014-15
1	Andhra Pradesh	295.00
2	Bihar	70.00
3	Chattisgarh	40.00
4	Goa	0.40
5	Gujarat	200.00
6	Haryana	40.00
7	Himachal Pradesh	3.00
8	Jharkhand	30.00
9	Jammu & Kashmir	4.00
10	Karnataka	175.00
11	Kerala	7.50
12	Madhya Pradesh	110.00
13	Maharashtra	250.00
14	Odisha	15.00
15	Punjab	20.00
16	Rajasthan	150.00
17	Tamil Nadu	90.00
18	Uttarakhand	10.00
19	Uttar Pradesh	15.61
20	West Bengal	1.00
21	NCPAAH	3.00
	Sub Total	1529.51
	North Eastern States	
22	Arunachal Pradesh	1.00
23	Assam	2.00
24	Manipur	5.44
25	Meghalaya	1.00
26	Mizoram	9.00
27	Nagaland	5.00
28	Sikkim	6.00
29	Tripura	10.00
	Sub Total	39.44
	Total	1568.95

Source: Company, MOSL

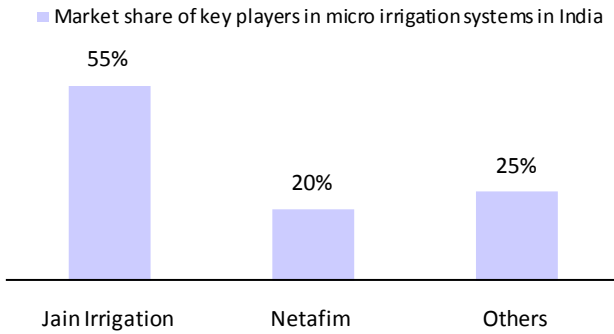
Budget positive for JI's piping, solar and food processing businesses as well

FY15 budget has been positive for JI's other divisions like Pipes, Food Processing and Solar Pumps. Also, it has initiated schemes that will enable better funding availability to farmers.

- **JI's piping division** is largely into agri-pipes which form 90% of the division's sales. Pipes business contributes 24% of consolidated revenues will benefit immensely from government schemes like Accelerated Irrigation Benefit & Flood Management Programme (AIBP). Government has also increased the outlay for drinking water in villages, which will support demand for pipes.
- **Similarly, Solar pumps division** which is a comparatively smaller division with revenue contribution of 3% will benefit as the government looks to implement its target of ~100,000 pumps. The government target of 100,000 pumps even as it seems ambitious could open up a new business potential of almost INR50b and with a market share of 40%, JI will clearly be a strong beneficiary.
- **In Food processing industry** government has cut the excise from 10% to 6% for machinery purchased for this division which will lower capital expenditure for the division. Additionally reforms in the form of creation of a national market coupled with farmers' markets will allow JI to buy raw materials on a more competitive basis which can improve the margins for the division.
- **Credit support towards farmers is increasing.** For instance, financing support to landless farmers who are unable to provide land title as guarantee and to who institutional finance is denied was also focused upon in the budget. Finance Minister consequently proposed to provide finance to 5 lakh joint farming groups of "Bhoomi Heen Kisan" through NABARD in FY15. This along with a number of other schemes will ensure greater credit availability to farmers which is positive for JI's farmer centric business model.

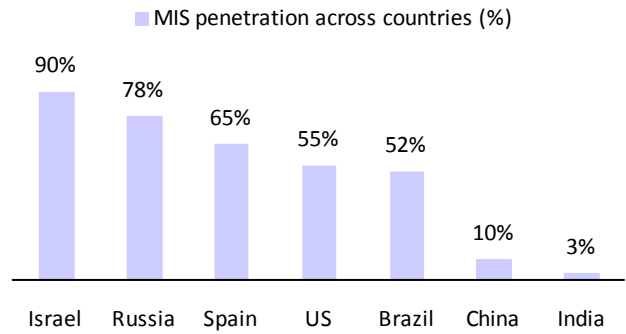
Story in charts

Ji is the market leader in MIS business in India



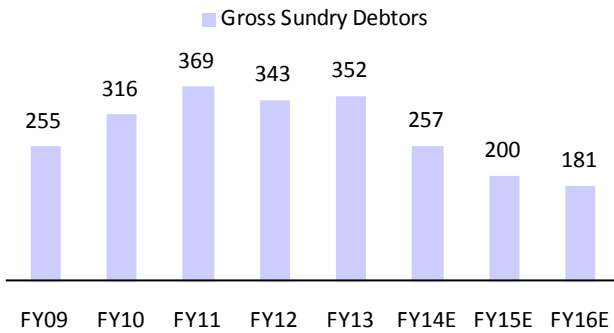
Source: Company, MOSL

MIS penetration in India is among the lowest in world



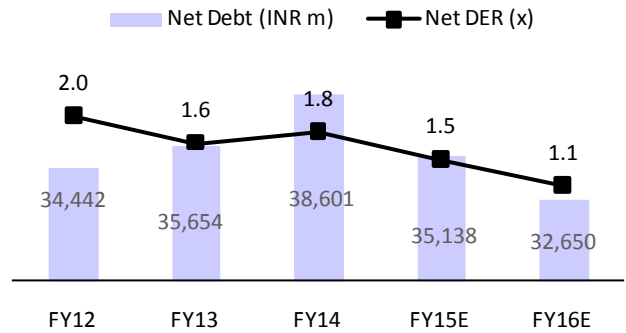
Source: Company, MOSL

Gross debtors set to decline due to improved strategy



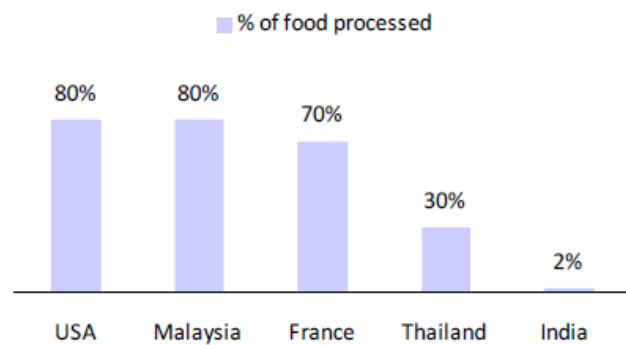
Source: Company, MOSL

Hence, debt to equity to decline from 1.8x to 1.1x



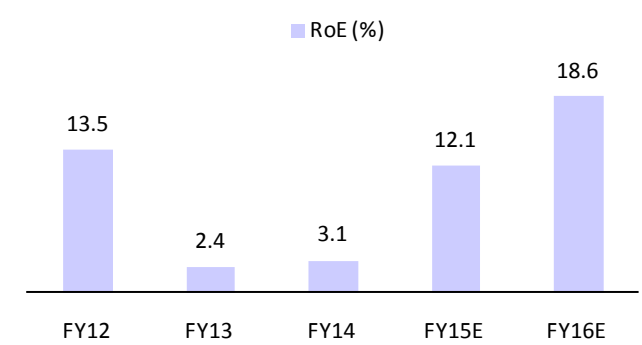
Source: Company, MOSL

Food processing is another key opportunity for Ji



Source: Company, MOSL

RoE to improve to 18.6% in FY16E



Source: Company, MOSL

Financials and valuation

Income statement				(INR Million)		
Y/E March	2012	2013	2014	2015E	2016E	2017E
Net Sales	49,206	50,217	58,281	70,249	84,071	99,517
Change (%)	18.5	2.1	16.1	20.5	19.7	18.4
EBITDA	8,155	7,253	7,700	9,663	11,787	13,953
EBITDA Margin (%)	16.6	14.4	13.2	13.8	14.0	14.0
Depreciation	1,441	1,696	2,045	2,110	2,197	2,307
EBIT	6,714	5,558	5,654	7,553	9,590	11,645
Interest	4,768	4,855	4,676	4,437	3,859	3,474
Other Income	345	668	463	351	420	498
Extraordinary items	0	1,245	2,300	0	0	0
PBT	2,290	125	-860	3,467	6,151	8,669
Tax	4	80	-462	693	1,230	1,734
Tax Rate (%)	0.2	63.9	53.7	20.0	20.0	20.0
Reported PAT	2,286	45	-398	2,774	4,921	6,935
Adjusted PAT	2,286	495	667	2,774	4,921	6,935
Change (%)	-20.6	-78.4	34.9	315.8	77.4	40.9
Min. Int. & Assoc. Share	-51	-14	0	0	0	0
Adj Cons PAT	2,286	495	667	2,774	4,921	6,935

Balance sheet				(INR Million)		
Y/E March	2012	2013	2014	2015E	2016E	2017E
Share Capital	810	910	925	925	925	925
Reserves	16,726	20,770	20,831	23,279	27,767	34,161
Net Worth	17,537	21,680	21,755	24,204	28,692	35,086
Debt	37,986	38,051	40,583	36,583	33,583	29,583
Deferred Tax	1,755	1,841	1,412	1,412	1,412	1,412
Total Capital Employed	57,775	61,572	63,955	62,404	63,892	66,285
Gross Fixed Assets	33,528	37,726	41,514	44,621	46,921	49,221
Less: Acc Depreciation	9,793	11,640	13,742	15,853	18,050	20,357
Net Fixed Assets	23,735	26,086	27,771	28,768	28,871	28,864
Capital WIP	1,980	749	807	0	0	0
Investments	236	38	14	14	14	14
Current Assets	48,180	50,405	52,258	54,156	60,230	68,165
Inventory	14,614	17,231	18,364	21,606	25,137	29,896
Debtors	22,712	19,547	17,994	16,685	18,051	19,515
Cash & Bank	3,308	2,359	1,968	1,431	919	1,031
Loans & Adv, Others	7,546	11,269	13,932	14,435	16,123	17,722
Curr Liabs & Provns	17,073	16,636	18,089	21,729	26,418	31,951
Curr. Liabilities	16,365	16,095	17,473	21,100	25,616	30,965
Provisions	708	541	617	629	802	986
Net Current Assets	31,107	33,770	34,169	32,428	33,812	36,214
Total Assets	57,775	61,572	63,955	62,404	63,892	66,286

E: MOSL Estimates

Financials and valuation

Ratios

Y/E March	2012	2013	2014	2015E	2016E	2017E
Basic (INR)						
EPS	5.6	1.1	1.4	6.0	10.6	15.0
Cash EPS	9.2	4.8	5.9	10.6	15.4	20.0
Book Value	43.3	47.7	47.0	52.3	62.0	75.9
DPS	1.0	0.6	0.6	0.7	0.9	1.1
Payout (incl. Div. Tax.)	20.6	588.3	-68.0	11.7	8.8	7.8
Valuation(x)						
P/E			73.5	17.7	10.0	7.1
Cash P/E			18.1	10.0	6.9	5.3
Price / Book Value			2.3	2.0	1.7	1.4
EV/Sales			1.5	1.2	1.0	0.8
EV/EBITDA			11.4	8.7	6.9	5.6
Dividend Yield (%)			0.5	0.6	0.9	1.1
Profitability Ratios (%)						
RoE	13.5	2.4	3.1	12.1	18.6	21.7
RoCE	14.0	10.8	10.0	12.8	16.3	19.1
Turnover Ratios (%)						
Asset Turnover (x)	0.9	0.8	0.9	1.1	1.3	1.5
Debtors (No. of Days)	165.4	139.0	109.7	86.0	77.7	70.9
Inventory (No. of Days)	108.4	125.2	115.0	112.3	109.1	109.7
Creditors (No. of Days)	121.7	113.7	96.9	98.1	100.3	103.0
Leverage Ratios (%)						
Net Debt/Equity (x)	2.2	1.8	1.9	1.5	1.2	0.8

Cash flow statement

(INR Million)

Y/E March	2012	2013	2014	2015E	2016E	2017E
OP/(Loss) before Tax	2,286	125	-860	3,467	6,151	8,669
Depreciation	1,441	1,696	2,045	2,110	2,197	2,307
Others	0	0	0	0	0	0
Interest	4,157	4,855	4,676	4,086	3,439	2,977
Direct Taxes Paid	938	295	41	693	1,230	1,734
(Inc)/Dec in Wkg Cap	-6,166	-3,127	-1,551	1,203	-1,897	-2,289
CF from Op. Activity	850	4,275	5,731	10,173	8,660	9,930
(Inc)/Dec in FA & CWIP	-5,270	-2,943	-2,615	-2,300	-2,300	-2,300
(Pur)/Sale of Invt	-114	-459	-407	0	0	0
Others	55	20	138	351	420	498
CF from Inv. Activity	-5,330	-3,383	-2,885	-1,949	-1,880	-1,802
Inc/(Dec) in Net Worth	14	3,903	0	0	0	0
Inc / (Dec) in Debt	8,143	-586	1,216	-4,000	-3,000	-4,000
Interest Paid	-4,051	-4,843	-4,638	-4,437	-3,859	-3,474
Divd Paid (incl Tax)	-448	-469	-265	-325	-433	-541
CF from Fin. Activity	3,674	-1,832	-3,202	-8,762	-7,292	-8,015
Inc/(Dec) in Cash	-805	-939	-356	-537	-512	113
Add: Opening Balance	4,114	3,298	2,324	1,968	1,431	919
Closing Balance	3,308	2,359	1,968	1,431	919	1,031

E: MOSL Estimates

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JAIN IRRIGATION SYSTEMS LTD

Analyst ownership of the stock

No

Analyst Certification

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