

Jain Irrigation Systems Limited

April 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	2433.20 (reduced from 2485.81)	CARE BBB+; Stable (Triple B Plus; Outlook:Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Short-term Bank Facilities	2220.00 (enhanced from Rs.1765.00)	CARE A3+ (A Three Plus)	Revised from CARE A2 (Single A Two)
Total Facilities	4653.20 (Rupees Four Thousand Six Hundred Fifty Three crore and Twenty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers:

The revision in the ratings assigned to the bank facilities of Jain Irrigation Systems Limited (JISL) reflects significant increase in debt levels during FY18 and 9MFY19 on account of debt funded acquisitions and capex, apart from increased working capital requirements, leading to moderation in capital structure and debt coverage indicators. Working capital intensive nature of operations have also led to moderation in liquidity position of the company. The ratings also factor in susceptibility of JISL's profitability to volatility in raw material prices, risk related to foreign exchange fluctuations and dependence on the seasonal agriculture sector and government policies.

The ratings, however, continue to derive strength from JISL's promoters' extensive industry experience, leadership position in Micro Irrigation Systems (MIS) and other segments that the company operates in, well-diversified product offering and market reach along-with a widespread distribution network and a healthy order book position. The ratings also factor in the improved scale of operations during FY18 and 9MFY19.

Deleveraging of the consolidated balance sheet, improvement in the liquidity position and maintenance of JISL's operating margins shall remain the key rating sensitivities. Also, any further debt funded acquisitions, leading to an increase in the overall debt levels will remain a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

JISL, founded by Late Mr. Bhavarlal Jain, is the pioneer of micro irrigation in India. Currently, Late Mr. Bhavarlal Jain's sons Mr. Ashok Jain (Chairman), Mr. Anil Jain (Managing Director), Mr. Ajit Jain (Joint Managing Director) and Mr. Atul Jain (Joint Managing Director) are managing overall operations of the group and are assisted by professionals, agricultural scientists, engineers and technicians managing various business segments.

Sustained leadership in the key business segments and a widespread distribution network

As per the company's annual report, JISL is the second-largest player in the world and the market leader in India in the MIS which comprises of drip and sprinkler segment. It is also the market leader in manufacturing plastic pipes in India. JISL undertakes end-to-end water solution projects by transporting water, creating new water reservoirs, creating irrigation systems and assisting with agronomy. The company is also a leading manufacturer of dehydrated onions, vegetables products, aseptic fruit purees, concentrates, clarified juices and frozen products. JISL is one of the leading organised players in the poly vinyl chloride piping industry.

Over the years, JISL has built an extensive distribution network throughout the rural and semi-urban areas of India and the company distributes its products in more than 126 countries with the assistance of more than 11,000 dealers and distributors globally. The company (including subsidiaries) has 33 manufacturing bases with 11 manufacturing facilities and 5 demo and research development farms in India and 17 plants located across four continents.

Well-diversified product portfolio

On a consolidated basis, the products and services offered by the company can be divided into four major segments, viz., the Hi-tech Agri Input Products (which includes revenues from MIS, solar agri pump, integrated irrigation projects and tissue culture plants), the plastic division (PVC piping products, PE piping products, piping projects and plastic sheets), the agro processing division (fruits, onion products and bio-gas) and others (solar thermal products, solar photovoltaic grid and bio-gas products).

The Hi-tech Agri Input products division contributed around 52% to the total revenue of the company on a consolidated basis followed by the plastic division contributing 25%, agro processing division contributing 20% and the other segment contributing to 3% of the consolidated revenue of the company during FY18. The domestic sales have increased by 10.5% to Rs.4246 crore in FY18 and has further increased by 15% during 9MFY19 (on a y-o-y basis) to Rs.1978 crore. The revenue from exports have increased by 21% to Rs.3753 crore in FY18 and has further increased by 20% during 9MFY19 (on a y-o-y basis) to Rs.1978 crore.

Healthy order book position

On a consolidated level, the company had an order book of Rs.5,192.80 crore as on January 31, 2019 (around 0.66x the net sales of FY18). This includes orders of Rs.3,010 crore for the Hitech Agri Input Products Division, Rs.1,206 crore for the Plastic Division, Rs.901 crore for Agro Processing. The orders in hand are expected to be executed over a period of 24-36 months.

Improved scale of operations

JISL's total operating income (TOI) improved by 18.1% from Rs. 6791.81 crore in FY17 to Rs.8014.07 crore during FY18, backed by healthy growth in the Hi-tech Agri input products and Plastic division during the year. Hi-Tech Agri input division contributes around 46%-52% of the total consolidated revenue for the company and MIS (India) contributes to around 47%-58% of the revenue of the segment. PBILDT margin declined marginally by 110 bps to 13.19% during FY18 as against 14.29% during FY17, on account of increase in employee costs during the year. However, PAT margin improved marginally by 17 bps to 2.76% during FY18 as against 2.59% during FY17 on account of receipt of an insurance claim of Rs. 51.20 crore during the year (pertaining to the fire incidence at Jain Farm Fresh Foods Ltd. (JFFFL) on November 18, 2017). During 9MFY19, TOI improved by 17.27% to Rs.6,204 crore from Rs.5,290 crore in H1FY18 with the growth in all the segments. The PBILDT margin was 14.29% and the PAT margin was 3.19% in 9MFY19 on a consolidated basis.

Key Rating Weaknesses

Increase in debt levels during FY18 and 9MFY19

The total debt outstanding has increased to Rs.5260.06 crore as on March 31, 2018 as against Rs.4658.22 crore as on March 31, 2017. The debt level further increased to Rs.5834 crore as on December 31, 2018. The debt level as on March 31, 2018 and December 31, 2018 was significantly higher than that envisaged earlier. The increase in debt levels was attributable to debt funded acquisitions and capex, apart from meeting increased working capital requirements of the company.

Consequently, JISL's capital structure is moderate with an overall gearing of 1.17x as on March 31, 2018 as against 1.09x as on March 31, 2017. The debt coverage indicators also remained moderate with interest coverage and total debt/ GCA ratios at 2.21x and 9.27x respectively in FY18 as against 2.11x and 9.25x respectively in FY17. The total debt/GCA was at 9.97x and the overall gearing was at 1.25x as on December 31, 2018. The interest coverage ratio was 2.22x for 9MFY19.

The company has availed long term loans around to Rs.765 crore from various banks for funding the capacity expansion and acquisitions done during FY18. The company has added 4,040 MTPA of capacity in the MIS division, 10,050 MTPA in plastic division and have added capacity for 10 million units p.a. in the tissue culture. The company has been growing inorganically through acquisitions done over the years. In May 2017, JISL through its wholly owned subsidiary, Jain Distribution Holdings Inc, USA, completed the acquisition of 80% stake in two of the United States' largest micro-irrigation dealers i.e. Agri Valley Irrigation LLC and Irrigation Design and Construction LLC in USA for total consideration of USD 48.5 million (Rs.381.92 crore). Further in October 2017, JISL through its subsidiary Naandan Jain Irrigation Ltd., acquired 60% of the issued capital of Agrologico de Guatemala S.A. and Agrologico sistemas Tecnologicos S.A. (Agrologico group) for a consideration of Rs.16.65 crore. Agrologico group sells irrigation material and supplies. In February, 2018, the company through its step down subsidiary JFFFL acquired 100% stake in Innova Food N. V. Belgium for a consideration of Rs.110.39 crore. All these acquisitions were funded through debt. *Any further debt funded acquisitions, leading to an increase in the debt levels will remain a key rating monitorable.*

Based on trends in the past financial years, wherein due to seasonality, the sales and collections in the fourth quarter pick up and the leverage level becomes lower than that at the end of December, JISL expects that the leverage as on March 31, 2019 would also be lower than that on December 31, 2018. Going forward, the company plans to raise debt in the form of NCDs and bank loans for working capital requirement and repayment of existing debt. The capex envisaged in the next five years is expected to be met out of accruals generated from the business. The company also plans to deleverage its balance sheet at consolidated level in the next 1.5-2 years by monetizing some of its assets, thereby bringing down the total debt/GCA ratio to 6.08 times in FY21. *Deleveraging of the consolidated balance sheet will be crucial from the credit perspective.*

Dependence on the seasonal agriculture sector and government policies

The company's performance is dependent on the seasonality in agriculture sector. The manufacturing of agro-processed products varies over the course of each year, reflecting seasonal changes in the availability of raw materials. MIS and agro-processing are subject to risks associated with the vagaries of nature, seasonality and government policies, leading

to high working capital financing requirements during seasons. However, the Government of India's programme focused on increasing irrigation, and farmers' income and production are likely to boost demand for pipes and fittings.

Liquidity Analysis:

The operations of the company are working capital intensive owing to the nature of the business necessitating maintenance of high inventory. The working capital cycle although improved during the year, continued to remain high at 149 days in FY18 as against 166 days in FY17. The average inventory period stood at 130 days in FY18 (136 days in FY17) while the receivable days was 110 days in FY18 (118 days in FY17) on a consolidated level. The creditors' period stood at 91 days in FY18 as against 89 days in FY17. The fund-based utilization was around 88.7% during the 12 months ended November 30, 2018, with peak utilization of 99.95% in October 2018. There has been a steep rise in the utilization levels in the last few months owing to the increased requirement of working capital to meet the business requirement.

Analytical approach: Consolidated

CARE has analyzed JISL's credit profile by considering the consolidated financial statements of the company owing to financial and operational linkages between the parent and subsidiaries. The details of the subsidiaries, associate and joint venture which have been consolidated as on March 31, 2018 are given in **Annexure 3**.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Established in the year 1986, JISL operates in diverse segments of the agri-business and also offers products in renewable energy segment. The micro-irrigation systems (MIS) (drip and sprinkler) is the flagship product of the company wherein JISL offers end-to-end water solution projects such as transporting water, creating new water reservoirs, creating irrigation systems and assisting with agronomy. The company also manufactures polyethylene (PE) pipes, polyvinyl chloride (PVC) pipes and plastic sheets. Other business segment of the company includes, agro-processing (dehydrated onions & vegetables, processed fruits, mango pulp and Bio Gas), tissue culture and solar systems (solar water heating systems, solar panels and solar water pumps).

The company (including subsidiaries) has 33 manufacturing bases with 11 manufacturing facilities and 5 demo and research development farms in India and 17 plants located across four continents.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	6791.81	8014.07
PBILDT	970.77	1057.72
PAT	176.24	221.29
Overall gearing (times)	1.09	1.17
Interest coverage (times)	2.11	2.21

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	July2022	752.20	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	2100.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	1650.00	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	July 2022	31.00	CARE BBB+; Stable
Fund-based - ST-Term loan	-	-		120.00	CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (19-Apr-16)	1)CARE A3 (14-Apr-15)
2.	Fund-based - LT-Term Loan	LT	752.20	CARE BBB+; Stable	1)CARE A-; Stable (28-Sep-18) 2)CARE A-; Stable (05-Apr-18)	1)CARE A-; Stable (16-Jun-17)	1)CARE BBB+; Stable (17-Feb-17) 2)CARE BBB- (19-Apr-16)	1)CARE BBB- (14-Apr-15)
3.	Non-fund-based - ST-BG/LC	ST	2100.00	CARE A3+	1)CARE A2 (28-Sep-18) 2)CARE A2	1)CARE A2 (16-Jun-17)	1)CARE A3+ (17-Feb-17) 2)CARE A3	1)CARE A3 (14-Apr-15)

					(05-Apr-18)		(19-Apr-16)	
4.	Fund-based - LT-Cash Credit	LT	1650.00	CARE BBB+; Stable	1)CARE A-; Stable (28-Sep-18) 2)CARE A-; Stable (05-Apr-18)	1)CARE A-; Stable (16-Jun-17)	1)CARE BBB+; Stable (17-Feb-17) 2)CARE BBB- (19-Apr-16)	1)CARE BBB- (14-Apr-15)
5.	Fund-based - LT-Term Loan	LT	31.00	CARE BBB+; Stable	1)CARE A-; Stable (28-Sep-18) 2)CARE A-; Stable (05-Apr-18)	1)CARE A-; Stable (16-Jun-17)	1)CARE BBB+; Stable (17-Feb-17) 2)CARE BBB- (19-Apr-16)	1)CARE BBB- (14-Apr-15)
6.	Fund-based - ST-Term loan	ST	120.00	CARE A3+	-	-	-	-

Annexure -3: Details of the subsidiaries, associates and joint venture which have been consolidated:

Group entities	Country of Incorporation	% ownership of JISL as on March 31, 2018
<u>Subsidiaries</u>		
JISL Overseas Limited	Mauritius	100%
Jain International Trading B.V.	Netherlands	100%
Jain Overseas B.V	Netherlands	100%
Jain (Israel) B.V	Netherlands	100%
JISL Global SA	Switzerland	100%
JISL System SA	Switzerland	100%
Jain America Foods Inc	USA	100%
Jain America Holdings Inc.	USA	100%
Jain (Europe) Ltd.	UK	100%
Jain Irrigation Holding Corp., (Consolidated)	USA	100%
Jain Irrigation Inc., (Consolidated)	USA	100%
Cascade Specialities Inc.	USA	100%
Naandan Jain Irrigation Ltd, Israel	Israel	100%
The Machines Yvonand S.A.	Switzerland	100%
Jain International Foods Ltd.	UK	100%
Sleaford Quality Foods Ltd.	UK	100%
Jain Mena DMCC	Dubai	100%
Jain Distribution holdings Inc. (Consolidated)	USA	100%
Jain Farm Fresh Holdings SPRL,(Consolidated)	Belgium	100%
ProTool AG	Switzerland	75%
Ex-Cel Plastics Ltd	Ireland	100%
Gavish Control Systems Ltd	Israel	51%
Excel Plastics Piping Systems SAS	France	100%
Driptech India Pvt. Ltd.	India	75%
Jain Farm Fresh Foods Ltd. (JFFFL)	India	89%
Jain Processed Foods Trading & Investments Private Ltd	India	100%
<u>Joint Venture</u>		
Dansystems S.A	Chile	50%
<u>Associate</u>		
Sustainable Agro-Commercial Finance Ltd	India	49%

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