

Jain Irrigation Systems Limited

June 16, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities (Term Loan)	537.67	CARE A-; Stable (Single A Minus; Outlook:Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook:Stable)
Long-term Bank Facilities (Fund-based)	1,550.00	CARE A-; Stable (Single A Minus; Outlook:Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook:Stable)
Short-term Bank Facilities (Non-fund-based)	1,735.00	CARE A2 (A Two)	Revised from CARE A3+ (A Three Plus)
Total Facilities	3,822.67 (Rupees Three Thousand Eight Hundred Twenty Two crore and Sixty Seven lakh only)		

Details of 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) factors in the improvement in its operating performance during FY17 (refers to the period April 1 to March 31) in terms of profitability, improved liquidity position on part replacement of the debt maturities in the medium term with longer tenure unsecured notes in its step-down foreign subsidiary in February 2017 and consequent improvement in JISL's debt coverage indicators along-with an increase in the order-book position of the company.

The ratings also continue to derive strength from JISL's promoters' extensive industry experience, leadership position in Micro Irrigation Systems (MIS) and other segments that the company caters to, well-diversified product offering and market reach along-with a widespread distribution network.

The rating strengths are, however, tempered by moderate financial risk profile with debt-funded acquisitions and operations; working capital intensive operations reflected in operating cycle of 169 days in FY17 and dependence on the seasonal agriculture sector and government policies.

Maintenance of JISL's operating margins, improvement in its working capital cycle, successful integration of companies acquired in April 2017 and refinancing of the Foreign Currency Convertible Bonds (FCCB) due in FY18 would remain the key rating sensitivities. Furthermore, CARE expects that JISL would achieve total debt (including outstanding Letter of Credit and part of Compulsory Convertible debentures) to Profit Before Interest Lease Depreciation and Tax (PBILDT) level of 3.5-3.7 times for financial year ending March 31, 2018, generally maintain sufficient liquidity cushion in the form of undrawn working capital limits to the extent of at least 20-25%, reduce the net debt levels in FY18 and JISL's ability to achieve the same would be the key rating monitorables.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in operating performance: As per the provisional financials (based on IND AS), on a consolidated basis, total operating income of the company increased by 6.9% on YoY basis to Rs.6,766 crore in FY17 from Rs.6,327 crore in FY16. The PBILDT margin increased to 14.31% during FY17 from 13.09% in FY16. Consequently, total debt to PBILDT ratio improved from 4.9 times in FY16 to 4.2 times in FY17.

Well-established and experienced promoters: JISL, founded by late Mr Bhavarlal Jain, is the pioneer of micro irrigation in India. Currently, the promoters (late Mr Bhavarlal Jain's sons) are managing overall operations of the group and are assisted by professionals, agricultural scientists, engineers and technicians managing various business segments.

Widespread distribution network: Over the years, JISL has built an extensive distribution network throughout the rural and semi-urban areas of India and has now more than 6,500 dealers spread across the country selling JISL's products. JISL also has a global presence in more than 120 countries with a robust dealer and distribution network.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Well-diversified product offering: As per published sources, JISL is the second-largest player in the world and the market leader in India in the micro-irrigation systems (MIS) (drip and sprinkler) segment. JISL takes 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.

Replacement of the debt maturities with longer tenure unsecured notes: During February 2017, JISL through its wholly-owned step-down foreign subsidiary - Jain International BV; Netherlands raised USD 200 million unsecured notes with an objective to refinance part of its outstanding debt obligations. The proceeds from the unsecured loans were utilised to repay around Rs.978 crore debt in the holding company and Rs.275 crore in various subsidiaries. Pursuant to the completion of the transaction the pressure on the liquidity eased.

Operational performance expected to improve in medium term: CARE expects improvement in the operational performance to continue in medium, backed by healthy orderbook position of the company in India of Rs.1,840 crore as on April 30, 2017, and increase in revenue in foreign subsidiaries owing to acquisition. CARE expects that with increase in consolidated operating income would lead to expansion in profit in the medium term. Furthermore, lower interest cost owing to lower cost of borrowing and lower utilisation of fund-based limits is expected to keep interest coverage ratio at comfortable level. Furthermore, net debt levels of the company are expected to reduce with gradual repayment of ECBs and no significant debt-funded expansion plans as per the company's management.

Key Rating Weaknesses

Dependence on the seasonal agriculture sector and government policies: The operations of the company are working capital intensive owing to the nature of the business necessitating maintenance of high inventory. 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.

Working capital intensive operations: The operations of the company are working capital intensive owing to the nature of the business necessitating maintenance of high inventory. Average inventory period stood at 140 days in FY17 (132 days in in FY16), while credit period extended to customers was 118 days in FY17 (same as FY16) on a consolidated level. The net working capital cycle (days) continued to be high at 169 days in FY17 (161 days in FY16). However, post the infusion of funds through unsecured notes, average fund-based utilisation has averaged at 50% during the period (March-April 2017) compared with 83% during the corresponding period of pervious year.

FCCB repayments due in FY18, albeit refinancing expected: The company has repayments of its Foreign Currency Convertible Bonds (FCCB) in FY18 to the tune of USD 40 million and USD 10 million in FY19. However, it may be noted that the company is in active discussion to raise new FCCB loans with a view to repay its current FCCB. Fructification of the deal is further expected to enhance the liquidity position of the company. Timely refinancing of the FCCB falling before the due date will be a key rating sensitivity.

Analytical approach: Consolidated

CARE has analysed JISL's credit profile by considering the consolidated financial statements of the company owing to financial and operational linkages between the parent and subsidiaries.

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), tissue culture and solar systems (solar water heating systems, solar panels and solar water pumps).

The company (including subsidiaries) has 12 manufacturing facilities in India and 18 located across five continents. In order to acquire advanced technology and bolster its presence in overseas markets, the company has also acquired facilities in Israel, US and Latin America through various subsidiaries. The company has over 2,100 distributors across the globe and over 6,500 dealers in India.

Based on provisional financials, at a consolidated level, the profit after tax (PAT)/Total Comprehensive Income (TCI) of JISL stood at Rs.94 crore on a total operating income of Rs.6,767 crore in FY17 vis-à-vis PAT/TCI of Rs.14 crore on a total operating income of Rs.6,327 crore in FY16.

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Facilities

Name of the Bank Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	July 2022	506.67	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	1735.00	CARE A2
Fund-based - LT-Cash Credit	-	-	-	1550.00	CARE A-; Stable
Fund-based- LT-	-	-	December 2017	31.00	CARE A-; Stable

Annexure-2: Rating History of last three years								
Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper	ST	-	-	-	1)Withdrawn (19-Apr-16)	1)CARE A3 (14-Apr-15)	1)CARE A3 (30-Apr-14)
2.	Fund-based - LT-Term Loan	LT	506.67	CARE A-; Stable	-	1)CARE BBB+; Stable (17-Feb-17) 2)CARE BBB- (19-Apr-16)	1)CARE BBB- (14-Apr-15)	1)CARE BBB- (30-Apr-14)
3.	Non-fund-based - ST-BG/LC	ST	1735.00	CARE A2	-	1)CARE A3+ (17-Feb-17) 2)CARE A3 (19-Apr-16)	1)CARE A3 (14-Apr-15)	1)CARE A3 (30-Apr-14)
4.	Fund-based - LT-Cash Credit	LT	1550.00	CARE A-; Stable	-	1)CARE BBB+; Stable (17-Feb-17) 2)CARE BBB- (19-Apr-16)	1)CARE BBB- (14-Apr-15)	1)CARE BBB- (30-Apr-14)
5.	Fund-based - LT-Term Loan	LT	31.00	CARE A-; Stable	-	1)CARE BBB+; Stable (17-Feb-17) 2)CARE BBB- (19-Apr-16)	1)CARE BBB- (14-Apr-15)	1)CARE BBB- (30-Apr-14)

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