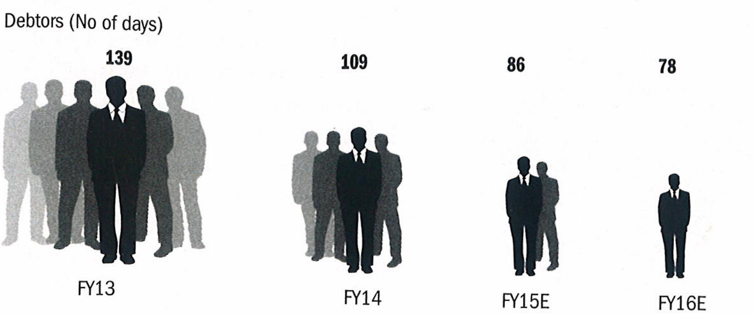
Jain Irrigation: A bumper harvest

SOUMIK KAR

Jain Irrigation, the largest player in the micro irrigation space, has been able to cope with its debt problem as its efforts to reduce dependence on working capital and manage receivable days have started yielding results. In the past, the company had accumulated a huge amount of debt because of delays in the payment of government subsidies on the micro irrigation systems (MIS) solutions that it supplies to farmers, which led to an increase in receivables. The MIS business gross receivables have come down from 369 days in FY11 to 257 days in FY14 and further to 235 days in the June 2014 quarter. A large part of this change could be attributed to a change in business model, as the company now follows a cash-and-carry model, whose benefits are yet to fully reflect on its books. In a note prepared for Axis Capital, analyst Hemant Patel says, "The management is targeting a further 45-day reduction in receivables in FY15, as the full benefits of the cash-and-carry model play out. We expect working capital-to-sales to decline to 39% in FY16 from 61% in FY13 and 50% in FY14."

"We have shifted to a cash-and-carry model, where the subsidy part is now taken care of by farmers itself, which is why our concern over receivables is now easing. Our gross receivables have fallen from ₹2,500 crore in FY12 to ₹1,600 crore currently, despite growth in revenues. Additionally, we have maintained strict control on inventory and capex, which has helped us manage our debt effectively," said Anil Jain, managing director, Jain Irrigation. Moreover, a reduction in receivables has resulted in higher cash at the company's disposal (about ₹800 crore-900 crore), which it is now using to fund its business growth, instead of just relying on borrowed funds. Case in point: in FY14, the company generated about ₹930 crore from operations, as against ₹346 crore in FY13.

The Cash-and-carry model has drastically reduced gross receivables



Source: MOSL

> *"We have maintained strict control on inventory and capex to help us manage debt effectively*
>
> **—ANIL JAIN**
> **MD, Jain Irrigation**

Its core MIS business — where Jain Irrigation is the largest player with a 55% market share — has been growing at a rapid pace due to low penetration and the government's emphasis on micro irrigation. As the company is now able to fund its growth from the internal accruals, the management believes that they now have the opportunity to grow much bigger. Higher growth will have a huge impact on the company's earnings, which are currently depressed because of interest costs. Incremental growth in revenue will reflect directly on earnings. For instance, as against an EPS of ₹1.4 in FY14, the company is expected to report an EPS of ₹6 in FY15 and ₹11 in FY16. More importantly, due to the improvement in earnings, return ratios such as return on equity are expected to improve. This will be a key catalyst for Jain Irrigation's share prices as the market tends to give a higher valuation premium for companies that show better return ratios and manageable debt.