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DECEMBER 7, 2008

THE WALLET

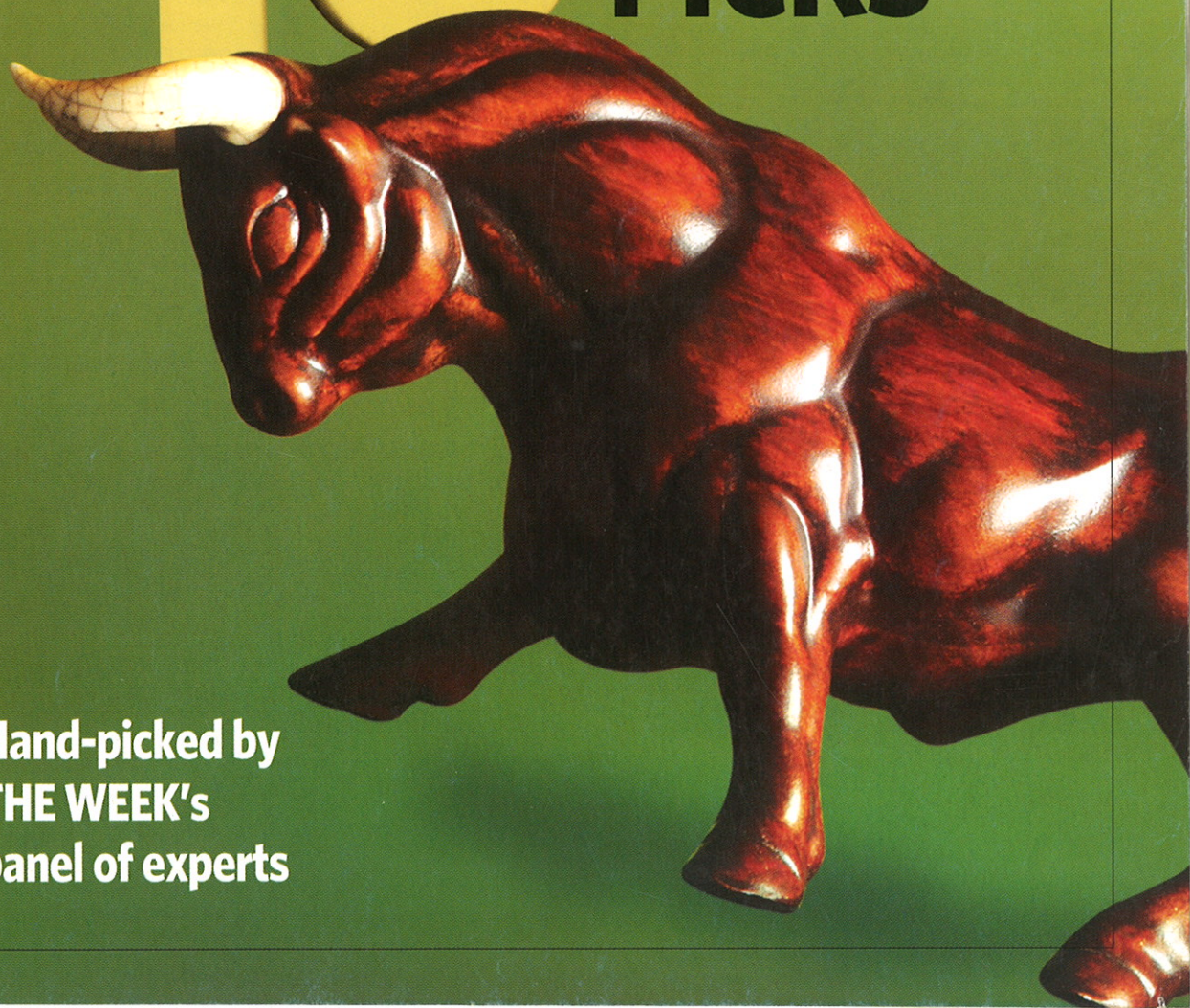
22 Insurance
Systematic Investment Plan

56 Negotiating salary
How to get the best deal

**DOUBLE
ISSUE**

INVESTMENT 2009

15 HOT STOCK PICKS



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WEALTH CREATOR



DRIP BY DRIP

Bhanwarlal Jain
*His Jain Irrigations
 Systems is the second
 largest micro irrigation
 provider in the world*

By Shriya Bubna

Bhanwarlal Jain saw an opportunity for business in agriculture when few did. Starting out with just Rs 7,000 investment 45 years ago, he now owns a Rs 2,390 crore-turn-over company. His Jain Irrigation Systems Ltd is the second largest micro irrigation provider in the world. Its businesses include manufacturing of drip and sprinkler irrigation system, piping, solar heating and lighting systems, plastic sheets, food processing and bio-fertilisers.

Bhanwarlal was originally a small-time kerosene dealer. As the farmers came to him to buy kerosene, he realised he could become a one-stop shop for all their input needs, including tractors. He took over a sick banana processing unit in Jalgaon in 1978 and converted that into a unit to produce papain from the fruit papaya. Two years later, he diversified into pipe manufacturing becoming the largest PVC pipe producer in India. And then came a chance happening. He attended a conference in the US on micro irrigation, and on his return launched a company with micro irrigation as its core.

In 1988, Jain Irrigation Systems went public.

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Sixty per cent of the initial public offering was subscribed by the owners themselves.

There was no denying the potential for using drip and sprinkler irrigation systems. "Micro irrigation helps save on all inputs—water, seeds, fertilisers, energy and labour, and improves productivity by 40-100 per cent," says Anil Jain, managing director, Jain Irrigation Systems.

It was not easy convincing farmers and bureaucrats of its viability. Marketing officials had to learn the local language and market the concept in weekly bazaars and at festivals. They even took some farmers to Australia, Hawaii and California to demonstrate the successful implementation of micro irrigation.

The government stepped in only later. A task force on agriculture set up by the NDA government proposed that large areas could be brought under irrigation through drip and sprinkler irrigation. A micro irrigation system costs around Rs 40,000, but the government now provides 50 per cent subsidy.

After the first phase of using the systems for sugarcane, grape and banana cultivation, the next application was for crops like cotton, onions, oilseeds, potatoes and chillies. The last being wheat, other cereals and grains. "Except rice, the system can be applied for all other crops," says Jain.

The next thrust was on exports. The compa-

ny concentrated on exporting plastic sheets and pipes. But there was also a huge global market for processed foods. But Jain suffered a setback after the US-based Chiquita Brands International Inc., the world's largest banana processing company, with which he had entered into an export agreement, filed for bankruptcy. The company, nevertheless decided to go ahead with its plans. Today, it has about 3,500 acres under contract farming. It is a supplier of dehydrated foods, fruit puree and juice concentrates to clients like Nestle, Heinz, Unilever and Coca-Cola.

The company has four major revenue streams—micro irrigation, pipe manufacturing, production of plastic sheets and food processing. In the last six years, the company, taking the inorganic route, has grown at a compounded rate of 50 per cent. Even on a stand-alone basis, its revenues have increased by 42 per cent.

It's overseas acquisitions have not only provided the company with superior technology but also access to new markets and distribution networks in the US, Europe and Israel. Global business, which accounts for 20 per cent of its revenues, is expected to grow to 33 per cent in the next 3-5 years.

"Jain Irrigation, which is spread across the entire agricultural value chain, with the exception of finance and supply of some inputs, is not looking at growing through further diversifica-

Stock outlook

Positives: Domestic business contributes to 70 per cent of its total earnings. Strong growth is expected in domestic business buoyed by robust demand for micro irrigation systems and agro-processing.

India Infoline has placed the estimated margin for the company's micro-irrigation segment at 27.5 per cent from 27 per cent earlier, in view of continued strength in realisation. The company's realisations have been rising faster

than its costs. The revenue growth in this segment is expected at 28.4 per cent, marginally higher than the earlier estimate of 28 per cent.

The agro-processing business is expected to see a strong growth and margin expansion, driven by healthy demand for processed foods and strong price realisations. The company is expected to increase fruit and onion processing capacities by 35 per cent and 20 per cent respectively, this year.

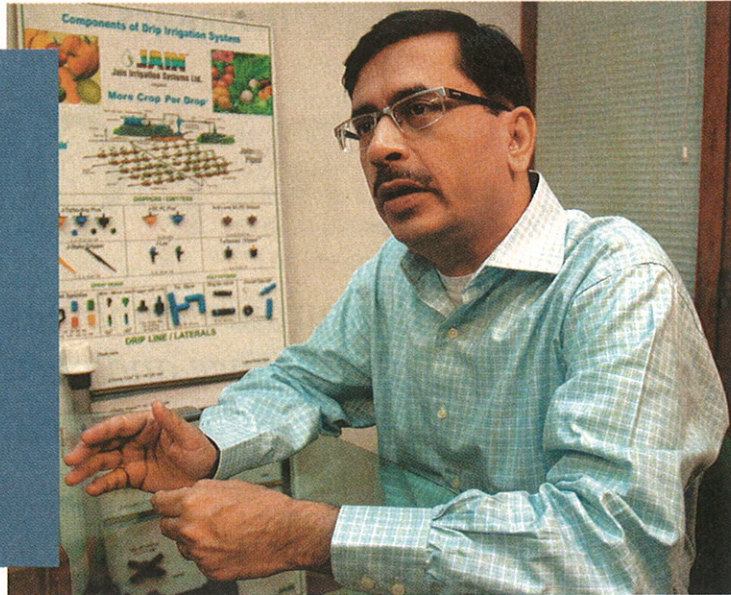
The company is in negotia-

tion for a joint venture with Israel-based water management company Mekorot.

With EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) margins on water management projects being higher than the 9-11 per cent margins in piping segment, if the joint venture wins any water management contracts, earnings from these would offer potential upside for estimates.

Negatives: The overseas subsidiaries have shown

Spread across the entire agricultural value chain, "we do not foresee any recessionary impact," says Bhanwarlal Jain's son, Anil Jain.



AMEY MANSABDAR

tion but scaling up its existing businesses," says Jain. The company had earlier paid a price for diversifying into new businesses like IT, multimedia and granite, accumulating losses of over Rs 200 crore and loans of Rs 600 crore in 2001. The company was forced to sell 49 per cent stake to the US-based private investment firm Texas Pacific Group in 2002. Three years later, when TPG exited, it had earned a return of 120 per cent on its investment.

Today, the company sees ample scope in

expanding its core irrigation business, despite a looming global slowdown. "We estimate majority of growth to happen in India especially in the water sector where we do not foresee any recessionary impact. In fact, the reduction in raw material cost, such as polymers, will allow us to improve our overall business," says Jain. Besides, with the government focussing on irrigation, the company sees a big opportunity in increasing its presence in the market, which is only at 5-10 per cent currently. ●

lower-than-expected margins owing to the housing slowdown and lower realisations for Israel subsidiary, NaanDan Jain Irrigation Ltd. However, the company has changed revenue mix from overseas business to increase the share of drip irrigation for which agri-based demand remains strong. While this could improve margins by 200-300 basis points during FY09, any slowdown or failure in integration poses some downside risks.

The piping division's mar-

gins could see near-term pressure owing to delays in capex plans in private sector, especially for telecom, though demand from public infrastructure should partly offset this. A 15 per cent decline on a year-on-year basis is expected in the plastics business owing to weakness in the US housing segment during FY09.

If rupee stays at its current level, forex losses are expected to drag earnings lower by 4-5 per cent. India Infoline has reduced the earnings estimate

by 7.5 per cent in FY09 and 10 per cent in FY10 in view of the lower than expected FY08 earnings, which were 12 per cent below estimates.

In line with the downward revision in earnings estimate, the 12 month target price is lowered from Rs 600 to Rs 553 and India Infoline has downgraded the stock from Buy to Add. The revised price represents a price to earnings per share ratio of 23.8X on FY09 and 17X on FY10.

Source: India Infoline