ICRA

April 3, 2023

Jain Irrigation Systems Limited: [ICRA]BBB-(Stable)/[ICRA]A3 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based: Term loan	610.26	[ICRA]BBB- (Stable); assigned
Long-term fund-based: CC	1504.75	[ICRA]BBB- (Stable); assigned
Non-Convertible Debentures	942.99	[ICRA]BBB- (Stable); assigned
Short-term non-fund based: LC	92.54	[ICRA]A3; assigned
Short-term non-fund based: BG	652.07	[ICRA]A3; assigned
Total	**3802.61**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings consider the extensive experience of the promoters, the established market position of Jain Irrigation System Limited (JISL) in micro irrigation systems and PVC/PE pipes and fitting industry, its widespread network of distributers and the broad range of products catering to the agriculture and industrial pipe segments.

ICRA notes that in the past JISL had faced significant liquidity issues arising from delays in realising receivables due to which it had applied for loan restructuring with its lenders. However, while the restructuring was in process, the company had to delay its debt servicing payments due to continued stretched receivables, a weak liquidity position and the slowdown in demand. The resolution plan was finally implemented on March 25, 2022 and the company has been regular with its debt servicing since then. As per the plan, on the implementation date, of the total Rs. 4336.68 crore of debt (Including non fund based limits of Rs. 744.39 crore), around Rs. 1309 crore of NCD/ECB was classified as unsustainable portion on which there is only interest of 0.01%. The unstainable portion has been partially prepaid and the next scheduled repayment falls due in Sep 2026. Any recovery of identified overdue receivable during the resolution plan, is required to be used for repayment of unsustainable portion of debt. On the sustainable part, the company has quarterly repayment obligations for TL of Rs. 431 crore and FITL of Rs. 343 crore (remaining sustainable debt being working capital facilities), with loans to be repaid by March 2026.

ICRA notes that any support to subsidiaries and group entities will be as per the terms of the resolution plan and the corporate guarantees extended to overseas entities will not be invoked till April 2025, which is a pre-condition for the implementation of the resolution plan. Hence, ICRA has considered only the standalone financials for the rating exercise due to the restriction on support to subsidiaries and group entities.

Further, as per a disclosure to the exchanges on March 29, 2023, the company has informed that it has completed the merger of its international irrigation business with Rivulis Pte. Ltd (majority shareholder is Temasek) post which the corporate guarantees extended by the company for $300 million will be released and some overdue receivables will be paid to JISL.

ICRA notes that the company's financial performance had improved after the implementation of the resolution plan (RP), with a YoY growth of 23.6% in revenue for 9M FY2023. The OPM also improved to 12.3% in 9M FY2023 from 11.81% in 9M FY2022 and 9.14% in FY2022. With Q4 being a seasonally strong quarter, the full-year revenue and profitability is expected to improve. As part of the RP, the promoters had also brought in equity of Rs. 130 crore. An additional about Rs. 136 crore of equity is proposed to be infused in FY2024. Nevertheless, the capital structure and coverage indicators remain stretched with TD/OPBDITA of 8.2 times in H1 FY2023 (9.5 times in FY2022) and interest cover of 1.6 times in 9M FY2023. ICRA notes that the company has scheduled repayment obligations for a sustainable portion of the debt and any surplus cash over and above Rs

100 crore at the end of financial year, will be used for the prepayment of the unsustainable portion of debt, as per the RP guidelines.

Further, the receivables position continues to be high and the recovery of long-stuck receivables has been slower than expected. While there has been some improvement in the collection cycle, the overall working capital intensity remains high. With limited cushion available in terms of the availability of fund-based limits, the improvement in the liquidity position will depend on better cash generation from operations, sustained improvement in working capital cycle and planned equity infusion in FY2024. ICRA takes note of the steps taken by company to change its business model and reduce exposure to segments with elongated receivable periods. The pace of improvement in the collection period and the recovery of overdue receivables will be the key monitorables.

The ratings also consider the susceptibility of margins to volatility in raw material prices and exchange rates, exposure to seasonality in demand of the agri-sector and changes in the Government's policies and regulations.

The Stable outlook reflects ICRA's expectation that the company will benefit from its established market position and witness an improvement in the financial profile and moderation in working capital intensity in the medium term, which will support its credit profile.

Key rating drivers and their description

Credit strengths

Long track record and established market position of company – The promoters of JISL have extensive experience and the company has a long and established track record of more than several decades in the micro irrigation segment and plastic pipe manufacturing. The company is a leading player in the domestic MIS and plastic segments, besides being present in tissue culture and other agri-segments. The Group in also present in food processing through its domestic subsidiary. The company has presence in the irrigation system, agri-inputs and the plastic segment through its overseas subsidiaries.

In June 2022, the company had announced the merger of its international irrigation units with Rivulis Pte. Ltd., a Temasek entity, and the same was completed on March 29, 2023. With the completion of the transaction, the guarantees extended by JISL (parent entity) to the bondholders of its overseas unit will be released and subsequently some of the overdue receivables will also be recovered. Further, the merged entity will be a global major in the MIS space. A step-down subsidiary of JISL will have an 18.7% stake in Rivulis post merger and JISL with continue to supply to the merged entity.

ICRA has considered only the standalone entity for rating due to the restrictions on support to subsidiaries and group entities under the terms of the debt resolution plan implemented on March 25, 2022.

Diversified product and business segments – JISL has diversified business segments and products, with the MIS segment accounting for 55-60% of the sales, followed by the plastic segment comprising PVC and PE pipes and fittings and plastic sheets that make up 30-35% of the sales; the remaining revenue is derived from tissue culture and other segments.

Earlier, the company was also undertaking turnkey contracts under the MIS and plastic segments. However, due to the liquidity issues faced because of the delayed receivables in the segment, the company has stopped undertaking EPC contracts. It is now mainly engaged in sales through dealers or participates in state government-based schemes (which includes some subsidy based business) and in some cases sells directly to large contractors/institutions.

Widespread distribution network – The company has a wide distribution network in the MIS and plastic segments with presence across key states in India and overseas. The company is further expanding its distribution network to scale up its presence in the domestic and international markets.

Credit challenges

Working capital-intensive operations – The company has been facing liquidity issues in the last few years, which started with delays in receivables for EPC projects and subsidy sales, necessitating the company to apply for restructuring. However, while the restructuring was in process, the company to delay its debt servicing payments due to the continued stretched receivables, a weak liquidity position and demand slowdown. The resolution plan was finally implemented on March 25, 2022 and the company has been regular with its debt servicing since then. As per the plan, on the implementation date, of the total Rs. 4336.68 crore of debt (Including non fund based limits of Rs. 744.39 crore), around Rs. 1309 crore of NCD/ECB was classified as unsustainable portion on which there is only interest of 0.01%. The unstainable portion has been partially prepaid and the next scheduled repayment falls due in Sep 2026. Any recovery of identified overdue receivable during the resolution plan, is required to be used for repayment of unsustainable portion of debt. On the sustainable part, the company has quarterly repayment obligations for TL of Rs. 431 crore and FITL of Rs. 343 crore (remaining sustainable debt being working capital facilities), with loans to be repaid by March 2026.

The company is no longer undertaking new EPC projects and has taken steps to improve the collection period for other segments (including subsidy business), which has reduced the receivable days and improved the collection period. However, the receivable position remains high and the overdue receivable recovery has been slower than anticipated. It will be crucial for the company to improve its collection period and working capital cycle to strengthen its liquidity position and the pace of improvement remains a key monitorable.

Susceptibility of profitability to volatility in raw material prices and risk related to foreign exchange fluctuations – The company's performance is susceptible to volatility in raw material prices (mainly polymer process) and other agri inputs. While exports account for 12-14% of the sales, the company imports some raw materials and uses forex loans, which exposes the company to foreign exchange risks, which is partly mitigated through hedging.

Exposed to seasonality in agriculture sector and Government regulations/policies – A major portion of JISL's sales cater to the agriculture industry and hence its revenues are exposed to seasonality and agro-climatic risks. Around 30-35% of the revenue comes in the fourth quarter of the financial year. As JISL supplies under a subsidy programme in the MIS segment and other Government-backed programmes in the plastic segment, it is exposed to the risk of changes in Government policies and regulation.

Environmental and social risks

JISL is required to adhere to various environmental and social safety norms. The company has implemented quality, environment, occupational health and safety integrated management system with latest revision certifications and the same is maintained with continued improvement at all locations. The company has formulated and implemented policies adhering to the national and international standards. The policies implemented also satisfy the requirements of the National Guidelines for Responsible Business Conduct, 2018 (NGRBC).

The company's exposure to social risks mainly pertains to safe operations and remaining compliant with all environmental regulations to ensure safety of its employees. JISL has an effective ISO certified, EHS management system.

ICRA does not expect the environmental and social risk to have any major impact on the company's credit profile in the near to medium term.

Liquidity position: Stretched

The liquidity position of the company is stretched with repayment obligations of Rs. ~172 crore in FY2024 and Rs. ~175 crore in FY2025 for the sustainable portion of the debt. While the cash accruals have improved in 9M FY2023, the company has limited cushion available in terms of availability of fund-based limits, with an average utilisation of 72.5% for the 12-month period ended December 2022. ICRA notes that an additional equity of Rs. 136 crore is expected in FY2024, with the conversion of warrants which will support the liquidity profile. However, it will be crucial for the company to improve its working capital cycle on a sustained basis coupled with an improvement in the operational profile to strengthen its liquidity profile.

Rating Sensitivities

Positive factors – ICRA could upgrade the ratings if there is a sustained improvement in the collection period, leading to an improvement in the liquidity profile while maintaining the scale and profitability.

Negative factors – The ratings could be under pressure if there is significant decline in revenue and profitability on a sustained basis, and/or further stretch in the working capital intensity that will weaken its liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Jain Irrigation Systems Limited, established in 1986 was founded by Mr. Bhavar Lal Jain. Over the years, the company has diversified into various segments of agri-business value chain and has presence in (a) micro irrigation systems (MIS) which manufactures range of precision-irrigation products and also provides services like soil survey, engineering design and other solutions; (b) plastic segment comprising of manufacturing of polyvinyl chloride (PVC) pipes, high-density polyethylene (HDPE) pipes,and plastic sheets and (c) other products like tissue culture plants, solar productsand other agricultural inputs.

The company also has presence in agro- processing segment through a domestic subsidiary and overseas presence in agri input products, plastic products and agro- processing through various subsidiaries.

Key financial indicators

JISL (Standalone)	FY2021	FY2022	9MFY2023*
Operating income	2430	3254	2447
PAT	-307.3	193.1	4.7
OPBDIT/OI	4.9%	9.1%	12.3%;
PAT/OI	-12.6%	5.9%	0.2%
Total outside liabilities/Tangible net worth (times)	1.2	0.8	-
Total debt/OPBDIT (times)	27.8	9.5	-
Interest coverage (times)	0.3	1.2	-

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Unaudited*

Status of non-cooperation with previous CRA: CARE Ratings Limited, vide its press release dated March 29, 2023, has disclosed that the rating of Jain Irrigation Systems Limited continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE D; ISSUER NOT COOPERATING* (Single D ISSUER NOT COOPERATING*) and Withdrawn

India Ratings and Research Pvt Ltd, vide its press release dated March 29, 2023, has disclosed that it has maintained Jain Irrigation Systems Limited's (JISL) Long-Term Issuer Rating of 'IND D(ISSUER NOT COOPERATING)' in the non-cooperating category and has simultaneously withdrawn it.

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					April 3, 2023	-	-	-
1	**Long-term fund-based: Term loan**	Long-term	610.26	610.26	**[ICRA]BBB- (Stable)**	-	-	-
2	**Long-term fund-based: CC**	Long-term	1504.75	-	**[ICRA]BBB- (Stable)**	-	-	-
3	**Non-Convertible Debentures**	Long-term	942.99	942.99	**[ICRA]BBB- (Stable)**	-	-	-
4	**Short-term non-fund based: LC**	Short-term	92.54	-	**[ICRA]A3**	-	-	-
5	**Short-term non-fund based: BG**	Short-term	652.07	-	**[ICRA]A3**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based: Term loan	Simple
Long-term fund-based: CC	Simple
Non-Convertible Debentures	Simple
Short-term non-fund based: LC	Very Simple
Short-term non-fund based: BG	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term Fund Based: Term Loan**	FY2022	6.9% - 10.4%	FY2024	610.26	[ICRA]BBB- (Stable)
NA	**Long Term Fund Based: CC**	NA	NA	NA	1504.75	[ICRA]BBB- (Stable)
INE175A07019	**Non-Convertible Debentures**	FY2022	0.01%	FY2028	942.99	[ICRA]BBB- (Stable)
NA	**Short term non fund based: LC**	NA	NA	NA	92.54	[ICRA]A3
NA	**Short term non fund based: BG**	NA	NA	NA	652.07	[ICRA]A3

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Sai Krishna
+91 22 6114 3400
sai.krishna@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Adarsh Sule
+91 88 1889 4310
adarsh.sule@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.