

August 21, 2024

Jain Irrigation Systems Limited: Ratings reaffirmed and removed from Issuer Non-cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	813.80	813.80	[ICRA]BBB- (Stable); reaffirmed and removed from ISSUER NOT-COOPERATING category
Total	813.80	813.80	

*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 the PVC/PE pipes and fitting industry, its widespread network of distributors and the broad range of products catering to the agriculture and industrial pipe segments.

The ratings are, however, constrained by the high concentration of revenue on the agriculture sector and the direct impact of the Government's budget allocation for this sector on the scale of operations. The ratings also consider the susceptibility of the margins to volatility in raw material prices and exchange rates, the exposure to seasonality in demand of the agri-sector and changes in the Government's policies and regulations.

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. 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 slowdown in demand. The resolution plan was implemented on March 25, 2022, and the company has been regular with its debt servicing since then. Further, the support to subsidiaries and group entities is governed by the terms & conditions of the resolution plan and hence ICRA has considered the standalone financials for arriving at the ratings for JISL.

The company's financial performance has improved after the implementation of the resolution plan. In FY2024, the revenue grew ~6% YoY to Rs. 3,794 crore from Rs. 3,594 crore in FY2023. Further, the company's profitability improved with OPM at 12.5% in FY2024 compared to 9.8% in FY2023. In Q1 FY2025, the revenue and profitability moderated amid lower sales in the domestic market, both in the retail and the pipe segments. The retail sales were affected by the slower release of subsidy by the state governments to the farmers for the purchase of micro-irrigation systems. The pipe segment, which derives a major share of demand from the Jal Jeevan Mission (JJM), witnessed lower offtake because of the General Elections. The overseas plastics business grew, though it remains a small portion of the overall sales.

As JISL witnessed significant delays in the receipt of its dues from projects executed under the EPC route in the past, the company has not taken up new projects in the segment and is focusing on executing the pending projects by the end of FY2025. The company is also focusing on increasing the share of the retail segment wherein it is following a cash and carry model and also has fixed state-wise credit limits for the subsidy dependent business. As a result of these measures, the company's receivable days have improved to 201 days by the end of FY2024 from 344 days at the end of FY2021. JISL had also witnessed significant delays in the receipt of dues from the overseas subsidiaries in the past. However, the overseas irrigation business was sold to Rivulis Pte Ltd in March 2023. Going forward, JISL will continue to derive a healthy share of export revenues from the sales to Rivulis and the receivable cycle from it is expected to be significantly better than the past.

All these measures are also expected to significantly improve the company's working capital cycle, going forward. ICRA notes that the collection of the overdue receivables identified under the resolution plan has been slower than expected (~Rs. 460

crores collected against expectation of ~Rs. 660 crore by the end of FY2024). The receivables recovered also included the Rs. 135-crore overdue receivables from the irrigation business sold to Rivulis and the amount was used to repay a part of the unsustainable debt. Nevertheless, the debt repayments have been timely with the release of the working capital in FY2024 and stable profitability during the fiscal. The pace of the collection period and the recovery of the overdue receivables will be the key monitorables, going forward.

As part of the RP, the promoters had infused Rs. 130 crore of equity and another Rs. 136-crore equity was raised by the company during June-July 2023 from various investors and promoters. The company also issued additional warrants in November 2023 for which it received Rs. 50 crore as upfront payment and the balance Rs. 150 crore will be received till May 2025. The Rs. 50-crore raised in November 2023 was used to repay the inter-corporate deposit to associate company Sustainable Agro Commercial Finance Limited (SAFL) to enable SAFL to repay its debt and release the corporate guarantee given by JSIL. The remaining equity raise will support the working capital operations.

The debt coverage and credit metrics improved in FY2024 compared to FY2023. Consequently, the total debt/OPBITDA has come down to 5.2 times in FY2024 against 7.8 times in FY2023. ICRA also notes that the company has scheduled repayment obligations of ~Rs. 192 crore for the sustainable portion of the debt in FY2025. However, the company has prepaid its debt obligation for the unsustainable debt till September 2026, which provides comfort. Going forward, ICRA expects the cash flow from operations to remain adequate to meet the debt servicing requirements on expectation of cash accruals of Rs. 220-250 crore in FY2025 and improvement in the working capital cycle.

The Stable outlook reflects ICRA's expectation that the company's cash flow from operations are expected to remain adequate to meet the debt servicing requirements, supported by its leadership position in the agri-solutions market and a likely improvement in the working capital cycle.

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 micro irrigation 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 is 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. 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 the 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 had 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, around Rs. 1,975 crore of fund-based limits are classified as sustainable debt and ~Rs. 1,309 crore is the unsustainable portion on which there is an interest of only 0.01%.

JSIL has strategically reduced its EPC business, which has lowered the project revenue but this has been offsetted by the increase in the retail business. In line with its ongoing strategy, the company plans to complete and hand over the existing projects mostly in FY2025 and the balance in FY2026. Moreover, the company is focusing on improving and expanding its retail business, which has a cash & carry model, resulting in efficient working capital utilisation and improvement in the overall margins.

Further, the receivable position continues to be high, and the recovery of long-stuck receivables has been slower than expected with around Rs. 460 crore collected as on March 31, 2024. This included Rs. 135 crore recovered as part of the sale of the international irrigation business to Rivulis Pte Ltd, which has been more than sufficient to meet the repayment obligations of the unsustainable debt. Further, it expects to recover the balance ~Rs. 200 crore in FY2025 from the overdue receivables which will be utilised for the prepayment of NCD. The pace of improvement in the collection period and the recovery of the overdue receivables will be the key monitorables.

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 it to foreign exchange risks, which are 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.

Liquidity position: Adequate

The liquidity position of the company is adequate with repayment obligations of Rs. ~192 crore in FY2025 and Rs. ~182 crore in FY2026 for a sustainable portion of the debt. The cash accruals improved in FY2024; however, the company has limited cushion in terms of availability of fund-based limits, with an average utilisation of 97.2% for the 12-month period ended April 2024. ICRA notes that an additional equity of Rs. 150 crore is expected in FY2026 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.

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 systems with latest revision certifications and these are maintained with continued improvement at all locations. The company has formulated and implemented policies adhering to 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 the 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.

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 a significant decline in the 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 the agri-business value chain. It is present in micro irrigation systems (MIS), manufacturing a range of precision-irrigation products, and also provides services like soil survey, engineering design and other solutions. Further, in the plastic segment, it manufactures polyvinyl chloride (PVC) pipes, high-density polyethylene (HDPE) pipes and plastic sheets. Other products in its portfolio include tissue culture plants, solar products and other agricultural inputs. The company is also present in the agro-processing segment through a domestic subsidiary.

Key financial indicators (audited)

JISL (Standalone)	FY2023	FY2024
Operating income	3594	3794
PAT	39.3	55.5
OPBDIT/OI	9.8%	12.5%
PAT/OI	1.1%	1.5%
Total outside liabilities/Tangible net worth (times)	0.8	0.7
Total debt/OPBDIT (times)	7.8	5.2
Interest coverage (times)	1.0	1.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)					Chronology of rating history for the past 3 years						
FY2025					FY2024		FY2023		FY2022		
Instrument	Type	Amount rated (Rs crore)	Aug 21, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long-term fund based: Term loan	Long term	-	-	Apr 30, 2024	[ICRA]BBB-(Stable) ISSUER NOT COOPERATING and withdrawn	Apr 03, 2023	[ICRA]BBB - (Stable)	-	-	-	-
Long-term fund based: CC	Long term	-	-	Apr 30, 2024	[ICRA]BBB-(Stable) ISSUER NOT COOPERATING and withdrawn	Apr 03, 2023	[ICRA]BBB - (Stable)	-	-	-	-
Non-Convertible Debentures	Long term	813.80	[ICRA]BBB-(Stable)	Apr 30, 2024	[ICRA]BBB-(Stable) ISSUER NOT COOPERATING	Apr 03, 2023	[ICRA]BBB - (Stable)	-	-	-	-
Non-convertible debentures	Long term	-	-	Apr 30, 2024	[ICRA]BBB-(Stable) ISSUER NOT COOPERATING and withdrawn	Apr 03, 2023	-	-	-	-	-
Short-term non fund based: LC	Short term	-	-	Apr 30, 2024	[ICRA]A3 ISSUER NOT COOPERATING and withdrawn	Apr 03, 2023	[ICRA]A3	-	-	-	-
Short-term non fund based: BG	Short term	-	-	Apr 30, 2024	[ICRA]A3 ISSUER NOT COOPERATING and withdrawn	Apr 03, 2023	[ICRA]A3	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	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
INE175A07019	Non-convertible debentures	FY2022	0.01%	FY2028	813.80	[ICRA]BBB- (Stable)

Source: Company

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

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About ICRA Limited:

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Branches



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