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Jain Irrigation Ltd – plant visit – special report

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Statement of purpose – identify investment opportunity, evaluate site, plant, facilities, management meeting and obtain forward outlook / guidance.

Stock classification – growth stock

Category – aggressive

Visiting team – Vijay Bhambwani, Deepak H and Vinay Bhambwani.

Management personnel met

Dr Bhavarlal Jain – Founder, Chairman

Mr Ajit Jain – Director, Marketing

Mr Avdhut G – company secretary

Dr Patil – in charge – Tissue Culture Lab

Mr Kulkarni – in charge – plantations

Mr Satyam – bio gas power plant

Mr Desai – PRO

Recommendation – long term buy

Disclaimer – the report is made on a best effort basis and is a free and fair attempt to arrive at an unbiased opinion on the company, stock prospects and investment return potential. We do not indemnify investors against losses and suggest due diligence before acting upon this recommendation. Equity investments / leveraged trades are fraught with risks and investors / traders must acquaint themselves with the downside risks. In the course of the visit, we have accepted no gifts, payments, no conveyance or costs to make this report. Some promotional literature pertaining to the workings of the company was the only take away from the plant visit. The management of Jain Irrigation Ltd offered the visiting team hospitality during the visit which lasted 12 hours. Bhambwani Securities Pvt Ltd (BSPL) is not a broking firm and offers only advisory inputs, research reports and this is not an offer to buy the stock from / through us.

Disclosure – the analysts, their families and our holding company (BSPL) hold equity investments (under 100 shares in all) in the stock and therefore have a limited vested interest in this recommendation at the time of writing this report. The holding Co is planning to add this stock at a later date and may have a future vested interest.

Basics – The Company is a quarter of a century old firm that is into micro / drip irrigation and also makes fruit pulps, purees as an extension. The management has branched into

highly niche areas like tissue culture and green house plantations in the horticulture business. Solar power generation maybe a natural offshoot at a later date.

The Co has a two-thirds market share in the micro / drip irrigation business in the country and is probably the largest in the world at the time of writing this report. It's main competitors are Netafin and John Deere who have the muscle to make inroads into the Indian irrigation industry. The estimated replacement cost of the Co is ranging between Rs 1000 – 1500 Crs (management guidance). The market capitalization of the Company is approx 7 times the replacement cost (assuming Rs 1000 Crs as the replacement cost).

The Company boasts of converting a prospective customer to a confirmed customer within 15 – 30 days and employs approx 1000 field sales staff to convince the retail farmers to resort to drip irrigation. Cyclicity is seen in this business and the monsoon period is the lean phase and the first half of the calendar year is a high point for sales. The Co manages to turn it's capital (Capital / turnover rate) every 80 – 120 days depending on seasons and Maharashtra as a customer base is almost cash-and-carry as farmers are more aware / comfortable with the Company's brand value and word-of-mouth publicity.

The government is an active player in the business of JISL as the micro / drip irrigations systems expense incurred by the farmer is subsidized by the govt. The Co typically receives it's dues within 60 of sales. The govt subsidy component is 50 % as general subsidy and in the case of women / schedule castes / schedule tribes, the govt subsidy can go upto 80 – 90 %, under various budgetary plans for the upliftment of the weaker sections of society.

The budget of 2010 has enhanced the sops to the food and irrigation firms by way of budgetary support for creating fresh water man made ponds from rain harvested water. Food processing / preservation companies will also benefit, both of which are positive triggers for JISL. The niche positioning and availability of almost unlimited area of land makes this Co. a long term dominant players in it's field. While competitors may emerge, they are likely to impact the market share of this company rather than it's leadership. We have attempted to tell our story via pictures on the following pages which should be viewed as a corporate presentation rather than a showcase of our visit.

Basic Financials – the company has seen a scorching rate of growth as can be seen from the following basic numbers –

	2004 – 05	2008 - 09	Change
Sales	609 Crs	2187 Crs	30 CAGR
PAT	32.4 Crs	120 Crs	30 CAGR
EPS	5.87	16.03	22 CAGR
Book Value	27.52	139.46	

As can be noted, the Co is growing at a fast clip and the govt support by way of subsidies and budgetary support to the farming, food and agricultural companies is unlikely to be reversed in the foreseeable future. We expect the rate of growth of the Company to accelerate over the next 3 – 5 years if not accelerate sharply. The conducive atmosphere created for the micro / drip irrigation industry by way of budgetary sops and subsidies will see a geometric growth in topline / bottomline.

Valuation metrics – we feel the company has been a steady performer and we arrive at the following –

As per time tested formulas, the Co's PE / growth rate = 1, which makes this stock a good long term bet.

Assuming an average 20 % rate of return p.a. from midcaps and dividends to be maintained / hiked steadily, the fair price to buy this stock is Rs 800. However, keeping in mind the valuation premium that this scrip has historically commanded, this entry price maybe difficult to achieve unless the markets witness a downturn of sizable magnitude.

As per our computations, the percentage of your risk capital (allocated for midcaps) invested in JISL maybe as high as 25 – 35 % as the stock offers good investment opportunity with a 2 – 3 year time frame. We feel averaging down maybe required if the stock was to test / violate the 900 levels, in which case the fair price (Rs 800) maybe likely. Exposure maybe stepped up at those levels.

Unless the stock falls below the 725 levels, we do not foresee a threat perception for the long term investors.

Being in a niche and unique position with a market share of two thirds or higher, we do not foresee an immediate threat to the dominant position enjoyed by this Co. Over the years, new players may enter the fray and trim the valuations enjoyed by the Co, but that remains a distant event.

As per the management guidance, the net profit as a component of net sales remains relatively thin as the management has been operating on lower net profit margins. The strategy is expected to be of a twin advantage – lower margins will result in higher sales and market penetration, leaving scope for upward revision of margins at a later date. Secondly, low cost operators tend to fend off the heat of competition more effectively. As per the discussion with the CS, the management was likely to go with this strategy in the near future also.

The quantum jump in the last quarter of this financial year is in line with our expectations of a big leap in earnings as the latent demand for the micro / drip irrigation is likely to keep the order book of the Co at a healthy clip. Cyclically, Q3 & 4 are major demand driver periods for the irrigation business of the Co. There is a 12 fold jump in numbers based on robust demand in the drip / micro irrigation and food processing units.

We believe the packaged foods / spices business of the Co to provide a fillip to the Co's bottomline as capacities are ramped up in the pulp / puree / juices segment. The tissue culture and horticulture endeavors are likely to enhance earnings capabilities significantly.

The management did not clarify intent to offer solar power solutions on a mass commercial scale in the immediate future and we assume the same to be a minor component of the Co's thrust area for now.

Fundamental pointers – a long term buy for the higher risk appetite players and players with deep pockets who can average the stock on declines in tandem with the overall markets.

Technicals – the weekly chart of JISL shows a rising channel in force from Dec 2008 that is still in force. Please note the channel bottom coinciding with the 52 week simple moving average at the 810 level currently. That calls for a basic pattern confirmation from two studies (patcon) and the velocity of the upmove has been fairly robust as the stock zoomed from the sub 250 levels in Dec 08 to the 1220 levels in Apr 10. That makes this rally a 5 bagger where as the benchmark indices are yet to scale new highs or gain over 130 % in absolute terms. From the Dec 08 alone, the sheer out performance by this stock is 4 times that of the Nifty. The longer term relative strength comparative is higher at the 1266 levels vis-à-vis the Nifty (where 100 = base). That makes this scrip a strong market out-performer with high beta. The combination of alpha and beta makes this scrip a good proposition for the trader as well as long term investor.

The Fibonacci studies indicate a support at the 900 then 815 levels, the lower figure is assuming significance as a strong convergence of various studies employed. Basic chart reading tells us that the recent declines were on lower volumes and therefore corrective in nature, rather than panic driven. The MACD failed to make a new top as the price graph did, which made the stock overbought and therefore unsustainable on the upthrust. A cooling off will provide a good entry point for the patient players.



Your call of action – start nibbling on the buy side and keep ample room for pyramid style averaging on declines of Rs 25 till the 800 mark if needed. Hold with a stop loss at the 725 levels and expect to book profits past the 1400 + levels in the coming 30 – 36 months. Please refer to the photo gallery below for a better insight into the co's operations.

Photo gallery

The production facilities / plants show JISL's operations across different locations. Due to the ban on photography in real time, we could only manage the plant photographs displayed in the gallery. What interested us was the management indicating it's failings as well as it's accomplishments. Note the picture to the right indicating failings in multimedia, stock broking, merchant banking, granite quarrying activities. The transparency in these areas was welcome.



Solar water Heater Fabrication Set up	1994			
Fruit Processing Facility Commissioned	1996			
Pilot Plant for Bio-Gas & Green Energy Initiated	2004			
Pilot Scale Bio-Fuel Plant Erected	2005			
• FAILINGS:				
IT & Telecommunication Project	1994			
Publicity & Multimedia Agency	1994			
Merchant Banking & Stock Broking	1994			
Granite Quarrying & Processing	1994			
PC Mirrorising & Thermoforming	1995			
WS Liquid Fertiliser Manufacturing	1995			
• EQUITY:				
Fig Rounded in Crores				
<i>Issue Details</i>	<i>Capital</i>	<i>Prem.</i>	<i>Total</i>	<i>Year</i>
Maiden Public Issue at par	3.0	-	3.0	1988

The biotech material displayed in the exhibition center shows the raw stock for mass producing fruits and vegetables. These are not genetically modified foods but can be compared to cloning.



Drip irrigation was / is / will remain this company's USP (unique selling proposition). The first picture shows the plastic tubing and allied equipment like pump motor, joints and sprinklers that form the total setup for a drip irrigation effort.



Drip irrigation equipment in greater detail. These are plastic tubings / pipes and joints. Since the company manufactures these in-house, the cost savings are an additional positive. The management will be setting up additional plants in north India to cater to the regional requirements, thereby saving on additional costs.



Jain Irrigation believes in harnessing the power of nature to produce renewable resources. These endeavors are not limited to water and foods but now include electricity. The exercise is absolute eco friendly as solar panels are used to generate power and batteries store the power generated in the day light hours for night time use. We personally witnessed TV sets, lanterns, water pumps being operated on solar power alone. With the commissioning of the waster recycling based power generation unit (refer below), the Co will be saving on costs of sizable nature.



Solar Water Heaters

Production Capacity : 12,00,000 Litres.

- Mechanical machine shop with hydraulic power press, press brake, bending and rolling machine, circle cutting, argon arc welding and PUF insulation machine.

Process
Using copper fins with black absorber coating and solar glass of special type, solar collector is made ready for use. Solar storage water tank is made from stainless steel sheet and insulated with PUF with outer cladding and mounted on stand.

Product	Grade	Size	Application
Solar Water Heater	Deluxe	125, 150, 250, 300 & 450 lpd	Bungalows, apartm ents, Guest Houses, Hotels, Hospitals, Health Clubs, Dairies, Etc. Or ..

JISL's efforts to commission a deemed agri university will be a major game changer as farmers will be taught the benefits of drip / micro irrigation, thereby generating a captive market for it's products. Even now, as you read this report, there are farmers who are being trained to utilize their land more productively by using JISL technology.



The perfect example of what **to do**. JISL faced water shortages a few years ago and decides to resort to rain water harvesting to fight the problem. JISL boasts of 7 man made reservoirs where rain water is collected and used for the Co's operations. The management has come up with innovative solutions like the water gun (below) to avoid formation of algae (green layer on stagnant water) and solar power pumps to recover the water. With budgetary support to man made reservoirs, these efforts will even have a monetary benefit to the company. This is a unique durable competitive advantage that we feel other Co's in similar businesses do not possess. JISL has a huge land mass to itself that cannot be replicated easily, if at all.



The water gun in action! IT can spay water jets to a length of hundreds of metres and the aperture is flexible to control the flow, thereby calibrating the flow of water.



Unfortunately, photography was banned beyond this point and we cannot share with you the state-of-the-art facility of JISL. Cloning under near perfect, climate controlled conditions, the management has the capability to produce a crore saplings a year. The same is likely to be ramped up to 1.5 Crs this year – a 50 % jump and ongoing additions of capability will mean healthier bananas, oranges, pomegranates, mangoes and papayas – just to name a few fruits! The management has indicated a sizable potential for this segment in the market and the budgetary support to the food industry is an additional benefit. The picture on your left is the tissue culture lab. On your right are the packets of masalas (spices) and other food items that JISL exports in bulk to overseas buyers. The management had indicated no intention of catering to the domestic retail branded foods market as of now due to the typical dynamics / efforts involved in the venture.



The analyst in mandatory gear outside the onion plant. Cleanliness and state-of-the-art facility are the first impression upon entry. Burning eyes, lungs and inflamed nostrils follow almost immediately.



The bio mass based electricity generation unit (below). With a capacity to product 1.7 Mw. The management indicated viability and operations by summer of 2010 and that should mean in the near future. The residue from the food plant (making pulps & pureees) is used

to burn as feedstock and produce electricity for the Company. Coupled with solar panels and green batteries, JISL will save millions in the coming years – an advantage other Cos will probably not enjoy.



JISL produces packaged food pulps and purees under the brand name “Farm fresh” to bulk purchasers. The plant was upto date, constant upgrades to equipment and premises alike were in place and temperature control was stringently adhered to. In Feb when we visited the plant, capacity expansion and de-bottlenecking was under way – benefits to accrue in the coming financial years.



Jain Irrigation's CSR initiative – the passion and brain child of the founder Chairman Dr Bhavarlal Jain. In the news since the last 2 years for winning national awards for the most innovative new school and other winning features. The school utilizes solar power (refer below), rain harvested water and is surrounded by lush greenery and hills. The underlying motto of the school was most impressive – to raise leaders and not mere employees. Children from the middle / far east and other worldwide locations were seen studying with locals. The management also admits deserving kids from the weaker sections of society – free of cost.



The solar panels at the Anubhuti school. Absolutely green and environmentally friendly, the children live in clean hostels, eat in dining halls and wash their own plates. Physical and intellectual education are emphasized equally, as are fine arts and craft. A “must-see” experience.



The overall experience of this plant visit was of awe and admiration. The premises were eco friendly and green to the proverbial “T”. Note the electric vehicles below.

The accessibility and humility of the founder Chairman was exemplary (below right). Dr Jain is a no-nonsense, on the job, upto date administrator. He amazed us with the knowledge of the minutae of his Companies and their operations. Completely hands-on.



This report couldn't have been complete without a picture of the Jain horticulture farms (next page). The Co secy was gracious enough to permit clicking the farms pics. For compliance reasons, only this close up shot is displayed. Whats so special about JISL's horticulture ? Plenty – the capability to cultivate and produce Strawberries in the blistering near 50 'C Jalgaon heat, Mangoes in double quick time thanks to drip / micro irrigation and ofcourse their tissue culture technology. We found it rocket science in agriculture and potential to address the problems of hunger, mal nutrition and environment protection.



The visiting team from the left to right – Deepak H, Vinay, Vijay and Dr Bhawarlal Jain (Chairman). When we arrived, the Chairman was just informed of winning the National award for his school for the second year in a row – he was in an extremely cheerful mood and answered all our questions patiently.



In direct contrast to the pictures of plenty above, we were confronted with this sight at the railway station upon our return (we are a low cost firm and pay for our own expenses, Jalgaon does not have an airfield anyway). The travelers snoozing on the railway platform in a make shift mosquito net. Got us thinking about the tremendous potential of any Company that provides, food and water in our Country.



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