

Press Release

For immediate dissemination

14th January 2015

India Ratings and Research (Ind-Ra) affirms Jain Irrigation at 'IND BBB-'; Outlook Stable

We enclose herewith rating rational received from India Ratings & Research (a Fitch Group Company) as on today. We note herewith that the company's long term investment grade credit rating at 'IND BBB-' has been confirmed by the agency.

Currently there is weak sentiment in 'Agro Input Sector' due to lower farm produce prices and sudden and significant reduction in inventory costs.

However, significant reduction in oil prices and consequent reduction in polymer prices recently shall help us to grow our business in medium to long term. This is directionally and definitely a positive development to increase affordability of our products by the farming community.

Company has continued on its path to reduce overall working capital and especially receivables. We have seen improvement in December quarter compared to September quarter on this count.

Our debt levels at end of December, 2014 are at similar levels to September, 2014 and we expect reduction in debt by March, 2015 end compared to December, 2014, as indicated earlier.

The company is looking forward to a better FY 2016 considering overall better macro-economic development along with possible interest rate reduction in India.

About Jain Irrigation (www.jains.com)

Our Company, Jain Irrigation Systems Limited (JISL) with more than 10,000 associates worldwide and revenue of 59 billion rupees, is an Indian multinational company with manufacturing plants in 28 locations across the globe. It is engaged in manufacturing of Micro Irrigation Systems, PVC Pipes, HDPE Pipes, Plastic Sheets, Agro Processed Products, Renewable Energy solutions, Tissue Culture Plants, Financial Services and other agricultural inputs since last 35 years. It has pioneered silent revolution with modern irrigation systems and innovative technologies in order to save precious water and has helped to get significant increase in crop yields, especially for millions of the small farmers. It has also ushered in new concept of large scale Integrated Irrigation Projects (IIP). All the products & services of JISL help create sustainable future while fulfilling its vision 'Leave this world better than you found it'.

JISL is listed in NSE-Mumbai at **JISLJALEQS** and in BSE at code **500219**. Please visit us at www.jains.com.



Ind-Ra Affirms Jain Irrigation at 'IND BBB-'; Outlook Stable

Ind-Ra-Mumbai-13 January 2015: India Ratings & Research (Ind-Ra) has affirmed Jain Irrigation Systems Limited's (JISL) Long-Term Issuer Rating at 'IND BBB-'. The Outlook is Stable. A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

The affirmation reflects Ind-Ra's expectation of a significant improvement in JISL's fund flow from operations (FFO) adjusted net leverage in FY15 (year end March), aided by higher overall FFO and a marginally lower adjusted debt. The growth in FFO would be aided by an increase in EBIDTA and a reduction in other current assets (namely VAT, security deposits, advances etc.). This would help the company register adjusted FFO net leverage (adjusted net debt/FFO) closer to 5x in FY15. The leverage increased to 5.7x in FY14 (FY13: 5.4x) due to higher adjusted net debt levels because of MTM losses to the tune of INR1.9bn. The company expects deleveraging post factoring investments commitments in its subsidiaries.

The ratings also reflect JISL's constant efforts to improve its gross receivables position, largely attributed to a change in the business model. Overall gross micro-irrigation systems (MIS) receivables (FY14: 67% of gross receivables) declined to 211 days in 2QFY15 from 279 days in 2QFY14 and 257 days in FY14 from 329 days in FY13. This helped the company post positive operating cash flow of INR1.7bn in FY14 (FY13: negative INR382m).

According to the revised business model, JISL has extended the cash and carry model to the states of Madhya Pradesh, Rajasthan and Karnataka besides Maharashtra. For FY14, these states accounted for around 47.1% of standalone MIS revenue. Also, a majority of the legacy projects entailing higher MIS days have been completed over the period with payments now be linked to milestones being met. The company's non-banking financial company arm Sustainable Agro-commercial Finance Ltd has also commenced its operations from 2014 where it would receive up-front payments for MIS equipment/fittings sold. These measures have helped reduce the company's reliance on state government for subsidies. The proportion of government subsidy has steadily declined since FY12 with subsidy receivables accounting for 25% of overall receivables at end-September 2014 (FY14: 33%; September 2013: 45%).

The ratings are constrained by JISL's continued tight liquidity, as reflected in its average 93% use of the fund-based limits during the 12 months ended December 2014. The company has managed to refinance its entire repayments of INR3.8bn scheduled for FY15. It has also received an increase in its fund-based limits (20%) during the peak season to minimise the impact of cash flow mismatches during the year.

The company is also planning to raise additional equity by hiving off the food business (fruit and dehydrated onions) into a wholly owned subsidiary. The equity would be used for paying off the existing debt at the parent company level. According to management, this is likely to happen in FY16 once the right valuation is received.

The company posted top line growth of 15.9% yoy to INR58.2bn for FY14; however, EBIDTA margins contracted on account of changes in the product mix and business model.

Ind-Ra expects the revenue growth for FY15 to be in a higher single digit, led by demand growth across



all product segments off-setting the decline in the pipes segment. The latter would be on account of the absence of the large contractor orders from Africa for the current year. The company had an order book of INR13.9bn at end-September 2014 with MIS order book of INR5.9bn comprising prestigious projects in Karnataka and Himachal Pradesh. Consolidated 1HFY15 revenue grew 7.6% yoy led by higher growth in MIS and fruit segments.

The agency expects the EBITDA margins for FY15 to remain marginally lower than FY14 levels. However, the margins are likely to improve marginally subsequently on account of declining crude prices and thereby polymer prices and changes in product mix. 1HFY15 EBITDA margins contracted 104bp yoy to 12.7% (1HFY14: 13.7%), primarily because of lower margin in the piping segment due to JISL's inability to pass on higher polymer costs.

The ratings continue to be supported by JISL's dominant position in MIS, strong brand image, well-diversified product portfolio and its wide distribution network. The ratings also reflect the company's strong relationships with farmers, fast accrual of benefits through flexible and scalable production facilities and profitable operations in overseas subsidiaries.

RATING SENSITIVITIES

Negative: An increase in the overall receivable days resulting in further deterioration of liquidity, or debt-led capex or a decline/fall in the operating profitability leading to consolidated FFO adjusted net leverage being sustained above 5.5x could lead to a negative rating action.

Positive: A further improvement in the overall receivables management resulting in improved liquidity and/or the FFO adjusted net leverage being sustained below 4.5x could lead to a positive rating action.

COMPANY PROFILE

JISL is one of India's leading agri-business companies, operating in the diverse-but-integrated segments of the agribusiness value chain. While the company controls 55% of the micro irrigation business in India, it has a market share of 35% in the sprinkler irrigation business in the country. It also has presence in PVC pipes, PE pipes, PVC sheets, dehydrated onions and fruit processing segments.

JISL's ratings are as follows:

- Long-Term Issuer Rating: affirmed at 'IND BBB-'; Outlook Stable
- INR4.08bn term loans (reduced from INR3.3bn): affirmed at Long-Term 'IND BBB-'
- Proposed INR1.5bn term loan (reduced from INR3bn): affirmed at Long-Term 'IND BBB-(exp)'
- INR16bn fund-based limits (increased from INR15bn)[@]: affirmed at Long-Term 'IND BBB-' and Short-Term 'IND A3'
- Proposed INR1bn fund-based limits[#]: affirmed at Long-Term 'IND BBB-(exp)' and Short-Term 'IND A3(exp)'
- INR12.9bn non-fund-based limits* (increased from INR9.5bn): affirmed at Long-Term 'IND BBB-' and Short-Term 'IND A3'
- Proposed INR3.4bn non-fund based limits[#] (reduced from INR4.2bn): affirmed at Long-Term 'IND BBB-(exp)' and Short-Term 'IND A3(exp)'
- Proposed INR2bn short-term debt: Short-Term 'IND A3(exp)' withdrawn as the issuer did not proceed with the instrument as envisaged
- INR3bn commercial paper programme (carved out of the fund-based limits): affirmed at Short-Term 'IND A3'

[@]The fund-based facilities are fully interchangeable with the non-fund based limits.



* INR3.2bn of the non-fund based limits interchangeable with the fund-based limits.

Assuming some interchange ability with the fund-based limits.

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