The ground remains fertile

Concerns on NBFC and debtors overdone; valuations lowest since 2008-09 crisis period

August 11, 2011

Rating Remains	**Buy**
Target price Reduced from 261	INR 229
Closing price August 10, 2011	INR 162
Potential upside	+41.4%

Action: Reiterate BUY with an upside of 41%

We reiterate our BUY rating on Jain Irrigation with a target price of INR229, an upside potential of 41%. We believe that currently valuations are close to the lows witnessed during the crisis period of 2008-09, with the stock trading at 11.6x its one-year-rolling forward EPS. This is much lower than the past five years' average of 17x. In our view, these low valuations are unjustified and the concerns on the NBFC and receivables front are overdone. We estimate receivables are likely to come down over the next 2-3 quarters while the NBFC scale-up will take time and the EPS dilutive impact, if any, will not be as much as the market fears. It is too early to worry about increasing competition, in our view, as it would take competitors 3-5 years to scale up to a meaningful level. We look for a 28.9% CAGR in MIS revenue and 19% CAGR in overall revenue until FY14F. Structural expansion in margins and lower growth in interest costs should help net profit show a 30% CAGR until FY14.

Catalyst: Robust MIS business growth and lower receivables

Strong growth in the MIS business, in the region of 30% y-y, and falling receivables are likely to boost sentiment.

Valuation: Valuing at 16x one-year rolling forward EPS

We value the company at 16x one-year-rolling forward EPS (average of FY13F and FY14F EPS), slightly lower than the 17x at which it has traded, on average, in the past five years and lower than our earlier multiple of 20x, to account for the possible risks emanating from the investments in the proposed NBFC, possible equity dilution and a lower level of growth than earlier estimated.

31 Mar	FY11	FY12F		FY13F		FY14F	
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	44,761	53,000	53,404	64,414	63,834		75,427
Reported net profit (mn)	2,807	3,965	3,656	5,281	4,803		6,216
Normalised net profit (mn)	2,541	3,965	3,791	5,281	4,803		6,216
Normalised EPS	6.59	10.43	9.83	13.89	12.45		16.12
Norm. EPS growth (%)	21.5	47.5	49.2	33.2	26.7		29.4
Norm. P/E (x)	24.6	N/A	16.5	N/A	13.0	N/A	10.1
EV/EBITDA	11.5	N/A	9.0	N/A	7.8	N/A	6.6
Price/book (x)	3.9	N/A	3.3	N/A	2.8	N/A	2.3
Dividend yield (%)	0.6	N/A	1.1	N/A	1.6	N/A	2.1
ROE (%)	20.3	25.3	21.5	28.0	23.6		25.1
Net debt/equity (%)	154.2	141.8	150.3	134.7	139.0		120.3

Source: Nomura estimates

Key company data: *See page 2 for company data and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

With growing pressure to maintain India's food security in the face of rising water shortages, we believe the MIS business will continue its strong growth, as state governments across India focus on increasing the area covered under MIS to ensure water saving and a higher crop yield.

Nomura vs consensus

Our target price is 4% ahead of consensus.

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Key data on Jain Irrigation Systems Ltd.

Income statement (INRmn)

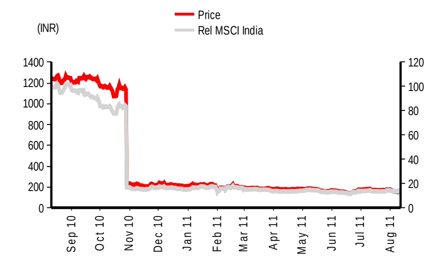
Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Revenue	**36,514**	**44,761**	**53,404**	**63,834**	**75,427**
Cost of goods sold	-22,655	-28,165	-33,144	-40,095	-47,541
Gross profit	**13,859**	**16,596**	**20,260**	**23,739**	**27,886**
SG&A	-4,936	-6,054	-6,921	-8,044	-9,303
Employee share expense	-3,514	-4,178	-4,687	-5,324	-5,992
Operating profit	**5,410**	**6,364**	**8,652**	**10,371**	**12,591**
EBITDA	**6,429**	**7,580**	**10,082**	**11,990**	**14,435**
Depreciation	-1,020	-1,216	-1,430	-1,619	-1,844
Amortisation					
EBIT	5,410	6,364	8,652	10,371	12,591
Net interest expense	-2,194	-2,678	-3,222	-3,545	-3,745
Associates & JCEs					
Other income	90	130	106	185	224
Earnings before tax	**3,306**	**3,816**	**5,536**	**7,011**	**9,070**
Income tax	-1,203	-1,201	-1,745	-2,209	-2,854
Net profit after tax	**2,102**	**2,615**	**3,791**	**4,803**	**6,216**
Minority interests	-12	-74	0	0	0
Other items					
Preferred dividends					
Normalised NPAT	**2,091**	**2,541**	**3,791**	**4,803**	**6,216**
Extraordinary items	877	266	-135	0	0
Reported NPAT	**2,968**	**2,807**	**3,656**	**4,803**	**6,216**
Dividends	-304	-386	-700	-1,000	-1,300
Transfer to reserves	**2,664**	**2,422**	**2,956**	**3,803**	**4,916**
Valuation and ratio analysis					
FD normalised P/E (x)	30.0	24.6	16.5	13.0	10.1
FD normalised P/E at price target (x)	42.2	34.8	23.3	18.4	14.2
Reported P/E (x)	21.1	22.3	17.1	13.0	10.1
Dividend yield (%)	0.5	0.6	1.1	1.6	2.1
Price/cashflow (x)	16.8	28.8	14.8	10.7	8.0
Price/book (x)	5.1	3.9	3.3	2.8	2.3
EV/EBITDA (x)	12.8	11.5	9.0	7.8	6.6
EV/EBIT (x)	15.2	13.7	10.5	9.1	7.6
Gross margin (%)	38.0	37.1	37.9	37.2	37.0
EBITDA margin (%)	17.6	16.9	18.9	18.8	19.1
EBIT margin (%)	14.8	14.2	16.2	16.2	16.7
Net margin (%)	8.1	6.3	6.8	7.5	8.2
Effective tax rate (%)	36.4	31.5	31.5	31.5	31.5
Dividend payout (%)	10.2	13.7	19.1	20.8	20.9
Capex to sales (%)	11.5	9.3	8.6	7.9	6.8
Capex to depreciation (x)	4.1	3.4	3.2	3.1	2.8
ROE (%)	28.7	20.3	21.5	23.6	25.1
ROA (pretax %)	13.3	12.6	14.0	14.4	15.4
Growth (%)					
Revenue	26.9	22.6	19.3	19.5	18.2
EBITDA	28.2	17.9	33.0	18.9	20.4
EBIT	24.9	17.6	36.0	19.9	21.4
Normalised EPS	8.7	21.5	49.2	26.7	29.4
Normalised FDEPS	8.7	21.5	49.2	26.7	29.4
Per share					
Reported EPS (INR)	7.70	7.28	9.48	12.45	16.12
Norm EPS (INR)	5.42	6.59	9.83	12.45	16.12
Fully diluted norm EPS (INR)	5.42	6.59	9.83	12.45	16.12
Book value per share (INR)	32.01	41.18	48.84	58.70	71.44
DPS (INR)	0.80	1.00	1.81	2.59	3.37

Source: Nomura estimates

Notes

Revenue growth driven by MIS business

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (INR)	-9.6	-11.2	-87.1
Absolute (USD)	-11.5	-12.2	-86.8
Relative to index	0.0	-3.0	-78.1
Market cap (USDmn)	1,384.0		
Estimated free float (%)	68.0		
52-week range (INR)	260/128.5		
3-mth avg daily turnover (USDmn)	7.00		
Major shareholders (%)			
Jain Family	32.0		

Cashflow (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
EBITDA	6,429	7,580	10,082	11,990	14,435
Change in working capital	-2,300	-6,056	-4,075	-4,109	-4,004
Other operating cashflow	-401	653	-1,770	-2,020	-2,628
Cashflow from operations	**3,728**	**2,176**	**4,238**	**5,861**	**7,803**
Capital expenditure	-4,205	-4,168	-4,572	-5,025	-5,134
Free cashflow	**-477**	**-1,992**	**-334**	**836**	**2,669**
Reduction in investments	-10	-68	0	0	0
Net acquisitions					
Reduction in other LT assets	-47	0	0	0	0
Addition in other LT liabilities	317	191	441	552	699
Adjustments	0	0	0	0	0
Cashflow after investing acts	**-217**	**-1,869**	**107**	**1,388**	**3,368**
Cash dividends	-304	-386	-700	-1,000	-1,300
Equity issue	958	-342	0	0	0
Debt issue	5,853	4,238	2,513	3,325	1,284
Convertible debt issue					
Others	-2,340	-2,825	-3,222	-3,545	-3,745
Cashflow from financial acts	**4,167**	**686**	**-1,410**	**-1,220**	**-3,761**
Net cashflow	**3,950**	**-1,183**	**-1,303**	**169**	**-393**
Beginning cash	1,103	5,053	3,870	2,567	2,736
Ending cash	5,053	3,870	2,567	2,736	2,343
Ending net debt	19,395	24,491	28,307	31,463	33,140

Source: Nomura estimates

Notes

Free cash flow to turn positive in FY13F on consolidated basis

Balance sheet (INRmn)

As at 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Cash & equivalents	5,053	3,870	2,567	2,736	2,343
Marketable securities	10	78	78	78	78
Accounts receivable	10,099	16,394	17,950	21,087	24,429
Inventories	10,638	14,151	17,864	20,257	22,796
Other current assets	4,991	5,056	6,389	7,586	8,662
Total current assets	**30,790**	**39,549**	**44,849**	**51,744**	**58,308**
LT investments	201	201	201	201	201
Fixed assets	17,737	20,689	23,831	27,237	30,527
Goodwill	186	38	34	31	28
Other intangible assets					
Other LT assets	414	414	414	414	414
Total assets	**49,329**	**60,891**	**69,329**	**79,627**	**89,478**
Short-term debt					
Accounts payable	9,323	14,565	15,747	18,302	20,917
Other current liabilities	1,796	370	1,717	1,779	2,117
Total current liabilities	**11,119**	**14,935**	**17,463**	**20,081**	**23,034**
Long-term debt	24,447	28,361	30,874	34,199	35,483
Convertible debt					
Other LT liabilities	1,024	1,215	1,657	2,209	2,908
Total liabilities	**36,591**	**44,512**	**49,994**	**56,489**	**61,425**
Minority interest	571	497	497	497	497
Preferred stock	23	348	348	348	348
Common stock	760	771	771	771	771
Retained earnings	11,384	14,763	17,719	21,521	26,437
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	**12,167**	**15,882**	**18,838**	**22,641**	**27,556**
Total equity & liabilities	**49,329**	**60,891**	**69,329**	**79,627**	**89,478**
Liquidity (x)					
Current ratio	2.77	2.65	2.57	2.58	2.53
Interest cover	2.5	2.4	2.7	2.9	3.4
Leverage					
Net debt/EBITDA (x)	3.02	3.23	2.81	2.62	2.30
Net debt/equity (%)	159.4	154.2	150.3	139.0	120.3
Activity (days)					
Days receivable	93.8	108.0	117.7	111.6	110.1
Days inventory	165.1	160.6	176.8	173.5	165.3
Days payable	145.9	154.8	167.4	155.0	150.6
Cash cycle	113.0	113.9	127.1	130.1	124.8

Source: Nomura estimates

Notes

Receivables to move down in terms of days of sales

The ground remains fertile

Jain Irrigation's valuations are now back to a point where, given the growth potential of the industry and the company, they appear extremely attractive, negating potential risks emanating from the NBFC plans and the potential equity dilution.

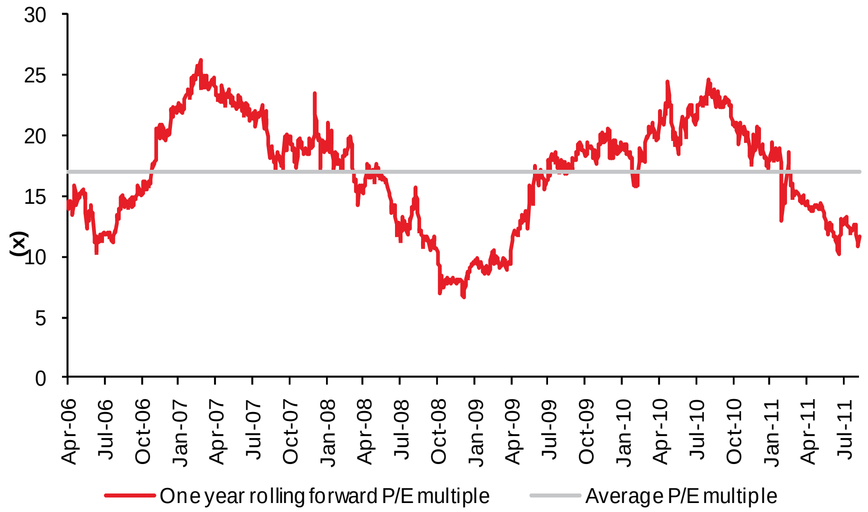
Valuations are attractive; almost back to 2008-09 lows

Jain's stock has corrected by 27.5% YTD vs. a 13.4% fall in the BSE Sensex on concerns over high receivables on the balance sheet and increase in debt, equity dilution to raise funds, establishment of an NBFC to fund farmers and discount receivables, increasing competition and slowdown in growth in the core micro-irrigation systems (MIS) business.

Post this correction, the stock is trading at 11.6x its one-year-rolling forward EPS (average of FY13F EPS and FY14F EPS) vs. the past five years' average of 17x one-year-rolling forward EPS. The only time it has traded lower than this in the past five years was during the global financial crisis between Sep'08 and Mar'09.

Fig. 1: Jain Irrigation: earnings multiple chart

The multiple is calculated on reported earnings



Source: Company data, Bloomberg, Nomura estimates

At that time, we believed that the low valuations were unjustified, given the high growth potential of the company. Even now, we think that these low valuations are unjustified, as the growth momentum of the company continues, as witnessed in the 1Q FY12 results, where overall revenue was up 32% and PAT up 33% y-y. We address and evaluate the concerns mentioned above later in the note.

Even if we look at valuations on a standalone segmental basis (EV/EBITDA), we see that valuations are now cheaper than they were in Mar'09. Jain provides segmental details only until the EBITDA level; thus, we have conducted a one-year-forward EV/EBITDA multiple analysis from FY07. We have assumed one-year-forward EV/EBITDA multiples for the pipes, food processing and other segments to arrive at an implied EV/EBITDA multiple for the MIS business. We have assumed EV/EBITDA multiples for the pipes business in line with Finolex Industries, one of India's largest plastic pipe manufacturers and for food processing and other businesses based on our conservative estimates on account of lack of comparables. As an estimate we have divided the debt of the company in proportion to the EBITDA generated by the segment.

Per our calculation, the MIS business is trading at its lowest implied one-year-forward EV/EBITDA multiple of 8.6x in the past six years.

Fig. 2: Derived standalone EV/EBITDA valuation for MIS business

MIS business trading at lowest implied one-year-forward standalone EV/EBITDA multiple in the past six years

MIS	MIS EBITDA	Attributable Debt	Implied value as on Mar 31st of previous year (INR/share)	Implied Value	Implied EV	Implied 1 year forward EV/EBITDA
FY07	1,081	4,239	42	12,285	16,525	15.3
FY08	1,781	6,203	66	20,463	26,666	15.0
FY09	2,833	10,369	100	36,108	46,477	16.4
FY10	4,101	13,550	63	22,912	36,463	8.9
FY11	5,315	13,040	174	67,117	80,157	15.1
FY12F	6,698	15,027	161	61,920	76,948	11.5
FY13F	8,538	17,865	144	55,573	73,438	**8.6**
Pipes	Pipes EBITDA	Attributable Debt	Estimated value as on Mar 31st of previous year (INR/share)	Estimated Value	Estimated EV	Estimated 1 year forward EV/EBITDA
FY07	395	1,549	6	1,611	3,160	8.0
FY08	707	2,462	10	3,194	5,656	8.0
FY09	738	2,701	9	3,203	5,904	8.0
FY10	829	2,739	4	1,406	4,145	5.0
FY11	794	1,948	9	3,610	5,558	7.0
FY12F	821	1,842	8	3,084	4,926	6.0
FY13F	937	1,961	8	3,193	5,154	5.5
Food processing	Food processing EBITDA	Attributable Debt	Estimated value as on Mar 31st of previous year (INR/share)	Estimated Value	Estimated EV	Estimated 1 year forward EV/EBITDA
FY07	120	471	1	249	720	6.0
FY08	454	1,581	4	1,143	2,724	6.0
FY09	788	2,884	7	2,632	5,516	7.0
FY10	718	2,372	1	500	2,872	4.0
FY11	683	1,676	5	2,081	3,757	5.5
FY12F	1352	3,033	8	3,051	6,084	4.5
FY13F	1558	3,260	8	2,972	6,232	4.0
Others	Others EBITDA	Attributable Debt	Estimated value as on Mar 31st of previous year (INR/share)	Estimated Value	Estimated EV	Estimated 1 year forward EV/EBITDA
FY07	507	1,988	2	547	2,535	5.0
FY08	423	1,473	2	642	2,115	5.0
FY09	304	1,113	2	711	1,824	6.0
FY10	222	734	(0)	(68)	666	3.0
FY11	628	1,541	3	1,285	2,826	4.5
FY12F	784	1,759	3	985	2,744	3.5
FY13F	822	1,720	2	746	2,466	3.0
Total	**Total EBITDA**	**Total Net Debt**	**Stock price as on Mar 31st of previous year (INR/share)**	**Total Value**	**Total EV**	**1 year forward EV/EBITDA**
FY07	**2,103**	**8,247**	**50**	**14,693**	**22,940**	**10.9**
FY08	**3,365**	**11,720**	**82**	**25,441**	**37,161**	**11.0**
FY09	**4,663**	**17,067**	**118**	**42,654**	**59,721**	**12.8**
FY10	**5,870**	**19,395**	**68**	**24,751**	**44,146**	**7.5**
FY11	**7,524**	**18,460**	**192**	**74,093**	**92,553**	**12.3**
FY12F	**9,744**	**21,861**	**179**	**69,040**	**90,901**	**9.3**
FY13F	**11,974**	**25,055**	**162**	**62,483**	**87,538**	**7.3**

Source: Company data, Nomura estimates

We believe that, at current valuations, the stock offers excellent value. We now value the stock at a one-year-rolling forward EPS (average of FY13F and FY14F EPS) multiple of 16x, down from 20x earlier. We have set our P/E multiple slightly lower than the average of the last five years of 17x to account for the possible risks emanating from the investments in the proposed NBFC, possible equity dilution and the lower level of growth than earlier estimated. **Based on this, we arrive at our target price of INR229, which implies potential upside of 41%**, **and** we **maintain a BUY rating on the stock.** We believe that concerns on receivables, NBFC and possible equity dilution are overstated and that current valuations fully discount the risks.

Receivables likely to move down in the near term

On the standalone balance sheet of the company, net receivables post discounting have ballooned significantly in FY11 on account of delay in the receipt of subsidy amounts from various state governments on MIS systems sold. The reason for the delay is the ongoing political turmoil in Andhra Pradesh, elections in Tamil Nadu and the changes brought about in the process of subsidy disbursal by the National Mission for Micro-irrigation. Net receivables on a standalone basis hence moved up to 163 days of gross standalone sales in FY11 from 106 days in FY10 and an average of 111 days in the past seven years.

Fig. 3: Standalone net receivables post discounting in terms of days of sales
Spike in FY11; should come down in future

Source: Company data, Nomura estimates

The company has been working on reducing these receivables and expects subsidy payments to come through from states in the next two quarters. Receivables have remained flat in 1Q FY12, suggesting that payments from the state governments have already started flowing in, resulting in annualised net receivables coming down to 131 days of gross standalone sales. Management expects INR2.5-3.0bn worth of subsidy payments from the Maharashtra government to flow in during the next 30-60 days. We are building in 135 days in FY12F and 130 days in FY13F. Please note that our estimates are still much higher than the average receivable days between FY04 and FY10, as payments from governments could remain slow in the future given the uncertainty in the policy and political environment.

The decline in receivables should ensure that cash flows are better, and hence debt:equity is likely to move down from current levels of 1.5:1.

Equity dilution unlikely to happen soon

While the company has taken approval to raise INR7bn of equity through a fresh issue of shares, possibly through a qualified institutional placement (QIP), management on the 1QFY12 analyst call mentioned that it is unlikely to go through with the fundraising unless it sees a better valuation. It has subscribed to warrants worth INR1.4bn at a price of INR228 per share in Mar'11, and once these warrants are subscribed, the company should have enough funds to start off the NBFC. We believe the company will not be raising the entire INR7bn but will possibly look to raise equity in the range of INR3-4bn. It is likely to use these funds to invest in the NBFC, pay off debt and spend on capex.

NBFC: Growth positive but EPS dilutive for initial two years

Jain has plans to set up a non-banking financial company (NBFC) to fund farmers for purchasing MIS systems, while also discounting Jain's receivables. The company believes that bank funding for farmers is constrained and that access to capital matters much more to farmers than interest rates.

Jain plans to hold a minority stake in the NBFC, with the majority stake held by the promoters of Jain and private equity players. The company plans to invest initially INR1bn in the NBFC as its share of equity and, in our view, will possibly invest more over the next 2-3 years to scale up operations. It aims to start the NBFC by the end of CY12 and is currently waiting for the license.

At this moment, when Jain Irrigation sells MIS equipment to a farmer, it receives only the farmer's share of the cost, while the subsidy portion from the government is assigned by the farmer to Jain to be received by Jain directly. The subsidy payouts, which are between 30% and 70% of the cost, typically take between 6 and 12 months to flow to Jain, which results in expensive working capital debt (11-13% interest cost) on Jain's books or Jain has to resort to some amount of discounting of the receivables from banks (10%-11% cost).

Now, through the NBFC, Jain plans to fund the farmer for 100% of the equipment cost, with the farmer then receiving the subsidy payout from the government himself after 6-12 months. This raises the question, why would the farmer bear the extra interest cost on 30-70% of the value for 6-12 months? The answer is that Jain will provide the farmer with an upfront cash discount to negate the approximate interest cost that the farmer will have to bear. The illustrative example below suggests that Jain will have to offer a discount of 4.5% to the farmer.

Fig. 4: Discount to be offered by Jain to negate extra interest burden on farmer

This is an Illustrative example and does not show actual values

(in INR)	
Value of equipment	1000
Subsidy	50%
Extra cost for farmer	500
Time for subsidy to flow through (years)	0.75
Interest cost of NBFC loan	12%
Extra cost borne by farmer	45
Discount to be offered by Jain	4.5%

Source: Nomura estimates

Through this endeavour, Jain's EBITDA margins on the MIS business are likely to be affected; however, the company is likely to make it up by saving on its interest cost. In our estimate, if the company has to provide a 4.5% discount to the farmer, its EBITDA margins on the MIS business will be affected by ~3.3%, and, given that MIS EBITDA is 70-75% of overall standalone EBITDA, the overall EBITDA margins can reduce by 2.3%-2.5%. In our opinion, it will be difficult for the company to save this much through interest costs solely in the first couple of years, as it would mean reducing receivables by 35-40%. We believe the strategy to achieve profit neutrality will involve discounting a significant portion of the current receivables with the NBFC, which may require more funding for the NBFC down the line.

The more important aspect of starting the NBFC, though, is the push that it can give to the growth of the MIS business. As mentioned earlier, access to capital is important for farmers, and with the NBFC providing this capital without the regulations of bank funding, growth in this business could be pushed up from our currently estimated levels. By our calculation, the NBFC needs to lead to INR12bn worth of extra MIS sales over our current estimates for the NBFC plan to be EPS accretive by FY15. This is approximately 11% of our cumulative MIS sales estimate for FY12-15. Thus, the MIS business's CAGR for FY12-15 will need to be boosted from 26% in our current estimates to 33%. This calculation assumes INR3bn of equity raising at INR180 per share.

By our sensitivity calculations, even if NBFC is implemented, affecting margins as stated above, but growth does not increase, then our TP would be affected by about 16% but will still leave upside of 19% from here.

The ability to maintain loan quality and not allow large non-performing assets would be an important factor going forward for the NBFC, but the same can only be assessed two years after operations start and scale-up.

Increasing competition impact likely only 3-5 years from now

In our opinion, new entrants such as Mahindra & Mahindra, John Deere, etc. are still at a fairly nascent stage in the industry and will require a significant time to scale up. Godrej Industries is still in the planning stages to enter the MIS business and will also take time to scale up, though it is in talks to garner technology from an unnamed Israeli company and has access to farmers through its existing Godrej Agrovet business.

Jain has a competitive advantage in this industry through its first-mover advantage, which has provided it with a large distribution base, access to farmers, knowledge of their requirements, and most important knowledge of the way the government machinery works so as to obtain its subsidy payments as soon as possible. The biggest worry for the new entrants would be to control their working capital, given the seasonal nature of the industry and the long lead time for receiving subsidy payouts. The NBFC and the capital access that it provides to farmers can also be competitive advantages in the face of increasing competition from these new entrants.

Changes in estimates

We have changed our revenue growth estimates, based on management commentary and 1QFY12 results along with our view on the industry.

Fig. 5: Changes in revenue growth estimates segment-wise

Growth estimates	FY12F		FY13F		FY14F	
	Earlier	Now	Earlier	Now	Earlier	Now
MIS	38%	31%	33%	29%	33%	27%
PVC pipes	15%	9%	13%	15%	13%	12%
PE pipes	8%	8%	13%	13%	13%	12%
PVC sheets	17%	10%	12%	10%	7%	7%
Vegetable processing	12%	18%	15%	16%	15%	15%
Fruit processing	18%	60%	18%	21%	18%	18%
Others	35%	45%	30%	30%	25%	25%
Total	**27%**	**26%**	**25%**	**23%**	**25%**	**21%**

Source: Nomura estimates

Our EBITDA margins estimate decreases by 10bps in FY12 and 60bps in FY13. We have increased our interest cost estimates by 100bps each in FY12 and FY13. Our EPS estimate for FY12 changes by 6% and for FY13 by 10% on changes in these estimates.

Valuation methodology and risks

We value Jain based on an earnings multiple of 16x our one-year-rolling forward EPS of INR14.28 to arrive at our target price of INR229. This is slightly lower than the 17x at which it has traded, on average, in the past five years.

Downside risks to our call are 1) increased working capital intensity, leading to reduced cashflows and margins; 2) reduction in government support for micro irrigation systems (MIS) and government spending on infrastructure projects; 3) increased competitive intensity leading to lower margins or market share for Jain; 4) volatile raw material prices, which could affect margins; 5) further depreciation of the rupee against the US dollar, which could increase forex losses; 6) acquired companies not achieving expected profitability; and 7) heavy investment requirement in the proposed NBFC and the inability to maintain loan quality.

Appendix A-1

Analyst Certification

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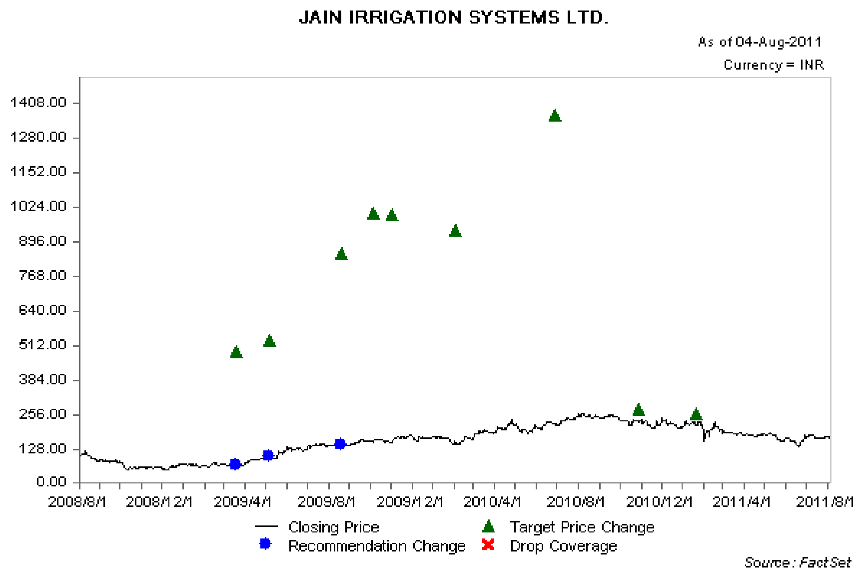
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Jain Irrigation Systems Ltd.	JI IN	INR 162	10-Aug-2011	Buy	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Jain Irrigation Systems Ltd.	Neutral	21-Aug-2009

Jain Irrigation Systems Ltd. (JI IN) **INR 162 (10-Aug-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
21-Jan-2011		261.00	215.75
29-Oct-2010		273.20	231.95
29-Jun-2010		1366.00	216.90
03-Feb-2010		939.00	153.11
03-Nov-2009		996.00	156.19
06-Oct-2009		1002.00	155.17
21-Aug-2009		852.00	143.02
21-Aug-2009	Buy		143.02
08-May-2009		529.00	97.90
08-May-2009	Neutral		97.90
20-Mar-2009		488.00	67.39
20-Mar-2009	Buy		67.39

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value JISL based on an earnings multiple of 16x our one-year-rolling forward EPS of INR14.28 to arrive at our target price of INR229. This is slightly lower than the 17x at which it has traded, on average, in the past five years.

Risks that may impede the achievement of the target price Downside risks to our call are 1) increased working capital intensity, leading to reduced cashflows and margins; 2) reduction in government support for micro irrigation systems (MIS) and government spending on infrastructure projects; 3) increased competitive intensity leading to lower margins or market share for Jain; 4) volatile raw material prices, which could affect margins; 5) further depreciation of the rupee against the US dollar, which could increase forex losses; 6) acquired companies not achieving expected profitability; and 7) heavy investment requirement in the proposed NBFC and the inability to maintain loan quality.

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