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Subsidy support for micro irrigation raised further

- FY12 subsidy raised further; new schemes under RKVY likely positive:** The Finance Minister's Union Budget provides for an increase in the central government's subsidy support for the National Mission on Micro Irrigation (NMMI) to ₹11.3bn for FY11-12 (vs an original allocation of ₹10.0bn for FY10-11 that is now revised downward to ₹9.7bn). We note that central government also subsidises micro irrigation (MI) via various other schemes, budgetary allocations for which are also raised (Exhibit 1). In particular, a number of new schemes have been created under the Rashtriya Krishi Vikas Yojana (RKVY) that could meaningfully expand the addressable opportunity (Exhibit 2) and provide for additional subsidy support for MI. The downward revision in FY10-11 NMMI subsidy estimate to ₹9.7bn could be driven by slower than expected farmer demand due to prolonged and excessive rainfall in late-CY10.
- No direct correlation between budgetary allocation and MI growth:** Between FY07-08 to FY09-10, subsidy allocation to the NMMI (then known as the Centrally Sponsored Scheme on Micro Irrigation) fell from ₹5.5bn to ₹4.3bn even while the MI industry was growing very strongly: Jain Irrigation's domestic MI revenues more than doubled from c.₹6.0bn in FY08 to ₹12.2bn in FY10. We believe this was because MI implementation was supported under several other schemes and the actual usage of subsidy under the MI scheme was lower than budgeted. Hence, we believe that the 13% increase in budgetary support for FY12 will not act as a cap on MI revenue growth. On the contrary, we expect farmer demand for MI to remain very strong at least through the June quarter (potentially driving as much as 40-50% YoY growth in Jain Irrigation's MI business). Consequently, we think a sell-off in Jain Irrigation shares on concerns over modest increase in NMMI subsidy allocation is unwarranted.
- Data points from key states indicate continued strength in demand:** Data reported by the implementing agency for the state of Gujarat suggests that demand growth is very strong so far in 4QFY11. Farmers in Gujarat have applied for MI installations on more than 23,000 hectares between 1 Jan - 28 Feb'11 vs a little under 10,000 hectares during the same period last year. The Gujarat government's budget has allocated ₹1,750mn for MI implementation in FY12. We understand that demand in Maharashtra is also currently very strong, with farmers booking MI systems months in advance, while the Andhra Pradesh government has said it has given sanctions for MI installation on nearly 100,000 hectares. We believe a key driver of demand is the increasing affluence of cotton farmers benefiting from rising prices.
- Customs duty cut from 7.5% to 5% unlikely to have significant impact:** The customs duty cut will make it cheaper to import MI systems from overseas and could, therefore, benefit MNCs like Netafim and Plastro. Jain Irrigation, too, may benefit via lower duty on imports from its Israeli subsidiaries (NaanDan Jain). However, we believe imported systems do not command a significant share in the domestic market due to higher costs (including freight), and hence the duty cut is unlikely to have a significant impact on competitive dynamics within the industry.

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Exhibit 1. Support for micro irrigation in the Union Budget (₹ mn)

Scheme	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Micro Irrigation	3,500	5,200	5,500	5,000	4,300	10,000	11,300
Horticulture and Vegetable Crops	1,766	1,920	2,576	1,856	1,863	2,935	3,031
National Horticulture Board	0	0	0	1,200	1,200	1,200	1,420
National Horticulture Mission	6,300	10,000	11,500	11,000	11,000	10,620	12,000
Rashtriya Krishi Vikas Yojna (RKVY)	0	0	0	31,657	40,671	67,220	78,109
National Food Security Mission	0	0	0	9,930	12,600	12,205	12,500
Technology Mission on Oilseeds and Pulses	2,548	2,755	2,980	3,140	3,140	4,810	5,481
Intensive Cotton Development Programme	500	725	1,005	899	599	104	153
Macro Management of Agriculture	7,821	7,390	9,000	7,950	7,850	7,720	6,500
Rainfed Area Development Programmes	0	0	1,000	3,090	1,380	90	10
National Project on Management of Soil, Health and Fertility	0	0	0	420	445	200	270
Support to State Extension Services	0	0	0	2,680	2,680	2,250	4,500
Control of Shifting Cultivation	300	400	400	400	400	400	500
Integrated Watershed Management Programme	0	0	10,020	16,424	17,168	22,091	22,932
Accelerated Rural Water Supply Programme	36,451	46,801	58,500	65,700	72,000	81,000	84,150
National Agricultural Innovation Project	600	920	2,700	2,570	2,520	2,890	1,710
Total	59,786	76,111	105,181	163,916	179,816	225,735	244,566

Source: Budget documents, JM Financial.

Exhibit 2. Some new schemes under RKVY that may support MI

Scheme	Budget allocation (₹ mn)
Promotion of oil palm	3,000
Vegetable clusters	3,000
Nutri-cereals	3,000
Accelerated Fodder Development Programme	3,000
National Mission for Sustainable Agriculture	N.A.

Source: Budget documents, JM Financial

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