

Budget doubles subsidy provision; improves visibility

Raised to Buy post budget; estimates hiked 5% to 16%

FY11 budget has more than doubled the direct subsidy provision on micro irrigation to INR10bn vs our expectation of ~30% growth. We believe this will result in a strong 50% revenue growth in FY11 in micro irrigation led by faster implementation. We hike estimates 5% to 16% to account for this. Upgrading to Buy (from Neutral) with target of INR1,100 (earlier PO INR920). Target multiple of 17x 1yr fwd (vs 15x earlier) reflects improved visibility. Buy for over 32% upside.

High visibility despite one off issues

Central subsidy forms ~40% of the final selling price of micro irrigation systems. In FY10, while INR4.8bn subsidy came directly, ~INR3.6bn was awarded indirectly through related schemes. Given direct subsidy has been hiked to INR10bn now, ceteris paribus, micro irrigation market will likely grow over 60% next year. This increases visibility for Jain Irrigation given its leadership in micro irrigation.

Newer states growing well; expect strong March quarter

As per the company while Andhra Pradesh continues to be the drag, other states have shown significant pick up in micro irrigation revenue in March quarter. Given this, we believe the company will likely report over 30% earnings growth in the March quarter which can act as a near term trigger for the stock.

Stock valuations reasonable vs growth

Stock trades at 16x FY11e PE and 12x FY12e PE. These are reasonable valuations given 42% EPS CAGR and our bullish view on micro irrigation led mainly by i) less than 5% market penetration, ii) likely increase in the number of large contracts by states going ahead, iii) proposed target by the govt task force of a ~US\$6bn investment in Micro Irrigation in the next two years and iv) hike in the subsidy quantum in the budget.

Estimates (Mar)

(Rs)	2008A	2009A	2010E	2011E	2012E
Net Income (Adjusted - mn)	1,367	1,933	2,595	3,843	5,213
EPS	20.70	26.20	34.24	50.72	68.80
EPS Change (YoY)	51.0%	26.6%	30.7%	48.1%	35.6%
Dividend / Share	2.99	3.14	5.14	7.61	10.32
Free Cash Flow / Share	(74.39)	(36.20)	30.19	44.40	67.30

Valuation (Mar)

	2008A	2009A	2010E	2011E	2012E
P/E	40.20x	31.75x	24.30x	16.40x	12.09x
Dividend Yield	0.360%	0.377%	0.617%	0.914%	1.24%
EV / EBITDA*	19.02x	14.22x	11.54x	8.85x	7.01x
Free Cash Flow Yield*	-7.98%	-4.27%	3.73%	5.48%	8.31%

* For full definitions of *iQmethod*SM measures, see page 5.

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Stock Data

Price	Rs832.00
Price Objective	Rs1,100
Date Established	1-Mar-2010
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs320.30-Rs932.00
Mrkt Val / Shares Out (mn)	US\$1,331 / 73.8
Average Daily Volume	195,239
BofAML Ticker / Exchange	JNIDF / BSE
Bloomberg / Reuters	J1 IN / JAIR.BO
ROE (2010E)	26.0%
Net Dbt to Eqty (Mar-2008A)	175.7%
Est. 5-Yr EPS / DPS Growth	20.0% / 20.0%
Free Float	67.5%

Key Changes

(Rs)	Previous	Current
Inv. Opinion	C-2-7	C-1-7
Inv. Rating	NEUTRAL	BUY
Price Obj.	920.00	1,100.00
2010E Rev (m)	37,107.6	36,641.4
2011E Rev (m)	43,936.5	45,238.7
2012E Rev (m)	51,956.2	55,568.1
2010E EPS	36.09	34.24
2011E EPS	48.41	50.72
2012E EPS	59.23	68.80
2010E EBITDA (m)	6,531.6	6,333.5
2011E EBITDA (m)	7,995.2	8,263.8
2012E EBITDA (m)	9,354.9	10,428.3
2010E DPS	5.41	5.14

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Refer to important disclosures on page 6 to 8. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4.

01 March 2010

iQprofileSM Jain Irrigation Systems Ltd

Key Income Statement Data (Mar)	2008A	2009A	2010E	2011E	2012E
(Rs Millions)					
Sales	22,159	28,584	36,641	45,239	55,568
Gross Profit	5,983	8,433	11,333	14,461	18,066
Sell General & Admin Expense	(2,541)	(3,417)	(5,128)	(6,331)	(7,776)
Operating Profit	3,286	4,455	5,417	7,020	8,761
Net Interest & Other Income	(1,327)	(1,809)	(1,962)	(1,901)	(1,818)
Associates	NA	NA	NA	NA	NA
Pretax Income	1,959	2,646	3,456	5,119	6,944
Tax (expense) / Benefit	(540)	(659)	(861)	(1,276)	(1,731)
Net Income (Adjusted)	1,367	1,933	2,595	3,843	5,213
Average Fully Diluted Shares Outstanding	66	74	76	76	76

Key Cash Flow Statement Data

Net Income	1,419	1,986	2,595	3,843	5,213
Depreciation & Amortization	558	684	916	1,244	1,667
Change in Working Capital	(5,705)	(2,289)	(1,184)	(2,214)	(2,598)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	1,486	1,643	1,962	1,901	1,818
Cash Flow from Operations	(2,243)	2,025	4,288	4,774	6,100
Capital Expenditure	(2,655)	(4,644)	(2,000)	(1,410)	(1,000)
(Acquisition) / Disposal of Investments	(440)	403	(50)	(50)	(50)
Other Cash Inflow / (Outflow)	227	43	0	0	0
Cash Flow from Investing	(2,867)	(4,199)	(2,050)	(1,460)	(1,050)
Shares Issue / (Repurchase)	1,782	0	421	(100)	(45)
Cost of Dividends Paid	(197)	(227)	(389)	(576)	(782)
Cash Flow from Financing	6,222	3,230	(2,281)	(3,341)	(3,408)
Free Cash Flow	(4,898)	(2,620)	2,288	3,364	5,100
Net Debt	11,720	16,995	16,688	15,951	13,546
Change in Net Debt	4,853	4,247	(308)	(737)	(2,405)

Key Balance Sheet Data

Property, Plant & Equipment	8,963	12,903	13,987	14,153	13,486
Other Non-Current Assets	1,254	1,669	1,669	1,669	1,669
Trade Receivables	6,556	8,663	10,178	12,566	15,436
Cash & Equivalents	1,036	1,174	1,131	1,104	2,745
Other Current Assets	11,741	13,483	14,922	17,235	19,865
Total Assets	29,551	37,893	41,888	46,728	53,202
Long-Term Debt	12,756	18,170	17,819	17,055	16,291
Other Non-Current Liabilities	NA	412	412	412	412
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	7,414	9,636	11,356	13,793	16,644
Total Liabilities	20,170	28,217	29,586	31,259	33,347
Total Equity	9,381	9,675	12,302	15,468	19,854
Total Equity & Liabilities	29,551	37,893	41,888	46,728	53,202

iQmethodSM - Bus Performance*

Return On Capital Employed	13.6%	13.3%	13.8%	16.6%	18.9%
Return On Equity	24.6%	23.6%	26.0%	29.4%	30.8%
Operating Margin	14.8%	15.6%	14.8%	15.5%	15.8%
EBITDA Margin	17.3%	18.0%	17.3%	18.3%	18.8%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	-1.6x	1.0x	1.7x	1.2x	1.2x
Asset Replacement Ratio	4.8x	6.8x	2.2x	1.1x	0.6x
Tax Rate (Reported)	27.6%	24.9%	24.9%	24.9%	24.9%
Net Debt-to-Equity Ratio	124.9%	175.7%	135.7%	103.1%	68.2%
Interest Cover	2.5x	2.5x	2.8x	3.7x	4.8x

Key Metrics

Sales Growth (YoY)	59	29	28	23	23
EBITDA GROWTH %	74	34	23	30	26
Net Income Growth (%)	74	40	31	48	36

* For full definitions of iQmethodSM measures, see page 5.

Company Description

Jain Irrigation is the market leader in Micro Irrigation Systems in India with a 55% share. It is an early entrant in the Indian agro processing business and is the largest processor of mangoes in India, with marquee clients like Coke, and is the third largest global player in onion dehydration. It also leads in the plastic pipes business.

Investment Thesis

We like Jain Irrigation for 1) leadership in its business segments, 2) visible earnings growth and 3) minimal impact from the global slowdown given a strong focus on India's rural economy. We expect it to continue to lead in Micro Irrigation Systems (MIS) and also scale up agro-processing, leveraging its rural setup. EPS growth will be driven by robust performance in MIS, agro-processing and plastic pipes despite plastic sheets business dragging due to slowdown. Current valuation is attractive.

Stock Data

Price to Book Value 5.4x

Financial tables

Table 1: Increase in provisions for various schemes (INR bn)

Scheme	FY10	FY11	YoY	Relevant business segment
National Food Security Mission	9.8	12.2	24%	Sprinkler
National Rural Drinking Water Program	80.0	90.0	13%	Pipes
Total Sanitation Campaign	12.0	15.8	32%	Pipes
Integrated Watershed Management Program	18.2	24.6	35%	Overall
National Horticulture Mission	8.0	10.6	33%	Drip irrigation
Macro Management of Agriculture	7.7	7.7	1%	Partly micro irrigation
Integrated Oilseeds, palm, pulses and maize development	4.5	4.8	6%	Micro irrigation
World Bank aided National Agriculture Innovation Project	2.7	2.9	6%	Large projects in micro irrigation
Total Provisions	142.9	168.6	18%	
Micro Irrigation direct provision	4.8	10.0	108%	Micro irrigation

Source: Govt. of India Union Budget 2010-11

Table 2: Profit and loss statement

INR mn	FY07	FY08	FY09	FY10E	FY11E	FY12E
Net sales	13,922	22,159	28,584	36,641	45,239	55,568
Increase/ (decrease) in stock	(887)	(2,029)	(197)	(1,037)	(1,088)	(774)
Cost of materials consumed	8,701	13,832	15,703	20,200	24,229	28,828
Manufacturing expenses	1,175	1,923	2,250	2,931	3,619	4,445
Payment to and provsn. For employees	1,249	2,450	2,927	3,847	4,750	5,835
Selling and Distribution	1,287	1,758	2,289	2,931	3,619	4,445
Admn. and other exp.	522	782	1,128	2,196	2,712	3,331
Cost of self generated capital eqpmts.			(533)	(633)	(733)	(833)
EBITDA	1,874	3,442	5,016	6,205	8,131	10,290
Depreciation	420	558	684	916	1,244	1,667
EBIT	1,454	2,884	4,332	5,289	6,887	8,623
Other income	333	401	123	128	133	138
Interest and finance charges	769	1,327	1,809	1,962	1,901	1,818
PBT	1,018	1,959	2,646	3,456	5,119	6,944
Tax paid	201	540	659	861	1,276	1,731
PAT- recurring	817	1,419	1,986	2,595	3,843	5,213
Exceptional	13	51	53			
FCCB MTM loss			598			
PAT- reported	804	1,367	1,335	2,595	3,843	5,213
Margins	FY07	FY08	FY09	FY10E	FY11E	FY12E
EBITDA	13.5%	15.5%	17.5%	16.9%	18.0%	18.5%
EBIT	10.4%	13.0%	15.2%	14.4%	15.2%	15.5%
PAT- recurring	5.9%	6.4%	6.9%	7.1%	8.5%	9.4%
Effective tax rate	19.8%	27.6%	24.9%	24.9%	24.9%	24.9%
YoY growth	FY07	FY08	FY09	FY10E	FY11E	FY12E
Revenue growth	65.2%	59.2%	29.0%	28.2%	23.5%	22.8%
EBITDA	45.7%	83.7%	45.7%	23.7%	31.0%	26.6%
EBIT	42.7%	98.3%	50.2%	22.1%	30.2%	25.2%
PAT- recurring	8.7%	73.6%	40.0%	30.6%	48.1%	35.6%
EPS	FY07	FY08	FY09	FY10E	FY11E	FY12E
Basic	13.9	21.5	27.4	34.2	50.7	68.8
Diluted	13.9	21.5	26.9	34.2	50.7	68.8

Source: Company, BofA Merrill Lynch Global Research estimates

Price objective basis & risk

Jain Irrigation Systems Ltd (JNIDF)

Our PO of INR1,100 implies a 17x 1yr fwd PE and a 0.55x 2yr PEG. We believe over 100% increase in direct provisions for micro irrigation subsidy in the Union Budget improve visibility for FY11 significantly. We maintain our bullish view on micro irrigation market given i) <5% market penetration, ii) increasing focus of government on improving water usage efficiency.

Key risks: i) demand risks from a bad monsoon, ii) better than expected performance from Andhra Pradesh and iii) an adverse change in government subsidies.

Analyst Certification

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India - General Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
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	Balrampur Chini	BMPRF	BRCM IN	Sanjaya Satapathy
	Brigade Enterprises	XBDGF	BRGD IN	Gagan Agarwal
	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	Container Corp	CIDFF	CCRI IN	Sanjaya Satapathy
	Cummins India	CUIDF	KKC IN	Sanjaya Satapathy
	DLF Limited	XVDUF	DLFU IN	Unmesh Sharma, CFA
	Exide Indus Ltd	XEDRF	EXID IN	Sanjaya Satapathy
	Housing Development and Infrastructure	XGHSF	HDIL IN	Unmesh Sharma, CFA

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India - General Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Unmesh Sharma, CFA
	Jain Irrigation Systems Ltd	JNIDF	JI IN	Prasad Deshmukh
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Puravankara Projects Ltd	XPJVF	PVKP IN	Unmesh Sharma, CFA
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	Sobha Developers	SBDRF	SOBHA IN	Unmesh Sharma, CFA
	Triveni Engg	TVIEF	TRE IN	Sanjaya Satapathy
	Voltas	VTJSF	VOLT IN	Sanjaya Satapathy
NEUTRAL				
	Aditya Birla Nu	ADYAF	ABNL IN	Reena Verma Bhasin, CFA
	Shree Cements	SREEF	SRCM IN	Reena Verma Bhasin, CFA
	Unitech Ltd	UTKIF	UT IN	Unmesh Sharma, CFA
UNDERPERFORM				
	Ambuja Cements	AMBUF	ACEM IN	Reena Verma Bhasin, CFA
	Assoc. Cement	ADCLF	ACC IN	Reena Verma Bhasin, CFA
	India Cements	INIAF	ICEM IN	Reena Verma Bhasin, CFA
	India Cements -G	IAMZY	ICEM LX	Reena Verma Bhasin, CFA
	Nagarjuna Fertilizers & Chemicals Ltd	NFACF	NFCL IN	Prasad Deshmukh
	Tata Chemicals Ltd	TTCXF	TTCH IN	Prasad Deshmukh
RSTR				
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
	Grasim -G	GRSJY	GRAS LX	Reena Verma Bhasin, CFA
	SpiceJet Ltd	MDLFF	SJET IN	Anand Kumar
	UltraTech Cemen	XDJNF	UTCEN IN	Reena Verma Bhasin, CFA
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	APIL	ANSFF	APIL IN	Gagan Agarwal
	Omaxe Limited	XOMXF	OAXE IN	Gagan Agarwal

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$NOPAT = (EBIT + Interest\ Income) * (1 - Tax\ Rate) + Goodwill$ Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$EV = Current\ Share\ Price * Current\ Shares + Minority\ Equity + Net\ Debt + Sales$ Other LT Liabilities	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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Important Disclosures

JNIDF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of January 31, 2010 or such later date as indicated.

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Investment Rating Distribution: Machinery/Diversified Manufacturing Group (as of 01 Jan 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	33	58.93%	Buy	12	40.00%
Neutral	8	14.29%	Neutral	6	85.71%
Sell	15	26.79%	Sell	4	30.77%

Investment Rating Distribution: Global Group (as of 01 Jan 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1699	50.78%	Buy	904	58.82%
Neutral	841	25.13%	Neutral	491	65.03%
Sell	806	24.09%	Sell	368	49.80%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofAML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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01 March 2010

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