



“Jain Irrigation Systems Q4 FY15 & FY15 Results Conference Call”

May 18, 2015



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Moderator: Ladies and gentlemen, good day and welcome to the Jain Irrigation System Q4 FY 2015 and FY15 Results Conference Call hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ajay Thakur from Axis Capital. Thank you and over to you Mr. Thakur.

Ajay Thakur: Hi, good afternoon everyone. It has been a pleasure to have you all over here for the Q4 and FY 2015 Earnings Call for Jain Irrigation. We have with us the management team of Jain Irrigation represented by Mr. Anil Jain, Managing Director and the CEO, Mr. Manoj Lodha, CFO and Mr. Darshan Surana, Vice President, Finance and Investor Relations. We will start with the opening remarks from Anil ji and then we will have a Q&A session post that. Anil Ji, you can take it over from here.

Anil B. Jain: Good day to all. Thank you for attending our conference to discuss the fourth quarter and the annual results for FY 2015. We are quite happy to present the details of the results. Results are already announced. During Q4FY15, we managed to have almost about 12% of the revenue growth and growth in terms of net earnings. In terms of various different businesses piping division did very well in the fourth quarter followed by food and then the other businesses. Our overseas operations have contributed quite well. If we look at business wise in terms of total piping grew in the fourth quarter almost at about 31%, registering a significantly high growth but for the whole year piping was about -6% because earlier nine months we had negative growth in pipe. We caught up lot of that negative growth in the fourth quarter and compensated it, however 31.5% growth was not enough and it was still negative for the whole year but our momentum continues positive in the current year in the piping business so we are quite hopeful of better FY 2016 for the piping business. In terms of agro processing it continued its good run. Agro processing grew almost 24% in the fourth quarter and registering almost 24.6% for the whole year. In case of micro irrigation, the growth in the current quarter was hardly 3.8% because we had negative growth in export which was same as for the first three quarters and in fact also had some negative growth in the retail business in the fourth quarter due to hailstorms and untimely rains in majority of our market where the entire agriculture as it is known was disrupted quietly heavily but we had very strong growth in project business in the fourth quarter and that seems to be holding well. If we look at for the whole year the retail business grew 7.5%, the projects have almost grown by 50%, so overall domestic irrigation business for the whole year has grown 17% while in the current quarter that is the last preceding quarter

retail was -7 and the projects were about 33%, so combined total came down to about 6.6%. In the fourth quarter exports were -20%, so therefore our overall sales we did about close to 650 Crores in MIS in the fourth quarter and for the whole year we crossed 1800 Crores and overall growth for the whole FY 2015 for micro irrigation business was 6.9 but within that exports were 45% minus from 300 and odd to down to 166, so domestic business actually registered very decent growth of 17% plus from 1381 Crores in FY 2014 to 1635 Crores in FY 2015, so that has been quite positive and we have been able to manage this growth while continuously bringing our overall receivables down. Receivables in MIS have come down, so the domestic receivables in MIS end of March 2014 were almost close to 1100 Crores, in March 2015 there about close to 840 Crores, so they have come down quite a lot and even if you compare to end December the receivables are down a little bit small amount because fourth quarter was a very strong quarter and lot of sales happened in this quarter. Also another factor to note about this quarter's performance is that we did almost close to 1600 Crores in the revenue as against last year's 1428 Crores registering almost close to 13% revenue growth on standalone India basis. When you take in to account growth coming from our overseas subsidiaries operating as well as the marketing on a combined basis in this particular quarter our overall sales crossed 2000 Crores and that was the first time in the lifetime of the company that we crossed 2000 Crores in a given quarter and mind you 10 years ago company was hardly about 400-500 Crores size company. For the whole year we have ended the consolidated sales at about revenue 6300 Crores as against last year's 5919 odd registering about 5.4% growth, so while India grew by 2.5%, overseas entities grew faster, so our average worked out to about 5.6% in terms of the total growth which has taken place.

While focusing and growing the business we have been also focusing on de-leveraging the balance sheet and this particular quarter we have succeeded in meeting our targets, in fact we did a little bit more than what was our original target; our original target was to try and bring down the debt somewhere between 250 to 300 Crores this quarter but we have succeeded in bringing down the debt by about 360 Crores or so, so that is a significant reduction in the debt and now new debt equity ratio on standalone basis is about 1.2 with the standalone net debt at about 2858 Crores and consolidated net debt is at about 3926 Crores, so the consolidated debt equity ratio there is 1.81 and we plan to continue to remain focused on de-leveraging while still focused on growth, so going forward for FY 2016 we expect double digit growth on a consolidated basis in the revenues of the company and we further plan to bring down the debt by at least another 300 Crores, most of that impact of the debt reduction will come in the second half because almost two-thirds of our business is taking place in second half and because of the seasonality you might see the debt might go

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up little bit compared to March between June and September because we do build huge inventory we need to buy lot of fruits, vegetables during this period etc., but you would see that for the entire year on a consistent basis we will bring down the debt to our stated target by another 300 Crores or so. In terms of overall external factors generally speaking agriculture has not been doing well, between October to March there has been this consistent hailstorms, untimely rains, extreme weather events which have kind of destroyed the confidence of farmers, destroyed their standing crops. We are also facing this whole low agriculture commodity prices; prices are almost lower to the last five year cycle, cotton, sugarcane, maize, every and almost all commodities prices are lower, so farmer incomes are lower, they have been in distress because their incomes have also been destroyed, despite that I am quite satisfied to say that we have been able to reach out to at least certain amount of farmers that in these difficult times if they have been able to buy our products, utilize our product services and the knowledge we provide to them the farmers who have been able to use our products have done better than the other farmers who are not using drip irrigation, so on that basis I think as we move forward this is going to get more and more imprinted on the mind that drip irrigation is not merely a technology which you would use when you have less water but it is a technology which can help you to even handle the climate change, it is a smart solution to handle the climate because it improves productivity, so it is kind of hedge against the risk of lower income because of higher productivity but it also allows you to save on your input cost and it allows you to time your agriculture properly, for example if you use drip irrigation as in the pre-monsoon for the cotton so even if monsoon gets delayed you will still get germination and therefore your ultimate yields will be higher than a farmer who is just waiting for the rains to come, so we believe, our basic value proposition will continue to play out and as we continue to grow, continue to reach out to more farmers and more geographies covering more crops we can have sustained growth in short, middle and long term. It is possible and it is feasible that depending on how extreme the weather event is and its impact on the farmers in a given quarter we might have not enough sales such as what happened last quarter that our retail sales to farmers we had 7% negative but if you take in to account that we have been able to derisk the business model that we are continuously investing into building better skill set to mange projects and collect faster in the project so that it is helping us quite a lot and while in FY 2015 our exports were considerably lower than the earlier year, we came down from 300 Crores almost down to 165 Crores but we expect now as we move forward to FY 2016 and onwards, we have done lot of work on the ground to design projects to address certain situations in Africa and few other countries and those projects are coming through now for award or tender and so on and so forth and there are not many companies in the world who can offer the complete end-to-end solutions, so bringing water up to the farm, using it efficiently helping farmers

on deciding what to grow and how to grow and then if required and if manageable to even evacuate the end product and based on that we feel fairly comfortable to say that going forward the project business will become even more important part than what it has been in the past and this projects include all, so they include the water solution, the projects also includes energy solutions because some of these farms actually lot of these farms do not have access to electricity, so over the last few years we have built this solution of solar water pumps and it is also catching up, so for example in to the projects we did overall last year in FY 2015 almost about 538 Crores or 5.38 billion rupees almost about 2 billion rupees came where projects were integrated along with solar water pumps and drip irrigation, so that gives us confidence that we have a very unique complete solution model, in fact there is no company in the world today which does produce solar panel and solar water pumps and drip irrigation and planting material and greenhouses and all of these products are in fact hedged against unpredictable weather and climate event which have become norm of the day. There is no more stability in terms of what weather and rains are going to be and unpredictability seems to be something which is staying all the time, so I think we have built a good product portfolio which would help farmer address their issues and all these headwinds and so while some people keep raising this question that there is negativity within the agriculture area the sentiment is negative and our focus is while that is a fact of life our product and solution should help farmers get over that and allow them to hedge against all these risks and still come out fair and better and make more money than what they made before.

In terms of the piping business overall we saw in the fourth quarter 30% growth, majority of that came through because we had good orders from infrastructure applications, so we had good orders from telecommunication companies, we had good orders from companies which are putting infrastructure related to drinking water as well as irrigation and we think it seems to be continuing the first quarter we are already having good orders to execute a strong quarter and if this continues then for the whole year that business should do well.

In case of food processing our mangoes and onions, our two main products are doing well and they tend to grow in their normal course of 15 to 20%. Onion especially this year grew almost more than 30-35% but our margins were impacted again this climate change has destroyed a lot of onion crops, so onion prices were high in the fourth quarter, so that reduced our margin but we had good margins in the first half of the year, so for the whole year EBITDA margins have still come out quite well for the food business even though there was a particular impact on the onion prices in the fourth quarter and next year right now in terms of mangoes and others it is forecasted that Alphonso crop which we have

started buying seems to be less availability but prices are high, so in terms of value terms I believe we will maintain our growth but quantity term we might process less because availability is less. It has been forecasted that totapuri which is our mainstay product seems to be having good season almost same as last year, so all in all as we sit here in middle of May food business should maintain growth level but growth could be little bit lower if availability continues to remain a challenge and as a company we are trying to grow other businesses for example our banana pulp and puree business is growing quite fast, in fact we have added some capacity for frozen mango slices that business is doing well. Our frozen mango pulp business which is export oriented business that is doing well, so there is a possibility that in our main business you might have some less quantity but then we might process some of other fruits and vegetables in larger quantities in the second half of the year and still try and maintain the track record of having very good growth rates in the food business, so this is the overall scenario of the business.

Just to come quickly to our overseas businesses most of our overseas businesses have done well in the last year except two and two of those, one in Middle East and one in US are also in process of turning around and we expect in FY 2016 all businesses to do well and maintain double digit growth and after so many years where we invested in to all these businesses between 2007 and 2010 and since we have made investment by 2014-2015 most of the businesses have kind of doubled in size, so we have created a lot of intrinsic value for our overseas businesses and now is the time where they will start also throwing up some positive cash flow not only to manage their own growth but maybe contribute a little to parent or to the de-leveraging as you saw in the fourth quarter where we could deleverage even outside India by almost 60 Crores, so that issue also we feel fairly confident that it looks well right now. I have already spoken about the balance sheet that we remain focused on de-leveraging and we will continue to plan to move forward on that basis. The interest cost have still remained high because in the fourth quarter we did higher amount of businesses, as I said it was one of the highest ever revenue quarter's for us, so 2000 Crores plus and that does increase sometimes the transaction cost also but based on these reductions in the debt and as we continue to perform better on a consistent basis we expect maybe in the next few quarters or earlier rating change and if the rating change does happen that should improve flexibility of our finance and treasury department to borrow cheaper to refinance at lower cost etc., so that interest cost will come down, interest cost has been quite high, last year it was if you look at fourth quarter almost 7% of revenue, this year it improved down to about 6.6% of revenue but overall for the year it has still remained high around 9% because of the weak quarters we had earlier in the first three quarters, going forward thinking about next two to three years our thought process that this 9% finance cost

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which includes not only interest but all the bank charges etc, etc., should go down less than 5% that is what we are targeting because we believe as that happens and you start seeing that impact maybe from the second half of this year that slowly but surely this interest versus revenue will keep coming down that would improve our earnings going forward, so all in all we had a good quarter and we have ended the year on positive. We had losses as of first nine months and for the whole year now we are profitable, this particular quarter we met almost 98 Crores, so that was quite satisfying and next year looks good. In terms of our forecast and due to all these factors which I have explained uneven whether the climate, the monsoon and all of that it is very difficult for us to give a very specific and concrete guidance but based on what we know today we believe we should maintain double digit revenue growth on consolidated basis on one hand. Our earnings should grow faster than what the revenue will grow and our net earnings should grow significantly more than the EBITDA level earnings because of the improve balance sheet as well as the improved product mix and the fact that overseas subsidiaries are also expected to do well.

In terms of oil and polymer prices and cost push on other raw material between October to December lot of polymer prices came down very rapidly, we had almost 15 different times during 12 weeks where prices were brought down but during the first quarter January to March prices went up at least 12 times once a week, so some of that reduction has already been taken away. We had some kind of inventory losses in December quarter, March, we did not have any and we expect now in oil where it is about 65 and so and the polymer prices where they are they should do okay, some of these increase in polymer prices which happened in January to March was not just related to the fact that oil went back from 43 to 65 or 67 but it was also fact there were some regional shutdowns, within India there was a stronger demand for some plastics and etc., so I think we expect sometimes June July onwards prices to come down from this current high levels, which should be helpful to us in the second half which is going to be the busy season.

In terms of rest of the operations and as an organization we are doing well, we are continuing to build our systems and our process, we continue to invest in to imparting training to our people so that we can grow from where we are, maintain our people cost almost at where we are or improve that and at the same time continue to build this whole global business where we can provide quality and services to our customers in almost 120 countries and at the same time keep doing the innovation and keep bringing the new solution to the farming community. Recently, we were awarded number one award by US Government, USAID Agency where we had teamed up with MIT in US to develop a water filtration solution based on solar energy where brackish water and lot of villages in India

get this brackish water so that they cannot use it for agriculture, this brackish water if you can filter with the help of solar energy at a very low cost then it creates an additional irrigation opportunity for us, so we would continue to do innovation and research and development to come up with the products which can help us address small farmers in India and Africa as well as larger farmers in US and other countries. For example we did a small acquisition in US this quarter, last quarter whereby we acquired assets of our business called PureSense and PureSense has this technology where you measure the moisture in the soil as well as the nutrition requirements of that plant and that is fed to the farmers through the computers and it allows him to take right decisions about irrigation, fertigation, nutrition and it allows him to improve productivity. We are now trying to see that kind of technology what we have and the technology we have evolved in India whether we can bring such kind of technology solution where you are using latest technology, the electronics but ultimately your focus and end is to create what I called precision agriculture where you deliver to the plants and the soil what is required, when required where required, how much required and if you are able to do it then you are helping your customers to improve productivity and so we would be in the project which we are doing in Karnataka we are employing this technology for even small farmers, so it is going to be kind of first time in the world a unique project which is being done that way where large number of small farmers have no access to latest generation global technology what made available in a cost competitive and effective manner in India, so we will continue to focus on that. With that I would end my opening remarks and will be very happy to take questions from all of you. Thank you again from my entire team.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Atul Mehra from Motilal Oswal, please go ahead.

Atul Mehra: Good afternoon Anil ji, congratulations on a good set of numbers, first question would be on the MIS business, as we head in to Q1 is the inflationary trend in terms of retail MIS continuing or are we seeing any improvement on that front?

Anil B. Jain: I think as I said it is very difficult to predict and I really do not wish to get in to this whole to quarter-to-quarter scenario because you cannot predict what happens but on an annualized basis I think domestic business we will maintain double digit positive growth that we are very clear on whether it comes out of projects or whether it comes out of retail one has to wait and see but as we stand today we are doing better than how much we did last year but some times this project business comes in a concentrated way, so let us wait and watch and how it goes but direction is positive.

Atul Mehra: Secondly Sir if you can just talk about the order book position in the project business right now and accordingly what can we look at in terms of execution in FY 2016?

Anil B. Jain: As I said project business we already did quite a lot last year about 5.38 billion rupees which almost was a 50% growth and we managed to bring down receivables at the same time while we did that. We are expecting again double digit growth in the project business even though last year it already grew 50%, that seems quite good and overall order book for the company is about 1200 Crores which is in line with what happens because most of our business is on rotational basis, our dealer keeps giving orders, once we supply we get new orders, overall micro irrigation orders are around 500 Crores today all put together.

Atul Mehra: Secondly Sir, in terms of, if we just look at the working capital position especially in the food business that has deteriorated somewhat on a year-on-year basis, so any particular reason over there because it has been a substantial deterioration?

Anil B. Jain: As I said this business is seasonal, we have grown 24% in to that business and it is possible that the inventory you make sometimes customers for example in January to March fruit pulp would be consumed less because it was raining all the time in so many parts of India, so some of the demand might get pushed down to the next quarter but that all inventory is sold and our receivables remain quite under control in that business, so as I said it is just a timing issue, there is nothing there to read more in to that.

Atul Mehra: One last question would be on the margin front, if you can throw some light on segmental margins during the quarter on how MIS would have done and similarly how other segments would have done?

Anil B. Jain: In MIS our margins were about 23% plus in the fourth quarter and typically that is true that we get the highest level margins in the fourth quarter because of far better capacity utilization, the margins in piping have been between 6 and 10 for both the pipes which have been in the past 4 to 6, so there was quite an improvement, because also we had 30% of revenue growth in that particular thing and then on the food side the margin in the onion were lower which I talked about and in fruit also almost little bit higher than the last year same period but lower than our overall year's average because in fourth quarter again production is less, so fixed cost of production is less, so when we look at for the whole year our margin on micro irrigation is just slightly less than 22 which is in line with our expectation because we had given guidance of 20-22% as arranged, because of weak margins in the earlier nine months the overall piping margins still have come out okay at about 6% which is same as 14 and 15 and if you look at the agro processing for the whole

year margins have been out of India in the range about somewhere around 16%, this is little bit lower than the FY 2014 due to this impact of onion but again in line with our expectations.

Atul Mehra:

Sir one final one on SAFL, in terms of now that you have an external investor in place if you could throw some light in terms of the future trajectory for SAFL, so will it just continue focus on the existing MIS to receivables or will it venture in to other financing areas as well and similarly overall outlook for that entity now?

Anil B. Jain:

We got the right amount of funding end of March, so that has created a much better platform for them including tier 1 and tier 2 their capital is almost 2 billion rupees now because they raised some debt which is of six year kind of horizon debt at about 10% cost which is quite good and that now creates a good balance sheet in terms of leveraging ability, as of now they have not borrowed anything from the market, so now they would be able to borrow and grow the business. MIS was almost, I would say, 73% of the business somewhere around that and remainder of that business was things like lift irrigation pipelines and about 7-8% was other things in the rural areas. I do not expect that character of that portfolio to change for at least next couple of years, micro irrigation will continue to remain two-thirds or more of their business and other products might contribute somewhere between 25 and 30% but they should do well going forward, next year looks quite well for them, as I said they do not have any issues on the balance sheet now based on their good performance on collections, they collected almost 40 Crores last year 400 million rupees, during a very bad agriculture season in Maharashtra and they have given loan to more than 16000 farmers hardly about 65 farmers you will call as nonperforming category, so that shows that their lending is prudent and the model they are working is good, this NBFC we have promoted not for any short-term, we never shifted any of our receivables from our balance sheet to them, they have been lending to farmers for all the new business and it is an entity we have created for long-term and it is moving in the right direction.

Atul Mehra:

One final question on bookkeeping what could be the tax rate you could build in for next year?

Anil B. Jain:

About 20% plus in that range.

Moderator:

Our next question is from Arya Sen Jefferies, please go ahead.

Arya Sen:

Good afternoon Sir, firstly on your debt position, just wanted to clarify in the investor communication you have talked about 28.6 billion rupees of debt but if I look at your



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especially on the short-term debt you have mentioned 12.5, but if I look at the standalone balance sheet as per the release that talks about around 14.8 billion of short-term debt, if you could reconcile the difference?

Anil B. Jain: Cash has been adjusted against the short-term loan.

Arya Sen: Secondly, if I look at the receivables for businesses outside of micro irrigation there seems to be a very substantial increase, any color on that, is it mainly because of pipes, mainly because of food?

Anil B. Jain: Mainly in fact of pipe because in pipe especially polyethylene pipe we grew 70% in fourth quarter, so lot of that sale which was there at that point of time fell to place in February-March, that is how you see receivables, already as we speak now those have come down substantially, so on a consistent basis, on an averaged out basis those receivables will come down going forward.

Arya Sen: Thirdly the other thing I wanted to clarify the project business has been doing very well but just to understand is this dependent on government spend and therefore runs the risk of government not paying up in time and all that, one is there a risk to this business from that perspective and how sustainable is the growth in this business?

Anil B. Jain: Over the last four, five years we have been consistently growing and in fact if you can see the numbers over the last one year we have also brought down the receivables in this business, most of the projects we take are typically well funded projects, these are the projects being done by various irrigation utilities of the boards at the state level and they do raise money through either bond sale or the government budgetary support and we ensure that the money is in place before we would bid for the project and go ahead and take the risk, we do not foresee the same situation and as we have also learnt this was a new business for us over the last three, four years and maybe first year some of our receivables were almost nine months, one year and so on but as we move forward if you see our new business we are collecting everything almost within 90-120 days, very rarely we are going up to 180 days, so we think based on the new payment terms which we have been able to negotiate the fact that the projects are funded and this is a new concept where we are providing end to end solutions and while governments have not been able to complete some of their irrigation projects for 15-20 years and even if they complete the project then water does not remain available, because we are able to do projects done in time of 12 months, 18 months, 24 months and within the original cost this is something new, which has never been seen in the country for this scale of the projects over last few decades and therefore we

think that the state governments really like this because in a short period of time they are able to bring water to the farm and see that it gets used efficiently, improve productivity, save water all of that and when I am talking about that we will continue to grow in this business that is based on the knowledge of the existing projects which are funds are available projects have been designed but they are still in pipeline in terms of tendering or the processes but based on what we know and what we hear from various state governments and this is not dependent on one state government, we are talking to the governments in southern India, in western India, in northern India. When we talk of projects we are also building project skills for exports to Africa and other countries, so all in all we believe project will remain an important part of what we do and we feel fairly confident to say that we will continue to maintain growth and this is not a typical drip irrigation subsidy type of business where earlier we used to wait to collect every single farmer subsidy and millions of the cheques and the government had to go and check every single farmer's farm before they would release the money, those kind of issues, these are now larger projects, in one visit you get the whole project certified or inspected unlike earlier it would take few months to try and cover thousands of farms, so it is not right to compare both the businesses, these are different businesses, even though ultimately the customer is farmer, even though ultimately the end product what we are offering is water management solutions.

Arya Sen: Are you also being somewhat selective in terms of which projects you take up maybe some states you are avoiding, some states you are more keen on, anything on that front as well?

Anil B. Jain: That is but natural. We are doing more projects where we have already done projects earlier, so we have confidence and we know how the state government or particular utility board is functioning and the government there also is more confident about our ability to deliver, but at the same time we are pitching the same business to some other new states as well because again we are not building business for short-term but as we go alone some states which looks at it now after one or two years they will also come along and that is how you will sustain growth.

Arya Sen: Sir which are some of the states that you are currently doing a lot of projects, I know Karnataka you had one big project, where else are you doing these projects?

Anil B. Jain: We have done projects in Punjab, Himachal, we have done projects in Rajasthan, we have done projects in Maharashtra, Karnataka and Andhra, these are the six states we have done projects. MP is another state we are looking at.

Arya Sen: Sir last question from my side on SAFL, what was the outstanding at the end of last year and what is the outstanding at the end of this year in terms of loans given out and how much have you collected through the year, if you could just share that?

Anil B. Jain: The outstanding loan portfolio is around 155 Crores end of March 2015 which was somewhere close to less than 100 Crores end of 2014 and that means they have lent about another 100 Crores in FY 2015 and they have collected about 45 Crores or so.

Moderator: Our next question is from the line of Manish Mahawar from Edelweiss, please go ahead.

Manish Mahawar: Sir just my question on your retail MIS business primarily if you look at the FY 2015 your growth was 7% for a year right and I just wanted to know whether the industry has grown in this pace because what I believe basically if you look at this figure, sugarcane has been added in Maharashtra and I think in Karnataka the implementation will happen on sugarcane crop and despite that we have seen a single digit growth that is what I wanted to know basically, do you see the growth will pickup going forward?

Anil B. Jain: As I said it is very difficult to predict. You talked about sugarcane, usually in January to March quarter sugarcane is a very important crop for us but in this particular year this particular time the sugarcane price was almost equal to the sugar price, so therefore there was less investment by sugar factories and that did impact our overall retail sales, so I do not know about others and what rate industry is growing but generally we are leaders in market and we would know if somebody else is growing while we are not growing, so there has been a subdued demand and again as I said it is not just about sugarcane it is about untimely rains, hailstorms, low agriculture commodity prices, it is a combination of these factors and it is bound to be there, now you talked about Maharashtra and Karnataka government both are saying that they want to make this mandatory for sugarcane but I think that would really kick in more effectively when the overall sugar economic cycle becomes better which would be next year and then you will see suddenly a huge spurt in the demand from that sector as well. We are still selling to the sugarcane but not as much as we had planned or we would like to.

Manish Mahawar: But I think you said basically we are confident to have a double digit growth next year in MIS as a whole, retail plus project you are talking about but if the monsoon will be normal the next year suppose what type of growth you can see in retail MIS business?

Anil B. Jain: Let us talk about that once the monsoon is over, let us not do those predictions, we have over a period built different business product lines right like exports, domestic business,

because of agriculture seasonality it is very difficult to predict and say this will happen or that will happen and what was in our hand to build a product portfolio in terms of geographies or applications all type so that even if something goes down which we cannot control but there are other one or two things which will do well, so overall we will continue to manage a very positive growth on a consistent basis and that is what we are focused on rather than getting focused on one single segment about because we cannot control what will happen.

Manish Mahawar: Sir in export MIS basically we have seen a significant decline 45% because last year we had Africa I think some order from Africa and do you see that this is a base basically next year we will see a growth in export from hereon?

Anil B. Jain: Yes for sure.

Manish Mahawar: Sir on margin front basically if you look at our gross margin has expanded in standalone as well as consolidated wise, gross margin I am talking about, so basically you can see the impact of the raw material prices but if you look at your sales expenditure if you compare to the last Q4 as well as Q3 it has gone up substantially during this quarter, is there any specific reason for the same?

Anil B. Jain: We had a huge amount of project sale and expenses to the implementation of projects are captured under sales and distribution.

Manish Mahawar: One bookkeeping question, you said that tax rate is 20% right for the next year?

Manoj Lodha: Yes.

Manish Mahawar: This is for consolidated book as well right?

Manoj Lodha: By and large yes.

Moderator: Our next question is from the line of Shashank Kanodia from ICICI Securities, please go ahead.

Shashank Kanodia: Good afternoon Sir. Sir, my question pertain to there was some confusion regarding what is the subsidy amount allocated by the central government for MIS for the current financial year?

Anil B. Jain: What government has announced is a combined irrigation portfolio called Pradhan Mantri Krishi Sinchayee Yojana of 5300 Crores, within that there are different, different parts in which and micro irrigation, I was told, is close to about 1600 Crores or so, but that might also include some extension and training and some will be actual subsidy, so based on what we know as of now the subsidy levels are almost same as last year or little bit better but what the government also say in the budget that if they see tax buoyancy this is one program where they will be providing more subsidy but I would just like to urge all investors that our underlying business that we have delinked from subsidy, for example Maharashtra government last one or two years have not fully released the subsidy but we are selling about 600 Crores every year and we are collecting almost all the money whether subsidy is there or not, so we have moved away from this whole business model and focus on subsidies, so central government has X subsidy, then state government provide Y amount of subsidies when state government do not provide subsidies they also borrow from people like NABARD to support this program, so all in all I think there are enough funds in the system between central government and state government to sustain double digit growth in this industry that I am fairly sure and individual state government or central government subsidy number given the budget or fiscal constraint they have those might change but let us not focus on that, let us focus on overall ability to grow.

Shashank Kanodia: Sir secondly on the solar water pumps if you could share your insight how is your business progressing and what is the outlook given a lot of state governments are emphasizing the usage of solar water pumps?

Anil B. Jain: As I said we capture that business out of our overall project business because that goes along with it, we take complete project along with drip irrigation, overall business grew quite a lot, about 25% for us between FY 2014 and FY 2015.

Shashank Kanodia: What could be the sales for solar water pumps only?

Anil B. Jain: Those would be almost close to about 200 and odd Crores.

Shashank Kanodia: This spread would be between Maharashtra and Rajasthan?

Anil B. Jain: we are supplying in 10 different states.

Shashank Kanodia: Sir lastly on sugarcane in the last concall you talked about some state governments making mandatory for cane growers to turn in to drip in terms of Maharashtra and Karnataka so what is the progress on that?

- Anil B. Jain:** As of now, I do not know whether you heard the earlier answer but as of now because sugarcane industry overall is not doing well it has not been fully implemented and in any case the total area they want to bring under drip irrigation is close to almost 1.5 million hectares which is in terms of business opportunity almost close to 15000 Crores rupees business opportunity so it would not happen overnight, this is going to get done over the next five years or so, this year this was a bad season for overall sugarcane industry everywhere so it has not really started. We are already selling to sugarcane, it is not that only because of that we will sell and if you thinking of medium to long term that should come to fruition.
- Shashank Kanodia:** So this 1.5 million hectares is including both Maharashtra and Karnataka right?
- Anil B. Jain:** 1.5 million hectares both, Maharashtra is almost a million and Karnataka is about 450,000 hectares.
- Moderator:** Our next question is from the line of Amit Murarka from Deutsche Bank, please go ahead.
- Amit Murarka:** Hi, good afternoon everyone, just couple of questions, first on MIS, now that polymer costs have corrected quite significantly compared to last year has price cut been taken or are you just offering discount with headline prices being maintained and also what are the margins right now given that costs are down?
- Anil B. Jain:** We do not discuss current level margins one way or the other, directionally we have said that we will maintain the margin between 20 and 22% and within quarters there could be variation depending on the fixed costs absorption as well as the product mix and that plays a lot of important role and that is why it is not possible for us to give that kind of a forecast, in terms of the polymer prices the polymer prices have corrected but the season is on and usually we sell the products and said prices by the season, so if we had a good much higher margin in the fourth quarter we might have lower margin in the first quarter but all in all we think that our four quarters we should maintain that 20 to 22%.
- Amit Murarka:** Does this mean that prices have been cut, following up with the lower prices cost, polymer cost?
- Anil B. Jain:** We did not change much of the prices, we do change the discount structure which we offer depending on the situation.
- Amit Murarka:** Currently what is the discount, 10% or higher?

- Anil B. Jain:** It is again very difficult, they change state by state discounts, I would rather urge you that we want to remain focus on this 20-22% margin.
- Amit Murarka:** Okay fine, just a question on receivables, for all the four quarters last year actually receivables in food business is significantly higher when compared to FY 2014, so is this a structural change because I was just looking at all quarters comparing it to last quarters as in FY 2014 and in every quarter it was up almost 30-40% year-on-year?
- Anil B. Jain:** That could be but overall I do not see that as a structural change, it might be a given particular situation but structurally speaking food is the business where we have usually higher level of inventory because you process in one season and sell through the year and receivables we expect to continue collect faster, it might have happened that due to seasonality that more sales have taken place towards end of the quarter rather than in the early part of the quarter and that is why you might end up seeing higher level of receivables but generally speaking if you see over a period of time you would find that receivable levels in food processing will remain on the lower side and not on the higher side.
- Amit Murarka:** I was wondering because this was high actually for all the four quarters not just a particular quarter and this Karnataka order is it fully executed or still some of it is pending?
- Anil B. Jain:** Still some of it is pending, I think sometimes by July-August it will get completed.
- Moderator:** Our next question is from the line of Mayur Parkeria from Wealth Managers India Private Limited, please go ahead.
- Mayur Parkeria:** Good afternoon Sir and thank you for taking my question, sir I had couple of questions also on MIS, earlier we used to see in FY 2012-2013 MIS used to have utilization levels of around 68-70% that is mainly because of the seasonal nature and it was predominantly so to say domestic and retail driven, now with project business picking up do you see that as increasing structurally or will it still remain in that kind of a range?
- Anil B. Jain:** I think it will still remain that kind of level because in project business of course there is MIS but there is also pipes are required because you bring water up to the farm, you are providing energy solutions and so on, so I think we still have underutilization of capacity as of now in this business, so as the retail business grows more over the next couple of years we will start seeing better capacity utilization.

Mayur Parkeria: We were free cash flow positive in MIS earlier but at that time the structure was different and I also wanted to understand your experience which has been with the new model and how do you see the free cash flow in this segment now going ahead?

Anil B. Jain: Going ahead we expect positive because despite the fact we are growing we are not adding anything to the working capital and we have also been very conservative on the capex, so all in all for the whole company for FY 2015 I believe we have been free cash flow positive and MIS has been our major focus where we used to invest far more amount in working capital than we used to grow and exercise for last three years has been to reverse that and I believe now we have come to an equilibrium where things have been coming down in terms of feasible levels, inventory has always been comparatively reasonable in terms of DSO and going forward as the business again starts earning well we should continue to ensure free cash flow in this business.

Mayur Parkeria: Even in FY 2015 MIS was free cash flow positive?

Anil B. Jain: Yes.

Mayur Parkeria: We expect that to consistently happen over the next few couple of years?

Anil B. Jain: That is what we are hoping, that is what we are working on, that is our internal plan.

Mayur Parkeria: Sir, again, I know you have categorically maintained that we should see the entire MIS domestic business rather than looking at as split of retail and export but again slightly longer period when we see export plus the project used to be not more than 25%, 30% of our overall MIS and now it has started almost closer to 45%, even in absolute terms the retail has remained very close to 1000 Crores over the last three years, so the question which I was pondering is whether the new structure has anything to do with this or is it more of seasonality will be there but it is over last three year period, so what is it that will trigger retail sales going forward and is that traction different for retail front now?

Anil B. Jain: No, in my mind it does not matter right because in projects also I am ultimately providing drip irrigation solutions to the farmer, so whether I call it retail or project this is more for the knowledge so that we have better clarity as we are evolving the different business models but as far as I am concerned I have sold this year 1675 Crores rupees of irrigation solutions to the farmer as against last year's 1427 Crores registering 17% growth and I would like to speak to that narrative that we will continue to focus in providing these solutions to the farmer, it is possible that in a given year depending on the situation we

might have more retail sales and lesser of the project or vice versa but as long as we serve the farmers, as long as these are the thousands and tens of thousands of farmers whom we are serving every year it does not matter, also it should not matter much because in both the businesses margin levels are almost same, so it is not that retail margins were very different and project margins are different, both of them are around 20% level, so that should not matter in terms of, the slicing which we are doing in terms of our explanation is more because we are changing, eventually as we move forward actually would be emerging and talking up one single piece of information that this is the domestic business we have in irrigation, whether part we do in project or retail is just administrative change.

Mayur Parkeria: 300 Crores leverage which we plan to reduce on an entire year basis, do we plan to have this more because of squeezing of working capital or is it going to be reduction of capex intensity or is it going to be free cash flow position?

Anil B. Jain: I think it is a combination of all, it is difficult to pinpoint to one.

Mayur Parkeria: But do we have more opportunity for squeezing the working capital?

Anil B. Jain: We have still some opportunity, I would not say more but we still have some opportunity and rest is free cash flow.

Mayur Parkeria: Sir last question if you can throw some idea on how would the subsidiary margins look like going ahead and it will be all positive that you have mentioned in your earlier comment but in terms of absolute numbers how do we see going ahead in the next two year, three year when we move ahead what kind of increment can we see in relation to the overall company?

Anil B. Jain: I think our average overseas EBITDA margins have been around 6% plus, as we move forward we are trying to take them to 8 and eventually hopefully depending on the product mix we would like to go to double digit, so that is how structurally you will see, so our first job was that we are growing those businesses and as I said we kind of substantially increase the size of each of the business which now will allow us to get better pricing, better margins so on and so forth, so we expect every year to do even better than what we did earlier year, fourth quarter and whole year I think we did well in overseas subsidiaries and going forward they will continue to do so.

Mayur Parkeria: Is it because of shifting of production to domestic or that is not happening, it is only the improvement which is happening at debt level?

- Anil B. Jain:** Everything put together, we have shifted some production to India that is one but they are also selling more and better products, new investments we made in last few years in to new product lines and capacity in each of the companies which we had acquired that is also coming through now, so we are selling better value added products to customers and we have better global synergy and there is still, as I said there is some room to do better working capital but I believe there is more room to improve our overseas operations and that we have focused on and will continue to do.
- Moderator:** Next question is from the line of Amit Murarka from Deutsche Bank, please go ahead.
- Amit Murarka:** Just a question on the food business, where are we on the proposed stake sale in the food business, is it like three months away, six months away, just any indication?
- Anil B. Jain:** We believe it should happen in FY 2016 and we should try and freeze something within 3 to 6 months and then get it executed before end of the fiscal year.
- Amit Murarka:** This debt reduction target of 3 billion does this include the stake sale?
- Anil B. Jain:** No 3 billion is based on working capital free cash flow and such stuff, food whatever we do when we do would be over and above this 3 billion.
- Amit Murarka:** How much will be the capex in FY 2016?
- Anil B. Jain:** We are looking at about at standalone level 1.5 billion rupees, about half a billion outside India, so total 2 billion but this 2 billion capex includes also maintenance capex, so I would say about half of that would be maintenance capex and about half would be growth capex, our depreciation is about 1.8 billion rupees so this is overall is about 2%, about 2.4 billion so we will be spending less than that.
- Amit Murarka:** Which are the areas for growth capex?
- Anil B. Jain:** In each of business some or the other product line we are growing, in irrigation we have some more value added products in which we will invest, in fruit pulp, we have already sold out capacity, there we would be adding, in case of onions overseas we have sold out capacity so there we would be adding, so it would be in each different product line, in piping we are making small investment to build more of the CPVC product line which will go in to urban areas for hot and cold plumbing, so this kind of divided across various divisions.

Moderator: Next question is from the line of Chetan Vaidya from JHP Securities, please go ahead.

Chetan Vaidya: Sir good afternoon, the maximum level if you were to combine what kind of, you said earlier that the money is never the issue and whoever wants MIS gets its funding from one source or the other, so what are the steps which the state governments are taking out to promote MIS at the farmer's level and do you see more business coming in MIS from projects than in retail for the company?

Anil B. Jain: As I already said, it is very difficult to predict which way it will go because it depends partly on the season, partly on the farmer income and the individual state government how aggressive they are in pushing their agenda and even if they are aggressive whether they have enough budget to back up their agenda and we have seen this over a period of time, so one answer to your question is we do not necessarily feel that project would be larger and retail will be less because in the year passed by we still did about 1100 Crores in retail business and it was more than the earlier year of 1021 Crores, so retail business is growing and will continue to grow and again for few quarters it may be less or negative because of the particular weather situation or the farmer situation and in terms of projects at least the pipeline we see we believe there would be a consistent growth in the projects, again when we do actual supply in to the projects etc., they can happen in few quarters and there could be other quarters where you do not have too many projects in hand, so within a year there could be quarterly variation in both businesses but we expect to maintain growth in both retail as well as projects, now it is possible that let us say a bad monsoon and bad situation and farmers continue to suffer that our retail sales might have negative growth it is feasible but we have enough confidence to feel that if that happens we still have enough product capacity and skill set and market to sell more in to the projects or in to the export market so all in all on a combined basis we feel positive to say that we would maintain double digit growth in micro irrigation business and internal dynamics between three different parts could change based on weather, season, rain, government policy and all those factors.

Moderator: Next question is from the line of Abhijeet Akella India Infoline, please go ahead.

Abhijeet Akella: Hello, good afternoon sir, thank you so much for taking the question, just a couple of clarifications Sir, one is on the retail sales, would it be just possible to give us how much was the institutional component within that and how much was the rest of it?

Anil B. Jain: No. That kind of breakup is not there.

- Abhijeet Akella:** Also just on the food processing business the working capital increase seems to have happened largely because of reduction in payable, so any specific reason because it seems like almost a 100-day movement in the payables in the food processing division.
- Anil B. Jain:** I think as we were buying more from farming community whatever we are paying complete cash in that sense but structurally speaking as I explained earlier and maybe on another call you can get more details from the finance department but structurally speaking there is no big change in our working capital cycle in food business.
- Abhijeet Akella:** The interest expense in the subsidiaries came down quarter-on-quarter this quarter it was around 14 Crores versus 19 Crores last quarter any specific reasons for that?
- Manoj Lodha:** Actually overseas also they reduced their date in the last quarter one impact is that and also we are trying to rework on the high cost date with comparatively a better lower cost rate, as a combination both has helped in overseas subsidiary, some of the high cost debt has already been paid and also you saw the reduction in debt has also happened in overseas level, so as a combination we have lower interest burden this quarter.
- Abhijeet Akella:** So we can expect this kind of run rate to continue going forward?
- Anil B. Jain:** In overseas market yes.
- Abhijeet Akella:** Finally just to clarify the SAFL numbers you gave in terms of the non-performing assets you said that only 61 farmers were non-performing out of 16000?
- Anil B. Jain:** About 60 and odd, I did not say 61, it is somewhere around between 60 and 70 farmers.
- Abhijeet Akella:** So the NPL ratio would be very, very low I assume?
- Anil B. Jain:** Yes it is about I think 0.6 to 0.7% that includes the outstanding as well as the future installments of those particular farmers.
- Moderator:** Ladies and gentlemen, due to time constraints that was the last question. I now hand the floor back to Mr. Ajay Thakur for closing comments. Thank you and over to you Sir.
- Ajay Thakur:** Thank you. Any comment from you Sir Anil ji before we close the call?



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Anil B. Jain:

I think we have already kind of given our input that we expect stable and sustained growth. We still need to wait and see how the monsoon pans out, so some of the uncertainty exists but I think we have enough balls in the air as they say to ensure growth through exports or through projects especially in MIS business. On the food side while demand continues to be good availability is a concern right now of the type of mangoes and quantity of mangoes you get and let us see how that plays out and then if mango is less then we will have to do more of the other fruits etc., and that is feasible and also if quantity is less prices really go off so the value will be maintained, pipe is already doing strong in the first quarter, so all in all considering external events and lot of headwinds which are there in external event we think we are better placed to execute further growth, the de-leveraging, the free cash flow and definitely far better EPS than what we earned last year.

Ajay Thakur:

Thank you Sir.

Moderator:

Thank you very much. Ladies and gentlemen, on behalf of Axis Capital Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.