"Jain Irrigation Q4 FY 2014 Results Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Jain Irrigations Systems Limited Q4 FY 2014 earnings conference call hosted by Axis Capital Limited. As a reminder all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing * and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hemant Patel of Axis Capital Limited. Thank you and over to you Sir!

Hemant Patel: Good afternoon everyone. It is a great pleasure to host the Q4 FY 2014 earnings call for Jain Irrigation. We have with us today from the management Mr. Anil B. Jain, Managing Director and CEO, Manoj Lodha, CFO, and Mr. Pradeep Tibrewala, Senior Vice President Finance and Investor Relations. We will start the session with an opening remark from Mr. Jain and then will subsequently through the floor open to Q&A. Over to you, Mr. Anil Ji!

Anil B. Jain: Thank you Hemant. Welcome all of you and good afternoon. We came out with our results yesterday night for the fourth quarter. As you would have seen on a PAT basis results are very good. We have increased net substantially.

In terms of overall business which is beyond the numbers what I would like to share with you is that we feel more confident about irrigation business and our new business model going forward. Every quarter we are succeeding in collecting more and more of the old receivables bringing them down and selling new products more on cash basis and you know some people might see when you see the breakup, available about the MIS revenue that there might be small reduction in the retail business in given quarter, but because the seasonality issues which are very akin to our business we are now trying to manage the project business, the export and the retail business in such a manner that we will have secular growth of 20% plus, but within the given quarter you will find that one particular segment is doing less than what you did may be a year ago in the same period but all-in-all we feel fairly confident that we should deliver overall as a Micro Irrigation division growth of 20% plus.

Having said that in terms of first coming to receivable of Micro Irrigation, they have been improving, March 2012 for overall receivable almost Rs.17 billion March 13, 2014 they came down to 12.2 and March 14, 2014 they are now at Rs.10.9 billion and at that level of receivables we find our ability to create sustainable growth in MIS business is increasing. But, I would like to also state at the same time that we are not stopping here. You will over next four quarters further improvement in Micro Irrigation receivable levels. Overall, our thought process, we should shave off another at least 45 days or so or if possible 60 days in the coming year from the levels of DSO in Micro Irrigation business. We have some good projects on hand, so therefore the growth in project business seems assured and some are under negotiation.

In terms of export, last year we had one large project coming from African country that particular project or that particular country may not repeat this year, but we have lined up four or five other opportunities and therefore we feel comfortable to say that last year we had an extraordinary growth in exports from Rs. 130 Crores to Rs. 300 Crores and this year as we start the year, we feel fairly confident that even without one specific such a project in hand which we had last year in hand we still believe we will cross Rs.3 billion or Rs.300 Crores again in export market.

In terms of retail and that is where the whole subsidy play comes in, we feel confident about Maharashtra in terms of our ability to grow. We will grow also in AP, we will grow in Tamil Nadu, as we have always explained the growth there now would be in smaller dosages and also because last two years we had enormous amount of degrowth in the states. So, one should see in that context, but major additional incremental revenue will come from Maharashtra, from Karnataka, from Gujarat and may be let us say Rajasthan. These are the four states which will contribute majority of the new growth coming in for us and as I have possibly explained earlier that in Maharashtra we already have what we call cash model, so we are not dependent on the government subsidy. We are giving some amount of credit to the dealers and we have also NBFC functioning.

Now, last year we also introduced this model in Karnataka and it is doing very well. MP all the sales we did last year was on cash basis given the amount was hardly approximately Rs.25 Crores there and Gujarat has been efficient model all along even though it is subsidized, but it has been very efficient. So we believe between MP, Gujarat, Karnataka, Maharashtra and this year whatever new sales we are going to do in AP and Tamil Nadu those would be on the similar basis. So by the end of the FY 2015, one would see that almost 90% of the retail business which happens through dealers would have been dealing to the subsidy except I would say Gujarat, but I do not really consider Gujarat subsidy, because it is really works like a normal cash dealer model and that is what give this confidence that this is going to be another year where we will further collect old receivables and improve the overall receivable levels.

In terms of the government receivables, which were in March 12, 2014 almost Rs.9.7 billion they came down to Rs.7.1 last March. In December it was Rs.4.6 billion and now end of March it is Rs.3.9 billion, so even in three months of January to March, we have been able to bring down the receivables from 4.6 to 3.9 within Micro Irrigation as far as government subsidy is concerned and our thought process is that in FY 2015, this figure of 3.9 will go down to about 2.5 and this would be on a net basis. That means including the new business we will do, we expect the government related receivables would then only remain at about Rs. 2.5 billion, so and thereafter I think it should be between 2 and 2.5 that would be a natural normal amount of the government related business within Micro Irrigation division.

Moving on and another point of view is what happens now with the new government and the new policy, I have been also asked questions what about the Gujarat model within Micro Irrigation division because the way Gujarat government functions is that they have one particular entity called Gujarat Green Revolution Company with manages that entire Micro Irrigation business. We have to wait and watch to see whether similar model thus get extended to the rest of the country. If it does we believe that will further increase our ability to growth this business, but I do not anticipate significant changes immediately, it might come towards second half of this year or might become more effective in the next year. So, let us wait and watch for that, but regardless of what government is going to do in the coming budget or the policy we feel fairly confident that will deliver growth more than 20% with reduced receivable levels.

There is another factor which is a little bit nobody knows exactly how that will play out and that is El Niño and there is almost projection or prediction that 80% chance that El Niño system of weather has formed, but what it is impact would be on Indian monsoon that nobody knows. So, whether that would mean lesser quantity is at 95% or 90% of long-term average or whether that means that you might get rain in June, but you would not get any rain in July, August and again after September and October, that clarity nobody has really given which kind of certainty one needs. So, if there is not much of a rain during this period of June, July, and August as it has been predicted by some people then during the short period of time, there could be more demand for irrigation and typically how business will grow, which otherwise is a lean season for us. So, one as to wait and watch for that as we go along, but as a company by mixing the projects and exports in this domestic business, we are trying to build our business model, so that regardless of the impact of this climate change, we will continue to maintain decent level of growth and continue to increase application into newer products, but it seems climate change is there to stay and if it does that creates much larger opportunity for our business then what we have seen up to now.

In terms of based on this scenario, we had an impact on our piping business in the fourth quarter, because again there were hailstorms in areas where we sell more pipes like Maharashtra and others and we lost almost a season, so that has resulted into 9% negative growth in pipe business during this particular quarter, but for the overall year pipe business have still grown 8%, so this particular quarter was bad for PVC pipe. But we managed to have almost 23% growth in the pipeline. Our PVC sheet business managed significant growth of more than doubling itself.

Fruit business grew to by 37%, so all-in-all while we grew 9%, because year-to-year earlier quarter, so January to March 2013 quarter we had huge amount of growth in piping business, PVC pipe and that did not come through this year, so there was major impact in the revenue, but MIS business did grow 21% in the fourth quarter, PE pipe grew as I said sheet grew, fruit also went up and also we had a reduction in the solar business and by significant amount in this particular quarter, it came down to Rs.54 Crores from Rs.117 Crores the same period earlier year and partly the reason was this whole code of conduct which was there and typically the government released order for solar street lights or other applications towards the end of the fiscal year and they could not because of the code of conduct and related restrictions which are there.

We have also decided the solar business is at early stage of the lifecycle curve in terms of growth possibility, but because government is also involved there and we are trying to adjust this whole subsidy model right now. In drip, we went on to grow 20%, faced some problem and then changed it. In solar business, we are trying to change the model already in the last year and currently this year. So even in the current fiscal year in FY 2015 in solar, you will find a modest growth, but our focus is on improving the working capital cycle there. In any case, overall solar did Rs.155 Crores in the year as against overall revenue of Rs.4300 Crores it is comparatively smaller division for the whole company.

Now, when you look at the entire year where we have ended that our MIS business grow about 22%, piping grew about 23.7%, because PE pipe division had done very well last year, plastic sheet grew 40%, food processing grew on an average 20% for whole year and solar and others went down. So, we have managed standalone growth of 18.5% for the whole year and I would say that is fairly good growth considering the situation we went in to the country where nobody was willing to make new investments and there was a whole gloom and doom scenario across the spectrum, the rupee currency exchange rates went wavered and so on. So, when you consider all of that I think we have come quite well in the whole scenario.

In terms of our earnings for this particular fourth quarter, EBITDA has come out at about 16.5% as against last year's 18.8, so there is a reduction of 2.3% in the EBITDA, but what I would like to bring to your attention is that while on EBITDA level you see this reduction, majority of this reduction is because of the fact that we have lower margins in Micro Irrigation business, because of the change of the business model as we are giving more cash discount, our EBITDA has come down. So, therefore new EBITDA in the Micro Irrigation business, I expect that in for the next year at least would still remain around 22% and within that 22% band, but overall earnings will improve, because our interest cost in effect is coming down. If you look at the overall interest in terms of for the fourth quarter interest came at about 7.1% of the revenue at about Rs.98 Crores as against last year Rs.103 Crores at 8.2% and if you look at for the whole year, interest came at Rs.390 Crores at about 9.4% as against Rs.411 Crores of last year is 11.7. So, you can see that there is a 2.3% gain at the finance cost and there is a 2.3% approximately reduction at the EBITDA level So post interest now if you see the business model our earnings there almost same as last year. They are not going down anymore than what was happening in that period of 2011-2012 and 2012-2013. So, I believe they are stabilized and as we go along as we further reduce the debt and as we further improve our working capital cycle, I believe overall net margins for the company should improve while EBITDA may remain at the similar level at least throughout of the year than what we have seen.

Another important factor I would like to bring to your attention is that this was the first quarter where we succeeded in bringing down the debt by almost more than Rs.250 Crores which was I believe a significant jump and we believe and we hope that in the current fiscal 2014-2015 as a management we are taking target that we should bring down the debt by another Rs.300 Crores plus if we can hit Rs.400 Crores number, we will be more than happy, but Rs.300 Crores minimum we are targeting is that through further working capital efficiency and better business model, we should reduce the debt at least by Rs.300 Crores which should result into more sustainable growth level, lower interest cost and better ability to compete in market place.

In terms of our overseas business in the fourth quarter, our overall overseas business grew also quite well. Overseas subsidiaries grew from Rs.620 Crores to Rs.732 Crores, registering about 18.2% growth, so that was quite positive and all-in-all when I look at all the businesses put together on annual basis globally, our Micro Irrigation business has grown by 18.7% at Rs.27 billion as against Rs.23 billion earlier year. Food business has grown by about 18%, Rs.12 billion from Rs.10.2 billion earlier. There are plastic products which have also grown about 23% from Rs.216.3 billion from Rs.13.3 billion earlier years.

So, I would say in terms of revenue for the whole year, the growth has been quite good across all business segments and within the quarter or within smaller period of time individual division may or may not be matching everybody else, but if you look at the entire year basis, there has been good growth in India as well as outside India. We believe coming year that is FY 2015, we are looking to manage similar level of growth on consol basis globally. So, while India will grow little bit higher than 20%, overseas might be little bit low also, we should average around 18% and our internal target is also that whatever balance sheet size we are carrying now, we do not want to increase the balance sheet size in terms of liabilities of the loan and within the same amount of funds which are employed today into the business we plan to manage this additional 18% plus revenue growth and the necessary margins which we should get.

These are I would say the things which I wanted to share with you upfront and hereafter me and my team will be very happy to take any more questions you might have. Thank you.

Moderator: Thank you very much Sir. The first question is from Viraj Kacharia of Securities Investment Management. Please go ahead.

Viraj Kacharia: Thanks for the opportunity. My first question is on the domestic MIS, if you can share the quarter revenue for the domestic MIS?

Anil B. Jain: Sorry, what was the question?

Viraj Kacharia: Domestic MIS business, how much we would have made sales of in the fourth quarter?

Anil B. Jain: The fourth quarter was total Rs.558 Crores.

Viraj Kacharia: And for the full year it will be?

Anil B. Jain: Full year it was you mean domestic you asking right?

Viraj Kacharia: Yes.

Anil B. Jain: 1427.

Viraj Kacharia: Similar figure last year?

Anil B. Jain: This quarter 471 and whole year 1288.

Viraj Kacharia: The second question which is only domestic business again. You said we should expect around 20% growth for January in the domestic MIS business and you also indicated that may be primarily focusing on the three to four states where the receivable position are relatively good, but would not it be also relatively similar from other competitors who might be focusing on these. So, my question is would it be easy to clock out 20% growth given the competitor focus on these states as well?

Anil B. Jain: The size of market share we have, where we have been more focused inward in terms of our new business model. Competition has been there and as I have explained earlier we have 152 to 200 new small competitors and there will be there everywhere. So, I believe the quality and the solutions which we provide and complete package which we provide to farmers, not many competitors are there who can match us. So, regardless how many competitors are there or there in a given area, I believe this in the domestic section to be able to grow closer to that 16% to 18% would be good, because as you would noticed that last year overall the year we finished, while MIS has grown 22% for the whole year the domestic grew approximately only 11%. So this year even domestic we are planning to grow 16%, 18%, but export and projects will grow more, so on an average again we are targeting more than 20% growth, but domestic we are expecting significant more growth in this year.

Viraj Kacharia: Understand and any update you can provide on the implementation of the announcement which Maharashtra government made in terms of both sugarcane opportunity and also cash crop. So the cash crop is mostly starting from FY 2015, but the sugarcane opportunity any incremental sales have we got from that particular?

Anil B. Jain: Actually this year good amount of sales which we did in Maharashtra. Maharashtra, we did approximately Rs.635 Crores sales for the whole year as against last year is Rs.582 Crores and out of this Rs.653 Crores almost more than I would say Rs.250 Crores came from sugarcane.

Viraj Kacharia: Is not there a risk in terms of the financing part of it, because sometime back you did mention that the key challenges how you make, how you insure the receivables to capture this particular opportunity?

Anil B. Jain: Where is the financing risk, because we are on cash model now we believe the farmers, or the bankers, or NBFC, or the dealer are combination are generating or attracting in a capital, so that we can supply, get paid and still manage to have this growth as such we do not see any financing risk.

Viraj Kacharia: That is all from my side. Thank you.

Moderator: Thank you. The next question is from Girish Achhipalia of Morgan Stanley. Please go ahead.

Girish Achhipalia: Good afternoon, just a couple of questions. Firstly could you throw some light in terms of what the target is for project business and exports business for this year in MIS?

Anil B. Jain: MIS as I said that as of now, because they just starting the year in terms of exports our current year target is that we would reach almost the same level as we did last year, it is about Rs.300 Crores, because last year there was one single project of about Rs.125 Crores from an African country which is not there now but as I said there are other projects in pipeline. In terms of the project business, last year we did hardly about Rs.195 Crores and this year we are planning to take it that to about Rs.330 Crores.

Girish Achhipalia: Actually I am a little confused, because project this year you went it at Rs.325 Crores as per the presentation?

Anil B. Jain: No, then it is about our overall project would be about Rs.530 Crores as against Rs.360 Crores of last year. There is some issue here in classification, but all-in-all there is significant growth we are looking at into the project business.

Girish Achhipalia: In terms of receivable again, this is on slide #13 on presentation. We mentioned the project outstanding, we are carrying almost a year worth of sales as receivables. Could you throw some light as to what is happening I mean because this is happening in 2013 as well it is almost full year sales? Is that more than 360 days cycle or is this lumpiness?

Anil B. Jain: It is partly lumpiness and you would see in the current year as we have coming close to financing earlier project you will see that this project receivables in the current year would be significantly reduced. In fact I expect project receivables to come down by about almost more than 40% in the current fiscal year in FY 2015.

Girish Achhipalia: I missed your comments on MIS margins, but I just want to understand how you see the margins through the year in context of you are talking about 20% kind of revenue growth number in MIS, driven largely by projects and exports, but given that in context of what is happening could you share what is happening on the input cost side and how do you expect to take price hikes because Maharashtra is one of the key states and I would imagine till October which is very close now, you may not have the price hikes, because the state is going for elections. How do you plan to navigate this year and Andhra Pradesh we were talking about price hikes and they happened and how the price hikes scenario looking in input cost inflation looking?

Anil B. Jain: In terms of input cost now they are almost kind of at the same level they were a few months ago with rupee appreciating we expect them to somewhat than what they have been unless on the oil goes up quite a lot. If oil remains stable where it is with the rupee appreciation cost should somewhat go down on one hand. On other hand, what you say is right that as of now we have not got price increase from Andhra Pradesh, but with the new states being formed and now going to get function, we expect that to happen sometimes in next 30 to 60 days, because it has been pending for a long time. Now, taking into account this kind of situations which are out there in market place we have said that our margins would remain at 22 level, because as we actually produce and sell more, it should have given up some benefit of the fixed cost absorption, but we are saying that we will maintain the margin at the same level, because of these reasons. One partly, uncertain timings in terms of Maharashtra or Andhra in terms of price increase. On other hand, some of the other states we are going again more for the cash model and cash model means we are giving more cash discount upfront. So, you will be right. So when we talk that we are going to maintain at 22% we have factored in all of these issues together to arrive at that number.

Girish Achhipalia: What kind of rupee have you assumed for this margin?

Anil B. Jain: We are looking at 59 as of now.

Girish Achhipalia: Final question is on subsidiaries performance, when I just do consol on standalone, I see the revenue growth in rupee terms to be around 12%, by and large the rupee has also depreciated by the same amount. If I put that in context of the kind of capex we have done this year. I think we believe done almost Rs.340 odd Crores and Rs.200 Crores is in the whole so-called subsidiary basket. So correct me, if I am wrong, what exactly is the plan here, the growth in context of constant currency and the capex guidance for subsidiaries and if you could provide that for standalone as well?

Anil B. Jain: In terms of overall capex, standalone we are not looking to we will be I think somewhere around Rs.160 Crores or so. In terms of overseas entity also we are not expecting this particular year capex are more than I would say somewhere in Rs.60 to Rs.70 Crores. Last year capex was particularly high, because one of our food company called White Oak. It was a new unit which we had acquired the business and built a new plant in California etc., and that will start giving results from the current fiscal year that business is expected to be almost growing up $20 million of revenue. So that was a very specific capex for given project as it was starting up.

Girish Achhipalia: Versus zero revenue this year for the same project?

Anil B. Jain: $10 revenue.

Girish Achhipalia: Overall growth is just 12% that is almost rupee depreciation, what exactly is happening this, which subsidiaries are underperforming?

Manoj Lodha: There are some number are not correct. Our growth in the fourth quarter for subsidiary.

Girish Achhipalia: I was talking about full year, I am sorry.

Manoj Lodha: Full year it is 18.8%.

Girish Achhipalia: I have netted off the market subsidiaries etc.?

Manoj Lodha: But overall we did about Rs.59 billion as compared to Rs.50 billion including India, the revenue growth of 17.4 and if you just take the overseas subsidiaries it was around 18.8%.

Girish Achhipalia: Any investments that you foresee in the subsidiaries, we would have done about Rs.30 odd Crores I believe from the standalone entity this year?

Anil B. Jain: Coming year we do not expect any investment per se, sometimes there are repayment of loan etc., temporary period, but overall we all know looking at in new investments.

Girish Achhipalia: Very clear. Thank you.

Moderator: Thank you. The next question is from Atul Mehra of Motilal Oswal Securities. Please go ahead.

Atul Mehra: Good afternoon Sir. Congratulations on continued improvement and working capital. Just a couple of questions, first is on in terms of overall Maharashtra, we believe that apart from the NBFC we also have tie-ups with the State Bank and Dena Bank for carrying out the financing facilities. So, I just wanted to get some sense on what percentage of our business in Maharashtra is coming in from the banking route?

Anil B. Jain: It is very difficult to give that kind of detail, because some of the banks once we tie-up with the banks in terms of MOU, the banks directly deal with the farmers or the dealers and we get upfront cash when we supply, but we may not be, because we are not taking loan from the bank we may not know. In terms of NBFC last year, SAFL did almost about Rs.100 Crores of business approximately. They had received about 11,000 applications for about Rs.134 Crores and sanctioned about Rs.100 Crores out of those application and the disbursed about Rs.109 Crores and I would say banks all put together might have been close to about may be Rs.40, Rs.50 Crores which I would say commercial banks and of course farmers typically take loan from local credit societies or so on that we will not know exactly how the farmer has financed that.

Atul Mehra: Generally in terms for this pan India tie up that we have with a lot of State Banks, so do you see any major improvement or any larger contribution coming in from over the next couple of years?

Anil B. Jain: I think over couple of years, I expect that to happen more because RBI has been pushing banks to do more direct agriculture credit and a farmer with buying drip irrigation is a good credit risk bank and with our support and knowledge etc. So we think that would happen, but I have not seen with the speed, because the management that various banks, nationalized bank or otherwise is very intent on doing more agriculture, but as branch level that becomes a little bit complex, but I think it would be another year or two it would really started happening more efficient.

Atul Mehra: This one another question that I had was in terms of the amount that would currently be blocked with in terms of APA or Tamil Nadu as such, so can you just throw some light on that in terms of any receivables, which we make expect to recover over the next may be couple of quarters?

Anil B. Jain: I think for example between first and second quarter, by September, we would be recovering almost I would say somewhere between Rs.150 Crores and Rs.200 Crores, between old receivables of Maharashtra, Andhra, Tamil Nadu and Madhya Pradesh four states.

Atul Mehra: Thanks a lot and all the best.

Moderator: Thank you. The next question is from Arya Sen of Jefferies. Please go ahead.

Arya Sen: Good afternoon Sir. Firstly, I just wanted to understand in the full year MIS project revenues that you have reported, how much was because of the Karnataka project and how much was it for the fourth quarter?

Anil B. Jain: I think in Karnataka again, we have two or three different projects going on earlier projects and the new project. In total, we did approximately Rs.187 Crores of project in the fourth quarter and out of that I believe Karnataka would have crossed little bit more than Rs.100 Crores.

Arya Sen: The large project that you announced of Rs.3.9 billion all of it came in the fourth quarter right? There is nothing in the third quarter?

Anil B. Jain: No. We announced that we got a project of Rs.3.9 billion that has to be executed over two years, so approximately about only Rs.100 Crores of that has now been covered in FY 2014 and the remaining will come in the FY 2015 and may be partly in FY 2016.

Arya Sen: Right, also Sir if you could give some breakup of the EBITDA margins for the various businesses in both fourth quarter and for the full year?

Anil B. Jain: In terms of fourth quarter, our EBITDA margins have been at the similar level what has been traditionally out there and which is like MIS I think I believe about 22%, piping was a little bit low and food was quite good margin in terms of our onion margin went up to about 20%.

Arya Sen: I just wanted to understand in Gujarat, the central government share of the subsidy, who does it come to does it directly come to GGRC does it directly come to the farmers, how is the subsidy disbursal process in Gujarat currently?

Anil B. Jain: The central government and the state government combo whatever is their total fund they will transfer to GGRC and then GGRC deals with the companies as well as farmers together. GGRC takes in the advance from the farmers share then the GGRC gives the manufacturer suppliers 10% advance, when we sign the agreement between GGRC, ourselves and farmer and then when we do the full supply and installation thereafter entire money is released to the company.

Arya Sen: Thanks Sir. That is all from my side.

Moderator: Thank you. The next question is from Abhijeet Akella of IIFL. Please go ahead.

Abhijeet Akella: Good afternoon Sir. Thank you so much for taking the questions. First, just on the receivables breakup that we have for MIS in your presentation, if you could also have breakup for the export receivables that does not seem to be on that slide?

Anil B. Jain: In terms of what would you like to know, what breakup?

Abhijeet Akella: Under MIS receivables, how much would be export related receivables be?

Anil B. Jain: Export receivables…

Manoj Lodha: This particular figure you see is purely the domestic receivable.

Anil B. Jain: Would be approximately about Rs. 100 Crores or so.

Abhijeet Akella: Second the capex and cash from operations for FY 2015, if it is possible to provide those figures?

Anil B. Jain: Capex and..?

Abhijeet Akella: Operating cash flow from the cash flow statement if that is possible?

Anil B. Jain: You want capex of particular for the whole year?

Abhijeet Akella: Yes Sir, FY 2014 what was the actual?

Anil B. Jain: Rs.184 Crores.

Abhijeet Akella: Do we have cash from operation number Sir?

Anil B. Jain: After working capital change was about Rs.536 Crores, we paid some interest of about Rs.390 out of that.

Abhijeet Akella: Going forward in FY 2015, you talked about the target of Rs.300 Crores worth of debt reduction going forward, so that is the target rate cash generation for next year?

Anil B. Jain: The number I gave for standalone.

Abhijeet Akella: Also on the P&L this quarter we had Rs.10 Crores gain on the currency, is that?

Anil B. Jain: That was Rupee appreciation compared to where Rupee was in end of December to end of March.

Abhijeet Akella: Now, we have $200 million foreign currency loan book right, so should not the impact have been a little bit more positive than just Rs.10 Crores?

Anil B. Jain: We also add that trade account. We had some more imports during this particular quarter and also partly actually CHF as depreciated while dollar as appreciated, so $50 million of borrowing is in CHF.

Abhijeet Akella: But there are no hedges or anything of that sort right?

Anil B. Jain: Right now we do not have.

Manoj Lodha: We have only $30 million out of 230 we have $30 million.

Abhijeet Akella: Finally just one last question on the solar business, if could just explain the subsidy model under the solar business and exactly where the issues have been and what we are planning going forward? Thank you.

Anil B. Jain: In the solar business, there are two models. In one model, which is where you sell the product like solar water heater etc., the central government provides 30% subsidy and last year in the second half they almost had no allocation available to them. They were only willing to commit to release what was already taken before September and in second half almost there was no new business, we could generate because they are not willing to commit because post March their budget lapses and because of government whole fiscal story, they decided not to release anymore new funds and so on. So that was the one thing. Other thing is that the government in terms of their rural electrification drive etc., do release large amount of orders for things like street lights and so on especially in hill areas where traditional electricity cannot reach and due to this whole election story those orders also did not come through all of that resulted into much lower sales in that particular division.

Abhijeet Akella: Thank you so much.

Moderator: Thank you. The next question is from Amit Murarka of Deutsche Bank. Please go ahead.

Amit Murarka: Just one question on foreign currency loss, can you break it up in terms of how much of it was in account of interest, how much was in account of translation and on account of debt?

Anil B. Jain: You on for standalone consol. There were no translation losses, only the AS-11 is conversion of the foreign currency liability into Rupee that was about Rs.145 Crores and then rest was all on the trade account.

Amit Murarka: So do some interest hedging for the dollar interest payments?

Anil B. Jain: That goes into interest.

Amit Murarka: Okay that you do not report under AS-11?

Anil B. Jain: In consol apart from what I talk about Rs.40 Crores was the translation loss when we translated all the overseas subsidiaries into India.

Amit Murarka: Okay. That is all. Thank you.

Moderator: Thank you. The next question is a followup from Girish Achhipalia of Morgan Stanley. Please go ahead.

Girish Achhipalia: Thanks for taking again. Just in terms of NBFC SAFL contribution, what is the target like for this year in FY 2015 and what kind of investments are we looking to make in terms of capital contribution, because I believe we have 49% stakes in terms of leveraging is it required etc.?

Anil B. Jain: As I explained they did about Rs.100 Crores plus business last year being the first full year of operation. This year we expect them to do additional loan to the tune of almost close to about Rs.150 Crores to Rs.200 Crores and depending on the repayment their balance may be closer to Rs.250 Crores by the end of FY 2015. In terms of capital contribution as of now we hold actually closer to about 75% plus holding and the remaining holding is between IFC as well as family as has being discussed earlier. This was the first year of operation. We are looking to get new equity players to come in, institutional equity shareholders, who would fill in that room, so that Jain Irrigation can go down to 49% and we hope that can happen during the current fiscal year. In terms of the entire business SAFL did last year was based on the equity contribution and small amount of loan from Jain Irrigation. They would start leveraging their balance sheet from the current fiscal year and we expect that for the whole year, our ultimate idea is to capitalize SAFL to the tune of about Rs.200 Crores and in that being 49%, our contribution would be max about Rs.98 Crores and I would say that whenever Rs.200 Crores is hit, our contribution would remain at Rs.98 and by then it would get its own credit rating, it starts leveraging itself then our overall exposure in terms of capital contribution would remain under that Rs.1 billion is what our expectation as we go along.

Girish Achhipalia: Today what is the equity that you have issued?

Anil B. Jain: Equity is right now Rs.74 Crores out of Rs.58 Crores is with Jain Irrigation.

Girish Achhipalia: Manoj ji just one question on credit rating. Is there any scope for improvement in the coming year? Are you already in talks? What kind of interest cost are you forecasting over next year?

Manoj Lodha: Now the audited accounted are out, I will be approaching through all the credit agencies for rerating and possibly we expect that based on the improvement on the balance sheet and the fact that the promoter also contributed through warrants and additional equity, so we expect our rating to go up as we do this exercise. If it gets into AA or around that then we can tap even minimarket which would be far cheaper. So, right now we are not factored any quantification or made any quantification on interest saving, but as it comes I believe at least it should impact us positively by 1% to 2%.

Girish Achhipalia: Finally Anil Ji on food business, what is your strategy here three years out. We were in talks I believe I just wanted to know your sense as to how you see this business probably over longer term over a timeframe?

Anil B. Jain: Over a longer timeframe, we feel very strongly about food business. I believe the opportunity is very large, not only into the existing product lines into even the new products we are getting and things like spices, in terms of food processing. So, we think there has grown last five years almost more than 27% CAGR every year. I expect that business to maintain similar level of growth going forward. There would be few possible M&A related to distribution or some technology execution, but otherwise it would be more of broadening, horizontal growth where you add up more of few additional agriculture commodities where you have full vertical in terms of value addition that is the directional statement on the food business. We had talked earlier about that we might plan to subsidize this business may be get a financial strategic investor to come in to raise some funds which partly can utilized by the parents for the reduction in the debt and partly will be utilized by the food unit for its growth, M&A whatever is required, because this year we have crossed about Rs.1200 odd Crores into food business in fact and we think going forward even current year we are looking at that business to grow substantially, so when we are looking at that type of scenario, but this whole thing about subsidiarization etc., I believe it could happen in this fiscal year, it partly depends on the valuation and we want to ensure that any such event if it does happen there should be a value creation opportunity, so that it should be better than some of the part type of valuation in totality. So, we are still in that process and things were in flux for last two months in India in terms of any fund raising, now post election, post some of these events let us say in May and June, there would be more clarity will emerge and I believe it is much better and more positive atmosphere now and going forward than what it was let say two last quarters. So, overall we have still lot of interest from people who are looking into it. We have to get the right terms and value etc., so still we are open minded to pursue it and we believe underlying current for this business is very positive. This year we have increased sales to another 10 to 15 countries in terms of exports of our product, it sounds very good I mean overall feel in terms of demand we get from customers. For more my onion business, mango pulp business, almost everything we are producing is sold out. We have no inventory even though we have added some capacity. So under current in terms of business growth and opportunity is very positive.

Girish Achhipalia: Finally if you could share some numbers on capex you said Rs.160 Crores, in the next three years, what kind of capex are you looking in the food processing business and what is the ROCE for this business if you can share that?

Anil B. Jain: ROCE is now moving towards 15%, 16% in this business and as we go along because some of these businesses you can increase your revenue given by outsourcing capacity for a short period of recent time especially in mango and on that basis we are expecting ROCE to improve overall globally, because of the new investment which has taken place in US into our White Oak business, as I said this year it becomes Rs.19 million next year it grows more that ROCE then should start moving closer to 18%, 20% over two to three years.

Girish Achhipalia: Thank you very much Sir.

Moderator: Thank you. The next question is from Hemant Patel of Axis Capital. Please go ahead.

Hemant Patel: Just a question on the piping business and if I look at it is probably the second largest revenue generator for the domestic business and while you have improved the working capital and the cash cycle for the business over the last few years there has been consistent declined in margin so much so that is come to meet single digits. So I do want to understand and gain some insights whether what we can do or what is ailing this particular segment and what will we take for the margins to go back to where some of the industry peers are?

Anil B. Jain: Our margins have been around that 6% to 7% range between these last two years and part of our pipe especially polythene pipe goes to the infrastructure and there are lot of infrastructure companies were not doing well, their own balance sheets were in trouble and so on. So, we decided to take very cautious stand that we will do the business or take the orders only where we have full payment security and otherwise that we want cash upfront now that has resulted into lowering of our margins, but at least we do not have any credit risk in that particular business. The way going forward for us to improve margin and continue to maintain good growth rate like in polyethylene pipe etc., is to also do in this business more project oriented business. So just to give you small example of that how we are processing that. These are concept called 24/7, so in the cities now especially in Karnataka they are looking to delivery drinking water or portable water inside home on 24 hour basis all seven days instead of overhead tank and so on and many such projects are coming and with our expertise because we have done this type of projects earlier and the pipes and the fittings which we make etc., we already have for example this year Rs.100 Crores of this project in hand, which we will execute in the current year and there are about Rs.2000 to Rs.2500 Crores what the projects are under tendering now. So, this is a very new large opportunity coming up our way where we can utilize our expertise, most of other player within that market segment are more water related or water service related companies, but they do not have manufacturing backbone, they do not make pipe fitting. So, we think we have some unique advantages there. Within PVC pipes you partly mentioned about some of other people who are in piping business who have higher margin mostly that is due to the fact that they have application of their pipes into urban areas, into building and construction industry especially the plumbing pipes, CPVC pipes along with that lot of fittings, fittings have higher margins, on pipe we have typically low margin. Now over last few decades, we have been primarily focused on rural areas for distribution of pipes either to the farmers or for drinking water in villages and we have not been in part of that whole urban area market. So in second half of this year, we are also launching new product range where we will be going into the urban areas, plumbing pipe, lot of sale of fitting, we should overall improve our margins and bring them closer to some of the other companies which are in that particular market segment, but whole full year impact we have seen 2015-2016, but this way we are addressing both of these issues in medium to long-term in the current year, in my projections, I would not say our margins would remain around that 7% level, but the next year you would see that our margins start going towards closer to double-digit.

Hemant Patel: Thank you Sir that was useful. We have a few questions on MIS and you made a comment just earlier on that 90% of your MIS domestic retail business will get delinked from subsidy model. Just want to understand from the retail MIS growth perspective. When we start shifting into states, the cash-and-carry model like you said in Karnataka it has moved and when you are tried doing it excluding Gujarat and other states, would it impact the growth rate for the retail business in MIS going into FY2015?

Anil B. Jain: In fact, we are trying to improve, so the domestic business growth rate was lower in FY 2014 and in FY 2015 when we are moving into other states, we are now targeting 16% to 18% domestic growth rate. Partly the reason is that the states where we sell more are already now like Maharashtra, Gujarat, Karnataka are on that mode. The states where we want to bring the same, they do not have that level of major impact in terms of revenue mix. So, all-in-all we think as we move forward there would always be in a given state in some few quarters or few months there would be resistance in lower sales and we have factored that in, but all-in-all we expect that the states where we have stabilized the new model we will continue to grow well and in the new states we are going they are not that big part of our revenue mix.

Hemant Patel: One final question, one of the my peers made a comment just a while back regarding the compulsion for farmers to get cash crops under MIS, on the ground checks indicated that the awareness is fairly low among farmers about this. I just wanted to understand from your end, this current growth rate which you said coming from sugarcane and all that. Is it just a national growth rate, which has been coming in and could we expect some bigger incremental growth rate on this front going into the next year?

Anil B. Jain: In terms of when you look at product irrigation systems have been traditionally sold more to food crops then came vegetables, now we are doing a lot of sugarcane, cotton and the next level of breakthroughs will come from oil seeds, pulses and eventually wheat and rice. If you talk between 0 and 2 let us say 5 and 7 years and you know India has more than Rs.100 million hectors some wheat and rice which we have still not touched, so some of those incremental growth rates will come from new geographical areas as well as new of these crops. If you are just talking of next one year, two years I think my understanding next 12 to 24 months, 95% of business will still come from fruits, vegetables, cotton, sugarcane some amount of oilseed and pulses.

Hemant Patel: Thanks a lot.

Moderator: Thank you. The next question is from Shubhankar Oza of SKS Capital. Please go ahead.

Shubhankar Oza: Most of the questions have been answered. Just small technical two questions, your DVR shares which are listed in exchanges, which is 2014 you made of substantial discount to your main share, is that intended or any view on the management from that when there were issued, I believe that the bonus shares originally and just wondering what is the reason there could be trading at 60% discount through your main share and whether the management can take proactive steps?

Anil B. Jain: Regardless I can answer that question. When we issued this, it was issued as a bonus share and we wanted to kind of test the market for a long-term scenario. In this particular company, we think every single business line we have whether MIS, Piping, Food Processing, Solar, Tissue Culture etc., each has the ability to grow quite a lot and not just for few quarters or few years, few decades and we wanted to explore a possibility of creating a new avenue of raising capital without diluting existing shareholder in terms of their voting right and that is why we just give it as a bonus. We did not raise the new money through that. There are other two or three companies which have done similar things including a Tata Company and I think everybody quotes with a significant discount sometimes that is 40%, sometimes that is 60% but somewhere in between that range. I have been told that in US or other places, this gap is not more than 10% or 15%, why it is in India, so I have no answer. It could be chicken-and-egg situation. People do not see there is an exit value etc., so as of now as a management we are not planning to do anything particular about it. If anything interesting happens or if there is some new law or regulation which would allow us to make that interesting are more valuable we will make that effort but as of now we do not have any plan to tinker which what has been done, because existing laws do not allow us to give either more dividend or do anything with that so we will have to wait and see what happens in market with that product.

Moderator: Sir, Shubhankar Oza is back in the queue. Shubhankar, do you have any more questions?

Shubhankar Oza: Sorry, line got disconnected actually so we missed some of the answer to the question, but I think the other followup question would be, is there any restriction on creeping acquisition on the DVR shares by the management considering your promoter holding overall is very low at 29%?

Anil B. Jain: I did not get your question, sorry.

Shubhankar Oza: Is there anything within the law that you are aware of which prevents you from making any creeping acquisition in the DVRs or otherwise?

Anil B. Jain: I am not aware of any restriction, but if I do creeping acquisition of the DVR shares, how would that help me because that does not increase my holding which is at 29%, because every 10 shares I will acquire it gives me voting right up only one share.

Shubhankar Oza: Right, not only for the voting.

Anil B. Jain: There are no restrictions.

Shubhankar Oza: Thank you Sir.

Moderator: Our next question is from Arya Sen of Jefferies. Please go ahead.

Arya Sen: Just a followup question on the NBFC, what is the current holding of Jain Irrigation in the NBFC?

Anil B. Jain: It is a 78%.

Arya Sen: In that case are you consolidating it as a subsidiary in your consolidated number?

Anil B. Jain: In our consolidated financials it has been consolidated.

Arya Sen: You will have to continue doing that till it falls below 50%?

Anil B. Jain: We expect that this year this fiscal 2014-2015 once the other shareholder gets inside, Jain Irrigation will probably go back to 49% at that time we will **(indiscernible) 1.02.49** to be subsidiary and will not consolidate it.

Arya Sen: Secondly a couple of followup on the previous question. You talked about capex this year of Rs.184 Crores in the standalone? What is the consolidated capex as per your calculation?

Anil B. Jain: Actually it is around Rs.300 Crores plus and out of that also we have sold some we exited from windmill all that, so net is around Rs.240 Crores consol, but yes gross is the Rs.300 Crores plus.

Arya Sen: The export receivables you talked about is Rs.100 Crores that is in addition to the Rs.10.9 billion of receivables…?

Anil B. Jain: Totally 9.9, domestic is 10.9, so export is about Rs.1 million.

Arya Sen: How much was it last year?

Anil B. Jain: About Rs.40 Crores.

Arya Sen: Thanks a lot. That is all from my side.

Moderator: Thank you. Our last question is from the Atul Rastogi of CIMB. Please go ahead.

Atul Rastogi: Good afternoon Sir and thanks for taking my question. My question on subsidiaries if I just deduct the total debt of consol and standalone it is around Rs.1000 Crores in subsidiaries and they make an EBITDA of Rs.120 Crores, so there is still kind of drain on the cash flows, so are you planning any restructuring or is that EBITDA will grow and that will take care of the debt there?

Anil B. Jain: I think our EBITDA is definitely improving even in the current year, EBITDA for the whole year, the difference between standalone and consol was about almost close to Rs.145 Crores or so, it is not Rs.120, it is about Rs.145 Crores. We are expecting as we go along and some of this new investments come into play we are targeting whether it happens already this year or may be early part of next year. We are targeting this EBITDA to take it about Rs.200 Crores or so, we definitely do not expect it to remain drained onto the parent.

Atul Rastogi: Without increasing debt there?

Anil B. Jain: Debt as you would have seen has kind of remained constant there for last two to three years. The way is debt is reflected here, rupee depreciation we had to impact of rupee depreciation. Overall on my overall debt balance rupee impact has been almost close to Rs.240 Crores last year in FY 2014.

Manoj Lodha: Just to clarify if you take last two, three years debt in the overseas subsidiary it has moved around $160 to $170 million, it has not been changed much while the EBITDA is coming up now and Mr. Jain said Rs.200 Crores EBITDA with that kind of debt, I think you would see quite a significant improvement in fiscal 2014-2015.

Anil B. Jain: It is a lower cost debt. On an average debt cost is there early about 4.5%.

Atul Rastogi: Thanks a lot Sir.

Moderator: Thank you. I now hand the floor back to Mr. Hemant Patel for closing comments.

Hemant Patel: Thank you all for actually participating today. Anil Ji do you have any final remarks before we close the session?

Anil B. Jain: I think we need to see how the El Niño impact comes through. We are little bit waiting to see how the new government policy and the budget is going to play out, but as I said regardless of these two, we are trying to ensure that our business model becomes somewhat climate proof and the government budget proof, so that we can still deliver 20% plus growth. We will bring down Rs.300 Crores plus debt down this year and improve margins in our overseas entities. These are the three major things which we are focused on and overall working capital cycle to be improved.

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