"Jain Irrigation Systems Ltd 3Q FY15 Results Conference Call"

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MANAGEMENT:	**MR. ANIL JAIN – MANAGING DIRECTOR AND THE CHIEF EXECUTIVE OFFICER - JAIN IRRIGATION SYSTEMS** **MR. MANOJ LODHA – CHIEF FINANCIAL OFFICER - JAIN IRRIGATION SYSTEMS**
MODERATOR:	**MR. AJAY THAKUR – ANALYST - AXIS CAPITAL LIMITED**

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Jain Irrigation Systems 3Q FY15 Results Conference Call hosted by Axit 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 today's presentation. Should you need any 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: Good afternoon everyone. Pleasure to have you all over here for the Q3 earning call for Jain Irrigations systems limited. From the management team we have Mr. Anil Jain – Managing Director and the CEO, Mr. Manoj Lodha – CFO. We will start the session with opening remarks from Anilji and then post that we will have a Q&A session. Over to you sir.

Anil Jain: Good afternoon to all. We are conducting this call to discuss and to review the results for the third fiscal quarter. As you might have noticed in terms of revenue we had a negative revenue scenario where overall revenues for standalone India are almost less by 10% and within that domestic was less by about closer to 13% and exports were less by about 3%.

In terms of different businesses, the micro irrigation degrew by about 10%, PVC pipes about 11%, polyethylene pipes about 30% degrowth and onion grew by almost 58%, fruit by 24%, though these two were different they were significant positive growth, all other businesses on the smaller ones were negative growth. So all in all 10.7% negative growth in totality. The primary reason for the negative growth rate during October to December quarter were three, one was the fact that during the quarter pricing for a lot of our products came down because our raw material prices came down significantly as a corollary to the oil price reduction and that has partly impacted. So some of the places where like in PVC pipes where you see that we have degrown by 12% we should look at quantity, maybe quantity degrowth was only 5% to 6%. And in MIS where you see reduction by 8%, the quantity degrowth, even though quantities cannot be exactly measured could have been about 3% to 4%. So that is one of the reasons which is a natural part of the business cycle and the pricing of the commodity raw materials which we use.

The second part was related to the same phenomenon of continuous reduction in the prices that the end customers kind of postpone their purchase decision because every week price was going down along with oil and then the polymers with about two weeks of lag. And that kind of we missed the season because most of our customers, farmers postponed their purchase decision. So that was another...

The third within our micro irrigation retail business Maharashtra, Karnataka, MP, Gujarat these two three states are important part of what we do in retail business and there was a scenario where due to hail storms and untimely rains in November and December, important areas where we normally sell our goods were affected. So areas like Nasik which is northern part of Maharashtra had hailstorm and the other parts of Maharashtra which are towards the east Vidarbha and Marathwada those parts in fact faced drought which is continuing as we speak.

So all of this impacted us in this particular quarter, but I would like to reiterate that despite this weak quarter our overall domestic growth for micro irrigation business including retail business and project business for the first nine months stands at about 24%, so that is still quite a positive achievement as I would put it. For the first nine months also our agro processing business has grown about 25%, so that’s quite positive. The piping has been negative and others were also negative where we are confronting the business.

In terms of moving forward in the current quarter, we have some good infrastructure related orders for the pipe and it seems that things which we lost at least in the first nine months partly and will definitely be covered in the current quarter for that particular division. Agro processing or food will continue to do well, we have been as I said first nine months 25%, we expect to maintain the similar level going forward.

In terms of the margins, the margins have come out at standalone at about 15.4% EBITDA combined as against last year same period 15.6%. So despite the fact that we have taken an about approximately Rs.18 crores hit or Rs.190 million hit due to inventory devaluation in October to December quarter due to the polymer price reduction, despite that the margins have comparatively come out well because within the food business especially we had better margins and we had little bit better margins even in micro irrigation business compared to the couple of earlier quarters due to the fact that in micro irrigation we do not have to pass on all the reduction in polymer because when it went up also we did not pass on but in piping business the pass through is both ways and very quick.

So all in all if you really look at EBITDA level, margins have held themselves which is comparatively better news in this particular quarter which was quite negative for us. If we are looking at absolute amount of EBITDA, we clocked about 136 crores as against 155 crores last year so registering degrowth of 12%. If we look at consolidated EBITDA, it came out to about 168 crores as against last year's 182 crores and most of the reduction has taken place within India, overseas EBITDA is slightly more than the last year as you can see form the numbers.

Now there has been news that upcoming monsoon post June-July is most likely to be normal because El Niño impact is unlikely to be there. That was news from the government metrological department so that offers a good hope for the next year.

In terms of micro irrigation, generally speaking, it is also one has to see that post last June due to uneven weather and what happened in agriculture on one hand, on other hand overall there is a kind of a sluggishness in the prices, prices definitely have been depressed for agriculture commodities and for sugarcane farmers are not getting paid and while for soybean, cotton and other crops the prices are lower, growth in MSP for even main crops was not that big. So in general in rural areas the sentiment is weak, investment sentiment but I believe despite that kind of a weak sentiment our retail growth was about (-4%) so I think our sales and marketing people are fairly doing okay to get over that sentiment because our product can really help farmers even when they are getting lower prices for their goods with micro irrigation they can produce more goods from the same land and lesser inputs. And therefore some of the farmers are seeing micro irrigation as a solution even when the prices are low and that is helping us, we expect fourth quarter to be a positive growth quarter for our domestic business definitely.

If we look at overall scenario for micro irrigation which is one of the most important division being tracked by all our stakeholders is that for the first nine months as I said domestic market has grown 24.3% but exports are -51%. And therefore overall growth works out only about 8% for the first nine months. In the fourth quarter we expect again a very robust growth in domestic business and export will remain comparatively similar level as last year, there won't be big change in the fourth quarter, that was 50% negative in first nine months but in the fourth quarter we should be almost same as last year.

There are few export projects in pipeline being negotiated and being discussed, they are not in hand as of now but they are fairly close which makes me believe and say that the deficit we had in the micro irrigation export this year will be more than filled up in to the next year. So in FY14 micro irrigation exports were about Rs.3 billion, exports are going to be close to Rs.2 billion this year that significant reduction I think next year we would expect that the exports would go beyond 3 billion and register healthy growth.

The piping business which has been -20% for the first nine months, as I said fourth quarter looks very strong and even thereafter we are seeing more and more interest from our customers especially infrastructure customers to start doing the project because this reduction in polymer prices is helping to make their projects more competitive by using our product and they are reviving their projects. And therefore not only current quarter but at least we have visibility in the first six months that piping business definitely will do more and the lower polymer prices would also allow us to improve some of the margin we had lost in first two to three quarters in to the piping business.

What has impacted us major during this quarter has been the rupee depreciation of mark-to-market currency impact. And that is almost to the tune of 38 crores within standalone balance sheet in India and some more for our overseas entities as well when we do translation into the Indian results. Since then this was the last week of December, since then rupee has somewhat appreciated with a more dollar flows and maybe a better positive current account deficit or significantly reduce the current account deficit, rupee is expected to improve and some of this hit which we have taken over last few quarters we hope that it kind of reverses and this mark-to-market notional losses will go away as we move forward.

In terms of our subsidiary NBFC, SAFL, they are doing fine, their current loan outstanding is about 135 crores so which in dollar terms would be a little bit more than $20 million and they are having good recovery, overall their NPAs are coming around overall for the whole annualized year we are expecting them to be less than 1% so considering that agriculture weak season, the drought and all of those situations I think they have been able to manage their portfolios well and they are providing good service overall. But as our business was weak in the third quarter and second quarter is a monsoon season, their overall new disbursement have also not been that strong in the third quarter but we expect their overall disbursement in the fourth quarter almost to match the first nine months. And all in all they would remain profitable, they might register a small amount of growth but their fiscal situation is quite good in that sense.

In terms of CAPEX, we have been maintaining very cautious stand on the CAPEX and our CAPEX includes what I call the maintenance CAPEX rather than just the growth CAPEX. So and our depreciation annually is about 170-180 crores as against our overall CAPEX that means maintenance plus growth CAPEX for the whole year would be less than that and as of now for the consol entity the entire CAPEX stands around 120 crores or so in nine months. So that is where we are in terms of overall CAPEX.

So when we are reviewing what happened in nine months and what we are doing in the current year, our expectation is that for standalone our overall EBITDA for the year for standalone is expected to be little better than the last year even though for the first nine months we are a little bit less than the last year and the fourth quarter we believe we'll be able to cover that and we will end up a little bit better than last year. And our net earnings or PAT will definitely be far better than last year because last year we had a significant hit in any case due to the FOREX. Having said this, I believe lower polymer prices and the fact that maybe interest rates are coming down, these two things definitely will help us, we are seeing a positive traction on the pipeline on to the type of projects which we have discussed earlier, that continues to be doing fine.

Now let me talk a little bit about the receivables. We continue to be doing well on the receivables which we have planned. I terms of micro irrigation especially the domestic receivables came down from 991 crores to about 890 crores, so almost by 100 crores the domestic receivables of micro irrigation came down compared to the last quarter and that along with some export receivables in micro irrigation together stands at about 197 days which in September was about 211 days. And so we are on track to hit our number of 180 days or lower by March that is FY15 and FY16 we expect to further improve the receivables.

Generally speaking, this quarter in terms of working capital analysis, on the standalone basis inventory came down by about four days compared to September and the receivables came down by about 1 day, even though within micro irrigation they came down far more but they went up a little bit into the other division, but that is a seasonal issue and for the whole year we expect receivables to continue to March towards improvement.

If we also look at the consol scenario, receivables have come down in consol from 115 into 106 days and inventory is slightly up by 3 days. So overall a better working capital situation despite such a not great quarter.

In terms of government subsidy, our receivables are almost at the same level, small amount of increase moving from 262 crores to 270 crores but we expect that by end of March this 270 crores we expect to go down by 60 crores to 70 crores. Another important part is that last time also there were a few questions about the project receivables and as I had already said that time their project receivables are also improving so September end our project receivables were at about Rs.4.4 billion, by end of December they came down to Rs.3.4 billion, so almost 25% reduction.

Now in terms of overall net debt position, it is almost same as September, there is no change. Even though there is partially increment in to the debt because of the rupee depreciation how the foreign currency loans are being translated, if that was not to be the case you would have seen slight improvement in the debts compared to September. In the fourth quarter typically we have far stronger cash flows, it is a much larger quarter in terms of the business and last year we had seen that fourth quarter we had reduced our debt by almost Rs.2.5 billion, we expect similar type of performance in the current quarter. However last year post that first reduction in that quarter that was fourth quarter FY14, debt went up in the subsequent quarters due to multitude of reasons. But this year with all the working we have done or tweaking we are doing to our business model and how we fund our food processing business, etc., we believe it can be ensured that the reduction which happens in the fourth quarter thereafter small amount of reduction can also happen in the first and second quarter and FY16 second half one would see larger reduction into the debt so that we can start moving towards our stated medium term goal of bringing debt equity to 1:1 from current which is significantly higher than that situation.

Our finance cost has kind of remained almost at the same level in terms of absolute numbers, there is not a big change but in the fourth quarter amount will remain same, revenues would be far more so overall percentage of interest versus revenue will in fourth quarter will significantly come down. Recently the credit rating agency has maintained our credit rating at –BBB, that is a positive development and we hope in the next fiscal with a better performance company will move couple of notches, at least that is what we are working towards, we should eventually help us to reduce our interest outcome.

In last Board meeting, the company's Board had decided to set up the food processing subsidiary and start exploring effective ways where we can do some value unlocking and use part of the funds for deleveraging. The management has started that process already; it would take a few months to get the formal process done in terms of subsidiarization,, etc. And in FY16 we expect investors to possibly come in, but it is not done but I can share with you that we are in talks with couple of investors who are fairly serious and since we are interested in kind of value unlocking, we can provide to them an opportunity to grow the business together going forward. But I would be able to comment more on that I think a couple of months down the line rather than today.

So I think that should suffice for the opening comments and me and our CFO Mr. Manoj Lodha both of us are here, we will be very happy to take your questions and we can discuss our further finer points of our performance and we're company going forward. Thank you.

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 Securities. Please go ahead.

Atul Mehra: Sir just one question on the working capital front on standalone business, so even as micro irrigation working capital has improved, on a Y on Y basis if you look at it, total working capital days has gone up from 156 to 162, so if you could broadly throw some light in terms of food processing as well as other businesses which has seen a substantial deterioration in working capital.

Anil Jain: In fact if you really look at on a net basis, as compared to September it is three days improvement but compared to last year you are seeing increase in that. So it is partly, the net is after you adjust the accounts payable, etc.,, etc., if you look at the gross working capital inventory is better than the last year instead from 120 days to 117 days and receivables are from 144 to 137 days. So we have just a far better accounts payable situation than the stretch payables we had last year, that is what is showing increase on a net basis but as we move forward, as we continue to work on this at the end of the fourth quarter you will see inventory significantly down because that is the nature of the business and receivables will continue to improve further.

Atul Mehra: Right. But specially in the food processing we have seen eve the gross receivables go up so is that a temporary trend or if you can just briefly explain that as well?

Atul Mehra: It is a temporary trend and if you see compared to last December, last December food inventory was 286 days, now it is 246 days, inventory has come down in same amount the receivables have gone up. So on a net basis there is not a big difference.

Atul Mehra: Right. And secondly sir on the projects business, if you could just throw some light on how the quarter actually saw some kind of decline in terms of business, so is it a accounting or what is it related that the project business saw a decline in terms of Y-on-Y revenues?

Anil Jain: The way the projects get billed and invoiced, sometimes they can get lumped together so we had great growth in the first two quarters, in this particular quarter last year we had 89 crores, this year we have 70 crores so it is not a big difference if you look at overall scenario. If you look at let's focus on the nine months that last year nine months the projects were 169 crores, this year they are 285 crores, so in fact we have grown 68% for the nine months so I think quarterly difference does not indicate any change into the underlying strength of the business.

Atul Mehra: Right. So Q4 we would be in the positive for this business now or Q4 will also be somewhat on the downside?

Anil Jain: It would be somewhat positive but for the whole year the projects we are really doing well.

Atul Mehra: Right. And what are the outstanding order books we have in projects side now?

Anil Jain: The outstanding would be close to about 400 crores or so.

Atul Mehra: And that would be executable over a period of year's time?

Anil Jain: Yes, over next year.

Atul Mehra: Right. Sir just one final question on the margins front, so this quarter if we adjust for the inventory loss of 18 crores, so we would have marginally done well in terms of margin expansion. So head in Q4 and as polymer prices continue to remain down, so going forward is there room for major or some kind of margin expansion in the business overall?

Anil Jain: I would say in piping business we should have better margins definitely, even in micro irrigation there could be a small increase possible but one has to also see overall sentiment in rural India it's not that great, so we might have to pass on some of those improvement in margin. So our target for micro irrigation continue to remain 20-22 but you will see close to 22 rather than 20 as we go along. But piping should see definitely significant improvements in margins with the lower polymer prices.

Atul Mehra: Right. And sir finally on debt, so debt for Q4 we maintain a guidance of about 300 crores of reduction, right?

Anil Jain: Yes, we do.

Moderator: Thank you. Our next question is from the line of Chetan Wadia from JHP Securities. Please go ahead.

Chetan Wadia: My question is basically that there has been a change in government in Maharashtra, so when you interact the Maharashtra government right now so what kind of feedback on the expenditure on irrigation you are getting right now? And second thing you are talking about -- demerger of food processing business, when we are going to see this actually happening because we have been hearing this thing for last one year and nothing has materialized on this matter as of now.

Anil Jain: The board took the decision to do this only in November and even on the last call I said that as and when it happens it happens and we expect it to happen in 15-16. So I cannot put a date because it is not in hand today but we are working towards to see that most likely that should happen in fiscal year 2016, I cannot give you any date.

The second part in terms of Maharashtra government, our interactions and their public posturing and their public announcements show a lot more support for irrigation. One has to wait and see for the new government their budget that should be there end of February or sometime in March, that should provide actually how much money they are putting. But they have said that they had made drip irrigation mandatory for sugar cane, so now they are saying that not just making it mandatory they are going to put a time line that so much must be done in year one, year two. So that could significantly bring more business in the second half of FY16, similar stuff is being finalized in Karnataka. So from both of these states the sugarcane which was quite weak in the third quarter for us because farmers are still not getting paid by sugar mills and sugar prices are quite low, all of that would structurally I believe will change and there should be much larger business available. Also, there was announcement just couple of days ago in Maharashtra by the bureaucracy or the Secretary saying that apart from sugarcane there are couple of more crops where they want to make drip irrigation mandatory because they guzzle too much of water, but that is expecting to be implemented by 2017. So our interaction as well as whatever is happening shows that their intent is great and they really want to build a very specific program, how much money and resources they are able to back that up one has to wait and see till the time the budget comes through.

Moderator: Thank you. The next question is from the line of Arya Sen from Jeffries.

Arya Sen: Firstly, if you could give the EBITDA margins for MIS and the other businesses as well.

Anil Jain: The margins for EBITDA have been as I said closer to 22. The piping business have been lower single-digit level margins and food processing margins have been very high level between 20% and 35% in that range depending on the product lines which we have. So all in all that's more or less lying in of our expectation and what we have been achieving in the first nine months.

Arya Sen: Sir this 18 crores inventory hit that you indicated that has mostly come in the pipes business or is there some part of it in the MIS business as well?

Anil Jain: Mostly in the pipes, small amount in to MIS.

Arya Sen: Okay. Why is that, why has not the hit come in MIS, I mean is it because…?

Anil Jain: In the piping the business the translation of the prices when they go down or up is immediate so that's why the hit is more. In micro irrigation the changes in pricing takes over one year or over a season, so there is no hit there. And also in micro irrigation when prices went up for raw material we had not really increased prices by that much so that is the reason we can still maintain those.

Arya Sen: Okay. Secondly, now you your receivables in MIS have been coming down for quite some time, so what do you think would be a normalized sort of receivable days in MIS under the new business model?

Anil Jain: Under the new business model! So the new sales we are making that is 120 days or lower and we hope that including legacy by March 2016 that is over next 12 months we bring down this 180 days which hopefully most likely we will achieve in FY15 by FY16.

Arya Sen: Sir and currently what is the sort of ratio of business under the new system versus the old system?

Anil Jain: I think almost close to 75% business is in the new system and 25% would be in the old system.

Arya Sen: And this is all in retail, right, project would have its own receivable cycle and everything else?

Anil Jain: Yes, and as I just now explained that is also improving.

Arya Sen: Okay. And lastly, out of the Karnataka project which you had won last year I think it was about 390 crores, how much has been booked in this quarter and nine months so far and would be till date if you could give some of those numbers?

Anil Jain: It is very difficult to talk of specific projects for certain reasons or specific quarter, but good amount has already been booked, we are moving along, we expect the entire project to get fully completed before June.

Moderator: Thank you. Our next question is from the line of Nikhil Garg from BNP Paribas. Please go ahead.

Nikhil Garg: Sir my question is on the budget, what is the kind of expectation you would have form this budget because I guess last budget was a bit disappointing on the subsidies side, so what would you expect in your interaction with the central government have they been highlighting something?

Anil Jain: Generally speaking, the budget partly people are focused on the budget because of the subsidies support to the central government provides to drip irrigation along with the state government. We have made our business model a little bit away, billing to the subsidy now for majority part of our business. So that should not really impact us and this issue came up in the last budget, interim budget which came up in July where there was a lot of discussion about whether the subsidy was brought down or increased but as you can see for first nine months our overall domestic business retail plus this has grown 24%. So slowly it is moving away from the budget, having said that so we as a company we are not really pursuing that anymore and we think creating more capital access to farmer is more important for long-term sustainable growth in this business so we hope government will continue to do that on one hand. On other hand we hope that the budget will provide more funds for the government's project of that 'Har Khet me Pani' or Water to Every Farm, if they do provide real significant support to that that creates automatically more demand for products like pipes or micro irrigation eventually in the medium-term. But in short-term I think in terms of the project pipeline we have the new business model we had, it think even if central government keeps their budgetary support at the same level as last year I believe we would still maintain our growth rate of about 20%. So while market is still focused on the budget and subsidy, our underlying business has definitely moved away in that, but part of our project is also these projects where the solar water pump gets connected to the micro irrigation, etc., and for those projects it is not just the central government budget, individual state governments are making lot more budgetary support which is taking place. And as we are going along and as you might have also been reading under this new NITI Ayog, etc., central government is moving towards allowing state governments to design more important programs they want to pursue rather than being pushed by the central government. So under that scenario we are expecting that states like Karnataka and Maharashtra, they are talking of creating 15,000 crores opportunity in sugarcane and drop irrigation over next few years. So that won't necessarily form part of the central government budget. So central government as long as they create room for more investment in infrastructure, in agriculture that would be good for us from that budget and then we need to focus on the state government support which is there and more access to the farmer, I think that is more important.

I am sorry for long winded answer but I want to clear that to all of our stake holders that let's not focus that much on subsidy being given, let's more focus on capital access to farms.

Arya Sen: Sir absolutely. Sir just a follow-up on capital access to farmers now that you have highlighted, what is the update on the NBFC, has NBFCs got more funds, how much has it grown because we keep on hearing about big penetration of MFIs in rural areas so is that helping, not helping how much scope do you see for credit to be available to farmers in terms of how much improvement can happen on the basis of that?

Anil Jain: Just to quickly touch base on MFI, MFI typically give loans to individuals which are unsecured, less than Rs.10,000, etc., and short-term 90 days or so. What our NBFC does is giving long-term loans to farmers between 6 months to 3 years, these are secured with land mortgage and other securities and they are for agriculture purposes. So that's very different than any MFI story. Now in terms of our NBFC, their current year performance expected to close by FY15 could be similar to FY14, small amount of increment you might see but their performance has been quite good in terms of recoveries they have done in the year and how they have perfected their systems and processes, etc. As of now over last two years they have lent to about 15,000 farmers and total about 167 crores which has been lent and outstanding today is about 135 crores so remaining they have kind of recovered in total. So all in all we are expecting good scenario going forward and as this base has been created so their lending next year might just grow 50% to 70%, it is not going to incremental ones the platform has been very well-established. And while they were just focused on Maharashtra in year one and two, they are slowly branching out into neighboring states into adjoining area, still in a very prudent manner but we are getting more heartening apart from all of these disbursement numbers and recovery numbers is that their performance on recovery is quite good and most of the farmers as I said they have lent to more than 15,000 farmers and hardly less than 100 farmers have delays in their payment. So considering that June to December has not been the best of the time for agriculture, in India in general especially in Maharashtra I think this performance speaks very well about the robustness of this concept and program and we expect FY16 there to play a very important role in how our micro irrigation business grows.

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

Girish Achhipalia: Just two questions, one is basically on the margin outlook going forward in FY16, how does that look? I know you briefly touched upon it but especially when viewed in the fact that Maharashtra is going to free pricing and you will have more sales coming through from the NBFC and given the operating leverage I would assume that you would have more than some margin expansion, so if you could touch base on that. And secondly on the interest cost scenario side for next year FY16, how much headroom do we have, are we working on some initiatives?

Anil Jain: Okay. Now in terms of margins, typically we do not give guidance but I believe next year our capacity utilization will improve on one hand with the lower polymer prices assuming oil stays around this $40 to $60 and does not go beyond that there would be room for us to improve our margins, as I said we will definitely be closer to 22% but there is a room to grow beyond that. But as a management we are thinking that even if we can increase that we might limit that increase and actually pass on some of these benefits to the farmer because we want to create significantly higher base on this new business model where farmer feels that I am really buying something at a price at which I can put my 100% cash, I get paid back in 1-2 years, don't have to worry about any subsidy or any such decision and slowly take that what we have achieved in Maharashtra also into other state. So there is a good chance to improve margins in micro irrigation business under all of these scenarios and one has to wait and see how that happens over next few quarters. I definitely expect better margins into piping business with the kind of new business we are getting, with the lower prices, better capacity utilization, piping you will see substantial improvement I can say, food processing margins are already at quite good level and as the solar business which we had reorganized during the current year so it resulted into very low margin. Next year having restructured that business or it consolidate that business next year the margins in solar business would also add. So all in all combined margins where they are currency I would expect them to improve based on all of these factors.

Girish Achhipalia: And if you could touch base on the interest cost for next year?

Anil Jain: So in terms of improvement, right now our run rate is 95 crores per quarter on a standalone basis and about 115 crores on consolidated basis. So a couple of initiatives we are trying to, of course whatever reduction in debt that will happen and overall interest rate that will go down that's in addition but we will be constantly working with the rating agency and possible upgrade even maintaining during the year. We are also trying to change our financing, take some long-term advances against exports and park it against high cost borrowing here so that may also result into sudden savings. We are also trying to raise some kind of international bond and type B kind of term loans where we can get back our investment into India standalone balance sheet and arbitrary against high rupee cost. There will be couple of initiatives we will initiate, our target is to at least reduce the interest cost by 10 crores to 15 crores per but that will take some time, maybe one or two more quarters you have to live with this level. So that's about overall plan.

Moderator: Thank you. The next question is from the line of Siddharth Mohta from Principle India. Please go ahead.

Siddharth Mohta: Sir if I heard you correctly, in the sugarcane opportunity as far as Maharashtra is concerned, same it has been notified or it will be notified in couple of months, that is number one and the total opportunity in terms of value wise? That is my first question. And Second sir, in terms of export it was very clearly mentioned that MIS export will be flat in this year so any growth that we can see in FY16?

Anil Jain: To come back to sugarcane first. Maharashtra government had notified already all the sugar mills that over next five years they need to ensure that all the sugarcane they buy is drip-irrigated sugarcane but they did not give that you do so much in year one, year two like that. So when you tell somebody to do something over five years they are likely to do it in fourth or fifth year. So now the government is saying that they are bringing out very soon a specific time table and in fact it was in newspaper two days ago, the Chief Minister mentioned this into a larger public meeting that this is where the government is going because they do not see a choice but to do this. Now if you look at overall sugarcane in Maharashtra, it is about approximately million hectares and hardly about 10% of that is under I would say drip irrigation, average price on sugarcane becomes abut Rs. (+1) lakhs hectare or Rs.1 lakhs to Rs.1.2 lakhs hectare. So all of that indicates about 8,000 to 9,000 crores business opportunity over the next few years and about half of that in Karnataka because the size there is less but they are also moving in a very systematic manner and they have said that they will firm up their plants within about next two months where they are roping in various banks as well as sugar mills and creating a combined path going forward. So at least from what we hear, what we have seen in writing or otherwise both of these things will happen and you will start seeing benefit in terms of business from the second half of FY16.

Siddharth Mohta: Okay sir. And sir regarding the export?

Anil Jain: Export this year compared to last year are almost going to be less by about 30%-33%, so last year we had about 3 billion I think this year we are going to close closer to 2 billion. But FY16, we expect significant growth in the projects in exports in Latin America, in Africa so FY16 would be a very favorable year for export and growth rates would be significantly high.

Siddharth Mohta: Okay. Sir around 20%-25%, that would be safe to assume?

Anil Jain: No, our anticipation would be that we will go beyond what we did last year. So on a lower base, this year it will be only 2 billion, next FY16 we should do more than three.

Siddharth Mohta: So crossing FY14 number?

Anil Jain: Yes.

Siddharth Mohta: Okay. And sir, one more news has come regarding solar pump where again Chief Minister of Maharashtra has said that they are going to install 5 lakhs solar pumps and that is going to happen in one year for agriculture purpose and we are quite strong in that particular segment. So have you heard anything on that sir?

Anil Jain: We have also seen that, there have been few meetings between the manufacturers, the government and the energy distribution companies, etc., I think it is a project in making in various ways, the contours of that will become more clearer over next 30 to 60 days. But just to give you context and for all stakeholders as of now in the country the total solar pumps already installed are about 25,000 or so, we have almost close to I would say 50% market share. The new solar pumps being installed currently this quarter would be another 5,000 to 10,000. So what Maharashtra government is talking is a significant leap over the current base around the country. So as and when that project comes I think everybody needs to ramp up in every sense, not only the production capacity but delivery, installation, getting right financing model, how does that get financed, how would the farmers cooperate, all of these things. But the government has said that they want to move away from providing low cost power to farmers, they want to provide them solar pumps and in fact in Maharashtra there are more than 36 lakhs connection, so 3.6 million pumps exist in Maharashtra and the government has around 1.8 lakhs pumps every year new connection there is a waiting list. So they might move with waiting list, so instead of providing them connection they might just provide them pumps and the older pumps which are the existing AC pumps which are based on the electricity they might shift to this new method over a period of time. But whatever happens, one thing is very clear, this business is expected to grow significantly more as time passes by.

Siddharth Mohta: Okay. Sir any target that you would like to give like in two years you want this particular division to be 500 crores for Jain Irrigation or something like that on any range?

Anil Jain: Those kinds of number I expect will definitely surpass but it little bit too early, I think we should wait for next three four months before some of these, how these projects get financed and how they get executed it's very important to know the modus operandi.

Siddharth Mohta: Okay sir. And the last question sir as you mentioned that our Karnataka project is going to be over by June so we are going to see any further order win in project or we are L1 in some of the projects?

Anil Jain: There are multiple projects under negotiation or under discussion whether in Karnataka or in Himachal or in Punjab, some also in Gujarat and in Maharashtra. So that pipeline looks very strong and you would see as the time goes by that we will get some additional projects and we will maintain growth rate into the project side as well.

Moderator: Thank you. Our next question is from the line of Karan Malhotra from Xander Group. Please go ahead.

Karan Malhotra: You mentioned that farmers are waiting to purchase MIS because prices are coming down, so based on that you have taken an inventory write off only on pipe end, what would have been the impact if you had taken hit on the entire MIS mark-to-market MIS inventory as well?

Anil Jain: I want to just clarify, when the farmers postpone the purchase decision I was talking about all the businesses whether piping or micro irrigation, so not just micro irrigation. Second, in micro irrigation as I said for the third quarter our sales was negative domestically speaking, only (-4%) so we did sell whatever we sold and it was sold at certain amount of lower prices. In case of MIS because we do not increase the prices when raw material prices went up we do not have to also bring down the prices at the same level as they are coming down. So certain part we have already passed on and that hit we have already taken, we do not have to take any additional hit on micro irrigation in current quarter at the current level of prices, we do not have to take any additional hit.

Karan Malhotra: Jus a follow-up on that, if your competition starts cutting prices to match the new raw material prices or you normalized your calling in the raw material prices, what will be the maximum hit that we could end up taking?

Anil Jain: As I said looking at the market and market price we have already passed on some price increase, we have given additional volume discounts to the dealers, we still have some room within as we increase our capacity utilization we still have some room. So let's say tomorrow if my competitors bring down price by another 2%-3% or 5% I think we will be able to match that and not have any reduction in our expected margins of 20% to 22%.

Karan Malhotra: Got it. And one more question, what percentage of your consol revenues originates in euro or pounds?

Anil Jain: Not very high, our onion exports which is about I would say approximately a 250 crores a year, they are part euro, part GBP and part dollar but euro and GBP would be about 40% of that and rest would be dollar. Our fruit export or all other exports are typically in dollars.

Moderator: Thank you. Our next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Sir my question is on solar water pump side, sir as we understand that this is also a subsidy mechanism which is applicable to solar water pumps as well, so do we at the risk of working capital getting stretched in this business how does it flow?

Anil Jain: This is a somewhat a different business than a typical drip irrigation subsidy where you go and install and then you wait for the government, all of that. In case of solar project this is looked at as an infrastructure project and typically infrastructure projects are funded in advance. So the government or the particular project entity which is implementing the project creates a special bank account where they already have money available to them and that is when you actually go and supply and as soon as you show that you have supplied you start getting paid. One experience I last two years on the solar project has been very good and some of the places we have supplied and collected within maximum 60 to 90 days. So we do not anticipate similar kind of situation of one year, six month type of scenario in solar water pump, we expect that to be that average 90 to 120 days max based on installation and all of that.

Shashank Kanodia: Okay. And sir how has been the farmers response on the ground, becsaue as we understand average cost of our solar water pump is close to Rs.5 lakhs for a 5hP pump, so a minimum 25% has to be borne by the farmer. So given the purchasing power parity how does that…

Anil Jain: Typical normal pump can cost Rs.30,000 to Rs.50,000 right and some places farmers are paying 10%, some places they are expected to pay 30% so on an average let's say 20%. So 20% is about a lakhs rupee. Now a farmer when he is having a normal AC connection and using a pump, a lot of time government is giving in either free or two rupees or whatever low price but then government gives him power 3 or 4 hours, sometimes within 24 hours and that creates a lot of problem for his agriculture because he cannot get up in the night to irrigate his farm, he cannot irrigate when the crops need the water, etc. The solar will provide him that consistently every single day irrigation and during the day he can irrigate when the sun is out there and there are so many benefits he is going to get. So for those benefits farmers are ready to put that contribution, that's our experience in total. Of course he cannot put up the entire 5 lakhs that's too much because that is almost 10x what he would have spent on the pump but then for example electricity utilities, they spend close to 1.7 lakhs to create one connections, to take their lines upto one farm, they will save that so they can afford to pay it to the farmer one time for solar pump and then not give him subsidized power for next 20 years. So it is a win-win scenario for the government, for the electricity distribution entities as well as the farmers and that's why we believe it is a business which is going to grow, it is still in nascent stage, some good amount of work has happened in few state, we are seeing lot of interest by lot of government because they really see this as a long-term solution to solve the energy issues in the country apart from coal generation, etc. So let's wait for another quarter or two to see how this evolves, but it looks very promising at this stage.

Shashank Kanodia: Okay. And sir what are the kind of EBITDA margins that we enjoy in this business?

Anil Jain: It is too difficult to start talking about EBITDA margins at this stage but they are reasonably good and when get connected with micro irrigation they are part of our micro irrigation product portfolio in terms of the margin level, so that gets absorbed within that.

Moderator: Thank you. The next question is from the line of Umesh Patel from Sharekhan. Please go ahead.

Umesh Patel: Sir just wanted to know what was EBITDA margin for dehydrated onion business during the quarter?

Anil Jain: As I said that these margins vary quarter-to-quarter but overall margins for both of these divisions have been quite high but let's say typically third quarter onion margins would be lower because we do not do much of the production during that quarter. So fixed cost absorption is not there but in fourth quarter January to June is when you do maximum production so margins are very high during those two quarters and they are comparatively weak in third and fourth quarter. But annualized margin we are talking in 20s, so that's quite good.

Umesh Patel: So you mean to say that current quarter the margin was something in the range of 15% to 16%?

Anil Jain: No, it is typically lower because of lack of production during that quarter.

Umesh Patel: Okay. And you mentioned that our export order, I mean export revenue for FY16 from MIS would be something in the range of 300 crores, right. So I just wanted to know sir what is as of now export orders in hand and you also mentioned in the earlier remark that we are under negotiation for some export project for MIS segment, so the quantum of amount would be how much?

Anil Jain: The export orders in hand right now may be about close to 120 crores or so, but some of these orders keep repeating every quarter so this is not type of business except for the project part of export where you will get one large chunk of order, rest gets repeated every quarter. So we are fairly sure of crossing that number next year.

Umesh Patel: Yes. So you mean to say that for current year I mean FY16 upcoming year we are expecting order inflow something in the range of 300 to 400 crores minimum?

Anil Jain: Yes.

Moderator: Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Actually, you indicated that in second half of FY16 one may see a larger reduction in debt apart from the Q4 and marginal in Q1 and Q2 of next year, so what I was trying to understand is when you are outlining this kind of situation are you considering that stake sale in food subsidiary will happen and that money will go on to repay the debt is that what we are considering?

Anil Jain: What we have said is more through the operational efficiency. Fourth quarter currently debt reduction will happen through the operational efficiency and internal accruals. First couple of quarters what I have said and as we move forward that should also happen through operational efficiency. As and when the food subsidiarization happens that would be known to everybody and there after post negotiations that can happen because that is going to be a onetime event and I cannot predict when exactly that would, while we hope that it would happen in FY16.

Mayur Parkeria: Sir in your outlook you are not considering that part of reduction as of now, you are considering that to happen on the operational side?

Anil Jain: We will reduce definitely the debt from operational side in this quarter as well as for the next year and that as is said more will happen in this quarter and again in the second half of the next year, that is from operations. Whenever the food thing happens that would be additional.

Mayur Parkeria: Okay. And this medium-term target which we have to get it to 1:1, I know I am going into specific slightly number but I am not looking for a specific timeframe but a broad outline, we have equity of around 2000 to 2300 crores and a debt of 4200 crores. Now medium-term what we should look at it, is it FY17 or it should be further than that because it will mean to understand that what kind of debt reduction are we looking at and what kind of accruals which will happen over this period is what I am trying to understand.

Anil Jain: See, if we look at we have been talking more about the debt on the Indian balance sheet which has been hovering around 3,000 crores or 3100 crores in that region. So we are expecting that come FY16 and maybe a little bit more as we also get some equity as we make profits all of that we will take this 2000 to 2300 crores to about closer to say 3000 crores and meanwhile debt reduction on other hand will also happen. So we are quite committed to say that the 1:1 will definitely happen in case of standalone, question is as a consol entity how soon can we hit 1:1 which is depending on the scenario has been closer to 1.7:2x over last few quarters. And there the aggressive target will be say that we will achieve that in next 15 months but more pragmatic target will be is that definitely we plan to achieve that before 2017.

Mayur Parkeria: On consol level also?

Anil Jain: Yes.

Mayur Parkeria: Okay sir. And last question on my side, as I understand the capacity utilization in a MIS is practically not more than 70% to 75%, will that stand even today in terms of how the seasonality and how the mix is concerned, right?

Anil Jain: It depends on the quarter and the seasonality etc.

Mayur Parkeria: No, on a yearly basis if we look at and slightly, so 70% to 75% will be the broad range in which the utilization would…

Anil Jain: We have been around 60% to 65% rather, hopefully next year we move towards 70% to 75%.

Mayur Parkeria: Yes, and that would be the peak, I mean this is the peak utilization can be 70% to 75%?

Anil Jain: Yes, because of seasonality.

Mayur Parkeria: Right. So sir now given that kind of and we are already at 60%-65%, if now the MIS sales come back on track baring this quarter but if you are seeing 20% kind of growth rate will we have to go in for a larger expansion in the let's say not in FY16 but somewhere towards the end of FY16 and then on, will we have to go for a larger expansion and will we again come into that situation where the debt kind of keeps growing and we are into that circle because the expansion over the last 7-8 years has been very magnitude in terms of 2000 crores overall put together and that is what has created this entire circle of debt.

Anil Jain: I think when we talk about maintaining micro irrigation growth of more than 20% a year, somewhere between 20% and 30% depending on the year and season going forward, and we have also talked about bringing down the debt. So we have taken all of this into calculation including the new CAPEX we might have to do or whatever it is. But I think significant new CAPEX is at least two years away, that is not something we need to bother about right now, we have enough ways to increase our revenue.

Mayur Parkeria: Okay. So it is at least two years away and in this two years we may see at the max 200 crores kind of annual CAPEX is what you are saying?

Anil Jain: Yes, yes that's all divisions including maintenance CAPEX.

Mayur Parkeria: Sir last question if I may just squeeze in, what is our roadmap to improve the margins at the subsidiary levels and a significant improvement over a two year period, can we see that happening or how does the roadmap look on the subsidiary margins?

Anil Jain: At a subsidiary level there are two types of subsidiaries, one is irrigation subsidiaries, and one is the food processing subsidiary. Partly the margin in the irrigation subsidiary also gets captured here because we export to them, we also buy from them and sale here, etc. But having said that now with the new changes we have brought about into some of these subsidiaries our target over next two years is to take the irrigation subsidiary margins to double-digit from where they are today and including shifting of production to India, all of those changes which we are taking place and doing more project business into those overseas subsidiaries. So that combination should work over that period of time. In case of food processing, one of our subsidiaries partly distribution so they have a stable but comparative low margin and in US one of our food business, they have always had 15% to 20% type of margins which is quite good. They had acquired a new business or a new technology which next year FY16 onwards should breakeven and start doing well because it was a long-term new technology implementation and then from 2017 onwards that business also should be high-teens in term so of margin. So out of food two businesses, European business is stable but lower margin because part of it is distribution, US has been in the past high-teens already in the food and including the new business post-2016 they should be back to high-teens. Irrigation, globally speaking should become double-digit in two years.

Mayur Parkeria: Globally means you mean standalone plus consolidated?

Anil Jain: No, no. Here we are already above 20 including our US, Israel, Turkey all that.

Mayur Parkeria: I understand, yes. In two years' time you said, right?

Anil Jain: Yes.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints that was our last question. I would now like to hand the floor over to Mr. Ajay Thakur for closing comments.

Ajay Thakur: Thank you all for your participation. I will pass on to Mr. Anil for his closing comments. Over to you sir.

Anil Jain: Thank you Ajay. So third quarter was not a great quarter, we had less revenue, we had losses due to this mark-to-market foreign exchange so headlines have not been good and we worked hard during this quarter to maintain the level of business we have because situation in overall agriculture scenario and rural India was definitely not good. But we are seeing some stronger things like on the infrastructure piping side better growth, in micro irrigation, solar pumps, etc., lot of new project growth, with lower polymer prices better margin scenario, rupee is expect to be better, interest rates are expected to be lower going forward. All of these things should help us and once we get on to this new part of debt reduction from the current quarter, as we maintain that I think that should remove some overhang or what we have been trying to achieve. But as we stand about almost three years when we started to change the business model so business model change event I would say has kind of succeeded, we changed something, we were doing well for 20 years and we hope coming from next year in another 10-20 years we can move with the new model and create sustainable growth going forward hopefully and beneficial for all stakeholders. And we thank all our stakeholders especially shareholders and the entire market community, we thank them for their support.

Moderator: Thank you. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.