



# “Jain Irrigation Systems Ltd Q2 & FY15 Earnings Conference Call”

**November 11, 2014**



**MANAGEMENT:** **MR. ANIL JAIN - MANAGING DIRECTOR & CEO - JAIN IRRIGATION SYSTEMS LTD**  
**MR. MANOJ LODHA – CFO - JAIN IRRIGATION SYSTEMS LTD**  
**MR. PRADEEP TIBREWALA – SENIOR VICE PRESIDENT, FINANCE & INVESTOR RELATIONS - JAIN IRRIGATION SYSTEMS LTD**

**MODERATOR:** **MR. HEMANT PATEL – ANALYST, AXIS CAPITAL LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Jain Irrigation Systems Q2 & FY15 earnings conference call hosted by Axis Capital. As a reminder, all participant 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 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. Hemant Patel from Axis Capital. Thank you and over to you Mr. Patel.

**Hemant Patel:** Good afternoon everyone, pleasure to have you here for the Q2FY15 earnings call for Jain Irrigation. From the management team, we have Anil Jain – Managing Director & CEO, Manoj Lodha – CFO, Pradeep Tibrewala – Senior Vice President, Finance & Investor Relations. We will start the session with opening remarks from Anilji and then post that, we will have the Q&A session. Over to you sir.

**Anil Jain:** Thank you Hemant. Good afternoon all and welcome to this con-call. We are reviewing the quarter results we just announced yesterday at our board meeting.

Overall, this has been a kind of a mixed bunch in terms of quarter, in terms of per month of various divisions. First coming to things which have really done well, for example Micro Irrigation business domestic within India grew almost 67% which is quite encouraging and our Retail business also grew, Project business also grew. So it was all the way in different segments within Micro Irrigation business. It was a positive quarter, even though it was a monsoon quarter. So we are quite happy with that progress and in the first quarter also, there was a positive growth in Micro Irrigation. So all in all, Micro Irrigation business in India is really picking up steam. So we feel very good about that.

Micro Irrigation business outside India in terms of the exports from India that didn't do that well and the reason is which we have explained earlier that last year there was this large project in Africa which was partly invoiced in the first quarter, partly invoiced in second quarter and that does not exist this year. So there was a negative growth of more than 60% in the exports of Micro Irrigation division in this particular quarter. All in all combined export and domestic, growth is 30% which is quite decent and in line with our expectations. If you look at then the whole first year, export and domestic combined, the growth is about 18.5 and as per our original sense, Micro Irrigation now is back to growth track again of ability to grow by 20%-30% in terms of revenue growth for the whole year. So that moving positive.

The second division, PVC Pipe, first quarter was a huge negative growth for us. We did not have access to raw material and other things which I talked about. This quarter, PVC Pipe has come back to growth. It has a limited export business. So overall business has grown 21.5%. So again, I expect to normal growth rates and we are happy about it. Within the food business, there are two parts in terms of product line, fruit pulp and onion dehydration. The Onion Dehydration business has done very well. It has grown almost 40% in the current quarter and for the whole

year in terms of the first half; it has grown about 36%. So it is maintaining the trend and the budget we have for the business.

In terms of Fruit business, this particular quarter the business has reduced by 12% compared to the same period last year, but one has to keep in mind that in the first quarter business was still high. I think it was 14% and odd percent growth in the first quarter because of the delayed monsoon starts. So there was more consumption of juices, so we sold more pulp in end of June and so that much of a less was sold during the current quarter. But all in all, overall Fruit Pulp business for the first half has grown about 17% and we are expecting a stronger growth even in the remaining second half of the year. So all in all combined the fruit as well as onion as a fruit processing business, we feel comfortable to say that we will continue to do well going forward. As of today for the first half, Agro processing business has grown 23% for us when I combine both onion and fruit and therefore that looks good and I just want to urge or request all of you that sometimes this quarter-to-quarter measurement because of seasonality becomes difficult in our businesses and therefore you might see some of these variations. But as I said if you look at for the full year, we are quite certain to grow Micro Irrigation business overall north of 20. We are also very comfortable to say that Food business will also grow north of 20, somewhere between 20 and 30. So both of these things are already in place.

In case of the pipes, I talked about PVC Pipe business which is already back to growth. The polyethylene pipe we had a negative growth this quarter and it was significantly negative growth of almost approximately 55%. Last year, we did 168 crores and this year we did only 75 crores. Major reduction in this particular product line was because last year we had one of a very large 250 crores telecom order from one of the telecom majors in India to supply polyethylene pipes for their cable distribution. This year, such orders do not exist. So while we have caught up and we are doing more in the water and few other sectors like water gas, but that particular sector of telecom we have not done well and that would continue might be even partly into the third quarter, but on other hand, we are right now having negotiations with various contractor companies, infrastructure companies for the new orders and those negotiations have been in pipeline, but they have been slow to pickup. As and when those orders get released, there is a few hundred crores rupees of orders which we might have to fulfill between December and March, but as of now they are not in hand. We have some orders in hand, but nothing which can overtake the deficit of not having this kind of large telecom order. So that is the issue we are facing. So polyethylene pipe might remain subdued, but PVC pipe I believe will catch upon what we lost in the first quarter.

We have two or three other smaller businesses like tissue culture, renewable energy etc. So tissue culture has maintained a very good growth, typical of that business 30%-40% we have positive growth rate. Renewable energy as of now is negative compared to the last year same period because we are consolidating and actual moving out of some of the renewable energy businesses such as street lights etc. in terms of solar light because there are very long cash flow cycles and overall as company, we remain very focused on this receivables and working capital cycle. And

therefore there is some adjustment and we hope that as we move into the fourth quarter in next year, that business also will get back to the positive growth.

Coming back to some of other details apart from the revenue where we stand, we talked about earlier a 3.8 billion Karnataka project which started earlier this year which we have been moving quite aggressively in terms of implementation and the progress is quite satisfactory there. Another part on Micro Irrigation business is the receivable scenario. The receivables of Micro Irrigation, they do continue to keep coming down compared to June. In the June, our domestic receivables were 1,067 crores. They are down to 991 now and the government subsidy which was 336 is down to 262. So the government subsidy has further come down by 73 crores, down to 262 and overall receivables have also come down. So if you look at DSO, days outstanding against sales, the receivables are down to 211 days from 252 which were end of June registering almost 21 days reduction and we have indicated that by FY15 March, we expect to bring this down to 180. We are firm in that objective that we will achieve and this particular year, this reduction from 242 to 211 is quite positive reduction which we have achieved. Even though as you might have noted that our business grew quite a lot despite the fact that business grew so much, we have been able to manage to further bring down absolute amount of receivables as well as days outstanding. So that remains positive as we go along.

In terms of the external sector, during this period oil prices have been coming down. Brent is now closer to 82 from where it was about 100 plus. It has had some impact on derivative of the, that is the polymers which we buy which are our raw material for piping as well as irrigation business. And some reduction which has happened recently, you will start seeing some impact going forward into the earnings. So it seems the H2 might be more benign and positive for us in terms of the margin pressure because of the lower polymer cost because in H1, overall the polymer costs were at their life time high. In last 30 years, this was the highest price on a rupees per kilo basis what we faced for polymers and that always impacts your margin as well as sometimes competitiveness of the product compared to the other material especially in the piping business. So presuming and assuming that this will remain at the lower side oil this augurs well for us going forward over next couple of years in terms of building back the business in terms of more profitability, more revenue growth etc. Apart from this in terms of external environment, there is nothing specific on the government side except that the Karnataka government has kind of announced and they are still working out the details. So they announced that they want to bring 450,000 hectares of the entire area under sugarcane in Karnataka in drip. The details are still being worked out, the financing etc. but government seems to be very sincere wanting to complete this in next few years. Probably they might take some help from multilateral agencies as well. So that process is on. So that is the positive news. There is a new government in Maharashtra and so we have this some disruption due to our business cycle due to elections and what not during last 6 weeks or so. But the new government seems to be also intent and new Chief Minister in one of his first TV interviews, which he gave which was fairly long TV interview and said that the state has not done enough for drip irrigation and he would like to see that they would like to expand the ambit and cover more area under drip. This is what the Soho motto statement has come in his first interview. So I believe that augurs well because

Maharashtra is one of the most important state for us. We are already doing well. In fact this particular quarter September, even though there was this election and all, the growth in Maharashtra was 31%. So overall, it is quite positive sign. At center levels, there are no other further policy announcement. We would see those only may be after the next year's budget. That is India.

Then if you look at the overseas business, overseas business various of our entity. In the first quarter, they had grown almost by about 26%-27% which was one of the best quarters we ever had. Even in this quarter, they have had about 7%-8% growth overall, all businesses put together. So they are maintaining their positive trajectory and we feel that for the whole year, they will remain positive and as long as we have that kind of revenue growth for the whole year again, we expect them to also be profitable entities. So as of now, the overseas businesses have kind of grown 18% for the first half which is quite positive. Within that, Micro Irrigation again has been more positive. Food is actually one more positive than Micro Irrigation. So all in all on that front, things are stable and growing well and we feel good about our opportunities in those particular businesses.

We are also looking at possibility. We are going to start working with the government of Punjab now to start promoting more drip irrigation on rice and wheat. We have been doing this research on rice and wheat with drip irrigation for last 3 to 5 years now across the country along with the research institutions along with University and so on. More than 80% of our trial plot, the results have been very positive. More yield increases, significant water decrease and I think we are now becoming ready and it would might still take 1 to 2 years so that commercial farmers can adopt this technology and it would provide benefit to them. So we are working with government of Punjab to try and start promoting this from coming season into Punjab and let us hope that it works out well. But in terms of revenue creation, I think it is still 4 to 6 quarters away and any meaningful revenue I am talking about. But rice and wheat, India has more than 100 million hectares. As of now, there is not much of a drip sprinkler in this entire 100 million hectares and all this our R&D effort we believe will down the line in medium to long term will bring rich dividends through application onto these new crops also.

Apart from this, we have also at board level taken a decision yesterday to subsidiaries our food business into a wholly-owned subsidiary. The process now will kick start and all the approvals which one has to take at corporate level at regulatory levels etc. will take somewhere around 4 months plus that is like timeline. It could take 5 months, it is in that range. And meanwhile, board has authorized also the management and the company to explore the opportunities of value creation through a minority level dilution in this particular food division. We have spoken about this earlier over last few quarters where one or two other con-calls, there were questions were also raised and we always said that we are exploring this possibilities and we will come back to all of you as and when we have more concrete ideas. The fact that the board has already taken a decision that is concrete enough that we are moving in that process, but in terms of specific whether we will get investment from private equity or strategy, how much precise the dilution will do, what would be the structure; all of these issues are still not frozen. We are having few

discussions and those are ongoing, but those cannot be disclosed due to either confidential reasons or because nothing has been frozen as of now, but as and when something gets frozen up as and when there is something which one needs to do commitment for, I am sure we will first come back and inform the exchange, the SEBI Investor Community at large. It is moving in positive direction and I believe sometimes in next few quarters, you would hear more specific how exactly this value unlocking will take place, what kind of funds we will end up raising and how that would partly help to increase the business in food because we see lot of opportunity there and also partly deleverage the balance sheet of the parent because we want to address the interest component and the debt-to-equity component because we have committed that by FY16, we want to bring debt-to-equity ratio to at least 1:1. So we are moving in that direction. So that is a very positive decision which was taken at our board yesterday and as a management, we will start implementing that decision. So these are my opening remarks. With this remarks now, I would like to request and urge all of you to ask any questions you may have and me and my team here will be very happy to answer them. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer section. The first question is from the line of Atul Mehra from Motilal Oswal Securities. Please go ahead.

**Atul Mehra:** Sir, just couple of questions. One was in terms of the overall working capital position for the MIS business. So what we have seen on a sequential basis even as receivable days have come down significantly, the net working capital number is still higher on a sequential basis. So one would be, I think some amount of bill discounting, but have we seen a very sharp in terms of cut in terms of payable days which has resulted in this number going higher on a sequential basis.

**Anil Jain:** One of the major reasons is reduction in the bill discounting which has taken place and some payables because we had some suppliers, etc. So as we have started collecting more, those have been paid off. So as we go along now, as we move into the next quarter, you will see further reduction on the receivable side as we go along. On a net basis also, overall working capital cycle, you will continue to see the improvement.

**Atul Mehra:** Right, but can we see this payable days again go back to the original levels or which will help in terms of more accelerated balance sheet correction in next couple of quarters or do we see this at stabilizing at the current level in this quarter?

**Anil Jain:** So they will go up somewhat because during the busy season, that tends to happen. In the lean season when your buying less, then if these days come down as we also pay off, but when even the busy season, they go up somewhat.

**Atul Mehra:** Right and sir second question would be in terms of what exactly is the current level of polymer price correction that we would have witnessed and because of that what is the kind of margins that we could be expect for the second half?

**Anil Jain:** Margins, this is not the direct derivative right.

- Atul Mehra:** Right.
- Anil Jain:** So right now just on first of this month, prices on polyethylene were reduced by Rs. 5 a kilo. Along that, we are able to retain in market place. It can increase in MIS part of our product lines tubing we make. It can increase margin by 2%. So that is the kind of a maths. There is a possibility that we do not just sell that, we sell filter, we sell fitting, so many other products. So there is no direct correlation, but all in all I must say is that this is going to be definitely helpful to us, not only to retain market share, but improve some kind of margins during this and the fourth quarter definitely. And this allows us to be again more competitive vis-à-vis the farming community in terms of their requirement because in last few quarters, we already had some of the governments were not willing to give price increases. So all this raw material increase we had, we were facing margin erosion in certain states. Now we have spoken about earlier. So this is going to get kind of balance now. So all in all, this is positive for us, but again there are some other costs which have gone up or which go up as a country. So we have to take the whole thing in balance. So rather than predicting anything, I would say let us wait and watch for the next more quarter, but overall it is positive scenario.
- Atul Mehra:** And just one related question on the receivable days. In terms of the food processing business on a Y-on-Y basis, we have seen some amount of increase in terms of receivable days. So is that somewhat of a temporary phenomenon or is there anything else to read in out of that?
- Anil Jain:** No, one should not read too much into that.
- Atul Mehra:** Sure and just final question would be on the debt size. So we maintain a FY15 guidance of 300 crores reduction or do we have to maybe they can do a much higher debt reduction this year?
- Anil Jain:** No, I think that 300 crores we maintained. In FY16, that 1:1 we maintain.
- Moderator:** Thank you very much. The next question is from the line of Arya Sen from Jefferies. Please go ahead.
- Arya Sen:** Firstly, if you could give the EBITDA margin that you did in this quarter in MIS business and also in the other business sir?
- Anil Jain:** The EBITDA margin in MIS has now stabilized around 20 and that is why we have been. The piping type of business have been lower margin in this quarter than our normal because as I said price came down towards end of September etc., so inventory valuation came down. So that is around 4%-5% and the food processing has been around at 15 kind of scenario.
- Arya Sen:** Okay, this is for the onions and fruits.
- Anil Jain:** Yes, as a combined entity. But if you really combine this, I would say that fruit would end up closer to 21 for the quarter.

**Arya Sen:** And also what has been your revenue growth in the PVC Sheet business and what has been the EBITDA margin there?

**Anil Jain:** It is a small business. Overall PVC Sheet business, there was a negative growth partly because we have shifted part of production capacity into Europe because our customers are there and hence there was a negative growth out of India and the plant there will start this month. So maybe part of this quarter that sales will come back because it was in transit during this period.

**Arya Sen:** What sort of negative growth, 5%, 10%?

**Anil Jain:** No, it was about 30% negative growth.

**Arya Sen:** And secondly, have you taken any price cuts, now that polymer prices have come off. Has there been any price cut that you have taken so far.

**Anil Jain:** In piping business, its usual flow through is immediate going up or down either way. In Micro Irrigation business, the prices get changed only on season-to-season basis or on annual contract basis. So as of now, there is no change at Micro Irrigation business.

**Arya Sen:** And lastly sir in the Karnataka project, how much have you booked in revenues till the end of second quarter and in second quarter, how much have you booked out of that?

**Anil Jain:** I cannot give you all the specific data, but what I can tell you is almost two-thirds of the project is over now.

**Arya Sen:** Two-thirds is in terms of revenues as well?

**Anil Jain:** Yes, I am talking of revenue only.

**Moderator:** Thank you very much. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

**Viraj Kacharia:** Just had couple of questions. First, post shift from **NIMI to NIMSA 27.00** if you can just provide some color on the subsidy environment in the key states because if we have to see the central disbursements at the start of the year, first phase has been through. So has there been any issues in the subsidy disbursements in certain key states like Maharashtra, Gujarat, AP, and Karnataka.

**Anil Jain:** What I would like to and this I have spoken earlier also. We are constant process of delinking our business from the subsidy. Subsidy whatever available, when available will go to the farmers and this question was also raised last time because some people felt that the central government did not increase the subsidy, therefore our growth will get compromised. But you saw that we grew 67% in this quarter. And overall for the first half, we have grown 46%. So I believe with the right mix of the business in terms of project business as well as retail business through dealer



on a cash and carry model, our business is getting delinked to subsidy. Overall, I think to come back to practical fact of your question, the subsidy is like the way it used to be, in last quarter we have not seen any significant change in any of the state than what they used to do earlier. There is not much of a change at least what we have been able to see. But as I said, now we are more focused on what we do with dealers and farmers rather than what government is doing. Government can continue to incentivize and support farmers that is fine. So I hope that answers your question.

**Viraj Kacharia:** Sir, actually I meant on the subsidy disbursement flow from the industry level. So has there been any issues post the regime shift and because if we see the central data, the center has already released the first phase of the installment and that has in the first quarter and after that that has not been any second phase of installment except in the State of Gujarat. So just wanted to get a perspective of how the subsidy disbursement flow is in certain key states?

**Anil Jain:** What I am saying is as I said, in lot of places our business has already been dealing to that. All in all, what I can say that our exposure end of June vis-à-vis government related subsidy was 336 crores. Now it is down to 262. So we have recovered at least additional 73 crores from the government and which was end of March 392. So it is coming down by approximately 60 crores every quarter.

**Viraj Kacharia:** Right. Second question is has there been any price increase taken in any states like AP, Gujarat where prices are relatively regulated or if you can just provide some color on that?

**Anil Jain:** I think AP, the process is on. Gujarat has already given quite increase.

**Viraj Kacharia:** Can you quantify it?

**Anil Jain:** Difficult to quantify because in literally hundreds and hundreds of components, but they have given increase and it is fairly what was required in a market place.

**Viraj Kacharia:** So at a broader level proxy in the range of kind 10-15%.

**Anil Jain:** Again, it is so widely varies. I would not like to put any number, but price was what was expected or what was negotiated. These prices for all manufacturers are same. It was already done earlier.

**Viraj Kacharia:** Okay Gujarat something has been taken in Q2 itself.

**Anil Jain:** I think it happens, I do not remember the date, but it happens somewhere towards the end of Q1, start of the Q2.

**Viraj Kacharia:** Okay, got it. Just one more question was on the retail sales. Now we have seen a very good growth in the retail sales and for MIS. So if you can just provide some color on if we have added new stage or what are the key drivers there?

- Anil Jain:** No, drivers have been good demand from farmers. And as we have said that and as you can see from some of our communication which is out there on website, retail sales have grown almost in all states in which we operate, almost all. So it is quite positive, secular performance across. It is not biased in favor of just one or two particular states.
- Viraj Kacharia:** And any particular outlook on the industry for FY16?
- Anil Jain:** Overall, we remain quite positive. I think there are lot more projects under negotiation, but by the time they come through in next fiscal year. So next year looks good for projects. The retail business, as our model becomes even more robust going forward, retail business will also continue to grow. All in all, we feel fairly comfortable and positive, but after all we are dealing with agriculture, we are dealing with monsoon and some of these things. Some amount of changes can take place about the future. I cannot exactly comment on that, but direction is quite positive for us.
- Moderator:** Thank you very much. Next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Sir, just wanted to know what is the current industry sales for MIS both domestic versus globally and our market share in it?
- Anil Jain:** There are no specific data or association from which we can give you precise figures, but general sense is that our market share in India is about (+40%) and our global market share maybe around 15% approximately.
- Shashank Kanodia:** So that involves domestic topline of 1,400 odd crores and total MIS topline of 2,700 crores by FY14 you are saying?
- Anil Jain:** Yes.
- Shashank Kanodia:** And sir secondly in the last con call, you mentioned about drip being mandatory for cane manufacturers in Maharashtra. So have we seen any demand traction on that front?
- Anil Jain:** Overall let us say 2-2.5 years ago, our annual sales towards sugarcane were 50-100 crores. Now this year, they would be closer to 250 crores. So there has been lot more demand and in future, it should grow up even more.
- Shashank Kanodia:** So just last one question about the Karnataka, you mentioned that around 450,000 hectares of land again going to for drip. So in terms of opportunity size, would we close to 300 odd crores?
- Anil Jain:** This is announced by the government and as I said, detail needs to be worked out. I do not know exactly they would launch it, but in terms of value, that is a total overall of 5,000 crores opportunity.

- Shashank Kanodia:** 5,000 crores opportunity for 450,000 acres of land.
- Anil Jain:** 450,000 hectares.
- Shashank Kanodia:** Hectares of land.
- Anil Jain:** Means 10 lakh acres of land.
- Moderator:** Thank you very much. Next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.
- Girish Achhipalia:** Just one question on the food business, if you could help us with what the debt number and EBITDA number was for FY14, the global food business?
- Anil Jain:** The global food business, we do not carve out debt as of now. For different businesses, the debt is at corporate level. What was your second question?
- Girish Achhipalia:** Margins EBITDA.
- Anil Jain:** The EBITDA in food has been domestically 21%.
- Girish Achhipalia:** Absolute EBITDA at global food level would be how much?
- Anil Jain:** Has been hovering around 15%.
- Girish Achhipalia:** And that would be ballpark 400 odd crores or would it be more than that?
- Anil Jain:** It would be more than that because we carry inventory on food alone in India is about 400-500 crores.
- Anil Jain:** 530 crores precisely on...
- Girish Achhipalia:** Sir just in terms of the rationale for kind of diluting stake in this business, I believe it is one of the better margin businesses. So just wanted your sense as to why we are doing it?
- Anil Jain:** We have gone through this before. We are partly doing it to raise resources for deleveraging at parent. Second, this business itself has lot of growth opportunity and we believe certain amount of cash infusion would help address that growth opportunity which we have been constrained that we are not getting. Margins are reasonable in this business. They have been improving. But again it has some agriculture seasonality issues or the raw material price fluctuation issues, but we have been scaled. Today, we are one of the largest processor of mango in the world. We are the third largest processor of onion dehydration in the world. Banana is picking up very well, tomato is doing well. But again our business is also within India, we have export business. We have some business in US and Europe. All in all, another part is that Jain Irrigation is known as

an irrigation company. The food business, while it is a good business and it has been improving, its value is not really captured. We believe underlying food business value is significantly more than how today some of the part valuation is being given. Once we bring more focus on to this particular business, we would also be able to harness more growth because with India's growth today for example, we are not in any kind of FMCG type of product lines, we are more B2B. Once we bring more focus on that by creating a subsidiary, one can even attempt to do more let us say one could possibly do B2C and such other issues. So the opportunities are many. We want to bring focus. We want to open up the sector. We think deleveraging can help to the parent. And overall, there is a huge value unlocking and value creation, both opportunities and that is why after lot of deliberation, management and the board of the company has taken this decision. We will be implementing that over next couple of quarters and as and when specifics are confirmed, I believe most of our investors and shareholders would agree that this is a right decision.

**Girish Achhipalia:**

Sir just in terms of margins for the overall business and particularly because of MIS. Although the topline has grown despite having a bad base for last couple of years now, Q2 has been one of the seasonally lower period as well. How do you see margins actually improving hereon given what we have seen in cost pressure is you spoke about some amount of decrease happening on input cost. What is the best case in second half, what could be the margins be? Continue to track 20 odd percent or slightly more than that?

**Anil Jain:**

We do not give any particular guidance on the margins as a matter of policy. I have already explained that from where we are, we expect things to become better and margins for the first half in micro irrigation have been around 20. So when I say we expect to become better, but I cannot give you any specific correction.

**Moderator:**

Thank you very much. Next question is from the line of Hemant Patel from Axis Capital. Please go ahead.

**Hemant Patel:**

Anilji, just two questions. One, commendable growth rate on the retail portfolio of MIS, just was trying to understand you did give a market share figure. What is the level of competitive intensity because I recall last time around you were mentioning that lot of smaller players who have actually up the ante in various markets, has the market as well grown at the similar pace if I were to just look at the retail portion of MIS.

**Anil Jain:**

To be honest, I do not have answer about whether market has really grown so much. We have done so much that we know for sure. Competition does exist and it has gone up in last 2-3 years with at least 200 and odd new small players to come, but when raw material prices were at peak and the government was not releasing money fast enough, lot of these people were also facing working capital problems because they just cannot sustain beyond the point, overall capital requirement. So to be honest, I do not know what has happened to them and it is not just about the pricing of the product and competition because most of them sell at lower prices than us, but the complete package which we are delivering to our customers and the farmers in terms of solutions, in terms of automation, in terms of new products, in terms of agronomic support and I think that is really paying us well to be able to maintain this support. And as I said, since 2004

this business has always grown except for last 2 years, the 6 to 8 quarters when we change the business model. Otherwise this growth in our high market share has always been there and I believe would be there because there is nobody else in the country where the same level of commitment and resources and understanding of this business as we have done over a period of time.

**Hemant Patel:**

And just one more thing particularly in the project business. While we have actually grown at a very handsome pace over the last few quarters, even the receivable days continue to actually move up, I believe you had mentioned last time that there had been changes in the way in which these contracts have been negotiated with the government which has moved from I think completion basis to a milestone basis. When are we likely to see that portion of that receivables come off?

**Anil Jain:**

That is actually already coming down. So for example, end of September, our project receivables were at about 440 crores which was an increase by 38 crores compared to the June quarter, and I think we had a Rs. 100 and odd crores of project sales during this particular quarter. But as we speak today, let us say as of yesterday, our project receivables were down to 330. So it has already come up by 100 crores during last 40 days or so since the end of the quarter. So as we go along when we look at the December end quarter data, when we talk about that in February or March end, you will see that project business also has been normalized and as a combination of continued reduction in government subsidy, project business being normalized, there could be some additional dealer because we will be doing more of retail sale, but these other two will keep coming down and which would help us to overall keep bringing the global micro irrigation level receivables down.

**Hemant Patel:**

What is the average level of receivables that one should look at by the end of the year for just the projects and could you just give us some sense of the margin profile over there?

**Anil Jain:**

We do not capture. This is precisely as project receivable in terms of days outstanding. As I said, they will keep coming down and they will be at a very reasonable level. Overall as a company, we will be 180 or less by March.

**Moderator:**

Thank you. Next question is a follow up question from the line of Arya Sen from Jefferies. Please go ahead.

**Arya Sen:**

Sir the other question I had is the food business, are you looking to sell any stake or will it only be dilution through fresh capital infusion?

**Anil Jain:**

None of these details have been firmed up. I mean, we are going to dilute and whether that happen through the sale or issuing up the new shares or whichever way it happens, that is subject to so many other things ifs and buts. I am sure something will happen. I am sure it would happen in next few quarters and significantly higher valuation than what is pursued now. So all these things are true, but specifics I do not know, but nothing has been firmed up as of now.

- Moderator** Thank you. Next question is from the line of Ankush Mahajan from KR Choksey Shares. Please go ahead.
- Ankush Mahajan:** Sir at the start of year, we have maintained the annual growth of 20% on a consolidated level. Now we see that the growth level at irrigation is doing good and food is also doing good, so how would you look like the amount of growth in this full year?
- Anil Jain:** FY14, we grew I think 17% for the year and we as said that we are looking forward to maintain a similar level of growth rate in the current year as well. And as we stand, we feel we should be able to achieve that. The only variation on that since we started the year because this was at the start of the year that we had a lower business on PVC pipe in the first quarter and polythene pipe now, but it is a volumetric business, it does not create much impact on margin. All in all, I feel quite certain to say that we maintain growth rate very close to where we have started. May be there are other things which will do more than what we have planned for and we will end up at almost 17 and odd or we might end up at 16, I mean, we are going to be in that range, it would not make a big difference.
- Ankush Mahajan:** Okay, sir how would we see the growth in the segments like in the MIS division, in the segment like retail, project and export. In the second quarter, we have done very well.
- Anil Jain:** Yes, first quarter also we did well. But it is very difficult. These businesses move in particular manner and based on some changes in the way customers look forward to product on how they are sowing, what they are sowing depending on weather and so on. So I cannot break up between retail, exports, projects etc. The imports have been negative for the first half in MIS by 60%. We hope that some of the other projects come through and if we do the same as last year that would be quite an achievement vis-à-vis export, but domestic business which has done 46% in first half continued to remain robust. All in all as I said, we will be north of 20%.
- Ankush Mahajan:** Sir in the second quarter, the inventory levels had gone up, so could you tell me sir what is the reason?
- Anil Jain:** From June to September, small amount, hardly anything has gone up and the only inventory which actually went up was in fruit pulp business because that you continue to process mango pulp and other fruit pulp during this period. It is like still actually sell over next few quarters. So inventory in absolute amount, there was not much change actually compared to June. June was 1,369 and it is now 1,398, so it has gone up by 27 crores and in fact the food which was from 521 has gone to 551, so all of the increase is due to the food.
- Ankush Mahajan:** That is the food business.
- Anil Jain:** Yes, which is due to seasonality of that particular business. Otherwise, we have maintained inventory levels compared to June. Inventory levels have come down. So overall, working capital cycle has actually improved.

- Ankush Mahajan:** So whatever the debt has entered in this quarter, that has entered into the working capital. This is food business.
- Anil Jain:** Yes. And in case of Micro Irrigation because the state of the bill discounting so that has got converted into debt.
- Ankush Mahajan:** And in the fourth quarter, we can see that this inventory will come down.
- Anil Jain:** Yes. Fourth quarter usually is when we have sale of large quantity of this food pulp between now and March, so you see reduction in inventory.
- Moderator:** Thank you very much. The next question is from the line of Krishna R from Indostar Capital. Please go ahead.
- Krishna R:** Anil sir, can you shed some light on how the NBFC business is doing in terms of what is the AUM growing? Also can you tell us whether there are any receivables which have been sold from Jain Irrigation to the NBFC?
- Anil Jain:** We have never sold a single rupee receivables to NBFC from day one. They have done is new client, they have gone for the new business which we have done. In July to September quarter, NBFC disbursed about 17 crores and they had disbursed in the first quarter about 27 crores. So this is in line with our anticipation because second quarter is usually low business in that particular type of customers and Q3 and Q4 which is a busy season would be typically much more disbursement than in the first half. So in our overall business, the ratio is 40% we do as a company in first half and 60% in second half. In their case, the ratio is going to be not 40:60, it is like 25:75 kind of scenario.
- Krishna R:** What is the present assets under management?
- Anil Jain:** 131 crores including the repayments coming, it is down to 131.
- Moderator:** Thank you. We have our next question which is from the line of Manish Mahawar from Edelweiss Securities. Please go ahead.
- Manish Mahawar:** Sir, just two questions. One I think in EBITDA of piping which is around 4-5% this quarter, sir I think this is on account of, so there was some inventory write-down.
- Anil Jain:** Not write-down because towards end of September because of the raw material prices came down right, so you have to take down the inventory value of your products.
- Manish Mahawar:** Can you quantify the number possible sir.
- Anil Jain:** Very difficult to quantify a specific number in that sense, but this happened in cases of all plastic companies if you see their results.

- Manish Mahawar:** Yes, sure and secondly on the order book, what is the order book size?
- Anil Jain:** The order book is approximately 1,400 crores right now.
- Manish Mahawar:** Okay, it is stable on a QoQ basis.
- Anil Jain:** Yes, stable.
- Moderator:** Thank you. The next question is from Siddharth Mohta from Principal India. Please go ahead.
- Siddharth Mohta:** Sir, you have mentioned that the bill discounted outstanding, it has come down by 110 crores, so what would be the quantum as of now, total balance of bill discounting?
- Manoj Lodha:** Hardly any bill discounting is left out now.
- Siddharth Mohta:** Okay, so there will be no increase in debt due to this bill discounting going forward?
- Manoj Lodha:** No. Even if you discount the bill, the cash will come in, so net debt should not change going forward. By March, normally banks go for discounting as they have more appetite, but that would be cash available to the company which would be used to leverage our other working capital outstanding.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I will now hand the conference over to Mr. Hemant Patel for closing comments. Over to you sir.
- Hemant Patel:** Thank you everyone for being present here for the Earnings Call. Anilji, would you like to make some final remarks before we close the session.
- Anil Jain:** Sure Hemant. Again thank you for all your questions. I hope we have been able to clarify most of the issues. Overall in terms of way forward, we believe there are a few things management still needs to do better than what we have been doing on operation side. Most of our overseas businesses are doing well, some are still not doing that well. Overall impact is not much, but we want to address even those ones which I think with all the steps we have taken, we are starting more benefits in the fourth quarter or from the first quarter next year and the projects which we are looking at various states or even this Ganga Rejuvenation Project coming up from next year at the central level, we see our product and services, there would be a larger opportunity. So I believe we are building a platform to create much larger size of business with stable margin and definitely better balance sheet than what we have today.
- Moderator:** Thank you. Ladies and gentleman on behalf of Axis Capital Limited that concludes the conference call. Thank you for joining us. You may now disconnect your lines.