"Jain Irrigation Systems Ltd Q3 FY 2014 Results Earnings Conference Call"

February 10, 2014

ANALYST: **MR. HEMANT PATEL**

MANAGEMENT: **MR. ANIL B. JAIN - MANAGING DIRECTOR**
MR. MANOJ LODHA – CHIEF FINANCIAL OFFICER
MR. PRADEEP TIBREWALA - SENIOR VICE PRESIDENT FINANCE & INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY 2014 earnings call of Jain Irrigation Systems Limited, hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hemant Patel of Axis Capital Limited. Thank you and over to you Mr. Patel!

Hemant Patel: Good afternoon everyone. It is a pleasure towards the Q3 FY 2014 earnings call for Jain Irrigation Systems. We have with us from the management Mr. Anil B. Jain, Managing Director and Manoj Lodha, CFO, and Pradeep Tibrewala, Senior Vice President Finance and Investor Relations. We will start the session with an opening remark from Anil Ji and then subsequently we will open the floor for Q&A. Over to you Sir!

Anil B. Jain: Thanks Hemant. Welcome to all for Jain Irrigation third quarter result concall. As you might have seen our number, we have had fairly reasonable quarter, stable quarter in terms of growth, microirrigation business has grown almost 25%, piping grew close to 26% plus, plastic sheets 22%, food processing about 19%, so all businesses have grown, so it quite secular growth across different divisions of the business, especially heartening to see microirrigation in domestic market as well.

At a gross revenue level, microirrigation business domestically grew 20% and why the 20% is important, because it has been almost I think six or seven quarters, we had negative growth domestically in microirrigation. In last two quarters before this June and September quarter, microirrigation business grew about 20%, but most of that growth was due to exports and domestic business in India in microirrigation and June and September quarter was still -4% and -7%.

Now most of the microirrigation growth which we have this quarter domestically for 20%, has been primarily it has come from in Maharashtra which is doing very well and it is strong. We added some growth of course in places like Gujarat, Rajasthan and some other new states and it seems going forward this quarter and may be next couple of quarter, we would continue to get growth from Maharashtra, Karnataka, Gujarat, Rajasthan then some of the other states.

Two states in south especially AP and TN, we continue to focus on recovery and on that basis you will not see lot of revenue growth there and in any case AP has been somewhat not very secured state due to Telangana issue ongoing which is there, but between the exports, between the projects, between retail growth in some of these areas, I think we can maintain this growth rate of north of 20% and we feel now confident that microirrigation growth is back on tract on a holistic basis between exports as well as domestic.

Even exports in microirrigation this quarter grew almost by 73%. So if we look at nine month basis, MIS now this year has grown by 6% domestically, but all-in-all 22% as a division and exports are grown 166% in that business.

Pipe for nine month has grown almost to the tune of 35%, plastic sheet 20% and agro 18%, registering 24% growth as a company for the first nine months. We have had also very good quarter from our overseas businesses in this year and overseas business has also always grown about similar level about 24% or so on a rupee basis as we translate account into India and within that we have had good growth in food. Again we had good growth in irrigation businesses worldwide. So, that is also helped us.

Now, in terms of the balance sheet side, this is one of those I think the first one and I think for many more to come hopefully is where we have grown business significantly 24% is significant growth; however, balance sheet size has not really increased. So, we have been able to control the underlying receivables. Receivables have been consistently coming down. Receivables are down in terms of DSO day's outstanding sales almost by 14 days. Inventory while absolute amount has not come down significantly, but it is also down by about 10 days, so in this quarter we have shaved off almost 24 days at the gross level in terms of receivable and inventory.

So that is the big thing. If you look at overall company at the start of this fiscal year, our receivables there almost at 200 days and now they are down to 144 days. So that is again for the whole year we have taken off on receivables more than two months we have improved and in that while still growing the business. So, our focus on receivable is paying off and that would remain so going forward. As the business continue to grow and receivables in absolute amount may be around the same level there now, this will continue to keep going down bringing for their efficiency.

Absolute amount of inventory at 1300 Crores plus or Rs.13 billion is still on the higher side, but there is a part seasonality and usually we see that around the fourth quarter that is current quarter, end of March we have lowest amount of inventory in terms of DSO. So, this quarter we expect inventory to reduce between Rs.2 and Rs.3 billion and we hope we would close around Rs.10 billion on inventory by March 2014.

So, on receivables we have already achieved a lot and inline with our expectation and in terms of inventory while in terms of DSO we have improved, absolute amount would get improved in the current quarter.

In terms of outlook going forward, we have got Rs.1400 Crores of orders in hand almost half of that are in microirrigation business. We got a very large order from Karnataka for Rs.385 Crores one of the world largest projects. We expect to complete the project between 18 months and 24 months preferably earlier, but that is outside period. It is a very good project and there are many more such projects now come in pipeline. We are also negotiation in some projects in some other northern states. So overall for next fiscal and for domestic business, this increased in project business augers well.

We also saw recently there was a directive from Maharashtra Water Regulatory Authority saying that they want to make drip irrigation mandatory on all cash crops in Maharashtra starting from June 15, so that is a little bit away, but directionally it is a very important statement. What it says or what it has, it is that at the policy level now there is a realization that drip irrigation is not some kind of optional luxury or it is Andor.

Drip is now being considered essential part of the way agriculture should be conducted. In a country like ours where water is such a scarce resources, food security is still low and productivity and yield levels are one of the lowest in the world in so many categories. So, because our solution helps improve yields, improve income for farmers and create sustainable agriculture that message is now after two-and-a-half decades of work is getting more and more pronounced and enhanced and we expect to see similar regulatory level actions by other state government in future, because Maharashtra in some of these areas has always been one of the more progressive states. For example the support to the drip irrigation in Maharashtra started in late 1980s when nobody else in the country was doing it and the same way now where regulatory authority has gone forward within the similar things will continue to happen, which would maintain and create sustained demand for the product and solutions we have offer to small farmers, so that they can continue to improve their productivity and overall it is good for government as well as farmers and general society.

In terms of outlook on other businesses, the piping and the food processing which are two major divisions which are there, piping looks good as I said we have had 35% growth for the first nine month, part of that growth was one special order for a given period of time, but we also expect similar one or two special orders next year. So, we think while 35% is typically higher than normally in piping business we grow 20%, but it seems maintaining a growth rate above 20%, 25% would be possible.

Now, part of the growth rate this year is also due to value enhancement as the polymer prices were high, but we expect that may be the post election and post next monsoon, so, the H2 of FY 2015 should provide good volume growth as well into that business.

In terms of food processing, we have had a little bit difficulty around onion side, because onion prices are very high, availability was limited because of too much of rain in the harvesting area, where onion gets sown especially in Maharashtra and part of Gujarat, but now the next season which is the Rabi season, products have started coming and it seems our product season that is between now and June looks to be better than the issues we had between June to December. So, we expect to onion to improve.

In case of mango and some of other products, we are on growth part, we have already produced the product it is just now getting shift to customer. There was some timing delays in shipments because of the continued cold and rains in October, November in some areas, so the food business, even though it has grown 19% this quarter or overall 18% for the nine month, it was less than our anticipation and partly it is just the delayed offtake due to seasonality and as may be the cold goes away and more heat comes in some of that offtake should take place.

So, in fact the first quarter or the June quarter should see higher growth rate in that business. So, we remained focused in this businesses, this is the revenue. In terms of earning our profitability, our profitability is lower in terms of EBITDA level standalone is down to about 15.5% as against last year 17.2% registering a 1.6% negative growth for the whole company, but what one has to see more important is if we look at the breakup of that most of the reduction is due to overall reduction in microirrigation business due to the change of business model.

So, our EBITDA is closer to 22% in this quarter is inline with what we have been registering over the last few quarters while a year ago in the same quarter, EBITDA would have been closed to 27%. Now that reduction in MIS due to change in business model where we are giving more cash discounts now often to farmers has brought down the overall EBITDA and the same impact has continued in small amounts in case of consolidated, but in fact if you look at EBITDA of overseas entities that has gone up by almost 20% in this quarter while the sales have gone up by 23%.

EBITDA in our overseas entities have gone up by 20%, so that is the encouraging and a positive signs for us and we expect to continue to work with our overseas entities into food and irrigation businesses. So that they would even improve further than what they have done in this particular quarter.

In terms of the margins to continue the discussion on the margins, we continue to feel that raw material still remain on a higher side due to rupee being at that 62, polymer prices continue to still remain high and the environment in the finished product is not such that you can always pass on immediately all the increases, in some businesses like pipe we are able to do it, but some light irrigation it is not that easy. That will continue to exert pressure. So, therefore in this current quarter, our raw material cost went up by almost close to 3% and 3.5% including also the fact the product mix that we did also (indiscernible) 15.19, but part of that we could take care in reducing our manufacturing cost, we are using lower cost power where we are buying power directly from suppliers other than state utilities. We have also been able to reduce S&D expenses, so some of that efficiency in operation has helped us to reduce the impact of the increased raw material cost.

As we continue to work and we do some further innovation on the design of our microirrigation products we think in FY 2015 some of these new normal in terms of raw material prices, because I think rupee will remain around this level, so we have to understand that reality and adjust that into our product design so that maybe we improve by 2% margins by redesigning products or do certain innovation which we are working on, but one we have start seeing those results more in H2 of FY 2015, but H2 covers more than 60% our sales, so it should have positive impact for overall FY 2014.

Having said that compared to the start of the year when we started that we plan to grow, we plan to be profitable, and we plan to improve the balance sheet. I think growth has come back, we are profitable, we have been able to improve things like receivable considerably as well as inventory. I had also said and predicted that we would be able to reduce total amount of debt which we have, which unfortunately we have not been able to do as of now, because what we have gained in receivables has been passing to inventory, looking at new levels of growth and overall business has continued to grow.

So, we think the fourth quarter is a quarter where we expect reduction in the debt which we have not been able to achieve in this quarter. So, while balance sheet has improved, the debt reduction has not happened what we had predicted. So, most of the other things what we said, we will do we have been able to achieve this is not we have not achieved this, but despite that our interest cost is coming down. Last year, same quarter interest cost was about 13%, now it is down to 10% and for the whole year, I expect interest cost to be closer to 8% of revenue as against last year when it was closer to almost 9.8% of revenue.

So, despite inability to reduce debt right away, I think overall interest as a percentage of our cost is coming down that is helpful and we definitely expect the debt to start going down from the current quarter based on the budget and the business plan which we have.

In overseas subsidiaries, our irrigation business has grown north of 20% and some of the food business also. So, actually overseas operating subsidiaries in fact grew close to 33% this quarter, but some of our marketing subsidiaries were negative as they were utilizing inventory, so overall growth came to gross level at about 26% and EBITDA is about 575 Crores sales. So, as a company for the first nine months, we have done 4000 Crores and as per our budget we should cross about 2000 Crores as a consol sale in this quarter that is our planning and that is our budget.

It is always subjective certain market risks and so on, but one month has already passed by and we think we will be able to manage it. So, these are my opening remarks. I am sorry, there is a little bit long, but because we have multiple type of businesses and also business in India and outside and some of the history of last two years of changes I thought it is better to explain some of the issues quite well and we will be now very happy to take questions. Thank you.

Moderator: Thank you very much Sir. We will now begin the question and answer session. The first question is from the line of Viraj Kacharia from Securities Investment. Please go ahead.

Viraj Kacharia: Thank you for taking my questions. My first question is on the domestic MIS business, is there any 20% year-on-year growth in Q3. I just wanted to understand what exactly is driving the growth in business you said there is something pickup in the Maharashtra state, but was it purely because of the announcement you had on the sugarcane opportunity earlier or is it actually a pickup with underlying discussion (ph)?

Anil B. Jain: I think the growth in Maharashtra is due to overall better environment post monsoon and also sugarcane combination.

Viraj Kacharia: So incrementally how much move would be due to this sugarcane opportunity?

Anil B. Jain: Sugarcane is quite a large opportunity going forward as well. If you just look at sugarcane numbers at about million hectares and sugarcane hardly 10% is in under drip and remaining

90% is still open and next three, four years, that needs to be covered under drip it has been mandatory, so it is a three, four years of scenario where this business will continue to grow quite large.

Viraj Kacharia: What will be domestic MIS in the current year on nine month basis?

Anil B. Jain: Sorry, I did not get you.

Viraj Kacharia: The domestic MIS sales for the Q3 on nine month basis.

Anil B. Jain: Our sales is 350 Crores domestic sales.

Viraj Kacharia: Just for the quarter.

Anil B. Jain: For the quarter, for the whole nine months it is 868.

Viraj Kacharia: Similar figure last year about be?

Anil B. Jain: Last year was 816 nine months and 293 three months.

Viraj Kacharia: Okay and just one more question, what exactly is driving the export growth for MIS business?

Anil B. Jain: The export growth has been partly the growth in Africa and the project and also partly the growth when we sell through our subsidiaries, because there sales are also recorded.

Viraj Kacharia: I will come back for followup question with you. Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Jain from JHP Securities Private Limited. Please go ahead.

Abhishek Jain: Congratulation on good set of number sir. My question is basically we are targeting 12% margins in operating margins in overseas business, right now if you see QOQ there has been a dip in operating margins in the current quarter? Can you explain how can we reach those levels? Because in your last concall you have said give your targeting 12% operating margin for the overseas business, how exactly we can do that Sir?

Anil B. Jain: I think I mean the way to do it is that as we shift part of production to lower cost areas like India that would allow them to increase the margin. Second we have geared up for overseas subsidiaries, now to take more project business in places like Latin America and others where margins are higher compared to selling let us say tubing or tape products mostly through the dealers which are comparatively low margin and more synergistic network amongst all our various subsidiaries which operate today separately entities like in UAE or Israel and Turkey. Third to improve margin is that our operation in Turkey which is a Greenfield operation wherein a very short period, we have increased our business quite a lot, so we had certain cost of market acquisition, which has come there into P&L and now that our operation is stable and will grow stably hereafter we expect next year that Turkey operation to start also contributing more positively. That is the way we plan to move that we will go into double digit first and so may be we have closer to 8% at EBITDA level now and then move onto I would say that 12%, but 12% was more a longer term, it is not our overnight target where one can go, but as far as this particular quarter is concerned, overseas subsidiaries grew last year same time rate about 7.2%, now they have gone to 8.1%, so there is an improvement comes to their earlier period same year.

Abhishek Jain: One more thing Sir, what do you see like can you throw light on NBFC business also?

Anil B. Jain: NBFC business is growing stable.

Abhishek Jain: How much disbursement as of now and what are we targeting?

Anil B. Jain: Their disbursement is somewhere between 65 and 70 Crores now. They should end the year north of 100 Crores may be 125 Crores, somewhere in that region and then next year would be substantially much larger.

Abhishek Jain: Thank you Sir. If I have anything else, I will come back again. Thank you.

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

Girish Achhipalia: Good afternoon. Thanks for taking my question. Sir, just a couple of them, firstly on growth outlook for MIS as we speak how does growth look to you for FY 2015 now?

Anil B. Jain: At this time, I would say it would be north of 20%.

Girish Achhipalia: So, would not you say actually will be much more because the project of Karnataka would be about 400 Crores, 383, 390 Crores.

Anil B. Jain: That is to be done in 18 months right, so we will might be starting from March then through the next year and part will come into FY 2016, but as I said north of 20 right, because I think it is little bit too early to say whether it could be 25 or 30 while we are bullish in the lot of things going to happen, but one is also somewhat because India is going to go through general elections and what not, so I am just being conservative in what I am saying right now. So, I am saying north of 20, it could be higher.

Girish Achhipalia: In context of just margins for MIS business, how should we look at them for the next year, because I believe the input cost pressures would have continued and price hikes in context if elections coming through, probably pricing action would only come into second half and also you highlighted the point that there are some cost initiatives has been done to redesign the product which should also help you in second half. So, if you could just throw some color as to how the first half and second half margins would look?

Anil B. Jain: I think in the first half what happens in the first quarter margins will be better because it is much larger quarter in terms of cost absorption while second quarter remains weak, so first half I would say margins would remain range bound where they are there around 22% and you might have a chance of improvement in the second half, but will be more clear about that sometimes in May or June.

Girish Achhipalia: How is the input cost environment being right now in Q4?

Anil B. Jain: Q4, we recently see some increasing polymer prices just over last two weeks, but we have certain amount of inventory etc., so I do not think it would have that level of big impact and there is raw material manufactures also understand that there is some kind of resistance to this not just by but all other polymer processes as well in market, but as of now, prices are still on the higher side, but difference is not that be compared to what was in the last quarter.

Girish Achhipalia: Finally on the working capital and debtor, quite a strong job on reducing receivables as well as inventory, but the payables also have reduced by the same amount. Could you quantity what the target is now for this fiscal for debt reduction and perhaps in terms of what could be FY 2015?

Anil B. Jain: In terms of receivable as I said they will continue to go down in terms of DSO now, because as we grow the business, we maintain the same levels in terms of absolute amount that will continue to keep coming down and for the whole company as I said I think it is down to 144 days now. The idea would be preferably now and over next few quarters to bring it down to 120 days and we recently just look at overall various quarters right, we went back to last three, four years, our receivables have always been as a company also for microirrigation significantly high and there is number of 144 or if I go down to 120, then it is significantly low number. So, the target would be overall for the company receivable down to four month than what they were almost close to seven or eight months two years ago or during this interim period.

Girish Achhipalia: In terms of debt reduction, what could be expected because payables are also reducing by the same quantum?

Anil B. Jain: During this period, when inventory receivables are high, our margins were low, overall we were running also liquidity tight. Now, the liquidity has improved, we have started also paying supplies in time and properly, so that as a resulted into that our debt would not come down as I explained that the start of the call. But now the payables are also quite steady. I do not think we need to further going down the payables. So, hereafter whatever efficiencies we bring like inventory which is about 1300 odd Crores goes down to 1000 Crores in March, April, then the 300 Crores we collect that will go towards the debt reduction, some of the recovery of the current assets, so our target is still to bring down 300 to 400 Crores from the debt between next four and five months or so.

Girish Achhipalia: Very useful. Thank you very much Sir.

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

Arya Sen: Good afternoon Sir. Just wanted the EBITDA margin figures for the various businesses and also the revenue growth in the onion dehydration business for the quarter?

Anil B. Jain: For the onion, this was a very limited season, because we did not get onion to process only and we had no inventory to speak off. So in fact onion our exports were down. Onion business overall down by 30% in this particular quarter from 24 Crores to 17 Crores, but for the whole, for nine months the onion business is as of now up 18%. So even though this quarter was low, we had earlier sold more, so for the nine months the business is 18% that was your first question. Second part was on the EBITDA between different businesses. I would just talk a little bit of range. Microirrigation I have said already is about 22%. The piping business is between 5% and 6%, the plastic sheet is about 12%, which is significant improvement. Onion was very nominal EBITDA; food has been in the 25% plus region same with our tissue culture etc.

Arya Sen: Thanks a lot Sir. That is all.

Moderator: Thank you. The next question is from the line of Nishchint Baijal from DBS Bank. Please go ahead.

Nishchint Baijal: Good afternoon Sir and congratulation once again for year improvement in the results which is showing of what the company intents to do. My question is essentially on the mix of debt that you have on a standalone and consolidated basis in terms of working capital and term debt and second part is that you had set out that once the company gets the investment credit rating then one idea would be to bring down the cost by tapping the market for such as CPs and all, so there have been any movement on that front? Thank you.

Anil B. Jain: Sometimes in this quarter, we were upgraded to be investment credit rating BBB-. That is for long-term. For the short-term, our the rating is still A3, it is not gone to A1, which we hopefully expect that we can convince rating agencies post our March results and our annual financial and thereafter we will be able to access CP market; however, having said that I will just give you an example, our largest lead bank in working capital, once we got the rating upgrade, they reduced their interest cost which was 13.75 down to 12.2 and that was in a 400 Crores borrowing, so that was a significant benefit, but that came only towards the end of the quarter, so first quarter we will get that actual full benefit, like that that is going to be ongoing process to further bring down the interest, but as I said overall as we utilize assets better it is already down to 10% for the whole year, we expect it down to be 8%. Our target for FY 2015 is that between 2009 and 2011 our interest used to be hardly about 6.7% of our revenue. So, our target would be to go to that level or even improve on that. That is how we are planning. In terms of other question on the debt, the debt had September in terms of after adjusting cash in hand, the net debt was 3081 and December it is 3105, so almost no change into the debt level.

Nishchint Baijal: What would be the corresponding number on a consolidated basis?

Anil B. Jain: On consolidated basis, the number was 4189 end of September and now it is 4199, again no change.

Nishchint Baijal: Thank you.

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

Umesh Patel: Good afternoon Sir. Couple of question from my side; I just wanted to know as you highlighted earlier that Maharashtra government has mandatory for drip irrigation which we expect it to start from June 15, so in the last concall you highlighted that we have already started servicing to farmers on that front, so I just wanted to know out of the MIS revenue how much contribution generally comes from Maharashtra as of now and how much the sugarcane, drip irrigation area contributed to revenue in third quarter?

Anil B. Jain: Maharashtra contributes to about 50% plus of our domestic segment and again as a product is particular quarter would have been 40%,45%, I do not have that right figure, but this around that.

Umesh Patel: As you said that debt remains the same during this quarter, I just wanted to know what is the status if you know repayment, is there any repayment due in next couple of quarters and what is the average cost of that in terms of in what term as well as short term?

Anil B. Jain: There is about 50 Crores long term loan which will be due in the fourth quarter this year, consolidated basis about 100 Crores and average cost of debt is right now 10.6% between rupee debt and foreign currency debt.

Umesh Patel: As you said that once we will get investment credit for the next couple of quarters, by how much BPS we are expecting this average cost of debt to come down?

Anil B. Jain: Roughly it has differential about 1% to 2%, when we tap the CP or other market variance, but overall borrowing cannot be get converted into CP, so even if we attempt 500 Crores or something, there we can improve at least by 2% and overall rating if goes up then even if you take 1% or so that reduction in the interest cost will be sustained that is what we expect next year.

Umesh Patel: Thank you. I will get back to you if I have any questions. Thank you very much.

Moderator: Thank you. The next question is from the line of Kushan Parikh from Almondz Global Securities. Please go ahead.

Kushan Parikh: Congratulations on result. I just wanted to ask one thing. We have been looking for a partner in the food processing business, so I just wanted to know the status of that?

Anil B. Jain: We have explored that opportunity and that is an ongoing process. As of now there is nothing concrete on the board. If something is likely to happen will let the market know, but it is still at a very explorative stage.

Kushan Parikh: If you could just throw some light on what sort of quantum of investment are we looking at?

Anil B. Jain: I think as I said because it is still at preliminary and explorative stage, it is very difficult to talk about any numbers or exactly what is going to happen, how it is going to happen. If it happens right, then I believe we will do it only because it would be very good value creation process for all the shareholders and stakeholders of the company, but as of now it is too preliminary to talk about it and I do not want to speculate.

Kushan Parikh: Alright thank you Sir.

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

Abhijeet Akella: Good afternoon Sir. Thanks a lot for taking my questions. First just on the MIS domestic revenue, would it be possible to get the projects revenue for this quarter?

Anil B. Jain: We do not have that breakup, but projects I would say would be closed to may be 70 or 80 Crores approximately.

Abhijeet Akella: For the quarter?

Anil B. Jain: Yes.

Abhijeet Akella: Okay then the capex year-to-date what could be spending so far?

Anil B. Jain: Capex this year is close to about 16170 Crores.

Abhijeet Akella: For the full year, what is the expectation?

Anil B. Jain: Actually that is the full year the number I told you. The capex for nine months is about 125. Our full year target was 190.

Abhijeet Akella: Great and consolidated, will it be possible to have the capex number?

Anil B. Jain: Consolidated capex for nine month is around roughly 65 to 70 Crores, because there was some new process was started in USA for company (indiscernible) 41.22 and there was also some upgrade in our overseas onion business plus we did some small capex and irrigation in Germany, US irrigation business and also Israel. So, roughly 65, 70 Crores is the capex, nine months in overseas about roughly 125 was in India.

Abhijeet Akella: One last question for the standalone entity the company overall, would it be possible to get the net receivables balance on the balance sheet as of December 2013 and corresponding year of December 2012?

Anil B. Jain: Just to clarify one more thing, on the capex this number of 180, in foods also maintenance capex, so it is maintenance capex plus growth capex and has been our depreciation alone is approximately now 120 to 130 Crores. So, overall spend on capex will be a little bit higher than the maintenance capital. Net receivable on the books standalone are 1419.

Abhijeet Akella: A year ago they were?

Anil B. Jain: I do not have the year ago numbers, but at least March there were 1599.

Abhijeet Akella: Thank you so much.

Moderator: Thank you. We have next question of follow up from Mr. Viraj Kacharia from Securities Investment. Please go ahead.

Viraj Kacharia: Thank you for taking my questions again. First questions on the industry outlook, in Q2 you mentioned you are expecting subdued outlook for second half of FY 2014 and FY 2015, now you are expecting 20% growth in your MIS business in a domestic market, so have some change dramatically, could you just explain?

Anil B. Jain: We will be happy to do better than what we said. I think overall India had good monsoon and post monsoon we expect farmers are ready to invest more and based on that kind of a demand level plus some good orders from piping business we have been able to execute that and achieve this 24% growth which I think is quite robust growth what we have achieved and as I said our overseas entities have also done their bit this quarter. Now, we expect next quarter, I mean in this March quarter as well as June quarter to also remain strong, but I do not expect it to be that strong, because post such a good monsoon we would have expected to be stronger, but because of continued rain and more cold environment some of our demands for pipe business, for example it is lower than what we would have anticipated normally.

Viraj Kacharia: My question was on the domestic MIS business, so you have guided subdued industry outlook for H2 FY 2014 and FY 2015, and now you are expecting at 20% growth rate in domestic business?

Anil B. Jain: I do not get your questions. Is that a problem that we are doing 20% what is the question?

Viraj Kacharia: My question was on the earlier you were expecting the subdued industry growth in the domestic irrigation, microirrigation space. Now you are expecting a 20% plus gross rate, so I just wanted to (indiscernible) 44.45 seems any ground level?

Anil B. Jain: I think our new model on cash basis is working, post monsoon farmers are in better mood, they are getting higher price for their produce. Government policy has been positive and we are also getting projects. Now, these are the positives, but this business it is difficult to predict it that we which way it will go and we have been conservative on her predictions and we will always try that we will have conservative and predictions we are trying to better than what we predict.

Viraj Kacharia: Just one more question on the both on these sugarcane opportunity and the recent announcement by the Maharashtra Water Department so, if you can just throw some light on receivable element of this kind of business? How the financing will be done and (indiscernible) 45.37 subsidies if you can just throw some light on that?

Anil B. Jain: We have moved away from subsidy. We are selling on a cash basis. If government wants to give subsidy to the farmer, government is welcomed to provide and it will be given directly to the farmer. In terms of making it mandatory it is from June 15 onwards, it is one-and-a-half years away as of now as we speak and it is something which has come recently, so I do not think there is more data on it. It could be but basically our normal business models are directly selling to farmer, is a model which will work.

Viraj Kacharia: Thank you very much.

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

Amit Murarka: I just in terms of MIS, you said your overall margin is currently 22%, can you give detail in terms of what would that level before retail business, projects and exports?

Anil B. Jain: It is very difficult to break that up, because this is overall integration of that, and depending on the given quarter, depending on where you have more sales or type of products you sale that also very whether you are selling a particular type of X-type of tape, Y-type of tubing or sprinkler and so on. So, it is very difficult, I think always we have talked out integrated margin across all businesses put together.

Amit Murarka: But generally on an average long term basis, which would be higher margin of the three?

Anil B. Jain: Traditionally it has always been retail business which has given us upper margin.

Amit Murarka: Okay and also in terms of receivables, how does the three stack up the three segments?

Anil B. Jain: In terms of our retail business which is more dependent on the government subsidy that has been coming down because subsidies have come down. Our projects earlier used to be longer receivable and now again those are also coming down. Exports are typically very low level of receivables 90 to 120 days and not more. But, all-in-all, the improvement which we have seen in our receivable have been in fact between different segments, the dealers have maintained the level, institutions we have improved, the projects are at similar level and government subsidy which used to be almost at the start of this year it was about 700 Crores, now it is down to 460 Crores. So, we have had substantial reduction in the government.

Amit Murarka: The project business on an average would be 150 to 180 days sales?

Anil B. Jain: Yes approximately.

Amit Murarka: In terms of MIS receivable, can you please go ahead break up of government dealers, institution and projects?

Anil B. Jain: That is what I am talking about that our current level of receivable is approximately 1062 and out of that government subsidy 464, but project would be about 300 and odd and the remaining is dealers.

Amit Murarka: Thanks that is all.

Moderator: Thank you. The next question is from the line of Akshat Goel from DBS Bank. Please go ahead.

Akshat Goel: My question is regarding at the MTM figure for the nine months, could you give me the split of the realized MTM loss and unrealized on the long term portion?

Anil B. Jain: Nine months about 127 Crores was unrealized on the long term loan and the total was 196 on a standalone basis.

Akshat Goel: Total was 196?

Anil B. Jain: Yes.

Akshat Goel: Capex is about 231 Crore Sir?

Anil B. Jain: That was consolidated. Standalone consolidated difference as translation, it was mostly unrealized.

Akshat Goel: Little time back you gave the figures for the net debt as of December and September, Sir could you give us the split of the short term and the long term portion?

Anil B. Jain: The short term for standalone was about 1547 and the total was 3081. This was September number. I will just briefly in December number for the standalone basis, total was 3105 out of that 1650 was the short term and rest for the long term.

Akshat Goel: Sir on a consolidated basis?

Anil B. Jain: On the consolidated basis, 4199 is the total and 2384 is the short term.

Akshat Goel: September?

Anil B. Jain: September consolidated short term was 2282.

Akshat Goel: Does this have the currency conversion?

Anil B. Jain: Sorry.

Akshat Goel: Does this have the currency conversion?

Anil B. Jain: Yes, this is all stated at closing rate.

Akshat Goel: Thank you.

Anil B. Jain: I just want to clarify one more thing. When we talk about short term debt, so there is no debt here which is like falling due which we need to repay in short term. Short term debt is working capital debt. It is backed by inventory and receivable and it can go up and down based on the level of inventory and receivable which is there. When we talk of long term debt, it is due to be repaid over 10 years, but short term debt is perpetual as long as you have these levels of asset base to fact that up.

Akshat Goel: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Atul Rastogi from CIMB. Please go ahead.

Atul Rastogi: Thanks for taking my question. My question was on margins especially for this Karnataka project, do you think the margin will be similar to what you are currently doing?

Anil B. Jain: I think it is not appropriate or proper for us to specifically talk about individual margins, it is publically quoted projects. We will strive to maintain the level of margin which otherwise we have maintained.

Atul Rastogi: Secondly on the capex front, now it is growth picks up especially in the MIS business, so do you think at what level would have to kind of start increasing the capex or the capacities?

Anil B. Jain: It is still out there after couple of years, I do not think we need to really increase too much for next two years.

Atul Rastogi: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Mr. Hemant Patel. Mr. Patel, please go ahead.

Hemant Patel: Just two questions, if I recall right you have been consistently mentioning that you would like to grow the domestic MIS business in states where the receivable cycles of far better than those which are not, Rajasthan and Gujarat would fall in that category. So, I just wanted to understand about to club Rajasthan, Gujarat and Maharashtra, how much of portion of revenue would they contribute today and how much were they just a year back?

Anil B. Jain: I think Maharashtra, Gujarat, Rajasthan put together are almost now two-thirds of size of our business.

Hemant Patel: A year back how much would they have been?

Anil B. Jain: They would have been may be 45% to 50%, closer to 50%.

Hemant Patel: So, natural amount of receivables which are coming down will be just purely from the growth which is acquiring in Rajasthan and Gujarat as well right?

Anil B. Jain: That is one. Just a change in business models and as a part of change in business model was that states like Maharashtra or Karnataka we sell more on cash or even MP. We focus in selling more into states where there are lower in receivable cycle, so it is a combination of both.

Hemant Patel: Just one more question, while you are clearly the market leader in Maharashtra and I am not sure about Gujarat and Rajasthan, but could you give us some sense about how the competitive environment is basically shaping up, because we have heard in the past players have entered and exited as well, but just from in terms of clarity as to how are they managing the business. On a cash-on-cash basis and what are they doing to actually grow in those markets?

Anil B. Jain: I do not know precisely. I do not have access to their balance sheet because most of these are private entities, but what we see in market place is, we have two types of competition/ one is what I call organized competition. So there maybe Israeli companies or Indian companies with some kind of foreign collaboration or a large Indian company which is also agriculture equipment. Now those players I would count them on my fingers may be close to 10 and today another 250 small sellers, who do sprinklers, who could do drip, who have one expression line, who might sell within 50 km radius, they produce their products and might sell to their own people from the community, their relation would have turned around and stuff like that. Their quality may not be the best over there, they may not be able to provide services for yield increase to farmers, but they can provide a product which can ensure that farmer is able to save water or get his farm irrigated. So that competition in fact I would say as increased more, so the organized competition has remained at the similar level and some people have gone and another people have increased the market share and some of the states like AP or Tamil Nadu where we are selling less some of the remaining 10 companies have been able to increase their business what we let go, but the small competition coming from the remaining 250 people and out of this 250, almost 200 or new, they came up just in last 24 months or 30 months in this market, that competition is right now there which also creates some impact on the margins so on, but with the innovation technology and what we are doing, I believe we will be able to maintain margin as well as market share. In this particular industry to calculate market share is very difficult because again everybody being private, you can make out some numbers based on the subsidy people claim from the government and some other ideas about how much raw material they consume. So, all-in-all depending on how you look at and when at the time of the year we are looking at, I think our market share remains around 40% plus, is it 50%, it could be, but remaining market share will be with all the other people.

Hemant Patel: Just one final thing on the same point, if the rainfalls have been quite good and farmers do have inclination with higher income levels generally I would think and consider they would prefer branded MI systems. Would they be driven more towards brands or they are still inclined to look at these value plays when they actually come out of the market even at this point?

Anil B. Jain: I think yes, because earlier markets of these people used to be 10% to 15% of market share. So, let us look at five years ago right, our market share will be more closer to 50%, 55% or even closer to 60%. We have about organized player their market share, I would say it was 25:30 and these people were 10% to 15%, but I would say if you look at it now, these people are closer to 25% to 30% may be where 40% to 45% and organized players maintain their market share around the same 25% to 30% level.

Hemant Patel: Thanks a lot. This is for my end.

Moderator: Thank you. We have the next question from the line of Mr. Rohan Gupta from Emkay Global Financial Services. Please go ahead.

Rohan Gupta: Good afternoon Sir. Just carrying the same question from the previous person that you mentioned that organized market is roughly now 25% to 30% which has been maintained in that level by the unorganized players are continuously increasing in the market so, you see that market will keep on shifting in the hands of unorganized player?

Anil B. Jain: No, I think they have reached their peak in my sense, because also their number right, if let us say last one year 100 have come may be 75 old ones have died, so now I think number will remain around 200, 215 share side and because they put a very limited investment into machines etc., their ability to grow also gets limited. So, I think their market share now would remain around that 20 to 30 band. The organized players would remain around that 25 to 35 type of band.

Rohan Gupta: Selling and distribution process for the small suppliers, also remain the same like channel distribution and everything or they are working more on individual basis without claiming for any subsidy from the government?

Anil B. Jain: That would vary from person-to-person, some of them do sell through the dealers, so I would out of 250, I think may be 10 or 20 would create also good dealer network, their USP, unique selling point price.

Rohan Gupta: But they are also following the subsidy mechanism from government?

Anil B. Jain: That they will try and follow up for sure.

Rohan Gupta: In terms of defaults or delays in working or subsidy payment from the government is there in that case is a higher or it is similar for everybody or they also follow the same mechanism where they have to follow 150 to 180 days of working capital?

Anil B. Jain: I think there is no default by the government, we are in business for 25 years. We already recovered all money. There are delays. The government typically does equitable distribution, but it depends on their ability to put all the files and the farmers to fulfil the documentation. The companies which are able to do faster documentation along with the dealers and farmers would usually get into the queue faster compared to others. Again it is not everything is same, you cannot pint it to the same brush all over, there are different types of systems operating in different states.

Rohan Gupta: Generally organized players I mean talking in general, organized players will have better machinery in place so that your approval or payment will be faster compared to these small players, isn't it?

Anil B. Jain: It should be that way.

Rohan Gupta: Sir, is there any other cost advantage or any other sort of advantage with these players have, because we are working close to 20% margin either they are also working on the same margins, because we have some on working capital over them, so I just wanted to understand the survival of these players and going forward how clutter this market can be?

Anil B. Jain: One, we will have to wait and see for two to three years and you might have to sit with some of those to really form these data.

Rohan Gupta: Sir just my another question is on this, MIS business contribution revenue by if you can just give us break up of retail, project and export sales not margins?

Anil B. Jain: Out of the 350, I said about 80 Crores project and 350 for the domestic sales, so export is another 55, so overall MIS sale, this quarter was 407.

Rohan Gupta: 80 Crores was project sales, balance was retail and Sir just one number I missed, you mentioned about receivable from last year was 1599 Crores, so what you mentioned about the current quarter, I just missed that number if you can repeat it?

Anil B. Jain: 1419.

Rohan Gupta: 1419.

Anil B. Jain: Total receivable on the balance sheet correct?

Rohan Gupta: Yes. That is all from my side. Thank you very much.

Moderator: Thank you. That was the last question from the participant. I would now like to hand over the floor back to Mr. Hemant Patel for his closing remarks. Thank you and over to you sir!

Hemant Patel: Thanks a lot to everyone for being present this earning call. Anal Ji do you want to have some last closing remarks before we close this session out?

Anil B. Jain: I think we have fairly covered everything which needs to be covered. As I said at the start we think we have enough orders to maintain good growth rate. We will ensure that balance sheet remains where it is and focus on improving margins.

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