



## “Jain Irrigation Systems Limited Q3FY13 Results Conference Call”

**February 5, 2013**



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**MODERATOR:** **MR. NIKHIL VORA – MANAGING DIRECTOR, IDFC SECURITIES**



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**Moderator:** Ladies and gentlemen good day and welcome to the Q3FY13 Earnings Conference Call of Jain Irrigation hosted by IDFC Securities Limited. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing "\*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nikhil Vora from IDC Securities. Thank you. And over to you sir.

**Nikhil Vora:** Thanks Mohsin. Welcome you all to Q3FY13 earnings conference call for Jain Irrigation. We have with us as always senior management team of Jain Irrigation, Anil Jain – Managing Director and Manoj Lodha – CFO. I will hand it over to Anil Ji to make the opening remarks on the numbers and also the way forward and then we can open the floor for Q&A. Over to you, Anil Ji.

**Anil Jain:** Thank you, Nikhil. Welcome everybody. We came out with our third quarter results yesterday. As we have kind of expected the revenues are down about 8% while Food Processing business grew about 30% or so. Micro Irrigation business was down about 18% on an average as against earlier two quarters where it was down more than 30%. And smaller businesses like Green Energy, Solar, Tissue Culture, they have done about 12% plus and Piping was almost flat, maybe little bit positive. So that has been the revenue color for the quarter.

And if we really look at overall momentum, we think we are bottoming out in the process of consolidation which we had started and change up the business model and we expect that in the current fourth quarter we shall move into positive territory as a whole company also and Micro Irrigation business also. That is in terms of top-line and revenue. That was standalone India. And while we are still not giving consol quarterly results but the sales number for the consol quarter show that there is about 8% growth in our overseas businesses in this particular quarter. So all in all when we put together the Overseas business and India business for the entire quarter as well as nine months, we are kind of even. And depending on the currency translation it could be ( $\pm 1\%$ ) but overall sales are almost same as last year for the first nine months on a consol basis.

Now, assuming that in fourth quarter we do move in the positive territory ourselves with the positive growth momentum in double-digit in India and Overseas businesses will continue to grow, company should end on March 30 on a slightly more positive revenue growth despite the first three quarters of negative growth. That is on top line.

But this year for us was never about the growth or revenue. It was more about adjusting the balance sheet or restructuring the balance sheet as one would call it and changing the business model. On that front, I am happy to say that we did achieve two things. One was the fund raising which we have been able to do and those funds have been partially deployed and

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remaining will get deployed in the current quarter so that the major benefits of interest reduction will be seen from the first quarter of the next fiscal year but some benefit would already seen in the current quarter. There was a small benefit seen in the last quarter on the interest rate.

As we have infused this funds and as company's cash flow has improved, we expect now in the next month or two or maybe post-March results, company to get rerated with the credit rating agencies and that positive rerating next year would allow us further to reduce our interest cost. And hopefully, what RBI has started if they continue that would be an additional benefit. So, interest which had risen this year almost close to 8 to 10% of the sales as against our average last three to four years of about 6.7% of sales. Next year we expect that to go back to those levels of what has been average for the last three-four years rather than this 8-10% we have hit over the last four quarters or so. So that would be positive news definitely for the next quarter.

Another challenge and the impact you would see in the December quarter results has been the erosion in the margins. Erosion in margin has taken place mostly where you see our raw material consumption has gone up and therefore EBITDA has come down. And also the energy costs have gone up. And apart from these two, overall, because of reduced amount of production and reduced amount of sales fixed cost absorption is also low. So a combination of all these three reasons has resulted in our EBITDA down to about 18.3% for this quarter. I heard somebody saying on one of the TVs today that the margin in Micro Irrigation has come down by 9%. So people are talking without understanding. So, I think our overall EBITDA margin for MIS now for the first nine months is still around 28%. In the current quarter it was a little bit more than 27%. So, I do not think there has been a dramatic change in Micro Irrigation margin per se. But some of the other businesses where energy cost play an important role and the polymer raw material prices which got impacted due to rupee depreciation and high oil prices did get impacted more, such as for example, the Piping business. And in this particular quarter we had also negative EBITDA on our Onion business which was again almost no production or little production and whatever little production was at a very high cost of Onion which was end result of a severe draught in parts of Maharashtra and Gujarat, that is where most of Onion which we need, the white Onion gets grown.

And some other seasonality issues which have impacted in this particular quarter. So, while there has been definite erosion in EBITDA in this particular quarter, I do not feel that that is a systemic change in overall company. Even if you look at the entire nine months adjusting for seasonality our EBITDA is about 20% right now. Now, another factor which has impacted EBITDA and why EBITDA is at 20% as against what was more last year, is the point that we are overall selling less of Micro Irrigation, so the product mix also plays a role. Lower of Micro Irrigation sales mean overall EBITDA for the company does go down. So keeping these issues in mind, now, because we are in mid season we cannot change our prices. So price changes could take place next year to try and pass on some of these energy increases. As the Micro Irrigation growth comes back this impact of the product mix change will go away and

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things like Onion this quarter we should have much more production than last year so that we can absorb the fixed cost. Having said that I would like to say that compared to our typical 20-23% type of EBITDA which we have been getting into full quarters, not monsoon quarter but otherwise full quarters, this quarter and next quarter might remain somewhat subdued because of the various factors I have mentioned. But overall, for the next fiscal we feel fairly positive that we should maintain the historical averages which we have. Only difference would be as we go along depending on which business is growing more or less there could be a certain product mix impact out there in terms of margin. EBITDA while this quarter was bad, I think it should not be that big concern long-term.

Coming back to even Micro Irrigation, we have always guided markets that our range is 25-30% while for three years we were around 30% and during this period when we are selling less, etc. it might have come down to this 27-28%. And maybe over next year as we go back to that higher level of sales growth and the right product mix including Project business, etc. it has the possibility to go back, while for a couple of quarters it might remain on the lower side but within this band which we have talked about over last 5-7 years that this is the lowest and the highest level we would reach.

In terms of financing and in terms of raw material and the balance sheet issue, overall, we find that our receivables have continued to improve and the receivables have come down even in the current quarter compared to September quarter. So, overall, as a company, our receivables are now down to level which is almost 500 crores lower than the last year at the gross level. So, in March I believe they were about 2520 crores and now they were about 1993 crores, so it is almost down by 500 crores compared to September where the receivables were about 2167 crores there now down to 1993 crores. So even compared to September it is down by about 175 crores or so. So, we are getting consistent reduction and what we have achieved in nine months has been more or less in line with our own estimate. And as we plan for the whole year that we almost equalize the business. After equalizing the business if we would have recovered about Rs. 500 crores of receivables in total that would be good achievement. The inventory levels which are typically high end of December because as we move into the busy quarter of January to March, usually, we almost get about 15 days outstanding sales reduction in our inventory levels during this quarter historically. So we expect inventory which is currently close to 1100 crores or a little bit less should come down by about 250-300 crores during this quarter. So while in the earlier quarter you have seen big benefit on the receivables in this current quarter you will see benefit on the inventory side. So overall working capital efficiency would be quite good. We recently did a small exercise to see where do we stand in terms of days outstanding on sales and our current level of inventory which is about 110 days or so typically will go down by the fourth quarter and that is in range of what we normally achieve, we have seen over the last three years and right now gross receivables I am talking for the whole company are about 208 days and if I see last 12 quarters 208 we had only once had 206 days. So I think we are coming to some level of efficiency now than what we had because last four to six quarters receivables have been anywhere between 263 days to 222 days in that

range and now that is down to 208 days. So that shows that there is improvement and focus on the receivables as well.

In case of Micro Irrigation business March '12 our outstanding was about 1715 odd crores and by December now it is down to about 1324 crores. So total reduction there is 390 crores in Micro Irrigation. And within that government subsidy also now has been coming down, and it is now at about 690 crores and this 690 crores is a net number. That means that the number whatever we had at the start of the year, the new sales which we have made, so after collecting old money as well as the new money this is the net outstanding of the government receivables now-690 crores. So, out of these receivables which we have now in Micro Irrigation of 1324 crores. About 161 crores would be dealers, about 200 odd is institutions, projects are about 250 crores and the remaining as I said 690 crores would be the government subsidy.

In terms of the geographical issues, the lower sales in our businesses have continued almost same. All the major states, we in Micro Irrigation have been continued the negative trend in this quarter except Gujarat and Rajasthan where we had growth and I would feel that in the current quarter some of the states still would maintain the negative growth but some other places will grow more in totality.

Now, in terms of the finance and the total package of fund raising, the funds which have already come, about 300-odd crores of those funds were still cash in hand at the end of December and we expect as I said to get deployed by end of March which would further help us to – we have already repaid all the short-term loans but we will be able to further adjust some of our receivables and in terms of the payable balance which is there that will also get adjusted. During this period of December post receiving this fund we have also made large amount of payments to suppliers. That is why you will see that while companies use the funds they have not necessarily resulted in reduction in the bank debt but has resulted into reduction of liabilities, because suppliers have been paid off with this amount and some of these suppliers were stretched suppliers.

Thereafter, in terms of the CAPEX we had planned that in the current year we should not spend more than 200 crores and part of that was related to energy and the remaining was either balancing equipment, partly maintenance CAPEX, etc. and we are still on the same line. For the next fiscal our plan is also not to spend more than Rs.2 billion or Rs. 200 crores that we should maintain the plan. We do not see any reason to change into that as of now.

While these were more granular details, overall, in terms of business environment, I would say that there is again more and more realization at policy making level where the support for Drip and Sprinkler is coming. However, because of the tight finance is available with the central government as well as the state government there are not too many new budgetary allocations which are coming. But as the country gets somewhat eased over next one year there is more funds going to come even for our end-to-end project from various states like Karnataka, from Punjab, Himachal and others. And even in the XII Five Year Plan this whole new concept of

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trying to do command area projects with the Drip and Sprinkler has been also agreed in principle. So we believe whether it is understanding the paucity of the water, whether it is the issue about the productivity of the farmers and agriculture, at the policy level, we expect support will remain and will continue to grow. However, how exactly that it will take shape in terms of finances we have to see over next few quarters. And that is where our NBFC comes into play. NBFC started functioning last quarter. In the initial first two or three months they have spent time to build their offices, employ people and everything else. This would be really their first quarter in the January to March. We expect them to lend between 20-25 crores, somewhere in that region to the farmers and that would mean that they are covering about approximately 3000-4000 farmers during this period. And as they ramp up, moving into next fiscal year we expect them to grow the business substantially next year, but they have now already started working, they have already got about application from almost close to 1500 farmers and more and more are coming but because they need to still build their processes, etc., they have been slow to try and get the necessary experience, get the processes, because we really want to ensure that they function very independently and in a very prudent manner as a bank should function, and so they are taking necessary I would say cautious steps to ensure that the building blocks they are laying down to build a large rural credit institution are well cemented before they can make a larger building on that foundation. So that process is on, it is moving very positive and we are happy with the response we are getting from the farmers, because it was going to be always a challenge where originally farmers who never paid any interest on the delayed period of subsidy, the question was how would they agree now to start paying the same. But there are farmers who understand that this is the way to go. And ultimately now government is going to give subsidy to their accounts and therefore this is the only way that it is going to function now. So, we think the change in business model is underway while total amount we will get in this quarter based on change model will not be big but during the entire year especially in Maharashtra between April to December all the sales which we have made have been either through our dealers and so, entire sales which we have made in Maharashtra about 350 crores or so, there is no dependence on the government subsidy in the State of Maharashtra where we launched this model. So, in that sense model is already succeeding. Once the NBFC comes in our cash flow would also improve because of the changed business model. And maybe within a year we go back to good growth rates even in Maharashtra where we have launched this business model first. In other states we have continued to focus on reducing receivables and not to put a new receivables into states where we do not expect change or too much of additional allocation of budget. We just want to focus on ensuring that our future sales would be in line with the budget allocation and there are no over-the-line sales which takes place while the state budgets catch up usually in a somewhat later period.

The funds are secured. Some people always had questions which we had so much of receivables from the government, whether they will come or not. Just would like to assure everybody that majority of the old funds have already come in and while some are remaining in next six months or so they should also come through. So that way it is quite positive that all

the debtors or receivables are secured. They are flowing in and we do not expect any of the delinquencies or any of the situation in terms of the receivables.

So that covers inventory receivables, general business, the challenges which we have, which I talked about the energy cost increase and I talked about the raw material issues and in terms of overseas businesses while their growth is positive and we expect them to maintain the same positive rate of growth. So all in all we feel positive that in the fourth quarter we should turn around in terms of positive revenue growth and profitability growth. Last three quarters or almost four quarters have been not up to the mark but that was planned, expected and in terms of predicted, in terms of this is the way it is going to be, of course, one cannot predict exactly the future but I think we are fairly close to what we had expected and that is what has happened except few bumps here and there. So we are very focused. We believe we are turning around. We are seeing good growth opportunity into various business lines. We would still remain at least for another year very cautious on the receivables and if required somewhere if we need to compromise on growth we will but we will not compromise on cash flow. We intend to ensure that we have good amount of free cash flow in the next fiscal and we will also keep our CAPEX in a disciplined manner so that the process which we have started off, strengthening the balance sheet moving short-term debt to long-term debt and reducing the overall debt and carry that would get fully completed during the next year.

Thank you and myself and Manoj will be very happy to take any more questions you may have.

**Moderator:** Thank you. We will now begin the question-and-answer session. The first question is from the line of Hemant Patel from Axis Capital. Please go ahead.

**Hemant Patel:** A couple of questions. In your press release you have given a order book visibility on MIS of around 891 crores and to retrace this back last year in the similar quarter we had a similar kind of an order book visibility of around 894 crores. What I wanted to understand was how does it translate into a revenue visibility into the next quarter? And what this order book really constitute of, can you give us some breakups on that?

**Anil Jain:** This is not for just Micro Irrigation, this order book for the whole company. So, currently this 900 crores might have about almost close to 400 crores from Food business and remaining from other businesses. In terms of Micro Irrigation and Piping businesses we do not have large order books because dealer keep placing the order as they consume the stock they sell to the market, install into the farmers field. So unless we get the project, we do not get very large orders in terms of the Micro Irrigation and Piping business per se. And Solar order also come bunched up. So this order position do not necessarily give a direct outlook that is okay because you have this order immediately next quarter you are going to sell X or Y. But having said that we feel confident based on what we know is that in the current quarter our overall sales should have positive revenue growth compared to the same year two year period.

**Hemant Patel:** Within the State of Maharashtra wanted to get some more insights from you as to since you have changed the model and now that we have seen quarter-on-quarter traction in Micro Irrigation, which is heartening. How do we actually see the farmers actually making good this increase in finance burden? How much of your MIS business is really coming in from farmers which are actually paying upfront cash and versus others who are trying to make it good flow through local lenders, NBFCs and banks?

**Anil Jain:** Typically, almost 70% of our business when we sell through the dealer to the farmer, farmer puts up for whatever his share, his own money, only 30% of farmers normally will go for loan.

**Hemant Patel:** This is in Maharashtra?

**Anil Jain:** In Maharashtra. That is where they put their own share I am talking about. Now, in terms of our sales in Maharashtra in the current year, let us say we sold about close to 350 crores in first nine months. All of those sales are through our dealers to the farmers where either farmer has paid full or if he has not paid dealer has taken a credit risk. And so we have given certain amount of credit to our dealer. That is the business model with which we work. In some other states like Andhra Pradesh or Gujarat, we get work orders only from the government because there it is a control program where work orders are given by the government and the entire funding, the farmer gives the share also to the government in these places and the government will pay the whole thing to us.

**Hemant Patel:** And just two more questions just on this. One, are we likely to see growth coming back in Maharashtra in the next quarter, is that what you are sensing or the real growth is going to come in from blend of Rajasthan, Gujarat and some of the other states?

**Anil Jain:** Maharashtra will continue to do well but it will not grow even in the next quarter. Maharashtra business is down about 43% or so. While that is not very good, right, but what is heartening to see that this is the first year where the business after 20 years where we have no subsidy burden into the entire year whatever business we do. Let us say we end up 550 crores or so in Maharashtra. So that would be less than what we did last year significantly but then to have 500 crores business on normal cash-and-carry terms it is a very good achievement. So growth which we are saying you will see it is coming from partly exports, partly places like Gujarat, Rajasthan, maybe some in Karnataka, those are the states where it will grow.

**Hemant Patel:** And one last question if I may. You said that we are going to be more prudent in terms of the states where we would plan or chalk out our growth rates. Yet, we have seen actually growth for the nine months in Tamil Nadu has actually come back which is probably the worst state in terms of receivables, any insight on that, why and what are we looking at going ahead?

**Anil Jain:** That is mostly private business which we have done. Those are the sugar factories which are there. And when you see the growth, last year third quarter Tamil Nadu was 10 crores, this year it is 10 crores 30 lakhs it is nominal, it is there but it is not really there.

- Moderator:** Thank you. The next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.
- Mukesh Saraf:** Firstly, this morning you had commented that you will probably be able to touch about 850 crores of EBITDA on a consol level. Just wanted to understand are you seeing good profitability at your subsidiaries right now, in terms of EBITDA margins, how is it vis-à-vis last year?
- Anil Jain:** I think because of their growth in sales we expect them to be also somewhat better in terms of overall EBITDA margin compared to the last year. So, this would be the first year when I think their overall EBITDA would cross approximately more than 100 crores and the remaining we should get in India.
- Mukesh Saraf:** And secondly, you had mentioned that about 350 crores of revenues from Maharashtra in nine months and all of this has been through dealers and not on any subsidy burden for you. So basically you have given higher credit to the dealers. Just wanted to understand finally for the dealers to pay back to you they would obviously want the subsidy to come in from the government. So how are you making sure that there is no delay in the dealers paying to you or any defaults over there?
- Anil Jain:** No, there are no defaults. The dealers organize their own funds or they recover from the farmers from the farmers' crop proceeds. And these dealers have been in business for 15-20 years, they are local. And the reason business is down is because they want to be cautious, they want to do only so much of business or they want to provide maybe additional credit only to those many farmers from whom they can collect. So therefore we do not see any issue there.
- Mukesh Saraf:** But you have not increased any dealer margins in that region or is that also some factor?
- Anil Jain:** We had increased cash discount available to the dealers from 4% to 6%.
- Mukesh Saraf:** And just one final question on the Solar business and your Food Processing business, just wanted to understand the seasonality over there because I was just seeing that there is some change because previously we saw that generally fourth quarter would be strong but this time we saw a strong first quarter as well. So just wanted to understand the dynamics over there.
- Anil Jain:** In Tissue Culture business we have added capacity, especially our Banana Tissue Culture that has been growing very rapidly and while in terms of revenue this business is small, and in terms of profitability and earning they are quite good. Earlier we used to sell let us say Maharashtra, now we are selling Tissue Culture Banana almost through the country and that allows us to change the seasons also in terms of when you supply. Solar typically is more growth in the fourth quarter and that would be the same.

- Mukesh Saraf:** And the Fruit Pulp and Puree? That business because we saw first quarter this time we saw really strong revenues and do you expect the fourth quarter to again be similar to last year's levels?
- Anil Jain:** Fourth quarter in Fruit, Fruit overall again seasonally and last year the problem in terms of when you look at revenue was that while we sold lot more quantity our actual sales in value came down and that was because we were selling more of Totapuri which is a lower value than the Alphonso and Totapuri itself was a Rs. 8 kilo raw material price as against Rs. 18. But fruit processing in the fourth quarter, this is the seasons post the winter season consumption of the juices start. So this is the season when we sell a lot more. So, I would expect even in the December quarter Fruit grew by 37% or so. And in fourth quarter between domestic and exports we expect similar or higher level of growth in Fruit business.
- Moderator:** Thank you. The next question is from the line of Kirti Dalvi from Enam AMC. Please go ahead.
- Kirti Dalvi:** A few questions from my side. If you could just tell us what is the consol debt as of December and what kind of repayment we expect in the last quarter?
- Manoj Lodha:** Consol net debt remain flat what it was in September around 39 billion on the books, but excluding the balance sheet discounting.
- Kirti Dalvi:** So in this current quarter what kind of repayment we can see?
- Manoj Lodha:** Technically, we have made just 56 crores of repayment in India, but we are planning to prepay one ECB that can be around 250 crores. That is not due right now. That is due next year and the next year after.
- Kirti Dalvi:** So in terms of availability of cash because of this ECB and FCCB what we have done in the last quarter, we are ending up with a huge amount of cash on our balance sheet?
- Manoj Lodha:** Yeah, right now, we have.
- Kirti Dalvi:** So what is the plan over there in terms of we are parking that in FDs or something like that?
- Manoj Lodha:** Whatever is as per the regulations either for rupee CAPEX to park in rupee and that is in FD, now the input CAPEX or overseas investment would park outside India. So that is in dollars. That is why partly you see dollar deposits, partly rupee deposits.
- Kirti Dalvi:** Second question if you could just highlight, you have given a fair bit of idea on the MIS margin but with this new model probably next year where do we see our MIS margins, is this the bottom or do we see further lowering these margins going ahead?

- Manoj Lodha:** I think as I explained to you actually while talking is that the broad range which we talk about is 25-30% and while we maintain 30% right now it is around 27-28%. Now, out of this as we start giving some more cash discount next year maybe it goes down to 25% but it would not impact the net earning, you might see lower EBITDA but net earnings will improve because you will have so much of saving on the interest.
- Kirti Dalvi:** And in terms of growth probably next year can we see a growth in the revenue in MIS?
- Manoj Lodha:** Yeah, next year for sure there will be growth.
- Kirti Dalvi:** 10-15% fair enough to assume in terms of band?
- Manoj Lodha:** High teens or more I would say. In a sense that 20% growth we expect definitely to return next year.
- Kirti Dalvi:** And this model of cash basis what we implemented in Maharashtra, any plans of extending the same in other states as well barring few like Gujarat, where you say that entire business is a work order based?
- Anil Jain:** Gujarat and A.P. we cannot do, but Gujarat is already efficient in terms of deliver money for four months or so. We do not need to do that there. A.P. we cannot do. In other places I think what we are planning to do next year is we will start doing this model in certain parts of other states as well which are more closer to Maharashtra. That is where also our NBFC will start working. Because along with the NBFC that model would become easier to get impacted.
- Kirti Dalvi:** And in terms of savings probably this quarter itself we can see some savings in the interest?
- Anil Jain:** Last quarter it was about 5 crores. So this quarter maybe 10-12 crores saving you will see but the major benefit will come from next two quarters.
- Moderator:** Thank you. The next question is from the line of Trilok Agarwal from Birla Sunlife Insurance. Please go ahead.
- Trilok Agarwal:** I had a couple of questions. One in opening remarks you had mentioned that you would be able to match last year's MIS revenues. So in that context do we expect a large growth in the fourth quarter?
- Anil Jain:** Just to clarify, I said that overall company's revenue will be met. MIS in this particular quarter would become positive growth. But what we have lost in the earlier first two quarters of (-33) all of that will not be recovered, some of that will be recovered.
- Trilok Agarwal:** The other question I had is in your presentation you have mentioned that power and fuel cost has gone up by nearly 45%. So, do you see that coming off going forward and what was the key reason for such a high jump in the power and fuel cost?

- Anil Jain:** The power and fuel cost went up as I explained because 25% increase took place by the MSEB itself in terms of the rates which we pay here and also some of the coal price went up, etc. Utilization of the product mix also has impacted our overall. As we come to the current quarter, as we produce more and product mix changes, you will see that impact is reduced. To be honest, I did not see 45% change myself but that maybe exacerbated by given quarter, for example, in Onion, we use boiler, where some of these fuel costs went up substantially which may not be this quarter where substantially more production to absorb the cost.
- Moderator:** Thank you. The next question is from the line of Girish Acchipalia from Morgan Stanley. Please go ahead.
- Girish Acchipalia:** Just a couple of them. Firstly, if I can get the net debt number for the Domestic business standalone.
- Manoj Lodha:** The net debt is about 29 million, same at September level.
- Girish Acchipalia:** So just wanted to explain this, there has not been an increase in inventory, right which is material. So how is the net debt not going down?
- Manoj Lodha:** What happened? We got some equity in this quarter, we also got some loan from ECB and FCCB, of course it is in the balance, but it does not affect net debt position. So part of the utilization of FCCB, ECB and equity has been invested into NBFC or overseas entities or as Mr. Jain said to repay some of the stretch creditors. So overall the liability has gone down. You will not see exact deduction on the debt side but overall there has been payments of stretched creditors and few other investment part of the funds have been also used for the CAPEX payment. So that is how you do not see much or almost no reduction in the net debt:
- Girish Acchipalia:** How much has been the investment in subsidiary for the first nine months?
- Manoj Lodha:** 6 crores we have put in into NBFC and about 135 crores we have put in into overseas subsidiary.
- Girish Acchipalia:** Final question, what are we targeting in terms of receivables for MIS at the end of F13?
- Manoj Lodha:** I think receivables now in the current quarter would remain more or less same levels they were but they will come down in terms of days outstanding sales with higher treasury....
- Moderator:** Thank you. The next question is from the line of Arya Sen from Jefferies. Please go ahead.
- Arya Sen:** Firstly, just wanted to understand on what you said on Maharashtra business. So if I understand you correctly, for the sales that you have done this year you are not getting any subsidies from the government but the dealers would still be applying for and getting those subsidies, is that correct?

**Anil Jain:** Let me explain that properly. The subsidy is always payable by the government to the farmers. It is never payable to us because we go ahead and supply material to farmers in advance farmers assign those subsidy receivables to us and then therefore government pays us. That is how the structure works. In future, government with the whole this new Aadhaar program, otherwise government has taken a directional decision that they would like to ensure that the benefit or subsidies now are directly given to the farmers or if a farmer has taken any loan to a bank of his choice from where he has taken loans. That is where the subsidies now would be directly going. So when for first nine months the sales which we have made now earlier we used to make sales to the dealer we would collect the farmer share, let us say 50% or X amount and the remaining we will wait till the time subsidies released by the government. Therefore the farmer has no obligation to pay out of his pocket neither dealer had any obligation to pay us out of his pocket till the time government release the fund. In the new model in the current year when we have sold to the dealers we have sold the product with an understanding and depending on the crop we have given different credit terms to the dealer is that whether government will pay subsidy to the farmer or not the dealer is duty-bound to prepay us in full, part he pays in advance, part we give him a certain amount of trade credit, that is how the current structure is working.

**Arya Sen:** And almost all exclusive dealers, right?

**Anil Jain:** Yes.

**Arya Sen:** Secondly, just wanted to understand what is your expectation from this budget, do you expect because of the government finances do you expect allocations to remain the same or even be cut or do you still expect an increase in allocation to MIS against the various programs?

**Anil Jain:** I will try and answer this in two different ways. One is my hope. My hope is that they do not cut it and they increase it because this is really required whether farmers are suffering from water issue, productivity issue, this is one important solution which actually if you look at subsidies this creates multiplier effect in terms of benefit which is almost 6 to 9 times unlike lot of most of other subsidies where benefit is not even more one-two times then it creates problems. So, we hope they do not cut it. In terms of our expectation what is going to happen, looking at overall government challenges in finance and constraint we do not expect them to really increase that too much.

**Arya Sen:** Also, in terms of your receivables per state, what is roughly the proportion of sales to Rajasthan and Tamil Nadu because the absolute receivables number from there seems to be reasonably high, so just wanted to understand what amount of sales they are contributing?

**Anil Jain:** Rajasthan for example, in terms of overall sales of nine months of about 800 odd crores is about 17-18% I would say is the Rajasthan. Tamil Nadu is about 5%. Some of the old receivables of subsidy are from Tamil Nadu which we are....

- Arya Sen:** And lastly, what is your current level of securitization?
- Manoj Lodha:** We do not have any securitization now. What we have is just a dealer discounting which is around at a level of 225 crores.
- Arya Sen:** As opposed to what was it in September end?
- Manoj Lodha:** Same.
- Arya Sen:** And March '12?
- Manoj Lodha:** It was 550 crores.
- Moderator:** Thank you. The next question is from the line of Abhijit Akella from IIFL. Please go ahead.
- Abhijit Akella:** If you could just give us how much the foreign currency debt is now post the fund raising?
- Anil Jain:** Gross is \$250 million and right now we have about \$34 million balance. So, roughly net debt would be around \$260 million.
- Abhijit Akella:** And the 3900 crores net debt that you talked about at the company level, how much would the cash be?
- Manoj Lodha:** Cash is about Rs. 4 billion.
- Abhijit Akella:** Just on the tax rate guidance for this year, what would we expect?
- Manoj Lodha:** In terms of cash outflow it would be MAT. I think on a book basis we would continue to adjust at around 20%.
- Abhijit Akella:** And similar level next year also?
- Manoj Lodha:** Yes.
- Abhijit Akella:** And finally, just on the Aadhaar-based transfer to the farmer, until now if I understand it correctly the government was giving a cheque to the farmer whereas going forward it is all going to be online transfer to the bank account?
- Manoj Lodha:** Not exactly. Even now wherever farmer had assigned it to us the money was being given to the company, even though cheque might be written in the name of the farmer. In the future, government wants to release either to the farmer or if he has taken any loan from either bank or NBFC money would go to that particular entity or institution.
- Abhijit Akella:** But it would be paper less kind of transaction, online transfer, is it?

**Manoj Lodha:** That part is not certain. They might still draw cheque or DD. I do not think they are still fully geared up to do all this directly to their accounts.

**Abhijit Akella:** I was just trying to understand whether there would still be any follow up required with the government to get the subsidy moving either from the farmers end or from the dealers end or whether....

**Anil Jain:** The structure with which they have proposed now is that every new subsidy proposal farmer with the help of dealer has to enter into electronic data system. And once the proposal is entered, whenever government releases funds it will automatically follow up would be required, and at the time of the entry itself the farmer would know whether he is eligible or not eligible in that sense. So we are hoping that under the new process because it is fully electronic, transparent and across the board that human intervention may not be there and it would become more efficient but it is still not fully functioning but we hope that next fiscal year that is the way it is going to be.

**Moderator:** Thank you. The next question is from the line of Rahul Agarwal from VEC Investments. Please go ahead.

**Rahul Agarwal:** I just had one bookkeeping question. Is it possible to get consolidated sales number segment wise for third quarter in terms of MIS, Pipe, Sheets and etc.?

**Manoj Lodha:** This is a nine month consol sale. MIS is about Rs. 18 billion and the growth is (-16.5); Piping is about 7 billion and growth is about 8.4; Plastic Sheets very small 1.4 billion and growth is around 13; Fruit is 2.4 billion with a growth of 10%; Onion is 3.4 and that also includes our **(Inaudible) 49:32** entity which also trades into Spices, so that is 3.4 billion, growth of 28%; and then Solar about 0.8, growth of 26%; and other business is Tissue Culture, Equipments and all that about 0.6 billion, growth of about 82%. So totals around to about Rs.34 billion with almost flat compared to same period last year. I am sorry, I gave you for the last year. I will just repeat the number for '13. It is a 15 billion for MIS, about 7.4 billion for Pipe, 1.6 billion for Sheet, 2.7 billion for Fruit, 4.4 for Onion, 1 billion for Solar, 1 billion for others.

**Rahul Agarwal:** The growth numbers are....?

**Manoj Lodha:** Growth numbers are correct because they were on a nine month to nine month compared. So growth number you have and total is about 34 billion same for the both period.

**Moderator:** Thank you. The next question is from the line of Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.

**Pankaj Tibrewal:** Just wanted to know what has been the CAPEX in the first nine months and what is the outlook for next year going forward? And second question is that how much of interest cost you guys are projecting for the next year because the run rate seems to be 102, 103 crores odd currently also so that money coming in, your loan to subsidiaries almost getting over, can you

just give us some sense on what should be the benefit coming out of the interest cost probably next year?

**Manoj Lodha:**

Total CAPEX for the first nine months is about 177 crores. And as I said we are looking to contain this within 200 crores for the entire fiscal and we are looking at a similar number next year. And that also contains some of the maintenance CAPEX. This is not all growth CAPEX. Coming to your interest question, while we have been running this run rate about 100, we are hoping with all these changes and rerating of the company we think the run rate will go down to about 80 crores next year. Even for the third quarter you see our run rate now came down less than 100. It is actually the net interest including the bank charges is at around 95 crores.

**Pankaj Tibrewal:**

But the reason I am asking is that in the first nine months when I look at your inventories, there has been an increase in inventory which has offset your receivables. So really speaking, not much improvement per se on the working capital front. So how do we take it forward from here?

**Manoj Lodha:**

Because inventory were to build for the fourth quarter which normally is the peak quarter, like 35-40% of our total sales, and receivables there was an **allegacy (Inaudible) 53:11** about the government and the Micro Irrigation overall receivables which Mr. Jain has already explained that gradually it is coming down. So that way you would see by end of the fourth quarter both the inventory and receivables would be better than the last year.

**Pankaj Tibrewal:**

And CAPEX would be about 200 odd crores for the next year?

**Manoj Lodha:**

Yeah.

**Pankaj Tibrewal:**

Next year we should generate cash from the operations post CAPEX as well?

**Manoj Lodha:**

Exactly. That is what we also said in the press release, we would be attempting for the free cash flow.

**Pankaj Tibrewal:**

Just one last question when I look at your total working capital till date, receivables have shown a very encouraging trend that is coming down but somehow the net C-To-C has not still come down, it has gone up. So I am just trying to understand where is the disconnect? You have been clearing suppliers because if I look at your suppliers numbers 130, 112, 97. So you have been giving payments to the suppliers where you have not been getting credit. So I am just trying to understand that part because....?

**Manoj Lodha:**

That exactly. What Mr. Jain said was the improvement on the gross CTC level. Supplier, as I said, in between there were stretch and that is why you see a part of the payment is now going to bring down to the normal level. Normally, we have 75 to 90 days. That is the band as a supplier credit. And the other impact also that we have been reducing this discounting our balance sheet so that is also increasing our net CTC. But eventually, as I said that will go away

and then whatever improvement comes on the gross side you will also see that reflects on the net CTC.

**Pankaj Tibrewal:** Because your gross CTC has shown a very encouraging trend which is quite commendable but your net CTC is not reflecting the....?

**Manoj Lodha:** That is more as a matter of the discounting plus the trade supplier, now almost we are current with all everybody that you will see. So going forward any improvement on CTC would see a corresponding improvement on the net....

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

**Atul Rastogi:** My first question was, you mentioned that you put 135 crores on the subsidiaries. So, has it gone on equity or is it debt or?

**Manoj Lodha:** Right now, because match-to-match there is a debt. We are also placing it as a debt subsidiary.

**Atul Rastogi:** And this would be primarily Naandan or some other subsidiaries?

**Manoj Lodha:** This was Naandan plus also there some repayments were due on our acquisition in Turkey, so it is a combination, but mostly in the market we are growing.

**Atul Rastogi:** And secondly, on this cash discounts, dealer discounts that you mentioned that it has gone up from 4 to 6% now. Is it netted off at the sales level or has it shown as an expenditure across...?

**Manoj Lodha:** No, it is netted off against that.

**Atul Rastogi:** Sales only?

**Manoj Lodha:** Yeah.

**Moderator:** Thank you. The next question is from the line of Manish Mahawar from Edelweiss. Please go ahead.

**Manish Mahawar:** Just wanted to know, in FY14 you are talking about the 20% MIS growth. Actually, at ground level what is giving you the confidence basically to achieve this growth, any other state basically you are looking at state wise some basically you get the trend going forward uptick in trend why is actually?

**Anil Jain:** Confidence comes from the two factors. One, in the current year we have come down. So when you are looking at 20% growth you are actually going back to where you were in a sense. We have succeeded in the Maharashtra model and therefore we expect more growth in Maharashtra alone next year plus the project work which we did for example, earlier I talked about the project we did in Karnataka, similar projects have come, in a couple of projects we

are already L1 even though complete orders have not come through. And we are seeing more and more traction on the projects also where Micro Irrigation is playing a role first time in the country to improve the water conveyance efficiency as well as the productivity on to the farm. So off farm and on farm what we have efficiency. So, based on that plus some improvement in export as well. A combination of these three makes us feel that yes, we are fairly confident that the business model change which we are going through and which we did in the current fiscal now moved, as we move into the fiscal year will be definitely positive for us.

**Manish Mahawar:** And what is our debt reduction plans for FY14 and possible FY15, next two years or....?

**Manoj Lodha:** I think more or less about 250 crores are due for long-term going forward on an annual basis. And if we really succeed in these receivables and inventory then that you would see a corresponding reduction even in the working capital debt. So that would be roughly a range going forward.

**Manish Mahawar:** Means around 500 crores type of production?

**Manoj Lodha:** 300 to 500 crores, let us put...

**Manish Mahawar:** And just one bookkeeping question, on depreciation if we look at this quarter on a QoQ basis it has gone up by 3-4 crores, it is not a big number but it has gone up. Is there any specific reason?

**Manoj Lodha:** Because we have been investing in last two years and even last year we did invested. That is the real impact of increase. But if you compare with the September last quarter there is a marginal increase, because it is a quarter-on-quarter, year-on-year you see some increase in three-four years but September I think .....

**Manish Mahawar:** If you compare with September it is higher by 3-4 crores and if you compare with the last year same quarter it is higher by 6 crores.

**Manoj Lodha:** Yeah. Whatever investment we did in last year plus the current nine months that is the only reason. Otherwise there is no change in depreciation rate or nothing, it is just amortization.

**Manish Mahawar:** And last question on your tax rate I think so last quarter conference call you mentioned around tax rate of around 15-16% for this year. I think now you are giving 20% type of number on a book tax actually. So, are there any specific changes or actually wanted to understand that?

**Manoj Lodha:** As I said cash receivables it will be only MAT which itself is 17%. Now I see a 2-3% change because of certain R&D or whatever allowances we are getting or certain VAT refunds we are getting. So we are just trying to adjust those for the last quarter because it is going to be a big quarter and preferably the same trend for the next year. But based on the actual working now what we know for the nine months and what we are projecting for this quarter.

- Manish Mahawar:** But definitely it will go beyond 20%, right?
- Manoj Lodha:** No, based on whatever benefits we get under income tax it should not go beyond 20 at least for next year.
- Moderator:** Thank you. The next question is from the line of Mahantesh Maralinga from Finquest Securities. Please go ahead.
- Mahantesh Maralinga:** Just want to know, you have done some realignment in the segment reporting this quarter compared to last quarter reporting. Any particular reason for that sir?
- Anil Jain:** Now because of this renewal energy business is now getting into a higher mode so audit committees thought that it is better to reflect correct picture in terms of the revenue in the profits and capital employed. So that is the only change and that is adjusted against the industrial product segment, earlier it was part of the industrial product segment.
- Mahantesh Maralinga:** One more thing, just you mentioned that MIS segment has maintained EBITDA margin at the same level as the previous quarter. But actually it has improved in the hi-tech agri input products it is part of that group. The MIS segment is part of the hi-tech agri input product group but that overall margins have contracted from 25.4% last quarter to 16.3% this quarter. So what was the main....
- Manoj Lodha:** That also includes the PVC pipes.
- Mahantesh Maralinga:** that is what I am saying. To which segments have put pressure on the margins in the particular hi-tech agri input products?
- Manoj Lodha:** Actually both. There is other revenue stream is the tissue culture within that. But the contraction in the margin has happened in both Micro Irrigation as well as the piping products.
- Mahantesh Maralinga:** But sometime ago it was mentioned it was really just a marginal decline. But if you see here it is around 9 basis points decline in Q-on-Q.
- Anil Jain:** Margin of decline in sense but you have lower sales right? So because of the product mix also if the profitable product you are selling less overall for the category the decline you will see is more, even though absolute margin decline is not that big.
- Mahantesh Maralinga:** You mean due to the fixed cost spread over a lower number of sales you mean. So, sir going ahead in case if you have to model for this segment and all what will be the rate you will take into account?
- Manoj Lodha:** Normally Micro Irrigation, as Mr. Jain said it is between 25 to 30%. If it is piping normally the margin should be around 7 to 8%. This quarter was about 6% but normally it should be about 7 to 8%. And typically this was a quarter were piping was almost 33%-34% in a total mix as

compared to like 25%, and normally we have 45 to 50% is Micro Irrigation as against 39% in this quarter. If you take the mix of this product, then that is why this margin variation is coming.

**Mahantesh Maralinga:** Sir, overall, going ahead can we expect around 20% on a consolidated basis in this segment? Do we take this is an average.

**Manoj Lodha:** Yes.

**Mahantesh Maralinga:** Sir, any margin expectations for the next year, FY14.

**Anil Jain:** We don't give that guidance, but we can talk a little bit more about this, maybe, when we have a call in the end of March results.

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

**Girish Achhipalia:** Just one quick follow-up question, you said you are looking for a good growth coming through in the next year. Now just wanted to hear your thoughts, we are hearing of severe issues on water availability specifically in Maharashtra and the Southern States, how are we placed to actually achieve the growth given the new business model and the macro issues that surround this business?

**Anil Jain:** As you know, the severe issues in Maharashtra are already affecting us. What you see the current level of performance is partly due to that. That would continue in the current quarter and the next quarter. Post monsoon is when two thirds of our sales do take place. But, there are areas in South, for example, in Karnataka and partly in Gujarat, in Rajasthan, there have been good rains, and there is enough water for you to go and do more business, where farmers now understand the importance, governments are willing to support them. That is where we expect growth to be there actually. We are seeing good growth in Punjab, Himachal, Rajasthan, then Gujarat, and Karnataka. And for the first time a significant business may also come from UP, Uttar Pradesh. So, as I have said, maybe in earlier calls, not recently is that to open up a new state, it takes two to three years of work, so we have been working on some of these other states over the last two to three years, and now we will start seeing some fruits of that work, what we did over the last two to three years.

**Girish Achhipalia:** Sir, one quick follow-up; exports, what is the growth run rate like in the first nine months and if you can share what is the outlook for FY14.

**Anil Jain:** Exports overall are just MIS.

**Girish Achhipalia:** MIS exports.

- Anil Jain:** MIS, you know were 10% less than last year. Last year it was about 100 crores, and it is about 90 crores in terms of what we did in 9 months in total. In the current quarter we expect exports to be higher, because that is also partly seasonality there. In the December quarter they have usually winter there and not much happens in agriculture. So, in the fourth quarter alone, we would expect about 70 to 75 crores of exports approximately and last year it was hardly about 40 crores in the fourth quarter. So you will see a significant rate growth in exports in the fourth quarter.
- Girish Achhipalia:** Do we expect the rate to continue in this rate for the full year FY14.
- Anil Jain:** For the full year, exports yes. We expect that because we are close to closing two or three large project business outside India, and those will kick in next year.
- Moderator:** Thank you. The next question is from the line of Sameer Shah from Value Quest. Please go ahead.
- Sameer Shah:** Sir, what would be the project sales in the first nine months and what are the receivable days in project sales?
- Manoj Lodha:** Average receivable days in project sales would be about six to seven months approximately, and overall project sales out of the first nine months of sales of 800 crores, I would say would be closer to about 150 to 200 crores.
- Sameer Shah:** And what would they be in nine months last year?
- Manoj Lodha:** Nine months last year they were may be a little bit more about 250 crores.
- Sameer Shah:** 250 crores. Given that our financing company will start soon, would we be giving additional cash discounts to farmers on the MIS products or they would be equivalent to the current prices that we are charging?
- Manoj Lodha:** It would not be additional. The cash discount which we otherwise pay dealers, would be the cash discount we will pay when we receive this.
- Sameer Shah:** Okay, so there would be no incremental discounts?
- Manoj Lodha:** No.
- Sameer Shah:** Right. For the next quarter that we are looking at, the MI business coming back, what will be the contribution of Maharashtra on YoY basis?
- Anil Jain:** YOY basis, Maharashtra, in the fourth quarter you are talking about?
- Sameer Shah:** Yes, fourth quarter.

- Anil Jain:** Fourth quarter Maharashtra will do well, but it will still be less than last year.
- Sameer Shah:** Okay, and you expect the MI business to show some positive growth?
- Anil Jain:** Yes, overall MI business in the quarter we expect it to show growth.
- Sameer Shah:** So, which states will be contributing much higher or would it be that base was lower last year, that is where this growth would be coming?
- Anil Jain:** Last year base was quite high. The growth will come from Punjab, it would also come from Karnataka, Rajasthan, and Gujarat.
- Moderator:** Thank you. The next question is from the line of an individual investor, Ratna Rajmohan. Please go ahead.
- Ratna Rajmohan:** I just want to understand how far the poor monsoon has affected your business, the degrowth in the MIS business, how much would you attribute due to the poor monsoon, and how much would it be due to the change in business model.
- Anil Jain:** I would say the sales in Maharashtra in the first quarter itself, April to June, when people were seeing that expected monsoon was a problem, and post monsoon now in total, I would say that our sales would have been higher if there would be monsoon by 50 to 100 crores in Maharashtra if there had been a good monsoon.
- Ratna Rajmohan:** Okay, would there be an impact in the coming quarter also, due to this in any of the states meaning in the current quarter.
- Anil Jain:** In the current quarter, yes. So, when I am saying that we will move to in Micro Irrigation positive growth, in the current quarter, that presupposes whatever issues we are facing in Maharashtra because of the drought.
- Moderator:** Thank you. The next question is from the line of Rohan Gala from Subhkam Ventures. Please go ahead.
- Rohan Gala:** Sir, can you just tell me what is the total contribution for MIS in FY12?
- Manoj Lodha:** The contribution has been around 37 or 38%.
- Rohan Gala:** I mean in numbers.
- Manoj Lodha:** You mean product mix?
- Rohan Gala:** What were your sales for MIS in FY12.

- Manoj Lodha:** FY12?
- Rohan Gala:** FY12, consolidated levels.
- Manoj Lodha:** 1800 odd crores. You are talking consolidated, it may be 2600 or so.
- Rohan Gala:** So can we achieve that in FY14? That number.
- Anil Jain:** We might be slightly short, because we are going to less in India by almost 300 odd crores in MIS compared to last year, and outside India business is growing about 10%, so you will still see a reduction in overall MIS business. For the first nine months on a consolidated basis MIS is (-16%). Even if we move positive in the fourth quarter, and they continue to remain positive, you will still see maybe I would say, maybe it is single digit, not double digit reduction on consolidated basis in MIS business.
- Rohan Gala:** Okay, I basically just wanted to see, because FY14 you see, like there might be good growth, so FY12 sales what MI had achieved, we will not see in FY14. There might be some reduction over there.
- Anil Jain:** No, this I am talking of FY13.
- Rohan Gala:** Sir, I am talking about FY14.
- Anil Jain:** No FY14, for sure.
- Rohan Gala:** Because you said, you will see a 10 to 12% growth right in FY14.
- Anil Jain:** Sorry, I misunderstood your question. So just to clarify, in FY13, our consolidated number, which for the first nine months is (-16.5%), with the positive growth in the fourth quarter in India and some continued growth in overseas market, we hope to bring it down to maybe single digits, maybe 8 or 9%, somewhere in that region. That is for FY13. Now for FY14, for sure we will be positive. We will be doing more than what we did in FY12.
- Rohan Gala:** Okay, so it will be more than 2600 crores.
- Anil Jain:** Yes.
- Moderator:** As there are no further questions, I would now like to hand over the floor back to Mr. Nikhil Vora for closing comments.
- Nikhil Vora:** Thanks to all the participants for being on the call and thanks again Anil ji and Manoj ji for being on the call. Anil ji, in case you want to make any closing remarks?



*Jain Irrigation Ltd.  
February 5, 2013*

**Anil Jain:**

No, I think we have fairly explained everything. I believe our changing business model is succeeding. In terms of liquidity and fund availability we are comfortable now, and while there are some seasonal issues and some margin issues, which were quite amplified in the last quarter, we think in medium-to-long term, that is between two to four quarters, you will see positive beneficial impact even on those particular issues. Ultimately, Micro Irrigation business will become positive in the current quarter and will definitely achieve about more than 20% growth next year.

**Moderator:**

On behalf of IDFC Securities, that concludes this conference. Thank you for joining us and you may now discount your lines.