



**“Discussion on Outlook for Jain Irrigation Systems Limited Post Recent Changes in the MIS Subsidy Program and FY 2015 Budget Allocation”**

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**Moderator:** Ladies and gentlemen, good day and welcome to the conference call to discuss outlook for Jain Irrigation Systems Limited Post Recent Changes in the MIS Subsidy Program and FY 2015 Budget Allocation, hosted by Motilal Oswal Securities Limited. As a remainder, all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "\*" then "0" on the touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Atul Mehra from Motilal Oswal Securities. Thank you and over to you Mr. Mehra!

**Atul Mehra:** Thank you. Good evening everyone. Motilal Oswal Securities is pleased to host this concall for Jain Irrigation to discuss present outlook post recent changes in MI subsidy program as well as FY 2015 budget allocations. We have with us from the management Mr. Anil Jain, Managing Director, Mr. Manoj Lodha, CFO and Mr. Pradeep Tibrewala, Senior Vice President Finance and Investor Relations. We will be starting this session with opening remarks from Anil Ji and subsequently we will open the floor for Q&A. One request to all participants to limit this discussion to agenda as the company has just entered the silent period. Thank you and over to you Anil Ji!

**Anil Jain:** Thanks Atul. Good afternoon and welcome all of you. The budget and some events before the budget there has been this discussion in the market and through notes of some brokers and analyst that there has been significant change in microirrigation and that it is possible that it might impact the company's business negatively. So I wish to just reiterate that whatever changes have happened are positive for the business and we do not expect any negative impact of these changes on to our business and our current business model.

So just to refresh everybody in this current business model which we have, which is affecting almost about 75% of our retail sales, we are selling what we call cash and carry model that we are selling through our dealers and we are collecting our funds from dealer for the entire amount. So if there is any particular change in subsidy it does not directly impact our receivables; however, one can possibly argue that if subsidy is reduced then the farmer might delay his purchase decision or might not decide to buy and that might have a negative impact and there has been one line of argument in market, but that is not correct. If you really look at the entire data it is correct, so just to clarify in the budget, which has just been passed the total amount available for the current year still remains 1560 Crores as against what was spent last year of only 1300 Crores, so in fact there is a 21% increase and part of this 1560 Crores has already been released in the first quarter and it is an ongoing process. What we need to see that beyond this particular signature program under which 1560 Crores are available for support of microirrigation as a part of the central government subsidy assessment, the microirrigation nowadays over a period of time also gets funds

from various other sources and the state government tend to use various other sources and the stream to try and push for more microirrigation individually in their states and this goes beyond the budgetary support.

Just to give three or four examples of this. The main microirrigation program is covered in two nations. One is called NMSA, National mission of Sustainable Agriculture and second is MIDH, Mission for Integrated Development of Horticulture. So this is that is covered under the 1560 Crores, but apart from that so Water Resource Ministry there is a program called AIBT, Accelerated Irrigation Benefit Program for which this year there is more than 9000 Crores available and over last two to three years government has ensured and government has insisted that any such new programs under this AIBT they should at least have 10% of area covered under microirrigation. So more funds are coming through that program also into microirrigation and this extra availability of AIBT fund at 9000 Crores and the data shows that last year utilization of AIBT was hardly 2000 Crores, so it is a significant increase, our growth also project business, the microirrigation project business which is there. Beyond this, we have seen that there is an increase in the budget allocation for a program of Nabard called RIDF that is Rural Infrastructure Development Scheme and the amount there now available to Nabard about 30000 Crores and in the past we have seen Government of Maharashtra, Government of Andhra and others have actually taken loan from Nabard and have used that loan to support extra requirement of farmers from drip irrigation because this was considered infrastructure creation, which is the last mile infrastructure creation on the irrigation side that is how that qualifies for that.

Some place again, Maharashtra, Rajasthan and others have used another program under which funds are available called RKVY that is Rashtriya Krishi Vikas Yojana under which the central government matches the state government or sometimes gives entire amount as a tranche. Now those funds are also being used by the state to augment their budget or in to augment the amount available under normal program of the central government. Now just to give one example of how this works out, in Maharashtra demand every year for drip irrigation business works out to about 1600 Crores or in that range and we have significantly higher market share here. Now the central government under the parent program is ideally offering to Maharashtra 250 Crores or somewhere in that region, so where does Maharashtra government bring the remaining money to fulfil the farmer demand, RKVY or RIDF or actual state budget from the individual state government. These are the various ways they are able to draw the fund and that is the way they are fulfilling overall commitment made to the farmers. So what we have seen in the past this is our experience over the last two decades, the business has been growing well and lack of availability of subsidy or the amount at the agriculture ministry level under this current program has never really stopped the business or impacted the business.

Also within the agriculture ministry we have seen again this in the past. The agriculture ministry has different, different program under which they get the budget to spend the money. There are so many programs where even they have budget for x amount they do not get fully utilized. Microirrigation is one of the program and this is I am talking over the last 10 years now, every single amount allocated has been used, it has been very successful program so we are short of money under this program, sometimes they are able to draw also other schemes of program they have under which they don't fully utilize those under that particular program and that money at the end of the year or in the last quarter get allocated to this particular program and now more or less almost all the demands of central government have been met. Sometimes it also happens that this particular program of 1560 Crores is given by break to various states.

Now all the states do not utilize sometimes money and then if a one particular state or two have not utilized that becomes available to other states who are good at utilize their own share. So this is not the kind of this amount of 62 Crores does not remain the kind of return invest mode as I have explained there is a flexibility to use money from one state to another. There is flexibility to use money from one program to another. There is add-on programs like AIBT which one is able to utilize. There is additional funding source of RKVY, RIDs, etc those are also available. All in all based on the entire curve which we know and the interaction we had with the agricultural ministry in Delhi, we feel fairly confident there are enough amounts available in terms of total allocation for microirrigation to ensure reasonable growth of more than 20% in this business. Now there has been another issue that there is a change in the amount of percentage of subsidy being offered business central government, so typical program has been that central government will offer 40% and state government will offer 10%. So that is what it become 50% subsidies in two major states like Maharashtra and Gujarat, it is 50. Some other state governments offer more than 10%, Karnataka, MP, Andhra, Tamil Nadu, Rajasthan so many Indians are there.

Now, there the state government instead of 10% can provide 20% to 40% so subsidy becomes 70% to 80%. Now, while subsidy is on one hand the percentage of the total farm, but subsidy is also fixed on a per hectare basis, so recently the ministry **(Unclear)** revised the norms of subsidies so let say for cotton or sugarcane now subsidy level in a row crop may be 90000 with the calculation of Rs.90000 hectare cost now and for some other crops cost now to be below. So earlier even when the subsidy was let us say optically lower than the actually invoicing price and that is how the industry has been working for so long, with the revised cost norms which exists today we think even though a percentage of subsidy central governments portion has been reduced, absolute amount as I explained already remains the same because cost norms have been changed there is an effective higher amount available as a subsidy as a percentage of the total invoice so that is another possible.

Now coming to the reduction, which the central government has done so instead of 40+10 for let us say medium-to-large type farmers the formula now is 25% so that 35. The formula of 35 effectively becomes 41 because of improved cost norms on one hand. On the other hand, the other farmers, which are like smaller farmers overall formula was 50+10 for the small and marginal farmers so that now has become 35+10 that is 45. Now a good amount of farmers are the small-to-medium farmers therefore lot of subsidy gets absorbed in that. Also there are special areas within the country like for in Maharashtra there is a Vidarbha area where there is a program called Vidarbha Irrigation Development Program called VIDP.

Now under VIDP you get almost close to 75% subsidy and that has not been affected by this change in the central government or if there are any tribal areas or SC, ST farmers for them they are not getting fully affected by these changes. Now even if central government has made these changes in our experience practical experience in last three months we have seen that most of the reduction has been absorbed by the state government so as such no state government is really come out with the new programs the effective subsidy now instead of 50 is now 35. They have said that if center has reduced percentage we are going to pick that up. Now the thought process behind central government was that we have going to keep on increasing allocation but we want to now reduce the percentage of subsidy because we want still more farmers utilized drip irrigation. So there is so much more demand than the amount available and that is why we want to share this with more farmers, also because of higher agriculture produced prices, the health of farmer needs as a subsidy has become reduced because the payback period earlier which used to be three to four years is now one to two years from the investment so you can afford to put little bit of more of his own contribution therefore subsidy percentage should be lower. That is what is the stand taken by central government and this stand has been fully supported by the entire industry because the industry also believes that whenever a farmer's contribution of his own share is more as a part of whole then the success of the construct of drip irrigation improves much more because the farmers who has put in his own share tends to care for and tends to see that he gets good result and therefore once he gets more good results there are so many other farmers to follow it. So that is good for the industry and good for the farmers. So overall industry also supports the thought process that subsidy percentage could be lower but it should be given to more and more farmers and as I have explained up to now, there is enough money available and there is no change of any materials in the ground which could negatively impact overall business of microirrigation.

Overall the industry is likely to grow within the industry our company our prospects remain very good. On the projects you would have seen over last few months we have had one or two public announcement where we got some access to large projects. There are few more projects in pipeline. We are working in a various states. That looks very positive on one

hand. The retail business as I said is also driven by the farmers and more and more as we also move towards cash and carry model availability of subsidy is an extra benefit available to the farmers but that would not impact our business and I just want to close my opening remarks by giving one example for everybody's benefit. Last year in Maharashtra we did about Rs.650 Crores hectare and mind you as of now the state government has not even taken the application from the farmer or whatever else for the last year because they are still releasing the money to the farmers related to 2012 – 2013 but because we have changed our business model, we have almost recovered almost all the money of what we have already sold last year. We have very little money related to common it is less, still outstanding so if there is a delay from the government or change in the percentage or amount or whatever, then that goes back to the farmers that does not impact either our existing receivables or part receivables. They are all well covered under our new program. So there is no negative impact on receivables. There is unlikely to be any negative impact on ourselves with the current monsoon the way it has been there is more and more prioritization in the country, with the policy makers, with the farmers, the governments and everybody that we need to make the country and our agricultural monsoon-proof and one of the sure short way of making monsoon proof or agricultural monsoon proof is to try and see that every farmers has irrigation even post rainy season and if you need to have every farmers drip irrigation the amount of water available in the country is limited and if you use this you can save that water so that water would be available to all the farmers.

The Central Governments also come up with the program called "*Harketh Me Pani*" in Hindi that means a "*water to every single farm*" and under that program they have in fact started a new program called "*Pradhan Mantri Krishi Sinchayee Yojana*" which is about Rs.1000 Crores they have allocated the contours of that program are not exactly clear as of now one has to little bit wait and watch because this is the new program. But all in all just to summarize enough money is available, percentage reduction is not making any change in the ground reality, business will grow significantly in the current year, but if you are thinking of two to five years or ten years scenario, the opportunity to grow in this business is extraordinary and our offering to customers one is the part, which is the competitiveness of the business, which is there but the solutions and the services, which we are offering is improving and another thing is that government is also moving towards propelling to farmers more credit to buy things like drip irrigation. Whether it happens through our NBFC, whether it happens to the bank we are working with other banks as well and these banks are now working more closely because this gives them this priority sector lending allocation if they give loan to the farmers for drip irrigation and we are seeing more and more interest on the bank.

The government in this budget also talked about this extra 50000 Crores for long-term asset creation in agriculture and drip irrigation forms part of their long-term asset creation, so

more money is moving from the banking system also for the capital assets investment creation so subsidy more lending from the banks, better realization at the farmer level so the way I see it you know the discourse hereafter should be more about how much growth we have and which crops we are covering it should be less about the percentage of subsidy or which state as subsidy or not because I think everybody finds their own way to try and fund this program because it is so popular with the farmers. Thank you.

**Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Hemant Patel from Asset Capital. Please go ahead.

**Hemant Patel:** Just two questions and clarifications I think. One I think regarding the project businesses like the one which you got for Karnataka and I think Himachal. Could you give us some sense on clarity as to whether if funding for these projects typically comes out from the subsidy allocation that you talked about the 1560 Crores or is it coming out of the AIPP scheme?

**Anil Jain:** Actually some this funding definitely does not come from this particular 1500 Crores, some of this funding is done at a state level or from multi lateral credit agencies so let say utility irrigation utility both in Karnataka might raise its own fund through its own bond or might get a credit from JICA or any other multilateral agencies so irrigation project which we talk about are getting funded either through AIDC and/or at the state level budget and multilateral agencies or the individual utilities. Combination of this three or four possibilities but they are definitely this amount does not come out of this 15600 Crores.

**Hemant Patel:** Just to more clarity on this when we talk about a project funding is the entire cost borne by the state government and the farmers as such do they bare any kind of subsidy burden?

**Anil Jain:** That will depend on the projects. Sometime the state government will ask the farmers with that new within 10% or 20%. Please remember that these projects are coming as infrastructure project. Now infrastructure creation either to deliver power to the farmer, to deliver water up to the farm is a government responsibility so therefore a farmer contribution is limited in this project and maximum contributions from the government because the government job is to create infrastructure from that angle this is where it has happened.

**Hemant Patel:** One final question, in terms of certain schemes under this new structure that we have I believe this under AIPP itself there has various schemes which have been subsumed but when I look at it in terms of procedural disbursements for these subsidies has it changed under the new mechanisms? I mean what I wanted to understand is in Gujarat we have this disbursements, which are happening at a much faster pace so as the central government

done anything in the interim term or in this budget or anything that you can get a sense on whether the process have been simplified and made it easier?

**Anil Jain:** As of now it is too early. Budget was hardly three or four days ago so I do not think there is any significant change. See central government is very quick in delivering the fund. The issue remains at a state government level. Whatever the issue is not at the central government level; central government has already has released 500 to 600 Crores of the current year 2015 – 2016 so they are moving fast they are very quick, as soon as the state government their accounts of how they have consumed the earlier fund central government immediately releases the next you know next week, so that is a very well oiled smooth mechanism. The delay is at the state government.

**Hemant Patel:** Thanks a lot. That is really useful. Thanks a lot.

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

**Umesh Patel:** Couple of questions from my end. I just wanted to understand about the MIS I mean as you highlighted earlier that despite the fact that central government has reduced the subsidy from 40% to 25% for medium farmers and 35% to for a small farmers you have highlighted that it would not have any impact on the farmer sentiment but I just wanted to understand, if it will have a negative impact on farmers sentiment because it will have extra burden on the farmers cost if I am not mistaken can you clarify the same?

**Anil Jain:** I also said that I will repeat what I said that first of all the state governments are absorbing that reduction today so as such on ground there has been no change viz-à-viz the state government. So we have not seen any change on the ground reality. Also I have expressed that the benefit available to small farmer remains quite high and the farmer themselves now because they are making more money it does not create any big impact on them and in ground we have not seen any difference in terms of our growth. In fact things are moving quite well.

**Umesh Patel:** But Sir, if you highlighted that the cost of installing per hectare MIS I mean is something in the range of 90000 per hectare and 50% is subsidized by a government which include central government as well as state government 10% so it comes at 45000 but in this case as you highlighted central government subsidies came down to 25% and the state government will remain 10% so 90000 35% comes at around 30000 only then there will be extra burden of around 15000 per hectare on farmers right?

**Anil Jain:** I think this Rs.90000 a hectare is for certain farmers who are let us saying, doing raw crops like cotton and sugarcane. Again to repeat I have said there is no state has said that we are



going to give you less so the subsidy for the farmers as of now remains the same level what it was before and instead of that I have said further so that is the first fact, so I do not know how do I clarify that further but there is no change on the ground and the subsidy available to the farmers. Second part which I have explained is that the absolute amount available to the farmer as a percentage of subsidy has gone up because cost norms have been recently changed so that has improved and there are so many farmers either small farmer, marginal farmer, ST SC farmer, tribal farmer, farmers in special areas they continue to also get the similar benefits. So all in all what we have seen that we have almost no change and this is not something new, government kind of decided to do this in November – December, it came out sometimes something in February – March and as of now you know on the ground there is no impact on business so these are in a sense somewhat imaginary scenarios, I have not seen any farmer coming to us or anywhere against **(Inaudible-27.55)** I am getting less subsidy so I am not going to buy not a single case we have heard or seen.

**Umesh Patel:** Second question was related to I mean receivable outstanding in MIS I mean if you can give us some figure?

**Anil Jain:** The receivable outstanding you know I cannot talk any specific numbers right now, but you have seen that as of March 2014 our receivables have been consistently coming down. We are committed to bring them down further. The overall MIS receivables that 257 days end of March and we will see a reduction in that every single quarter. Amount outstanding against government receivable was 392 Crores in March 2014 and that amount also you will see coming down every quarter so we are moving in right direction. We are moving towards our target so that is all moving quite well.

**Umesh Patel:** Sir what was it last year in FY 2013 government receivable?

**Anil Jain:** Sorry.

**Umesh Patel:** What was it? I mean the government receivable in FY 2013?

**Anil Jain:** Receivables were about 100 Crores.

**Umesh Patel:** Thank you very much.

**Moderator:** Thank you. We have next question from the line of Arya Sen from Jefferies. Please go ahead.

**Arya Sen:** Good evening Sir. I just wanted to understand one, what was the date of this notification and by which department was it released and also has the subsidy shares to anything else being caused I mean what was the context of this?

- Anil Jain:** I did not get your second of the question.
- Arya Sen:** I mean has the subsidy, I understand there are similar subsidies to some other agri equipments as well so has it been cut for any other agri equipment or is it specifically for microirrigation that the subsidy share has been cut from 40% to 25%?
- Anil Jain:** I do not know about other agri equipment, this is effective, that the first part of your question is this is effective April 1, 2014 and this came out I do not have precise date, but it is on their website. You can go and see Agriculture Minister's website.
- Arya Sen:** You were saying that you do not expect this to impact demand too significantly you expect that farmers will buy nevertheless regardless of the amount of subsidiary they are getting from the government?
- Anil Jain:** Yes that I just want to reiterate I do not see any negative impact forget about significant impact I do not see any negative impact for all the host of factors which I have already explained and this is what we are seeing that on the ground also.
- Arya Sen:** Thanks a lot.
- Moderator:** Thank you. Next question is from the line of Amit Murarka from Deutsche Bank. Please go ahead.
- Amit Murarka:** Mr. Anil Ji, just to understand this matter you said the cost norm have been revised now so from what I know the cost are determined by each state am I right over here that Maharashtra state will decide the cost norms for Maharashtra whereas the other states of Karnataka we have to wrong cost norms?
- Anil Jain:** No cost norms are decided by the central government in consultation with all the inputs they get from the state government. So see there are two separate issues one is the cost norms based on the cost norm government decides so let us say for cotton the cost norm is 90000 just to take one example and if government is giving let us say 50% so they will effectively one can go and give 45000 now even if let's say bill Rs.2 lakh for hectore instead of 90000 government should give 45000 that is why the norms are to decide what does that 50% means for the government, but then depending on the state there are some states where as such there is no price requirement you can go ahead and do the pricing you would like, some governments like Andhra or Gujarat they negotiate specific prices with the manufacture suppliers, which are applicable so that is the separate issue but the cost norms are decided by the central government and they get revised every two to three years based on the input from the industry as well as the state in terms of overall new cost, cost of polymers sometimes change in the structure of the product or reengineering of the system

etc., etc. So it is a fairly detailed exercise scientific exercise done by the government with the help of technical experts as well as Nabard and others.

**Amit Murarka:** How much would has the cost norms been revised up by?

**Anil Jain:** Depending on the crop and change in the type of the products they are accepting or designing. Some cost norms have been up somewhere between 5% and 30% depending on different, different type of products, on an average you can say about 15% definitely.

**Amit Murarka:** So just to again understand this further so you are saying the state based on tenders like say Maharashtra takes off the tender so they decide certain pricing which is separate from this cost norms?

**Anil Jain:** Yes, when the state decides the pricing so you will have to invoice to the farmer at that price right and the government norm for the subsidy is different and some places there is no pricing so you can give whatever is the price but if your price is more than the government norm the effective subsidy available to the farmer becomes less, if we accepts to buy from a manufacture at a higher price than the government norm then the effective subsidy he gets becomes somewhat less, effective subsidy absolute amount remains the same but effective subsidy gets less.

**Amit Murarka:** But the state also gives an additional subsidy the 10% subsidy let's say which the Maharashtra state gives does that also gives it on the central, state norms or its own norm?

**Anil Jain:** Those are the central norms once those norms decided under that program only center give the money and state is giving the money. So that is based on the exactly same norm those are applicable to all states and all subsidies for that.

**Amit Murarka:** Thank you.

**Moderator:** Thank you. Next question is from the line of VK Kartikeyan from Suyash Advisors. Please go ahead.

**V K Kartikeyan:** I wanted to ask you a conceptual question. You referred to this point briefly in your opening remarks which is to say that given the very attractive payback periods farmers do not need any incentive in the form of subsidy itself to buy these drip irrigation systems. So from your side or from the industry side has there been a representation made to go away with that mechanism itself because it seems to distort the market demands and what do you think would be the biggest hindrance to doing away with this?

**Anil Jain:**

I think, let us not generalize agriculture or the farmers there are farmers who do very well who are making Rs.2 - Rs.3 lakh a acre a year those farmers can afford to spend Rs.30000 – Rs.40000 a acre on drip irrigation and pay for it themselves that is possible there are farmers who today have limited amount of excess of water therefore they cannot grow cash crops. They need support and help of this program so that they can move to the cash crops and start become more value added farmer. There are farmers who have today no access to water as and when access to water will become available and because water is limited they would need to use drip irrigation because they have only access to limited water so only with the drip they would be able to do their farming. So there are different classes of farmer and at different stages of evolution or income earning level they are depending on the area season and the crop and their own economic profile. Now going beyond this basic fundamental issue so why government is providing subsidy generally speaking, a typical farmer who is not using drip irrigation and he is the irrigated farmer what is he doing? He is using floor irrigation. When he will use floor irrigation he would use lot more water, he will pump so he will use lot more energy, he would be throwing fertilizers so he would be using lot more fertilizer. Now on all of these inputs fertilizer, energy and water government is spending lot of money, which is what I call consumption subsidy. By helping farmer invest into a drip irrigation equipment government is saving its own consumption subsidy. So there is a payback to the government when farmer invest into drip irrigation. Now therefore and generally speaking also I spoke about that it is government responsibility to do the infrastructure creation anywhere in the world and drip irrigation is being considered by the government as it is a last mile infrastructure creation into the farm so that there is more efficiency in everything. Now the way government device the program that we will put in the 50% and the farmer should put in the 50% for this last mile connectivity and governments logic is my 50% which I am putting in I am saving because this farmer would use less of water, energy, fertilizer etc., and he becomes more productive, makes more money overall rural economy improves so everybody benefits. So this is not that kind of a bad or consumption subsidy. This is an investment assistance, which helps the farmer to produce more to save on resources. So conceptually this is a positive assistance. This is required. There is a large of this country. There are 140 million hectares under cultivation, 70 million hectares under irrigation and hardly 6-7 millions have been covered under drip and sprinkler today. So there is a lot more to do long way to go, but within that context if government wants to cover more and more farmers now then government has limited budget. They do not want unlimited budget so they want to ensure that this will grow at the concept and they want to device and you will see this happening again over next one year six months, nine months there would be a further policy changes where government is going to push a big emphasis that more and more farmers to use microirrigation and subsidy will remain. I do not see any reason why it will go away. Percentages could change but they have been already changes and after such a significant change takes place there is going to be year or two before something new may happen but the government is pushing more

money through banking system, government wants to put in more availability of money through project or cluster development approach etc. So all in all, I do not expect suddenly to see a day where government has zero subsidy my friends you go ahead and do what you want a hereafter to farming community because this is something which is creating extraordinary positive returns for all the stakeholders and that includes the government and the farmers apart from the environment and country's agriculture productivity.

**V K Kartikeyan:**

Thanks that is very helpful.

**Moderator:**

Thank you. Next question is from the line Amit Murarka from Deutsche Bank. Please go ahead.

**Amit Murarka:**

Sir thanks for taking my question. Just a followup to the earlier one, Sir this regulation that the Maharashtra government has taken out of compulsory microirrigation for cash crops is anything under central allocation for that or that is completely something to be decided by the state?

**Anil Jain:**

No, see what the state government did that they have pushed this new program on the sugar factories that all sugar factories in Maharashtra every sugarcane they buy and they have given them up to five year window, three to five year window that they must buy from a drip irrigated farmer. So they have put the onus on the sugar factories that if you during this period of time, if you do not buy everything from a drip irrigated farmer we might cancel your license to process sugarcane. So that is a kind of regulatory mechanism they are using to force the efficiency because sugarcane really guzzles lot of water, it is very inefficient way of agriculture. So here now the question is the sugar factories, who pays for this side. So part of the money comes from the normal program, which is the central state government, the whole earlier what was called national microirrigation issue, partly then sugar factories themselves decide to fund and which they will recover from the farmers over a period of time and some money is coming directly from the farmers so everywhere depending on the need a new business models are evolving to fulfill particular situation and as we have spoken earlier over five years sugarcane means it is a 9000 to 10000 Crores business possible in Maharashtra with every single acre where sugarcane has been grown is brought under drip. So all of that money is not going to come from central government partly will continue through the main program but the remaining will come from banks, from sugar factories eventually ultimately it will come from farmers because he is already getting good payback because typical farmer who is using drip might get somewhere between 70 and 100 tones per acre as against the normal farmer who is getting only 30 to 40 tones of acre of sugarcane. So farmer already gets that extra money within the first one or two years.

**Amit Murarka:** Just under the various schemes we hear that this allocation microirrigation to be having any historical information as to how much of the fund let us say from RKVY goes from microirrigation historically?

**Anil Jain:** That depends on individual states. This program RKVY I talked about that is a program where central government says that if we have a good program in the state we are willing to give you if required 100%, if required 50-50 whatever. Now it depends again on individual state how much they want to draw in this particular program and where they will do something else. Now there are some states where the central government allocation in main program is enough for them. They are not dig on the drip side. States like Maharashtra the central government allocation is not good enough for them. They need farmer because the farmers are more progressive, farmers have decided to adopt technology more aggressively etc., then these states where they need more than the normal central government program they go and utilize funds from things like RKVY, RIDF and other sources so that they can effectively fulfill all the demand, which is there from the farmers and just to reiterate till date there have been delay about over last 27 years now or 28 we have been in business not a single time government has said to a single farmer any state government that your installed drip but I am not going to give you money. I am sorry my budget is full. It does not happen. In a given year if the government did not have budget they will bring the money for the next year. There has been additional budget, supplementary budget, they borrow they do whatever it takes but they do fulfill the commitment over to farmer that is actual experience of last 27 years.

**Amit Murarka:** Thank you.

**Moderator:** Thank you. Next question is from the line Mark Braun from Lloyd Baughan. Please go ahead.

**Mark Braun:** Thanks very much. I have sort of a bigger picture question. You have been talking about how this regulatory change has relatively small impact in your business. Thank you for that. Nonetheless from my perspective, it seems to have been somewhat unexpected by the market. How has this policy change reflective of the government's thinking about overall irrigation business and what were they helping to achieve with this? What did they achieve? What do they tell us about the broader thinking in what we might expect in terms of policy in the future?

**Anil Jain:** In terms of broader thinking this decision was taken by the earlier government. As I said this was kind of finalized by them January, February the new government has come in just in month of May. So this particular decision has not done by the new government. It was done by the earlier government when they were kind of walking out and their thought

process was we might reduce the percentage of subsidy but the amounts will keep on increasing so more farmers will get benefit because this popularity is growing and this system needs to be more broad-based to more number of farmers that was their logic. The new government, which has come in hardly six weeks or so in place six to seven weeks they have very clearly indicated that they give lot of importance to microirrigation and they want to promote this is a technology because as again I explained there are enormous amount of benefits to all stakeholders by utilizing this technology but it has been hardly six to seven weeks so for them to come back with something new, better or something which is more meaningful or more deeper in terms of impact, I think it would come over next few quarters or maybe in the next budget or that kind of a scenario, but from whatever we have seen and we have heard the new government at a broader level in terms of your question is committed to promote more and more of microirrigation because especially the honorable Prime Minister, the state he came from Gujarat he has seen lot of benefits of this concept there and for everyday we are looking and we are discussing with the various state government new ways of different projects, whether they are coming from as a part of integrated irrigation projects, whether they are coming through crop development scenario whether they are coming through a specific limited benefits being given in a geographical area the various state governments the whole concept of microirrigation, drip irrigation combined with productivity increase and management of water and now even more so the whole of this renewable energy including solar water pump is becoming a buzzword and we are in discussions with various state government and one will starting results down the line over next few quarters but significantly larger projects are coming through where one can put together all these technologies microirrigation, water efficiency, productivity increase, renewable energy and creation of water resource itself to creation of farm pond or whatever else are using pipes. So broader scale we are very bullish. We think the new government if they do take their intent and what words they have said to the fruition through proper operating metrics going forward over next year or two then we are looking over next five to ten years ability to grow significantly more than what we have done in the past and in the past also we have done lot of growth except last two years so we are very bullish about the new government its policies and overall broader directional signal they have given.

**Mark Braun:**

Thank you very much.

**Moderator:**

Thank you. We have next question from the line of Abul Fateh from Baroda Pioneer Asset Management. Please go ahead.

**Abul Fateh:**

Good evening Sir. Sir my question is you just mentioned that the cost norms for the cotton crop is 90000 per hectare so other cost, cost norms decided crop wise on the micro basis or is there any broad definition of the crop like you said cotton, sugarcane, rice is it decided on the crop wise or is it broader definition of the crop?

- Anil Jain:** No within those crops also they look at the spacing what is the spacing at which it is being planted. There are different geometric spacings and within that for each crop there could be two or three types of phasing within that they decide the cost norms.
- Abul Fateh:** So within cotton also you can have a wide space of the closer space?
- Anil Jain:** Yes you can have some difference and also the irrigation systems they are being provided depending on the spacing where it is being planted because if they are very closely planted you need those more initial points, so you need those water meters what we call emitters and that would increase for example the cost per a meter basis. If it is widely space the cost could be lower so within a given crop based on spacing for each crop there could maximum two or three spacing not too many and accordingly cost norms would be different.
- Abul Fateh:** So what is the range of these cost norms means minimum and maximum?
- Anil Jain:** See something where the spacing is let us say 12 meter x 12 meter cost norms would be as low as Rs.2000 – Rs.25000 a hectare but if the spacing is one meter x half a meter the cost norm could be Rs.90000 a hectare. So widely spaced crops are much less but the closely spaced are row crops they are much more.
- Abul Fateh:** So the 90000 per hectare would be the maximum number in terms that way the cost norm?
- Anil Jain:** Roughly 90000 to 100000 would be on the maximum size in that range.
- Abul Fateh:** So that would be a clear number on the ministry of agriculture website for this?
- Anil Jain:** Yes, this is part of the government record and they distribute this. I do not know whether it is on website or not but this is part of the official minutes, which they share with the government and the companies etc.
- Manoj Lodha:** No it is already there on the ministry of agriculture is called an operating guideline of national commission of system in that. Thank you very much.
- Abul Fateh:** Thank you.
- Moderator:** Thank you. Next question is from the line of Surya Narayan Naik from Sun Capital. Please go ahead.
- Surya Narayan Naik:** Good evening Sir. Just to understand whether the microirrigation concept is also applicable in case of cereals especially when rice and wheat alone account for nearly about 50% of total acres. So is it only suitable for cash crops?



- Anil Jain:** No drips and sprinkler is suitable for all crops so that is the first answer. Now in terms of application and utilization today as we stand today over last two decades we started with fruit crops then we move to vegetable nowadays we are doing lot of cotton, sugarcane and we are also started doing things like oilseed and pulses. We are doing some work already we do self sprinkler irrigation system etc., on wheat and we have done lot of research on rice in last three to four years. I think the large scale implementation on wheat and rice will kind of come two three years down the line but meanwhile we are growing into apart from fruits and vegetables we are growing in sugarcane, cotton, pulses and oilseeds right now and there is a lot to do there also. Part of the reason in rice and wheat it has not taken big time because lot of places like Punjab and Haryana farmers are getting free water and free electricity. So there is a less incentive to save or improve productivity because prices are also dictated by the MSP there. So some of the things are going to change as we go along and our research also shows that one can save in rice for example 60% - 70% of water and still increase 15% to 20% yields and that we would be big positive for the overall economy. So we are in right direction but those two crops what is the last one to fully captured, but meanwhile right now we are doing so much more on as I said apart from fruit, vegetables, cotton, sugarcane, pulse and oilseeds and oilseed is also very large area and India depends on import in case of oilseed and pulses the government again has more focus to grow those more locally here in India.
- Surya Narayan Naik:** Total oilseed it is around 14% of the acreage so how much we have covered or let us say the country has covered the microirrigation in sprinklers in oilseeds?
- Anil Jain:** Oil seeds would be negligible and the amount would be somewhere close to maybe 10000 to 20000 hectares, which is very small.
- Surya Narayan Naik:** 20000 hectares?
- Anil Jain:** Yes.
- Surya Narayan Naik:** Very marginal.
- Anil Jain:** Yes very marginal that is what I am saying. So that is what I am saying that even before we hit wheat and rice there is so much to do in these category of the crops for us.
- Surya Narayan Naik:** What about the sugarcane you said?
- Anil Jain:** Sugarcane in states of Maharashtra, Karnataka, Andhra, Tamil Nadu we have had lot of success. We still need to do lot but we have a good amount of success. We still need to breakthrough in sugarcane, in UP, Bihar and other places where water is available every at 30 feet depth, so it is a very different type of a business model there but even there

eventually as a country India has 16% of worlds population largest amount of land under cultivation compared to any other country and it has only 4% of the natural water resources half of which are in glaciers in Himalaya so this is a big issue and as people feel that more and more is when you will see more and more demand coming through also. But with what is happening today as I said we are looking to consistently grow 20% plus, which is quite positive if some of the extra government programs come through in the given year or on a consistent basis growth could be on higher in the past they have grown 30% every year on consistent for fairly long period of time.

**Surya Narayan Naik:** Which crop actually you are being covered till date to maximum extent if you can give some highlight of the major crops it could be oilseed it could be anything?

**Anil Jain:** I understand, so crops where we have done a lot like bananas or rice these are the crops there are areas where 90% of banana that covered under this for example. Fruit crops we are doing more and of pomegranates we are doing more of mangos vegetables it is growing we have done lot of work in sugarcane and cotton in certain areas so those crops.

**Surya Narayan Naik:** Sir majorly people who are going for the cash crop they are only adopting microirrigation rather than the water intensive crops I believe, because you said about the rice and wheat in Punjab and Haryana okay but in the certain parts of West Bengal happens to be one of the major rice producers so is Andhra Pradesh so what is the scenario there?

**Anil Jain:** Those areas as I said those are kind of submerged areas in the water so it will take time before you can go over with drip and sprinklers into those areas, but even there in horticulture it is already happening in these places like West Bengal and others also.

**Surya Narayan Naik:** So the scope of growth in medium-term other than near-term may come from the cash crops rather than the cereals I believe am I right?

**Anil Jain:** I think short-to-medium-term growth will come from as I said fruits, vegetables, cotton, sugarcane, pulses, seed and oilseed and eventually this is three to five year down the scenario you will start seeing significant contribution coming from things like wheat and rice. They are not there for next three years but that is enough to do between now and then into all these other crops.

**Surya Narayan Naik:** Is there any data somewhere available for how much the kind of microirrigation the country had up to till date?

**Anil Jain:** Some of the data you will get from the Government of India website.

**Surya Narayan Naik:** Just last clarification.

**Anil Jain:** The data is available on the Ministry of Agriculture. There are lots of statistics available and you can go through that.

**Surya Narayan Naik:** I will just come back the queue.

**Moderator:** Thank you. Next question is from the line of Siddharth Mohta from Principal India. Please go ahead.

**Siddharth Mohta:** Good afternoon Sir. Sir in your opening remarks that you have mentioned that the state like Maharashtra and Rajasthan can always borrow from some of the no diligence like Rashtriya Krishi Yojana and from the Nabard and rural infrastructure but sir the time and again we keep only hearing that the Maharashtra government they are still very old use, which is of like 2012 - 2013 so why is that there is some disconnection actually?

**Anil Jain:** This whole process is at the state government level when they have to do things which is going beyond the budget it takes time than to get as well some planning commission, finance and all of that so I have made two statement in last 27 years not a single farmer been denied on one hand. As far as we are concerned if you talk of Maharashtra or others we have moved away from delinking subsidy to ourselves, subsidy as and when become available would be credited to the farmers account. As far as we are concerned, we are collecting everything so Maharashtra government may owe farmer x some amount of money but what they was is now something very small and which I think this quarter will get over and under the new business model our receivables would be only related to what we have with our normal trade accounts by dealers. So in summation, it is almost an hour so in summation what I would like to say as a company over last two years we have moved with the business model where we have we are very clear that we are reducing our reliance and dependence on subsidy as a part of our receivables so that is not there anymore. Almost at 80% of area where we are going sales now where it is very efficient the way we collect. The overall amount of government receivable in our account, which were almost 1200 Crores in 2012 would down to 700 in 2013 they were down to 400 Crores in 2014 and they are going down every day as we speak even though we are doing lot more new sales. So absolute amount is coming down our model has changed and the central government is fully behind this program in medium-to-long-term as well as in short-term there is no reduction in the total amounts available and there are more amounts available under different, different sources so therefore with all what has changed with the change of the government change in the policy what partly was done by the last government we do not see any meaningful impact negative on our business overall business is moving positive and as you will see in the results we have strong growth.

**Siddharth Mohta:** Thank you Sir.

**Moderator:** Thank you. Ladies and gentlemen due to time constraint that was the last question I would now like to handover the call to Mr. Anil Jain for his closing remarks. Over to you sir!

**Anil Jain:** Just as answer to the earlier question, I have kind of summarized the company's position and I thought it was important that we should have this call. In summary also I would like to say is that overall this budget is good for the company. Government has given more funding for things like drinking water projects, government has talked about this 100000 solar pumps and so on and some of these will also impact our other businesses like pipes and solar pump division, which we have so all in all we feel fairly bullish about overall growth opportunity. There could be a seasonal issues at the start of the year we said that our first half is going to be weaker than the second half. Second half will be stronger. Partly we had a export project last year in the first half which we do not have now in irrigation or we have similar project in pipe last year, which we do not have now but in second half we have few other projects, which are coming up so all in all for the whole year our guidance for the growth remains what it was at the start of the year and we are looking forward to positive numbers and good growth opportunities.

**Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of Motilal Oswal Securities Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.