



Jain Irrigation Systems Limited

Q1 FY20 Earnings Conference Call

August 16, 2019 at 3:30 pm IST

MAIN SPEAKER:

- Mr. Anil Jain: Vice Chairman and Managing Director

Moderator: Ladies and gentlemen, good day and welcome to Jain Irrigation Systems Limited Q1 FY'20 earnings conference call. As a reminder, all participant lines will be in the listen-only mode. Should you need assistance during the conference call, please signal for an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you, sir.

Siddharth Rangnekar: Thank you and welcome to the Jain Irrigation Systems Conference Call for Quarter 1 FY '20. Joining us today are Mr. Anil Jain – Vice Chairman and Managing Director; Mr. Atul Jain – Joint Managing Director of Jain Irrigation Systems; and Mr. Neeraj Gupta – who is CFO of Jain Farm Fresh Foods Limited. We will commence with opening remarks from Mr. Anil Jain.

Before we begin, please note that some of the statements made on today's call could be forward looking in nature and a note to that effect has been included in the presentation, which was made available on the company's website and on the stock exchange websites.

I would now like to invite Mr. Jain to give us a brief overview of the company's operations for the quarter ended June 30, 2019, and the opportunities that lie ahead. Over to you, sir.

Anil Jain: Thanks, Siddharth. Welcome to all the investors, analysts and the entire financial community who may be on the call.

I would really thank the investors who continue to hold the Jain irrigation shares despite the value erosion which has taken place in the last few months and quarters. We really appreciate their support and their continued interest in the company, and that is very heartening. Also, feel a little bit sad and bad for the investors who have already booked the losses or they had to sell their shares. I think, from company's side, we have tried to do what we can, but these have been challenging market circumstances and I hope in future, things become better.

Coming to the overall financial performance for the quarter which has just now passed. As one can see, our revenues, especially in India were lower compared to the same period last year, while our revenues have been somewhat higher in the overseas businesses. And also overall on our food side, we registered positive growth. We had kind of anticipated this, and I think there was some reference to this in the last con-call of the last result because, by then, we already knew how things are going. Since then, I think general turmoil in the economy has become larger. Liquidity has further dried up. Overall, business confidence is much lesser from all the stakeholders, whether suppliers or customers. And so one has to be careful in terms of what business you do because a lot of focus is right now to ensure a certain amount of liquidity, to ensure sustained business operations and to continue to build for the future.

So whatever one might have said maybe 2 months ago, things are different now and one needs to do the course correction as we move forward. We cannot exactly do what was said before because things have changed rapidly on the external front and maybe things are going to become worse before they become better, but that's the kind of situation one is in. And we had already said last time that we do not intend to give any specific guidance for the current year, at least for the first half, for 6 months because of this kind of fluid situation and so that stance continues. We do not know exactly how things will pan out because of so many things. And maybe when we talk during the September results, that might be a more appropriate and better time to get more concrete about the future. Till then, I think, as a company, as a management, we have focused inward in terms of operations, in terms of maintaining relationships with the customers, on cost control and improving overall working capital cycle. That's our focus.

The other major thing we had announced last time was that we, as a company, want to deleverage by Rs. 2,000 crore or Rs. 20 billion in next 1 to 2 years. And what I would like to share with all of you is that, that process is on. And in fact, with the events which have taken place in last 2 months, 2, 2.5 months, it is important to note that the resolve of deleveraging, in fact, in our mind as management and Board level in fact has become even more stronger that if it is possible that not to just deleverage by Rs. 2,000 crore or Rs. 20 billion, but we should try one to do more deleveraging because, I think, external headwinds are such that, to create a better sustainable Jain Irrigation going forward. It is important that the debt part we must be able to take care in a manner so that in this kind of situation, we should never face again, that's the bottom-line.

Now having said that, and that, as I said, we are on the course, we are taking whatever actions we are taking on that front. And as and when something concrete happens, as and when anything actionable is out there or what is price sensitive, we would be happy to be sharing with all the shareholders. So I would urge investors to stay a little bit more patient on that count, but please know that our company is taking concrete steps to achieve that. And as of now, I cannot comment on any change in the timeline, so I think whatever we have said in the original timeline, we would still like to maintain those in terms of deleveraging. If we do better, if we do faster, if we do more, we would be happy about it and we would come back and inform you accordingly, but I just wanted to reassure you that, that is on-going.

Now, at last time, there was also this speculation and question about when we are trying to deleverage; and deleveraging is really possible in either of the following ways: one is improving working capital efficiency and cycle; second, divestment of certain assets; third, getting new investors to come in through the equity infusion. It's a combination of all of these, not just one thing and that's a work in progress. And some people have reached a conclusion that Jain Irrigation is going to exit this particular business or maybe sell a stake in Y business. I think it is too early to reach those conclusions. As I said, this is an exploratory process, it will happen. And depending on the investor interest and the valuation expectation and

overall strategic future, the company's management and the Board, along with its advisors, will try and reach out to the most optimum decision in the interest of all stakeholders. And where necessary, we will, of course, come back to shareholders and seek their consent as it may be required.

So at this stage, I do not want to prejudge how exactly this is going to roll out. One thing is for sure, that we are determined; we have set our minds onto it. And I believe with whatever I have heard and seen in last 8 to 10 weeks in terms of interest from the investors in India or outside India, it is quite good. But as I said, these are still informal information flows or connections or data points and so on. And therefore, when we have something formal in place or when we have something which would give us more clarity, we will be happy to come back to our general shareholders as well as other financial market players.

In terms of underlying themes going forward, again over the last few months, we have seen that government of India has started actioning one of their manifesto points, which is to bring 10 million hectares under drip irrigation. And again, I do not want to jump the gun and say that, "Look, this is happening tomorrow. This is how it will." We do not know, but we have seen documents or information to the effect where central government has started working with the state governments to create a detailed roadmap to do this very ambitious 10 million hectare drip irrigation program over the next 5 years. If it does happen, as and when it happens, we will also see how that is going to get financed and how the whole mechanism will work. That it is going to create a significantly big opportunity for us in this market. So that's a big plus and we have seen direction, but as of now, I cannot comment exactly when it will get fully operationalized and how the financing will take place. So one will have to wait and see, but I must share what I come to know in terms of what's an important underlying trend.

Second, I think government has said very specifically that they want to bring this piped water to every tap in the country and it is going to cost them approximately Rs. 350,000 crore. That also they want to do over the next 5 years through the Jal Shakti ministry. Again, there, details are still not out there. I think how it will get financed, for what type of pipes the demand will be created and where exactly one will be able to see the opportunities into the entire value chain, that still needs to be seen. But again, that's a positive direction, that is something that would be good for the company and, generally, this industry. And we await details and we would be working with the government to see that it gets shaped to be a win for all type of opportunity because it is such a major initiative.

The third underlying trend, which is a positive for the business is that polymer prices are coming down, which is always good in terms of the margin. So during this time, which is the time is fluid, a lot of turmoil out there in the marketplace, a lot of issues are happening. At that time, higher oil and higher polymer prices could have impacted us negatively. But the fact that the oil prices are going down and polymer prices will remain benign or

lower should be helping us, overall, on the margin side. So that's a positive trend overall for the company.

A couple of other quick information points on the underlying trends in our different businesses. Recently, we have seen some kind of a circular from Reserve Bank of India allowing banks to lend onwards to NBFCs and treat that as a priority sector lending if NBFCs are going onwards for their funding, either into the farmers, MSME etc. So the fact that if an NBFC lends to a farmer and if bank is lending to that NBFC, it would be treated as priority sector lending, it is being done for the first time. So I think, maybe right now NBFCs themselves are not doing well and so on. But as we move forward in the future, NBFC's appetite and ability to move in a more nimble way to reach out to large customers, farmers etc. in the field. And if they're able to do it, and if banks treat that lending as a priority sector, I think NBFCs will be able to borrow at cheaper costs. And overall, that could be good for our company because our farmers, our customers, they need these loans because, per se buying a drip irrigation system is an investment in capital goods. It's a capex for the farmer and they do need these loans. So that is something, a new positive trend which has happened. These were the two, I talked about irrigation business, underlying what's happening, pipes and so on.

Now on the food side, this season of mango, prices of Totapuri went up. So if you remember, we might have discussed that over the last 2 to 3 years' prices have been coming down, and that has created some impact on our revenues and so on. But this season, prices almost kind of doubled compared to where they were last year in case of Totapuri mango, from Rs. 8 they went to Rs. 16 and so on. So the downturn was cyclical and I think maybe, going forward, if it remains so, but most of the product which we make now in this season with these higher prices would actually get sold next fiscal, but in the future, that means, on the food business, we should have a higher revenue because of these higher raw materials. So that's a change in trend on the food side. Overall, in food business, there is not much involvement of the government and we have individual customers. And most of the product we have been able to process has been now sold. The season was short because of the last year drought into that region where we procure mangoes, season was short, so some of the quantities are less because the season ran almost just only for 45, 50 days as against usual 70 to 90 days in terms of availability of mangoes. So that's where we are in terms of, I think, macro level trends for the company.

In terms of individual businesses for this particular quarter which we have passed by, as you might have seen the investor communication also which we have put out, our overall revenue in India was negative. Within that, micro irrigation business, we did less compared to the same period last year, same with the piping business, but we had a positive growth overseas. We had positive growth in the food part of the business. However, this continued low prices of plastic raw materials has allowed us to improve somewhat our margin. So even though we sold less quantity and less value, margins have been somewhat higher at EBITDA level because of lower

volume of prices on most of our products, which go into irrigation systems or the piping, so that is a benefit during this quarter.

If I really look at overall Micro Irrigation business in India, I think the domestic revenue, what we call our retail business, it had a negative growth in most of the states except states like maybe Maharashtra or Madhya Pradesh where we had positive growth. We are almost same level of revenue in projects compared to the last year, same period of time.

In terms of other individual segments, as I said, on the food side, we had a positive revenue growth both on the vegetable side as well as the fruit pulp side. So overall, that business is on an even keel, moving in line with the expectations that we have for the current year.

All in all, overall EBITDA, it is less than last year because revenues have gone down, so EBITDA was expected to go down in line with those revenues. But overall, I think we have been able to maintain good level of margins considering that we have done lower amount of the business in the same period.

If one looks at and this is one of the quarters, these early quarters, if one looks at the working capital scenario. And then in terms of the working capital analysis, it's important to note that if I compare to, let's say, March at consolidated level, the inventory in March was at DSO of 110 days, now it is 113 days, so not much change. And some of the inventory, those 3 days increase is mostly coming from agro because this and September quarter is when we increase the inventory, so that's a part of a seasonal nature. So I would say, compared to March, inventory levels are almost at the same level. And in fact, if you compare to the last year same period June, our inventories were 127 days and now they are 113 days. So in fact, on the irrigation business, globally speaking, inventory has come down, in plastic business also inventory has come down compared to the same period last year, so that's a positive.

Now when you look at account receivables, however, situation is somewhat different. On account receivables side, at March, we were at 127 days. Now we are at 134 days, so slight increase there. Most of that increase has come in the Hi-tech Agri division, where the receivables are up especially because of the increased receivables in India, but in plastics as well as in agro. In plastic, the receivables are almost same at March level. In agro, they are lower compared to March level. Again, when you compare to the last year same quarter, receivables are higher, of course, in our Hi-tech business, also in the plastic business compared to the same period, but they're lower in agro. So we have reduced the inventory compared to the same period last year by 14 days and we have increased receivable by 20 days. So on a net basis, compared to March as well as compared to June, working capital is slightly higher, but structurally speaking, partly this is seasonal. And I believe our focus remains that the receivable part, which continues to remain high, especially out of India that we should be able to address in the remainder of

this fiscal year and try to improve on that so that not only that it helps us to improve cash flow, but also eventually, it would help us to reduce the debt.

Now another question is in terms of the cash flow generated during this quarter is that the June '18 quarter, net cash generated from operating activities post working capital changes was negative to the tune of almost Rs. 400 crore. That has been brought down to Rs. 90 crore only. So that's a big improvement compared to the same quarter last year where we had Rs. 400 crore negative net cash post working capital. And this year this quarter, it is only negative to the tune of Rs. 90 crore and that is because of some increase in the inventories and receivables mostly, but that's a significant improvement compared to the same period last year, so that's a good positive thing in this scenario.

Overall, if you also see that, partly the company's debt has gone up because of the short-term debt going up. We had kind of alluded to this during our last concall that we expect net debt to be around Rs. 50 to 100 crore higher and that's where around it has come out. And we expect between now and March, with the improved receivable scenario, we should improve on this net debt. However, currently as we speak, whether it was a June quarter, whether it's a September quarter or next few months, it is possible that debt will still remain on the higher side. It is possible that receivables still remain on the higher side because some of the work which we are doing in terms of changing our business model, working with the various state governments to try and recover faster is going to take still some amount of timeline before it can happen. Now when I say timeline, it is not that I'm talking of next fiscal year. I think we should see good results on the receivable level as well as on the debt level during the current fiscal year. But I cannot comment on how soon, how quickly, whether it would happen in next 2 months, whether it will take 5 months, but I think we are getting there. We have done a lot of work over last 2 months. But we are trying to change something which was there for a long period of time, so it won't happen overnight. So this is where we are on the overall debt side. Again, there is not too much of new debt falling due. There is not too much of foreign currency debt falling due over the next 12 months or so. So we are okay in terms of trying to service that debt. We are also working with our working capital banks especially in India, to try and arrive at a proper balance between the delayed receivables and how our working capital is financed by the bank.

Now just stepping back, this question has always been there about why do we have a large amount of debt and what we are going to do about it? So we have been growth oriented company and over the last decade or so, we acquired companies, we invested into new plants. We built production capacities. In last 2 to 3 years, some of the rural India was in distress one way or the other. So the demand didn't come through to us at those additional capacities, and that has impacted us, let's say, on one hand. On other hand, the cycle related to the farmers, their access to credit, the liquidity available to the government, their ability to pay in time, all that also has been hampered. And all of that put together has created additional pressure or

additional working capital debt for the company. And meanwhile, the company was investing for creating a much better long-term outlook.

So having done that in the past, I think we are very clear right now that our focus is to try and see that within the company now, the focus has to be on the cash flow, has to be on margins. Now it is clear that in the past, we have said that we will try and bring debt to EBITDA from 4 down to 3. And it didn't happen in March '19. Receivables went up. So we have been, I think, maybe more optimistic than what the situation warranted when we made that estimation. But I do not want to give up the target right now as we deleverage and continue to do operations in a normal way. And underlying opportunities for our business, they remain still quite good. I think we should be able to reach to that level or make it better in a reasonably near future.

Now one thing I would like to share with all of you is that generally in economy you see there is saturation of demand, people are unable to sell, there are so many industrial categories where people are just unable to buy stuff or demand is not there. For our products, demand is there. Maybe we had a better liquidity situation in June quarter. Some of our negative revenues in India would not have been there or at least it would have been minimal and we would have covered some of that already. So that's a positive.

So when you think about the overall size of the business, where we stand as economy as an entity, as a sector, I think, at an underlying level, I continue to see vibrant possibilities in terms of demand. Because of lower polymer prices, I think on the margin side, we are going to remain good. What we need to address is the liquidity situation, the debt situation and see that our entire cycle starts moving in a smooth way where it has been disrupted over the last 2 to 3 months. And it might be another couple of months that it still might remain disrupted. And hopefully, by the time we start the busy season, starting from October because if you remember, usually 60%-65% of our revenues and our earnings come in the second half, we should be able to still go ahead and get that done once we are post this period.

Now another part is that when we are doing this, trying to achieve this in the short term, over the medium term, we are also trying to see what are we going to do in terms of our business model itself. So that can we reduce some of our direct exposure to the government? Can we find ways to better finance our working capital? Can we be bringing more focus into the businesses which are less working capital intensive? We are looking at all possible actions. But again, it is going to take some time before you start seeing results of these actions.

When you talk of irrigation, the government directly or indirectly does get involved. But we have to just work with the government, also work with our business model to see or work with the banking system, if they can lend to the farmers or to the government and we get paid faster. So we have to see because, ultimately, governments do pay over a very long period of time.

Since our existence, we haven't had to write-off of a lot of debt for the debtors. But the delays have been part of life and part of what business which we have created.

And as my father, our founder, used to say that our customer who is the farmer, his balance sheet is weak. So as an entity which has been created to service their needs, it becomes natural that some extra burden we need to carry on our shoulders because their balance sheets are weak and their ability to sustain changes is weak. But of course, in recent past now, with the way things are happening in the larger economy and how debt has become a bad word, we need to change our business model and also make our balance sheet asset-light or much less liberated than we have been used to in the past.

So, overall, I believe Jain Irrigation continues to remain a very unique and a strong company. There are very few companies like us in the world. We are very proud of what we have achieved in terms of servicing the large community of agriculture farm farmers and creating extraordinary value for them. We have seen good time period for the company itself since its existence where good value has been created for shareholders. Last couple of years, things have not panned out that well for our shareholders. And I hope with all the things we are doing now, including maybe looking at changing the business structure, changing the balance sheet structure, would allow also to create more shareholder value again.

And one of the change we are also looking at that some of our exports, especially project exports which are funded by multilevel agencies, if we could do those projects where the payments are assured or in terms of timing, that could also help us where without reducing the overall revenue size of the company, you could continue to get an improved cash flow. But when you're going through this kind of course correction, it takes some time, and that's what we are going through.

So what I can assure you, we are fully engaged to it. Maybe our actions and the results are slower than what some of the market participants would like, and maybe that creates the larger problems overall for the company as well, but this is a structural change which we are going through. And hopefully, that would allow us to have good future for next decade or two as we go through this scenario where water is so short and water is such a large problem. And we are uniquely placed to address the water issues in rural areas as well as urban areas through our piping business or irrigation solution business. And we continue to do a lot of work on the food side to build our connect to consumers, which also requires that additional push, which we should be able to do going forward.

So over next few quarters, you would be hearing from us in terms of outcome of some of these efforts, whether it is deleveraging, whether it's about value monetization or value creation. You would also start seeing over next few quarters the impact of the change in the business model. But sometimes, before you start seeing very good outcomes, during this period

in between, situation can still remain muddled, and that's where we are at now. But even in this kind of situation, I think business has held up itself quite well. And I would like to thank the entire team of the company and associates for working inside the company who are making that happen. And again, despite the very tough overall scene in the markets or with the banks and all, I would also like to thank to the banks for the support they have provided. And of course, we would have expected things to be somewhat more different than what they are doing now. But I think, ultimately, we would bring solutions together.

Now during this quarter, the total spend on our capex has been close to about Rs. 49 crore. Most of that is maintenance capex in line with our expectation. So really, no big change on the capex side or fixed asset side. We haven't had also any big new investments in terms of subsidiaries etc. So on the commitment of capital for long term, we have been very light in this particular quarter and we plan to maintain that for the remainder of this year.

In terms of generally other issues, I would urge investors that there is a lot of, I would say, the rumors going on or sometimes news is getting published even without companies doing anything. Sometimes, blatant lies are getting published. And all of that gets impact in the rating or in terms of relationship with the bank and so on. And I would urge investors to kindly if there is anything worth knowing or if anything is important which could impact company's medium to long-term future, we would ourselves always come back and directly communicate. We will not wait for market intermediaries to give that information out.

But in short term, I think I must admit things have not been easy. This has been a period of maximum pressure. I think we haven't had in last 2 decades or so this kind of a quarter, and I think next few months might still remain like that. But the company is quite resilient. I mean we have 12,000 people working in the company, we have 33 factories, we have a large number of dealers and distributors around the world. We have products which are getting sold in 100 countries. We are literally serving millions of customers. All that continues. It could vary in terms of intensity, degree, size, depending on the month, season or the country or location. But overall, we continue to march in the right direction.

I think the company has deep reservoir of talent, product lines and opportunity to take us really forward because there are very few companies which can address the water issue, productivity issue, food security issue, the consumption issue, also the renewable energy part of what we do. And all of these are so relevant, not just to India, but also to more and more to even rest of the world. And I think we are quite poised there to take advantage of that.

In the past, maybe we were not that focused on the cash flows and that we have already said, and nature of the business has been such. So we are trying to do what best we can to try and see that this current deleveraging,

which takes place now, let's say Rs. 2,000 crore plus is not a one-time event that's, okay, we go down by Rs. 2,000 crore once, and then again, we go up by another Rs. 2,000 crore in the next 2 years. That's not what we are talking about. We want to see that not only that we deleverage now, but we learn to grow the business with lower leverage going forward than what we have done in the past. So that is the learning and understanding. Every adversity also can be treated as opportunity. Last few months have been quite adverse for the company, and in general, in the economy. But we are taking our lessons from it. We are working on those. And I hope, over the next few quarters, between now and March, you'll start seeing actual changes, which will show some better outcome ultimately for the shareholders as well as all other stakeholders.

So Jain Irrigation, my father founded the company in 1963. So it has been, one way or the other, in existence since long. Jain Irrigation itself was founded in '88. And, over the last few months, an environment or the perceptions were being made that this company is going down under tomorrow and will kind of vanish or it may not exist or everything will get sold. None of that is true. I mean I think I believe this company is going to be here for far, far longer period of time. That I would say is the confidence we have, conviction we have. We believe we have been doing right things in terms of product, technology leadership, market leadership, quality, management, talent acquisition. What we did not have proper control on has been cash flow. And cash flow is like blood of the company and because we messed up on that, company has suffered, shareholder value has suffered. And as we are addressing that and whatever we have done, we have done in good faith. We always work hard. We always work in the interest of all stakeholders. But sometimes, the outcome is not in your hand. But you do learn the lesson, so we have learnt our lessons. And we are committed to make this right, while also ensuring that the underlying business is managed going forward in a more sustainable way where we have more cushions to handle the headwinds, which may be brought from external events and that the external headwinds should not create structural impact on company's existence is what one needs to learn and move forward with. So I remain optimistic. Our entire management team is committed as a collective effort to bring company out of the current issues and turmoil that we have faced in last few months. It is going to take some more time. Meanwhile, we continue to run the business on a daily basis. And again, the short-term results or outcome, I do not wish to comment on because that I'm not sure exactly how that pans out. But medium term to long term, I'm very confident of lot of positive outcomes in everything what we are doing.

With that, I think I would like to conclude in terms of what I wanted to say. I have taken much more time today to speak because in this current environment, it was important that the management is able to put out its thought in terms of clarity, in terms of where we're going, how we're going to go about it. And I would urge that if any of you have very specific questions related to current quarter which has gone, the June quarter, housekeeping type of questions, then you please write to us at the

investor.corr@jains.com and we would be happy to answer very specific questions you may have, housekeeping questions related to last quarter, the balance sheet etc. In terms of the question or queries you may have related to medium to long term, right, about which investment banker, when that is going to happen and all of that, I would urge you that, kindly please be patient. As I said, we are moving in that direction, we are taking concrete steps because these matters are sensitive in terms of price sensitivity on one end, also they're sensitive vis-à-vis the business and strategy of the business and our position in marketplace in general and the competitive scenario. We would come back to investors and share with you as soon as we get some concrete knowledge or have concrete actions in hand. Until then, I would urge you to remain patient on those.

We assure that company is moving in that direction. And as soon as something concrete happens, we will let you know. And I would urge you to have any specific questions related to that, kindly hold on. Maybe when we speak in September, October, I can give you more clarity and/or before that if any concrete actions, also you will come to know. So I think with that, more or less, we have covered the scenario.

Just one last point in terms of overall order situation in hand. The orders in hand at consolidated level have been end of June at Rs. 4,637 crore, which was slightly lower than the last year on the fourth quarter. I think the order book is almost same level as it was at the same period last year. Last year, also, it was Rs. 4,637 crore, kind of the number is almost quite same, even though individually it's different. So this is a seasonal issue. And we are now becoming a little bit more selective in terms of what we are trying to do in terms of going forward. In the new government orders, we are taking less. And we just want to see how the new business model works before we start getting onto that because cash flow is right now far more important.

So with that, I again thank all the investors for your support and all other stakeholders as well, and we look forward to stay in touch with you. Thank you.

Moderator:

Thank you very much members of management. Ladies and gentlemen, on behalf of Jain Irrigation Systems Limited, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.

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