



Q1 FY2017

Earnings Conference Call Transcript

August 16, 2016 at 02:30 pm IST

MAIN SPEAKER:

- Mr. Anil Jain : Managing Director and CEO
- Mr. Manoj Lodha : CFO
- Mr. Darshan Surana : VP Finance & IR

Siddharth Rangnekar Thank you and welcome to Jain Irrigation Systems Limited's earnings conference call for Q1FY2017. Joining us today are Mr. Anil Jain – Managing Director & CEO, Mr. Manoj Lodha - CFO, Mr. Darshan Surana - Vice President (Finance & IR). We will commence with opening remarks from Mr. Anil Jain following which we shall have an interactive question and answer session. Before we begin please note that some of the statements made in this call would be forward looking in nature and a note to that effect has been included in the earnings presentation which is available on the company's website. I would now like to invite Mr. Jain to give us a brief overview on the company's operations for the quarter ended June 30th, 2016 and the opportunities going forward. Over to you Sir.

Anil B. Jain Thank you and good day to all of the listeners and all the investors, analyst community. We are very happy to share our results and it came Friday evening so there has been a gap of 3 days but all in all I believe we are starting in the current year very well as you might have noted earnings are significantly up and that makes us very confident of situation going forward.

Just to recap briefly on March 31st we kind of closed and finalized the transaction of separating food division into a subsidiary company and that has gone very smoothly. The funds came in; all structures are in place. Entity is already operating as a new company effective and overall plan for the food business is to have significant growth over a period of time and try and maintain a revenue growth rate of about 20% per year but as the business does impact a certain amount of seasonality it may not happen that every year. You might have 20% some years; you might do more some years; you might do less and same within a year some quarters we will do less and some quarters we will do more. But all in all we feel fairly comfortable to get on to that path for the food company.

This particular food business in this quarter has not done that great I would say on the revenue growth, in fact it was negative revenue growth because of low exports from India in our traditional markets of Middle East and Europe. But we had a very strong domestic business that was almost 29% in terms of the domestic business growing within India. So consumption within India was very good. Export was weak but some of that is the postponement of some of the shipment and which we think we will catch up in the next quarter.

This quarter is also a very important processing season for two major product lines which we have one is onion and one is mango. On onion side we had very good cost basis, prices of onions were on the lower side. We got good yields and that is helping us to improve our margins significantly into that portion of product line. In case of mangoes we could process record amount of mangoes in the current season which we just finished almost to the tune of close to Rs. 575 crore worth of sale value and as against that we already have contracts in hand of Rs. 475 crore. So only about 15% is what we call free stock needs to be sold over next couple of quarters. All of these orders which are in hand they need to get shipped to customers over next 3-4 quarters. So most of that business will still

get captured in the current fiscal, but some of that business goes into the next fiscal. Again this is standard routine, nothing new but this amount of mangoes which we have at the sale price, mango pulp is the highest ever we have done till date and looking at the good monsoon we expect even a better onion season even for the coming processing season, that is December to March should be benign and all in all together it should allow us to grow our food business significantly in the current year and create a platform for a sustained growth going forward. And as I said because the commodity prices have been reasonable margins should look good and because of higher capacity utilization also that should help us. That is on our main B2B business.

There has been discussion earlier also about our retail foray but as of now we have only one niche product which we have introduced frozen AamRus that has done well. It is now available across more than 1000 outlets in Mumbai and few other larger cities, especially in western India but some cities in Northern India as well. It would be another; I would say 6-9 months before the product is made available throughout the country because it takes time to locate distributors who can carry frozen products. But product has been received well and I believe post upcoming festival season, Dussehra, Diwali and so on we should start seeing good pickup. We already exported our first container to US market as well. So overall development augurs well. Numbers are too miniscule to talk about right now. But I think our current year we would expect B2C business somewhere between Rs. 10-20 crore and next year of course we expect substantial amount of growth and hopefully before 4th quarter we would be launching some additional fruit based product into the retail market and we are working on some of the arrangement. So we will not be able to speak much more detail than what I have already said on this issue but for FY17 it would not have big impact either on revenue or margin but as an effort it is moving into right direction and we are hopeful as well as confident that in coming years this Farm Fresh brand would become one of the important household food brand in the country.

Coming to our other businesses, primary and most importantly is micro irrigation business, micro irrigation business again we have 2 or 3 segments. The retail segment in the last quarter of June was almost same as the earlier year. Earlier year we did about Rs. 344 crore. This year we did about Rs. 342 crore. It is a small amount of change there. And considering the fact that places like Maharashtra where almost there was no water for farmers to have and reservoir level of water in dam was down to 3%-4% and we had more than 20% negative growth in Maharashtra. Overall for us to be able to do almost same as last year shows that we have grown quite well in other states like AP, Karnataka, Gujarat and so on. So this quarter I was fearing actually worse, we did better in the retail market. In terms of the project last year this particular quarter was close to almost Rs. 100 crore; this year we did only 1/3rd of that, so there was significant reduction but there is a timing issue. We have in this project some of the large orders related to solar water pumps and some of the orders are related to other type of projects, integrated irrigation project and sometimes to get all the approvals in this project it takes time. But I foresee that already in the second

quarter you will start seeing some good progress. But 3rd and 4th quarter is when most of this project will get completed and then in those quarters you will see year-to-year basis significant growth into the project segment within the micro irrigation division. In terms of exports of micro irrigation division, it grew on a smaller base but there was a 26% growth in exports and because of our project in Tanzania etc. which would be billing more in the second half, I would expect that export growth in micro irrigation would also continue. When you combine all of this together saying that projects we have orders in hand, exports we have orders in hand and combined they, in second half will provide us significant growth. In terms of the retail business which we have just now seen that it is almost same level as the last year can also grow in second half on a positive basis because it has been a good monsoon. 90% of the country has good rains. Areas where we operate more or where we suffered for last two years, states like Maharashtra, Karnataka have that very good rain and also governments are becoming more proactive to push through application of micro irrigation sugarcane and so on. The third part is that sugarcane produce prices are higher even cotton prices are higher, all of that gives me fair sense of confidence that even retail business should grow positive. So for the first quarter micro irrigation business in India degrew by about 12% but and globally because we have very positive growth outside India in micro irrigation, globally we were only (-)6.7% or so. But for the whole year, we are expecting and we had indicated earlier about 12%-18% wide range of growth in micro irrigation business and this point of time based on all these orders in hand I feel confident that we would be within that range but on the higher side. So not on the 12% side but closer to 16%-18% side. So since fairly confident that will achieve those revenues. And when we have that revenue growth margin should be already good.

Coming to third business which is Piping, Piping did very well this quarter, 20% growth, based on a solid order book on the infrastructure side and that is for irrigation to the farming community that is about city gas distribution, that is for optical fiber cable, then 24/7 water supply project. Combination of different application on infrastructure side and we also have a good order book. I mean, we are expecting also very strong second quarter on infrastructure play. So piping, strong growth and as you would have seen even the 3rd and 4th quarter was strong on pipes. So having another strong quarter already with 20% growth and polymer prices have been muted. So on even then we have had that 20% growth, is very positive and the orders in hand it seems that the story will continue and again margins in this business were comparatively better especially improved of margins in PVC pipe business compared to the same period last year. While the margins in polyethylene pipe which is infrastructure basis, were almost similar level to the last year period. We have a smaller business in this division, plastic sheet, it grew single digit about 8%-8.5% globally speaking but its margins also registered a good growth because of the vinyl polymer prices, which we have seen. So again, strong growth and strong momentum forward in margins as well as revenue into the piping business.

Beyond these 3 larger businesses, we have done the new segmentation, which might be new to the market. But because food was separated at the company now we have 3 segments, one is hi-tech segment, which covers micro irrigation and tissue culture. Then we have plastic segment which covers the pipes and sheet and of course you are aware of food segment and then the fourth would be the other segment which covers our renewable energy business, solar agriculture pump part of the agriculture input business as they go to the farmers but other renewable energy products go in to the other business. And that business was reasonable and on a smaller base that grew quiet a lot but the base was small. But majority of the earning have come from this top 3 product lines; micro-education, food as well as the piping.

In case of our overseas business our irrigation business outside India grew in double digit. Our food business in fact grew quiet a lot outside India is well. So all in all overseas subsidiaries registered 15% growth which is quiet commendable realizing the fact that most of the economy in the world are growing 1%-2%, some of them have in fact contraction or negative growth, even then our teams and our companies have managed to register positive growth and same time together we have been able to register more than 4% revenue growth and a significant growth in earnings.

In terms of overall working capital if you look at consolidated basis our working capital is almost same in this quarter, what was the last year let us say compared to last year and this year there is not a big change in terms of the amount of the inventory we have and even the accounts receivable almost at a similar level, that is on consolidated basis. When you look at on India basis in terms of the working capital, compared to March there is a definite improvement while inventory is little bit up but account receivables are lower, on a combined basis accounts payable also are lower. So combined on a net basis there is an improvement in working capital of the overall company. In case of micro irrigation our receivables in March which were 219 days in this quarter, they were down to 209 days and that has helped us and we hope that over next 2 or 3 quarters we would further improve in micro irrigation account receivable and you will see majority of improvement in the second half as traditionally it happens.

In terms of the balance sheet if you look at overall balance sheet our standalone debt has come down which is non-food business debt that has come down out of India. But when you look at the console debt, console debt is higher but that was seasonal, if you would see the details in investor communication lot of cash got used into the food division in this particular quarter because of processing of large quantities of mangos and onions. And that is where you need to pay cash out to the farmers when you all buying of these commodities. But in next 2 or 3 quarters as we sell these product out all of these cash will come back and you would see that for March 17 we still maintain our original target that we would bring down the consolidated debt by about Rs. 300 crore and bring down the debt equity down to 1:1. from 1:2 it was when we closed March 16 numbers. So remain firm in our commitment and discipline that we will maintain the debt equity

1:1 and we hope that we trying to bring debt-to-EBITDA closer to 1:3 to 1:5 from where it was in March 15. So in terms of our internal matrix is one to have a global revenue growth which is a double digit, second at EBITDA level improvement in margin, at PAT level significant improvement in the net earnings and debt level to maintain that debt equity of 1:1 by March 17, and date to EBITDA closer to 3. It could be 3.2 or 3.3 but closer to 3 as against to 5 where it was. So we would continue to work on all of these 5 important targets and goals which we have for ourselves.

I feel fairly comfortable to say that underlying momentum for the each of our business is quiet solid. Micro irrigation more and more new initiatives are coming up and you will suddenly start seeing huge amount of growth into the business as we move into the busy season. In food apart from the retail next year we would also starting the spice processing because by the time the plant is ready and operating it would be sometimes in February-March. We have also started a new citrus nursery near Nagpur. We will be, in next month or two and 2-3 years down the line we will be processing more citrus as well. So that is on the food side and on the piping I already talked about lot of growth opportunities apart from the exports in which also we are seeing some good growth. Even some of our overseas companies, irrigation business especially which traditionally used to be more of a dealer driven business, they have started getting orders. So our global Israeli subsidiary last year got a good order from China for their project division. Recently they have got a very big order from Africa as well. So we are moving in a direction to take our global irrigation business and create a new platform which is more as an agricultural solutions company because this new contract which our Israeli entity got in Africa is a combination of solar and irrigation. Similar stuff what we are trying to do in India. So even those companies and those overseas units as they get into projects and more value added business their earning trajectory in next couple of years should improve and hopefully they start contributing to the parent as well. So all in all it is good time to be in the businesses we are. We expect very strong from second half, the current quarter which is the second quarter is typically the weakest quarter because of the rain and there have been heavy rains as all of you might have noticed in last two months and they seems to be continuing now and hopefully next month. So that means low business in the current quarter but whatever deficit we have in the current quarter I am sure we will cover that in 3rd and 4th quarter. We have the necessary systems in place to take care of that.

On external front government policy seems to be positive. Even yesterday in independence speech honorable Prime Minister talked about micro irrigation as well as solar water pumps which was very important mention to this cause which is so important to the farmers. Other information coming from various state governments looks good as well.

GST has been announced. So we as a company will get ready and hopefully there would be some benefit coming out of this whole GST to us; we can definitely reduce some of our, we have lot of distribution points or depots, we plan

to just maintain some regional depots hereafter other than I mean so many depots at each state and so on. We still have not worked out the complete details in terms of what the benefits and cost savings will be out of the GST because some of the rules and the details still have to come through and as and when they come through we will be sharing a note with the investors. So and so you have full knowledge about what is the real impact of GST is going to be for our company. As of now it is a feel good factor and we look forward to more details before we can comment on what GST really means for us.

We have already gone through a new accounting standard. So this result you see are based on new accounting standard in India which is very close to IFRS and that should provide more comfort to our investors in terms of further transparency and aligning our numbers more to international practices. But this was being the 1st quarter lot of details have gone through in preparing those and we have prepared these accounts in comparison to the June 15 to June 16 and by September some more work which is happening will get detailed and get presented before the investors.

So this is the overall background and understanding of what has happened in the current quarter and we as a management are committed to ensure that we will continue to remain focused on the 5 goals which I just narrated few minutes before and we would like to thank all stakeholders and investors especially for their patience with us, patience for our changeover of our business model and turnaround. It has taken 1-1.5 year more than we have anticipated because of so many factors including draught. But I think we are on path and way to more definitely very positive revenue growth and also backed by good amount of earnings growth and a sustainable cash flow, all 3 put together. There are always challenges, world economy dynamics, agricultural sector is unpredictable, currency and polymer prices are also volatile. So these challenges will remain but I think we are better prepared to manage those than in the earlier quarters in last few years. I would like to again thank everybody and me and my team we are very happy to answer any more questions you may have. Thank you again.

Moderator

Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Umesh Patel from TCG Asset Management. Please proceed.

Umesh Patel

Couple of questions from my side. As our interest cost has come down significantly from Rs. 124 crore last year to Rs. 109 crore that was because of the dilution in equity and amount raised. So just wanted to know what was the diluted equity and how much amount we raised last time?

Manoj Lodha

We did about Rs. 800 crore in the month of March 2016. Out of that Rs. 650 crore has been used to repay the debt: short term and long term debt. That is the main reason for reduction in interest cost this quarter. We have been prudent to repay debt with high interest cost. So that was also captured in this quarter as an

interest saving. But overall because of the equity fund deployment you can see reduction.

Umesh Patel

What was the equity dilution in terms of percentage?

Manoj Lodha

So at JISL level it was about 7.5%, parent level and at food level it was about 14.28%.

Umesh Patel

And Sir my question is related to MIS segment, if we look at the overall scenario of monsoon, I mean 90% of the area has got decent rainfall and we have optimistic outlook for this year as well. But our MIS segment still remained laggard in the 1st quarter. So post two droughts that we saw in past two years, I mean what is your take in the coming quarters? Do we expect though MIS segment overall was laggard by 6%-7% down trend? Do we expect 10%-15% volume growth in the remaining part of the year for FY17?

Anil Jain

I think I said this maybe when you were not there that the micro irrigation business for the entire year we are hoping to grow between 16%-18% in the current year.

Umesh Patel

And just wanted to know that NBFC size is how much?

Anil Jain

The size is about Rs. 200 and odd crore.

Umesh Patel

And if you can give me the EBITDA margin of MIS segment, pipe business and food for current quarter and last quarter as well as the order book as well?

Anil Jain

I think some of this information like order book is already there.

Umesh Patel

Yes, that is Rs. 1,650 crore, right?

Anil Jain

It is very difficult to give lot of breakups but still margins of micro irrigation are at similar level which is about our range is around 21% and they are slightly higher than that. The piping is usually between 6% and 8%.

Umesh Patel

Okay and what about food?

Anil Jain

Food now is a subsidiary and the EBITDA margins are actually more than 25%.

Moderator

Thank you. The next question is from the line of Dhaval Shah from Girik Wealth Advisors Pvt Ltd. Please proceed.

Dhaval Shah

Sir my question is regarding a press release given by EPC industries regarding their being banned from the Maharashtra subsidy business. So just want to know more on this EPC, Finolex, lot of companies have been deregistered from their scheme and so what is the impact for us of this move and your thoughts on this please?

Anil Jain

I would not like to comment on our competitors but I also read the news reports that this has happened and I think there is something on the government website as well. The notification is self-explanatory of what has happened there. So as I said we are focused on creating lot of revenue growth for ourselves and in states like Maharashtra we always enjoyed 50%-60% market share. So let us wait and watch happens in the busy season. But our company we make quality products and we are extraordinarily vigilant to ensure that our products meets all the requirements of the farmers.

Dhaval Shah:

So as per my understanding lot of farmers have moved to small micro, smaller size pipes which costs around Rs. 10,000 an acre compared to the current Rs. 40,000-50,000 an acre for the bigger micron pipes and in those pipes it is more of a cash and carry where the farmer is not dependent upon the subsidy from the government. So what trend are you seeing in Maharashtra because the subsidy money was not coming from the government and that is the reason for lot of people shifting to this.

Anil Jain:

People have started buying comparatively lower cost product. But 2-3 years ago we had also introduced and I have spoken about this earlier, new product range called Turbo Slim which allows farmers very good quality products but at a substantially lower price than let us say a normal product. But then it may not be...in the field let us say a normal product may last 7 years, this may last 3 years or 3.5 years and this is lower revenue for us but margins are same but the same farmers will come back to us after 3 or 4 years to buy the product. So we have the product range to compete with these people who are at low cost. We cannot compete with everybody because low quality we will never do but at a good quality level but competitive pricing we are able to offer to farmers. So farmers who get access to subsidy or bank loan or have their own cash they buy products which will last longer in their field and give them better output. There are some farmers who are looking to drip irrigation mainly to save water for example and may not be eligible to get subsidies because either they have taken subsidy earlier or whatever or government rules which are there. In that case we do also offer them other product range, let us say it is called deluxe and economy type of scenario but that is also a very good quality product and we can compete with these people.

But overall if you see in India there is about 20% plus market which is serviced by let us say about 200 to 250 small manufactures. About 40% we have market share I believe and about remaining 40% is shared by I would say organized micro irrigation manufacturers in various states. Now some of these numbers change from state to state but in a given year when farmers really have low income and no subsidy etc., this 20% could become 25%, that kind of thing. More or less this is where it is.

Dhaval Shah

So in Maharashtra how much is the subsidy portion given by the state government and how much is from the central government?

Anil Jain I think as far as Maharashtra government is concerned they provide farmer 50% and they consume what comes from the Center. So it is always combined. Center provides subsidy to the state and state provides to the farmers. So it is a 50:50 formula in Maharashtra.

Dhaval Shah And this cheaper product or maybe you say you also offer that, so that is an alternative...

Anil Jain It is a subsidy-less, there is no subsidy for that product, because the price is so low that the farmer does not need (the subsidy) right, because that is how it works.

Dhaval Shah And Sir you are strong in Maharashtra, Tamil Nadu and in the Southern region, so how difficult for us is to penetrate in the northern market which are very well irrigated because we have a river access say for example in Punjab, so does this business make logical sense for the farmers there to go for irrigation?

Anil Jain There what is happening is in North we are doing more projects, integrated irrigation projects bringing water to given area and so on. So in Punjab alone between last year and the current year we would be doing more than Rs. 100 crore of business which is micro irrigation and solar pump projects together, we may not have retail business there. Same way in Himachal Pradesh we are doing good business. In Haryana we are doing good business. But we still need to kind of crack Bihar, UP that would be I think the next stage.

Dhaval Shah And what is the progress on the rice side for us?

Anil Jain Rice is moving very well. To do rice on drip, 3-4 years ago when I started talking about it nobody believed us and so on but now it is becoming common place to say yes, there is a feasible thing and I think I believe we have about few hundred farmers now who are doing this on their own but again it will take couple of years before it becomes mainstream.

Dhaval Shah So this rice through irrigation is practiced I think in Thailand, Indonesia also. So has there been a success in those regions?

Anil Jain Rice with drip, we are kind of pioneering and the whole world mostly rice was always done on Flood irrigation

Dhaval Shah Even we are also eyeing the export market for this rice?

Anil Jain Yes, that also. Once the system is well-placed and established we are working on already in few countries and there are some plots right you do rice here, rice there, sometimes you do with sprinklers but I am not saying that this is a main stream. We have done some work in Central, South America as well on the rice.

Dhaval Shah Any idea what is the size of our business on the rice if you can share?

- Anil Jain** It is very tiny.
- Moderator** Thank you. The next question is from the line of Chetan Vadia from JHP Securities Pvt. Ltd. Please proceed.
- Chetan Vadia** My question is on the interest cost reduction. I think for the quarter the kind of reduction that we have witnessed, will it be throughout the FY17 spread across or it will be mostly in the second half or may be in the Q4?
- Manoj Lodha** This quarter it was significant. Next quarter we expect that our borrowing levels may go up because of the seasonality, so you may not see that kind of savings in the next quarter which is the current quarter. 3rd and 4th quarter onwards again the utilization of the working capital limit should start going down and that should result into another round of savings. So overall the pattern would be difficult to say equally spread over the 4 quarters. But at least 3rd and 4th quarter we should maintain this kind of a run rate.
- Chetan Vadia** And Sir in the presentation, you mentioned about the Maharashtra government and Telangana government being focused on the irrigation project and all that, so how confident are you that these things will get executed on ground, let us say this year and the next?
- Anil Jain** I think when I talked about that based on the order book which we have and what we see on the ground that we will be able to grow 16%-18% that is regardless of this 1 or 2 particular state governments doing x or y, if this thing comes through like Telangana is doing lot of work on the piping and bringing irrigation and we are already supplying pipes, so that is already happening as we speak today.
- About Maharashtra government wanting to do irrigation along with the sugarcane drip irrigation that season has not started, it will only start in October-November. So I do not want to kind of predict what exactly the governments will do but regardless of what they will do we feel fairly confident to maintain these high level of double digit growth.
- Moderator** Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers (India) Pvt. Ltd. Please go ahead.
- Mayur Parkeria** Sir my first question will be regarding the last quarter restatement that we have done, we have capitalized Rs. 23 crore. We have shown that the reconciliation from Indian GAAP to IndAS we have capitalized Rs. 23 crore. So does this include the Rs. 18 crore market-to-market forex that we are presenting in the next slide?
- Manoj Lodha** Market-to-market loss which is shown, there are two treatments. One is we have adopted to this 46A provision which was in the 3rd quarter last year which was in October to December. So under IndAS it has to be pro rata to each quarter and that is why we have taken that gain which was there in 3rd quarter last year to

respective quarters. So that adjustment is under IndAS and about the forex loss we already apply 46A since 3rd quarter, so this quarter also it has been applied and so part of the losses have been capitalized on the balance sheet and partly it has come to P&L through amortization. So these are two different but our net impact it is given in the current quarter.

Mayur Parkeria And current quarter also we have capitalized Rs. 41 crore?

Manoj Lodha Not Rs. 41 crore, whatever that, I do not have the figure right now but 46A has been applied for this quarter as well.

Mayur Parkeria And Sir the US dollar loan that we see in the presentation, the total is amount to \$94 million and the FCCB is \$50 million, that rounds up to \$140 million. So that will be around Rs. 900- Rs.1000 crore and we have outstanding loan of around Rs. 2000 crore in forex terms. So what is the remaining portion?

Manoj Lodha So you mean to say what is an export revenue?

Mayur Parkeria No, 55% of net debt, that net debt is Rs. 3800 crore that is in foreign currency but in dollar terms we are seeing around Rs. 1000 crore?

Manoj Lodha So the debt which has been borrowed by our overseas subsidiaries that is also classified as a foreign currency debt.

Mayur Parkeria And that is in dollars only?

Manoj Lodha Yes because that currency is in dollars.

Mayur Parkeria And Sir about the interest rate expense do we expect this run rate to continue?

Manoj Lodha That is what I just explained that it may not be fully spread over the 4 quarters, this quarter particularly, normally our utilization of the working capital goes up because of the seasonality. So this maybe that we do not have that kind of savings in the current quarter. But 3rd and 4th quarter when the utilization goes down you would see around same level of run rate.

Mayur Parkeria Last question, regarding this manufacturing expense that we see in the income statement, it has declined substantially. Could you please explain it?

Manoj Lodha It is a combination of the different businesses because what you see in the result is a sum total of all the businesses particularly if this quarter we did more about the piping business and which needs lower manufacturing cost and micro irrigation was less. So that is the reason you will see it is not apple-to-apple comparable based on the total picture. Also last year the same time there was also food division which was part of the standalone entity. This quarter that division is in a separate entity. So as a combination you would see it is not really apple-to-apple comparable.

- Moderator** Thank you. The next question is from the line of Abhijit Akella from IIFL. Please proceed.
- Abhijit Akella** Just on the agro processing business, is it possible to share the breakdown between the India business under the subsidiary Sir?
- Anil Jain** What exactly you are looking for?
- Abhijit Akella** So I think in the presentation we have given the consolidated revenue for the food processing business. We do not have the breakdown between India and overseas revenues?
- Manoj Lodha** So India is about Rs. 160 crore and total consolidated is Rs. 376 crore.
- Abhijit Akella** And within in India, onion and fruit are you giving?
- Manoj Lodha** As a segment we have reported but if you want the breakup, about Rs. 116 crore was fruit and about Rs. 45 crore was onion.
- Abhijit Akella** Thank you and second just to understand the segment reclassification, in the presentation I think we have a slide which says that high-tech agri inputs includes micro irrigation, tissue culture as well as solar pump and integrated irrigation projects where as I think in the revenue breakdown we have given solar pumps under others. So just wanted to clarify.
- Manoj Lodha** Solar pump has been the part of micro irrigation because they normally go along with the micro irrigation. Rest of the solar product, other than the solar agri pumps are part of the other. If there is any confusion, we will recheck.
- Abhijit Akella** And lastly just this government subsidy outstanding here. So this is basically related to AP and Gujarat because we have not adopted the kind of cash model that we have in Maharashtra, is that correct?
- Anil Jain** We cannot adopt that model here because in Gujarat it is through an entity called GGRC which places the work order and similar way in Andhra also program is administered and our business in AP and Gujarat has increased during this period of time. But overall collections are quite good at both of these places and we do not foresee any issue. But because it gets captured as a subsidy that is how you see that number.
- Abhijit Akella** And lastly just on the sugarcane project in Maharashtra or any of the other big projects that the government has been talking about, solar pumps for example, any update you can give on the ground level, when can we start to see some significant roll out of that?
- Anil Jain** I think let us wait through September end because during this raining season there is no, this project cannot work, like when it is raining so much you simply

cannot go to the field. Fields are wet. So these projects will not happen during the current quarter because of the wet season and wet soil. I think when we talk about September results that would be end of October or November sometime. That time we can give you far better clarity because then already things will be happening on the ground.

Moderator

Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management Ltd. Please proceed.

Viraj Kacharia

I just have couple of questions. As one of the previous participants we have talked about this order by Maharashtra government, de-registering some of the organized players in the industry. So my question is have similar actions been taken by the Maharashtra or other state governments in the past and how does Jain look at this, there were different comments by different players -whether the order was relatively arbitrary. So just your thought process on that, that is one and second is again the Maharashtra government have issued a notification for online registration for a 3-year window through online route. So if a player wants to be registered starting FY17, the registration will be closed for a 3-year window or they are on annual basis? So these are two questions I have.

Anil Jain

So in terms of, I already said that the various state government follow different rules in terms of how do they qualify the people who want to supply into micro irrigation program and every time if they find either in terms of product quality and/or services people have faltered and they have not done things right. There are different mechanisms, sometimes they say okay we do not give you business for some period of time. Sometimes they say okay we are going to charge you some cost or we may not pay you service fees and so on. So again it varies by state-to-state. Now in this particular scenario from whatever we have read, this process has been on for last 1-1.5 years. It is not something one fine day someone did that in the morning and evening they took out the order. It has taken its own time and governments are government and that are always people, government give orders and there are always appeals and so on. So I do not know precisely what is going to happen into the situation. But as far as we are concerned I think we want to always maintain sure that the product quality which we supply to farmer is always the best of the quality. We at least since we started in '86 have not suffered through any of this kind of situation in last 30 years and I hope that goes on for next 30 years.

Viraj Kacharia

On the online registration part they have issued a notification for 3-year period starting FY17?

Anil Jain

That has been done and to be honest I do not know. Normally these are all done on annual basis. This is the first time they are doing it kind of 3-year basis, normally these are done on annual basis and some of these places the people who make decision, someone in the bureaucracy -if they do change, they bring some different perspective and some different rules and then industry might present to the government and say that this is not right or whatever and those

could be changed again. But as of now this is what it is and I believe mostly it would be on annual basis.

Viraj Kacharia

Okay. So the reason I asked is because you talked about this order particularly by the Maharashtra State Government, so it provide some window of opportunity for player like Jain to capture additional market share in state like Maharashtra which is very large from MIS perspective. The reason I asked is are these appeals and the kind of treatment states have towards these kind of issues whether it be the product quality, are these kind of follow very strictly like for a 10-year-period historically we have seen some kind of financial penalty and those players been given a chance to participate again in the market. So that is the reason, from historical perspective if you have seen any of those?

Anil Jain

That is what I said that every state is different. Some places it may be allowed depending on the level of what has happened. If the quality is really bad, farmers have suffered then it could be a different response. If it is merely a technical issue, there could be a different response. So one has to really wait and see and I do not know exactly what government is thinking here or what these companies are representing to the government. We are not at all involved in the process. So we are waiting and watching but I think we are keeping our people ready to do more and more business because I think this is going to be first good season after last 2-3 bad season. So on that alone I think we are very hopeful and looking at a very good second half in Maharashtra.

Viraj Kacharia

And we talked about traction ex-Maharashtra in Q1. We talked about Maharashtra having a de-growth of 20% in Q1 on the retail side. So can you talk about what kind of growth we are seeing other markets, what are those markets and others driven by increased subsidy allocations at the center-led, I mean we do not participate directly to subsidy part, from a farmer perspective what is driving those growth rates?

Anil Jain

For markets I said we have grown in Andhra Pradesh; we have grown in Karnataka; we have grown in Gujarat, I would say and some other states like Punjab and others. These are the states and the negative growth we had was in Maharashtra, was a major negative, MP also did not do that well.

Viraj Kacharia

So what kind of growth rate we are talking about, when we talk about these states?

Anil Jain

Some of the states like in Andhra we grew 30% or Karnataka we grew 24%, so all in all between negatives and positives it worked out to be almost same level as last year, same quarter.

Viraj Kacharia

And when we talk about the thin wall drip which we introduced Turbo Slim and you also talked about certain portion of the market which is quite sizeable now, is catered by this thin wall segment. From our perspective how much of these would be as a percentage of our revenue. And given the kind of price differential

you have versus from a conventional drip versus a thin wall drip you said that we still make the same margin. So can you explain how is that still possible?

Anil Jain See margin is based on the total product you supply, it is not on the value. So margin is fine. As far as we are concerned let us say if we are selling total micro irrigation 100 in India, then the total sale which is this thin wall would be about somewhere 10-12.

Viraj Kacharia As a percentage of revenue?

Anil Jain Yes, it is not very big. But it is there. It would be about Rs. 100-150 crore, somewhere in that range.

Viraj Kacharia And we are still expecting only 16%-18% growth in Indian MIS despite of this developments in Maharashtra?

Anil Jain This is what we have said and this is what we maintain and if we do better we will be happy and you should also be happy at that time. But as of now this is where we stand and we do not want to change that now.

Moderator Thank you. The next question is from the line of Manish Mahawar from Edelweiss Securities Ltd. Please proceed.

Manish Mahawar Just wanted to reconfirm your guidance, you said MIS growth guidance is 16-18% for the year and what is overall company's growth you are looking at revenue for the year?

Anil Jain That we have said double digit growth.

Manish Mahawar So earlier I think last quarter we have given some 10%-15% growth, so still we maintain that number right?

Anil Jain So that is maintained, there is no change.

Manish Mahawar And secondly on the margin output you said that your margins will improve but I wanted to check because this quarter margin is predominantly supported by the food division margins because you said is good price of onion and mango. So how do you see the margins on a quarter basis in the next 2 to 3 quarters?

Anil Jain I think it is very difficult to give out details of margin. But if you look at our standalone numbers also our margins have improved, not just including food even in standalone margins have improved and we hope that will be maintained going forward in to the whole year combined basis and quarter-to-quarter we always have variation, so I just want to caution everybody that they could see variations in the quarter but for the overall year there would be positive margin even in non food business.

Manish Mahawar But better Capacity utilization will lead to definitely some support on our margins going forward, right?

Anil Jain Yes, definitely.

Manish Mahawar And secondly Manojji, is it possible to share the number of cash flows for the Q1 like how we have utilized the cash mainly capex or working capital numbers possibly?

Manoj Lodha So there has not been much capex in this quarter, I will tell you exactly on a standalone basis...

Manish Mahawar Is it possible to give on consolidated basis?

Anil Jain So India capex was close to about Rs. 20 crore this quarter.

Manish Mahawar And subsidiaries?

Manoj Lodha Subsidiaries is around Rs. 20-22 crore again same range.

Manish Mahawar Okay and what would be the working capital in the Q1, actual deployment for the quarter?

Manoj Lodha It was about Rs. 200 crore plus on a consolidated basis.

Anil Jain But do you know we measure working capital in terms of days, which is already there in our communication.

Manish Mahawar That is what I wanted to check because if you look at the days on a consolidated basis at first I think it is flat on QoQ basis. How that was I wanted to check basically because I believe you have some amount lying in loans and advances because you have given advances to your farmers, right?

Manoj Lodha There was not much of movement. On a consolidated basis we have created the inventory in the food business because that was the production season, so apart from that there has not been much movement on any other ground.

Manish Mahawar And what will be the capex number for the year possibly for this year and next year if possible?

Manoj Lodha Actually we are talking about Rs. 200 crore capex this year and similar capex next year.

Manish Mahawar And tax rate will remain, right? Around 20%-odd what you had in last year last quarter?

Manoj Lodha Yes, the food processing business is nearing towards 30% but overall if you take India, the food business as well as non-food it should be around 22%-24%.

Manish Mahawar On a consolidated basis you are saying overall, right?

Manoj Lodha Yes, India. Outside India of course it is different but India it should be around 22%-24%.

Moderator Thank you. The next question is from the line of N Samraj from Dwarka Wealth Managers. Please proceed.

N Samraj At Dwarka Wealth Managers we acknowledge that you have now brought the company into a take off stage whereas we have strengthened the balance sheet and now as per our fundamental research of what we have considered after taking the La Nina which is now in progress I believe because the ENSO 3.4 region from where we draw monsoon clouds is now (-0.5). So do you also are of the opinion that up till 2019 we will be having good monsoon because now La Nina usually it carries on for 2 years. Now taking that the drip irrigation and all which is of the focus of the Maharashtra Government and our Central Government which were really scared that what do we do if this drought thing comes up again. Now taking all these into consideration do you think that we are looking at a water-fed growth for Jain Irrigation at least for the next 6 years because the reservoirs will be full up till taking the 2018-19 season. So from there, so can we easily say that we could be doing compounded about 15%-16% overall growth for the next 5-6 years, would your in-house economist also agree to this Sir?

Anil Jain I think to predict weather patterns is a very difficult job and even if you predict, whether those weather patterns will come true or not it, depends on so many factors which are unknown at this point of time. So what you say is correct that from El Nino we have moved to La Nina and La Nina typically or normally would mean more rains in India. Now within that the distribution could change. There could be less rains in Maharashtra, there could be lot more rains in Delhi just to give an example. That depends on the given events of what kind of pressure and distribution takes place in the next season and the season after. So what we are hoping is that while we cannot predict weather and we do not know how long La Nina will last and how much rainfall will be there in Maharashtra or Delhi or Nagpur in that sense but what we can be sure of is that last 2-3 years of drought has made everybody become very aware of the importance of saving water and conserving water and everybody knows that drip irrigation is one of the foremost and most cost effective way of conserving water and still ensuring food security. So because that sensitization has taken place we feel we should have sustained good growth going forward because apart from farmers being aware and depending on whether their incomes are also going up because of the agriculture produce prices but government surely will come along and in government from their intent to actually implementation sometimes there could be a delay or there could be loss in translation as they call it but all in all, if compared to year ago I

am far more bullish and more comfortable to say we could have now again a sustained growth rate going forward next few years. But again the climate I would not like to predict what is going to happen there.

N Samraj

So if we now take the project which the Maharashtra CM also tweeted the Raigaon project I am talking about where Jain irrigation executed, the sugarcane, the 1,544 farmers got together, now what I would like to ask you is how this project got executed? Is it that you sort of all the farmers put in their money as per the marginal holdings inside that cooperative and then this project got executed or they formed a formal cooperative and do you expect such projects to now carry on and therefore what would be the addressable acreage between say Telangana, Karnataka, Maharashtra, Gujarat. Do we see about 2 lakh hectares potential existing in the next 5-6 years and on this year?

Anil Jain

That is definitely possible and see this is a model project where lot of farmers come together, form an association or cooperative and try and get high quality value added crops and we have helped them to divide the project, conceptualize it and execute by providing pipes, drip irrigation, the agricultural knowledge agronomy and what not, so that their productivity levels go up while they conserve all the resources. Now there are lot of people who are visiting that project from various states and they are coming and seeing what this really means and how it works and whether it can work in their area because agriculture is local, there are always local issues and whether they can get the right financing from the banks to be able to provide for the project. So it is a good project and in India where land is not going to get consolidated people do not want to sell their land, this kind of an arrangement where they can keep the ownership but they bring together the production and ownership remains separate is a good solution for India and agriculture going forward and that also gives more muscle powers to farmers in terms of their ability to set the prices of the goods they sell. So it is a good project and I think the Maharashtra government liked when they say, they said they would like to see these kind of project gets repeated but again agriculture is local. We hope this will get repeated and then there are not too many companies in the country who have that ability, expertise to execute such large projects in such an efficient manner which we have and hopefully then we will get the benefit. But one has to little bit wait and see how this is taken. People also wait for 2-3 years to see what kind of productivity farmers get, whether they are able to work along well, whether they are able to maintain their association for longer period and so on. So it is a very well intentioned and well executed project. Hopefully that gets repeated around the country but numbers it is too early to talk.

N Samraj

And Sir lastly I just wanted to say a lot of analyst and all have asked what are the basic revenues of each of the product lines taking into considering your solar pumps, etc. So what we would humbly suggest from Dwarka Wealth Management is for example hardly anyone knows that we have got SAFAL over there which is an NBFC project and no NBFC is having so much of momentum in the market. Next is our very high-tech, in fact I would go ahead and hardly

anyone has seen the BBC video where we have got urban farming, in Birmingham at the real estate prices if you erected 4 storied building, if we can have such a high-tech vegetable growing from tissue culture, so what we are saying is Jain irrigation we are not getting the valuation, we are getting a simple valuation of a plastics company whereas as we should be getting a high-tech biotech valuation, so why do not we segregate this product line so that the people can focus that what Jain irrigation is all about and the sum of the parts so the market can give a better valuation to us because if you see that Birmingham video what BBC took, I mean it is amazing, it is like entering the Brave New World of Aldous Huxley.

Anil Jain

Mr. Samraj thank you for your positive sentiment and the point which you have raised. But as of now overall micro irrigation business -high-tech agriculture input business captures all of that and that is high level of EBITDA and hopefully market values that based on the likely growth opportunity and last 2-3-4 years have been difficult for the business because of the underlying balance sheet issues, underlying receivable issues etc. But now the fact that growth is coming back, the margins are back, our working capital is in control, we are committed to bringing further reduction in the debt, I believe ultimately should get translated into the market and valuations but as of now these are the business segments we have and we recently carved out the food business. There is no plan of doing something else right now. Let us wait and see, let us first focus on this year's objective of delivering what we need to do on underlying business, thank you.

Moderator

Thank you. The next question is from the line of Siddarth Mohta from Principal PNB Asset Management Co. Ltd. Please proceed.

Siddarth Mohta

Sir my question is on solar water pump. Sir last year Maharashtra government has announced the plant for solar water pump, so can you just tell me the status on that and whether similar tender is also being seen in the other state?

Anil Jain

In solar water pumps we would last 3-4 years, we have done the business in almost 9-10 different states. But major business has taken place in Rajasthan. We have also done good amount of work in UP, in Maharashtra, we have started doing as per the new order which we have received. We have done work in also Karnataka, Chhattisgarh, Bihar and so many different states like Orissa. This concept is now taking more and more shape, earlier the cost per solar pump was also quite high, now with all the R&D those costs are coming down, so it is becoming more affordable, our Prime Minister yesterday spoke about solar water pumps and how it is helping farmers and we think over the next few years you will see this numbers growing very rapidly and Jain irrigation today is the largest installer of these pumps in the country and we hope to maintain the same leadership going forward.

Siddarth Mohta

So if you can also quantify for example, in the last year when Maharashtra government they were talking, they were talking about the 5 lakhs pump and each pump it cost around like Rs. 5 lakhs itself. So if you can just quantify it?

- Anil Jain** I think the first order they came out has been with the 10,000 pumps, they want to see how that pilot goes before they will decide to scale up. Their ultimate target is 5 lakhs but it might take some time because they needed to sort out all the issues related to utility with the farmers, which government agencies will get involved. Government is multi-pronged entity. That is why it took time. But now the project has started. Hopefully by the end of this fiscal we will come to know how they are moving up in terms of increasing the size of the project from the current 10,000 pumps and I am very hopeful that they will do much bigger business in next few years to come.
- Siddarth Mohta** And by any chance we have participated in any other tenders which has been opened apart from Maharashtra region?
- Anil Jain** Recently we were L1 in our tender in UP, we are also participating in Rajasthan into a rate-contract type of scenario and we should be doing good amount of business in both of these states in the remainder part of the current year from March.
- Siddarth Mohta** And together that is the UP and Rajasthan the one you have told, so the total amount could be around Rs. 300-400 crore, what is the tender?
- Anil Jain** I think all of the Maharashtra, Rajasthan, UP all put together we should be Rs. 400 crore plus.
- Siddarth Mohta** And Sir regarding the margin in this particular segment, what would be margin or it will be difficult for you to tell?
- Anil Jain** I think these margins are similar to the project division which we have within micro irrigation and every state is different and so it is very difficult and it is a new business which we are getting into but I would say overall when you look at micro irrigation division or margins which are coming out consistently last few quarters is around 21% or so and this business is part of that. So I think you can take it at around that level.
- Siddarth Mohta** So similarly then the subsidy would also be clubbed under the MIS for this division?
- Anil Jain** We fully get paid by the state utility. So subsidy is given to the farmer.
- Siddarth Mohta** So it generally goes as a part of MIS?
- Anil Jain** Yes because most of the farmers who buy solar pump also buy drip irrigation system and our installation we have the network to go and install these things to the farmer on the back of our micro irrigation division. So it is a combination of, it is subsumed inside our micro irrigation division for last 2-2.5 years.

Moderator Thank you very much. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Jain for closing comments. Over to you Sir.

Anil Jain Thank you to all the investors for their patient hearing and all very interesting questions. As I said, current quarter due to the rainy season is usually comparatively a dull quarter for us but I believe based on the momentum which we already have we look forward to really strong second half and very positive FY17 for the company and we are also putting building blocks for sustained growth over next few years across all our businesses and that is a big positive news and also in India as well as overseas and that makes me feel that between 2003-2011 we have really strong growth, good balance sheet, good margins, similar type of scenario it seems we are starting now and let us see how the next few years turnout to be and we are very positive and bullish about this. Thank you again.

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

This is a transcription and may contain transcription errors. The Company or sender takes no responsibility for such errors, although an effort has been made to ensure high level of contextual accuracy.