



Q4 & FY2016

Earnings Conference Call Transcript

May 31, 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**

Manish Mahawar:

Thanks. On behalf of Edelweiss Securities, I welcome all the participants' to the earning call of Jain Irrigation. Today we have with us Mr. Anil Jain – Managing Director and CEO, Mr. Manoj Lodha – CFO and Mr. Darshan Surana – Vice President Finance and IR. They will begin with a brief management discussion on Q4 FY16 results and after that we can take question and answer session. Thank you and over to you, Jain Sir!

Anil B. Jain:

Thank you, Manish, and good afternoon to all of you. In today's call, we are discussing our fourth quarter results. Before we start the call, one of the important things I would like to do is to pay a small tribute to our Chairman who passed away in the last quarter, Mr. Bhavarlal Jain. He was an extraordinary man, focused on rural India and also on agriculture. He did spend entire life to build the institution, which is what Jain Irrigation is, to revolutionize agriculture, especially in India and to ensure that small farmers gain considerably through the technological intervention as well as the knowledge transfer.

During that process, he built, he founded and he has built a unique company which has so many touch points with the entire agricultural value chain and in that sense, company is very unique in the entire world. Today, company is almost \$1 billion and in terms of revenue and about 11500 people having about 30 manufacturing locations, and working with the farmers for agriculture inputs as well as the agriculture outputs, and doing all of this based on the technology.

Again just would like to pay this tribute to this great visionary, who happens to be also my father, and all of us across Jain Irrigation and all the stakeholders of Jain Irrigation have expressed their desire to say that we must continue his legacy forward and continue to work hard to ensure that we fulfill the dreams, which he led this organization with, and all of us are committed to ensure Jain Irrigation would continue to move forward around the world, in India, in agriculture, in food processing, in renewable energy in a significant manner, so that not only that we continue to grow and create lot of shareholder value but, at the same time, we also create shared value, so that all our stakeholders become prosperous.

Now, coming to the current business of what has happened in the last quarter. As some of you might know, in terms of overall results, the revenue for the whole quarter is about 8% less than the same period last year. Most of this reduction has come last quarter due to external factors, especially the continued impact of drought which has been felt across India. And as the time has passed, whatever water was there in their field or in the canal or in the dams or in reservoir, all has dried up. So farmers almost had no water left or available with them and very little was there.

Now despite that fact which has, was that situation, overall, we as a Company, for the entire fiscal year of FY2016, has achieved small amount of growth on a retail side where we sell to the farmers via dealers, that is about 6% or so of growth which we have achieved, where last year our retail was about close to Rs.1100 Crores, this year we have closed retail at about Rs.1200 Crores.

We believe with the expected good monsoon, the current year in FY2017, the retail growth should be substantially higher than what we achieved last year. It is not only the good monsoon. It is also some decisions like the Government of Maharashtra decision to make sugarcane mandatory for drip.

Now, while they had announced this decision earlier also, I think recently over last few weeks, they have taken some concrete decisions of how they will plan to fund such kind of mandatory instructions to the sugar factories. We expect that some of this will get rolled out starting from October of this year when the sugarcane planting season starts.

Apart from the issues in Maharashtra where sugarcane we expect a higher level of growth, we are seeing continued good growth in Andhra Pradesh and Telangana. We are seeing, continued to see good growth in Karnataka, as well as Gujarat. So these are our traditional states where we expect FY2017 to continue to register good growth. Apart from that, when we look at projects and our projects include both irrigation projects, end-to-end solutions, as well as the solar pump projects, which are part of our micro irrigation division, because as we put renewable energy, we also install drip irrigation for most of the farmers.

Now, our major reduction for the last year came into the project, if we look at overall micro irrigation division. Last year, project total was about close to Rs.383 Crores. A year before that was Rs.538 Crores. So it registered almost 30% negative, but current year we already have good amount of project orders in hand, including, solar water pumps and few other projects in Punjab and Haryana.

So we feel fairly confident that in the current year, the project should also grow maybe double-digit or in that range, and because those are orders already in our hand, we feel confident that unlike last year where we had 30% negative, we should be doing better.

The third part is the exports, which last year was again about 5% minus where we registered only Rs.158 Crores in exports of MIS last year as against year before of Rs.166 Crores, I'm talking of the full-year here, but based on the indicative orders, which we have already received from our overseas subsidiaries based on their growth going forward, we believe current year our exports should actually grow more than 50%.

So all in all combined between retail projects and exports, we believe we have a very good opportunity in FY2017 to grow business in double-digits. We would be expecting growth range of 12% to 18%. Even if monsoon is bad, because projects and exports, we shall definitely do well.

So last quarter was a consequence of a very bad drought and some people say this drought is bad in terms of last 40 to 50 years in Maharashtra and you might have, all of you have might also been reading the news to that effect. Current

quarter, the first quarter, the similar situation continues, farmers do not have any water whatsoever. So situation for us and for our overall business should improve only into the second half.

Just to quickly touch upon even our overseas business in the fourth quarter, our irrigation business in US grew 16%, our Israeli entity grew 19% and so on. So the lot of positives in this quarter, last quarter, even though their base is small, so this percentages may not matter much, but overall we are seeing positive momentum in our overseas business as well.

Now, coming to piping business as you might recollect in second and third quarter, we had a good growth in piping business. Overall for the year, piping business has settled at about close to 10% in totality, even though fourth quarter was negative, mostly due to PVC pipes, where again the water is a major issue, and most of these pipes go to the farmers.

So we face the similar challenges, but even within pipe business, current year looks good, especially the infrastructure side, the polyethylene pipe which we manufacture for most of infrastructure projects, indicative orders, orders under negotiations, they are very positive and we are looking at, for polyethylene pipe especially, looking at another year of stupendous growth.

Last year, we grew polyethylene pipe business overall 27%, and this year again growth north of 20% looks assured in that business. The PVC pipe business where we didn't grow last year due to the drought and water issues, with good monsoon, we expect even that business now again to grow that 15% to 20% plus. So overall, momentum in pipe business is good.

Our EBITDA level margins in pipe business usually have been 6% or 6% to 7%, they are moving closer to 8% now, so at a higher level, PE pipe margins are even 9% in some orders. So all in all, we expect piping business to do very well, and piping business has lower capital employed within that business. So, as we use our capacity better next year in terms of growth and we have a little bit better improved margins, all in all, return on capital employed out of the piping business should definitely cross 20% next year. And that would mean very good returns for us.

In terms of the food business, overall, as you know food business has been doing well over a longer period of time. Last year was not a great year for the food business per se. But we think current year with the kind of orders, which we already have in our hand from customers like Coca-Cola, as well as our customers in Middle East and so on, we believe we should have good double-digit growth rates into the food business, and while we're talking about the food, now food business will get captured as a subsidiary, which is owned by us almost 85% and 15% of that is owned by Mandala who made that investment on March 30.

Now with a very good balance sheet, starting balance sheet of the food business has a good shareholder net worth, very low amount of debt and large amount of opportunity, we believe food division, not only will maintain a good growth rate not only will maintain a good growth rate, which they have done over last decade or so, eventually grow to be one of the largest food companies out of India. We feel that confident in terms of what that business can do.

These are three of our primary businesses contributing to more than almost 93% of our revenue. Our overseas businesses have done reasonably okay, and that is why in the fourth quarter even though India's sale was quite negative, about 8%, but because of our overseas businesses that was all compensated because of the growth in overseas entities.

All in all, when we look at the current situation, Company has about Rs.1,200 Crores of orders in hand now and irrigation is about, out of that about Rs.700 Crores, piping about Rs.250 Crores or so, and food also has an order base about Rs.250 Crores to Rs.300 Crores. And I think food orders in next two months or so, they should add another Rs.300 Crores to Rs.400 Crores, because that is when the, we kind of enter into all the contracts, especially with our mango customers.

When we look at our overall earnings and EBITDA level, for the whole year, we have kind of maintained micro irrigation margins north of 21% that is in line of our forecast. PVC pipe margins have improved from little bit less than 5% to about 6.5%. PE, as I said, has moved to about 9% range. Plastic sheet, which is smaller business, margins have almost doubled from 7% to 13%. Our irrigation margins have also improved. So all in a ll, if you really look at for the entire year, our margins, which were about 15.8%, now stand at about 16.3% for the whole year and even for the fourth quarter, the margins which were about 16.3% now are at 17.7%, because of the improved margins in the piping, sheet division, also improved margins on the onion and fruit business compared to the same period last year, which we had seen.

So despite lower sales due to this drought situation, I think Company has been able to manage operations well to somewhat improve the margins. So, all in all even though sales have gone less, our EBITDA has remained almost same level at about Rs.262 Crores on a standalone basis, and on a consolidated basis EBITDA is at Rs.319 Crores as against last year, close to Rs.314 Crores, so small amount of improvement there.

And when we look at the numbers for the whole year, again, standalone last year EBITDA was Rs.695 Crores, which has grown this year to about Rs.715 Crores, and consolidated level which was Rs.861 Crores has come to Rs.890 Crores, registering about 3.2% growth. So no growth in revenue for the whole year, but improvement in earnings by about 3% at EBITDA level is what we have achieved.

I believe that where we are today, we are setting a good foundation for a significant and sustained growth going forward, across all our major businesses. We have been able to resolve with this infusion of equity, the whole issue of the balance sheet and the debt, debt-equity which was close to 2 times, now is down to 1.23 times by March, due to this infusion and whatever else we have done.

And as management, we are planning and budgeting that in FY2017 we are going to make very sincere effort to bring the debt and equity down to almost 1 to 1 level, because at that place, I think we'll be very comfortable. Due to this reduction in the debt in the FY2017, we also expect a substantial amount of savings in the interest costs and that should add to the bottom line.

In the fourth quarter, in terms of balance sheet, apart from this major event of equity infusion and repayment of the debt, there is a small amount of increase in terms of receivables in the micro irrigation business due to the nature of the type of the business we did and most of that happened in February or March. So those receivables remained there, but we expect that in the current fiscal in FY2017, we should be back to that situation of reducing micro irrigation receivable constantly, there has been almost, I think, 12 quarters, we have gone, every quarter we have brought down the micro irrigation receivables.

So current year micro-irrigation receivables are just north of about Rs.1000 Crores and we are expecting the kind of growth, which I talked about, about 15%, 20% type of growth in that business, but despite that growth, we expect absolute amount of receivables in FY2017 to be less than Rs.1000 Crores and that would mean in terms of DSO, days outstanding against sales, should considerably improve from where you see that in month of March.

When we are looking at our overall business and budget and planning for the FY2017, we feel that there are lot of factors which are coming together to create very positive growth momentum for us. I talked about in the irrigation, sensitivity of government has increased due to the drought, farmers are also are willing, sugar factories, all of them want to go and do a lot of drip irrigation, and overall, we feel there is a very good momentum on growth on that side.

In piping, we are seeing growth from various projects, whether it's power projects or desalination projects, because water has also challenged a lot of these people and they need to create all this piping solutions to handle water properly. States like Telangana are installing a complete water grid network. They are connecting all their villages through a complete water grid pipeline, and there also we are participating through our business, so that way and whether it is AMRUT Cities or Smart Cities, all of these new areas are also talking about providing more water in a proper way 24/7, and for all that they need technology which we possess. And whether it is water or whether it is city gas distribution, whether it's about cables, we are seeing good order book coming from various entities or various companies and we expect that will continue to stay well.

In terms of food business, we should get good growth from our traditional customers, but in addition, we expect this year to start some amount of start, which we already talked about over last two quarters where we have launched frozen aamras as a product. And for most of last fiscal year, it was just in city of Mumbai, but now I think by September or so, we should have a nationwide distribution ready and we should be planning to launch some more products, but major retail revenue should be expected only from FY2018 onwards, while you will see some amount of revenue in the current year.

Looking at that kind of scenario, we feel very confident that all three businesses should generate good growth and as a Company, we should generate a growth of double-digits, if the rains come through in time, distribution is good, then overall, as a Company, we should grow north of 15%, but if things somehow don't turn out well we should still grow in double-digit.

We are also expecting strong continued momentum from our overseas entities in the current year, based on some of the projects they have in countries like China, Peru, and others and they should also have double-digit growths into the market, which are not growing more than 2% to 3%. So with balance sheet issues behind us, we expect also a strong cash flow in the current year, with lower interest cost and better management of working capital. So we are targeting a significant amount of free cash flow generation, even after providing certain amount of growth capex into various divisions, and this growth capex is being done to create more value-added products in micro irrigation division.

And in piping division, looking at the new orders and what is happening, we definitely need to add some capex to go and, go for consistent growth over next two to three years. And in the food business with the new investment which have come in, we are putting in investment into things like spice processing, as well as some investment into additional capacity for the mango, because for the whole season, in terms of mango processing, we are kind of totally sold out.

All in all, Company would continue to grow, Company will definitely be profitable, Company would even make a better balance sheet than what we have today. And it seems external factors also are coming together, to help and give us the tailwinds rather than kind of headwinds, which we faced last year.

With that kind of optimism and a strong and a bullish mindset, I would close my remarks, and me and my team here will be very happy to listen and answer any questions you might have. Thank you.

Moderator:

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

Viraj Kacharia:

Sir, I just have a couple of questions on the micro irrigation part. Now, you mentioned about Government of Maharashtra announcing some concrete

measures to ensure mandatory drip for sugarcane, just a day back, we also seen Government of Karnataka announcing plans to spend up Rs.2,500 Crores towards micro irrigation and between today and FY2018. So we have seen some similar announcements being announced two to three years before also.

So what are the key challenges or limiting factors earlier, and what changes we are seeing right now which makes us believe that we'll see implementation of those planned announcements in next couple of months? That's the first question, sir.

Anil B. Jain:

Okay. So you know the government policy and government actual action at the end, there can always be the time delay, and I think that time delay is what you have seen over last two, three years. But I think current drought has made everybody very sensitive about importance of water and value of water and there is a consensus has emerged across the country and whether it's media, whether the experts, whether the government or the farmers that drip irrigation is one simple most cost-effective way of addressing the drought and low productivity and the farmer distress.

And what has happened, just if you see over the last four to five weeks or four to six weeks rather is that our Prime Minister met almost more than 10 Chief Ministers, and after every meeting, if you follow social media, he was tweeting the outcome of those meetings and almost I saw seven or eight tweets by our Prime Minister saying that he was enquiring about micro irrigation and the Chief Ministers talking about doing more and more micro irrigation. So that kind of sensitivity and that level of focus coming from the top functionary of the government from country like India, I think is going to ensure that the resource allocation will happen.

So sometimes government announcements are well intended, they have good intention, but then resources do not necessarily follow, and sometimes even when you have these two, executions is not good. But in this case, I think as soon as the resources will follow now, between now and October, I think thereafter the execution can be done very well and that's why I feel this time around, there is small amount of risk right, if we have too much of rain in July, August, people may, some people may say okay, people will forget about this. But I think lessons learnt are very deep this time, and I do not think people will forget this in hurry, the pain about not having water. And therefore, I believe this time there should be feasible and this should create a sustainable growth opportunity for next three to five years for the industry.

Viraj Kacharia:

You mentioned about possibility of execution from October onwards. So are we incrementally, are we seeing more and more states having a more focused approach in terms of how we have GGRC, which is more of a corporate type structure, when it comes to micro irrigation spends and implementation. So, are we seeing more states implementing, moving towards that type of nodal structure?

Anil B. Jain: I think right now we're just talking about sugarcane, right? Sugarcane, most of this work will get done in Maharashtra and Karnataka to start with. And I think a few years down the line, you will see even UP, Bihar, this work will start. But as of now, sugarcane is mostly in Maharashtra, Karnataka, and partly Tamil Nadu and Andhra, but these are the western and southern states are where you should see impact. And in these states, already there is a kind of an efficient mechanism of the government policy and distribution level. And GGRC is one model, but Andhra follows another model. Even in Maharashtra, where there is no particular institution like GGRC, but overall drip irrigation being sold in Maharashtra is higher than any other state in the country.

Viraj Kacharia: So, what is the kind of budget which the Maharashtra Government is planning for drip irrigation on sugarcane?

Anil B. Jain: I think they are talking about more than bringing 100,000 hectares in this year alone. But as I said, over next few weeks, one should wait and see some concrete announcement in terms of where and how much resource they're willing to back it up.

But just to step back for a moment, while on this discussion I would like to state that, overall we feel that even if government support is not as much as they are saying or if it is less, or they don't organize all those resources, I think just the sugar factories themselves are willing to provide capital, the farmers themselves are willing to buy. If they do, then you could see on a higher growth not only this year, maybe next year and so on.

Viraj Kacharia: Okay. And you talked about seeing, good growth being seen in Andhra Pradesh, Tamil Nadu, Karnataka and Gujarat in FY2016, so what is the kind of growth rate one has seen in these states?

Anil B. Jain: You mean, in FY2016?

Viraj Kacharia: Yes, sir.

Anil B. Jain: So, as you know, FY2016 overall our retail sales have grown 6%. And within that, Maharashtra did not grow. We had clocked very high level of growth rate in AP and Telangana.

Viraj Kacharia: What will that be?

Anil B. Jain: Sorry.

Viraj Kacharia: What will that be? I mean the kind of growth rates we have seen in AP, Telangana and Karnataka, Gujarat.

Anil B. Jain: In AP, Telangana we had almost 60% growth, Karnataka was about 15%, MP grew by 13%. So like that, but Maharashtra and Gujarat we had negative growth

because of this whole drought situation type, and retail business I am talking about. But now we expect all the states to fire this year. I mean Maharashtra should do very well and pickup as well as Andhra and others. Of course now on a higher base Andhra growth cannot be, Andhra Telangana growth can be on the same percentage level, it will be lower percentage, but still in absolute amount it'll be good amount.

Viraj Kacharia: Okay, this last question was on the pricing trends we are seeing in the industry, now as you mentioned for us, we have seen only 6% growth in retail MIS in FY2016 now if you see the performance of other organized players, they have reported like less 15%, 20% kind of sales growth in FY2016, and we also are seeing an significant increase in unorganized players across the country. So, how the industry, how the pricing trend in the industry is there at the moment?

Anil B. Jain: I think pricing is stable. Polymer prices have also remained stable for last few months. Competition from large amount of small players was always there and continues to be there. There are almost more than 200 people. I believe we continue to have about market share of 40% some one or two people might show a higher growth rate than what we have, but their base is very small. So if somebody has Rs.150 Crores and is growing 15% you know he's adding Rs.20 Crores, and if we are growing 6% in retail business, we are adding Rs.150 Crores. So that can't be typically compared, but all in all, as I said that FY17 looks to be good and we should look at a very positive growth.

Viraj Kacharia: So there is no pressure, in terms of you know in states where the pricing is regulated, is there, are we viewing a trend of them forcing to reduce prices, given the low RM scenario, which was there for couple of quarters. So are we seeing that kind of trend being played out?

Anil B. Jain: Currently there is nothing on annual, all that is settled. There is nothing on annual.

Viraj Kacharia: Okay. So, we should by and large see the current low raw material prices, which we are benefiting, should continue in FY2017 as planned?

Anil B. Jain: That is what is currently expected as long as oil remains in the range mark, right, if it significantly goes up then it might be different issue, but as of now it looks same.

Viraj Kacharia: Thank you very much.

Moderator: Thank you. The next question is from the line of Samraj from Dwarka Wealth Managers. Please go ahead.

Samraj: Really congratulations for managing your financials in such a trying and difficult times. Condolences to your family also on your father's demise. I have also heard your interview on the CNBC TV, so I would not take much of your time on

those market segments and products. I had read one interview of yours on Mint where you had in fact given us guidance that you'd be covering the Indian market for the consumer side, that is your mango ras by June end. So actually, I was just thinking as to what is the execution delay? Why is that happened at, from June it has gone down to, gone up to September, sir?

Anil B. Jain:

As we are first time entering into retail category to build all India distribution it is just taking a little bit more time than what we had originally anticipated. But just to step back for a moment, frozen aamras, which is the first product, which we have launched is a niche product because as you know there is not too many retail outlets carrying the frozen stuff etcetera except in big cities. The new products which we plan to launch this year in the second half; there is no delay in that, because that planning of the launch of that was going to be in any case in the third quarter. So before that our distribution will be ready, so this delay of three months in distribution is not going to impact that launch. And that is going to be type of a product, which can go nationwide in ambient temperature, so it can be at hundreds of thousands of outlets, while frozen aamras is select outlets because of the requirement of refrigeration and so on.

As I also talked about earlier I just want to say that we are just starting on the retail side, we believe retail would add more value to us than merely B2B business, we believe there is opportunity to bring wholesome products, which are like 100% natural, which have no preservatives, which will give to the customers or the consumers the convenience and value addition and at the same time I have a healthy outlook. So, this is what we plan to do.

Brand building is the long process, our brand Farm Fresh, Jain Farm Fresh is a well-known brand amongst the global industrial community on the food side and now we're taking that brand to the consumer and their mind. So it would get build over a period of time, but because for us we already have a large amount of industrial business it is comparatively easier to build the retail brand rather than somebody who is just dependent on the retail business, because then sometimes cost and the revenues don't match in our case, that is not the issue our existing business is very profitable going. And this add-on will allow us to further build additional revenue streams and eventually new categories where we can continue to add value and continue to be broad base our portfolio amongst fruits, vegetables, whether they are frozen, whether they are processed, whether they are like a puree or for dehydration, all of these different, different things. We plan to offer to consumer.

So, I think one has to little bit wait and watch for few quarters in terms of how and how many products we are launching, but real benefits of that launch will start coming down the line it won't come, let's say there won't be any significant benefits you will see in the current year.

Samraj:

You know whenever we bring up some of your officials especially on the mobile phones you get this jingle of aamras on the ringtone. So are you planning some

sort of nationwide marketing sort on the media, jingles on the tele-medias, etcetera are we going to have a same marketing thing as an FMCG company?

Anil B. Jain:

As of now, you know this Jingle etcetera is available and is there on the radios and those markets which constitute very low cost and very specific niche focus with the consumer, but as we launch in the future, the products which are going to go nationwide and available at hundreds of thousands of outlets, then at that point of time we would look at that situation.

Samraj:

This would be, see right now what we are doing is we have this Hindustan Coca-Cola is backward integrated buying the pulps, the purees and all from us. Now are we going to to say B2C, then are we also going to have poly-packs, tetra packs, you know these are sellable units and SKUs and also maybe soft drinks, bottled soft drinks, also on mango side, I mean are you planning something like that sir?

Anil B. Jain:

We are not, as I said, we are not into soft drink. We'll bring all the products which are wholesome and 100% natural clear distinction. The packaging could be different depending, and we will also generally not be competing with our customers for example Coke is a very large and important customer, their Maaza. So we would not be launching products which compete with Maaza. There could be other fruit juices if they are not doing it we could do it. So that's all part of the pipeline, which we're building and over a period that will get launched.

Samraj:

Just one last question I had. Sir, now see in that same Mint interview you had very interestingly given us the valuation of the Company. You said now that Mandala Rose financials has taken the equity at Rs.80 per share. Now we are getting Jain Irrigation you know the industrial, the plastics of this division almost free of cost. Taking up the research further, what we did was we compared our to say EBITDA and the sales what we expect on the mango side compared to Manpasand Beverages.

Now if you take that actually, what is happening is now not only that it we are getting this Jain Irrigation equipment part of it free, actually you are paying us, you paying the investors to buy your Company actually. If you take the Manpasand Beverages valuation, because when you check up their sales it is estimated about Rs.489 Crores, I didn't see this financials, about Rs.489 Crores. So have you touched Rs.675 Crores, as per our estimate for the mango division sir? Rs.675 Crores have we got for Jain Fresh Farm's mangoes?

Anil B. Jain:

See, I just want to explain how the market values its markets prerogative, what I was trying to explain that day into that interview is that what is the valuation of the food company we are getting. Mandala has invested Rs.400 Crores into the food business it's about 15% equity they have got approximately and that means that division is getting valued close to about more than Rs.3000 Crores. So if that is so, so that was the logic that is that valuation then what does it mean for the rest. I think rest is little bit of speculation what is happening. Let us wait and see

overall, we have got a great valuation and I think intrinsic value of underlying businesses, the strength of underlying businesses, our leadership into the market can be seen and pursued through this kind of transaction that is what is meant, but most important that has allowed us to reduce our debt. And that is allowing us to create a platform for a very good future growth and which I'm sure a lot of stakeholders will benefit including shareholders.

Samraj: And sir, when we now take that okay, now we will be having a debt to equity of just 1:1 now if you take out you that earning itself translates into say Rs.2.50, and if you're talking about growth of minimum 12% and a maximum of 18%. What would be your projected EPS for if you do a back of the envelope calculation for FY2018 what would it be sir?

Anil B. Jain: You are doing all this calculation you can do that. We never give EPS per se in terms of our growth target.

Samraj: Okay, just an idea sir.

Anil B. Jain: I'm not getting into that and also I think a lot of people would like to ask questions. So one can do that or you can seek additional specific meeting with our CFO and discuss those details.

Samraj: Thank you.

Moderator: We have a next question is from the line of Chetan Vadia from JHP Securities. Please go ahead.

Chetan Vadia: Just continuing with the food details question that was asked earlier. What kinds of investment are likely to make in setting up this chain. I think 1,000 odd stores are what you said in the opening remark, what kind of investment that'll be required? And what will be the first line of store that you plan, are you going to go with the online retail players first, and then sell kind of road side outlets?

Anil B. Jain: We are not making our own stores. So if somebody has got that impression, that's not right. We are going to use the existing distribution and the retail outlets to push our products into consumer hands. We are not looking to invest into building our own distribution. What we are doing is, today we are appointing distributors nationwide and we are listing all the retail outlets under these distributors through the sales organization, which we have created and as we are building and through that distribution and retail outlet structure, we plan to reach out to, what work we have done, we already reached out to more than 1,000 outlets in last few months, but eventual idea over next couple of years is that you should have ability to reach out to few hundred thousand outlets, but we don't plan to build our own stores.

Chetan Vadia: So, what kind of revenue potential would that be with 1,000 outlets on ground?

Anil B. Jain: Sorry. Could you?

Chetan Vadia: Kind of revenue potential do you see for yourself, once you have completed the entire initial 1,000 outlet target?

Anil B. Jain: That would again depend on the product, like as I said, the frozen aamras is a niche products. So the sales of Frozen aamras can be in few Crores, tens of Crores, but some few other products which we are planning to launch later, they would have ability to become much larger brands and larger in terms of overall revenue. So I think we should wait and watch for few more quarters before we can put together some of those numbers.

Chetan Vadia: Thank you.

Moderator: The next question is from the line of Sakit Kapoor from Kapoor and Company. Please go ahead.

Sakit Kapoor: Sir, you were sounding very optimistic. I hope the optimism translates also, all the best for that. Sir, coming to your point in the food processing, sir, FDI has been cleared for the food processing as a whole. So how do you think this can help in taking your growth story forward, sir?

Anil B. Jain: I think FDI, while it has been announced, it will, partly it allows specific overseas brands to bring their products into India directly and that is what is meant by 100% FDI into the food. As far as we are concerned, most of our products are coming based on the sourcing, which we do in India. For example, mango, India is the largest producer. So there not much can happen from people coming from outside India, because this mango, we are the largest processor in the world today out of India.

And the other products in which we plan to grow like pomegranate or like bananas and now we are also launching the citrus, it will take couple of years, but we have started working on citrus, that means orange as well. So as we grow this India and Indian agriculture is going to be strength of source for us and therefore FDI that way will not impact us or affect us either way.

Sakit Kapoor: Sir, but all this entire business will be in the JFFFL.

Anil B. Jain: Yes.

Sakit Kapoor: Everything will be routed there, sir?

Anil B. Jain: Yes, all the food business would be in that entity.

Sakit Kapoor: In that entity. Sir, coming to this PVC part, sir, what kind of market shares there do we command and are we the manufacturer also there or are we sourcing it and then doing the fitting part on ourselves?

Anil B. Jain: We make PVC pipes and fittings and we have been making those since 1980 so fairly long period of time.

Sakit Kapoor: And what is the market share, sir?

Anil B. Jain: There is two, there are PVC pipes, there are thousands of people who make it, so there is unorganized sector and organized sector. I would say, within the organized sector, our market share for the rural markets is where we are predominantly, would be almost about 30%, 35%. But if you take into account the urban markets like building and construction, etcetera, where we are not there today, but we plan to enter now, then our market share would be in single-digits.

Sakit Kapoor: Okay. Is this only the, we are in the CPVC segment also or not?

Anil B. Jain: We are mostly in PVC segment, but we are now launching CPVC, we have done kind of soft launch over last few quarters. Current year would be the first fiscal year where whole year we will have that product line.

Sakit Kapoor: CPVC, sir, we are sourcing the resins and then going for the conversion part from our end or the entire pipe?

Anil B. Jain: Yes, that's what we are doing, we are making.

Sakit Kapoor: And it is imported product, sir, or are we sourcing it from any domestic players?

Anil B. Jain: The resin is being imported, rest we are making ourselves.

Sakit Kapoor: But sir, one of the players is coming with, I think, so the CPVC resin plant in south. And so are we in talks or in negotiation with them to get the value chain up because that would be saving you a lot of time and even foreign exchange?

Anil B. Jain: No, we would always try to buy most competitive manner as and when that happens, but as of now, it has not happened. So we will see that as and when that happens, but PVC in that sense is a commodity, right? You always want to buy at lowest possible price, but it depends on when that will happen.

Sakit Kapoor: Correct. And the solar pump parts of the case, which was in the assembly of Gujarat, we have got an order from, and that was being challenged by the assembly members there, what is the update on that?

Anil B. Jain: It was actually not Gujarat, it was Maharashtra order and somebody had raised the issue in Maharashtra assembly, but that has been resolved and Government of Maharashtra has placed the full order on us and right now we are installing those solar pumps with the farmers.

Sakit Kapoor: And what is the size of the orders?

- Anil B. Jain:** The total order was Rs.475 Crores.
- Sakit Kapoor:** And it over the period, sir?
- Anil B. Jain:** It's over a period of time.
- Sakit Kapoor:** And last question, sir. The seasonality factor, going forward, again the first quarter would be the linear of the lot?
- Anil B. Jain:** Yes, I mean, as I explained, this would be a lean quarter, because farmers still do not have access to any water. So unless it starts raining, they won't access to water. So first quarter would be lean, second quarter we have to wait and see how heavy are the rain, that's why I have said that second half of the year would be much more positive and lot of, most of the growth will happen from second half.
- Sakit Kapoor:** Thank you sir.
- Moderator:** Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** My question is basically to understand what is the opportunity in the Maharashtra and the Karnataka markets for MIS in case of sugarcane, as in what total acreage is, how much is under drip and what is the potential size for us?
- Anil B. Jain:** If they do go ahead and really do what they are saying you are looking at more than almost a million hectares to be brought under drip irrigation in terms of sugarcane and roughly per hectare is about somewhere between Rs.1 lakh to Rs.1.2 lakh per hectare is the cost of drip irrigation when we sell. So one can do the math, million hectares multiplied by Rs.1 lakh let us say.
- So it's a very large business opportunity, which is there let us see how much funds get allocated and how and it would get executed over a period of time, maybe three to five years and Government of Maharashtra has said in writing that they want to do it over three years. So again, I'm waiting to see how things pan out in next three to four months, but we are quite hopeful this time that they will back resources to what they have said.
- Shashank Kanodia:** Okay. So this 1 million hectare is for both combined, Karnataka?
- Anil B. Jain:** Yes, Maharashtra and Karnataka approximately.
- Shashank Kanodia:** Okay. Sir, in the opening remarks, you mentioned that Maharashtra government is indeed taking some concrete step this time. So what are these concrete steps, if you can help us explain?

Anil B. Jain: I think recently they, Maharashtra government just a week ago announced that they had a meeting to review this program and they've asked the officers or secretaries or agriculture department to raise the necessary resources and work with the sugar factories. So that they can start implementing this program from October and from what I hear, they were already talking of bringing at least 150,000 hectares under irrigation this year.

So, but this is all talk right, this is what they intend to do. As I said, I would keep my judgment pending to see once they actually raise resources and come out with the clear plan who plays what role whether what government will do, what sugar factories will do, what farmer is expected. So let's wait and watch, but even that happen or does not happen overall sugar prices have raised compared to a year ago. Farmers hopefully will have access to water now and farmers have realized the importance of drip irrigation.

So weather or what government does or does not, overall, we expect that last year we lost the business, which we used to have in sugarcane that at least, will definitely come back and some growth will happen. So all in all, we expect to maintain the growth rate, which I talked about despite what the government may or may not do.

Shashank Kanodia: Sure, and sir lastly, what is our market share in the Maharashtra and the Karnataka market for us right now?

Anil B. Jain: Overall, our market share in Maharashtra is quite high, it's between I would say, closer to 60%, 50% to 60% and even in Karnataka it would be somewhere between 40% to 50%.

Shashank Kanodia: Thank you so much.

Moderator: Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers India Private Limited. Please go ahead.

Mayur Parkeria: Sir, our deepest condolences on the demise of Mr. Bhavarlal Jain. We have been interacting with him in the last many years and we still remember his smiling face. Sir, with entire Jain family, sir, we are there to support, sir.

Anil B. Jain: Thank you.

Mayur Parkeria: Sir, on the financials, I just wanted to understand the Rs.800 Crores financing thing which has happened. On the Rs.400 Crores money infusion by Mandala in JFFFL, how much is equity and how much is CCD?

Anil B. Jain: Rs.160 Crores is CCD and rest is equity.

Mayur Parkeria: Rs.160 Crores is CCD?

- Anil B. Jain:** Yes.
- Mayur Parkeria:** Okay. So Rs.240 Crores would have come to Jain Irrigation?
- Anil B. Jain:** No. They are two different transactions, just to explain, \$60 million investment Mandala has made into Jain Food entity. On one hand, part of that Rs.160 Crores in CCD, rest is equity. Then Mandala has also invested about Rs. 290 Cr in CCDs of JISL.
- Mayur Parkeria:** Rs.290 Crores in the CCD of JISL?
- Anil B. Jain:** Of the JISL, both of them are compulsorily convertible.
- Mayur Parkeria:** I understand. So sir, the Rs.240, in the food business, which they have invested. If you remove the Rs.161 Crores CCD, which will come to the food business itself, because it's a debenture, whereas the equity portion would come to Jain Irrigation as a parent right?
- Anil B. Jain:** No, no Jain Irrigation has not sold a share, it was a new shares issued by the JFFFL, the food company.
- Mayur Parkeria:** It was a new shares which have been issued.
- Anil B. Jain:** So the entire money of Rs.404 Crores is in JFFFL, which has been used for the purpose we already stated. But just to explain further JISL sold the food business through a slump sale transaction to the food company so for that food company has paid JISL. So it's a little bit complex transaction in totality, but using all the funds, which both these entities have raised, including the promoter infusion we have been able to significantly reduce the debt, and you will see the benefits in the current year.
- Mayur Parkeria:** Right. So the stake, they will hold will be after the conversion of the CCD?
- Anil B. Jain:** Yes.
- Mayur Parkeria:** Sir, the second question on this side. The private placement, which happened to the promoters in the Jain Irrigation which is around Rs.113 Crores plus debenture money of Rs.290 Crores in Jain Irrigation. So that is around Rs.400 cores, which came to Jain Irrigation parent.
- Anil B. Jain:** Yes.
- Mayur Parkeria:** Sir that money has come in the month of March.
- Anil B. Jain:** Yes, last year.
- Mayur Parkeria:** So, but the cash balance which we see in FY2016 should reflect that, right?

- Anil B. Jain:** No, lot of that has been used to repay the existing lenders. So that was already used, it was a very planned way with agreement of the all the banks, etcetera, the money was used the same day to repay the banks. So, if you will see the balance sheet details, our short-term borrowing of working capital banks have gone down substantially, more than Rs.500 Crores odd, somewhere close to that.
- Mayur Parkeria:** Sir, if you look at the published results not the presentation, if we look at the published results with the stock exchanges which is there and where the balance sheet comes as a part of the results, the gross borrowing which includes long-term plus short term has increased in fact the Rs.116 Crores, which has gone from Rs.3,936 Crores to Rs.4,052 Crores.
- Anil B. Jain:** No, that is because the CCD is grouped under long-term loan, actually it's convertible, so for, that is what in our investor communication we've re-classified, you see that it being an convertible instrument it should be actually treated as an equity, because its compulsorily convertible.
- Mayur Parkeria:** So in 16 months, it will get converted?
- Anil B. Jain:** Yes
- Mayur Parkeria:** Okay, sir on the, just on the basis of this conversion, what is your expectation of the interest annual run rate which is currently around Rs.450 Crores, which we are paying?
- Manoj Lodha:** So that's a consolidated run rate. So what Mr. Jain said on CNBC, best on the debt which has been repaid we expect about Rs.60 Crores to Rs.70 Crores of reduction and now because the balance sheet has improved we can further target the credit rating improvement and other things? So overall, we are looking for an interest reduction of Rs.80 Crores to Rs.100 Crores annually.
- Mayur Parkeria:** Starting from FY2017 itself?
- Manoj Lodha:** Yes.
- Mayur Parkeria:** Starting from FY2017. Okay, sir. Last question from my side. Sir we have an EBITDA of almost Rs.890 Crores on a consolidated basis.
- Anil B. Jain:** Yes.
- Mayur Parkeria:** If we remove, if we remove Rs.370 Crores of interest, Rs.80 Crores after reduction will be Rs.370 Crores, still in the next year. So roughly we will still remain with Rs.500 Crores of EBITDA post interest. What would be the capex, because capex was around Rs.200 Crores, Rs.250 Crores was what we were looking for, right in the?

- Anil B. Jain:** I think we are going to maintain capex in the similar level. So of course the EBITDA in the current year will grow along with the growth of the business and EBITDA for sure will be north of 1000 and from there once the interest goes and the taxes go. I think Company would still have substantial money left and so even after doing the capex, which we have planned, we should have definitely free cash flow.
- Mayur Parkeria:** Last on the clarification on this. So the free cash flow which will be remaining with us if I have to look at debt reduction which ECB repayment of almost around Rs.180 Crores is due in FY2017. Do you think we will be not requiring any debt to replace that or we will use this free cash flow itself?
- Anil B. Jain:** I think a combination, right. We might refinance some debt. We will use internal accruals and free cash flow as well. But overall, as I said our net debt-equity now is 1.2, close to 1.2. We plan that by March FY2017 that would be 1 to 1, that means there is some amount of debt will definitely get reduced and overall debt will not go up.
- Mayur Parkeria:** Fine sir, I will come back in the queue for any questions. Thank you Sir.
- Moderator:** Thank you. Due to time constraint we will be taking two more questions. The next question is from the line of Gaurav Gupta he is an Individual Investor. Please go ahead.
- Gaurav Gupta:** My first question is that, are we planning to nominate any small shareholder Director as per guideline by Companies Act and by SEBI guidelines on listing agreement?
- Anil B. Jain:** I think we currently have 50% of our Board of Jain Irrigation is Independent Directors and they do represent overall all the shareholders and remaining 50% is with the promoters and executive Directors, which are there and to my best of my knowledge we fit into all the current laws and listing agreements.
- Gaurav Gupta:** So to be more precise and there is no as such plan of representing small shareholder Director, which is a clear cut guideline by Companies Act, not an issue.
- Anil B. Jain:** It presents small shareholders, but definitely they don't represent any big shareholder.
- Gaurav Gupta:** Okay. My second question is with respect to our NBFC, one or two years back we were quite enthusiastic about the business plan of that, because we were changing our model cash and carry model and we were financing the farmers via the NBFCs. So is there any significant progress on that because nowadays what we are to listening in the market is that NBFC's are doing very fantastic job where the banks are failing. So how is NBFC doing?

Anil B. Jain: NBFC is doing reasonably okay if you have to remember that our NBFC was operating mostly just in the state of Maharashtra and last two years have because of the severe drought, most of the banks had to restructure their loans to the farmers, because that was through the cut coming from RBI's as well as government that they have to do it. So during such an environment, we have decided that let us manage our NBFC in a more cautious and conservative way and once the situation changes they would again grow aggressively. But as of now, they have already lent to about 25,000 to 30,000 farmers over last 2 year to 2.5 years its profitable NBFC and they have a very good track record of also recovering money and getting loans paid back and we expect as we go along over next few years, NBFC will continue to contribute quite well to JISL model of reaching out to farmers without increasing its balance sheet strategy.

Gaurav Gupta: What is the current outstanding loans that has been extended by NBFC to farmers?

Anil B. Jain: It's about Rs.200 Crores.

Gaurav Gupta: Thank you very much for taking my questions.

Moderator: Thank you. The last question is from the line of Venkat Subramaniam from Organic Capital. Please go ahead.

Venkat Subramaniam: With due regard to the kind of passing with which you have managed the Company, a lot of our projections and desires have been actually rolling over. So if you have to actually try and judge what is seeing as we stand today, we saw how we started let's say April of 2014 or April of 2015. And what do you see the confidence that you probably will do a lot better this year? Internally. We know that the landscape is changing, we know there's lot of government support, but from within what are the changes that gives you confidence?

Anil B. Jain: I think it's a very good question, as you know during 2012 and 2013 we changed our business model to try and reduce the dependence on government subsidies and that resulted into lower sales, lower margins, change in the business model and about two to three years were lost where Company couldn't grow or maintain their level of growth it used to have in the earlier decade, every year we're growing almost 30%.

Now, what is changing now internally and externally this year compared to let's say last year, that last year was one of the worst year in terms of drought in last 30 year, 40 year in India, after 1972, our people are talking it was such a bad drought where farmers are doing suicide, there is no water to drink, there is no water for agriculture. So, this has been a significant setback to the entire country, to the agriculture community, to farmers and as well as to us. During such an environment, we have managed to help ourselves well, we have improved our overall net profits by almost Rs.40 Crores and we increased sales by Rs.100 Crores compared to the last year as an entire Company.

In the current year, what is changing and what has made us feel bullish is that the fact that we already have some good orders in hand on the project side in the MIS business. We also have very good feelers from our overseas markets, which are also doing well in terms of the exports, and we are also encouraged by the fact that the farming community and despite such amount of bad drought, last year overall we sold 6% more to the farmers, and that is, actually quantity wise we sold more, in terms of value it is 6% because of reduction in raw material prices. So, and that is what gives me belief and faith that in such a bad year in last 40 years, if we could grow 6% with the retail consumers and farmers, why not we can do far more in a good year when there would be enough rains.

And on the top of that, like for example, there was a discussion on sugarcane, a year before sugar factories were all losing money and sugar price had gone down to Rs.18 while they were paying for sugarcane to farmer Rs.20, but now, sugar prices have also gone north of Rs.30. So, there are lot of these different factors which have changed in marketplace and on the ground reality, which makes us believe that this year is a good year and we should be able to grow.

Now, in terms of what we committed earlier and what we could achieve, because our business is dependent on agriculture and the climate change, we always qualify our forward-looking statement saying that it is subject to good rains, because that I cannot really control. And again, last year was really bad where there was no water, lot of farmers didn't have water. But this year in next three to four weeks, it will become much clearer or what's happening with the rain and as we come maybe into July, August or September, as a Company, we could give a revised forecast because that time we'll become more certain.

So, in lighter vein, I feel sometimes it is better that we have our fiscal year close in June or September, then I can give a much better forecast because right now it's something we are little bit blind in terms of what climate is going to go do, but despite that, internally I think we have geared ourselves very well. We have made the right amount changes into our operations, so that we'll become more cost-effective.

We have introduced new markets, sorry, new products into the market to the farming community to suit their income level, and that is why I feel confident that we will be able to maintain good level of growth in the current year.

Venkat Subramaniam: Fair enough Sir. Lastly, on the financial metrics which aspects and what kind of progress there will satisfy you let's say over the next 12 months to 36 months?

Anil B. Jain: I think over the next one year. As I said, one of the metrics, which we have talked about is that we want to grow debt equity close 1 to 1, we want to of course, reduce interest cost by close to Rs.100 Crores compared to the last year, these are the two metrics and third important metrics is to create free cash flow so that means the growth which will achieve this year would be capital efficient growth. So, we will be improving our working capital further. So these are the three

metrics we want to focus on, generation of good amount of free cash flow, further reduction in the debt and definitely significant amount of reduction in the interest rate which we had.

Venkat Subramaniam: Will free cash flow be proportionate to the size of our Company sir, or will it be just a token?

Anil B. Jain: No, I think it should be size of the Company, it should be Company size, that's what we are planning and targeting.

Venkat Subramaniam: Thanks a lot.

Moderator: Thank you. I now hand the conference over to Mr. Manish Mahawar for closing comments. Please go ahead.

Manish Mahawar: Yes, thank you Anil Ji and Manoj Ji for taking out of time for the call. Anil Ji, would you like to make a closing comment?

Anil B. Jain: No, I think questions have been fairly comprehensive. All in all, we believe overall external factors and internal factors should allow us to maintain to our positive growth, definitely positive growth compared to last year and we also believe, most of our businesses should be doing well, our overseas subsidiaries are also doing well compared to earlier years and they should also manage to continue to do well. So overall, based on good balance sheet, which we have now and a new scenario in terms of weather and climate change and monsoon, we think we are in for a positive good ride.

Manish Mahawar: Okay, thank you Sir.

Moderator: Thank you. On behalf of Edelweiss Securities, we conclude this conference. Thank you for joining us and you may now disconnect your lines.

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