Jain Irrigation Systems Ltd.

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Q2&H1 FY2018

Earnings Conference Call Transcript

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MAIN SPEAKER:

- **Mr. Anil Jain: Vice Chairman and Managing Director**
- **Mr. Atul Jain: Joint Managing Director**

Moderator Ladies and gentlemen, good day and welcome to Jain Irrigation Systems Limited Q2 and H1 FY18 Earnings Conference Call for Investors and Analysts. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you, and over to you, sir.

Siddharth Rangnekar Thank you, and welcome to the Jain Irrigation Systems earnings conference call for quarter two and first half, FY18. Joining us today are Mr. Anil Jain, Vice Chairman and Managing Director and Mr. Atul Jain, Joint Managing Director. We will commence the opening remarks with Mr. Anil Jain, following which we will have an interactive question-and-answer session.

Before we begin, please note that some of the statements made on today's call could be forward-looking in nature, and a note to that effect has been included in the earnings presentation, which is made 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 and half-year ended September 30th and the opportunities going forward.

Over to you, sir.

Anil Jain Thanks, Siddharth. Welcome to all the participants. In terms of overall review of the second quarter, it was in line with our expectations. It has not been a great quarter in terms of a significant growth, but we did manage positive revenue growth in India, as well as on a consolidated basis. When we look at individual businesses, micro irrigation has done considerably well, partly due to the acquisition which we have done in US and even the domestic business in India was positive on the back of higher exports from India, as well as the project business.

But the retail segment of micro irrigation was negative and primary reason was, I believe, has been partly GST disruption and partly kind of a continued distress in the rural area, where farmer income levels have gone down, they do not have access to enough cash. And small amount is a lingering impact or effect of demonetization because the district cooperative banks were still not functioning, but recently, I think RBI has allowed them to also start functioning again and that should help going forward, and the fact that while parts of monsoon have been erratic and impacted some crops. But generally speaking, rains have been enough in most parts of the country and that augurs well for the Rabi season, which we will get post November-December.

In other businesses, plastic division also managed about 7.5% growth in terms of consolidated basis, in terms of revenue. And lot of that came from the Poly-ethylene pipe division, based on the project we have and the gas application, cable application, that's where we had a good growth. Water did not do that well in this particular quarter. But now we are seeing also some new orders, which we have got in the water segment, which would allow us to significantly increase our revenue in the remainder, second half, on the water side.

Within the pipe business, again in the retail segment, where we sell PVC pipes into rural areas, continued to remain subdued. And beyond September quarter, even Diwali, was somewhat muted in that segment, during October due to Diwali and other factors. But just over last one week in November, we have started seeing some green shoots there, in terms of business has started coming back. It is like as of day, in month of November, we are doing better than last year we did in November. So that seems to show a good sign, but of course one has to wait how soon this will get ramped up to significant level of increase. That's on the piping.

When we look at our third major business that is the food processing, so the business in India, which is a major part, grew in terms of profitability. That business in India, the revenues grew 17% into the food processing division. And a lot of that was also actually growth within the domestic part rather than exports during this particular quarter. But we have good order book for domestic as well as exports to ensure that the overall growth rate of high double-digit rates will be achieved during the current fiscal for the food processing division as well.

So all in all, it was a reasonable quarter in terms of revenue growth and with the order book, which we have on hand, we believe we will meet the targets we have set out for ourselves at the start of the year and achieve more than 20% growth for example in piping and irrigation, food processing, all the three major segments, we are looking for that kind of a revenue growth, which looks quite good at this stage.

When I talked about the order book, the order book is almost Rs. 39 billion and out of that about Rs. 19 billion is about for Hi-tech Agri Input division, this is on consolidated basis and about Rs. 7.7 billion is for plastic division and about more than Rs. 10 billion is for the food processing division. So again that shows, there is a good distribution across different divisions to achieve the levels which we need to achieve.

Then in terms of the profitability and earnings, just moving beyond the revenue numbers, the EBITDA for the second quarter on a consolidated basis was slightly better. Last year, it was about 13.1%. This year, it came out to about 13.7%. And overall number was about Rs. 219 crore as against last year's Rs. 190 crore, registering 15% growth in that number. In terms of overall first half, EBITDA is about at Rs. 468 crore as against last year's Rs. 441 crore. Now when we plot these numbers of revenue and EBITDA, what we have achieved up to now versus our annual expectations, one would see that we had spoken earlier about revenue closer to Rs. 8,400 crore in terms of income for the whole year versus what has been achieved now as against Rs. 84 billion, what we have achieved is Rs. 33 billion. So that makes it close to about within 39% and 40% achievement on the revenue level. And in fact, when I spoke earlier, in last quarter's conference call, I had a fear that it may be close to 35%, 36%. The fact that we have been able to do between 39% and 40% is very good and that makes us fairly certain that the remaining 60% we can do in the second half, because that's how we have done that in the past as well. In most of the years in the past history, this ratio of 40%-60%, we have been able to maintain.

When we look at EBITDA level earnings, what we have achieved now is Rs. 468 crore. Our target was that, our EBITDA last year was close to Rs. 1,000 crore and that it should grow by about 23% to 25%. So our target for EBITDA has been about Rs. 1,250 crore. Now when you look Rs. 468 crore versus Rs. 1,250 crore that means achievement on EBITDA is about 36% of the annual target. So that's also in line with our expectations and it does give us confidence that in second half, we should have significant revenue growth as well as the earnings growth. And in the second half higher level of EBITDA should translate to significantly more PAT than what you've seen in the first half because fixed cost will remain what they are and you have far more revenue and EBITDA level earnings. So, majority of the PAT level earnings will get captured in the second half. And again, this is something not very new, this has been the trend in the company in the past as well.

When we look at individual breakup for different businesses, then I would say that within the irrigation in the retail business, for example, few states like Andhra Pradesh or MP or Rajasthan were positive, but Maharashtra, Tamil Nadu, Karnataka or Gujarat, they were negative on the retail side. Now, then just to quickly cover the whole scene about GST. GST for us has been quite normal for the piping division as well as for the food processing division, where it did create impact was micro irrigation. And in micro irrigation, as some of you may know that there was a nil excise duty and so when the MIS GST came at 18% that meant that after providing for ITC that is input credit, even then we will have to increase the prices to the market by about 5% to 7%. But this translation took some time for people to understand. Also in the two states where we do business through government, because work orders come through government, in Andhra and Gujarat. The state governments took lot more time to accept the changes just in terms of their processes; their procedures and they needed to go through lot of modifications. And then during the quarter, based on some re-presentations, the government reduced the GST on micro irrigation 18% to 12%, but when you read the fine print, that 12% was brought only for specific product, Sprinkler and Drippers. Now most of the drip irrigation when we sell it, get sold as a system, you rarely invoice very separately for Drippers. So therefore that reduction to 12% has not really made any change. So business remains at 18% GST and we expect now onwards even the retail business to pick up again. Over the last couple of weeks, farmers started buying at the new prices and that's an encouraging sign as well as the governments have in Gujarat and Andhra Pradesh have also signed off on the new prices etc. But Gujarat is right now, again going through an election, so there has been some slowdown of the activity there because governments typically then do not release the orders during the code of conduct period. So we expect subdued business in Gujarat even in the current quarter, but it should pick up from the fourth quarter once the elections are over.

During this period, we have got couple of new orders for the irrigation on the project side, so that will continue to work and continue to allow us to maintain good growth rate. In terms of overall working capital, as a company, if we look at on a consolidated basis, overall, our inventory has come down by about 4 days, it was 149 days, it's down to 145 days. And account receivables have also come down by 3 days from 113 to 110 days. So at a gross level, there is an improvement in working capital. On a net basis, there is an increase by 5 days from 171 to 176 days and main reason for that is that during this period, we pay off lot of our payables, that's the seasonal nature of the business. And between now and March, we expect inventory to come down much more, and overall receivables will remain at the same level or might slightly go up, but we expect overall improvement in working capital between now and March. But between June and September, as I said, we have been able to maintain it and a slight improvement on both inventory, as well as receivables compared to June. And that you would see, not only at consolidated level, but also in the standalone, it's exactly inventories down by 10 days and receivables are down by about 2 days.

When we look at receivables for micro irrigation, where a lot of us have focus, they're almost at similar level as they were in June in total, the domestic and exports combined together. But in fact, if we do not take into account export, domestic receivables are slightly lower than what they were in June despite the 7% increase in the business. And the part of the receivables which is linked to subsidy is fairly in control, and in fact, except AP and Gujarat, the remainder of the receivables, in fact, have come down during this period which is also in line with our expectations.

Apart from these events, I think our overseas subsidiary also got one large $24 million order in Honduras. We have got two or three large orders on the piping side under the AMRUT Scheme of the government. We've got a large order from Gujarat for the piping business. So all of this would allow us to again maintain growth.

In terms of the debt and finances, during this period, we repaid one foreign currency convertible bond of $40 million and that was repaid on the due date by the company along with residual premium, which was a redemption premium, which was due. So in total company repaid $45 million at this point of time. Now this leaves only about $10 million of FCCB outstanding and this is falling due for repayment in month of April next year. Apart from this, there is still another about $17 million of additional loans falling due, end of this month, which would get repaid on the due date. And thereafter, we do not have any big-ticket loan prepayment expected over next couple of years. This year was something where some of these liabilities were bunched up, and the fact that that has already been taken care of should allow company to have very comfortable position in terms of managing the debt and the liabilities.

During this particular quarter, our debt did go up by about Rs. 2.7 billion on a net basis. And mostly that is linked towards working capital in terms of seasonality nature on consolidated basis where we do build some of the inventory related to food and other aspects linked to the timing of the business. From here onwards, we have our internal plan and budget to bring down the debt from where it is today to try and take it very close to where it was in March 2017, so that we can be close to that whole debt to EBITDA, closer to about 3. But I believe with the second half, very robust business plan we have in terms of execution, should allow us to do that going forward.

From 2019, 2020, 2021 in 2-3 years, we have about on an average about $13 million, $14 million dollars falling due in terms of foreign currency loan repayments, and as I said, that's comparatively a much smaller amount than what was due in the current year.

On Friday, when our Board met to review the results, Board also took view of our food processing business and felt that all the new opportunities, which are coming into the food business would allow us to maintain a very high growth rate going forward and therefore Board decided that we must explore ways, where and how we can make an IPO of food business. And so, in principle, the decision has been taken that we should look at getting this done in the next fiscal year. At this stage, we are in, this is a very fresh decision. So we have not yet taken any call in terms of the total amount we plan to raise, total dilution we will do, what valuations we expect, what structure exactly we will follow. But it's already a subsidiary that is well known in the market and we are very confident that it would be a good, positive successful IPO.

Some of these details will get worked out over next few months, and as and when we are ready with those details, we will be very happy to share that with the rest of the market, and all the market participants and regulators. In terms of other business opportunities happening within the food processing business, our spice processing plant is going to start in the current quarter, so we will start seeing some revenues already in the fourth quarter in that business, but 2019 should be first full-fledged year of the business and we are quite bullish about that business opportunity which we have.

Also next fiscal year, would see us processing, making orange juice concentrate. Again there, we have signed up a MoU with Coco-Cola, as well as government of Maharashtra and we look forward to ensuring that there is additional growth coming from citrus processing as we go along. Apart from these two new product lines, spices as well as citrus juice concentrate, and that would mean orange, mosambi, lime etc., last year we had on a soft launch basis, we had launched some food products like, Frozen Aamrus, and right now, I think between now and end of the fiscal year, we would also be launching additional fruit snack products straight to the retail consumers. And next year, we would be looking to launch things like spices and others, once that plant comes on to being and starts working well.

Retail is a new foray for the company and we are taking time. We are building our distribution and we are going to look at hiring distributors, C&F agents, people, so that build the whole forward segment in terms of infrastructure. And the thought process is that, over the next couple of years, we try and make our products available at least in about 100,000 locations, that kind of a buildup we are trying to do and meanwhile, we are also tying up with modern retail as well as cash and carry with people like Walmart, Metro and others. So in terms of any meaningful numbers on this side in terms of revenue, etc. one should to see that in the next fiscal. But already in the fourth quarter, we should start seeing some reasonable numbers. That's our expectation and we'll keep you updated in more granular detail as we go along.

So overall that's where we are. So just to summarize, we have a reasonable quarter in line with our expectations. GST disruption, though severe in the last quarter, should stabilize in the current quarter and hopefully from 1st January, things should be totally back to normal. Despite this GST disruption, based on the orders, which we have in hand on the project as well as the overseas and export business, should allow us to maintain and reach our original guidance we had given before GST came along, on both revenue as well as EBITDA level earnings.

In terms of the debt, our debt is higher than what we would like it to be for the basic fact that our business is very working capital intensive. But there is seasonality during the year and we expect by March the debt should be where we had planned it to be and that would mean and that's only possible if we do generate good amount of free cash flow this year as a company. And so apart from talking about what we have seen now in terms of the order book, this order book and what we see also kind of things, which are in pipeline, gives us confidence that even for FY19, we should have robust growth across different businesses, and we can talk a little bit more about that sometime in February when we will talk about next fiscal year. In terms of the cost pressures in the raw material, while crude has gone to USD 60/bbl and above recently, but there are lot of new polymer plants have come, new capacities are there.

Even in US, lot of new Polyethylene capacities are coming up, etc. So that should keep lid on prices and so next year or even a year after, next 2 to 3 years, it should be a market where processors would have able to maintain their margin, even if international crude prices are changing or moving upwards. So we do not expect any immediate negative impact.

We should be able to maintain our margins despite the fact that crude has gone up. In terms of food prices, in the current year, in the first half, the mango as well as onion prices were lower than usual and that is helping us in our margin. We have to now wait and watch to see what would be the onion prices starting January. Usually that is the time when the harvest comes, prices do come down, even though currently, they may seem to be somewhat higher.

So all in all, there is nothing out there as we see today in an external front, which can impact our plants and our margins significantly. It should be within given small range, if any impact, which is out there. So with these comments, I would like to close my opening statement, and we will be very happy to take any comments or questions, which you may have. Thank you.

Moderator Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Balthazar Florentine-Lee from Sloane Robinson Investment Management Ltd. Please go ahead.

Balthazar Florentine-Lee First of all, just like to wish Manoj, all the best with his health issues and wish him a speedy recovery. Secondly, could you give us some updates on the environment for the sugarcane opportunity in Maharashtra with the recent change in legislation there? Is there any greater clarity on how this might be enforced, the timelines for rollout there and the financial significance for Jain, please?

Anil Jain Sure. Just to quickly share about Manoj, Manoj had some long-standing issues, but there is nothing there which can cause him any long-term damage. But in short term, of course there is an issue and he needs to recover. He is going through treatment and I believe very soon his health should be back and maybe he will still come back and be part of the company, but not in this kind of a responsibility, which is there. So, we are also wishing him well and we are in constant touch with him to ensure that everything goes well on that count.

In terms of Maharashtra government and the sugarcane opportunity you talked about, government is still moving further on that count and the last communication I have seen from the government has been couple of weeks ago, asking various sugar mills to draw the list of the farmers who would be eligible to get the loans from the government on a lower interest cost basis and go ahead and implement that between starting now and sometimes June next year. So the government program remains in place. But what government has done is that while they are offering long term loan at 2% interest cost, they have said that this should result in no subsidy except whatever benefit the sugar mill will provide to the farmer, the general subsidy farmer used to get may not be available to him. And that is why one is not so sure what would be the uptake at the farmer level or the sugar factory level. So one has to wait and see whether everybody buys into that because government has made this mandatory on one hand. And on other hand, or whether government may come back and say to some farmers, okay, we'll give you part of the subsidy and the remainder of loan at low cost and that kind of a combination may work. So one has to wait, maybe another month or so to really see how this is going to take up in the remainder part of the season, which is there. But between now and month of May is when usually we sell a lot of Drip irrigation on sugarcane. And we are already in touch with the sugar mills. So all the numbers and the growth and revenue, I've talked about is not taking into account that significant additional business we may get from sugar cane. If that comes through, that would be bonus, but I would just wait and watch for few more weeks to really know how the sugar mills are responding to this government program.

Moderator Thank you. We take the next question from the line of Umesh Patel from TCG Advisory Services (P) Ltd. Please go ahead.

Umesh Patel Sir, just wanted to know how the demand scenario is there for MIS segment post GST? I mean, do we see any, I mean demand is back again. And second thing is you mentioned in earlier remark regarding to the Gujarat, AP and Rajasthan is doing quite well but Maharashtra, Karnataka and Tamil Nadu there is no growth in terms of irrigation that as of now we are expecting. So what's your view? And recently few days back only government has announced that 90 projects will be completed by FY18. So what is the status there because it's been long actually people is waiting government to actually award the projects to the companies. So wanted to know your view where actually we stand at ground level as of now?

Anil Jain No, I think one need to make a very clear distinction between retail demand which I spoke about in certain states that it was negative. But at the same time I said, our project business and what you mentioned that the government has announced that they are going to spend so much of money, that all comes through the project. And there we are seeing more and more projects being announced, more projects being tendered and we are getting also good amount of projects in hand. So based on these project orders which we have in hand, only we are saying that we are confident of achieving more than 20% growth in the current fiscal.

So that growth is already in place within the micro irrigation division. But the retail piece of that, that may remain subdued, has remained subdued due to the GST, and other reasons which are there. But there also in last couple of weeks, we have started some demand coming through in our important markets like Maharashtra. So one has to wait through December to see what really happens with the retail demand, but on project side things are moving very well and over next 2-3 years, we really see significant growth coming from that part.

Umesh Patel Yes. So, sir you mentioned that this Rs. 3,900 crore breakup of consolidated order book constitute Rs. 1,900 crore MIS. So what is the MIS retail and project breakup for that MIS segment?

Anil Jain On the retail side, we don't get too many orders because usually the orders are placed by the dealers and once they consume the earlier inventory they place the order coupon.

Umesh Patel Yes, so in terms of revenue, what is the split between retail and institution for MIS?

Anil Jain If you see our last year's business, the retail was almost close to about two-thirds, about 60% and 40% was project exports that kind of thing, 60%-65% was retail.

Umesh Patel Okay. In terms of, if I look at your income statement, interest expense has already came down to Rs. 112 crore on consolidated level, so from Rs. 120 crore it's showing 7% decline on Y-o-Y basis. So wanted to know for the full year and for the next year, where do you see our interest outgo on P&L side? And second thing is, last year in second quarter, there was a tax credit that reflects what and what kind of effective tax rate in the foreseeable future that we are expecting?

Anil Jain So, overall, I think interest for the entire first 6 months is almost same as last year, there is small amount of change. We are expecting that going forward, usually in the fourth quarter as our cash flow improves, debt does go down and interest will go down, but we expect in 2019 interest should come down even more. In terms of the provision, on the negative tax provision you talked about that was some MAT credit, which we got. Effective tax rate, I think is going to be, likely to be around 27% or so because in food business or other businesses, we do get some credit plus we do get some credits related to R&D and so on. So effective tax rate, one can assume at close to about 27%.

Moderator Thank you. We take the next question from the line of Denis Ashurkov from EG Capital Advisors. Please go ahead.

Denis Ashurkov Could you please disclose your operating cash flows for the quarter before working capital changes and after?

Anil Jain So I think for this quarter, before the working capital changes, our cash flow was positive for the September.

Denis Ashurkov Okay. And after?

Anil Jain Post that also CAPEX, it is negative. So total cash generated from operation was about Rs. 1.74 million.

Moderator Thank you. We take the next question from the line of Pavitra Sudhindran from Nomura International (Hong Kong) Ltd. Please go ahead.

Pavitra Sudhindran My first question is on the revenue and the EBITDA contribution from the US micro irrigation dealers that you acquired. I recollect that last quarter you mentioned that the revenue was around $17.8 million from mid-May to June. So if you can give the corresponding revenue and EBITDA number for this quarter? That will be helpful. That was my first question. And my second question is related to that, if you can share with us how the acquisition has contributed so far to your US micro irrigation business?

Anil Jain So, overall the revenue has been in line with our expectations. It's approximately $26 million or Rs. 1.73 billion is AVI and IDC contribution to this particular quarter. And this is our first full quarter post acquisition. And in terms of their earnings or EBITDA level contribution, one entity had in line with expectation, other entity had some shifting off from one quarter to another. But overall, I think their EBITDA has come through on an average close to about between both of them about 7%, 7.5% as against about 10 while one in entity was fully in line. So, but as per our internal management discussions and review, for the full year we expect both of these entities to deliver what we had projected to start with.

Pavitra Sudhindran Thank you. And if you can answer the second question also, like how has the acquisition of these two dealers helped you scale up the US business so far? Has there been any positive impact from that as yet or is that something that we should expect only in the next couple of years or so?

Anil Jain It should start coming next year, because we are still in a transition period because when we took them over sometime in May, they had certain level of inventory commitment to other suppliers and they were selling some different products than we used to make and so on. But they're moving aligned to our product line now and we will see something good already in fourth quarter, but as a full year benefit that transition should get completed for the start of the next fiscal year and that's when you'll see it start benefiting at Jain Irrigation Inc., which is our US micro irrigation business. But meanwhile, as they do well in line with the expectation that should add lot of earnings to our bottom line.

Moderator Thank you. We take the next question from the line of Dhavan Shah from K.R. Choksey Shares & Securities. Please go ahead.

Dhavan Shah Firstly, I just wanted to understand about the revenues from the solar pump during this quarter. And can you please provide your thoughts about the growth in this segment? Because I suppose, Haryana government came out with the tender last quarter. So what's your view for this segment in terms of 2-3 year perspective?

Anil Jain So our solar business in this particular quarter was close to about Rs. 50 crore, so that's Rs. 500 million. Now in terms of going forward, we continue to have some orders in hand from places like Maharashtra etc. We are also participating into Haryana, which you've talked about. There is another project going on in Rajasthan. So all in all, we expect the business will continue to be there for us.

And whether the business is in terms of where we have been, we have been between 200 crore to 300 crore. This year we expect to cross that 300 crore overall business, and next year assuming we complete all the projects which we have then it's likely to move on to close to 400 crore plus. So we expect 20% plus growth opportunity in this business over this medium period. Now, if there is any particular state government decides to go big way for this then this can change upwards. But in normal course, with whatever which we know, we expect a good level of growth in this business over the next three years.

Moderator Thank you. We take the next question from the line of Keval Shah, Individual Investor. Please go ahead.

Keval Shah So, approximately if I see, our working capital days is around 170 days. So if you see for say medium to long-term, 2-3 years down the line, can we expect these to go down to roughly say 150 days?

Anil Jain That's what we are targeting that overall we should shave up somewhere between 20 and 30 days going forward from where we are today by making business more efficient. Also it would help, for example in food processing business as we do add new other product lines, the seasonality will change somewhat, that would also help us and better utilization of products and capacity that would impact some working capital.

Keval Shah Okay. Sir this shaving up of 20 to 30 days in next two to three years, you mean, right?

Anil Jain Yes.

Keval Shah Alright. And one more time on the interest cost level, I guess you've guided that we can see around 40 crore to 50 crore of interest cost reduction in FY18. So are we still in line with that expectation?

Anil Jain Yes, as I said, most of that should come in the last quarter, maybe from December to March during that period is when the interest reduction will happen.

Moderator Thank you. We take the next question from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor Sir, firstly the disappointment is there on the consol number part, you did try to put forward your trends on the same. Because if you look at the consol number for the first half, we are down, even for the quarter also, we are down. So how are you, I mean, how confident are you that we can, I mean, since the first half is over and we have another half, which is probably the higher half in terms of revenue and the profit, and then your topline guidance of around 20% on last year turnover. So, how confident are you, sir on account of that? When you will achieve that?

Anil Jain Okay. So, when we look at the number, right, you just talked about consolidated number. So if I just quickly say in terms of revenue, in this quarter, consol number has increased from 1,454 crore to 1,598 crore, so almost 10% growth. In EBITDA also, it has moved from 190 crore to 219 crore. That's first part.

Saket Kapoor PAT is lower?

Anil Jain Yes, PAT is lower definitely. PAT is partially lower due to depreciation and taxation issue. If you look at the first half overall, EBITDA has moved from 441 to 468, PAT is down from 86 to 55, but about 25 crore of that is depreciation alone. So on a cash basis, it's not something negative. Having said this is what the performance is for the first half. In the second half, we expect much better performance on various counts because of much higher sales and level of profitability, which would be there. And the numbers, which we have spoken, that we would have 8,400 crore in terms of revenue, we are looking at 1,250 crore as our EBITDA target, then that should result into at a PAT level that it could be much more than the last year. Last year, we closed down PAT at about Rs. 1.76 billion or so, and we expect revenue to be around 20%, EBITDA to be 23%, 24% and PAT to be higher than the EBITDA in terms of the growth compared to the last year. So we are fairly confident on that.

Saket Kapoor Sir, will this growth be evenly distributed for the two quarter or lumpy quarter, quarter fourth will be the highest, just to get a sense how are you seeing?

Anil Jain Fourth is usually highest, almost 40% of our sales come in the last quarter.

Moderator Thank you. We take the next question from the line of Sudhir Bheda from Right Time Consultancy. Please go ahead.

Sudhir Bheda Yes, it's really heartening to know that you're sticking to your guidance of 8,400 of turnover and 1,250 EBITDA, it's really heartening for investors like us. But it's looking a very steep target to achieve this. And is it a possibility that the interest might come down in third and fourth quarter compared to first half because I believe some repayments are there in the second half. So on an absolute basis, can the interest come down in the second half?

Anil Jain Actually, you will see good amount of reduction in the interest in the fourth quarter, in third it might still remain similar where we are. Now in terms of revenue growth, of course, it is a steep growth target, but we are fairly confident because we already have almost orders in hand. If you look at the piping business, if you look at the food business, irrigation business, the orders which we have in hand gives us the confidence to say that we will deliver on date.

Sudhir Bheda And it's really heartening again to see that you're reiterating the fact that FY19 will be equally good growth year. So it's really congratulations sir, on that account also.

Anil Jain Yes, because we are able to see the pipeline, whatever government was spending, lot of tenders are coming through now. And even if we get very small percentage of those tenders, which are coming out, we should maintain the type of the growth rate which we are talking.

Moderator Thank you. We take the next question from the line of Parag Khare, Individual Investor. Please go ahead.

Parag Khare Sir, couple of months ago, Nitin Gadkari mentioned that the 80,000 crore of investment which government is going to do, and they are planning to have all these projects done by December 2018. My question is, how of the pie you expect to come your way? I mean 80,000 crore is still a huge amount, it maybe for the entire irrigation and lot of other schemes. But how much of that you expect from the government spend?

Anil Jain It's difficult to estimate exactly what the Minister said, because the central government doesn't directly spend the money. Money is spent through the state government, the projects have to be designed and then the tenders have to come through. And after you get the tender, there is usually two years by the time you will spend the money because you have to go into the field and all of that. So I would not like to guesstimate a particular number X or Y. All I can tell you is that, with what government is already doing, plus our skill sets and designing ability we have and execution ability we have, we should get good part of those projects which should allow us to maintain more than 20% growth rate. Now, if we get lot more projects, depending on execution capacity and whatnot, we can have growth rate higher than 20%. How much more higher, I do not want to get into that. Let's talk about it as things happen. We are going to connect with each other every quarter, but current year looks very good, and as I already said, next year also looks very positive on revenue growth. More details as and when we get the orders, one will know.

Parag Khare And sir, one last question from my side, you mentioned that the Board has decided to go for the IPO for the food processing division, I mean, that's still in the early stage, nothing has been finalized. But whatever money which may be generated from that IPO, any plans for that to reduce the days or CAPEX or maybe inorganic growth by acquiring some companies.

Anil Jain I think if we do IPO and raise the funds right, we plan to do IPO and whatever funds would be raised, if the funds come all the way up to the parent, as depending on how much dilution we do, then that would definitely get used for reduction in the debt. And there would some funds raised for the growth of the food division itself to manage organic growth as well as inorganic growth. But as I said, let's wait for few months to get some more clarity on the numbers, but directionally, this is what we plan to do.

Moderator Thank you. We take the next question from the line of Mayur Parkeria from Wealth Managers (India) Pvt. Ltd. Please go ahead.

Mayur Parkeria Sir, I had two questions. Firstly, sir you said, debt we plan to retain at March 2017 level. So it was consolidated, net was 36 billion and we are currently at 43.5 billion. So we plan to pay around 600 crore, 700 crore, is that what you're suggesting over the next…?

Anil Jain Yes, lot of increase in between April and now has been due to the working capital. Building up of the inventory and whatnot. So as we liquidate the inventory and reduce also, collect more receivables that working capital piece we can bring down. We did take some long-term debt when we did the acquisition. And our estimate is that out of this 1,250 crore EBITDA, we would like to use about 300 crore of that EBITDA for repayment of the other long-term loans, which are falling due. And that is how our expectation. Now our expectation is that we should be very close to last year where at the same time I have also said that we are trying to maintain this ratio of the three, so if we do hit our EBITDA number of 1,250, then 3 means about close to 3,750 crore. So it should be somewhere in that range is what we have given the indication. But it would be substantially less than where we are today. And it should allow us to maintain debt to EBITDA closer to 3 and debt-to-equity less than 1.

Mayur Parkeria Sir, 36 billion or 37.5 billion is okay, but the fact that despite acquisition debt and despite the growth in the business, if we are broadly in line with the previous year's debt, I think it will be a commendable thing and we will see lot of value unlocking on the equity side.

Anil Jain That is the most important target. Of course, we have revenue target and earning target, but while pursuing revenue and earnings, we do not want to lose the sight on this debt to EBITDA target which we have. So we're trying to ensure that all three should happen by the time. So there is a lot of work. We had a GST, we had disruptions, so we have gone through all of that. But overall, in the company, our teams, they have been working hard and some of the things which are happening makes me believe that while this is a challenging situation, but we are at it and we should be able to deliver.

Moderator Thank you. We take the next question from the line of Harshil Gandhi from JHP Securities Pvt. Ltd. Please go ahead.

Harshil Gandhi Sir, if we look at the historical trend for H1 sales of past three fiscal, it is clocking around 46% of total sales. Assuming the same trend to continue for FY18, sales figure comes to around 7,240 crore, below 8,400 guidance given. Sir, is my calculation correct?

Anil Jain No, see, history doesn't always show the future, that's point number one. Point number two, this year, we have this US acquisition, which didn't exist last year. So when you put all of these two things together and the fact that in this particular quarter, we have a disruption to GST. If you look at the 10-year trend, you will see that 40-60 is quite a good ratio to have.

Harshil Gandhi What would be the likely debt break up across business segment at the end of FY18?

Anil Jain For the debt, we are not breaking by business segment. It's overall debt which we're talking about, at standalone and consol level.

Moderator Thank you. We take the next question from the line of Harsh Agarwal from Deutsche Bank. Please go ahead.

Harsh Agarwal I had two very broad questions. One was, can you please remind us your CAPEX plan for the year? And also in terms of funding that CAPEX, right, I'm just curious, lot of companies in India these days are issuing domestic bonds, so I'm just curious if you have explored that doubt as well? The second question I had was on the food business, again, I know you don't want to go into too much details, but just curious, you know what sort of comps can we look at? Are there any sort of small to mid-sized food businesses globally that are listed that we can use as comps? And if you can also remind us the EBITDA for the food business that you have targeted for FY18 that would be great? Thank you so much.

Anil Jain Sure. So your first question was related to the debt and the CAPEX. So we are looking at the CAPEX, including maintenance CAPEX, India, overseas, all of that, somewhere at Rs. 2.5 billion to Rs. 3 billion, that's what the CAPEX plan at the start of the year was. And part of that would be funded from internal accruals and part of that is getting funded from some of the long-term loans, seven-year loans which we are getting close to about 10% on a rupee basis from the banking system. We have not explored the bond route, but there are other means of finance available. In terms of your second question related to the food business out there, now most of our business has been a B2B business up to now, between domestic business and export business. And the size we have, our total business this year is expected to close the revenue close to about 18 billion. So there are not too many companies at least I know out of India or whatever, in the space in which we operate, when we say food processing, we are more in fruit and vegetable processing who are of that size. So we are the largest process of mangoes in the world. We are third largest process of onion in the world. We are now second largest process of banana in the world. We have recently added garlic. We are starting spice next month. We would be doing oranges from next year. So I do not know too many companies where one can go clear-to-clear comparison to arrive at what's their valuation and what should be our valuation. The other part is, apart from B2B businesses, when you look at, then there are people look at FMCG businesses, like their companies which are selling juices whatever. We are somewhat proxy to those entities, because if you look at Maaza as a brand, most of the mango pulp which goes into that product more than two-third usually should come from us. So as those brands grow, it allows us the growth in our business as well. And on top of that as a company now we have recently launched on a soft basis retail brand, where we're going to sell the fruit snacks or other type of products, beverages or whatever that may be under our brand. And over next couple of years, I think, that should take good foundation to build a very nice business, because when you look at food processing especially in India, there are very few companies who have backward linkage all the way up to the farms and with the farmers and forward linkage to the global customer base. We already have a forward linkage to global customer base. Almost top global 30 to 50 food companies are our customers and whether it's Coca-Cola or whether it's Unilever or whether is Nestle, whether it's Abbott, General Mills, Kerry, McDonald's, I mean large number of these companies are our customers today. And it becomes easier to push more products as we have already a longstanding relationship with these entities. We already have good manufacturing facilities across different geographies within India. And we continue to build this whole linkage backwards all the way up to the farms, for example in spice processing, possibly, we would be the first company, which would be doing contract farming in spices as we go along compared to the existing spice players. So it is going to create some distinct advantages in our favor and therefore I believe we should be valued based on what we are rather than comparing with the X or Y because everybody might have a different story. So combination of a very strong B2B business the fact that we've already launched B2C and we would be moving far more aggressively next year on that, and that we continue to build this backward linkages with the farming community, and there we are the best today as in India, because of our overall irrigation business and whatnot and our relationship with large number of farmers should allow us to get much better valuation than most of the people who would operate in that space. But to answer your question, I do not know specifically who or what. In terms of the question you asked in terms of numbers, as I said, we hope to close this year in terms of food revenue close to 18 billion. And our expected EBITDA number on food business currently would be in excess of about, you know it would be somewhere in, let's say, between Rs. 2.5 billion to Rs. 3 billion and whatever growth comes next year when we go for IPO. So, it's a solid business. And it should get really great valuation. That's our expectation. And that's why Board has felt that let's do an IPO, because we also see enormous growth possibility in that business. Thank you.

Moderator Thank you. We take the next question from the line of Kiran Shankar Prasad from Karvy Stock Broking. Please go ahead.

Kiran Shankar Prasad My question is, you admitted to the fact that there has been decreased PAT, on account of higher tax provisioning, could you elaborate on it?

Anil Jain The PAT has gone down, when you compare tax rate last year to this year, if you look at overall for the first six months, PAT is down because as I said partly due to the higher depreciation. And depreciation was also higher due to the fact that the assets were valued at market based on the new accounting standard in March 2017. And second was, last year, we had some MAT credit, which we didn't have this year. So combination of both of these has resulted into lower PAT even though our EBITDA has improved. And as I said already, when you look at the whole year picture, you would see a substantial improvement in PAT as well.

Moderator Thank you. We take the next question from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham You mentioned that in the food business, the domestic, the India operation have grown at 17%. So how has the performance of Sleaford and Cascade been in this quarter?

Anil Jain Sleaford has been positive growth and Cascade also nominally positive almost flat. However, when you compare last year, the exchange rates were very different. And that's why when we translate that into rupee that shows a negative growth in overseas operations. But in the foreign currency basis, they have not really big changes in that business.

Nihal Jham Okay. So if we had a look at on a constant currency basis, what would be the growth for this quarter and possibly for H1 in the foreign subsidiaries? Only the food ones.

Anil Jain The food ones, the Sleaford has been growing about 5% to 7% and US would be 2% to 3%.

Nihal Jham Generally the trend for them has been around 10% if you look at the past details. So any specific reason why this first half has been lower than the trend in general?

Anil Jain There is a seasonality in the business. So for the whole year, we would expect both businesses to grow more than 10%. And you will see that number as we grow.

Moderator Thank you. We take the next question from the line of Dhavan Shah from KR Choksey Share & Securities. Please go ahead.

Dhavan Shah I just wanted to understand about the PE pipes. So I suppose the revenue from PE pipe grew by around 7% to 10% this quarter. So what's our take on the PE pipe business? And at what utilization are we operating right now? And what's the CAPEX plan for this PE business?

Anil Jain So, PE business in this quarter actually grew 17%. So it was quite positive. The order book which we have on the PE business, we have different water application, gas application, cable application, and we also have projects. And in projects you have services, you have some other materials as well time-to-time, valves, pumps, sometimes even steel pipes and so on. So when you look at on combined basis, I think we have reasonable capacity to maintain a high growth rate at least for a year or two. I talked about earlier, we did a CAPEX where we're adding a new line, production line, where we can make pipes of 2.5 meter diameter that line should get installed in the fourth quarter of this fiscal. So that can bring also additional growth next year as we go along. Usually on a piping side, CAPEX requirement is quite low. So we have buildings and whatnot. So if you just put the additional equipment, if it is real and necessary, the ratio is like for Rs. 1 investment, you can create about Rs. 7 to Rs. 8 revenue. So it doesn't require too much of CAPEX. And it can be done at fairly short notice of 3-4 months. So all in all, for the whole year in Polyethylene business, we are expecting north of 15% growth and we did 17% this quarter. And we have enough capacity to manage. But we are quite happy with the type of the orders we are getting, which should allow including projects that even next year, we would have a very solid growth in this particular market segment.

Moderator Thank you. We take the next question from the line of Kamlesh Kotak from Asian Markets Securities Pvt. Ltd. Please go ahead.

Kamlesh Kotak Sir, just can you help us understand our capacity in pipe division and how it has broken up across PP, PE, HDPE if you can help us understand that, sir?

Anil Jain I won't have those numbers off top of my head. In terms of capacity, what I would like to generally explain is that partly it's a seasonal issue, right, because and some of the capacity of swing. For example, some of the exporters can make PE Pipes for gas applications and also they can make for the water applications. For cable, we might need totally separate level of the pipes. Now, in case of PVC pipes, the capacity is different in different equipment than for the Polyethylene pipe. In case of PVC, because it has been subdued, our capacity utilization has been close to just 60% or so. While in case of Polyethylene pipes, depending on the application and when you get some orders are bunched up together for example, we have been doing very well on the cable applications or gas, there suddenly our capacity utilization has been even 80%, 85% for some months. So when you equalize all of this, because business happens in bunch and seasonality, when you equalize all of this, our expectation in the current year is that our CAPEX utilization for the whole year on the PVC would be close to 70%, while for PE, it would be close to about 80%.

Kamlesh Kotak And sir, in terms of revenue, if you can help us understand how the revenue of pipe breakup between these two verticals, PVC and PE?

Anil Jain So, overall, PVC has been larger application compared to PE, but it has been growing fast. So one has to wait and see. But typically, this year, our expectation is that on PVC. We should be around Rs. 9 billion, while PE should be slightly lower than that, that is the expectation right now. But it can change somewhat, depends again on the season.

Kamlesh Kotak Okay. And sir, secondly about the migration. Can you help us understand which of the top 3-4 states we have got the significant business coming from?

Anil Jain Traditionally for us large states have been Maharashtra, then AP, Telangana, Gujarat and Karnataka. We do business also in Tamil Nadu, MP and Rajasthan, but these are the major states, but we are seeing now, this is what I call more retail business. But on the project side, we're seeing more business coming from Haryana now, we are seeing more business coming from Chhattisgarh, we are seeing certain things in pipeline in Himachal, but there was election, so post-election that will come through. So it's about 10 to 12 states across India between North, Western and Southern parts, except East, I think we are almost there everywhere now.

Moderator Thank you. We take the next question from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor Sir, just point about this pledging of share by the promoters. What is the update on that, sir? And why frequently are we pledging and then releasing this pledge finance? What is our road map? Or what percentage of our sales will remain in the pledge category and how long?

Anil Jain So, I think overall pledge right now is close to approximately 4.5%. I'm not tracking that daily, but I think it's around that. As and when these loans are varying finance, so you de-pledge earlier and pledge again. But as a family, we have an internal plan of certain other assets being liquidated, etc. So we have a plan that between now and between 2020, hopefully we would remove altogether the pledge on the JISL shares.

Saket Kapoor Sir, how much is the drawing on a year is done on account of this pledging? What is the loan on the promoter side due to which the shares had been pledged?

Anil Jain I think I would not like to share the detail in public here, but it is suffice to say right that depending on the value of the share, our usual ratio is 1 to 2, between shares and borrowing. But we have enough assets to take care of that. And this is, as I said, it's 4.5% but over a couple of years, it should go down to zero.

Saket Kapoor And that is for the company working purpose only, the money has been drawn?

Anil Jain The promoters have raised the funds to invest into the company. And time-to-time we've invested last year also we have put in money, more than 100 crore into the company through preferential warrants. So, whatever funds we've raised, they've always been for investments which were made into the company.

Moderator Thank you. We take the next question from the line of Mayur Parkeria from Wealth Managers (India) Pvt. Ltd. Please go ahead.

Mayur Parkeria Just one clarification was, sir, solar pumps is categorized under MIS, the solar businesses is under other businesses, right?

Anil Jain Yes, that's true.

Mayur Parkeria Okay. The question which I had was, sir, primarily on that FCCB redemption, that conversion price was 115?

Anil Jain There was some clause within that, then it would have gone down to 104, yes but we have redeemed that, how does it matter?

Mayur Parkeria Yes, so what I was trying to understand is, this was from, Mandala is a long-term investor, and we had this QIP was also at Rs. 80. We are not very far off from those, so if you can just highlight, what were the reasons why we couldn't convert and we went in for repayment rather than the conversion, FCCB?

Anil Jain First of all, it was not held by Mandala, it was held by World Bank, that's the IFC.

Mayur Parkeria Sorry, yes, IFC.

Anil Jain Second part is, IFC is already is an existing shareholder in the company 2.5%, 3%. And IFC as an entity is not an equity-oriented company, they are more a debt-oriented entity. And they are already an existing shareholder. And that's their call, when and why, and how and why not, etc. We were happy to repay because I believe intrinsic value of company is far more, so I was actually happy to redeem.

Mayur Parkeria That is what because future, given the debt repayment, our intrinsic value could have gone up. So I was also wondering why they did not convert it.

Anil Jain So that's where it is.

Moderator Thank you. We take the next question from the line of Harshil Gandhi from JHP Securities Pvt. Ltd. Please go ahead.

Harshil Gandhi Sir, what is the likely CAPEX for the remainder of the year and beyond? And sir, do we budget for M&A?

Anil Jain We do not budget for M&A. We have never done for, and we are not doing very big M&As either. So in terms of overall CAPEX, what has been done up to now, we have finished about close to about 50% of our overall CAPEX plan of the year and the remainder should happen in the second half more or less.

Harshil Gandhi Okay, sir. And next question is relating to Jain Farm Fresh. Sir, could we consider having Jain Farm Fresh offer shares of the same to Jain Irrigation shareholders listed and then do an FPO?

Anil Jain As I said, we are not really thought through any of that structuring details. And as and when we think through go to the Board and get approval from all the stakeholders, including shareholders, that's when it would get kind of crystallized. So it's too early to talk about that right now.

Moderator Thank you. We'll take the last question from the line of Parag Khare, Individual Investor. Please go ahead.

Parag Khare Sir, there's no question. Just a quick note. I've been investing in Jain Irrigation for last seven years. So I've been tracking you company, 2010, we had a business model issue, the debt, we have business, the balance sheet issues, all that has been sorted out and we are back where we should be. So I think the pipeline is looking good. The future is looking good. So just all I wanted to convey is, all the best and have a great couple of years ahead. And whatever you have been planning, hope that goes fine and we get the great results for next many quarters, so all the best.

Anil Jain Thank you for your sentiments. And we also feel and believe in a sense we restructured business between 2012 and 2016, so that's out of our way. Underlying business now is back to growth more significantly. We have learned to discipline ourselves in terms of cash flow. We have a clearer and targeted plan to manage and maintain the debt at the lower level. First time since inception of the company we are really debt-to-equity now is first time kind of less than 1. And even our overseas businesses, which we acquired for technology and to get access to markets, now have started contributing. So going forward, we are seeing that lots of positive things are coming together, and we will continue to work hard to ensure a lot of value creation. There is one question when we got cut off in between something went wrong with the telephone line. I don't know whether that individual is there or not, but just he had asked a question about cash flow. So for the first six months, cash flow from operating activities is Rs. 5.1 billion and after adjusting for the working capital, cash generated from operation is Rs. 1.74 billion. And net cash generated from operating activities is Rs. 1.64 billion for the first six months. And that's what I think he wanted to know and these are the numbers.

And again, I would like to thank all stakeholders for their support to the company. And we look forward to talking to you soon again.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Jain Irrigation Systems Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you..

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