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Earnings Conference Call Transcript

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MAIN SPEAKER:

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

Siddharth Rangnekar: Thank you and welcome to the Jain irrigation Systems Limited earnings conference call for Q2 and H1 2017. Joining us today are Mr. Anil Jain - Managing Director & CEO; Mr. Manoj Lodha - CFO; Mr. Darshan Surana - VP Finance and IR. 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 the call could be forward looking in nature and a note to that effect was 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 30, 2016 and the opportunities going forward. Over to you, Sir.

Anil Jain: Good afternoon to all. We are very happy to welcome all of you to our concall and to talk about the results, which we published yesterday post to our Board meeting. And overall results have been quite good considering that second quarter is usually the lean quarter. And overall, even though we managed our sales, profitability is usually very low in this quarter, but in the current quarter compared to the same period last year, we have overall improved the situation quite a lot.

In terms of, for the people who might not have read the results, for the current quarter at a consolidated level, our sales came up to Rs. 1,464 crore versus last year's Rs. 1,347 crore, registering good amount of revenue growth. And EBITDA came close to Rs. 191 crore as against last year's Rs. 172 crore and the PAT was Rs. 28 crore as against last year's Rs. 5 crore loss and these are Ind-AS figures. So last year, reported loss was higher, but post Ind-AS, it has come down to Rs. 5. So compared to the last year, same accounting standard, profitability has improved quite a lot. And if you look at overall first half results, company has achieved a sales of Rs. 3,177 crore as against almost close to Rs. 3,000 crore last year, registering again about a 6% growth. And EBITDA has grown to about Rs. 441 crore as against Rs. 402 crore. And net profit has come up to Rs. 86 crore as against last year Rs. 9 crore registering almost 9-10 times improvement compared to the same period last year. Last entire year FY16, the company consol overall profits were close to Rs. 76 crore as against already for first six months, we have already achieved Rs. 86 crore. So as our revenue goes forward, revenue growth as planned, we expect for the whole FY17, a substantial increase in the earnings as was indicated at the start of the year.

For standalone, and now when I talk of standalone, that covers non-food businesses and non-overseas businesses, standalone India. There, our sales also grew about 5% from Rs. 695 crore to Rs. 731 crore. EBITDA also grew and the PAT came out to about Rs. 5 crore as against loss of Rs. 5 crore. In the results, last year's Rs. 867 crore number is inclusive of the food business and that is how you do not see the actual growth there because food now is part of

the consol. So I would rather stay focused more on the consol numbers because that provides clarity.

Now when we look at the breakup of the second quarter in terms of various businesses and how they have done, we are very pleased to see that MIS business has grown quite well, almost 14% growth. If some people may remember, the first quarter was quite subdued. So 14% growth in second quarter has been quite good and even exports grew almost close to 24% in MIS, so registering about 14% growth in MIS all for the second quarter. Piping was subdued as against the first quarter where piping did very well. This quarter piping was subdued and we did almost same business as the last year. But within that, PE had a nominally positive growth and PVC had little bit nominally negative growth due to seasonality. This is standalone business. In terms of the food business for the second quarter, we have again registered about 12% growth and business has grown close to about Rs. 194 crore as against last year's Rs. 172 crore. All in all, when you look at Indian operations, standalone plus food, the revenue is at about Rs. 925 crore as against last year's Rs. 867 registering close to about 7% growth.

Now, when we look at earnings and profitability, when we look at standalone numbers, earnings have come up quite well. Last year it was, I think, close to 14.5%, it has come up to 16.7% now. We have a slight improvement in MIS profitability from 20 to about 20 point odd percentage in terms of EBITDA. We have considerable improvement in piping level of EBITDA, which last year same period was about 5% and 6% has now moved to 8% type of figure. Now sequentially, so if you look at June quarter also the piping profitability had come closer to 8% plus. So that has been maintained now. So it is considerably better than last year, but in line with what we could achieve in the June quarter.

When we look at our other businesses in terms of overseas businesses, they also have registered actually very good growth on their own balance sheet and before netting off, our overseas businesses have actually registered close to 16% revenue growth. So that is quite positive considering that global economy continues to remain slow, patchy and erratic. Overall, our global footprint on the irrigation business, has done very well, actually registering close to 30% growth by Israel group and we can expect continued growth going forward due to certain projects which we have received. And we also, of course, had good growth into the food side of business. One of our businesses which is based in UK, even though overall business almost remained kind of at the same level in foreign currency terms, GBP and slight increase, but in rupee terms when we are reporting, that business is showing negative growth of 6% because of the impact on the pound devaluation which took place due to Brexit. But as of first 6 months, when we look at our UK business, that is almost same as last year in rupee basis, even though actually it has grown about 8% in the foreign currency. But other businesses, the rupee translation has not been dramatic or not very different vis-à-vis dollar. So they do represent a good level of growth. So for the entire first 6 months, our overseas businesses still have registered about 15%

growth. So what that shows that we have a solid growth happening in outside India market and within Indian market, again, we are having reasonable level of growth in the first half.

And first quarter, we had lower sales in MIS because of continued drought situation and we also had lower food business because of lower consumption growth at that time. But in the remainder of now six months, company has about close to Rs. 1,500 crore of orders in hand, out of which about Rs. 1,100 crore of orders are in, I would say, non-food businesses and this order level is only for India and about Rs. 400 odd crore orders are in the food business. Now this used to be usually around Rs. 1,000 crore level of orders now that is moved to Rs. 1,500 crore. That is quite possible. And when we look at the breakup of the orders we have in hand, almost more than Rs. 450 crore orders are related to micro-irrigation in terms of project division domestically. We have about Rs. 200 odd crore of order of exports to Africa and we have about Rs. 450 crore- Rs. 460 crore orders related to food which we have in hand.

Now, based on these orders, which we already have and as per our traditional planning, usually our company has 40% revenue coming in the first half, 40% to 45% and remaining revenue coming into the second half. And if you really look at the ratios over last few years, first half to second half, it would vary the first half between somewhere 35% to 45%, in bad year 35%, in best year 45% and the reminder in the second half. Now, we had already said this in our first Investor conference call at the March results that first half is we are overall expecting weak, and second half would be better. And first half, while it has remained somewhat subdued on revenue growth because revenue growth is still just single-digit for us, but when we look at, that means in second half, we need to have much higher growth. So that combined for the whole year, we would maintain the double-digit growth for which we had given the guidance.

So as we are sitting here end of October, we feel comfortable to say that we will maintain our original target and achieve consol global level more than double-digit growth, even though first half growth has been single-digit only. Another important point is, in terms of the new direction or future directions. During this quarter, we received a significant order on the piping division based on the infrastructure, of Rs. 284 crore related to, in AMRUT Smart City scheme, whereby we will be supplying house connections and maintain the entire water supply on 24x7 basis and this kind of experience and these kind of projects should allow us to bid for many more such projects which will come up across India over next few years. So that is not just to about the orders of this, but I think this would create more, better platform for growth on infrastructure basis on to the piping division.

As some of you might be seeing the newspaper headlines today, one of the headlines was this whole Punjab and Haryana issue and a Supreme Court decision that Punjab must give water to Haryana and so on. But keeping the politics aside, the main issue is that water is short and scarce commodity and no

state really wants to share that with another and last quarter we saw also huge problem between Karnataka and Tamil Nadu on that basis. Now central government is taking and working along with state governments that instead of building all this open canal, where they cannot control who gets how much water and they lose the water, waste the water in evaporation, percolation that they will go hereafter more for pipe conveyance. Now even on that basis, we see over next few years, lot more orders coming for large diameter pipes, where instead of open canals, one can do pipe conveyance and that also gives us a belief and faith that piping division can have a consistent and a robust growth going forward.

In terms of our food business, as I said, first quarter was weak, second quarter has been reasonably good. But during this quarter, September quarter, we finished processing various fruits and this is the mango season and the mangoes which we processed is the highest we have ever done and that would also reflect in when you look at the inventory numbers that our inventory is up, but that is a seasonal issue, because we processed more mangoes, inventory is up, but that means over next 12 months we should have higher sales and our target in food business has been about to try and maintain a 20% growth rate, which we have been doing for last few years. And in that context, having already done the mango season with this level of production and processing, it is quite positive news for that particular division. And out of all the mangoes, which we have processed, close to 90% we already have the sales contracts. We only need to ship these goods to our customers over kind of next 12 months before the next season. So that business has phased already in home and we just have to ship the product. So that gives me a good level of comfort to say that even food business, we should maintain good level of overall growth.

Beyond this, there has been a lot more, I think, discussion, pronouncement, presentations, debates around using the more of micro irrigation, things like making micro irrigation mandatory for sugarcane in Maharashtra, things like government of India insisting on using micro irrigation whenever there are larger open irrigation projects, etc. Lot of these things are still in pipeline. The actual action what government is going to do, that is still in pipeline. So even before that has come into fruition, the fact that we could register a close to about 22% retail growth in September quarter has been quite okay for us and within that, in terms of the various states, which we have. We had a good growth in Maharashtra. We had spectacular growth in Andhra Pradesh. We had reasonable growth in, I would say, Gujarat, a very good growth in Karnataka, Rajasthan was also positive. So most of our prominent retail seven, eight states we have, all of them have registered good level of growth. So retail business went up. Project business was negative in the current quarter and as I said, we have these project orders, we have almost about Rs. 450 crore of solar pump orders and the execution on these pumps is taking speed now. So between now and March, we expect close to about Rs. 250 crore to Rs. 300 crore rupees to be completed out of this solar pump orders, which we have in hand. As well as our project which

we have in Tanzania, those sales would also pick up starting from December going through March.

So based on our ability to complete some of these project orders in solar as well as export, we feel that we should achieve a much higher level of growth in MIS business in second half. So, if we overall look at this scenario, as a company, we should maintain growth levels and as we do more MIS business and MIS business contributes lot more EBITDA, overall EBITDA situation should become better. Now these have been all the positives during this quarter and what is the current situation looking forward in terms of future. One issue which has happened during this quarter, there is a some amount of increase in the overall gross working capital level, which we have and that has resulted, because of the working capital issues, that has resulted also in some amount of additional borrowings which we have done in this quarter.

I would like to state that this is an inter-seasonal during the year type of a scenario and as we have planned originally between March to March, that is March 2016 to March 2017, we had said that compared to March 2016, we will bring down the debt to March 2017, by I think about Rs. 300 crore plus and we still intend to achieve that. Now when we look at September quarter, there is a small amount of increase of close to about Rs. 50 crore in inventory in our MIS and our pipe business and partly the pipe business inventory increases with orders in hand, which usually have kind of already been shipped in October. So that was a small short-term increase in inventory due to the pending inspections. The other increase in inventory is in the food side, close to about Rs. 100 crore compared to the same period last year, little bit less than Rs. 100 crore and that as I said is due to the higher amount of mangoes, which were processed and which have also kind of already sold, but they will get shipped and invoiced over next 12 months. So on inventory side, as I said, when you really look at, focus on just MIS and pipe, it is about 50 crore and it was a timing issue. In terms of, when we look at overall receivables scenario, in fact receivables did come down by close to Rs. 40 crore when we look at Jain Irrigation, and MIS receivables came down from 209 days to 206 days, so that is quite positive.

Overall receivables of JISL came down from 183 days to 177 days. But in the food business, because lot of food business took place closer to September, end of the quarter because of the rains in July and August. So overall, receivables are almost at the same level. So when we look at that during this quarter, our borrowing went up, short-term borrowing, which is working capital related almost went up by Rs. 300 crore and when we look at the fact that inventory really speaking in irrigation and plastic went up only Rs. 50 crore. Receivables have come down by Rs. 40 crore - Rs. 50 crore. So that kind of nixed off each other. So then where did the Rs. 300 crore came up from? So we have in fact our when we look at our suppliers compared to June to September, our suppliers are down by close to Rs. 250 crore and that is where this majority of impact is in fact happening and that is the nature of the business starting between April to June usually is the much stronger quarter. So we buy lot of polymers, lot of raw

materials etc. and in this September quarter, that all gets paid off. But it will get again built up in the remainder of the year.

So, when we look at our overall debt number today and when we go back to what we had said that what we are going to achieve in March 2016 to March 2017 number, that would mean we need to, from the current level of working capital, we need to bring down almost close to Rs. 700 crore to Rs. 800 crore and our inventory is about Rs. 1,500 and odd crore now. And by March, inventory usually and every year this happens, that from September to March, we expect a reduction in inventory between food business as well as the other businesses almost close to about Rs. 500 crore reduction. Our payables will again go up based on the cycle of the business by about Rs. 200 crore and some of the legacy receivables, which we should receive, is about Rs. 100 crore. So from where we are, we are hoping that with all what we do, we should go back to the numbers what we had committed, we want to remain focused on that while we still strive to improve the revenue and improve overall earnings.

In terms of general market scenario, the monsoon has been adequate and good, and that would mean a good amount of business in December, March maybe even June quarter and the next season as well. So that is quite positive. October was somewhat slow because of the Diwali, Dussehra, a lot of holidays, Pitru Paksha and just now post Diwali, with demonetization there maybe disruption of maybe a week or so. Few people have already asked me this question that whether demonetization affects our business, because people have general impression that rural India is all 80%-90% cash business and that should impact us, but we normally deal with our dealers and the dealers always do all the business with us in cheques and not in cash, that is one; second, when our dealers are dealing with the farmers and the farmers bring money to the dealers, most of the farmers with whom our dealers are dealing, are farmers billing in foods, vegetables, cotton, sugarcane, this kind of what we call cash crops and they supply this to either sugar factories or cotton to large ginners or fruits and vegetables to general trade and market and most of them I believe to my knowledge have the bank accounts and therefore there could be a general disruption for a week or 10 days, which because everybody is kind of not knowing what is happening and what to do and so on, and overall, entire chain maybe disrupted for this period, but we do not see that this should reduce our business opportunity or impact, in fact somewhere in medium term, I do not know how exactly this will pan out, but in most of our each business, whether piping, irrigation, food processing, there are lots of small competitors who are small in size, and I think a lot of times, they do not necessarily play by the same rules we play. And I think their ability to continue to stay in the business and do business in the manner they used to do before, might get restricted and that might, in medium term, actually provide us an opportunity to get back some of those customers, who due to extra credit or low cost and ease of handling, whatever, went to some of this type of competition and in fact, this could be a positive thing for the company going forward, while short term disruption is expected and nobody knew about this, nobody could have planned for this. So, one has to kind

of wait and see for couple of weeks how everything pans out. But yesterday was the first banking day, let us say after what happened and we did receive good amount of collections into our bank account from various of our dealers. We have spoken to our dealers. Most of them did not seem to be concerned and accept having the discussion, right, so whole India is having this discussion, in every drawing room or every board room or everyone's kitchen, especially kitchen. So keeping that aside for a moment, so as of now, we do not expect any significant negative impact on our prognosis and the planning for the remainder of the year because of what has happened now and medium to long-term that is good.

In terms of another event which is there, in terms of currency and Mr. Trump winning the Presidency and its impact on the stock markets etc. worldwide and currency markets, as a company, 45% of our revenue are from rest of the world excluding India. So there is a possibility that rupee may depreciate but compared to lot of other currencies, I think rupee has been holding quite well. India is still receiving good amount of dollar inflow. So we do not expect that much of an impact on that as well and if we do, we could also get some benefits in terms of some of our exports, which we are doing. So all in all, when you look at geopolitical events or national macro level of events, our current level of business post monsoon seems to be insulated and as long as we are able to execute on the orders in hand we have and kind of encashed on the better sentiment in the rural India, we think we should achieve the numbers what we have planned and overall from 2012 to 2016, which is a weak period move to a strong 2016 to 2017 and it could create platform for a much better 2017 to 2020 type of a period is what we are looking forward to.

This is what I would like to start in terms of sharing and me and my team here, all of us are here and would be very happy to answer any additional questions you may have. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Sandip Sabharwal from Sun Capital. Please go ahead.

Sandip Sabharwal: Mr. Jain, two questions, one is that, I think you have just mentioned that October was slow and you were talking about double-digit growth, so if I remember rightly, beginning of the year, I think growth outlook was more near 20% kind of growth, so could you just clarify on the growth outlook?

Anil Jain: I think, what we said that as a consol company, we should grow double-digit. And actually to start with, on the micro irrigation business, we had given originally an indication of 12% to 18% and post June results, we changed that to 16% to 18% growth in MIS business and that we are still holding, that it would happen, but overall company, we never talked about 20%.

Sandip Sabharwal: And what is the margin, overall margin outlook you are giving? And secondly, I think on the interest cost also, despite the kind of fund raising the interest costs in

the second quarter have gone up substantially, you have given some reasons for that, but you are also expecting that, the big equity infusion, debt equity coming down, you will see some rating upgrade and overall cost of funds also have come down. So is that not having any impact on the interest costs?

Anil Jain: We had significant decrease in interest cost in the June quarter. In September, partially interest has gone up due to some Ind-AS treatment about close to 6 crore. 6 crore additional interest went up due to, what I would call, is that the inventory buildup I spoke about, the additional 300 crore tilted towards working capital. As we paid that off going forward, you would see that by fourth quarter, again, we should have a substantial reduction in the interest and that rating upgrades have still not come through, we hope now for these results. Hopefully, we should get those and again maybe full fourth quarter, you will see that benefit. This is one, still a pain point for us as a management also and that interest cost have not come as much as we had hoped and anticipated, but based on what happened in the first quarter of that interest went down almost by 15 crore-16 crore in that quarter. We had projected that for the whole year interest cost per se would go down by 60 crore to 70 crore, that we still plan to achieve, but there would have to be significant work of reduction of this inventory, etc. in the interim as we plan to do.

Moderator: Thank you. Next question is from the line of Ankur Shah from IIFL. Please go ahead.

Ankur Shah: I have a couple of questions, can you please provide the breakup for the onion dehydration and fruit processing revenues?

Anil Jain: The onion revenue grew quite well during this period registering almost more than 60% growth and fruit was almost flat kind of, so out of 194 crore, what we did out of India, about close to 66 was in onion and fruit was about close to 128.

Ankur Shah: And another question, like in this quarter you have recorded a tax benefit of around 17 crore. So what is the reason for that?

Manoj Lodha: So, typically based on the various tax exemptions available for R&D, for some 80IB related to the food business, all that put together the taxable income is not there or we have tax credits. So that is what you see in this particular half of the year or quarter. Some of these benefits will get reversed in the next because our taxable income will go up. Thus the primary reason is these benefits are available for us in the income tax.

Moderator: Thank you. Next question is from the line of Chetan Vadia from JHP Securities. Please go ahead.

Chetan Vadia: I have a question relating to solar business in the renewable energy. Who are the key manufacturers in India and world key competitors and what is the market

size and what is our market share and can you provide some kind of an outlook as to how the market is likely to grow in the next, let's say, two to three years. And if in case the market continues to grow, do we have enough capacity in place with Jain to address the opportunity in time to come?

Anil Jain:

As this is a new industry and market is still evolving and market predominantly depends on the government policy, it is very difficult to give very definitive answers but I can share with you that I believe based on the total installations of solar water pump done in India till date, we have about 40% market share. There are about at least 15 to 20 other companies, some of them are integrated, so they will buy pump from somewhere, they will buy solar panel from somebody and go and just do installation, there are some pump manufactures, which are in this business and there are couple of solar panel manufacturers, which are also in this business. And so all in all, I think competition will grow, there will be more people wanting to get into the business. In terms of the industry size, government has talked about trying to create at least 1 lakh pumps in a year, but as of now what is being done is maybe close to 30,000 to 40,000 pumps per year. I believe this will grow quite a lot going forward. Again, it depends on the success of the existing installations. If they are working well and they are providing good service to the farmer, this industry can rapidly grow to be a much larger industry. Today as I said, maybe it is an industry 700 crore-800 crore, it is a possibility to grow 5-10 times over next three years, if success in the field is good at the farmer level, because governments have team to support this because governments through state utility provide farmers lot of low cost power or no cost power for sometimes, and here they can provide support to farmer one time and then next 25 years, they do not have to provide them any benefit and this helps farmer improve his productivity because he can irrigate every day and it can also save water, because lot of places along with solar water pump drip irrigation also is attached together, which creates a larger business opportunity for us. So for us this has been a quite positive, we are not in this business, our business almost did not exist four, five years ago, we had a smaller general renewable energy business, but not focused on the pumps. And so for us to cross 300 crore plus-400 crore or in that region during the current year in this business would allow us to have a new revenue stream, which is having some amount of critical mass. So all in all, quite positive. We have a dominant market share, business will grow. Precise numbers, I think, let's wait for few quarters to know how exactly it is moving on.

Chetan Vadia:

Sir, the state government have always been positive about supporting the farmers with various initiatives, be it micro irrigation or be it solar and all that, so what do you think can actually derail the entire growth process as far as the solar pumps are concerned, what may be the reasons, why things may not even really materialize the way that you are anticipating right them now?

Anil Jain:

No, when any new industry is coming up and which is based on government policy, based on our past experience, I just do not want to say that everything is definitive, this is the way it will happen. I believe based on the pronouncement made by the government, based on the actual benefit it does create that there is

a good possibility that this would be a significantly large industry very soon and not many times one says that within three years it could become 10 times bigger. So that is what I said. But there are also question marks, because if the government policy execution could be poor, in the field some of the people, some other suppliers may not be able to do good quality work and the farmers may be unhappy. These types of road blocks or hurdles may be there. So all in all, we feel confident, we have invested into the business and we plan to grow into the business.

Chetan Vadia: One last question if I may, if you can once again touch upon the revenue and the EBITDA margin outlook for FY17 and if possible for FY18 for various business verticals.

Anil Jain: I think we are unable to give for FY18, for FY17, we have said just to repeat that our micro irrigation business, we have said that it will grow 16% to 18%. We expect piping, food business, both to grow also double-digits. So all in all, company overall console level, India, outside India put together should grow double-digits. So that is what in terms of revenue. In terms of EBITDA and earnings, we should maintain the percentage level of margins, which we achieve. So like micro irrigation, we are in the range of 20% to 22%, which we should maintain. Our margins in pipes have improved because of lower polymer prices in the first half and we hope to continue that in the second half. But overall, that would mean, that if our revenues grow let's say at 15%, the EBITDA level margins would grow 20%-25% because of the change in the product mix also, because micro irrigation is also growing in a very strong way.

Moderator: Thank you. Next question is from the line of Vinit B from Ventura Securities. Please go ahead.

Vinit B: What I would like to know is, how is our capacity build up to cater to future growth because we are talking of 2017 to 2020 being a very strong period. So how are we placed in terms of capacity, or would you be undertaking any more CAPEX? And the second part of my question is, are we looking at any other lines of growth which are similar to our business?

Anil Jain: So overall in micro irrigation business, our capacity utilization is between 50% and 60% today. So I think we have enough capacity to kind of support the growth, at least, for next two fiscal years. So that is one. In piping, we have recently added some capacity and in the current year CAPEX, we are adding some capacity, especially some large diameter line and that would help us to manage the growth for next couple of years. On food processing on a seasonal basis, our capacity is quite tight and we have announced that we plan to invest into new plant and location in Southern India, in Tamil Nadu, in Andhra Pradesh, etc. and that would take care of those needs. In terms of the, so most of that can be achieved what we need within our current ongoing CAPEX, which is about 200 odd crore, about half of that is maintenance CAPEX and remaining half is growth CAPEX. Around that range or within those figures, we should be able to

cover this kind of a growth. I do not think we need significantly high amount of CAPEX to maintain double digit level of growth across all our businesses.

Moderator: Thank you. Next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia: Sir, just a question around the Maharashtra opportunity which you spoke about in your opening remarks, if you can describe that a little more in terms of what you are hearing, how soon can it be announced, how large could it be?

Anil Jain: So in terms of Maharashtra as you know, the first quarter was actually quite weak for us. Second quarter, we have had positive growth, which we are quite happy about. But still, I think we need to cover lot of ground going forward. And we recently took review with our skilled people and our dealers and so on, and they feel that with good pricing of cotton, there is changeover, structural change which is taking place in sugarcane and generally, overall, better price is expected by farmers for vegetables, etc. and fruits, we should be having a good season between now and month of May. In terms of the larger opportunity going beyond a good season and a good feeling and hoping to overall reach higher growth for the entire year compared to last year, which was not a very good year for Maharashtra, the larger opportunity related to the sugarcane is still in happening, means I think it is quite close because government has really worked quite a lot and has brought all the sugar factories together and the state level cooperative bank is trying to work out a proposal under which they and the district level cooperative banks together with some kind of support from NABARD can provide enough availability of funds to the sugar factories to quickly buy the drip irrigation equipment and install, so that within three years, at least two-thirds of the sugar factories buy only drip-irrigated sugarcane. That is their planning and at that level and even if you say, okay, they may not do two-thirds, but even if they do one-third, that creates that 300,000 hectare business opportunity, which is being now thrashed out in terms of details of how that will happen. But I would say, in terms of actual availability of finance from the government to the sugar factories, it could still be couple of months away. It might happen earlier and we will be quite happy with that. But what we have seen that sugar factories themselves knowing that this has come now, have already started talking to us in terms of moving on and maybe from month of December, we should start seeing good business. But as I said, this is a multiyear opportunity and not necessarily for this quarter. It is done that this has to happen. What is being worked out is how that gets financed and who finances today and who would pay him back when. So I think that will get further clarified or structured in next month or two and between the government, NABARD, sugar factories, central government, they are trying to figure out together, that how exact financing they would provide to ensure this has to happen because that is already a gazetted decision, which we have to just find a way of implementing.

Girish Achhipalia: So just, I mean, a follow-up in terms of what is being talked about your growth guidance of 16% to 18% for MIS, are you baking in any of these orders, which

may come through by sugarcane mills to you via, I mean, not through the government route or is this over and above your normal growth guidance?

Anil Jain:

So when we talked about 16% to 18% growth, we are looking at no big significant amount out of this specific government led sugarcane orders. What we have baked in is that, the traditional business we do with sugar factories in any case more than last year, because last year was a bad year, there was no water at lot of places, no irrigation. So sugar factories were shut down, they did not, the area came down substantially under plantation last year. So, compared to that area, plan is going to increase this year. So based on that, whatever that growth based on the area coming back to sugarcane plantation is what we have baked in, but if the real, these government benefits come through, that could create larger and better opportunity maybe in the fourth quarter and going forward next year.

Girish Achhipalia:

Just final question on Jain Farm Fresh brand, you spoke about a beverage food drink launch sometime at the end of Q4. Are we on track on that and if you can share any further updates on that, please?

Anil Jain:

I think we plan to launch a food-based snack not a beverage. So in that sense, so it is not a juice or a drink, no water added, it is going to be 100% fruit, natural without any preservatives. We would already be, in fourth quarter, we would already doing what you call a pilot launch or the launch around few cities around the country and once that is successful and whatever learning lessons we get from that, from first April onwards, we would be planning to launch it with much more larger, deeper penetrated area across India. So I think, any good numbers to talk about that should come only in FY18 and we can give you more update sometimes in February or so.

Moderator:

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

Amit Murarka:

Just again on the retail business, so can you just give us some sense on how is the Aamras brand doing since that is the first branded retail product launch?

Anil Jain:

I think it is reasonably doing well. We have been focusing on building the infrastructure. So like, since April up to now, our product is being made available at 5,000 locations and every day we are adding more locations, we are adding more distributors across the country and then parallelly, we have also been building the sales team in terms of various people in the field, because B2C is something totally new to us. So this entire year is going into infrastructure build. But in the interim, I think, overall in terms of Aamras, we would have a good amount of business. But it is still tiny compared to overall larger B2B business, what we have. So as a brand sales number, a larger number whether Aamras or the new products, you will see in FY18. But even now, we are quite pleased with the kind of growth we have considering that it is a small niche product and we have done soft launch for that product.

- Amit Murarka:** Is there any plan for any exclusive tie-up with any of larger guys?
- Anil Jain:** No, right now, we are building the distribution infrastructure across India. We already have listing in various modern trade and we are working with other distributors for the traditional retail market.
- Moderator:** Thank you. Next question is from the line of Balthazar Florentin from Sloane Robinson. Please go ahead.
- Balthazar Florentin:** I was wondering if during the discussions on the sugarcane initiative, whether the financing being discussed would cover simply MIS systems or that there is also talk to pursue solar pumps in conjunction with this mandatory sugarcane initiative?
- Anil Jain:** No, that would be only micro irrigation. Solar pump is being handled from another ministry through another program, which is towards improving the rural electrification, etc. and working along with the state electricity utility in Maharashtra and various states. But this particular program in Maharashtra about making drip irrigation mandatory on sugarcane is purely for micro irrigation.
- Balthazar Florentin:** And could you give an update on the solar pump business in Maharashtra and the environment there given the government comments on their desirability for these pumps and any possibility of an EESL order for you?
- Anil Jain:** We got a, so currently we are dealing with the state level. So we have about I think close to \$50 million-\$60 million worth of orders in solar pumps across various states, mainly being Maharashtra, which we had talked to earlier and given press releases, and we also have orders from Karnataka, Rajasthan and so on. When you talk about EESL, EESL they have two programs. One program, they are just buying energy efficient pumps, nothing to do with solar and they plan to distribute to farmers free so that farmers will save energy and overall as a country, the government will benefit. There is another discussion with EESL about larger quantity of the solar pumps, but, of course, EESL has certain expectation in terms of the price level for that kind of a large quantity and technical specifications to build and to provide a very large quantity of pumps in a short period of time. It is little bit still in the early stages. I think by March one should get more clarity of how they would move on that program. But if technical specs and the commercial pricing do match, that would certainly create a much bigger opportunity, then you are talking numbers of hundreds of thousands of pumps and not 10,000 or 20,000 pumps. So I think that is more for 2018 now. But I think before March one should reach and have firmer clarity that what is that larger opportunity at EESL level while all the discussions we had on the call up to now is what is happening at individual state levels.
- Balthazar Florentin:** And finally would taking up the EESL opportunity, should it come about leaving the business to hundreds of thousands of pumps require significant additional CAPEX or is most of that production outsourced?

- Anil Jain:** A lot of that production is outsourced. So it would not require significant CAPEX at all. It would require some amount of CAPEX, but not much
- Moderator:** Thank you. Next question is from the line of Saad Shaikh from ValueNotes Research. Please go ahead.
- Saad Shaikh:** What I want to ask was what is the sort of growth that you are expecting from this segment over the next few years? As traditionally, this business is seen as a, it is dominated by DI metal pipes?
- Anil Jain:** What you say is correct that over large in terms of all these years indicates DI has been the one especially for intercity water transport or whatever else. But intra-city, within the city now more or less, HDPE is being accepted as the preferred material and that is how our Company recently got these orders. And now similar specs are applicable in other places. Now some places in some states, still they say, no, you have to use more of DI and less of plastic, but in some states it is the only plastic and not DI and some places they are giving actually open choice to the companies, which will get the business that they could use either DI or plastic, it does not matter as long as they cover that much of area and they agree to do operation maintenance and smooth supply 24x7. So all in all, compared to what used to be the situation in the past, I think there are going to be much more significantly more demand on the pipes into this project, plastic pipes into this project than what was in the past, but I think DI would also continue to play a role.
- Saad Shaikh:** And of the total piping business, how much would be the share of these water supplier pipes, which are going to infrastructure?
- Anil Jain:** So if we look at our overall piping business, I would say, one is we supply water for the irrigation to the farmer into rural area and that is almost, I would say, 40% of business and the water infrastructure in urban areas, whatever, would be about remaining 30% or so and the remainder 30% will go into gas, cable, sewage, desalination and other applications.
- Moderator:** Thank you. We have next question from the line of N. Samraj from Dwarka Wealth Managers. Please go ahead.
- N. Samraj:** You have got a positive quarter of September I think after the three financial years, so congratulations and which shows that Jain Irrigation is on an inflection point. Coming to our question, we have done some ENSO research on the monsoons and now it is looking very probable that we may have a very strong winter Northeast monsoons and it would probably carry on for another whole season, because there is a chance of about 70%, 77% now, what they are saying, NASA, of La Nina setting up. So can we expect a compounded aggregate growth rate in this holds, about, let's say, to the higher levels of the double-digit, something like 17% to 18% on the overall company, sir, at the overall company, not just MIS?

Anil Jain:

So, when we look at overall company, we have businesses outside India, we have businesses within India. And within India again, we are breaking up businesses between piping, which is based on kind of infrastructure play or food, which is based on more consumption play and, of course, there is the MIS, which is stocking, which is more dependent such on rains and monsoons and what happens. So in micro irrigation, we already talked about 16% to 18% this year based on the good monsoon. And if this settles and even next year, there is a good monsoon and year after that good monsoon, overall, that should create over next three to five years a good growth story. So based on what you say, it could be a sustained basis, but nobody can predict what happens in weather, as somebody said, nobody can predict weather and only a fool will do one in terms of projection. So, we cannot base our business, or talk about projection based on an event, which is totally beyond our control and totally uncertain and unpredictable, by going by any model or every model, but what I can tell you for sure that, if such situation occurs, we as a company, in terms of our production capacity, in terms of our dealers, in terms of our sales staff, we are ready to go and capture that opportunity. So there are so many companies in this business, we would be the first one off the block to try and go and absorb that larger opportunity because we are also doing continuous research and development on the crops and we are ready to be able to reach out to the farmers, provide solution and execute that in a proper way because it is not just about selling the emitters or pipes or filters but also ensuring that within a short season when the fields are open and free, you are able to go and install that in place when the farmer needs it. So we are continuously improving what I call a capacity building, in-house capacity building, so that we can reach to a large number of farmers in short season when demand comes up more. So for that we are ready and let's hope that weather continues to play a supportive role and that should be beneficial to overall India and Indian agriculture.

N. Samraj:

Now even on the Twitter handle, I read a lot, So are we, I mean, the marketing team really pushing it into the Californian states our MIS systems?

Anil Jain:

We have a local company in US in the irrigation business and they are based in California, we are headquartered in California and the sales in US are close to \$75 million and they are quite active on the social media. In US, a lot of people work a lot of things on the digital basis. That is why they are quite active there and they are growing their business overall. And California has been also suffering drought, etc. and they are one of among the top 3 in the US drip irrigation market, our company there. So, that is the context of what we are doing there.

N. Samraj:

Just on Ethiopia sir and then one thing you have been doing a design efficiency using the Starling resistors for efficient flow of water through the piping and I believe it will cut down the energy requirements for the marginal farmers specially by a whole 90%. So how is this technology development going in for the new innovative production, how it will help our marketing, sir, for the marginal farmers? These are the last two questions.

- Anil Jain:** So just quickly, there is nothing particularly happening on Ethiopia. In terms of the second question, you talked about is this technology, there we are working with MIT to develop certain products. It is still at a stage where it is not commercializable. As and when it happens and some of this research development takes lot of time and we have been working with them almost for last, I think close to two years now. It might be another year before the products can be commercialized. But it is a very promising technology.
- Moderator:** Thank you. Next question is from the line of Kiran Prasad from Karvy Stock Broking. Please go ahead.
- Kiran Prasad:** I have got two questions pertaining to project orders and CAPEX. I would like to be cleared whether this project order of Rs. 450 crore, is it meant for, is it to be instituted in current financial year or by financial year 2018?
- Anil Jain:** Most of this project order will get executed in the current year.
- Kiran Prasad:** Current year okay and for FY17-FY18 do we have new orders?
- Anil Jain:** Some we have, but more are in pipeline and under negotiation. So before we start the year, in our business, you do not get orders for next two, three years, it usually for next six months type of scenario. Sometimes you get larger order, which you have to compete with the next one or two years. But as of now, we do not have too many of such orders for the next year.
- Kiran Prasad:** And talking about your CAPEX of for just 200 crore, whether it is meant for current financial year or it is for 2016-2018?
- Anil Jain:** About 200 crore is the current year and half of that, as I said is maintenance CAPEX, and the growth CAPEX.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand over the floor back to the management for their closing comments. Over to you, sir.
- Anil Jain:** I would like to just thank all the investors for their support in this time. Worldwide things are quite volatile in terms of geopolitical events or what is happening in India. But I believe our underlying each of business, we have quite a strong position and we plan to execute well going forward and continue to provide a strong outcome and results. And we will stay at it, we are quite vigilant, we do not want to be complacent based on the good numbers we had or good first half year we had. We know that lot of hard work is still cut out and we are very vigilant to ensure that for the entire FY17, we should come out with good set of numbers, and we would like to thank all stakeholders at this point of time for supporting us in this endeavor.

Moderator:

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

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