

# **Jain Irrigation Systems Limited**

## **Q2 FY19 Earnings Conference Call**

### **November 13, 2018 at 02:30 pm IST**

**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 the Jain Irrigation Systems Limited Q2 FY19 Earnings Conference Call. 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 any assistance during the conference call, please signal an operator by pressing '\*' then 'o' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you, and over to you, sir.

**Siddharth Rangnekar**

Thank you. And welcome to the Jain Irrigation Systems conference call for Q2 and H1 FY19. Joining us today are Mr. Anil Jain – Vice Chairman and Managing Director; Mr. Atul Jain – Joint Managing Director of Jain Irrigation Systems, and Mr. Neeraj Gupta, who is the CFO of Jain Farm Fresh Foods Limited. We will commence 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 presentation, which was made available on the company's website.

I would now like to invite Mr. Jain to give us a brief overview of the company's operations for the quarter and six months ended September 30, 2018, and the opportunities that lie ahead. Over to you, Sir.

**Anil Jain**

Thank you, Siddharth. Welcome to all the investors, analysts and other people who are on the call. We published our results yesterday. I believe, we have had a very good quarter in terms of the top-line growth, most of the businesses have done very well. In fact, plastic product business has grown north of 30%; micro-irrigation, while globally it has grown 21%, in India it has grown 30%. Within micro-irrigation, the retail business has been at 22%-23% and projects have grown 74%. So, in fact, when you look at the overall scenario, we have clocked revenue, including other income, of almost close to Rs. 4,000 crore, so compared to our original target of revenue, we have covered almost 45% already first six months. Typically, we do between 33% to 40% in the first half. So, we have had revenue growth higher than what was originally targeted. So, that is a positive thing.

And it is a caveat that in our business, there is seasonality involved. So, for example, agro processing business did very well in the first quarter, while in this quarter it has not done that well. But overall, our combined growth in food, also is reasonable, in terms of when you look at the entire first half, you will know agro processing or food business has grown close to 27%. So, it maybe that this quarter it grew 15% but overall, for the first half it has grown 27%. And we had talked about in agro processing business, a target growth of about 30% at the start of the year. Since then, May to August period, we have gone through a large mango processing season. And mango prices were almost 30%, 35% lower than last year. And the last year prices were also about 25% lower than the earlier year. So, we have this value deflation impact in the revenue growth. So, while we started the year with expectation of 30%, we might close this year around 25%-27%. But as of now we have 27.3%, despite this deflation,

which is taking place. And the deflation has taken place, while in India about mango and onion, for our overseas business' deflation has taken place in things like garlic and black pepper, etc. And some of these prices have actually gone down by 50%, 60%, 70% in those regions. So, I think despite those deflations and those headwinds, the fact that we have been able to manage 27% growth in food business in the first six months is quite good.

Coming to Hi-tech business, what we call which is micro-irrigation plus tissue-culture, global consolidated this quarter it grew 21.6% and we had a little bit lower growth last quarter. So, our first half average is 18.6%, so that is in line with our expectation.

The plastic business really has done very well. We have grown this quarter 36%. And even if you look at the first half, our growth is close to 32% on a consolidated basis.

So, all in all, this quarter growth is north of 20%. But when you look at the entire first half, between both the quarters, our overall revenue growth for entire company is 22.5%. And we have to keep in mind that some of our markets, overseas especially, they are mature markets, so they don't grow by leaps and bounds or high double-digit growths are not possible. That means the markets where we can grow, we are really growing between 20% and 30%, some markets we are growing less. And so averaging still around 20%, so in line with our expectation. So, that is all quite positive.

In terms of individual businesses, in micro-irrigation. Some of the retail growth, which we got this quarter was quite interesting in terms of individual different states, where we have sold goods. For example, we did very well in AP, we did well in Tamil Nadu, we did well in Karnataka. So, some of these states we have done well, and the project business grew 74%, as I spoke.

The monsoon has been patchy, to say the least. The second half of monsoon, especially, there was a significant problem in some areas. Parts of Maharashtra, Gujarat, MP, there is almost significantly low level of water. So, it could possibly create some short-term demand for products like sprinkler, so that farmers need supplemental irrigation so that their crop can survive. But one has to really assess how things are going to go. Now, various governments, to respond to this scenario, are taking active steps to promote more micro-irrigation. So, hopefully, that would also generate additional business, while helping the farmers to conserve the water so that they can get the crop and get their income, and we are at it. So, it seems that retail business will remain in a positive growth territory. And on projects we already have good amount of orders. So, all in all, second half of MIS looks positive, and it's mostly a matter of execution.

In terms of the piping business, we have really grown well. Our project business within pipe as well as normal business, insulation business what we call in terms of application like in telecommunication, or city gas distribution, or even drinking water, all of these different applications, the infrastructure growth we are seeing is enormous. I mean, in fact, polyethylene pipe, per se, that division

is growing north of 50%. And we continue to get very good flow of orders. So, we are very confident in the second half that it will work out well.

One of the worry, everybody who follows the company had, we went through a period where we saw substantial increases in oil. And the rupee depreciated, so that impacted into polymer price increases. But despite all of that, I think due to either our ability to renegotiate the contract or the escalation clauses we have in the contract, or our ability to pass on these increases, we have been... in fact, our margins are also nice, we have worked out close to 11%. Our target has been to go closer to double-digit. As you know, historically, we have been between 6% and 8%. Last few quarters, we have been inching towards 10%. And this time we have 11%. So, we have been able to grow substantially without compromising on the margin. So, that is a positive story. Also, when we look at micro-irrigation business and this business. So, both are quite positive.

Food, I already spoke about, we had an issue about revenue deflation due to the significant changes in pricing. But despite that, because of a much higher level of growth in some of overseas markets, and some addition due to the acquisition, we have been able to generate this level of growth in totality.

Overall, we, as a management, feel that underlying conditions would remain positive for demand. We are seeing demand at two or three different ways. One is, there is continued demand for new irrigation infrastructure project, or you can call it an agri-infrastructure project. And there are more tenders coming up, and so on. So, I think this will continue for at least next two to three years, it seems. And as we look on existing orders, we should keep on getting enough so that we can maintain this north of 20% growth, that level of confidence we have.

I already spoke about the retail business, that we are seeing that farmers are using this system as a supplemental irrigation. And we have our normal traditional business which has been neutral for the last couple of years. But some states like Andhra Pradesh are really focusing quite a lot. Even Maharashtra had said that they would start really bringing some additional focus. So, as that happens there could be a positive growth. But already, this quarter we did well and second half usually, even retail business, picks up. That's on micro-irrigation.

When we look at overseas businesses in micro-irrigation, last quarter was a little bit tricky. We had substantial changes in the currency in Brazil, Turkey, Mexico went through election, Brazil just now went through election. Turkey went through some political realignment and so on, apart from big currency depreciation. So, this impacted some of our overseas businesses, their profitability. And I hope these issues are behind us. Mexico is stable now and growing again. Brazil, they have had election now, so I think things should improve, and their economy in general is going to a better, because now they are exporting a lot to China, as against what was being exported by the US. So, we expect more demand from those farmers there as well.

Our business in US, including the business we acquired, has been doing on expected lines for the first six months. But, again, all our businesses cannot and do change based on the quarters and the season, and a lot of these things can't be predicted, because suddenly weather changes, and then you need to be dynamic enough to have a proper response to the marketplace. And one particular type of product line, what you used to sell, you may not sell, so you need to sell something else. So, that kind of situations do remain. But on an annualized basis, I think we are very much there in terms of where we wanted to be; in terms of the growth; in terms of market acquisition, customer acquisition; in terms of maintenance of margins despite the headwinds, one has seen, felt or read about over the last few months.

When you go beyond the actual operations and revenue in the business, the second large issue as a company we have had, has been towards the balance sheet, and about overall debt. Now, debt this has gone up since March for the first six months. Part of it has been about Rs. 3.5 billion to Rs. 4 billion is due to the FOREX MtoM impacts due to the currency depreciations around the world. And the remainder has been mostly due to the inventory or working capital, that kind of a thing, and whatever CAPEX we have made during the first half, one or two acquisitions we did.

Now, if you see, even in the early years, usually in the first half our working capital increases, all of these things happen. And it gets released in the second half. So, we expect that in second half, except the piece which is linked to the MTM impact of FOREX, and which I do not know, I do not know where rupee would be end of December, end of March. But this is not a cash outflow or cash outgo, this is only MTM increase in the rupee debt figures. What we show is that keeping that aside, the remainder amount which we had talked about. So, at the start of the year we have talked about two things, one was about that we will attempt to reduce absolute debt by about Rs. 3 billion. So, that is what we have said. So, first six months actually debt has gone up. That means that between now and March, we need to have a significant free cash flow to cover the debt, which has gone up beyond the FOREX part. And also, in addition, we need to cover about the Rs. 3 billion so that we go back to original expected target, except the FOREX part.

Now, even last year, if one may recollect, we had between third and fourth quarter about Rs. 700 crore worth of free cash flow. And we ended up with free cash flow Rs. 250 crore for the entire year. And in first two or three quarters cash flow is negative, but it turned out all positive. Now, this year also free cash flow was quite a lot negative in the first quarter, because again, the inventory and everything else. Second quarter situation is much better. We generated free cash flow from operating activities, but on a net basis, free cash flow is still somewhat negative. But I think between third and fourth quarter you will see that positive cash flow will start moving. And we should be very close to our original budgets and targets. I can understand some skepticism, while it has not happened in six months, why it should happen in the remainder of six months. But that is how our business works and that is the past trend. And I believe, based on what I know, it is possible.

Now how that will happen? Partly, it would come through actual reduction of inventories, through the sales, whether that is in India or overseas there would be a good amount of reduction. Part of it that would happen through collection of some current account related issues such as government benefits or insurance claims or VAT claims, etc, around the world, that should add back also to free cash flow.

And then the third or fourth part would be some reduction into old legacy receivables. And fourth would be the profits, we actually earn during the second half. So, a combination of these three or four things, we believe, our intention, our original plan still stands. And we can review that in March that how much we have succeeded. But as we sit today, I feel fairly confident that except the MTM piece, we should meet those targets which we had set upon ourselves.

So, just to summarize, on revenue we are on track. We are actually doing a little bit better. On EBITDA level margins, the way we capture and present those, we are still also on track. Micro-irrigation margins in India have been strong. Plastic product pipes, margins do improve. Some of the impact of the improvement in overseas margins should come maybe from the fourth quarter, because I talked about we taking some specific initiatives, working with the outside consultants. I think all of that work is happening now and maybe up to December quarter. And hopefully, one starts seeing benefit on margin consolidation starting from the fourth quarter this year on the overseas businesses. And again, some of these margins may be a little bit varied here and there, but on an annualized basis we feel quite okay. For example, margins have been quite low on agro processing business in this particular quarter, and there are multiple factors linked to that. But, now that we already made most of the inventory linked to mango, etc, and some of the cost associated with that insurance incident we had will recover through the insurance policy, you should see that those margins, on an annualized basis, we should have higher growth in terms of EBITDA linked. Also, net profit, should improve.

I should share with you that even though within India we had a negative growth in the sales in this quarter, again, it is just this particular quarter, but our margin percentage which are in high teens, were still maintained. So, there is no big structural change in margin profile, even though it may seem that in this particular quarter, margins are quite low. So, whether there is any big issue in the business, it is not true. And when you see the whole year picture, you will see that margins have been intact, except to the fact that when you have such a huge amount of revenue deflation, it will impact on the margins you earn, because the overall business size itself goes down. But despite that challenge, as I said, we are still planning to grow close to 25%. That is on all these businesses.

We, as a company, are also focusing more on exports now. And in terms of exports, I think we are achieving good scenario in plastic piping as well, and pipe is not easy product to export, but as a solution provider we are getting good response from the market. And that will continue to grow. Even on



irrigation our exports will be growing as we get some new projects going forward.

In food processing, again, in the second half, we expect more shipments to various customers around the world. And overall trajectory of exports, not only on the next two quarters but over the next few years, you will see that company would be clocking very high rate of exports. Because while we have certain overseas subsidiaries doing certain things, plastic piping business is mostly done out of India. So, that will grow. Food processing is mostly export-oriented, we have some domestic business as well, so that will grow. And even in irrigation, for certain types of products in certain markets, we directly sell those out of India. So, based on that we expect that thing to also do positively.

I already talked about the crude, that crude has come down from \$85 to about close to \$70, \$72 in the range Rupee is somewhat stable now between Rs. 72 or Rs. 73, in that region. And it had an impact on higher polymer prices. But at the same time there has been this large amount of capacity available in India and in nearby regional markets, and I think that is helping to create the right balance on the pricing. So, even if there is some cost push, prices have not really risen that much, which is helping us to maintain our margins. So, I think the situation will remain volatile, if oil goes back to \$80 and so on. But as one has seen, we have been able to maintain our margin despite the crude and everything else, which has been there. So, unless crude goes beyond \$100, then nobody knows exactly how things will play out. As none of this remains in this range between, let's say, \$70 or \$80 - \$85, then we should be able to fulfill our plans in total.

There are issues which are beyond this, I mean, there are elections now in a few states in India and there are going to be some elections earlier, next year then there is some general elections. And during those particular periods of when the elections are there, in a given particular state we lose few months, because the whole government administrative machinery gets into election mode and they have to do a lot of other work. And there is a code of conduct so the governments don't give new orders. So, there could be some disruptions into the business flow in that sense, so one has to remain mindful of that particular part. That is one external event.

The second external event is that we have to wait and see the level of water available in the dams and how much of water would be given to agriculture, how much will we reserved for the drinking water. And come next summer, between March and June, before the next rainy season, how things will pan out in terms of farmers' ability in certain regions to be able to do their business in terms of producing. If they don't have water, what will they do. So, I think that is the second concern.

Third concern is, what if rupee again becomes volatile and/or, as I said, the crude goes back to \$100. So, those are the issues which we need to be mindful of, or that keeps us awake, or that makes us continue tweaking of the business strategy so that we get them to the top of the things, which I can assure you we are on.

So, I would say, these are my opening remarks. And we will be happy to take any additional questions from any and all of you. Thank you.

**Moderator**

Thank you very much, sir. Ladies & gentlemen, we will now begin the question-and-answer session. The first question is from the line of Bharat Gupta from Edelweiss Securities. Please go ahead.

**Bharat Gupta**

The first question was on the retail MIS part. If you remember, last quarter I think our expectation was that growth is going to be muted for the entire year. But you did mention in your opening remarks about certain positive development in certain states. But if you could you just elaborate a little more as the growth has been much better than what we were also expecting for the entire year?

**Anil Jain**

Yes. So, as I said, some of the demand has come through specific initiatives in individual states. And, for example, in September or part of August we suddenly had a lot of new demand from farmers, for sprinklers, because they needed to provide water at least once or twice so their crop will survive, including things like soyabean, etc. So, some of this was a short-term demand which came our way. But on the other hand, due to this patchy monsoon, we have seen very concrete steps being taken by various state governments. Yesterday itself I think there was a news out that Andhra Pradesh CM took a big review meeting and he said that Andhra Pradesh is #1 state in India and they would like to cover more than 1 million hectares. So, a large number they are talking about in terms of what they want to cover. And we have seen that also other day, the government in Maharashtra said that. So, based on that I feel that there is a possibility that in the second half, when we move in, we will definitely have a positive growth on the project business, but even the retail business could come through better than what we originally anticipated.

**Bharat Gupta**

Okay. And are we seeing any benefit from the Maharashtra government sugarcane orders coming in?

**Anil Jain**

We have not seen that as of now, but we have been told recently that the government is really working very closely with the sugar mills now, because this is the time farmers start planting sugar cane. And then these people have to start also their processing, the sugar mills. And sugar mills have received these three, four packages from Central Government. So, their overall financial situation is better. So, they may be able to go with some of the government of Maharashtra programs. And government of Maharashtra is, what I have heard and what I have seen, looking possibly to tweak the original scheme they had announced, where they totally removed the subsidy and they are just going to give an interest benefit to the farmers. So, I think with some tweaking, there is a good chance that even the sugarcane story will come alive. And that would mean very good increase in our retail business opportunity. But, as of now, for the last quarter, Maharashtra was in fact somewhat negative, than the same period last year, I would say. But again, we did well in that state, and that is how we have a positive growth.



- Bharat Gupta** Just majority of the growth comes from which state would you say, has it been Andhra Pradesh?
- Anil Jain** Not only Andhra, all of southern states, we did very well also in Tamil Nadu, we did well in Karnataka. We did also well in places like some of the other states, which are normally traditionally smaller states for us but they are doing good business. So, base may be small, but in percentage, in some other states we have grown 50% but it is a small base. So, mostly good business in southern India, I would say. West was negative, and north was neutral, is how I would put it.
- Bharat Gupta** Sir, the second question was on the agro-processing business. You did mention that there has been a correction in mango and onion and other spice prices. But ideally, well that impacts our revenues, our profitability should not be impacted, but even that has fallen if I compare that to last year. So, I just wanted to understand the reasons for that.
- Anil Jain** Yes. I just now explained, right, that it does impact margin also because when you are negotiating and when you are selling something at really low price, which has been processed at low price, competition increases considerably. Because a lot of people can act with the lower working capital requirement or low price, a lot of people can enter into the business of mango processing. So, these things happen, but as I said that it is not possible that one quarter will show you what is the truth for the whole year. On annual basis, we still feel confident that our margins will be there.
- Bharat Gupta** We have seen a volume improvement in this business, in both mangoes and onions?
- Anil Jain** Yes.
- Moderator** Thank you. The next question is from the line of Dhavan Shah from K.R. Choksey. Please go ahead.
- Dhavan Shah** Firstly, about the subsidiaries revenue. So, the growth is around 15 percentage on the YoY basis for this quarter. So, can you please tell us the constant currency revenue growth at sub-level?
- Anil Jain** I think it would be maybe about 2% to 3% depending on the currency and the location. And we are dealing in about almost 12 different currencies and some them were quite volatile during the quarter and so on. And while we always have been giving MTM numbers, from next time we can start thinking and give some numbers on constant currency basis as well. But that impact, I think, is in small single digit.
- Dhavan Shah** So, the impact is just small single digit? So, the revenue growth on constant currency should be around 10%-12%, right?
- Anil Jain** It could be 12%-13% in overseas.

- Dhavan Shah** And one more thing is about the other expenditure in the sub-level. So, there has been increase by around Rs. 27 crore in the other expenditure for Q2. So, is there any non-recurring item into that?
- Anil Jain** No, some of the FOREX losses will go into other expenditure.
- Dhavan Shah** And you mentioned that for India agro business, the revenue growth was almost steady and the margins were also at the same levels. So, it means that the global business in agro processing must have reported some losses?
- Anil Jain** I just want to correct you there that we have had revenue decline in the domestic agro processing business, but the margin percentage at EBITDA level was still the same but on a lower value because of the lower sales out of India or within India because of lower prices. But again, let us not look at every quarter, it is difficult and it is not possible that on a quarter basis we can measure profitability of these businesses. We have to look at an annual basis, that is how the structure of the business is.
- Dhavan Shah** Right. So, you hired some consultant for global business, so is it safe to assume that maybe the global MIS business can reach more than 10 percentage EBITDA margin and same for the agro business as well?
- Anil Jain** Yes, I think this consultant has been on irrigation business on our global market, so outside India and outside US. And we expect them to help us to definitely grow beyond 10%. And as I said, from fourth quarter, hopefully, we start actually seeing the benefits. But the full benefit you will see in FY20 rather than current year. Because in the initial period you take various steps, you pay them fees, so actually it costs you more, but when the benefits come, they would be repeated year after year. And we have seen few reports, we have been working closely with them. I think next year, you will definitely see that our irrigation business are running more than 10% overseas.
- Moderator** Thank you. The next question is from the line of Amit Murarka from Deutsche Bank. Please go ahead.
- Amit Murarka** Just on agro processing, just wanted to understand, how should we look at the margins in the business, because it has tended to be a bit up and down like it has also been like 17%-18%, and at times it has also been 7%-8%. So, is it like inventory related fluctuations also that come into the quarterly numbers or how should we look at it?
- Anil Jain** Also fixed cost absorption varies, so in the quarters, for example, our US business will do major processing between October to March. And therefore their margins will significantly go up because fixed cost absorption is much better. And during this period when they have no production, all the costs are there, but there is no absorption of this cost. So, that does impact. Now, our target is that we are around, we would like to see that our agro processing business on a global consolidated basis moves towards close to 15% global EBITDA level. It has been in the past between 12% and 13%. Again, in the given quarter it can vary, but on an average on annual basis, it has been for last few

years between 12% and 13%, unless we have had one or two bad years where suddenly onion prices rose too much or things like that. And last year was one where we had also that fire incident, etc. And some of those cost related to that fire incident have come in the current year also, because till the time we rebuild the new warehouse we are renting the warehouse, etc. And so that rent is an additional cost to us which reduces our margins, not only rent but the handling, all other things which go along with it. And that will be covered through the insurance claim. And as and when that comes that will get reflected in the books which should improve our net margin in that division. I think some of these claims should come through by maybe fourth quarter or early first quarter. So, you will see that this impact which has come. And the second is, we have recently over last 1 - 1.5 years started our new activity on the retail business also. So, we are investing into that business in terms of creating teams in individual states, appointing the distributors, going through the sampling, all of that. So, some of those expenses are also going through P&L right now without any added benefit, because this is an investment being made into building a brand. So, when I look at a steady state, our normal B2B business where we sell mango pulp or juice concentrates or dried onion to customers in India and overseas, from India especially, that business and those margins are intact. They have not even changed in this particular quarter. Overseas market seasonality is there, and so you will see much better numbers from overseas in the next two quarters. And some of this insurance stuff and all that would get, I think, captured before March into the margin side. So, all of that put together should give you at the end of the year a number on profitability, which should be in line with what we were anticipating, which, as I said, we have been between 12% and 13%, wanting to go towards 15%. Maybe in FY20, that should happen.

**Amit Murarka**

So, will you be able to share what kind of costs have gone into the B2C, building the B2C business that is there in, let's say, in 1H of the quarter?

**Anil Jain**

I think it's difficult. I am not tracking that, that much. It is not very big, but those costs are costs there. So, maybe next time, we can share some of those details, over next year's budget we can share those details.

**Amit Murarka**

So, MIS projects business, so while revenue has scaled up well, given the order book that you have. But along with that are the projects receivables always seem to be rising. So, I mean, just a rough calculation shows, I mean, trailing 12-month basis it is about 270 days it is showing up. So, just want to understand like how does it work over there, is it like outstanding or the claims are yet to be raised with the government or with the authorities?

**Anil Jain**

Some claims by the time you raise, but then the government will come and do the measurement. And then the whole payment process will take place. So, it becomes very difficult to dissect every single activity and say, "this is how it would happen during a given quarter." What we have been tracking is that overall where are my receivables. So, if you look at even current quarter, while we might have increased receivables from a project, but we have been able to do better on the dealer or the other things. So, as we go along over the next couple of years, I think this will also settle down. And then in totality, in terms

of days outstanding against the receivables, we should have overall a better situation. So, this quarter receivables have grown only by Rs. 41 crore, right? The business has grown substantially in terms of from June at Rs. 12.37 crore, it has grown only Rs. 12.79 crore. So, while business has grown so much, receivables have not gone up. And overall, the company is focused on working capital. And compared to the same period last year, in fact, I think we have shed 16/17 based on receivable side. And including, in fact, if you look at hi-tech business, our DSOs AR is 131, which was 137 days last year same period. So, there is improvement of 6 days. So, that is where we are focused on. That while we maintain the growth of business, the receivables in terms of DSO should not go up. It is possible that in a given quarter there could be variations in usual, either project business or retail or government subsidy. As you can see, this quarter, subsidy came down by Rs. 55 crore because we have collected quite well where submissions have been good. And we hope we maintain that between now and March also, going forward. So, all in all, let us focus on overall working capital, which is improving. And while maintaining the growth. Some of these individual issues on quarter-to-quarter basis, spending too much time on it may not give us really work we are looking at.

**Moderator**

Thank you. The next question is from the line of Parag Khare, an individual investor. Please go ahead.

**Parag Khare**

We had outstanding Q3 and Q4 last year, we had a great Q1 this year, and now Q2 we did very well. Good job, well done. Just a couple of questions. You talked about prospective business opportunities few quarters ago, one from the plastic division side for a 2.5-meter diameter tank pipe. And according to you it can be a game changer, because none of our competition has that kind of capability. And the second is from the food processing, the Amravati plant for the mosambi and oranges. Sir, my question is, how far we have gone with respect to these two opportunity? And can we expect the commercial production to begin in FY20?

**Anil Jain**

For both products, yes. In fact, there is a possibility that the piping, the large diameter piping, we should start earlier than the later. So, maybe already March, April that would start, hopefully. In case of the orange processing, that would be in the second half of the next year, it takes one year to build the plant and so on. But I just want to emphasize that even without waiting for that particular production line on the piping business, piping business is really doing well, we have grown 35% or 33%, something like that, 35.3% out of India business. And plastic is mostly Indian focused business. So, overall, business is doing well, we continue to get good order. So, when this comes that would take us to the next level, different type of orders, because these large diameter pipes would allow us to totally replace the open canals, because that is not just the right way to do things. And so we are hopeful that that would give us a further boost when that happens. But meanwhile, the last few quarters pipe has done well and we expect next few quarters also that it should do well.

**Parag Khare**

Okay, sir. And second question on our debt position. I know we have been trying quite hard over the last three, four years. But if we see the guidance by you on the de-pledging of the shares at the family level, you have plans to de-

pledge it over probably next 2 - 2.5 years. And when you are reaping Rs. 300 crore this year and if we refer the document published by the rating agency in June, you have a Rs. 300 crore due again next year, and then probably around Rs. 1,300 crore, Rs. 1,400 crore, it is a \$200 million bond in FY23. So, is it fair to say, sir, that the next three to four years our debt will be significantly down compared to where we are today?

**Anil Jain**

That's our intention. So, let's say our debt is close to Rs. 50 billion right now, approximately, out of which some of the debt compared to the last year has gone up because of FOREX impact. If we keep that aside, we should be around at least Rs. 40 billion. So, about Rs. 10 billion, we can move the debt down based on the, let's say, business efficiencies, the earnings which we will do this year, and I talked about earlier the whole reduction in receivables, inventory, recovering old receivables, all of that. And that should happen over the next few quarters. Then we come to a level of debt around Rs. 40 billion, which was close to Rs. 36 billion, as I said, before the FOREX M2M impact. That debt level is required to sustain this level of business in terms of working capital. But the long-term debt part which exists, right, whether it is the dollar bonds or whatever else, those either we can repay every year out of earnings which we will do between 2020, 2021, 2022 like that. And/or if we do any value monetization event, we can and we should try and reduce that debt. Personally, compared to earlier period, I also feel and I have said this, that we are looking forward to moving beyond 2020, when you think of 2025 or 2030, that we should be managing business and business growth on a lower level of debt than what we have had historically over the last few decades. In some sense we are okay, right, debt equity is close to 1 and so on and so forth. But ideal debt should be about almost, I think, 50% of what it is today. We are still paying too much of interest, too much of our debt also hampers some of the business growth opportunities, which may have access to and we are not going for those, because balance-sheet is already heavy. So, I just wanted to reiterate, directionally, we as a management want to ensure that we will grow. But we will grow with lesser debt going forward.

Now, having said that and wanting to do it, in the interim the business, the market, the external situations are not always exactly functioning the way you want them to be. So, within that we have been managing. But at least, except these last six months, especially due to this FOREX, we have been able to at least arrest the rate of the way earlier our debt used to grow. And we have been in the past debt-to-EBITDA has been 5 or 6, and we are targeting this year that it should be 3. So, that is an improvement. But that is not the best. But at the same time, business is dynamic, business is volatile, worldwide we are operating, things go up and down. And so to take one particular number and say, okay I will do this number, do this number, in real life and practicality, at least in the type of business we are, it doesn't work that way. So, directionally, we will reduce the debt and combination of the things. And we want to reduce the interest outgo or the financial cost we are paying so that we can improve our earnings. Because I think on revenue, we have been doing quite well now for the last few quarters. EBITDA level earnings are also reasonable. The net earnings have still not grown because of this high interest cost. And we intend

to address it. It is taking some time. And I think one has to see every year how things are improving.

**Moderator** Thank you. The next question is from the line of John Mostyn from Green Dragon Fund. Please go ahead.

**John Mostyn** I just had one question, I wondered if you could potentially comment on the case with Netafim, where you are seeking at least USD 25 million in damages. I just wondered if you could perhaps give a sense of the timeline for that case and when you think it might come to a conclusion? Thank you.

**Anil Jain** So, this case, this is done by our local US unit in North America. And it was linked to the acquisitions we did in US last year of a couple of distributors. And so, as the matter is sub-judice, I will not comment too much. It is a legal matter. The other party also is going to talk to the court. Maybe they are also talking to our lawyers. So, I think situation will become more clear in this quarter or next quarter in terms of whether it goes for trial, whether it goes for settlement, whether our case gets thrown out or whatever. There are three or four outcomes of this kind of event. I personally have not been directly involved on to these legal situations into this US affair. And we believe we have a strong case because based on certain basic principles and the Californian law. And let us see how that plays out. If there is any particular concrete event happens, we will let the market know in terms of the progress on this issue.

**Moderator** Thank you. The next question is from the line of Harshil Gandhi from JHP Securities Pvt. Ltd. Please go ahead.

**Harshil Gandhi** Sir, what is your guidance on top-line and EBITDA for FY19?

**Anil Jain** I think we are sticking with the original guidance, We have talked about that EBITDA should be between north of Rs. 13 billion and closer to or between less than Rs. 13 billion and Rs. 14 billion. So, I think we are still there. The top-line growth, we had talked about last year, I think we were close to Rs. 80 billion. And we have talked about 15% to 17% on that. So, that meant Rs. 90 billion to Rs. 94 billion, somewhere in that context. I think if you see the first half, we are doing better than that what we have projected. But knowing the volatility in market and whatever, we don't know exactly how things will pan out. I will still maintain it while sharing with the market that we are already doing better. And there is a good chance, I see more than 50% probability, that we should do better than what we said at the start of the year.

**Harshil Gandhi** Sir, in the opening remarks you have mentioned that you have achieved 45% target of the revenue. So, if I do a reverse calculation, it brings me to Rs. 90 billion. So, will it be Rs. 90 billion or you will be at the upper level of Rs. 90 billion?

**Anil Jain** No, of course, upper.

**Harshil Gandhi** Okay. So, it will be the Rs. 90 billion to Rs. 94 billion, that is what I should expect?



- Anil Jain** Yes.
- Harshil Gandhi** Okay. And sir, what will be the likely net debt levels and finance cost for FY19?
- Anil Jain** So, finance cost, we already spent more than around Rs. 2.6 billion in our first half. So, it should be close to Rs. 5 billion for the whole year, let us say, because interest rates are rising everywhere. In terms of the net debt number, I do not know where the FOREX is going to be and this M2M impact is going to be. So, I don't want to comment. And I have given extensive commentary on the debt earlier today on this call and how we plan to bring it down from where we are. So, we are hoping that from where we are today we will bring down the debt substantially. And more details I have already given.
- Harshil Gandhi** Yes. So, sir, just wanted to check, the Rs. 3 billion reduction will be from the March 2018 levels of June 2018 levels, the net debt levels?
- Anil Jain** No. The Rs. 3 billion reduction we have talked in March, so it would be linked to the March numbers.
- Harshil Gandhi** Okay. So, from 4200 you are expecting 3 billion to go down?
- Anil Jain** Yes. But then that depends on also FOREX MTM, we are not in position to give any particular number right now. If let's say rupee goes back to Rs. 66, just hypothetically, maybe Rs. 4 billion would be reversed already which will come into play. So, let's wait and see in terms of how it goes. And as I said, it will have to be seen between now and March. And we are quite hopeful that between what we do on inventory, receivables, etc, we should be able to bring it down.
- Harshil Gandhi** Okay. Sir, just to follow up on interest question. So, let's say, owing to a breakdown in global financial system or maybe any other reason, if the interest rates were to rise steeply, how is company positioned to mitigate the same?
- Anil Jain** I think we don't expect some big problem because, for example, the large amount of our debt is in this international bond, where we have already frozen interest rates for the five years. So, the \$200 million is already frozen. We don't expect, India has recently benign inflationary environment, the CPI has come down quite low the day before yesterday for last month. So, we don't anticipate too much of interest increases in India, where a majority of the remainder of the debt is sitting. And even some ECBs we have on dollar basis, which have to be repaid over the next three to four years, about \$40 million, there we already fixed a LIBOR a year ago. So, any increase in interest rate won't impact us. So, I do not know what would happen in the world. But I don't think it would dramatically affect us.
- Moderator** Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.
- Pranav Tendulkar** Sir, any plan of spinning off the businesses that you had planned before and do an IPO, so that we can reduce the debt? Because as the market situation has revealed that such conducive markets, the market situation is not available

every time, right? And the problem is that when market goes down, rupee also goes down and our debt gets worsened. So, why not just hurry on that spinoff and pay back the debt?

**Anil Jain**

I think the IPO, etc, is also linked to the valuation. And as I said, part of this debt, which is like, for example, our overseas bonds or whatever, we are expecting that we would pay them out of dollar. So, if rupee depreciates, while in translation we are showing that it is a higher debt, it is not necessary that we are able to use rupees to repay so therefore we have to pay more rupees. It is not on a cash basis. And a lot of this debt is really like, for example, bonds is still away three or four years, 3.5 years. So, we are focused on bringing down the debt right now through internal efficiencies. And as soon as we see that market is giving us the right valuation and opportunity exists, we would look at those opportunities and do that also. Earlier, just in conversation I have spoken about that we think bringing down the debt by about Rs. 10 billion through business operations is possible. And thereafter, further reduction is possible through value monetization events. And there are two, three opportunities we have spoken about it now. But right now, I think market is not conducive, neither the fact that we are ready. For our businesses, the critical market required or profitability required to get a proper valuation, is not there. So, as and when that happens, we would go ahead with it but not comment or commit to that right now.

**Moderator**

Thank you. And our next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

**Mayur Parkeria**

Sir, indirectly it is a question related to debt, but just trying to understand, sir over the last few years we have not done a very huge CAPEX in terms of greenfield large CAPEXs. Do you see that coming in the next two, three years and putting pressure on the debt side again?

**Anil Jain**

No, in fact, we have underutilized capacity in micro-irrigation business. And some of the project part where we are growing does not require all the polymers, capacity or production, exclusion capacity. So, there is a service level and civil work and all of it into these projects, it is not linked to that type of capacity. So, micro-irrigation, I think, we can comfortably grow next two to three years without doing any significant, I would say, CAPEX. We have enough capacities in plants around the world. That is one. On plastic piping, part of the product lines we have really growing well and maybe we need some capacity. But there, the total investment and capacity required is much smaller. So, if you invest, let's say, Rs. 1, you generate Rs. 8 to Rs. 9 of revenue. The amount required that will be captured in normally what we spent Rs. 2.5 billion - Rs. 3 billion every year in between maintenance CAPEX and growth CAPEX, within that that will get captured. In case of agro processing, we are just coming through, last year, we did big investment in to spice processing, and we are committed to this whole orange processing coming year. And we are starting a new location in southern India in Kurnool. So, these two or three are committed CAPEX, I would say, orange or the Kurnool CAPEX, etc. But that would form part of, what I have spoken about, this our annual Rs. 2.5 billion - Rs. 3 billion within that those will fit in. Any additional investment if we do

beyond this, we are mindful of the fact that we have also a bond coming up, right, at a certain point. And we don't want to compromise our balance sheet before we have already either repaid a bond or refinanced a bond before we will take on anything new. And generally speaking, as we move forward now, I think company will start generating more free cash flow. So, if we need to invest, we can invest through our own earnings rather than invest through new borrowings.

**Mayur Parkeria**

Okay. Sir, second question from my side is, a couple of years back we had a trouble with respect to the subsidy receivable relating situation and that stretched our balance sheet. Again today when we see, so that situation has been somewhat better now compared to the size of the operations now which we have, given the efforts which you have taken. But a new set of developments or the operations which is now gaining more traction is on the projects and the exports, which are again a higher receivable compared to the traditional retail businesses, which we had. So, in the light of that, firstly, how do you see those receivables specific to projects and exports, how are they, if you can put some numbers on the receivables and inventory? And then secondly, despite that you are confident that we will be able to bring down the overall debt level to our targeted levels of Rs. 40 billion by the end of the year?

**Anil Jain**

Yes, that is possible. See, project business also, as I said, some states where you are doing projects, like Karnataka went through election, so some of our receivables, the whole thing got delayed by 2, 3, 4 months during that period of time. But now next five years things should be stable, hopefully, and so on. So, there could be these individual events which could, in a given quarter or a given period of time, things would look different. But, overall, if you see earlier our debtors used to be for this division more than one year, now we are closer to between 180 days to 200 days, despite the fact that we have more projects and we have less of the government, etc. So, we are certainly confident that we will manage these receivable levels where they are, despite the type of the growth we are doing, depending on the segment. We don't see that as a big issue.

**Moderator**

Thank you. The next question is from the line of Pavitra Sudhindran from Nomura. Please go ahead.

**Pavitra Sudhindran**

My question is on the working capital days. So, I just wanted to check, specifically on the inventory days in the hi-tech segment, it has gone up quite a bit this quarter, it has gone up to around 116 days and it was around 87 as of March 2018. So, if you can just explain the reason for this? And the increase is also higher than what it was in the first half last year. So, I am just wondering what caused that? And also on the payable days in the plastic segment, it seems to have nearly halved from where it was in March. So, if you can just explain these two things, that would be helpful.

**Anil Jain**

So, on the hi-tech, you are talking of the inventory, right?

**Pavitra Sudhindran**

Yes, the inventory. Yes, on Slide #9, it is 116 as of September, and March it was around 87.

- Anil Jain** Yes. But if you see, that is a seasonality, right? Last year, if you see September 30, it was 119 days, and it is 116 now. June, it was already 100 days. So, if you compare...
- Pavitra Sudhindran** So, you mean like the increase from March to September last year was not as much as what it was this year. So, I was just wondering whether there is anything specific there.
- Anil Jain** No. There is also the fact that we have a much more robust sales growth plan in the second half of this year. So, you need to build inventory to that effect. Or some of the prices are higher compared to the last year, let us say, compared to last one-year prices have gone up. So, that is how value based you might see. I don't have right now access immediately to a tonnage number in terms of overall inventory. But I don't think there is any structural issue there, it is just a seasonal issue. In terms of other question you asked about accounts payable. Usually what happens is that the fourth quarter, March quarter and then April, May are really the three periods for us. And so you buy a lot of raw materials and you buy from suppliers. A lot of these payments come due in July to September period. So, when they come due between July to September period, you pay them up, so your payables go down. And quickly looking at overall plastic inventories, not just hi-tech. And in fact, last year it was at about 10,400 tons overall plastics. It is now at 6,898 tons, that is on the raw materials. So, it's lower inventory overall plastic. And if I look at the finished good stock, it was last year same period about 19,000 tons, and now it is 17,500 tons. So, I will ask somebody to get back to you with some additional details. But from primarily what I know and what I see, this is seasonal and normal, there is nothing extraordinary there.
- Pavitra Sudhindran** And another question is on the agro processing segment. So, you mentioned earlier in the call that for this year, from April to August this year, the mango prices have falling by around like 30%. But at the same time, in the agro processing segment, the revenue growth has been pretty strong, so that means volumes should increase quite significantly. So, if you can just talk about what is the driving this substantial increase in volume in agro processing?
- Anil Jain** The volume growth had also come from our overseas businesses, let's say, US has been growing about 25% - 30%. We have had also now some growth in our UK business compared to the same period last year. And when we look at the entire first half, our overall volumes in terms of quantity, that has also grown from as against 20,000 tons, it is close to now 24,000 tons.
- Moderator** Thank you. The next question is from the line of Kirthi Jain from Sundaram Mutual Fund. Please go ahead.
- Kirthi Jain** Sir, my question is with regard to the project pipeline. How is the pipeline looking, sir, in terms of new orders we will get from the project segment?
- Anil Jain** I think our pipeline is strong. I think we are already L1 in another larger project in Africa, which should come through on one hand. There are two or three other large projects, which we expect will get closed in the December quarter,

so that will ensure that the new execution, which we do in totality. Our effort is that we hope to get more orders than the execution we are doing. So, our overall base of the total orders in hand continue to grow. So, that next year on this higher base again, right, we plan to grow 20%. So, I think there is enough level of momentum. Unless those projects gets closed, I cannot divulge those details to you.

**Kirthi Jain** But the order book will get increased over a period of time, that is what the sense we have?

**Anil Jain** Yes. Already compared to June and September already order book is higher. So, the same way we anticipate going forward.

**Kirthi Jain** Sir, this piping segment we are seeing such a strong growth, do you expect to sustain, sir, in the piping segment?

**Anil Jain** Yes, at least the orders that we have in hand, I think next two quarters you will see similar very high level of growth. Beyond that, as I said, momentum is positive, but for the next year we will talk about the March results rather than now. But right now it looks still good.

**Kirthi Jain** Next is on the food business. Do you believe that the mango deflation and the onion deflation is at the bottom, given from your experience in the sector...

**Anil Jain** Yes,. I think the prices are their lowest. For example, we used to buy Totapuri mango, three seasons ago we bought at Rs. 17. This season we bought at Rs. 8, which is 50% deflation. I don't think it is sustainable either for farmer or the entire system. And we have seen a price of Rs. 22. So, let's say last 10 years the lowest we have seen is about Rs. 6 to Rs. 7 and highest we have seen Rs. 20, Rs. 21. We are closer to the lower part of the band now. So in mango, especially, the crop works through two cycles. A year when you get too many mangoes, next year actually naturally you get less mangoes on the trees. So, possibly that could be the next year. So, if the shortage comes then the prices will go up. Already now we are anticipating onion prices in the coming season to be much higher because the areas which grows onion did not get enough rain. So, rabi crop is going to get affected and so on. So, I think this value deflation which has happened over last 8 to 10 quarters in the food business in 2019 and 2020 will come back.

**Kirthi Jain** Sir, thirdly, on the working capital, what are the new initiatives, anything that you wish to share, what other initiatives that you're trying to take to reduce the working capital requirement?

**Anil Jain** As I said, it is partly seasonal. So, naturally some of reductions will happen now. Other initiatives we are taking is that the business we are taking up, the new business we are taking up, we are trying to see that we are only taking a business where we can be fairly confident that we can collect faster. There will always be some issues in the marketplace where money is guaranteed, but it doesn't come in time. That is the nature of the business. But over the last two, three years we have been fairly disciplined in terms of our receivable levels.

And we have been able to achieve what we have planned and managed and hoped. And we haven't had big variations into our expectations and what was the outcome on the ground reality on receivable. Having said that, overall receivables are still somewhat higher. So, let's say March end, our receivables were close to Rs. 2,500 crore. Now they are Rs. 3,000 crore. But I expect that by March, they should come down. Last September, they were Rs. 2,800 crore. Now they are Rs. 3,000 crore-plus. But sales have also grown up. So, they are in line in that context. So, these receivables will come down. But receivables also were about close to Rs. 2,500 crore in March. And even now it is Rs. 2,400 crore. So, you will see definitely about Rs. 500 crore reduction in the inventory between now and then, could be a little bit higher, as I said. And that should definitely help us to bring down the debt.

**Kirthi Jain** Sir, on next year can we expect a 20% increase in absolute EBITDA from the current levels, given that the food business will see a revival next year?

**Anil Jain** I don't wish to comment on the margins for the next year. Right now we are focused on the current year. But as I said, I think our costs are under control, as long as the top-line grows, our margins should grow. And on the food business also, I have said that, let's not go by this quarter. Again, I would like to talk more about all the annuals, because we have so much variation on a quarterly basis, it becomes difficult.

**Kirthi Jain** Sir, for next full years, I meant for FY20 can we do like a Rs. 1,600 crore kind of EBITDA?

**Anil Jain** That's what I'm saying, I don't want to comment on FY20.

**Moderator** Thank you. We take the last question from the line of Parag Khare, an individual investor. Please go ahead.

**Parag Khare** Sir, a question on the our overall business model. We have done much better in terms of improving our balance sheet and reducing the receivable days. Are we taking any more takes in terms of bringing the optimization, and provide equity operations for bringing the efficiency into our operations, so that our expenses go down further? Is that part of the scope of the consultant which we have hired?

**Anil Jain** Yes, I think, one, we are doing some work overseas to improve profitability as well as the cash flow or the cash-to-cash cycle. We are also taking specific efforts in India to reduce, for example, logistic costs or our procurement purchases on one hand. But also improve our service levels in the market. So, today, let's say after we get the order, if we are supplying to our customers in three days or five days, we want to go to 1-day or 2-day delivery time. So that would allow us to capture this significant volatility in terms of demand which is there in market. Sometimes demand suddenly comes that within 10 days, you need supply everything if you have enough capacity. So, we are addressing those issues also, which will allow us to take larger share in the market going forward. So, that effort in India is also there to reduce the cost, especially on purchasing side and the logistics.



**Moderator** Thank you. Ladies and gentlemen, with this I hand the conference over to the management for their closing comments. Over to you, sir.

**Anil Jain** Thank you, ma'am. I would like to thank all investors for their patient listening to this call and for their overall support to the company. We are moving in the right direction in terms of the deleveraging. The speed may not be what one likes and one would like to have. It is slower than what we originally anticipated also due to several factors. But meanwhile, I think we are managing quite well overall growth of the business, new product lines, new revenue streams, global de-risked model. And every business, we are bringing and building new solution-oriented, this is going to do very well for the company over 3 years, 5 years, 10 years. So, there we are really winning very well on the long-term strategy and medium-term strategy. As a company we are becoming dominant force in every single market we are operating. A company like us which started small in India, we are already largest player, not an only in India but also in US now. And that shows our resolve to be there, and be a global leader in whatever we are doing. And there we are succeeding. The issue of the debt has been there, will still remain for some time period. But I think between now and maybe 2020, 2021, we should address it fairly squarely, is how I feel. Meanwhile, we still need to address the issues related to either FOREX or crude oil volatility, climate change, the farmer issues, the government policies. There are lots of variables in the business. But that is what makes it interesting, that is what makes it enriching, that we are able to create large amount of value for millions of farmers. And we are really transforming their lives, and in the process, creating value for all our stakeholders, including shareholders.

So, we thank you all, including all of our suppliers, bankers and everybody else. And we look forward to a better second half. And we will keep you updated if anything significant happens more. Thank you again.

**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.

---

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