Jain Irrigation Systems Ltd.

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Q1 FY2018

Earnings Conference Call Transcript

August 16, 2017 at 03:30 pm IST

MAIN SPEAKER:

- **Mr. Anil Jain : Vice Chairman and Managing Director**
- **Mr. Manoj Lodha : CFO**

Moderator: Ladies and gentlemen, good day and welcome to Jain Irrigation System Limited Q1 FY 2018 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 assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. 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 Earnings Conference call for Q1 FY'18. Joining us today are Mr. Anil Jain, Vice Chairman and Managing Director and Mr. Manoj Lodha, CFO of JISL. We will commence the opening remarks with Mr. Anil Jain, following which we will have an interactive question-and-answer session.

Before we begin, please note that some of the statements made on today's call could be forward-looking in nature. And a note to that effect has been included in the earnings presentation, which is being 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 ended June 30th, 2017 and the outlook and opportunities going forward. Over to you, sir.

Anil Jain: Thank you, Siddharth. Welcome to all the participants from myself and our CFO, Mr. Manoj Lodha. Both of us are dialing in from different cities, so, there could be a small issue of coordination while we answer the question.

Overall, if we look at this quarter compared to the situation and a disruptive event of GST which got rolled out of effective first July, I think it has been a reasonable quarter. We have done total consol revenue of Rs. 17.3 billion and with an EBITDA of Rs. 2.49 billion, which is almost same as same period last year in the context. The PAT is down, almost by close to 24%. But, most of that is being explained or can be explained with higher depreciation. So, as such in terms of cash profit, we are quite okay. In terms of overall business, when we look at different, different segment, micro irrigation, we managed along with tissue culture, what we call hi-tech agri input as the segment, we managed in India almost a growth of 4.8%.

And on consol basis, we grew the business by 12.4%. And consol revenue of this division also includes part of the revenue coming from new acquisition, which got closed only middle of the May. So, we only got half the quarter from the new acquisition. But, with all the changes and the changes in the GST and just to explain the GST part on micro irrigation, originally in earlier regime, we used to pay between 0% to 6% and it varied from state to state, the VAT and the excise duty was nil. But, while excise duty was nil, we were also not getting any input credit. So, effective tax rate of a combined GST in the earlier regime was on an average somewhere between 4% and 6%, as against the new rate, which was only announced on 29th of June, so, just two days before the whole thing was launched. It was one of the last item decided, is now going to be at 18%. So, that means there is a higher incidence of tax. However, in the new regime of GST, we are going to get the input credit on the polymers and other things, which we buy from our suppliers.

When you take the input credit, that means the effective rate compared to the earlier regime works out to approximately 12%. So, if GST would have remained at 12%, it would have been almost neutral for us. The fact that it is at 18%, would mean that to cover the gap we need to increase prices of our end products somewhere about on an average between 5% to 7%. For some components it could be less, some component it could be more. But, on an average about close to 5% to 6% because of the higher incidence of the duty.

Now, this would impact only about Rs. 12 billion of our business, which is the retail business what we call, because the projects, which is growing business in micro irrigation, it has been clarified by the government that GST would be only 12%. So it kind of neutralizes and it brings it on the par with the earlier regime. So, this impact could be only on the retail portion of the business. And we have already changed our pricing in the marketplace. This particular second quarter for micro irrigation business is a lean quarter because during the rainy period or when it is raining, we do not put any irrigation systems in the field. And therefore the impact of the price increases would be felt little bit more in the third quarter. But this is an industry wide event, the entire industry is passing on the increases and therefore we expect there to be a kind of a smooth transition.

There have been presentations made to the government by the industry body as well as various state government that this should be also brought down to 12%, as other agricultural inputs have been put towards 12% including things like tractors and fertilizers are even at 5% etc. We do not know what would be the stand of the government. If they do bring it down to 12% from 18%, if that happens then we can reassign those price increases, which we have announced. If they do not, then we will maintain this price increases and get on to our business and the life as it should be going forward.

All in all, when we look at overall GST roll out, piping business, the new rate is neutral. For food business, new rate is neutral. For project business, new rate is neutral. Only micro irrigation systems, which go into retail and to the farmer, there is a change. Based on what we hear from the marketplace and from what we hear from our dealer base that they feel that this GST roll out should allow only organized players and also the dealers who are willing to play the ball in terms of all the rules, regulations, all the compliance. Those are the ones who will survive and do well. And the companies or entities or businesses, which earlier were on a model of low cost, low quality and also least compliant, those may not be able to survive the whole GST regime for long period of time.

So in medium to long-term, this should allow us a better market positioning, possibly allow us better margins. One has to wait and see, but overall I can share with you that our view is that GST is a positive event and it should help the business. Even though in short-term, the June quarter as well as September quarter, for these two quarters, it will create some kind of impact in terms of lower sales compared to our expectations. And because the dealers are not keeping inventory or everybody is adjusting to the new rules, regulations on how to do business. So that's all happening, but despite that, and despite the fact that last few weeks of June, there was significant slowdown in the business, we have managed to ensure close to 5% growth into these hi-tech business that's quite positive for us.

And if you look at the investor communication, you would find that the breakup of this growth came from exports. So, we had significant amount of our exports during this period of time. We had almost same level of retail business. And we did not have great project business. Having said that, we have a large amount of project orders in hand. And most of those projects post the clarification of GST now, should roll in third and fourth quarter. So much larger quantity and value of the business is going to come our way as we execute on these projects in third and fourth quarter.

So, that gives me confidence to say that when we started this year, we had said that we are looking forward to FY '18 as a very robust year in terms of growth in micro irrigation business and hi-tech agri business. And I believe as we stand now, it still continues to be true. Only thing is that you will see more business in second half than first half.

If you look at our overall guidance, in terms of annual revenue, we had said that, as against last year's business of close to about Rs. 69 billion plus, we are likely to close our business this year in terms of revenue, close to about Rs. 84 billion, which would mean about 20% consol growth and that includes additional revenue from the acquisition we have done in US. That number is quite okay. And the fact that we already done more than Rs. 17 billion, out of that expected about close to Rs. 84 billion. That means we have done a little bit more than 20% of our annual expected revenue in terms of growth. Now, if you see trend of last 10 or 20 years for the Company, typically the first half, we do somewhere between 33% to 42% and it will vary from year-to-year, and that's the range we do in the first half. Having done already 21% or close in the first quarter and if we do about 14%, 15% in second quarter, that would mean that we have still in the range to achieve our target, which we have set up for the whole year. So, that is a quite a positive note there.

In terms of second business, which did well this year was agro processing business. There also overall we grew about 5.7%. So after few quarters where we had, you know, not had that kind of a strong growth, this quarter has turned positive, again despite the GST because exports did very well for us. In fact the domestic business in the food was minus 8% domestically, while our exports grew 26%. And all in all we managed a positive growth.

Now we expect and this is what our customers are telling us, this whole GST thing is now getting stabilized in the current quarter. And from the Diwali season onwards, they also expect a domestic consumption as the FMCG product to go because that's our end customer when we sell food puree or dried onions or garlic to our large food institutional customers. And another factor, which has happened during this quarter was that we had a very good mango season where we have processed almost approximately 8% more quantity than last year. And that should allow us to manage certain level of growth in the food business. But I should also kind of caution the participants that the mangos were available at lower price this season and because if you buy raw materials cheaper, the price of your finished goods would also remain lower.

So our overall annual target what we had set up for ourselves was to jump back again 18% to 20% of the growth in the current fiscal even in the food business. Now the fact that mango prices were lower and therefore our revenue would be lower, that would mean that to achieve 18% to 20% growth, we will have to do almost close to 25%-26% of volume growth.

And on other hand, for the product, which we've made, all the mangos which we finished between May and now, end of July kind of, it is 84% of that is already contracted. So we have reached out to customers and we have already signed contracts with them. This will get shipped over next three to four quarters. So we are quite comfortable position there to say that mango is our major product and most of what we produced and we produced now has already been contracted, kind of sold, but we need to ship it to book the revenue over next three to four quarters. So that also looks positive going forward.

On the onion business side, onions were still at reasonably low prices in the first quarter, which has allowed us to build some level of inventory in the business. And post that, most of this inventory gets sold in the second half and that is how you would see that when you look at our balance sheet, there is some amount of increase in the overall debt in the Company. But that is seasonal, that was expected that between March and June, when you buy so many mangos by paying cash to the farmer, you need to increase your working capital. And that is where our inventory has really gone up in that sense. And some inventory was still with us due to the GST, but otherwise even if you look at working capital, our receivables have come down and overall working capital is in control. And as we have planned, we shall continue to improve the same over next three quarters to achieve even better numbers in March '18, compared to March '17.

The third major division, which we have is piping business, plastic pipe business. That business registered within India a negative growth of almost about 8.2% because of the very little offtake from dealers especially and this is industry-wide phenomenon. And even our project business, pipes which go into the project that also, our end customers had slowed down their offtake because they were not sure how their contracts with the Government will play out on the GST rate etc. But now that even on the project, GST rate has been announced at 12%, you know, all of these wrinkles will get sorted I think in next couple of weeks. And hopefully from September, that business will start chiming in, in totality. And all this new tenders, which are coming in play should allow us to also improve our overall order book in that sense on the piping business as well.

And when we look at different businesses, our project business on the piping side has more than Rs. 4 billion of orders in hand. And that gives me a confidence that despite a very weak first quarter, overall for the four quarters even piping business should manage at least double-digit growth and that's our internal plan.

In terms of piping business, one of the major drivers on the cost is polymer prices. With the appreciating rupee and oil remaining weak, that should be positive for us and new capacities of polymers HDPE, LLDPE have come up in India by ONGC, by Reliance. So for some period of time this is going to be kind of a buyers' market, so that again augurs well for our generally the piping business.

Beyond these three major segments we have, our overseas businesses have done reasonably okay. Our new acquisition, you know, even though we just closed in mid-May has already settled well, and it's moving quite nicely. And we expect overseas businesses also to turn and provide kind of a double-digit growth in the current fiscal and they will remain profitable.

In terms of other events during this quarter, apart from one big acquisition we did, has been the news about Maharashtra in sugarcane and drip irrigation on sugarcane in Maharashtra. Government of Maharashtra had announced this earlier and they have been putting various details put together so that because there are so many people in the entire chain. And they have now come up with the final program where they would be providing to farmers very low cost long-term loans through sugar factories or through guarantee of sugar factories for five years so that they can invest into drip irrigation. And these low cost of interest would mean additional subsidy for the farmers. There are some farmers or sugar factories are asking Government whether additional subsidy will be available for sugarcane farmers, to which government is thinking about it, but as of now they are saying that the subsidy farmers will get would be more what would be subsidy related to the interest cost. And they are in the process of making this mandatory.

Now impact of this on our business, whatever positive impact should come only in third and fourth quarters because that is when the plantation starts in sugarcane and that is when they will buy and install drip irrigation system. So one has to wait for third quarter to start seeing how everybody is aligned, the government, the cooperative bank, the sugar factories and farmers to start implementing this initiative. But government is fairly stern and firm on this that in next two, two and a half years they do want to bring down 300,000 hectare.

The only point of contention now is that the detailing of each sugar factory that which sugar factory will do how many thousand hectares, which farmers will go with which sugar factory etc., that is all being worked out. And I think it is expected in next two, two and a half months, by October all that should be in place. And generally as it is known, we have significantly high market share more than majority market share in Maharashtra.

We have very good relationship with across the spectrum with again, majority amount of the sugar factories and we have good relationship with the farming community as well. So as and when this program comes up, it should result into significant increase in our retail business in Maharashtra where sugarcane will get accommodated. But the earlier number I talked about of Rs. 84 billion revenue for the whole year and about a 20% plus growth for the annual revenue, that will not change. That figure is despite this program. This program whatever positive happens would bring something more than that. So, one should not feel that for some reason the government program is not fully implemented or partly implemented or get delayed in implementing, that it should have any impact on what we have proposed at our annual revenue. And we are very confident of meeting that based on the project orders we have plus the overseas business, which we have.

All in all, we are continuing to remain focused also on the balance sheet. We have guided at the start of the year, that by March '18 we should reach a debt to EBITDA about close to three as against what it was four at March '17. And we remain committed to that. You will see seasonal variations and if you would study our balance sheets in the past, you would see that, most of the free cash generation takes place only in the second half of the year, which should be the same this year.

So, you would see that in the June quarter, we have some increase in the debt level, partly for the US acquisition what we did. And remainder was mostly for inventory into our agro processing division, that is where it has gone up. But we did bring down the receivable. So, overall we have managed working capital and we feel fairly confident that by March, we should manage and keep it that way.

In terms of in the month of February, as you are aware, we did a large long-term dollar bond, so which has aligned lot of our cash flows. And as such Company has no big payments per se except one convertible bond, which is due for $40 million, which is due on 15th of October of this year. Beyond that, rest of the long-term repayments are normal. And Company has access to or will have access to enough liquidity to ensure repayment of that convertible bond, if it does not get converted because the choice of conversion is with the holders. But as of now from what we know, and the fact that we are so close and where the share price is today, most likely, we believe we will end up repaying this. And as we do that, I believe it would also reduce some of our foreign currency liabilities, which are there. And when we took the dollar bonds in February, the rupee was close to 67 something, today it is close to 64. So, there at least for this period, it has been a positive scenario for the Company. And in any case, as we have grown including our overseas acquisition, today, we have very adequate level of dollar earnings and we shall have more dollar earning going forward to take care of all the dollar liabilities of the Company.

When you compare the expenses of the last year and this year, you will see two significant changes; one, is the higher level of depreciation, which has come through. But that was already in March quarter, so it's a difference compared to last June, but it's not very different than the March. And in March quarter, we had already explained there were certain revaluation of assets because of the Ind-AS and that has resulted into some higher amount of depreciation, apart from the investments which we have made.

The second piece you would see is that some amount of increase in the expenses related to people, associates, and employees. And that is because we had done some increments last year and those were effective 1st July, they were not in June quarter. And that is the impact you will see that in June quarter. But as we ramp up our capacity utilization and overall revenue in the second half, you will see that we would have been able to absorb those additional costs because of the higher revenues we will be generating.

In terms of business within India, in terms of micro irrigation retail sales, our sales was quite good in Rajasthan, even Tamil Nadu has come back; Gujarat we did well, but because of the GST issues in Maharashtra, Andhra Pradesh and Karnataka had a sluggish demand. But as I said, some of this is just temporary and we expect to cover that into second half.

So that is my opening commentary where I believe I have tried to cover as much as possible in terms of where we plan to be and what efforts management is making. And now, I would like to open up the call for any queries you might have. We will be very happy and glad to answer the same. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question-and-answer session. We take the first question from the line of Girish Achhipalia from Morgan Stanley India Co. Pvt. Ltd. Please go ahead.

Girish Achhipalia: Just a clarification, you mentioned that Rs. 84 billion doesn't include any Maharashtra opportunity. So if it were to come through and if you were winning, let's say 50% market share, how much you think realistically can happen this year? And what kind of margins and working capital would that additional business mean? And whether do you need capacity addition for that?

Anil Jain: So, thanks Girish. We do not need capacity addition. I believe we have enough capacity for a short season to cover thin wall tubing, which we need to provide for sugarcane. In terms of actual numbers, what that would mean, I do not know today, depends how soon it starts. And whether it's like, if it starts late October, early November, you could still get about Rs. 2 billion – Rs. 3 billion additional business. If it starts December-January, then it could be less. And then it will go on through May-June for entire period of time. So it will get split over next 8 to 12 quarters is what I believe how that would happen. And traditionally in Maharashtra, we have been doing and the best years we have done Rs. 7 billion business, in worst years we have still done Rs. 5 billion – Rs. 5.5 billion business in micro irrigation retail side. And typically, sugarcane has been about, I would say one-third of that, whenever we have done. So between Rs. 150 to 200 crore as we have done sugarcane. And if this opportunity comes through, as against this Rs. 150 to 200 odd crore, you are looking at 400 to 500 crore or even higher, depends on how fast it happens and what level it gets implemented. So that can give an idea of where that's going to go. This being in Maharashtra business is profitable because our overall costs are low. And because sugar factories are involved, margins our dealers get are also low. And overall that business makes sense and your payments are assured etc. So if it does happen, I think that would be good news not only for our revenue, but that would also mean that we are able to maintain the margins. And on this margin question, just using this question, I would like to also talk to other participants that our guided range for margin for micro irrigation has been between 20 and 22. And you would have seen over last few years, a few quarters, that we have always closed more or less 21% plus for last quarter, this quarter and little bit more. One has to wait and see whether it stays at 20 or whether it is closer to 21, I do not know because we are also trying to do this price increases pass on. But overall, we still maintain that same level of margin range what we have guided earlier, despite the fact that we have to increase the prices by 5% to 6%.

Girish Achhipalia: Secondly, just a followup, in terms of competitive intensity, I mean, are your competitors on a like footing here, because some of them were banned on the retail side. So, have they been allowed to sell the products already? From a working capital perspective, is it going to be similar to the cash and carry model that you have in Maharashtra today, this opportunity?

Anil Jain: Yes, it would be similar to cash and carry model overall in terms of working capital. In terms of the competitors, I had read or heard somewhere that, they had made appeal and to be honest, I do not know precisely whether their appeals have been heard finally or not. But this business, the sugar factory business requires in a short period of time very intense level of capacity, not just in terms of production capacity or material, but your ability to go and install in large number of farms, so you need lot many dealers, you need lot more installation agencies, you need to have good relationship with the whole sugar factory, the sugarcane officers. You need to work with the entire ecosystem as one would call it. And there I think, there are not too many companies which have done this quite well beforehand. So hardly, two or three companies get to do this quite well. So I think the competition would remain light. Of course, they will try if business opportunity is large enough to accommodate everybody. But, I think we will be able to maintain the market share there.

Girish Achhipalia: And finally, just a clarification because there have been some reports on this that, are your margins in project business lower than your retail business significantly and any color you can provide on this will be very helpful.

Anil Jain: I think, if you see last three years where our project business has been growing and our margins have remained as I just explained close to 20%, 21%. So that shows that that is not true or that's not correct. You know again, every project is not 22% and every retail business is not 20%. There are some retail businesses where we could make some times depending on the year or what price you buy raw materials, 23-24%. There are some projects where you can make 25%, somewhere you will make 16 or 17%. But overall the projects, which we have in hand and with the fact where the raw material prices are, I believe we are within our range of this 20%-22% combined blended. But there is no scenario whatsoever, where our projects are at 12% or 14% or 15% or 16%. And retail is very high and that is how we average out. To be honest I fail to understand how somebody would come to those conclusions. And because these projects are value added projects, these are not merely supply projects and where you do design, you do civil work, you are doing O&M, you are providing knowledge to the farmers. So, these are involved projects. And that is how you get some value addition. These are not merely supply projects, which let's say in piping business where your margins could be 8% to 10%. But, these are value added projects.

Moderator: Thank you. We take the next question from the line of Denish A from EG Capital Advisors. Please go ahead.

Denish A: So, I have two questions actually. The first one, can you please state your operation cash flows before working capital changes and after working capital changes? And the second one, I guess there was some news following your Board of Directors and like you wanted to obtain shareholder approval to mortgage some movable, immovable property. So, does it mean that, is it getting harder to obtain new working capital facilities. And can you just talk a little bit more about it? Thank you.

Anil Jain: Sure. I mean just to answer that quickly. These resolutions which are required to create mortgage, that's a normal traditional thing which we do in India with most of our borrowing and not today, over last two to three decades. When you borrow even for working capital, that is always secured or mortgaged with a charge on what's called current assets and a second charge on the fixed assets. And due to the new company law, there are certain regulations that if you pass a certain quantity or certain period and so on, you need to go and seek the shareholder approval. So this is a natural and a normal shareholder resolution. It's not something specific because we have lack of borrowing ability or the fact that we are not borrowing. In fact, you would see that overall we have reduced amount of working capital we borrow from the bank this year compared to the last year and our long term finances are fine as well. So this is a nominal resolution I would call it. The second resolution you talked about the Board. Again in India you appoint the Directors on the Board for a certain period of time. And then some of them from the management side can be reappointed and again that's a nominal resolution. There is no change in the Board structure or there is no change in the ratio between Independent Directors as well as the Executive Directors on the Board. The first question, could you just tell me what was the first question?

Denish A: Yes, it's about where your operation cash flows before working capital changes and after.

Anil Jain: Well, you mean for the June quarter or March quarter?

Denish A: Yes, the March or if you can state also about June would be perfect.

Anil Jain: So I think March quarter we had some amount of positive cash flow, post even working capital. Manoj, you would like to answer that now?

Manoj Lodha: Yes, so for the March quarter after working capital change, we have in the standalone and consol entity both the positive cash flow. Even after the maintenance CAPEX, we have maintained our free cash flow at both the standalone and consol level. For June, of course we don't prepare the cash flow statement, but because this is in a quarter where we create inventory particularly for our food business, I would say that after the working capital change, the cash flow would be not positive, it could be negative cash flow at least for the June quarter. And that's been in line with our earlier quarters.

Moderator: Thank you. We take the next question from the line of Balthazar Florentine-Lee from Sloane Robinson Investment Management Ltd. Please go ahead.

B Florentine-Lee: Thank you for your time today and congratulation on good set of results and a tremendous looking order book in a challenging environment. Can you just help me understand a little bit the agro processing division and the de-growth we saw there, which products was this focused in and was it sounded like the exports are very strong, but is this postponed demand that we can expect to come back later in the year or is this lost demand?

Anil Jain: So, no, as I said that in the food business right, mango is one of the large product. And we also do things like banana, pomegranates and others. And other side, we have onion and garlic is also a growing business for us. Some of this business is not lost at all because we already have orders in hand. So, it gets kind of postponed because the customer is contract bound to consume the product within 18 months. So if it, he pushes down by one quarter, two quarters then he has to consume it by then. So some of this you will see that will get consumed in next two or three quarters and that is why we still feel comfortable that for the whole year, this I'm talking of production made and sold in India or production exported from India, should manage to grow more than 20% in terms of revenue. And there are two more things I would like to share with all. One is that, moving beyond mangos and bananas and onion and garlics, pomegranates and tomatoes, we are also seeing an opportunity, which we had announced earlier that we will start doing more of the things like, orange juice concentrate or concentrate of the citrus grown in India. And that work we will always start doing some amount of processing in the second half of this year. And the major investment in the plant will come up post '19. And that business looks to be a good new addition. We are also getting into spice processing, apart from onion and garlic because majority of our global customers who consume spices who also consume onion are asking us to supply them good quality spices where they can have traceability all the way back to the farm because of the aflatoxins and health issues. And we have decided to make that investment and we expect that plant to come onto production during the third quarter of this year. So it will start contributing to revenue in the fourth quarter of this year. So when you go into the next fiscal year, you will start seeing good amount of contribution coming from spice business and from citrus concentrate apart from postponed growth of the mango and other products, which was delayed due to lower consumption because of GST issues in June quarter and also March and December were not great because of demonetization. But all of that, we have had two of these structural changes, which did impact FMCGs for a given period of time. And with more focus also our customers the large beverage companies in India and other places are also focusing on using more juices into the various drinks, which they use. And that would also provide an additional opportunity for us. And we are working on few of those scenarios. And I think we'll come back and talk about that down the line over next few quarters. But we expect food business, which was muted last fiscal year and would be positive growth and double-digit growth in the current year. But with some of these additional new flows as well as new larger opportunities coming up, next 2-3 years, this is going to be a very strong business.

B Florentine-Lee: So, to put it simply the 20% growth this year is basically on the existing business and we can expect the spice, juice and other, let's call them innovations to kick in next year in earnest.

Anil Jain: Yes. True.

B Florentine-Lee: Perfect, and can you just give a little update on how you run your mango, frozen mango product is progressing?

Anil Jain: It has progressed well. As you know, not still big in terms of numbers, it's not that we are selling millions of dollars, we are selling millions of rupees in terms of B2C, our first product launch. We have couple of more product launches, you would expect in third and fourth quarter on the retail side. But what we have succeeded in doing in last one year about four quarters or so, that we are building a good retail organization. We have now more than hundred people in the field, we have distributors in almost all states in India, we have listing of about

100,000 retail stores with us, we have entered into arrangements with almost eight large modern trade institutions like Big Bazaar, Reliance Fresh, and others. So that has been put in place. And as we introduce new bouquet of this consumer product, and as this distribution becomes more robust going forward from next fiscal onwards you will start seeing some meaningful numbers coming in, in terms of revenue and in terms of brand building. But it's something new we are doing. And that's why I always kind of underplay this because it's something new we have never done it before. But last four quarters we have spent in building basic blocks as one would say, so that later on you can build much larger business on that platform.

B Florentine-Lee: And with these additional product launches, also the frozen products, that's a particularly difficult channel..

Anil Jain: Some of these additional products are going to be ambient. And that would mean that you could have kind of a national rollout, you could rollout those products even in category B or C towns or towards tier two, tier three towns. All those options would become open when you do ambient. And frozen was really challenging because it is really limited product where you kind of compete with ice creams and stuff like that. And there are very limited people who carry their own freezers, then you have to provide them freezers. And they may not keep your product or somebody else's product. There are all kinds of issues within the frozen distribution. But that was just a starting point for us with a ready-made product, we were already doing bulk. We merely did small investment in retail packaging line and we launched that product. And it has been accepted well. It has given us entry into all the modern trade; it has allowed us to go and talk to general trade etc. But what we are going to launch now are going to be lot of ambient, some frozen, but lot of new ambient product as well. We are building a pipeline including spices, we are going to go into retail. So this would happen as I said, over night. It would start in third, fourth quarter. But then there would be over next two or three years, we would be building the whole product pipeline because this is the long-term play, this is not short-term for us. Where retail, our institutional business is doing well. It has been profitable; it is growing 15%-20%, if you really see over last 10 years or so. And we are building even additional product lines now through spices or citrus juice apart from what we have done before. And I think adding this consumer piece to it would further strengthen our ability to improve value addition in the way how we are taking products from farmers and taking them to consumers.

B Florentine-Lee: Thank you very much. And if it's okay, I would be greedy and ask one more question. Can you give us an update on how the solar panels business is going?

Anil Jain: So, in terms of solar, we had two parts of solar business. One, where we make solar water pumps, which are used in agriculture that gets captured as a part of irrigation business, because irrigation division plus all the installation and they also connect and sell drip irrigation along with that. That business is doing reasonably well. We have pending orders in hand from some State Government.

And that business should grow this year, 40% or so. So that's quite okay. And the other part of solar business what we do is the solar panels, solar water heating panels or solar streetlight. That business, in fact, we are not really focused that much on to it. We are really focusing more on solar water pump because we believe in long-term, India has more than 17 million diesel pumps and one day they need to be replaced with solar pumps. So we think this is going to be a larger marketplace. Now, up to now over last few years, three to five years where we have built this business, this year, we expect solar water pump business to be more than Rs. 3 billion and at that level increase we will be one of the largest solar water pump company in the world. These were mostly State run, State subsidized projects. But going forward, we see that farmers may come up even having ability to do retail because the prices have come down and maybe with right amount of capital expenditure of right financing solution, our farmers may be able to afford rather than using diesel pumps. So, one has to little bit wait and watch, when and how that opportunity opens up to grow, solar water pump in retail side. Meanwhile, the existing year, whatever pending orders we have would allow us to, this year to significantly grow solar water pumping business for us.

Moderator: Thank you. We will take the next question from the line of Swati Madhabushibushi from East Capital. Please go ahead.

Swati Madhabushi: So this is regarding the MIS Division India business. So in the presentation, you have mentioned that there was a de-growth of 47% mainly because of the GST issue. So, how are you seeing after the normalization of GST, may be, is August been a good month, July been a good month, with respect to pick up in the sales again?

Anil Jain: No, July, August are typically very slow months for micro irrigation business because as you know it's raining and you cannot go and do any installations in the field. The negative growth you see in micro irrigation business was only in the project part. But the retail part we did not really de-grow and exports picked up quite a lot. But on project side where you have seen de-growth in the investor communication, there as I have explained, we have a very robust order book and based on that order book, which we will plan to start executing on now. You will see very high level of growth in third and fourth quarter in micro irrigation business.

Swati Madhabushi: Sorry, is this data for India business at retail level split of retail and project and for then our growth with respect to export plus international. Is this is all available in the presentation?

Anil Jain: Yes, it's there already in the investor presentation as you look at it.

Swati Madhabushi: But quickly, if I have to just get rough numbers. So on the retail business, you are saying that there is no de-growth due to GST?

Manoj Lodha: Yes, almost flat like 1.9%, it was very small de-growth.

Swati Madhabushi: Okay. And project was the main problem, project segment.

Anil Jain: If you look at last year in the first quarter, we did Rs. 4.1 billion in micro irrigation business. And this quarter we in fact did Rs. 4.2 billion. So we grew micro irrigation by 2.3%. If you look at domestic total, as against last year's Rs. 3.8 billion we did Rs. 3.54 billion. So because of the less business in project, overall domestic business was minus 6.4%. So all in all, micro irrigation as I said project was a temporary issue. We have really very good orders and business should do well in the second half. It's on slide 12 of the presentation.

Moderator: We will move to the next question. We take the question from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: Just one clarification regarding the segment breakdown. This in the consol segments, the unallocable expenditure seems to have gone up quite sharply from 25 crore last year's 1Q to 54 crore. So just wanted to understand what this would be, whether there's any one-off items or something like that in there?

Anil Jain: So again, this is, you know, others include solar and even the agriculture, so this being the slowest quarter there has been some increase in the inventory. But nothing other than that, that's the only reason.

Abhijit Akella: Other unallocable include solar, is it?

Anil Jain: Yes.

Abhijit Akella: Okay. And second, you mentioned that the acquisitions are done in the US, they have contributed about I think $18 million, the margins would be consistent with what you have spoken about in the past, you know, around 10% or so or we've succeeded in extracting some synergies etc. out of them.

Anil Jain: I think we were there just for 45 days, right. We closed on, I think there were two acquisition, one on 12th May and second on 20th May. So usually this is too little time to go and extract synergies etc., those would come. Overall, we expect the business to do and it's already done quite well even during the period of May and June. But you know, you have cut-off dates and you look at the inventory when you do close the acquisition. So one will have to wait for few quarters before we start talking of synergy. But overall I can confirm that it is doing what it is expected to and we are quite happy with what we have.

Abhijit Akella: That's great. And lastly, just one quick clarification if possible. Within the India food processing business, is it possible to just indicate the growth rates in the dehydration part and the fruit processing part like one of them, you know, has it grown faster than the other?

Anil Jain: Yes, onion grew quite a lot. While overall food was I would say stagnant in totality, because much lower business in domestic part of the food business.

Moderator: Thank you. We take the next question from the line of Kirthi Jain from Sundaram Asset Management Co. Ltd. Please go ahead.

Kirthi Jain: The debt increase, have you fully paid for the acquisition sir this quarter?

Anil Jain: We paid 80% and we have call option for the remaining 20% over next few years. We have paid for 80% and that amount was including the debt, small amount of debt they had. We have raised a loan of $50 million and that's what is factored in the total increase in the debt of close to Rs. 4.5 billion, about Rs. 3.2 billion comes from the acquisition debt and the remainder is related to higher working capital, especially in the food business due to seasonality.

Kirthi Jain: Okay sir. So sir, food business, so it will be a back-ended growth right sir from second half?

Anil Jain: Yes. It should be.

Kirthi Jain: Okay. So sir, the incremental profitability in food business should be higher sir because of mix or mix of fruits we are using should it be higher sir?

Anil Jain: I think our global level of EBITDA on the food has been around 13%. As we go along we had more products or better capacity utilization and we are hoping that it starts moving. And especially some additional profitability from overseas operation that eventually over next few quarters, it does move towards between 14% and 15%. That is what we are expecting.

Kirthi Jain: Okay, sir. So the year-end debt level should be at the same Rs. 35 billion – Rs. 36 billion sir.

Anil Jain: That was our plan at the start of the year and that remains so that while improving EBITDA by 25%, we maintain the debt at the same level. That is how we will be able to achieve debt to EBITDA to three rather than from four. So we expect by March net debt levels to remain almost at same level as March '17.

Kirthi Jain: Okay, sir. Sir last one, so we had earlier highlighted that, last quarter that our EBITDA growth, operating profit growth will be 25%. So we keep up our stance sir?

Anil Jain: Yes our stance is same for the whole year. But again due to seasonality don't count that in the first two quarters, you will see that more in third and fourth quarters.

Kirthi Jain: So around 25% of EBITDA growth will be there.

Anil Jain: For the whole annual year.

Kirthi Jain: Sir when will our borrowings get repriced further sir, actually our ratings have improved, but still finance cost has not seen drop actually.

Anil Jain: Yes, that's true. And we are working on that. I think you should be able to see benefit from the third quarter. You won't still see almost similar level in the second quarter, but you will see gradually better in third and by fourth quarter definitely you will see far more important benefits coming due to ratings upgrade.

Moderator: Thank you. We take the next question from the line of Rohan Gupta from Edelweiss Securities Limited. Please go ahead.

Rohan Gupta: Sir, in your opening comment you mentioned about the MIS business, which has been affected because of GST things and you expect that because of the price increase, maybe first half can be muted and on second that because of the lower mango prices, the topline growth mainly led by prices will be on a lower front. Though you just maintain your guidance at EBITDA level of 25%, you see that there will be lower revision in topline growth for the year?

Anil Jain: No, I think we still maintain despite the fact that mango prices are lower, but because we have processed more quantity that should allow us growth and some of the orders which were postponed from March down to this year should also allow us to ensure that we maintain our revenue growth. And apart from the lower prices of mango, in food business, it's also about exports and rupee has been appreciating usually that also means lower revenue when you translate that into Rupee. So that business has been impacted by both of these events. But despite that, with all efforts we are taking, we are looking forward to a strong double-digit growth in the food business. In case of micro irrigation, as I said, this year we are expecting due to all these structural changes, retail business to remain positive. It was in the first quarter minus 1.9%, second quarter could be even more weak. But third and fourth quarter, especially due to the project business execution, we are expecting significant high growth rate. So overall despite lower first half, almost no growth or negative growth in first half, you will see 30%-40% growth in the second half based on our very high project orders. And together we expect 20% plus growth in the entire year.

Rohan Gupta: In topline?

Anil Jain: In the topline, yes.

Rohan Gupta: Okay. Sir, in the previous participant questions about the unallocable expenses, there you mentioned that it is primarily led by other businesses, which is a very small portion of our total revenues like solar business and all. So there you mentioned that increase in working capital has almost some Rs. 30 crore sort of increase in unallocable expenses, or there is some other reason for such a sharp increase.

Manoj Lodha: Major is the inventory, there is also a small increase in the fixed assets in that category. But primarily it is the inventory.

Rohan Gupta: That is likely to be corrected going forward.

Anil Jain: Yes.

Rohan Gupta: And just trying to squeeze, you just mentioned that the employee cost for the quarter would have gone up more, but the major impact has only come in the end of June. So going forward, I mean, subsequent quarters should see a significant increase in employee cost.

Anil Jain: No. The employee cost in the June quarter what you see, higher employee cost, was same also higher in March. It was not there in the last June, that is all I was explaining. So, going forward…

Rohan Gupta: It will be at the similar level.

Anil Jain: Yes, absolute amount, the figures will not change much. In percentage cost, it will go down because business will be doing more especially in second half.

Moderator: Thank you. We take the next question from the line of Kalvin Fernandes from Deutsche Asset Management (India) Pvt. Ltd. Please go ahead.

Kalvin Fernandes: Just wanted to know what is your CAPEX plan for the year? I believe you have given a guidance of Rs. 3 billion. And how is this plan to be funded, will you have enough internal accruals?

Anil Jain: Yes, about Rs. 3 billion that includes maintenance CAPEX that includes CAPEX being made in India as well as outside and across various divisions. For example, we are spending money on spice project into food business or also setting up a line for citrus juice processing and some balancing new type of products, we need to produce to supply for our US acquisition, those kinds of investments we are making. We maintain our Rs. 3 billion as the original guidance and that should be done during the current year. And as I said, about almost 1 billion of that is maintenance CAPEX and about Rs. 2 billion would be the growth CAPEX mostly between micro irrigation and into the food business.

Kalvin Fernandes: Okay. And that includes the acquisition payment of this 50 million dollars approximately?

Anil Jain: No, that is over and above.

Kalvin Fernandes: Over and above, okay. And how is this planned to be funded? Internal accruals would be enough?

Anil Jain: Yes, that will be done through internal accruals.

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

Sudhir Bheda: Anilji, last time you have mentioned that, interest cost significantly will come down on the two accounts. First, there is a repayment dollar loan and secondly, there is a rating upgrade. So, entire year, the interest cost in absolute term should come down by Rs. 40-50 crore. Is it still hold that view?

Anil Jain: Yes, I think you will see in the second half interest costs will come down. First quarter it did not, but second half it will come down.

Sudhir Bheda: So, for the year can it come down to by Rs. 40-50 crore in absolute term?

Anil Jain: In third and fourth quarter, it should come down. But you won't see that benefit in first or second quarter.

Sudhir Bheda: Okay. And then other expenses have gone up in the year to year. Compared to last June, this June other expenses have gone up by I think Rs. 30-40 crore. So, is it there any significant item, which was not there last year?

Manoj Lodha: No, it's primarily on account of the salaries, which is head office salary for example, not allocated to any particular division. So you are talking about the other division or the unallocable part?

Sudhir Bheda: No, other expenses. Other expenses in P&L. Compared to last June, other expenses have gone up by Rs. 30-40 crore.

Manoj Lodha: Okay, so partly it includes the salaries, which is there but salary is part of the employee benefit cost.

Anil Jain: It's about 20 crore increase between Rs. 174 crore to Rs. 194 crore.

Manoj Lodha: Yes, casual labor salary is also that has increased. So that is also captured, yes, I see a major item there. But we'll come back to you on where exactly is that.

Moderator: Thank you. We'll take the next question from the line of Mulesh Savla from M Savla Consultancy. Please go ahead.

Mulesh Savla: First Anilji, I would like to know, little more about our B2C food processing business that recently we started. What is the composition of this business vis-à-vis our supplies to Coke and such big companies. Because I'm sure profitability would be much better in this kind of activity. And I believe we appointed some marketing agency for brand building and all. So can you throw a little more light on that activity? And my another question is on export to South African countries and that Europe and USA, which has gone up substantially in the current quarter. Are they likely to continue or these are all one-off exports in the current quarter? Thank you.

Anil Jain: Okay. So to talk a little bit, first about the exports to Africa. The exports to Africa, which we are doing is part of the large project we have in places like Tanzania. And we still have enough project left so that you will continue to see more billing in current quarter, third and fourth quarter under that particular project. And we are in process of negotiating few more projects. So we expect Africa business also to be there next year and thereafter because earlier, we were in two or three countries, now we are in seven or eight countries. And the Government of India is also more focused on providing line of credit to these countries, especially for improving their irrigation and agriculture infrastructure. So, Africa is not one time. You will see that it will continue. In terms of US business what you saw, part of additional growth in US business has come through that acquisition. And that was hardly for just as I said, two months. And going forward we should start getting full quarter results. So again that will continue to be there and hopefully in the future it would even grow. So, that's the answer to the second part. The first part, in terms of the food business, as I tried to explain in one of the earlier questions, that it's in nascent era. It is not very old, it's hardly four quarters. While we are spending maximum amount of our effort to build the building blocks to launch a much larger bouquet of the products eventually, I guess, using our strength on our relationship with the farming, our sourcing spend and our understanding on manufacturing, but brand building is something new for us, consumer brand building. We are using research by Neilsen and others. We are trying to do things in a very systematic way. We are not like gung ho going to spend tens of million dollars on brand building and then try and build profitability. We want to ensure that we have right balance on revenue margin and the brand building together. While the first product we launched was only in the frozen, so it was a niche segment and only one product mostly of mango. But now, we are planning to launch ambient temperature, fruit related snacks or other relevant product. And as we go along and you will hear, some of that I cannot talk about unless we are actually able to do it, you will hear that we are launching new things to the Indian market where they don't exist. But one has to spend some time, effort and resources to create new categories. But that is where I would believe our distinction will come or our differentiation should come because we do not want to get into the same products for some like which our customers are doing like we supplied so much of mango pulp to Coca-Cola for their Maaza juice. We cannot be getting into the juice business, no point competing with our own customer. But there are so many other products we can still bring to the table, which are linked to fruits and vegetables, in terms of value addition and which will provide health and nutrition to the end consumer. So as they say, watch this space, let's wait for few more quarters and then you'll start seeing something good coming out of all these efforts.

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

Pavitra Sudhindran: Thanks for the detailed business update as well. I understand that the domestic micro irrigation business was impacted by GST. But if you can throw some light on how the overseas business is doing? Just on the reported revenue in rest of the world, that seems to have gone up, by 13% year-on-year, I'm looking at slide number eight. But if I remove the $18 million revenue from the acquisition, then the revenue in the first quarter is slightly lower than that in the first quarter last year. So just wanted to understand what has impacted this and what's the outlook for some of the key overseas markets? Thank you.

Anil Jain: Thank you. So, that's a good observation and a deduction. In terms of overall, if you look at our two major businesses are, overseas, one is out of US and one is out of Israel. And the business out of Israel operates across in different countries and currencies like in Brazil or Mexico, Spain and France, or Australia and Turkey, etc. During this particular quarter, all of this gets translated back to Israeli shekels and then gets back again translated back to Rupees by the time we report it. Israeli shekel became quite strong against dollar and so many other currencies during this period of time. And that meant about 2%-2.5% reduction compared to what they would have otherwise repeated in terms of constant currency in that business, which is the international business out of Israel. And in US, we had reasonably okay quarter. But again, overall management there was focused on ensuring this acquisition gets done successfully and up and running. Overall, if you look at the remainder part of the year and the order book which we have, we expect this impact of weak dollar and all this strong currencies locally, especially Israeli shekel, should somewhat wear off. Some of the project business we have in overseas market kind of gets revenue recognition only when you complete the project. So some of that revenue recognition is going to be done in this and the next quarter. So all in all, we are still hoping for the whole fiscal year FY '18 our international irrigation business should grow more than 10% over and above the acquisition piece which we talked about.

Pavitra Sudhindran: Sure. Thank you so much. But if you just have the number for the currency impact on the revenue, would you have that?

Anil Jain: I won't have that offhand, but we can share that.

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

Harshil Gandhi: Sir, what could be the receivables from the State Government that could be doubtful in the future?

Anil Jain: Since we started business in '88 we always received almost all of receivables from State Government. Because again, these are not State Government receivables to us, State Government owes this money to the farmers. And the farmers allocate them to us because they have taken the system in advance from us. If you look at the receivable piece in the investor communication, you will see that the government receivables are about Rs. 399 crore, but almost Rs. 330 crore of that each related to two states Gujarat and Andhra, which is a current business, ongoing business. So there is no question there. Out of the remaining Rs. 60 crore, which are past receivables in Tamil Nadu or in MP or few other states, they have been every year coming down, or every quarter that amount has been coming down. So all in all, we do not expect any doubtful receivable in this context. All that money is due, legitimate and will come through. And you have seen, over a period of time, this amount used to be a Rs. 1,000 crore, it is now significantly lower.

Harshil Gandhi: Okay. And sir how much provisions do you foresee for FY '18 for government claims and if you can quantify the amount provided in Q1 FY '18 if any?

Anil Jain: So we are not providing the specific against the government business or government projects because in our experience, we have always recovered unless sometimes there are disputes or legal issues or difference of interpretation in a contract and then one might need to provide some money till the time you actually receive it. But as such, whatever provisions you will see which we are making towards the debtors or whatever, and this quarter, the total we would have provided for debtors an amount of may be close to Rs. 2 crore in all against all the Debtors Company has in India. So it's again not directly linked to the government, it is linked to our general conservative policy of how you create provisions rather than write-off because just to be prudent.

Harshil Gandhi: Okay. And sir, what would drive EBITDA growth in remaining three quarters?

Anil Jain: Overall for the whole year, we are expecting EBITDA growth of about, close to 25%. And that would mean that first quarter EBITDA has not grown, it has remained almost same as last year. That means growth in the remaining three quarters would be higher. Again at the cost of repetition, that should be higher in the second half not in the first half.

Harshil Gandhi: Sir lastly, if you can give, how is the targeted EBIT of 1,250 crore likely to break up across businesses?

Anil Jain: I think that would go in line with our past trend that micro irrigation business usually provides more than 60% of EBITDA. And I think then would be the food and then the price business. But it should trend as per what it has happened in the past, I don't expect any significant change in the composition of the EBIT.

Moderator: Thank you. Ladies and gentlemen, we take the last question. We take the question from the line of Kiran Shankar Prasad from Karvy Stock Broking. Please go ahead.

Kiran Shankar Prasad: You talked about GST of 18%, it is across all business segments or we have different GST for agro processing?

Anil Jain: For agro processing, GST is at 12%, which is almost similar as earlier VAT plus excise. For the pipes also, it is at 18%, which is similar as the excise plus VAT in the earlier regime. Only in micro irrigation it has gone.

Kiran Shankar Prasad: So how much impact has been there of this GST on sales sir. I mean, since it is at a neutral level, so sales should not have got impacted of GST rate.

Anil Jain: I think it's not just about of the rate, right. The impact was because, the channels were not ready, the dealers were not ready, people were unsure of what GST means to people and so and so forth. But as you can see our overall sales are same as last year, it is not that we have de-grown. One division in fact in micro irrigation, along with our tissue culture we have grown 5%. So overall, all in all our revenue is almost same as last year. In fact it has improved a little bit, but there was an impact in GST one cannot deny that. And it's not linked to the rates alone. But I expect that to be stabilized in the current quarter. And hopefully in third and fourth quarter business should be back to normal. And in some countries, GST has taken far longer to stabilize. We are hoping that within our segment of business by September end, things should be normal.

Manoj Lodha: Yes, there was one question on other expenses. So, I just got a detail, there has been an increase in the freight by about Rs. 7 crore, there is some small increase in repairs and maintenance about Rs. 4 crore. Some commission to the dealers about Rs. 6 crore, and some additional provision on receivables and advances about Rs. 4 crore. So that's the roughly a breakup about Rs. 20 crore, somebody had asked this question. So just a reply to that.

Moderator: Thank you, sir. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Anil Jain: Thank you. I mean, I think it has been fairly a detailed call with lot of questions and I hope we have been able to answer questions to everybody's satisfaction. As I said, GST is a structural disruption into the business and business model. We believe that it would be definitely beneficial for our business going forward. While one must be able to ride over the current disruption in last quarter and this quarter. And hoping that there won't be any long-term lingering effects of the GST.

Having said that, other things look forward because of the strong order book we have, we are looking forward to a positive second half. The monsoon has been somewhat truant. Some places it has seen flood, some places the rains are not great. Parts of Maharashtra, like Marathwada, last few weeks it has not really rained well. So one has to wait and see how that pans out as well. But generally speaking, one has to wait and see for that. But because of the order book, which we have especially on the project, that won't get impacted by monsoon. We feel fairly confident that we should be able to achieve the levels we have set for ourselves in terms of growth and balance sheet.

And I would like to thank all the investors for their patience and for their commitment and support to our company and all our stakeholders. Thank you.

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

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