Jain Irrigation Systems Ltd.

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Q3&9M FY2018

Earnings Conference Call Transcript

January 30, 2018 at 03:30 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 Jain Irrigation Systems Limited Q3 FY2018 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. In case 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 Q3 9M FY18. Joining us today are Mr. Anil Jain – Vice Chairman and Managing Director and Mr. Atul Jain – Joint Managing Director. Also joining us today on the call is Mr. Avdhut Ghodgaonkar – Company Secretary of Jain Irrigation. 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 with that effect has been included in the presentation which has been 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 operation for the quarter and 9 months ended December 31st and the opportunities going forward. Over to you sir.

Anil Jain Thanks, Siddharth. Good morning or good afternoon to all of you wherever you maybe and welcome to this conference call. We announced our results earlier today and results as we believe have been very good and in line also with our expectations.

Company has announced about 30% revenue growth, consol based on all our global operations. Within that if we look at individual businesses, our micro irrigation business especially has done very well and growing almost close to 48% or so, global consol. Within India, that business grew about 37%. Our piping business in India also improved 34%, primarily India business. Plastic sheet business grew within India 22% and but our overseas business that grow at 34%. So all in all, when look at on a consol basis, MIS business has grown at about 50%, Pipe business has grown about 33%, plastic sheets have got 28%, so overall plastic division at 32%. Food business also grew in fact 20%. But the onion business, there was a negative growth of 2.1%, primary reason for that was reduction in sales due to fire which took place and where we lost certain amount of inventory of the finished goods of onion and garlic and we had some slower sales in our one of the overseas unit of the UK, but they have enough orders to catch up and cover that in the fourth quarter.

Other businesses are smaller, so overall we have 30.8% growth during this October-December 3 month period compared to the same period last year. Last year, our overall value was Rs. 14.4 billion. And this year, it is Rs. 18.9 million. When you break up the growth within India and overseas, overall India growth has come closer to 25%, all put together, including food. But again micro irrigation and piping did what was expected of them that they grew North of 30%. When we look at this numbers in the setting of 9-month scenario that for the 9 months consol growth is at 13.4% because the first half results were somewhat weak due to GST and other situation. And assuming we continue to do what we have achieved in this quarter, also in fourth quarter and which is our plan, then we shall meet our original guidance that overall consol as a company compared to on apple-to-apple basis compared to FY17 to FY18, we should manage to have 20% top-line growth which is what we had indicated to the street and I believe that will happen. That is as far as revenue is concerned.

Now within revenue, when we look at the breakup in MIS, our retail sales in the third quarter were still at 11% and I consider that is a positive sign because there was still a confusion around GST, the likely reduction in GST etc. and which in fact happened a week ago. And effective 26 January, now we have a new GST rate which is reduced by 6%. That means farmers who now buy drip irrigation buy 6% lower price which hopefully should start generating good positive retail demand starting this month in February. So that one positive thing which has come through just last week in terms of the government announcement, but when you keep aside the retail part of it and when you look at the other businesses, our project business did very well. Our exports did very well and that growth has together allowed us to grow the business by 37% which itself compared to where we were is very positive. Now during this quarter and as we move forward into the next quarter, our overall order book which we had at that point of time was about close to Rs. 39 billion at the end of last quarter and now it is close to Rs. 40 billion. So we have been able to replenish the orders which were executed during this period and we have got the new orders in hand. We believe as we move forward, end of March, this quarter with the additional business which is in pipeline or the tenders where we are already lowest bidder or whatever, we believe the level size or level of the orders we have in hand for end of March could be slightly higher than end of December which would mean that for the coming year that is FY19, we should have a positive momentum, we should have good level of growth. The specific guidance for FY19, as we normally do we would give only when we talk about the March results, but all what I can say now is that when we look at the orders in hand, the momentum looks very positive and looks that we will have also another good solid growth here in FY19.

When we look at piping business, there has also been good growth in piping business both in the retail segment as well as the project segment. Within pipe, we have this water supply, drinking water supply project. There are some irrigation related projects for PVC pipe business. In Gujarat, our business has grown there. We had large orders from institutional customers for fiber optic cable and for the gas applications and in that our polyethylene pipe business has grown apart from 24/7 water supply project. So there are multiple growth drivers here in terms of revenue and order book is also very strong on the piping side again. You know in history we never had so many orders in hand for the piping division ever which we have today which would also mean that not only in the current quarter, but in the coming year as well, it looks that piping business should maintain strong growth under current.

One particular business which is the food business has not done as well as one would anticipate during this particular quarter and one primary reason which I have explained is that we had a fire related to inventory. Second was one of our overseas unit did not do as expected due to some weather issues in their region. But they have the orders in hand and with the new full-scale production taking place in the current quarter, we hope to recover some of those lost sales and lost margins in the food business. Overall, we are still expecting good double-digit growth on annualized basis in the food business. So that means in the fourth quarter food business with the orders in hand we have should grow quite well. Not just in India but also outside India in UK, US and other markets in which we operate. So we expect the overall growth in food business for the entire year north of 15%, so it would be high teen, exactly where it will end up depends also partly on to the currency and the translation issues.

When you look at the revenue in the food business has three issues. I talked about the fire issue. The second issue which we have to also realize is that this season for example in the mango season, overall prices of mango were lower and that means there is a lower realization. In fact, when you look at the volume growth on the food business, we had a higher volume growth in the food business than what you see on the revenue growth. So we have done fairly okay in terms of the volume growth, but revenue growth looks optically subdued because of lower prices of the raw materials, especially for the mango which is our main business. Now, while managing this kind of a 30% growth, we have remained focused on working capital and on a consol basis, our inventory in terms of absolute amount is in fact slightly lower than what it was in September despite the 30% growth. Our receivables are little bit higher and accounts payable are also higher. So overall, we have shaved up about on a net working capital basis approximately 8 days with all these changes despite this 30% growth which we have managed in the business. And because of this, our overall debt also has almost remained in the same level as it was in September.

There was a question from some investor last time about the free cash flow. So during this quarter, cash we generated from the operation has been almost close to about, that is post working capital changes, we have generated about Rs. 2.2 billion and which is I think quite significant. But then from that when you take up the interest and dividends, you will see that we still have positive cash flow before the investment on the growth CAPEX such as we have invested in things like spice plant etc. But before growth CAPEX, we have a positive free cash flow in the current quarter and we anticipate that for the entire year that for the whole fiscal year March '18, we would have a positive free cash flow as well. And that can also be seen in the past where fourth quarter because of a higher level of sales as well as higher level of profitability and the fact that our inventory comes down significantly during this period, thus positive free cash flow which also allows us to in fact reduce certain amount of debt. And last, both years in the fourth quarter, we have been able to reduce the debt and we planned to do the same in the current year as well. So we have managed our working capital wealth. We have managed the revenue growth in terms of execution what we had planned.

In terms of the margins, our overall EBITDA level margins on standalone India basis are at about 17.7% as against 16.5% last year same period. We had slightly higher margins in micro irrigation as against 21.2% last year, we had 22.2%. We had also somewhat better margins on the piping side and sheets, overall margins have been good and that has allowed us to increase on the standalone business of irrigation and piping, it is up by 1.2%. But when we look at the consol numbers for the quarter, margins are slightly down about 0.5% as against 13.9%, say down to 13.4% and that primarily comes from reduced margins in the food business due to the fire related to the onion and also as we are now in the process of launching our consumer brand, FRU2go, there are additional market spends. So combination of that has resulted into lower margins into the food business, but I believe some of these with the higher growth in the fourth quarter will get captured in the fourth quarter again.

Overall EBITDA margins have come at to Rs. 252 crore as against Rs. 200 crore last year. Now in some of these products, you know overall polymer prices have been lower compared to the last year and in fact our volume growth is even higher than, if you look at even pipe, volume growth is even higher than the value growth. So that is quite a positive indication which I thought I should share with all of you. There has been one query about the results in terms of there is an increase in this third quarter if you look at standalone, there is increase in the other income from Rs. 7.6 crore to about Rs. 30 crore. The primary reason for that increase in the other income has been as in more of a book keeping issue. As one may note that we had these convertible bonds, FCCBs on our books in the last quarter. Now already in the September quarter, we had noticed that the holders are not going to convert those bonds into equity. Under the new accounting standard, AS standards what we have, if you have a convertible bond and if equity price goes up, there is certain amount of debit to your P&L etc. under the derivative accounting. And there was certain amount almost close to about Rs. 22 crore which was there, which was reversed at that time in September because it was not going to get converted. Now post October when we actually paid all these bonds, convertible bonds, now in the current quarter our auditor chose to classify, add that into other income and also it has been added to other expenses. So in fact it has been grossed up. So if you really look at, if you reduce the other income by this derivative amount and you also reduce the other expenses where it has been added, there won't be any impact on the net. So the net margins what we have achieved are in line with our expectation and they do not seem to be inflated due to this other income and I just wanted to explain that part for the benefit of all the investors who are on the call.

In terms of other aspects of the business, we believe that there is a budget likely next couple of days and it is expected to be positive on the agri side. We as a company, I think we already have very strong order book on piping and irrigation business, where we have to just now go and execute. On the food business apart from the hiccups we had in this quarter, we have good order book in the current quarter. Our spice processing plant has started working now and that should add lot of revenue next year. We are also in the process of launching next year, the processed oranges, which would also add to the revenue. So which would also allow that even food business comes back to high level of more than 20% growth, next year as we have been planning.

So with that, I think I will sum up my comments and would invite queries from the investors. Thank you.

Moderator Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham Sir, my first question is around the MIS segment. We see that the growth in the project business has been very strong. On the retail side also, there has been an improvement compared to the earlier quarters. But is there an expectation of this growth going higher as you mentioned because the reason in this quarter?

Anil Jain Yes. I think you know because this GST change has just now taken place, one has to wait for couple of weeks to see the impact. And as I said, the projects we have in hand, orders are there, so we are going to execute on those. And if the retail demand does come through, there could be possibility of doing little bit better than what we have done earlier, but all in all I want to maintain the guidance which we have given that while we have had a 30% growth in Q3, overall as a complete business we plan to have similar level of growth in 4th quarter, which then together would allow us to maintain 20% growth for the entire FY18 as we originally thought**.**

Nihal Jham Absolutely. But sir, retail MIS, can this growth be higher than in the coming year at 15% to 20% or would you expect it to be closer to 10% in retail MIS?

Anil Jain Right now it is. So now it is coming up 10%, right? So that is positive. Next year, there are chances that it could be higher that depends on two things. One, I would say higher agri commodity prices, higher prices to the farmers for their agriculture produce which improves their sentiment for the new investment and second this whole GST story is behind us and that growth should come back. So I would say to think about 15% would not be foolhardy, but let us just wait for few more weeks.

Nihal Jham Absolutely sir. Sir, just on the project business, can you share the order book number for this quarter and the same number last year?

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Anil Jain So last quarter, end of September, order book overall was Rs.3,900 crore now it is Rs. 4,000 crore for the overall company. But within that, if you look at hi-tech orders now, it is about Rs. 1,831 crore.

Nihal Jham And what is the same number last year sir, in the December quarter of 2016?

Anil Jain That actually, that time we were not tracking that well. Our overall order book that time as a whole company used to be about Rs. 1,200 crore and so significantly lower, you would say at that point of time.

Nihal Jham Sure sir. Just one last question. On the piping side, we did see generally the PE segment has been doing well. But this quarter, there has been a pickup in the PVC segment also. So any specific reason in terms of end user demand which sustained and then what is the expectation especially for the PVC segment going forward?

Anil Jain The PVC segment this time growth was partially I would say we got benefited because last year same quarter base was low. It was a demonetization impact last year in the same quarter. And we had also good growth in Maharashtra. Almost it has been 3 or 4 quarters PVC retail business did not do well from last October. I mean even from the earlier year for 5-6 quarters, so this shows that farmers have started looking to start investing which is quite positive.

Moderator Thank you. The next question is from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.

Kirti Jain Sir my first query is, are we maintaining our targets with regard to EBITDA of 1,000 crore for the year, sir?

Anil Jain I think if we look at our consol EBITDA, it is Rs. 700 and odd crore now. And if we go by our past performance and expected revenue in the current quarter, our EBITDA should be somewhere between Rs. 11 billion to 12 billion. So it should be Rs. 1,100 crore to 1,200 crore somewhere in between there.

Kirti Jain So next year, what we are seeing on the EBITDA front sir, how we are seeing the EBITDA growth, absolute EBITDA growth next year, sir for FY19?

Anil Jain As I said, those guidance we give only towards the end of post March results. But in general what I would say and what we have said this year also is that whatever let us say our revenue growth is x, for example it is 20% now. So our EBITDA should grow slightly higher than the revenue growth. So that way you can estimate.

Kirti Jain Sir, then my question is with regard to debt, the absolute debt we had highlighted that for debt will be similar numbers as what was there on the 31st March 2017, similar number would be there on 2018. But debt has slightly increased. So when the debt will come off sir again?

Anil Jain The debt, because of the nature of the business, one can go back to the history. During the interim quarter, during the year, our debt always goes up considerably as we build the inventory etc. and usually in the fourth quarter, debt comes down and even if you look at last few years in the fourth quarter, our debt has usually come down by Rs. 500 crore-600 crore or in that level. And if we do manage that to achieve in the current quarter, then I think we would be very close to what we talked about. What we have said was that while our debt equity is already less than one now, the debt to EBITDA is where we were focused on improving. So if you remember FY16, our debt to EBITDA was 5. In '17, it has come down to 4. And we have said that in the current year 2018, our internal target was to try and bring this closer to 3. So let us say between 3-3.3 in that range. We are still maintaining the target and hoping that we will reach there by the end of this quarter. And it is also a function of how much EBITDA you do, right? So if EBITDA does come at let us say Rs. 1,150 crore, then if you multiply by 3.3 that is where the debt is expected to be close to Rs. 3,800 crore. Our debt currently is about Rs. 4,300 and odd crore if you see it. And if you go again by past, the last quarter usually we have been able to reduce the debt by about Rs. 500 crore. So I think we are there where we would like to be. We still have some work before us for next couple of months.

Kirti Jain Sir, how has been the performance in that US region sir with regards to those acquired entities of the distributors especially of Netafim, how has been the performance sir?

Anil Jain No, those agricultural distributors whom we acquired, I think they are doing reasonably okay. I mean in terms of what we expected them to be in the first year. We acquired them in the middle of the May. Since then, the revenue growth has been on the target. In terms of their profitability or earnings, there is also being agriculture certain level of seasonality and as per our anticipation, for the whole year that is as of March, we had expected them to deliver close to 10% EBITDA. We expect them to be on the track for the whole year period on that basis. So that is doing reasonably okay. And you know we had some hiccups, because it was a new acquisition, the other suppliers who are our competitor stop supplying to them. But I think they have done admirable job considering the hurdles they faced post our acquisition. And I am really glad that, we had made that acquisition because this is really wonderful platform for our future growth and also to deploy this new technology you know, internet of things in terms of all this big Data Analytics, which is what we plan to do for large farmers around the world and overall that is going well and on expected line.

Kirti Jain Sir, with regard to working capital, what is the further scope to reduce the working capital, sir? You have brought down sequentially also and overall working capital is also slowly being we are trying to bring it down. Is there any further scope what are the opportunity areas where we can further bring down the working capital requirement of the business as such sir?

Anil Jain See, generally by nature of business is working capital intensive. The food like mangoes, you process 600 crore of mangoes in 70 days and sell through the year, just as an example. Or even onions you process only 6 months and sell through the year etc. As company grows, right, and as we diversify into additional products, I think there would be some room to reduce the inventory there. Receivables, there are very reasonable in food business. Now if we talk of pipe business, pipe business is very good on working capital already. PVC pipe in fact has a negative working capital cycle. But when you come to the micro irrigation, again inventory is there due to seasonality, but the receivable traditionally over the last few years as everybody knows our receivables used to be one year, there have been now we have brought them down to close to 6 months. Our internal targets over next couple of years is to try and bring that down by at least another two months or so, that is quite an aggressive target I am talking about, that would partly depend on the type of the dealers that we have, the type of the financing dealers they themselves get so that we don't have to carry that on our balance sheet etc. That would also partly depend on the nature of the sales. So today 40% of our sales comes in the last quarter and therefore we have high level of receivables. So some of these things are little bit of a fluid target, but as you can see, our direction is there positive. We have been able to bring down overall working capital and what is interesting now, this quarter especially is that we have grown business by 30% and earlier in the past, any year or anytime we grew our business, working capital immediately jumped up considerably. This quarter we have been able to manage to reduce actual overall working capital while managing the growth of 30%. And few more good quarters like this over next couple of years and there would be some room to improve working capital.

Kirti Jain So we are targeting two months reduction, right sir, on the…

Anil Jain I would just tell. That is a fluid target and it is like something you would nice to have. That is like ideal scenario. We would like to wish. We would like to go there and we will do whatever it takes but in the past we have been one year and now we are 6 months. 4 months would be like sweet music for that business. It is the business which gives 21%-22% EBITDA, it is now giving 30% growth. So you can't have everything under sun, right, 30% growth, 20% EBITDA and no working capital. So overall as a company, we are committed to reduce working capital from where it is today. I don't want to give that target of two months. I am just saying that would be nice to have over next couple of years that is where we want to go.

Kirti Jain Sir finally, now the crude is growing up and also the high-density polyethylene is also going up, sir, how the prices of the end products are increased and is the full increase being passed on to the end consumer, sir?

Anil Jain Yes. For most of our business is based on that principle of pass through mechanism, most of it. Some of it may not be, but we always carry some level of inventory, so it gets managed.

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

Harshil Gandhi Sir agro processing division recorded flattish growth for 9 months FY18. Sir, will this affect the timing of its proposed IPO?

Anil Jain No, I think as I said, overall fourth quarter we are really expecting very strong output from that particular division. So for the fiscal year 2018, we would have strong set of numbers for food business overall. 19, with the addition of new product line is going to be even much better. So I think as of now, again the IPO we have not set any deadline in terms of days. We would like to do it and we would like to do at a right valuation at the right timing and we think it should happen in the next fiscal year. And as things go in the stock market or valuations, people are looking forward not necessarily backward, while existing performance does matter. But that business is also set to grow in a very aggressive way and you will see that over next few quarters.

Harshil Gandhi Okay sir. And sir, do you maintain the guidance for food processing division, means for revenue 18 billion and EBITDA around Rs. 3 billion?

Anil Jain I think we didn't talk about 3 billion because that would be considerably higher than last period. In terms of revenue numbers, I think we should be close to 18 billion. In terms of EBITDA, I think we would be close to our internal targets which were somewhat lower than that the number you are talking about. And we need to also take into account that we have an impact due to this fire and we have a loss of profit policy. But by the time those profit or that policy or insurance claim that will come through sometimes in future, so we have not put that into account as of now just to be conservative.

Harshil Gandhi Okay sir. And sir, does the company expect savings in finance cost in 4Q FY18?

Anil Jain As of now looking at to manage this 30% growth within the existing level of capital, we are using our existing debt, I would not expect significant change in the fourth quarter in terms of overall interest outflow, than what you have seen in the first 3 quarters. But we are hoping that post this good result, etc. as we get, maybe better credit rating next year would be a good probability of lowering interest. I don't expect big change in the current quarter.

Harshil Gandhi So sir, we should end our fiscal around 460 crore or so, finance cost?

Anil Jain I mean one can do the math, right, we have done 3 quarters so much, so one can add to the fourth quarter.

Harshil Gandhi And sir finally, what is the expected tax rate for FY18 and FY19?

Anil Jain Tax rate for example in the current quarter we had lower tax rate because of some deferred tax assets which were written back. So additionally effective tax rate for us has been 21%-22%-23% in that range overall considering because we do get some credits in our food business. We do get some credit towards R&D and other deduction. So I would say for the whole year it should remain around our usual rate. In this particular quarter, taxes are very low due to a particular Ind-AS adjustment as per the new accounting standards.

Moderator Thank you. The next question is from the line of Dhavan Shah from KR Choksey. Please go ahead.

Dhavan Shah So few questions, firstly, you highlighted something 20% YoY growth for FY18, the revenue growth, so does that include AVI-IDC?

Anil Jain Yes. That is all inclusive. That is a global consol growth and that is what we had set the target in totality.

Dhavan Shah So maybe will be ending with Rs. 82 million – Rs. 83 million for FY18, right?

Anil Jain Yes, that has been our guidance.

Dhavan Shah Okay, and second question is are we seeing some traction in terms of the mandatory sugarcane in Maharashtra. So any updates on that?

Anil Jain No, there has not been much change since we spoke last. We are doing normal business with the sugarcane mills which we traditionally do, that is going on in the current quarter or it started in December which is a season. But that whole program has yet not taken off the ground.

Dhavan Shah So I mean, there is a less probability that government can add around 3 lakhs hectares by the end of FY19, right?

Anil Jain Yes. And then they can do 1 to 2 lakh hectares because that would also take lot of work. Physically it takes times. You can go into the farm only when sugarcane is not in the field, to go and install the irrigation system. You need to find the field free. So over a 12 to 18 month period, I think they can do. But again as I said repeatedly on the calls, right, that all our growth estimates are without that particular project.

Dhavan Shah Right. And can you please again explain the reason for this higher other income and expenditure?

Anil Jain I had just explained that earlier that it was related to FCCB. It is an accounting treatment related to derivative accounts where because our share price was high there was a debit taken into account and later on when we actually paid of FCCB and they didn't get converted, the auditor wanted to put that both places, so it has been added to other income and added to other expenses. And if you remove both, our net income does not change.

Dhavan Shah So is it around Rs. 20 crore something?

Anil Jain Yes, approximately.

Dhavan Shah Okay. Because you know, if we compare the other expenditure runrate, on quarterly basis, so I think there is some mismatch of around 40 crore-50 crore even we exclude this 20 crore portion. So just wanted to understand that part.

Anil Jain So this 20 crore is linked to that particular part.

Dhavan Shah For the other expenditure, can we expect the same run rate of around 420 crore? 410 crore or 420 crore in the coming quarters?

Anil Jain I mean, there is no significant change in the business which we are doing. So it should be in line with historical.

Moderator Thank you. The next question is from the line of Srinath Sridhar from ICICI Securities. Please go ahead.

Srinath Sridhar Firstly wanted to ask what is the current size of the MIS industry in the current year?

Anil Jain I won't be able to give any accurate number because they are not properly captured, but we as a company this year are expected to do close to Rs. 22 billion plus and I believe we have about 40% market share, approximately. Again these are some guess.

Srinath Sridhar So might be around 6,000 crore.

Anil Jain Not Rs.6,000 closer to Rs. 5000 crore.

Srinath Sridhar And sir, so the subsidy the budget announced is around Rs. 3,400 crore, does it cover all of this, the entire market size?

Anil Jain The subsidy which is there, partly it is for drip irrigation, partly there are couple of other components in that subsidy and then the state government had their own subsidies etc.

Srinath Sridhar Given that increased by 20%, will your next year growth in MIS be higher than that?

Anil Jain You know, overall our business model we are running over last few years, we delinked that to the subsidy availability. We deal with our dealers and we recover money from dealers regardless availability of subsidy or not. But generally speaking if more subsidies are available there is a possibility that more farmers may come forward. But subsidies always come with certain amount of requirements for farmers themselves to follow etc. I am saying, over the past few years we have seen, some places even when subsidy was not available we have been able to do reasonable business. In some places subsidy is still required. And you know India is not one and every state is like another country. So it is an ongoing phenomenon. But overall, I feel that we will, despite whatever happens to subsidy we feel, we will have very good growth because of the orders we have in hand and we are also seeing some good pickup on the retail side.

Srinath Sridhar Okay. And sir at the state level, have the subsidy schemes become smooth now, like direct benefit transfer and stuff?

Anil Jain Yes. Some states it is also fully online. Farmer applies through the computer and all of that; they get approved.

Srinath Sridhar It was like the Gujarat scheme was supposed to be replicated everywhere, right?

Anil Jain Not necessarily, but Gujarat and Andhra are more coordinated, comprehensive programs. Other states follow their own methods or different ways in different department. But in so many states now things are becoming more online, more digital rather than the earlier. You know earlier one file used to go to 50 tables before it will get approved. Now it is all online at least in 5-6 states.

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

Sudhir Bheda Sir, I just wanted to ask you, you were repeatedly giving the guidance of 20% on top-line and 25% on EBITDA level. But sir if you are really speaking last year EBITDA was Rs. 1,000 crore. Going by the way what you are guiding, the EBITDA should come to Rs. 1,250 crore for FY18. While answering the previous questions, one gentlemen, you told that EBITDA could be around Rs. 1,150-1,100. So can you give clarity on that? Because if we calculate as per your guidelines, previous guidelines, it should come to around 1,250 crore.

Anil Jain So again EBITDA is somewhat calculated differently by different people in terms of how that is calculated. Overall while you are calculating EBITDA to be around Rs. 1,000 crore, some other people have calculated that last year's EBITDA was Rs. 960 or 970 crore.

Sudhir Bheda Suppose if it is a Rs. 1,000 crore, if you…

Anil Jain It is on that base, so that is one point. The second point what I talked about was that we are anticipating and I repeat it that if our revenue grows 20% EBITDA should be higher than 20%.

Sudhir Bheda That is what you said, correct.

Anil Jain And that would be there, that is what our anticipation is for the entire year as well.

Sudhir Bheda So I believe you are guiding for the 3 factor, 20% on top-line, 25% on EBITDA side, and the loan amount will remain same, is that a correct assessment?

Anil Jain Yes, I think again just to clarify a little bit. We are guiding definitely a 20% revenue growth. We are guiding EBITDA to be higher than the revenue growth.

Sudhir Bheda It may be in range between 20% to 25%.

Anil Jain Yes. So that is second part. And in terms of the loan, we have said that, our idea is to try and maintain closer to where it was. But at the same time, debt to EBITDA, we want to ensure….

Moderator Sorry sir, Sudhir Bheda is on hold. Sir, we will move to the next question that is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor Sir, please continue with the answer sir, firstly.

Anil Jain So the third part was on debt to EBITDA part. So just to clarify again, we said that last year debt to EBITDA was 4 and our target this year was to bring it down substantially closer to 3 and that is what we would maintain. So I do not want to go about absolute number, but I would say more by the ratio that is important.

Saket Kapoor Okay. Sir now coming only to the point that the first half is always linear and the second half is larger and now the first part of the second part is over, the both quarter generally contributes to what part of our top-line sir, how much top-line is being put for the fourth quarter?

Anil Jain Usually the fourth quarter is around 35%-36% to 40% of the overall year, usually.

Saket Kapoor Fourth quarter?

Anil Jain Yes.

Saket Kapoor And sir, if we come to the consol part, we find that the depreciation is on the higher side. So as the utilization levels improve, it will add to the bottom-line, means if we take depreciation it is around 251 crore, vis-à-vis 217 from last year. So this increase in depreciation, how will this supplement going forward? What will happen that it will get covered in the bottom-line growth?

Anil Jain Partly, some additional depreciation has come through because of the acquisition which we did in US and partly it is whatever additional CAPEX we are doing. It is a combination. But as we go and utilize some of these new capacities, that would definitely get added to the bottom-line going forward.

Saket Kapoor So that will happen from the fourth quarter itself or it will take a longer time?

Anil Jain I think more from next year, not exactly in the fourth quarter.

Saket Kapoor Basically from the next year, sir?

Anil Jain Yes.

Saket Kapoor Sir, if we take our company, it has been a very sweet spot and budget just two days down from today. Sir if we ask you what kind of company vision you are shaping for 2022, say 3-4 years down the line, what should be the minimum growth and what should be the company size which you can eye going forward in 3-4 years down the line?

Anil Jain So overall the revenue depends on raw material prices in terms of final prices. For example, mango could be available at Rs. 18 or also at Rs. 12. So the revenue numbers can change or polymer prices could be Rs. 80 a kg or Rs. 110 a kg, again the revenue numbers can change. What structurally we are thinking is that right now we are serving. If you think of irrigation business for example, then we are serving about 300,000-400,000 new customers every year. In that period of time we will start, we would like to start reaching out to more than a million new farmers in the year. So I think that gives you an idea that if we maintain this 20% level of growth rate over a period of time, then we would go and hit that number to try and reach out to much larger number of farmers and automatically the business number in terms of overall where the revenue will come. In terms of the opportunity, in terms of market opportunity, we as a company, you know there are another three parts to the company today. One is micro irrigation and drip irrigation which is water use efficiency and improvement in agriculture productivity. There we would like to be a company which is providing platform of new technology for large global farmers, large farmers as well as small farmers which help them improve productivity and at the same time, as I said increase the number of farmers to whom we sell, which result into very good revenue growth from where we are today. In terms of food processing, while last two decades we have spent just on 2 or 3 major commodities in processing, mangoes and onions and we have global scale there, I think over next few years, we could become very large players for example in spices, in orange. So some of these new initiative, spice for example is such a big market. Mango all said and done is a Rs.4-5,000 crore market worldwide, spices is a Rs. 70,000 crore-80,000 crore market. So the opportunity to grow in spices is very big. Orange is number one juice around the world. So the opportunity to grow there is also quite large. So in terms of food processing part of our business, we are seeing again a very large opportunity and up to now we have been only in institutional B2B business but we are also adding now B2C. We would be also doing HORECA that is supplying food service to hotels, restaurants, caterers etc. by using the similar capacity and fixed asset. So that should improve our profitability into the food business going forward as well. Even after providing for some of the new market spend on building of the brand. On the piping side, while our business was traditionally mostly retail to the dealer and some business in infrastructure but now drinking water supply project, there are hardly 20-30 cities have come up with the project. There are 1,000 cities in India which over next 10 years will come up with the project to provide 24/7 drinking water to its citizen. So we see again an enormous opportunity on the water side, including waste water treatment as well as drinking water supply there. So as a company, we are going to grow based on agriculture, productivity issues, water security issues. We would grow on business in terms of with the consumer demand and on the pipe side it would be related to infrastructure for providing better irrigation or better drinking water to all over India and some export markets as well.

Saket Kapoor Sir just a minute sir, on the food processing part, the government has put forward I think Rs. 6.000 crore corpus for the setting up of cold storage space chain. So how does this augur for our company, what kind of opportunity are behind. I think Rs. 6,000 crore was the budget outlay for….?

Anil Jain We are not in the infrastructure business on the cold storage side. We do use cold storages but that is mostly just for our own captive purposes. We buy from farmers add process, add value and sell onwards to the consumers. There are other companies which build cold storage warehouses and rent it out; we are not in that position.

Moderator Thank you. We have the next question from the line of Arun Baid from BOB Capital. Please go ahead.

Arun Baid Just a few clarifications. Sir for the full year, what is the kind of decrease in working capital you are expecting, sir, number of days?

Anil Jain Number of days where we are now, I think if we maintain that that would be quite nice because this is the first time we have reached to lower level of numbers on the working capital overall.

Arun Baid So broadly it is 8 days downfor YoY, would that be right to look at from FY17 to FY18 because you are down by about 8 days as of now?

Anil Jain Yes.

Arun Baid Okay. Second thing is, what is the kind of CAPEX we are planning for this year, sir, for FY18?

Anil Jain FY18 mostly CAPEX is done over 9 months. We won't be doing much in the current quarter.

Arun Baid Sure. What is the CAPEX, sir?

Anil Jain We have done approximately about Rs. 300 and odd crore, close to about, including maintenance CAPEX we have done about close to Rs. 370 crore or so.

Arun Baid Till now you are already done that, sir.

Anil Jain Yes.

Arun Baid And nothing much more to be done, right?

Anil Jain No. Not.

Arun Baid Sir just one clarification then sir, when I look at your consolidated debt, for FY17 it was Rs. 3,600 crore and based on whatever we discussed in the call before we will come down to something like even if exclude Rs. 500 crore from Rs. 4,380 crore you will be roughly around 3,800-3,900 crore. So then because your EBITDA is going to be Rs. 1,200 crore and if I just do a calculation, your PAT would be somewhere around 380 crore, okay, assuming a tax rate of 22% with a depreciation of over Rs. 300 crore. The Rs. 600 crore of incremental cash flow we will have, of which Rs. 370 crore which you have done as CAPEX and I am not adding any working capital benefit which you had, then our debt should come down significantly. Why is it going up sir? Am I missing something, sir?

Anil Jain No, lot of this income does take place in the fourth quarter.

Arun Baid I am sorry. I am talking about Q4 only sir, because you said in the call that your consol debt is right now around 4,400 crore, it will come down by about 500 crore-600 crore**?**

Anil Jain In the past we have done 500 crore. And we do 700 crore, nothing like it, right? It is very difficult to discuss all these numbers at one time on the call. If you like to have separate call, we can discuss little bit more in detail. Generally speaking, so again, at the cost of repetition I would like to say that we are focused on trying to bring our debt to EBITDA closer to 3, that is where we want to be, right? Where exactly we would be, I can't tell you. This is where we want to be, we are working hard to be there. We hope will be there towards the end of the quarter. Let us talk about that in May, when that happens. If we do better or more, nothing like it.

Arun Baid And just clarification sir. In my notes from the last quarter, it was mentioned that your tax rate would be about 27%, right now it is showing 21%-22%. So did I get right, sir? It is 21%-22% for the next two years, for 2018 and 2019?

Anil Jain	Effective tax rate I talked about and it varies, right? For example, our US entities now taxes have come down. So what I said before is not valid necessarily any more. I think post March results we can give you more definite guide on some tax rates.
Arun Baid	Okay sir. At least for this year it will be 21%-22%, right, for FY18?
Anil Jain	It would remain around that 20% to 23%, that is effective.
Moderator	Thank you. The next question is from the line of Sumit Bhalotia from MK Ventures. Please go ahead.
Sumit Bhalotia	Out of this total net debt of Rs. 4.400 crore, what would be a consol foreign exchange currency loan?
Anil Jain	Foreign currency loan partially has in fact come down because we paid off those convertible bonds and we had another repayment of another $17 million. So if you look at our overall gross debt of consol, 66% of that is in foreign currency.
Sumit Bhalotia	Okay, 66% of gross, okay. Sir, what is the project business that we have been bidding and our order book has been healthy in the last few quarters, what is the incremental margin that we are targeting for the project business? I think any specific target internal?
Anil Jain	No, I think we have always said that the margins for the micro irrigation business, average between the retail business, project business, export business all of that, and these are very localized situation they are vary by project by project. Our attempt is to maintain that between 20% and 22%, over last two quarters, we have succeeded in maintaining it closer to 22%, between 21% and 22%. This particular quarter we were actually slightly higher than 22%. But our overall guidance is that we will be within 20% and 22%.
Sumit Bhalotia	And sir, what is the average receivable period for this MIS project business on this 22% margin that we are doing.
Anil Jain	That would be closer to about 6 months or so.
Sumit Bhalotia	Sir, just to understand this, execution of the project business, last quarter we had a order book of 3,900 crore which has now increased to Rs. 4,025 crore, what is the execution that we have done out of this revenue that we have booked of Rs.1,890 crore? What is the project business revenue that we have booked and executed?
Anil Jain	Our project business has grown by 100%, I think, 110% or so in the current quarter. And this project orders include also our exports. If you refer to investor presentation which is on website, you will be able to see the breakup details.

Sumit Bhalotia Okay. Sir one last question. The IPO of food processing business that you talked about, in those specific times that you have in mind, but the overall whatever fundraising that we do, what is our thought process behind it? Will it be used for the growth CAPEX or debt reduction primarily?

Anil Jain It would be a combination. So whatever will come at the parent will go into debt reduction. What comes in the entity in our primary level, partially would get used for the growth and partially would get used for debt reduction, but what comes to the parent would be for debt reduction.

Moderator Thank you. The next question is from the line of Keval Shah, an Individual Investor. Please go ahead.

Keval Shah Sir, regarding the food processing business, what would be your capital employed and ROCE numbers?

Anil Jain I can't give you that answer very quickly because of this particular third quarter numbers were not that great. But generally speaking our ROCE has been about 13%-14% and overall balance sheet size at India level is I think about Rs. 1,000 crore for the food.

Keval Shah Okay. And sir regarding our MIS business, excluding our new acquisition in US, what will be our international business, excluding the exports. So mainly NaanDanJain, business, how would be the performance of that business?

Anil Jain Both our overseas businesses, irrigation businesses on annualized basis for the whole year, we are looking at double digit growth.

Keval Shah Okay. Sir, and are there any thoughts for demerger of our pipes business by anyway?

Anil Jain I think it is too early and let that business grow, right now we are focused on value monetization through food that is a priority. Pipe business also has a good traction, it is growing very well. We have built a very good skill set in terms of managing this project, drinking water supply projects. That looks also quite lucrative. It is improving our margins. Earlier our pure pipes supply margins used to be lower, with the projects of margins are now allowing us to average out at double digit and looks like very solid business but this is not something right now on the radar.

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

Kiran Shankar Prasad Sir, I would like to have clarification on your opening remarks, wherein you said that new GST rate has reduced by 6%. So where does GST rate stand of now and how it has impacted your business?

Anil Jain So GST now stands at 12%. Earlier it was 18%. So we used to charge to farmers 18% tax. Now will be charging them only 12, so they will have 6% reduction in the price they pay, the farmers. That means it would be cheaper by 6% which is a good news and last few months since July there was always a discussion that the GST on various other farm input goods was lower and why it was higher on this particular products and people were anticipating that it will go down. That is why they were also not making purchase decision. So now that clarity has emerged and amount has come down, we hope the business sentiments will improve for us.

Kiran Shankar Prasad So 2-3 quarters as a beneficiary of this reduced tax, GST rates?

Anil Jain Yes. The farmers will be the beneficiary and possibly in this quarter, in the next two months, hopefully we would see more traction, but definitely from next fiscal year.

Kiran Shankar Prasad Secondly, how many states are there who are availing this DBS services, direct benefit services?

Anil Jain Yes. As I said few states like Maharashtra is doing direct now. Andhra and Gujarat where already doing direct. Telangana has a similar program. Karnataka is also that way. So again schemes vary little bit in each state, again it is a state subject. But direction is that most of the governments are moving towards DBT and we are actually also supporting that initiative saying that, that is the best way for the government to ensure that the right beneficiary gets the benefit directly from the government.

Kiran Shankar Prasad Secondly, with 40% market share, we are enjoying leadership position in the market. Which other company is closest competitor of yours, sir?

Anil Jain I think there another 250 companies in India who are in drip irrigation business. There are about 20 companies which are in organized sector and there are about 220-230 companies which are not somewhat organized. So there is large number of players which are there. I think the second largest player is an Israeli company, but I believe their sales would be about half of our sales or less than half of our sales in the irrigation division.

Moderator Thank you. The next question is from the line of Parag Khare from TCS. Please go ahead.

Parag Khare Sir, one question regarding your plastic business. The crude oil prices are going up and because of that net polymer prices would to go up, which is your raw material. So do you see margins coming under pressure in near future, the product that is continuing to be at same level?

Anil Jain While polymer prices have gone up recently about last few weeks based on the crude price, rupee has also appreciated. So that has partially reduced that impact, that is one. Second, most of our business piping side, is a passthrough business. So if either the raw material size goes up or down it is passed on to the consumer. So we do not expect significant impact of this change as things stand, from $70 if it goes to $100 or 200 that could be different story. But as we stand, we do not expect very different outcome in terms of our margin.

Parag Khare Okay sir. And sir regarding the sugarcane opportunity in Maharashtra, the state government had chosen some of the pilot talukas and pilot villages where they want to make the drip irrigation mandatory for the sugarcane and your MIS retail sale this quarter and gone by 7.3%. I don't know if you have the breakup of that. Has that Maharashtra pilot opportunity contributed to the increase in MIS retail sale?

Anil Jain Not necessarily the pilot opportunity but overall Maharashtra sales grew 19% for us this quarter, in terms of retail sales. So that was positive. AP also did very well. Gujarat we didn't do much sales because there was big election in Gujarat and things were frozen. But Maharashtra was positive, AP was positive. So again these things vary quarter by quarter.

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

Pavitra S I just have one question, just wanted to check on what is your revenue contribution from the two dealers that you acquire in the US this quarter? I think you mentioned last quarter, like it was around $26 million, so just wanted to check if it is around the same level this quarter, you can give us the number?

Anil Jain I think it is around the same levels. So it is about close to $28.5 million.

Moderator Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia Just wanted to have a flavor on this solar pumps business for us and how is the opportunity shaping up?

Anil Jain Solar, agriculture pump part of the business is captured under micro irrigation project division because most of the solar pumps when we install we are also installing drip irrigation with those solar water pumps. That business is stable. It is somewhat positive. In fact, we are doing more this year than what we did last year by close to about 20% or so in terms of the pumps installed. Now most of the demand for that business comes from the state governments who are trying to provide pumps to farmers so that government does not have to provide them the free electricity or low-cost electricity and again, depending on the fund availability, every state the program changes. But right now we continue to execute the project in Maharashtra, we are doing project in Karnataka. We are seeing some work which will happen in Chhattisgarh and there has been some delay this year particularly in Rajasthan which was earlier otherwise one of the largest state in terms of solar, due to some of their internal issues between different departments. But I think that is getting sorted now. So reminder of the year and the next year, Rajasthan again should come back.

Shashank Kanodia Sir, in the case of state government sponsored schemes, are you also involved in the subsidy angle or is it all upfront payment for us?

Anil Jain No, there is no subsidy angle as far as we are concerned. These are funded projects.

Shashank Kanodia Okay. And we received an order from state government of Maharashtra worth Rs. 450-500 odd crore. So at what stage of irrigation are we on that front?

Anil Jain I think we have already executed more than 50% of that order.

Shashank Kanodia Okay. So the whole entire pump cost including the solar panels come to our top-line or only the pumps supplied comes to the top-line then?

Anil Jain No, we also supply panels, right?

Shashank Kanodia Okay. Second is on the MIS front, you mentioned that the GST rate has been reduced from 18% to 12%. So is it like, direct price correction to the farmers or is it state government approved pricing mechanism which happens?

Anil Jain I already said thrice on the call today that that means the 6% reduction at the farmer's hand.

Shashank Kanodia Being a farmer oriented company, so what would be your key expectations from the upcoming budget?

Anil Jain That is a good question. So, our overall thought process is that government should do something to create more money in the hands of the farmer on one hand, increase allocation for the irrigation infrastructure building and create some kind of a mechanism to coordinate better with the state on the risk mitigation due to the climate change. These are our 3 expectations. Let us see, how they pan out because all of that necessarily can't be done in the budget. Budget is one single day event. The agriculture sector needs structural changes. So that may or may not happen just on a one single day in the budget. So I am really to be honest not that focused on that budget. I already said that our underlying momentum is very strong business. Execution is what our focus is right now. Whatever new government policies which will come, I believe would be even more positive to create better momentum. But exactly what would happen or whether that would happen only through budget, we are not really that focused on that part.

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

Anil Jain I would like to thank all the investors who were on the call and all other stakeholders who have helped us execute tremendous in this quarter to have this 20% growth. And with the order book we have, we on the quarter is very busy and we expect next year also to remain very strong for us across all businesses. Food was one which was somewhat lower in this particular quarter due to multiple reasons, fire, forex rupee appreciation, because it is an export-oriented business, a low realization price because of low raw material price and so on. But all in all I think we are in good spot. We are executing well. Our focus is to not let working capital go out of hand. Bring down the debt from where it is today and deliver better numbers going forward and would like to again thank all of you.

Moderator Thank you very much. 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. Thank you.
