



Q3 & 9M FY2017

Earnings Conference Call Transcript

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MAIN SPEAKER:

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

Siddharth Rangnekar Thank you and welcome to the Jain Irrigation Systems Limited Earnings Conference Call for Q3 and 9M 2017. Joining us today are Mr. Anil Jain -- Managing Director and CEO; Mr. Manoj Lodha -- CFO; Mr. Darshan Surana -- Vice President, Finance and IR.

We will commence the opening remarks with Mr. Anil Jain, following which we will have an interactive question-and-answer session. Before we begin, please note that some of the statements made on the call could be forward-looking in nature and a note to that effect was included in the earnings presentation, which is made available on the Company's website.

I would like to invite Mr. Jain to give his brief overview on the Company's operations for the quarter and nine months ended December 31, 2016 and the opportunities going forward. Over to you, Sir.

Anil Jain

Thank you. Welcome to all the investors, analysts and the entire market community. Today, we are discussing our Third Quarter Results as well as the Nine Month Results.

Overall, as everybody is aware, in the third quarter there was this huge shock of demonetization, and actually in certain places, it created significant impact. For example, our customers or the farmers who deal with the perishable goods, etc., for them the impact was severe and the impact in rural areas was three-fold. One was, of course, lack of available cash or currency and in rural India in agriculture a lot of these transactions which were legitimate but happening in the cash.

The second impact was that certain rural co-operative credit banks; our Central Bank RBI had said that those banks cannot accept old cash or give new loans etc., during this period of time which created additional liquidity issues during this period of time.

The third part, people were confused I mean, not knowing sure because of all the changes which were coming every other day, people just did not want to take any decisions. So, these were the three larger issues which impacted overall scenario.

But despite that we are happy to note that we have been able to manage positive growth across all businesses and in fact, if you look at the third quarter our micro-irrigation business grew about 3% in revenue; our piping business also grew about 6% and so on and the food business also was positive in overall scenario of a nominal growth rate.

Now having gone through the third quarter what we managed in third quarter was also that we could reduce some of our receivables. And these receivables came down almost by 12 days or so in terms of outstanding against sales. While inventory slightly went up because some of the sales opportunities were

postponed to the fourth quarter and hence inventory has gone up but it is not a significant change. But we are quite glad that in a scenario where there was a so much of constraint on liquidity and cash we could reasonably sell and have a positive revenue growth but at the same time, collect lot more cash and bring down our receivables by almost I think to the tune of Rs. 130 crore or so. So, I think that was a very good positive part of the performance.

In terms of earnings, if we look at EBITDA level earnings for the entire consolidated global scenario our earnings grew significantly to almost Rs. 200 crore as against last year's close to Rs. 170 crore registering about 18% growth.

And if we look at for nine months now our consol EBITDA is at about Rs. 642 crore as against last year's Rs. 572 crore for same period registering about 12% growth. So I think, our earnings have grown far more positively compared to the revenue growth and as I said, for combination of reasons revenue growth has been muted.

Now, I would like to come back to the question of demonetization because the next scenario is what is the situation now?

So, in terms of what is happening now, we see that all these effects and all the three things I talked about are slowly moving out. But with some of them there is still a lingering impact and like I would expect by end of February the situation would be quite normal but it might be end of March before it really comes back to the same situation, which was, let us say before 8th November. So, we still would have some lag because of the demonetization impact in the fourth quarter in the farm sector and consequentially the demand for our products.

Having said that, I feel based on the orders which we have in hand or the projects for the exports and whatever we are hearing from our dealers we feel fairly confident that fourth quarter would have significantly more positive revenue growth than we had in the first nine months.

So, fourth quarter continues to remain challenging, but it is far more positive than I would say either three months or nine months and that implies for all three major businesses whether it is micro-irrigation, piping systems and food processing.

Now in case of micro-irrigation, we had a positive growth in the retail market as what we call. Our growth in project was not much there but in exports we did reasonably well in the third quarter.

So we think you would find that in fourth quarter, we will continue to have positive growth in the retail market which gets more impacted, let us say by demonetization. We should have significantly high growth on the project side because those are the orders in hand and we also expect a good level of growth

in export markets for also where orders in hand. So all-in-all, we expect in the fourth quarter MIS business to grow significantly more than what it grew in the past.

In terms of the piping business in the quarter which went by, PVC pipes which were again, most of our sales are in rural areas and to the farmers, did get impacted negatively and it was almost about close to about 15% negative growth rate. But the pipes which we sell into industrial application solutions infrastructure applications like Smart Cities, etc., there the business grew almost close to 37% or so. So that was a very big positive and combined piping business we could manage to keep it positive.

In case of food processing, the onion delivered almost close to double-digit growth, while fruit was negative partially because of lack of off take in domestic markets because discretionary consumption spend was less; and also some of our export markets due to continued disturbance in Middle East etc., some of the orders were postponed.

I just would like to clarify here that in this particular business, we usually get into contracts where the quantities are fully sold and the customers give us off take and which let us say, normally can be expected to happen in four quarters. But sometimes when the season is different or the situation so demands these four quarters can become six quarters. So, in case of food, there is no disruption in demand but just a postponement that is what happened.

In case of micro-irrigation, some of those farmers let us say, who were growing tomato or onion, if they lost the business or they sold their onions or tomatoes at Rs. 2 a kilo then for that season they have lost their demand and only next year they will come back. So in case of food, it is a postponement of demand, in case of MIS or pipes in the farming sector if you do not get it during that period of time, then that particular demand is gone.

So in case of food, we are again hoping and fairly confident that fourth quarter would be far more positive quarter, which we will have.

The budget which took place, for the first time in Indian budget history for our industry they have created this new Rs. 5,000 crore fund with NABARD to give boost to micro-irrigation.

My reading is, this is a very big positive long-term structural event because once a location is created for parking of the funds and for supporting growth to given concept then it can continue to grow. Just to give an example, the government had set up an irrigation fund with NABARD I think, in last budget with Rs. 20,000 crore and this year that amount was increased to Rs. 40,000 crore. So, same way in future, there could be more amounts allocated to micro-irrigation as long as the state governments are able to utilize the existing first year fund from the NABARD then more funds could be on the way to this industry.

Apart from Rs. 5,000 crore, which have been set aside for micro-irrigation also under what is called PMKSY -- “Prime Minister Krishi Sinchayee Yojana” in the budget under that particular head where per drop more crop program is operated, there was almost an increase from Rs. 2,300 crore last year to Rs. 3,400 crore in this year. And what we have been told, while we have not seen any formal communication to this regard, that most of that could be applied towards micro-irrigation.

So, all-in-all, government budget is quite positive and that augurs well for FY 2018 and going forward. As of now, the details are still not out yet exactly how NABARD would be using this Rs. 5,000 crore plus and exactly how the PMKSY increases would come into being. May be in next couple of weeks one would get more clarity in this stance. So, all-in-all, we think budget augurs well for the underlying business for us.

In terms of our overseas businesses, they grew close to about 8.5% in third quarter, our various operating entities which operate outside India and in fact if we look at the nine months our overseas businesses have registered close to about 11% revenue growth which I think is quite commendable considering the kind of situation which exists into so many economies and some of these economies over last two quarters and even post new election in the U.S. have significant impact of the change in the currencies. Currencies in countries like Mexico, Brazil, Turkey, depreciated significantly more and that created its own scenarios for the business. But despite that, I think our operating teams in each of those countries have been able to manage business quite okay. So that they managed double-digit growth almost close to double-digit growth in third quarter and continue to remain profitable. So I think that is positive in terms of overseas businesses.

During over last three to four weeks, we have made two announcements. One announcement was in relation to the funds, which we have raised through U.S. dollar bond, the issue was closed on 1st February and part of the funds have come back to India where we have been able to repay high cost loans, part of the funds were used to repay U.S. dollar loans. This is an unsecured bond guaranteed by parent that is in India where funds were raised into our overseas subsidiary, holding subsidiary based in Holland. It is a five-year bond and a bullet repayment. We expect this event to give us, I would say a good amount of liquidity advantage going forward. It would also give us interest arbitrage and it takes away any pressure on the cash outflows or upcoming maturities. So, we feel this was a step two of our long-term plan to deleverage the company and align our cash flows in a proper way.

The first event was what we did last year by pushing down the food company and raising some equity in that this was the second step and we will be taking couple of more steps over next 12 months to 24 months to continue on this path to further improve our overall solvency ratios, our debt ratios, so that despite the volatility in the market, our balance sheet would be, I would say, far more

stronger than what it has been in the past and we remain committed to that particular scenario.

Usually the fourth quarter is the quarter when we get lot of free cash flow because our sales are also stronger it is a quarter when normally we do more than 40% sales and this time it could be a little bit more and therefore, you would see the debt reduction happening during this quarter. So, that by March by FY 2017, our overall ratios would be what we had indicated they should become and we would like to then talk about that more in month of May when we will come up with March results.

Another thing, which we have given out in terms of announcement was a small but important acquisition made by one of our overseas subsidiary. It is in Ag-tech space and the acquisition itself is small. The money which we have paid is low seven figures in U.S. dollar terms and we think we can recover that over next two, three years. So it is not a big number in terms of investment but what is more important is that it allows us to continue to build a new platform to provide solutions to farmers based on Internet of Things, IoT. And this is again a second one than what we did about two years ago, another company called PureSense, which was done in America and this one is second. And now we think we have ability to bring together technology from U.S., Israel, India, and Australia to kind of rollout a global solution using IoT, which would allow farmers right type of data so that they can do these whole big data analytics and are able to take decisions related to the farming operations in a very efficient manner. So, that the ultimate idea of precision agriculture can become very valid and important outcome of all the technology platform which we are building.

So we believe, this technology platform we are building would allow us to continue to get to and address large global farmers who are looking at technology, to manage their farms on one hand and also this technology would help all the sustainability goals in terms of managing water, managing air, managing fertilizer, less chemicals in the food, etc. And I am very happy to share with you, that our company Jain Irrigation is really taking lead in this and we still need to do some more things as this is a long-term play over next couple of years. But we are really creating a very robust platform based on a high technology which would not only create solutions for large farmers but we are bringing some of those solutions to Indian markets also.

So, to summarize, we have had a reasonably stable quarter with very good operational set of numbers. We expect in the fourth quarter growth to come back and significant amount of growth should happen in fourth quarter.

Overall, our FY 2017 numbers may be little bit less than what we had indicated before. I think that we have said that our irrigation business could grow to about 16% or so, it might be a little bit less than that. But we are still confident despite the issues we had in the Q3 due to demonetization. We are still confident that we would have a double-digit growth in irrigation business for the entire FY 2017, 12

months even though for first nine months it has not grown much. That would mean that in fourth quarter, we really need to grow strongly and we have good orders and a feel to say that that would happen.

We would be close to our targets in terms of debt. With the U.S. dollar bond issue, we continue to hope additional reduction in the interest and the next year especially 2018, will be very good in terms of for the full year benefit of the reduction in the interest cost.

In terms of various states in India to cover quickly, we continue to see a reasonably good business in Maharashtra, Karnataka, Gujarat, and A. P., Telangana, Rajasthan, in these six or seven states.

Recently in the last season, Tamil Nadu, etc., did not have that much of good amount of I would say, rains so that could create more demand in Tamil Nadu going forward and for us now that is a 100% cash-and-carry state. So, we will capture that opportunity as we go along. We are seeing more aggressive outlay on micro-irrigation from the states which I talked about.

The project of sugarcane in Maharashtra, it has still not taken off because of the change in the demonetization and the co-operative banks were not really functioning properly. And right now, there are lots of elections going on in Maharashtra for the Zilla Parishad in the rural area. I think once they are all done through by end of February, we expect from March onwards, the sugarcane project to start and as you know, in the sugarcane almost about 35 or 40 sugar factories in Maharashtra are not operating because they do not have access to cane because of the earlier years of the drought farmers had not planted that much of cane. So, coming year, in the second half of calendar year 2017 is going to be the new plantation season for sugarcane and we expect far larger amount of plantation because now water is available and assuming these finance issues also get sorted out that could create a very good business opportunity for us into 2017 to 2018. But even now we are having certain amount of business with the sugar factories whoever have been able to manage to work with the farmers and get commitment from farmers to buy cane for themselves.

So, this is our overall view and a review for the third quarter and for the nine months where we are looking forward to fourth quarter and going forward next year in a quite positive manner.

I would like to thank all of you for your patient listening and overall support and we would like to now open the communication lines for any questions you may have. Me and my team, we are here, we would be very happy to answer your questions. Thank you.

Moderator

Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session We have the first question is from the line of Shashank Kanodia from ICICI Securities Limited. Please go ahead.

- Shashank Kanodia** So, Sir, firstly just wanted to check what was your opportunity size for drip irrigation in the sugarcane sector for Maharashtra, what is your rough estimates?
- Anil Jain** You know what the government has said is that, they want to bring over three years 300,000 hectares under mandatory drip irrigation and it is roughly Rs. 1 lakh per hectare. So, it is a Rs. 3,000 crore opportunity, we have about close to 60% of market share in Maharashtra. So, if this does happen it is quite a large opportunity. And as I said, let us wait and watch how things happen over next few months and then we can be a little bit more confident about it.
- Shashank Kanodia** Okay, and Sir, has government taken any proactive steps in this regard?
- Anil Jain** They have taken lot of steps. They have like taken out the regulation, it is already in place. They have formed two or three committees. They are engaged into negotiation with the state level APEX co-operative bank and they have worked out two or three formulas of how they will support the sugarcane mills, so that they can help finance to the farmers to be able to buy the drip irrigation. So, lot of steps they have been taken but that final step, I think, got delayed due in the whole demonetization and now the election scenario. So, we are hoping and at least we have been indicated by the government that in March that would all get sorted.
- Shashank Kanodia** So, could we see any type of subsidy support with the state governments as well in this regard, or it will be like the same centre and state formula that used to work?
- Anil Jain** The combination of centre and state can continue to work. State government can always get funds from NABARD maybe under this new particular Rs. 5,000 crore, they can bring the fund. State can provide interest subvention support as well. Some of those finer details are getting worked out.
- Shashank Kanodia** Okay. And Sir, this cost of Rs. 1 lakh a hectare, so Maharashtra in the sugarcane segment is already 100% irrigation penetrated. So, this is just the cost involving setting of the pipes and associated systems or it involves the pump and the other infrastructure cost as well?
- Anil Jain** No, no irrigated means usually just a flood irrigation where you are entirely flooding the field. When you say drip irrigated, you are installing filters, valves, fittings, fertilizer injectors, and the drip irrigation, so that you take water to the roots.
- Shashank Kanodia** Right. So this cost of Rs. 1 lakh is just for the incremental set up, filters, valves, pipes.
- Anil Jain** Yes.

- Shashank Kanodia** Right. Okay. And Sir, is there any similar situation in Karnataka, I think that state government is also promising something on this thing?
- Anil Jain** Yes. They have also talked about it but I think Maharashtra is a little bit ahead.
- Shashank Kanodia** Okay. Anything that you are witnessing in Uttar Pradesh being the highest sugarcane penetrated region?
- Anil Jain** No, not as of now. Drip irrigation is still not that very prevalent in Uttar Pradesh and let us see how the new administration comes, what is their focus on agriculture we can talk about that later.
- Shashank Kanodia** Okay. And Sir, just lastly you mentioned about per crop more drop which is in the “Pradhan Mantri Krishi Sinchayee Yojana”, the allocation has been increased from Rs. 2,340 crore to Rs. 3,400 odd crore right?
- Anil Jain** Right. Yes.
- Shashank Kanodia** So this is largely a spend on the subsidy, right. But in the final details, the revised estimates have toned down the subsidy spend for the government from Rs. 2,340 crore to Rs. 2,000 crore. So, does it mean that there was a shrinkage of industry size for MIS this year?
- Anil Jain** Overall, our business has remained same at least in case of Jain Irrigation and for the whole year we are looking for double-digit growth for ourselves. But in general, there can be sometimes lag between when the central government makes money available and the state governments are able to take that down for themselves by submitting accounts of how they had done the earlier consumption. There is delay sometimes.
- Shashank Kanodia** Okay. But your sense is the industry at max would be stable to positive right, not de-growing this year?
- Anil Jain** No. I have not seen any de-growth. I think, it has been stable.
- Shashank Kanodia** And on an average you have been adding 1 million hectares every year in micro-irrigation right around Rs. 5,000 crore industry size?
- Anil Jain** No, no. The overall industry size is maybe closer to Rs. 3,500 crore to Rs. 4,000 crore but it is the overall size of the industry.
- Shashank Kanodia** Okay. But what we will be the incremental area being added in the MIS each year?
- Anil Jain** I think, this year as we said, maybe 300,000 in a good growth year. In past, the industry has been growing 15%, 20%. This year it has been muted growth due to

all the drought in some areas and the demonetization which has happened and let is look at how see it will go going forward.

- Moderator** Thank you. We have the next question from the line of Dhaval Shah from GIRIK Wealth Advisors Pvt. Ltd. Please go ahead.
- Dhaval Shah** First question is, we did Rs. 300 crore of cash profit in the first nine months and now adjusting for working capital have we repaid any debt?
- Anil Jain** Our debt is almost same level, slight reduction at a standalone level in the debt.
- Manoj Lodha** Long-term loans have been repaid. We do have certain increase in the working capital but that is to support the growth and the inventory and receivables.
- Dhaval Shah** Okay. So then fourth quarter you will see some repayment and that would be approximately how much?
- Manoj Lodha** So normally, we have a repayment of Rs. 100 crore a quarter and we also plan to reduce our working capital utilization in the fourth quarter.
- Dhaval Shah** So then Rs. 100 crore a quarter so that means, we had a target to repay around Rs. 350 crore, Rs. 400 crore for FY 2017. So, then will we be able to do that in next in the fourth quarter?
- Manoj Lodha** Yes. We will be very close to that number is what we talked about earlier.
- Dhaval Shah** Okay, okay. And then for FY 2018, should we consider the same number or any increase in the payout in the debt repayment number. Will it be the same Rs. 350 crore, Rs. 400 crore?
- Manoj Lodha** No, now we have raised bonds, so lot of money has been used to repay the Indian loans. So, you have to wait for the new schedules. But it is not that much now. It is going to be around Rs. 170 crore, Rs. 180 crore a year.
- Dhaval Shah** So FY 2018, Rs. 170 crore to Rs. 180 crore repayment?
- Manoj Lodha** Yes.
- Dhaval Shah** Okay. Now, so we acquired this Australian company, can we get how much did we pay for that?
- Anil Jain** I said this right. It is a small seven-digit low figure. So, it is not a big amount and we should recover our investment over next two years, three years. But it is more important as a technology platform because somebody had spent over last ten years to build this company. They had spent \$30 million, \$40 million. But they could not connect that well with agriculture because they are more of a

technology company. I think, when we bring our agriculture connect and relationship with farmers across the world this becomes far more valuable than what we have bought it for and this is part of our larger platform of building an IoT agriculture solution. And in that context, it is very valuable. But amount is really insignificant.

Manoj Lodha

And just to clarify, when I said under Rs. 180 crore to Rs. 200 crore, it does not include the FCCB which is due for repayment in September end about \$40 million for which we will probably be looking for refinance.

Dhaval Shah

Okay. And somewhere I read, we have been allotted land for food processing in Andhra Pradesh. So, what is the plan on that front?

Anil Jain

So we have got total about 600 acres of land for Jain Irrigation as well as our food company both as an integrated agri and a food park. We would be making investment over next two years to three years into that. Most of that is in additional capacities for the growth in terms of food processing our current capacities of mango processing are full for example, we need to plan for expansion, dried onions also we need to create additional region. So today, we source all our onions from Western India. This would allow us to start sourcing also from the Southern India and that is also good area for the bananas for our tissue culture business, it could grow from there. So it is a medium-term expansion and investment and this would also allow us to build better and closer relationship with the farming community into that whole Southern region and continue to build on our model of creating that shared value across the entire agri value chain. So, it is a very important location, what we have got. It has got access to good amount of water, it has good infrastructure in terms of highways etc. So, we are quite excited about it and we have got also good package from the state government on the various fiscal benefits and so on. So, it looks very encouraging and interesting for us.

Moderator

Thank you. We have the next question from the line of Ankur Shah from IIFL. Please go ahead.

Ankur Shah

I had only two questions. The first is, you mentioned that in the fruit processing business, onion dehydration recorded growth and fruit processing was negative impacted. So, is it possible for you to give the exact revenue numbers for these two divisions?

Anil Jain

It is a little bit difficult. But onion is comparatively a smaller part compared to the fruit overall. But in terms of even for the nine months, onion has done well and fruit has been somewhat subdued. But as I said on the fruit side, we already have orders in hand and a lot of this fruit pulp which we make goes into beverages and these beverages get sold more into the summer part of it, once the winter is over. So from February onwards through June, July is the maximum when we sell this fruits in terms of consumption for our customer base. So, those orders are in place and that material will get shipped.

- Ankur Shah** But no particular number, like any guidance regarding how much revenues in the onion dehydration and fruit processing that you would be able to record in FY 2017?
- Anil Jain** We do not share that kind of a breakup normally in the case of onion and fruit. But overall for the entire business for the fruit and onion put together, we are definitely looking at double-digit growth it may be somewhere closer to 15% to 16% in terms of revenue.
- Ankur Shah** Okay, sure. And Sir secondly you mentioned about that \$200 million note that you had issued which was used to repay loans in India and the USD loans due to which you will have interest rate benefits. So, any amount of saving that you can give, like how much interest would be saved in FY 2018?
- Anil Jain** For the full year, the interest saved would be about Rs. 40 crore plus, around that and with whatever else is happening assuming our credit rating does improve in that case and also the recent lowering of the interest rates by various banks. Overall impact next year on the interest could be close to about Rs. 60 crore or so for the year.
- Moderator** Thank you. We have the next question from the line of Tanvi Gokhale from J.P. Morgan India Pvt. Ltd. Please go ahead.
- Tanvi Gokhale** Sir, I noticed that in your Investor Presentation, where you shared the MIS receivables, I noticed that the receivables from government subsidies have actually gone up from FY 2016 to nine month December 2016. Could you give me some guidance as to why that could have happened?
- Anil Jain** Yes, we have a much higher business happening in Andhra Pradesh right now and that is the reason. Two states which we have explained earlier is Andhra Pradesh and Gujarat. In these two states, business only happens with the government because they place the work orders from the company and that business has done very well. Actually, our growth in A. P. is close to 35% in the third quarter and for the first nine months it is about 39%. And similar Telangana growth is also quite high. And that is the reason you see increase in those receivables called quote, unquote government subsidy. But a lot of these receivables are moving, they are related to the current year growth rather than any legacy receivables. In fact, some of our legacy receivables have actually come down from Rs. 97 crore to Rs. 66 crore or so from the other states which is let us say, where we have now moved on to a cash basis new model and there that amount and if you refer to our investor communication you will see that has been coming down.
- Tanvi Gokhale** Right, thank you. Also you had mentioned in the FY 2016 report that around 45% of the business is done under cash-and-carry. Is there any update as of nine months 2016, how much is it?

Anil Jain

I think, because this quarter was not a big quarter, the situation has not changed much, it is more or less similar. But I think, end of the fourth quarter we will be able to get better color and kind of predict that moving forward what could be that ratio, how much would be cash-and-carry. It partly depends, let us say, in Maharashtra where we do all cash-and-carry, if it starts doing very well next year with the sugarcane and so on then cash-and-carry could suddenly jump to about 60%, 65% next year. So one will have to little bit wait and see. But as of now there is no dramatical difference than what it has been in the past last two years.

Moderator

Thank you. We have the next question from the line of Bharat Shettigar from Standard Chartered Bank. Please go ahead.

Bharat Shettigar

Couple of questions from my side. Firstly, can you give me the numbers for operating cash flow and CAPEX for the nine months? And second, initially you had mentioned that the company is looking for a couple of more steps to improve the balance sheet over the next 12 months to 18 months. Can you elaborate a bit on that?

Anil Jain

We will continue to focus on working capital which is we believe still there is a room with the way we have been operating and we are trying to bring more and more the cash-and-carry model and that is definitely one thing which would reduce the debt going forward and improve the cash flow. Other thing, which we have alluded to in the past has been that whether we will have an opportunity possibly to look at for example, our overseas irrigation business whether we can do any value monetization there and because as a water technology company there are not too many companies the way we are structured and we estimate that once we reach a certain level of critical mass in that overseas irrigation business, there could be an opportunity to do some value monetization there which will create additional opportunity for deleveraging. The third thing, which we have talked about is that our food company which is now a subsidiary eventually would get listed and at the time of listing and it is a matter of time over next maybe two years to four years somewhere in between we should have ability to further raise additional liquidity resources out of that. So it is combination of further improvement of working capital, creation of free cash flow, possibilities of equity value creation at subsidiary levels, either at the food and, or at our overseas irrigation businesses. These are the opportunities. There is nothing written in the stone. But as a management we believe to run business on a sustainable long-term growth we need to further reduce the debt than what we have been able to do and through all of these means and measures, we will continue to do so.

Bharat Shettigar

And can you provide the operating cash flow and CAPEX umbers for the first nine months?

Anil Jain

The CAPEX is about close to Rs. 150 crore, Rs. 160 crore and for the nine months, the operating profit from operations was close to about Rs. 378 crore.

- Bharat Shettigar** This is after working capital.
- Manoj Lodha** No. You mean to say the cash flow from operations?
- Bharat Shettigar** I am looking at it from, yeah, operating cash flow, from a cash flow point of view? I am a debt analyst so cash flow matters more than the income statement?
- Manoj Lodha** We will come back on that, right now I do not have that.
- Moderator** Thank you. We have the next question from the line of Mayur Parkeria from Wealth Managers (India) Pvt. Ltd. Please go ahead.
- Mayur Parkeria** I had a question both on the debt side. On the \$200 million raising, can you give the broad guideline a broad understanding as to how it will get utilized in terms of debt repayments and any other purpose which it may have?
- Anil Jain** Most of that is for refinancing and repayment of the debt. So, we have been able to repay almost about close to \$50 million dollar debt which we had overseas and the remainder of funds are coming back to India and would be used to repay the term loans in India in the rupee basis as well as some of our working capital lines.
- Mayur Parkeria** So, but, Sir, just two questions before you said approximately Rs. 100 crore is what is payable on a quarterly; so we would prepay the loan because it is almost Rs. 1,400 crore right? \$200 million in today's terms is Rs. 1,350 crore.
- Manoj Lodha** So let me tell you out of \$200 million net of expenses and all that we have \$195 million. Out of that \$147 million has been used to either prepay the long-term loan in India or reduce the working capital in India. About \$40 million has been used to repay the long-term loan overseas or the working capital loan. So, that has been the roughly breakup.
- Mayur Parkeria** It has already been repaid, you mean to say means it is already utilized and repaid.
- Manoj Lodha** Yes. The money has been all deployed.
- Mayur Parkeria** Okay. So from a March quarter standpoint, the gross debt will not rise?
- Manoj Lodha** Yes. It is at almost same level.
- Mayur Parkeria** Okay. And just one small another clarification, if I am getting the numbers right here on the slide 15 which contains the net debt position. December 2015, we had approximately Rs. 4,400 crore of net debt.
- Manoj Lodha** That was last year.

- Mayur Parkeria** So gross is approximately Rs. 4,625 crore right because we have the cash and cash equivalents. Currently, I understand that we have not included the CCD which was considered as equity. But from an accounting perspective, if we add that will it be correct to say that our debt would be around Rs. 4,750 crore, which will be higher than the December 2015 number, right?
- Manoj Lodha** No, see, I will tell you, the CCD has been treated as an equity even under the IndAS, so there is no reason and major part of that CCD is going to be converted into equity, it is a mandatory conversion in September, correct. So, we should not just do some mathematics now by adding this. Now on a net debt of Rs. 44 billion December 2015 we are at Rs. 41 billion and our target as we have been explaining earlier is to go to around Rs. 36 billion by March 2017.
- Mayur Parkeria** Sir, previous December, we did not have this CCD in that Rs. 44 billion net debt, right? So when the CCD money came, that was also used to repay the debt. So, from an amount to amount perspective, there is practically no reduction.
- Manoj Lodha** Yes, because typically in first two quarters, that is June and September our working capital utilization goes up because we have to create lot of inventory for our food business and then in third quarter and fourth quarter the reduction happens. Unfortunately this third quarter, we had a small reduction in debt on standalone or even on a consol basis there is a small increase. But that is what Mr. Jain said, that in the fourth quarter we plan to reduce this debt, the number what we talked.
- Mayur Parkeria** Okay. Anil Ji, I just had a last question on a slightly broader perspective from you. If we look at our food business, approximately Rs. 1,000 crore of capital employed is there a Rs. 1,000 crore Rs. 1,100 crore depending upon the seasonality.
- Anil Jain** Correct.
- Mayur Parkeria** And if we look at the EBIT levels, broadly we would be making around Rs. 100 crore plus, Rs. 110 crore on the food business. So, that gives a ROCE of only 10.5%, 11% and apart from that, we have a seasonality and then it could stress on the working capital side. So over a two year I am not asking five years, six years, but over a two year scenario, do you see a chance of this ROCE to meaningfully change from 10%, 11%?
- Anil Jain** No. I think you are somewhat mistaken that on a sale coming out of India, let us say, out of the Indian asset on the food side our EBITDA is close to actually 20% and not 10% to 12%, what you are saying.
- Mayur Parkeria** Sir, EBITDA maybe 20% I am saying return on capital employed.

- Anil Jain** Return on capital employed includes before interest. On a, if you are talking on net return on equity that is a different story, so let us say, Rs. 1,000 crore balance sheet, if we are generating EBITDA close to let us say Rs. 170 crore, Rs. 180 crore right now already so that is an 18% ROCE and then, of course, there is an interest and interest is not big in that particular entity because of last year's equity infusion. And going forward in any case, this would further improve that is a different scenario. But the idea and thought process is that it should remain very robust and good ROCE business positive ROCE business for us.
- Moderator** Thank you. We have the next question from the line of Harshal Gandhi from JHP Securities Pvt. Ltd. Please go ahead.
- Harshal Gandhi** My question is how is the order intake across businesses in Q4 FY 2017 or for next six months?
- Anil Jain** The order situation what we have is close to about, total Rs. 1,700 crore, Rs. 1,800 crore in terms of various businesses and out of that Rs. 1,800 crore, about close to Rs. 500 crore are orders related to the food business and remaining are related to other businesses between micro-irrigation and planting.
- Harshal Gandhi** Okay. And what maybe the key growth drivers for FY 2018?
- Anil Jain** FY 2018, key growth drivers are a combination of various things. One micro-irrigation where we expect much larger business in states like Maharashtra also continued good growth in Andhra, Gujarat, Rajasthan, etc. We see a definite additional growth opportunity to project business under the irrigation because we have bid for some projects and we have quite a good understanding that more likely that we would be recipient of those orders and therefore, we are fairly confident that project business will also grow quite substantially coming year that is within the what I would say, micro-irrigation. In case of the piping again, we had some good orders related to the Smart City business. Most of those orders will get executed in the coming fiscal year and that would provide the necessary growth into the piping division. Apart from the fact that we have seen generally higher investment into infrastructure, and that is how our polyethylene pipe business grew close to 37% in the third quarter and that is infrastructure investment is a trigger factor on the piping division. In case of the food processing, it is ongoing increases, which we have from our customer base plus launch of some of the new products, which we are doing, which would allow us to grow. So, we are quite bullish about the next year FY 2018 based on multitude of these factors and of course, lower interest rates, more support from the government through their budget would additionally help.
- Harshal Gandhi** Okay. And can you just give us the cost of funding rate of interest?
- Manoj Lodha** The cost of funding right now by end of December was close to 11.9% in India and approximately 5.5% in overseas. So, on a weighted basis, it is around 9.3%.

- Harshal Gandhi** Okay. And what is the near-term outlook for solar pumps? What is company's investment in this business and what EBITDA margin does the company enjoy?
- Anil Jain** We have a limited amount of fixed asset investment in this business. Actually, it is less than Rs. 100 crore overall fixed asset investment. The investment is more in working capital because of the project nature and the receivables, etc. For the projects; our EBITDA has been somewhere between 15% and 20% because every state has some different rules on how projects are structured.
- Moderator** Thank you. We have the next question from the line of Kiran Shankar Prasad from Karvy Stock Broking. Please go ahead.
- Kiran Shankar Prasad** I have got some few questions, it is pertaining to the Smart City project. Have you bagged any projects so far till date?
- Anil Jain** We have bagged two projects, Bijapur and Bagalkot.
- Kiran Shankar Prasad** Okay. Which one, Jaipur and?
- Anil Jain** In the state of Karnataka, and two orders are worth about Rs. 285 crore.
- Kiran Shankar Prasad** Rs 285 crore, great. And last time you gave the impression that you would be able to reduce your debt burden by Rs. 300 million, so I mean, what is the status on that, Sir?
- Anil Jain** As we just now explained in the current fourth quarter, we should expect a reduction of debt by Rs. 300 crore to Rs. 400 crore and because December quarter, overall everywhere in the country there were issues because of demonetization, there was not much change in the December quarter but we expect March quarter to deliver significant reduction in the debt.
- Kiran Shankar Prasad** Okay. Can I have segment wise CAPEX proposal from your side?
- Anil Jain** I think the CAPEX we have made for nine months is close to about Rs. 160 crore. And investment is across different, different segments. It is a kind of I would say it is like one-third each between micro-irrigation, piping, and other businesses put together.
- Kiran Shankar Prasad** So you are of the view that demonetization effect if any, it could have till quarter four and beyond that there might not be any impact of demonetizations on overall earnings?
- Anil Jain** Yes. That is our reading of the situation and that is based on feedback we have from our customer base in the field.
- Kiran Shankar Prasad** Yes. So, what is the size of export market as of now?

- Anil Jain** Our exports as a company in total are different in terms of different businesses. We have done about close to I would say, about Rs. 500 odd crore exports by now in the first nine months and fourth quarter is usually very strong on exports. So, all-in-all, I would expect our overall exports is about Rs. 800 crore to Rs. 1,000 crore type of scenario. But we have businesses outside India and they themselves are significantly large businesses.
- Kiran Shankar Prasad** So, what kind of market shares, you are enjoying here in domestic market and global market?
- Anil Jain** It is different for each business. But in micro-irrigation, we have 40% plus market share in India and about 15%, 20% globally.
- Moderator** Thank you. We have the next question from the line of Gaurav Gupta, is an Individual Investor. Please go ahead.
- Gaurav Gupta** My first question is related to Slide 20, over there it is mentioned that we are globally at number two and in India we are number one in MIS same goes for piping and a couple of other categories as well. But if we are looking at return on investment whether it is return on equity or return on invested capital I think we have not made any significant progress over there in last couple of years, maybe five years. So, if you have any plan as a management to improve that kind of returns on return on equity, and return on invested capital?
- Anil Jain** Yes, I mean, as a management we are definitely working towards improving returns, all kinds of returns, including financial returns for all our stakeholders. Our company has gone through change of business model over last three years, four years because of reducing our reliance and dependence on the government subsidies and that was followed with kind of a severe two-year drought in most parts of India, which was worst drought in last 30 years to 40 years. So, that has impacted our business but during this period of time, we have introduced new product lines, new revenues, all of that is going to start repaying. We are improving our earnings. If you can notice that for the first nine months, our earnings are up 12% and in third quarter, our earnings at EBITDA level were up 18%. So, that shows that we are on the track to achieve far better earnings and which should result into better returns overall and as we go along over next two years to three years, every year you will continue to see further improvement on all these ratios.
- Gaurav Gupta** Okay. Second question is any idea that what is our average cost of borrowings as of now?
- Manoj Lodha** As I said, it is around 11.9% in India roughly around 5.5% overseas borrowing. So, weighted cost is close to 9%, 9.3%.
- Gaurav Gupta** Okay. And our EBITDA percentage?

- Manoj Lodha** EBITDA percentage in India is around 16%, 17% in that range, overseas it is around 7% to 8%. So, weighted consolidated EBITDA is closer to 13% to 14% in that range right now, nine months.
- Gaurav Gupta** What is the CAPEX plan for the year for FY 2017 and for FY 2018?
- Anil Jain** Our CAPEX would remain around on consol basis somewhere between Rs. 200 crore to Rs. 300 crore, that includes maintenance CAPEX of about Rs 100 crore.
- Gaurav Gupta** On standalone basis or consolidated basis?
- Anil Jain** Consolidated basis.
- Moderator** Thank you. We have the next question from the line of Amrit Chand from Kismat Trading. Please go ahead.
- Amrit Chand** There was an intensive growth in PE pipe sales during Q3 what would be the approximate capacity utilization for this growth of PE pipes?
- Anil Jain** I think we are at 75% or so.
- Amrit Chand** 75%. But then considering the growth in infrastructure development in India and the growth in demand of the PE pipes, do you think whatever the capacity you have got will be sufficient or you have got plans to increase that capacity?
- Anil Jain** In the current year CAPEX, which we have already made or some of the equipment which we have ordered, would allow us to increase our capacity in FY 2018 on the PE pipe.
- Amrit Chand** So what is the present capacity for PE pipes now?
- Anil Jain** It gets seasonally adjusted between different-different pipes and sometimes smaller pipe, sometimes larger pipe. So overall, I would say it is about 75% is the current level utilization.
- Amrit Chand** That is utilization, but in terms of product capacity?
- Anil Jain** It is difficult to measure that capacity. But if we really insist on a number, I think it would be close to about 40,000 tonnes, 45,000 tonnes.
- Amrit Chand** Okay. Do you have plan to increase the capacity?
- Anil Jain** Yes.
- Amrit Chand** To how much percent approx.?

- Anil Jain** That would be about 20%, 25%.
- Amrit Chand** 20%, 25%. Now there is this something called corrugated pipes are coming for drainage. Do you manufacture these pipes now?
- Anil Jain** Yes, we do make corrugated pipes. But we had a smaller capacity and we have ordered equipment to increase that capacity in fact from close to about 1,500 tonnes only which we have capacity, we should have close to about 4,000 tonnes going into FY 2018.
- Moderator** Thank you. We have the next question from the line of Sushil Dhoot, as an Individual Investor. Please go ahead.
- Sushil Dhoot** Sir my question is regarding the margins. So, for this quarter probably, we are seeing a smart uptick in margins which is close to 13.6%. So, probably can I get some guidance on the margins going ahead?
- Anil Jain** I think usually our fourth quarter is a stronger quarter where we have maximum production also and therefore, fixed cost absorption is much better in the fourth quarter. Traditionally, historically, we always had comparatively higher EBITDA level margin in the fourth quarter. So, you would estimate that same things will happen here. But generally speaking, polymer prices are going up because the oil price is going up. So, it could have some amount of impact but hopefully, we can pass on all of those increases. So, one has to wait and see. But our fourth quarter margins are usually the best in the full year. So, we expect higher margin than what we had in the third quarter.
- Sushil Dhoot** Okay. Yes, Sir, because we have seen a considerable uptick in the polymer prices in the current quarter, so are we able to pass on everything to customers?
- Anil Jain** Yes, as of now especially piping business, we have been able to pass. In micro-irrigation, you change your prices season-to-season and some of this immediate price increase does not impact us because you already have certain amount of inventory. It kind of averages out. So, as of now, whatever we have seen in the marketplace in terms of polymer price increase to us we do not think it can negatively impact our margin levels what we have achieved up to now.
- Sushil Dhoot** Okay. So, we expect a steady margin even for FY 2018, right?
- Anil Jain** Yes.
- Moderator** Thank you. We have the next question from the line of N. Samraj from Dwarka Wealth Managers. Please go ahead.
- N Samraj** Sir, we at Dwarka Wealth Managers are with you and farmers especially in the perishable foods. It has been and still you have managed it very admirably, the

operations. Going forward, you had given some idea on the prospects to CNBC interview in the morning. So, I just wanted to clarify one thing. The double-digit growth for the whole year when you said a combination, would that be a combination of the Hi-Tech Group product lines or would that be as a sales turnover as a whole for the company and how much would be that double-digit growth, if you could just clarify on that Sir?

Anil Jain So how much, we cannot be very precise on the number, right. The situation is still evolving and not stable based on the orders we have, we feel fairly good to say that both our micro-irrigation business would have more than 20% growth in the fourth quarter. How much more, one has to wait and see. Overall, company, we would register as an entire consol company including its share overseas, we will register a double-digit.

N Samraj Including the Jain Farm Fresh also consol?

Anil Jain Yes. Consol, global, all businesses put together overall revenue for FY 2017 would have double-digit growth.

N Samraj So could we say, it could be about to say 12%, 13%, 14%, 15% where could we...

Anil Jain I would right now just say double-digits. So let us just see how it goes.

N Samraj Okay. You cannot even say whether it will be the middle-double digits?

Anil Jain No. I do not want to kind of speculate right now and we never give this kind of concrete quarterly numbers. Our business depends on so many variables but directionally, this is where we are going and we feel very good about the fourth quarter prospect and next year prospect.

N Samraj Okay. So, the body language says it will be good enough, fine. We accept that. Now going as far as the Observant Technology Sir you have given an idea of the acquisition cost would it involve a share swap or it would be possibly a cash transaction?

Anil Jain It has been a cash transaction. It is already done. It was done through our U.S. irrigation subsidiary.

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

Anil Jain Thank you. I would like to thank all investors for their keen interest about our business and as I said, the world has been volatile and we went through two or three Black Swan events in the last quarter. Despite that, I think we have been

able to come up with reasonably good numbers. We are not glad or happy about it, we are satisfied with it. And we hope that the performance we deliver in fourth quarter and next year can be something where we can be more upbeat and more positive about that and we will continue to work to ensure that we will continue to improve balance sheet despite whatever headwinds or tailwinds come our way. And assuming the fact that the government budget has been good and some of these negativities are behind us in terms of general macro scenario, we are really expecting a good business going forward. And ultimately, we should for FY 2018 really generate very good returns for all our stakeholders.

And with that, I would like to again thank investors and all other capital market participants who support the company. Thank you.

Moderator

Thank you very much members of the management. 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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