Jain Irrigation Systems Ltd.

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19th February, 2019

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Code No. 570004 (BSE) & JISLDVREQS (NSE) for DVR Equity Shares

Sub: Transcript - Q3 FY 19 Earnings Conference Call.

Dear Sir/Madam,

We wish to inform you that transcript of Q3 FY 2019 Earnings Conference Call held on 13th February, 2019, at 02:30 PM, has been uploaded on the Company's website i.e. www.jains.com link for the transcript is given below for your reference and record.

http://jisl.co.in/temp/upfile/JISL%20Q3%20FY19%20Concall%20Transcript.pdf

Please take the above on record and acknowledge.

Thanking you,
Yours faithfully,
For Jain Irrigation Systems Limited,

A. V. Ghodgaonkar,
Company Secretary

Jain Irrigation Systems Limited

Q3 FY19 Earnings Conference Call

February 13, 2019 at 02:30 pm IST

MAIN SPEAKER:

- Mr. Anil Jain: Vice Chairman and Managing Director
- Mr. Atul Jain: Joint Managing Director

Moderator: Good day, ladies and gentlemen and welcome to the Q3 and 9 months FY19 earnings conference call of Jain Irrigation System Limited. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing * and 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 System Conference call for quarter 3 and 9M FY19. Joining us today are Mr. Anil Jain, Vice Chairman and Managing Director; Mr. Atul Jain, Joint Managing Director of Jain Irrigation Systems and Mr. Neeraj Gupta, who is the CFO of Jain Farm Fresh Foods Limited. We will commence opening remarks with Mr. Anil Jain, following which we will have an interactive question-and-answer session.

A cautionary note, please note that some of the statements made or discussed on today's call could be forward-looking in nature and a note to that effect has been incorporated in the presentation, which was circulated to you earlier.

I would now like to invite Mr. Jain to give us a brief overview of the company's operations for the quarter and 9 months ended December 31st and the opportunities that lie ahead. Over to you, Sir.

Anil Jain: Thanks Siddharth, welcome everybody for this concall for our company, Jain Irrigation. As we declared the results yesterday as one can see we have had positive growth in the quarter and if you look at different businesses, Hi-tech agri input grew double digit, plastic products also almost at the same level. This I am talking about out of India, but on a console basis also, all businesses have had positive growth. The quarter was somewhat challenging in India because in the domestic business, there was lot of disruption due to the elections in MP, Rajasthan, Chhattisgarh, Telangana, etc., but we still had good project orders, so irrigation business domestically grew almost 19% for us and that is quite positive at the combination of both, retail and project and we had some negative growth in exports. Again, it is a specific seasonality related to export particular project, which we had last time, this quarter was not there this time.

We have been awarded during this quarter another new project in Rwanda in Africa and that should start execution, may be sometimes next month, but most of that revenue will come in the next fiscal year. There is another project in Rwanda where we have already been declared as L1 and that is of higher size. I think it is close to about $24 million that should come our way over next, may be month or two as we complete the formalities.

So I think exports while they are lower this quarter, but overall momentum for export is positive and this is not just with the projects, but also our own subsidiaries overseas are taking now more products from India because we have consolidated production and procurement in certain way now, where comparatively we can create more value addition overall for all our companies put together if we produce and supply certain things out of India, so we are taking those steps and as a result of that you will see that in FY20, our exports will also show substantial growth or the micro-irrigation part of the business. Within micro-irrigation, the retail grew only about 1% or so, but the project business almost 70% and as we have emphasized earlier that on the retail side, there continues to have a distress at a farmer level because they are not getting good enough prices for their produce on one hand and access to credit also has been muddled somewhat due to the loan waiver. So as a combination, their ability to invest into new capital equipment like irrigation system is somewhat conflicted, but in this kind of a very negative distress scenario, overall on a retail business, we have maintained positive growth in the first 9 months in totality.

In terms of projects, we have good orders in hand and I think next year would also give us very good growth rate on project business and together with hope that things will improve on the retail side as well as on the project side with orders in hand. We should maintain a positive overall business in MIS, not only in the fourth quarter, but also next year. Our piping solution business also grew, in India, growth was quite good. We also have a plastic sheet business overseas that had also positive growth and so based on that I think overall that division is doing well, margins are actually coming out better than the earlier period. We are now more consistently hitting double-digit margin onto the plastic, where earlier it is used to be single-digit percentage, so that is another positive thing which is there.

Agro which for the first couple of quarters had not a good growth, negative growth, had a positive growth on India business this quarter and overall, global it still grew also double digit on that front and there we also have good order book going forward to go and execute despite the fact there has been so much of deflation in case of mango, onion, etc. Lot of details and numbers are already there in investor communication, which has been put up on our website as well as press release which we have shared or the results which we have shared with the stock exchanges, so I would rather like to spend few minutes talking about overall general scenario in the marketplace, external events and how things are. So today I think it was a challenging quarter and I believe we have come out quite well considering the challenges, which were there and these challenges have continued over last few quarters, in terms of extreme volatility into currency rates since April or the change in the oil prices and resultant change in the polymer prices. For a certain period, everything went up and then it came down as well as this general distress into rural areas and lack of lower agri produced prices for the farmer. All of these things, some election cycles in certain states created an uncertain environment, but I think as a management we have tried to work hard to see that we anticipate to the extent we can and respond to the situation in a dynamic manner and that is how, despite this volatility, we have either more or less maintained earning level or quality of earning and absolute numbers are better in terms of revenue as well as profitability.

There is also this scenario on the other income. Traditionally, other income used to have certain things like derivatives, because we have also dollar assets and so on as per accounting standards. Earlier, some of the government benefit used to come into the main revenue which we get regularly as part of the business, but as per the new accounting standard, even that now has started going to the other income and in this particular quarter, we had also some additional other income because of the claim related to loss of profit linked to the fire which we had last year and those numbers are still ongoing and being made up, but we have taken some kind of prudent recognition there as advised by the auditors. When we look at all of that, I think our overall main business has continued to do well and we expect that it should do well even in the current quarter. Now, while we are trying to grow the business, it was important that we do not lose the focus on the working capital side and if you look at our overall company, per se, compared to September our inventory is down by about 2 days in terms of DSO and AR is also down by about 2 days and networking capital is down by about 4 days, but if you compare the same thing with the December 17 period earlier, inventory there is improvement by 7 days and also account receivable improvement by 6 days, so overall improvement is almost close to 10 days, so that shows that company is not losing its focus on working capital while we are trying to grow the business in total.

It has been in terms of the debt position for the company, our gross debt compared to September is slightly lower and net debt has gone up slightly higher because we have consumed lot of cash during this quarter, but I expect that by March, which is the last quarter for us, we should reduce debt substantially from where it is now, we would expect debt reduction to somewhere 6 to 700 crore, at least that much we will achieve. If we can achieve more that is our plan, but at least I can say that that much I see visibility that it will happen and we will have that level of reduction in the debt from the current scenario what you see which was presented as of December 31 and that is natural to the business that usually in the 4th quarter, we generate lot of cash flow and that is how that debt will come down.

Structurally speaking, in terms of the various businesses we have, the irrigation business continues to do well based on the larger irrigation projects and we hope that post monsoon, the demand from the farmers on the retail side also comes and during that period, we are maintaining the business at our historical levels, so that we do not have any negative growth while we continue to do significantly high business on the project side and that is how we have deranged or balanced our business portfolio. Piping, part of the piping which where we sell to the rural parts of India and to the farmers, there we had a negative growth during this quarter, but other piping solutions, which have industrial application, whether gas, water, cable, etc., there we continue to have good order book, we continue to execute well and that business grew very well in the current quarter. So again, when you balance out both of this, together growth was good and you not just focused on the rural part which is out there.

In case of agro processing, when we look at the global basis, I think business has grown about, I think 20% or so for the first 9 months, even though in this particular quarter, the growth may be low and this is despite the fact there has been enormous amount of value deflation and this value deflation impact will come over next few quarters as well because the inventory which we have built in the earlier season will get finished by the September or October 2019 and thereafter, the new inventory of the coming season will start getting shipped to the customers and we do not know what is going to be the pricing, but last 2 years, again prices have been very low, 2 or 3 seasons, so may be by natural law we have seen in the past when you look at historical trend, the prices go down so lower to 3 seasons. Thereafter there is always bounce back in the prices, so one has to wait and see how that can be done.

In terms of our overall overseas businesses, we have got growth back into our US part of the food business, our UK food business is also back to the growth in the current quarter. Our new acquisition in Europe is doing well, even though they were impacted with value deflation due to the significant reduction in the garlic prices coming from China, but their profitability overall for the first 9 months has been quite good.

In terms of irrigation business, our business which is headquartered in Israel called NaanDan Jain, they operate almost all over the world. Over last few quarters, they suffered due to massive currency devaluation in Turkey or Brazil and the volatility link to that but I think they have been able to manage all of that and come out okay and they are profitable and for the whole year, we expect their EBITDA levels to be close to double digit margins and they will maintain the profitability on net level, despite the one-time Forex impact they suffered due to this in a short term extremely high volatility in some of these markets. Our two acquisitions in US, they continue to do well which we did. The revenue purpose 9 month growth is I think north of 20% in both of these entities and that is quite a positive thing which we have overall.

In terms of other trends going forward, I expect that coming quarter in terms of June quarter, things might still remain somewhat difficult, especially because there is going to be also election and there could be disruptions linked to the election, but the order book which we have as long as we keep executing on that order book, we should continue to churn positive revenue and positive margin numbers. Raw material situation is quite stable now in terms of polymer prices, there is no particular pressure on the polymer due to polymer price scenario. Sometime, people ask you what keeps you awake and in the last few months, there have been lot of things, not just one or two things. Because business in on track, we have good orders, margins are stable, so that is a big positive. Structurally speaking, globally Middle East has been a weak spot because of the local disturbances in various countries, but we have made that up by increasing our penetration in Europe and Asia and we are now creating more penetration in US also to counterbalance that and still continue to have good growth. This is one part of the story. The second part is linked to the CAPEX. CAPEX of 9 months spend is about Rs. 2.5 billion and that amount is in line with our expectation what we have said annualized how much that is going to be, so earlier year, we had some issues where we overshot our CAPEX project. I think in the current year, we are going to be within the budget with which we started, so that is again positive scenario.

In terms of new things, what we are trying to do, I think there are lots of new things we are looking in the food business especially with we have this spice being launched in India under brand called Valley spice. Again, these are the early days, but next fiscal should have some good numbers coming from spice which is the new product line for us and it is a combo of B2B and B2C, domestic and export market. Then we have been having some talks for some possible, more consumer product related discussions with some global, fast moving consumer good company. Those discussions have not been finalized and as and when they get finalized or something concrete happens, we will sure come back to the market and I had received few of the queries people wanting to know what exactly has happened, but unless it is not written or signed while there are lots of discussions and things are moving positively, one cannot commit or give specific comments on that. That is in works, if it happens it should happen over next few months and then we should see some investments, may be next fiscal year in that and then over the next 5 years, it could become much larger opportunity on the consumer side. That is what is expected, but let us see when and how that happens.

In terms of one large question as they say the elephant in the room that is the debt scenario of the company and debt one can look at it various ways. Debt to equity is quite okay, close to 1:1 or 1:1.1. Debt to EBITDA earlier it is to be 5, it is better now, but it is still not where we would like it to be because we had said that we would like it to be close to 3 and right now, I think we are 3.6, 3.7 based on where we are today, but I think as we move to March, which will have higher level of profitability, I think we should move closer to 3 post this quarter's debt reduction which will take place and then next year with some better operational efficiency, especially on the inventory side and we have demonstrated over last two years that we are consistently improving on the working capital and I think we have still some more room especially on the inventory side to do that in the coming fiscal year, which we intend to do and improve that but that reduction while that is welcome and we are still growing business 16, 15% while maintaining that level of debt. I think it is important and as a management, we recognize the fact that we need to also look at some kind of value monetization event where we can bring down the debt substantially in 1 or 2 shots. Due to the market condition and our business condition, it has not been possible to execute on some of this transaction, we hope and at least we are contemplating that we plan to do, may be next fiscal year, this should happen. At least one transaction should happen if not two and if they do happen, I think that along with the working capital reduction will bring down the debt to a comparatively comfortable position and I hope then that makes life very different for the company and its stakeholders and I can assure you all the stakeholders, especially investors that your management is focused on this. There has been a delay, I must admit to of our plans in drastically bringing down the debt. What we have succeeded over last 2 to 3 years is to maintain the level of debt while growing the business, but we do accept the fact that the need and looking at the cost of money we pay and out of the earnings we do, large amounts of earnings are being going for the cost of finance and this year, our overall EBITDA may be north of Rs. 13 billion and the finance, interest, all of this cost are close to Rs. 5 billion, so good amount of what we earn is going into the finance type of scenario, which is not good because nothing much is being left for shareholders.

These are structural issues which are happened because of the company growth agenda company had pursued over last decade where we have built lot of capacities, we acquired few companies, we have become global, we are selling out product and solutions in 120 countries where you all then develop new solutions to suite market demands and whether it is solar water pumps or whether it is spices or whether the new geographical market where to capture value, we have done forward integration in US or we have developed and created a Pan-European strategy. There have been valid systemic business reasons where we have spent either acquiring assets or acquiring company and we sincerely believe that in medium to long term, all of that is going to create lot of value for stakeholders. In short term that has created this pain on the balance sheet and on the P&L through higher cost and we are mindful of that, we are working on to it while still managing to grow the business, manage the business despite the global level and local level volatility, which comes with the territory especially because of seasonal and unpredictable nature of the business of agriculture, which we have and which is also capital intensive business.

So with these comments, I would like to open the floor for any question and answers. I will be very happy to answer some questions, but I would not like to diverse some of the details related to negotiations ongoing with other companies or for possible joint ventures, etc. because we are confidentiality terms and we cannot speak much about those and whatever possible what we can diverse to you in public way, we will be very happy to do so. Thank you and the administrator, you may please open the lines for the questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dhavan Shah from ICICI Securities. Please go ahead.

Dhavan Shah: I have few questions, firstly about the subsidiaries MS business, so you said that the AVI and IDC have reported more than 20% revenue growth for 9 month FY19, but the other subsidiaries are not performing well if I look at the Israel or may be the Delaware subsidiary, so for this quarter as well, if you look at the subsidiaries, top-line growth is also muted and the margins are also subdued around 2%, so just wanted to understand, what is our policy or may be our thought process for improvement in the margin profile for the subsidiaries MS business, because AVI and IDC was I think reporting around lower teens kind of EBITDA margin, but still it is not reflected in these subs performance?

Anil Jain: I think there are two parts for your questions in terms of overseas irrigation business and again, I would like to state at the cost of repetition is that we should look at annualized number, fourth quarter is seasonally quite a strong quarter, so I would expect that when you look at the whole years number, you will find that overall performance on the other irrigation subsidiary is also bit okay. In terms of the margins being made by this new subsidiaries, I think what we have talked about is that our US subsidiary used to make around 5 to 6% margin and while these were looking to make 10 to 11% margin, so overall combined idea was to create a pull-through mechanism, so that overall US business also becomes double digit and Israel subsidiary which is globally operating, they have been always around 8 to 9 and we had appointed this year disbursement consulting group etc., and we have taken their suggestion, which I think going forward you will see that they would also cross the double digit, so I am quite certain that when you see our annualized number, you will see better number on earnings as well as revenue on the irrigation business and next year should be better because the international opportunities, we already have identified specific steps and whether they are about logistics procurement or rationalizing where we produce more and where we produce less around the world. All that has been agreed upon, but it takes few months to execute on or ship the equipment around the world, etc., we are in process of doing that so lot of benefit of that you will see in the next fiscal.

Dhavan Shah: So I mean for this quarter, the margin was around 2.7%, so is there anything we should look at for this quarter, why the margins are so low during this quarter for Hi-tech and sub business?

Anil Jain: I think overall Hi-tech business, India level margins are reasonably good and are in line with our expectation and it is very difficult to answer a specific question, for example, in case of AVI and IDC, they do the projects with the farmer side, they do the whole installation of everything, etc., and then the margins sometimes can shift from one quarter to another quarter and that we have seen in the past also. So overall, I think we are expecting them to do better and in fact, if I look at overall Hi-tech business, global consolidated in the third quarter, our EBITDA margin is at about 18.5 as against last year same period 17.9, so in fact there is somewhat an improvement when you look at the overall consol EBITDA margin.

Dhavan Shah: Console basis, it is there but at subsidiary level, we are not seeing any improvement and may be from standalone basis also, we are seeing some deteriorating in the operating performance because the revenue shared from project business is also increasing, so that is also a case for Hi-tech business?

Anil Jain: Those informations are wrong and I can't take too much of time on one single question. Our overall hi-tech EBITDA margins are higher than the same period last year. That is the fact of reality. Our EBITDA level margins on micro-irrigation including projects are actually closer to 22 while our target is 20 to 22. It is there actually 22 and above, so I don't know where you are coming from saying that they are negative and please again, don't let us talk about the given quarter, on annual basis we are in line with our estimations.

Moderator: Thank you. We will move to the next question which is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: We have been together as an investor for very long period of time, so just bare with some of the if not so positive comments and I understood that in your opening remarks, you were sensitive towards the shareholders who have been there and the fact that we have got little delayed in terms of our debt program, but at the cost of repetition and just to take out what is there inside us to just make it more sensitive, I hope you will take it in the right stride. For last almost 25 quarters, we are talking of 6 to 7 years, the interest cost on the P&L on a quarterly basis is in the region of 120 crore plus minus and now we have moved to 135 crore. The debt level on every March, we fall down to 4000 crore plus minus 100 crore, but then intermittently, we are always way ahead of that. What we fail to understand is if the company is generating 1200 crore of EBITDA, even if you remove 500 crore, which is the peak of interest, you remove 300 crore of debt. At the structural level, we should have been reducing by organic means, a lot of debt which should have been there and it is not 1 quarter, 5 quarter, 4 quarters. For last 4 years, we have been missing on our targets consistently. Every December and March quarter, we will come with an understanding, we will reduce debt on a net basis by 400 crore easily every year, structurally, but every year we are ahead of by 500, 600 crore. Sir, something is definitely not right and just wanted to drive your point on, investors are trying to tell something else. Today, I know stock price is not something which everyday one should look at, but today our stock price is at a loss of 2008 and definitely, the growth is all good, but I know it is a long remark, please bare with it, but what I am trying to say is it is since 2008, we have hit the loss of 2008 and it is something which should reflect on very seriously. Growth is not the only way which everybody is trying to look at. It is important, but is still coming at a lot of debt and it is still coming at lot of misses for us, sir something more than the comment needs to come here sir. There is no question here but I am sure you would understand this and we had great regards for the company the way it is positioned, but operationally positioning is not helping us to get the numbers and the cash flows in place sir.

Anil Jain: First of all, we appreciate all the shareholder concerns and shareholder value erosion in the marketplace is not something we ourselves like and being the largest shareholder, but as a CEO of my job, as a manager appointed by the shareholders, my job is to deliver in terms of sustainable growth for the company and when I say sustainable, debt has to be reasonable, profits have to be reasonable, we should be able to reinvest and we should be able to give good return to all stakeholders, so that is how I call it sustainable business and our effort has been to continuously derisk the business model and at the same time create opportunity because we are building business for 1 year, for 3 years, 5 years, 10 years, 50 years, this combination is not just one thing. In this short period of time, over last few years, it is an admitted fact and we have stated this debt has become a concern, cost of debt has gone up for us. You talked about that debt should have come down, but you know, business has grown during this period of time. Company few years ago was 4000 to 5000 crore size, it is 9500 crore which is going to generate lot of positive dividends going forward and in short term that is great thing. If I look at even the debt on a net basis, 16 it was 3500 crore; 17, it became 3600 crore; in 18 it was 3890, so in 16 to 17, almost no increment in the debt; 17 to 18, there is increment of almost 300 crore and that was primarily the acquisition, which we did in US for which we borrowed $50 million extra and it was a specific really long-term issue about creating dominance in the largest irrigation market in the world and also to improve profitability. That is why we did it. So otherwise, 16, 17 and 18, my debt level is same. It has not gone up on a net basis. Consol, I am talking about. So I think there is this perception that we have had debt fuelled growth over a decade or so and if you go back to March 15, my debt was 4000, so if you move from March 15 to March 18, debt has been from 4000 down to 3559 down to 3600.

Mayur Parkeria: Debt levels are lower because we assume the convertible is a part of equity sir, but in real term the debt was there sir.

Anil Jain: No, it has been converted, this are compulsorily convertible.

Mayur Parkeria: No, I am saying the 16-17 debt figures which were there, sir it is okay, I understand.

Anil Jain: No, I just want to clarify. I want to emphasize two or three things. We are very mindful of the debt, point number one. Point number two, we would like ourselves to bring down the debt two ways, one is through operational efficiency and one is through any other monetization event. I think we have succeeded to an extent on operational side where you see over last 3 years, my working capital has consistently improved, so we are not sleeping at the wheel, we are working hard at it. In terms of the larger equity monetization event, over the last few quarters, markets have not been the greatest possible and may be something can happen next year, so I just want to say that where we stand today, it is not for want of trying, the markets, post demonetization, post GST, rural area has gone through enormous amount of difficulty and along with the farmer, our company, our business cycle does go through a certain level of impact. We have managed during this difficult time to continue to grow, stay profitable, improve, create new revenue line, sustain our margins, all of that we achieved, but something like the debt, we have remained at the same level, when you overall look at it, despite the fact that business has grown considerably during this period of time. Now going forward, I think there is going to be, it is very difficult to predict something, it becomes difficult thereafter in terms of forward looking statement, but we hope that with all what we are planning and assuming we succeed in what we are planning. In next 2 to 3 years, debt should become substantially lower from where we are today here that it becomes debt to EBITDA is between 2 and 3 rather than in the past it has been 4 to 5. Debt to equity would be less than 1.

Mayur Parkeria: Sir, we have EBITDA of 1100 crore and interest of 533 crore to be precise on a rolling basis, that is only debt. We are paying half and debt is 5000 crore on a gross basis, so debt will be 5 times sir.

Anil Jain: Let us not throw the numbers, boss. We have to look at the March 19 expectation, right. March 19, our expected EBITDA is more than 1300 crore and based on expected debt level which is expected of March and again at the cost of repetition, every time, if you are going to measure my debt or my EBITDA, in between quarter, this is not the good company, this is not the right company for in between quarter measurement. We are an agriculture seasonally adjusted company, you should look at the company more on annualized basis. On annualized basis, we are saying that this is where our debt is going to be, we are very focused on the debt and I think that is where I would like to end this discussion. We are very much mindful of not only what shareholders are saying, but we ourselves feel that this level of debt is the current environment in the country and what is happening around is not sustainable, even though we have been able to manage and service that debt and we don't have any big debt falling due or we don't have any those kinds of pressure on cash flow side, but despite that I think we are very clear and committed to bring down the debt.

Moderator: Thank you. We will move to the next question which is from the line of Harshil Gandhi from JHP Securities. Please go ahead.

Harshil Gandhi: Sir, can you provide the breakup of other income for 3 months and 9 month ended FY19?

Anil Jain: I think it is a combination of derivative gain, then I talked about the insurance and also valuation gains from the derivatives plus the government incentives we get for doing exports or R&D, etc. and last year it was about 62 crore this quarter, here it is 91 crore and the difference is that of course, the insurance policy is the additional item, but for other items, it has been I think more or less same as the same period last year and if you look at the 9 month scenario where overall it is 206 crore as against 140 crore, the gain on derivatives is higher and these are linked to accounting standards rather than any specific action by the company based on the liabilities and assets we have in certain currency.

Harshil Gandhi: Sir, if you can just quantify it?

Anil Jain: It becomes very difficult to quantify, but as I said already that the new what you see here is only linked to the insurance claim, everything else is same.

Harshil Gandhi: Sir, my next question is, can you explain the sequential decline in EBIT margin and plastic division in spite of crude and rupee softening in 3Q FY19?

Anil Jain: I think the way we calculate our internal operating margins, in fact, in the third quarter margins are comparatively higher overall.

Harshil Gandhi: Sir, as per my calculation, it is coming to around 10% versus 12.9 in 2Q FY19?

Anil Jain: Sequentially, things can change, right, but if you see year-to-year comparison, it is higher compared to the same period last year.

Harshil Gandhi: Yes, it is higher but I was just trying to understand in spite of crude and rupee softening, why the margins have declined?

Anil Jain: As I said, but second quarter could be an outlayer or whatever, what I would like to say that on annual basis, we expect better margin compared to the last year into overall plastic division. Quarter to quarter, variations would be linked to specific project we did in piping solution and where there was lot more service income which is nothing to do with polymer. Our piping business is not just about polymer and polymer prices, there is more to it than that.

Harshil Gandhi: And sir, can you provide revenue contribution from INNOVAfood for 9 months ended FY19?

Anil Jain: INNOVAfood, I think when we look at the overall numbers for INNOVAfood, we did EUR 13.9 million for the first 9 months.

Harshil Gandhi: So sir, if I just remove around 110 to 120 crore from the absolute increase, then organically sir, we have just grown by around 10% order or so, so for FY19, are we going to see increase coming only from INNOVAfoods?

Anil Jain: As I explained, it is a big thing we have been able to manage to grow. When your raw material or your main product which you sell mango, if price is 50% down, how do you grow?

Harshil Gandhi: Yes sir, I understand that value deflation point, but was just trying to understand, is the growth coming basically from INNOVA acquisition only?

Anil Jain: Right now, that growth has come. We have also seen growth from our US operation where business has grown where we are able to sell overall inventory in total. If I really look at 9 month scenario, India business we had about 4% growth, so it has been positive despite such a significant reduction. Our US business in fact has grown 30% from 111 crore to 145 crore, the one division and the second division grew from 113 to 125 crore over 9 months. So overall, US business grew 20%, the marketing subsidiaries, India has grown 7%, the SQF, UK has grown 10%, INNOVA Belgium is add-on of 112 crore, so when you put all together, the business has grown from 1100 crore to 1330, registering 21% growth, so 21% growth has not come just from INNOVA. As you can clearly see, overall business has grown by 230 crore out of which 112 crore growth has come from INNOVA and rest has come from all other businesses.

Moderator: Thank you. The next question is from the line of Mulesh Savla from MN Savla Consultancy. Please go ahead.

Mulesh Savla: I share the concerned raised by couple of previous speakers and I would just like to know about our foreign debt exactly and what is the mark-to-mark cost that we must have incurred in the current quarter and how the same has been dealt with and I have read somewhere that probably you have said that we have hedged all the foreign currency debt, so is it for the entire debt that we have or hedging is done for a part of the debt or something like that?

Management: Just to clarify, I never said that we have hedged our entire debt because we have never done it, so I don't think I will ever claim that so that is not the correct statement. In terms of, if you look at the foreign debt, one large piece we have is $200 million bond that is due, I think somewhere 3 years down the line and any variation in that as per the accounting standard goes to the balance sheet part of the company. This is one and because it is in our overseas subsidiary, so it is in dollar to dollar, so there is no question of hedging. It is not the borrowing in India we have done. Apart from that we have certain level of borrowings, operating level borrowings in all our overseas subsidiaries for mostly their working capital requirement or small amount of CAPEX they might have done over the last few years and this is from the local banks and again because they operate in dollar area and dollar currency areas, there is no way of hedging that. We do not have too much of the long-term, what you call debt in foreign currency at India level now and whatever that is there, out of that part of that we have already hedged to the tune of about $8 million we have hedged and the remainder what we have in India, just one minute, so total debt is only $27 to $28 million in terms of dollar debt on India balance sheet and out of that as I said about 8.5 out of that has been hedged and the remaining is open because company has lot of exports as well.

Mulesh Savla: Then, is there anything that you have taken to balance sheet as the difference in exchange rate for the quarter?

Management: Every quarter, it is the same, either up or down, it goes to the balance sheet and it gets reflected on the balance sheet, when you see the March balance sheet or September balance sheet, you can see that impact.

Mulesh Savla: So I think what you said is now let us hope for the action from management part to reduce the debt rather than the words and may I also, if you can allow me to ask you a question that is there any change to reduce the pledge share of the management?

Management: I think not right now. We are trying to see some solutions at the company level, family office level. For that purpose, I cannot comment any particular day when and how it will happen, but it might take few months and then may be, we will be able to see some reduction.

Mulesh Savla: I think what the previous speaker raised the concern about the market situation may be blink to even pledge off promoter sales also, so I am sure with good performers, good action at your end, if the shares are removed from the pledge, probably the rating might change and the shareholders as well as the management might get better valuation.

Management: I think that is a good point and as I said we are trying to work on it. It will take some time, I cannot commit any date for it, but we would also like to see that it gets reduced, but just for everybody's clarification, I would like to state that these pledges which we have given is for the loans promoter has borrowed and those loans promoters had taken time to time, over last few years or decade, whenever we had put equity into the company, so it is not that promoters had taken loan for something else for which we have pledged the shares. Just for the clarification, all these loans we had taken were for investment into the parent company, Jain Irrigation.

Moderator: Thank you. The next question is from the line of Kumar Saumya from Systematix Group. Please go ahead.

Kumar Saumya: Sir, just need a little clarity on plastic pipe division, so from that 25 to 26%, plastic division that we know we have, so how much of that would be from piping division? What is the installed capacity and if you could share the breakup of the capacity across SDPP, PVC, CPVC?

Management: I think for capacity details, etc., offline I will ask the IR team to connect with you and give you those précised details overall, but when I look at the plastic product division, majority of the business is the piping. Now again in piping, there are two parts, one is when you actually just supply the pipes through our dealers to the farmer or to may be one of the industrial company like L&T or we are also doing solutions, for example, we are taking drinking water networks across the city and that is the complete project where there we supply pipes, but we do also installation, we are doing the designing, we are doing the O&M, etc., so part of the revenue is service link in the project business, rest is linked to the overall larger number of pipes. When you look at overall capacities, etc., there part of them are seasonal and so and so. I don't want to give you half the cup answer, we can connect with our IR team and they will help you to give you more details.

Kumar Saumya: So I should ask the realizations also there?

Anil Jain: Yes.

Moderator: Thank you. The next question is from the line of Parag Khare, an Individual Investor. Please go ahead.

Parag Khare: Even though the top-line we missed, but I think bottomline we have done exceedingly well. I don't remember any Q3 where we have clocked more than 90 crore of it, so well done. Sir, couple of questions. You mentioned about value monetization exercise, one or two transactions, one is probably the listing of our food processing unit. What is the second? Or anything else on the table, I think second transaction?

Anil Jain: I think there are possibilities, right. There is nothing fixed as of now, but there are possibilities that all this overseas irrigation business we have built, there is a possibility that we could get a investor there and also do some value monetization because those are really very good strong businesses operating in matured markets worldwide and we are in a good situation there as those businesses now turned to become more profitable. I think we definitely will see and we have seen few comparable transactions at very good valuation and compared to that our cost of building this businesses has been comparatively low, so I think it would be a good win-win situation and it can help us deleverage of parent, we would look at that so those kind of opportunities exist, of course there is an opportunity linked to the food, so let us see how that evolves. As I said, we are clear that we want to do certain things in this period of over next 2 to 3 years to significantly bring down the debt of the company because purely by operations it won't happen because we are also growing company, so company require some capital for growth, but some capital would be used by working capital efficiency and through internal accruals to reduce it, but some will come through like one or two of this events over next couple of years.

Parag Khare: Sir, any number you are targeting over next 3 years, 3000 crore of gross debt and that is when we will all have a sign of relief from may be debt to EBITDA, 1 to 1.5, but the time we reach, say 2000 crore of debt somewhere around 2500 or 3000 crore. That everybody will start appreciating, everybody will say, okay

Jain Irrigation is a turnaround story, any number we are targeting for next 2 years?

Anil Jain: I think, may be when we talk about annual results, I think we can give some more concrete plan to the market in terms of poor where we would like to bring, but I saying substantially we will bring it down. We have not pinned down the number, but I think next time we speak, we would be ready with some kind of more concrete detailed blueprint.

Parag Khare: And sir, second question on the solar business we do. The KUSUM scheme which is very close to that of our Prime Minister in terms of doubling the farmer's income, we are all seeing solar business in terms of solar farm manufacturing or solar panel manufacturing, do we see we as a Jain Irrigation getting benefitted because of KUSUM scheme?

Management: Generally, if farmers are buying anything specific, then that would help us, but most of this programs related to solar water pump comes through the debt level tenders and in some places, we are not participating because prices are too low, people are offering lower quality, but I think overall we see that as a concept, this have been initial year for this new concept. Concept is taking now a good routes in the country that solar water pump is a viable solution for small farmers of India and it can address the issue of diesel import, it can address the issue of emission of CO_2, it can address the issue of availability of quality power to the farmers, but it is a CAPEX, it is upfront investment and then always the question is who is going to build the cap, who is going to pay the farmer and can the utilities pay for its CAPEX and then utilities don't have to subsidize him by giving him free or low-cost power. So all that realization is going on in the country and overall quite encouraged in terms of where the business is going to be in the future. I cannot comment on a specific scheme X or Y, but I think generally over the last 3 ot 4 years, there is far more awareness and concept has improved now and next step I think, over next 5 years, things would become much better there.

Moderator: Thank you. We will move to the next question which is from the line of Kiran Prasad from Karvy Stock Broking. Please go ahead.

Kiran Prasad: I would like to know how your business setting in area like Turkey, Brazil and Mexico where the problem was there with regard to currency fluctuations, how business is shaping over there now?

Anil Jain: There, I think what we did when something like this happens, in month or two, if there is a 40% reduction in currency, it will create the impact on anybody's business which is if you are based on input addressing or your capital is coming in dollars, etc., so one thing we did was to move the sales on a dollar basis, so sales go down, but at least we reduce the future currency volatility and currency raise, so we have taken those steps and now business is at a lower level, but now it is profitable. We are not getting any negative impact like Turkish Lira had gone to almost close to 7, it is back to now 5.3, 5.5 through dollar. Few years ago, it was 2.5 or so. Things have stabilized now in all this markets and our business strategy, we have changed in terms of how we sell to our customers or how we buy the raw materials or how we are financing that business. We have taken all those calls to try and minimize that damage which had happened because of very high level of volatility in a short period of time, but overall now, we are quite confident going forward these businesses will deliver sustainable margins.

Kiran Prasad: So of late you have started generating invoice in dollar terms, in past you used to generate invoice in local currency terms or what?

Anil Jain: Yes, we are local companies. Like in India you operate, you sell in rupees, so in Turkey, you sell in Turkish Lira when you are dealing with farmers especially.

Kiran Prasad: And how is your European market doing?

Anil Jain: European business is reasonably well. As we just now spoke there is a good growth in our food business of INNOVA in Europe, so our UK has also grown 10% this quarter, so overall Europe business is fine.

Kiran Prasad: Talking on domestic market, there has been rumour or talks going around that government will be drawing subsidy, so could you throw some light on this government subsidy?

Anil Jain: No, there is no truth in that rumour, whatsoever. Government is fully committed to providing and it is not a subsidy. I mean if the word is used, it is more of our assistance to farmers to do the CAPEX and the government saves lot of money because the farmer would use less water, less fertilizer, less energy, so government saves on consumption subsidies. So it makes perfect sense it is one of the best program government has ever run in terms of creating benefit for the farmer. There is extraordinary benefit in terms of higher productivity, lowering of the cost, saving of the water and all of that. So I have not heard from anybody at national level or domestic level and you know earlier, if you just go back few years ago, the total central allocation for the drip irrigation used to be only 2000 crore, 1500 crore. Now individual states like Karnataka or Andhra are also spend 1000 crore in their individual budgets which just came few weeks ago, so if you see Tamil Nadu budget, if you see Karnataka budget and Andhra budget, just three budget and their total allocation for drip irrigation in those states is higher than the central allocation overall for the country. So whoever is spreading those rumours does not know what is the truth.

Kiran Prasad: I mean so far, this MIS has not been made mandatory by any of the state government I believe.

Anil Jain: I think ultimately it is the choice of the farmer to invest because when he is doing flood irrigation, he has to just pump the water and flood the entire field. When he has to invest into micro-irrigation, he has to invest up to Rs. 100,000 per hector depending on the type of the crop, between Rs. 60,000 to 100,000 hector, so government cannot force him unless government provides free to him, but government of Maharashtra and Gujarat have said that they would like to try and do this to sugar factory, then sugar cane as a crop in these states, but the implementation was postponed because of the fact that sugar factories for last 2 to 3 years have been going through lot of difficulties, but for some of the water-guzzling crops, I think this mandatory stuff will happen and will come.

Moderator: Thank you. We will move to the next question which is from the line of Mahesh Kabra from BSK Group. Please go ahead.

Mahesh Kabra: My question is specifically regarding receivables in exports. The exports receivables have grown proportionately this quarter, any specific reason for that?

Anil Jain: No, there is no specific reason. It is possible that we might have a lot of export shipments towards the end of the quarter, which would result into higher level of receivables, but there was no specific thing which I know we should create that. In case of MIS, they moved from 266 crore to 300 crore, so it is an increase of Rs. 34 crore. In overall context, it is not a big increase.

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

Tushar Shah: I also share the concern which previous speaker said, I will not put more words on that but one question, you talked about some value monetization events over next 1 or 2 years, we know IPO is one of them. Which are the likely events which are there, which can value monetize and reduce our debts?

Anil Jain: I think I already explained that in terms of that question that there is a possibility we could do something with overseas irrigation and if there is something more, I think we can talk a little bit more about that. As we create some better blueprint closer to when we talk about the annual result and the next year expectations.

Tushar Shah: And you also talked about looking at the pledged shares, right and we share the concern that looking at some of the companies, which you may have seen the share price of them having high debt, high (Inaudible) 1:05:25. Are we ready for any kind of unforeseen event where market turbulence is there?

Anil Jain: Yes, I think there we are quite ready.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Fidelity Investments. Please go ahead.

Ankit Gupta: I have a couple of questions, the first one is, can you just quantify what is the reason for the sudden drop in your cash equivalent from around 2.2 billion over this quarter in INR terms?

Anil Jain: I think overall is in terms of our business where we have consumed more cash to build the inventory that has been the reason. Also the way, structure we do the dealer financing is a combination of this which has resulted in reduction of the cash during this quarter. You will see that by the time we close the year, usually that should come back.

Ankit Gupta: So this dealer financing is through your arm of SAFL?

Anil Jain: No that is separate one.

Ankit Gupta: Secondly, if you can just quantify what is the total minimum amount of cash required for operation for your standalone and the consolidate level, minimum amount of cash required?

Anil Jain: I think we have never measured. We usually have enough cash to run the business and Daily basis we collect the cash, so we have not put specific levels around that. That has never been running of the business.

Ankit Gupta: The reason we asked is because at the standalone level, it is pretty low right now, like it is only around 400 million which is substantially lower if you look at from last two years itself, so that is why I just came across this question that what is the minimum amount of cash required?

Anil Jain: Everyday, in terms of cash keeps coming from the receivables and collections. Typically, one would say that may be Rs. 1 billion, may be minimum for India should be okay and overseas also we have reasonable level. Also, what happens is that sometimes when you have more cash, you also put that cash into your cash credit account, so that you want to reduce the interest outgo into your working capital lines, so that will reduce the debt, but also reduce the cash in hand.

Ankit Gupta: So we have something like this in this quarter?

Anil Jain: Yes, I am not tracking very specific all these details, but some of that might have happened already in this quarter.

Ankit Gupta: And the last part is regarding, if you can just quantify what is the short-term debt as of now for the third quarter ending?

Anil Jain: The short-term debt, I think it is there in investor communication.

Ankit Gupta: No actually, there is only gross debt and the net debt.

Anil Jain: You are looking at Rs. 19 billion.

Ankit Gupta: 19 billion at consolidated level.

Anil Jain: Consol, so which was in September 20.5, it is 19.3 now, so less than a billon rupees.

Ankit Gupta: And the last one like what is the cash at the standalone level, if you can just give a ballpark figure at the standalone level and consolidated level, what is the cash right now situation?

Anil Jain: Right now, you mean?

Ankit Gupta: Like from the December and has it improved like from the 400 million level?

Anil Jain: Yes, it has improved. I think standalone is definitely closer to 1.3 billion now.

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

Harshil Gandhi: Sir, just wanted to understand, sir how will the stake reduction in Jain Farm Fresh Limited will help the minority shareholders. Sir, is it possible to diverse the division first and then sell the stake?

Anil Jain: The Jain Farm Fresh is a food company has already demerged. It is a subsidiary. It is not division, so if we do IPO in that entity, that entity would get listed and JISL can do offer for sales and that entity itself can raise the money through the primary to raise the equity and that is how it would get the funds and that company's debt can be reduced and if JISL does OFS, its sub-debt will be reduced and if the investor into the food business, if they decide to sell their shares, then they will get the liquidity in either of the scenario.

Harshil Gandhi: Sir, just wanted to understand then how will the minority shareholders will get benefit apart from this debt reduction?

Anil Jain: When you say minority shareholder means what?

Harshil Gandhi: Minority shareholder means of the parent company, the Jain.

Anil Jain: They are majority, they own 70% of the company. So the JISL owns 85% of that entity, so if that entity becomes IPO, its value goes up, then the value of the shareholding of the JISL goes up and that benefit ultimately will accrue and if their interest cost goes down, there is the equity, then it helps the parent, maybe we will get more dividend in future or the JISL itself, because if you are able to do OFS and we reduce the debt at JISL level, the interest will go down and share prices will go up and that will benefit the shareholders of JISL, so there are multiple ways this will create positive impact for JISL shareholders.

Harshil Gandhi: And sir, just wanted to understand on this tissue culture business for 9 months FY19. Sir, what was the contribution and what margins did it enjoy for the same period?

Anil Jain: I think we never talk about specific margins related to the tissue culture per se division, but when we look at for the 9 months or so, tissue culture business has been more or less at the same level as the last year. There has not been big growth in that business and as I have said to the market, the margins typically are higher, EBITDA level margins in this business are much higher than irrigation of other businesses those are maintained.

Harshil Gandhi: And sir, lastly, did company generate free cash flow for 3Q FY19?

Anil Jain: I think we were neutral in the third quarter. Fourth quarter, we should be much positive.

Harshil Gandhi: So in fourth quarter, you are expecting about 700 crore of free cash flow?

Anil Jain: Which also we had achieved last year, so I think it should be possible.

Moderator: Thank you. The next question is from the line of Dhavan Shah from ICICI Securities. Please go ahead.

Dhavan Shah: Sir, I just wanted to understand about the agro-processing margins, so if I look at the revenue of Q2 FY18, it was around 438 crore and in this quarter, we recognised around 410 crore of revenue. So there is hardly any improvement in terms of the top-line numbers, but if I look at the EBITDA numbers, there has been significant improvement from around 24 crore in Q2 FY18 to around 45 crore if I exclude the other income part. So why has there been such drastic improvement in the operational performance for the agro business?

Anil Jain: I think partly the improvement has come from our overseas operations and some of the numbers you have derived, I need to see how those you arrived at, but overall, there is a better improvement at SQF level in UK, in margins, also the US because we are selling more. Margins have come through better, but overall, my understanding in terms of how the business has panned out, in fact, overall EBITDA margins in food are comparatively lower that what they were last year for the entire 9 months. There could be variation within the quarter, but for first 9 months, overall business, even if I look at console, margins are lower in this business and especially impact was high in India due to the value deflation as well as in the first two quarters, we had negative scenario in US or even UK, so all have turned corner in the third quarter and we expect all entities to remain profitable on the annual basis.

Dhavan Shah: So around same kind of EBITDA margins for this quarter, we generated around 11% EBITDA margin for agro business this quarter, so is this sustainable or what?

Anil Jain: Yes, because fourth quarter is usually very strong quarter, so in that quarter, it should be sustainable.

Dhavan Shah: And one more question is about the plastic sheet business in the Ireland subsidiary. So we do revenues of around 250 to 300 crore every year, but in terms of the operational performance, the subsidiary always makes losses and cap employed is also around 350 crore in that business, so just wanted to understand our thought process, why are we keeping that subsidiary which is still making losses and if we diverse some stake or diverse that subsidiary and processing some high margin or cash accretive business in India like P-pipe, so that will not be margin accretive or improvement in the return ratio for the overall business?

Anil Jain: We have 2 to 3 different businesses you are talking about. The business we have in Ireland where we actually produce sheets and we sell those in European market. It has been profitable every year since its inspection, it is growing, it is profitable. We have another business in US where we distribute the products made in India. When you look at combined, the profits we make in that division in India and the profits they make on the distribution, when you combine together, our company is not losing any money and overall sheet business is generating positive not only margins, profitability. I think it is close to about 12% or so. It is growing nicely, growing more than 15% and we expect going forward to maintain the level of profitability. We used to have losses in the business, but that was 3, 4, 5 years ago, but now we have turned it around and it is positive and growing and profitable.

Dhavan Shah: And one more last question if I may, in terms of the working capital for the plastic segment, so the payable days have been reduced if I look at the Q2 and Q3 numbers, but the visual days are almost at the same level, so this has stretched our working capital cycle in the plastic segment to around 90 days, so what such stands on that segment in terms of the working capital cycle?

Anil Jain: I think we have a room, as we are doing this, some receivables are increasing because when you doing this project business, receivables are extended as against the dealer business and now we are doing more and more project business as I described earlier. That is why receivables have gone up, but we buy also raw material on the credit to kind of balance that. That means what you carry real networking capital in that business, it is just the inventory part of it and overall size of business is growing quite rapidly, so when you study individually overall plastic business, ROC is quite good considering everything when you put together in that business.

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

Tushar Shah: I had question on the segment liabilities. I see that in the current report, our agro-processing liability has come down by 500 crore, but our liability for other division has gone up, so what has changed that for the agro-processing division particularly and why those moved to other divisions?

Anil Jain: I think if I look at segment liabilities of agro-processing, in September there were about 12.86, now they are 11.87.

Tushar Shah: Sorry, I am comparing year-on-year, from 31st December 17 to 31st December 18.

Anil Jain: That we will have to get back to you because I don't remember, may be also it has a value deflation here, right. I need to get back to you on that because I don't see much change compared to September, but we will just see why there is a difference compared to year ago, but if you look at the 9 months, last year was 1686 and now it is 1187 and at March it was 1211, so we just need to check what particularly happened in that quarter compared to where we are now.

Tushar Shah: And sir, one last concern and not a question. During this turbulent time, there are lot of rumours going in the market, so it would be good if you can come regularly on the business channels and provide the updates, what is happening with the business rather than we waiting to hear from you quarterly after results?

Anil Jain: We will keep that in mind and see how best we can organize that. I don't know whether it is through channels, but we will find some way of doing a better communication.

Tushar Shah: Because we have lot of things during this call like we are talking FMCG or we are having some plans for debt reduction, but we normally don't hear this for any concall, so if you can have some way to communicate with individual investors that will be really helpful.

Anil Jain: Okay, we will try and do that.

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

Anil Jain: Thank you all for your patient hearing and the discussions. I think the larger issue for the company is that in a quite volatile environment, how do we ensure the business growth and remains profitable in a sustainable way. There is this larger issue of the debt which company has. I am sure we will definitely address and as soon as we can be more concrete about how exactly that will be addressed, we will communicate that to the market and I would like to again thank for the support of all stakeholders. Thank you.

Moderator: Thank you. 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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