Jain Irrigation Systems Ltd.

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Q4 & FY2017

Earnings Conference Call Transcript

May 25, 2017 at 02:30 pm IST

MAIN SPEAKER:

- **Mr. Anil Jain : Vice Chairman and Managing Director**
- **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 Q4 and FY 2017. Joining us today are Mr. Anil Jain -- Vice Chairman and Managing Director; Mr. Manoj Lodha -- CFO; Mr. Darshan Surana -- Vice President, Finance and IR.

We will commence with opening remarks of 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 full year ended Mar 31, 2017 and the opportunities going forward. Over to you, Sir.

Anil Jain Thank you, Siddharth. Good afternoon to all. I would like to again welcome all the participants, investors, analysts, brokers and all the stakeholders who are interested in Jain Irrigation.

So we have had a board meeting yesterday and we have published our results. I hope you had a chance to look at those results. We have closed last fiscal year that is FY17 on a positive note with a positive revenue growth, positive earnings and improved balance sheet compared to where we were on December '16 basis. This has been possible because we have continued to work very hard in the field in the marketplace and some of the efforts which we have taken in the earlier period are now throwing good results and I believe they will continue to throw even better results going forward so that we can continue to strengthen the company, its balance sheet, its operations and continue to build new products and solutions which would allow us to create new revenue streams on one hand, and also distinguish ourselves compared to competition in the marketplace because competition is a fact of life and we must find ways and means through innovation and through R&D to distinguish ourselves so we can continue to have that edge not just in terms of leading market share but also the fact that we as a company in every single business we operate usually have better margins compared to all our competitors in India or outside and I believe we would like to maintain that and that is only possible through innovation. So a lot of steps we are taking in that regard as well.

Coming to the numbers in terms of this quarter: We have reduced the debt compared to December, almost by about Rs.556 crore, so that is a considerable reduction and the net debt now stands at Rs.3,600 crore and the gross debt stands at Rs.3,900 crore. So this is in line with our expectation. Company has also achieved an EBITDA of Rs.1,009 crore. Therefore, the debt-to-EBITDA now is 3.6 and debt-to-equity is less than 1. We would like to maintain the same level of absolute debt by the end of FY18 even if we would plan to grow quite aggressively in the current fiscal and therefore as we plan to grow quite aggressively in terms of our revenue, we would have a situation in FY18 where our debt-to-EBITDA should be close to 3. This is same as per our earlier guidance. Debt-to-equity would be even lower than what it is today which is already less than 1, so that is quite comfortable.

During the fourth quarter, we have had about 10-12-days kind of improvement on the working capital as well, in some cases it is more, in some cases it is less. But we have had a very large quarter; our sales were close to Rs.2,200 crore plus in this quarter. Despite having such a heavy quarter of the sales, we have been able to manage to bring down days outstanding against the sales as well as the inventory compared to where we were. So we have focused on revenue growth, we have managed working capital efficiency and we have brought down the debt in the quarter. The margins were on expected lines; there is no surprise on the margin side at the EBITDA level.

One of the major important part in this particular I would say quarter was the fact that our micro irrigation business grew almost close to 22% out of India, and that 22% has given us lot of hope, belief and faith of continued good operations in the coming year. Now, in this scenario, we also have a very good order book in hand; we have almost Rs.2,100 crore of orders in hand, out of which close to Rs.1,300 crore are in Hi-Tech Agri Input division, about Rs.300 crore in the food division and about Rs.500 crore in the plastic division. So this kind of order book which we have augurs well for FY18 for us.

Moving to now FY18, we believe we would be able to manage the growth in micro irrigation business, north of 20%, based on the existing orders which we already have and we also expect to maintain the margins because somewhere we have seen a comment to say that if company grows into the project business, it should get lower margin. I think that is not correct. Our project related margins are similar to retail, close to around 20% and our forecast and guidance is that we will maintain the same even though we would be executing larger amount of the projects. So we are quite comfortable in terms of the margins.

We also during this period of the last quarter have announced a large acquisition in US in the micro irrigation space whereby we have taken the steps so that we can do forward integration in terms of capturing the margins in the marketplace, as well as building closer relationship to the large growers into developed agriculture markets like US, Australia, eventually even Europe. Now, these large farmers buy usually typically just from dealers, distributors and having made the investment in dealer-distributors would allow us to create this closer relationship with these large farmers. In recent past or a couple of years, we have done two important acquisitions – one was PureSense and second recently we did was Observant. Now, they maybe small ticket in terms of the amount of money which we spend but they are very crucial and important for the future of agriculture technology, and those technologies whether it is software or hardware technology which can create precision agriculture, where you deliver irrigation, nutrition and fertigation, all three to the farmers in a precise manner which helps farmer to reduce the cost and improve productivity on large farms using the latest technology, Internet of Things would allow us. So we are already creating a platform in terms of technology on one hand and through this acquisition in US especially California which is a very large agriculture market, we would have ability to deliver the solutions straight up to the farming community. This would also allow us to sell more irrigation to these distributors which they used to buy earlier from our other competitors. So it would have an additional revenue increase in our US operations. We would be capturing better value-added margins forward in the marketplace. It would allow us to create a new platform to deliver technological and productivity solutions to large farmers around the world. So this is the reason we have done this acquisition.

Despite the fact that for this particular acquisition, we have raised certain amount of debt to finance this acquisition, we are saying that our FY18 debt numbers would be same which are now in FY17. So the new finance which we have taken for the acquisition, we would be repaying at least same level of loans during the current fiscal so that that is how it would be maintained. In terms of additional working capital required to manage this growth, we believe there are certain inefficiencies in our current working capital cycle and we plan to release x amount of working capital at the current level in terms of inventory, etc., which would allow us that even for the growth we need not bring any new additional borrowed funds. Company's internal accruals shall be sufficient to ensure that Company can grow significantly. Company has already done an acquisition. Despite both of these, we will maintain the debt at the same level. So in terms of ratios it will considerably improve but absolute amount we plan to maintain at the same level. So, our focus on deleveraging will remain but at the same time we believe we are in a multi-year growth opportunity cycle now, especially looking at the type of the project business we are getting in India, likely projects which we are looking at even outside India.

In terms of piping also, we are seeing more project oriented growth coming into India because India has really started moving on the infrastructure side now and the food division which did not do that well, it grew lower single digit in FY17. Some of the sales were postponed in last quarter into the current first half because of partly demonetization, partly issues in some of our Middle East markets due to the continued disturbance there or lower oil prices have resulted into some less consumption into those markets. But some of those issues are transient, temporary which we must address. And despite not having great FY17 in the food business, we expect in FY18 food business should be back to double digit growth which we used to enjoy almost for about 7-8-years and that would also be added by the fact that we would be bringing a new product like spices into our plant will start sometime later this year or let us say August or September and once our products get approved by the various customers in the world, we should already have some amount of revenue in the current fiscal from this new particular division. Also, our customers like Coca Cola are on record saying that they would like to increase their sourcing of the fruits from India and we have a good strategic relationship and we would like to see how we can work together with them and we already have a project on which we are working together to source more oranges from farmers and grow and process Orange Fruits in India with Indian oranges which they can consume.

So these are multiple ways company will ensure that all three major divisions which is micro irrigation, piping and food should grow double digit on a global basis. We should be profitable and profits are going to become higher. Third, we would like to maintain our focus on the balance sheet as we have been doing over last few years and we are seeing now some fruits of all the efforts which we have made.

So all in all, when you overall look at the numbers, we are close to Rs.7,000 crore, slightly less in terms of revenue. With the US acquisition, close to about $110-115 million revenue in '16 adding close to Rs.700 crore to that number, means it becomes Rs.7,700. Now, even if we just look at the type of the growth which we are anticipating in micro irrigation business in India into the project, and some additional growth of course in the piping and the food and our international irrigation business is also reasonably doing well. When you add up all of that plus the acquisition we have done, we feel fairly confident that in FY18, I would like to at the start of the year give a little bit of a broad range but somewhere between Rs.8,500 crore to Rs.9,000 crore. Now, when we reach this type of revenues, this would also mean our earnings will improve and we expect on the back of the Rs.1,009 crore EBITDA level earning that we should have approximately 25% growth at EBITDA level earnings.

So, just to summarize, we are looking at a quite significant revenue growth in India and outside. We expect about 25% increase at the EBITDA level earnings and we expect to maintain our debt at the levels which we have achieved in FY17 and that is now reaching a comfortable post and that would allow us to further reduce the interest cost, any stress on the balance sheet. All in all, I think we are in a good multi-year growth cycle.

Now I would be very happy with my team could answer any and all of your questions. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Sonali Salgaonkar from HDFC Securities. Please go ahead.

Sonali Salgaonkar: Sir, my first question is with respect to the micro irrigation market in India. So just wanted to understand your thoughts on where do you think the opportunity is and what kind of opportunity can we expect from this market in India?

Anil Jain: I think overall opportunity from micro irrigation as it stands now I think we have been in this business since 1988 but I see next few years is the most exciting years into this business and let us look at geographically because water is short in various areas, we have seen the whole Karnataka-Tamil Nadu issue, we have seen Punjab-Haryana issue on the water sharing. We believe the entire Southern

India, Western India and even parts of Northern India are good candidates in terms of geographical area, in terms of the expansion and growth in the market. In terms of the crops and agriculture side, horticulture has already taken to drip irrigation and micro irrigation and crops like grapes and bananas, etc., are always now done on micro irrigation. But we have seen in recent past even crops like sugarcane and cotton, there is an increasing acceptance of micro irrigation. While we have also had some success on things like pulses, we have had few plots where we have got extraordinary results on things like rice. But as of now, that has not commercialized. So if your question is about where you see the growth opportunity in medium to long-term, that would come even in cereal crops but if you look at short-term to medium-term apart from existing horticulture drops, I would say sugarcane, cotton, pulses and even oilseeds are the four areas, we are seeing even things like coffee and spices where now there is more need and more acceptance of a concept of micro irrigation. So, in terms of agriculture again, it is almost quite wide in terms of the potential across the entire sector. The third piece is that when you see how water is getting managed in India traditionally. One has been where farmers do not have any ground water, they get water being brought by the canal, and these canals are very inefficient way of delivering water because from the time you store to the time you deliver you lose almost 60% of the water, but the new integrated irrigation solutions we have been providing which are now being accepted in the country, allow you to do the conveyance of the water through the piping system and then use the drip and sprinkler and then deliver to farmer solution in a precision agriculture manner. Now, when you do it, water use efficiency goes up almost 2-3x. Now, Government of India has decided that they will spend somewhere close to Rs.80,000-100,000 crore over next two to three years to complete all existing incomplete irrigation projects. Now, some of these because they are already done half way through whatever are still dams and canals but any new projects being designed government is insisting that 30% of that all area must be brought at least under micro irrigation and most of new canals should have pipe conveyance. When you see that kind of a policy change government has made or decisions have been made, that would mean project business would be also creating good type of demand for our products in micro irrigation

Sonali Salgaonkar: Sir, my second question is with respect to the Plastic division of the company. So in the situation on the ground right now, are we seeing the impact of demonetization behind us and secondly would also like to understand what is the end user segment that we cater to in the Plastic division of us particularly PVC Pipes?

Anil Jain: In terms of PVC Pipe, mostly we sell to the farmers into rural areas for irrigation purposes and we also sell for drinking water supply programs into villages, etc., we have small amount of sales into urban areas into plumbing application in terms of PVC. But we also have significant division on the Polyethylene Pipes. Now overall in terms of demonetization, the December quarter as well as March quarter was very subdued for PVC Pipe sales because a lot of farmers had suffered due to demonetization and lack of higher price worth for their produce.

We have seen situation change somewhat in last two weeks but April and part of May was still same as earlier period but post mid-May I would say situation seems to be improving for farmers, because of expected good monsoon have started placing order to buy more pipes and so on. Meanwhile, our PE Pipe business based on the institutional orders and infrastructure application is doing well.

Moderator: Thank you. The next question is from the line of Balthazar Florentin-Lee from Sloane Robinson. Please go ahead.

B Florentin-Lee: I just like to understand a little bit more about the US distribution business. Is the plan to push your products through these distribution channels and if so could you help us understand one how much of the current product mix is your products and when you start pushing your products through how much growth you can see on this $110 million revenue in the next few years?

Anil Jain: The way the distributors work in US, that they are providing the complete solution to the farmers there; they will do the construction in their farm, they will put the trenches, they will put the pipes, they will provide them fertilizer tank, irrigation system, drip irrigation, micro irrigation, the entire thing. So out of this 110, 120 million, approximately about one-third is the irrigation systems and rest is the services, construction, and the whole delivery part of it. The California market as such suffered huge amount of drought over last few years, if one has been reading about that, it was like a drought of a century. Now in last three months, that situation has changed; their reservoirs are full, they have a lot of good water table has come up, there is snow peaks have lot more snow, etc., That augurs well for next few years in terms of availability of water to irrigate. That would mean also new business for these distributors because for last two-three years because of lack of water or not having enough water, some of the farmers had postponed their projects. So we expect these distributors-dealers to continue to do the business and therefore their existing business of $110-115 million should continue to grow up and we expect that growth in kind of a double-digit growth. This is one part. The second is that US irrigation business which we use to also supply our irrigation system to these distributors-dealers. They used to buy also from rest of the industry. Our share was quite small. So two things are going to happen – one, our US operations would now sell more irrigation goods to these distributors-dealers who onward sell that to the farmers and they themselves would also grow as underlying California market will grow.

B Florentin-Lee: Does that mean we should think about a higher margin in this business going forward, now that you are pushing your products through there?

Anil Jain: Yes, so on a combined basis, our operative entity in US and these distributors we have, we should be able to capture better margin than we had in the international irrigation market, definitely.

B Florentin-Lee: Do you have a target that you are aiming for you think is achievable?

Anil Jain: I think we would talk about that target little bit in maybe later part of this year because we closed this acquisition hardly about two or three weeks ago. So while we know the numbers, but we would like to see the dust settle before we talk about some target over next couple of years how it would translate.

B Florentin-Lee: In terms of a competitive response, I read that Netafim no longer planning to supply these distributors with their products. Are they going to find alternative channels? Will this change the competitive landscape in your favor?

Anil Jain: So if they take that decision which they have taken, it means these distributors would be buying more products from us, so that is the starting point. The growers would like to deal with somebody they know for right, 20, 30-years we have been providing them service and our products are as good on in some cases even better than people like Netafim or others who maybe in the industry. So in fact, those decisions are going to help us to consolidate even more than otherwise. So, the way I see it, in fact, it is a blessing that they took that call.

B Florentin-Lee: These distributors in the US comprise how much of Californian market share?

Anil Jain: These are two very large distributors; their size is significant, but they operate mostly in Northern California, so I would say maybe their size is about 30% of the market, market is quite large in California.

B Florentin-Lee: Do you plan to pursue the strategy in any other regions?

Anil Jain: We have a couple of additional thoughts in let us say Central, South America, etc., but those would be comparatively small tickets, because these dealers-distributors what we have done in terms of bringing them together and creating such a large platform to build a much larger industry because if you look at US also, US today has far less efficient irrigation than what it should be as a developed agriculture market. I think these acquisitions we have done and this merger we have done with very strong distributors-dealers, these people are very competent, very committed, and very passionate in what they do, they are very hands on. With expanding the similar strategy, I think we would be capturing not only existing larger business, but we would be creating even new markets. So in medium to long-term this is very exciting what has happened. As we have seen and you might have also noticed, we as a Company are not doing too many things at the same time, we would like to do something, kind of digest it and see that it works well before we will move forward with the additional things.

Moderator: Thank you. The next question is from the line of Umesh Patel from TCG Asset Management. Please go ahead.

Umesh Patel: Sir, a couple of questions. Just wanted to know as you mentioned about US acquisition. What was the revenue contribution in FY17 from US business and what kind of synergy in revenue and profitability after consolidation of these numbers that you are seeing at consol level? If you can throw light on the market size and opportunity of California particularly?

Anil Jain: As I just now explained, the acquisition has been closed just two weeks ago. So these numbers would now come into the next year and not the last year. So we did not have this acquisition last year. So this would come in the future period only. Overall, as we have said, this is going to add substantial amount to our EBITDA of our US operations as we go along. As we talk about a little bit more detail numbers over next few quarters, then we will be sharing that but at this stage what I can share with you that they have double digit level of EBITDA margin and their sale already last year was USD113 million and we expect higher sales this year.

Umesh Patel: But what was the revenue reported in US business in FY17 consolidated numbers?

Anil Jain: Our Irrigation business was about $73 million in US.

Umesh Patel: Because last time in media you have mentioned that MIS business was $75 million plus Food Processing was$110 million for US subsidiary, right?

Anil Jain: No-no, Food Processing in US is not $110 million.

Umesh Patel: After this consolidation of these numbers, US would become your second largest geographical market, right after India?

Anil Jain: Yes, that is true.

Umesh Patel: Secondly, you mentioned about Netafim will be no longer supplying to your distributor. So out of the total revenue that these two companies reporting right now, what proportion of revenue generation was coming from that product?

Anil Jain: I do not want to talk too much about what competition is doing but it is not very significant, I would say 10%, 15%, somewhere in that range.

Umesh Patel: What is the status of Maharashtra government push on compulsory implementation of irrigation particularly, it is being long waited things which has not yet seen any traction particularly from sugar industry?

Anil Jain: I think we should move beyond that, right, because government sometimes take time, they have their own issue. Our business has grown 20% and we are also guiding that next year our business will grow 20% regardless of what Maharashtra will do.

Umesh Patel: After refinancing, what is the average cost of debt as of now stand?

Anil Jain: It would be around 10-11% in India and 6% outside.

Moderator: Thank you. The next question is from the line of Sumit Bhalotia of Reliance Capital. Please go ahead.

Sumit Bhalotia: My question was on the leverage part. You are saying that in FY18 including the US acquisition cost our debt levels would remain the same levels, right. So could you help us with the numbers including working capital and acquisition cost for the US entity? Also, how are they going to be funded, so what would be the extent of working capital reduction and also the internal accruals that would be doing just cash flow perspective?

Anil Jain: I have talked about overall, right, that we will have an EBITDA increase of about 25%, our EBITDA last year was Rs.1,000 crore, so one should add about Rs.250 crore at EBITDA. We expect working capital almost to be the same level across entire company which was last year ’17 and ’18 despite the revenue growth. The financing which we have taken for US acquisition to the tune of about $50 million, that much amount of the other debt is falling due for repayment which we shall be repaying, and therefore we expect debt to remain at the same level despite the fact that we have done acquisition and we will have revenue growth.

Sumit Bhalotia: That implies roughly on Rs.350-400 crore kind of cash flow generation from the core business?

Anil Jain: Yes.

Sumit Bhalotia: What would be the repayment due amount for ‘18?

Anil Jain: Except FCCB which is falling due which we expect either to get converted or it will get refinanced, the remainder is approximately Rs.250-300 crore.

Moderator: Thank you. The next question is from the line of Nehal Jham from Edelweiss. Please go ahead.

Nehal Jham: Firstly, just checking on the quarter, I want to understand that in the Piping business, we see that while on a standalone we made profit and the consolidated is reduced. So could you just throw more light on what exactly that is related to?

Manoj Lodha: Under consolidation there are certain higher depreciation because of the IndAS impact, that is mostly and also Plastic Sheet division we have certain lower margins outside India. That is the reason for the difference between the standalone and the consolidated.

Nehal Jham: In the others division, could you just highlight the turnaround that has happened this quarter?

Manoj Lodha: It is not turnaround, it is again certain provisions which have been returned back again partly because of the IndAS impact. So under the new format it is now clubbed under other income and that is why you see all those been clubbed also in segment under other.

Anil Jain: There is no underlying business change in the other division, it is more about earlier accounting treatment which was there under Indian GAAP and IndAS. There are certain regrouping and changes have taken place.

Nehal Jham: Can we expect this to be sustainable or would it just the one-time adjustment that is made?

Manoj Lodha: It is more of one-time kind of a thing.

Nehal Jham: On the revenue guidance that you are giving for next year which is around Rs.8,500-9,000 crore, could you just give us a brief range of the four segments… how would we see it in each of the segments in the coming year?

Anil Jain: Micro irrigation business, we expect to grow more than 20%. All other businesses, our range what we give right now is a little bit broad, they would be in double digit growth; so some would be 10, some could be 15, 17 or some could be 18, 20.

Moderator: Thank you. The next question is from the line of Ankur Shah from IIFL. Please go ahead.

Ankur Shah: Just had a question that I notice from the other income side, on the consolidated sales you have Rs.11 crore of other income but on the standalone, you have Rs.83 crore which implies around Rs.72 crore at the subsidiary level. So just wanted to understand what is the reason for that?

Manoj Lodha: In standalone when you see other income, it also includes part of the one-time income we got from Solapur investment in subsidiary. So just to take you back, we recently made a bond issue, out of the bond proceeds, we brought back certain investments in India. So when we brought those investments back, there were certain capital gain or exchange gain on those investments. But when you consolidated this will get netted off. That is why you see about Rs.83-84 crore was such income in standalone which is netted off in the consol.

Anil Jain: This is not any loss in subsidiary. This was the investment we had made into our overseas subsidiaries. When those funds came back, because those were made at earlier exchange rate, we had a gain at standalone level, but on a consol level that gain netted off.

Ankur Shah: So on an ongoing basis, there would not be any negative item, right?

Anil Jain: No negative item.

Manoj Lodha: I think because of the way things are moving right, in the current year especially March '17 with the IndAS there were so many changes. If we focus on consol number, that should give you more clarity because this year standalone numbers, last year there was no Food business, so a little bit complex, so I would say if you really focus on consol, that gives you full clarity of the underlying strength of the numbers.

Ankur Shah: Just to follow up on the US acquisition, you mentioned that we have around Rs.700 crore of revenues and 10-11% of EBITDA margins, so could you provide what were the net profit level in the calendar year '16?

Anil Jain: As I said, those numbers are little bit confidential and those numbers are not ours, we have made the investment now. All I can share with you is that they do not have much debt and they do not have a lot of property or asset. So the interest or depreciation is negligible.

Ankur Shah: So will it imply double digit net margin or it will go under lower single digits?

Anil Jain: No, I think it will be still good amount of single digit margins on net basis.

Moderator: Thank you. The next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia: So just want to understand this slightly better going forward, you are guiding for 22% MIS growth and you got about Rs.1200 crore of order book. What kind of growth are you targeting in domestic retail segment and exports and projects please?

Anil Jain: Our target is a little bit higher than what we are guiding because the project orders which we have. But even the retail part, we are seeing between AP, Tamil Nadu, Karnataka and Telangana, there is so much more focus especially because of the drought like situation in those states, Maharashtra because of the demonetization and drought did not do that well, it is also coming back and we are seeing even some of the northern and other states taking lot more interest in micro irrigation. Again, because as you know this depends on various scenarios, but I would say minimum 15% growth and if things work out, it could grow 20%. In terms of the Project business, there are three large orders which we already have in hand which we have received. As long as we execute even about 60% of those orders, the project business would grow significantly in the current year. The export also we have an ongoing order which is going to Tanzania apart from our traditional business. So when you look at the fact that FY17 our overall sales in MIS were close to Rs.1,900 crore with Retail at Rs.1,347. Projects at Rs.330 crore and Exports at Rs.212 crore. When you look at the growth opportunity which is there, the project would definitely grow somewhere between Rs.200-300 crore themselves and the retail growth. So I would say Project would be highest level of growth followed by in fact even Retail and followed by Exports.

Girish Achhipalia: In terms of margins, do you expect to maintain margins or improve margins particularly in context of what is happening with the GST coming through and I hear some of the larger peers have been banned to do business in the state of Maharashtra, so how do you look at this opportunity when retail growth is coming back on the margin side as well?

Anil Jain: We would like to maintain guidance at the same 20-22% margin because in this business as you know in the past there are some unknowns which can come up any time, but last almost three to four years our margins have now remained very stable in this range and we need to take into factor that something could go wrong and we need to compensate for that. So keeping that in mind we would maintain the guidance at the same level now.

Girish Achhipalia: I know it is not your base case but this policy announcement of Maharashtra, what are you hearing right now, I mean, where are we in the process, any further developments that has happened?

Anil Jain: The developments they have been moving, they have been working between the Maharashtra state government and sugar factories, they have been working on the modalities that if sugar factories have to themselves go and invest so much of funds into micro irrigation, then where would they get the loans from and last two-three years sugar factories did not do well because of lack of planting of sugarcane because of the drought, 30% of factories are not even working in Maharashtra this season, they could not get enough cane. Those issues will change this year post-October and coming year and then I think they should really take off at that point of time. But some of those granular details of how exactly the financing will take place are not in place even though that is work in process and we expect that to be completed by October. But as I stated at the start, we are seeing retail level opportunity coming up in the various states despite what the governments are doing. So if governments do something even more positive that would create even more robustness in these numbers. But even without something like sugarcane, very special, very large project in Maharashtra, our expectation in Maharashtra this year is going to be a good business because cotton prices are also higher, sugarcane will come back, we will do much better in normal course also compared to the last year.

Moderator: Thank you. The next question is from the line of Harsh Agarwal from Deutsche Bank. Please go ahead.

Harsh Agarwal: I kind of did not get what you said about the impact of GST. So if you could please clarify that, it will be great? I also wanted to ask you on the monsoon, we have been kind of reading that the monsoons might be slightly softer this time. So again, if you can maybe just clarify on the ground, any sort of color you have on that side, I know it is weather related, so it is hard to forecast these things but just keen to see if you have any more intelligence on that side? If you could just remind us what the conversion price is on the CCD that are maturing over the course of this year and next year that will be great?

Anil Jain: In terms of GST, the rates for micro irrigation are not frozen as of now, they are expected to be taken in the June meeting, for other products rates are out and they are as they were expected to be. In terms of monsoon, what we have been reading that monsoon in fact came three days or four days earlier in Andaman and if you see the cloud formation, etc., through the satellite photos, that shows that monsoon would be a good monsoon, in fact, not softer monsoon and in fact, they are really expecting (+100%) type of scenario as of now but again things can change, but what we are hearing is actually quite positive that monsoon is early and monsoon would be definitely adequate. To your third question, the answer is conversion is 104.

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

Harshal Gandhi: What maybe the final score savings for FY18 on account of the various initiatives undertaken by company?

Anil Jain: About Rs.50-60 crore somewhere in that range.

Harshal Gandhi: Has the company kept a budget for M&A?

Anil Jain: No, there is no specific separate budget. As I said, we are focusing in terms of metrics on three numbers – one is the revenue growth, second is that we would maintain our debt at the level it is. So if we do any acquisition, if we do any financing, we must have an offset in terms of repayment of those debts, that is how we are planning.

Harshal Gandhi: Next question pertains to Agro Processing division. Sir, in the last concall and in the 'Investor Presentation of Q4' you mentioned that there is a slow offtake and export order was postponed and disturbance in Middle East. When can we expect offtake in Agro Processing?

Anil Jain: I think you will see things to improve already in the first half but second half will be a much stronger period.

Harshal Gandhi: What has led to increase in other expenses?

Manoj Lodha: These are mostly again because of the IndAS impact because this year we also have the fair market value of the asset. So some depreciation has come in and also there are certain convertibles on the books, so this also has got valued at a fair market value. Of course, there is also some higher provisions on account of some government claims which were also provided for in this quarter.

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

Pavitra Sudhindran: I just have one on the CAPEX. So given that you are guiding for quite strong revenue growth next year. Just wanted to understand if there is any change in your CAPEX guidance, I think previously it was supposed to be like around Rs.200-300 crore for next year or whether current capacity would be sufficient to cater to the strong growth?

Anil Jain: Our CAPEX guidance for the next year should remain around Rs.300 crore, part of that is a growth CAPEX like the Spice project we have put it into the food business, etc., part of that would be the additional irrigation specific stuff or the components which we need, part of that would be for example in the Piping side where we are investing into a line which can make 2.5-metre diameter pipes for these larger projects which are upcoming in India. So it is a combination of all of that. I think we have enough capacity were required to maintain this growth. Some of this investment will allow us additional growth even in '19 and '20.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, about the total MIS division, what is the sales at the consolidated level for us for FY17?

Anil Jain: That would be about Rs.31 billion.

Dhaval Shah: The breakup of the Rs.3,100 crore between Retail, Project, Exports, US business and Israel business?

Anil Jain: You can take it offline.

Dhaval Shah: Sir, on the last call you were mentioning about the 10,000 Solar Pump project which we had undertaken for the Maharashtra government had been ordered. What is the progress on that?

Anil Jain: I think we have already executed on about 40-45%, remainder will be done in the current year.

Dhaval Shah: One more product launch is expected during Diwali of 2016 from the Food division. But we did not hear anything on that. Has got postponed or something?

Anil Jain: We did a very soft launch of AamRus as a product. But because it is a niche product, it goes through the frozen in terms of logistic and distribution chain. But in the second half of this year, we would be talking a little bit something which is more at ambient temperature, nationwide distribution that type of thing. So you will hear more about that in the second half of the year.

Dhaval Shah: Basically, the launch has got delayed by around six-eight months?

Anil Jain: Yes.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: My question also pertains to Solar Pumps which you have partly answered. Are you likely to get any more orders and are there any delays in the execution of this order?

Anil Jain: The current Maharashtra order was there on the basis that farmers put in some amount of money, government goes through a lot of list to decide eligible farmers, and then they put the individual work orders per farmer on to us. That whole process happens at a district level, etc., Because it was a very unique project in that sense, it took its time to start. But now the project has started. So we definitely expect that to be completed in the current year.

Tushar Sarda: Do you expect any more orders from Maharashtra and what about participation in other states?

Anil Jain: I think once this project gets completed, we expect Maharashtra to do more because originally they have talked about much larger quantity, but I think one should wait for that. In terms of other states, we already have some orders in hand from Karnataka, we have been regularly doing lot of business in Rajasthan every year and a few other states like Haryana or Chhattisgarh. I think we would be operating in four or five states at least in the current fiscal.

Moderator: Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Sir, just a couple of financial questions I have. We had CCD of Rs.290 crore in the standalone and Rs.450 crore cumulative on consolidated, right?

Manoj Lodha: Correct.

Mayur Parkeria: Now that number stands at Rs.205 Mn and Rs.1588 Mn?

Manoj Lodha: As per IndAS we have to segregate between the debt component and the equity component. The amount is same, but because of the fair market value of those instruments, you see some different amount now.

Mayur Parkeria: But both are yet to be converted and they are expected in FY18, right?

Manoj Lodha: Yes by September standalone JISL parent CCD will get converted and the Food one is for the five years.

Mayur Parkeria: So currently in our equity balance sheet, the number is Rs.1588 Mn and Rs.205 Mn, right?

Anil Jain: That is the debt component. So the remaining amount is sitting in the equity.

Manoj Lodha: While the nature of the instrument is fully convertible, but this is accounting standard, so till such time they get converted into equity it will be reflected as that.

Mayur Parkeria: In our note we have stated in Slide #15 that consolidated M2M gain of Rs.128 crore?

Manoj Lodha: Because in February we had a large issuance of the bond of $200 million. By that time the price was Rs.67.20 and when the year closes it was close to Rs.65. That is what the notional gain we have posted.

Mayur Parkeria: This is in the other comprehensive income which will be there even for the quarter as well as for the year?

Manoj Lodha: Correct.

Mayur Parkeria: So that comprehensive income the figure is around Rs.30-odd crore, right?

Manoj Lodha: There are asset-liabilities in the dollar. So it is a net of that.

Mayur Parkeria: On the debt side, if we see approximately EBITDA of Rs.1200-1250 crore expected for FY18 and if we say interest of around Rs.400-425 crore which is there and the CAPEX of another Rs.300 crore, so that removes Rs.700 crore. even if we add tax of Rs.100 crore which is currently around Rs.60-70 crore only, that still leaves Rs.400 crore for us to be looking at as a kind of repayment opportunity will we actually look for such kind of opportunity to repay?

Anil Jain: That is what we have said, that we would repay that kind of debt, and that is how our debt level would be same as this year and the next year because we have taken some acquisition debt and this debt would get repaid.

Mayur Parkeria: Sir, would you like to highlight just a color on the extent of revaluation of around Rs.2000 crore which has happened and is it considered as revaluation reserve, how will it be treated the depreciation on that, just some color on the fact of restating?

Anil Jain: It is not a revaluation reserve, it is only fair valuing of the assets.

Manoj Lodha: We have fair valued our land and building. So what number you see is primarily on account of land because company has a large land at various locations. So it will be treated as a retained earnings, not as a revaluation reserve, that is one. On the building side, there would be an additional charge or additional depreciation going forward. But that is going to be there because of the fair market valuation.

Mayur Parkeria: Will it be very substantial in terms of increase in depreciation?

Manoj Lodha: It is going to be around Rs.20 crore I guess.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: Sir, we are the largest manufacturer of Corrugated Pipes in the country. So I just wanted to understand the opportunity which we envisage in Corrugated Pipes, so what would be the estimated market size and in terms of how big can the product grow, your views?

Manoj Lodha: I think the opportunity is quite large. I would not be able to give you any specific numbers but all I would say opportunity is quite large because as we go along for this lot of new infrastructure investment and whether they are in the ports or in areas where you want to take the water out because some areas are submerged in the water, etc., where you are building so many other projects, you need material which is strong enough and is not costly. That is where the corrugation comes into play. It provides strength with less material. So we are doing some CAPEX in our Piping division which is related to corrugated because we are expecting more and more business. But still it is a comparatively small market today. So growth would be in percentage quite high on a lower base.

Kunal Mehta: Are you seeing these pipes replacing the traditional DI Pipes when it comes to piping of CVAs or drainage, so are you seeing that trend?

Anil Jain: We are definitely seeing. Our HDPE Pipe division where I think we have clocked close to Rs.700 crore this year and where we have supplied pipes up to 2 metre diameter, lot of places we have replaced DI. So the DI pipe has a smaller life cycle… 30-years or so, while our HDP Pipes can last 100-years. So I think in terms of lifecycle cost, it is one of the best products for this large scale infrastructure project, it is easy to install, easy to carry and so on. So that is how this division of polyethylene was hardly Rs.50 crore five-six years ago. For it to grow to Rs.700 crore now, it is replacing lot of DI, even MS Pipes.

Kunal Mehta: We are seeing a trend now whereby the availability of polymers is increasing because I think ONGC has started open facility, then there are other places in the Middle East where the polymers price increasing. So just wanted to understand from a three-year perspective for your Piping business, how do you see the prices of Polymers and the supply situation for Polymers going forward?

Anil Jain: We expect a little bit of oversupply for next two years, but demand in India also is growing quite a lot. So I think it will balance itself in maybe by third year or so with new capacities coming from IOCL, GAIL as well as Reliance in India apart from the new plant you talked about of ONGC and there are additional capacities which have also come up in Middle East. So all in all, with comparatively reasonable crude oil prices, appreciating rupee and additional new supply of this polymer, should be good for us for next two-three years and then one has to wait and see what happens then.

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

Sudhir Bheda: You have provided the large deferred tax of Rs.70 crore. So can you clarify on that because it is affecting the bottom line on that?

Manoj Lodha: Yes-yes, certainly it is a good observation. So what has happened that current quarter there is a profit on a higher side, so there is a higher incidence of tax and because of our earlier year carryforward losses and all that, we are not paying current tax but there would be a book adjustment on reversal of some of those assets. So there is a deferred tax liability. But part of the liability also came because of the IndAS impact, particularly the fair market value of the building or some of those other IndAS impact. Roughly Rs.20 crore is on account of either earlier quarters or because of the fair market and remaining is on account of the profit for the quarter.

Sudhir Bheda: Second question on Solar side. I thought there is actually a big, huge opportunity on the Solar side. How are we going to tap that opportunity going forward in next two-three years?

Anil Jain: We are focused on within that Solar opportunity, we are focused on Solar Water Pump primarily, we do some of the other things but they are really small. In Solar Water Pump from having almost no business we have built a reasonable size of business now and it has been a new business, lot of learnings for all the players…

Sudhir Bheda: Can it grow to Rs.1000 crore or so in next couple of years?

Anil Jain: I cannot say with certainty because it depends on the state governments and their ability to provide support for the upfront capital investment. But I think the intent at the various government level it is there. But in terms of execution because you have to go to small farmers field individually in a far and remote village, go and install a solar pump. It has its own time it takes and so on. But our business is steadily growing and in fact in the current year the solar alone for us would be Rs.350-400 crore. So if you ask me over three to five years, can I double the number, chance does exist.

Sudhir Bheda: The Process Food division how much growth we expect because traditionally we have been growing by 25-30% on that side?

Anil Jain: I think this year because of what happened last year, etc., I would like to at this stage only say that we would grow double digit, already in the current year. How much precise? We will talk a little bit later maybe after second quarter.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor Co. Please go ahead.

Saket Kapoor: There was one Solar Pump project that was canceled by the concerned state government. What is the update on that sir it was kept in limbo?

Anil Jain: None of our solar projects were canceled. All the orders we have got we are ongoing.

Saket Kapoor: One where the camp was put up and they told the prices were high, I think it is the Gujarat…?

Anil Jain: Yes, I think that is a very old news. In the initial period, it was there but then it was resolved and thereafter we have already executed and supplied more than Rs.200-odd crore.

Saket Kapoor: We are still having any order book pending on account of that or we have cleared it?

Anil Jain: Yes, the remaining would get done in the current year.

Saket Kapoor: What was the total size of the order?

Anil Jain: That order was total Rs.475 crore.

Saket Kapoor: Rs.200 crore has already been executed?

Anil Jain: Rs.200 plus crore.

Saket Kapoor: There is no price revision of the contract?

Anil Jain: There is no issue there.

Saket Kapoor: Sir, you told that interest cost we will be saving around Rs.50-60 crore, that is on the absolute term, if the revenue rises, there is more working capital requirement, the number will look higher but on a proportionate basis it will look Rs.50-60 crore or on an absolute basis?

Anil Jain: I think we are looking at the fact that it would be in absolute amount Rs.50-60 crore.

Saket Kapoor: Because this year I think we saved around Rs.40 crore on a consol level, on top of that this another Rs.50 crore of saving will be there?

Anil Jain: Yes.

Saket Kapoor: Now coming to your US acquisition part, how much did we pay for the acquisition sir?

Anil Jain: It is close to about 60 million plus.

Saket Kapoor: 130 was the sales for the last year?

Anil Jain: Yes, if you can refer to the press release we have given, all the numbers are there.

Saket Kapoor: I will go through this. I was coming to about FCCB issue. Sir, you have confirmed Rs.104 is the price and what is the due date?

Anil Jain: October 2017 part of it and remainder in April '18.

Saket Kapoor: What is the size of the issue sir?

Anil Jain: Total $50 million, out of that $40 million would be either redeemed or converted by October this year and remaining $10 million next fiscal April '18.

Saket Kapoor: Sir, in the other business division, it was only about the IndAS adjustment that resulted in a profit at the consol level?

Anil Jain: Yes, and there were certain reversal of earlier provisions also part of that.

Saket Kapoor: What should we expect from this other business division going forward?

Anil Jain: Other business normally it is a solar business, agriculture and all that. EBIT level is around 6-7%. So that is a normal range.

Saket Kapoor: Solar Pump project is classified under this business?

Anil Jain: No-no, Solar Pump is part of micro irrigation.

Moderator: Thank you. The next question is from the line of N Samraj from Dwarka Wealth Managers. Please go ahead.

N Samraj: I just wanted to refer to one of your recent interviews to Borgen, agriculture international magazine where you had mentioned that the potential for micro irrigation would be about 1 million hectare. So, am I having that figure correct and possibly this could be a worldwide figure you are talking about and all the six continents?

Anil Jain: No-no, I think in India, the government is also targeting that every year at least a million hectare should be brought under micro irrigation. So that is that context.

N Samraj: One million hectare, how much of potential revenue that would translate into in rupees crore?

Anil Jain: Approximately Re.1 lakh per hectare, so one can do the math in terms of this case.

N Samraj: All the financials and all you have explained in so much of detail and all the growth, now one thing I would like to put in this forum and very clearly so that people should get a holistic view of what Jain Irrigation is all about. Now if you see EPC industry, it has got absolutely no hi tech, no biotech, no farm fresh, no food processing, it is a plain vanilla company where you are giving a PE upon almost 47, means Rs.160 or Rs.170 for EPS of 3.58, today, Jain Irrigation has done 3.2x. So the forum has to understand what are the evaluating company against and therefore this has to be clearly understood by the analysts and the research forum of India? So this is what I wanted to put across from our point of view that if you take the IPOs which are expected in the next two financial years, just Jain Farm Fresh and the SAFAL, that itself would come to Rs.110, that means the company is actually paying to Jain Irrigation share, such a arithmetic has to be very simply and clearly understood by the capital market, we get excited, okay, Jain Irrigation has gone by 5, 10%, 15%. But actually the price potential should be close to Rs.140-150 today. This is something the forum has to understand, what are they evaluating and what they are paying for and what is the value they are getting out of this company? This is what I wanted to clearly put across sir from Dwarka Wealth Managers.

Anil Jain: Thank you for what you are stating, but as a management I can only comment on our performance and what we intend to do in terms of operation. I would leave it to the market participants to decide about valuation and how do they think about the stock. Our company is here for long-term, our company is creating lot of value, company has enormous amount of intrinsic value. We have had in the past balance sheet issues or business model issues. We have worked hard to address those and we think we are now getting into a very good platform of a sustained growth where debt would be low, profits would be much better and we would continue to create enormous amount of value for farmers and that is the reason our company exists. We thank you and I hope what you are saying also is understood by others. So it is a very different and dynamic process. So let us see how that goes.

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: No, I think we are just happy to share a good set of numbers and we are looking forward also on a very positive momentum. Of course, being in an agriculture seasonal business, sometimes the issues come up which you cannot control which can impact but kind of order book we have this year in hand we feel fairly confident that we would have significant revenue growth and as I said we should grow our EBITDA by more than 25% while maintaining debt levels where we are. I would like to thank again all the participants and we look forward to talking to you again post June quarter results.

Moderator: Thank you 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.
