Jain Irrigation Systems Limited

Q4 & FY19 Earnings Conference Call

May 31, 2019 at 2 :30 pm IST

MAIN SPEAKER:

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

Moderator: Ladies and gentlemen. Good day and Welcome to Jain Irrigation Q4 & FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you sir.

Siddharth Rangnekar: Thank you and welcome to the Jain Irrigation Systems Conference Call for Q4 & FY'19. Joining us today are Mr. Anil Jain – Vice Chairman and Managing Director; Mr. Atul Jain – Joint Managing Director, Jain Irrigation Systems; Mr. Neeraj Gupta, who is the CFO of Jain Farm Fresh Foods Limited.

We will commence the opening remarks with Mr. Anil Jain, following which we will have an interactive question-and-answer session.

Before we begin, please note that some of the statements made in today's call would be forward-looking in nature and a note to that effect has been included in the presentation which was made available on the company's website.

I would now like to invite Mr. Jain to give us a brief overview of the company's operations for the quarter and the year ended March 31st 2019 and the opportunities that lie ahead. Over to you, sir.

Anil Jain: Thanks, Siddharth. Good afternoon to all the listeners to the conference call. As usual, Jain Irrigation has declared its quarterly and annual results for the FY'19. When we look at the overall performance of the whole year, our revenue has increased from close to about Rs.7,900 crore to Rs.8,576 crore, so registering close to about 9.8% growth at consolidated level. When we started the year our anticipation is that we wanted to grow little bit more, but the fact that we have closed around 9.8-10%, while it is not the greatest year but considering all the headwinds we faced, I think 10% is a reasonable growth, in fact our growth for the first nine months was higher than target, a little bit higher moving towards 15-16% but reduction in our growth in the fourth quarter has caused the annual growth to go down and I will come back to what exactly transpired in fourth quarter and how we are dealing with that going forward. But overall for the year, the revenue has grown. Now, when you look at the earnings at the profitability level, net profit is at Rs.250 crore as against last year's Rs.221 crore. So, that is slightly about 15%. So, revenue has grown 10%, net profit has grown 15%. That is the summation of the whole year.

But if we look within the context the domestic business, it grew about 5-6% from Rs.4,260 crore to about Rs.4,442 crore and earnings came down from Rs.281 crore to Rs.234 crore on standalone basis in India because of much higher tax rate this year. In the earlier years, we had unabsorbed losses and so many other things but it seems now that has been all exhausted and going forward despite some benefits we get on the tax, such as link to some

R&D or specific agriculture income, etc., we should have an effective tax rate going forward somewhere between 26-28% and that is how one should model going forward.

Now, in terms of this level of earnings which we have achieved despite all the headwinds we faced, has allowed us to have a year which is not only profitable but a higher profit compared to the earlier period.

When I look at what has happened during this whole year in terms of the different businesses, we had overall more growth in overseas market than in India market and India story is somewhat known or familiar to lot of investors – the rural consumption was affected because of the loan waivers, farmers are not getting new loans by irrigation systems, we have had a significant drought because of a bad monsoon especially second half of the rainy season which has impacted our demand in the rabi period and the farmers were having rural distress because of low agri and food prices. So, combination of all these have affected us but despite that we have managed to push and have revenue growth. And in fact, if you look at this particular quarter where we have lower revenue growth than the same period last year is after almost four years, last four years more or less for almost every quarter company has had revenue growth. So, I believe this is kind of a blip on the radar and going forward when you look at the whole FY'20-21, we remain optimist and we believe continue to maintain revenue growth and continue to execute on the opportunity.

Another factor which has happened this time which must be mentioned is that our receivables have remained high for the March quarter, considerably higher than our own anticipation or what we had said even on the last concall. And lack of reduction in receivables has resulted into higher amount of working capital debt. So, while we had predicted that by March quarter we would be able to reduce the debt levels, because of the higher working capital requirement, debt levels have remained very close to what they were in the December and our expected reduction what we had planned and hoped for did not come through. I personally believe that this is the short-term phenomenon and over next few quarters we will be able to address that.

Now in this particular fourth quarter, the issues we faced were various issues which I have already spoken about in terms of agriculture and rural area. In addition, there was a specific issue linked to this election related code of conduct and code of conduct maybe declared on a given day but we have seen couple of weeks before that already things started slowing down and this time this were very extended election, so the situation has almost continued up to now. If you look at our 'Investor Communication' which has been put up on the website, if you compared to the December level, our receivables of micro irrigation division, the retail has not really risen dramatically in line but even the government subsidy part which comes mostly to Andhra and Gujarat is stable. Where receivables have gone is project and the project receivables have been delayed due to this whole code of conduct where everything gets kind of frozen in the various different states in which we operate and most of that increase in those receivables have impacted almost close to Rs.350- 400 crore increase or lack of reduction in the debt which we had anticipated from December which did not happen or which should have happened.

We have orders, as we have spoken earlier, we had other project orders in hand and we could have gone and executed and that would have meant that our revenue would have gone up but then because situation was such, we thought it was prudent that we should wait for some time and maybe from the post monsoon start executing to this project orders when we have more clarity on the underlying cash flows, the individual state government budgets or applications or their finances and so on. Most of it was a deliberate decision to delay part of the revenue into the FY'20. Otherwise, our receivables would have even gone up more than what they have gone up now and we took that call that overall we had already executed in the first nine months, fairly good amount of revenue growth and we felt that even if it is lesser revenue growth in the current quarter, we should be able to manage that because trying to see that the balance sheet remains within a certain level which was already December was more important than trying to achieve additional revenue. And that is the call we took and we believe all those orders are still outstanding and we should be able to look at those now onwards, but during the monsoon period again, most of the projects work does not happen due to the rain and so therefore I would say that while we are quite optimist about the whole FY'20 in terms of the business and revenue, but for first half could be weak and second half would be much stronger. So, that is the overall scenario in total.

When we look at the working capital analysis for the whole consolidated company, you will see that in March '18 our inventory level in terms of DSO as a whole company put together was 116-days, for March '19 it has come down to 110-days. So, we have grown the business and revenue by 10% and still manage to reduce the overall consol inventory level and that meant we have tried to increase some cash flows from that.

In terms of account receivable, we were at 115-days for last March '18 and we are now at 127-days and most of it absolute amount is coming from India in the MIS Project division. But, we have also paid in terms of the way our India business gets financed. We have used lesser of the letter of credits and more of the fund based working capital limits and that means less payable. So, therefore, net working capital has been impacted and overall it has gone up by 22-days but it is almost same as the December consol level was 158-days, now it is 162-days; December consol level our inventory was 129, March is down to 110 and accounts receivable were up from 103 to 127.

So, overall good improvement at inventory levels, closer to 110-days and we hope that we will continue to work to ensure that our medium-term target on inventory is that we should as a company to try and go towards 90-days. I think if you go back to a few years ago, it was higher and slowly we are shipping away at the inventory levels through various things we are doing at operational level and we are now at 110-days and hope to continue to improve on that. The receivables overall global, the target is trying and again be closer to 100-days, right now it is 127-days, as I said, December it was 103-days and last year it was 115-days. So, there is still some work to be done on the receivable level. So, that is the scenario on the overall working capital level in terms of the company.

Now, when I look at my order position in FY'20, in India we have about Rs.3,300 crore and at consol level total order book is more than Rs.5,000 crore. So, as we go ahead and execute on these orders, I think revenue growth should follow, there is enough opportunity on the revenue growth in totality.

So, covering all of these, it is important also to talk about going forward how we do with the debt. Recently there were a couple of news items, one from an analyst, another from media house, talking about overall debt of the company and whether company is in debt trap. We have been in this business for fairly long period of time and we have seen debt cycles and debt levels higher. We have been better than for most of the periods in the earlier part of the history of the company. While we do understand, appreciate and accept that this level of debt is not sustainable in current environment and for us to create sustainable value for shareholders going forward, we must address the debt issue. While in the past we have tried to attempt the debt issue by improving working capital cycle, raising some money into the food, but at the same time we were also completing our growth plans, we have invested into factories, acquisitions, we needed to be a proper global irrigation company, we needed to fulfill our requirements in different various markets, so we have done few small acquisitions there, we needed to become part of this new agri- tech innovation piece and we have done few acquisitions there. All of these have access to capital. So, when you look at everything and this is what I would like to bring clarity of all investors that our overall debt is close to let us say Rs.5,000 crore now. But when you break the debt in totality, about Rs.1,400-odd crore of that is a long-term bond which is due in February '22. So, fairly long period of time between now and then and we are confident we will be able to address the bond either in terms of repayment or refinancing as and when that issue arises. When you look at the remainder of the debt we have, you would see that majority of the remainder debt is actually in working capital outside India because that is the nature of the business, whether food or irrigation business has typically either long inventory or long receivables, that is just the nature of the business. What is not in working capital, the remainder of the long-term debt we have, that we need to repay over next about five to six years. So, on an average in no year the total repayment is due more than Rs.300 crore approximately. In one particular given year it may be higher close to Rs.350, 360 crore, but otherwise in other years it is less and company generating enough EBITDA to provide for the interest, taxes and these repayments apart from whatever maintenance CAPEX, etc., to pay or repay those loans out of internal accruals.

Another issue which has been there in the past has been that company has consistently invested quite a lot into the again CAPEX and through acquisition in terms of investment and that has also impacted our overall debt level and that has not allowed us to bring down the debt levels which ourselves wanted to.

So, company has gone through a cycle in terms of where we wanted to be and where we should be in terms of the growth plans, our ability to execute, building the capacities, bringing the technology level leadership, access to the different markets around the world through the new solutions for the climate change and what not. And we have fairly succeeded in reaching out to large number of farmers by now and we continue to do that even more going forward which is the primary stated purpose for our existence. But while we have succeeded quite a lot there in affirming farmers, agriculture, improving overall productivity, we have managed to grow the business around the world. We have been profitable last few years, except for a small period of about 12-14 when one year we had a loss, we always maintain profits. But because of the higher level of debt, equity value of the company has taken hit.

So, we had a lot of deliberations and discussions at the board level when our board also met yesterday. What we have decided is that company must go out and aggressively cut its debt and cut by a sizeable amount, let us say about Rs.2,000 crore from where it is now and we wish to do it as soon as possible. But looking at sometimes these factors are beyond your control of the market situations and the actual process of any corporate action and the legal and regulatory hurdles in the process, etc., the board have mandated that we should appoint banker soon preferably before September and after one or two multiple bankers have been appointed to help us execute on this debt reduction agenda, preferably within maybe 12 months payable to achieve this it might take 18-months. So, that is why I think in our press release we have talked about 12-24-months. But the attempt is to try and do it earlier than later even though the time period is given 12-24-months. Options are three. We had spoken about the food IPO earlier also and it has been one of the things that company talks about this thing but it has not happened but market conditions were not good but I think post this election and stability of the government in India, situation may look different, one has to just wait for a few weeks and if situation is positive, because underlying business, I think is fairly good despite the fact that last 2.5-seasons we have seen mango prices drop by 50%. That has impacted our revenue and earning capability. We had that fire issue. Our new launch of Spice has taken its own time. We are spending some money for brand building on the B2C. So, combination of these things we have gone through last two years but despite that in FY'19 overall consolidated we have managed 15% plus growth in the revenue in the food business and we expect higher level of growth in the current year in the food business and therefore the food business might be the fastest where we could monetize and create certain amount of equity and I think by the time we come back and talk to you on June quarter results, maybe I will have more concrete update on how we have moved on that.

The other two principle decisions board has taken that we have a quite large Plastics products business, some of is pipes and some of that is Plastic Sheet. That business also has reached certain level of critical mass and some of our pipes get used in the irrigation division, they are not captured as a pipe division. So, when you look at pipe in isolation for a different application, our pipe business is among the top-5 in the country or maybe closer to top-3 but let us say within that. When you look at valuation, possibilities of various different businesses and when you look at individual numbers of our plastics product creation, I think it generates fairly good numbers and should get good traction in terms of going forward. So, we are looking at the possibilities of how we can monetize part of that business and raise equity funds.

Third, we are also looking at a possibility that we have built a very good assets over last 10-years in terms of our international irrigation business. It is headquartered partly in US and partly in India. Both of these businesses have very good growth opportunities. They have been mostly funded by the parent in India or through the bond issue. And the businesses have grown. Since we have acquired them, most of them are in double docile. While their earnings in initial period were less because we were trying to build a market share and a market brand, but now I think we are taking lot of steps like last year we have taken lot of steps to optimize our sourcing, our supply from India, or optimize manpower levels into those businesses overseas. We are looking to optimize various plants we have around the world. So, all of those that is going on and the end result should be I believe substantial improvement on the earning capability of this overseas businesses which would allow to find a way to also monetize part of that business. So, all put together, based on all what we know plus comparable with some primary discussion with the bankers, we feel we are in a good situation, our business, the brand, our market access, our market leadership, technology leadership is quite solid as a company. We have created a lot of intrinsic value that may not be reflected today in the current market price of the parent and that is one of the reasons separating out the business and let them be on their own, raising some equity for their growth but most of that equity we want them use to bring down the debt by Rs.2,000 crore. So, that is all in now. Board has agreed and that would be executed over next few months and as things happen we would be happy to share all those details with the investors. Because of this long explanation, my remarks should have taken more time.

Other question which may come up today is linked to our earnings and the net result. I already explained about the higher taxes this year.

Another point is related to other expenses. Part of other expenses where you see increase is due to the FOREX modification impact on the translation, etc., because we are operating in so many different currencies and I believe this particular impact this year was little bit more severe on annualized basis I would say compared to mostly the earlier part. But I believe as we move forward overall currencies are more stable into these entities where we operate and this may not recur going forward.

So, all said and done. I think this quarter's results were less than our expectations. We made our best efforts but we have to take some call. I should as CEO, apologize that we have not come up to expectations to the investors, the larger financial community and other stakeholders as well. But we are working hard in short-term, medium-term and long-term not only that we continue to build on these last 30-40years of good work we have done to create more sustainable solid businesses but also at the same time address the issue of the balance sheet, fiscal discipline and operating performance going forward more on consistent basis. But the agriculture business, seasonality, unpredictability, government policy, monsoon, all of those issues. So, there we need to create cushion in the capital in the balance sheet which we do not have today and therefore any headwind really kind of creates at least perception of instability if not actual hurdles and difficulties. We are mindful of that and we are cautious about taking any new investment decisions but we will be more focused on this. We continue to strengthen our organization at various levels in India, outside India in terms of IT to address the challenges and we are quite fairly successful on that and going forward we will continue to execute and during the year you will see more and more details on that count.

So, with that, I would like to again thank all the participants on the call as well as the general investor community for their support and patience during this period. We not only mean well but we continue to work hard to execute well. Sometimes just situation does not allow you to really cross the threshold even though over last few years we have continuously improved our profitability, our revenue but balance sheet has been an issue and I think that will also now get addressed but again it may not happen immediately but you will start seeing over next two, three quarters specific count reductions taken by the company.

Thank you, all. Me and my team are happy to take questions now.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Denis Ashurkov from EG Capital Advisors. Please go ahead.

Denis Ashurkov: Can you just please tell what was your average in cash flow before working capital and after working capital? The second one is in terms of the receivables when do you think they will return as the cash flow into the company – will it be the next quarter or you expect it to take longer?

Anil Jain: That should happen by September. Some of it you will already see in the June quarter. Because things have just now started, I expect some of that to spill over in July and August but by September most of these receivables should be back, it was a temporary stuff. In terms of the free cash flow, for the current three months, we had an operating profit from cash flow of about Rs.288 crore and after working capital it was about Rs.234 crore. For the full year 12-months cash generated from operations was Rs.1,088 crore and post working capital it is Rs.194 crore.

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

Shikha Mehta: For your Q4, the consol PAT is slightly lower than the standalone PAT. So, could you give some guidance on the subsidiaries and how they have performed and how they would perform?

Anil Jain: I think subsidiaries are performing better than the earlier period overall but as I said there was impact which came from the FOREX side and that is why PAT is lower because of that reason at the consol level. But at operating level, these subsidiaries, there are different, different businesses -- irrigation, food or plastics – have started doing better including I think our new business in US which we acquired, they continue to remain profitable and from the current year we expect them to overall grow.

Shikha Mehta: Few of our order executions and delay are in projects, when do we see that coming into play – will it start from this quarter or second half only?

Anil Jain: It would happen in second half because as I said this quarter is almost finished, just a few weeks are left and next quarter is a monsoon quarter in which you cannot go into the field and so on. So, we will try and finish some of the pending work from the earlier part of the execution but lot of new things will be done only in the second half.

Shikha Mehta: So, major revival in growth will happen from second half only?

Anil Jain: Yes, that is true.

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

Ankit Gupta: Will it be possible to give a breakup about your EBITDA calculation if it is Rs.1,257 crore, what are the other add backs in terms of other expenses, how you came to that figure actually?

Anil Jain: If we look at PAT of Rs.264 crore… this is I am talking for the consol the whole year, the tax of Rs.119, 120 crore, that takes PBT to about Rs.375 crore and depreciation was about Rs.313 crore, interest and finance cost was about Rs.514 crore and then the other provisions were about total Rs.200 crore on the negative side. On the positive side, we had some valuation gain, some interest income, some claim from insurance for the loss of profit, combination of all these then results into Rs.1,257 crore at the EBITDA level as against Rs.1,152 crore which was the last year same period for the whole consol year. If you want further details, I can ask Neeraj to share more details of individual line, offline.

Ankit Gupta: Okay, thanks for that. Secondly, will it be possible to give a breakup for your rest of the international business and India in terms of the division in terms of the EBITDA contribution?

Anil Jain: When we look at the EBITDA contribution, in fact, in this fourth quarter our overall EBITDA out of India was higher than normal and the reason was that if you look at the Plastics business especially, there was good supply of all the raw materials, etc., and because of that oversupply we could get good discount from majority of our suppliers being a large buyer and that helped us improve our margin and we have taken some other cost reduction measures at the casual labor, which we use, etc., So, all of that put together has helped us. When I look at India EBITDA margins on the Plastics side, have grown from 19.4% to 21.8%, so about 2.4% increase, and within that Hi Tech was at about 25% as against 23% last year and Plastics was at about 14% as against 13% last year around that point. So, overall this is where it has been for India. So, on Hi-Tech consol EBITDA margin when I combine both overseas and India for the fourth quarter came to about 19.9% as against 18.6% last year. The Plastics came at about 13.1% against 12.4%. Food was at about 11.3% versus 10.6%. So, overall consol EBITDA for the quarter increased by about a percent at 16.6% versus 15.5% last year, but when you look at on an annual basis last year at consol level we were at 14.5% and this year also we are at 14.5%. So, at annual level it is almost same level of profitability, in this quarter particularly it was higher by about a per cent or so.

Ankit Gupta: If you can just give a brief color of what is the international contribution? So, we can assume like a similar division in terms of the revenue like the international businesses contributes around 49% of your revenue. So, broadly at a similar level of EBITDA contribution?

Anil Jain: No. The EBITDA percentage in India as you know is much higher, for example, in Micro Irrigation, but we have a lower EBITDA overseas, that is known. I think our Micro Irrigation for example comes around 16%, 17% when you combine both India and overseas in totality which is higher than let us say any other company in the world which operates in this space because especially the stronger performance we have in India and overseas we are trying to improve the EBITDA.

Ankit Gupta: Any outlook for the revenue and the EBITDA for the FY'20?

Anil Jain: As I said, we will give outlook post monsoon because we just want for it but at the same time we have said that we have Rs.5,000 crore of orders in hand, we need to execute good amount of them in the current year. I am optimistic for good revenue growth but we will talk of numbers only in the second half this time.

Moderator: Thank you. The next question is from the line of Tushar Shah as an individual investor. Please go ahead.

Tushar Shah: First, I want to make a couple of points that you may have been aware that market is hitting all-time high and our share is getting multi-year low, almost I think our price today is what was there in 2006-07, so, almost a decade has been lost and each year some or other reason which is coming our way to not giving us higher profitability be it monsoon, be it farm distress, be it election. Question is more about, what are we doing to control our cost because I see that our employee benefit cost is going up by 10, 12% every year even though our profitability is not growing by that much, our EPS is not growing by that much? Second question is are we also looking to have some leadership rejig and bring some professional to see what can be done to optimize the results?

Anil Jain: As a company, we are doing lot of activities to try and improve the earnings and over last three, four years, profitability has improved from where it was, I think we were down in '12-13 Rs.2-3 crore were the profits and we are back now close to Rs.250 crore and we hope in the current year more, so in that sense there is improvement but it is not enough. That is one part. The second part in terms of some cost going up is partly a function of the growth or investments which we have made. In terms of the employee benefit or employee cost in this particular year, costs are higher because historically every two years we provide increment and this was the year in which increment was given. So, in this particular year cost do go up and the next year they do come down. But in fact if I look at my employee benefit expenses consol at global level, for March '18, there were 11.3% of the revenue and current year also 11.3% of the revenue. So, despite giving the increment, absolute amount may be higher, but they have remained at 11.3% of the revenue. Company's effort in the current year is to try and see that how this benefit could be around 10% from current 11.3%. Within that in India the costs are around 7-8%, overseas people costs are much higher, but at around 11% or 10% the employee benefit cost we have overall is much lower compared to most other companies. Having said that, that is not a reason to say, okay, we are lower, so we cannot do anything. This across our plants around the world we have optimized, rationalized. But when you do that, in the first year, you do have to pay severance charges and other things, so cost remains high. But the next fiscal year the benefit comes through and that would be in FY'20 and therefore I feel from this 11.3% which we are there, will be down to 10% and at 10% that would be a good level to have. Other main expense for us is the raw material which is linked to the global scenarios. The solution to this is to sell more in terms of where you are securitized and you can collect faster and that is what our company is really focused on. Third is energy expense. These are the major expenses. In terms of the professionals you talked about, company has 12,000 people. There are few members of the family. We have been in the business for 30, 40-years. But most of the businesses are actually run by professionals and our culture and tradition has been to upgrade people within the company, we call son of the soil, people who have worked really at the bottom up and we continue to upgrade them.

Our overseas businesses are run only by professionals who are there. Even in India individual businesses is quite well run by different divisions or different departments are headed by the professionals, and that is going to remain our focus. Me or my brothers are on the board and we are also running the businesses. We are also quite professionals, we take decision in a matured manner on a fact-oriented basis with certain amount of knowledge, experience and expertise and wherever possible we also take outside help in terms of consultant or professional as and where it is required. So, you should be assured that at a board level, at a management level, we are all very professional, we want to run the business in professional way. But it is an agriculture business. So, it does create seasonality, unpredictability and we have tried to address that through derisking of the market going global, also creating new solutions in last 3-4 years; company has created abilities for example, we created single-handedly like Solar Water Pump; we have created the Water Solutions on the piping, where we can go and build the networks in the whole city; in Irrigation, we have pioneered this new concept of integrated irrigation where instead of open canal you can have pipes and then install drip irrigation and we have implemented successful projects which are quite profitable and that is also changing the agriculture, water, country, earth and everything, and all of that is being done in a very professional & systematic way. If you have any doubt, I would actually invite you to come down, see the plant, meet the people, meet the management, all the people who are there and see how professional they are in what they do. There are no decisions taken here which are not professional. But at the same time, as business has grown, we have become more global, company continues to need to strengthen its management and that effort is on and you will continue to see those results going forward.

Tushar Shah: Thanks for answering sir. My question was not to question the current leadership team about their professionalism, it is more about getting the outside view, as we are not getting good profitability over last few years?

Anil Jain: No, but I am just trying to explain. As I said last four years profits have moved from Rs.3 crore to Rs.250 crore now and hopefully this year more, but it is not adequate or enough. I do not like to give excuses. These are the facts of reasons which we explain. The idea is that company on one hand to arrive at higher level of profitability, it is important that we bring down the debt and the interest cost that would add to the profitability, other way is that we need to improve the contribution from overseas businesses and that was really big focus. In the current year we have taken lot of steps, the impact you will see in the next year, for example, we had appointed Boston Consulting Group for improving our overseas operations this year. So, that spend has come but the benefit come next year and so on. So, it is not that we are averse to outside view. That also we are working on.

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

Harshil Gandhi: What are the components of other income?

Anil Jain: Other income will include typically the benefits we get from the government like this mega project benefit from Maharashtra government, we also get the benefit on the various export schemes government have and we have as a company do lot of exports. Other income would also in this particular year have some insurance claims related to loss of profit policy on the fire which we had received. So, it is a combination of these things and these are consistent items which have been there before also.

Jain Irrigation Systems Ltd.
Small Ideas, Big Revolutions.®

Harshil Gandhi: If you can just give the breakup receiving subsidy from the government? About Rs.260 crore run rate in FY'19, what would be the breakup of major components?

Anil Jain: I think if you look at India, it is incentives and assistance would be almost Rs.80 crore, some amount of valuation gain on derivatives are Rs.12 crore. I think those would be two major items.

Harshil Gandhi: What about Rs.150- 160 crore?

Anil Jain: That would also come from our food company, JISL. The additional other income in the food and from the overseas entity it would be valuation gain on the bonds.

Harshil Gandhi: So, the major part of Rs.150, 160 crore would be only from valuation gain?

Anil Jain: No, in the food business because there are lot of exports. Incentives and assistance I think combined are about Rs.120 crore. Insurance claim was about Rs.30 crore. On the embedded derivatives, valuation gain, all put together and it may not be just bond, it could be any other instrument we have like, CCD or whatever else or any other derivatives we have, that is about Rs.94 crore and then we have some interest received on financial assets about Rs.11 crore. So, it is a combination of these.

Harshil Gandhi: Because if I remove Rs.120 crore of incentives, we are not able to generate good amount of PAT… so if I remove Rs.120 crore from Rs.250 crore of profit, so it just brings PAT to a level of Rs.130 crore only?

Anil Jain: Some of this was also last year. The interest is high definitely and in the fourth quarter we had less profit than what we had anticipated. If our fourth quarter would have gone normal, you would have seen additional Rs.80-90 crore to the earnings because we reduced sale by almost Rs.400 to Rs.500 crore and Rs.500 crore sale in fourth quarter usually our EBITDA is highest, would have meant very good level of EBITDA and most of that go straight to the bottom line because all other costs are already factored. Because of the lack of performance in fourth quarter, you are seeing this situation. Otherwise, you would have seen definite improvement over the last year on orange-to-orange comparison basis.

Harshil Gandhi: Do we have enough P&L to service Rs.500 crore per annum as the finance cost for next two fiscal, we are not able to scale up on the revenue front. So, if there is any stress on the margins, will we have enough P&L strength to service interest?

Anil Jain: You can see our EBITDA is at Rs.1,200 crore. So, Rs.500 crore should not be issue. We are not saying that we will not grow the revenue. Every time there is discussion because of whole agriculture, monsoon and so on, is that we say something, then in market it did not happen or we should wait for it to happen. We are saying we have Rs.5,000 crore of orders in hand. We need to execute on those orders. There was a temporary delay in this particular quarter and that has also come after four years in the first quarter where really gone down. So, to answer your question, it is a big affirmative, yes, we have enough and there are parts of businesses which are doing very well and quite profitable. Optically, this quarter looks very bad in every sense and we understand and need to accept that but I think overall underlying strength of business, our ability to deliver, sustain the current level of debt, I do not think that is under a question. We are dealing with all our banks and everything is moving well. We do not have big chunk, any payments falling due or anything of that sort. As I explained, the debt distribution is quite well spread when you look at the overall debt. But at the same time, it is very important that we really bring down that whole debt piece because once we bring that down, that will create substantial cushion to adjust any headwinds and then you may not have those types of questions when you will have that level of cushion. So, interest cover is also 2.5x right now, debt-to-equity is 1:1. So, overall, we are in a solvent, very good position, underlying businesses have good growth opportunity, in each business we have leadership, we have fairly good cost control when you really look at operational level. Some of the things again impacted this year have been things like FOREX, etc., but that is not on a cash basis, it is more on a non-cash basis. So, we are positive.

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

Parag Khare: Q4 has come little disappointed after four years. It was way back in 2015 we had not so good Q4 because of two consecutive droughts in 2014 and 2015. My question is, is this one-off event or is this a passing phase, you will be back to 15% kind of number in Q1, Q2 or it will be a prolonged kind of subdued performance for next two quarters?

Anil Jain: I would say it is possible that first and second quarter will remain weak. So, you are looking at overall three quarters. But, if you look at annualized basis, as I said also earlier, for our company as a management at least I would like to focus more on annualized basis and we are very confident of the revenue growth also because across the businesses, we have very good order book; in food business for example, we have sold all onion we have today, we have sold all fruit pulps we have today and it will get shipped over a period of time and there could be a month here or there but all product is going on. In MIS, we have almost close to Rs.2,000 crore of domestic orders in India. In Pipe, we have about Rs.900 crore of project orders in hand. So, that level of orders exists and business is ongoing business.

Overall I think generally the economy has been slow for last few months; rural consumption has been slow, farmers have been suffering, through lot of loan waivers and what not. But I think new government will do certain things. This government has said in their manifesto that they want to do 10 million hectares of drip in five years which is substantially more than what the country is doing now. But I did not talk about that number because it is the Government, let us see how they go about it and we will wait and see. They have said that they want to spend Rs.25 lakh crore on the agri infra. So, all of that along with the fact that we have good orders, overseas also we have larger opportunities, we are bidding for few projects in Africa which are backed by Exim Bank where payments are not only secure, you get paid faster in time and we could grow business that way.

So, the idea is that maintain the good revenue growth for FY'20, but see that this whole receivable issue is addressed which will address the working capital issue in terms of the working capital debt, and then meanwhile the larger issue the medium to long-term issue of overall debt size of the company, overall amount of interest we pay, that we want to address through de-merger, divestment, whatever we will be able to pursue in consultants with the bankers and the board that we will go ahead and implement because whatever feedback we have received is quite encouraging about the valuation for individual division even though it is not reflected in some of the parts. So, we will continue to work on that. But we are quite bullish on our underlying business despite the fact that March quarter was one of the bad quarters after four years and this and next quarter might also be slow, I just want to give advance warning to investors because last two months we are almost washed off, but thereafter we are quite strong, we are building our remainder of skill set capacities so that in a shorter period of second half we will execute quite a lot.

Parag Karif: How are the prices for onion and mango in the season ? Can we expect better realization?

Anil Jain: Yes, somewhat higher right now. Mango season has just now started and prices do change within the season also. But this season the indications we have prices would be higher than last year. Mango, we had 50% reduction in the prices which impacted our revenue. But despite that we sold more quantities and if you look at standalone food business in India, our revenue is almost same as last year. How could that happen? We have to really work hard, sell more quantities despite the fact the value deflection impacted us. So, we have overcome those. And you go through the cycle, so last two years we have faced value deflection. Food business, I think next 2-3 years should become better going forward. It is a cyclical. So, our overseas food business is turning around. Last year we took lot of losses in that business. We have turned it around, we have reduced inventory by almost $10 million in overseas business. That is you see our overall inventory levels are coming down. This year we would be further taking off another $10-12 million of inventory in terms of bringing it to more optimum level. So, that is all happening. As I said, I am quite bullish about the business going forward even though I am being cautious about the first half.

Parag Karif: Last question on the debt side. Normally, our debt goes up in the first half because we procure the inventory. Now we are Rs.5,000 crore. Do you think by September we will go to say Rs.5,500-5,600 crore and then to turn it from there will be a little difficult task?

Anil Jain: No, as I said, currently, we were expecting Rs.4,500-4,600 crore is where we wanted to really close. We are short by Rs.400-500 crore by our own internal target. That I think by September would be in place. So, while our normal debt which goes up due to the procurement of fruit material during this processing season, inventory buildup, I think that will get offset. So, it may be possible that in June quarter you will see Rs.5,200 crore or so. But I think by September you will go back to the same level last year, it will not be the higher level what you are suggesting that will go to Rs.5,500-5,600 crore, I do not believe that. And the second half then most of that comes back as we get into the normal cycle where our micro irrigation receivables have been stable last 2-3years between 180 to 195-days. Right now it has gone to 230-days. So, we want to see in the current year they go back to that closer to 180-days mark because work has been done, money is due, so it should come.

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

Pavithra Sudhindran: First, what was the FX loss that you reported in the fourth quarter and full year?

Anil Jain: Total full year was about Rs.140 crore and Rs.114 crore for the fourth quarter.

Pavithra Sudhindran: If you can share with us the FX impact on the reported debt?

Anil Jain: It was about Rs.160 crore annually.

Pavithra Sudhindran: What is the CAPEX in 4Q and full year and what is the guidance for the next one to two years?

Anil Jain: As I discussed, our focus is to try and see that we moderate our overall CAPEX. If you look at company's overall depreciation is about Rs.300-odd crore approximately. So, that much of usual maintenance CAPEX is required and we end up doing maybe another Rs.100 crore or so of the growth CAPEX depending on the individual location of individual product line. We are working out internally how we can reduce this maintenance CAPEX down because we had some recent investments and then try and see how we can maintain this around Rs.300 crore. So, if everything works well, I think overall CAPEX maintenance as well as growth in FY'20 should not cross Rs.300 crore. Even though in the last year maintenance plus growth became little bit less than Rs.400 crore.

Pavithra Sudhindran: Within that total CAPEX, how much would be spent in India and how much overseas?

Anil Jain: Most of maintenance CAPEX is in India; so when I look at overall percentage wise, I would say almost 80% here and 20% outside.

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

Rohan Gupta: Sir, you mentioned roughly Rs.400-500 crore sort of revenue loss has been there in Q4 and you cautiously did not approach for. So, just want to understand this is a spillover project which will finally come to us in later part or the project has gone to some other parties and we are not more any contented in that?

Anil Jain: No, these are two separate issues. What I have spoken about is the project orders which we have in hand, on which we did not go aggressively and execute because we would have executed and not received money for those, then it would mean higher receivables. So, those projects are with us and these projects usually are 18-months to 24-months period.

Rohan Gupta: But on those projects which you are already executing, there is a timeline led schedule ?

Anil Jain: That is what I was explaining that this project usually sometimes have 18-24-months, sometimes more time. I think we have enough time to address that issue what you said. We will be able to complete the projects in given timeline but we took a call in this particular time. In terms of your other part of the question, in terms of letting some of the business go or not take those orders, our overall as I said order book is still quite strong, Rs.2,000 crore of projects, it is a quite nice order book. We are letting some of the projects go so that we do not increase our risk in a given state where you get too much exposed and we have decided in the current year like this Rwanda we have got $50 million order between Pipe and Irrigation division which is backed by Exim Bank LC, those type of projects we could get more. That is going to be focus in the current year because I think there not only that payment is 100% secured but also the payments come through faster and so on. What we let go was only postponement of our revenue from the current quarter and what we are going to focus in the current year apart from executing on what we have in hand and we have some time to execute those projects, is to go more on the projects which are within our Pipe Irrigation domain expertise and knowledge, where profitability and cash flow is assured.

Rohan Gupta: But we are quite confident that there will not be any sort of penalties because of this execution delays?

Anil Jain: No, I am quite clear. We looked at and calibrated it accordingly. If you look at it, it is not that we did not do the project business, if you look at my investor communication, it will show you that we did certain amount of project business in this quarter which was higher than the same period last year.

Rohan Gupta: But we cautiously did not complete roughly Rs.400 crore sort of… ?

Anil Jain: We could have done more, that is what I am saying. We did Rs.350 crore this project business and overall this year we did Rs.826 crore as against Rs.500 crore last year.

Rohan Gupta: Sir you are also talking about bunching up in second half and this business is mainly led by the capacities and execution-led constraint. So, it means that we are relying too much on second half and if there are any further issues and capacity constraints, execution related risk, so there may be too much of bunching up which we are relying in second half as we say that by June end we anyhow go to Rs.5,000 crore plus debt with the leveraged balance sheet. So, if anything goes wrong probably in a second half for whatever the issues… further delays in payments then in that case we are looking at the higher risk related to our business?

Anil Jain: No, I do not think so. In terms of capacity, I think we have enough capacity. Capacity utilization is not very high. So, some of the irrigation or pipes can be produced at a given point of time and as you know as we see things August and September is usually lean season for our main retail business, so we can always build inventory if required at that point of time or even in September or October and projects also have lot of service component, installation and those things, it is not just about the product supply. As I said, these projects orders are in place, in lot of projects some work has been done, so we have to do the next phases and we have a large opportunity, so let say we have Rs.2,000 crore of project orders in hand. Even if I do Rs.1,000 crore this year, we are looking at 20% growth. So, it is not that we have to do entire Rs.2,000 crore. So, if there is a particular risk or issue in a given state or given location, we can complete other projects. So, there is enough on the plate that if there is an issue in a given scenario we can address others and try and see. When we have done our study, our budgeting, we have gone through all these possibilities and we feel fairly okay that due to this particular unique situation, the first half would be weak, but second half we feel fairly strong that we will be able to deliver.

Rohan Gupta: I am with you that when you say there are definitely revenue-led opportunities and growth is there. My concern was more on the balance sheet side that should have reduced so far, but over next six months, it is likely to increase further from the Rs.3,600 crore debt we are now going to cross roughly Rs.5,000 crore debt. So, I am not questioning the revenues or…

Anil Jain: On the debt also, I just explained in the earlier question. Some of these extended receivables which did not collect, etc., those will definitely come before September, those are not going to wait till December or March, and that reduction and our normal increase of inventory bill during this period of time should offset each other, which would allow us to try and see that we do not go too far away from where we are today in overall debt position, there could be small changes, but not big changes.

Rohan Gupta: And these extended receivables is only because of the election and at this time we could not collect the payment, right?

Anil Jain: Yes, almost three months frozen in so many areas.

Rohan Gupta: Second is on our Food Processing business. There we have seen last year there have been some issues at the plant and we did not see much growth, but in agro processing business now and generally this is the peak season in next three to six months when the procurement becomes big and at this time if we do not want to build up too much of inventory because we want to curtail on the balance sheet, then how you see that this business will deliver growth in the current year if we want to curtail this year itself?

Anil Jain: I did not say a single word about continuing the food business in the current year, this is first statement. Second, we have some amount of inventories already in hand. We already started procurement in the current season of the food, again, the specific orders which we have. Food business in FY'19 grew 16% in fact. Most of that growth came from outside India from our overseas units. We did not grow in India because it was not just the plant issue, it was that there is a value deflection; Mango prices had gone down by 35%, which is our major product, even onion prices were low and so on. I think now that the cycle is moving up, we should be able to get revenue growth back on track even in India. Also, in addition the new business we have the spices that should start contributing in a reasonable way. So, combination of this we should generate good revenue growth in food also. We are quite okay on that.

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

Mayur Parkeria: First, on the interest side, while our debt has increased and we had faced receivables issues throughout the quarter as you mentioned. How is that the interest cost has reduced by almost Rs.20 crore?

Anil Jain: We have now received some of these export orders for Rwanda, etc., and we have been able to convert our normal domestic borrowing to export borrowing. And when you do borrow under PCFC, etc., in dollar terms cost of interest substantially goes down, say from 12 to down to 5 or 6. So, that reduction has helped us.

Mayur Parkeria: In our presentation, we used to give the dollar denominated debt. I do not see any change there in the quarter which you are just mentioning that dollar debt has gone up.

Anil Jain: Dollar denominated debt what we talk about is a fixed debt which is to be repaid. This is working capital debt which can change month-to-month from one denomination to another denomination. What that debt is the ECB which we need to repay at the given time.

Mayur Parkeria: Because it is Rs.20 crore on a quarter, would mean almost Rs.80 crore annualized and debt base of Rs.5,000 crore which is a substantial amount. So, what kind of amount have been shifted from domestic to this working capital?

Anil Jain: I do not have those details handy now, but I know that the reduction of the interest has mostly come from that part, maybe we have some additional interest having come from overseas or whatever, but overall impact has come mostly from converting the debt to foreign or export linked borrowing in working capital.

Mayur Parkeria: One more clarification required was on segment results. Last year Q4 our other segment, the subsidiaries had Rs.58 crore of sales if we just remove the consol minus the standalone, and this quarter it was Rs.31 crore, so practically the sales have fallen almost by half, but we look at the profitability, the profitability of the subsidiary has improved by Rs.20 crore while the sales have reduced by Rs.30 crore in the other segment. Just to read the numbers, the Q4 of FY18 had a consol of loss Rs.8 crore on other segment and the standalone profit was Rs.13 crore which means that there was Rs.20 crore of loss on the subsidiary side, whereas this quarter FY19 standalone as well as the consol numbers are Rs.13.6 crore profit, so subsidiary loss is not there. So, while sales are showing a fall of 50%, the loss is completely wiped out. So, anything you can highlight why this must have happened and how?

Anil Jain: As of now I do not specifically know, but I can ask somebody to give you an offline answers on this issue.

Mayur Parkeria: No further question, but I would also like to put on record that we have been with the company and the management for almost a decade and more than a decade at various points in time and sir it has been a very disappointing part, I am sorry to say this it may sound little harsh, but you have mentioned your understanding that you appreciate that, but more than words, it has been very disappointing to see Jain continuously not being able to meet the targets and it has been a very long time. Wish you all the best for future.

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

Anil Jain: Thank you again all for listening. As I said at the start, we believe the fourth quarter performance is not necessarily predictor of what is going to happen in the future. It happens especially in the type of business we are in that we could have these kinds of issues which could impact us. Overall, if you see last four years we have maintained good revenue growth, our net profits have been coming up even though debt has remained little bit stagnant at around 4x debt-to-EBITDA, it had gone to 5x, it has come down to around 4x, and while we had said to the market that will go towards three, we have not been able to execute on that. We admit it, accept it and we are now taking steps medium to long-term, definitely we will bring it down to less than 3x. Having said that I think company has done quite a lot to try and create more sustainable profitable business during this period of time and certain part of the history posed our change in the business model in '12-13, there were two, three years which were bad years, but thereafter things have picked up and I hope we will continue to do better going forward. I understand disappointment of the shareholders or issues linked to the share price, all of which is not in our control. What is in our control is our performance and we are working hard to deliver on that. We are fairly confident and bullish about our future and we thank understanding and support of all investors and all other stakeholders. Thank you.

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

This is a transcription and may contain transcription errors. The Company or sender takes no responsibility for such errors, although an effort has been made to ensure high level of contextual accuracy.