Jain Irrigation Systems Ltd.

Small Ideas. Big Revolutions.®

Q4&FY2018

Earnings Conference Call Transcript

May 24, 2018 at 02:30 pm IST

MAIN SPEAKER:

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

Moderator Good Day, Ladies and gentlemen and welcome to the Q4 FY18 Earnings Conference Call of Jain Irrigation System Limited. As a reminder all participants' lines will be in the listen only mode. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you sir.

Siddharth Rangnekar Thank you and welcome to the Jain Irrigation Systems Conference Call for Q4 and FY18. Joining us today Mr. Anil Jain – Vice Chairman and Managing Director, Mr. Atul Jain – Joint Managing Director of Jain Irrigation System 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 on today's call could be forward looking in nature and a note to that effect has been included in the presentation which has been made available on the company's website. I would now like to invite Mr. Anil Jain to give us brief overview of the company operation for the quarter and year ended March 31, 2018 and the opportunities that lie ahead.

Anil Jain Thank you Siddharth. Welcome everybody. My apology for being late by about 5 minutes due to some technical issues here. The quarter which we finished in March has been one of our best ever quarters in terms of revenues. We have registered a total income close to Rs. 28 billion in this quarter as again Rs. 22 billion in the same period last year and if we look at for the whole year annually we have registered little bit less than Rs. 80 billion as against adjusted with the excise duty Rs. 67.7 billion in the earlier year. So significant growth if we look at annual basis and as well as on the quarterly basis.

The major contribution in the fourth quarter to the growth has come from two divisions. Micro irrigation division and the plastic product division. Food also has grown, but less than the other two divisions. In micro irrigation, the growth has come from India as well as overseas and when I look at growth in India it has come from the retail segment, it has come from the project segment, exports were somewhat muted in this quarter, but we have lot of exports earlier in the 9 months in the micro irrigation division. But still even micro irrigation exports in the current quarter also have grown about 10%. So overall significantly positive growth across the board for this division in India.

And if we take into account also the revenues coming from our acquisition that makes it our overall business of micro irrigation along with the tissue culture what we call High Tech Agri Input division. In fact, in this quarter grew 34%. So again, one of the best ever quarter for us combined as a MIS at about 34% which is quite high. The other growth was in Piping. Piping did very well. Piping is mostly domestic business, exports are very limited. But overall piping business also grew 44% backed by a very strong order execution on larger project related to water works in the different cities and the smart cities also some projects linked to infrastructure sector and combined and the momentum should carry on in FY19 for both of this businesses to register again another strong revenue growth based on a higher base compared to the earlier year.

And it should be noted that we could achieve this despite let us say disruption of the GST in the middle of the year wherein in case of micro irrigation the rates were not frozen or GST rates kept on changing for almost two quarters. So we have lost bit of a sting there in that whole time period when there was lot of confusion and no clarity and there was a disruption of course at our dealer levels and in some cases at the farmer level as well, but I think all-in-all if we compare the whole year we have been able to address all these issues and come out fairly strong almost in line with what we have said at the start of the year where our MIS business in India which we have talked about that it should grow north of 20%. We have ended up growing in this business at about 18% I would say. So very close to what we have said at the start of the year.

Piping was somewhat weak in the first half but has really picked up strongly in the second half and for the overall piping we have registered about 19.6% growth for the entire year. So two of the major segments our company have done phenomenally well. If we think and look at the food combined business our overall revenue for the food for the whole year grew 8% and in the fourth quarter revenue grew 9% these are numbers from India, but when you look at us including the overseas business I would say food has come out at about 7.5% growth in terms of overall fruit. And onion we had a negative growth because of the loss and the fire we had in the division. So overall food has registered (combined fruit and onion) on annualized basis only 1.2% while consolidated in this particular quarter we grew 6.8%.

So again, positive growth, but lower than what we had anticipated at the start of the year and there have been two main factors there I would say. One has been the price deflation in some of these individual businesses we had more quantity sales, but we are showing less value sales in terms of revenue because of price deflation and it was about lower prices last year of Mango or Garlic etcetera in Indian operation and it was about significantly lower prices of Pepper in our UK operation and that created a significant deflation and that has impacted the revenue there. Apart from the unfortunate loss of business we had due to the fire we had on the onion business post November 2017 and that has impacted us as well in the fourth quarter.

So that is how the food business could not register as good a growth as we had anticipated at the start of the year and nor as good as the other divisions. But as we move into 2019, we expect food to do very well based on I would say 3 or 4 factors rather. One some of the business we lost last year like onion etcetera should come back this year with the good production and we have also added a new dryer capacity so we would have additional quantity of onions to sell this year so that would be positive. The second would be new spice processing plant which we have started that should start contributing some good numbers, this year.

Third, we have done an acquisition in Europe and their revenue on a net basis apart from what they sell for us the reminder of product line that revenue will also get added to the food division. So as we start the year FY19, the food should overall grow I would say north of 30%, how much more one is to see. But food which did not have great year earlier year should grow more than 30% going forward. In terms of the growth expectations for the MIS in the piping business for the next year and there are two parts of businesses one is in India, one is in overseas business.

Now in India we continue to see in both of these divisions, micro irrigation and piping very good order book in hand mostly the projects but these projects are also serving the farmers in that sense. And yesterday only we got another order from state of Maharashtra and regularly we are picking up the orders. So despite consuming lot of orders in this quarter March quarter, but again by now, our order book is the same as at December level that means the replenishment rate is now good that whatever we are consuming almost same or higher level of orders are coming our way, but as of now again consolidated order book was still around Rs. 4000 crore for us as we move into the next year in total across all business.

So micro irrigation one can safely assume that from where we are we in India we should maintain another year of about more than I would say 20% growth. So as against 18% we have grown in the current year from 17-18 we expect next year to grow about 20% out of India and same or similar stuff I would talk about piping. That piping this year also grew about 19.6%. So I was talking about the scenario in international irrigation markets. So, we have some push back in US markets from some of our existing distributors because we bought into distributors and investment that was expected and our investment into the new distributors took place towards middle of the May. So we captured only about 10.5 months of their revenue.

And in overall I think they have been tracking what they used to do in the earlier year even though there were some challenges because their suppliers stopped supplying them product because they were competing with us etcetera. But all of that has been quite stabilized. In terms of the revenue overall for the FY18 together these two investments has created revenue of about Rs. 6.8 billion for us, but EBITDA was lower than what we had anticipated because of the challenge of the supply which we face, and we believe that will get restored in the current fiscal in totality. The revenue given by these two acquisitions in the fourth quarter was about Rs. 2 billion.

So along with this acquisition as I said micro irrigation globally consolidated, has reached to a level of almost about 34% growth which has been quite high and we are looking forward in the current fiscal that outside India as well the Israeli subsidiary which looks after all the other markets except US should grow into high double digits as against last year very nominal growth in single digit and US we should have full 12 month acquisition revenue coming in for the entire year that would also add and plus the growth which is together. So this year we are expecting that as I said India would grow nice and our overseas business also should do well.

Now when we look at this growth what we have achieved how that has come about what has happened to the balance sheet of working capital. As we have given in the investor communication, our working capital compared to December has improved overall quite a lot where as of December 2017 our DSO were 168 days as of March 2018 they are down to 140 days. So that means that means significant shaving of almost of 28 days and even if we look at India number standalone India as against 158 days where we were on December 31st 2017 we are down to 115 days and even if I was going to go back and look to March 17 number because you know March numbers are usually lower than the rest of the year on a net working capital March 17 number we were on a 161 days which is now 140 days.

So we are far better than December, 2017 but compared to March, 2017 also we are quite there despite higher growth of sale our overall account receivables is down by 5 days from 120 to 115 and if I look at inventory which was about 122 days in last March is now down to 116. So we have seen substantial improvement since December, 2017 and some improvement despite the high level of growth compared to last March, 2017 in terms of working capital. So working capital is coming under control and slowly over a period of time the internal management target is how do we bring these 140 days to maybe 120, meaning we shave off another 20 days. From here onwards while maintaining this 15% to 20% growth and try and improve 10% to 15% the working capital in terms of days, is going to be not that easy as much as we have achieved in the current year, which has been phenomenal.

The future improvement will come about for sure and we will move in that direction on annualized basis. You might find few intermittent quarters where actually this will go up again because that is when we build the inventory due to the seasonality in the business, but otherwise we are going to move into a direction to further continue to improve working capital in every year; you will see some improvement in March 19, some improvement in March 20 and so on. Now that is on working capital.

Overall if you look at the debt scenario, we have compared to, end of December, 2017 we have shaved off about close to Rs. 4.88 billion of the debt compared to December 2017 and that is quite important that we manage 26% growth in the underlying business to Rs. 28 billion and we still manage to reduce debt by Rs. 4.88 billion. Now the reduction in debt is not I would say as much we had intended. We would have expected this to be up by maybe another billion rupees that was our internal expectation, but the two factors have impacted this that between December and March rupee depreciation took place and that has increased our debt by half a billion rupees and this was also the quarter where we did this Innovafood acquisition for which we took some debt equivalent to another little bit less than half a billion rupees.

So that Rs. 1 billion debt increase between December 2017 and March 2018 due to new acquisition as well as the rupee depreciation impact translation issue has still resulted in Rs. 4.88 billion reduction which is massive, but otherwise it would have been let say on a normal business basis it should have been Rs. 5.88 billion and it should be great number considering the kind of growth we have achieved in this quarter. So there I believe we are staying on the course and we intend to continue to stay on this course. As we move into FY19 our target for the next year. So now if we look at FY17, March 17 our overall debt towards almost to net of about Rs. 36 billion it has become Rs. 38.9 billion in March 18.

So this increase from Rs. 36 billion close to Rs. 39 billion about Rs. 3 billion mostly came due to the new financial loan we took towards the acquisitions in US and Europe etcetera. So to manage growth of our existing business we did not have to let say increase the debt and the actual acquisition finance that we took is more than this number of 3 billion. So some of the acquisition finance debt we have also financed from let say our internal accruals. Our internal management target for the current year is that approximately about 3 billion of the debt is falling due in the current year and that debt we hope to pay through internal accrual in the current year and that way we would continue to move forward on to this path of further deleveraging while still maintaining significant growth into the company.

Now despite our best efforts on the deleveraging, the interest cost has continued to remain high. We have this year spent more than Rs. 4.5 billion on the interest. I hope that post good results we expect, and this has been delayed as now some credit rating improvement and that should hopefully help us reduce the interest cost to less than Rs. 4 billion at least in FY19 that is our internal estimate as we have. And that, at a point of time our business is capital intensive it has been working capital intensive and while we have taken lot of steps to improve and move in a right direction and we have succeeded to an extent and we are determined to go the whole hog and continuously make further efforts towards that. But overall debt position now is comfortable in the sense that our debt equity is less than 1. We do not have too much of long-term debt following due we have one large one but that is due in 2021 and foreign currency whatever loans are due on annualized basis also every year now, is not much. I mean this year what is left we have already repaid $10 million to FCCB earlier this year in the current FY. And now 2019, 2020, 2021 the loans falling due out of India $16 million, $12 million and $12 million.

So while rupee is depreciating that is true and we might have some mark-to-market issues based on the long-term dollar bonds we have. But in terms of cash basis, we do not expect any significant impact on our P&L or balance sheet going forward. Despite the fact that Rupee has depreciated quite a lot and people are feeling nervous about it and in fact this rupee depreciation should help us to improve our profitability into food business which has lot of exports more than Rs. 5 billion of exports and we have not sold lot of forward dollars. So depreciating rupee with a good amount of forward rate should help us to cover our cost base in that particular business.

Another worry all of us have is that the oil has moved from level of 60 towards 80 and it seems people are talking of that it might stay at this level or firm up and that should normally have impact on polymer prices, but we have seen in this journey from 60 to 80 there is also lot of supply of polyethylene especially as one of the important polymer which goes into our piping under irrigation business. There is new supply out of India, there is new supply in middle east region. So some of in fact our polymer resin prices on a per kilo basis have not dramatically increased as much as oil has increased.

So oil has gone up almost by 30%, 35%, but I would say our polymer prices have gone up maybe by 10%, 12% and not 30%. So overall, I think we are in good position there and most of our contracts have the escalation clause so that some of this polymer price increase we can give and pass through to the end customers if it need be. So as we move forward overall and then in FY19 and beyond just look at 2, 3 year scenario. We think the order book will continue to do very well because there is this push on building irrigation infrastructure and converting open canals to pipe conveyance of water and we as a company are uniquely placed to take advantage of that with having ability, skill set and experience which nobody else possesses.

On other side, on piping side as well there are few others players who do the smart city and water network or SCADA, O&M, etc., but we have emerged for last two, three years as one of the prominent company in that business and we also have very good order book to maintain good growth rate and this is the type of business where once you do certain cities of a certain level then you get qualified to do bigger job later on and that is what is happening with us that as we are graduating to next class in future we can go and bid for larger projects. So I think three or four years ago, we could not have even bid for even one billion rupee project because we did not have the necessary qualification, but recently we got close to Rs. 4 billion and a little bit less than Rs. 4 billion project in city of Pune one single project.

So that shows in terms of the direction that we are moving in is quite positive. So in both of these businesses, underlying momentum is very strong our positioning is quite well and I think in terms of margin also because of this project margin is moving to definitely double digit category which augurs well going forward. So all-in-all as a company the fact that underlying our business is uncertain and there is agricultural seasonality, dependence on the government and the monsoon, we should not be able to give a specific guidance, but we always give direction. So our direction for FY19 is that all three businesses are poised to grow in a significant way.

We should be able to manage this growth with balance sheet size which is roughly where it is today. So we would not have to increase the balance sheet size quite a lot and we hope to somehow reduce the interest cost, maintain the level of margins which we have despite the growth and also ride over some of the headwinds which are there in terms of oil prices or depreciating currency. In terms of another question related to the food business that what about its IPO. So last time we spoke we talked about that we were exploring whether we should do it or not, but we have looked at the whole scenario what are the possibilities and we have reached to a conclusion that we should do an IPO.

So now it is just a matter of timing. Now it is subject to right valuations and right timing and as and when that gets firmed up we would be very happy to communicate. As of now I may not be able to commit and say okay it would only happen this year or whether it happens early next year that depends on some of the external events, including the election year cycle and what is happening out there in the economy, but we have determined in consultation with merchant bankers that there could be good demand for such a listing and the intrinsic strength of our business should command fairly good valuation and meanwhile business is also doing well. We are hoping '19 to be a really phenomenal year in terms of overall opportunity into the food business.

With that kind of little bit of long prologue, I would be happy to take question now and again I am sorry for the disruption in between.

Moderator We will now begin the question and answer session. The first question is from the line of Balthazar Florentine-Lee from Sloane Robinson Investment Management Ltd. Please go ahead.

Balthazar Florentine-Lee Good afternoon Mr. Jain and congratulations on another good set of results. It is very encouraging to see the growth and the continued improvement in the balances sheet. I was wondering could we talk just a little bit about the food business which is the only slight disappointment in the otherwise good numbers. Can you help quantify how much of the business was hit by the fire and the disruption of the onion sales so we could see this is a one off. And then how much of the disruption was due to external business factors in say the middle east and on the fire should we expect a special item from the insurance claim on loss of stock, so is that already in the numbers or is that something which we should not factor in the future?

Anil Jain Now, in terms of the insurance claim in the December quarter we had already taken into the stock claim. So the claim related to the inventory stock as well as the claim related to the warehouse both are already in; the insurance company still has not finalized the claim as and when they finalize we will be able to see how much they give against the claim we have made and that would get adjusted. Now that is one part. We have another insurance policy that is called LOP or loss of profit policy that gets determined over a period of time and that has still not been done. And as and when that gets determined when you have a reasonable certainty then that claim will get added through the P&L.

So we should expect some additional level of profitability coming once we have this loss of profit claim which we can put into the books. In terms of the overall losses due to this particular fire we lost about I think close to 3,500 tons of dried onion, Garlic etcetera in that particular fire. And at a revenue basis the valuation of that will come close to about I think `$10 million I would say in terms of the value basis, in terms of sales what we have lost now, that was one part. The second part was that however to fulfill the contracts of the customers. In December we have to buy onion at significantly at high prices then our average price so let say our average was Rs. 7, post this fire in November we had to buy onion even at Rs. 22 to fulfill some of the contracts. And so when you see food results impact, it is a combination of both one not having this much of sales and second that you also paid far more for raw material which hopefully will get covered under the loss of profit policy in future but that negative impact is already baked here in this particular profit and loss account.

The other impact on the food which I talked about and which you have asked question. One is a situation linked to the middle east, while middle east is not difficult for some of our markets whether it is Iran or Saudi they have been impacted because of lower oil prices in those regions or the inability to spend or geopolitical reasons. That impact we have been able to neutralize by increasing our exports to Africa. But what really hurt us in terms of topline or revenue is that last year the prices of one of the major varieties of mango –Totapuri, fell down by about 20% and we process about 80,000 - 90,000 tons of Totapuri. And therefore, that resulted in almost about 20% reduction in value of what sell in Totapuri and Totapuri sales are I think close to about $70 million. So we lost about another $10 million, $15 million there because of lower prices for mango.

We have another food business in the UK where they buy and sell spices and Pepper last year was as high as $10,000 and came down to $2,500. So there was about 70% reduction globally in the pepper value. Whether it was pepper there or Garlic coming out of China so there were two or three of these commodities which has impacted the top line there on the food side. But as I said they are at the bottom right. So if you see historically 10 year numbers none of these commodities have been lower than these numbers. So from here they should go up. On one hand we should get additional onion production in the current year and the rupee as depreciated further that will improve our revenue in the current year plus the addition of the spice business.

All of this put together that is how I said that next year we should have more than 30%. So while food did get impacted, but we are very bullish on what we will do with food in '19.

Moderator The next question is from the line of Denis Ashurkov from EG Capital Advisors. Please go ahead.

Denis Ashurkov Can you just disclose operation cash flow for the year before working capital changes and after working capital changes?

Anil Jain So you are talking about the cash flow. So our operating profit before working capital changes for the whole year is about Rs. 11.2 billion and in this quarter it was Rs. 4.3 billion and post working capital changes, in fact because we have improved on working capital for the whole year it was close to about Rs. 13.4 billion and in the current quarter it was Rs. 9.4 billion.

Denis Ashurkov I am sorry can you please repeat the first number which is.

Anil Jain So the number what we call operating profit before working capital that was for the March 18 -for the entire 12 month was Rs. 11.2 billion and for the current quarter was Rs. 4.3 billion and post working capital changes it has improved.

Moderator The next question is from the line of Mayur Parkeria from Wealth Managers (India) Pvt. Ltd. Please go ahead.

Mayur Parkeria Good afternoon and thank you for taking my questions. Congratulations for a decent set of numbers. Sir, two questions from my side. One is if I remember in the start of the year we had targeted to reduce debt by almost Rs. 4 billion from the March 17 numbers, because based on the cash flow and the situation and the lower CAPEX which we had planned that was what was earlier we had targeted, but we are seeing around Rs.2 billion of increase over there on a net basis?

Anil Jain So the acquisitions we have done has added to the debt as I have explained, that is one.

Mayur Parkeria So that swing million would be entirely Rs. 6 billion because of that?

Anil Jain No, acquisition financing has been close to I think about Rs. 3.8 or Rs. 3.9 billion close to Rs. 4 billion that has increased. And overall, if I remember what we were targeting let say over a period of time our debt to EBITDA has been 5 then it was brought to 4 and lower than 4 and in FY18 I have said that we would be between 3 to 3.3 somewhere that was we were anticipating to be around. I think we are close to now 3.3 or 3.4 in how we calculate the EBITDA maybe 3.4 and the target for 19 rather than talk about absolute numbers of debt because you know that becomes difficult when you have such a growing business that we are targeting that FY19 when our EBITDA grows from current year to the next year level.

And if we maintain the debt level where it is then we should hit that debt to EBITDA level of 3 and I think once we hit our debt to equity is already less than 1 and once we do go towards 3 I think that would allow us to further improve our credit rating and lower the interest cost and that would be the idea and thought process. As I have said, we have done lot of work on working capital this year and we have demonstrable results on working capital, but we need to do still bit more and hopefully that results into good amount of reduction in interest cost for us.

Mayur Parkeria On the international business especially, the Israel subsidiary and other put together sir the margins have always been a bit lower and though they have now turned positive, but sir you will agree that we have since the times it has been a long time since we have acquired those business and they are not yet giving us margins anywhere closer to what we had earlier anticipated. What is your outlook on the margin side of these on the MIS subsidiaries' international operations and what structural changes can we do there are there scope there to further increase that or because it has been a very long time since they are at these levels.

Anil Jain See our Israeli subsidiary which handles rest of the world apart from US, has been profitable from day one. So they may not be making lot of profit but they have been profitable from day one. Second, on a net level they have managed to grow they are more than double since we acquired them. Third, they have given us lot of good products and technologies in India which has allowed India to grow its profits, India to sell more to Indian farmers and from India we have exportsed to this subsidiary and then also made money on that exports. So when you look at on a combined basis I think there have been fair return on the investment we have made, in terms of long-term bet. On short term, on their own balance sheet they have been profitable, but they have not contributed, they have not given dividend for us to back to India on the investment we made into those, but again this call were really taken for long-term.

Now coming to what can happen to those institutions. In US we already took a decision last year by adding acquisition of distributors and getting forward integrated to go all the way to the farmers and using that as a platform to deploy to new AgTech because that is where the future is going to be that strategic step we already taken and it would take one or two years for one to start realizing good benefits out of that, but if you look at the Israeli entity I think they are poised for a growth and we have also transformed them to try and do larger projects. So typically, when we started they were close to 7%, 8% of EBITDA. Now they have started getting about 10% and we are in the process and we are even working with people like Boston Consulting Group etcetera so that they go to 12% plus maybe from FY19 onwards in terms of their EBITDA levels. Once that happens they would be generating very good return on capital and combined together what we do in Israel and what we do in US we have created enormous amount of intrinsic value.

Recently one of our large global competitor got sold and they were valued at about 16-17 times EBITDA and I expect in next year or two, EBITDA coming from this overseas entity is to be close to 60 million dollars plus. So, when you get that kind of EBITDA one can imagine the kind of intrinsic value these entities have. Today for some of the parts they are not visible, but I think as we go about now as they are acquiring significant critical mass we would also be sharing more details about this subsidiary going forward and you will also start seeing a better performance in terms of return on capital. The first phase was to get maximum technology, the product portfolio or build the distribution in about 120 countries. We are there now and on that platform, I think now in the next stage one would see lot of value creation.

Moderator We will move to the next question which is from the line of Pavitra Sudhindran from Nomura International (Hong Kong) Ltd. Please go ahead.

Pavitra Sudhindran My question is on the CAPEX, can you tell us how much percent was spent in the fourth quarter. And what is the guidance for the next year and secondly on acquisition if you can just highlight if there are any acquisitions in the pipeline maybe not specific, but in general if you can just talk about any particular areas if you are looking to add on like what you did last year, adding on certain distributors?

Anil Jain In terms of overall CAPEX this year the year which went by. We did more CAPEX than what we in fact originally started the plan including the new spice processing plan. Some of the investments we have made into new areas to get citrus process the land we acquired or we acquired 600 acres of land in southern India to set up our future projects there along with the permission to have water because water has become so short. It is important to get these things in place, planning for the future. Overall, our company last year saw total depreciation of about Rs. 3.4 billion approximately and one would like to see that your overall CAPEX does not go beyond depreciation. So you are replacing your assets and part of that is maintenance, part of that is growth CAPEX.

This year growth CAPEX was higher on account of these new things which we did let say for food or even in irrigation we invested into a new type of emitters which is heart of the drip irrigation technology which should give us more profitability going forward. Some additional investment we have made into different type of polyethylene pipes because that business grew for us this year more than 45%. Now going forward in FY19, having done what we already did in FY18, we have had a look and we think our expected depreciation in FY19 is about Rs. 3.5 billion and our growth CAPEX as well as maintenance CAPEX put together combine in India outside India should remain in that region. So (+/-10%) of that figure is where we should be and that would get funded through internal accruals and we need not actually borrow for specific purpose.

The second part of your question is about investment or acquisitions. As you know last year we did two one was a big one comparatively in US and second one is comparatively small one in Europe. There are no specific big bang proposals on the table right now and neither we intend to do something very big this year. There could be smaller acquisitions which would allow us to be for example China has now gone on to be very big on this water saving technology, but we do not have presence in China today per se; we do sell some and we have done some projects and China especially has said that by 2020 they do not want to sell or use even one kilo more of fertilizer. Now the way to save fertilizer is to send fertilizer to the crop through the drip irrigation lines that means what is called fertigation. So fertilizer injected through irrigation. Now we see a big opportunity in fertigation in China for example and so we are planning, and we are looking at what opportunities we have in China. So we might have to invest something into China. Similar way today we are very lean or almost no presence in all the CIS countries and we see, in terms of agriculture, there is lot of growth opportunity or some countries in Central South America where also we are seeing growth opportunity.

So to build larger future base for the growth so there we might make smaller, but all these investment I would say individually would be single digit in dollar terms and again nothing big bang, but that would just allow us to become truly global in that sense with an ability to have our product and solutions in about 150 countries or so. But that is what it would be, and it should be, but apart from that we already kind of plate full in terms of where we want to go. In terms of distribution after we have made these investments in California we have received some renewed interest from other distributor, but it is still at very early stages and we want to remain mindful of our balance sheet and the debt to EBITDA which we want to get closer to 3. So keeping those metrics in mind we would look at each opportunity carefully and only act on it subject to some of these self-imposed framework we are putting on ourselves because we really want to ensure free cash flow comes our way and we still are able to grow quite a lot.

Pavitra Sudhindran Just one thing on the CAPEX for FY18 I did not catch the number, the total CAPEX strength in FY18?

Anil Jain The entire CAPEX in FY18 was close to I believe about Rs.5.5 billion.

Moderator The next question is from the line of Swati Madhabushi from East Capital. Please go ahead.

Swati Madhabushi I was just looking at the segment-based results and I was finding it little bit tough to reconciliate the numbers for a plastic division and also for the agro processing. If you can help me with how come the EBIT at the plastic is moving so much for the quarter while for the agro processing its down too much and also for the other segments?

Anil Jain You mean compared March-to March?

Swati Madhabushi March-to-March.

Anil Jain Could we come back to this question because I have not looked at segment basis.

Swati Madhabushi You know the EBIT at plastic is almost tripling on year-on-year basis, how is that possible that is like, so will you come back to me later in the call?

Anil Jain If possible we will come back to little later in the call.

Swati Madhabushi Otherwise can I get in touch with you to ask about this because I am having the little bit trouble?

Anil Jain We will ask the investor agency to organize maybe already by tomorrow or later in the evening.

Moderator The next question is from the line of Dhavan Shah from K.R. Choksey Shares & Securities. Please go ahead.

Dhavan Shah I have few questions. Firstly, about the acquisition in Europe so that subsidiary is generating around Rs. 180 to 200 crore of revenue. So what valuation have we acquired that company and what kind of operating margin is that generating, and we have also started our plants for spices and this European subsidiary is also into spices, so what kind of synergies are we looking at from this acquisition?

Anil Jain The InnovaFoods which we acquired in their calendar year 2017. They have done 24 million euro type of revenue and they had for the calendar year about 4.7 million euro at EBITDA level, operating level profits and the value we paid was close to about 13.9 million euro. So it was quite a competitive type of valuation. Now in terms of going forward that is a good platform for us to grow and build our distribution in Europe not only to sell more onion of fruit pulp or puree for few days, but also to do more spices and Europe is reviving. Europe is doing well and some of our products Europe is one of the largest market in the world.So we hope that we would get the benefits out of this acquisitions.

In terms of spices or spice processing plant as I said, we have started we are expecting in the first year that is coming year FY19 spice to do about Rs. 100 crore which is from nowhere to go Rs. 100 crore it a quite a good jump. One of our UK food processing subsidiary they do buy spices from other suppliers today, different herbs and spices and they sell. While some of what they buy, and sell is things like Pepper and herbs which as of now we are not doing. What we are planning to do in the first phase is chilly, ginger, turmeric etcetera which is quite important when it comes out with India as origin and there would of course be ready buyers for this product and in fact we already in month of March shipped first few containers to them and few of our other customers are in US.

So lot of our institutional customers worldwide who buy dried onion or Garlic from us are also consumers of spices. So, it seems that would be a good growth opportunity for us. Now in case of spices when you set up the plant and especially when you are catering to very high end customers, you need to go through certain audits for your plant before they can start buying from you and we have been through I think about 70%, 80% of audits over last 2 - 3 months and in next another month or two, all of those audits should get completed and then free flow of shipment can start from India. But all-in-all we are already taking one billion rupee as a target for the current fiscal for spices. Again, this is not a short-term business rather a major long-term one; spice is a globally very large business. India also is a very large domestic market and we plan to build ourselves to be an important player in this market as we go along over next few years.

Dhavan Shah My second question is with regards to the solar revenue, so what is the solar pump revenue in FY18 vis-à-vis FY17 so it around 70 crore in FY18?

Anil Jain Yes. So solar pump that goes through the cycles based on the tenders etcetera. So while our revenue went down in FY18 on the solar pump, but with the kind or order base we have in hand right now going forward in 19 and this gets captured as a part of a micro irrigation division because we sell also irrigation along with it close to the farmers. We are expecting substantial increase on the solar water pump business this year. So there are two parts of solar business. One is this water pump business, which is agriculture and then we sell solar as a product as solar street light, solar water heater or solar pumps for drinking water that business has remained kind of dormant in the current year which is also another Rs. 75 crore.

Moderator We will move to our next question which is from the line of Rishabh Bothra from Sharekhan Limited. Please go ahead.

Rishabh Bothra Can we provide the tonnage quantity of business or volume conductivity in each of the segments?

Anil Jain You know it is very difficult to calculate lot of volume.

Rishabh Bothra I know there are lot of number of products, but it would be easier for us to understand how has the growth been in each of the business and what has been the value added or improvement in the realizations?

Anil Jain But in micro irrigation there are thousands of products.

Rishabh Bothra Over all tonnage, if possible?

Anil Jain Overall quantity let us say.

Rishabh Bothra I mean the volumes in metric tons, not the number of pieces?

Anil Jain Just bear with me for a moment. A lot of questions at one time in terms of quantities it is not easy to talk. But in the fourth quarter between micro irrigation PVC, polyethylene, plastic sheet business etcetera in India. Last year, we had close to 63,000 tons of consumption and 80,000 tons of consumption. Whole year if we look at FY17 we had about 204,000 tons and this year we had 234,000 tons.

Rishabh Bothra This is both put together MIS and piping?

Anil Jain This is MIS, piping and plastic sheet all put together.

Rishabh Bothra Let us know what has been the organic growth and inorganic growth I mean excluding the acquisitions both the dealer distribution in US and the current one?

Anil Jain India there is no inorganic growth. We have already spoken in India the micro irrigation business grew 22.6%, and all piping business is organic growth only and which grew 44% that is this quarter and for the whole year India business MIS is 18% growth and piping is 19.6% growth.

Moderator The next question is from the line of Gaurav Gupta he is an Individual Investor. Please go ahead.

Gaurav Gupta I joined the call late. So I just want to understand that if you see the net profits and the deprecation and the increase in fixed asset, so if you can help me understand that where exactly the money which has been generated from the business has been invested and what is the free cash flow from operations from the business?

Anil Jain I think some of the details I cannot really speak on this, but we can organize a follow up call on it over just to talk on overall free cash flow. You know post all kind of including CAPEX etcetera I think we have generated more than Rs. 2 billion of free cash flow for the whole year and the free cash flow generated in this particular quarter March 18 was almost close to about Rs. 6 billion but rest of the detail I think my team can take you through besides questions you have?

Gaurav Gupta Sorry to say, but my experience with the IR team is very bad.

Anil Jain Yes, but I will expect that it will be a good experience this time they will give you a response tomorrow please.

Gaurav Gupta My second question is with respect to our overseas operations since I am tracking from last five - six years there is not so much of return on investment on the money invested in the overseas operations and when you talk about the long-term, I just need to understand what is the long-term as defined by the management that is it 5 years, 10 years, 15 years or 20 years and at which time we can assume that money will start giving money back, in terms of investment return on invested capital or whatever the parameter you define because there is no as such growth, in terms of return on investment capital on overseas operations.

Anil Jain So, I give a very elaborated and long answer today on this issue. So, our transcript will be available from tomorrow or may be in next couple of days you can go through it. But just to shortly cover, because I do not repeat everything I have said again is that a lot of intrinsic value has been created through this investment and now in near future, I am not talking about really long-term, near future. Next couple of years you will start seeing actual good returns on capital employed and these businesses have doubled in their size, they have been profitable, they are growing but you start seeing surplus cash flow coming out of this businesses going forward in next couple of years and how it will happen, what we are doing about it, I have already explained in the earlier answer and post reading the transcript if you still have additional question, I will be very happy to reach out to you and answer you. My e-mail is anil@jains.com. If you any issues with my investment team or anybody you reach out directly to me and I will respond to you.

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

Harshil Gandhi Is there any thinking on a Mandala Capital kind of a deal for the pipes business?

Anil Jain When we decided to kind of separate out the food, there was also a discussion whether we should look at the plastic product business also in the similar fashion and way, we have not really taken any particular view on that as of now. Business is doing very well, as overall this year it has grown 20%. The order book we have, would allow us to grow the business next year also to 20%. Even plastic sheet business which was not doing well earlier has now turned to profitability and also is growing nicely including our unit in Ireland. So all in all, it seems to be firing on all the cylinders in terms of growth and first ever time in fact in our history we are now reaching double-digit margins in piping business. So, overall business looks very positive and as we move forward there is something to think about, we will think about it but as of now we have not taken any concrete view on this issue. We are right now focused on building that division because that is a division that does not have too much of capital. So, in fact as the business really does well as it is happening over next couple of years, it would start giving great return on capital employed. So, we are right now in that mode of ensuring growth with low capital and higher margins.

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

Anil Jain So, FY19 effective tax rate you should take closer to about 24%-25%.

Moderator Thank you. The next question from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke Sir, can you just tell us what was the operating cash flow for the year? You mentioned the operating profits before the working capital changes and after working capital changes. But can you just throw some light on the operating cash flow for the year?

Anil Jain Yes, so that is what I said right. Cash generated from the operating activities, right. The numbers I have given as cash generated from operating activities, that is the cash flow. So, that was Rs. 9.3 billion in the fourth quarter that is post-working capital and Rs. 12.9 billion for the whole year and then post-CAPEX and post other thing, the free cash flow generated for our March quarter is Rs. 6 billion and about more than 2 billion for the entire year. For the 9 months we have negative cash flow so and 4th is significantly positive, so overall year is positive.

Chetan Phalke And sir, one more thing we have a cash of almost close to Rs. 400 crore on our books. So, do we need to maintain that kind of cash going forward and do we get any interest or anything like that on this cash?

Anil Jain Some amount of interest we get like small amount of FD, etc., This is middle of our season, right and we end the March as we move into April, May, June, as a company we need lot of cash because we are also buying fruits, etc., overall as a group, as a company. And April, May continues to remain busy season for us. So, that is why cash is there. But as you see June, September cash already comes down. So it is partly, part of business cycle.

Chetan Phalke And sir, my last question when we say debt-to-EBITDA, so should we consider the gross debt to EBITDA ratio or the net debt EBITDA ratio going forward?

Anil Jain Net debt -to-EBITDA.

Chetan Phalke So, our targeted net debt-to-EBITDA is …

Anil Jain So, I said that ‘19 we are targeting towards 3.

Moderator Thank you. The next question is from the line of Girish Achhipalia from Morgan Stanley India Co. Pvt. Ltd. Please go ahead.

Girish Achhipalia And also on the margin side, I think there have been a lot of worries around margins in the project business, so I think this quarter puts a rest to those concerns at least. If you can throw some light on project business, how you are looking at the revenues ramping up from India you mentioned that you will be targeting to something like 20%. So, how much would be the project business because right now I think it is currently under Rs. 5 billion. How much would that be and how much are you expecting on the retail side? That is the first question.

Anil Jain So, projects overall our business is really ramping up quite well and the momentum is quite positive, order book is quite strong. So, currently it was close to Rs. 5 billion as we look at our next year target I would say looking at the situation in the country, there are going to be few elections coming up in different states, etc., So, our retail business might remain somewhat volatile. So, some states will gain the business, some states maybe business will go down. So, at the start of the year, I am not knowing how the monsoon is going to play out. I am keeping in terms of my internal projections retail almost at the same level what we did last year. But the most of the growth we are anticipating from the project, so when we are talking of the growth, project from Rs. 5 billion I would expect to be close to +9 billion in the current year and we have that level of momentum already in hands. I do not need to acquire any new orders to deliver on this. This we will do only out of the existing orders in hand and we have some left for the next year also in totality. So, that looks quite positive on that basis.

Girish Achhipalia And my second question, I am sorry if I am repeating this is on the CAPEX outlook what are you spending on, how much are you spending on India, non-India and if you can throw by vertical how much are you spending likely to be spend?

Anil Jain So, for FY19 we have talked about overall Rs. 3.5 billion approximately which is equivalent to our depreciation in terms of where we are spending the fund. Now, if we look at by segment for example in food, we would be spending some money about close to Rs. 40 crore into a citrus processing plant, which we are putting up in Vidarbha and there would be some maintenance. We are making some additional investment into the packaging lines on the spice plant for the retail packaging because the way plant is designed as of now, its investment has been made to make the bulk packaging supply to institutional customers. But as we are growing also on the retail side we are making some investment on the retail side that would be the investment on the food side in India. On the piping side in India, the investment we are making, is mostly linked on our polyethylene pipe business where, we are last time talked about the line where we can manufacture 2.5 meter diameter product and now that would be first time in Asia that big and as government is saying no more canals, only the piped conveyance, we would be the first company to offer this large size pipes in India for the solutions. So, lot of new infrastructure projects on water conveyance this would be a good requirement that investment is taking place as well as we are doing this city water works. Some of that is drinking water, some of that is drainage, sewers, etc., So, there you require what is called corrugated pipes, which require less material, but have more strength. And there we are investing into a line for 1.2 meter diameter. So, that is from the piping side and overall very large demand, order book we have. This year is tremendous on polyethylene pipe business. So, that is where on the piping side. Remainder of investment, PVC pipe does not require too much of investments, but we are making some investment onto the fitting side, lots of molds, etc., on the PVC pipe because traditionally the margins on PVC pipe are on lower side because we sell in rural area and we mostly sell pipes. The additional higher margins are in the fittings and we have never invested really into that part of which we are doing now. That would be the piping side. The investment on the irrigation business where in terms of little bit about our how the business operates or production operates. We have lot of extrusion capacity to produce the tubing along with the emitters, which is what provides farmer a very precision solution. It is lot of high technology there. There we have capacity on extrusion lines, but we do not have enough capacity of very good number of emitters and demand is growing not only in India but around the world especially for these large projects and we need to invest into some of these emitters. Now, these individual emitters do not cost much, but this molds which are high level precision they do require investment but pay back is 2 to 3 years on some of this investment. So, some of that investment we are making there. Apart from that, that is out of India. If you look at overseas, our overall investment is small this year in fact except the Israel entity which is investing for example they are putting lines into either Turkey or China that kind of investment because we are growing into those geographies and as we are offering more this Agtech solutions or technology solutions we need to invest into latest generation technology. So, those kinds of R&D investments or new type of products for customers or there is this lot of new vertical farming is taking place in western world if you heard about it where people are able to grow in a 50-story building how much otherwise you would grow into a 600,000 acre of farm and inside this building they need irrigation technology and our Israeli entity is very specialized in that. So, they are making some investments to alter their business model where up to now, we were more keen to provide solutions to the horizontal farms right, land but now we have to also provide irrigation and precision agriculture solutions to these vertical farms. So, some of the investment is going to create this type of new technology solutions for this upcoming market as we go along. So, that is where we are making investment now when you look at overall Rs. 3.5 billion I would feel that almost 50% of that is maintenance CAPEX and about remainder 50%, what would be the growth CAPEX into various equipment which are there.

Girish Achhipalia One final question. If I look at this seasonality historically for the project business the first half like retail tends to be low and second half tends to be high. Is that something that can change or do you think the Rs. 9 billion project revenue that you mentioned is again going to be backend loaded with Q4 dominating the whole thing?

Anil Jain It may happen this year that we might have a Q3 and Q4 both as good quarters. The reason, it is a little bit slow in the first half is that one, that during the monsoon right in the second quarter starting already from mid-June through August, September. When it is raining it is very difficult to go and complete anything any work on the project side because the land is wet you cannot go and dig the land or do the work inside the land, etc., that is one. Second, the government budgets, fund allocation, fund availability for the project also takes some time to come through and that is why if you look at physical possibility of doing more execution is when land is dry in the second half and also in terms of budget allocation, fund availability, etc., is far better in the second half than the first half. So, I would say that even in the current year you will see while we will try and see that this gets spread a little bit more evenly than the kind of lumpy business it is today. But in the current year I would still say that it would still remain lumpy in the second half.

Moderator Thank you. We will move to our next question which is from the line of Rohit Seksaria from Sundaram BNP Paribas AMC Ltd. Please go ahead.

Rohit Seksaria Sir, did you guide overall revenues on EBITDA any number sir, on company level, consolidated?

Anil Jain No, we have given only guidance on the revenue growth. EBITDA I would expect that should go up slightly more than the revenue growth. So, I would let say, revenue is growing 15% to 18% range the EBITDA should grow maybe 16% to 20% range in that sense or a little bit more depending on the product mix where we are going. But our overall target for EBITDA would be that we should try and achieve something north of Rs. 13.5 billion on the EBITDA side.

Rohit Seksaria Sir, on interest cost you had mentioned that we will reduce it to Rs. 4 billion or 20% reduction would be there almost. What are the steps you will be doing, sir?

Anil Jain There I have spoken about that we are hoping that we get better credit rating and get access to cheaper funds into the domestic market in India and some of the steps we have recently taken to improve our overall capital we used last year. We used lot of capital during the year as we were building inventory, we are hoping that we are more efficient in that. So third was, it is not just the interest we also pay to the banks a lot of charges towards LCs and discounting because that is how our business model is set in terms of raw material purchase and payables and we hope that with the better rating we can negotiate better with the banks on the rates related to the charges as well. So, combination of that we are targeting internally to try and bring down the next year interest cost at Rs. 4 billion or lower.

Rohit Seksaria Sir, in this quarter the other income at consol level was a Rs. (-9) crore, why sir, that was actually negative other income?

Anil Jain The last year, that other income there was just some FOREX gain because we had received funds linked to our overseas investment had come back to India last year. So but in the current year, we had some reversal on what is called embedded derivatives. So, we had some this foreign currency convertible bonds and under the new accounting standards till the time they are converted, you need to create some kind of a liability positive or negative depending on the expected valuation and after they get paid or once you know that you are going to get paid then you reverse that and there was some reversal in this quarter let us say and that is what resulted into a kind of mostly negative as well as there was a negative foreign exchange due to the Rupee depreciation between December and March and that gets also absorbed in this other income. And I have been seeing that few of this questions linked to this other income have come from other investors also. We will try and see next time how do we address this in a more appropriate way so that all of us get more clarity about what this other income is about. This is mostly about foreign exchange derivatives or linked issues related to accounting standard treatment rather than any specific underlying business.

Moderator Thank you. We will move to the next question which is from the line of Nihal Jham from Edelweiss Securities Limited. Please go ahead.

Nihal Jham Just continuing on the debt part first of all for this year, if I look at it on a quarter-on-quarter basis our debt has actually fallen. But our interest cost has increased. So, again is there a FOREX impact in that also?

Anil Jain Yes, there is some amount of FOREX impact there. But also, while as we moved through the quarter, right in the early part of the quarter we had used more funds and as we moved towards end of the quarter we recovered a lot of funds or collected lot of money from the government, clients, etc., Now, our debt comes down. Now second, we had as I explained certain amount of non-interest related bank payments which have also come through this quarter and that is how you see higher rate of finance charges, as I would call on the books even though the debt has come down. But overall as we move forward we hope to maintain the level of debt we have and bring down the interest.

Nihal Jham Is it possible to quantify what the FOREX item was for this quarter and the debt part?

Anil Jain Overall, FOREX impact was, I think close to Rs. 50 crore on the debt.

Nihal Jham For this quarter specifically, in the interest portion?

Anil Jain The interest portion that amount could be about I think Rs. 20 crore or so.

Nihal Jham So, just one last thing, what is the kind of working capital reduction that we are targeting and combined with the free cash flow that we are expecting for next year. Should we now looking at much higher debt reduction?

Anil Jain I think, as I said business is growing, right. And it cannot grow just on its own. It would require certain amount of capital while we continue to hope to improve working capital, generate free cash flow and we have said that we hope to reduce the debt by about Rs. 3 billion which is falling due from the internal accruals. And at this moment at the start of the year, I think I will leave it there that is what we plan to do.

Moderator Thank you. The next question from the line of Keyur Shah from Emkay Global financial Services Ltd. Please go ahead.

Keyur Shah Can you tell me about the market share of our micro irrigation sector?

Anil Jain Market share?

Keyur Shah In India.

Anil Jain There is no organized reliable data. Generally, speaking from what I know I think it is about 40%. But somebody can say no it is 38% or 42% there is no reliable data. But I believe it is around 40%.

Keyur Shah And I missed couple of details about your INNOVA acquisition. The EBITDA was at, can you tell me again?

Anil Jain It is €4.7 million.

Keyur Shah And value paid was, €13.9 million?

Anil Jain Yes.

Moderator Thank you. The next question is from the line of Amit Murarka from Deutsche Asset Management (India) Pvt. Ltd. Please go ahead.

Amit Murarka So given the sharp increase in the crude price what kind of escalation clauses are built into these projects?

Anil Jain Usually there are escalation clauses related to various commodities whether it is polymers or cement or whatever else which is required in most of these projects. And that is how over a period of time we have been through, I think two cycles of very high oil prices or polymer issues but if you see historically they have not really impacted our margins. And we feel it is quite okay that even in the current projects we have in hand the way they they are structured, the escalation clause our ability to design size of the pipes which goes into this project, etc., would allow us to pass on the increases if any. I already clarified that because of good supply situation, we are getting good deals from majority of suppliers because we are a very large consumer of the polymers and that also allows us to absorb some of these increases if any.

Amit Murarka But does the contract like kind of allow a full pass through of raw material escalation?

Anil Jain In some contracts, yes. There is a full pass through as well. But it is not on a daily basis, right. It is a monthly or quarterly basis. You put together what you have supplied at what price did you buy raw material at and so on.

Amit Murarka And on the retail MIS you mentioned that, I mean you are assuming it to be flat maybe conservatively. So, on the Maharashtra sugarcane thing which was expected to kind of drive the retail MIS. I understand that there has been some political issues around that because of which it has not played out the way probably everyone expected to be. So, what is the update there?

Anil Jain So, as of now that has not really taken off. That is a fact. As and when it takes off, in fact other day there was a news that central government is urging other states in India to follow Maharashtra and saying that their sugarcane also they must bring it under drip. But generally, sugar factories have not been doing well as you maybe knowing that sugar prices are lower than the price they pay to the farmer for sugarcane. And any program of government of Maharashtra meant that sugar factories would be acting as a go in between the farmers in the government and financing agencies to make this happen and sugar factories have been struggling for their survival. That is one reason and maybe there are political reasons why it has not really picked up. But if you look at my statements over last 3-4 calls, I have consistently said that while government has said as and when it happens that would be a big positive momentum and growth for our retail business, but till then happens all the growth numbers I am talking about are exclusive of any sugarcane particular initiative by Government of Maharashtra and we still hold that. So, if we grow this year, for example Tamil Nadu is looking to do well. Karnataka post-election should do well for us, Andhra, Telangana are still doing well. Maharashtra, we had really low sales last year, so from a lower base we should improving the current year. But Gujarat there are some disruptions. MP and Rajasthan there are going to be elections coming. So, there could be some disruptions. So, that is why I said all said and done, if some will go up some may go down. I do not know today we have said that the retail may be flat and I hope we surprise ourselves and others by doing positive there. But we still have a very strong momentum on the project side that MIS division in India should grow 20%.

Amit Murarka Lastly on the working capital. So, on the working capital I see that the reduction has come actually from payables increase. So, what kind of strategy are you adopting? Is it expected to be a bit higher going ahead?

Anil Jain No, I think you will see that there is also reduction on inventories. Inventory, if you see our investor communication December 31 inventory was 88 days, March it is 73 days. Even account receivable which was 152 days is down to 146 days. That is on a standalone basis, even consol basis also inventory is down from 136 to 116. While account receivable have gone up little bit to 115 days. This is just December to March but even if you see March-to-March things have improved at all levels and accounts payables have gone up but March 2017 accounts payable were 81 days now they are 91 days. But even in June 2017 they were 90 days. So, it is not the big difference let say from where we were. But overall March 2017 our receivables were global consol 120 days now that down to 115. Inventory has moved from 122 days from 116 days. So, the lowering of working capital has been contributed by everything. Reduction on inventory annualized year-to-year March to March, reduction in receivables and improvement or increase in payables. So now, where we have reached it is now our net working capital cycle is about 140 days which was 161 in March '17. And as I said from

140 to go further down, I think we have still some room in inventory especially on the food business side, I believe we would be able to reduce inventory in the current year. We have some room to reduce receivable not too much with kind of growth which we are planning. And the lumpiness of the business towards second half or last quarter would mean that receivable will remain in terms of days outstanding against sales similar range. Inventory, you will see further improvement for sure. Payable, I think should stabilize around 90 days. I do not expect them to grow too much and that is why I said that directionally from 140 days as we move forward, we want to go down to, let us say in near visible future to 120 days that would mostly come from now inventory reduction.

Moderator Thank you. We will move to our next question which is from the line of Aditya Sundaram, he is an individual investor. Please go ahead.

Aditya Sundaram My first question is regarding, you spoke about replenishments of the orders for this quarter. It is as the December levels that you said. Could you just highlight the major areas from where these replenishments have come and also on the MIS and particularly on the piping side?

Anil Jain So, time-to-time we have announced various orders which we have received during let us say last quarter. Just now for example, we received in Maharashtra, we had received couple of months ago Rs. 70 crore order. Yesterday we received a Rs. 200 crore order before this we had received Rs. 280 crore order from Karnataka in the Tarikere area. And if we think of the piping, we had received Rs. 370 crore order from Pune. So, time-to-time we have informed the market about the individual large orders. Of course, there are sometimes Rs. 30 crore-Rs. 50 crore orders from smaller states comparatively could be Haryana, could be Chhattisgarh. Those do not get announced because we announced only usually something which is more than 60-70.

Aditya Sundaram Sir, then you also alluded to one point. I just required a further elaboration on this. You spoke about this Pune order that you had that and you mentioned that 3 or 4 years back even 1 billion order of project would be tough for you. What are the improvements in terms of our technical qualifications or the processes that are helped us bag these larger orders? Could you elaborate a bit on that for us, please?

Anil Jain Yes, so originally, we are merely pipe suppliers to other people. And we would supply to people like I do not know Veolia, Suez those type of companies not exactly same. But those type of companies which are very big in water sector and water distribution networks or L&T for that matter or other larger infrastructure companies. But over a period of time we have built the skill set. Now, these project orders require capability or skill set about 2 or 3 things different. One is, you have to do survey about the need of the water where are the leakages in pipelines, etc., Then you need to gauge what is the total demand of water. Then you need to design the network to deliver that much of water. Then the water which you are going to deliver needs to be treated firsthand.

Now, after you deliver treated water you need to also operate the system and ensure everyday every consumer across the city is getting 24/7 water. And you have to also ensure right amount of billing takes place in terms of metering, etc., So these are, there are some soft skills here and there are some hard skills and our design team, out installation team, our team which follows with O&M, our team which designs the SCADA control, etc., and these are lot of new skill set which we have evolved and developed, and this is going to be good for us, over a very long period of time. Because there are still so many cities in India where is there is no water or distribution network for drinking water or treating waste water worth the name. And so, more and more business is going to come our way. Now, if you look at overseas market, these companies which design and deliver such water also actually bill that and they have the cash flows, etc., In India the billing still takes by Municipal Corporation it is not privatized. As of now we are more EPC and O&M type of a play. But it is reasonably profitable. It is something which we have built unique skill set and there are other players also in this market, but market is growing quite a lot. So, I believe everybody has room to grow and especially from a smaller base for us, there is significant room to grow.

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

Sudhir Bheda Congratulations on great set of numbers. And sir we are also enthused by the guidance in the fact that interest costs for this year will be down to Rs.400 crore and the EBITDA will be upward of Rs.1,350 crore. So, the only concern which I think market has, so as you said earlier that foreign currency fluctuation will not affect the P&L or balance sheet. So, how will you elaborate that because otherwise in all parameter, company has fared superbly. But then after a 40% fall market has again, your prices have again fell the 5% today. So, I think can you elaborate on the effect of the foreign currency depreciation or Rupee deprecation on your P&L and balance sheet?

Anil Jain So, what I said and may be if I have used the wrong word, I am sorry for that. I said on a cash basis we will not have any impact on our profit and loss account because of the Rupee depreciation. Because as a company we are exports-oriented. Some of our product like food product which is 100% exports being generated out of something which is grown out of soil where is no import content and lot of those exports which are going to take place over next 12 months or this period we are not sold the Dollar forward. And that means we will get benefit of depreciated Rupee on those things. So, that is a positive for us. We have hardly $16 million of the repayments of loan in the current year. And so, overall as a company, I think the Dollars which we will earn versus the $16 million Dollars which we repay in the current year out of India and out of that $16 million, I think part of that we have already hedged earlier approximately about of $7 million is already hedged. Now, there could be impact on the balance sheet what I call mark-to-market, we have a $200 million of let us say the Dollar bond, right. When we give consolidated result we translate that. So, if Rupee was earlier 65, now Rupee is 68 there would be Rs. 3 impact on that $200 million. But that is not a cash basis that is not a loss. That loan is, that bond is due in 2021. So, that is what I meant that it will not have any cash impact overall business is Dollar positive. So, we should be earning. It will not have any negative impact on that way. But mark-to-market impact on a given date whatever is the Dollar Rupee on a June compared to March we will have to take that to our books.

Sudhir Bheda And one more question, sir. You had a one-time write-off of deferred tax asset created by your US subsidiaries. So, is that accounted in other expenditure because other expenditure has gone up by almost Rs. 125 crore.

Anil Jain No, that was adjusted through the deferred tax.

Sudhir Bheda So, what is the reason for other expenditure is up by almost 125 crore for the quarter?

Anil Jain The other expenditure, you mean overall other expenditure compared to the December quarter?

Sudhir Bheda Compared to the March 2017 quarter, your March 2018 quarter the other expenditure is much higher.

Anil Jain Partly it is the significant increases in the business, right. Because the other expenditure includes our project sites or project expenses, etc., or exports selling expenses and so and so forth. So, one would have to look into it but there is not particular factor which I know we should significantly or radically change that. Also, other expenditure includes the FOREX loss if any in the last same period and this period. But business has also grown in this particular quarter 25%, right. So, if you already add to Rs. 477 crore which was other expenses last year and simply say that businesses also grown 25% that itself becomes about close to Rs. 596 crore. So, as against that it is Rs. 604 crore. So, it is in line with the business growth. It does not impact overall my earnings.

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

Saket Kapoor Sir, firstly just coming to your food business part, which we are contemplating now. Sir, could you give the, what is the currently the shareholding of the company which we are going to go for the IPO?

Anil Jain So food business, our current structure is that, we at Jain Irrigation own 85% of the entity and approximately 15% is own by an outside private equity.

Saket Kapoor And we have not finalized any nitty-gritty.

Anil Jain No, we have just taken a principle decision that we should do it, it makes sense. The nitty-gritty we are still in discussion with merchant bankers to talk.

Saket Kapoor How much have been the investment, sir on the food business from Jain Irrigation, I mean this entity which we will float in?

Anil Jain I think that investment, I will not remember offhand. But I think it was more than Rs. 1,000 crore.

Saket Kapoor More than 1,000 crore we have invested. That is the book value in the books of Jain Irrigation?

Anil Jain Yes, when we separated that business that was the book value.

Saket Kapoor Sir, one point to about, what the last speaker was speaking about the M2M part, sir for this quarter also then the finance costs have bear the brunt of the Rupee depreciation in the finance part only, finance cost, we have taken the M2M hit because from last quarter-on-quarter the Rupee depreciated by, I think around Rs. 2.5.

Anil Jain Yes, so some of that loss either has gone into finance cost or depending on how it has gone into other expense also.

Moderator Thank you. The next question is from the line of M M Savla from M M Savla & Company. Please go ahead.

MM Savla Most of my questions have been answered. Would like to congratulate the Company on great numbers and also appreciate Mr. Jains ability to answer the questions throughout a 2 hour call.

Moderator Thank you. The next question is from the line of Jai Balaji from Jai Balaji Securities. Please go ahead.

Jai Balaji My question regarding shareholder value creation policy. What is the company's shareholder value creation policy?

Anil Jain I think, the policy is to continue to create value for all stakeholders, including shareholders. And the best way to do it right is to grow the business and run it more efficiently, run the business with less debts, so that we create more equity value. We are on to doing that. There have been last few years not very great year in terms of outside forces, but we have weathered all of that and I think, I believe company is now entering into a phase where we should create lot of good value and I hope it gets converted into shareholder value as well.

Jai Balaji What was the chief reason for the fire, which occurred massive fire which occurred in the company? And what enquiry report has been when will be the enquiry report be submitted and who is conducting the enquiry? Whether it is done by any central government organizing like CBI?

Anil Jain I think, the fire time-to-time it can happen somewhere. The insurance company had appointed third party agencies, independent agencies which, what is called Forensic agencies who come and try and find out what is the reason of the fire and they have reached a conclusion those agencies independent forensic agencies have reach to a conclusion that the fire happened due to the a short circuit or whatever due to natural reason. And that report by them has been submitted to the insurance company that is the information we have received. And this is not a criminal matter. I think, CBI gets in if it is some kind of criminal matter, but they did appoint a forensic agency which is a third party which came in did all their investigation and inspection and they have said this was a natural fire.

Moderator Thank you. We will move to our next question which is from the line of Girish Achhipalia from Morgan Stanley India Co. Pvt. Ltd. Please go ahead.

Girish Achhipalia Sir, just wanted to understand the pipeline of new projects in MIS, if you are at L1 in any stage and on the GST implementation, my channel check suggested that last year retail, as you rightly also alluded to there was confusion on the rate. But also, there was something that a lot of people in the states had to move to online and the machinery was not active and running in full support across many states. So, what is the situation right now as we speak, so those two parts? Thanks.

Anil Jain So, we have already L1 into one large single project in Karnataka Rs. 5.7 billion. And there are, I think three smaller projects in different smaller states which work out to another billion Rupee where we are L1 which are going to be given out soon or next maybe couple of months. It takes time after you are being L1 it takes 2 to 3 months before the project can be awarded to you. But as I said, the project orders we have in hand, let us say this year I said we will double the projects that is 10 billion. That still leaves, I think the total projects we already in hand are more than 15 billion and we are L1 in another 6 billion. So and there is still next 12 months left to go and get new project business. So, all in all I see already that not just March 2019, for March 2020 we already have a strong order and pipeline which would allow us higher growth than Rs. 10 billion on the project in as we move into March 2020.

Your second question on the retail market, the retail market went through GST disruption was one, still an impact of this demonetization which has resulted into this cooperative banks having not ability to lend to the farmer also formed a point. The third was due to the drought, lot of state governments spent lot of their money in giving the drought relief to the farmers. Some farmers did not have water. For example, in February, March we suffer quite a lot in Maharashtra for our typical business of cotton where we sell a lot of drip irrigation in 2 months February, March and because of some disease of worm which was there and Red Worm it is called that is why the farmers lost their total crop. And you remember there was this whole story and about the BT Cotton Seeds whether they were responsible for this bollworm to come back and so on. But end result was farmers lost lot of money and this season they have not really decided to plant or do pre-planting irrigation, they did not do. So, there have been such kind of natural calamities, so sugar not doing well, cotton getting affected, impacted our business in Maharashtra. Generally, GST disruption had an impact and we did less business in the state of Gujarat last year because there were elections and post-election they have still not come back to normalcy at least vis-à-vis irrigation how they manage through their company GGRC. So, two of our major states Gujrat (GGRC) and Maharashtra had question mark. So, we have still managed to grow in the fourth quarter, 20%. We did some good business after lot of time in Maharashtra. We did good business in Andhra. We have started going better again in Tamil Nadu and now what we have seen the post-Gujarat and Andhra, Telangana. Tamil Nadu is now fully digital, MP is becoming digital, Maharashtra has already become digital. So, this thing is moving on. That is a good for industry. That brings more transparency to the industry, that brings better visibility in terms of performance of all the players who are involved. So, going forward I am quite optimistic on the retail side as well. But this being an election year I just want to be cautious at the start of the year and say we will not grow into retail what we manage growth somewhere else it might get offset. But we are very confident on the project side.

Moderator Thank you. The next question is from the line of Nihal Jham from Edelweiss Securities Limited. Please go ahead.

Rohan Gupta Rohan here. Sir, on your project business why are you seeing to be quite optimistic roughly doubling your revenues but that business also suffers from the highest receivables. So, there you see that with Rs. 1,000 turnover which you targeting that it will lead to significant investment in receivables and can lead to working capital deployment?

Anil Jain No, I think this year we would have a better understanding of this projects how they are functioning and working. Last year also projects existed, and we have grown quite a lot into the project and despite the fact that we have grown so much in 2018 in the project, our receivables in terms of days we have not really gone up and that is what we are projecting in the current year also even though project business will grow, our receivable days will not go up, they will remain where they are as of now. As year after once we start bringing more retail business that is when we can start in fact the days outstanding to go down because retail with the dealers our payment terms are lesser than the let us say the projects it takes. So, that is why 2019 we are saying that business will grow quite a lot but with the same amount of money will manage that. That is how the DSO will remain the same on receivable side. But we will improve on the inventory. But all in all as a combined business, right when we run the business there are these different segments and so on. We have improved our working capital significantly this year and in a very difficult challenging situation. We have improved working capital significantly. We hope to move still in that direction to further improve it. But it is not something we are drastically is going to change. That is the nature of the business. Our business is working capital intensive but it has an enormous growth opportunity. It is comparatively high margin business and then there is something about the business which we may not be perfect and that is the cash flow part of this business.

Rohan Gupta So, sir just clarify sir, what will be the average receivable days now after your learning in the business, how are the average receivable days now?

Anil Jain We have said that we will maintain receivable days between 180 days to 200 days. Currently they are around 185-190. So, I am saying if we improve we are down to 180 days, 179 days. In a particular quarter we may be around 200 days but overall on annual basis from March 2018 to March 2019 you will not see that they become worse than this range.

Rohan Gupta No, sir, I was only specifically looking project business?

Anil Jain Yes, but it is very difficult. I cannot really predict where project is going to be in March. But I am saying combined receivables this is where we will be. And it is not, I mean it is very difficult right now to tell you that exactly how much of Rupees of business our retail will do and project might be a little bit less here and there. So, I would like to see that my message remains focused that overall as a company, overall even at a micro irrigation division our receivables will be at this level and over the last 3 years we have demonstrated that whatever we have said we have achieved on that count.

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

Parag Khare Sir, question especially on our pledged share. From February onwards, the stock prices are falling and in some cases the lenders have asked promoters to provide more pledge for the shares to, as a part of security. My question is, have we received any such request from our lenders asking us to provide more pledge on the shares?

Anil Jain No, we have enough cushion, there is no issue. And all our borrowing is not linked directly just to shares. There is also property, etc., So, we do not have such concern or issue. Even if price was to go down far more from here, we are still okay. I do not see that as an issue.

Parag Khare And sir from the debt perspective, you said we plan to reduce the debt by Rs. 3 billion and from the most pessimistic approach even if we say we grow 20% in our EBITDA let assume grow by 18% to 20%. It is somewhere in the range of 1,350 crore to 1,400 crore as EBITDA. So if we reduce the debt by 3 billion an do not add any more debt. I think we should be well below 3, right sir? So, my question is are we planning to have more debt for the China and CIS countries and South America small acquisitions which you mentioned and are we going to fund those acquisitions from the internal accrual?

Anil Jain Yes, we want to fund those from our internal accruals side. What I said is that the debt which is falling due this year about Rs. 3 billion, our intention is to repay. In terms of target we are saying that we want to go towards 3 and possibly lower. As I said business is dynamic, volatile and subject to so many uncertainties going forward. Rupee depreciation impacts to how we translate the overseas debt on a Rupee basis and so that on balance sheet. So, some of this numbers by the end march 2019 where they would be one has to wait and see. But all in all we are saying that we want to manage the growth with the existing balance sheet and capital and improved debt to EBITDA closer to 3 plus improve that if we can possible beyond 3. But that is where we want to set our target. Knowing that sometimes there are issues which we cannot control can happen. Our business is not a straitjacket business. It is very dynamic and volatile business.

Moderator Thank you. We will move to our next question which is from the line of Dhavan Shah from K.R. Choksey Shares & Securities. Please go ahead.

Dhavan Shah My question is still on the solar pumps. So, we received around 9,000 pump of contracts from Maharashtra and we supplied around 4,000 in FY17 and our target was to supply remaining in FY18 itself. So, why is it delayed or maybe carry forward in the next year and our revenue target was around 250 crore to 300 crore from solar this year. So, that is why we missed our topline guidance. So, that is what I wanted to understand?

Anil Jain But we overall business has grown 18%, right. We have grown micro irrigation business by Rs. 500 crore which includes the solar pump. And in the business, there is always a possibility that one segment for some reason will go down while you do more from the other segment that flexibility and dynamism we have as a company management and our people and that is how we have achieved 18% growth in micro irrigation division. So, topline was very close to where we have stated, Vis-à-vis particular question of solar pump I already said in the current year we see again a definite possibility that solar pump business will grow north up to Rs. 2 billion because of continued orders we have. In terms of why there was a specific delay in a given situation, the government gives orders on behalf of the farmers sometimes there are institutional issues, sometimes it is complex issues involved and you continue to learn from them. But what we have done as a company is to build multiple revenue streams and triggers, so that knowing these uncertainties that is something goes down then we are able to do something else, more focus on it and still come out on the top in terms of delivering growth and that is what we have achieved in 2018 and that is what I believe we will achieve in 2019. We are saying that as we stand now we feel fairly confident that there is about 20% growth we will do and if we face a lot of headwinds on the way, we will share those with you on every quarter basis but as we speak now this is where we stand.

Dhavan Shah And secondly, about the gross margins at subs level, so if I look at the Q4 FY18 numbers for subsidiaries the gross margins have been at around 43%. So, around 700 basis points decline on quarter-on-quarter. So, is that primarily because of the agro business? The prices have been increased for some of the agri inputs or is anything else?

Anil Jain It was partly, I think the food business where we had issues as I said of the deflation on the revenue side, which has kind of impacted the revenues therefore, the revenues lower gross margins are lower and so on and so forth. But I believe that is in the past and current year should be a much better year.

Dhavan Shah So, we can expect around 55% growth margins at subs level, right?

Anil Jain I do not know this. I do not track to be honest on gross margin level. I am more tracking on EBITDA margin. But overall margin should be much better than the last.

Moderator Thank you. The next question is from the line of Keval Shah, he is an individual investor. Please go ahead.

Keval Shah Sir, is the management looking for any kind of buy back of shares and increase of their stake in the company?

Anil Jain I do not think that is something we want to discuss on public platform. But as a company as a Jain Irrigation, we just now spoke for a very long period of time about the growth opportunities and deployment of capital. I think company requires the capital to grow. So, at a company level there is no plan right now to do any buy back.

Keval Shah And is there any internal target for ROCE numbers, that we might be targeting?

Anil Jain I think, we want to improve wherever we are. I think you should expect 15% to 20% improvement on ROCE from where we are. Assuming we are around 12-13%, I think we should go towards 15%.

Keval Shah So, could you just comment on our capacity utilizations in our pipes business and what will be our capacity roughly?

Anil Jain Seasonally adjusted, I think capacity utilization is quite high in the pipe business. And in this season, in fact, we had more orders than we could supply but there were periods during monsoons and other period we have no orders and also some of our equipment, for example it is suitable more for large size pipe orders. But you might get too many orders from the small size and so on. So, there are some little bit complexities on how you calculate capacities. All in all, I think there is still some room we have on micro irrigation side especially if you get lot more business we have enough lines to address that demand. In case of pipe we can grow the business based on if we get some off seasonal orders and we have already added new capacity which have elaborated earlier on the call to further needs. But I do not think we need to invest too much of money except some specific detail CAPEX again we spoke about earlier for the capacity utilization side.

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

Anil Jain Thank you all. I think there was one question which was related to the segment analysis in terms of significant increase in the plastic pipe business profitability and reduction in the food profitability. Those numbers are correct. We had some 94% increase in the polyethylene pipe business in this particular quarter and that is how you see that numbers have improved quite a lot. And in case of food which we have spoken we had a revenue deflation this year. We also had not so great year into our US food business. We had continued impact of the high price onions which we bought in December which again I had spoken earlier in the current quarter which is all resulted into lower level of profitability in the current quarter for the food business. So, the numbers you see are absolutely correct and these are the reasons.

And overall, I would like to thank all of you to be on the call and to be patient with all the question and answers. I believe we have been able to answer most of your questions. One or two questions, which were linked to depreciation, etc., if you would like to set up another offline call or another call, we can definitely take you through those housekeeping details.

In general, I just at the cost of repetition, I would like to re-emphasis the fact that the businesses we are in while they create enormous value for the farmers or society in general, but by their own nature this businesses are complex, they are somewhat unpredictable. They depend on monsoon, government policy, the farmer moods, lack of capital or availability of capital in banking sector or the loan waivers which individual state governments provide and the elections which may or may not be there in given state and effort of management has been that despite all of these unknowns at any given point of time, we are trying to build a business model have a very robust growth rate of 15% to 20% year-after-year. Do that in a fiscally responsible manner and that last 2-3 years you have seen that we are continuously improving on that part and still earn good enough margin so that we can continue to invest in the business for the future growth that is the job of the management. And every single business we have, we have built a scale, we are building excellence, we are building ability to make money despite all of these unknowns which are out there. So, during the quarters there would be volatility, there would be unknowns and things will impact but I think over a 12 months' period we will have enough flexibility as a management or dynamism to address some of these headwinds or things which are unknown and still come out where we would say okay, our balance sheet is more or less same as the last year, we have achieved a significant growth and we have built next level in terms of business opportunity. So, that we can continue to serve the entire agro food and water system around the world and that is what our company is striving to be, and we are very thankful for all the investors for their support, their understanding in this journey.

So, thank you again and wishing you good next fiscal year. Thank you and bye.

Moderator Thank you. On behalf of Jain Irrigation Systems Limited, that concludes this conference. Thank you for joining us and you may now disconnect your line.

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.