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JISL/SEC/2023/08/B-2/B-6 11th Aug, 2023

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Sub: Transcript – Q1 of FY2024 Earnings Conference Call.

Dear Sir/Madam,

Please find attached herewith transcript of **Q1 FY 2024** Earnings Conference Call held on 09th Aug, 2023 at 12.30 PM IST.

Please take the above on record and acknowledge.

Yours faithfully,
For **Jain Irrigation Systems Limited,**

AVDHUT
VASANT
GHODGAO
NKAR

Digitally signed by AVDHUT VASANT GHODGAONKAR
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A. V. Ghodgaonkar
Company Secretary

"Jain Irrigation Systems Limited

Q1 FY '24 Earnings Conference Call"

August 09, 2023

MANAGEMENT: **MR. ANIL JAIN – CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR – JAIN IRRIGATION SYSTEMS LIMITED**
MR. BIPEEN VALAME – CHIEF FINANCIAL OFFICER – JAIN IRRIGATION SYSTEMS LIMITED

MODERATOR: **MR. ASHVATH RAJAN – KRCHOKSEY**

Moderator: Ladies and gentlemen, good day, and welcome to the Jain Irrigation Systems' Q1 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on you touch tone phone Please note that this conference is being recorded. I now hand the conference over to Mr. Ashvath Rajan from K R Choksey. Thank you, and over to you, sir.

Ashvath Rajan: Thank you, Zico. Good afternoon, everyone, and welcome to Jain Irrigation Systems Limited earnings call. To discuss the Q1 FY '24 results. Today, we have on call Mr. Anil Jain, CEO and Managing Director; and Mr. Bipeen Valame, CFO. We must remind you that, the discussion on today's call may include certain forward-looking statements that may involve known and unknown risk, uncertainties and other factors and must be, therefore, viewed in conjunction with the risk that the company faces.

Future results, performance or achievements may differ significantly from what is expressed and implied by such forward-looking statements. Please note the results and presentations are available on the exchange and our company's website. I now request Mr. Anil Jain to take us through the company's business outlook and financial highlights. Subsequent to which, we will open the floor for Q&A. Thank you, and over to you, sir.

Anil Jain: Good afternoon to all. We would like to welcome you to our conference call. The quarter, which we just completed and for which we are discussing results has been a very good quarter for the company, I believe. Overall revenues are up 20%, almost to the tune of INR17 million. And that's quite an improvement considering the fact that, we do not have overseas businesses anymore linked to the irrigation business, which got merged with Rivulis in March quarter.

So that's a good solid number in terms of revenue growth and in line with the 20% revenue growth for the whole company, our EBITDA has also grown. Our revenues grew 20%. EBITDA has grown close to 26% from INR180 crores to INR227 crores and registering good margin growth at about 13.4% at the company level.

When I look at the individual divisions within this business overall, the Hi-tech division, which comprises drip irrigation, micro irrigation and tissue culture business did slightly almost same as last year, a little bit lower by 3%. And that was primarily driven by the fact that, the project business, and we have informed market that, company is not taking the new projects, only completing the existing projects.

And that project business went down by almost about 50%. So even though, we had strong growth in stand-alone market in Hi-tech, where normal drip irrigation business grew by a strong 20%. Tissue culture business with additional capacity grew by 44%. Our overall division has shown a minus 3% because of 50% reduction in projects. But our major focus now is on retail, so that is showing good results.

The plastic business is significantly up between what we do in India in terms of pipes, which go into for agriculture application, also for drinking water under Jal Jeevan Mission and our plastic sheet business, which is there overseas. So overall, that business has grown almost 73% from about INR4 billion to INR7.2 billion. So that's a significant positive growth in the plastic business.

And we have good level of orders and momentum where we see in the rest of the year and going forward, this would remain very strong at this level. Agro Processing business, which is third piece of the overall company, slightly grew about 1.4%. Primarily, the reason the higher growth is not there because last year -- in last season, which is last July, May mango season in '22, there were not enough mangos available.

So we processed much lower quantity. And what we processed then gets sold over the next 12 to 18 months. And so we had less material to sell because we just couldn't process last year. And therefore, while we grew the onion business, onion dehydration, there we had 9% growth. But the fruit pulp business did not really grow.

And our overseas subsidiaries, they also were positive in single digit. But then that's why you see 1.4%. But all in all, this season for the mango, we have done well. So I think overall double-digit growth should come back to this business, I believe, on annual basis. Even though in the first quarter, you may see that it is low single-digit growth.

So overall, when you look at the entire business, good show in all divisions. It's a difference degree, but I think momentum and the direction is absolutely -- momentum is strong. Direction is right. Businesses are going where we would like them to grow in total.

Now when we look at individual businesses, the question is where did growth come from? So if I look at even on MIS business, retail business, because I'm more now talking standalone. These numbers which we have talked about was consol. But if I look at stand-alone India, which is the major input on the drip and pipe business. The Hi-tech business was minus 2.4% and plastics doubled itself to about 100%.

Now when we look at MIS business, where did it grow at 20% growth. So I think South was quite solid for us at about 28% revenue growth. West grew also 72%. North grew 24%. East was 51%. Maharashtra was neutral, so that it was -- it's due to part seasonality issues in Maharashtra, which we expect Maharashtra would also do quite well in the remainder of the year.

And that is how we ended up at about 20% growth coming out of the MIS 20% growth was. So a lot of regions are doing quite well. And our focus on building dealers and reinvesting into dealers and into relationships. All of that is giving very good results.

When you look at piping business, plastic pipes, where we have done quite well domestically. Retail pipe business has grown almost close to 46%. And there, the major growth actually was provided by Maharashtra. Maharashtra grew 90%, even waste grew 39%, but North and East had a negative growth. So again, it's a mixed bag there. But overall, 46% growth, very robust, very good.

We also had a good institutional business. And part of this goes into Jal Jeevan Mission and part of this goes into other infrastructure projects in the country. And that business actually grew almost 700% from INR32 crores to INR52 crores. So significant growth on the institutional and infrastructure side, very good growth we have achieved in this quarter.

So when I combine all of this and look at different geographical zone, how we are doing so I think overall, if I look at domestic revenue, Maharashtra grew 40% for us. Southern 4 states grew 11%. West which comprises of Gujarat and Madhya Pradesh for us, they -- that grew 63%.

So major growth has come from, I would say, west and south. Overall, we expect even north and east to contribute for the whole year. But first quarter, they were neutral is what I would say. And institutional business, as I said, had a whopping growth.

So that's in terms of different aspects of the business in terms of where did growth come and how secular growth is. And we are very confident of maintaining these things going forward overall. Just to touch base that while you see India growth, overall revenue at 23%. In fact, if we are comparing to the last year, various resin prices actually have come down. So volume growth was even higher.

In MIS business, volume growth was similar, 15%, 20% to revenue growth. But PVC pipes business, we grew 96%. Polyethylene we grew 400%. So overall, volume growth was closer to 90%. So because of reduction in the values and raw material prices, you don't see that captured. But overall, quite high from where we were and where we are now.

So good volume growth, good value growth, good growth in most of Western and Southern India across dealer market, very strong growth on the infrastructure and institutional side and that is what has created this good results. And the momentum is quite positive in terms of where we are.

Now these numbers have resulted such a good revenue top line, good bottom line. And overall, as a company, if I look at in this quarter, we generated about INR150 crores of cash from operating activities. So this is after the working capital change. So before working capital change, operating profit from operations was about INR225 crores. And then we have generated post-working capital change is INR152 crores.

Part of the working capital changes, where you see increase in inventories is linked to seasonality in the business like, we process a lot of mangos or other products as a company during this time. So you would see that trade receivables have come down. The inventory has gone up. But still, post these working capital changes, we have still generated cash of about INR152 crores and about INR22 crores has been spent on mostly maintenance capex across the group, across the world, which is in line with the anticipation overall.

Order book is good, close to almost INR2,000 crores across. Some of our businesses have -- traditionally, the institutional business depends on order book going forward. Food business has annual contracts. So also, we usually get a good order book. But the piping and drip irrigation business where most of the orders come from dealers on a weekly, daily basis. So when you look at the order book that does not necessarily show how much company is going to do in the remainder of nine months because this order book does not contain the normal orders, which will keep coming from the dealers.

The other point to be noted is that -- and which I had explained last time that every quarter is not same for the company. For example, Q2 is the lowest amount of sales which we achieve compared to, let's say, Q1 or Q4 because this is a rainy season and during rainy season, you hardly sell pipes or irrigation system. Business comes down drastically. But whatever we have seen of the July, I think we have grown more than the last year. So I think momentum is there and will be maintained in the remainder of the year also.

Now in terms of debt on the balance sheet, I think structurally, we have repaid some long-term debt already in the first quarter. Even though some of the working capital debt might be higher because of, again, seasonality impact. But I think we are sticking to our target that this year, we're going to reduce overall debt by almost INR6 billion or INR600 crores while business should grow about 30%, what we have talked about.

The industry, I believe, has tailwinds. We recently had good dealer meets and so on. And response is quite positive. The dealers are feeling confident about their customer base that is the farmers. And they are committed there to continue to grow. And this is partly what we are doing is taking market share. So we are dynamic real time in the marketplace in terms of our response to what's happening. And also our dealers are well enthused to move forward to gain back some of the market share we lost between '19 and '22 period on one hand. But on other hand, also go into the new geographies, and get part of the new business being created.

As you saw our numbers and if you have been studying historically, business has been strong in West and South, and we are now making sincere efforts to grow in North and East as well. And first, it would be north, I think, this year and next year. And then even East will -- we believe, will join because more-and-more farmers are understanding that drip irrigation and the solutions which we provide it is not just about saving water, but it is about improving production, productivity and ultimately, their income.

And overall, as a country, as we are going through this very silent revolution there is some value-added agriculture being done. So Jain Irrigation's product and solutions play a very important role in that process.

And I think that this is a long-term story, right? This is not a 1-year, 2-year, this is a 5-, 10-, 20-year story, and that will continue to play. We, as a company, I think we have good level of production capacity still left, where we can manage growth without much of an issue. Order book goods -- order book looks good. Momentum is positive. Overall industry is doing well. So I think this augurs well as we move forward.

And as we do more products, more sales, cost absorption, fixed cost absorption will continue to play out, which would allow us to even further improve margin in some of the product segments which are there. And so that we can maintain our financial objectives in terms of trying to bring down the leverage. And continue to focus on the dealer business where we try and bring down overall working capital.

As you know, that working capital -- and that is a part of our investor presentation, we are consistently bringing down the overall working capital. Now in terms of days outstanding against sales, but for some people, it may still appear that the numbers are still high overall, even though they are coming down, especially in stand-alone, you would see last year, June '22, net working capital was at about 294 days. Now it is 228 days.

So over a year that has significantly come down even compared to March, it is lower. And we -- this would continue to happen. But partly, this gets reflected that we have some legacy receivables coming from the project, et cetera, right? So that is going to get addressed over between now and next fiscal year. So as that get addressed more and we are doing just more and more dealer business, dealer, and institutional business.

Then if I really break down my receivables today might appear they are quite high. Overall, it's about 6 months because of the legacy receivables being there. But if I really look at just the retail receivables, they are closer to 40 days. That is in institutional business, we have to give up to 90-day credit and the retail business that's a zero credit. So combined, based on the weightage, it is coming down to only 40 days receivable.

So that has been -- I think along with the industry, it is almost same. And there, we are already seeing a lot more efficiency. So I think over next 2 years, as we recover all the old receivables and as we move out of the project business, you will see a further -- apart from improvement which you already see, you'll see a further substantial improvement in working capital. And this is going to allow us to continue to grow the business in future. So we already have production capacity.

And in the new model, we do not require a lot of capital, right? So whatever free cash flow that we generate can be used for deleveraging. That is the thought process. But at the same time, underlying business has good momentum to positively grow on a multiyear basis. And our products and services are really liked and loved by our customers, the farmers, as long as Jain brand products are available in most of the areas, those consumers would not like to go and buy any other brand.

So I think that's what our focus is to continue to reinvest in marketplace and consumer connect vis-a-vis the farmers. And at the same time, use production capacities efficiently and the third parties, continue to focus on dealers so that we continue to lower the working capital cycle and generate more free cash flow.

I think this is where we are. I believe this kind of covers how we saw what has happened in the quarter and where we see remainder of the year. So positive momentum, good tailwind and we are looking forward rest of the year with the same level of enthusiasm. Thank you, and we'll be happy to take any questions which may be there now.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Nishit Master from Axis Securities.

Nishit Master: Congratulations on good numbers. Sir, my question is on the plastic division because that's where we've seen growth coming in this quarter. Two things over here. One, on the Jal Jeevan Mission side, what is the kind of working capital cycle which we are witnessing? And then two on the pipes business, from the 33% order growth, if this is a volume growth which we are mentioning, then if you could divide between existing distributors and new distributors, what's the kind of growth?

Anil Jain: Okay. So I think your questions have 2 parts. One is on MJP and JJM side. I think overall receivable cycle is about 2 months, 60 days. Partly business is secured by LCs when we deal with other contractors and institutional suppliers and so on. So that's about 2 months. Now in terms of -- as I said, our retail business is that we directly collect advance before we ship the goods on the retail side.

The 33% which we have mentioned in our release is direct retail sales of the PVC pipes. And there still most of the business is coming from existing dealer distributors. The new dealer distributors, to be honest, we are not still capturing that new versus old because some of our existing distributors or dealers who had gone away and are coming back now during this 2-, 3-year period as we're gaining back some.

And some of the existing dealers are really moving strong. So for example, Maharashtra dealers, just to give example, last year, between pipe and drip we had -- they do combine sales, right? Last year, from March '22 business, we had only 93 dealers who did more than INR1 crores. This year, in March '23, we had 209 dealers doing more than INR1 crores. So I think that's the quality what I'm very enthusiastic and optimistic about that quality of this business and this new business we're getting is very good. It's a -- that shows a lot of loyalty, a lot of commitment from the dealer base and consumer preference for the Jain brand.

Nishit Master: Okay. Sir, in this 33% growth which we are talking of in PVC pipes to the retail business, is this volume growth or value growth? And if it's value growth then what is the volume growth because then ideally volume growth would have been far higher?

Anil Jain: Yes, value growth -- this is value growth. So now when I talk of pipe domestic revenue, let's say, both PVC and PE combined so what we are talking is about 46% growth right in the pipe domestic revenue. Last year, it was INR200 crores. Now, it is INR300 crores. So almost 46%

growth. Now -- and I said the institutional growth on both pipes put together INR32 crores to INR250 crores, that's about 700%. When I look at combined basis, both the PVC, overall growth in volume growth actually is 96% and PE volume growth is 400%. But values have come down, significantly compared to last year.

Nishit Master: Okay. And this business should be looked at EBITDA per ton or absolute margin per kg, right? Or it should be looked at as percentage margins?

Anil Jain: It should be looked at as percentage margin because -- I mean, there are 2 ways to look at it. We have always looked at as percentage of margin. I think industry also follows percentage of margins. So I think we came out at closer to 11%, I believe, on combined business.

Nishit Master: Okay. And is there a possibility that this will increase going ahead?

Anil Jain: This -- you're asking margin or revenue?

Nishit Master: Yes, margin. Margins.

Anil Jain: As we are consuming on more capacity in the busy season, I think in those quarters, you will definitely see even better margin.

Nishit Master: Okay. Okay. So that's it and sir, on agri Hi-tech business, our sprinkler -- our dip and sprinkler business has not grown, especially in Maharashtra. Any particular reason for this, sir?

Anil Jain: No, there were certain seasonality issues in Maharashtra and how the government can get operated also, even though we don't deal with the government. But overall business has grown 20%, right? So I think 1 state has not grown in a given quarter. And again, I have said that let's not measure the company or a particular business on a quarterly basis.

On annual basis, we expect strong growth from Maharashtra. But we had very good growth in South, in West, even in North as well as East in terms of retail. So overall, we have ended up 20% but Maharashtra has larger, I would say, footprint. So if it has not grown in a given season or a given quarter then overall growth comes on. But retail has overall grown 20%, you see other irrigation companies, I don't think they have that kind of growth. So our people have done quite well there. And I think for the whole year, we are very bullish on the irrigation business.

Nishit Master: Okay. Sir, and on liquidity front, have the pressures decreased in terms of -- from the company side in terms of liquidity being there to buy material, to buy agri produce and all?

Anil Jain: I think we are still running a very tight ship. But the fact that we have grown 30% without borrowing any new money, right? So that shows that things are definitely improving.

Moderator: Our next question is from the line of Gaurish from JHP Securities.

Gaurish: I've got two questions. First is, how is the company planning to achieve the top line guidance of 30%? So if you could give us the breakup of expected growth for each segments? And also the second is what are the expected margins for each of the segments?

Anil Jain: So when we look at the growth, we are definitely expecting all divisions to grow at a stand-alone level as well as the consol level, primarily domestic-driven growth will be there into the company, as I already explained. You saw the plastic business in India has grown more than 100% this quarter. We have good order flow, good momentum. So we would expect to maintain a very high level of growth in plastics. Irrigation business would continue to grow stronger double digits.

As far as India is concerned, I think overall, last year, we did INR3,600 crores revenue all put together. So we would be adding somewhere close to about, I think, INR1,000 crores to INR1,200 crores to that. And a lot of that growth will come from plastic business and some of the growth will come from the MIS business in totality. Now while in MIS business, what is going to happen is that our retail would grow substantially more, but the project is going to -- actually, there is a degrowth in project.

So overall growth, you would see as a division would be less than the new business which we are doing at the -- with the retail customer and the dealers. While in pipe, our projects are very limited, so -- and they would max the last year. So there is no degrowth on the project side, which will impact the overall growth. So I would say that MIS would kind of look at overall 20%-plus type of growth and that would be including the negative growth on the projects that means that retail is going to grow even more.

And the piping, we expect significantly more growth. Food, as I said, first quarter has been almost nominal growth. But overall, for the whole year, we expect double-digit growth. As our business is seasonal, it gets impacted with what happens in the marketplace. I'm unable to give you precise figure where the growth is going to come, but we are confident of meeting this number of 30%. But within that, as a weightage for the growth more is plastic business, followed by MIS followed by overseas plant based.

Gaurish: Okay, sir. And secondly, sir, on -- can you give us a guidance on the segment-wise margins that are expected for this year?

Anil Jain: I think we are targeting -- overall margin at between around 13.5%, 14% for the whole company. Broad range would be that we should achieve an EBITDA between about INR900 crores and INR1,000 crores. And the Hi-tech business, we expect to maintain around the 17% to 18% range, while plastic, we expect to move towards -- it is around 11% so it is between that 12% range. It is a little bit higher range, 10% to 12%. Hi-tech would be between 17% and 18%. And the food business we are looking at also between 10% to 12%.

Moderator: Our next question is from the line of Sumit Bhalotia from MKVentures.

Sumit Bhalotia: Congratulations, sir, for the good set of numbers. My question on -- I think on the plastic business and overall guidance, you've largely addressed in the last 2 questions. So sir to start with this, there's a reasonable seasonality in your business. As you said that second quarter is typically the lowest. Sir historically, we've done a split of 40 to 60 in the first half, second half, should we assume the similar split for this year?

Anil Jain: Yes. So yes, so if I look at India business, that's absolutely true. So when I look at our internal budget targets, right, we have done about 22.5%, 23% of our annual budget already in the first quarter. And we will do 18% another -- in the second quarter. So 40/60 should be maintained. It can be, again, plus/minus another 2%, it could be 38% or 42%. But I think July has been still quite good despite the rains all over. And in the June, there were no rains. So that also partly changes. But July has been good, and we are going good in the last 7, 8 days in August. So I think momentum that while this is a weak quarter, but we will be definitely doing far better than the last year.

Sumit Bhalotia: Sure. Sir, out of this Hi-tech revenue of around INR540 crores that you have done in this quarter, what is the number for the project business? You said -- you mentioned it's degrown 50%? So our order book today is pretty low, right, it's around INR400 crores, right if I'm not wrong, on a consol basis. So the impact of it would become very nominal going forward. So if you can just give us a bit of, say, the project business contribution by year-end and so the -- basically the relevance of that business would keep coming down sir it will give us a good sense.

Anil Jain: Yes. I mean, this quarter, right, last year, we were close to INR150 crores on projects, and we are now INR72 crores, right? So it has shrunk at half in this quarter. But overall, last year, we did INR638 crores in the project for MIS, year before we had done INR420 crores. So as I said, as against INR638 crores this whole year I think we will be a little bit less than INR400 crores. So that much of -- INR200 crores reduction is going to happen because of project business in MIS compared to last year. And we need to build that up and some more to have positive growth in MIS business overall. And that, we are sure.

Moderator: Our next question is from the line of Sanjay Kohli from Gold Stone Capital.

Sanjay Kohli: Congratulations. My question is on Rivulis. Would it be correct that the carrying cost of the investment is around INR500 crores and this would be a significant undervaluation to what Rivulis itself is worth. And any conversation that is going around over there in terms of some fresh financing which is same because we are a significant investor. Could you throw some light on basically what's going on with -- at Rivulis' business and in fact, we were going be exporting to Rivulis also. So what were the exports this quarter for Rivulis?

Anil Jain: So as you rightly said, Rivulis as a company, combined company between us and them, and we are a lower -- lesser shareholders at 18%, 18-odd percent shareholding. Rivulis for us, as a company, we have invested, I think we invested about $137.5 million approximately to retain our stake as a part of the transaction where we repaid a large amount of our overseas of

INR2,600 crores. It's -- and now the mergeco is working and operating, but it is going to be -- for the merged company to function, to continue to grow.

And eventually, we expect significantly high value than the stake which we are carrying into Rivulis. But it's not something overnight. It will emerge. I think last 6 months, overall, the international business has been challenging for everybody, not just Rivulis because of a high interest cost or high fertilizer cost in the economies in which they operate, U.S., Europe, Brazil, Mexico, et cetera. So -- but overall, both the companies combined together have solid I think product line, very good reach to reach out to customers. So I think by next year, they will start really doing very well. And then eventually, the company is going to get valued much more than the -- our enhancement.

That's our belief, faith versus the direction. We believe it should go. In terms of exports, I do not remember precisely what -- how much we exported to them. But I would expect in the second half of the year, more export will start flowing to them because post-merger and as you -- I don't know whether you remember, the merger took place only on end of the last day of the March or 29th of March. So there are about a quarter or two, we need to give to provide for smooth working a merged company. And thereafter, we see overall exports also growing.

Sanjay Kohli: Okay. So the reason I asked is because in the declared results, the unallocated amounts of assets under liabilities -- Yes, okay. So the -- can you expect to sort of surprise bump up on recovery of some legacy receivables this year, I mean, since we are trying to sort it out within this financial year. And obviously, then the asset turns ratios, and all will become much, much better.

Anil Jain: I would say you -- it would come up within about an 18-month period, whether it already happens by March, whatever happens by March would be good. But 18 months is our target where you'll see a major resolution of the legacy receivables, especially coming from projects.

Sanjay Kohli: Okay. And since Q2 is going to be slightly soft on the plastic side, will the overheads which were this quarter in the region of about INR320 crores, will we see lower efficiency there on that side as well?

Anil Jain: Yes. That's how naturally business will flow. But still, it could be better than the last year, but it cannot be as strong as the first quarter.

Sanjay Kohli: Right. But we are looking towards a reduction in the overheads. Because the plastics business on PVC and polyethylene has become so strong that from a comparison point of view, then we can start looking at benchmarking with other downstream polymer players to look at their -- some of their margin metrics? That's my question.

Anil Jain: Yes. But -- so overall, we still operate as one company, but you have a valid point going forward, plastic division could be compared with our other companies, which are in similar business. But again, some of them are more focused on the plumbing side, which we are not, which we hope to build on over next two years into that business as well.

Moderator: Thank you, sir. Mr. Kohli, may we request you to re-join in the queue, please. Our next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much for the opportunity. Many congratulations for a great set of numbers. Sir, I have two questions. First is, you mentioned in your opening remark that, as we pick up scale, leverage benefit will ideally play out right and that will help your EBITDA margins. Now we have given an outlook for this year. But I just wanted to understand over next two years, three years, what sort of aspirational margins we might be looking at?

Anil Jain: So let's look at the range, right? So I think Hi-tech agri, we have been -- range is 16% to 18%. The plastic business range, in the past, if you really see history of company, we have been 6% to 8% but right now, we are targeting 10% to 12%. So the idea over next four quarters or so, is that this 12% and 18% becomes definitely in hand rather than you're having 10% to 12% and 16% to 18%, you become 12% and 18% definite.

And then you try and see, whether with the value-added product, for example, in plastics, as we do more plumbing, etcetera, can we move from 12% to 14% range. And on the -- as we grow tissue culture business apart from the MIS business as a Hi-tech agri division, can we move from 18% to 20% as a range. So I think that is a direction we want to go, and that much of play exists in fixed cost of absorption as we use increased capacities over next two years to three years.

Deepak Poddar: Understood. Sir so that effectively means that 13.5% to 14%, a 200-basis point jump, we can assume as you kind of move towards the fixed cost absorption, right? So maybe 14.5% -- 15.5% to 16% over next two years, three years?

Anil Jain: Yes, out of stand-alone business. India business.

Deepak Poddar: Okay. Understood. And my second question is your interest cost. You did mention about INR600 crores of debt repayment this year. And in the current quarter, our interest cost was around INR105 crores. So on an absolute level, what sort of interest cost we are looking at for FY '24 and next year, FY '25?

Anil Jain: So this INR105 crores, what you see is about INR15 crores of that is more of a book entry rather than actual interest cost.

Deepak Poddar: Yes, because of NCDs, right?

Anil Jain: Yes, because of NCDs, so real interest cost is about INR90 crores. So out of INR90 crores, about INR60 crores is at -- with the main company in Jain Irrigation. About INR20 crores odd is with the food and then remainder is -- INR6 crores, INR7 crores with the overseas plastic business. So that's the breakup of that. What is being repaid this year based on the structure of a restructuring agreement we had with the bank.

The repayments which we make, which is let's say about INR200 crores about the term loans. That would mean, those are costing about 9.6%, right? So that much of reduction you can see in interest. But some of other debt being repaid in the current year, would be based relative to NCDs, which are 0%. So that will not result into immediate reduction of that interest cost.

Deepak Poddar: Okay. Understood. So INR200 crores around 9%, 10% would be about INR20 crores savings, right?

Anil Jain: Yes, INR20 crores saving will be there for '24. And for a year after another INR200 crores, at least reduction will be there. This is just based on the normal cash flows coming out of the operations of the company. If we have any other events through which we can further reduce that would be a different story. But in normal course, you should see INR20 crores reduction every year just based on the scheduled repayments related to term loans in main company as well food company.

Moderator: Thank you. Mr. Poddar, may we request you to re-join in the queue, please. Our next question is from the line of Deven Choksey from Het Choksey Advisors. Please go ahead.

Deven Choksey: Thank you for giving me opportunity. Anilji, congratulations, the numbers are looking impressive now and convincing as well. A couple of points to add to the line up to that, we are listening. Maybe, the overall picture of the company eventually, now that, all the balance sheet issues are behind us, and probably, we are having relatively better times going ahead as far as business situation is also concerned.

What is the outlook that we are seeing thereafter as far as the growth is concerned in respective areas of activity? And particularly, the one important subject that is -- which is our subsidiary, which is the food business. Where exactly are we seeing the higher amount of leverage or the growth coming in that particular area of business? Maybe some other points, but later.

Anil Jain: Sure. Thank you, Deven bhai. In terms of growth, I'm very bullish about the growth because again, the total -- if you look at overall in India agriculture and where farmers are and so on, this value-added solutions, which we are providing are being implemented only about 10%, 15% of area. So there is long way to go there.

And more and more farmers, who are doing this value-added agriculture, fruits, vegetables, spices, plantation materials and all of that, they see good value in investing into these product solution technologies. And they make money, right? You see some stories of tomato fellow making crores of rupees and so on. Some of those are actually our farmers, right, who have made crores rupees right now. And we have so many banana farmers, who are now crorepatis, etcetera.

We have pomegranate farmers. We have farmers which are growing capsicum or other things in their small greenhouses. And lot of these farmers are continuing to reinvest into farming, make it more a business like. And that is where we really see because of our technology, our deep reach and full knowledge of sowing to harvesting at the farming level. And now as we increase geographies, there is going to be a very good play.

And this is just in the value-added horticulture space. I'm still not touching the more of the wheat and rice part, which is agriculture part. And there also, you look at the climate change, right? There that would be a new demand shoots available and possible. But just based on the horticulture-linked growth, we are very positive medium to long term to maintain a very good momentum on growth in irrigation side.

On Piping side, the whole country is exploding with the infrastructure growth, right? So more and more pipes are required right now. It is led by more Jal Jeevan Mission but also the farmers are investing into -- because everybody wants to do more value-added agriculture, therefore, they need access to water or irrigation post rainy season.

And that's where the piping business is right? And we are still not touching the urban area or plumbing or residential buildings. So there are different, different growth avenues possible, and that -- because productions capacities are same, we need to just build some more muscle into the distribution in urban areas and that's the process, which is on-going.

It takes about a year or two years to build that whole ecosystem and then you really grow quite well in that context. You talked about the food business, food business, again, due to overall financial difficulties we faced, which have behind us now, as you know. We have -- our capacity utilization was down and so on.

But some of our customers, right, who are in beverage business and so on, they see huge consumption growth. One of the major manufacturers of the juices last year grew 50% and more as -- this revenge travel happening post COVID and whatnot. So our end consumers are doing well, growing well. We have also export market for those products.

In Food, as -- honestly, we could be doing more if we had more adequate working capital, etcetera. So as now main company is sorted, we are focused now on to the food business going forward to solve some of the -- its issues related to capital and structuring. And as that gets solved, the demand is not an issue in the food business as well. We have good capacities. We have good sourcing network. We have deep relationship with the farmers. So each of the business, we deliver the aggression on food processing.

We see more growth coming from -- tomato could become a much larger product for us. Right now, it's mostly mango, banana, guava. But as more Indians are eating the ketchup and sauce, the major manufacturers, we are working with them so that we can supply them more tomato paste as well. So we are in good space in terms of technology, production capacity, relationship, supply chain to cater to the demand and demand in each of product line, we are quite bullish.

Deven Choksey: Okay. Thank you for the answering in details. And one point, where exactly the capital requirement is there now and those capital requirements if that gets arranged then probably the growth is definitely possible as you have indicated. Is there any plan for any kind of a fund raiser or any kind of a capital raise so that this particular situation can be easily handled by the company?

Anil Jain: Yes, there is nothing significant being planned because, again, our focus is right now more on doing things out of the operating cycle of the business, right? So we talked about this repayment this year, mostly comes out of the overdue or legacy receivables being collected or some surplus assets, which are there like some land, etcetera, which are not required in the business by monetizing those. Those kinds of efforts which we have but there is no immediate plan of any significant fund raise. There could be here and there a little bit, but nothing structurally immediately.

I think our focus in the FY '24 is to focus on operating metrics. FY '25, 26 would be a different issue. But again, overall, the idea is that business should continuously build itself so that the ROA, ROE, all of this debt-to-EBITDA, every single ratio continues to improve dramatically from where it has been.

Deven Choksey: Thank you Anil ji.

Anil Jain: Thank you. Deven.

Moderator: Thank you. Our next question is from the line of Pritesh Chheda from Lucky Investments Manager. Please go ahead.

Pritesh Chheda: You know sir wanted to check what is the asset utilization that you have in the three divisions and second what is the – why is the ROIC in plastic division still lower than some of the peers and what efforts are you taking to improve the overall ROIC of the business, especially, I see the high-tech ROIC being the lowest, so some of these questions if you could answer?

Anil Jain: Partly ROIC compared to others when you compare is linked to maybe legacy receivables because plastic as a project business is on. So, I think from maybe next year onwards you would see significant change in ROIC as over next 12 months to 18 months we clean up the legacy receivables.

Partly ROIC in the high-tech business as you can see is also linked to the some of the valuation of the land which we have, which we use for demonstration purposes to the farmers and all of that we are more than 2,000 acres of land and that land was valued sometimes in 17-18 to the market rates and that land does not directly contribute to any production capacity or whatever, it is more of a selling, marketing tools.

It's a tool which helps us to continue to evolve to do research and development so that we stay ahead of the market in terms of technology, but it does not contribute. So, land value maybe I think I do not know precisely of my head, but maybe we can share it next time, but it is maybe INR2,000 odd crores.

So, I think when you would look at, I think FY'24 onwards when you look at actual assets which are contributing to the production and the whole order to sell you will find that we are definitely equal or better than most of the peers into the businesses we are in.

Pritesh Chheda: So the other two questions were what is the utilization in assets and what is the way forward to improve the ROIC? Is the way forward to improve the ROIC going to come out of working capital cycle in the high-tech?

Anil Jain: Yes. I think the -- so the capital invested, for example, legacy receivables side, almost to the tune of INR600 crores, INR700 crores. As that flows back over next 18 months back, then that much of capital employed will be not required as we had -- so the idea is improving ROICs through more sales to the dealers, where working capital requirement is much lower, right? We are almost selling against advance.

So I think different segment of the market in which we are focusing and recovering old legacy receivables, combined effect will give you significant improvement in ROIC.

Pritesh Chheda: And what is the asset utilization in...

Anil Jain: It varies in some of like MIS business, it's very difficult to measure. But I think we are now hitting -- in a full quarter, we are hitting about 50% to 60%, somewhere around that. So, there is another 2 years, 2.5 years of growth. At these levels, we can maintain without any significant growth capex.

Pritesh Chheda: And what is the share -- what is the dealer business or the retail business in both these segments, the extent of retail as a percentage of sales?

Anil Jain: So I think if I look at MIS domestic revenue, out of total sales of about INR430 crores, retail is INR340 crores, so far quite a lot. And by...

Pritesh Chheda: Sorry, I didn't understand out of INR430 crores, INR330 crores?

Anil Jain: Yes. So -- no in piping it's about close to 50%. But in irrigation, it is close to about now 70%, 75%.

Pritesh Chheda: Okay. And last when you said you will not need a capital raise so is it -- will you be able to grow your business without -- with repayment of debt and no equity fund raise?

Anil Jain: So I have said that there is no plan to do -- I cannot -- unless things happen, I can't be discussing about particular event related to fundraising. But structurally speaking, we are not planning to do any significant equity raise, definitely not...

Pritesh Chheda: How about debt?

Anil Jain: As far as debt is concerned, we already said this year we are planning to reduce debt by INR600 crores, while still growing the business by 30%.

Pritesh Chheda: Okay. So this year is INR600 crores debt reduction on a 30% top line growth?

Anil Jain: Yes, yes, yes.

Pritesh Chheda: Okay. And your capex needs because you said you have 50% asset utilization. So, what is your capex on maintenance?

Anil Jain: It's not exactly 50%. But we are right now doing maintenance capex. We might need some growth capex, which is linked to certain product lines. For example, as we do more plumbing, we might have to invest into some capacity related to fitting or as we increase the tissue culture business, there we might need capacity.

But for our traditional business of drip irrigation or PVC pipes or polyethylene pipes, we have enough capacity to -- over next 2 years to 3 years where we don't have to put any capex.

Moderator: Thank you Mr. Chheda may we request you to rejoin the queue, please. Our next question is from the line of Ram Narayan from Svarcon. Please go ahead.

Ram Narayan: Hi, thanks for the opportunity. I just wanted to ask relating to the debt reduction because last year, I think it was said that around INR500 crores will be reduce, but when I saw the repayment schedule this year in the presentation only INR100 crores has been -- I mean around INR130 crores has been shown, so I just wanted to know what is debt reduction planned?

Anil Jain: No. So, as you know, we have gone through a restructuring with the bank. So, some of these NCDs which are there, which are due in 27 and 28, but they need to be repaid as we recover the legacy receivables. That is the understanding of the bank. So, that is where repayment will happen and we already repaid some in the first quarter, and that is how the remainder you see in the remaining 9 months.

Ram Narayan: Okay. So based on the legacy receivables, you might be prepaying NCDs as well in this year?

Anil Jain: And some asset monetization a combination of legacy receivables and asset monetization, NCDs would be brought down and while what we repaid in the first quarter and the remaining INR131 crores you see 9 months, so that is how that total INR600 crores.

Ram Narayan: Okay. And another question will be like the promoter's pledging was very high in the last quarter, so I don't think that they are planning to reduce it. So, what is the plan regarding that?

Anil Jain: So, that I have said that over the 12 months, right, so I think it would happen. You will see, but we have to wait for few quarters. At promoter level, we are trying to do some value monetization on promoter assets which I believe should result in creation of funds which would help us, enable us to repay the loans and free the share. So when I made that commitment, I talked about it over a 12-month period, and it will happen during that period.

Ram Narayan: Okay, thanks.

Moderator: Thank you. Our next question is from the line of Tushar Sarda from Athena Investments.

Tushar Sarda: Yes. Thank you for the opportunity. I wanted to know about your food processing business. How much is in India and what are the margins and overseas how big is the business and what are the margins? Is it a 100% or is there a partner?

Anil Jain: So overall business majority shareholding is with Jain Irrigation. And we have investment from an private equity Mandala agri business into the food business. If I look at overall food business, so we have a standalone India business, which is quite there. And then also, we have the overseas business, which is there.

So we -- currently, in terms of margin into the food business, when I look at overall EBITDA about 50% is coming from the India piece and 50% is coming from the overseas piece in that.

Moderator: Ladies and gentlemen, that was the last question of our question-and-answer session due to time constraints. I would now like to hand the conference over to management for closing comments.

Anil Jain: Yes. So no, I think we have a good session. Overall, just to complete last question, agri and food, overall EBITDA was also about, I think, 13%. And out of total INR440 crores business we did in the current quarter, about INR170 crores came out of India and INR270 crores came from outside India. And as I said, the overall EBITDA was roughly split half, half between both of these entities in totality.

And overall, it came at closer to 13%. Okay. So no, I think where we came from the worst is behind us for sure. We are discussing now growth, sustainable growth, we're discussing deleveraging, and we're discussing how do we keep focusing on improving businesses where working capital cycle is much shorter and use more and more capacities so that ROIC can continue to improve.

And again, it's not something every quarter you see because of seasonality. But structurally, I think when I look at FY'24, 25 compared to last few years, you will see a qualitative difference in terms of the balance sheet and underlying business metrics and business performance. And overall, I think business and industry is moving in positive direction and people working inside the company, our dealer network, our suppliers, everybody is enthused and fully supportive of where company stands.

So, I think we are moving forward in a right direction with a very resolute mind in terms of how we want to achieve what we want to achieve. And we thank the market participants, shareholders, analysts, and everybody else who had also support us in this journey. Thank you.

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