# Jain Irrigation Sys



**Operator:** Ladies and gentlemen, good day and welcome to Jain Irrigation Systems Limited Q2 and H1 FY27 earnings conference call. Today, we have on the call Mr. Anil Jain, CEO and MD, and Mr. Bipin Valame, CFO. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anil Jain to take us through the company's business outlook and financial highlights, after which we will open the floor for questions. Thank you, and over to you, sir.

**Anil Jain – CEO & MD:** I would like to welcome all the listeners to this call for the Q2 results of Jain Irrigation. This has been a good quarter for us. I think we have grown overall revenue by more than 10%, double-digit, at close to {? 1,576 crores ?}, and our EBITDA is also up compared to the previous year, at 207 crores. So both are quite positive. Overall margin has come in at about 13.2% as against 13.9%. But what is important to see is that Hitech has maintained a high-teen level of margin at about 18.8%, while plastics and agro-processing remain around full double-digit levels. The low would have been around 12%, and plastics will be at around 9%.

With significant revenue growth and EBITDA at a good level, better than the same period last year, our overall company has been profitable, and adjusted PAT, after adjusting for NCD, um, {? wound down ?} from the P&L, works out to about 40 crores. So I think that is quite good. When we look at this quarter in the perspective of the first quarter, the first quarter was quite weak, especially the business outside India, and we had almost 24% or 25% negative revenue growth, with the resultant impact on EBITDA as well as net earnings. I think this quarter we have come out quite strong, both in terms of overall revenue and profitability, and we have also improved the working capital cycle. We have been able to reduce the level of receivables as well.

When we think through 6 months, as a company we have incurred revenue of approximately 3,100 crores, which is about 4% higher than last year, covering for the deficit in the first quarter. Overall EBITDA is at 372 crores, which is quite significant, and in the perspective of this quarter as well as 6 months, the company is steadily but surely improving its overall performance.

When I look at the various businesses this quarter, what worked and what did not work, our overall drip irrigation business continues to be good. The retail business grew the domestic business by almost 18% or so, and the piping business, which was significantly negative by 25-30% in the first quarter, has come back to almost the same level as last year. So compared to the first quarter, that is better. Drip and tissue culture, the Hitech agri business, has continued to maintain a high-teen level of growth, which augurs very well overall for the company. When I combine both of these businesses, the total retail business has grown by approximately 12%, and with some changes in the project business, which has been reduced, the domestic revenue growth works out to approximately 10% or so.

Overall, in terms of the positive part of revenue growth, all businesses—MIS business, plastic business, and tissue culture business—have been positive. When I look at our subsidiaries, one is the food subsidiary; they are doing well, and their performance has also been quite good. If I look at even the overseas plastic sheet business, that has also done well. Agro-processing, at about 560

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crores in a single quarter, registered almost 8.4% growth. Plastics, including overseas plastic and domestic, also registered almost 17% growth. So overall, revenue-wise, all businesses have done their bit and have been positive for the company.

In terms of how the company has performed financially during this period, as we said, EBITDA has in fact improved compared to the earlier period. Cash flow has been quite positive in totality. A significant amount of cash was generated: out of 208 crore rupees of EBITDA, almost 206 crores have been converted into cash. So that provided significant support for us to honor our obligations. We had 230 crore rupees of prepayments due on NCDs, and those were paid with the improved and substantial performance from the company's cash flow. The net result was that our working capital cycle came down by about 4 days.

**Management:** From 183 to 179 days during this period. When I look at the entire first half, if you look from March onwards, or compared to the same period last year, at the end of September last year our overall working capital cycle was 205 days. Now it is down to 179 days. Out of this improvement of almost 25 days or so, 15 days of improvement in DSOs is from accounts receivable, and the rest is shared between improvement in inventory as well as accounts payable.

As we have said as a management, we are very focused on cash flow because this single year is significant in terms of the repayments that we needed to make, and one part is already over while the second part is due in March. We believe and do not anticipate any issue in terms of our ability to honor those obligations.

In terms of the underlying business scenario, the situation is somewhat uncertain, especially due to the deficient monsoon we had as a country. In some states, things are okay, particularly in the north and northeast, but there is an issue especially in the western and southern states. If we look at the west and south, 80-85% of the company's business takes place there. I think that is where there is a [pause] The experts are saying that this is the worst monsoon in the last 35 years or so. In the state of Maharashtra, which is a very important state for us, it is said that this is the worst monsoon in more than 50 years.

Kharif crops have already been hit, and Rabi is likely to be hit. But, all said and done, I think we as a management are aware of the situation and are taking the necessary steps. We are working with our dealers and farmers and working in areas where there is adequate water, to see that we are able to put our capacity back into the market. But in some areas, there is going to be a significant impact because the government wants to ensure that water is saved for drinking. If it is drinking versus agriculture, and there is no water, of course farmers cannot do irrigation and do not need drip or pipes. In certain areas, it is going to be that kind of difficult situation.

But in some areas there is adequate water, so we need to balance that out and also improve exports because this Super El Niño has really impacted India badly. The way the Asian-West Asian war impacted India disproportionately in terms of energy needs, downstream polymer availability, and polymer costs, in the same way, I think Super El Niño is definitely significantly impacting India. We are caught in the crosshairs of higher polymer prices or unpredictable supply on one hand, and climate-change-linked monsoon deficit on the other.

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But I believe the company's management and its team have the necessary wherewithal to fight all these odds, which were also present to an extent in Q2, and come out fairly well, ensuring that operations remain profitable and that we continue to maintain growth momentum. That is our effort.

When you generally ask what is more positive beyond these two large issues, I think there is more demand for large-diameter pipes coming through because more infrastructure projects are now being implemented in India. I think that will continue. We also see continuous demand for solar water pumps. We are seeing more demand globally in our food-processing business for the food products we make. The whole beverage business is also now picking up steam in totality, and our overseas plastic sheet business continues to do well.

While we are cautious and focused on certain geographies, more exports, and so on in the drip and pipe business, in the other businesses we definitely see a good revenue growth opportunity in totality, without losing discipline on working capital. As you would note, over the last few years we have continuously improved the working capital cycle. But we still need to go further to improve it, which I think will happen over the next 12 months or so.

As we move forward into next FY25, I think we expect the balance sheets to look much better than they do today. Underlying this, as a company we have technological leadership across different product zones, our brand equity with the farming community is very strong, and because of the integrated business model, our ability to earn better margins exists. As the company solves these balance sheet issues, I think the P&L will continue to become stronger in that sense.

Overall, on a net basis, on the project basis also, the receivables have come down, whether they were linked to state governments or related to solar. Overall, we see that receivable reduction is happening in places where it was earlier difficult to reduce them. That is a definite positive. In that way, we expect that over the next few quarters most of the old legacy receivables should come through. That should help us, first, to repay the obligations falling due on one hand, and it will also create some cash liquidity for further growth as we move into the next fiscal.

To summarize, overall, it was a good quarter: positive revenue growth, higher EBITDA than last year, a profitable quarter, good conversion of EBITDA into cash, and a reduction in the working capital cycle—five major positive factors. It was a far better performance compared to the first quarter, when we were facing many challenges. Some of the challenges still continue, some are beyond our control, and some are challenges that we continue to act on.

We need to remain watchful, but with everything we can do and are doing, we still expect positive performance in H2 and definitely in the years ahead. The company is getting into a place where the legacy issues will be behind us as we move forward in FY25, and we are significantly looking at higher capacity utilization, further reduction in the working capital cycle, and, as an automatic result, further improvement in net margins.

That is where we are, and we would again like to thank all the investors and all the listeners for your patience. I am very happy to answer any questions you may have on the Q2 results. Thank you again.

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**Operator:** Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and then one on their touchtone phone. If you wish to remove yourself from the question queue, you may press star and then two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Again, to register for a question, you may press star and then one. The first question comes from the line of Ramesh with SJ Investments. Please go ahead.

**Ramesh – SJ Investments:** Hi, sir. Thank you for the opportunity. It was an impressive performance in terms of cash generation. I just want to understand the piping division. We have noticed that there has not been much growth, while other peers and other players in the industry, {? debarring ?} the smaller players, have shown reasonable growth. Could you explain what is happening there and whether there are any prospects of a turnaround?

**Management:** [pause] So, I think what [cut off]

**Management:** What we have seen during the first quarter and this quarter is that piping per se has been weak for us domestically because, as you know, we sell almost our entire quantities into rural areas for agricultural applications. That is where we have seen a lot of our competition selling significant portions into urban areas, into commercial building markets, plumbing, drainage, and other applications. I think that is the difference.

The commentary we have heard from others is that rural-area demand remains subdued for everybody because when the price goes beyond a point and resin costs are very high, people postpone purchase decisions. Having said that, we see good demand in the second half for some of the pipe applications we have that go beyond agriculture.

For the entire year, while this quarter has been revenue-neutral and the earlier quarter had negative growth, I think piping would show positive growth for the overall year. If everything goes well, I think we should end up with 8-10% positive growth in pipes for the whole year.

**Ramesh – SJ Investments:** Got it, sir. So basically, you are expecting the market outside agriculture to grow, and that is supposed to drive the growth for the year.

**Management:** Yes.

**Ramesh – SJ Investments:** Got it, sir. With regard to receivables, I think in the standalone business we have around 1,850-odd crores remaining as of the September quarter. I am trying to understand how much of this you are expecting to receive by March. How much relates to government receivables, and how much of the government receivables are you expecting to receive by March?

**Management:** If I look at the breakup of the 1,860-odd crores of receivables that we have, about 800 crores are linked to projects and MIP, where the government plays a role, and government subsidy is about 400 crores. So that is about 1,200 crores. The rest is normal retail, institutional, solar, exports, and so on.

Out of the 800 crores of project receivables and 400 crores of MIP receivables, which is about 1,200 crores directly linked to the government out of these 1,800 crores, we expect a net reduction

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of at least 300 crores or more between now and March. We will also be doing additional business for the remainder of the billing, not much on the project side, but MIP is an ongoing business.

**Ramesh – SJ Investments:** I am just trying to clarify because MIP will continue to revolve the credit, right? It would continue to involve more products as it gets fulfilled. I am trying to understand only the receivables related to government projects. You are expecting a net reduction of 300 crores, so almost a third of the receivables is expected to be collected by March.

**Management:** Yes, about 40%, right? 40% of 800 crores is 320 crores.

**Ramesh – SJ Investments:** Got it, sir. For the remaining payments that we need to complete by March, are we looking for any other sources, or should this be enough for the other requirements combined?

**Management:** This should be enough, right? Also, other actual generation of EBITDA will happen. So we are hopeful for March with this 300-crore reduction.

**Ramesh – SJ Investments:** Understood, sir. Is there any project leftover in terms of your projects? How many have we closed during the year, and will any move into next year as well? Can you give us an idea about that?

**Management:** When we started this whole story in 2019, we had around 78 projects or some large number. The active projects that are going on now are about 7-8. In the last 6 months, I think we have closed about 15-20 projects, but after we physically close a project, it takes a little more time to get everything sorted with the government.

What I would say is that by March 27, the 800 crores would go down by, let us say, 300 crores on a net basis. So 500 crores would remain, and some additional revenue from the 7 or 8 ongoing projects is still to be recognized there. But next fiscal year, we expect all this project business to come to zero and the recovery also to become zero.

Most of that work should happen over the next 12 months. From the end of September to next September, after next September hardly anything should be left behind. In terms of revenue, it is about 14 crores or so, and in the second half, if I include the Pune project, the total revenue may be about 60-70 crores.

Most of the other projects have no revenue for us, except when we close a project. There is some additional billing related to whatever was left over and so on, but that is nominal. When I say 300 crores of recovery on a net basis, billing might be 360-370 crores, but actual recovery would be more, so on a net basis we would go down by 300 crores.

**Ramesh – SJ Investments:** Got it. So, but have any plans... [cut off]

**Operator:** Sorry to interrupt, Ramesh, we request you to return to the question queue for any further follow-up questions, please.

**Ramesh – SJ Investments:** Sure, thank you.

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**Operator:** Thank you. Ladies and gentlemen, we request all participants to limit themselves to two questions each and rejoin the queue for any further follow-up questions. Our next question comes from the line of Ankit with AB Investment. Please go ahead.

**Ankit – AB Investment:** Hello.

**Management:** Yes, hello.

**Ankit – AB Investment:** Yes. Sir, my first question is regarding your Hitech micro-irrigation business, which has grown very well. Are you seeing signs that farmers are now willing to adopt this technology on a larger scale? The quarterly results have shown a significant improvement in the Hitech division. What are your overall views on that?

**Management:** I think it is a good question. We are seeing more growth in two ways. First, the farmers, especially the next-generation farmers who are now entering agriculture, are looking to do more value-added agriculture. For them, micro-irrigation or drip irrigation is becoming an essential part of agriculture and is no longer optional. This is the difference between flood irrigation and drip irrigation.

Water is also in short supply right now, so most farmers need to use drip irrigation to conserve water while continuing to farm with limited water. Both factors are playing a role. Structurally speaking, we are seeing that next-generation farmers, and more and more farmers, are looking for more value-added agriculture.

As soon as the decision is made that they are not doing agriculture merely for their livelihood or for the government MSP, but are doing it as a business to make money or grow, they buy more drip irrigation. Structurally, we see Indian agriculture moving towards value-added agriculture.

We think that over the next decade or so, as more value-added agriculture takes place in India, exports will also grow and domestic consumption of processed food will grow. This requires a standard and more uniform supply of agricultural commodities, along with a better logistics chain to move the products out of villages or small farms to the nearest market.

When you look at everything that is happening, we expect this to remain very positive going forward. On the other hand, at the government level, the government is investing massive sums in river linkages. If river linkages are developed, they create more water availability because farmers in half the country today do not irrigate beyond the monsoon period, and that becomes an issue. Structurally, I think this will remain positive.

**Ankit – AB Investment:** Okay, sir. My next question is about the MOU for coffee. How far has that progressed? What is the new development in terms of revenue, a new project, or new orders from that? Is there anything you would like to tell us?

**Management:** We have received orders from the Coffee Board for coffee tissue-culture plants. But as you know, in some agricultural applications, when you supply a plant, it can take 2-3 years before you start seeing results. Once they see the results, a much larger area or many more farmers will place orders.

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When I look at our overall tissue-culture business, coffee is still very small. Banana continues to remain the largest crop, followed by pomegranate, and then products such as mango, orange, and coffee. As of now, coffee is positive and has good momentum, but it is still small in scale.

**Ankit – AB Investment:** [cut off]

**Operator:** Sorry to interrupt, Ankit. We request you to return to the queue for the follow-up questions, please, as there are several other participants waiting for their turn.

**Ankit – AB Investment:** Okay.

**Operator:** Thank you. Your next question comes from the line of Ravi Kumar with Fodago Investment. Please go ahead.

**Ravi Kumar – Fodago Investment:** Hello. Congratulations, sir, on a good quarter, especially in a difficult environment. My question relates to the growth capex expected for the remaining part of the year. Specifically, for the food division, given that we will be investing in the tomato JV as well as an additional beverage line or perhaps the Bio-carb... additional Bio-carb projects, could you give us the growth capex, excluding maintenance capex?

**Management:** [pause] I think growth capex relates to the three different aspects you mentioned. One was the tomato JV. There, it is subject to some finalization that is still taking place regarding the acquisition of the assets. Once that happens in December, the March quarter would require about 30-40 crore rupees for that project. That is one item. But as I said, it is subject to the closing of that acquisition of assets, which is in process. We are hoping that it gets completed by December. In that case, before the March quarter, that amount would be required.

In terms of phase 2 of the beverage business, work has already started, and we would have to invest on our side approximately 100 crores between, let us say, the March and June quarters. Most of that would be required over that period.

In the case of Biochar, I would anticipate major growth capex coming in the next fiscal, not in the current fiscal. The current fiscal is focused on proof of concept. We are already producing some of the best-quality Biochar in the world, and some quantities now need to go to the market and into the field. All of that is taking place. Some carbon credits also need to come through. All of that is going to happen this year. Therefore, growth capex for that particular project should be in the next fiscal.

**Ravi Kumar – Fodago Investment:** Thank you. My second question relates to the first half of the year. How much business do you think we let go because of the tight liquidity situation and the relatively longer collection cycle? I am just looking for your estimate of how much business we would have let go.

**Management:** I would tell you that we let go of approximately 100 crore rupees of micro-irrigation business in states such as Andhra, Telangana, Tamil Nadu, and others, where money is slow to come. That is one part.

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Of course, we let a lot of projects go. We also let some of the solar-pump business go because the cash was not coming quickly enough, and that would also be about 100-150 crores. In total, we let go of somewhere around 200-250 crores of business in the first half because, first, we needed cash in hand to repay the obligations or NCDs that were falling due, and second, we wanted to bring in more discipline around working capital timelines.

If you have 25% EBITDA and payment is going to come after 1 year, you will wait, right? Because 10% goes toward interest, but you will still make reasonable money. But if, because of higher polymer costs, your EBITDA is squeezed down to 12% or 14%, and then you have to wait 1 year for payment, you are hardly making 2-3% EBITDA. It does not make sense.

So, because of this combination, we let a good amount of business go. But structurally and directionally, we are moving toward businesses that generate more cash. As you can see from the last few quarters, there is a strong focus on how much of the EBITDA we generate we are able to convert into cash. That will remain the focus for the next few quarters, which I think is good for the overall health of the company going forward.

**Ravi Kumar – Fodago Investment:** Okay. Can I ask a linked question regarding land monetization and whether other items would add to liquidity? Do we have any view on the Maharashtra incentive and when that money will come?

**Management:** We expect all of that to happen in H2. The land incentive, the Maharashtra incentive, and the reduction in project receivables—the combination of these multiple items should definitely happen in the second half.

**Ravi Kumar – Fodago Investment:** For the land and the incentive, can you give a number, similar to the 300-odd crores you gave for receivables, on a worst-case scenario?

**Management:** We anticipate about 100 crores of the incentive by March, and for the land, somewhere between 100 and 150 crores.

**Ravi Kumar – Fodago Investment:** Okay. Thank you. All the best.

**Management:** Thank you.

**Operator:** Thank you. Your next question comes from the line of Amit Mehndiratta with Robo Capital. Please go ahead.

**Amit Mehndiratta – Robo Capital:** Thank you, sir. My question is on the second half. How do you see the second half shaping up compared to last year? Do you think we will be able to achieve some year-on-year growth, or will it be flattish? How do you see it?

**Management:** Looking at this drought scenario, I am a little hesitant to commit. With whatever I know and can see, I think at least we will remain flattish. Whether we are able to do better than last year in terms of H2, I would comment more on that in January, because it depends on what happens with climate change and polymer prices.

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On the climate-change side, if water is not available or is limited in some areas, it increases the business opportunity because farmers have to use drip irrigation. So it is a two-way street in that sense.

But high polymer prices have been caused by uncertainty relating to the war and other factors. If that changes meaningfully because of geopolitical situations between December and March, we could see a boost in demand. Many farmers who postponed their purchase decisions might come back to the market. In that case, we would see definite positive growth.

Otherwise, as of now, we expect flattish growth, with greater focus on cash flow, repayment of 450-500 crores, reduction in receivables, and maintaining margins. That is our focus.

**Amit Mehndiratta – Robo Capital:** Right, sir. In terms of project revenue, can you elaborate on what the project revenue will be for the full year FY27 and 28, for government projects? Do you expect any write-off from the receivables?

**Management:** To answer the second question first, we do not expect any write-off from receivables. Wherever we expected a write-off, we have already made those provisions in the past. As of now, all the receivables that you see on the books are good. They will come.

In terms of overall project revenue, the first-half revenue has been about 30-odd crores, or 33 crores as of now, in total for the first half. As I said, the second half could be 60-70 crores. If we do 40 or 50 crores in the Poona project, the remainder would be hardly about 20 crores or so. Poona is a water-supply project where we still need to complete some more work.

**Amit Mehndiratta – Robo Capital:** Okay, sir. How should we model interest costs for next year, FY28? Once our repayments are completed, what will that number be? Do you have any estimate of the annual interest cost?

**Management:** The annual interest cost in India remains around 50 crore rupees a quarter, approximately. Once we pay off the debt that we are paying right now, which is 0% debt, the NCDs that we are repaying will not create a major impact on the interest reduction per se. What will be removed from the interest and finance line are the unwinding charges that get debited each time.

**Amit Mehndiratta – Robo Capital:** How much will that be? I am looking to quantify the interest savings for FY28 [inaudible] for the full year.

**Amit Mehndiratta – Robo Capital:** ... {? 28 versus 27 ?}. Is there any ballpark estimated number for the business?

**Management:** [pause] I think the actual saving on interest, with all the improvements and so on, might be about 12-odd crores per year because the 800 crores we are repaying this year relates to the 0% NCD that we are repaying.

**Amit Mehndiratta – Robo Capital:** Understood, sir. If I can squeeze in one last thing, whenever polymer prices go down or the {? cost drops ?}, either way, how do you see that impacting our margins? Do you think we will be able to retain higher margins, meaning that we will not pass the benefits on to the end customer? How do you see that?

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**Management:** In terms of margin, even if you look at the current quarter, our Hitech margins are around 18%. Despite difficult times, I think we have managed to maintain those. We think the plastic business will provide a better opportunity to increase margins. Our medium-term objective is for the plastic business to move toward a margin of around 12%, while maintaining 18-19% in Hitech.

When prices come down, I think the benefit will come through demand growth and improved capacity utilization. That fixed-cost absorption will provide additional leverage in terms of improving margins by 1-2%.

**Amit Mehndiratta – Robo Capital:** Okay, sir. But once prices go down, do you expect that, at least for a quarter or so, there will be some hit to margins because our procurement cost would also have been higher for this quarter or so? And if the...

**Management:** [cut off] When we make pricing decisions with dealers or customers, they are not based on the latest price; they are based on the average price of the inventory we have. Let us say we have existing finished goods made from old, higher-cost raw material. We take the new cost, average it out, and based on that we determine the pricing. So we do not anticipate any negative impact on business margins when prices come down.

**Amit Mehndiratta – Robo Capital:** Okay, sir, perfect. Thank you very much.

**Management:** Thank you.

**Operator:** Thank you. Ladies and gentlemen, we will take that as our last question for today. I now hand the conference back to the management for closing comments.

**Management:** Again, I thank everybody and all the listeners. I think this has been a very good quarter for the company overall, for the short term and medium term. I think some issues related to {? Biochar ?}, which I can talk about, are really good for the long term as well.

The next 6 months will remain challenging due to the drought and high raw-material prices. We remain watchful and are taking many steps to ensure that the business remains at a certain level and remains profitable. The major focus will continue to be on generating more positive free cash flow to take care of the debt and reduce the debt on one hand, while providing the necessary funding for growth in the next fiscal on the other. Thank you again. Happy Diwali to everyone.

**Operator:** Thank you to the members of the management. Ladies and gentlemen, on behalf of Jain Irrigation Systems Limited, that concludes this conference. Thank you everyone for joining us, and you may now disconnect your lines. Thank you.

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