



“Mahindra EPC Irrigation Limited Q2 FY20 Earnings Conference Call”

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**MANAGEMENT: MR. ASHOK SHARMA – MANAGING DIRECTOR,
MAHINDRA EPC IRRIGATION LIMITED**

Moderator: Ladies and gentlemen. Good day and welcome to the Mahindra EPC Irrigation Investor Call for Q2 Results of FY20 Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashok Sharma – Managing director. Thank you and over to you.

Ashok Sharma: Thank you. Good afternoon to all of you, ladies and gentlemen. At the outset let me take the opportunity Wishing All of You the Very Best for the Oncoming Festival Season. All of us from Mahindra EPC Irrigation Ltd. Wish You A Very Happy Diwali and a Wonderful Year Ahead.

I would also like to welcome each one of you for the Investor Call for Mahindra EPC Irrigation Limited. This is our third Investor Call.'

During the last Investor Call, we had mentioned that we will have this call on a half yearly basis. And as mentioned, today we are having the half yearly call with all of you. I'm happy that we're here to update you on the progress of the last quarter and also share with you how the industry has performed in the last quarter and share our ideas about the industry for the next quarter and for the next half for this financial year.

The vision of Mahindra EPC has always been and continues to be to work towards helping the farmers to be prosperous and working very closely with the farmers to ensure that we are contributing to the nations priority of doubling the farmer's income. Mahindra EPC works very closely with various companies of Mahindra Agri to give the full solution to farmers in terms of different inputs, advisory services and also see how it can help the farmers to sell their produce.

Friends, we all know that water is one of the biggest crisis which the planet is facing and more so our country will be facing in the time to come. It is expected that in the next ten years, most of the districts will be water scarce. More than 80% of the water consumed in India is for agriculture. So, clearly saving water and ensuring that water is properly used in agriculture requires use of precision technologies like micro-irrigation and your company is precisely doing that business of conserving water, ensuring that the water is provided at the right time, in the right quantity to the farmers, to ensure that their production goes up by 25-30% in some crops and also save almost 30%-40% water. The interesting thing about micro irrigation industry is that only 10% of variable area is under micro irrigation we still have close to 60 million hectare available for introducing micro irrigation concept. Clearly, the government has been giving lot of thrust in this area, various schemes, various programs, various communication is being given and as a result today the micro industry is stated to be around 5000 crore industry.

In EPC, we're always focused on seeing how we can create more knowledge for the farmers. We have more than 200 demo plots where we offer advisory services, we call the farmers, we explain to them the benefits of micro irrigation and we encourage them to adopt this technology. Our company has always been known for its good quality and the design of the micro irrigation system which we do for the farmer. We put lot of attention and effort in installing the products properly and backing up with reliable services. So, this has been our philosophy which I'm sure many of you are aware of I just thought it would be worth giving a recap on that.

Now quickly coming to our Q2 performance:

As you have seen in the statement which we have just released that Q2 has been one of the best quarters for EPC and this quarter we have grown over 15% in revenue and we've had very high jump in our profit after tax of 6.5x over last year's Quarter 2. For the half the growth has been around 9% as we may recollect that in the first quarter due to central election for few months there was almost a standstill in this industry. The company has recovered well and we've closed the half one with a PAT increase of almost 3x.

Now, how did we achieve this performance? This is clearly a buildup and a culmination of efforts put by organization over the years towards farmer centricity and towards developing good products and services. In addition to that in Quarter 2, the governments were quite forthcoming and promoting subsidy in most parts of the country. We had a monsoon which was good, which built farmers' confidence and farmers' expectation for a good season in Rabi and oncoming Kharif and our services in terms of agronomy and advisory services are giving us desired results. Our result is also due to focus on select markets, efforts to offer high quality products, backed by service, ensure that our channel partners are satisfied and give the best quality to the customer.

Q2 performance has been a performance which is by our reckoning, result of lot of cost saving initiatives, our strategy of distributed manufacturing has also contributed to the profit and our conscious call to move towards the profitable product mix which is more on drip than on sprinklers is paying its dividend. So, as per our estimate there are no formal industry data available in micro irrigation based on our estimate based on our feedback from various competitors and our market understanding given the fact that the start of the H1 was a bit slow, we expect the industry in H1 to be marginal negative to flat. And in this background EPC has grown by 9%, so clearly there has been positive impact on our market share and because of the various steps which I mentioned before, we also had a significant impact on the bottom line.

I would now briefly talk about our outlook for the industry for H2:

If you look at the way we are poised now as a country, agriculture is a top agenda, we had good monsoon, various elections are now completed, be it center, in state various governments have

formed, the good to excess monsoon has resulted in very good rise in the water table, our water reservoirs level are the highest in recent times and all this is very positive in terms of farmer sentiment, in terms of availability of water for Rabi, government's announcements of increase in MSP, continuous thrust by the government to promote farmer income, farmer policy, availability of credit for the farmers are positive indicators. Having said this, there are few headwinds which we expect to come in the industry:

One, is we expect the crude oil which has been very benign and in Quarter 2 it was trading at amongst the lowest levels at around \$59-\$60 a barrel, we expect that there might be an increase in the crude oil in Q3 and Q4, which would adversely impact our margin.

We also are observing that in few states, there have limited fund so there's slowdown a bit. So, this would be the factor which cannot be conducive. But overall when we look at the opportunities and the headwinds, we are expecting a growth of 5-8% in H2 for the industry and our endeavor has always been is to see how we can grow faster than the industry.

In terms of any disruption or any unforeseen circumstances – we don't see any such things happening in H2. And given the overall positive sentiment at the farmer level, and we also hope that the price of the produce which will get now should help them to look for new technologies like micro irrigation. H2 should be reasonably better than H1 for sure and our company is now quite well poised to in terms of capacity, in terms of market reach, in terms of quality control processes, IT enabling to ensure that we get the maximum benefit with the growth in the industry.

So, with this I conclude my short communication on our performance for Q2, the industry scenario in H1 and the possible outlook for H2. I'll be very happy to receive your questions, suggestions and comments if any.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Sherman Dudhoria from Unify capital. Please go ahead.

Sherman Dudhoria: Good evening Ashok ji. Congrats on the great set of numbers. Firstly, I wanted to understand you know the growth that has come in the first half for us. Is it predominantly from few states or it's been a broad based growth across the various states?

Ashok Sharma: Thank you very much Sherman for coming for this call from a busy schedule and sincere thanks for your compliments. So, in this industry as we know at always at different points of the year, we find some states are more active and some are less active. So, in H1 our growth has not come uniform from all the states. We've a few states where the growth has been higher and there have been 1 or 2 states where the growth has been lower. So, it's quite uneven in that sense.

- Sherman Dudhoria:** Ok is it possible to point out the key states which contributed to this growth.
- Ashok Sharma:** Sure, why not? If you look at this industry in H1 markets like Tamil Nadu, Karnataka, Maharashtra and Gujrat have been on the positive side and markets like Andhra Pradesh, Telangana have actually been de-growth significantly. And the industry has faced challenges in these states because of delay in disbursals of subsidiary which has impacted the industry. And what we are also seeing which I mentioned in the last time's call also there's new markets like UP, Bihar, Jharkhand they are showing some good interest in this program and we've seen some good steps been taken by the state government and that is making us quite optimistic about these states for the future and specially UP given its size and given the impact on the farming community, UP could be a big state in the time to come. Does that answer your question Sherman ji.
- Sherman Dudhoria:** Yes Thanks. Secondly, I wanted to know about the utilization of newer facilities, especially at the Coimbatore one. What's the utilization what's the contribution coming from that facility. And also, I see from the balance sheet there is a capital work in progress of roughly of about 1.6 crores. So, any further capacity that is coming up?
- Ashok Sharma:** So, Sherman it's a good question. Those of us who have been following our calls and who have been for our AGM, we had mentioned that our strategy of decentralized manufacturing and opening a plant in Gujrat and in Coimbatore is a very important part of our cost saving initiative. And I'm happy to share with you that our Coimbatore plant is running at full capacity and you the know the reason why our profit has gone up significantly in Quarter 2 and H1 is due to that reason and we have made significant savings on our logistics cost and it so happened that Tamil Nadu was one of the key markets for last quarter and half for us. So, Coimbatore has paid us good dividend full capacity utilization, significant impact to bottom line.
- Sherman Dudhoria:** Ok and the 1.6 crore that the capital work in progress any new facilities or capex that's coming up.
- Ashok Sharma:** so what is happening you know the things which our company has been a bit I would say cautious is on project market. Not on project market, projects which are large projects issued by the government and then they have delayed long payment period etc. But we have now started to experiment in those areas. We've taken a small project 5-7 crores; there we have made some investments that is the capital work in progress.
- Sherman Dudhoria:** Also see that in the current September ending balance sheet our debt level have increased to about 26 crores. This is also higher as compared to September of last year which was roughly about 10 odd crores. So, just wanted to understand what's the thought process there and are we looking to raise more debt or is it just like short term working capital

- Ashok Sharma:** No, so I think this is one area where we need to improve. I think we have our receivables are more than what we had planned for and that is happened due to certain delays by certain governments. Well of course the debt quality is good but this is something which if you ask me is one area we need to focus more for the future.
- Sherman Dudhoria:** I was coming to the receivables part you know I think its shot up significantly in the half yearly balance sheet. So, do you see the run rate to be normalized as we move towards the second half.
- Ashok Sharma:** So, definitely it will improve and also you know since quarter 1 was subdued so lot of back ending happened, and we are finding that the markets where our receivables is higher, we are getting quicker payments. So, this one improvement area we will have in Quarter 3 and Quarter 4. I don't see it as concern but definitely an area of improvement.
- Sherman Dudhoria:** Ok and finally wanted to check on the tax rates. Our tax rates are still high on a higher side even if I you know adjust for the earlier tax, the provision that you've made what would be the blended tax rate for the current financial year?
- Ashok Sharma:** So, the current tax rate is 25.12 and the blended rate. See in the first half, we have record some savings on the tax to the tune of around 42 odd lakhs compared to the old tax rate. But we also had one -time charge of the deferred tax. Deferred tax is the assets and that's around 50 lakhs. So, overall impact is less but on ongoing basis we expect around 4-4 and half percent savings on tax due to the new tax regime.
- Moderator:** Thank you. The next question is from the line of Jigar Shroff from financial research technologies. Please go ahead.
- Jigar Shroff:** A couple of things. If you could talk something on our market share that is the first thing. Secondly looking at the first half results I mean some indication on the second half I mean. Is there any seasonality that the third and fourth quarter is strong I mean vise-vis the first half of last year as compared to what we've ended for the whole of last year I mean what inference can we draw and number 3 any fallout that I think like between reading in the press about Jain irrigation going through extremely difficult times. So, any fallout of that you know because of which I mean more business coming our way or something Sir.
- Ashok Sharma:** The market share as I have mentioned that H1 against almost flat industry, we've grown by 9%. So, clearly our market share has gone up and as per our estimate now our market share would be little above 5%. So, we think that we've moved up in H1 so we're above 5% market share.
- Jigar Shroff:** Because I think at the end of the FY19 also you mentioned our market share should be above 5-7%. I mean no precise number.

- Ashok Sharma:** So, we've moved up. It's not fixed but we've moved up because again you know Jigar frankly speaking these are estimates, there are no published data and it's very difficult to really talk about the last decimal or so it's the estimate. But directionally we've moved up from March from FY19 because of the industry and our growth. So, imagine how much beyond exact data I cannot give you a firm number because that's not available. Coming to your next question about the industry, while every year has its own uniqueness in terms of the mix of the states and as I mentioned before to Sherman, certain quarters, certain states are active. For example, H2 we are expecting markets like UP, Jharkhand, also Andhra getting revived and other markets doing reasonably well, so that's for this year. But if you ask me historically, what is the kind of mix, industry mix between H1, H2. H1 we're on 40-45% is the normal range and 50 -60% is the H2. So, H2 typically is the better half in terms of demand because that's the time when farmers are you know having the cash from Kharif and also, they are preparing for the next season and Q3 specially in Q4 we see a good lift in terms of farmer needs. The other question which you asked clearly yes ,it's an important development industry because you're talking about the market leader
- Jigar Shroff:** What will be Jain irrigations domestic turnover any ballpark figure you won't be aware of?
- Ashok Sharma:** I will not be able to comment on that Jigar because that data we don't know now I'm sure the results will be out soon so we will know. And I think clearly other companies which are focused on customer who have good brand equity and who are able to offer the right product at the right time to the right customers would see an increase in their business. So, there will be a shift in the market shares in the time to come because of this change in the structure of the industry dynamics.
- Jigar Shroff:** And Netafim is also as aggressive?
- Ashok sharma:** Yes, Netafim has been doing their job
- Jigar Shroff:** Those three players would be Jain, Netafim and EPC is it organized?
- Ashok Sharma:** If you look at top three or four players in India it's our company, then Netafim and Finolex. So, I think these three companies would be I think having a positive impact but having said this in this industry there are also regional players. So, in some pockets we find suddenly some small regional player getting a higher share. But largely these three four companies I would imagine would be able to fill that void. Anything else Jigar?
- Jigar Shroff:** Anything would you like to shed some light on the progress on the Mahindra Top Greenhouse joint venture Sir.
- Ashok Sharma:** Yes. Of course. I think that's a very good development which has happened now. We've tied up with Top which is one of the high tech leading greenhouse company from Israel and you have very good

knowledge transfer from that team to our team. Our teams have also understood, and we've been now pitching our technologies to various institutions including high end research organizations and the kind of response we're getting from them is very encouraging. In H1 there has been some delay in the subsidy for this segment, change in policy so it's been a bit slow but the positive thing for us is that we've launched a very innovative idea. It's actually a very low cost innovative greenhouse which we are offering to our customers without subsidy, also we talked about it and something which I'm very sure. The Greenhouse which we have developed which is a cable enabled design, its available at at economical price as compared to a conventional Greenhouse which offers similar functionality. And this product has been doing very well and we also have a very good pipeline of enquiries at different levels for institutions for Greenhouse. So, this business which seems to have good potential for the industry and as I mentioned last time that this industry is around Rs. 800/1000 crores.

Jigar Shroff: Start reflecting from the second half do you think?

Ashok Sharma: I will not comment directly on that but yes in the time to come greenhouse will become bigger.

now our relationship is well settled with our JV partner our product strategy is all in place now so this will contribute to the top line and bottom line in due course.

Jigar Shroff: Can we share our ballpark figure Sir what kind of a top line would you

Ashok Sharma: Its really difficult at this point of time but I'm sure in the next few quarters once we have something to actually report, we'll talk more about it.

Jigar Shroff: There is one last question. I think you were mentioning I think in the last AGM or something about getting the stock listed on the NSE for more visibility and more participation Sir. I mean if that is in the thought process of the management Sir, if you could.

Ashok Sharma: Once something happens, we'll definitely let you know.

Moderator: Thank you. The next question is from the line of Sharman Badoria from Unify Capital. Please go ahead.

Sharman Badoria: Thanks again you know. Firstly, again wanted to check on contributions from the projects business in the first half. What was that contribution?

Ashok Sharma: Projects definition if you must we need to understand. Let me tell you what do you mean by projects in our company. Now the government, the state government which directly make payment to companies like us we classify them as project market. So, markets like Gujrat, Tamil Nadu, Andhra are project market. Markets where dealers pay the company like Maharashtra are non-project market. That's one definition of project market. So, in our portfolio, given the industry size almost 75-80%

sale happens in the project market. Just one definition. But I will hasten to add, the projects which I talked to you about capital work in progress that's a different thing. These are you know enquiries or tenders raised by certain central governments for doing a finite project in a finite location with a finite resources. So, that was an answer to that kind of project which is capital work in progress. So, just see the distinction there are different kind of definitions that we use.

Sharman Badoria: Secondly, Coimbatore facilities are at full utilization. Do we have a scope to increase the production further in any of our existing plants?

Ashok Sharma: We're already actually as we speak; we're looking at increasing our capacity in Coimbatore. Our whole issue in this business as we've mentioned many times is our ability to manage our working capital, ability to ensure that farmers get the right kind of product installation advisory and ensure that our whole working is financials are well planned in terms of cash flow and systematic growth. That's more important. See we get another question or two because. Is there anything else ?

Moderator: Thank you. There are no questions in the queue Sir. So, any closing comments before we disconnect.

Ashok Sharma: I think it's a pleasure to talk to you all and I'm thankful to all the participants who came on the call and I look forward to our next year's call which will happen somewhere in April and again I Wish You All the Best For the Festival Season from EPC's side that's all to say this time. Thank you very much.

Moderator: Thank you ladies and gentlemen on behalf of Mahindra EPC Irrigations Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
