



“Mahindra EPC Irrigation Limited
Investors 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 Limited Investor 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 would now like to hand the conference over to Mr. Ashok Sharma, Managing Director from Mahindra EPC Irrigation Limited. Thank you and over to you, Mr. Ashok Sharma!

Ashok Sharma: Thank you very much. A very good evening to you, ladies and gentlemen, on behalf of Mahindra EPC, I am grateful to you for joining this call and I hope all of you are safe and your families are safe too.

Today, I will be talking about the Q4 performance, FY21 performance, and share a broad outlook for FY22.

Let me first talk about our core business; Mahindra EPC is about conserving water and helping the farmers to be prosperous, to be able to impact farmer prosperity by ensuring that they can use precision agriculture i.e. Micro Irrigation Systems and use the right amount of water so they get maximum yield and benefit.

As you all know the impact of water and the future of water is one of the biggest environmental challenges which the world has to deal with.

Coming to India as per the data available, the water availability in India is approximately 1500 cubic meter per capita, and as per the standards any economy which is having less than 1700 cubic meter per capita is classified as a water-stressed economy, and an economy which is less than 1000 cubic meter is water deficient economy. So clearly, we are moving from a water-stressed to a water-scarce economy and around 20 years ago, we were around 1600 odd cubic meter per capita. So what it means, is that for our country, water conservation is going to be the biggest priority in the times to come and already we are seeing action in this direction, and which is the area where maximum water is consumed? Agriculture, 80% of the water is consumed in agriculture, and that is where micro-irrigation becomes a very important priority for modern agriculture for conservation of water and a big national priority.

In terms of benefit to the farmers, they have reported excess yield of 25% to 35% by using micro-irrigation. They have also reported a reduction in cost because they can reduce the labor cost because of less need for manual intervention for removing weeds etc., and as a result, they can save not only 25% - 30% water but also increase their income. So clearly, there is a very strong business case for farmers.

From the government's perspective, micro-irrigation has always been on top of their agenda and have been implementing various programs to increase the adoption of micro-irrigation. Just to give you some numbers, about 70 million hectares, agricultural land available for micro-irrigation, the current penetration is hardly 12% which is around 8.5 to 9 million hectares. There is a huge gap of almost 60 million hectares which needs to get micro irrigated in the time to come, and as per the program on improving output and doubling the farmer income philosophy of the government, they have envisaged at least 2 million hectares to be added every year for a micro-irrigation, and accordingly, the funds have been allocated in the various budgets, but the current rate of adoption is around 0.8 – 0.9 million, and there is a gap, the center wants to do 2 million and accordingly they have allocated almost Rs. 3600 Crores for micro-irrigation last year, additional Rs. 10,000 Crores funds are available with NABARD to give as loans to state governments.

The state governments are also now catching up and putting their part of contribution to increase the penetration of micro-irrigation. This is to give you a perspective about the huge potential of this industry and this is what makes us very excited about the future that here is

the industry which is the need of the hour, environment friendly, a priority by the government, and beneficial to the farmer community.

Now let us talk about, Mahindra EPC. It is one of the oldest companies in this industry. This company is always focused on customer satisfaction, and largely the strategy has been to see how we can offer high-quality products, how we can help the farmers through advisory in terms of right agronomy practices, how we can design the right kind of micro-irrigation equipment, install them properly, and that has been one of the reasons why we are very much preferred by the customers across the country.

In addition to this, by focusing only on a few critical markets, we have been able to increase our market share YoY and to manage our margins, we have focused extensively in terms of moving our product mix to a more profitable product mix, which is a higher percentage of drip sales and focusing on lowering cost, be it fixed cost and also the variable expenses has helped us even in this year and that is a continuous strategy.

Given the fact that this industry is largely driven by the state subsidy we have a strong focus on managing working capital and we ensure that we have sustainable growth as far as the overall impact of the business is concerned. So, this is the broad strategy on which we operate.

I would like to now share with you the developments in FY21 related to the Agri environment and the micro-irrigation industry. I will later talk about EPCs performance and, then we will open the house for questions and answers, and maybe in that, I can talk more about FY22.

As all of you may be tracking the Agri environment, you may be aware that despite the challenges of COVID last year and also this year, the Agri sector was perhaps the only ray of hope and the shining star in the economy being an essential services. As a result, the contribution of the Agri sector has increased in our GDP from 17.8% to 19.9% last year. Also, we had a very good output of Kharif production, up by 3%, Rabi production estimated to be up by 1.3%, MSPs have firmed up for the main crops, they have increased by 2% to 5% and also what is heartening is the Agri credit, there has been a significant jump in the credit availability to farmers to Rs. 15 lakh Crores, which is almost 15% jump over previous year which also is a good sign and support to the agriculture community, and looking at the direct benefit transfers which directly puts money in the farmer's hand, also has been a whopping Rs. 4.33 lakh Crores last year.

If you look at the Agri environment, and that too against the backdrop of the challenges the whole world is facing due to the pandemic, the Agri sector overall has performed well and even this year while there are challenges we all are aware of and it is quite severe this year, but given the essential nature of agriculture, we are quite hopeful that our business will not be disturbed too much.

Let me now just talk about the micro-industry which is the main topic for today's discussion. Now this industry had a slow start at the start of FY21, the COVID had just come in and we had certain business disruptions, plants were closed for the early few weeks and then the industry picked up and those of you who were there on the call in October would recollect that we had discussed about H2, which would be largely depending on how Andhra Pradesh and Karnataka operate because the first half of both these states were not active and in the second half, yes, Karnataka did do some business but unfortunately, Andhra Pradesh did not do any significant business in the full last year and that is one of the key reasons for the industry drop in FY21.

As per our estimates, the industry has dropped by almost 20% from around Rs. 5000 Crores in FY20 and the main reason has been because almost Rs. 800 Crores shortfall from Andhra Pradesh. If you remove Andhra Pradesh, then the de-growth is very less and the states

which have done particularly well in last year have been Tamil Nadu and up to a certain extent even Gujarat and Maharashtra.

Another important point is the impact of raw material cost. In October's call, I had mentioned that we are seeing some increase in prices in Q2 and we expect there will be some more increase, but we were surprised that the increase which has happened was much more than what we expected and Q4 has been the highest increase in recent times on raw material cost and the reasons for this are, firstly India's dependence on imports is very high, almost 55% of the resin which we require are imported and these are coming from U.S., Europe and Brazil and during Q2 and Q3 most of these countries had declared force majeure with some of those companies and large suppliers were not able to supply in Q2 and Q3, so that created a lot of shortage in the market, and on the other hand the consumption also went off for plastics largely because of higher demand of online business, PPE and other things, so as a result there is imbalance and to make things more challenging during Q4 we also witnessed a sharp increase in the freight, almost 60% increase in freight on certain sectors due to lack of availability of vessels, so, all these kind of added up to almost a jump of 26% in raw material prices in Q4 which translates to around 11% of material cost for our business, so, that is another significant development of Q4 and last year.

Now moving ahead in terms of looking at what happened for our EPC performance in Q4 and FY21. I will briefly talk about that. In Q4, the revenue was less by 13.5% over the previous quarter and the profit was less by Rs. 7 Crores over the previous quarter.

Now, if you look deeper, the raw material cost increased in Q4 was almost the same as the drop in profit. Around Rs. 7.2 Crores was the increase in the raw material cost, but because of our cost control, reduction in fixed cost, and variable expenses, we could offset the drop of Rs. 11 Crores in revenue. We also had this drop of Rs. 11 Crores in revenue, but because of savings on fixed cost and operational efficiency, we could contain the loss only to the extent of the increase in raw material cost. Now, when I look at Q1 the revenue drop was close to 11% - 10.5% against the industry drop of around 20%. So clearly EPC performed much better than the industry and line with our previous year's performance, we expect our market share to increase by around 0.5% in this year also.

I would also like to caution that the data on industry and market share is not so precise, these are our best estimates.

Coming back to the annual performance, last year the annualized material cost increase for EPC was around Rs. 11.68 Crores and our revenue drop was around Rs. 30 Crores largely because of the non-availability of business in Andhra Pradesh. The Rs. 11 Crores increase in material cost was offset by significant fixed cost savings and reduction in our variable expense percentages due to better operating efficiencies, redesigning, and cost engineering. We could contain this impact to only a drop of 7% profit. So, this is a good starting point for this year where we are entering this year with a lower cost structure, with a more efficient processing efficiency, which will help us going forward.

Overall when I look back at FY21, it was a challenging year for the world at large. There was a huge disturbance in the supply chain due to the pandemic. Despite that, Indian agriculture moved on, as the overall farmer has been able to give the production, have the right output and right income. The industry also had its share of challenges largely in two areas, one key market not functioning and raw material in Q4 suddenly spiked. Despite that when I look back I feel that Mahindra EPC could do better than the industry in terms of 50% lesser de-growth & maintain a healthy bottom line, due to management of cost and mix and our distributed manufacturing strategy.

Now I will open the floor for questions and answers and then based on your questions I will try to give more details. So Janis over to you, you can take few questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kaushal Kumar, Individual Investor. Please go ahead.

Kaushal Kumar: Thank you for the opportunity. I hope everyone is safe in the company and the family. Sir if look back in the last decade I think given the flagship group that you belong to, the performance of the company in terms of scale and profitability has maybe not been up to expectations. Since there is a change in the leadership, is there any change in strategy to scale this company as well as you can enter new segments, pesticides, chemicals, given such enriched knowledge of agriculture? Performance in terms of revenue, margins, and volatility in earnings is something that long-term investors have not benefited from over a decade. So any thoughts based on that?

Ashok Sharma: Kaushal thank you very much for your question. This year, we have been focusing a lot on our employee safety and took a lot of measures to ensure that our employees are safe. Now coming to your question, at Mahindra EPC, in the last three, four years, our return on equity has moved from almost 4% to 14%, our market share has been growing year-on-year, our profits & growth have been better than the industry for most of the years in the past. Now the question which you asked in terms of strategy and looking at other segments, you may be aware that the Mahindra is into the seeds business, agrochemical business, micro-irrigation business, and export of fruits. Now Mahindra is into this business through another company called Mahindra Agri Solution Ltd. and Mahindra EPC is focusing on micro-irrigation so as the Mahindra group, we are into various segments and you will be happy to know that we leverage the strengths of each business to support each other. So, for example, micro-irrigation benefits a lot from the Nasik grape growers, whom we have worked with for the last 15 years. We leverage the farmers who are using our seeds or agrochemicals, to cross-sell with micro-irrigation. Our idea of growth is always to grow faster than the industry rate and we are also mindful that our growth has to be in a balanced way, looking at the state government's enthusiasm in that state and managing our working capital. Surely, there are more plans, and, coming to specifically EPC, Mahindra EPC is working on two new segments. One is growing the non-ISI segment, the dependence on subsidies is a bit high in this industry, so last year we have taken a strategic call to focus more on this segment, and going forward we will see perhaps good growth from this segment. The other is the greenhouse business, which we think in the future we will have enough demand and will get very popular in our country. When you look at other developed Agri economies, greenhouse is very much part of their agriculture ecosystem. So that is another growth engine. These are being done in addition to focusing on increasing our regular micro-irrigation business. So that is the answer to this Kaushal. We can move to the next question.

Moderator: Thank you. The next question is from the line of Shriram Raja Ram from Ratnatraya Capital. Please go ahead.

Shriram Raja Ram: Thank you for the opportunity. Sir, firstly you mentioned that the market size would be about Rs. 5000 Crores, so today we have a market share of about 5%, so who are the other players apart from Jain and Netafim? Secondly Sir where do you see this market growing after five years? I mean you have mentioned that in your earlier calls that whatever that has happened in the last 20 years we will see that happening in the next five years so what gives you that confidence and if we believe that we are at an inflection point, what is that, that had changed in the macro scenario?

Ashok Sharma: Shriram thanks for asking this question and thanks for coming to the call. As far as the industry is concerned it is around Rs. 5000 Crores in FY2020 and FY2021 we expect the industry to degrow by almost 20% to Rs. 4000 odd Crores. If you look at the major players in this industry, there are four or five major players and there are a lot of regional players. So, Jain is one of the significant players, Netafim is another player, then there are companies like Finolex, Nagarjuna, so this industry's characteristics is that there is a large number of regional players who would have a turnover of Rs. 50 to Rs. 200 Crores and they are confined to local places. If you look at pan India players, EPC is definitely amongst the top three or four companies and we see that this industry will further grow as larger players

will get bigger because they have the capabilities to scale up, can manage their business in different states and they are also de-risked to an extent. The regional players are largely dependent on one state and to that extent, they have certain concentration risk. Now you talked about the potential of the industry. See this industry has a huge potential and as I mentioned at the outset, we have almost 60 million hectares to be brought into micro-irrigation and, that will happen. There is no reason and there is no choice for the farmers and the government because water is getting scarce and adoption of this technology is good for the farmer in terms of the shared economics. The constraint is that this industry is a little dependent on the funding from the state governments, so that creates a constraint, and year-to-year we find one or two states not being able to meet the targets for their internal reasons. I talked about AP as a case in point for last year. Now, this vision of 10 million hectares in five years is a stated objective of the central government and up till now, around 9 million hectares have been covered. A good example to think about is a state like Tamil Nadu. Tamil Nadu around four to five years ago was Rs. 100 to Rs. 150 Crores annual market but in FY21 our estimates reveal that they would be more than Rs. 1100 to Rs. 1200 Crores. So that is how markets develop once the state government takes it as a top agenda. Andhra used to be the same before. Now the future as I see, new states like UP, Bihar, Jharkhand, and Rajasthan are also understanding the importance of micro irrigation and just to give you some statistics, the per cubic availability in Tamil Nadu is around 800 cubic meters odd which is already below the level of 1000 cubic meters so that is a very water deficient state. So, states like these have understood, and we are already working on it. So, this trend will continue and that will be the inflection point. Now I must also caution that it is not that this is going to happen in the next 3-6 months, so this is the function of many things but if you look at the last five years I think some states have done a phenomenal job and we are quite optimistic that this trend will now go into more states and we will see much better rates coming in. In FY2022 itself, if Andhra comes in, then immediately we have that Rs. 800 Crores to Rs. 900 Crores kind of an industry that is in place and then you go for other markets. So that is the expectation as far as the industry growth is concerned. Hope that answers your question, Shriram?

Shriram Raja Ram:

Yes Sir.

Moderator:

Thank you. The next question is from the line of Rajesh Shah, Individual Investor. Please go ahead.

Rajesh Shah:

Ashok Ji first of all, thank you for the very interesting and informative opening remarks. I have a couple of questions. The first question is how much business did we do from Andhra Pradesh out of Rs. 285 Crores of turnover which we did in 2019-2020? The second question is Sir, you said that the total size of the industry currently is about 0.8 million which is about 8 lakh hectares and the government wants it to touch 20 lakh hectares annually so is this possible in the next four, five years? Sir my third question is about this is a very interesting company with huge potential, it is also an ESG candidate and belongs to Mahindra group, why is it that none of the mutual funds own this stock because this is a very interesting, market cap of Rs. 400 Crores, which can multiply in the next maybe 5-7 years, so I think we need to market this stock well to small-cap mutual funds as well?

Ashok Sharma:

So Rajesh Ji thanks a lot for sharing your suggestions. I will come to them one-by-one. So one is as far as Andhra is concerned in FY2020, our revenue was to the tune of Rs. 35 odd Crores in FY2020, and I fully agree with you this industry is very exciting, it is the perfect ESG candidate and just to share with you, this company contributes a lot in making the Mahindra group water positive. We are very proud that our Mahindra group is water positive and this business is now the key contributor and that is where you will find a new set of investors coming in for whom ESG is the big priority. As far as 2 million is concerned, see that is what the government has to do, wants to do and it is a matter of just two or three states going all out. I gave an example of Tamil Nadu and just imagine if UP once they think seriously and MP joins, these two states are so large, if they come in, they could easily throw in Rs. 500 Crores each into the market. It is just a matter of timing and we are hopeful that UP & MP governments will catch on to this given the center's priority on micro-irrigation. Our Honorable Prime Minister has demonstrated this during his regime

as the CM and last few years, he has been promoting this, giving funds and the central government has been very proactive. We have never had any issues in terms of the availability of funds. Now it is very difficult for me to say that will it happen in 2021-2022 but I think the direction is clear. It has to happen in the direction and as it happens the good thing to see is that Mahindra EPC today on a base of Rs. 250 Crores is reporting these kinds of financials. The cost structure required for Rs. 400 Crores is not very different from what is required for Rs. 250 Crores. The capex required is not so exorbitant in terms of impacting our return on capital employed. So for the next Rs. 100 Crores the margin flow will be quite high. That is the opportunity which I see for this company. Now coming to your question about mutual funds, now that is a good question, we have not gone out of the way to reach out to mutual funds and present our case, perhaps we should start doing that and I think that is a very good suggestion and we will discuss with our team and that could be one important step we can take going forward. I hope Rajesh that answers your question?

Rajesh Shah: Yes, Sir all are answered. Thank you so much.

Moderator: Thank you. The next question is from the line of Keshav Garg from CCIPL. Please go ahead.

Keshav Garg: Sir first of all I want to understand that like you mentioned the competitors, so there is one listed peer that we have by the name of Captain Polyplast. Sir if you see the last five years growth in turnover, this Captain Polyplast has grown by 16% CAGR whereas we have grown by some 4.6% and then stock returns and everything follows the growth in the business and on the other hand we know that Jain Irrigation has lost market share big time but still that has not been seen in our revenues so how is that?

Ashok Sharma: I would refrain from commenting about Captain Polyplast, they have their own strategy and business model. But let me comment on our company, Mahindra EPC. The way we have been working is, the last year we had an opportunity to grow in the market, we have grown to Rs. 285 Crores with record profits in FY2020. Now in FY2021, we realized that the industry is having some headwinds in terms of one state not being active. So, we could have grown the top line but we are very mindful about managing our working capital. We are linking our growth and availability of funds at the state level and that is how we want to grow. We do not want to take one-year exorbitant growth and then have issues with collections and delayed payments. We want to have sustainable growth. Even if you look at this year, we have managed our growth well, we are virtually debt-free, our cash flow is positive and our margins have improved at the efficiency levels. So, with the right kind of environment where the money is coming on time from state governments, nothing stops our growth. That is how we are building this business.

Keshav Garg: Sir so like you mentioned about the working capital, our debtor days are now 243 days, so now if we grow fast then how do we? I mean I do not think we can remain debt-free, I mean if growth is there because if we need to extend 243 days of credit so then there is no way we can grow sustainably?

Ashok Sharma: Very good observation Keshav. Now the 243 days which you are saying is an aberration because of one state. We have almost Rs. 40-odd Crores due from Andhra Pradesh and last year there was, virtually no payment from there. As a result, we almost have 50 days of outstanding coming from AP alone which will come anytime. Now I am happy to inform you that recently there have been some very positive statements from the Government sources about giving declaration that they would want to do Rs. 1100 Crores of micro-irrigation business in this year and they also have given a firm plan to the industry for making the payments. Last year they had to change their priorities and were not able to make the payment. But on a sustainable basis, 150 to 170 days outstanding will be there in this business. That is the industry norm and we are perhaps better in the industry. If you look at the margins and the growth, we have enough leveraging capability. So that is not an issue, getting funds for growth is not a problem but we would not like to grow at the cost of higher receivables which are not sure to come. For example, there are large projects by state governments where many companies have tried, they have grown but then the issue comes

on payment, delays, no payment or extended delay, so that is the balance we maintain. I would not worry too much about 243 days because it is more of a specific phenomenon for last year which should get corrected soon.

Keshav Garg: Sir wanted to understand that what are we offering to the customer, the competition is not offering like I mean what is the differentiating factor in our product versus the competition?

Ashok Sharma: Very good question. I am glad you asked that Keshav. See our company Mahindra EPC all our surveys and interest in the market, one thing comes out very clearly that the quality of our product is one of the best. The quality of our drips, sprinklers, PVCs, is amongst the best and farmers come in and ask by name so that is one big strength. The second differentiation we bring at the farmer level is that we design the product. You may be aware that for doing a drip installation or drip sale we have to do the design for each farmer and we design the solution in such a way that is well configured for the farmer and most companies do not have a policy of installing the product properly. Now it may seem simple but installation is a very important part of the process. Another thing that is unique to us is a lot of advisory to agronomy. As you know, that this is a new technology farmers are not sure of using. We have 200 demo plots all over India, where we call farmers and we show them our product, we explain how to use micro-irrigation and they can then put those practices in their work. We also have the unique benefit of synergy across Mahindra Agri businesses. No company in India is serving the same farmer with seeds, agrochemicals, micro-irrigation, and of course tractors, so that also gives us an advantage in terms of acceptance by the farmers and last but not the least the Mahindra brand name. I think the Mahindra brand name is our biggest strength as it has high levels of trust with the farmer. As an example, the non-ISI product which we had launched last year, consciously we have priced it higher than the good competitors. I am not talking about the average or me-too ones but with respect to the better competitors, we have priced it above that and the response is good. There is a set of farmers who appreciate our brand and are willing to buy and that is why we can now focus on that segment which will be devoid of the pressure of subsidy.

Keshav Garg: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Sreemant Dudhoria from Unifi Capital. Please go ahead.

Sreemant Dudhoria: Good evening Ashok Ji. Hope all well with the Mahindra family? I have few questions, firstly given that the second wave has hit and I understand it had impacted, what could be the micro-irrigation industry growth in FY2022 that is the first question? The second one is are you still facing stress on the gross margin or the Q4 margins was the bottom? Are things normalizing for you? That is the second question. The third question is while you mentioned that the Andhra market did not contribute in FY2021 but historically we have seen that Q4 is the seasonally a very strong quarter and despite Andhra being not there for the entire year there has been a quarter-on-quarter decline in the topline from Q3 to Q4 so just wanted to understand what has driven that? The next thing is I wanted to understand what was the mix between the subsidized and nonsubsidized product mix in FY2021 and given that you are setting a higher price point for the non-ISI product how are the margin comparison in both these products. The last one is what would be the drivers to achieve the group's mandate of 18% return on equity. Thank you, Sir.

Ashok Sharma: We all know the second wave is an issue and it is very challenging at this point of time for rural India and our rural colleagues are going through tough times. Having said that, as far as Agri is concerned, I think farmers have to go for the crops, they have to do the production and it is required to feed the nation, so activities will happen & are happening. See for FY2022 the positives are normal monsoon has been predicted by IMD and Skymet. PMKSY fund has already announced Rs. 4000 Crores tentative allocation and they are giving state-wise allocation, which is highest ever. In Andhra Pradesh market also we have got positive signals that there will be a renewal of the business this year, which should bring in a significant part of the industry. Now coming to the raw material cost, which is

answering your second question about Q4 margin, see the raw material cost has gone exorbitant globally. We are expecting a good correction in the next two quarters because the supply side has increased tremendously. Many of these plants have resumed operation, new capacities have been added, and also the demand from China, as per the latest report, has been a bit tepid, so as a result, we are expecting at least few percentage points coming out of the raw material price correction. At the start of May, there is some positive reaction but I will not say that the trend has started. It is just an expectation that raw material will correct. Last but not least is there is a possible indication from few state governments to increase the price because there is a lot of discussion happening over the last year and that is what is going to perhaps help us from the margin standpoint. The biggest risk I see for this year is COVID and also the risk of disruption on the supply chain. Fortunately, we have three plants one each in Nasik, Coimbatore, and Baroda. To that extent, we are more decentralized. That is going to help us. So if I look at the impact of all this and if AP works well, the industry should grow by 15% - 20% and come to the level of FY2020. Other states will improve, so that is on the industry front. Coming to your other question, I think this whole Q4 is largely driven by markets like AP, Tamil Nadu, and these are the big markets for that quarter. Even Tamil Nadu for the last month of March, pre-election was also in a conservative mode, which has affected the industry but we were able to make up from other markets to the extent possible. Coming to your question on subsidy, see we are in a transition mode. Currently, around 7% to 8% of our business is non- Subsidy and in FY2020 it was negligible. We plan to move it to mid-double digits in FY2022, so that is again a very big change. So these are the questions you ask right.

- Sreemant Dudhoria:** Sir on the non-ISI, are the margin contribution much higher?
- Ashok Sharma:** Margins are not as high as regular drips but they are reasonably decent and the advantage which I mentioned before is that since we were charging a higher price, we can make up for the inherent lesser margins in the business because we can justify our quality. Also, a good thing about the non-ISI markets is that they are cash and carry, so our receivables also are better off, so it is good for the cash flow also.
- Sreemant Dudhoria:** Sir so on the margin front should one see the Q4 margin as a bottom because like for the many quarters we have been consistently reporting double-digit EBITDA margins?
- Ashok Sharma:** I will not be able to give a very straight answer for this Sreemant. Yes, if raw material costs go down, obviously we get the benefit. I mentioned the inherent advantages in FY2021 by lowering our fixed cost and improving our operational efficiencies that will stay, so if the raw material goes down, surely there will be a fillip to the margins.
- Sreemant Dudhoria:** The last question which I asked Sir, what would be the drivers to achieve the 18% plus return on equity which is the group's mandate?
- Ashok Sharma:** I think we are well on track. We are already at around 14% ROE, so getting an additional 4% in the near future seems plausible. I think the key thing for us is to look at two points for next year, how the Andhra Pradesh market goes and how the raw material prices go, if they both are favorable then obviously we should have a good year.
- Sreemant Dudhoria:** One last question, other states are okay releasing the subsidy like key states like Gujarat?
- Ashok Sharma:** You are right. The others are positive. Tamil Nadu is good. We were a bit concerned when the elections were happening and whether it will have any impact but the good thing is that even if the government has changed, their manifesto was very clear that micro-irrigation will be a big priority, and the moment they came in, we are seeing a lot of action and things have started again. Tamil Nadu is a big market for the industry and others markets like Maharashtra and Gujarat continues. I think the new ones are interesting and maybe in October call, I will be talking about UP and Bihar. If these markets start picking up, then this inflection point of 1.5 - 2 million hectares can be seen in the next two - three years.

- Sreemant Dudhoria:** Sir you mentioned one thing just a clarification you mentioned Rs. 4000 Crores is the allocation in FY2022 is it by the center?
- Ashok Sharma:** Yes, the center gives a lot of money. If the states put their share, this industry can be almost Rs. 8000 Crores but the point is that the states do not put in their share, this is the central government share available to the states, and if they want, they can use it. So some states are using it and are benefiting.
- Sreemant Dudhoria:** What was this center's allocation in FY2021 Sir how did it close?
- Ashok Sharma:** Rs.3645 crores was the planned allocation but actual allocation was lesser than that because state governments could not take it up because of all these reasons.
- Sreemant Dudhoria:** Thank you so much and all the best.
- Ashok Sharma:** Thank you very much. Janis let us have the remaining questions.
- Moderator:** The next question is from the line of Vaibhav Kacholia from VK Capital. Please go ahead.
- Vaibhav Kacholia:** Congratulations on good numbers. I had two questions, Sir, one was if this COVID thing had not happened then what kind of turnover we could have had in FY2021? The second question is Sir are our competitors doing business at much lower margins than us? I can see some online figures of Netafim and their margin seem to be very low at 4% or something, so is that improper pricing by competition is what is hurting us and how can we target to have a similar market share as Netafim?
- Ashok Sharma:** Thank you for attending the call. Let me answer all three questions. The first question is if no COVID would have happened, then the industry in a its normal course would have grown by anything from 7% to 10%, and if that was the case, if you look at our past track record, we tend to grow faster than the industry so you can then visualize what could have been the impact on the revenue.
- Vaibhav Kacholia:** Rs. 325 Crores or something like that?
- Ashok Sharma:** You may do the math. The other thing is the raw material cost, but I must also give you some perspective on raw material. The commodity markets are cyclical and the prices go up and down, as I had mentioned in my last call that FY2020 was particularly a good year on raw material costs. So, we had significant benefits in FY2020. Now coming to your other question about competition, you need to check their details. The margin in the industry for that scale should be much higher and their products are well priced, they are not selling at a lower price and to our best estimate, their cost structure is also competitive. When we started our journey, we were number 5 - 6, we are now moving towards number 3, so I think it is a matter of time. We are growing every year, and moving towards our vision of becoming a leading company.
- Vaibhav Kacholia:** Can we have a hope to compete with Netafim in terms of turnover Sir?
- Ashok Sharma:** Mahindra Company is known to take the leading position in the market, so nothing is stopping us from hoping & aspiring for that.
- Vaibhav Kacholia:** Good luck. Thanks so much.
- Ashok Sharma:** Thank you Vaibhav. You stay safe and keep up your passion for micro-irrigation and EPC.

- Moderator:** The next question is from the line of Sanjay BM, Individual Investor. Please go ahead.
- Sanjay BM:** Thank you for the opportunity. Sir I would like to take my queries very briefly. Query number one is on the loan to EPC itself we have the dripper saving, there are number of channels that have taken it so is that the new complex that we are taking it every time? Query number two is can you improve our profitability of our company it seems to be pretty even, there is no complete information in that. Query number three is coming to the raw material part as you stated that Finolex is also one of the competitors I think they are completely in terms of their manufacturing and so what would be the competitive advantage for Mahindra EPC when it comes to raw material in terms of private structure if it exists.
- Ashok Sharma:** Sanjay I am sorry I could not hear you properly I heard the last part about the raw material cost if you can just repeat first thing a bit slow?
- Sanjay BM:** Sir one is the management EPC left side to give you a picture, so what like for example yesterday they sold 3 lakhs tonnes, so what is that? Is it the number of the employees that we have on day to day basis and then just coming I think then the raw material I understand that as you stated that Finolex is also one of the competitors so I think they are fully integrated in terms of manufacturing so does the Mahindra EPC have any benefit when it comes to raw material. That is my question.
- Ashok Sharma:** I think you are mentioning about some data in accuracy on the website, we will get that checked and suitably update it. Coming to you next question, clearly, Finolex has good facilities on manufacturing PVC etc., but what we have done is we have kept our fixed assets and we have seen this industry is very volatile and putting in too much of capex and trying to backward integrate too much sometimes might put little issue on other return on capital employed so we take a balanced view but as far as the raw material is concerned see the key raw material is the imported part we talked about the major percentage comes from there which is same for everybody because we buy from the large companies like Reliance, GAIL, and those companies and they have similar prices of course because of scale there could be few percentage points difference between the large buyer and the small buyer would not much so there is some advantages something there but I think it is a mix it is a decision between your capex and your margins so up till now you have taken this call but we can always invest and do if required as of now at this scale we think this is a right mix between own versus buy.
- Sanjay BM:** Sir and just one last query if CPVC our major component raw material, is PVC our major component?
- Ashok Sharma:** Yes, PVC is our component.
- Sanjay BM:** But if I am not wrong it is an import substitute Sir, so why do not we set up our facility and it can also be sold in the country, it is an import substitute right?
- Ashok Sharma:** Yes, so it is a good suggestion. We have been evaluating that and will consider it. This is one of the things we have also been thinking about. Thank you very much.
- Sanjay BM:** Thank you, Sir.
- Moderator:** Thank you. We take the last question from the line of Jigar Shroff from Financial Research. Please go ahead.
- Jigar Shroff:** Thank you for taking my question. Hope all is fine. Sir, I have just one question. You mentioned going ahead one is the non-ISI segment which you are going to focus on. You mentioned the increase in the proportion, you also mentioned greenhouse business should

be the growth driver going ahead. Can you give some outlook on where do we see this business over the next three to five years and how much we will do in FY2021 that is it?

- Ashok Sharma:** Jigar Bhai these are of course the new businesses and today they have a low base but in the next five years they are going to have an opportunity to grow very fast. Coming quickly to greenhouse, the greenhouse market is roughly around Rs.1000 Crores in India, and out of that, around Rs. 600 Crores to Rs.700 Crores is organized. Now EPC has a joint venture with Top from Israel and as a result, we have access to the latest Israeli technology for greenhouse. As per the various reports, the greenhouse business should grow a lot in India. Currently, the JV happened only one and a half years ago. So in the next two to three years, we are looking for multiple level growths on a lower base. Five years from now, I would imagine that the greenhouse business should be ballpark 7% to 10% of the total enhanced revenue for the company. So, we see a lot of opportunities in greenhouse and in non-ISI, both should contribute around that kind of percentage to the business.
- Jigar Shroff:** So, in five years, around Rs. 50 to Rs. 75 Crores you are saying?
- Ashok Sharma:** That number I cannot tell you but that will be the ballpark percentage contribution depending on the overall growth of the business.
- Jigar Shroff:** 10% of the company turnover?
- Ashok Sharma:** Approximately, because it is a function of how well the business grows and, but the point is that for the next two - three years, we will see multiple level growth given the low base.
- Jigar Shroff:** Did we have any sale in FY2021 Sir?
- Ashok Sharma:** We did.
- Jigar Shroff:** Can you quantify?
- Ashok Sharma:** Small percentage now, let us says it will be around 3% to 4% at this point.
- Jigar Shroff:** About Rs. 10 Crores?
- Ashok Sharma:** Something like that.
- Jigar Shroff:** Thank you so much and all the best.
- Ashok Sharma:** Take care and all the best to all of you. I would like to conclude from my side. I would thank everyone on this call and for your interest in Mahindra EPC. I appreciate the suggestions given by some of you, I hope I have been able to answer your questions to your satisfaction. Thank you very much for taking the time off and attending this call, I look forward to interacting with you during our next call in October. Over to you Janis !
- Moderator:** Thank you. On behalf of Mahindra EPC Irrigation Limited that concludes this conference. Thank you all for joining. You may now disconnect your lines. Thank you, Sir.