



# “Mahindra EPC Irrigation Limited Investors Call for FY ‘19”

**April 30, 2019**



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

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to Mahindra EPC Irrigation Limited Investors Call for FY '19. We have with us today Mr. Ashok Sharma, Managing Director, along with the Senior Management Team of the Company on this call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' and 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 of the company. Thank you and over to you, Sir.

**Ashok Sharma:** Thank you very much and a very Good Afternoon to all of you Ladies and Gentlemen. I would like to Welcome each one of you to the investors call for Mahindra EPC Irrigation Limited and this is our second investor call, so I am happy that we are here to again update each one of you on the progress in the last quarter and share with you our understanding of the future of this industry. As you all know, in Mahindra EPC, our vision is to work towards helping the farmers to improve the farm productivity by getting new technologies, by helping them to use precision farming techniques of micro-irrigation, and building on the prosperity of the farmers. Just as a background, out of the 70 million odd hectares available, only 10 million is covered under micro-irrigation, so clearly the penetration of micro-irrigation is very, very limited in our country, but given the thrust in the last five to six years by the Centre and the State Government, we are seeing some positive developments in key states who are trying to promote micro-irrigation as a good technology for the farmers.

You might have seen our results which has been published just few minutes ago and as you can see from the performance in the Quarter-4, our revenue was 74.1 crores which is a drop of 3% over the last year's Quarter-4 revenue, but against that our profit after tax for the quarter stands at 5.47 crores, which is a 23% growth over last year's Quarter-4. What is very interesting to see and heartening for all of us is the overall FY19 performance that we could close the year with a revenue of 260 crores, which is a 26% growth over last year's revenue and we could achieve a record PAT of 11.44 crores which is almost 2.3 times the profit of last year resulting into a profitability ratio of 4.4% for this year versus 2.4% of last year. Now, if you look at the last 12 months what really has happened in the industry and how Mahindra EPC has performed, in F '18 you may recollect that we had as an industry faced one quarter of turbulence because of the change in the GST regime, so to that extent if '19 was a much stable year where the whole year business was possible for the industry. Mahindra EPC has used this opportunity to focus on certain key markets like South and markets like Maharashtra and Gujarat, which have been traditionally the major markets for this industry and also, we were able to initiate business in the newer markets, which are emerging for tomorrow like Chhattisgarh, even UP and Jharkhand which are now showing signs of promise for the future.

One of the reasons to note for us is that despite the challenge of the increased material cost in Half-1, due to our aggressive cost-cutting measures and higher focus on profitable markets and a profitable product mix, we could maintain the material cost almost at a similar level of F '18 and by properly controlling our fixed cost, we have been able to grow the revenue and ensure

that the maximum benefit of the increased margin flows down to the bottom line and as a result, the overall profit in terms of percentage, has increased significantly in last year. The benefit which Mahindra EPC enjoys is the synergy with the Mahindra Agri business and specially the Samriddhi centers. We have close to 300 service centers all over India run by the Mahindra Group and we are able to synergize and promote the sales of EPC products to the customers and get much higher reach. This has helped Mahindra EPC to not only grow the top line, but more importantly get a significant growth in the bottom line.

During the last call, I had mentioned that in Quarter-1 we will be going through the elections and we expect that there will be some states which will find some difficulty in issuing fresh orders, so now we are almost halfway through the election process and as an industry we have been able to maximize the work order which are available to us before the election period was announced. So, while there is some turbulence and disturbance on the Quarter-1 front, we expect that the Quarter-1 would be almost flat compared to the last year, but going forward given the huge focus by the various State Governments and the farmers' higher acceptance of micro-irrigation, especially with the fact that the focus on horticulture is increasing and as you may be well aware that the overall output of horticulture has now increased and surpassed that of food grains, so farmers have experienced significant benefits by using micro-irrigation especially for horticulture and 15% to 25% increase in productivity is quite common, so based on this clearly we expect that for the full year coming forward the industry should grow around 10% plus assuming that the machinery gets into action after the elections as soon as possible and assuming that the policies which are in place, continue irrespective of the changed dynamics at the Central level. In short, this is an update, the results are out available for you to see. It is a quick call, so I just thought I will update each one of you on the performance. I will be happy to answer a few questions or take your suggestions and happy to know your views on the company's performance, so over to you Stanford.

**Moderator:** Thank you, Sir. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Ritesh Shah from Mukund Capital. Please go ahead.

**Ritesh Shah:** Sir, I just wanted to know from you what is the strategy and the vision for Mahindra EPC over the next five years?

**Ashok Sharma:** Thanks, Ritesh. Clearly for us, as I mentioned briefly before, our whole vision of Mahindra EPC is to work towards contributing to the growth of Indian agriculture and farmer prosperity and we believe that by popularizing micro-irrigation and helping the farmers use this advanced technology, we are able to impact the farm output and help the farmers be more prosperous. So, with that vision we are all committed towards making an impact very much in line with our philosophy of *Rise*, which is all about driving positive change and helping the communities to rise. In terms of strategy, our focus has always been on quality, on customer service and educating the farmers. Let me explain a bit more about this. In this business, it is very important that the farmer is properly educated about the products and its benefits and for that, we have more than 200 demonstration plots all over the country where we invite farmers, we educate

them on the best use of micro-irrigation technology and we show them the performance of the technology for various crops, which builds the confidence in the farmers. Then we go one step beyond and one of the areas where we differentiate vis-a-vis competition is our ability to design customized farming solutions to help the farmer get the best kind of configuration of his drip system so that they get the maximum benefit and then we give very specialized advisory services to the farmer so they can use the drip solution very effectively.

The third thing of our strategy is focusing on quality and we are always focused on quality of product and EPC products are known in the market for reliability, quality, and the good performance they give to the farmers. In addition to that, we are focusing on very specialized markets so that we are able to go deeper and build the brand and as a result of this and the synergy with our overall Mahindra Agri's ecosystem, we are able to differentiate ourselves and offer good value to the farmers. Obviously, you are looking at some numbers and specific growth rates. I can imagine that Ritesh, but if I were to give you that indication, it will be more in terms of industry growth rate. We expect the industry on the next five years to grow from anything between 10% to 15% CAGR for sure, because the trend which we are seeing each Government is trying to promote micro-irrigation in a very positive manner and I would definitely expect that given our quality, given our brand, given our focus on customer satisfaction and our quality, we would like to grow faster than the industry. In terms of any specific numbers as a policy, we do not give any specific guidance or numbers for the future, but from an industry viewpoint, we are quite optimistic about the growth of the industry, need of the technology, focus of the Government and our readiness to grow faster than the industry.

**Ritesh Shah:** Sir, any plans to grow inorganically some sort of thing because you were mentioning that we are planning to start something in the previous call in Tamil Nadu or something?

**Ashok Sharma:** Ritesh, you are right last time we talked about this and actually you will be happy to know that in Tamil Nadu we opened a satellite plant in Coimbatore which has now done the trial runs and is now getting operationalized and also we have a satellite plant in Baroda and a mother plant in Nasik, so the advantage of this strategy is to reduce the logistics cost and come closer to the customer, but it has nothing to do with inorganic, it is more to do with our distributed-manufacturing strategy which helps us to reduce our costs. As far as inorganic is concerned, as a company we are always evaluating targets and are open for any opportunity which is good for the company and good for the shareholders and the strategy and as and when something concrete happens, you will definitely come to know about it.

**Moderator:** Thank you. The next question is from the line of Shrimanth Dudhodia from Unifi Capital. Please go ahead.

**Shrimanth Dudhodia:** Firstly on the Q4 quarterly numbers, the top end has been flat and Q4 has historically been the strongest quarter, was there any impact of the election in the Quarter-4 itself?

**Ashok Sharma:** Thanks Shrimanth, for coming on the call and asking for a very good question, you are right. In the second half of March, in last two weeks, we could see a slowdown in certain states, that was

one reason and another reason we might like to keep in mind is that in the last year which was F '18, Q3 was a rather subdued quarter because the GST thing had just become clear and lot of business was then pushed into Q4 for the industry, but if you look at this year and F '19, our numbers in Q3 and Q4 are almost similar and if you look at Half-1, I think our Half-1 growth is almost 16% over last Half-2 which is, Quarter-3 and Quarter-4. These two reasons are the key reasons for the Q4 numbers.

**Shrimanth Dudhodia:**

One is the status of the JV we talked in-house, I understand from the balance sheet that we have invested about 1.8 crores in that JV, so if you could update the status of that JV, any new product launches that is happening in the JV and at the company level itself? I see the inventory levels drastically coming down as compared to historical level, so is this a sustainable level or it should go back to the historical levels the inventory days, that is the second question? Third being in the non-current assets itself I see the trade receivables an increase of about 12.7 crores as compared to last year from 10 crores to 22.7 crores, just wanted to understand the reason for the same, and finally, you highlighted about the newer states like Chhattisgarh, Jharkhand, and UP showing signs of growth, how meaningful has been the contribution from these states in the quarter gone by and what were the contribution from the projects?

**Ashok Sharma:**

Let me first start with the JV, you are all aware that the whole world is going through this huge challenge of climate change and it has got huge implications for agriculture and agriculture is very sensitive to climate movements, and globally, there is a huge adoption of product cultivation and there are different types of product cultivation, which actually isolates the farmer from the challenges of climate change and in addition to that, product cultivation also helps in increasing the output by managing the all humidity carbon dioxide and it is a technology which is going to make lot of positive impact in the growth of Agri economy, that is at a very macro level. With this vision, we decided to partner Top Greenhouse. The Top Greenhouse is an Isareli company which has very unique technology for developing high-end products, offering much higher level of climate control in terms of humidification, chillers, temperature etc. and also they have technology to develop low-cost solutions for developing countries which are quite affordable for the Indian farmers. As far as status is concerned, yes, JV has been operational in Quarter-4.

We have now started the initial work, Quarter-4 actually revenue wise was looking very significant, it is a start, but I think what is important is that we are creating a business which has scalable which has the need and with this technology from Israel, clearly we see ourselves being pioneer in getting the new technology and we see ourselves technology leaders in this phase, so I am quite optimistic about the impact this would do to the farmers and to research organizations, many research organizations are interested in-house. I think last time I had mentioned around 1000 crores is the industry out of which around 300 crores is of research segment, so that is another segment which is quite good to cater to. It is early days in terms of actual result, but I think as the quarters unfolds, we will see more action in this phase.

**Shrimanth Dudhodia:**

Can it be meaningful contributor to your top line?

**Ashok Sharma:** It would be not in the next year or two, but yes in the next three to five years it will be quite significant because it has the potential. Now, it is up to us to really live up to the potential and even the Government is trying to popularize this concept because of its unique benefits. Now, coming to your next question on working capital. You are absolutely right, working capital is very important part of this whole micro-irrigation business. Because of the delay in subsidiary disbursement from various States, we need to be very mindful about how we manage our working capital and we have seen examples of companies who have not been able to manage the working capital and end up with some unexpected challenges, and also our growth rate has been quite calibrated based on the working capital situation, so inventory correction or reduction was very much part of our strategy and we would like to keep inventory tight and now with decentralized manufacturing, we are able to be closer to the market, so we need not carry such higher inventory and we would like to maintain tighter control over inventory because that is more in our circle of influence relatively speaking compared to receivables. Now, receivables is something which we always keep a tight watch on and our whole approach has been to make our working capital quite manageable, so you will be happy to know that despite a growth of 27%, we have been able to manage with almost the same working capital, so to that extent it has been a good opportunity for us to manage our working capital and grow, so that is the current situation on working capital.

**Shrimanth Dudhodia:** So, the inventory days would be, the current inventory days that is reported on 37 to 40 days, that is a sustainable rate going forward?

**Ashok Sharma:** Shrimanth, these are seasonal products, so a month of inventory will go up and come down, but clearly this is one area we would like to be more efficient, so that we are able to use that funds for growth and managing our overall working capital.

**Moderator:** Thank you. The next question is from the line of Rajan Shah, an Individual Investor. Please go ahead.

**Rajan Shah:** Ashokji, I had couple of questions, first question is that you mentioned in the conversation at the beginning that the first quarter is going to be challenging but at the same time, you mentioned that over the next three to five years, we are going to see 10% to 15% kind of top line business growth in this industry and Mahindra EPC would be growing at a faster pace than the industry. Now, to sum up can we expect 300 crores of top line for the current year?

**Ashok Sharma:** Rajan Shah, you are a much more experienced and knowledgeable analyst and you know the math much better than me, you have the data points, you please do your calculation and do let me know what it works out to be. I am sorry I cannot give you the exact, as a company policy we do not give specific figures, you are aware of that, that is the only point, otherwise definitely we can share but our policy does not allow us to do that.

**Rajan Shah:** Second question is on the market share, what is the current market share of Mahindra EPC, and over the next five years, what is the level we are targeting in case of market player?

**Ashok Sharma:** As I said Rajan that you are a smart analyst, the same question you are asking in a different way, but I will also try to answer the question in the same way. Currently, our market share, one is the industry data is not so clear because there is no proper body, but we expect around 5% to 7% market share for us based on different estimates and as I had mentioned before that if you are going to grow faster than the industry, clearly your market share will also grow and how fast time will tell, but obviously we would like to grow much faster than the market.

**Rajan Shah:** Third question is on the acquisition, if at all we go ahead with some acquisition, how are we going to finance it, is there any cash on the balance sheet and if yes what is the cash, and secondly, if there is very small cash and if we need funds then are we going in for some preferential allotment or some rights issue or what is the game plan like, how would we be using the funds?

**Ashok Sharma:** Rajan, I think the key issue is finding the right target because from a strategy fit it is very important that if at all we go, we need the right target so once the right target is there which fits into our strategy and adds value to the business and creates more value for the shareholders then the whole discussion starts. Now, once the target is right, the valuation is right as and when, if ever, obviously there are various methods and ways for funding it, and personally I do not see any major challenges in funding it because all options are open to us and our balance sheet is quite strong and there are various options like some which you mentioned. The good thing for us is that being a Mahindra Group company, I think we are backed with a strong parent, so we have good availability of funding, but the bigger issue is, we should have the right partner to meet the overall strategic objective of the company, that is more important for us.

**Moderator:** Thank you. The next question is from the line of Vivek Mavani from VM Asset. Please go ahead.

**Vivek Mavani:** Basically, my question pertains to the growth rate, being a Mahindra company, I mean I am sure the aspiration and the expectation is that the growth rate should be much faster given there is a huge growth potential. I mean in your opening remarks you mentioned that out of the total land area under agriculture and versus how much is under irrigation, so that is the kind of opportunity you have, so what is it that stops us from growing much faster than what we are currently doing or what we have planned to do in five years; what is it which slows the growth rate?

**Ashok Sharma:** Vivek, in this industry what we have experienced that we can grow and definitely the growth is possible much more than what most companies are doing, but we want to grow in a responsible manner and what I mean by the word responsible is we want to grow in line with the States' ability to pay us on time and I have mentioned before also that in this industry it is very important that we manage our growth in line with the States' priority of subsidiary disbursement. We would not like to have a situation where we have too much receivables or working capital to achieve the growth. Even in the past year, we have tried try to manage within the same working capital. Of course, we could have also added some working capital, that's not a problem. It is not about ability to infuse funds, it is more about managing our ROCE, managing our receivables properly, so that we can have a balanced growth. That is one point, but in terms of other areas we have a portfolio which is complete, we have a very strong range of product range, we also

have a good range of drips, we have the latest technology in pressure compensated types of drips, so we are complete there. Our reach is full and as States become more efficient, we will see more and more growth coming from our company. In the past three to four years, we have had challenges from disbursement from some states, so we have taken a conscious call not to grow aggressively in the short-term and face challenges in the long-term. This has been our philosophy.

**Moderator:** Thank you. The last question is from the line of Shrimanth Dudhodia from Unifi Capital. Please go ahead.

**Shrimanth Dudhodia:** I again had a bookkeeping question while you explained about the working capital about the current assets and liabilities. In the non-current asset, I think, there is a section as a row on trade receivables which has seen a sharp jump, so just wanted reason for the sharp jump from about close to 22.7 crores?

**Ashok Sharma:** Shrimanthji, first of all you get the award for asking the maximum questions today, so when you meet me please take that award from me. As far as this jump is concerned in non-current assets, it is largely to do with the effect of our Quarter-4 sales and it is again a timing issue so depending on where you retail in which State it does happen and if you ask me 10 crores swing on an annual basis it is nothing much to worry about, this would happen from quarter to quarter and also our whole approach has been to focus on markets which pays faster on time, and of course, the detailed explanation we will be giving in our annual reports with all the details, for example, there are some impacts of Ind-AS, the way we are doing our provisioning, so there is some impact of that. All those details will come in the annual statement.

**Moderator:** Project contribution was how much in the quarter gone by?

**Ashok Sharma:** We are not focusing more on projects, it is a small percentage for us because we think it would be better if we focus on the farmer segment because payments are surer and there is less delay over there, relatively speaking, so, I would say hardly anything in projects.

**Moderator:** Is it possible to give a broad contribution state wise, how the revenues have been contributed from the key states?

**Ashok Sharma:** Difficult to give the exact numbers, Shrimanth, but if I have to say that markets like South, Maharashtra, and Gujarat and when I say South I would exclude Kerala and even Telangana, so south with other states of Maharashtra and Gujarat would be almost 70% to 75% of the total contribution and that is true for the industry with similar profile there.

Nice meeting and talking to all of you all, it is a pleasure I really appreciate the interest which you have in our company and I look forward to your guidance, suggestion, encouragement, and one more point I would like to just share before we end the call that going forward, we would like to have this call on a six monthly basis because we realize quarter is too short and given the whole cycle of agriculture, I would require your kind understanding that now we will do a call



after Half-1 results and then again we will do for Half-2 results. Of course quarterly results will be shared, but the call we would like to do twice a year, so thank you very much.

**Moderator:**

Thank you, Sir. Ladies and Gentlemen, on behalf of Mahindra EPC Irrigation Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.