



“EPC Industrie Limited  
Q3 FY2019 Results Conference Call”

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**MANAGEMENT: MR. ASHOK SHARMA – MANAGING DIRECTOR – EPC  
INDUSTRIE LIMITED**

**Moderator:** Ladies and gentlemen good day and welcome to EPC Industries Limited Q3 FY2019 results conference call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. In this call, the forward looking statements may be based on certain assumption and expectations of future awareness. Actual performance results for achievements and risk and opportunities may defer from those expressed or implied in such forward-looking statements. The company assumes no responsibility to publicly amend modify or revise any forward-looking statements on the basis of any subsequent development, information or events. I now hand the conference over to Mr. Ashok Sharma, Managing Director. Thank you and over to you Sir!

**Ashok Sharma:** Thank you very much and good evening to all of you and a very warm welcome to the first investor call for EPC Industry. In the past, I have been requested by many of you that we should have a regular investor call after the results. So, I am happy to be here today and share with you the financial performance of our company for Q3.

Before I do that, since it is a first call for us, I will just give a quick background about the company and about Mahindra’s long-term vision and how we believe that EPC is so critical for achieving our long-term vision.

For Mahindra agri business, the prime vision for us is about ‘Delivering *FarmTech* prosperity’. And for us, it is very important that we contribute to the nation’s vision of improving agriculture productivity and offer new technologies and services to help our farmers.

So, with this vision, Mahindra invested in EPC, a Micro Irrigation Company. in which we hold around 54.7% equity. EPC as a company has been known for its high-quality products and in the last few years, the EPC management team has been focusing on increasing the farmers knowledge awareness about micro irrigation and by support through agronomy, we are helping the farmers to adopt this precision farming technology to improve their productivity and help them grow their crops in a more effective manner.

As a strategy, we have been focusing on certain markets and in these markets, we have been putting more efforts, more resources to spread the benefits of micro irrigation and the unique benefits of EPC products. We have close to 200 demonstration plots where we work with farmers to try out new ways of farming, promote new crops, encourage better practices and demonstrate to the farmers, that how by using micro irrigation they can get significant benefits. Well this was a short introduction about the company,

now let me come quickly on the results for the quarter.

You may have had a chance to go through the financial results.

Q3 for us has been the best-ever quarter. As we have seen from the financials, we have a revenue growth of 42.5% and cumulative for the year stands at 43.6%. During the last nine months, we have seen some escalation in the raw material cost, there has been an impact of increase in crude oil price. There has also been an overall increase in demand in sources like China, impacting the overall cost of the raw material HDPE and LLDPE which is the major raw material for us, but it is interesting to note that by managing our product mix by focusing on productivity improvement, and we also commissioned our new facility in Gujarat which has resulted in saving of logistics cost and other such measures, we have maintained our gross contribution at last year's level.

In terms of expenses, there is slight increase in the percentage points for expenses. This is largely due to the selling and distribution cost we have to incur in certain markets and as part of our strategy, we are focusing on southern markets which has led in to a higher sales and distribution cost. And that you can see from the results as far as the PBT is concerned, we have had a growth of 36% on the quarter and of course compared to last year the growth is much higher but we must keep in mind that last year we had a very muted Q2 due to the GST transition, which actually went on up to almost October of last year.

In terms of working capital, we are in line with our expectations and we are quite happy with this performance because our strategy of offering service to the farmers in terms of agronomy and product support and focusing on quality is helping us to get better farmer acceptance Also, with cost control measures, which we check on every month with respect to targets for improvement, we are seeing efficiencies coming in.

I do not have too much to speak at this point of time. I will be happy to answer a few questions and give some suggestions. I look forward to that.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

**Viraj Kacharia:** Congratulations on a good set of numbers. I just have a couple of questions from my side. First is if you look at this particular quarter in specific, we are doing an average quarterly run rate of around Rs.75 Crores now. So just wanted to understand where are we seeing growth coming for us, i.e. which markets are driving this growth. So, if you can just provide some color on that. That would be very helpful?

**Ashok Sharma:** Thanks Viraj, I appreciate your compliments and your questions. If you look at the last nine months to a year for the industry, different states have different DNAs. We all know that micro irrigation business is driven by the state governments and the way they focus on subsidiary disbursement and the efficiency of disbursement decides the growth of the state. In the last 12 months what we have seen is that markets which were traditionally very active and big contributors to the industry have slowed down a bit. Markets like Maharashtra, Gujarat have shrunk in the last year and markets like Andhra which were already very active, have continued to remain active and are growing well. One market which we have seen growing faster than normal is Tamil Nadu and now we are also seeing some more interest in markets like Telangana. I would say Andhra and Tamil Nadu have shown much higher growth compared to the past years and clearly companies like us and even the industry is skewed towards these markets.

Having said that, another interesting development which we are seeing, is that markets which were traditionally not open to micro irrigation are showing a lot of interest and we have a lot of activity happening in markets like Orissa, West Bengal, Jharkhand, Bihar and UP which should be quite interesting. Karnataka which was a good market till mid FY2018, faces some difficulty in FY2019 because of some internal challenges. So as a result, if you see on an overall basis in this year, we expect that the industry would have anything between 5% to 8% growth over last year, assuming that there are no major disturbances in March because of the election code of conduct. Hope that answers your question Viraj.

**Viraj Kacharia:** Yes, so I am just trying to just drill a bit further into that. In last year, we have this absence of sales in Maharashtra and even to an extent in Madhya Pradesh. Now these markets traditionally, both for the industry and for us, have been quite significant in terms of revenue share in the past. Now since we have started those markets, one would have assumed that irrespective of the industry environment, we would have seen significantly higher growth rate both for us at the corporate level and in those markets. So, just trying to kind of understand how our performance in those two markets has been and in times of when we were kind of temporarily away from the market because of the whole case, how we have gone about ensuring the dealer profitability and visibility of the brand in a market.

**Ashok Sharma:** Maharashtra of course has been a big market and in good years, Maharashtra has been around 700, 800 Crores per year, but MP is not such a big market. MP is a growing market and a much smaller market. And for us, clearly in Maharashtra since our base was less in the previous year, we have grown well but the absolute numbers are still on the lower side compared to what we would expect from Maharashtra. As far as MP is concerned, we have grown more than 25% this year in MP and that is very much in line with our plan for the year.

But, I would just emphasize for us and the industry South other than Karnataka has seen more growth in this period, That does not mean other states will not pickup in the future, it is just a matter of timing and priorities. For example, different states have different priorities at different point of time. So, I guess in the coming future that states like Maharashtra, Gujarat, will get more active.

**Viraj Kacharia:** Was there any project sales which drove this revenue growth for us or was it more of a retail driven growth for us? I am just trying to understand the sustainability of the kind of growth we have seen here?

**Ashok Sharma:** Viraj you are in touch with us, you know it very well. Our focus has largely been in retail sales and working with farmers, leveraging our strength of Mahindra brand and our huge network of Samriddhi centers. As you know these centres work with farmers and offer advisory services, soil testing etc. Recently, we have also started evaluating options on projects, but largely we are retail and farmer-oriented

**Moderator:** Thank you. The next question is from the line of Prem Raheja from Mukund Capital. Please go ahead.

**Prem Raheja:** Congratulations on a good set of numbers. I actually had two questions. This is the first conference call by EPC. Could you just throw some color on the size of the opportunity for the micro irrigation market that EPC is involved in at this point of time?

**Ashok Sharma:** And the second question.

**Prem Raheja:** Second question is that you have two subsidiaries one is the TOP greenhouse and I think that there is something to do solar panel ceiling as well. So, can you throw some color on that as well please?

**Ashok Sharma:** Thanks Prem, thanks for coming on the call. And I like your approach, I will throw in some color, you are a bit away from me for some color. If you look at micro irrigation industry, now in India we have roughly 70 million hectare available for arable use, out of that around 10% to 12% followed with micro irrigation, it varies from state-to-state. So southern states like Karnataka, Andhra, have much higher penetration. Now if you see the industry, there is no published or very accurate data available, but based on estimates, and our market diligence, we estimate industry's size to be around Rs.5000 Crores. And hence overall five companies, let us say top five companies would be contributing to roughly 45% to 50% of industry's sales and then you have maybe the balance of the companies. It is an industry which has got many players, but the top four, five players contribute to half the industry.

If you look at the situation today in India and the world I think the whole challenge the world is facing is the challenge of water and climate change and water scarcity. Now there is a lot of pressure on agriculture and as a result in many countries including ours more and more people are understanding the importance of water management. Water management not only in terms of saving water which of course is an evident benefit of micro irrigation, but also the way micro irrigation treats the plant and gives the right kind of water at the right time, helps the plant to get best result from the soil and to provide maximum yield. So, if you look at the need for micro irrigation, I think now our country in the last 15, 20 years has come a long way in terms of understanding the importance, the governments are trying their best and there are various schemes which the governments are doing. And if you look at the potential with 90% of the arable land still not having micro irrigation and state government giving subsidy from 50% to 80%, it is very affordable for the farmers to go for this technology and companies like ours are helping the farmers not only by giving the product because that can be a big challenge if only the product is given, but by giving the whole know-how in terms of how to use the product, in terms of agronomy, in terms of continuous support and this helping the farmer. This is a facet of entire industry-, many companies are doing that and that is a very positive thing about this industry. So if you ask me in the next two to five years, clearly I can see on a sustainable basis, a double digit growth for the industry, maybe 10% to 12% in the next five years, but having said this, since many of you would have been having similar interest: This industry has a very peculiar characteristic that is largely impacted by the policies of the state government which also have an impact due to various factors. For example now we are sitting in January, and with central elections planned somewhere in May from March end or early April, we might have the election code of conduct and so for two, two and a half months there will be a lull in the industry because whole machinery will be involved in other activities and they would not be processing the work orders for the farmers. Then we also had Maharashtra and Andhra going for state election this year which also affected the business. So, we will have this state-to-state, quarter-to-quarter ups and downs. Thus, some years will be better than others and some quarters will be better than others; it is very difficult to predict very accurately that quarter-on-quarter, how the industry will grow because of these factors. And just to wrap up this conversation in terms of water, we have seen that the overall availability of water in terms of monsoon and in terms of the spread of the monsoon has become very erratic and sometimes we are seeing plentiful water in some months which is also not suitable for some crops. We expect that the farmers are also now understanding the need for effective water management and this year if I have to be very specific in the last three, four years, the post monsoon rain fall has been the lowest in the last five years and almost down by 45% to 50%. So clearly, it puts a lot of pressure on the agriculture systems, but from a micro irrigation point of view it creates a much higher level of sensitivity in the farmers and the government to promote this concept and that is what I mentioned in the first call to Viraj that many new state governments are offering lot of interests and clearly micro irrigation can help the farmers. I'm not talking about one-off help like loan waivers etc., which are not the solution to

the problem but more of dealing with the symptom, but technologies like micro irrigation, hybrid seeds, good package of practices, access to markets, augmenting farmer's ability to manage the post harvest losses and creating a free market are the long-term solution. And the government is moving towards that. So, I am bullish in terms of micro irrigation industry from that perspective.

**Prem Raheja:** Sir just lastly on the Greenhouse business and...?

**Ashok Sharma:** I have a question over here. You asked about Greenhouse and also solar module cleaning, I will talk about that.

**Prem Raheja:** Okay.

**Ashok Sharma:** One of the big strengths of EPC is our connect with farmers. We are right there in the farm, we are focusing on the retail segment, we attract the farmers and what we have realized over the years is that because of climate change there are huge challenges farmers face and very simple technology which is not very costly in terms of product, if used well, can improve the productivity and more importantly protect the farmer from the risk of weather to a significant extent. So, with that vision we have studied this whole space of green house and we realized that we need to offer solutions which are state-of-the-art and high technology which can be applicable to small to large farmers and hopefully the large segment of institutions which are looking for very specialized solutions with high-level computerized automation and a high degree of precision. And to that purpose, we identified Top Greenhouse, which is an Israeli company with more than 20 years of experience in Greenhouse and they have vast range of products right from those meant for small farms to very sophisticated applications. They have specialized products for nurseries and for aeroponics and different kinds of applications. So we see this business or the industry is currently around Rs.1000 Crores of Greenhouse, of which around Rs.700 Crores I would say is farmer driven and around Rs.300 Crores would be institutional business. This industry also is driven by subsidy, but the subsidy mechanism is controlled through central government so it has a different dynamic and we think that in the next five to seven years there will be a next wave where farmers, at least the larger farmers, bigger farmers, will move towards this technology. Another trend which we are seeing is the demand from modern retail and from consumers for high-quality differentiated produce across the year. This is also a good opportunity for us to provide these Greenhouse technologies for farmers of these differentiated produce. So, it is a first step; we have started this journey. Of course, it will take us time to build the capability and the scale and with this JV we are derisking our sales for technology risks and we see there will be good potential.

Coming to solar cleaning panels, given the fact that we are already into Solar management, our own group company, Mahindra Susten requested us for some solution. So, we are working with them to find solutions for solar companies to manage their cleaning needs because it is very

difficult for to deploy manpower in remote locations which makes the cost of cleaning prohibitive. But that is not our core business, our core business is farmer and micro irrigation and farm productivity and farm cultivation. My friend tells me that only 10 minutes remain, so, lets take up the next question.

**Moderator:** Sure, thank you. The next question is from the line of Srimath Dedhia from Unifi Capital. Please go ahead.

**Srimath Dedhia:** Congratulations on good set of number. I look forward to company doing conference call post every quarter going forward. I have three questions. Firstly, on the working capital cycle, is it different from what was reported in the first half balance sheet or it has been the same, that is the first question. Second question is on capacity utilization at your Nashik and Vadodara plant and what are the plans for expansion? and third is if you could quantify the contribution from the projects' revenue in the current quarter sales?

**Ashok Sharma:** Thanks a lot, and thank you very much for your wishes and good blessing for the company's future. So, let me first talk about our whole strategy on manufacturing. What we realize is that as we are going as a company it is very important that we go closer to the market and closer to the farmers to reduce our logistics cost and make our supply chain more efficient, with that in mind we started the first facility in Vadodara and I am happy to tell you that with the opening of this facility we have gained at least 2% to 3% saving for those products manufactured over there and we are also now opening a plant in Coimbatore where we want to meet the needs of this growing market of Tamil Nadu.

Now in terms of capacity utilizations as you know this business is a quite seasonal business and Q2 is kind of a bit dull quarter and Q4 is at its peak. So depending on the quarter, we have to manage but if I look at the overall utilization of the plant, we would be utilizing around 70% to 75% of the total capacity. For six months our plants work three shifts at 100% capacity and we use good methods like TPM which ensures that our plants and machines have minimum breakdown. Our plant is very focused keeping the uptime very high and you will be happy to know that by using some very innovative manufacturing technologies, we are able to produce machines at much lower cost and offer the products with minimum capex.

Now coming to working capital, yes working capital is one of the very big challenge in this industry and this is something which we as a company have always been very mindful of and actually we have in the past also taken the decision to trade off growth with the working capital, because we realize that to be sustainable, we need to have a right balance between both things.

Having said that, in terms of debtors in absolute terms we have kind of reduced in this quarter, the number of days would be similar and the good news is that by and large what targets we have



set for ourselves for this year for working capital, we are in line with them and we believe we are amongst the better companies in terms of working capital management in the industry.

We can take one more question Ramesh?

**Srimath Dedhia:** And I was looking also the contribution from the projects in the current quarter?

**Ashok Sharma:** Sorry for that Srimath, our contribution is very less, it is less than 10% and as I mentioned in the first call to Viraj this is not our focus, but yes we are building capability step-by-step as we go, we see the risk in projects of very delayed payment and the margins are very tight so we do not want to rush into it and have problems in the time to come.

**Srimath Dedhia:** And what is the target working capital cycle towards the end of the year that you said you are in line to achieving that target?

**Ashok Sharma:** See this varies from quarter-to-quarter and market-to-market. We have our own internal ideas in terms of what kind of ROC we are targeting and depending on the market we have to also take the right trade off as I mentioned between revenue and working capital. So, we would not like to declare a specific number because it is all depending on various factors. For example, let us say now we are getting into this whole election year. For three months, you know there is not going to be any payment; or less payment let me put that way. So now we need to plan it differently, be a little bit dynamic on that front . I do not want to give you a number and then say that it will happen, as it varies quarter-to-quarter, but what I can tell you is that definitely we are one of the better performers compared to the industry.

**Srimath Dedhia:** Thank you and all the best.

**Ashok Sharma:** Can we take one more last question?

**Moderator:** Sure Sir. The next question is from the line of Rahul Mehta an Individual Investor. Please go ahead.

**Rahul Mehta:** Mr. Sharma, first of all thank you for holding the con call and congratulations on a very good set of quarterly numbers. I have a couple of questions. The first question is regarding the size of the industry in your earlier conversation with Prem Raheja you mentioned that it is Rs.5000 Crores going at about 7%, 8% and after that you said that 90% of the land in India is non-irrigated, not micro irrigated, so does that means that the produce size of the opportunity is Rs.45000 Crores. Am I right?

**Ashok Sharma:** Is that the question, that 45000 is what is the project size?

- Rahul Mehta:** No, Sir what I am saying is that the total size of the industry currently is Rs.5000 Crores?
- Ashok Sharma:** Potentially.
- Rahul Mehta:** Right, and the total you mentioned in the talk earlier that 90% of the land in India is still not irrigated?
- Ashok Sharma:** I got it, is there any other question?
- Rahul Mehta:** No that is fine.
- Ashok Sharma:** Rahul Ji thank you very much for coming on the call and you are an individual investor, so I am sure you have been with the company for a long time. See if you look at the potential, it is 69 million, 70 million hectares. If you look at countries which are developed and highly modernized in agriculture, they would have penetration of micro irrigation ranging from 55%, 60% to around 85%, I think India will take long time to reach that level. So theoretically you are right, from a potential standpoint one can argue that, that is the kind of potential which you talked about, say Rs.45000 Crores. But as I mentioned before, given the readiness of farmers, given the ability of the state governments to manage so much subsidy effectively, given the ability of companies to successfully install and give solutions to the farmers,, we expect that 10% to 12% CAGR for the next five years is a reasonable CAGR. Now you can do your math 10% to 12% maybe this 10% penetration might go up to 20%, 22% and that is a journey. So, from a long-term standpoint next 10, 15, 20 years, clearly I am convinced that this percentage will move significantly upwards, but I also mentioned that there will be some quarters which will just not meet the long-term plan but over the long-term it will move towards higher penetration for sure.
- So, with this I would like to thank each one of you. I am told there were many of you on the call and I am so happy that you all could make it in spite of our short notice.- That just shows your passion for the farmers and interest in our company. So, I request you to please continue that and all of us are here to see what best we can do for our farmers and for our shareholders. So, I would like to thank each one of you and wish you a nice evening and all the best for the future.
- Moderator:** Thank you very much Sir. Ladies and gentlemen, on behalf of EPC industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.