

Date: 9th May, 2023

To,
The General Manager,
National Stock Exchange of India
Limited

Exchange Plaza, C-I Block G,
Bandra Kurla Complex, Bandra (East),
Mumbai 400051.

NSE Symbol: MAHEPC

To,
The General Manager,
Bombay Stock Exchange Limited,

Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai- 400 001.

BSE Scrip Code: 523754

Subject: Submission under Regulation 30 and 46 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 read along with SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021. - Transcript of Investor Call.

Dear Sir/ Madam,

With reference to our letter dated 21st April, 2023 and pursuant to Regulation 30 and 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read along with SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021, please find enclosed the transcript of the Investor call held with the Investors/Analysts/ Several Funds on 2nd May, 2023 to discuss the performance of the Company for the fourth quarter and year ended 31st March, 2023.

You are requested to take the above information on record.

Thanking You.

Yours faithfully,
For **Mahindra EPC Irrigation Limited**



Ratnakar Nawghare
Company Secretary and Compliance Officer



“Mahindra EPC Irrigation Limited Investor Conference
Call”

May 02, 2023



MANAGEMENT: MR. ASHOK SHARMA – MANAGING DIRECTOR

Moderator: Ladies and gentlemen, good day, and welcome to Mahindra EPC Irrigation Limited Investor Conference Call for the annual financial results of the company.

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.

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. Thanks a lot. Good evening, ladies and gentlemen, and a very, very warm welcome to all of you for the ninth investor call for I for Mahindra EPC Irrigation Limited. On behalf of Mahindra EPC, I would like to thank each one of you for joining this call.

Today, I will be sharing with you the key developments in the Agri environment, micro-irrigation industry, and in details specific performance of your company and the industry outlook for the year.

Let me just once again recap on the water crisis, which our country and the planet is facing and the role of micro-irrigation and its impact . You are all aware that India's population is now more than China's population. Now what does it mean for water? It means a lot.

To feed so many people, the increasing population, and to ensure that water availability is there, it becomes very important for our country to improve the water usage efficiency. And all of you know that almost 90% of the water is used in agriculture. So, again, this makes a very strong case for faster adoption of micro-irrigation across the country as we go forward.

Today, around 13% to 14% of the land which needs to be irrigated is covered through micro-irrigation. That means there is still a potential of almost 85% to 87% available for micro-irrigation. So, one is, of course, saving water. Another is increase in productivity. Both are actually beneficial to the farmers using this technology.

And over the last few decades, there has been adoption of micro-irrigation across the country, especially in few States like Gujarat, Maharashtra, Andhra Pradesh, and in recent times Tamil Nadu. These states have been the pioneers in accepting this technology, and now we are seeing a trend where other states like UP, Rajasthan are slowly getting into micro-irrigation. And as the States like Rajasthan, UP adopt this technology, clearly, there is a possible big opportunity for this industry.

Coming to Mahindra EPC, again, most of you are aware that we are the pioneers of micro-irrigation India since 1986. And for us helping the farmers through sustainable precision farming solutions is the space in which micro-irrigation operates for us, and clearly we see this business very much aligned with our philosophy of *Rise*, a philosophy of working towards driving positive change in the lives of the communities where we operate. And our philosophy of doing

business is only if you are able to enable others to **Rise** will we **Rise**, and that's the reason why Mahindra feels that being in the micro-irrigation space is a contribution to the farmers, contribution to the planet, and truly a sustainable business for us.

We do understand that the adoption of micro-irrigation has its challenges. It is slower than what you like it to be, but we are committed to the long-term opportunity of this business, long-term potential of this business in terms of impacting the planet Earth, farmers, and our own sustainability. And towards this, over the years, we have been focusing on lot of activities for educating farmers, giving them good advisory, supporting them with good quality products and service so that they are able to benefit the most from this technology.

And our focus has always been on customer satisfaction, and all our research reveals that we are amongst the best in terms of customer satisfaction in this industry. And this is something which we would like to continue because with this, we are able to fulfill our vision of delivering farmer prosperity and contributing to the nation's priority of doubling the farmer's income.

In the previous calls, those of you who have been there, I have been talking about our strategy. And there are four or five key elements of our strategy. One is focus. Focusing on key markets, key markets where we believe the payment cycles are better, the subsidy situation is better than other locations, and they are profitable markets.

Focusing on higher margin products like drip over the years has helped our company to keep up to the margins. Further, focusing on managing our working capital which we think becomes very important in the industry given the high dependence on states for distributing the subsidy.

The last three years, we have focused a lot on reducing cost, and that is really helping us now when the raw material costs have gone up to maintain the company's performance. And over the last three years especially, after COVID started, we have been focusing on non-subsidy businesses, and from almost 1% contribution in F20, last year we had significant business coming from non-subsidy. So, we are trying to move away from the subsidy business gradually so that business becomes more predictable, and cash flows are more even.

Let us now talk about the micro-irrigation industry, and after that I will talk about our financial results. If you look at the last two or three years, they have been kind of not very exciting for the industry. There have been challenges in terms of industry downtrend. There have been raw material cost increases.

As a result, the industry has gone through pressures on margins, and the price increase is controlled by the state governments. There are also some delay by the state governments in announcing the price increase.

So, as a result, up to H1 of FY'23, the trend was not very encouraging, but I am happy to inform you that from H2 FY'23, things have changed, and things are changing for the better. One of the

major change which has happened which I have mentioned in our previous call in the month of October is the increase in price by the state governments.

So, as expected, all the major state governments have increased their price. Of course, not in line with the raw material cost increase, but nevertheless, there has been increase of between 7% to 10% depending on the state and product mix. So, that has been a positive.

Also the raw material prices have stabilized and slightly softened in H2. So, that also has helped the industry in terms of procuring at lower cost. While the crude prices come down in the last few months compared to the first part of the year, but still the crude oil prices are still higher than the prices which we have seen in FY'20 and FY'21 when we had peak performance in the industry.

Another positive has been the revival of Andhra Pradesh. I mentioned in the call last time that we expect in H2 the revival of the industry largely on the back of Andhra Pradesh, and they would be driving the industry, and that's what really happened. So, the industry has done well largely because of AP getting active.

Another positive is that AP has been holding on to subsidy payments for many years. So, in the last financial year, they have cleared all pending dues of the industry, which has also given the industry confidence to focus more on the AP market.

There are other programs like the Atal Bhujal Yojana where there is incentive for certain districts to go for micro-irrigation where the groundwater is lesser, and they get higher subsidy, and that is also driving business especially in areas like Gujarat.

Tamil Nadu, our expectation was, it should grow at a faster pace. That didn't happen in H2. It was a bit slower than expected. While we were expecting Karnataka to get operational, but we didn't see any substantial movement in Karnataka, which used to be a good market a few quarters ago.

So, with this background, I will talk about the performance of Mahindra EPC in FY'23. So, let me start with an overall annual perspective and quickly on the half yearly and the quarterly results. Quarter results you have seen. So, I will just give the context in terms of how the year has been for us.

So, when we started FY'23, we were quite clear that what are the challenges and opportunities ahead of us in FY'23, and based on that we focus on certain markets. We focus a lot on cash collection and showing the cash flow of the company and cost. And as a result of this, we could see the increase in market share in our focused markets where we wanted to grow further, and also, we could have healthy cash flows during the year.

If you look at the overall growth of the industry, we expected the year to end at a positive of around 5% to 7%. But as per the current data available, it seems that the industry would be almost same as last year or maybe 1% or 2% plus or minus. Still the data is coming in. As you

know, there is no single reliable source of data in this industry, but our estimates reveals that the industry would have been same as FY'22 or a marginal growth over FY'22.

As far as Mahindra EPC is concerned, our continued focus on improving non-subsidy business, cost optimization, and focusing on product mix has paid dividends. As a result, we could see some improvement in our margins during H2. Certain calls were taken to discontinue or not sell certain non-profitable products to ensure that our margins are protected.

Moving ahead, I will just talk about the commitment to sustainability. For us at Mahindra EPC, focusing on our social responsibility, ensuring that we are able to contribute to water conservation, ensuring education and upliftment of farmers in terms of using this technology, and continuously working towards helping the farmers to improve their farm productivity, has continued.

An internal process assessment we have in our Group is called 'The Mahindra Way', which is an internal assessment done across Group companies to check and validate the processes, the robustness of processes followed in the organization, and I am happy to say that Mahindra EPC was assessed, and it was given a 'Stage 5' rating, which is considered to be amongst the better ratings on a scale of 8, and this just shows that the company's processes are in place.

We also have a system of measuring customer satisfaction by having a metric called 'Customer as Promoter Score', and this year we ended the year with a score of 70 plus, which is amongst the higher end in the industry in terms of customer satisfaction.

So, if you look at the overall, in terms of cost efficiency, focus markets, product mix, sustainability, farmer, quality, customer satisfaction, processes, we have seen some good improvements. Yes, where we have missed is the revenue and the bottom line, and the reason for the same have been discussed earlier.

Now let me give you specific numbers around that, and for that I would like to contrast H1 from H2 of FY'23 which we believe is the new normal, and we expect the industry to grow now on similar guidelines as H2 of FY'23..

Typically, the H2 is always a better half in terms of the volume and the revenue compared to H1, and 30% to 40% higher business we have usually seen in H2 compared to H1, but this year because of the abnormal situation in H1, and the favorable situation in H2, our growth in H2 was 86% over H1 of FY'23 and 16% over H2 of the corresponding period in FY'22. 86% growth over H1 is pretty heartening for us because that shows that the industry is now coming back to its growth trajectory.

In terms of profit compared to H1 of FY'23, we saw percentage contribution going up by almost 7% largely because of cost savings, product mix, and also we saw our variable margins improving, which has led to a profit after tax of 2 crores for H2 FY'23, and as a result of

efficiency improvement, we could also have positive cash flow for this period, , and this has been held by the price increases in various states and stabilizing of raw material costs.

Now coming to Q4 of FY'23, the numbers in front of you, we have grown by 6.7% over the previous year in terms of revenue growth, and largely, it has been due to revival of Andhra Pradesh and our continued increase in the project's business.

Project business, for those of you who are following us, remember that this is one area we have been trying to develop, and just to give you numbers, in FY'22, we started seeing some numbers on projects. In F23 we could build on the same and registered a substantial business in projects. And now that we are class A contractors, we see a good opportunity in this segment going forward.

In terms of the profit versus Q4 of FY'22, in Q4 FY'23, we saw a 5.3% reduction in raw material prices resulting in material cost reduction of around 3%, and also we had certain price increase benefits. So, as a result, our margins were, as you can see, much better than the previous year, and our PAT increased to 2.74 Cr versus 0.14 Cr in Q4 FY'22.

Moving ahead, so for the full year FY'23, if you look at the numbers in front of you, our top line has been a kind of flat, and in terms of profit, our loss stands at 12.31 crores versus 7.91 crores PY. This is despite a very high raw material cost increase in H1 and hardly any price increase realization in H1 FY'23. Because of H2 recovery, internal efficiencies, product mix, and price increase, we could contain this, and Q4 was a quarter where we could see the effect of the various favorable parameters playing out for us.

There has been some reduction in debtors, and the free cash flow also has improved. Thanks to the payment made by Andhra Pradesh government and few other state Governments.

So, friends, that was FY'23. I will just take another three-four minutes max to talk about FY'24, and then I will be very happy to answer your questions or suggestions, as the case may be.

So, let's now look at how we see FY'24, and this is based on our feedback with other industry players. Clearly, last three years since COVID, this industry went through a lot of turmoil. One on cost, second on funding, government priority changed, prices came under pressure, but now things are changing. Clearly, we are seeing FY'24 on a much more favorable and a positive note for the industry compared to the last two, three years.

So, one of the biggest positive which we see for FY'24 is smooth operations of Andhra Pradesh and Tamil Nadu. As I mentioned many times, the four states: Andhra Pradesh, Tamil Nadu, Gujarat, and Maharashtra, they contribute more than 50% in a normal year to the industry. So, these two states which were muted now they are getting back and Maharashtra, Gujarat continue to perform consistently. So, we are quite happy that this time, all these four states are likely to perform as per the normal potential.

And let me remind you that the FY'23 industry we estimate is around FY'22 levels. In good periods, before COVID, we had touched almost 5,000 crores industry. So, from 5,000 crores, we came down, and now we believe that we again move the trajectory up towards to previous highs for the industry.

Market like Telangana, which has not been very active has become active, and then we have States like Chhattisgarh, Rajasthan, UP, who, though slowly, are showing indication of increasing their micro-irrigation business, these states will offer a lot of opportunities for the industry in the years to come. And they are large states. So, as they get into this business, there is enough acreage to be covered in these states.

Now looking at the risks going ahead, what are the risks we see? One is clearly markets like Karnataka, which are expected to start, currently they are stagnant. So, that's one concern we see. Also, some state elections are due. They tend to create some disturbance in the business. So, that is another risk we see.

Raw material cost, at least for the next three to six months, we don't see any major disruption, but we don't see major softening either.

Another area which we need to see is the monsoon. Now there is a lot of talk about the likelihood of El Nino, and if you look at the last so many years, it's not true that always when the forecast is made, it happens. So, the probability of happening also one has to see, and if it happens, there is a chance that in the second half of the monsoon phase, there could be lesser rains, which in a way may be good for the micro-irrigation industry in the short term, but also it dampens the spirits of the farmers in terms of income. So, in the short term, it may reel some immediate demand, but in the long term, definitely it will affect farmers' income, which is not good for the industry.

So, in terms of the industry growth rate, now that's the question which always we are asked. So, we just pre-empted a bit. Now looking at states like Andhra, Tamil Nadu getting back, Telangana also improving, and the newer states likely to support. We estimate that the industry can grow in the range from 7% to 13%.

The factors being how fast Tamil Nadu ramps up, how well Andhra also scales up, and the other two main drivers for this growth, Gujarat and Maharashtra continue. We expect Gujarat to be more active this year because they were little slowed down last year compared to the previous track record, and they have now given enough indications to believe that they are going to grow in this year.

So, with this situation, today, when I speak to you, I am more optimistic than before, the last few quarters for sure, in terms of the industry opportunity, stability in price and raw material. And our company has always, focused on quality, farmer satisfaction, which actually is helping us year-on-year.

I also hasten to add the last year in FY'23, we did not increase overall market share. Market share was flat, and one of the key reasons for that is we decided to go a bit slow in Tamil Nadu where we wanted to ensure that our pending receivables and our pending payments are received, and because of potential high growth, we wanted to ensure that our procedures and processes are stabilized.

So, with this, I would like to end my opening address. I would like to once again thank you for joining this call, for your patient listening, and I will be very happy to share my views on your questions. So, over to you, Lizzan, for taking it ahead. Thank you everyone.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Aditya Shah from Vikram Advisory Services. Please go ahead.

Aditya Shah: Congratulations, sir, on achieving a similar turnover as last year and improvement over the H1 on most parameters. I have three or four questions. So, I will join all of them. So, the first question is the other cost for the full year have increased by 14 crores, which is apart from the material and employee cost. So, where has it increased? That is the first question.

The second question is when I have observed that, you know, when our material cost remains between 52% and 54%, our operating margins would generally be in the range of 8% to 10%. But this quarter we have an operating margin of 4%. So, what has led to that reduction?

My third question is that, you know, the trade receivables have been good in terms of collection. It reduced from 175 to 127. That is amazing. What is the provisions that we carry on those 127 crores which is remaining? And were there any write-offs that we did during the year and this particular quarter?

My fourth question is regarding what percentage of non-subsidy business do we hold today? And what are the margins and payment terms in project businesses? And where do we do that project business?

And my last question is any update on diversification into agri pipes and other products to boost our non-subsidy business?

Ashok Sharma: You said three, four questions. You could give me six questions. Thanks for that. And you are a regular one of the calls. So, you know the whole history.

So, let me start with the first question. See the other cost, frankly, you know, what is happening is, as our project business is increasing, variable expenses on the project get booked in other expenses, which are called site expenses. So, out of these 14 odd crores, almost 50% I think would be on the project cost expenses, which are coming there. So, that is one.

Second is also in this year, FY'23, given, what happened in '21-'22, because of COVID, a lot of our payments were getting delayed in two states because of various reasons. You know, people

were not there, staff was changing, there were procedural changes at government nodal agency level.

So, in FY'23, we realized that there is a delay in payments in certain markets, certain districts. So, we have taken a very conservative call, in terms of providing for more than normal. So, typically, we would provide around 1% to 1.5% of our revenue for provisions for doubtful debt, but this year we have provided over 3.5% , which you will see in the annual report in the details.

So, that's one another reason which has increased our costs, of course, efforts are on for this provision, it's not written off. I am sure there will be recovery over time. But as you know, our policies on provisions are very conservative, and we don't like to carry any such risk in this area.

And if you look at other areas where, you know, our expenses have gone up, I would say, they are the smaller ones on routine activities, but we have also done some savings on freight and other areas.

So, these are, I would say, the two big blocks to be honest. And that also, Aditya, has impacted our operating margin to an extent, I mean if you were to conclude, these are not normal expenses. Of course, project would be normal, but these provisions are not normal.

Aditya Shah:

So, if we do 52% to 54% operating as in material cost during this whole year, our operating margins will come back to 8% to 10% normal, right? Is it safe to assume that?

Ashok Sharma:

Aditya, you people are analysts. You guys know it better than me. So, you can do your math better than me. So, whatever the number comes come, but yes, you are right. Directionally will move there, and what has to be noted in quarter four is the reduction in material cost and the enhancement in the gross margins.

Now coming to non-subsidy, I think, I mentioned in my speech also that this has been an important area for us that non-subsidy will be our focus. So, around 20% is the right answer of our overall revenues came from non-subsidy, and we have grown by almost 17% over the previous year, projects are part of it. Hopefully, what is quite interesting is from 1% of non-subsidy in FY'20, we moved to 10% in FY'21, then 17% in FY'22, and 20% in FY'23.

Projects is a little bit twin edged sword, in the sense, in the past, we have not been very aggressive on large projects because we used to feel that large projects would also mean large money is getting stuck with the state governments which could have uncertainty in terms of payments. So, we have been very conscious of taking small to medium-sized projects where the payment path is very clear, and that actually has worked well for us.

So, in areas like Karnataka, Kerala, these are the some states where we have taken very specific projects, and we choose the projects where we think margins are good and payments are protected, and margins, though they are not in line with our margins which we get in good times in micro-irrigation, they are a bit lower.

But to give you a number, the variable margins would be around 15% to 18%, and for Q4 FY'23, our variable margin for overall business around 25%. That's to give you the context.

Payment is good. We select those markets where the payments is clear and faster. So, that helps us.

Aditya Shah: Sorry to interrupt, sir. None of these project business are private project businesses or it's all government business again.

Ashok Sharma: All government. See, water management irrigation, they are all government driven projects where they want to provide special extension from the main canals into the various areas. So, they do a lot of mini projects. These are all state governments projects.

Aditya Shah: Is there not any scope of contract farming when private players come into contract farming and they require the micro-irrigation product? Is there any scope in that business?

Ashok Sharma: So, there is. There is. So, obviously, whenever there is a contract farming or large farms, we do offer our solution. So, that we take more of a micro-irrigation business, and also our greenhouses we provide there. But when we say projects, we are talking some sizable ticket size and largely by state government.

And your last point, Aditya, is on the extension of pipe business and others. Well, we are studying them, and whenever there is something to share in terms of our firm intention, definitely we will share on the call. We are very transparent as you know. As of now, there is no clear yes or no. We are definitely evaluating them and seeing what is most attractive for us going forward.

Moderator: Thank you. The next question is from the line of Prem Raheja, an individual investor. Please go ahead.

Prem Raheja: Sir, I just had two questions, sir. Sir, that from 19-20 till date, what has been the volume degrowth actually? Because what has happened is that the price increase has taken place, we are not able to basically assess what has been the volume degrowth in the industry? That is the first question.

And sir, in your fair estimate, when do you think that Mahindra EPC will able to post good numbers like 19-20? Another year and a half, two years or what are the trajectories, sir? These are just the two questions I have.

Ashok Sharma: So, let me start with the easier one, which is the second one. You know, Prem, , every half year we share what is happening. Now if you look at the next two years, I had mentioned even in FY'20 and '21 that industry is going to be dull and degrowth will happen.

Now we are expecting clearly industry to move, and I had mentioned before 7% to 13% growth is what we are seeing. So, even if the industry grows at 12%, , if you look at our track record, we maintain at industry growth or a bit more than that, and that's how we have grown in the last

four or five years, six years. So, clearly, you can expect a similar or slightly higher growth than the industry.

If you look at our financials, for quarter four, and as I also mentioned in the opening address, this seems to be now the steady state for some time in terms of price and raw material. These two parameters, which are out of our control, seem to be now stabilizing at these levels. And I also mentioned, Aditya, there have been some additional provisions we made this year. So, that also is a reality.

You can visualize that if we are growing by 12% to 15%, and the margins are where they are, and our fixed cost I think is something which you all must have seen very closely, and that's really a credit to our entire management team. There are certain fixed costs which, we have contained at almost the levels of FY'20 through a lot of restructuring, efficiency improvement, and various things we have done. So, our cost structure also is very tight.

So, now whatever growth we have now, actually will flow through the bottom line. So, I am quite positive the next two, three years, we will possibly see a big change. Last two years what has happened obviously, we were not expecting these kind of bottom-line performance, but clearly, those things seem to be now in the past. So, next two-three years we see a possible big opportunity for growth of the industry and the company.

Now coming to your question of volume growth, so it's a bit difficult to kind of answer straight because, you know, there are different products, different mix we use for drips and sprinklers. But if I were to give you an estimate, v/s a peak in FY'20 The industry has dropped by almost 20 - 30%.

Now if you look at the price increase, so price increase may not happen again soon. Price increase happened now only in the last five, six months. So, the entire drop which has happened in the first two and a half years is volume drop.

So, to that extent you can imagine that almost 20% volume degrowth has happened for sure after even considering the price increase in the last six months. Just as an estimate I am giving you. That's how it looks, and that actually is the opportunity to go forward.

All those states who are inactive in the last two years, now they are getting active, and that's where the real growth is going to come.

Moderator:

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

Sreemant Dudhoria:

I have few questions, sir. Firstly, you know, on the greenhouse JV, I think five years back when we invested around, I think roughly about 1.8 crores in this JV, we had I think high hopes on this JV. So, after five years we want to understand, you know, what has not gone right in this JV? I see that we continually take provisions in this JV, and now we are left with I think this 48

lakhs of investments in the JV. Do we have to take a complete write down of our investment in this JV? That's the first question.

The second question is in the last conference call, you had highlighted about a major part of our receivable is from the Tamil Nadu state government, and if I recall the numbers, it's about I think 70 crores, 75 crores of receivable pending from the Tamil Nadu government. So, out of the current receivables, you know, of about say 128 crores as on March end, how much of that is from the Tamil Nadu government? So, what is the status on that 70 crores, 75 crores of payment expected from the Tamil Nadu government? That's the second question.

The third question is, wanted to understand, you know, while the PVC prices that we see from multiple players in the industries have fallen drastically, that has fallen in say in the December quarter and has also fallen in the March quarter. So, how much of the fall in the PVC prices is now already reflecting in your gross margin numbers that you have reported in the March quarter? And should one expect a further increase in the gross margin in the coming quarters? Because the fall in the PVC crisis from the reported numbers that has been tracked has been substantial. Hence, this question. That's the third question.

The fourth question is, you mentioned in your opening remarks about the two, three initiatives, you know, about the major initiatives being taken to reduce costs drastically in the last three years which is helping you. So, if you could brief about, you know, let's say, the top two, three initiatives that were taken in the last three years? And if you could quantify the permanent savings that have come from these cost reduction initiatives that were taken?

The fifth question is, you know, while the three states as you mentioned Gujarat, Maharashtra and Andhra which have been leading the micro-irrigation penetration, so I was curious to understand, you know, what has been the penetration level in these specific states? Because Gujarat has been the primary in micro-irrigation. So, while we know that all India the micro-irrigation penetration is quite low, but in these say major say four, five states, what is the penetration of the micro-irrigation because that would also help us to understand the kind of opportunity that is left in these states?

A few more on the raw material side, wanted to understand a bit on how many days of raw material we generally keep? So, that would also give us an understanding about your gross margin. And of the 8 crores of provision that you have taken in the last financial year towards setting the output receivables, how much of that was specifically taken in quarter four, if you could quantify that?

And lastly, as you mentioned in your response to Aditya's question that the expenses are a bit higher in the project business. So, how do you get compensated for the higher expenses in the project business? Is the margin significantly higher in the project business and hence, it's okay to have the higher expenses in the project because it is dampening our overall margins in the project business? so these were some of my questions.

Ashok Sharma:

Thank you, Sreemant. It's quite a list. I thought Aditya had done it all, but you are doing one up one over here. So, let me start one by one.

The greenhouse business actually has not gone as per our expectations clearly, and our strategy didn't work for greenhouse. Our strategy for greenhouse, our assumption was that this is a segment where there will be a lot of interest from large farmers to get into this greenhouse, and also there are a lot of private companies who are doing exports and other work.

Actually, this whole segment has not taken off in last four or five years, and one of the key reasons for that is, there used to be, some incentives or subsidy given for the greenhouse by the National Horticulture Board, , and that whole system actually is not functioning effectively. The subsidies are not coming very easily to the farmers , and as a result the new buying is dampened.

And even for large farmers, they are not able to see the financial viability of greenhouses. Further during COVID time, the whole farm economics and the way of thinking of farmers changed, and their ability to justify that large expense is not really clicked.

So, despite a good technology partner from Israel who has been able to give us very good technology at low cost, we have not succeeded. But we still believe that climate change does impact adversely and, there is a need for protected cultivation in our country, which is prevalent in most other countries.

So, now we have developed some low-cost solutions for smaller farmers with, 1 lakh - Rs. 1.5 lakh price to the farmer. We are doing some experiments. We have enough knowledge and learning which we have accrued as a company. But I don't see some big action happening there.

Now the investment amount remaining is around 40 - 45 lakhs, , we will see some marginal impairment or some improvement there, but little sadly I can say it did not work given these realities, but have we given up on it? No. Do we think this industry will grow eventually? Yes. Will it happen in the next two, three years? Perhaps no. So, that's where we are on this.

Now going to the Tamil Nadu. So, the good news on Tamil Nadu is that we have reduced the exposure by 50crores from Tamil Nadu last year, and that actually has really reduced the debt of Tamil Nadu to less than 60 crore. That's a big Improvement, and one of the reasons for our little lesser growth, though same as the industry and not growing very aggressively in Tamil Nadu was this. We wanted to get our payments right, our processes right, and the right kind of provisioning so that there is no problem going forward. So, that's on Tamil Nadu.

PVC price fall is there. It is helping us, but the reality is that hardly 6% to 7% of raw material cost depend on PVC procurement. We are largely dependent on PE procurement. PVC is a small part of our procurements. Doesn't impact much, but yes, to the extent, it has definitely helped us.

Now you talked about cost reduction initiatives. So, it's been quite a few, but to name the big ones, one is our distributed manufacturing strategy which has helped us in terms of reducing our freight cost.

Second is our design. We have done a lot of work on the design of the product and processes in terms of reducing wastage. Even if you save two paisa, five paisa on a product which is sold in millions of meters, it's a lot. That's one other area.

On the organization, manpower cost also, we have restructured organization, changed the role and responsibilities. As a result, we could reduce our manpower cost in absolute terms. That's another big one. So, these are the big ones in terms of cost reduction.

Coming to state-wise penetration, now this data is not very liberally published. So, I can just share some estimates, which are just directional. So, for example, Maharashtra is one of the highest penetration state in India because this state has been at micro-irrigation for the longest. Maharashtra and then AP, they have been at it for longest. Gujarat then came in with a more professional organized way.

If I have to a guess, I think these states should be in the range of 20% to 30%. Tamil Nadu is a lower penetrated state. It has just become active from 2018-19. So, that would be on the lower side.

So, I would say these three states are the big ones in terms of penetration, Gujarat, Maharashtra, Andhra, and in terms of size and future growth, Tamil Nadu is coming up well with lesser penetration. And if you look at states like Rajasthan, which are large states, and as water problem becomes bigger and bigger, the Micro Irrigation technology adoption rates will go up. So, I hope that answers your question partly.

Moving to, yes, let me finish the thing and ask if there is any follow-up question. So, the next one was on inventory. So, is it the number of days you are asking? What was the question you asked the inventory?

Sreemant Dudhoria:

Yes, how many days of raw material inventory do you keep?

Ashok Sharma:

So, it ranges from season-to-season, but it could vary from 15 days to 25 days depending on the seasonality of the business. So, we don't like to carry too much stock because of the price volatility, and we have a tight supply chain. So, that would be the broad range for it.

Now you talked about the 8-crore provisioning. The provisioning for quarter four was around 1.5 crore - 2 crores.

Now coming to project Business, see, while as a process the expense are shown in other expenses, frankly, the raw material cost is lower. So, just to give an idea, around 40% is the material cost, and around 40% is the site expense cost compared to normal business where we

say 55% or 60% is the material cost. So, that's not an issue, but yes, as I mentioned before, the margins are two-thirds of the margins of the regular business.

So, that is the reality. But they are still profitable, and it is additional business. So, it is not taking the profit away from the system, and the payments are also bit faster. So, that actually is the situation on the question which you asked.

Is there any follow-up question you have?

Sreemant Dudhoria: Yes. So, one was on the raw material price, you know, how much of the raw material benefit is already in the quarter four numbers? And what do one expect in H1?

Ashok Sharma: Point is that there is a price increase basis product/ segment/ state mix, which is around 7% to 8% in quarter four compared to the previous quarters, an annualized price increase around 3% to 4%. So, the annualized price increase of 3% to 4% will continue next year.

Sreemant Dudhoria: So, since you mentioned PVC is not a major for your raw material, could you please share, you know, what are your top say three, four raw materials and percentagewise, how much they contribute in your overall raw material say cost?

Ashok Sharma: So, our main raw material is LDPE, LLDPE and HDPE. These would be almost 85% - 90% of our raw material that we procure, and then we have other materials coming in. So, we are more impacted by these polymer prices. So, we look at PE prices, and that's more relevant for us.

Sreemant Dudhoria: And the cost saving initiatives that you mentioned, could you please quantify, you know, in numbers how much of savings that has come because of this, how many crores of savings that is permanent in nature because of these initiatives?

Ashok Sharma: See, if you look at the exact number will be difficult because it happens year-on-year, but if you look at our, this year's financials, annualized state numbers, so this becomes the base. And from here now, and if you look at the last two, three years, our fixed expenses, you can see in the last three years, how they have behaved.

Now, going forward, we don't anticipate that kind of trend in terms of reduction in fixed expenses. So, the benefits of these expenses which we got will be sustained, and there will be some impact of inflation which we have to factor going forward. So, I don't expect now the same kind of velocity of fixed cost reduction in those last three years for the next two years. It will now be kind of stable plus some inflation.

Sreemant Dudhoria: While I was sorry to, you know, I am hopping more on this number, but the reason why I am checking on this is because if I just look at say fixed expenses, and I am majorly looking at the other expenses part, as a percentage of your sales, and if I look at even your last seven, eight years of data, so this number say in say '15 or '16 was roughly around say 22% or 25 % of your overall top line. And even if I look at in the last three, four years, it has been in the range of say

29% to 30%. So, hence, I was trying to understand better, you know, how these cost saving initiatives are helping us in better margins?

Ashok Sharma: Yes. So, it's a mixed, you know, the way we classify our other fixed expenses, other expenses, as a process they get mixed with things like provisioning. They also have things like project expenses. Now projects have increased. A lot of expenses are sitting over there, while there can be in raw material cost. So, it's a bit complex one. Maybe what we could do, Sreemant, is that we could have an offline more detailed discussion with exact numbers because these are too many numbers you are talking about, and we could kind of share with you in a more detailed manner.

Moderator: Thank you. The next question is from the line of Rajen Shah, an individual investor. Please go ahead.

Rajen Shah: I think it's a long time you have been talking almost an hour. So, I have very short and crisp questions. So, this raw material cost in the last quarter is about 50% of sales, approximately 35 crore vis-à-vis sales of 70 crores. So, can we expect this trend to continue for '23-'24 means 50%, raw material cost will be 50% of sales? That is my first question.

Second is, sir, you said that the 2019-20 industry size was 5,000 crore, and now it is dropped. So, basically if you want to get back to the 2019-20 figure of 5,000 crore, the industry has to grow in absolute terms by about 50%. And we are talking about a growth of 13%, 14%. So, am I to understand that it will take three years for us to go back to that 2019-20 level? That was the second question.

Third was, sir, this, how big is this project business market, I mean? And will it increase our debt? And yes, that's it. I just wanted to know how big is this project business, and how big are our plans in this project business.

Ashok Sharma: So, as far as material cost concerned I think Q4 is a good representation because it's a very balanced quarter in terms of our mix. So, I would imagine that this percentage should continue by and large. As I mentioned before also, we don't see a major raw metal cost increase now for the next three to six months. So, if that happens, then 53% should continue. So, that is one around that.

Now you are right. We would not be too aggressive to think that the industry would grow more than 12% - 13%, because we have seen with experience that always some things will happen. There will be some states which will be slow. There will be some elections. There will be some issues. So, beyond that I don't foresee. So, yes, it will take maybe 2 to 3.5 years to reach to that level. So, I would agree with that calculation also.

Coming to project market, project markets are huge. They are huge markets and all kind of projects. So, it's a big market. It's a big segment, and we are new. We are very small. And to that extent, it's a big opportunity for us. But growth in this segment is a priority for us, and we would

like to grow much faster. We are putting in more resources. We are choosing right projects. . So, it's a big opportunity here. I am afraid I cannot use the right number because it varies year-on-year depending on the government's allocation for that year, but it is definitely in the region of 1,000 plus crore. So, that's a big opportunity for us.

Moderator: Sir, we have the last two questions. Should we go ahead with it?

Ashok Sharma: Yes.

Moderator: Thank you. The next question is from the line of Jigar Shroff from Financial Research Technologies. Please go ahead.

Jigar Shroff: Sir, there is two questions. Sir, one is, could you please explain a bit about the nature of this project business? That is one. And second, sir, with the last three years of turmoil in the industry due to COVID, could there be any inorganic opportunities like big players getting beaded out, and so we could capitalize and increase our market share and penetration all over the country, sir? Thank you, sir. That's it.

Ashok Sharma: So, typically, what happens, Jigar, on projects, there are macro irrigation projects which are happening, which are the canals and big dams for water conveyance across the country. Now that is done by the government and the thousands of crores, have gone into that.

But what happens that from the big mega canals and mega dams, they want water to now move into the farms in an efficient way and that is the time they require companies to come and execute project. That is one kind of big segment.

Another segment is, you know, where they want to lift the water, and that's where they engage. There's lift irrigation kind of projects . It's also a big segment.

Jigar Shroff: What is our scope of work, sir? Sorry to interrupt, sir. What is our scope of work in this?

Ashok Sharma: So, we are focusing more on the last mile, that means where we help the macro projects to move towards the farmer the last mile. So, we have expertise there and which are the small to mid-size kind of projects. We don't do too much of lift irrigation projects because, they are having different kind of skill sets, which we are not very strong at. So, we focus on projects which are helping the farmers through improved water use efficiency.

Now coming to inorganic, Jigar, last two, three years, market was so tough and bad. Frankly, even the companies were very careful that how do we ensure our own situation and not get into a situation where we are saddled with challenges of the other companies. That's the trend I could see in the industry. So, that has not happened.

But now as the industry is again looking up and looking at the future, there would be possibilities and opportunities for companies coming together to kind of consolidate and move ahead. So,

that trend might happen now that COVID is over and people are back to their normal way of thinking.

Moderator: Thank you. Ladies and gentleman, that was the last question. I now hand the conference over the Mr. Ashok Sharma for his closing comments.

Ashok Sharma: So, thanks, everyone, and I really appreciate your very straightforward, very clear questions, and a lot of interest in the company. I hope we have been able to answer that to the best of ability. However, if there is something which is unanswered or something which you want more information. Mr. Ratnakar is always available for all investors. Please feel free to contact him, and definitely we are very, very clear that we should give all the information as transparent as possible. I have tried my best today. If something is fully not understood or more questions are there, please feel free to contact Ratnakar. And once again, thank you everyone for your interest in our company, and I wish you all the very best to you and your family. So, thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Mahindra EPC Irrigation Limited, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.