



Praj Industries Limited

Q3 FY17 Earnings Conference Call Transcript

February 13, 2017

Moderator Ladies and gentlemen good day and welcome to the Praj Industries Limited Q3 FY17 Earnings Conference Call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal for an operator by pressing "*" followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Priyanka Watane from Praj Industries. Thank you and over to you ma'am.

Priyanka Watane Good morning everyone. We welcome you to this conference call organized to discuss Praj Industries' operating performance & consolidated unaudited financial results for Q3 & 9M FY 2016-17, which were announced on 10th February. I am happy to share that Mr Pramod Chaudhari, Executive Chairman has consented to be with us for today's call. I also have with me Mr Sachin Raole, CFO & Director - Finance & Commercial; Mr Atul Mulay, President - Bioenergy Business; Mr Dattatraya Nimbolkar, Chief Internal Auditor & Company Secretary and Mr Surendra Khairnar, AVP – Accounts.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Documents relating to the financial performance have been emailed to all of you. These documents, along with a quarterly results presentation, are also posted on our corporate website. I now invite Mr Chaudhari for the opening remarks.

Pramod Chaudhari Good morning ladies and gentlemen. It's a pleasure to connect with all of you again. I would like to touch upon a few points before we get into the quarterly business updates from my colleagues. There are some organizational developments at our end. To strengthen the corporate governance, in addition to his current role as Company Secretary, we have appointed Mr Nimbolkar as Chief Internal Auditor. The board has inducted Mr Raole as Whole Time Director – Finance & Commercial in addition to his current role as CFO. Mr Nabar, former CEO and MD, has parted ways with Praj of his own accord wef 16th Jan, 2017. His tenure was to get completed in near future. With mutual understanding, it was agreed upon not to renew his contract for the next term. Our team of senior leadership will look after the day to day operations efficiently, with management and supervision by Corporate Council, under my overall guidance.

Praj's indigenously developed 2nd generation cellulosic ethanol technology, subject close to my heart, has achieved an important milestone with successful completion and startup of 12 MT per day Integrated "Smart Bio-refinery" Demonstration plant in

Maharashtra. This first of its kind plant is capable of processing multiple feedstocks and is equipped with a zero liquid discharge system. I congratulate the team for completing this significant feat within the stipulated time and budget. With respect to 2nd gen ethanol projects by oil marketing companies, we have indicated our willingness to hold token financial participation to the tune of 3-5% of the project equity capital. This will be incidental only if the project is promoted as a JV. Project structuring model is still under discussion. However, we will continue to offer O&M services, if the customer desires so. We have identified several levers of growth in each business segment. First gen ethanol and modernization & retrofit of existing plants across the globe, continue to remain our core business. Second gen ethanol technology is poised for a take-off and will substantially add to the growth prospects. We have commercialized several new technologies as part of modernization & retrofit business that give our customers operational efficiency from the existing ethanol plants. This initiative has yielded results with contribution of over 10% to the topline and with higher impact on the bottomline.

At Praj HiPurity, the baseline comes from conventional high purity water systems and acceleration is provided by the value added services. Our focus is on stepping up internationalization and expertise in modular process systems. This approach is leading to significant improvement in the exports order book and revenues of Praj HiPurity. In the critical process equipment and systems business, crude oil prices have seen an upward trend in past couple of quarters. Indian capital goods sector is gearing up for business from new investments. The division has won orders from leading oil and gas companies, in India and also overseas. We have identified and are pursuing exciting opportunities with the help of a special task force in various areas like bio-refinery products, chemicals, skids etc. We will share the developments with you in due course of time when they get rolled out. Petrobras related order continues to be part of the order backlog. There is a positive development here. The project has gone for re-tendering and the shortlisted EPC contractors are in discussion with us.

I request Atul to walk you through the quarterly business updates in details and Sachin to comment on the financial performance.

Atul Mulay

Thank you Mr Chaudhari. Good morning ladies and gentlemen. On the backdrop of good monsoons, the recently announced Union Budget 2017 had some major announcements related to the agriculture, infrastructure and energy sectors. The budget is trying to energize the farming and rural community. The sentiment to reverse globalization was evident from BREXIT and victory for Donald Trump in USA. As businesses around the world are reconciling to the new reality, clarity is yet to emerge and long term impact remains to be assessed. A revival in commodity prices such as crude oil & metals has sparked improved prospects for global economic recovery.

At the UN Climate Change conference held in November 2016 in Morocco, a large number of participating nations agreed to fast-track key initiatives of the Paris climate change agreement. A club of 165 countries representing 1/3rd of the global economy have committed to reduce emissions by 80% by 2050, where bio-ethanol is expected to play the pivotal role. All this comes as a refreshing change in the midst of weak recovery in the capital goods sector in India as it comes out of slowdown caused by demonetization. With the forecast of around 7% GDP growth, domestic market remains a key monitorable. Coming to the developments in domestic ethanol segment –

The just concluded sugar year 2015-16 was a cornerstone year for the Indian ethanol blending program. India achieved 4.15% blend ratio against the targeted 5%. Indian sugar mills supplied 1.1 bn liter ethanol against the required 1.3 bn liter, which is commendable 85% fulfillment of the mandate. Owing to the drought situation in

earlier year, it is observed that some major sugar producing states like Maharashtra and Karnataka have lower cane production for the sugar crushing season of 2017, resulting in early closure of the season for sugar mills. On the other hand, cane crop is estimated to go up in UP by 10% and in Tamil Nadu by 12%, as compared to sugar year 2015-16. Thus, reduction in ethanol production caused by Maharashtra and Karnataka will be partly compensated by UP and Tamil Nadu. For the year 2016-17, approximately 60 mn liter ethanol from Bihar will also be available for the blending program. There are good monsoon predictions for the next couple of years and record production of crops is estimated. Its impact will be seen on cane production in the next year whereas grains are expected to show substantial growth in the coming season.

OMCs have floated the first EOI for new sugar season seeking supply of 780 mn liter ethanol. It is expected that additional EOIs will be floated in due course of time. You are aware that 2016 was also the year of several important developments concerning setting up 2nd generation ethanol plants; where Praj is a frontrunner. In furtherance to the understanding dated 21st Aug, 2016 to set up multiple 2G ethanol plants in India, Indian Oil Corporation Limited (IOCL) and Praj entered into next MOU on 7th Dec, 2016 wherein Panipat, Haryana and Dahej, Gujarat are identified as project locations.

Also, Bharat Petroleum Corporation Limited (BPCL) and Praj signed MOU on 7th Dec, 2016 wherein Praj is selected as technology partner to set up 2nd gen ethanol plant in Orissa. Each of these plants will have the capacity to produce 100,000 liter ethanol per day. Coming to international ethanol segment

President of Uganda His Excellency Mr. Yoweri Museveni inaugurated Kakira Sugar on 23rd Jan, 2017. This 60,000 liter per day plant is Uganda's largest extra neutral alcohol and fuel ethanol plant. Being steam self-sufficient, this is the latest addition in Praj's environmentally sustainable references. Some projects that were anticipated to come to conclusion have got stalled further, owing to climatic and economical situations in emerging economies. As oil and other commodities come back into the investment cycle, we expect these projects to move. In addition, we are in discussion with several prospects for Greenfield projects in various geographies. US is the largest consumer and producer of fuel ethanol and also plays a crucial role in the global trade. The Environment Protection Agency (EPA) has set 2017 biofuel blending mandates at 19.28 bn gallons which apart from biodiesel, includes 15 bn gallons of first gen ethanol and 311 mn gallons of second gen ethanol. The total renewable fuel volume represents 10.7% of the US transportation fuel pool. In December, Argentina again increased the price that refiners need to pay for sugarcane cane derived ethanol to meet the 12% blending mandate set by the country. In Thailand and Philippines, sugarcane crop is expected to be better for the year 2017-18 crushing season. This results in improvement in the project viabilities. We are pursuing some expansion opportunities in the region. Indonesia and Myanmar are other emerging markets in South East Asia. In its commitment to decarbonize transport sector, European Commission has proposed to phase out first gen biofuel mandates and the same to be replaced by advanced second gen biofuels, beginning 2021. This creates an opportunity for second gen ethanol in the region in the coming years. We are also pursuing opportunities to upgrade existing first gen plants to produce different grades of ethanol for pharma, perfumery and beverage.

On brewery front - With the merger of SAB Miller and AB Inbev, Indian beer industry is going through another round of consolidation. Imposed liquor ban in some states and increase in excise duty has reduced immediate prospects of capacity addition. Some expansion projects are stalled as brewers are taking a guarded posture before making capital commitments as a result of sluggish market demand. States like Andhra Pradesh and Telangana continue to offer opportunities due to division of the

excise board. We are responding to various enquiries from key customers and have an intact market share. I am glad to share some of the awards and recognition achieved in the quarter gone by. Praj Sanaswadi factory is bestowed with the prestigious National Safety Council Award 2016. This annual award is institutionalized by NSC to acknowledge efforts in the area of health, safety & environment. NSC is a premier, apex body with the goal of creating a preventive and scientific approach to HSE issues. The assessment criteria for the award are comprehensive and rigorous. Mr. Chaudhari is ranked 35th in the list of Top 100 People in Advanced Bio economy, recently published by the Biofuels Digest. This highlights the increasing acceptance of Mr Chaudhari as a thought leader and industry reformer in the biofuel space globally and is also a reflection of Praj's expertise and dedication to development of clean energy.

Before closing, I would like to state that in the midst of uncertain business environment, both in domestic and international markets, we are on course. Not only we retain our market share but also are able to pursue attractive growth opportunities. I now request Sachin to walk you through the financial performance.

Sachin Raole

Thank you Atul, good morning ladies and gentlemen. Coming to the quarter performance ending 31st December 2016, revenue on consolidated basis stands at Rs. 232.74 crore. We saw some aberration in execution of orders in this quarter which was caused because of the preparedness of our customers and also some rub-off effect of demonetization and entry point of order booking.

On Q-o-Q basis, increase in material cost and reduction in other expenditure will have to be looked at together owing to execution of projects by local execution companies and lower quantum of exports in the total revenue. Domestic revenues account for 75% of the total revenue and 48% is from ethanol and 53% is from non-ethanol business. EBITDA excluding other income is at Rs. 18.44 crore, PBT and PAT are at Rs. 15.98 crore and Rs. 11.96 crore respectively. During this quarter we have seen order intake of around Rs. 295 crore. Of this, ethanol forms 69%, export order forms 35%. The order backlog as of the 31st December, 2016 is Rs. 1,083 crore, out of which export orders are at 40% and ethanol is around 58%. Cash on hand as of 31st December, is at Rs. 219 crore. For the first three quarters, revenue on consolidated basis is at Rs. 643.46 crore. Domestic revenues account for 77% of the total revenue, 54% is on account of ethanol and 46% is on non-ethanol business. EBITDA excluding other income is at Rs. 31.31 crore.

We see a reduction in depreciation on Y-o-Y basis on account of higher charge in the last year because of change in the depreciation policy as per the new Companies' act. During this year, WDV of most of these assets is definitely a reduced number and that's the reason there is a reduction in depreciation. PBT and PAT are at Rs. 27.15 crore and 19.10 crore, respectively. Order intake for 9M FY17 stands at Rs. 775 crore. Of this, 56% is from ethanol with a large share of domestic orders at 77%. Thank you all. I will hand over to Mr. Chaudhari for the concluding remarks.

Pramod Chaudhari

Thank you Sachin and Atul for the quarterly business update. Concluding, I re-affirm that all our efforts are centered on the next phase of growth and we have a definite action plan. We are prepared and have all the elements in place to tap the opportunities offered by increasing focus on agri, energy and environment, all over the world. It is our continuous endeavor to sharpen customer focus, value engineering, and innovation and build on our global reputation. Thank you for your time. We will now take questions.

Moderator

The first question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

- Vikram Suryavanshi** Can you just give slightly more detail on the demo plant? You have provided the capacity, but what is the cost and did we get some benefit from the government?
- Pramod Chaudhari** This demonstration plant, which is 12 ton capacity on a dry basis, will cost us between Rs. 25 to 30 crore. The entire funding is out of our own accruals and there is no government support for these except that we have recently received a R&D registration for this project.
- Vikram Suryavanshi** Is it separate from what we plan to have with one of the sugar companies in JV?
- Pramod Chaudhari** There is no JV; this is in the premise which is close to a sugar mill. They have given us land on lease and we have built up the entire plant there, they are providing some of the utilities, so the cost of running is shared by them.
- Vikram Suryavanshi** For this IOCL and BPCL, when do we see that material developments will happen or is it in a negotiation stage and it will take a long time to bring in 2G at large-scale in India?
- Atul Mulay** For both these OMCs, there are internal procedure activities on.
- Vikram Suryavanshi** What would be the idea to source the raw material in that case?
- Atul Mulay** For raw material, they have already floated an expression of interest from the biomass suppliers and they have already been shortlisted. First level study and field study has already been conducted and they are also working out with the tie-up for the biomass supply - that is in very advanced stage.
- Vikram Suryavanshi** We have seen slight slowdown compared to last year particularly on the execution and orders on the international side, so how do we see that panning out for the coming quarter?
- Atul Mulay** We have seen an impact on crude oil prices. So in the coming quarter, for our modernization and retrofit, we have conducted various audits during last 7-8 months and we see a good traction to come out of these audits from international business.
- Moderator** The next question is from the line of Dhananjay Mishra from Sunidhi Securities. Please proceed.
- Dhananjay Mishra** What kind of feedstock are we using in this demo plant and who is supplying this biomass to us?
- Pramod Chaudhari** We have just now finished with bagasse and now we are on paddy straw, these are the two preliminary feedstocks that we have identified and bagasse comes from the sugar factory and paddy straws are from the nearby rice field. We have started the paddy straw from Maharashtra. We will also have some paddy straw from Haryana, Punjab.
- Dhananjay Mishra** Are we already producing some ethanol?
- Pramod Chaudhari** The start-up has happened.
- Dhananjay Mishra** Regarding Petrobras order, retendering is going to happen. So isn't it prudent to remove this order until we receive the actual order from the contractor?

- Pramod Chaudhari** I agree with you but even in retendering, Petrobras has recommended to its prospective contractors about the role of Praj. There is a mention about that in some of their publications and they are also in touch with us. We feel confident that it will be possible. It should happen; maybe another few months, we will wait otherwise we will remove it.
- Dhananjay Mishra** What's your outlook in water business and this opportunity you see in India as well as in export market?
- Pramod Chaudhari** In water treatment business, we don't go for the municipality and government business. We are only confined to zero liquid discharge business from the industrial sector, so we are very selective. That is why it becomes a niche business and we are able to derive some preference.
- Dhananjay Mishra** As of now, do you see any opportunity in this whole segment?
- Pramod Chaudhari** Opportunity is there, we can pick and choose.
- Moderator** The next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.
- Bhagyesh Kagalkar** Can you touch in brief on the margin outlook because the margins have been better sequentially but comparing to Q3FY16, it's quite low and we have also executed the McKinsey study. So, what is the outlook over a period of 18 to 24 months?
- Sachin Raole** Margin is definitely improving quarter-on-quarter, it is completely dependent on the top line. We will definitely see an improvement in the margin level going up, the EBITDA margins going up in the current quarter. And over a period of time it will return back to the earlier margin levels of ~15-16%. Looking at the way in which 2G is supposed to pan out, we will see a definite improvement in margins.
- Bhagyesh Kagalkar** For the Petrobras order, the Company will wait for a quarter or two and otherwise will remove it from the order book, is that correct?
- Pramod Chaudhari** Yes. We will wait for another six months or so and then by September, we will take a review.
- Moderator** The next question is from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.
- Sanjeev Zarbade** As indicated, because of some issues on site and some clients, we have stopped fabrication of some orders, so what could be the revenue lost on account of this? Would there be any inventory write-offs?
- Sachin Raole** We are not talking about loss of any revenue, it's only a deferment. The order book remains as intact as it was earlier. It is only because the entry point of orders and the preparedness of our customer for the execution which has taken a toll in this quarter. So there is basically a question of deferment of these executions.
- Sanjeev Zarbade** What would be the quantum? How much margins could have got impacted because of this?
- Sachin Raole** It's little difficult to point out the quantum of what was deferred but there is a deferment.

- Sanjeev Zarbade** Regarding Petrobras retendering, so by when will we get to know the opening of the priced bids from the retendering? What are the discussions that we are having with the new EPC contractor?
- Pramod Chaudhari** Nature of discussion with the new contractor is that whatever the order which was there, we are trying to calibrate with their overall tender. Suppose they are getting a \$100 worth of contract out of which lot of items which are covered under our contract and that calibration is happening then we will wait till next quarter, so that perhaps if it is to get revived otherwise we will then temporarily take out of the order booking.
- Sanjeev Zarbade** The order book that we have at Rs. 1,000 crore level which has been the same more or less in last 1 to 1.5 years, so what kind of revenue outlook can we look forward for FY18? Can we look at some low-teens revenue growth from this order book?
- Pramod Chaudhari** As a practice, we don't give guidance. As you know it is very tricky so that's why we follow that practice. But we are aiming for certain growth which is not happened in the last 2-3 years and we hope that we will be able to break out of this and start growing.
- Sanjeev Zarbade** The experience of some of the 2G ethanol players that have set up plants in Europe has not been very good in the sense that it has taken its own time to stabilize. It has taken around 2-3 years, so how is your experience? How do you see the prospects of 2G ethanol for Praj?
- Pramod Chaudhari** This is a great opportunity to Praj that's the way I will put it.
- Moderator** The next question is from the line of Sandip Jabuani from Narnolia Securities. Please go ahead.
- Sandip Jabuani** What is the kind of revenue we are looking to generate from this 2G-based ethanol plant?
- Pramod Chaudhari** We are not in a position to pinpoint the revenue numbers out of this right now. But there are certain policy matters which the central government with the help of oil marketing companies are looking at. They have declared in the month of August that they would like to go for first batch of 12 projects, each project around Rs. +/-550 crore and we have to see how that shapes up. Out of that, six projects they have finalized, three we have signed MoUs. So currently I can share that the progress is happening. As Atul said, the procedures are under preparation, so hopefully the picture will emerge out. On the other side, there is Government of India's declared intent to reduce oil import by 10% by 2020. These are the two extreme situations, so let's hope for the best.
- Sandip Jabuani** On Praj HiPurity business, what is the outlook going forward?
- Pramod Chaudhari** Praj HiPurity business is connected to the Pharma industries, mainly it is for Pharma and the pharma are generally growing so we hope to catch up the trend. We are seeing some traction this year as well as in coming years also.
- Moderator** The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.
- VP Rajesh** Are the MoUs that we have signed with IOCL and BPCL for cellulosic ethanol?
- Atul Mulay** These MoUs are for second generation biofuel that is cellulosic ethanol.

- VP Rajesh** Could you comment on the revenue potential for us and timeframe that we expect that these revenues will start flowing to us?
- Atul Mulay** The project outlay is between Rs. 500 to 600 crore and there are 12 projects declared. In the first batch, there will be six projects which will get executed and we have signed MoUs for 3 of them.
- VP Rajesh** So the revenue potential for us out of this MoUs is up to Rs. 600 crore, is it?
- Atul Mulay** It's a project cost for one project. The preparedness is happening at the OMCs level. We don't want to comment immediately on that, it is under procedural clearance.
- VP Rajesh** Should we expect maybe by next quarter we will have a better sense of revenue potential from these MoUs or is it going to take longer than that?
- Pramod Chaudhari** The picture should be clear in Q2 FY18.
- VP Rajesh** Regarding the ethanol pricing, the news reports suggest that the current pricing at which it is being bought, it is not remunerative for the sugar mills. What are your thoughts and what is the impact you will see of ethanol pricing to our business? Sugar mills will not potentially increase their capacity and that may impact our ethanol business.
- Atul Mulay** The pricing is left to the individual organization in the sugar industry. During various meetings held by CII and Oil Coordination Committee, even with the ISMA, the point which was raised by the MoPNG is basically that the price remains there, they are just withdrawing the excise duty rebate benefits which they have given in last sugar season, where the sugar prices were as low as Rs. 20 a kg but today it has gone to Rs. 30+. So the pricing they have not changed, as the base price. Secondly, because of the availability of the molasses they might be under pressure. But again the clause of the tender says that prices are subject to getting renegotiated. To the best of our knowledge, the ISMA and All India Distillers Association are working very closely with MoPNG to get the right price.
- VP Rajesh** Just a suggestion that if we can separate out the Praj HiPurity business away from the emerging basket that will be helpful because that seems to be a very different business from the rest. It has got into a size where it might be helpful to see how that business is doing on an independent basis.
- Pramod Chaudhari** We have noted your suggestion but it's also a project engineering business, it requires engineering and the contract is on project basis. So that's the reason why we kept it in the same segment but we will note your suggestion and we will see what can be done next year.
- Moderator** The next question is from Sunil Kothari from Unique Investment. Please go ahead.
- Sunil Kothari** On the 2G opportunity, should we expect this to materialize in terms of revenue by CY18-19 or will it take longer?
- Pramod Chaudhari** As I said, we don't like to speculate. We hope that we will get some but we have considered that in CY18-19, in CY17-18 we are not taking it as a major addition.
- Moderator** As there are no questions I now hand the conference over to Ms Watane for closing comments. Over to you.



Priyanka Watane

Thank you everybody for your time. Please feel free to reach out to us in case of any queries. Have a good day.

Moderator

Thank you very much members of management. Ladies and gentlemen on behalf of Praj Industries that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.

This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.