



Praj Industries Limited

Q4 FY17 Earnings Conference Call Transcript

May 25, 2017

Moderator

Ladies and gentlemen, good day and welcome to the Praj Industries Limited Q4 FY17 Earning 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 telephone. Please note that this conference is being recorded.

I will now hand the conference over to Ms. Priyanka Watane from Praj Industries. Thank you and over to you, Ms. Watane.

Priyanka Watane

Good morning everyone. We welcome you to this conference call organized to discuss Praj Industries' operating performance & consolidated audited financial results for Q4 & FY 2016-17, which were announced on 24th May.

Mr Pramod Chaudhari – Executive Chairman has consented to be with us for the 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 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. I take this opportunity to connect with you all once again as we close the fiscal. We ended the year on a steady footing despite the external flux in operating environment. We retained our market share in the core business of ethanol and also other businesses. Our technology play continues to make us the preferred partner for customers, as our plants deliver superior and promised performance. While my colleagues will walk you through the operational matters of Q4 and FY 2016-17, I am very happy to share milestone development concerning 2nd generation ethanol technology. Praj's own and India's first integrated 2nd generation bio-refinery demonstration plant was inaugurated at the hands of Mr Nitin Gadkari, Union Minister of Road Transport, Highways & Shipping, earlier this month. The plant has production capacity of 1 mn liter per annum of 2nd generation ethanol from a variety of agri-residue like rice & wheat

straw, cotton stalk, cane trash, bagasse etc. The unveiling of India's first integrated bio-refinery for biofuels and chemicals, underscores Praj's technology leadership in the bio-energy space. This innovative technology has substantial potential to help India move toward greater energy self-reliance. It uses abundantly available cellulosic biomass while effectively addressing the challenge of agricultural waste management and mitigating pollution. Commercialization of 2nd generation ethanol technology will give an impetus to rural economy and create additional employment opportunities. 2nd generation ethanol agenda has gained substantial momentum at national level. It is learnt that discussion to develop a comprehensive policy blueprint for 2nd generation ethanol development program has been initiated between Ministries of Road Transport, Petroleum and Renewable Energy. Praj is at the forefront of this development and has already signed MoUs with IOCL for 2 projects and BPCL for 1 project as their technology partner for certain project sites. Meanwhile, an experts' team from OMCs visited the demo plant and witnessed its performance. As shared earlier 12 numbers of 2nd generation bio-refinery projects, each with total capex in the range of Rs 650-700 cr are expected to come up initially. We are fully geared up to execute our share of these projects during next 2-3 years. We are not stopping here. Further R&D is underway to develop other renewable fuels and chemicals from the bio-refinery technology platform. We have successfully carried out the trials for bio-butanol production from molasses based on technology platform of Gevo Inc of USA. They have tested the process to produce jet-biofuel from bio-butanol. Also, configuration of Bio-CNG which is increasingly being used as a clean, renewable transportation fuel is under development. We are developing processes to produce Bio-CNG from a range of feedstocks. We are confident of the proposition given that sustainable fuels are the need of the hour. We truly believe that our strong technology backbone and engineering fundamentals will enable us to create value for all stakeholders in the years ahead. Now I request Atul to continue.

Atul Mulay

Thank you Mr Chaudhari. Good morning ladies and gentlemen. Please allow me to walk you through the business performance. In 1st generation ethanol and alcohol space in India - At the current gasoline consumption level in excess of 30 bn liter, India needs 3 bn liter ethanol for fulfilling the 10% mandate. Owing to the drought situation in some major cane producing states, insufficiency of 1st generation feedstock is a major constraint in meeting this mandate. For the 2016-17 blending obligation period i.e. from Dec 2016 to Nov 2017, OMCs issued a tender to procure 2.8 bn liter ethanol. Sugar mills offered and contracted for supply of 780 mn liter so far. Deficient sugarcane crop is expected to result in the proportionate decline in the availability of molasses and subsequently, ethanol production this year. In case of beverage grade alcohol - Supreme Court's directive of prohibition of sale of liquor in hotels and restaurants or liquor outlets within 500 meters of national and state highways, has resulted in reduced consumption. As a consequence, alcohol manufacturers are taking a guarded posture on their future investments. Coming to international ethanol market -International ethanol is affected due to drop in commodity prices. In such a scenario, countries have maintained ethanol mandates as earlier. Our customers in various regions are taking a cautious and studied approach to fresh investments. On one hand, major sugar producing regions like Thailand and India are recovering from drought situation caused by El Niño. On the other hand, there is a boost in EU's sugar output. This has resulted in stabilization of prices of sugar and ethanol globally. In South America, Argentina has continuously supported ethanol blending and has once again raised the prices refiners need to pay to procure sugarcane derived ethanol, to meet the required 12% blending mandate. 15% mandate is under consideration. Colombia, Mexico, Peru are other focus areas for us. In South East Asia, Thailand is expected to have a better cane and cassava feedstock whereas Indonesia is pushing for development of the local sugar industry. Several positive developments are taking place in the 2nd generation ethanol space in Europe. The Juncker commission has proposed to limit the share of 1st generation biofuels to 3.8% and 6.8% to come

from advanced biofuels like 2nd generation ethanol, between the period 2020 and 2030. This paves way for 2nd generation ethanol in the European continent. In addition, we are also pursuing some interesting opportunities for other grades of ethanol in Europe. We are aggressively pursuing modernization and retrofit cases in India and also overseas. We have streamlined internal processes and systems to improve the agility to respond to these short term projects. With regards to the pharmaceutical and healthcare related Praj HiPurity business, we look forward to ensure a momentum build up in the space. Stringent FDA norms and compliance with statutory requirements continue to open up promising opportunities in pharma as well as biosimilar industry, in India as well as international markets. Through its modular process systems division, Praj HiPurity is geared up to capitalize on these opportunities. Coming to other businesses - With 2 liter per capita consumption of beer, India lags behind its global peers, making it a strategic market for top brewers. They are taking positions through industry consolidation that includes alliances with local brewers and bottling companies. They are also responding to the changing demographic demands and tastes in addition to introduction of stronger and premium brands. While the market poses challenges like prohibition in some states, increased excise duties & the recent Supreme Court Directive, brewers are taking a cautious call on further capital expenditure. There are several bright spots in the country and the segment is estimated to expand 5-6% in the current fiscal. We have maintained market share in the space and have some promising enquiries in the basket. In the critical process equipment, systems and projects business, we are participating in some of the domestic refinery expansion projects and also modification of existing refineries to produce fuels compliant with BS VI norms to be implemented in 2020, in addition to pursuing exciting opportunities in various areas like petrochemicals, specialty chemicals, skids etc. In the water and waste water treatment business, we maintain our focus on zero liquid discharge systems. The team has recently won repeat orders from a globally renowned customer in the beverage industry. I am glad to share that Mr Pramod Chaudhari, Executive Chairman has been invited to speak at the plenary session titled "2nd Generation biofuels – Poised for Big Wins" at the prestigious Bio World Congress on Industrial Biotechnology, 2017 to be held in Montreal, Canada. This session will highlight the developments to accelerate global commercialization and growth of 2nd generation biofuels. I now request Sachin to walk you through the financial performance for the quarter and year ended 31st Mar, 2017.

Sachin Raole

Thank you Atul. Good morning ladies and gentlemen. Coming to the quarter ended 31st Mar, 2017. Revenue on consolidated basis stands at Rs 311.7 cr. Of the total revenue, 59% is from ethanol, 13% from brewery and remaining 28% from the remaining businesses. Domestic revenues account for 71%. EBITDA excluding other income is at Rs 38.3 cr. PBT and PAT are at Rs 36.8 cr and Rs 22.8 cr respectively. The order intake stands at Rs 222 cr. Of this, ethanol forms 68% and export orders form 45%. For the fiscal 2016-17, Revenue on consolidated basis is at Rs 955.2 cr. Of the total revenue, 56% is from ethanol, 13% from brewery and 31% from remaining businesses. Exports revenues account for 25%, against last year's 41%. EBITDA excluding other income is at Rs 68.7 cr, excluding foreign exchange gain of Rs 4.5 cr. PBT and PAT are at Rs 67.5 cr and Rs 44.6 cr respectively. Order intake for the fiscal stands at Rs 997 cr. Of this, 62% is from ethanol with a larger share of domestic orders at 73%. The order backlog as of 31st Mar, 2017 is Rs 935 cr. Export orders are at 44%. Ethanol forms 57%. As a prudent practice, we have removed some non-moving orders worth Rs 110 cr from the pending order backlog. Petrobras related order forms a part of the order backlog. The development on this is giving a possibility of re-instatement of the project during Sept/Oct 2017. Cash and cash equivalents on hand stands at Rs 231 cr. Total capex during this year is Rs.38.5 Crs. Amount of Rs. 7 Crs is on routine capex. Major capex of Rs. 28 Crs was on built up of integrated Bio- refinery 2nd Generation Demo plant engineered, developed and constructed in house. As of 31st March, 2017, same is appearing under Capital Work in progress. As the

plant is built in house, expenses of Rs. 7 Crs related to dedicated resources working on Demo plant during the last two quarters are capitalized. Same is reflected in the reduction in employee cost of December 16 and March 17 quarters. Effective tax rate for the fiscal has gone up from 22% to 34%. This increase is on account of recognition of deferred tax liability on the R & D tax benefits recognized during the year related to Demo plant of Rs. 28 Cr. Even though company is paying MAT, as a prudent policy, a deferred tax asset of equivalent amount (Rs. 13.5 Cr) is not recognized. We have carried out a detailed assessment to understand key areas of impact of GST on our business and taking all necessary steps for a smooth transition. A well-designed GST is expected to simplify and rationalize the current indirect tax regime, eliminating tax cascading effect. For Praj, overall impact of GST would be neutral to positive. We are happy to share that the Board of Directors has recommended a dividend of Rs 1.62 per share (81%) on paid up capital of Rs 35.89 cr. Thank you ladies and gentlemen. I request Mr Chaudhari to give the closing remarks.

- Pramod Chaudhari** Thank you Atul and Sachin. As we close the FY 2016-17, in which the 2nd has been disappointing to many, including our leadership team and us, I would like to share that in the current challenging economic environment we are re-calibrating our strategy to explore domestic and international opportunities, based on the organization's strengths and core competencies to get back on the growth track. However, we do not foresee any V shaped sharp recovery in the first six months. At the same time, as capital formation starts taking place, we are in good stead to leverage our preparedness and step up the performance. Some international prospects are round the corner. Another driver of growth will be excitement in the developments in 2nd generation ethanol technology. We are benchmarking ourselves for opportunities in global markets. We look forward to an improved component of international business this year, breaking away from the last year's trend. With this, I open the floor for your questions.
- Moderator** Thank you. Ladies and gentlemen, we will now begin with question-and-answer session. We take the first question from the line of Nirav Vasa from B&K Securities. Please go ahead.
- Nirav Vasa** My first question is related to second generation ethanol plants, which we are going to set up with oil marketing companies for which MoUs have been signed. Would it be possible for you to share some timelines by which the orders are expected to crystallize?
- Pramod Chaudhari** The order finalization process, this being PSU and the order being for the first time is definitely going to be a complex process. Every day, there is some progress. But an exact date, when it will be concluded into an agreement, I'm not able to put a finger on that. We are also very keen to start the work. Our hope is that, during these two quarters, first and second quarter, we should have at least the first portion of the design and technology parts to be finalized if not the entire project. This is what we expect.
- Nirav Vasa** Would it be possible for you to share the potential market that we would have in the refinery upgradation process?
- Pramod Chaudhari** Refinery upgradation process is a process where they are buying or they are floating tenders for the equipment. This is a very competitive field, we are getting small entry in this area and it's very difficult to say that this is the total potential. They've got the project's capital investment happening in terms of Rs. 2,000 Crore, I'm not sure just now whether what portion we'll be able to pitch in. But some movement is happening and we are able to participate in it.

- Nirav Vasa** The Petrobras order was of around Rs. 200 Crore and we have removed around Rs. 110 Crore of order from our order backlog as they are slow moving. Is Petrobras formally removed from the backlog? Can you throw some light on that?
- Pramod Chaudhari** Petrobras is not formally removed; we are still carrying that order. Last time also I said, till September, we are going to carry that. We expect some reinstatement happening in the course of this period. By September quarter, if the order is not moving then we have decided, we will take it out.
- Nirav Vasa** What would be the tax rate that we can take for FY18?
- Sachin Raole** FY18, it will be again back to MAT and it will not have this full MAT impact. This time, we have seen this impact coming in because of the additional tax benefit, which we have claimed on the R&D side because Rs. 28 Crore plant has got additional tax benefit, so it will be in the range of 22% to 25%.
- Moderator** We take the next question from the line of Sandeep Sabharwal from asksandipsabharwal.com. Please go ahead.
- Sandeep Sabharwal** The second-generation orders that these oil companies signed sometime back and Prime Minister in his recent speech also said that this should be accelerated. So why is it still moving slow? What's the constraint from their side?
- Pramod Chaudhari** These are first of its kind and the procedures and the process is not very well established. So that is taking time. There are a number of elements, there are number of stakeholders and they're finding it a little tough or they're taking some time to convert them into regular contracts. We're also equally keen.
- Sandeep Sabharwal** Is Panipat biorefinery, Praj's order?
- Pramod Chaudhari** Yes.
- Sandeep Sabharwal** There was news that they got all the approvals.
- Pramod Chaudhari** Yes, we are also in the picture; we are providing all the data and everything for that. But signing in the form of a contract is just round the corner. Your study, your information is correct.
- Sandeep Sabharwal** There is some traction on the water, wastewater treatment plant, some of the companies who are in that segment have reported healthy growth and healthy order flows also. How do you see that segment this year and for next year?
- Pramod Chaudhari** We have always said that we'll keep away from municipal wastewater. Majority of the reported orders are the municipality wastewater, we are only confined to ZLD system that also in the industrial side. ZLD is zero liquid discharge.
- Sandeep Sabharwal** Yes, but here also we see so many reports of companies, plants being suspended because of pollution and a lot of focus of the government is on addressing this issue. So, do you see any major traction there?
- Pramod Chaudhari** No. Because this being compulsory and depending on the kind of effluent the company is producing, for example, if they have a very thin liquid effluent coming up, then zero liquid discharge may not become a feasible thing because you have to concentrate the whole thing, it requires tremendous amount of energy. And they would not like to spend that kind of energy to concentrate on very thin liquid. So like that, we have to go on a case by case basis, solid percentage plays a role.

- Sandeep Sabharwal** The production of your demonstration plant has started now, so how is the output and how is it coming?
- Pramod Chaudhari** This plant is run for 4 months. We commissioned in the month of December and it continues till the month of May, when we had a formal inauguration. The oil marketing company, a team of experts, more than 20 experts visited the plant. Some of the teams stayed on the plant for 3 to 4 days and that certifies it is meeting all the performance norms, which we had indicated in the beginning of this demonstration plant. We believe that this is almost close to what is available publicly on the international scene by other competitors.
- Sandeep Sabharwal** What's happening to the production, which is coming out of this plant? Where are you supplying that?
- Pramod Chaudhari** This is co-located with another distillery of our customer. So it is getting into their tanks.
- Moderator** Thank you. We take the next question from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.
- Vikram Suryavanshi** Rs.110 Crore of slow-moving order is in which segment?
- Pramod Chaudhari** They are mainly ethanol segment.
- Vikram Suryavanshi** Earlier we were looking for much stronger growth for emerging segment and that could possibly contribute to say 40%- 50% of our revenue. But if you remove Petrobras order, then that seems to be challenging in the short-term. So how are we looking for growth in emerging businesses individually and what kind of revenue mix are we looking at for next two years?
- Pramod Chaudhari** If I remove the Petrobras order, the percentage will drop from the pending order in terms of the emerging businesses. Now we are re-orienting the emerging businesses and we have got some engineering business also added to that. So both put together, we still hope to continue in the range of about 35% for this year in the area of what we call as the engineering businesses. I am shifting the word from emerging to engineering businesses, basically.
- Vikram Suryavanshi** Are we seeing traction in critical process equipment because oil prices are not up to the expected mark or it will still be a long way to go to see the orders, especially in hydrocarbons coming in?
- Pramod Chaudhari** I think the situation is easing out, albeit little slowly. We do expect some kind of increased traction in that area, but not something very dramatic. But our business from the pharma and healthcare side, which is for Praj HiPurity business, that is also showing some good traction.
- Vikram Suryavanshi** To what extent can we monetize or convert our R&D center from cost center to revenue side? Are there any, apart from 2G, other interesting products coming out of R&D?
- Pramod Chaudhari** Yes, some of the products have started getting monetized. One molecule, we already sold it to one of the foreign companies. And we also have another molecule, which is being licensed to another healthcare company. Well, small movements are there, but they are not very significant numbers. Therefore, we are not bringing out into the open. But I'm sure that by end of this financial year, we should be having a separate session on that as what kind of monetization has

happened. I'm happy that Matrix is now slowly converting from a cost center to a revenue center.

- Vikram Suryavanshi** What kind of a recurring capex would be there in FY18 and FY19 or is there any project that we are looking up?
- Pramod Chaudhari** It will be our routine capex in the range of about Rs. 5 Crore to 10 Crore in this year.
- Moderator** Thank you. We take the next question from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.
- Dhananjay Mishra** Is there any clarity in terms of what kind of equity contribution will be there in this 2G project from your side or from aggregator side and from OMCs?
- Pramod Chaudhari** In case of this 2G projects, till the structuring and the business model is not yet finalized by the oil marketing companies, if they go as a 100% under their own banner, there'll be no equity contribution. That is the model which will likely emerge out. So there's no equity contribution from Praj's side at all.
- Dhananjay Mishra** So we should not worry about what would the pricing mechanism and return of equity.
- Pramod Chaudhari** Even if it is there, it'll be just have a very token contribution to show that we are still in the game, that's all. But with all the performance, which we achieved now, what was the situation about six months back that has got totally diluted now.
- Dhananjay Mishra** For the pilot plant that we have set up that is going to have a 1 million liter per annum capacity and we have invested about Rs. 28 million. So if you put a plant of 1 lakh liter per day capacity, what could be the actual cost of this plant? Can we take this cost and extrapolate for that plant?
- Pramod Chaudhari** We'll have to go as per the prevailing practice in the engineering language. Pilot part is one term. Now, it's in the R&D center. Now this is a plant, which is a demonstration plant with multiple facilities. So the cost of this plant is not an exact indication of a commercial scale plant. Commercial scale plant will be a plant with couple of feedstocks and not a very multipurpose plant. So we have got some formulas and as per that the scale-up will take place and the project cost is around Rs. 650 Crore. So that is the total outlay of the project, in which the plant and the surrounding acreages will also come.
- Dhananjay Mishra** So Rs. 600 - 650 Crore for 36 million capacity plant, is that right, annually?
- Pramod Chaudhari** Yes, 33 million on an annualized basis.
- Dhananjay Mishra** And our proportion would be about Rs. 400 Crore, is that correct?
- Pramod Chaudhari** Depending on what they want to consider in the process plant, proprietary equipment all those put together, it can vary from Rs.200 to 400 crore.
- Dhananjay Mishra** On these emerging businesses, is it possible to provide breakup in terms of what is the contribution from PHS and from critical equipment and water because we have about Rs. 300 Crore for the full year?

- Pramod Chaudhari** We are working on it and really defining each business in a separate manner. So today, I may not be in a position to give that, but maybe offline we can definitely give it to you.
- Dhananjay Mishra** Because for PHS we have the annual report, and last year, we did about Rs. 150 crore, and the remaining is about Rs. 150 Crore from water business and the critical process equipment business.
- Pramod Chaudhari** Yes, the numbers are more or less in same range. Rs. 150 Crore is PHS, which was Rs.140 and is now Rs. 150 crore. Diddling up to the last rupee we'll give it together.
- Moderator** Thank you. We take the next question from the line of Saket Kapoor from Kapoor & Co. Please go ahead.
- Saket Kapoor** What the ethanol prices have been internationally? How have the price trends over the years been?
- Pramod Chaudhari** For the ethanol international prices, we cannot have a single number, they are varying from country to country, region to region. We have got some countries where it has gone even up to a dollar a liter. And there are some countries, it's in the range of \$0.50 to \$0.70 a liter. So there is no such thing as an internal single price, which is there, but the Chicago price, which is the US price, it'll be in the range of \$0.60 to \$0.70 a liter.
- Saket Kapoor** What has been the trend over the year?
- Pramod Chaudhari** It is more or less stable, where it is again connected with the corn prices.
- Saket Kapoor** For the Brazilian part, where the maximum of the production comes, what is the price trend there?
- Pramod Chaudhari** There, it will be little less than this. Maybe \$0.50 to \$.60, I am not certain about this.
- Saket Kapoor** What is the amount of in liters produced globally?
- Pramod Chaudhari** 100 million liters.
- Saket Kapoor** And vis-à-vis year, was it a growth or de-growth?
- Pramod Chaudhari** I'll ask my office to send you all the details. We hold the data, but I don't have handy here.
- Saket Kapoor** The Prime Minister of the country is speaking for a vision of the country for 2020, 2022. It's an opportunity for investors like us to have a vision for Praj for 2020 and 2022. What are you looking for and how well are our feet on the ground to achieve this?
- Pramod Chaudhari** I can give a broad roadmap, but detailed vision, we can't, rather we discuss separately. But the roadmap is that, by 2019, our first batch of plants will get commissioned for second-generation. And that should also pave the way for higher blending ratios versus blending percentages. And then we will be taking our second generation technology to the overseas market. In the first round, we are not taking it in a big way. We may go for a small plant, but the regular big size plant

where there is a requirement in various part of the world; we'll be taking that from FY19, 2020 onwards. And that's where we say that, there will be a game-changing kind of scenario that should happen with a company like Praj, especially if you go for localized arrangement in USA or Southeast Asia or Brazil, where abundant biomass is available. So that blueprint is more or less ready, but it will all depend how we make a progress on the first batch of this plant by 2019, 2020.

- Saket Kapoor** What kind of revenue opportunity are we looking at?
- Pramod Chaudhari** At these plants, it will be a different kind of a business orbit that we look forward to.
- Saket Kapoor** In your biomass technology, India Glycol has a plant, ICT has commenced one plant at Kashipur. Are these on the same page, are these two plants comparable in technology terms or in other parameters?
- Pramod Chaudhari** I won't be able to comment because its technology is developed by ICT. They are in the fray for pitching in for these projects of the OMCs. So the picture will be clear when they really demonstrate their final performance.
- Saket Kapoor** Can we say that they are our competitors, going forward?
- Pramod Chaudhari** Yes and no, it is a government technology.
- Saket Kapoor** If the technology gets approved, they will be on the same page, on the same front competing with us?
- Pramod Chaudhari** Guardedly, I will say that, they are our competitors.
- Saket Kapoor** You talked about not having a V-shaped recovery going forward.
- Pramod Chaudhari** I said there would not be a V-shaped recovery in six months' time.
- Saket Kapoor** So the coming two quarters will be little soft?
- Pramod Chaudhari** Not much recovery in two quarters, but there will be a lot of recovery after these two quarters.
- Saket Kapoor** Can we say it is a U-shaped recovery?
- Pramod Chaudhari** Yes, that's a better way.
- Saket Kapoor** You were the one who diluted your stake around 7%, in FY2008 when you sold to the Tatas' at Rs. 207-208. Then, you purchased some shares from the open market. Now, since you are saying that it could be a game changer for the company, your stake in the company, currently, is around 33-34%. Can you give us some guidance on what the promoter stake would look like going forward in 2019?
- Pramod Chaudhari** I don't think that is the right perspective of this discussion.
- Saket Kapoor** Are you comfortable with 33%?
- Pramod Chaudhari** Yes. I've no problem.
- Saket Kapoor** Is there any intent of increasing the stake going forward?

- Pramod Chaudhari** No comments.
- Saket Kapoor** The prospects for the sugar sector has changed over last couple of years, domestically and internationally. How are you now seeing the sugar sector as your new customer and what percentage of the pie of the incremental revenues can come from the sugar sector as a whole? The sugar mills are your customers.
- Pramod Chaudhari** For Sugar mills?
- Saket Kapoor** Yes, sugar mills.
- Pramod Chaudhari** Sugar mills are one of the range of customers because of their access to molasses and they want to definitely encash their byproduct molasses by having a value-added product like ethanol. So that will continue in that manner. Whatever molasses are produced by them gets converted into ethanol for blending.
- Saket Kapoor** So, they are a prospective buyer, already a prospective customer and improvement in the sector will have further revenues to it. What pie of revenues are you expecting from them going forward?
- Pramod Chaudhari** I don't have that kind of segmentation just now because there are still so many sugar mills and there are new sugar mills, we are yet to set up the distilleries. And if you go into Uttar Pradesh, there are many sugar mills, which are without distilleries. So lot of potential is still lying or is available all over the country. I'm sure they will be slowly going for that.
- Saket Kapoor** Although, the profits are down over the year, but still you maintained the dividend payout in terms of the percentage. So what are you indicating to the shareholders?
- Pramod Chaudhari** This is a decision by the Board and the Board feels that the shareholders should be rewarded. And even if one year goes like this, it is not the intrinsic strengths of the company and the capability to recover from the current situation is pretty strong and that confidence they would like to demonstrate that company can perform much better in time to come and that may be the indication.
- Saket Kapoor** That is better times are ahead.
- Pramod Chaudhari** Yes.
- Moderator** Thank you. We take the next question from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.
- Sanjeev Zarbade** Regarding the performance of Praj HiPurity System during the year, the consolidated revenues have gone up, but the profits have been at the PBT level more or less the same between consolidated and standalone. So how was the performance here?
- Pramod Chaudhari** In PHS, there was no substantial growth, but it is holding on to the market share and we are sort of trying to put in more resources to get ready for the growth prospect. We are having modular systems as one of the business lines and it requires some good amount of preparations for future growth. That maybe taking away some kind of a cost element.
- Sachin Raole** The consolidation of a standalone happens not only with price of Praj HiPurity, but in other subsidiary companies also and mainly the execution arm. And the drop in

the revenue is also in the execution side. So the contribution happens to the bottom line and the top line from execution arm.

- Sanjeev Zarbade** Regarding the margins, we have seen that around 7.2% kind of margins we've done in FY17, which is the lowest in last 3-4 years. So given the weak outlook on account of the order backlog, can we maintain the margins at the current level? What cost cutting initiatives we can look forward to?
- Pramod Chaudhari** The performance of this year, you can take it with a little bit of aberration. But definitely we will be able to improve on margin in the coming year.
- Sanjeev Zarbade** On the Panipat contract being around the corner, will the order will be placed to us and could you throw some more light on that?
- Pramod Chaudhari** The process of ordering or receiving a contract is under development or discussions with the OMC. The MoU is signed, the project is allotted to us from the technology point of view. But that is one element, there are some more updates like equipment and other things, so all those things are being developed into a form of a formal contract.
- Sanjeev Zarbade** There is still some time away in terms of we getting any kind of advances from the contract signed, is that right?
- Pramod Chaudhari** Correct. We hope that it happens before half year.
- Moderator** Thank you. We take the next question from the line of Bhalchandra Shinde from Anand Rathi. Please go ahead.
- Bhalchandra Shinde** Regarding the second generation bio-refineries, as you said that there are 12 bio-refineries that will be installed. As per my understanding, 6 MoUs are already signed and you indicated that three MoUs Praj has signed. Can you tell us who are the other competitors who have actually signed these MoUs?
- Pramod Chaudhari** ICT, Institute of Chemical Technology. They've got 2 MoUs, if I'm not wrong. Praj has 3 MoUs signed. These 5 are only signed just now.
- Bhalchandra Shinde** If we have signed the MoUs then there is probability that we will get most of the orders, can we say that?
- Pramod Chaudhari** So you mean most of these 3 cases?
- Bhalchandra Shinde** 3 cases, yes.
- Pramod Chaudhari** Yes, in 3 cases, we are hoping to get.
- Bhalchandra Shinde** Even the international competition can come into play for this, like DuPont has succeeded according to me for the second generation bio-refineries. Is there any possibility of international competition entering in India?
- Pramod Chaudhari** Yes, I'm sure they are eyeing the whole scenario and except that they have to develop experience with the local feedstock, see the biomass is different in different part of the world. So feedstock, they have to get experience on that.
- Bhalchandra Shinde** How much was the capex we did for that demonstration plant which we installed?

- Pramod Chaudhari** So, we have spent around Rs. 28 Crore up to 31st of March and there will be small elements after 31st of March till 7th of May. So we will close this entire capex of 2G plant at around Rs. 30 Crore.
- Bhalchandra Shinde** Regarding the critical process equipments, which we'll convert to as engineering services. Is there any hurdle for us like a certification approval for us to get into this oil and gas upgradation, oil refineries upgradation projects? Do we need any certification approvals?
- Pramod Chaudhari** Yes. We'll need registration. We call it registration. And many of these registrations with the engineering companies or oil companies, we have already obtained. In fact, I think we have this on the website also.
- Bhalchandra Shinde** What we are targeting? Which scope of work we are targeting in this?
- Pramod Chaudhari** These are loose equipments from case to case.
- Bhalchandra Shinde** What will be the percentage of our total capex, if at all we target and acquire these orders in refinery upgradation? As refinery upgradation is happening of around Rs. 75,000 Crore, what will be our scope of work if we get any orders from that?
- Pramod Chaudhari** We are not very clear what will lie in our scope. Firstly, the item should fall in our scope. Like for example, it's a bulky item, maybe few 100 tonnes that may not be forming a part of our scope. So there will be our scope, then there is a very big competition also in that area. So I'm not able to connect with the entire government or the oil company investment, we are not able to connect with our business at these juncture. So we are slowly getting a handle on that.
- Bhalchandra Shinde** What is our utilization levels across all facilities?
- Pramod Chaudhari** We were a manufacturing facility, but they are quite stretchable because we can outsource some of the things. That's the business model, which we have been following. We have got manufacturing facility in Kandla, we were in Pune and near Bhiwandi Wada. We can always have outsourcing.
- Bhalchandra Shinde** Right now, what will be the utilization of our existing facilities?
- Pramod Chaudhari** Maybe about 70%.
- Moderator** Thank you. We take the next question from the line of Saket Kapoor from Kapoor & Co. Please go ahead.
- Saket Kapoor** There is a lumpiness in the way revenues are booked, maybe it is engineering in nature. What should investors look out if we follow the quarterly numbers, what are the factors that we should keep in mind? Because the quarterly numbers vary, for sometimes the first half is extremely weak, the second half post better numbers, something of this sort is always here.
- Pramod Chaudhari** This has been my stand for quite many years that please don't look at us on quarterly basis. That's not the way we are supposed to be measured on. We have to be measured on at least 6 months basis, if not full year. And that's the way we are trying to sort of suggest. And what your observation is absolutely right, with the help of certain accounting standard, we are trying to even them out, still I can't say that they're totally out of it. That lumpiness can continue as a part of the whole revenue measurement.

- Saket Kapoor** So that will get even out, during this year itself or we have to wait for a longer period?
- Atul Mulay** It won't get even out, it is part of our business, you cannot judge our business on the basis of quarter-over-quarter.
- Pramod Chaudhari** As a permanent feature, or as a general guiding principle.
- Saket Kapoor** About this MoU signed with Indian Oil Corporation and BPCL, could you give us some more color? In what stage are we? Are they looking into our technology and then ascertaining something and then we'll get the final order or which stage are we? What stands in the MoU?
- Pramod Chaudhari** They have evaluated the technology already. They've spent time at the site, demonstration plant site. And that part is clear. The project site has also been cleared. The procedure of signing or preparing the contract, the kind of terms because this is the first of its kind of a contract they are entering into and that's where the procedural time delays are there.
- Saket Kapoor** Depending upon the optimum size, what should be the minimum revenues, which we will be booking from each of them?
- Pramod Chaudhari** The project cost will be around Rs. 600 Crore to 700 Crore and our portion can be between Rs.200 Crore to 400 Crore. That has to be and then the whole thing is to be completed within one and a half to two years.
- Saket Kapoor** What kind of margins are we looking in this type of scenario?
- Pramod Chaudhari** That I won't be able to comment at this juncture.
- Saket Kapoor** Once they are in the finalization stage, what kind of margins are we looking at?
- Pramod Chaudhari** Then we'll come to know because this is too early to count the chickens before the eggs are hatched.
- Saket Kapoor** After setting up these plants, there should be also some replacement parts, servicing that needs to be done. What kind of revenue can we get here?
- Pramod Chaudhari** We are trying to develop a service revenue model for the first batch of the plant.
- Saket Kapoor** That could be also value addition for us
- Pramod Chaudhari** Yes.
- Saket Kapoor** Margins will be very much higher on that front also?
- Pramod Chaudhari** Yes, hopefully.
- Saket Kapoor** For the AGM part, any date has been fixed?
- Pramod Chaudhari** It will be before or middle of August.
- Moderator** I now hand the floor over to the management for their closing comments.



Priyanka Watane

Thank you, everybody. Please get in touch with us for any further queries. Have a good day.

Moderator

Thank you. Ladies and gentlemen, on behalf of Praj Industries, that concludes this conference. Thank you for joining. 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.