

Praj Industries Limited

Q3 & 9M FY19 Earnings Conference Call Transcript

January 29, 2019

Moderator

Ladies and Gentlemen, Good Day and Welcome to the Praj Industries Limited Q3 and nine months FY '19 earnings 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sandip Bhadkamkar from Praj Industries. Thank you and over to you, Sir.

Sandip Bhadkamkar

Good day everyone. We welcome you to this conference call organized to discuss Praj Industries' operating performance and financial results for Q3 & 9M FY19, which were announced yesterday. I have with me Mr. Shishir Joshipura – CEO & MD and Mr. Sachin Raole – CFO and Director (Finance and Commercial) on the call.

Before we begin I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. Documents relating to our financial performance were emailed to you. These documents along with the quarterly results presentation have also been posted on our corporate website.

I would now like to hand over the floor to Mr. Joshipura for his opening remarks.

Shishir Joshipura

Good Day, Ladies and Gentlemen. I welcome you to Praj Industries' earning call for Q3 and 9M FY '19. It is a pleasure to connect with all of you again. I will cover some industry developments and quarterly business updates following which Sachin will take you through the financials.

For the last two years, we have seen ethanol blending levels climbing from 1.1 billion Litres to 2.6 billion Litres in this year, and this northward trend is something that we expect to continue. The Government has proactively implemented various measures, to provide support to the sugar industry such as interest subvention, cane price assistance, high ethanol pricing, export subsidies, incentives for expansion of distillery capacity to boost the implementation of ethanol production in India. Out of the 114 cases announced by Department of Food and Public Distribution for interest subvention scheme, several projects are in advanced stages of discussion. We expect that more than 50% of them will remain serious enquiries and awaiting statutory clearances from State and Center and expect them to be finalized over the next 12 to 18 months' timeframe.

The Government is implementing steps to widen and diversify the Bio-Energy landscape. In sync with this, under its ambitious SATAT Policy, the Government envisages setting up of 5000 CBG plants nationwide in a phased manner with 250 plants by year 2020, 1000 plants by 2022, and 5000 plants by 2025. These plants are expected to produce 15 million tons of CBG per annum, which is about 40% of the current CNG consumption of 44 million tons. Just to remind you, CBG is a complementary renewable transportation fuel converted from Agriculture residue, press mud, cattle dung, and municipal solid waste. This bio-gas will then be compressed and distributed as an alternative to vehicular CNG. In international markets too, several countries are focusing on bio-energy development. For example, in South East Asia, Thailand is enforcing stricter implementation of E-12 blending norms, this along with biomass processing makes it an attractive market opportunity. Latin American markets are also showing traction with Argentina pushing for E-15 and Bolivia for E-10. Europe's new IV2 legislation will result in increasing interest for second generation ethanol.

Let me now recap the key events and segments update at Praj:

Praj witnessed a strong quarter with healthy operational performance delivered across business segments. The 1G business witnessed buoyancy given the regulatory encouragement and support provided during the year. We are seeing several high potential enquiries from both domestic and International markets. We have strong expertise and market leadership that company looks forward in participating across the various opportunities. On the 2G front, Praj is making a healthy progress on the execution of the first batch of three second gen bio-refinery contacted by major oil marketing companies. The design and engineering work is already completed for these projects. During the quarter, Praj also secured order worth 80 crore from IOCL for supply of critical equipment for one of the 2G plants that we are building. I am very pleased to share that Praj recently unveiled its compressed biogas gaseous renewable fuel technology program. The CBG demo plant is a first of its kind integrated CBG plant in the country. This flexible and highly instrumented plant will test, improve, and optimize production of CBG from different feedstock such as biomass, press mud, variety of Agri waste, paper mill pith, etc.

The CBG technology is an outcome of Praj's focused R&D efforts of the last several years and further strengthens our technology leadership and commitment towards creation for sustainable bio-economy. We already have planned a roadmap for commercialization of CBG technology and are ready to execute multiple CBG plants with advanced technology and design. We expect the execution cycle of CBG orders to be of the order of 10 to 12 months. We already started securing enquiries for the CBG plant from different segments.

On the whole, the bio-energy business is progressing well and is expected to help us in building a healthy business performance across the domestic and international markets. The Pharma space continues to consolidate across market, capex decisions by a few Pharma major for deferment amidst this our featured business saw a steady increase in order book over previous quarter and we remain optimistic of a continued buildup there as well.

Coming to the engineering business vertical:

Our Brewery business continues to mark a healthy performance and has seen improved momentum in the overall order win. Favorable demographic, rising disposable income, and lower per capita consumption continue to attract investment in further building of capacity in India.

On the critical process equipment business:

We continue to drive our focus towards becoming preferred partners for the global EPC players. The certification and approvals by global players will enable us to bid for projects on a wider international scale. On a waste water front, we continue to remain focused on industrial zero liquid discharge system and are expanding our reach across sectors of our choice such as power, steel, chemicals, and Pharma.

Before I conclude, I am happy to share Praj has been selected for the prestigious CHEMTECH CEW Leadership and Excellence Award 2019 for outstanding achievement in R&D excellence. The award recognizes Praj's work in the area of bio-energy and innovative engineering solutions towards sustainable economy.

To summarize, we believe the company is fully geared up to leverage its core competencies supported by innovation, R&D, business fundamentals, strong leadership position, a strong technological knowhow, and expanding reference base. We are looking forward to a healthy and sustainable performance going ahead. With this, I will now hand over to my colleague, Sachin for his comments on the financial performance.

Sachin Raole

Thank you, Shishir. The consolidated income from operations stood at Rs. 330.32 crore in Q3FY19, up by 33%, PBT was Rs. 29.4 crore in Q3FY19, registering an improvement of 148% over the corresponding quarter of the last year. Profit after tax stood at Rs. 22.43 crore in Q3FY19 as compared to Rs. 7.53 crore in Q3FY18. For 9MFY19, Income from Operations was Rs. 772.94 crore, higher by 19%, PBT stood at Rs. 46.74 crore and PAT at Rs. 34.86 crore showing healthy growth over the corresponding period of the last year. Export revenues accounted for 32% (Rs. 105 Crs) of Q3FY19 as against the 44% of Q3 FY 18 (Rs. 108 Cr).

EBITDA, excluding other income (Rs. 27.87 Cr) for the quarter is 8.4% against the corresponding last quarters' 6.7% (Rs. 16.74 Cr) and for 9 months' period, it is 6.3% (Rs. 48.93 Cr.) against previous corresponding period's 4.7% (Rs. 29.95 Cr). Contribution for the 9 months' period has dipped by almost 1.08% as against previous corresponding period because of lower export revenue and some impact of increase in steel prices. We believe the impact of higher material cost would be felt for one more quarter. Other expenditure for the quarter has gone up because of increased execution activity on various domestic sites. Tax for the 9 month period is lower by 5% as compared to last corresponding period because during this period there is higher proportion of tax is on standalone profits which is at MAT. Compared to this, last year, there was a higher proportion of tax on subsidiaries which was at full tax.

Of the total revenue, 54% is from Bio-energy, 36% from engineering and 10% is from PHS business. The order intake during the quarter was Rs. 421 crore, with 70% from domestic market. Of the total order intake, 70% came from Bio-energy, 19% from engineering and balance 11% from PHS business. The order backlog as of December 31 2018 is at Rs. 990 crore. The cash and cash equivalent position as of 31st Dec 2018 is Rs. 350 Crs.

I now conclude my remarks and I would like to thank you all for joining us on this call. We would now be happy to discuss any questions, comments, or suggestions you may have.

Moderator

Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. We take the first question from the line of Nirav Vasa from B&K Securities. Please go ahead.

- Nirav Vasa** Sir, my first question pertains to the order inflow that we have received from 2G, so just wanted to check apart from this Rs. 80 crore of order that we have received that is for supply of critical equipment, can you share what has been the order inflow in the first nine months from 2G and any number that you can give, which is currently in the work-in-progress stage?
- Shishir Joshipura** The total order intake for us on 2G during the nine-months is Rs. 120 crore, Rs. 80 crore of which is what we have received this quarter for supply of material, the first Rs. 40 crore was towards supply of licensing and engineering services.
- Nirav Vasa** Sir, since we are working with the all the three OMCs right now and their eventual plan is to set up around nine plants, so effectively does it mean that for the six plants which they are going to set up maybe at a later stage, are we the preferred technology partner by default?
- Shishir Joshipura** I would not reach that conclusion, as on date the Government has announced a plan for setting up of 12 projects. Of the 12 projects, three as we have already announced they are building, two are being built by others and that is the status of the awarded projects. The future projects are still under consideration and one of the job, the sixth job, we are aware that we are in discussion now with the customer for finalization of the contract.
- Nirav Vasa** So effectively, we have four projects in our kitty as of now, am I right in my assessment in 2G?
- Shishir Joshipura** Three already awarded, one under discussion.
- Nirav Vasa** The other question that I had was in the bailout package which is given by the Government to the sugar industry wherein they can either put a 1G-based ethanol plant or increase the capacity, so how do you think the environmental clearance process can work in these particular projects, because as I understand it takes around six to nine months for any sugar company to get mandatory environment clearance, so is Government working on speeding up the prospects of environmental clearance for these companies and what is your sense on this part of it?
- Shishir Joshipura** You are very correct that the environmental clearance (EC) is required for the project to be built and a very good news, the Government has just come up with a notification that shows that for the next one year, the requirement of environmental clearance is being rationalized, so if you already have a plant that exists and now you are going to expand on the same location, then you do not have to go for a new EC clearance, you can go ahead and stay with the same EC and build a project provided you already have a EC for the site.
- Nirav Vasa** This is for the existing plant, so effectively the plants which are expanding capacity they do not have to go for EC, but new plants have to go for?
- Shishir Joshipura** Yes, for the next one year. Of course, this is a subject on which the State Government will also have to notify and we believe that this is what will happen.
- Nirav Vasa** Sir, the other question is pertaining to the bolt-on technology, as I am able to understand there is clear-cut directive which is funded either by Government to setup 1G plant and 2G plant, so are we seeing any enquiries coming from the existing mills to upgrade the existing plants from 1G to 2G technology, how is the enquiry pipeline coming especially for bolt-on?

- Shishir Joshipura** There are several questions that you have asked in this one question to me. There is no such thing about saying you have a 1G plant and I put another set of equipment and it becomes a 2G, it does not work like that; 2G is a very separate route because the feedstock is different. In 1G, the feedstock is let us say sugar molasses, in 2G it is going to be agricultural waste like rice stock, so there are very different routes being followed by both the plants and very different technologies. 1G is a different technology, 2G is not an improvement over 1G, it is just that 2G is a name given, it is a different feedstock that is being used, so a different feedstock being used, and therefore, the 2G plant is being built, 1G plant is being built on molasses. Then we come to the bolt-on technology and bolt-on technology is something where you are trying to see if you can use multiple feedstock and that is very situational for a customer to define whether a particular feedstock will meet their output for the full year or they need to have multiple feedstock and that is when one could consider and that depends on how we will go forward on that path.
- Nirav Vasa** Sir, in this existing enquiry, are we having bolt-on related queries also?
- Shishir Joshipura** As of date, no.
- Nirav Vasa** Sir, my last question is out of this 360 crore of cash balance that we have, can we have the breakup of that in terms of free cash reserves and the advance that we would have received from customers?
- Sachin Raole** Advance will be around Rs. 215 crore, balance is free cash flow.
- Moderator** Thank you. We take the next question from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.
- Vikram Suryavanshi** First question is that how much capex we are planning to do for this demo CNG plant?
- Shishir Joshipura** We expect to spend about Rs. 6 crore on setting this plant next to our 2G demonstration facility.
- Vikram Suryavanshi** By when it will be completed?
- Sachin Raole** We expect to finish this plant over the next two quarters.
- Vikram Suryavanshi** The other income, is it mainly because of Treasury or is there anything one time in other income, what we have seen in this quarter?
- Sachin Raole** It is not one time, it is mainly based on Treasury income. The additional income has flown in from the mutual fund investment, which we had in this quarter.
- Moderator** Thank you. The next question is from the line of Ritika Agarwal from Quest Investments. Please go ahead.
- Ritika Agarwal** Sir, if you could update on how are CBG opportunities shaping up and do we have any orders currently in our order book for CBG?
- Shishir Joshipura** Ritika, CBG process is under the SATAT policy, envisages that prospective customer has to first file an Expression of Interest with one of the oil marketing companies and then upon receiving the approvals because they have, oil marketing companies have to confirm that they will be in a position to off-take the gas once it is produced in terms of quantity and location and subsequent to that the

whole process begins, so right now we have just gone through three months of EOI process and we expect that the ordering will start somewhere from March onwards.

- Ritika Agarwal** Currently, we do not have any orders in our order book for CBG?
- Shishir Joshipura** That is correct.
- Ritika Agarwal** Sir, my second question would be how is the European opportunity shaping us for the company, has the company started ordering to us?
- Shishir Joshipura** We expect this to generate a lot of interest and opportunities. We already have three active enquiries with us on which we are working and we even had one of the customer's visit us in recent past for detailed discussions.
- Ritika Agarwal** Sir, my last question is on methanol, so a lot of talk is being going around methanol and is getting pushed from the Niti Aayog and the Government, so any idea on how can methanol and ethanol co-exist in the environment?
- Shishir Joshipura** I think the question is can they both be used as blending agents, the answer is yes, they can be used as blending agents and that is what we have seen in the reports. The key issue is that, if you look at the overall umbrella under which, the whole ethanol blending program was pushed forward, it had a multiple segments to which it was addressing, for example, the farmer for his waste, environment for the greenhouse gas emission impact, import substitution for the foreign exchange savings and of course the employment generation that happens, whereas methanol comes through a very different route, known routes are if you use coal as a base then clearly the farmer is completely excluded. If we use coal as the base then the GHG emission related issues completely go away, in fact it is an adverse impact on GHG emission, but it is a cheap substitute for blending into oil, so we have to define as to what route it will take. There are several methanol derivatives also, which can go as blending for diesel, which is not the case with ethanol, ethanol will go in petrol, so I think policy has to evolve around creating a balance in the environment amongst what is the goal that we want to achieve and accordingly try it.
- Moderator** Thank you. The next question is from the line of Levin Shah from Value Quest Research. Please go ahead.
- Levin Shah** Sir, my question is firstly on the gross margins, if you see despite this strong growth, the gross margins that we have reported are actually down when we compare it Y-O-Y, so what is the reason behind the same and where do we see this gross margins trend, going forward?
- Sachin Raole** If you look at the gross margin and I had explained in my remark also that there is a drop in the gross margin on two accounts, one there is a lower export revenue during this quarter and another one is - some firming up of the raw material prices which we have seen in this quarter and we also said that in the next quarter also we will see some kind of an impact of those raw material prices to come up in the play, but going forward it will taper it down.
- Levin Shah** Sir, where do we see, not a number, but in terms of trend like gross margins we use to do, like two years back we used to do 50% plus gross margins, do we see that scenario coming into play in FY '20 or that is something that will not happen?
- Sachin Raole** If you look at gross margins has hovered around in the ratio of 48% to 52% kind of a scenario, so we will see that kind of a range going forward soon. Of course, there

are two more components, one is what will be the export revenue and what will be the only service orders which will be executed, so if I am having couple of service orders coming in, my gross margin will definitely look very different, but the moment we are having more on the execution side, the gross margin will look little lower, so it will hover between 48% to 52%.

- Levin Shah** Sir, second question is on this 1G opportunity, like out of these 114, how many actually distilleries have gone ahead and ordered for putting up the plant?
- Sachin Raole** Out of these projects, only handful that have so far decided, a majority still has to decide on placement of orders.
- Levin Shah** How many of these 1G orders have we received?
- Shishir Joshipura** As you are aware, we have about 70% market share and that is in our share of these orders as well.
- Levin Shah** Sir, lastly on this biogas opportunity, so if you look at the numbers, the numbers look quite large in terms of the opportunity, but in terms of the profile of the companies or the people who would be putting up this plant, who are the most likely ones who would be putting up the CBG plant?
- Shishir Joshipura** It depends on the feedstock, very clearly there is some very natural candidates like sugar mills because they will have press mud availability with them. There could be some chicken farm companies, which will have chicken litter available with them, and then of course next, there would be paper companies which will have bagasse pith available with them and then of course there will be independent producers of energy, which could be people like the current distributors of the LPG for oil marketing companies, some of the other city distribution gas companies, it could be a very differentiated profile for and there could be independent entrepreneurs as well who will put up the biomass based biogas systems.
- Levin Shah** Is there any subsidy kind of thing from the Government for putting up this plant?
- Shishir Joshipura** Yes, there is a subsidy program that has been announced by MNRE and it is inclusive.
- Levin Shah** How much would be the subsidy, Sir, if you can just explain a bit on that?
- Shishir Joshipura** The subsidy is on the side of the capex and depending on the output that you are able to commit on the CBG quantity, at every 4.6 tons of CBG quantity, there is a 10% capex subsidy that is available from the Government.
- Moderator** Thank you. The next question is from the line of Shariq Merchant from Quest Investment. Please go ahead.
- Shariq Merchant** Sir, my first question is on the CBG opportunity. I want to understand the pipeline a little better because since October a lot of clients have shown interest, but this is also going to be a function of how the OMCs clear plants going forward. Now, as you indicated that it takes two to three months for that to happen, how do you see approvals coming through from the OMCs for these plants and in the next three to six months, how much of this do you think will materialize because the EOI that has been put out by the OMCs is only till March 31st, so what happens after that?
- Shishir Joshipura** Yes, that is a good question and I think the time will tell the remedy on what happens after March 31st, but obviously this is a program under which Government

has announced that they want to put up 5000 plants and one of the key components for this program is the fact that there is an off-take agreement signed off by the OMCs, so without an off-take agreement it would be very difficult for anybody to envisage a project for a CBG and we are very hopeful that program will roll forward in terms of registration and off-take agreement.

- Shariq Merchant** Sir, in terms of the kind of interest that you have seen at least in the first tranche, how many orders do you think you would be looking forward to securing, would it be in the range of 10 to 20 plants, would it be more than that or less than that, if you could help quantify it would give us a lot of clarity?
- Shishir Joshipura** This is little bit of early days yet to give a definitive number for this, because there are several factors that one has to look at. One is of course the EOI and LOI dimension with the oil marketing companies, but then the second dimension is also around the project itself to get it funded, to get it environmentally cleared, so all dimensions have to come at play and maybe this is little still early to say how many contracts will get finalized in a short-term period going forward.
- Shariq Merchant** Sir, in terms of margins, what would the margin profile be like?
- Shishir Joshipura** This is too early for me to talk of margin for a business, which is still in conceptual stage.
- Shariq Merchant** Sir, I also had a question on the subsidiary, so we did around Rs. 50 crore of revenue if I do consolidated minus standalone and in terms of contribution to PBT, there was not too much there, so just want to understand what this comprises and why was there no PBT contribution, a large part I understand would be high purity here?
- Sachin Raole** It is a combination of our execution norms and high purity, that is what comprises of our subsidiary. Naturally, on the execution subsidiary there is definitely a lower margin because generally we have our margin getting up on the supply side and not on the execution side, that is one element and there was a pressure to some extent on the high purity margin also, that is the reason why you are not seeing a big swing in the subsidiary contribution margin.
- Shariq Merchant** Going forward, this should trend upwards?
- Sachin Raole** This should definitely stabilize, it is not necessarily an indication of a trend going forward.
- Shariq Merchant** My last question is on the engineering side, we have also been in touch with several global majors like even highlighted in the opening remarks, when do you expect orders from this bit going through start to come in?
- Shishir Joshipura** The relationship with large MNCs and EPC companies globally has to go through a process flow and there is a whole thing about registration and a pilot program to be done for the required project to be executed and when that is done then you get enlisted as a regular vendor, that is the process that we are currently undergoing. We are executing first jobs for two or three of these companies and we believe that once we finish and as of now we are on track for a normal registration so maybe during the second half of the calendar year, we will see this registration as regular vendors come to fore.
- Moderator** Thank you. The next question is from the line of Rajesh Majumdar from SMIFS. Please go ahead.

- Rajesh Majumdar** Sir, my first question is out of the bio-energy orders, how much is from domestic ethanol projects?
- Shishir Joshipura** The total domestic orders are in the range of 70%, 30% are on the international side. If you want to know the breakup within bio-energy, then it is 50%:50%, 50 for domestic and 50 for international.
- Rajesh Majumdar** On the 2G front you mentioned you got an order of Rs.80 crore of supply of Critical Equipment, so I understand, which is around 700 to 800 crore for one plant, so when is OMC going to buildup?
- Shishir Joshipura** There is a detailed project schedule under which these projects are being executed and as we had mentioned in the past, for example, in IOCL's case we expect another 18 odd crores worth of contract to come through on the process equipment to us. The balance is something in which Praj is not participating, that will be built by depending on the business model by an EPC company or several set of suppliers.
- Rajesh Majumdar** If I have to understand this whole plant of 800 crore, how much is the scope for Praj and how much Praj is going to participate in it?
- Shishir Joshipura** Currently, our participation will be sort of 130 to 150 crore per project.
- Rajesh Majumdar** I understand the application numbers have gone up by 280 odd numbers for setting up the ethanol plants in India, so how many orders do you expect to materialize, what could be a good expectation from your side?
- Shishir Joshipura** As we had mentioned in our opening remarks of the 114 which is the first tranche, we expect about 50% of those projects to go through and see the light at the end of the day and on a thumb rule basis, we would expect a similar rule to be applied to the next set of applications there.
- Rajesh Majumdar** I am trying to understand what is the ticket size or the capacity size of each of these applications?
- Shishir Joshipura** It is different capacities for different people because it is based on the feedstock availability as you would appreciate, so there is no one fixed capacity for all applications, so things can vary between a small plant of say 30,000 Litres per day to a large plant of 150,000 Litres per day and in between.
- Moderator** Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.
- Saket Kapoor** Ours being a project engineering concern and lumpiness of numbers have always being a part and parcel of the earnings, so looking at the scenario as on today, the fourth quarter traditionally is a big quarter, so would there may be any aberration or we are likely to be following the same trend?
- Shishir Joshipura** I do not think we are in a position to tell you what is going to happen in fourth quarter in number terms, but as you rightly said, we are a project business and it has its own characteristics across the board and we do not expect anything different to happen.
- Saket Kapoor** Depending upon the execution and the deliverables in the likelihood, the fourth quarter will pan out to be in similar terms as it has been in the last year, just in terms of projects coming to completion?

- Shishir Joshipura** In general, yes, what you are saying is right, so given the nature of project businesses, we will continue to see some lumpiness on quarter-to-quarter basis, but generally speaking, Q4 quarters do have a certain characteristics and we do not see anything to change that.
- Saket Kapoor** Sir, for this 2G ethanol part, how bigger the reality is going to be depending upon the grains being taken as the raw material, rice husk, how confident are you that this technology will be a game changer for the industry? How confident are we that this is going to be a sustainable mode of ethanol generation that will finally go into the blending part, so how is the setup right now that this could be a continuous process by which ethanol can be produced, I think that the pilot projects are now over and just some thought process on it?
- Shishir Joshipura** First of all we are extremely confident of our technology. We are not doubting our own technology, we know we have a demonstration plant, we have a pilot plant, we understand what happens and how it works and on the strength of that and our continued research and investment in technology, we are very, very confident that we will be able to build the commercial scale plant and demonstrate the performance in line with what we expect the parameters to be, so that is one dimension. The second is I think what you also have to understand is that the 2G ethanol is a very different route compared to 1G ethanol. The good news on 2G ethanol is that it is a renewable source of feedstock, so over a period of time we can continuously see and we are not constrained on the feedstock side. The third is the policy environment itself, so 2G ethanol or advanced bio-fuel as it is called, there has to be separate policy around blending of advanced bio-fuels and that is something that led to directive. In Europe, for example, has now mandated that the new blending will have to happen from advanced bio-fuels, and therefore, obviously that will give rise to 2G ethanol production capacity being built, so it is a combination of several factors and we will see as the environment matures and develops plus the commercial plants that we are building go on scale, we will be able to see a traction on that side as well.
- Saket Kapoor** As of now, the acceptance is only for the domestic market or the pilot, this technology has been accepted in other parts of the Globe also?
- Shishir Joshipura** We now have very successful pilot and demo plant and we are able to showcase the entire process, the parameters, the conversion to anybody who is interested and there have been several interested parties who have come and visited our plants. As you probably recall, at the beginning of the last calendar year, there was a very large delegation from Europe which came to visit, this delegation of policymakers. We have since then have seen several customers from outside India who have come and seen the plant.
- Saket Kapoor** Along with you, there was one more player, I think India Glycol has also being commensurate with the same technology?
- Shishir Joshipura** India Glycol plant is put up under technology of DPT-ICT
- Saket Kapoor** The feedstock is remaining the same, the technology is totally different, just wanted to understand?
- Shishir Joshipura** Feedstock being the same, the technology is different, yes.
- Saket Kapoor** Whether both technologies are being accepted now or the one which you have developed has got a greater credentials than the one developed by ICT-DBT?

- Shishir Joshipura** We have a running demonstration plant which is open to our customers to come and see and which we are able to demonstrate. We are building three plants currently compared to one of our competition.
- Moderator** Thank you. The next question is from the line of Jehan Bhadha from Nirmal Bang Securities. Please go ahead.
- Jehan Bhada** Sir, if I look at the other expenses during the quarter were a bit higher, so generally we have been at about Rs. 60 to 70 crores per quarter. This quarter we were at Rs. 83 crore, also if I look at the other expense as percent of sales, it has been in the region of 25% to 26%, so if you can help us break this up between variable and fixed cost, if our sales are going to increase will other expenses as a proportion of sales continue to be at this percentage or how should we look at this?
- Sachin Raole** Definitely, this percentage will not continue going forward. In this specific quarter as I mentioned, there was an execution of couple of domestic projects which was happening which has contributed on the little higher other expenses side. There were certain expenses, one-time expenses, which we have taken care of in this quarter which has contributed to the higher percentage as compared to any other quarter. We do not believe that this kind of a percentage will continue going forward.
- Jehan Bhada** Can you quantify what was the one-off expenditure for this quarter?
- Sachin Raole** It was around Rs. 10 crore kind of a thing, which we have actually provided in this quarter related to domestic projects, which we are executing.
- Moderator** Thank you. We take the next question from the line of Bharat Sheth from Quest Investment. Please go ahead.
- Bharat Sheth** Sir, just can you give little more color on the opportunity on international side or including our bolt-on and 2G side and geographically in Latin America and USA, what exactly we are doing to grab the market over there?
- Shishir Joshipura** Let me start with 2G, so there is a directive in Europe called REB-II and that is now mandating use of advanced bio-fuels for blending going forward and there are several stipulations there, which sort of indicate that all new capacities that you can build will be built around the second-generation ethanol in Europe at least from blending perspective. Now, that being the directive we expected that a lot of activity will start, we already have some traction as I was mentioning earlier as well with three customers that will start to move, so that is as far as Europe is concerned. If we go to bolt-on technology that we are talking about maybe North America will develop as a possible market, early days still, but that is something that could happen there. It can also happen in some other parts of the world as I was mentioning, if customers are looking for multiple feedstock opportunities then sometimes bolt-on technologies come in very handy. Latin America will continue to remain at the back of some of the challenges that the economies in general are facing in Latin America, but they will still continue to push for higher blending mandate because that makes it easier for them to manage their foreign reserves, exchange reserves as a country so we expect some 1G plant capacities to be built in those part of the world.
- Bharat Sheth** On brewery side, Africa market, any color how the things are shaping up?

- Shishir Joshipura** We are beginning a dialogue with couple of international majors to see how we can play a role in the African Breweries development and we are sure that as time progresses, we will be able to report some progress on that.
- Moderator** Thank you. The next question is from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.
- Sanjeev Zarbade** I wanted to know the kind of order enquiries that we are seeing in the current quarter as compared to the previous quarter, so just kind of get a feel about how the order intake is likely to shape up in the future? The level of order enquiry that we are seeing currently, what could be the increase going forward?
- Sachin Raole** We will definitely see because as we mentioned on the 1G side, the enquiry basket is very healthy and we will see some kind of improvement in the 1G order intake, going forward.
- Sanjeev Zarbade** Is the bidding pipeline much higher currently as compared to the third quarter or how is it shaping up?
- Sachin Raole** I will not be able to give you the exact number, I can just tell you the trend going forward because we generally don't give the guidance on the numbers, we can just give you a trend that on the basis of the enquiry basket, it looks like that the conversion ratio will be good for us.
- Sanjeev Zarbade** I think maybe you have answered this, just wanted to know out of the 421 crore order that we got in the third quarter, how much of that was from the 2G plant, the critical plant package?
- Sachin Raole** It was Rs. 80 crores.
- Sanjeev Zarbade** What is the cash and cash equivalents on the balance sheet right now?
- Sachin Raole** It is Rs. 350 crore.
- Moderator** Thank you. The next question is from the line of Sagar Kapadia from Anvil Share & Stock Broking. Please go ahead.
- Sagar Kapadia** What is the total ethanol capacity in India - kilo-litres per day as of March 2018 and December 2018?
- Shishir Joshipura** We can probably send you that information separately.
- Sagar Kapadia** Government goes to 20% blending, then what was the existing capacity and how much more can come to the Praj?
- Shishir Joshipura** Just to give you a broad idea, the requirement is about 3.3 billion Litres as of for E-10 program and we expect about 2.6 billion Litres to be fulfilled out of that as of now, so that gives you a gap that exists currently of E-10, so E-20 is to be double up that number, so 3.3 will be roughly 6.6 plus the inflation or the increase in consumption over a period of time that will happen.
- Sagar Kapadia** Secondly Sir, earlier you had said that total capex for 2G refinery will be Rs. 1000 crore, so this out of Rs. 80 crore is the order you have received for the critical equipment from IOCL?

Shishir Joshipura	Yes.
Sagar Kapadia	So we will not be tendering for the subcritical part, Praj will not be going for that on a tender basis?
Shishir Joshipura	As you are aware, there are several components to these contracts so we have got what I call as licensing and detail engineering package from all these three oil marketing companies and in next tranche is the critical equipment and within that IOCL has released the first tranche of critical equipment of Rs. 80 crore. We expect another Rs. 18 to 20 crore kind of critical equipment orders to flow from IOCL and of course roughly 100 each from the balance as well. That is what is the extent of our participation in these programs as of now.
Sagar Kapadia	Praj will go on further for the non-critical part also or you will not go on for the non-critical equipment?
Shishir Joshipura	There are several rules that govern as to who can participate and who cannot, so we will have to follow those for each of the PSU separately.
Moderator	Thank you. We take the next question from the line of Rajesh Majumdar from SMIFS. Please go ahead.
Rajesh Majumdar	The execution rate has improved from the last quarter and going forward, shall we expect this kind of execution rate or shall we expect a more improved rate from this?
Shishir Joshipura	I think what you have seen is that we are able to execute this level of contract in a quarter and as you rightly asked what we are going to look forward, obviously we will have to make sure that we continuously upgrade ourselves to ensure that whatever the execution as required by our customers is something that we are able to fulfill.
Rajesh Majumdar	On the margin side if you can give a hierarchy from the highest margin, is it your domestic ethanol segment is the highest margin or export?
Sachin Raole	The margins generally are better in the exports market as compared to domestic market.
Rajesh Majumdar	Shall I put bio-energy export as higher than the engineering export?
Sachin Raole	Yes, you can do that.
Rajesh Majumdar	How much traction is going to continue from the long-term perspective, is it the order intake and the consumption that is going to rise, so more and more capacity is going to buildup and orders for Praj is going to continue like that?
Shishir Joshipura	Well, that is what we wish for, but I think what is important to note is that is what we have been saying over a period of time that there is an external environment change that has happened coupled with our own technological development and inputs on R&D, we are building a strong position for ourselves so that we can not only maintain, but build further on our market share so given the environment and the deficits that we talked about in terms of capacity shortfalls etc. from what the market demand is, I am sure that we will continue to see a decent traction going forward.

- Rajesh Majumdar** In terms of bio-energy segment, where do we have the largest chunk of share in international market?
- Shishir Joshipura** In terms of market share, maybe both are very similar but if you say in a particular quarter maybe it is possible that Southeast Asia has done more in a given quarter.
- Rajesh Majumdar** Going forward, are we looking more in Southeast Asia because as we understand that in Southeast Asia the blending mandate is coming up very strictly?
- Shishir Joshipura** Yes, obviously in markets whether it is in Southeast Asia or South America, if the blending mandates drive capacity creation, we would make sure that we are present and participating in those markets to the best of availability.
- Moderator** Thank you. The next question is from the line of Sandeep Baid from Quest Investment. Please go ahead.
- Sandeep Baid** Sir, on the Bio-CNG opportunity, you mentioned that you are investing 6 crore to put up a demo plant and that it will take two quarters to execute, so just wanted to understand and you also mentioned that you expect orders on the Bio-CNG side from March onwards, so are we looking at orders for Bio-CNG plants even before the demo plant is executed or do you think that would be that would be possible?
- Shishir Joshipura** I think what you have to understand is that demo plant has multiple purpose, it will establish performance on different feedstock, so on some of the feedstock which are well-known, where the results are known, you can build even without demonstrating it in real terms because we have already built several plants, but if somebody comes with a new feedstock then I need to be able to test and see what works, the demonstration plant will be used for that purpose.
- Sandeep Baid** So for which all feedstock have you already built plants and how many have you built?
- Shishir Joshipura** For example, press mud is a big application, so those are the things for which we already have plants up in the field and demonstration stage as well, so those we do not need to demonstrate.
- Sandeep Baid** For press mud feedstock we already have plants?
- Shishir Joshipura** We already have a demonstration unit available.
- Sandeep Baid** What would be the average ticket size for these plants?
- Shishir Joshipura** That depends on capacity, two dimensions, what the feedstock is and how much of it is available and for what period of time, so there are several factors but we could expect a plant size outlay between 30 crore to 50 crore per plant.
- Sandeep Baid** What would be our share in that 30 to 50 crore? Would we be providing a turnkey solution where we will be providing the entire plant or we will do part of it?
- Shishir Joshipura** We will be supplying the entire plant more or less.
- Moderator** Thank you. We take the next question from the line of Chandra Mauli from Paterson Securities. Please go ahead.
- Chandra Mauli** What is the capacity utilization currently?

- Sachin Raole** Capacity utilization is around 65%.
- Chandra Mauli** In terms of the top line maybe we can expect that the same capacity of about some 2500 to 2700?
- Sachin Raole** Not necessarily, it completely depends on what components we are executing at our end and what component we are getting it outsourced, so to derive a number on the basis of capacity utilization it is little tricky for that matter.
- Chandra Mauli** Sir, for example if you cross 90%, do we have to go for a further capacity, right?
- Shishir Joshipura** At some moment in time, yes, we will have to build additional capacity but as Sachin was mentioning to you, for us the levers are very different. What we need to build inside, we have a dedicated vendor base where we can get the equipment built, we can expand that capacity so it is not strictly a function like let us say a auto component company where you have reached 75% and then you are looking left and right what to do, that is not the way it is for our kind of business.
- Moderator** Thank you. The next question is from the line of Levin Shah from Value Quest Research. Please go ahead.
- Levin Shah** On this 1G, what we have seen is that this Government scheme was cleared like six months back almost and yet we have not seen many orders flowing, so what is the reason behind that, is it the environmental clearance that is holding back the capex?
- Shishir Joshipura** I think you will appreciate that if anybody is contemplating a project of this size which where investment could run between 150 crore and they would have to make a project, they will have to get finances lined up, they will have to look at land, they will have to look at feedstock availability, the EC as you mentioned, so several factors before they can come to an ordering stage and we expect that is something that will start to roll out now
- Levin Shah** Sir, once they start ordering, how long will it take for the plant to get commissioned?
- Shishir Joshipura** Almost anything between 9 to 12 months depends, but somewhere around that.
- Levin Shah** In Q4 FY19 as well as in Q1 of FY20, maximum number of orders are not laid out, then the sugar mills will actually miss the season of next year for supplying ethanol?
- Shishir Joshipura** If they put up a Greenfield project, what you are saying is correct, but there is also an option for them to expand. If they already have a facility then they can also create an expansion in capacity which could be a shorter cycle time, but if somebody is trying to do a Greenfield project, then yes, they need to do it over the next six months.
- Levin Shah** On 2G, did we have any execution during this quarter in the numbers?
- Shishir Joshipura** This quarter it will be very small component on the engineering side, but not on the 80 crore side.
- Levin Shah** Engineering, that would be not a sizeable component right?

- Sachin Raole** It will be a very small component, just the closing part of our existing Engineering order which we are doing.
- Levin Shah** On margins, you said that export margins are better than domestic, so for this our bio refinery segment if we look at it, the domestic margins for new capex, the sugar mills, the 1G capex that is going to happen, the margins over there would be lower than the company average or it would be higher?
- Sachin Raole** It will be in the range of company average, what we mentioned that export orders command better margin.
- Levin Shah** So pricing is better in the exports market?
- Sachin Raole** That is right.
- Moderator** Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.
- Sandip Bhadkamkar** Thanks a lot everyone for your time and asking questions. We will be happy to answer any other question that you may have; you can also write us to investor@praj.net email ID and thanks a lot.
- Moderator** Ladies and Gentlemen, on behalf of Praj Industries Limited, we conclude today's conference. Thank you all for joining us and you may disconnect your lines now.

Disclaimer - The following transcript has been edited for language and grammar, it however may not be a verbatim representation of the call.