Praj Industries Limited
Q2 & H1 FY21 Earnings Conference Call
November 05, 2020

Moderator: Ladies and gentlemen, good day, and welcome to Praj Industries Limited Q2 FY21 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 an operator by pressing '*' then '0' on your touchtone phone. 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, Mr. Sandip Bhadkamkar.

Sandip Bhadkamkar: Good day everyone. We welcome you to this Conference Call organized to discuss Praj Industries' Operating Performance and Financial Results for Q2 & H1 FY21 which were announced yesterday. On this call I have with me Mr. Shishir Joshipura – CEO & MD and Mr. Sachin Raole – CFO and Director (Finance & Commercial).

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 our financial performance were e-mailed to you. These documents, along with Quarterly Results Presentation have also been posted on our corporate website.

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

Shishir Joshipura: Good morning ladies and gentlemen. I welcome you to Praj Industries' Earnings Call for Q2 & H1 FY21. Trust all of you had the opportunity to go through our results presentation for the quarter ended 30th September, 2020. I hope that you and your family members are safe and healthy.

The festival season of Deepawali is fast approaching and I convey my best wishes to you and your family on the occasion. It's a pleasure to connect with all of you to cover quarterly business updates and industry developments. Following this Sachin will take you through the financials.

Let me begin by sharing news that ought to make all Indians proud and I am privileged to share the same with you. Washington DC-based Biotechnology Innovation Organization (BIO) awarded our Chairman Dr. Pramod Chaudhari with prestigious 2020 George Washington Carver Award for innovation in in industrial biotechnology and agriculture. Dr. Chaudhari is the first Indian and only the second Asian recipient of this honor. The recognition is testament to Dr. Chaudhari's exemplary leadership, pioneering endeavors and his relentless pursuit in building a sustainable ecosystem for the advancement of a bio-based economy.

Let me share with you some thoughts on the business environment:

After an unprecedented and unparalleled June quarter, the second quarter of the fiscal witnessed gradual return towards normalcy for the business environment across the globe, though at different pace in different economies. The threat of virus has not gone away and we still need to stay vigilant.

A combination of improving macro indicators such as GST collections, E-way bills, auto sales, consumer demand, manufacturing PMI coupled with healthy and widespread monsoons and rural demand together is now indicating the first sign of recovery in the domestic market.

The corporate sentiment also remains fairly upbeat as we see encouraging signs of demand revival and pickup in business activities albeit at differing pace across the economies.

The current ethanol blending rate in India has reached a level of 5.1% amounting to 200 crore liters in current year. With the Government's plan to reach 10% by 2022 and 20% by 2030 there is significant capacity that needs to be built to cater to the additional blending requirement by 2022.

With a view to achieve blending targets Government is encouraging sugar mills and molasses based standalone distilleries to enhance their ethanol distillation capacity. A total of 362 distilleries have applied for a soft loan of about Rs. 18,600 crore, an interest subvention of about Rs. 4045 crore is being borne by the government for capacity enhancement and augmentation of ethanol production over the next 5 years.

So far loans have been sanctioned to 64 projects, proponents and completion of these projects would increase ethanol distillation capacity by 165 crore liters in another 2 years. Thus the ethanol distillation capacity in the country would increase from 426 crore liters per annum to about 590 crore liters per annum by 2022. To encourage sugar mills to divert excess sugarcane to produce ethanol for blending with petrol, the Government has allowed production of ethanol from B-heavy molasses, sugarcane juice, sugar syrup and sugar and has also fixed the remunerative ex-mill price of ethanol derived from these feed-stocks. The state wise targets for ethanol manufacture have also been fixed.

Sugar mills and distilleries have been advised to utilize at least 85% of the existing install capacity to produce ethanol. Sugar mills having install distillation capacity have been advised to divert B-heavy molasses and sugar syrup for producing ethanol to utilize the capacity to maximum extent and those sugar mills which do not have distillation capacity should produce B-heavy molasses and should tie-up with distilleries which can produce ethanol from B-heavy molasses. States have also been requested to ensure smooth movement of molasses and ethanol.

To facilitate financing, the OMCs, sugar mills and banks have agreed to a tripartite financing mechanism in an effort to boost the ethanol investment capacity of sugar mills. Escrow accounts are to be set up so that OMCs pay banks directly without passing through mills, so that mills can secure financing for additional ethanol production.

The Cabinet Committee on Economic Affairs chaired by the Prime Minister, Shri. Narendra Modi has approved upward revision of ethanol prices up to Rs. 3.34 per liter.

In addition, the Government has increased the new FRP for sugarcane at Rs. 285 per quintal for basic recovery rate of 10% and a premium of Rs. 2.85 per quintal for every 0.1% increase thereof.

For ethanol supply year 22-21, Oil Marketing Companies have floated EOIs to purchase 430 crore liters of ethanol. They are also planning to purchase about 100 crore liters of ethanol produced from surplus rice. This surplus rice has to be necessarily be procured from the Food Corporation of India only. FCI will facilitate in supply of surplus rice based on the LOI or PO quantity issued by the OMCs to the manufacturers.

Praj's technology will enable sugar mills to produce ethanol from B-heavy molasses, juice as well as from food grains in the most optimal manner.

Let me now take you through the highlights and the developments for the quarter for our bioenergy business:

In Q2 FY21, we witnessed a jump in number of enquiries over Q1 FY21. There is an increasing traction for B-heavy molasses and bio-syrup to ethanol plants. We have received a very positive response to our webinars that we had held with customers over syrup and bio-syrup based ethanol technologies from across India. After Government announcement regarding the use of surplus rice for ethanol production enquiries for the grain-based ethanol plants are on the rise.

On the international front; there is an increasing traction for Pharma grade alcohol. We conducted a series of webinars on Pharma grade alcohol for our customers in Asia Pacific, Africa, US and Europe evoking positive response. In America we are building further on the initial success of the Pharma grade alcohol and have bagged four more orders in the quarter gone by. We also won two significant export orders this quarter, one from wash to ENA plant in Mexico and another one for wash to multi-product facility in Canada which will include Pharma grade alcohol. With this we are making entry into the Canadian market as well. We expect to continue to build on these increased in both Canadian and Mexican markets and further expand our reach.

On the 2G front:

Project execution is progressing on schedule and we expect to commission the first plant by the end of next calendar year. In Europe there has been a slower progress on the 2G opportunity due to lack of long-term certainty of RED-II implementation. Our association with SEKAB is progressing well and we are currently working on few prospective enquiries.

The CBG business:

The Government of India is taking different steps to prioritize production of Compressed Biogas. The Cabinet Committee on Economic Affairs is approved, Natural Gas marketing reforms taking another significant step to move towards the gas based economy. The Government aims to increase the share of natural gas in the country's energy mix to 15% by 2030 from 6% currently. The Government understands that CBG in the long-term is a sustainable solution to the stubble burning problem in the country. Government is gradually building the ecosystem for

CBG business by formulating policies such as inclusion of CBG projects under priority sector lending, fertilizer control order for solid bio fertilizers, 10 year clarity on minimum off-take price by OMCs etc.

At our demonstration plant at Praj Matrix, process trials are underway for the production of CBG using different types of feed-stock such as rice straw, wheat straw and corn-cobs. The commissioning of demo plant has commenced and a formal inauguration ceremony is planned for tomorrow that is Friday 6th November, 2020.

Overall we are seeing healthy opportunities for our Bioenergy business across both domestic as well as international markets.

Let me share update on our Engineering business:

In Brewery business, domestic market is still reeling from a lack of demand on account of the pandemic related curbs. New investments are currently on hold as markets are still in the process of returning to normalcy. With opening up of bars and restaurants across the country along with reduction of taxes in Delhi, Orissa, West Bengal, J&K beer sales are expected to pick up in second half of FY21. On the international business front we focused on Africa as it is a market with the mirror image business cycle of India. The brewery cycle in Africa is currently at its peak and we are seeing healthy enquiries from this region. We saw couple of strategic order wins coming from Niger and Kenya for us. On strength of our knowhow in hygienic beverage manufacturing, we have won a very important contract for setting up an Apple-concentrate plant in Himachal Pradesh.

On CPES front, we continue to strengthen relationships with select global technology and EPC players. We received a prestigious Supplier Award from Baker Hughes, one of our key customers for mitigating COVID19 impact and delivering first set of Block surge vessels with zero defect, zero deviation and zero delay.

Our water and wastewater business has bagged several repeat orders from our customers indicating their faith in our technology and execution capabilities. We see momentum building up in the finalization in orders of zero liquid discharge system as we move forward in the year.

On the PHS front we continue to witness good traction in the domestic and international market. We have bagged some very high value repeat orders from leading Pharma players in India as well as abroad.

We are building a good momentum on the non-bioenergy business side of our portfolio at the back of strong demand from Pharma, Specialty Chemicals, Oil and Gas, metals and food and beverage segment for our solutions that we offer in this space.

On the operational front, our sites, factories, R&D facilities are now fully functional and we are adhering to all the safety norms that are prescribed by the medical community to ensure that our people stay safe.

With this I will now hand over to Sachin for his comments on the financial performance.

Sachin Raole: Thank you Shishir. The consolidated income from operations stood at Rs. 260.64 crore in Q2 FY21 as compared to Rs. 294.14 crore in Q2 FY20. PBT was Rs.

15.67 crore in Q2 FY21 as compared to Rs. 17.19 crore in Q2 FY20. Profit after tax stands at Rs. 11.39 crore as compared to Rs. 16.13 crore for the corresponding period.

For H1 FY21, income from operations was Rs. 389.79 crore as against Rs. 505.74 crore in H1 FY20. PBT stood at Rs. 1.15 crore in H1 FY21 as against Rs. 27.13 crore in H1 FY20. PAT was Rs. 89 lakhs in H1 FY21 as against Rs. 24.90 crore in H1 FY20.

Export revenues accounted for 28%. On the total revenue 64% is from the Bio-energy side, 20% from Engineering and 16% is from PHS business.

The order intake during the quarter was Rs. 405 crore, with 57% from domestic market. Of the total order intake, 54% came from Bio-energy, 34% from Engineering and balance 12% from PHS business.

The order backlog as of September, 2020 is at Rs. 1,408 crore comprising of 78% of domestic orders. Cash and cash equivalent in hand as on September 30th was Rs. 341crore.

With this I will conclude my remarks. Thank you all for joining. 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. The first question is from the line of Sandip Sabharwal from asksandipsabharwal.com.

Sandip Sabharwal: My question is more about what shareholders are effectively getting from your company rather than how the company is actually performing? So, over the years we have seen that Praj has been a great company for the employees who work for the company, for the customers who get plants build from Praj. But as far as shareholders are concerned somehow shareholder returns are subdued because of various reasons like obviously this COVID factor or something else but then you had hired a consultant to cut down costs substantially, boost operating margins but that thing seemed to never play out in the results and then you have also been adding orders but then the profitability has not come to the levels which we would have thought 3-4 years back when the company guided particular kind of operating profits. So my question is that when will the shareholders be as happy as the employees and the customers of Praj?

Shishir Joshipura: Sandip great question, very clearly we are following guidelines that for us, all stakeholders' interest are important and paramount. We cannot afford to serve just one stakeholder and not look after interest of others. So all the effort is in that direction, if you look at the way we are even what I was speaking during my commentary that we have built the first quarter of the year, if you look at it everybody was trying to come to terms with managing the COVID situation, staying safe, ensuring that we are able to stabilize and protect, not even stabilize, just protect the Company from where it was. I think that was true for the whole world. In the next quarter which is the quarter that we are discussing right now our focus shifted because as the economy started to open gradually we started to understand, we started to understand the pandemic better. I think we have moved to a very focused stabilization of the operations to gradually scale them up safely at the level of near 100% towards the end of the quarter and also ensure that the first quarter's negativity on the bottom line is replaced with the positive number at the bottom-line and I think we have achieved that goal from that perspective. While we were doing this we were also focused on ensuring that we build it for the coming time as well, not only for these two quarters but also for the future and we have very strongly focused on ensuring a very strong order book in what I would call as rather difficult and unusual times. We have also pushed mix in the right direction because we have made significant gains in the export market. So the whole effort has been to ensure that the Company's performance is not only a factored around one or two quarter but we are also building it for long-term sustainability and that is what I was telling you that we are also seeing a good traction coming forward for our non Bio-energy businesses as we move forward because of the solution space with that we have entered and focusing on and they are finding increasing acceptance now from specialty chemicals, from food and beverages, from metals. So some of the solutions that we are giving out there we are ensuring that we build a strong position there as well. On the main stay, Bio-energy business very clearly we see that yes, there has been events in the past in terms of the ecosystem building itself up to the desired level but I think we clearly seen now very focused effort from all stakeholders in the ecosystem to make it successful. You would appreciate that in domestic market we have held on to very high market share, so we have put forward our best foot to ensure that we are able to convert the opportunity to our business as much as possible. But now we see concentrated effort from multiple stakeholders to make the whole ecosystem succeed for multiple reasons and I think all the reasons are correct but the goal is same. And I do hope and we are very confident as we go forward we will be able to serve all our stakeholders in a good way.

Sandip Sabharwal: My question was that the first two quarters have been good for order inflows, so how is the pipeline looking for the next two quarters?

Shishir Joshipura: So as I was mentioning that two things, we will continue to build on this pipeline in a very focused way that we don't want to just look at one or two quarters but build it for a longer-term kind of a visibility on the order book because that is very critical for our kind of business. As I had also mentioned that in the Bio- energy which is the core business of the company we clearly see a significant effort from multiple stakeholders now to make the whole system and the environment and the opportunity crystallize and I think we are playing our role in it. So you have seen the fact that there has been a significant shift in terms of the feedstock limitations that have been removed, in terms of definition of feedstock that is now the old portfolio has been increased. The demand from oil marketing companies have now been projected for 5 years through that and the prices have been rationalized. So, there is a clear move by the government to tell the sugar mills that over a next 3 years period they will start to reduce the quota for export and gradually bring it to zero over the next 3 years and all of that surplus should get diverted to ethanol production. So we are clearly seeing some very concentrated keys that's been taken the tripartite agreement between the banks, OMCs and the ethanol producers. So I think the whole ecosystem is now recognizing that we need to take steps in different dimensions and that's one dimension. Even on the other hand if you look at the 2G technology, yes, it's a new technology. We will need to prove it on the ground and we are very confident of that and time is the only thing that stands between us and success as I see it over the next 14 to 15 months we will be able to—when we speak, hopefully next time this year we will be able to—showcase to you a much improved picture on the 2G technologies, the commissioning schedule of the project as well.

On the CBG front, we see clearly development of an ecosystem which will be very-very positive for setting up the capacities. We have seen some activities happening this space over the last 3 weeks as well which gives us confidence that as we move forward in the year we will start to see this opportunity crystallize there.

On the non Bio-energy side of our business as I mentioned, we see clear traction coming out on the zero liquid discharge systems. On the brewery there is still some challenge because no new brewery capacities are being set up in India but our team has taken a resolve and therefore we have moved into different market where this challenge is not being faced and I was mentioning we already have two breweries that we are setting up in Africa. The PHS business which is serving the very important pharma segment, already because of the an uptick in the pharma segment itself plus the success and the durability of the solutions that we have built over a period of time, is now leading us to a situation where customers are looking from a very different perspective on the PHS ability to provide solutions. So all in all I expect the whole ecosystem to be very positively oriented to build on the order book performance that we have given the first half.

Sandip Sabharwal: The company had initially I think announced a buyback then fairly decided to conserve cash. what's the thinking on that and what's the cash plus investment on the balance sheet right now?

Sachin Raole: The cash on balance sheet is almost Rs. 341 crore and yes, we had announced the buyback but that was pre-COVID days and because of the uncertainty which was forced to us because of this pandemic, the board took a conscious call that we should hold on to the buyback right now, conserve the cash and see through this difficult period and then talk about buybacks or any other mechanism. So right now we are in that mode, we have not yet touched upon this issue and the opportune we will consider all the options which are available to us.

Moderator: The next question is from the line of Sunil Kothari from Unique Investment.

Sunil Kothari: Sir you really very well explained all the long-term efforts we are taking to grow the organization during this answering to the first person's question. I have two questions, basically we have increased our gross block during last 10 years almost three times from Rs. 175 crore to roughly Rs. 566 crore by March '20. So just wanted to understand that during this year we have done almost plus minus Rs. 1,000 crore is our revenue, so what is our revenue generating or execution capability looking at the opportunity which you are talking about in terms of because of environment, because of this ethanol opportunity, 2G opportunity. So if you can broadly tell us not in terms of maybe timing but potential revenue generating capability or execution capabilities? That is my first question.

Shishir Joshipura: Sunil very-very good question. I think what we are looking at is, so there are two or three dimensions, one is the unfolding opportunity that we see in front of us. Are we capable of addressing this and I think as you know that a very major fulcrum of our offering is the technology offerings itself is and on that we are not capacity constraint—if I can use that word—we have over a period of time the company has invested significantly into R&D and continues to do so. And I think all those investments will help us to actually put on the forefront our technology offerings which is the first decision-making criteria for any customer when they are selecting solutions in our space.

The second is do we have the engineering capability in terms of designing, in terms of project execution etc. And I think that's where we are blessed. We have very-very strong team because and that's also we are very-very lucky that we are in a country where Engineers are available easily compared to some European countries for example and we will be able to build on that base as we move forward should the need arise. Right now we are very consciously aware of two things that we need to continuously augment our engineering capabilities and not necessarily in terms of just number of people but also use the modern technology to drive higher productivity and replicability of engineering efforts so that we can go back to our customers faster with solutions.

The third comes to then is around what I would call as the capability to reach the customers in terms of different parts of the world. We have been a very strong global footprint company, as you know there are about 750 references in 75 countries across the 5 continents, very few companies out of India would be able to make a claim like that and this is something that we have built over a period of time and we continue to further strengthen our reach in those markets by really working very closely in a collaborative mode. We do recognize the value of collaboration and you would have seen that over last and for many years this company has always gone and collaborated wherever there is a need for a complementary skill. So we have done that and we continue to do that, for example in Dedini, Brazil that we reached just to give an illustration.

And fourth is around our production capabilities and the good news there is that we are able to expand our production capabilities with practically every business all but one business is where we don't need to do too much of capital investment. We are very conscious about it as to how we put our capital to its best use by developing a very dedicated vendor base for us and that's the exercise that we are undertaking on a continuous basis, in fact even before the pandemic set in we had already set-in an exercise to increase the capacity over a period of time by 40%- 50% without much of a capital investment from our end. And the only capital that we want to put from our end in manner speaking and on the manufacturing side is to upgrade our manufacturing systems with higher degree of automation on the shop-floor etc to improve the productivity dimensions on the shop floor and all of this we are tying up through a large digitalization effort that we have launched in our company to integrate all the systems on a digital platform so that information flow become seamless and it drives higher productivity.

Sunil Kothari: Can this ability creation can take us to Rs. 2,000 crore revenue capability whenever it is possible, whenever you have orders but is it possible to have those type of revenue whenever you receive order?

Shishir Joshipura: Yes, very much.

Sunil Kothari: And second question is we are innovator, we are R&D Company, in lot of the things we are first or second. But if you look at our operating margins it was double-digit during 2008 and '09 only and then never we came back to those margins. So some comments on those things will be really helpful.

Shishir Joshipura: Over a period of time, obviously there is different competitive intensity that we are enquiring different markets, no question around it that competitive intensity does play its own role. We also recognized that there could be a product mix or a market mix change in terms of domestic versus export, so that comes into play and another one. And of course we have to—I think I don't know maybe 7-8 calls ago I have probably mentioned this—that in many ways when we develop a resource within our own team, at the technology development side or engineering side or the process engineering side, there are not many companies like us in India that we can say 'alright if and when I need to augment my people are will go in poach it from them'. I will have to develop my own people and hold onto them. So sometimes the business cycles, maybe we have to and we are very clear about it, we are very conscious about it that we need to make sure that we develop the right kind of resources. But also that we keep them with us and of course leverage them in a good way going forward and as I was mentioning in the earlier answers we strongly believe that we are probably at that point from where we start to build on this dimension as well.

Moderator: The next question is from the line of Nimit Seth from GD Advisory.

Nimit Seth: I just have two questions, they are both linked. I would like to know if we have the engineering capability to manufacture a 320 KLPD ethanol plant which uses cane-juice as the feedstock and can also produced some grain in the off-season. Do we have such capability? And if we do have, have we ever done such a project, maybe not of this scale of a smaller scale? Anywhere, it could not been India, it could be outside India also.

Shishir Joshipura: So let me tell you, so just in pure scale term if you're talking. We have built much larger plant than 320 KLPD project. We have built 1,200 KLPD project, so scale is not a problem at all. Many- many plants that we have built in higher capacity ranges, so no problem at all. In terms of syrup based plants, you probably would recollect that we had mentioned that we had built 7 plants in Columbia about 10 years ago; all of them are on juice. So we have very rich experience. So in South America and Brazil and these markets juice is used by many companies as one of the feedstock and we have built a plant around that. So very rich experience on juice and I think I mentioned that and good that you asked this question, spoke when you make ethanol from syrup you could imagine that if you take the juice out from sugarcane but sugarcane is available only for maybe 4 months in some market, maybe for 5 months. What we do in for next 7 months then because 5 months we will extract all the juice and you can store it, the syrup that comes, you cannot store it because it degrades. So, there is a technology from Praj that makes it possible and that's what we call it Bio-syrup. So Bio-syrup is the form of syrup that can be stored for one full year without any degradation in the quality and then that allows it to run the distillery for one full year on the basis of Bio-syrup. That's the technology that we have perfected, we have with us and I am very proud to say that we believe that nobody in India has got that technology apart from us, so we will be able to bring that to our customers. We are already in that dialogue, we are already setting up three demonstration plants because obviously the industry also wants to learn about how to go about doing the syrup to ethanol conversions. But I expect that this is the activity that will pick up speed as we move through the year.

Nimit Seth: So you have not received any such order to date for such a plant?

Shishir Joshipura: I told you we have built it.

Nimit Seth: No, I am talking of the current order book like your Rs. 405 crore that you booked in Quarter 2 does not include any such plant?

Shishir Joshipura: Yes, as of now we are in discussions with customers, several of them market leaders to set up the plant for them and we have received orders but not exactly the capacity that you mentioned.

Nimit Seth: You said that you have a technology which allows this juice which degrades to remain stable throughout the year, that it can be used as the feedstock. Is there a way that the plant can also use some other feedstock like grain or something in the off-season? Is that something that's you can design?

Shishir Joshipura: They are just sugarcane-based roots which can be molasses B-C, syrup, bio-syrup all of these, yes? And then there could be grain and we can design a plant to utilize multiple feedstocks. No problem at all.

Nimit Seth: The reason for this question, I will be more specific is that one of the leading sugar companies announced their results yesterday and announced the setting up of a 320 KLPD cane juice plant which would use grain in the off-season.

Shishir Joshipura: Yes, so the combination you can use absolutely no problem.

Moderator: The next question is from the line of Chandra Mouli, Individual Investor.

Chandra Mouli: Is there any CBG order right now?

Shishir Joshipura: We are executing, yes. We are building a CBG system in North of India as well as South of India.

Chandra Mouli: So it's already maybe in executing orders and other one is I just came across something that Assam Bio Refinery Private Limited, the joint venture is somehow going for a produce cellulosic ethanol from bamboo biomass. are we doing this project?

Shishir Joshipura: No, as you probably recall that Government of India under his Advanced Biofuel Program had awarded six projects, four of which were awarded to us, ABRPL was awarded to a Swedish company which was setting up a bamboo base chemical complex part, one of the products of that complex is going to be cellulosic ethanol. So that project is not being done by us.

Moderator: The next question is from the line of V. P. Rajesh from Banyan Capital.

V. P. Rajesh: It feels this quarter we got more orders on the Engineering services side. So if you can just give little more color as to what and industries you are getting it from and what is the nature of this business and more importantly how is the margin profile in these orders?

Shishir Joshipura: So 54% of order book still happened from the Bio-energy business and 46% of the order book comes from the non Bio-energy business if I can use that terminology. This is what happened in the quarter and these are the orders that we got across the segment from as I was mentioning we are setting up an apple juice concentrate system in Himachal Pradesh which our brewery business will actually set up. We have got repeat contracts for our zero-liquid discharge system business; our PHS which is Praj HiPurity is building several systems for leading pharma companies both in India and abroad. So the number that you see is an outcome of all these businesses put together. We have got an important contract that we have won from very-very large multinational the leader in its field for building a system for hydrogen complex that they are building outside India and this is also a part of their strategy to have an alternative supplier base to China, so they are moving their supplier base, adding a supplier base in India and we are the chosen company for that. So there have been a multiple of orders, that have contributed to making this order book.

Moderator: The next question is from the line of Harish Hindocha from SBS Securities.

Harish Hindocha: With this new order book can you say that there will be at least some growth for the full year, not YOY I mean full year, not next quarter. I don't want any particular number; I just want to know there will be any growth or not?

Shishir Joshipura: Yes.

Harish Hindocha: We are seeing so many companies they have permanently reduced cost. Just because of the COVID they have started now, they are saying this will remain a permanent reduction in the cost. Are we saying anything of that sort?

Shishir Joshipura: Yes, you will probably see from our H1 numbers that our costs are down I think Rs. 20 crore roughly over the previous corresponding period. So you will definitely notice a cost reduction. We have taken a very conservative approach.

Harish Hindocha: And what part of that will be a permanent reduction in the cost?

Shishir Joshipura: Obviously there are both kinds. There is a what I would call as cost reduction for the year and then there will be a cost reduction but if the business starts to grow then I will have to as was telling earlier also that we will have to find different levers to feed that growth in terms of resource mobilization etc. Also, we have a challenge that we sometimes meet that we don't have like us company outside where equivalent people are available. So we have to grow the people from inside and ensure that we are able to utilize their talents in the right direction. So overall there is a very aggressive cost reduction program that we have created. Some of the cost that we have reduced we expect that we will be able to retain. Some may change as we progress during the year.

Harish Hindocha: Sorry to say but I fully agree with the previous participants on this shareholder's return. I am shareholder in Praj since last I think 18-19 years and in last may be say 10 years I have not received any returns. So can you just put bit more pressure, not pressure, a bit more thought process on the creating value for shareholders please?

Shishir Joshipura: So Harish thank you for that comment and I think we have always valued the comments that we received from your entire investor community and as I said our focus is to create value for all stakeholders. We cannot build partially for a few and none for others. We have to ensure that all stakeholders' interests are addressed in its earnest and I think company has over a period of time done its best that it could under circumstances to address the requirements and needs of all the shareholders. So I don't know maybe it's a longer discussion for some moment in time.

Harish Hindocha: No every time when we hear you it always sounds a very interesting company and the fact is it is not coming on the performance somehow. I don't know what is the reason, this time it is this order book is the highest ever, that's what I believe, right?

Shishir Joshipura: Yes.

Harish Hindocha: 1400 odd, I have not seen such an order book since last so many years. So at least this time can we expect a very good growth at least for the next year. This year I can understand first half is so weak. So maybe not a big growth, maybe YOY is flat or something but at least for the next year we can expect a good growth. Any comment by you on the PSUs actual ground plan, right? They have already announced this project that probably BPCL, HPCL but are they going is seriously?

Shishir Joshipura: Yes, we are building all the three projects very seriously. In fact all the three have sites opened at different stages, they got finalized different times. Contracts have been finalized, equipments are being made, sites are opened, civil work is underway, equipments are already reaching sites, so all the three projects are progressing at a very good pace.

Harish Hindocha: Because if this starts and they are taking it seriously, this starts then there is no. It's a huge opportunity for us because they are such a big player in the market and if they are happy with all these things then it's almost 3-4 times maybe 10 times big opportunity for us. That's why I am asking you because they have announced it 4 years back also BPCL announced the same but it never turned into a reality. That's why I'm asking this question but this time it seems they are serious.

Shishir Joshipura: I can confirm to you that all the three sites are progressing well.

Moderator: The next question is from the line of Levin Shah from Valuequest Investment.

Levin Shah: My first question would be on this so if you look at the order book now around 400+ crore is what the order intake has been for this quarter. Out of this Bio-energy has been substantial and as I understand there isn't any 2G orders that has come up in the last two quarters. So are these 1G orders contributing majorly to this bio-energy order book and is this domestic order inflows or even like exports is higher proportion of this Bio-energy order inflow?

Shishir Joshipura: So Levin in second quarter order book there is no 2G orders, that observation from you is correct. There is a small equipment order but nothing significant value and most of the orders in the Bio-energy basket are from the 1G business and almost in fact for this quarter we have a good mix of export and there is international orders and domestic orders as well for 1G.

Levin Shah: What I am trying to understand is post this tripartite arrangement that has been now approved have we started seeing, I know obviously that would not be entirely into order book as yet but have we started seeing movement from sugar mills that they are willing to now go ahead and do the CAPEX and banks are wanting to lend them? So that enquiry pipeline for us on the 1G has this gone up materially?

Shishir Joshipura: Yes, as I had mentioned that enquiry pipeline is robust. It has built up very favorably compared to corresponding period last year. So we clearly see activity happening in their spaces back.

Levin Shah: Secondly if we look at the HiPurity performance in the current quarter, it has been like a very good performance both in terms of growth and even operationally the margins looks to be very good but now if you just see the order inflows in the HiPurity business that seems to be like a muted in terms of the performance on the P&L that we have seen. So is that that the new order booking is not in sync with the performance that has happened in the first half and do we expect this HiPurity business to continue this side of growth that it has reported in the first half?

Shishir Joshipura: I don't know maybe there is some, HiPurity business has shown a very healthy order book in the first two quarters, very healthy compared to their sales. Their order booking is way ahead of their sales so they are in a good shape.

Levin Shah: When I see the total order inflows in HiPurity for the first half it is around like Rs. 90 crore, right?

Shishir Joshipura: That's right.

Levin Shah: The sales that we have booked is around 75 crore?

Shishir Joshipura: The carry forward right now which we are carrying in Praj HiPurity is almost Rs. 115 crore.

Levin Shah: Right but even last year and it was around Rs. 100 crore so I think there is no material change in that way in the HiPurity order backlog per se.

Shishir Joshipura: If you are comparing with the last year's last quarter yes it was around Rs. 97-95 crore but we are seeing the uptick happening in Praj HiPurity on two accounts, one on the overall number also Rs. 20 crore may saw a minuscule but from Praj HiPurity it is a good number and second we are also seeing the intake coming from the international market also. So earlier it completely used to be domestic one but now we are seeing a good mix of international and the domestic orders building up for Praj HiPurity.

Levin Shah: First half performance on HiPurity on the margins front that we have done, it looks like there is substantial improvement that has happened. So do we see this improving from here on as well and now that this base is formed and it will improve from here on as well?

Shishir Joshipura: Very clearly the first part that I would answer is that we have built a base that we are very sure we will continue as we move forward so that's a one-point answer for the PHS margin front. Effort is always there to improve it from where we are and that has a factor of many factors as I call it in terms of the product mix, the geographical mix, the cost leverages etc. and our operational efficiency improvements and we are pushing on all directions. So that's the effort but obviously we already brought it to this level and this will definitely be maintained.

Moderator: The next question is from the line of Faisal Zubair Hawa from H. G. Hawa & Company.

Faisal Zubair Hawa: How you feel the company will now emerge over next 2 to 3 years? Do you think that the order booking now can be executed over the next 1.5 years and how do you feel that, what is the target we are looking for the next 2 years orders? Is it possible that we double our revenue in the next 3 years?

Shishir Joshipura: As I had mentioned earlier in the call we had put a very strong focus on, even in some very demanding times to ensure that we build an order book that allows us to provide a stable growth and a visible growth over a period of time and that is our effort and we are very confident and we continue to build on this and this is not a one quarter phenomena so that's the answer that probably would help you to understand. In terms of whether we will double in 2 years, 2.5 years or 3 years, time will tell but obviously we all are very ambitious set of people. So we have not lost, we are not content with what we have, we obviously want to grow and I think in many ways, many of you have expressed and I am sure that you are expressing on behalf of many others that you would like us to really deliver on the potential you think that we have and that is the effort.

Faisal Zubair Hawa: So what happens in an organization which is two decades old or so like yours is? A lot of people within the organization are then getting used to a culture which is difficult to break. So what may have happened is that last 5-6 years we are having the same revenue range and we may be used to that revenue range? So have you cut any dead-wood from your organization to really reinvigorate so that we can now make it to the next revenue barrier and what may have happened is that we may be now used to this kind of a comfort zone and we are just not able to break that mental block.

Shishir Joshipura: First of all, a culture of a company is something that I would say its richness, its ethos, there are many elements that go to build a culture as you say and I think we have built a very strong technology focused, technology orientation, customer solution orientation in the company. A strong, very strong resilient team and these are very positive that I would as a CEO give my left and right arm both to have in any company that I go to, right. Of course as the external environment changes we have to bring in changes, right and I think the company has done that admirably well and maybe we can do better and that we can always do better but the focus is and I can only tell you this that my team is extremely ambitious, is very-very experienced so in our business experience counts for a lot and I can assure you that my team is extremely ambitious. We are building on all the great building blocks that this company has built over the last 35 years whether it is focus on technology, whether it is focus on customer solution space, whether it's focus on staying resilient, whether it is focus on building strong process orientation. Yes over a period of time as we move along, some people will change because we need new skills, people may find different reasons to be elsewhere and that's the constant process for any organization but I can tell you that we were rated as #1 company to work for and in a global survey of all the companies in our area, in our field, right. So you don't get to that position if you are a company of as you put it dead woods. We are a company of live wires is the way I would like to put it. So please be assured, we are very ambitious, we are live wires, we want to do better and for all stakeholders not only for a particular community but we are committed to a cause and I think that is what is driving all of us forward.

Moderator: The next question is from the line of Arvind Joshi from Bateleur Advisors.

Arvind Joshi: I just wanted your views on additional tailwinds that might get generated if Mr. Biden comes to power in the US?

Shishir Joshipura: Could you please repeat your question?

Arvind Joshi: I just wanted to understand what additional tailwinds can get generated if Biden comes back to power especially considering US is trying to go back to the Paris Accord and they have very aggressive bio-fuel inclinations. So would that mean additional tailwinds for our business?

Shishir Joshipura: Yes Mr. Joshi. Of course I was reading that in a survey

Arvind Joshi: Could you elaborate a little bit please?

Shishir Joshipura: I was reading in a survey that was showing today that Mr. Biden's commitment to sustainable growth is on a scale of 10, 8 times higher than the current President but the point is this that if he comes through, we have to look at policies that they develop and how the US market develops, what happens in the market. We will be very much in there as I was mentioning to you the current facility on the pharma grade alcohol has actually created a very good space for us to be visible, to be seen on ground and actually for customers to experience our technology and expertise and I am sure and all these plans that you are building for are also the people who will build the next ethanol capacities if they are required. So we stay very positive that our solutions will drive us forward in that market as well.

Arvind Joshi: Would that also imply corn ceiling comes back. So newer capacities will necessarily have to be 2G or some alternate from the waste material?

Shishir Joshipura: We will have to see how the policy environment actually unfolds but you are right that should happen if the Government does change, yes and it was there earlier present and we will have to see whether it's brought back and in what form and we are very much geared to address now we have 2G, we also have corn fiber which is 1.5G corn fiber to ethanol technology ready with us. So of course corn to ethanol is always there. So very-very positively placed right now as a company to offer solutions as the market unfolds.

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: Thank you everyone for your time today. If you have any more questions feel free to write us at info@praj.net. Again I would like to thank you all and wish you a very Happy Diwali. Thank you.

Moderator: Thank you. On behalf of Praj Industries that concludes this conference. Thank you all for joining. You may now disconnect your lines.

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