



Praj Industries Limited

Q1 FY20 Earnings Conference Call Transcript

July 24, 2019

Moderator: Ladies and gentlemen good day and welcome to the Praj Industries Limited Q1 FY20 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 please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandip Bhadkamkar. 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 Q1 FY20, which were announced on Tuesday. 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' Earnings Call for Q1 FY20. 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. Over the last four quarters significant momentum is built in the bio energy space with a very positive and conducive policy program announced by the government of India. The first quarter of the year witnessed a differentiated level of activity in the market leading to stretched cycle times on decision making and tight liquidity. On a positive front, across sectors, we see customer dialogues moving forward towards order conclusions aided by stable government at center and continued direction on the policy front. In the BioEnergy sector, in domestic markets, we are witnessing states following with state level interventions to the national level policies which are expected to crystalize the market demand at a faster pace. The ethanol blending rate has reached a level of 6.2% amounting to 200 crore liters in current year as against 4.22% for the same period last year. With government's plan to reach 10% and 20% in selective states, there remains a gap of over 200 crore liters of new capacity addition to be built.

The Association of sugar mills in Maharashtra is now seeking permission from the state government to divert minimum 25% of sugarcane to produce ethanol instead of sugar. Maharashtra government has just announced a policy for expediting the approval of projects on a single window, time bound basis.

We are also seeing a move now on using cane juice as a feedstock for ethanol production which can be a game changer for both sugar industry as well as for the EBP. The Centre for Military Aviation Certification (CEMILAC) approved the blending of 10% biofuel across the entire fleet of over 100 “An-32” aircrafts that will trigger demand for ~100 million liters of biofuel annually. Launch of India’s first ever ethanol-powered sports bike represents changing fuel landscape in line with Government’s increasing drive towards propagating biofuels for the transportation sector. We also expect positive developments in advanced biofuels programs encompassing 2G ethanol and bio jet fuels in near future.

On the international market, we are seeing increasing interest developing in Africa, Brazil and South East Asia. Thailand which is major market for ethanol production is also beginning to move positively after formation of new government after gap of two quarters. RenovaBio, Brazil’s new ethanol policy that goes into effect at the beginning of 2020, has the potential to nearly double the Brazilian ethanol market, currently the second-largest ethanol market after the U.S. We believe both domestic and international bioenergy landscape is structurally enhancing. There are an array of opportunities and we believe, Praj is well placed to capitalize on them driven by its technology prowess and strong execution capabilities

Coming to our company’s performance, as discussed before, the first quarter witnessed a differentiated environment for the economy given the electoral process that the country underwent. We saw the speed and intensity of order finalization slow down during the quarter and is now picking up momentum returning to normal levels. On 2nd gen ethanol front, all four projects are on track and executing as per planned schedule. On the CBG front, we are happy to report very positive development and we have now signed agreement for development of first two plants under SATAT initiative of Government of India. Our engineering and hipurity business are also beginning to witness enhanced interest with customer finalization picking up in current quarter. I am happy to share that Praj Industries was awarded the prestigious Golden Peacock Eco-Innovation Award 2019 in the Engineering sector in recognition of 'enfinity', its second-generation biomass to bioethanol technology

As we look ahead, we are confident that market opportunity is developing positively and combined with our technological prowess we are well positioned to leverage in both domestic and international market

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

Sachin Raole:

Thank you Shishir. The consolidated revenue from operations stood at Rs. 211.60 crore in Q1FY20, up by 10% as compared to corresponding last quarter’s revenue from operations. EBITDA at Rs. 8.11 crore, as against corresponding last quarter’s EBITA of RS. 7.23 crore. PBT stood at Rs. 9.94 crore. PAT was at Rs. 8.77 crore in Q1 FY20 against Rs. 3.49 crore against corresponding quarter.

Export revenues accounted for 37% of Q1 FY20. Of the total revenue, 77% is from Bio-energy, 14% from engineering and 9% is from PHS business. The order intake during the quarter was at Rs. 168 crore, with 77% from domestic market. Of the total order intake, 52% came from Bio-energy, 23% from engineering and balance 25% from PHS business

The order backlog as of June 30, 2019 is at Rs. 886 crore. Let me clarify that bio-energy’s backlog is 72%, PHS is 8% and engineering is 20%. I believe the presentation which you must be having must be having a different number between

HiPurity business and engineering. The right numbers are PHS is 8% and engineering is 20%. Cash on hand is Rs.307 crore.

When you compare Q1 FY20 against Q1 FY19, reason for drop in raw material cost by almost 3.17% an increase in other expenditure by 3.6% is because of sales mix. During this quarter site activities are more as compared to the supplies because of the monsoon season, so we generally complete our construction activities in the first quarter. That's the reason why you will see the variance between these two expenses.

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 sir. We will now begin with the question and answer session. The first question is from the line of Anupam Goswami from Stewart & Mackertich.

Anupam Goswami: I would like to know the overall outlook of the ethanol order for the year and the growth momentum over a year. I think like the last time we spoke it was around 250 number of applications have been filed and a lot of clearance got stuck, so how are you seeing that going forward?

Shishir Joshipura: As I mentioned, we are seeing an increased blending up to 6.2%, its nearly 200 crore liters and if we have to achieve the target that is set out, we need to add as a country almost an equal capacity going forward, that is one. Second is on the Interest Subvention program applications, the applications that we are talking about in the past are around providing an interest subsidy for project that will undergo executions during the policy period and that's one indicator for us. That's one approval that happened but after that of course the project has to go forward in terms of getting approval from their own bankers for the loan itself because to avail the subsidy we need to get the loan first and that is where the progress is happening. As I had mentioned and we all know that the first quarter witnessed electoral activity in the country level, change in government. We are very happy that the same government has come back so that there is a continuation of the policy environment, so we will see now the momentum build up and that is what I was iterating when I said that we see the market dialogue returning to normal level again.

Anupam Goswami: In FY19 I see as the OMCs have tendered around 2.73 billion of ethanol, so with this kind of blending rate how much do you see the tender to be for FY20?

Shishir Joshipura: We may not be able to comment on what will be the quantity they will tender because that is something which is within their prerogative, so that will be erroneous on our part to comment. But as we understand that the program or direction is to keep increasing it to 10% at the country level and even some of the states which are naturally endowed with an affinity for production of ethanol, there even the push is going up to 20% of blending.

Anupam Goswami: But still on the overall basis, FY20 should see a higher tender?

Shishir Joshipura: That could be a normal expectation.

Anupam Goswami: I see that HiPurity segment, there was de-growth in revenue and also there is a loss in EBITDA level, so where do you see the outlook for the whole year and how will it be reversed? What was the reason for this de-growth?

- Shishir Joshipura:** For our Praj HiPurity system yes, your observation is spot on, and as you are probably recalling or you would recall that during the last financial year the order book for Praj HiPurity business started to build only towards the later part of the year and that will now get reflected in as we go forward for execution, so this quarter did not have enough of a volume for execution but we now have an order book on hand, which will get executed. As we go during the year, you will see this differential that is got created, vanish.
- Anupam Goswami:** In last concall you spoke about some critical equipment order from IOCL and also there is some potential orders got delayed from the 2G sector and you said that it would get cleared in this quarter, had it got cleared or is it still delayed?
- Shishir Joshipura:** So, to clarify I had mentioned that we have received the first set of critical equipment order from IOCL that I reconfirm that we have that order with us and we're executing it. For the other jobs, we had mentioned that there was a small delay that is setting because of different project pace on those 2G programs but with the new timelines that have now been announced, we believe that during the year we will see them progress and come to finalization stage.
- Anupam Goswami:** The other income was very high this time and which was the reason that the net income was somehow saved, so what was the reason in other income and what does it comprise of mostly?
- Sachin Raole:** Other income is mainly on our investment portfolio and there were some additional gains which we got during this quarter as compared to normally what we have, around Rs. 3-3.5 crore. So that's the reason why the other income is higher to that extent. But otherwise other income is mainly on account of our investment portfolio.
- Moderator:** The next question is from the line of Ankush Mahajan from JM Financial.
- Ankush Mahajan:** I'm just looking this first quarter; it seems that it's a lean quarter actually. So, can you tell us what is the nature in terms of the business, why the revenue recognition is low in this quarter?
- Shishir Joshipura:** So, Ankush, in our case as you know traditionally the first quarter tends to be at a lower volume compared to the year-ending quarter because the project activities are of that nature and that is what you see here. So, if you compare last year, we have done 10% better compared to what we did. But if you compare it to last quarter, then obviously that was the financial year ending quarter and that was very special year because we were coming at the back of a very fast-changing policy regime and an environment, so the dynamics that were playing out were very different. I don't read anything more than that.
- Ankush Mahajan:** I tried to understand the nature of the business, it's a job mix, sales mix and someone mentioned in the earlier con-call also that site activities are more than the supplies of our products.
- Shishir Joshipura:** What we are saying is that as any project there could be there different level of activities. There is engineering portion of the job, then there is a manufacturing and there is site construction and each of these have a different resource allocation and resource requirement. So, Sachin's comment was with respect to the material cost percentages that one would see and typically in this quarter because of the impending monsoon in this Q2 which is as we know the country witnesses now. The first quarter tends to be high level of site activities and therefore the material cost composition was appearing as it was appearing that was a comment which

Sachin made. We don't see any fundamental shift or change in the nature of our business or our customer construct, in product mix. If there are any changes, then they are only temporary in nature.

Ankush Mahajan: So, the order inflow is Rs. 168 crore, how could we see the momentum over the next nine months?

Shishir Joshipura: As I said that because of the fact that we were undergoing an electoral process in the country and bank approvals, the project approvals, everything took at a very different pace. So, we did witness a very-very slow first quarter. But as I was mentioning in my comments, we have seen that almost like a rebound effect, we are beginning to see a customer dialogue pace picking up at a very-very fast pace and coming back to normal and we expect that very soon sometime in the middle of this quarter onwards, it will normalize.

Ankush Mahajan: In the month of March, we have seen that Cabinet Committee were making notes that they already have approved Rs. 10,000 crore for 268 applications with the interest subsidy scheme, so how do you see at the ground level that the things are happening?

Shishir Joshipura: So, Ankush, your observation is spot on. So, Rs. 10,000 crore is the Interest Subvention but somebody has to first approve the capital on which that interest subvention will apply and that is the process that is on a project between the project developer and the banker, individually between two of these parties. That is a process that takes time because those are very specific to that particular project and the environment and the financial conditions at that time. So, once the project is approved and it is implemented then that subvention is available. Rs. 10,000 crore is the amount government has put out to say 'okay' that's a total kitty that we will fund towards the subvention.

Ankush Mahajan: Other expenses are quite high in this quarter, what has contributed to it?

Sachin Raole: As I was explaining earlier, other expenses generally have the site related expenses. So, site activity was at a higher level and that's the reason the other expenses have gone up. So, you will have to look at maybe a combination of raw material and other expenses, they will nullify each other because supplies were low so raw material cost was low and the site activity was on a higher level and that's the reason site expenses have gone up during this quarter.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Co.

Saket Kapoor: Firstly as Mr. Joshipura commented in his earlier commentary about this direct sugarcane to ethanol part, if you could explain more what is currently being done and how is it going to affect more dwelling on the same on your statement?

Shishir Joshipura: Mr. Kapoor as you are probably aware that last year when the policy on ethanol blending program was being augmented through different measures that the government announced during the year, one of the measures was also that if juice is used to produce ethanol and it is at a differentiated price level which was obviously at a higher level per liter of ethanol compared to Molasses-C route which was at a lower level. But of course, if you got the juice to ethanol levels then you also lose the sugar production so that was the compensation that was happening there. I think we are now beginning to see an enhanced interest, so customers have a dialogue, they have understood what it means, what does it mean in terms of technology terms, what does it mean in terms of deciding their product mix,

their cash flows. And now we are beginning to see enhanced interests from customers on going through that route because then they don't convert the sugarcane to sugar first and then use only the Molasses-C for production of ethanol but they can now choose the path where they will take the juice and directly convert that to ethanol and that we are beginning to see an increased inflow enquiries as well as some policy push from governments at state levels.

Saket Kapoor: So, then in that case the molasses will be there B, C and D grade or we will be jumping up the channel? What would happen to the molasses then?

Shishir Joshipura: The Molasses-C that we produce will definitely be used and will continue to be used for production of ethanol. But some of the companies will go from juice directly to the ethanol route, so there will be no Molasses-C in that case.

Saket Kapoor: No molasses will be made in that case?

Shishir Joshipura: Yes.

Saket Kapoor: And secondly about this Maharashtra part also you told about single window clearance, what is the current status, how long does it take? What is the advantage that you are going to see?

Shishir Joshipura: We should see very clearly the overall project cycle's time crashing and obviously this fundamentally means that the speed will get improved for finalizations, we will see faster decisions and so on.

Saket Kapoor: And about the 2G plants update where do we stand today? I missed the earlier commentary if you have mentioned something about it.

Shishir Joshipura: We said that as you know we are doing the four projects and all the four are now continuing on the execution schedule. Yes, the one has progressed more than the other three but they are at a different level of different timeframe and on the new timeframe we believe that we will see positive development taking place on those contracts as well as we move forward during the year.

Saket Kapoor: Total size of the contracts which we are handling in the 2G plants?

Shishir Joshipura: As you know that there are four contracts that we are handling and for each of the four, the contracts have been awarded in segments, so there is the licensing technology, then there is engineering package, then there is a critical equipment and so on. So, right now we are at a stage where all the four have gone through the licensing, engineering phase of awarding of the contract. Indian Oil contract has also awarded us for the critical equipment and others are progressing in that direction.

Saket Kapoor: And size of the contract? I was referring to the amount.

Shishir Joshipura: That is still not awarded to us, so it is not fair on my part to give a number to you on what will order value for us. But as we have said broadly speaking each of these contracts is overall worth about Rs. 150 crore for us, each contract.

Saket Kapoor: So, four in totality will be 600?

Shishir Joshipura: Yes.

- Saket Kapoor:** And that will be executable over a period if you could give a timeframe from that zero date of awarding?
- Shishir Joshipura:** As I was saying that they are at differentiated stages of awarding, so licensing and engineering contracts have been awarded in all the four cases, critical equipment in one case, others are still progressing. Depending on the contract, we expect that over the next 24 months these will get executed.
- Saket Kapoor:** The entire Rs. 600 crore we will be able to book over a period of two years?
- Shishir Joshipura:** Yes. I said executed over the next two years.
- Saket Kapoor:** And coming to the last point about this standalone numbers and the consol numbers, we find at the consol part the profit going down from Rs. 15 to Rs. 10 crore. So, I think still the utilization levels are the ones that is creating the problem, what are the reasons, why at a consol level the numbers look weak?
- Sachin Raole:** So, the consolidation is naturally of Praj Industries and all its subsidiaries. At standalone level, at a Praj level there is a profit of 15 crore. But yes at the subsidiary level, there is a loss of Rs. 5 crore which has contributed at consol level, a consolidated profit of 10 crore and that's what we were explaining that on the subsidiary business, the business execution during this quarter mainly on the topline point of view was at a lower range because of the customers were not ready to pick-up the equipment even though they were ready and we are seeing that momentum to happen in this current quarter for that.
- Moderator:** The next question is from the line of Manoj Bahety from Carnelian Capital.
- Manoj Bahety:** First of all if you can explain the opportunity size in the CBG segment like you have already got a couple of orders there, so how do we see this translating into order flow for us and the kind of opportunity size over next 3-4 years you are seeing the segment?
- Shishir Joshipura:** Manoj, over the next 3-4 years I think the SATAT program is a very ambitious program that the government has launched. These are the initial days since the launch of the policy so some of the issues which I would call as need ironing of the creases are still under discussion with the OMCs, nothing that cannot be sorted out, so it's just that they need to be sorted out. So, I'm sure during the quarter and over the next 3-4 months we will see that being ironed out which should give further impetus to this program. Already nearly 300 EOIs have been filed with the oil marketing companies under the program; they have reopened the EOI program from July again, so there is a gap of one quarter. So, we will continue to see volume development and interest development in this field and maybe when we talk next time I will have more concrete kind of information to share with you. But from where we sit now it appears to be very-very promising field and the development we will be able to share in a more concrete term maybe a quarter down the line.
- Manoj Bahety:** What kind of capex requirement it will require from Praj like looking at the opportunity - 300 EOI is pretty big and also if you can talk a bit about competitive landscape? I believe that there are various unorganized players also in this segment.
- Shishir Joshipura:** So, Manoj first of all I think for us the question especially in this specific business line and many other businesses of ours also, it's not a about the capital

expenditure required by us for making of our systems and plants for customers, the bigger question there is the investment that we make on developmental technology itself. And that is where as you are probably aware that we had discussed couple of quarters ago that we have announced a set-up of an integrated facility at a demonstration site where we can actually demonstrate use of different feed-stocks and the performances of those plants better that is something that we are continuing on that path and building that up. We have also seen that as we go forward on this landscape of CBG, we will see what I would call as a continued development on the technology side and therefore it will attract people and competition, which is a good sign because then competition walking in also confirms that there is an opportunity, which is unfolding. As of now, we don't see too much of, what I would call as organized sector competition in this space because it's very-very new on the technology side but there are companies worldwide, which can do this. There are companies out of Europe; Germany specially has a very strong background on creating the solution. But from our understanding today, India's size of the plant that we will have the kind of number that we are able to produce on the yield side is significantly different than anybody else in the marketplace and therefore we believe that as we start to see the commercial interests start to unwind in the market space and commercialization offering and everything starts to take place, we may have a distinctive advantage over our competition. But I expect, that there will be companies out of Europe which will be keen to contest. There will be always the local players, which are very small who will continue to have their own small niche different customers who would like to still deal with them. But in terms of performance, we have a significant advantage and I'm not talking of 5%-10% revenues, very-very significant advantage over our competition.

Manoj Bahety: Just if you can elaborate on 2G side like still it is dependent on government subsidy, how you are seeing this space over next 3 to 5 years?

Shishir Joshipura: On the advanced bio-fuel program globally governments are supporting because—and I was discussing with somebody yesterday also the same thing that—while businesses they probably have a dimension around economics and money and cash flows, governments will obviously have a much bigger dimension because they will have multiple deliverables in their minds like what happens of the social landscape, the political landscape, the economic landscape, the inclusions, the foreign-exchange outflow. They will have obviously multiple deliverables to which they will need to consider and 2G is a program which actually addresses these on multiple fronts including farmers in the mainstream economy, ensuring foreign exchange outflow comes down, ensuring independence from the NSG goes up, the pollution local as well as the global warming both go down. So, it is a very different viewpoint from which advanced bio-fuel programs are viewed by governments globally and our government has obviously taken a very progressive view on this. So, we expect that at least for the next three years kind of timeframe, the projects and the program that have been announced will have to go on ground and prove themselves as commercial projects and then we will probably see some change that would happen. And there is a different attrition that could happen as I was mentioning earlier. From ethanol, we can go to bio-jet fuel program so that is on energy landscape and going forward, it could even evolve into some different, just the way refineries did for the traditional hydrocarbon fuel.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment.

Bharat Sheth: First of bookkeeping question, just to understand if this loss at EBITDA level whatever we are seeing because of largely on a HiPurity standalone vis-à-vis consolidated, so if you take this stand-alone number. there is a substantial

improvement on the EBITDA margin, almost 250 or 240 bps. How do we see full year, can we translate once the HiPurity which was last year was also at breakeven and if this breakeven this year?

- Sachin Raole:** Our EBITDA numbers for the last year were in the range of 8% and this quarter yes on a quarter-on-quarter basis there is an improvement of 2.2% on a standalone basis. And every call we had mentioned that our endeavor is to take our single digit EBITDA to a higher single-digit kind of a number. So, it will hover around 8%-9% kind of a thing that's what we generally mentioned on our calls also. If you look at for the entire year yes, there will be an improvement but what will be the percentage improvement to be very frank with you I cannot give you in number terms right now.
- Bharat Sheth:** Shishir, you said that on CBG side we signed two agreements, so can you allude what exactly you meant by?
- Shishir Joshipura:** As we have been mentioning that there is an increasing interest coming in from different developers for setting up of CBG plants under the SATAT program and what I mentioned was that we have now signed with two customers, program or agreements to set up two CBG plants which we will start to construct now. So, since this is the first two, I thought it was worth mentioning that we have now kicked off CBG business under the SATAT program.
- Bharat Sheth:** And how do we expect ramp-up to happen from Q3 onwards or Q4 onwards level?
- Shishir Joshipura:** We expect that it's definitely be a ramp up time for this business. At what gradient, it will ramp up only time will tell in terms of with what speed the OMCs remove some of the wrinkles that are witnessed in terms of implementation policy. But I'm sure that as time progresses we will see that, so definite growth time for this business from here onwards.
- Bharat Sheth:** And could you highlight little more initiative that we had taken for our brewery business in Africa and engineering for global kind of business that initiative we started so where we are and how do you see in this full year to play it out?
- Shishir Joshipura:** So, we have started to receive, which was obviously the first stage that we went to the market now we have received the enquiries, we made some bits, we have also received our first order from Africa, small one to start with for the breweries but I'm sure that as we progress, we will see positive development on that front. So, the movement and the progress is in line with our expectation.
- Bharat Sheth:** Engineering, we scale it down from unprofitable to targeting a large global EPC player in hydrocarbon space?
- Shishir Joshipura:** So, there also as I had mentioned we are focusing on a few customers who will value not only our manufacturing capabilities but also our engineering capability and therefore will value us higher and not value us only as fabricator. So, that is our current strategy that is playing out correctly right now but there developments obviously are at different pace. But we expect to talk about it as we move forward during the year.
- Bharat Sheth:** Any kind of interest from any player?
- Shishir Joshipura:** I have no numbers to report yet. But the dialogues have progressed very constructively.

- Moderator:** The next question is from the line of Ritika Agarwal from Quest Investment.
- Ritika Agarwal:** As per the government statutory till June 2019, 344 plants have received LOI for CBG, so in your sense on if you could give any direction as to how much would you think of this would-be from the press-mud since as of today Praj is targeting only press-mud?
- Sachin Raole:** We are not only talking about press-mud. There are biomass-based EOIs and LOIs are also there. The proportion is roughly 65% to 70% from press-mud and balance from biomass.
- Ritika Agarwal:** So, out of these 344, you would expect 70% from press-mud?
- Sachin Raole:** Yes. There might be some small component from NSW also, so there is third segment also. We mentioned that we are concentrating on press mud based CBG plant and the biomass based CBG plant.
- Ritika Agarwal:** We have received two orders as of today, so any idea you could give on what is the size of the order and what are the timelines and have we already received the order as on current date?
- Shishir Joshipura:** Yes, so we have signed the agreement as I had mentioned with two customers to build the plants for them and now obviously some more formalities are underway to get the project rolling. We are not yet at a liberty to talk about the size of the contract because of the co-clarifications that are required and that are involved but the agreements are moving forward.
- Ritika Agarwal:** Secondly, my question would be on the Brazil opportunity that you spoke in your initial remarks. We were looking at it from a corn-based ethanol segment, so how is that moving or when will we see that materializing and how big can this opportunity be for Praj for the next 2-3 years?
- Shishir Joshipura:** Brazil has the new program that has been announced will lead to creation of capacity and lot of this is likely to be based out of corn. So, we expect that we will see a lot of activities in Brazil but as you probably know that is in the Southern Hemisphere so these next six months are the period when people will talk about the new project because of production cycle will stop now, so we will get a much clearer view on how the markets will move at what pace and in what segments etc. over the next six months and probably that's the time you will have to bear with us and we will be able to share with you more details.
- Ritika Agarwal:** We have mentioned that the company has done an arrangement with a company for High Purity systems, could you talk more about this? Will this help us building our international business that the company was looking at?
- Shishir Joshipura:** This is for a specific equipment from the PHS business point of view. We basically started right now in the Indian space, once it gets established we will take it to the international space also.
- Ritika Agarwal:** So, this is for domestic?
- Shishir Joshipura:** That's right.
- Ritika Agarwal:** And how are we seeing the HiPurity segment for the next 2-3 years?

- Shishir Joshipura:** So, as you know that segment serves Pharma as a single vertical and obviously in that sense a lot of their future is tied up to what happens to the investments into the Pharma industry. But we are witnessing some changes there with different dynamics in terms of where is the capital investment moving, capacity creation versus creation of IPR or moving to a subcontracted manufacturing route versus owning their own projects for the large Pharma companies. Also, we clearly see a need for us to expand, so if Pharma is the only segment, then we will not limit ourselves to serving Indian market alone. We will continue to focus on pushing our sales and our solutions in markets, which are open to solutions out of companies based out of India. The new developing countries say some big companies like Vietnam or Brazil. They will probably come into play, Bangladesh, so we will see expansion of interest will basket as well so that we are able to serve a larger market.
- Ritika Agarwal:** In our annual report, you have also talked about seeing the interest from corn fiber to ethanol, so wanted to know is this refers to the 2G technology and how is the competition and the interest being seen?
- Shishir Joshipura:** The corn fiber to ethanol is not strictly 2G because it is somewhere in between the 1G and the 2G because it uses different residues stream of a corn-based ethanol plant and that is something that we will see and interest developed. We are already in dialogues in the United States with couple of companies to see as to how this technology can be taken forward because this can create a very differentiated value for people who are already producers of corn-based ethanol.
- Moderator:** The next question is from the line of Sanjeev Zarbade from Kotak Securities.
- Sanjeev Zarbade:** My question was regarding the outlook for order intake. Now we did around Rs. 1,400 crore of order intake in FY19 and in the first quarter of FY20 we did Rs. 168 crore, so if we want to exceed previous year's order intake you need around (+) Rs. 410 crore a run-rate on a quarterly basis in order intake. Do you get that kind of comfort for the current fiscal do you have that comfort regarding exceeding previous year's order intake in the current fiscal?
- Shishir Joshipura:** Yes Sanjeev great observation and that's probably what I mentioned in my opening remarks as well that we did see the first quarter at an unusual level of activity compared to what was already been happening in the preceding quarters. But we have seen a process that is fast returning to normal, so we remain confident that we will do better, and the dialogues and the finalizations have started to move at a different stage.
- Sanjeev Zarbade:** Second half will be really heavy in terms of order intake I guess the way the things are moving up?
- Shishir Joshipura:** We expect that we will start to see changes now from this quarter itself.
- Sanjeev Zarbade:** On the CBG, what is the level of investment in the CBG; that could be required at the commercial level plant and what could be our opportunity in one plant?
- Sachin Raole:** Total investment can range between Rs. 40 crore to 60 crore depending on the size of a plant and the feedstock which you are going to use for that. Our scope can range from 50% to 75% of that.
- Moderator:** The next question is from the line of Anupam Goswami from Stewart & Mackertich.

- Anupam Goswami:** On the HiPurity side where do you see the whole year? Do you see a trend similar to or a level similar to the last year or maybe a lower than that because we started off with a lower side?
- Shishir Joshipura:** On the Praj HiPurity System our aim is to do better than what we did last year.
- Anupam Goswami:** You mentioned about 2G order is that other three projects that have been a bit lower than a timeline is a bit far stretched for 24 months. When do you see this getting executed? Do you see most of it getting executed in the FY20 or should it get shifted to FY21?
- Shishir Joshipura:** I don't think the whole thing will get executed in FY20 but some will get in '20 and some part will get in '21.
- Anupam Goswami:** On the export side, how much are we looking at and what is the outlook on that level?
- Shishir Joshipura:** I think very clearly, we have always stated that for us export remains a very focused market and a very focused area. I just mentioned even in the PHS business that we are going to markets with very differentiated understanding just like Bangladesh and Vietnam to drive our exports. So, export continues to be a very-very high focus area for us and that will remain so. We talked about Brazil, we talked about on Ritika's question on 1.5G that we are talking about, the corn fiber-based ethanol project, so we will continue to keep pushing in the international market as well with equal zeal.
- Anupam Goswami:** As far I remember you mentioned that presently, there is a lot of competition from the local players in Brazil. We are not that competitive in Brazil so will that be affected in somehow or is the competitiveness changed over years?
- Shishir Joshipura:** Your question I think at that time was why not sugarcane to molasses to ethanol route positioning in Brazil as we have in rest of the world and to that I think, we had answered that it's a different level of cost dynamics there in Brazil which allows a different kind of a technology and they don't have incentives to go for very high-efficiency technologies and that is why the market had developed differently. That was the answer that I gave but corn to ethanol is a very different story.
- Anupam Goswami:** In the domestic level, we were the market leader holding around 70%-80% of the market share, so that has changed over these few months or has there any new players has come into that?
- Shishir Joshipura:** There has not been any new player as such in the market space and I think we should at least for a business of this kind with a project we have to look at it on a yearly basis what is happening right. That will be a fair evaluation that we see a trend line over a year or a period of time and on a year to year basis. So, it's still early days for me to comment on market share as such. No significant change that we would expect from that side.
- Moderator:** The next question is from the line of Ratish Varrier from Sundaram Mutual Funds.
- Ratish Varrier:** I wanted to understand the engineering order book, what will be the breakup between CPS and Water Treatment? Can you give us some understanding on that?

- Sachin Raole:** Generally, we talk about Engineering as one basket so there is no specific segmentation within the Engineering business between CPS, Water Treatment and all.
- Ratish Varrier:** Earlier, you alluded to the other income where you booked some profits etc. which is around Rs. 10 crore this quarter. Do you see for the full year a significant growth compared to what you did for last year in terms of other income?
- Sachin Raole:** I will say that it will be more or less as per the trend of the last year and of course depending on how the financial market is going to behave in next nine months.
- Ratish Varrier:** One more clarification I wanted that when you spoke about the 200 applications regarding the ethanol part; so there is it stuck at the bank approval level that is what you mentioned? Is it because the liquidity or is general the process which it takes for the approval?
- Shishir Joshipura:** What I was mentioning was that eventually once the Interest Subvention is approved you still need to get a loan on which you will get pay interest and therefore get the subventions and that is a process between the project and the bank. So, for each project specifically that has to be held dialogue around their financial circumstances, their risks and their cash flows so for each project that has to be individually built and that is where it is right now.
- Moderator:** We move to the next question; the next question is from the line of Avinash Dulani from Systematix Group.
- Avinash Dulani:** Our order book is usually between Rs.800 to Rs, 1000 crore, so with the current developments happening in India as well as in Brazil, if this order book goes beyond Rs. 1000, do we have capabilities to execute it without doing any capex?
- Shishir Joshipura:** As I had mentioned, the capacity is not a constraint for us in terms of execution of this contract if the order book were to grow beyond that. Yes at some moments in time not right now but some other time I may have to add some resources but that we will do, so there is no significant capex that is required to be done at our end.
- Avinash Dulani:** And that resources would be in terms of manpower?
- Shishir Joshipura:** Yes.
- Avinash Dulani:** What is the timeline for executing these orders by order backlogs?
- Shishir Joshipura:** Around 12 months to 15 months.
- Avinash Dulani:** If you can just give me the capex number for 2020?
- Sachin Raole:** More or less it will remain in the last year's number around Rs. 15 to Rs. 20 crore, not major capex, which we are planning for.
- Moderator:** The next question is from the line of Mahantej Mahrilinga from Finquest Securities.
- Mahantej Mahrilinga:** You have just mentioned that when compared to the competition like your yield is much-much better, so if you could just broadly quantify it?

- Shishir Joshipura:** Depending on the feed-stock, we could be looking at the yield difference between 30% to 40%.
- Mahantej Mahrilinga:** In the sugarcane to ethanol?
- Shishir Joshipura:** Sorry, no that was a question that was asked to me around CBG, so that is the answer that I gave for our compressed bio-gas thing when we are talking about what would happen competitive landscape and how we see it. In that context I answered that.
- Mahantej Mahrilinga:** Compared to the like you just mentioned that in US, that plant for corn slightly different when compared to the technology that you have. How different is it?
- Shishir Joshipura:** Again there the question was around Brazil, as of now the market has built around the sugarcane through ethanol route and now the markets slightly to take the corn to ethanol route. I had mentioned that in corn to ethanol route we have a significant technology to offer. We even had the same thing for the sugarcane to ethanol route that's what we have built so many places worldwide. However, in Brazil, owing to some very special circumstances surrounding there the high-technology requirements were not there and therefore lot of local companies set up the plants. That was my answer.
- Mahantej Mahrilinga:** But the technology used in US from corn to ethanol is similar to what you offer or is it different?
- Shishir Joshipura:** In United States, it is very similar yes.
- Moderator:** The next question is from the line of Yogesh Patil from Reliance Securities.
- Yogesh Patil:** My question is related to your EBITDA, could you please give us a detailed breakup of EBITDA on segmental side?
- Sachin Raole:** We don't give segmental EBITDAs.
- Yogesh Patil:** Any ballpark number, any ballpark idea about your each segmental EBITDAs?
- Sachin Raole:** We have never given those kinds of numbers. We give only consolidated basis.
- Yogesh Patil:** Could you please give us any ballpark numbers about how much margins on each segment side, any idea?
- Shishir Joshipura:** If you have seen my earlier numbers also, we have not given the segmentation in that way. We don't have that kind of a thing.
- Yogesh Patil:** The next question is related to again the order book. In case of the order book run-rate is mainly hurt by a liquidity crunch in the market right now and if this liquidity crunch in the market, if it takes time to improve in coming period; will it impact on our order book intake? Do you see that kind of issue?
- Sachin Raole:** In the opening remarks, it was mentioned by Shishir that why there is a slowness in the order booking. Yes, one of the reasons, I am not calling a liquidity crunch kind of a scenario but yes, funding for the project process, the procedural aspects are time consuming and they have taken some more time in this particular quarter because of the electoral process which was going on.

- Moderator:** The next question is from the line of Levin Shah from Value Quest.
- Levin Shah:** Like you had mentioned that apart from the election being in this quarter, there was also order book had slowed down because the decision-making from the customers end has slowed down and that is also because of issues in raising the finances. So, how do you see that actually impacting our growth in this particular business?
- Shishir Joshipura:** Levin, two-three things one; yes a customer as we have mentioned earlier there has to be a tie-up between the project and the bank for it to go ahead in any form and I think that process had slowed down in the first quarter of the year because of the fact that we were undergoing a very major electoral process in the country. That was impacting the decision-making of the banks, of the funding, of the project moment. But more important is that is also because people were also saying that 'okay' let us see whether there will be new policy regime or the same will continue and I think that's a good news that the same policy regime will continue now and it will continue to be going forward. So, from those perspectives some of the uncertainties has gone so that is a good sign and start to accelerate the project finalization as follows because as we also mentioned that there is obviously a big gap between what is eventually required to meet the targets versus what we currently are capable of servicing in terms of ethanol capacity in the country. So, we will see a continuously building momentum as we see it but like any businesses and doesn't matter what eventually gets produced. Yes, liquidity is important because cash is important to any of the economic activity and to that extent it will continue on the normal course as it does for any other project.
- Levin Shah:** If you look at the bank's lending or the liquidity at the banks so that has actually dried up in the recent past. So, will that actually impact your customers in terms of arranging their finances, is the thing that I wanted to understand?
- Shishir Joshipura:** In general, our customers tend to make sure that they have these things tied up because of the various experiences that are required for setting up of an ethanol plant but yes, if tomorrow if in a particular project the banks were to say we will not disburse money then obviously it comes to halt. There is business as usual, so there is no specific reason driving ethanol programs or anything like that.
- Moderator:** We will take that as the last question. I would now like to hand the conference back to Mr. Sandip for closing comments.
- Sandip Bhadkamkar:** On behalf of Praj Industries I would like to thank everyone for your time. In case you have any questions feel free to write us at info@praj.net. Thanks again for your time and have a nice day.
- Moderator:** Thank you very much. On behalf of Praj Industries that concludes the conference. Thank you for joining us. Ladies and gentlemen, 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.