Praj Industries Limited

Q2 and H1 FY20 Earning Conference Call Transcript
October 24, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Praj Industries Limited Q2 and H1 FY20 Earning 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandip Bhadkamkar from Praj Industries. Thank you and over to you, sir

Sandip Bhadkamkar: Good morning everyone. We welcome you all to the Conference Call organized to discuss Praj Industries' Operating Performance and Financial Results for Q2 and H1 FY20 which were announced yesterday, October 23rd 2019. I have with me Mr. Shishir Joshipura – Managing Director and CEO and Mr. Sachin Raole - CFO and Director, Finance and Commercial on this call.

Before we begin, I would like to mention that some of the statements made in today's discussion might 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 our quarterly results presentation have 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 morning ladies and gentlemen. I welcome you to Praj Industries' Earnings Call for Q2 & H1 FY20. The festival season of Deepawali is here and I convey my best wishes to you and your family on the occasion. It is 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.

The progressive National Biofuel Policy launched in 2018 with the objective of reaching 20% ethanol blending by 2030, envisaged production of ethanol from additional feedstock like B heavy molasses, juice, syrup and damaged grains. This in turn was followed by Interest subvention program for sugar mills towards ethanol expansions and remunerative prices for ethanol derived from Molasses C, B heavy molasses, sugar cane juice.

Currently India is facing major challenge of excess sugar production in the country resulting in sugar glut. One of the key solutions to tackle this issue is production of ethanol, directly from cane juice, sugar and B heavy molasses diverting these feedstocks away from sugar production. This will boost ethanol production, and subsequently help in achieving the goal of the ethanol blending program.

A decade ago Colombia faced similar issue of excess sugar production and high crude imports. Praj's technology had played a significant role to solve this issue. By diverting feedstock likes B heavy molasses and juice to produce ethanol, the country could reduce their import bills as well as deal with the sugar glut. We are confident that we can repeat the same story in India. Diversion of feedstock to produce ethanol can address the sugar glut and cash flow issues of sugar mills, while reducing the forex outflow on crude imports.

For the current year 2019-20, OMCs have floated a requirement to buy 511 crore liters of ethanol, 55% higher than the preceding year which was 329 crore liters. Last year OMCs had procured ~200 crore liters ethanol, out of which ethanol from B heavy molasses and juice was around 30 crore liters. In order to meet the target of 511 crore liters of ethanol, it is imperative that ethanol production grows significantly in the country. Praj's technology will enable sugar mills to produce ethanol from B heavy molasses and juice in the most optimal manner.

Additionally, In Sept 2019, the cabinet approved upward revision of ethanol price for a one year period starting from December'19. Differential pricing will help sugar mills to opt for the right product mix between Sugar and Ethanol. The Beverage alcohol market is also expected to grow at 7% CAGR over next five years, further opening growth avenues for Praj. To strengthen and improve the international footprint in Brazil, Praj signed a Cooperation Agreement with Dedini S/A Indústrias to provide corn-based ethanol production technology to the Brazilian market. Praj's scope includes marketing and technology support, technology license engineering and supply of critical equipment, whereas Dedini will be responsible for sales, manufacturing balance of plant, construction, site supervision, customer assistance and logistics.

In a further build up to the advanced bio fuel program in India, Praj received a contract for critical equipment supply for INR 100 crores from BPCL for the Bargarh 2G refinery. Praj's 2G technology Enfinity will also be deployed in USA's first bagasse-based bio-refinery to produce ethanol and other co-products. We are also witnessing build up for CBG business with increasing enquiry pipeline during the quarter. Our brewery business continues to strengthen its presence in Domestic market with a market share in excess of 75%. Our relentless focus on developing MNC customers in the Critical Process Equipment & Skids Business has started paying dividends as we received a major contract from a US headquartered customer to supply pressure vessels for an LNG plant based in Louisiana, USA.

As environmental norms for effluent treatment get more stringent, our Water and wastewater business has shown resurgence. Our Zero Liquid Discharge (ZLD) solutions have gained a strong foothold in the steel, fertilizer and chemical segments. We have recently won several contracts including the one from key metal major in India. PHS business leveraged strong customer relationship and performance track record to build and defend its market share. I am happy to inform you that at the 6th Industrial Green Chemistry World Convention and Ecosystem held at IIT Bombay, Praj was awarded for 'Improved Technology development for Furfural. Praj also recently bagged Pune Manufacturing Leadership Awards 2019, and Pune Best Employer Brand Awards 2019 from CMO Asia. I now request Sachin to give his comments on the financial performance..

Sachin Raole: Thank you Shishir. Please note that an updated investors presentation is shared with you all this morning and the same is uploaded on our website.

The consolidated income from operations stood at Rs. 294.14 crore in Q2FY20 as compared to Rs. 251.03 crore in Q2FY19. PBT was Rs. 17.19 crore in Q2FY20 as compared to Rs. 12.86 crore in Q2FY19, registering an improvement of 33.67% over the corresponding quarter. Profit after tax stands at Rs. 16.13 crore in Q2FY20 as compared to Rs. 8.94 crore in Q2FY19. For H1FY20, Income from Operations was Rs. 505.74 crore as against Rs. 442.63 crore in H1FY19. PBT stood at Rs. 27.13 crore in H1FY20 as against Rs. 17.34 crore in H1FY19. PAT of Rs. 24.90 crore in H1FY20 as against Rs. 12.43 crore in H1FY19 registering growth of 100%. Export revenues accounted for 31% of Q2FY20. Of the total revenue, 63% is from Bio-energy, 24% from engineering and 13% is from PHS business.

The order intake during the quarter was Rs. 539 crore, with 86% from domestic market. Of the total order intake, 53% came from Bio-energy, 40% from engineering and balance 7% from PHS business. The order backlog as of September 2019 is at Rs. 1130 crore comprising of 78% of domestic orders. Cash in hand as on Sept 30, 2019 is Rs. 292 Crs. Contribution for the quarter is 44.17% as compared to June quarter of 54.66% and corresponding last quarter of 47.22%. Drop in contribution is majorly attributable to execution of higher domestic orders as compared to international orders (31% against 37%) but drop in contribution is compensated by lower other expenses of 23.9% against 32.2% resulting into higher EBITDA of 5.7% against 3.8%. Effective tax rate is low for FY20 H1 because of the following 3 reasons; one, reduction in effective MAT rate from 21.55% to 17.47%, utilization of MAT credit which was not recognised for the earlier period and recognition of deferred tax asset on lease liability in the current quarter. Going forward, we expect the ETR for FY20 should be in the range of 15 to 17%. Post changes in the corporate tax structure; we evaluated our position and currently decided to continue with the earlier tax regime. 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. With this, I will conclude my remarks. Thank you all for joining. We would be happy to discuss any questions you may have.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.

Anupam Goswami: My first question would be on the order inflow momentum, on the H2 side, how the momentum should continue and the BPCL order was Rs. 100 crore, so it is included in bioenergy, so total bioenergy is Rs. 296 crore and so minus100 crore is Rs. 196 order inflow, so it is flat compared to last year, so how is the 1G domestic going on and other international orders on this front and also what is the status of other 2G projects that was going on in India?

Shishir Joshipura: Let me start in the reverse order, so as you know that there are total 4 projects that we are executing, IOCL and BPCL are now very clearly known as the contract at a move forward because we have also been awarded apart from licensing, engineering, the critical equipment supply contract as well, so that is the status for those 2. The other two, HPCL and MRPL are still in a progressive stage where we finished the engineering for the projects and the licensing agreements and now it is going to the next stage, where the OMCs or the customers are deciding as to what stage they will go forward, whether they will follow EPC model or they will follow EPCM some of the discussions that are taking place at their end and we expect them to move forward in near future as well. So that is about the other 2G projects in India. We are also seeing some traction now beginning to emerge from the RED II directive in Europe and we will keep you updated on that as the progress happens on those cases as well. Coming to the order booking, you are very correct in your observation that this quarter’s order booking includes Rs. 100 crore of BPCL order for 2G and the domestic 1G performance is in that sense at the same level as it was last time and that is effective of the fact that while we saw a bit of a slowdown in the finalization of contracts from the customers because there is some delay that is taking place to tie up the funds at their end, which is delaying the decision. In the earlier time, we saw a tendency to finalise the contracts and then go for complete financial closure but in a healthy change of things, I think people are now opting to first completely close out the entire financing and then only move forward with the project, so that has led to some delay setting in on the finalization side. Moving forward, we are making efforts to ensure that we start to build on this very positive environment that still continues to be available and the opportunity that is beckoning in the market.

Anupam Goswami: How is the outlook and enquiry level coming up? And do you see any traction in that sense?

Shishir Joshipura: So as I mentioned, the environment continues to be positive, the demand is there, I mentioned earlier as well in our note that the OMCs have come up with a tender for 511 crore litres, which is significantly higher than what they had come out last time and procured, so obviously there is a market demand that is there for the product. It is at remunerative prices, the drivers are in place, so we expect that many of the projects will start soon.

Anupam Goswami: And any recovery of the High Purity segment because as I can see as the High Purity segment has not been contributing from the last 2 quarters and even this quarter also, there was zero EBITDA, so how do we see, any recovery in this?

Shishir Joshipura: If you recollect in the first quarter, there was a big negative on the bottomline from PHS and it has recovered to the extent that it is no longer negative and we expect that with the order book that they have built, they will be able to post improved performance as we go forward.

Moderator: Thank you. The next question is from the line of Vivek Ganguly from Nine Rivers Capital. Please go ahead.

Vivek Ganguly: Can you all give some update as to, are we seeing any investment happening or projects for manufacturing ethanol from B heavy and sugarcane juice, that is one and second some update on the status of are you seeing any traction in the SATAT program?

Shishir Joshipura: We are seeing a clear spike in interest from customers in producing ethanol out of alternate stocks like B heavy or sugarcane juice. We are already witnessing a lot of customers beginning to specify B heavy as a feedstock, which was not the case so far and also a lot of enquiries around sugarcane juice and what is the likely outlay of the project, what is the technology situation etc., and as I was mentioning earlier in my comments, we are very uniquely placed that over a decade ago, we have set up several plants that are still running at full capacity in a far-away place called Columbia, which had faced similar challenges at that time like we are facing today, so we are very well prepared, experienced to help our customers go down that route as well. On the SATAT program, as I said, we continue to see evolution of the enquiries and the enquiry bank is building up. It also means that this program has created a lot of curiosity around what is possible on the gas side, so we are also seeing some of the customers, who are not necessarily looking at gas production, but purely from an automotive fuel perspective also beginning to have interest in that direction and SATAT program still has some last mile connectivity required from the OMC contracting perspective and I think once that is cleared, it will go forward.

Vivek Ganguly: Just a followup question on the b heavy and sugarcane juice, sir, there was some policy ambiguity in terms of the sugar mills wanting to get clarity from government whether it could be a swing wing plant or if it is decided on the sugarcane quantity whether they want to make ethanol, sugar in whatever form and source, so they were awaiting some clarity, is that in or is that clarity still being awaited from the government department?

Shishir Joshipura: You know 2 or 3 things as you are probably aware that there are differentiated rates of the end product depending on the feedstock route, so mill can produce ethanol out of C molasses, B molasses, or juice, but obviously then they have to have an infrastructure which identifies these production because switch over is one dimension but also then there is storage and labelling of that and selling of that at differentiated prices, so that is one clear requirement that has to be there. There are couple of issues around what constitutes definition for a juice or syrup so that has been clarified. So on these dimensions there is no ambiguity anymore. And you will appreciate this because of differentiated prices, for each of the products will also create a differentiated excise levy point, and therefore differentiated storage points and clear identification for an end product.

Vivek Ganguly: So have we seen any order inflow for these new sources or new streams?

Shishir Joshipura: Yes, as I was mentioning, we are beginning to see customers, even specify at the beginning of the enquiry itself that they would like to have B heavy as a feedstock and on the juice also, a dialogue has commenced in several times.

Vivek Ganguly: Have this converted into any visibility or had concrete numbers in your order book?

Shishir Joshipura: Yes, as I said earlier, this was not possible for people to offer anything other than Molasses-C. That is no longer the case, so people who are building new capacities are obviously looking for flexibility in their plant.

Moderator: Thank you. The next question is from the line of Kirthi Jain from Sundaram Mutual Fund. Please go ahead.

Kirthi Jain: Can you describe the LNG specialized vessel order?

Shishir Joshipura: We have a business unit that makes this very specialized critical process equipment and Skids for the industry, specially chemical and petrochemical, so they have received a contract now to build a very specialized vessel from a very large company in United States and the vessel will also be installed in United States for an LNG project.

Kirthi Jain: So, we are seeing order flow mainly in domestic?

Shishir Joshipura: No, that is not domestic, that is export contract.

Kirthi Jain: And if you see our order inflow, large part is only domestic this quarter, only Rs. 75 crore is export orders this quarter.

Shishir Joshipura: Yes, you are absolutely correct on that observation. We have had a quarter where the line up was such that we did not have many finalizations taking place in the export market. We expect that as we go forward, the things will change.

Kirthi Jain: You were mentioning about some Ludhiana pressure vessel order?

Shishir Joshipura: Not Ludhiana, it is Louisiana in United States.

Kirthi Jain: Coming to High Purity, how do we see the traction?

Shishir Joshipura: High Purity, as you are probably aware that they have not done so good in the first quarter, because of the sales being low, so they are now carrying a healthy order book forward with them and we expect that it will start to change and as already mentioned, our first quarter there was a large negative bottom-line and now it has at least moved to a breakeven situation right now and they will continue to improve on that.

Moderator: Thank you. The next question is from the line of Levin Shah from Value Quest. Please go ahead.

Levin Shah: This Rs. 100 crore BPCL order we have got for 2G refinery that sits into engineering order book or bioenergy order book?

Sachin Raole: In the bioenergy order book.

Levin Shah: In the overall order book this quarter, in engineering we have received a very good order book, so can you just elaborate a bit on this? Where is this from? What kind of order is this?

Shishir Joshipura: Yes, you will probably recall in my opening segment that I had mentioned three things, one that our brewery business is now seeing a market share in excess of 75%, so they have built on that. Secondly, is this Louisiana order and the third one is about the zero liquid discharge business and that is getting a lot of traction and we are seeing that there is a progress happening on that front, so all of the three put together has contributed to this number.

Levin Shah: So the Rs. 100 crore 2G order that we have got is into the bioenergy business, right?

Shishir Joshipura: That is correct.

Levin Shah: So if we just compare like, H1 last year and H1 this year, the bioenergy business order book is actually down and even this includes Rs. 100 crore of 2G, so 1G per say the order book was down meaningfully, so where do you see this going? Till Q1 we were seeing that due to elections, there was some postponement but now that is behind us but if we look at the order book, we have not received orders on the 1G front of the business?

Shishir Joshipura: Yes, as I was mentioning earlier, there was some slowdown and finalization of this contract, a) because customer is shifting towards closing out the entire financial structuring of the project prior to moving ahead with the order placement and that we have seen real cases where this is happening. In earlier situation, sometimes people would execute this on parallel track because of the time that we take to build the project but that is no longer the case. Secondly, there was a difficulty in general in the economy as you are aware of availability of funding from the banks and that has put some pressure on the project and has led to a period, where no finalizations were taking place and that is what has delayed the finalization, so we have the enquiries with us, we have made progress with several of our potential customers but we need to, from this quarter onwards, we expect them to move to closures.

Levin Shah: On gross margins, this quarter we had lower gross margins because domestic business was higher versus exports and if you look at our order book composition, now we have a sizable order book from the domestic business, so going forward, will we be able to maintain this gross margins or we can see a further drop over here?

Sachin Raole: I don't think there will be a drop in the gross margin, more or less it will travel in the same kind of a range going forward, so even though the composition is little different. Yes, your point is valid that international execution was less and even the order in the current quarter is less, but going forward I think, we will catch up.

Levin Shah: And even on the engineering business, as I understand is a low margin business as compared to the bioenergy business, so again over there the order book accretion has been higher?

Sachin Raole: So the composite engineering order book or the margin on the engineering orders is more or less in the same line of your domestic ethanol business. I don't think there will be a drop on account of that.

Levin Shah: Last year, we did gross margins of 45.5% in the standalone business, so if you can give a broad sense that we will be able to match that this year or there would be some drop in that?

Sachin Raole: It completely depends how the execution takes place in balance two quarters, but I would not like to say that the margins will drop further. They will remain in the range with what already we have.

Levin Shah: And sir, lastly on the CBG, so last quarter we had received 2 small orders, so have you received any other order on that and what is the development on those 2 orders?

Sachin Raole: There are many enquiries which we are right now dealing with, but the conversion into order is yet to happen. Main reason for that is again what Shishir was mentioning on the funding side, so people are interested in putting up a plant, but getting the funding tied up is still an issue for them. Once this issue gets settled down, we will see movement happening on that. Shishir also mentioned on the SATAT policy, there is also some issue on the last mile closure on the offtake of gas. Once that gets settled, we will see movement happening on CBG side.

Levin Shah: But the two orders that we had signed some agreement, have we got those orders yet?

Sachin Raole: We have already got the agreement signed with those people but they are also right now in a phase of arranging their funding, so they had gone ahead with their equity portion but that is yet to be tied up at their end.

Moderator: Thank you. The next question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: Could you give more clarity on this margin profile, I think you had partly answered but how will this commodity prices impact margins?

Sachin Raole: Two things which has happened Vikram, the composition of sales which also plays a big role and my suggestion is if you add material cost and other expenditure, you will realize what are the margins we are earning because of certain expenses which is cost of material and certain expenses because of site expenses sit into other expenditure. Being a project business, we have to take into account both these expenses to really arrive at that.

Vikram Suryavanshi: And sir, this High Purity, we had the technology transfer as you may do it, Aquanova, so for this injection water and all, so how big would be that opportunity and are we seeing some traction in that front?

Shishir Joshipura: Vikram, the good news on that front is that as you know that we had the agreement provided for us to manufacture the equipment in India and we have made the first set of equipment supply commissioned and that has done wonderfully well, so we now are executing 4 more contracts on the same side, so it is finding good acceptance within the industry because technologically obviously it was a superior proposition and now with our manufacturing and engineering support locally, it has really become a very good value proposition for customers.

Vikram Suryavanshi: And sir, can you give more outlook in terms of 2G opportunities and this new opportunities for international market, particularly USA and other countries, Europe or Brazil?

Shishir Joshipura: As I was mentioning earlier, in India there are 4 projects that is you are all aware of. In addition to that, we are also beginning to see traction on this RED II directive implementation in Europe, where there are some clear customer enquiries that we are now addressing. Also, you are aware of the press release that we had given about the US project, where it became a bagasse-based 2G refinery. This is a first such plant in United States. So in Brazil, it is not 2G, Brazil is corn-based ethanol that we have tied up with Dedini and as I mentioned earlier, Dedini is a strong local player on the sugar side and we have partnered with them to address the customer's requirements from corn-based ethanol plant which is likely to come up a lot more in Brazil as we move forward.

Moderator: Thank you. The next question is from the line of Sandeep Sabharwal from ASK Sandeep Sabharwal**.** Please go ahead.

Sandeep Sabharwal: I actually have no question. I just want to congratulate the management on strong order booking and execution. All of us have been waiting for the company to move on a higher growth trajectory for some time now, so I hope that now this is the start, best of luck.

Moderator: Thank you. The next question is from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.

Sanjeev Zarbade: On the tax, while in FY20, we have guided for around 15%-17% kind of ETR, would it significantly increase going into next year, if you could give us some kind of guidance, what could be the increase or will it remain at the same level?

Sachin Raole: For the next year, to be very frank with you, we are still evaluating between the new tax regime and the old tax regime. What kind of benefits will continue for us if we remain in the old one for the next year, that is what we are right now evaluating and depending on that, we will choose for the next year, whether we should transition to the new tax rate of 22%, but currently, we are remaining in the old tax regime because we have MAT credit availability, which we would first like to exhaust, whether it takes care of the current year or we have to wait for the next year, we will have to just see what kind of benefits still continues in the next year going forward mainly on the R&D side and on the SEZ side. Once we have some clarity, we will decide about which tax regime we should go for in the next year.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Regarding some understanding of ethanol from the direct juice part like sugarcane juice, how will the yields improve in that case? What happens to the molasses change, whether molasses will be the byproduct or directly from juice, if you could explain?

Shishir Joshipura: I will give you a slightly longer answer but that will probably help clarify for everybody. So when you start with sugarcane as a feedstock, if you take the juice when you convert that to sugar, in the first stage of conversion, what you are doing is you are converting the C5 and C6 sugars. The first stage of conversion, you are left with a mass called B heavy molasses, as it is called. The B-heavy molasses still has economically extractable sugar embedded inside it, so you further process it, you still take sugar out, then what you have left is Molasses-C. There is still sugar in Molasses-C, but that is no longer economically viable to extract in sugar form and therefore we use that as a feedstock for converting that sugar into the ethanol form. So that is how the whole scenario works. If you work directly from juice without going to the indigenous steps of extracting sugar, then you can also convert directly to ethanol. Obviously, then your yield will be much higher because now you are converting entire sugar into ethanol as compared to intermediate stage where you do little less and Molasses-C will do even less.

Saket Kapoor: If we take the UP state government clause wherein some reserve quantity of molasses are there for the liquor company, if this process of directly converting to ethanol from sugarcane juice goes, if there is any tweaking in the policy that is expected going forward, how will be the availability of molasses?

Shishir Joshipura: So let us understand what has the new policy done, the new policy says, we don't restrict you on the feedstock side, you can use whatever feedstock you want, there is an overall gap in how much the OMCs will procure from juice and B molasses route ethanol as of now but that is far away, the current production levels are nowhere near, that is what the feeling is. So there is an overall feeling under which this regime operates, but company can decide now. What the UP policy says is, of course they are wanting 10% of the production to be diverted for beverage grade ethanol if I can use that word or alcohol as it is known, so that is what will happen, so they are saying, well you can do whatever you want but you also want availability for the other industry because there are people who are dependent on that for their livelihood, so that is the balance they are trying to strike.

Saket Kapoor: And for the 2G technology, how are things shaping up on this front, I think you and one more company in collaboration with ICT are in stages of implementation for the 2G based ethanol, so how well are things going on now?

Shishir Joshipura: ICT is the institution of chemical technology in Mumbai, which has developed a process for 2G ethanol and as I was mentioning earlier, the technology is also being built on the commercial scale in two plants, we are building 4 and there are 2 plants, although the progress there is very different than ours, but that is a separate issue, so ICT itself is a technology provider and they were not tied up with any company, it is called ICT DBT because department of biotechnology supported that.

Saket Kapoor: We heard India Glycol being a partner there so?

Shishir Joshipura: No, India Glycol is the place where they have put up their demonstration plant.

Saket Kapoor: At their unit?

Shishir Joshipura: Yes.

Saket Kapoor: We find that the mix of revenues or the revenue booking is generally higher in the second half, so this is going to be the trend this year also or are we expecting any change?

Shishir Joshipura: No, we are not expecting any change.

Saket Kapoor: The second half is going to be heavier than what the first half is?

Shishir Joshipura: Yes, that is right.

Moderator: Thank you. The next question is from the line of V. P. Rajesh from Banyan Capital. Please go ahead.

V. P. Rajesh: In the order backlog of Rs. 1,130 crore, are there any orders which have been pending for more than a year now, meaning they have been won but we have not executed?

Sachin Raole: If your question is that the order is there but it is not in executable form, then we don't have. We won orders which are there in the order book but are not executed, that scenario is not there.

V. P. Rajesh: So just to clarify, I haven't kept up with the company for a while, there used to be Petrobras orders which was earlier as part of the order book, so they are no longer there, isn't it?

Sachin Raole: No, long gone, two years back, we have removed it. They are all gone from the order book.

V. P. Rajesh: And then in terms of the bioenergy, it is about 68%, so roughly Rs. 770 crore orders are there from the bioenergy segment and how much of that is from the PSUs like BPCL and others, if you could just give some number around that?

Shishir Joshipura: About Rs. 200 odd crore.

V. P. Rajesh: Rest is all from the private companies, is it?

Shishir Joshipura: Yes, more or less.

Moderator: Thank you. The next question is from the line of Sanjay Manyal from ICICI Direct. Please go ahead.

Sanjay Manyal: Just a few questions on the ethanol side. There has been around Rs. 511 crore tender which has recently opened for ethanol. Does India have that much capacity to really execute that kind of a tender and if not then, what is the approximate blending possible now? Means will the sugar companies be doing somewhere around 300 liters or less than that?

Shishir Joshipura: At about 320 odd crore liters, we are looking at 6.5%-6.7% in that range and what is important, as it is also an indicator for the industry to say, look they are willing to buy so much. If the production is not there, then obviously that will have to be made with the new capacity creation and it is very important for the OMCs to give an indicator. If you look at the last few tenders, they have always gone ahead and asked for higher quantity than they have eventually contracted for and that is only to indicate that it is moving in the direction that they would need that kind of quantity and that is an indicator from the OMCs as to what kind of volumes are required to be produced.

Sanjay Manyal: There were 114 projects which was approved for the soft loan and then there was further 160 odd projects were approved or not approved which we don't know, so what is exactly the status of that and let me just add that question also, what is the entire capex required for all these 270 odd projects of that number and what is the opportunity for Praj over here?

Shishir Joshipura: I made this distinction with my team and therefore I am going to answer it like this. This was not a soft loan program, the program was for interest subvention, so you get your normal loan, then we will give subvention on the interest part. That was the scheme and not that a soft loan will be made available under the scheme, so the loan is at normal rate and then subvention helps you par down your interest cost. That was the scheme that was announced. That fundamentally meant that the project still has to get approved under the normal debt market rules and funding rules in the country. Now this will come as a surprise to you but in the last quarter, not one case of this interest subvention moved to a project finalization stage because they were still tying up their fund, so that is the reality, so there are these cases as you rightly put 125 going up to 270 and if all the 270 were to become real, we are still looking at a Rs. 7000 crore opportunity here to unfold if any of these projects go on ground.

Sanjay Manyal: What would be the overall capex?

Shishir Joshipura: Rs. 16000 crore for the overall capex.

Sanjay Manyal: Other part, the boiler and all that which probably Praj doesn't supply from somebody?

Shishir Joshipura: As I had mentioned earlier, we have now developed a solution working closely with a boiler company which is revolutionary for the boiler part because it cuts down the fuel consumption by two-third and the first such equipment is under commissioning right now at one of the locations in Maharashtra and we already have received contract for the next one as well, so we are very confident that this will rewrite the rules for the way incineration happens in the industry, so the boilers will be changed but the technology for deciding incineration will shift with Praj.

Sanjay Manyal: And just lastly, the 270 which you have mentioned and now you have mentioned the Rs. 7000 crore opportunity and now the Rs. 15,000 crore capex, but what do you think, what is the sense, this looks pretty huge number, what is the real number that we can sense?

Shishir Joshipura: The calculation shows it is Rs. 7,000 crore and the way I think about it is that it doesn't matter what I think, what matters is, what the bankers think and about the project's viability and obviously not all of them will see the light, at the end of the day some new will come and join in, but lot of them will also see the light at the end of the tunnel.

Moderator: Thank you. The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.

Anupam Goswami: You mentioned about the boiler technology that Praj has partnered with, so what kind of incremental scope can we look at after when the boilers will be provided by Praj?

Shishir Joshipura: It depends on the model that the customer is choosing in terms of how much work they want to do themselves and how much will they be handling, but we can look at significant change in value depending on the plant it could be another between 60% to 100% of additional value for us.

Anupam Goswami: The plant of 30 KLPD, where Praj had around Rs. 30 crore of opportunity, so that would increase to how much?

Shishir Joshipura: If it is a Rs. 30 crore number for us, it will become Rs. 45 crore- 50 crore, depending on the scope.

Anupam Goswami: And sir, any more details about the agreement that Praj has gone into? Agreement that the technology partner that you have mentioned?

Shishir Joshipura: Here the technology lies in the fact that we are able to, as you know that these are incineration systems, which are used to generate the spent wash as it comes out from the plant and the spent wash comes out at a concentration level of 55% today. So that fundamentally, 45% is water in it and now we have developed a technology that concentrates this 55% to 72% and that allows it to be used as a fuel directly. It is a self-sustaining combustion that happens and therefore you obviously need much less support fuel which is required to incinerate this spend wash and that is what we have achieved and by doing this, we are able to reduce the fuel consumption by almost two-thirds, so depending on the fuel that say 60 KLPD distillery usage, but it could translate into depending on what fuel they use to translate within a benefit of 5 crore to 10 crore per year on bottomline for the user.

Anupam Goswami: And when this would be ready for the market?

Shishir Joshipura: As I was mentioning, we are commissioning the first system now, it should be commissioned in next 1 weeks' time and we already have contract for another one, so we expect once that is commissioned we will be able to showcase.

Anupam Goswami: The BPCL order that we have received for critical equipment, what kind of incremental opportunity that Praj can get? What incremental potential that the whole project has for Praj?

Shishir Joshipura: As I mentioned that depends on the model which these OMCs choose to execute the project. If it is like IOCL, which is an EPCM route, then the law says that no, we cannot participate in any other part of the equipment, they go to LSTK route with somebody, then it is a different ballgame. So depending on the model that the OMCs choose to execute finally is the potential that will emerge for us.

Anupam Goswami: And sir, in Louisiana, the special vessel that we have got contract for, what is the size of that?

Shishir Joshipura: I don't remember the specs of that now but I think this is almost 13 meters long.

Anupam Goswami: No, in the sense of like size of the order value?

Shishir Joshipura: No, we don't disclose it by the order because we are not allowed to do so by the customer's contract.

Anupam Goswami: And would it be some kind of recurring or is it like one-time?

Shishir Joshipura: The relationship is very important here, not the equipment itself because equipment depends on the process plants, but the vote of confidence and the approval that we have got is very high from this global leader company. That allows us to now participate in their future needs and obviously they will keep building projects and therefore we will participate in that. So in that sense, it is a repetitive opportunity but not the same equipment.

Moderator: Thank you. The next question is from the line of Vivek Ganguly from Nine Rivers Capital. Please go ahead.

Vivek Ganguly: On slide 13, you have mentioned that of the 1.9 billion litres of ethanol blending that happened in FY19, 0.3 billion litre was produced from B heavy and sugarcane juice partially, so if you can shed some light on that it will be helpful?

Shishir Joshipura: The policy came almost a year back, so some customers will keep changing, so that is what you see there.

Vivek Ganguly: And that would mean that those guys they were able to tie up the financing to set up or make the investment in the necessary plant and equipment?

Shishir Joshipura: Yes that is right. Some are also existing distilleries which did the necessary process changes and adjusted the plants for this.

Vivek Ganguly: So this 270 number of project applications that are pending to see the light of the day is exclusive of what has already happened?

Shishir Joshipura: Yes, that is correct. As I was mentioning that last quarter, we did not see a single finalization of these 135 cases.

Vivek Ganguly: And those orders by the way, the initial where the initial pioneers made the necessary change, those would be small size changes or process changes that were required at the plant itself

Shishir Joshipura: So as to learn what happens.

Moderator: Thank you very much. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.

Sandip Bhadkamkar: Thanks again everyone for joining the call. If you have any more questions, feel free to write us on info@praj.net. With this, we conclude this call and I wish you very happy and prosperous Diwali. Thanks again.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Praj Industries that concludes this conference. Thank you for joining us and 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.