Praj Industries Limited

Q2 and H1 FY 2019 Conference Call Transcript
October 26, 2018

Moderator Ladies and Gentlemen, Good Day and Welcome to the Praj Industries Limited Q2 and H1 FY 2019 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 '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

I now like to 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 Q2 & H1 FY19, which were announced yesterday, October 25, 2018. I have with me Mr. Shishir Joshipura – Managing Director & CEO 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 Q2 & H1 FY19. 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

Fiscal 2019, thus far, has been an exciting year marked by a series of positive developments geared towards the bioenergy landscape in India. The National Policy on biofuels 2018 is a huge step undertaken by the government to structure the ecosystem for sustainable adoption of biofuels and enhance their usage in the energy and transportation sectors in the coming years

The Policy expands the range of feedstock by permitting the use of 100% sugar cane juice as well as damaged food grains, rotten potatoes, corn and sugar beet for ethanol production. This step helps to bring in abundant feedstock into the system setting the stage to significantly accelerate the blending levels across the country which were hitherto constrained by the availability of adequate feedstock.

In a bid to address India's oil import dependence, the Cabinet Committee on Economic Affairs (CCEA) approved raising the ex-mill price of ethanol derived from 100% sugarcane juice at Rs.59.13 per litre for mills that will use sugarcane juice for production of ethanol. The CCEA fixed the ex-mill price of ethanol derived out of B heavy molasses / partial sugarcane juice at INR 52.43 per litre from prevailing price of INR 47.13 per litre. This step gives flexibility to sugar mills to define the product mix between sugar and ethanol through C molasses, B heavy molasses or sugar cane juice.

The Government also announced a bailout package of Rs. 5,000 Cr for the sugar industry which included interest subvention for those mills that were undertaking expansion of distillery capacity. Clearly, the combination of enhancing feedstock options, higher price being offered for ethanol produced and incentives for capacity creation have created very fertile conditions for producers of biofuels.

In response to the bailout package, the Department of Food and Public Distribution has approved over 114 proposals, of which 26 are for ZLD systems and 88 for Brownfield or Greenfield expansion of new distilleries.

During the inaugural World Biofuel Day on 10th August 2018, the Hon'ble Prime Minister announced that India will aim to produce 450 crore litre of ethanol in the next four years from existing 141 crore litre. This tripling of output in a span of only 4 years will enable an import savings of Rs 12,000 crore.

In addition to conserving foreign exchange, enhanced use of biofuels offers multiple benefits such as increasing farmers' income, employment generation and the obvious environmental benefits.

There has been significant thrust on 2G biofuels as the policy also introduces viability gap funding scheme and additional tax incentives for 2G ethanol Bio refineries along with differential purchase price as compared to 1G biofuels.

At the same time, the government has reiterated its commitment towards reducing pollution and the need to efficiently manage the crop residue across the nation. In sync with this, the government has announced the new Sustainable Alternative Towards Affordable Transportation (SATAT) policy, in which it envisages 5,000 Compressed Bio-Gas plants in the next five years.

We are happy to share that Praj has introduced a new technology - "Renewable Natural Gas Technology (RENGAS). RENGAS is an advanced technology to produce Renewable natural gas (RNG) from Agro-waste such as cereal straws and farm remainders as well as from Agro-industrial waste such as Sugar mill press mud or distillery Spent wash. RENGAS byproduct, fertilizer, has received approval and certificate from the Natural Organic Certification Association (NOCA) as per set NPOP Standards.

On the global front, the trend towards an increased use of environmentally friendly fuel is gathering pace again. We are seeing renewed activity in pockets of international markets which have gone past the initial assessment phase and are ready for higher levels of biofuels integration.

On the 1G ethanol front, we are seeing a skew of high-potential order leads from international markets. Deepening mandate intensity across Latin America, South-east Asia, and parts of Europe is driving overall market sentiment. With its strong expertise and market leadership, the Company looks forward in participating across the various opportunities in the domestic and international markets.

Our 2G project deliverables for, BPCL plant at Bargarh Orissa and Panipat plant for IOCL are progressing as planned. We have already completed BEDP for both the plants and execution activities related to EPCM for IOCL plant has commenced. BEDP related to HPCL plant at Badaun (UP) has started and expected to be completed in Q3.

On the whole, the bio-energy business is progressing well and expected to help us in building good order book across the domestic and international markets

The pharma space is seeing increased consolidation across markets. Further, a slow-moving capex cycle has resulted into slightly delayed execution across pharma majors. Amid this, our PHS business delivered steady growth.

Coming to the engineering business vertical, our Brewery Business continues to mark a healthy performance and has seen improved momentum in the overall order wins. The removal of highway liquor ban is resulting in renewed investments by brewers, which bodes well for our brewery segment.

On the (Critical Process Equipment) CPES business, we have successfully delivered some complex contracts in the Chemical and Oil & Gas Sector and continue to witness healthy repeat orders from customers. Further, we continue to drive focus towards becoming preferred partners for global EPC players. The certification and approvals by Global players, we believe, will enable us to bid for projects on a wider international scale.

New enquiries are showing significant improvement from industrial segments for our Water and wastewater business. We are directing higher focus towards high complexity zero liquid discharge system for various industrial effluents and are expanding reach across various industries such as chemicals, textiles, steel, power and pharma.

Before I conclude, I am happy to share that Praj Industries' CPES BU and Manufacturing team recently secured "Pune Best-In-Class Manufacturing Leadership Award 2018" in the Heavy Equipment category. This was in addition to, our supply chain management team receiving the 'Overall Excellence in Procurement & Sourcing' Award at the 12th Express Logistics & Supply Chain (ELSC) Conclave. ELSC is one of Asia's largest end-to-end logistics & supply chain conference

On the whole, we are excited about our business given the enhanced prospects for growth across business verticals and target markets. All business segments namely, Bio-energy including Compressed BioGas, Praj Hi-purity and engineering are well poised with unique set of capabilities, comprehensive offerings and a steady rise in opportunities across the landscape. With this, I will now hand over to Sachin for his comments on the financial performance.

Sachin Raole Good morning, all and thank You, Shishir.

The consolidated income from operations stood at Rs. 251.03 in Q2FY19 as compared to Rs. 207.87 crore in Q2FY18. EBITDA without other income is Rs. 13.83 crore against Rs. 9.78 crore in Q2FY18. Profit after tax stands at Rs. 8.94

crore in Q2FY19 as compared to Rs. 4.74 crore in Q2FY18, an improvement of 89%.

For H1FY19, Income from Operations was Rs. 442.63 crore as against Rs. 400.65 crore in H1FY18. PAT of Rs. 17.34 crore in H1FY19 as against Rs.5.15 crore in H1FY18.

Export revenues accounted for 29% of Q2FY19. Of the total revenue, 43% is from Bio-energy, 41% from engineering and 15% is from PHS business.

The order intake during the quarter was Rs. 338 crore, with 76% from domestic market. Of the total order intake, 55% came from Bio-energy, 36% from engineering and balance 9% from PHS business.

The order backlog as of September 2018 is at Rs. 900 crore and the cash and cash equivalent is Rs. 314 Cr.

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

Moderator Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Jehan Bhadha from Nirmal Bang Securities. Please go ahead.

Jehan Bhadha My first question is in case the Sugar Company is setting up a Greenfield distillery plant of let us say 120 KLPD, what is the capex that it will require and how much will be our share out of this total capex?

Shishir Joshipura As a thumb rule, per every KL you need a Rs. 1 crore of investment at the broad level. So if it is 120 KL plant roughly they will need Rs. 120 crore, give or take a few here or there. If they put up a 120 KL distillery, one-third of that would be our share. So of Rs. 120 crore, our share would be Rs. 40 crore.

Jehan Bhadha Second question is more on a macro level, so out of let us say total molasses that is produced from Sugarcane in the country, what proportion is used captively by Sugar Mills to make Alcohol or Ethanol? And what proportion of molasses is sold in the open market? The reason for asking this question is that you know let us say that some mills have already announced that they will be going in for Greenfield expansions, so will they be buying molasses from the open market because they will have their own cane procurement area and they would not be able to get in more cane. So I wanted to understand, how will it work out?

Shishir Joshipura There are multiple dimensions to this in terms of what crushing capacity efficiencies I can use, how do I improve my yield, what is happening to as you rightly last year said the catchment area from that mill perspective and the size. so say there are small sugar companies which may not have a distillery attached to them and obviously, in that case, they will aggregate their molasses with some other distillery. So there is no fixed answer that I can give you as to who will do what but these are different factors for different people which will determine the movement of molasses.

Jehan Bhadha At an all India level, how many mills would be fully integrated having their own distillery versus others who would be selling molasses in the open market?

Shishir Joshipura So it is roughly 50% - 55% will have attached distillery and the balance may not have.

Jehan Bhadha But those mills that are not having, are they not incentivized to set up Greenfield plants?

Shishir Joshipura The incentive is common for everybody. And obviously, there has been a lot of positive winds such as interest subvention schemes, the price for Ethanol, the movement to blend more. So in terms of market forces, a lot of positive directions for improving the feasibility of having your own distillery and that applies equally to everyone.

Jehan Bhadha In terms of inquiries over last 1 month or 2 months, what is your feedback on that?

Shishir Joshipura As I have said, we have seen an increase of 35% - 40% in the inquiry level at the intro stage.

Moderator Thank you. We move to the next question from the line of Nirav Vasa from B&K Securities. Please go ahead.

Nirav Vasa Sir, in the order inflow of Rs. 338 crore that we have booked in the second quarter, can you please share the quantum of order inflows that we have booked from second generation technology from OMC's?

Shishir Joshipura So of the Rs. 338 crore order book, that you see in the quarter, we only have a small order of Rs. 15 crore value which is towards HPC engineering package which is a soft order. There is no big order sitting yet on the critical expense for 2G in the number that we have shown.

Nirav Vasa By what time, are you expecting some major big chunky orders to come from 2G because I believe we are in continuous discussion with the OMC's but any timeline that you can share by which this needle can swing really fast?

Shishir Joshipura Well, we are all expecting. There is nothing to be done from our end to make that into a reality. So we are only expecting that from this quarter onwards, we will start to see a movement in that.

Nirav Vasa There were 4 players who are capable of providing second generation technology in India, with Praj being the dominant one. So are we still facing competitive intensity from the other three players? Because I believe these three players were the only ones who were approved by Engineer India in their report for the Oil Marketing Companies

Shishir Joshipura So the way we see this is, when more competition walks in, it is good because then it shows that there is more interest in the technology, there is more similar read of the market as we have. So in that sense, competition walking in is a good idea. We have a new, not from an international perspective, but a company that bids for the next tender on MRPL that we saw a new entrant walk-in. Not new from the international experience of ours, just from India perspective. So the competition will always be there. And we need to make sure that we stay on top of the game by offering a higher value to our customers.

Nirav Vasa And, in this 2G plants which are going to be set up, would Praj be doing any work relating to procurement of feedstock because I believe that is a most sensitive area in the entire chain of operations?

Shishir Joshipura No, we will not be doing any work on procurement of the stocks that will be the responsibility of the entity that is going to produce Ethanol. But of course, we are working very closely with OMC's to provide our inputs wherever they are necessary to make it into a streamlined operation.

Nirav Vasa Sir, in the initial remarks you had said that out of the 114 proposals that are being received some of them are for ZLD and some of them are for new distillery. Can you share that number?

Shishir Joshipura Yes, 26 for ZLD and balance 88 for Brownfield or Greenfield projects.

Nirav Vasa These 88 new projects are based on first generation technology or the second one?

Shishir Joshipura No, these are 1G, first generation.

Nirav Vasa We are already struggling at around E5 levels using 1G technology and if we continue to progress on 1G technology, how much blending ratio can we achieve? Logical thing is that if the new plant is being set-up, it has to set on new technology, which can use a wider feedstock.

Shishir Joshipura That is correct. 1G and 2G are like two tracks. 2G is not substituting 1G. Both are complementary. So 1G track is a separate technology and 2G is separate technology that enables different feedstocks. 2G looks at agricultural residue 1G looks at a different set of feedstock molasses and grain-based feedstock**.** These are two very independent tracks, that is number one. Number two, coming to the question saying why 1G has not been able to fulfill. There were many issues, there was restriction on movement of 1G Ethanol, molasses, interstate, import tax and export tax within the state, there were many issues that were not allowing flexibility. Now it has been provided in the Biofuels policy. We expect that a lot of things because of course, we have to also make sure that blending is done at the depot so the Ethanol must be available at the spot where blending is required and the movement is not being created which were putting a lot of restrictions which are gone now.

Nirav Vasa If 1G is the priority technology as of now. How much of blending can be done and how many kiloliters of Ethanol, can be manufactured in 1 year?

Shishir Joshipura If we unleash the entire potential, we can go almost 2 digit level on the blending programs, so close to 10%.

Moderator Thank you. We move to the next question from the line of Bhalchandra Shinde from Anand Rathi Research. Please go ahead.

Bhalchandra Shinde Regarding the 3 MoU's which we signed earlier with the OMC's; I would like to know the status where we are exactly on those plans in 2G?

Shishir Joshipura For all the 3 cases, the soft portion of the job, the licensing technology, the engineering package in one case EPC are all signed in and under execution in a couple of cases already executed. The next phase that we expected to see from this quarter onwards, is ordering of critical equipment, which is there we will be supplying the critical equipment for each of these plants. They all come at different stages, but we expect that is the phase that will begin now.

Bhalchandra Shinde And how many MoU's are yet pending to be signed and do we see any potential signing or we will face issue because of the vendor approval problems?

Shishir Joshipura So currently, as you know that in the first phase, we are building three projects and we already know that there are 2 more which are in the pipeline and total there are more than 2 dozen project that are being planned.

Bhalchandra Shinde There are almost 6 pending to be signed as a MoU, right?

Shishir Joshipura Yes, so they will come as and when.

Bhalchandra Shinde Okay. But do we see any potential to get signed over next 1 years, or it is still that adjacent?

Shishir Joshipura I think if the program stays on course, yes, by all means, why will it not happen, that is number one. Number two is also development that is taking place outside India on 2G, especially in Europe on the residue directive slightly long-term but I think that is going to change because under the new directive and norms in European union only 2G Ethanol is going to be encouraged for blending moving forward which mean that somebody has to create capacities around 2G Ethanol in Europe which is what is happening now.

Bhalchandra Shinde And sir, in regarding to exports because of now rupee benefit is there and plus the crude prices are also high. So do we see any traction improving on the emerging countries like Columbia and Nigeria which used to order from us say around 3 years to 4 years back?

Shishir Joshipura So we are seeing traction in several countries, in South America, in South East Asia, Thailand, a lot of traction we are seeing, a lot of traction out coming out of Argentina now Bolivia, Paraguay. So many countries are beginning to roll out programs and that will create demand for Ethanol in those economies**.**

Bhalchandra Shinde So how will be the growth in export order inflows?

Shishir Joshipura We are right now looking at a situation where as a country India it has also gained a big boost to the whole Ethanol equation and we see a similar movement happening in several other markets. We are seeing a rise in both the segments, India as well as outside India. And I would say that going forward, we would probably have a similar ratio being maintained as we have now.

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

Sanjeev Zarbade It was regarding the 1G distilleries like we are getting very good inquiries. But as a developer of these distilleries what kind of comfort I am getting because if the Government changes the Ethanol price 1 year down the line or 2 years down the line, the entire viability will get impacted. So what comfort these distilleries are having while they are going for the added capacity, I just wanted to understand that.

Shishir Joshipura So let us look a little backward in time. So, there was Ethanol production happening in the country at the prices at which it was being bought and there was adequate production. So there is a clear commercial case for that Ethanol volume to be produced in the country. Now there were restrictions, right, on describing earlier on movements and what you could use as feedstock, what percentage you can divert for what product mix, etc. which have all gone. So actually the policy has made it more flexible and more practical for any owner for Sugar Mill attached distillery to then decide its product mix, etc. So it has moved in the right direction. Private sector companies will say I need freedom on product mix, I need freedom on movement of my goods and I think those were not available to these which are now being made available, so that is the second portion. The third is, I think which is very important for us to understand is why is Government doing this? This is not a game of setting a price fixation point and say, okay now this is price and tomorrow the price will change. This is a much bigger issue in front of the Government in terms of the managing forex, managing independence of our energy equation of the country and driving country on a sustainable growth path while taking care of the future environment because we are not recognizing it today because it is not in front of our nose but very clearly the impact on the environment from using continuous use of fossil fuels as opposed to using green fuels is something that will stay and I have absolutely no hesitation sharing with you a big moment of realization I had, very recently when I had met Minister of Industry of Cuba who I met and we have all grown up at least my generation has grown up learning that Cuba is a sugar bowl of the world and he was telling me if things do not change in 3 years' time, then there will be no sugar production. Can you believe it from sugar bowl of the world to no sugar production, when I said why? He told me that you know there is no rain. We do not associate drought with vanishing of the industry yet, right? but this is exactly what is happening in the small island in the world. So I think, Government has a much bigger agenda to support. So there is no political agenda, this is a development agenda for the economy.

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

Vikram Suryavanshi Sir, just wanted to know this out of 114 proposals which are approved, how much is the capacity that represent in terms of KLPD?

Shishir Joshipura This still does not cover the whole spectrum, the 114 are still at about 30% of the total potential, so there is still more to come.

Vikram Suryavanshi But do you have any idea in terms of KLPD how much is that size that 114 proposals?

Shishir Joshipura Yes, we can send you that information. No problem.

Vikram Suryavanshi In terms of this HiPurity business, I am seeing some slowdown in terms of order inflow. So how is the outlook there and what kind of growth you are looking at?

Shishir Joshipura I think the first 6 months in India, especially for the Pharma industry, has seen pruning down of investments considerably and this is reflected in their order book as well and however, the good news is that we are beginning to see the investments come back, very good size. Also, there is an understood movement now for API capacities to shift from China to India for different reasons. So these 2 factors together with the buildup of investment and the shipping capacity will augur well for this company both in short-term and medium-term.

Vikram Suryavanshi In brewery segment what kind of growth are we looking at?

Shishir Joshipura Double-digit.

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

Anupam Goswami The execution of orders for this quarter has been higher, am I correct on this part?

Shishir Joshipura Yes, that is correct.

Anupam Goswami And any part of the order has been subcontracted, is it?

Shishir Joshipura So we have a balance here, there is always a supplier base for me. So we cannot go ahead and subcontract the whole job that is not what we do. But there is always a component of a given job which we get, so that is a balance which any manufacturing unit will strive in terms of the lower value-added product or components getting outside and then bringing in for higher value addition. So that is a normal course.

Anupam Goswami What will be the execution rate as in will it be like similar to this quarter going forward?

Shishir Joshipura Yes, even better.

Anupam Goswami On the non-Ethanol side, your order inflows are a bit on the lower side from the last year on a half-year basis. What is your outlook?

Sachin Raole So the overall order book itself is improving and in that naturally, because of the movement happening on the policy side, the component of Bioenergy is going up but that does not mean in absolute term engineering is not growing. But in proportion, it looks like that yes, engineering is not growing.

Anupam Goswami With Biofuels mandate, Sugar Mills are going for the distillery set-up, when can we expect this large chunk of orders to come to Praj?

Shishir Joshipura So as we have said that we are seeing a build-up and there is an increased activity in the market, we are seeing the increased traction, so we expect a better speed of order build up as we move forward.

Anupam Goswami Can we expect this from Q3 FY19 onwards?

Shishir Joshipura Yes.

Saurabh Ginodia Given the approval of 114 application which has already taken place, actually on the ground, given the balance sheet and other assumptions, what percentage of it according to you should translate into actual orders?

Shishir Joshipura But as you rightly said so it started at 150 applications got down to 114, but let us put a very just the mathematical number, let us see half of that goes through. That is still almost 60 odd applications or capacity that will come up. That is still doubling the capacity what is normally getting build, so this is still very good picture.

Saurabh Ginodia For Praj, given the current infrastructure, what is the peak level of business we can do in the Bio-side and at the peak level of utilization what would it translate for the margin?

Shishir Joshipura Do we have the capacity to serve the growing demands? The answer is yes. Of course, we do not have infinite capacity. If we need to build more, we will build more. Given the little longish cycle of execution, we are sure that we can catch-up with that. So right now we enough capacity to meet from our projections almost up to end of next financial year, so we do not need to actually create any additional capacities barring some balancing, which may have to do in certain sections which we will do that is not a problem. On the second part of your question, we will have to see that. That you will know only post the event.

Saurabh Ginodia Given a hypothetical scenario, if crude were to come down significantly and petrol and diesel prices also comes down with the fall in the crude prices and globally, so the mixing of Ethanol to petrol will it be making economic sense and then therefore, don't you think there can be a slowdown in the execution by the client?

Shishir Joshipura I think, the question is little larger than the price point question on oil and that is what I was answering earlier as well that. I think for all Governments in the world including Indian Government, the question is about being independent on the energy equation. It is not only about the cost because at the end of the day somebody pays for it. But the bigger question is how do we become independent? How do we become sustainable? How do we make sure that we create a kind of circular economy in which the money stays inside rather than getting paid outside? So far as we are an oil importing country, the logic for driving your independence and one of the routes, which is Ethanol will stay. That is number one. Number two, I think what is missed out, as we go forward, and I am looking little more long-term now, the whole airline industry has a CO2 commitment to meet as they go forward in 2025, how will they meet it? If there is no alternative fuel? And that needs to happen on a big scale because of the only way Airline Ministry meet it is switch to Biogas fuel, okay. If we look at Government has made a plan for increasing farmer income to twice the level of its baseline level how will that happen, it cannot happen just by doubling the price of the produce that he will gets then the whole thing becomes very inflationary in the system. So that is not the fair way to do it. So obviously there have to be alternative means, we also cannot keep it in subsidy so where do we enable them to fight more and more avenues for increasing their income and I think, it needs to be seen in a holistic fashion and not on this one dimension of how many dollars to a barrel.

Moderator Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth What is the opportunity on ZLD side as well as on the engineering side?

Shishir Joshipura So there are different businesses under the engineering, so we are seeing a good traction right now on brewery as I have already mentioned in my call earlier, very good traction on the brewery coming at the back of the fact that there was this highway ban, so brewery capacities were under constrained and that is now gone but that is one dimension to it but we are also trying to see if we can increase our footprint on the international side of the business for brewery in a sustainable manner by tying up with the big global brewery majors, so that we are able to become sustainable on that dimension. Moving on to ZLD, one of the big changes that we have really painstakingly worked through is to change our customer profile who we work with, this is very important because ZLD is a complex subject and it is very important for us to actually have a customer who has knowledge on this. We do not want an ignorant customer and we have painstakingly work to actually improve or change the customer profile to whom we were trying to serve to what we are trying to serve now to a more educated profile of customers so that we are able to progress in the right direction. The third is we have been on the capital side of customer's budget so far and we are saying now that we are also making an inroad into operating on revenue budget especially of the ZLD plants because they are very technological driven and customers also demanding that we provide services, O&M**,** parts, upgrades, etc. as the plant runs through its life so that is another dimension that we are taking. If you look at our CPES business, as I have mentioned earlier in my opening remarks as well, in one big shift we are saying, we would like to be chosen partners of a few global majors in the areas where they buy and we can make those equipment such that they think of us when they are bidding for their jobs not when they are buying no because then we become their partners then we are much closer with them then there is much more certainty in the business, so that is the dimension that we are taking on the CPES side to ensure that one, is the complexity of the business comes down but second is also that it gets more sustainable. So that is the brief on the engineering business side for you.

Bharat Sheth So on the whole, where we are seeing the traction in case of number and which timeframe do you have in mind?

Shishir Joshipura So we have started this action and we are expecting that this quarter onwards we will start to see the traction on that one as well.

Bharat Sheth On brewery, we are seeing a lot of action outside India, so what is our plan there?

Shishir Joshipura So two things, brewery business is also very cyclical in India, it is very seasonal. I want to catch the summer season; therefore, all breweries must get commissioned in February, March and so on, so obviously it puts a lot of pressure on us to do everything in 2 quarters' timeframe. So then the capacity is idle that we have for this business in our production set-up, so when we looked at it, we found that maybe if we can add the African Market to our portfolio, they have a very different cycle than ours, almost opposite cycle to ours. So if we can do that then we would be able to do a good job of balancing capacities, balancing our cost and creating a value-added offering and we believe that, that is a good path to follow that is what we are tracking now.

Bharat Sheth Some of the key geographies where we were thinking to evaluate, so at what stage are we?

Shishir Joshipura So especially for our Bioenergy business, we had to look at some of the bigger markets, we will come back to you as and when we make some significant change, as you know we are starting from scrap so a lot of activities in that sphere is happening and you will hear more of it as we go forward.

Moderator Thank you. We move to the next question from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain Can you tell me what is the scope for improvement in the cost because the margins at which we are working right now are looking quite low as compared to our historical levels?

Sachin Raole So if we look at the margin stats, rather we are seeing in this quarter also, moment we start leveraging our capacities, the margin starts improving and that is the number which has shown the improvement over the first quarter also. And we believe that this trend will continue. We are seeing that on the basis of increased activity, the leveraging will kick-in because we are not going to add-up too much on the either overhead side or on the capital expenditure side which will help us in the improvement on the margin side. So 2 - 3 things which we are ensuring even though it is looking like to be very promising, we are sticking to very specific guidelines on the margins, at which we will take the orders and we will not dilute any kind of margin guidelines, which we have internally for ourselves. And movement we see the improvement in the top-line, which I have seen in the current quarter which will start giving us better operating margins also.

Sunil Jain See, why I was asking because this quarter you had done around Rs. 250 crore of revenue. If I see a yearly revenue of Rs. 1,000 crore you were doing in the past then you were doing EBITDA of around 10%.

Sachin Raole Yes. So the margin basically got impacted because of the sales mix also. In our sales mix, if we have a little bit more on the higher export side or on the soft engineering order side, we will see the margins will be a little different than what you are seeing right now. Even if you compare my margins with the first quarter, in the first quarter my exports was a little higher, even my orders were on the higher side which has given us the better margins. So it completely depends on what component of business and what component sales mix which we are having in a particular quarter. So it is not a necessarily fixed to a number of Rs. 200 crore or Rs. 225 crore.

Sunil Jain Whatever the order book that we have, the execution cycle is around 12 months to 15 months.

Sachin Raole That is right, on an average it will be Rs. 12 months to 15 months but we will see some kind of accelerated activity in next 6 months to 9 months because of the short orders which we have received either from a brewery side or from the Ethanol side.

Sunil Jain Because you started getting a fresh order of around Rs. 375 in March quarter and then again continuing over that, so that should start getting reflected in the coming period?

Sachin Raole That is right, that is what you have actually seen happening in the second quarter as compared to the first quarter and pace will continue.

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

Sanjay Manyal One is basically on 114 approvals which Government has given. So even I assume your 100 KLPD capacity each on an average in 220 days then the entire capacity goes pass say almost 280 crore liter, so added up to the existing capacities, would we really require this much Ethanol for the 10% blending because what I understand will probably require 350 odd crore liters.

Shishir Joshipura No, so this 114 has two components, 26 applications are only for the effluent treatment portion. So 114 is not the new capacity being set-up at all. So that leads to 88. So 88 applications are there, there are different capacities, because you have to understand that depends on the molasses feeds that is available to these, most of these are sugar mill attached plants. So how much they have capacity available on the molasses also determines for them. So I think we may not be able to multiply it straight away the way you have done. A little more granularity will be required to arrive at capacity that maybe changed because these are both Brownfield and Greenfield.

Sanjay Manyal Would B-Heavy require some changes on the distillery and will that work come to you if it is?

Shishir Joshipura Yes, because of the fact that when you got the B-Heavy route, you have higher volume, more liters of Ethanol and therefore, obviously you will need to have a larger plant for that, relatively speaking compared to molasses. So the balancing plant will be required to be put up.

Sanjay Manyal If the blending really goes above the 10%. So will auto companies object to it because it would require some changes in the engine or is it really a difficult task to really increase the blending above 10%.

Shishir Joshipura Up to 20% there is no change.

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

Levin Shah So on this 2G projects or the orders that we have got, just wanted to know how many projects in all have been finalized and how many of that have we got?

Shishir Joshipura So 4 projects are finalized, 3 we have.

Levin Shah And who has got the fourth one?

Shishir Joshipura The DBT-ICT Technology.

Levin Shah Okay. And sir, on this so projects for the 2G that we have got, what is the kind of license revenue or the license charges that we will basically charge to the customer?

Shishir Joshipura It is already done, it is already sitting in our revenue all the licensing charges.

Levin Shah What will be the quantum of that?

Shishir Joshipura So depending on the capacity or plant, it varies but the 3 projects are sitting is of Rs. 45 crore.

Levin Shah All the 3 projects, put together?

Shishir Joshipura Yes.

Levin Shah Okay. And sir, on this 2G, so if we look at the new policy, the Government has talked about this viability gap funding, but they have not put any number or the kind of funding that they will actually provide to this OMCs. So what is your sense on that? What are the kind of funding that would be required?

Shishir Joshipura I think, it is already specified before through a circular that it will be Rs. 150 crore per plant.

Levin Shah And the capex per plant would be in what range?

Shishir Joshipura Rs. 1,000 crore.

Levin Shah And on this 1G, the 88 applications that has been approved, what is the kind of actual investment that you foresee maybe not exactly but any ball park number?

Shishir Joshipura We need to get a little more granularity around this, this is just approved application, we have to see how many of these and in what timeframe would these capacities come up because I think somebody was earlier referring to in the call, this is question of funding that needs to be secured by as the people wanting to put up these capacities and as we know that sugar industries have a very tough time coming through this period. Obviously, these are not something which is easily doable so funding is an equation to overcome. The environmental clearance that they will need has to be overcome. So I think these two dimensions also play out and that is why we are discussing earlier things as a thumb rule one could that okay, maybe even if half of them goes through that is still a huge jump compared to what it is today.

Levin Shah Even assuming half of that comes through, what would be the kind of opportunity that you would be targeting?

Shishir Joshipura I mean one would keep estimating depending on the capacities being put up, what gets approved versus what does not get approved, but we are still looking at least Rs. 1,000 crore kind of opportunity unfolding.

Levin Shah So once you get an approval, the client gives you order, how much time does it take to execute?

Shishir Joshipura Around 8 months, give or take 2 months.

Levin Shah Our market share in this 1G, what is our present market share and how do we see that going forward?

Shishir Joshipura It is in excess of 60%.

Levin Shah Who are the other players who would be catering to this opportunity?

Shishir Joshipura There is ISGEC and there is a lot of small-small companies that come and put up the small distillery.

Moderator Thank you. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari 4 years - 5 years back we had taken external agencies guidelines and restricting these things and we were having some targets. Are we talking about those things to achieve some 15% - 17% EBITDA margin and doubling our size and looking at the opportunity, it seems very feasible. So what is your thought on that?

Shishir Joshipura Yes, of course, we are looking. I keep on saying all the time that I cannot plan my company only for a quarter, right? We have to look at a longer-term journey and the legacy that we carry in terms of what strength we have, what have we built, where can we play, etc. so you are absolutely correct that we have a clear map in front of us and of course, we have to keep adjusting it for the new reality that are changing on the external side. But clearly we want to drive the company to a different platform both on top-line, on bottom-line, on healthy growth, on sustainability, so we are really working on all these dimensions now.

Sunil Kothari So this 15% - 17% EBITDA margin is feasible maybe in a 2 years - 3 years' timeframe?

Shishir Joshipura I am not commenting on the numbers but what I want to share with you is that obviously when we say it is healthy growth, when we say it is sustainable then one could always apply a yardstick or benchmark you are saying, what makes us healthy or sustainable then. We are coming from a very-very challenging period for our industry of the immediate past. So you can expect cyclicality to improve as we go forward.

Sunil Kothari With the current execution capability in terms of say annualized revenue of given orders, what size of revenue generation capacity do we have?

Shishir Joshipura We can go on 1.5x where we are today.

Moderator Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda I was just referring to our past conference call notes, so just wanted to know first of all say Ethanol business as a percentage of the Bioenergy business would be how much and what it would be in the inflow? And when we say 150 lakh kiloliters to 450 lakh kiloliters and 5% blending going to 10% blending. So this business that we were getting or the industry was getting what would it translate into lakh liters or whatever number of liters capacity that industry was putting all this time?

Shishir Joshipura I think first of all, in H1 FY19 which has gone by, if you look at our sales break-up is 43% from Ethanol, 41% from engineering business and 15% from HiPurity business that probably tells you the break-up but that is a little unrepresentative of our typical break-up.

Pritesh Chheda So I was referring to past years. So when in the past years, in the Bioenergy, what would be the Ethanol portion?

Shishir Joshipura So potable alcohol is about 20% - 25%, balance 75% will be Ethanol.

Pritesh Chheda So this 75%, what does it translate into a number of liters of capacity?

Shishir Joshipura If you want that information maybe we can separately get back to you, we will calculate and give it to you.

Pritesh Chheda And what would be our market share in that?

Shishir Joshipura Our market share as I said is in excess of 60%.

Pritesh Chheda And this 150lakh liters, is the output today but what is the corresponding capacity installed in the country for producing this?

Shishir Joshipura Currently we are at about 70% - 75% of capacity utilization in the industry.

Pritesh Chheda That is the utilization it should be because it is seasonal or it can be 100% utilization.

Shishir Joshipura No plant runs at 100% utilization, so 75% - 80% that is the time when companies will have to start thinking of putting up new capacities.

Pritesh Chheda And when you said 1 KLPD into Rs. 1 crore for the distillery, this is valid for both fuel alcohol and food alcohol or it is more or less?

Shishir Joshipura There is guideline there, food will be a little higher.

Moderator Thank you. The next question is from the line of Pawan Parakh from Renaissance Investments. Please go ahead.

Pawan Parakh I just have one question, as of now what is the assessment of the cost of Ethanol from 2G technology?

Shishir Joshipura No idea at all. I mean that is not a number that I would be able to get right now in terms of because it is a policy decision at a very high level in the Government so they will have to, they are discussing, we have given our inputs, there is no decision yet.

Pawan Parakh No, but sir, the MoU that we have done, the capex would have increased the cost structure, some cost structure would have already been calculated, right?

Shishir Joshipura No, we have no idea about the pricing policy that the government has.

Pawan Parakh So essentially for 2G technology to be successful, the economics has to be in place?

Shishir Joshipura Yes, the initial plants will need higher support. As we go ahead and build those capacities and learn, we can optimize that to a lower level, we are already working on a very aggressive plan to reduce the opex and capex of these plants. So I think this is very early days for this technology. So what happens now is not necessarily presentative of the future. You know if you look at the wind industry and as I have told you the tariff will drop to 2.6 you would have laughed at me, right? And this just happened so it is that kind of thing.

Pawan Parakh The current MoU's, what is the feedstock for 2G?

Shishir Joshipura Rice straws.

Pawan Parakh I did not get the name of the fourth MoU, who won that? Who was the engineering partner?

Shishir Joshipura ICT-DBT, Department of Biotechnology, Government of India had asked Institute of Chemical Technology Bombay to develop a technology with DBT so one plant will be built on that technology.

Moderator Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi In your earlier call, you said that an estimated cost for installation of 100 KLPD Biorefinery, is close to Rs. 800 crore capital investment and now you are saying for 1 KLPD is approximately Rs. 1 crore.

Shishir Joshipura There is difference between 1G and 2G, right? So for 1 KL what will be the likely cost, so that is the number I gave for the 1G plant, 2G is very different because you know the economics and the feedstock nothing is same it is absolutely different. Technology itself is different. The number I gave is not for 2G, that is for 1G.

Jayesh Gandhi And the orders which we have got from refining companies is for second-generation Bioethanol, right?

Shishir Joshipura Yes.

Jayesh Gandhi And you said that we had already received orders for soft work, there were some orders for the equipment and for equipment which were pending and which you said in the last call will be freezed within some 2 months - 3 months? Have they been freezed? Have we got it or what is the status?

Shishir Joshipura So we have not got yet but that process is undertaken.

Jayesh Gandhi What I mean to say is, are they already given and we have not got?

Shishir Joshipura No, they are either way these are proprietary equipments so obviously it will come our way but they are underway at each of the OMCs as to when their boards will approve. We have not lost this to anybody.

Moderator Thank you. We take the next question from the line of Chandramouli Jagannathan, an Individual Investor. Please go ahead.

C. Jagannathan When is Compressed Biogas plants technology going to get commercialized?

Shishir Joshipura So this is a very new policy that is announced by the Government as you know, under SATAT policy, under which this Compressed Biogas plant will be put up. We are ready with the technology which is good news, we are ready with certain certifications in terms of the bi-product certification that are required. So Praj is absolutely fully ready now to take advantage of this opportunity that is beginning to unfold. But I would expect that this is just a policy announcement. So maybe we are looking at a two-quarter timeframe by the time this actually starts to become a reality. But we are working very closely with several customers now and there is a lot of excitement because this is the good news on this one is that this is a technology which has much lower challenges to overcome on the capex and opex unlike 2G Ethanol that we discussed earlier, so we will see a lot traction going forward on this.

C. Jagannathan Like first-half and the second-half, it will look like 40% to 45% on the first-half and the 55% to 60% on the second-half, will that get repeated even this year on top-line.

Shishir Joshipura Yes. More or less. I am not putting exact percentage number out there but a trend like this.

Moderator Thank you. The next question is from the line of Adnan Amroliwala from Niveshaay Investment Advisory. Please go ahead.

Adnan Amroliwala What is the traction that you are seeing for ethanol manufacturing plant from Sugarcane Juice?

Shishir Joshipura Very early I think, there is a lot of evaluation that is happening with some of our customers to see the feasibility, the capital outlay, and the space requirement. In terms of technology, we are ready because we already have plants working on this route outside India, so that is not the problem. It is just the question of putting the whole project together and seeing what makes sense for each in their individual context so that is where it is right now.

Adnan Amroliwala What kind of fees do you charge to OMC's for various stages of Biorefinery mainly for licensing of your proprietary technology and direct engineering?

Shishir Joshipura So that depends on the quantum of the work there is no fixed number that I can probably share with it. But the fees are not very large, not large crore of the rupees, unlike equipments which runs into 3 digit crores.

Moderator Thank you. The next question is from the line of Suraj Navandar from Prithvi Finmart. Please go ahead.

Suraj Navandar Sir, my question is about the production of Ethanol with your second generation technology. As far as I understand, the cost of production of Ethanol from anything other than Sugarcane Juice or molasses is much higher to be blended in fuel, am I correct?

Shishir Joshipura No, that is not correct. It depends on the cost of feedstock, right? I mean what is the input cost of the feedstock, that will be different in the different contract. So we will have to see what is the feedstock being applied and that will determine the cost.

Suraj Navandar Because I was talking to one of the management of the sugar factory and they said that we do not produce Ethanol from anything of agricultural waste because it is not viable to blend it in fuel.

Shishir Joshipura Yes, what you have heard is very correct, that is what we were talking, this is 2G technology which is other agricultural waste to Ethanol route which is the new technology being tried out and that is still in initial stage of demonstration, the first commercial plants have to come up and when they come up we will know how to better optimize that.

Suraj Navandar So you are saying that you have reduced the cost of production of Ethanol from agricultural waste using 2G technology, am I right?

Shishir Joshipura We are working on it. So there is obviously a cost that is indicated. But we are working on it. There is a big difference on the capex side. So because of feedstock complexity but I think that is something that is work-in-progress.

Suraj Navandar So how much more time you will take to get that technology commercially ready, so that you can sell it to people?

Shishir Joshipura So you have to give it time because we have to commission these plants, first. The first plant is supposed to get commissioned in calendar year 2020 end.

Suraj Navandar For example, let us say I am Sugar factory owner, so today I have to expand my capacity, so I will go for a regular plant, not the 2G plant, right?

Shishir Joshipura No, the Sugar Mill people are interested to put up this plant based on molasses. That is the end product they have no use of.

Moderator Thank you. The next question is from the line of Arjun Ashar from Envision Capital. Please go ahead.

Arjun Ashar Just follow-up to the previous question, basically as of now wherever the technology is and if we do not assume any kind of Government support what is the broad Ethanol price level at which such 2G plant breaks even at an operating level?

Shishir Joshipura I think we still have to wait because we have to see some of realities roll out in terms of what is the cost structure, debt structure, raw material cost that gets fixed. It is still early days for me to answer that question in a very definite way.

Arjun Ashar Any kind of thumb rule or is there some broad estimate about the cost of feedstock? What is the cost differential?

Shishir Joshipura Today the cost of rice straw is zero. But as it happens in any commodity, the moment you start putting demand for it the cost gets settle at a fair level. As I said no capacity has been put up on this so far. So we have to wait, we have to have patience.

Arjun Ashar Who will our ideal customer, who would have wherewithal to experiment with his technology in the beginning?

Shishir Joshipura You are already talking about them, the oil marketing companies.

Moderator Thank you. The next question is from the line of Kritika Agarwal from Quest Investments. Please go ahead.

Kritika Agarwal What is the size of Compressed Biogas opportunity that Praj would be looking at?

Shishir Joshipura Early days yet, if you look at Government's figure it is absolutely mind boggling numbers if I can say in lakhs or crore of opportunity. But just give it some more time and we will be able to put it together, it is already beginning to look at like a very-very promising opportunity. So give us one more quarter, maybe we will be ready to talk about it.

Kritika Agarwal Do we see this opportunity being bigger than the Ethanol opportunity that Praj is looking at?

Shishir Joshipura If you give me benefit on the fact that I have limited knowledge today, the answer is yes.

Kritika Agarwal Some book-keeping question, could you give us the unbilled revenues and advances received from customer as on 30th September?

Sachin Raole So, I am having advances of almost Rs. 214 crore - 215 crore sitting right now in my books and the unbilled revenue should be in the range of Rs. 40 crore - Rs. 50 crore.

Kritika Agarwal Okay. And the tax rate has gone up to 30.5% as from the previous quarters, so how are we seeing this going forward?

Sachin Raole This is mainly because of deferred tax impact which we have taken on the 115 Accounting Standard which got adopted and there is still not a great clarity on how to treat that revenue so we have actually provided for the entire tax on that in a form of a deferred tax. So that is the reason we have seen the rate going up to 30%. We believe that for the entire year the rate should fall in a range of 25% because by that time there will be clarity on treatment of this revenue or the profit out of 115.

Kritika Agarwal In Q2 FY 2019, we saw a forex loss of Rs. 3 crore versus a gain in the previous quarter. So how are we seeing this aspect and what is the hedging policy for the company?

Sachin Raole Most importantly, our policy is very simple, we have to protect our bid rates. So whatever we are bidding at, we need to protect that rate and that is what exactly, we tried to do. And if you look at for the entire half year technically we are at the same number, I mean there is no gain or a loss as such. Our policy is not to speculate in the first place and to protect the bid rates at which we have bided the project at. So if a project is taken at let's say today's rate 73 - 74 then the policy will be to protect for that particular contract that kind of rate irrespective of what happens in future.

Moderator Thank you. The next question is from the line of Shariq Merchant from Quest Investments. Please go ahead.

Shariq Merchant You are also evaluating business opportunities on the maintenance side and also an opportunity where you all were looking at integrating boilers and distilleries together which would give you a competitive advantage and this would also potentially meaningfully increase the opportunity size for you? Has there been any progress on this front?

Shishir Joshipura No, as I was mentioning earlier that we are working on our plan and a program to evaluate whether we can have a larger play on the revenue side of customer's budget and obviously that is something that is currently underway so we are able to see how it pans out actually to create a very good position and how we can capture part of this value for us. So that is very clear plan. On the equipment side, there are several innovations. So we are looking at several options on that front and once we are ready with the solution, we will obviously be talking.

Shariq Merchant And my second question is on the European opportunity, so a few months ago, the European regulators had evaluated your plant in Pune and also there were indications of setting-up two pilot plants soon. Again, any updates on that front?

Shishir Joshipura So we are continuing to bid our dialog with this initially interested European company, we have made significant progress with one of them and we are awaiting the next step.

Moderator Thank you. Ladies and gentlemen, this was the last question for today. I now hand conference over to the management for their closing comments. Over to you, sir.

Shishir Joshipura So thank you gentlemen and ladies for being on the call, it was a meaningful interaction and we look forward to continuing our constructive dialog with you in times to come. Thank you, once again.

Moderator Thank you very much, sir. Ladies and gentlemen, on behalf of Praj Industries Limited that concludes this conference call. 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.