



Praj Industries Limited

Q2 FY18 Earnings Conference Call Transcript

November 02, 2017

- Moderator** Ladies and gentlemen good day and welcome to Praj Industries Limited Q2 FY18 earnings conference call. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Priyanka Watane from Praj Industries. Thank you and over to you.
- Priyanka Watane** Good morning everyone. We welcome you to this conference call organized to discuss Praj Industries' operating performance & financial results for Q2 and H1 FY 2017-18, which were announced on 1st Nov, 2017. I have with me Mr Sachin Raole, CFO & Director – Finance & Commercial, Mr Atul Mulay – President Bio-energy Business and Mr Surendra Khairnar, VP – Accounts. Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Documents relating to our financial performance were emailed to all of you earlier. These documents, along with a quarterly results presentation, have also been posted on our corporate website. I would now like to hand over the floor to Mr Raole for his opening remarks.
- Sachin Raole** Good morning ladies and gentlemen. I welcome you to Praj Industries' Earnings Call for the 2nd quarter and first half of fiscal 2017-18. I will briefly discuss macro-economic landscape before starting with the business performance.
- In the macro-context, key factors seem to be falling in place for a sustained revival of economic momentum. Bottoming of the interest rate cycle, anticipated recovery from the impact of structural reforms and well-distributed monsoon have together set the tone for a sustainable growth trend going forward. India's improved ranking in the Ease of Doing Business Index measured by the World Bank points at significant streamlining of procedural and regulatory hurdles for the Industry. This is a highly encouraging start towards a broader agenda and we are sure that improved efficiencies and reduced implementation period for greenfield projects will help accelerate private capex investments within the country.
- The IIP data for July saw a marginal pick-up of 1.2% led by rebuilding of inventories after the GST implementation and initial rebound of consumption demand. Projects are being evaluated at a steady pace with an element of cautiousness. The combination of structural reforms, focused efforts on

infrastructure creation, large scale government projects such as Bharat Mala as well as expected revival in rural India leading to increased disposable income is driving an improvement in sentiment of corporate India and foreign investors. All of these factors are expected to lead to increased consumption and economic growth which will result in better traction for the capital goods sector, consequently delivering positive impact on our business.

As we close Q2 and H1, it is our constant endeavor to improve the performance. Before we get to discussion on financial performance, I will request Atul to walk you through the business portfolio.

Atul Mulay

Thank you Sachin. Good morning ladies and gentlemen. Starting with the developments across domestic ethanol landscape; The new sugar season in India for the period Nov 2017 to Dec 2018 has just begun. Output in the two large cane growing states of Uttar Pradesh and Maharashtra is estimated to be significantly higher than last year. Overall, the First Advanced Estimates of Union Ministry of Agriculture forecasts sugarcane output at 337.69 million MT for 2017-18 against 306.72 million MT in the previous year. This 10% increase in cane output is expected to result into a better crushing season for the sugar industry and hence, resulting into a fall in molasses prices with improved crushing margins.

Another encouraging development comes with online application process for Terms of Reference (TOR) for acquiring environmental clearance. This expedites the clearance and pre-gestation period of project execution cycle. Oil marketing companies have also responded positively by floating India's largest tender to procure 3.13 billion liter ethanol for the blending program. The tender accounts for a 12% jump in volume for the sugar season 2017-18 over 2.8 billion liter sought last year. This will definitely have a positive impact on the sentiments in the industry, with estimation of increased ethanol blend ratio during the year 2017-18. In yesterday's Cabinet Committee meeting on Economic Affairs chaired by the Honorable Prime Minister Shri Narendra Modi, it was decided to revise ethanol price to Rs 40.85 per liter. This will be applicable for the sugar season 2017-18. Additionally, GST and transportation charges will also be payable.

On the policy front, in order to strengthen biofuels and especially, 2nd generation ethanol in the country's energy matrix, committee set up by Niti Ayog has compiled suggestions to promote 2nd generation ethanol in the country. A National Biofuel Policy is soon expected to be released by the Ministry of Petroleum & Natural Gas. To summarize, these combined developments namely – 1. well distributed monsoon leading to increased cane crop. 2. Improved molasses availability and crush margins for ethanol producers. 3. Positive response from OMCs with the highest ever quantity requirement and 4. Revision of the base price for fuel ethanol augur well for investments in the sugar industry and consequently, India's ethanol program. Now let me talk specifically about the 2nd generation ethanol projects. All the three projects for oil marketing companies where Praj is a technology partner have moved forward with preparation of detailed feasibility reports, land allocation and environmental clearance procedure. At our own demonstration plant, optimization studies are underway for a host of other 2nd generation feedstock and process conditions. The technology platform is being used to develop a hoard of renewable fuels and chemicals.

BioCNG is another area that we are excited about. BioCNG produced in ethanol plants can be used to generate this additional revenue stream. We have recently added biomass to BioCNG module to the 2nd generation demonstration plant and have started offering it on commercial scale. Beverage alcohol demand is also picking up with relaxation in the highways distance norms. We see an uptick in the

grain based enquiries, where the product offtake is by the food and beverages industry. Across the global ethanol markets - we are experiencing an encouraging response to modernization and retrofit of existing plants in various parts of the world. Continued focus has led to improved visibility and order value of these projects. We have introduced innovative technologies to reduce consumption of utilities, improve yield and plant diversification to produce multiple grades of ethanol for various feedstock and plant configurations. We are also taking a number of initiatives to improve customer connect and satisfaction. Several developing as well as developed markets are emerging as frontrunners in modernization of existing plants. At Praj HiPurity, our focus is on expanding references in new applications and enter new geographies. We have made breakthrough in international markets. Modular process systems with an enhanced portfolio of offerings has registered a steady performance and increased number of prospects. Indian pharma industry too, is taking number of steps to reduce dependence on API supplies from China and improve exports revenue. All these measures bode well for the Praj HiPurity business. Praj HiPurity forms around 25% of the business portfolio as can be seen from the order booking and sales numbers.

On the brewery front – owing to relaxation norms in highways distance and settling of GST, international brewers are re-visiting their investment decisions positively. We have developed offerings to cater to the increasing demand of craft breweries and started offering it to prospective clients. Critical process equipment and systems is showing traction. We have made breakthrough with some prestigious customers and received orders in the period under consideration. On the Petrobras related order – the main order has been awarded and the selected supplier is in discussion with us. Sachin will discuss this in detail. In case of water and waste water treatment business, consistent focus on industrial effluent treatment has resulted in uptick in the zero liquid discharge enquiries and order placement. I would like to reiterate that our expertise lies in zero liquid discharge systems as effluent treatment measure for industrial applications. All these engineering businesses namely critical process equipment and systems, brewery and water & wastewater treatment systems have reported an encouraging set of numbers as can be seen from the order intake numbers.

On an overall basis, for the 2nd quarter, of the total revenue of Rs 207.86 cr, bioenergy forms the largest component at 59%, 22% HiPurity and remaining 19% is from the engineering businesses. Export revenues account for 41%. Order intake during the quarter stands Rs 245 crore, with 71% from domestic market. Of this, 28% came from bioenergy, 25% from Praj HiPurity and balance 47% from engineering businesses. For the first half of FY 2017-18, Revenue stands at Rs 400.65 crore as compared to Rs 410.7 cr in the previous period. Export revenues account for 40%. Business wise breakup is 60% bioenergy, 21% from Praj HiPurity and 19% from the engineering businesses. Order intake stands at Rs 409.5 crore, with 58% from domestic market. Of this, 29% is bioenergy, 22% Praj HiPurity and balance 48% from engineering businesses.

With that, let me turn the call over to Sachin to walk you through the financial performance.

Sachin Raole

Thank you Atul. I will briefly cover the financial performance for the period under review. Let me first cover the numbers for the quarter; consolidated income from operations stood at Rs 207.87 crore, with a 12% improvement as compared to the previous quarter. Profit before tax was at Rs 5.86 crore, which is at a comparable level with the corresponding quarter. Profit after tax stands at Rs 4.74 crore.

Order backlog as of Sept 30, 2017 is at Rs 755 crore out with a higher part comprising domestic orders at 73. Bioenergy business forms 56%, Praj HiPurity 15% and engineering businesses form 29%. Atul has already given an update on the Petrobras related order. As far as our order backlog is concerned, this order has not been re-instated yet. Hence, as indicated in the previous quarters, we have decided to remove it from the backlog. In case of any development, we will revise the backlog accordingly. For the first half of fiscal 2017-18, Profit before tax was at Rs 6.35 crore whereas profit after tax stands at Rs 5.15crore. Cash on hand as of 30th sept, 2017 stands at Rs 216 crore. We have recently closed our Tanzania subsidiary, owing to completion of a project there. The subsidiary was set up to carry out construction work of an ethanol plant in Tanzania.

On the organizational front, we are glad to share that our supply chain management team recently secured 'Procurement Excellence' Award in the category of "Best Green Procurement Initiative of the Year" at the 11th Express Logistics & Supply Chain (ELSC) Conclave. ELSC is one of Asia's largest

end-to-end logistics & supply chain conference. With this I conclude my remarks

and I would like to thank you all for joining us on this call. We would be happy to discuss any questions you may have.

- Moderator** We take the first question from the line of Madanagopal Ramu from Sundaram Mutual Fund. Please go ahead.
- Madanagopal Ramu** At this point, should we take that the Petrobras order is probably not coming back in the immediate future because there were some positive expectations in the past quarters, so what is the view now on that? On 2G, what is the timeline - when is the first order expected given the current development?
- Sachin Raole** Let me take your Petrobras question, in the last concall we had said that if there is no concrete development, then in this quarter we will remove it from our backlog, and that's the reason why we have removed it from our backlog. On the order position, Petrobras has already finalized the order from one of their supplier with whom we are already in touch with; rather our quotation was used also at the time of quoting for that particular project. We are very hopeful that discussion will move in the right direction for us. But as a precaution we have removed it from our order backlog. And maybe in a couple of quarters we will be in a position to get back to you on this.
- Madanagopal Ramu** Are we are renegotiating on the price front with the new supplier?
- Sachin Raole** It's not a question on the price front, for example Kero is the one who have been awarded this order, so they are in discussion with Petrobras for their order conditions, etc. Once that gets over they will be in discussion with their suppliers including Praj for the Skids and all. So when that happens and when these finalizations gets concluded, we will get back to you.
- Atul Mulay** On 2G, already the project's progress is on with the oil marketing corporations and we hope to get all clearances by end of March and expect projects by end of March.
- Madanagopal Ramu** So are orders expected by end of March?
- Atul Mulay** It could be earlier also.

- Madanagopal Ramu** Among the projects that we are working on, which look possible to close by this year itself?
- Atul Mulay** These are all from - Indian Oil Corporation, British Petroleum Corporation, Bharat Petroleum Corporation.
- Madanagopal Ramu** So these look possible?
- Atul Mulay** Yes.
- Madanagopal Ramu** When it comes to the emerging business, the order flow in the first half, there is a good jump as compared to last year. There is comparison of three segments, which among them has shown growth, is it the water and waste water treatment or the critical process equipment systems?
- Atul Mulay** It is basically coming from both these segments - critical process equipment is also giving us a good growth as well as the zero-liquid discharge method of treatment from waste water side is also a growth area.
- Madanagopal Ramu** This is mostly industrial?
- Atul Mulay** Yes, industry application.
- Moderator** We will take the next question from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.
- Vikram Suryavanshi** Can you share how much is the brewery share in order book, is it meaningful now?
- Sachin Raole** The order backlog has around 35 crore of orders for brewery
- Vikram Suryavanshi** What is the scope of our work or the kind of orders that we have received on the engineering side because that is where we have seen really good traction?
- Atul Mulay** From the engineering side of business, it is coming from oil and gas sector; for CPES, it's like heat exchangers, reactors and distillation columns.
- Vikram Suryavanshi** That is mostly domestic part as of now?
- Atul Mulay** It is both, in fact it is domestic as well as international.
- Vikram Suryavanshi** So we are seeing the traction in international also from oil and gas?
- Atul Mulay** Yes.
- Vikram Suryavanshi** On the Water side, are we seeing any traction coming from the Clean Ganga project or most of it is industrial only?
- Atul Mulay** From Clean Ganga project, whenever there is industrial part, the enquiries are coming for zero liquid discharge. So though we are not directly on Clean Ganga project but on the banks of the Ganga River, wherever there is an industrial requirement, we have seen some inquiry from there end as well.

- Vikram Suryavanshi** The 2G projects that we are talking about and what is almost getting finalized, so are these projects really working on value addition or Bio-CNG or it will just initially be production of 2G ethanol only?
- Atul Mulay** Like for instance, some of the projects depending on the location, one of the oil corporation companies wanted to also have Bio-CNG product attached to this complex.
- Moderator** We will take the next question from the line of Renjith Sivaram from ICICI Securities. Please go ahead.
- Renjith Sivaram** Last time we met, you were pretty confident that by March, we will be able to get the orders regarding the second generation. So are we still on with that timeline or you are seeing any delay to that?
- Atul Mulay** Yes, definitely it is on track and we will definitely see progress in this financial year itself. Under all probabilities, we might have something in this quarter as well.
- Renjith Sivaram** How big can this be in terms of value?
- Atul Mulay** That I will not be in a position to comment just now but we will come to you very soon on that.
- Renjith Sivaram** Was there any impact because of GST in terms of execution?
- Sachin Raole** There was some impact on the execution side, that is the project side, but it is stabilizing now and the execution has commenced the way in which it was happening earlier. So there was definitely some slowness, which we have felt.
- Renjith Sivaram** For the full-year, what kind of growth are we looking at?
- Sachin Raole** We generally don't give any kind of a guidance, but we would like to say that H2 is definitely going to be better than H1.
- Renjith Sivaram** Both in terms of growth and margins?
- Sachin Raole** There will be an improvement on the margin side because in the next six months or rather in next two quarters, we will see a good movement on the top line too, so margin improvement will follow. Growth point of view, it is on the basis of the entry points of new orders which we are expecting.
- Renjith Sivaram** Just wanted to understand that this Namami Ganga orders, they are going to go by the HAM route, so will we be participating in such kind of orders?
- Sachin Raole** To be very frank with you on that front if you look at wastewater, we are looking at ZLD in a bigger way on the industrial side because we have seen a very good enquiry flow coming in from that direction. On the Ganga side, we are evaluating what is the possibility for us to participate in that program.
- Moderator** We will take the next question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor** As told earlier that the second half generally is the better half for engineering companies like us. So if we take the total top-line, what portion of that will get

executed in the second half, if we take the revenue split between the first half and the second half?

Sachin Raole It will be evenly based. Naturally there will be a larger component of ethanol business but the execution will happen across verticals.

Saket Kapoor I just wanted to understand if X number is for the first half, so for the entire year if we are projecting a Y number, what percentage will that Y contain?

Sachin Raole Generally we don't specify the number. That's the reason I clearly mentioned that H2 is definitely going to be better than H1. So I'm not giving you guidance in terms of numbers.

Saket Kapoor For this 2G ethanol plant, are we going to see execution starting this March or this is only the order pipeline that gets fructified by then?

Atul Mulay Basically, these orders will come in a phased manner because it is getting into the procedural mode from the oil marketing companies. So the actual execution mode will really begin before end of this financial year.

Saket Kapoor The execution will also start before March?

Sachin Raole Mainly, we will see the engineering part coming in the current financial year. If you are looking from a project execution side, there is a possibility that it will definitely not happen in this financial year but will slip into next financial year.

Saket Kapoor You had guided for around Rs. 1200 to 1400 crore to be the size of one single plant, three plants have been awarded to Praj, so can we work around that number? Can you please elaborate?

Atul Mulay After this preparation of DFR, the project cost has come to the level of about Rs. 700 to 800 crore. Again some of the sites have existing infrastructure. So that evaluation of project cost is getting worked out by the project management consultants of the OMCs.

Saket Kapoor It will be in the vicinity of 1000 crore only?

Sachin Raole It will be lesser than that.

Saket Kapoor The total size of the order to be executed by Praj will be in the vicinity of 500 to 600 crore, is it right?

Atul Mulay As I said that the project cost is somewhere between Rs.700 to 750 crore depending on the infrastructure available to the respective OMC side, Praj's portion will range between Rs.250 to 300 crore.

Saket Kapoor The total opportunity for us for the three plants would be in the vicinity of somewhere in the region of Rs. 900 crore, is it right?

Atul Mulay Yes, it will be phased-wise execution.

Saket Kapoor How long will it take for us to book this revenue after the orders are laid out?

Atul Mulay	It is going to be around 15 to 18 months. We might get some news in this quarter as well.
Saket Kapoor	For the December quarter?
Atul Mulay	Yes.
Saket Kapoor	There should also be the maintenance part for this plant, what kind of AMC will we be getting?
Atul Mulay	Presently it is not specified in the requirement, but it will come sometime after 15 to 16 months, which they will decide on.
Saket Kapoor	Generally, we are finding it that our Company is in the firefighting mode and for the investor community, the numbers are really anemic. There is hardly any bottom-line to speak about. In your earlier comment, you very specifically told how the economy is changing and what are the factors that are leading to a bump in the business environment, similarly when will that percolate to good numbers for engineering companies like Praj, how long will the wait be for us?
Sachin Raole	Generally, H1 has a lower execution story because of monsoon and other factors. When the sugar season starts and the signs for the sugar season come into the picture, we see uptick in the performance which generally happens in H2. And that's the reason I was talking about that you will see the improvement even on the margin side and also on the top line side. There are multiple factors which are coming into picture. Yes, there is some kind of a delay which we've noticed especially on 2G. But we are confident and hopeful that all other factors will augur well for our future performance.
Saket Kapoor	Last year, we were around in the top line of Rs. 970 crore. For the first half, we have already done Rs. 400 crore. How correct it would be to say that we will be in Rs. 1,000 crore top-line for the full-year? Should an investor keep in mind 5% growth?
Atul Mulay	I don't want to give a guidance number, but it will be in the vicinity of that number.
Saket Kapoor	Will we see growth in the bottomline number or will it be flattish?
Atul Mulay	No, we will see some growth on the bottom-line.
Moderator	We will take the follow up question from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.
Kirti Jain	On engineering business, the traction that we are seeing in the first half in terms of order flow, are you seeing this sustaining for the full-year?
Sachin Raole	Yes, we are seeing the sustaining enquiry flow for the engineering business.
Kirti Jain	When it comes to zero liquid discharge, what is the execution time period for these orders?
Atul Mulay	This is roughly between 6 to 9 months.

- Kirti Jain** And for the CPES orders that we are bagging, what will be the execution time period for that?
- Atul Mulay** International around 8 to 10 months, domestic around 5 to 8 months.
- Kirti Jain** From the margin point, are the gross margins in line with the overall business or like in zero liquid discharge, it's better than the overall company level margins?
- Sachin Raole** Margins will be typically in a company level margin. Coming back to a question of your execution cycle, we are in the capital goods segment. Execution depends on various factors especially from the customers or the client side for the readiness also. But yes, this is the typical lifecycle for an execution of a project from our side.
- Kirti Jain** So you are saying 6 to 9 months in the zero liquid discharge should be from the time the project starts, not necessarily from the time the order win happens?
- Sachin Raole** It can happen depending on what customer is asking for, for example, the current quarter for which we have bagged an order, the customer is asking us for execution immediately so that will get executed exactly in a period of 8 months.
- Kirti Jain** The order book is at around Rs. 750 crore but the short cycle orders are helping show revenues better than what the current order book is over the next 12 months?
- Sachin Raole** It should definitely help us.
- Moderator** We will take the next question from the line of Ashwini Sharma from B&K Securities. Please go ahead.
- Ashwini Sharma** The order inflow in Q2 was Rs. 245 crore, which is a higher number on a quarter-on-quarter basis. Is the run rate sustainable in the second half?
- Sachin Raole** The order book comprises of some Greenfield projects also and majorly on the retrofit projects also, so it's a combination of both. Rs. 245 crore of order inflow doesn't have a turnkey order, it's for mainly on the supply side.
- Ashwini Sharma** Do you see any potential increase in order inflow after the recent hike in the ethanol procurement prices?
- Atul Mulay** Yes there is a good amount of enquiries, especially on the sugar factory at our ethanol plants, the expansions as well as the new ones are coming. We will see some traction certainly.
- Ashwini Sharma** You did mention that some traction of enquiries after this relaxation on the liquor ban but could you throw some more light on the same? How is the order enquiry building in?
- Atul Mulay** After this highway norms have got relaxed, the enquiries which had almost frozen 4-5 months back, have now started flowing from that segment.
- Ashwini Sharma** Any number would you like to throw on that?
- Atul Mulay** At the moment, I don't have any specific bifurcation of that.

- Sachin Raole** Generally, we don't give enquiry number. But we have seen a good traction in the enquiries, which is a good indication from the order point of view.
- Moderator** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for closing comments.
- Priyanka Watane** Thank you everybody for joining in. Please get in touch with us for any further queries. Have a good day.
- Moderator** Thank you very much. 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.