Praj Industries Limited
Q3 & 9M FY20 Earning Conference Call Transcript
February 05, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Praj Industries Limited Q3 & 9M 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 '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sandip Bhadkamkar from Praj Industries. Thank you and over to you.

Sandip Bhadkamkar: Good afternoon everyone. We welcome you to this Conference Call organized to discuss Praj Industries Operating Performance and Financial Results for Q3 & 9M FY20 which were announced yesterday, on 4th February 2020. I have with me Mr. Shishir Joshipura – Managing Director & CEO and Mr. Sachin Raole – CFO & Director of Finance and Commercial on this call.

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 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 afternoon ladies and gentlemen. I welcome you to Praj Industries' Earning Call for Q3 & 9M FY20. Before we start let me wish you all a very, very Happy New Year. It is a pleasure to connect with all of you to cover industry developments and quarterly business updates. Following this, Sachin will take you through the financials.

Recently World Economic Forum (WEF) has published a report on "The Global Risks in 2020" in which first five out of top ten global risks are related to climate change. There is dire need to adopt renewable energy sources so as to minimize the greenhouse gas emissions in order to battle the adverse effects of climate change. Our Business solutions aimed at sustainable decarbonization through circular bio economy addresses this very problem at the core.

Outbreak of coronavirus in China and its rapid spread all around the world is identified as one of the challenges to the global economy. As the people movement and trade around the world is taking a hit, its exact impact still remains to be seen. We are monitoring this issue closely. The quarter gone by, saw a broad-based slowdown across sectors. Headwinds in the domestic and global markets have translated into sluggish consumer demand and tepid investments in the market. The industry is subdued with capex plans progressing slowly. While projects are being planned and evaluated, the implementation has been considerably slower.

Earlier this week Union Budget 2020-21 was presented by Hon. Finance Minister and it is heartening to note that under aspirational India, the government is laying additional focus to agriculture specifically furthering concept of Annadata (giver of food) can be Urjadata (giver of energy) too. This augers well for bioenergy business as farming community remains an important industry stakeholder by way of sustained supply of feedstock i.e. biomass, agriwaste etc. This union budget aspires to bring more farmers under this concept which will not only give them additional revenue stream but also help nation in environment conservation and energy security.

Coming to the Bioenergy sector, in the domestic markets, we are witnessing improved interest on the back of policy initiatives taken by the government. The cabinet declared that no separate environmental clearance is required for sugar mills to produce additional ethanol from B-heavy molasses as it does not contribute to the pollution load. The government has also categorized Compressed Bio gas plants under “White category” and will not require any consent from pollution control boards for their operations. These decisions will definitely expedite the setting up of plants and production of ethanol through B-heavy molasses and will give required impetus to CBG.

The oil marketing companies, under the Sustainable Alternative Towards Affordable Transportation (SATAT) scheme, till December 2019 have issued over 500 letter of intents (LoIs) to private developers to set up compressed biogas plants across the country. However, the firming up of the business model and related finance closer is taking longer than expected and as such, we see a slowness in relation of these projects on ground and as I speak with you only handful of them have started to go on ground.

In September 2019, OMCs have floated a tender for 511 crore litres of ethanol requirement and against that the tendered quantity was only 156 crore litres. The huge gap in demand and supply was due to lower cane supply following erratic monsoons and flooding in Maharashtra and Karnataka. Now OMCs have floated a second tender of 253 crore liters of ethanol for supply between the period of 1st Feb – 30th Nov 2020 to support the ethanol-blending program. In order to meet these revised targets, it is imperative that ethanol production grows significantly in the country. We believe, key government measures like price visibility over medium term, continued push for blending program, push for advanced bio fuels, and interest subvention should help in building up the production capacity. Last month during visit of Hon. President of Brazil, Mr. Jair Bolsonaro to India, both governments entered into an MOU on strengthening bioenergy cooperation where they agreed to closely work together on research and development of renewable energy, as well as in the field of second-generation biofuels.

Let me now recap the key events and segmental updates at Praj during the quarter and nine-months ended December 31, 2019. Despite of challenging external market environment, our domestic bioenergy business witnessed traction in both enquiries as well as order inflows. In spite of reduction in volume of order finalization, we are able to improve our market share in excess of 75%. Our competitive advantage continues to be commercialization of new technology solutions that optimize energy and utility footprints by maximizing throughput. During this quarter, we have seen inquiry flow begin also from the Brazil market on the backdrop of our association with Dedini. In addition to Brazil, we also see movements from LATAM markets, especially from Paraguay, Bolivia and Peru for both Greenfield and Brownfield projects. Asian and African markets have also started to show gradual pickup in inquiries for both capacity expansion and modernization.

On the 2G front, the work on our four plants is progressing well as per plan. On the international market, increasing inquiries from the European market have started to augur well and show a clear path forward for the 2G business expansion.

On CBG front, OMCs have guaranteed an off-take price of Rs.46 per kg for a period of five years. And after the five years, this price will become the floor price for the next five years and this is a very very good sign which now indicates a price visibility for over 10 years to the developer which should help them to tie up their financials in a much, much better way. We see CBG business beginning to show traction and interest is both from both the SATAT and non- SATAT scheme players that includes multinationals from Autos and FMCG sectors as well.

As part of commercialization of proprietary CBG technology we are also setting our demonstration plant to showcase end to end capabilities to our prospective customers and to demonstrate performance of our technology on different feedstocks.

Our brewery business continues to strengthen its position in the domestic market with the market share in excess of 80% for FY20. We are experiencing enhanced interest levels from international markets in Africa and Southeast Asia by way of some firm inquiries as well.

The critical process equipment and Skid business continues to establish strong relationships with key MNC customers. We have just successfully completed hydro testing of the largest equipment ever made at Praj, for one of our major customers in the United States.

Water and wastewater treatment business has been receiving healthy set of inquiries for ZLD systems mainly from customers in specialty chemicals, in addition to marquee customers in metals and pharmaceutical segment. Recognizing need of our customers, we are further expanding our offerings by adding plant operation and maintenance service to our customers.

Praj HiPurity business leverages strong customer relationship and performance check recorded to build in and defend its market share. We are successfully maintaining healthy order inflow consistently over the last four quarters now.

So, as to leverage advances in digital technologies and create competitive advantage for our technology solutions, we have undertaken an ambitious digitization program at Praj to leverage the growing opportunities presented by advance of IoT and big data analytics.

On the whole, we remain reasonably positive on an improved execution in coming quarter we believe Praj is well-poised to capitalize on the emerging opportunities both, in domestic and global markets where we leverage our technology leadership, deep customer relationship and a very strong record.

I now request Sachin to give his comments on the financials.

Sachin Raole: Thank you Shishir. The consolidated income from operations stood at Rs.300 crore in Q3 FY20. PBT was at Rs.24.33 crore, PAT stood at Rs.20.67 crore as compared to last corresponding quarter of Rs 22.43 crore. For 9MFY20, income from operations was at Rs.806.08 crore, PBT stood at Rs.51.46 crore, PAT at Rs.45.57 crore showing considerable growth over the corresponding period of the last year.

Export revenues accounted for 30%, which is equivalent to Rs.89 crore for this quarter as against last corresponding quarter of Rs.105 crore. EBITDA excluding other income at Rs.24.99 crore for the quarter, which is at 8.3% against the corresponding last quarter of 8.4%. For 9M period, it is 6.2% against previous corresponding period of 6.3%.

The effective tax rate has seen a reduction of almost 5% during the quarter because of decrease in the MAT rate from 21.54% to 17.47% and deferred tax asset recognition on lease liability. And for this year, by end of March, we see that it should stabilize at an average rate of MAT.

Of the total revenue for the quarter 53% is from Bio-energy, 34% from Engineering and 13% is from PHS business. The order intake during the quarter was Rs.327 crore with 84% from domestic market. Of the total order intake 57% came from bioenergy, 31% from engineering and balance 12% from PHS business. The order backlog as of December 31, 2019 stands at Rs.1,157 crore. The cash and cash equivalent position as of 31st December 2019 is Rs.300 crore.

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. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Manoj Bahety from Carnelian Capital. Please go ahead.

Manoj Bahety: My first question is like if I look at the kind of regulatory changes or the kind of push which is coming from Government for ethanol blending and if even if we see the economics like sugar vis-à-vis ethanol and also it gives like complete flexibility to sugar companies like between sugar and the ethanol. So, with this kind of economics, just wanted to understand like what is stopping the order flow, like what is stopping more ethanol instead of sugar, and why it is not translating into order flow. Is liquidity the only reason because like there are other sectors also wherever there are attractive opportunities there liquidity is flowing, financial closure is happening, why it is not happening in this segment?

Shishir Joshipura: Thank you. I think that's a very good question. You are right that the policy environment is extremely conducive. There are continued signals that there's a big gap between the demand and supply. So, It's very natural that one would ask the question saying, why are investments not flowing in this direction. As I was mentioning that there is a requirement of liquidity to put up the projects and get the loan sanctioned etc. And the companies that are building these projects are obviously evaluating the different risks that they would perceive for the project. In our dialogue, what we have understood is that the prospective companies and many of them have been in this business already, so, they are not only looking at expansion. I think what people are looking at is the multi feedstock strategy that has now been introduced and allowed by the government to be used in terms of juice versus molasses B or molasses C. I think the industry is looking for some kind of better understanding of the pricing mechanism and in terms of its stability of how this will be viewed as we move forward in the year although the current years pricing are very clearly visible. The banks are also evaluating their own exposure to the sector and how they will go about laying the financial outlay for the programs which is as, I said, it is sort of stretching the decision cycle little bit. What would have probably taken an earlier time frame - three to six months for a decision, it's probably now taking more like 9 - 12 months kind of a decision making. So, there are lots of dialogues that are currently on in terms of capacity, it's just that they are taking little longer to close out on different fronts of pricing and risks and funding, etc which is stretching the decision making cycle. I don't see any other issue there at all.

Manoj Bahety: Okay. So, if I understood it rightly, is the requirement from the financial institutions that will be willing to do financial closure, is it something like certainty in terms of long term pricing. Just wanted to understand how it is working right now. It is like a short term pricing which is assurance from the government and if it is short term for what duration this kind of pricing is assured from the government?

Shishir Joshipura: No, I think what's important to understand is if the risk perception of the capital being deployed or the person who is disbursing the capital or sanctioning it, and they are, with increased awareness in the environment. I think the question is to better understand the risk. So, if the pricing changes then what happens, if the feedstock changes then what happens, the industry also witnessed an unusual year of drought and monsoon both playing out together to create a different kind of a supply situation on the feedstock side. We are already clearly witnessing this from the fact that for a tendered quantity of 511 crore litres we only got something like 167 crore litres tendered. So, there is a second tender out just now for another +250 crore of litres so, the point that I am trying to make is that there are different risks for which I think a higher degree of mitigation is being sought and this is what is stretching up the decision making cycle.

Manoj Bahety: My second question is like if we can give some more color on CBG front like in terms of visibility of order flow and how you are seeing like short term and medium term opportunity in this space and how as a company you are preparing to grab this opportunity?

Shishir Joshipura: Alright, so let me start out on a little higher universe. So, 5000 plants proposed to be set up, 500 EOIs already issued and LOIs issued by the oil marketing companies for setting up these projects. So, that's the universe that is out there in terms of prospective people wanting to put up these plants. On the other hand, there are a couple of issues on the policy side that needs a resolution. I think one of the big steps that have come forward is the price visibility now for 10 years, and I think that's been a fantastic step forward to improve both the risk perception of the project as well as viability of the project. I think that's a very positive step in the direction. We also see a whole universe now developing around climate change. So, several multinationals are now beginning to think in terms of how they will go about mitigating the risk or reducing the carbon footprint and CBG is a very, very constructive and positive way of achieving that goal. So, they are opening up a very new segment, especially in automotive, paint shops and applications like that. So, we see good traction building up on CBG, and we expect that as we move forward we will start to see good news flowing in from that front as well.

Manoj Bahety: Okay. And lastly, in terms of price visibility for 10 years, can you elaborate on this; I think you have covered in the opening remarks, but like what was there earlier and what is there now in terms of price visibility?

Shishir Joshipura: So, earlier when the scheme was announced, the price visibility was for three years from the date of announcement. October, 1st 2018, so up to September 2021, the prices were declared at Rs.46 a kilo for CBG. Now, by the way the whole process went and by the time people finalized, there was hardly any time left for one to recognize or realize the Rs.46 per kg because of the total cycle involved in terms of designing, defining, setting up, selection, operation of the project, there was hardly any time left for October 2021. So, obviously there were questions around saying what happens post 2021 and that was an uncertainty hanging on the feasibility of the project and therefore, funding. Recognizing that all marketing companies have now announced that up to 31st March 2024, the price will be at Rs.46 a kilo. Beyond that period for next five years that is up to March of 2029, Rs.46 will become the floor price that means, no price will be lower than 46, whatever prices happen beyond that period will be above 46. So, for the next up to March 2024, Rs. 46 beyond that minimum Rs. 46 that is the policy that has now been announced. So, that clearly gives a very good visibility on the pricing of the projects.

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

Vikram Suryavanshi: Sir, if you look at our export share it used to be like almost 50% and then now we have come to revenue around 30%. But if you look at order book it is around now

17%. So, how do we read that scenario in terms of export orders getting and it will be great if you can update on our JV with Gevo, how things are shaping up for aviation fuel and this another order which was supposed to be for working with the sugar companies for 2G order in USA?

Shishir Joshipura: Let me start from the last question that you asked by answering that first. So, the dialogue, in USA the Omega Energy Project that we announced is progressing on its required course. Right now, we are expecting a visit from the developers of the project to our demonstration plant during this month to build the dialogue further, there have already been lot of dialogues between them and the oil company and the sugar companies from whom the bagasse will be sourced. So, that has progressed very well, and we expect that that will continue on its course. And we expect that over the next six months we should see positive development in that project.

Coming to the aviation fuel part of it, with Gevo, we had a dialogue with the Defence Ministry, Indian Air Force and they have asked for a sample to be submitted that has been brought in and given to them and we expect the final test results in terms of their acceptability specially for the eastern part of the fleet as it is called. We are available by end of February and then we can take the next steps on that one. We are also progressing well on our relationship with Gevo.

Then coming to the export part as order book and execution, yes you are right that we have seen a higher traction in India on the back of all the policy announcement and scheme, so we saw much faster development on the domestic inquiries as compared to export inquiries. But that does not mean that anything is going low. On the inquiries of export front, there was a bit of a change in the market space that Europe because of the change in policy. The 1G potential in Europe has sort of gone down, whereas the 2G is taking a little time to build so there's a bit of a time gap if I can use that word that got created. What also happened positively though, for us is our tie up with Dedini in Brazil and we are already receiving some very encouraging leads in the market and we are very sure that we can start moving through this calendar year, we will see very positive development on that front and in Latin America as well.

Vikram Suryavanshi: Okay, sir. I would like to have your views as a methanol as a biofuel and how competitive it is compared to other biofuels? How it is manufactured or if you want to have just wanted to get your views on that aspects of methanol as a biofuel?

Shishir Joshipura: So, we are working on development of methanol on the bio route. As of today, what's available is not on the bio route, but we are working on a program now to develop it on the bio route. And maybe on a separate meeting we can discuss the merits or demerits. There's a whole yard to be covered on development on the biological route for methanol. On the coal route, it doesn't solve the environment problem at all.

Moderator: Thank you. We take the next question from the line of Bharath Subramanian from Sundaram Mutual Fund. Please go ahead.

Bharath Subramanian: For the ethanol projects in India, the financial closures are delayed. In terms of some of the measures, in terms of waving of environmental clearance for distillery expansion, has it seen any impact in terms of intent or project proposals from a market perspective? Have you got any feeders on that side? And second on CBG, you gave an opportunity landscape in terms of what could be the potential size, but what would be the scope of Praj in a project, if you can give some examples on that, which will be helpful?

Shishir Joshipura: On the ethanol side, the environment clearance is a very, very important step before any project developer or a customer would commit themselves to any financial numbers. But without that no approvals on the financing side will happen. So, this was a time taking process to get the environmental clearance and I think these two steps that are taken to declare CBG into the white zone and to allow molasses B and expansion of feedstock without any additional clearances, so I think these two will definitely expedite the cycle of finalization. So, from that perspective, it will shrink the time of projects going on ground. So, that's one. Number two, we also seen some good traction build in our enquiry base now over the last couple of months as we see them flowing in, and we expect that the pace of finalization will start to pick up with the aid of these measures that have taken place as well. On the CBG front, as I was mentioning, the overall universe for governments program on such a scheme is 5000 plants to be put up over the next five years. They also have now issued 500 LOIs which means 500 people have expressed interest to set up these plants. We are yet to see these 500 translate into real projects on ground and in fact I think only a couple of them and we are building the first big real Greenfield kind of a project in Uttar Pradesh that I had mentioned in our last call as well. So, that's what is happening now, each plant the scope depends on what we stock, what are the conditions of the site, where it is located, etc, etc. But each of these could vary in value between Rs. 20 crore to Rs. 50 crore depending on these variable for us to build these plants.

Moderator: Thank you. We take the next question from the line of Venkat Subramanian from Organic Capital. Please go ahead.

Venkat Subramanian: In your opening remarks, we talked about inquiries coming from Europe. Can you give us some color in terms of the quality of orders and what quantum it can be, because that that can probably change our outlook and landscape altogether?

Shishir Joshipura: Yes, you are right. So, the inquiry that I was mentioning, Europe was traditionally a first generation ethanol market and because of the change in the policy directive there now all the future plants will come up for the second generation technology. By very nature, the second generation plants have a longer development cycle, because you have to tie up the supply chain and many other dimensions. The technology is relatively new to the world. So, the project finalization cycles are on a different timeline compared to say a 1G project. And we are now seeing that there is increased traction in inquiries inflow on to the front from Europe so. So, if I had like couple of inquiries to work with to start with and then couple got added and now we have seen a significant number more getting added to that landscape. So, that is what is happening now.

Venkat Subramanian: So, when you say it's longer in terms of possible closures, etc. What time frame we are thinking in terms of?

Shishir Joshipura: So, typically 2G projects are looking from the time of let's say I get an idea to the time that there is some sort of concept to actually starting to produce out of a 2G cycle, then we are looking at a pretty long cycle of maybe around 48 months from the day I get the production but before that. So, 12 months before that plant has to start and so we are looking at a cycle between from our perspective between anything between two to three years of a developmental cycle.

Venkat Subramanian: That is for us to get a possible LOI or an order inflow from starting today?

Shishir Joshipura: Yes, that is correct. Now, this is also a stage wise process, so you have to do a detailed feasibility report, to do a basic engineering package, you need the funding. So, it's a very different process compared to setting a 1G ethanol plant. Because the capital outlays are very different, the processes the supply chains are different. So, this is a much more detailed and entailed work to be done for setting up a 2G plant compared to a 1G plant.

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

Saket Kapoor: The reasons why on the consolidated level, there is a dip in profits in 9M FY20 vs 9M FY19? We have posted revenue from operation now at Rs. 698 crore on standalone and I think so the Rs.800 crore as a consol numbers, the PBT level goes down by Rs. 7 to Rs. 8 crore?

Sachin Raole: Yes, So, when we were discussing about the composition of the sales, which has definitely contributed to the dip in the contribution level mainly on account of lower exports as compared to the domestic sales. So, we did more on the domestic side as compared to the exports, exports gives us the higher margin as compared to the domestic. That's the main component for the lowering of a contribution.

Saket Kapoor: I am deriving the difference between the consolidated PBT and the standalone PBT, if we take the consol PBT for 9M it is at Rs 51.46 Crore whereas the PBT for standalone stands at Rs. 58.5 Crore, there is a dip in PBT by Rs. 7 Crore approx., what is the possible reason for it?

Sachin Raole Okay, you are talking about the composition. This is because of the consolidation of our execution companies and other subsidiaries based out of the country. So, all the profit and loss on a consolidated basis is reflecting this number. So, on the execution side, there was no profit on those sides. That is the reason why this consolidated number is lower than the standalone number.

Saket Kapoor: Right. Sir currently as the Government has mandated for ethanol production directly from sugarcane juice, so what kind of capex is needed, or modifications are needed in the existing distillery that would make it possible for them to opt for going for ethanol directly from sugarcane juice?

Shishir Joshipura: As you know, sugar crushing season will last for maybe 90 to 120 days that kind of period maybe in some cases 150 days. So, you need to store this juice for the balance part of the year, right. And depending on the distillery capacity and configuration that you have, you can choose to produce part on molasses, part on juices. So there are different combinations that come to work. But clearly, if you want to go on juice for the whole year and only on juice then customer needs to create a possibility for storing this juice for extra period of time. And you can't just store it in a tank you need, there are certain conditions to be met otherwise, the sugar inversion happens, and you lose the potency and potential for conversion to ethanol. So, there's a whole technology at play in preservation of this juice. You have to concentrate it to higher level and then preserve it and then bring it back to the process. So, all those actions are required to be taken by them. But the most important thing that is for any producer to decide what's going to the mix, is he going to produce on juice only during the crushing season and what does he do with the post crushing season or he wants to produce juice right through so, there are several questions to be answered before we can arrive at a number on that.

Saket Kapoor: It is then advisable to go through this molasses route only. In that framework no further capex is needed, no storage comes into play and the end result for production of Ethanol is also met. Is it a win-win situation for sugar producer or should the other way around would be better because if they do directly from the sugarcane juice, then sugar production is also going to fall, so just wanted to understand?

Shishir Joshipura: Let us say company decides that instead of from sugarcane juice to sugar and molasses and then molasses to ethanol, I will take a route of juice directly to ethanol and let's just compare these two cases. And in which case, very simply speaking, if they choose to go from juice to ethanol, obviously there will be no sugar production and every mill has to decide its own strategy on how much for sugar production, how much for ethanol, what mix they want. And I think in the previous question also this was asked saying, if this flexibility is now being given? How is the industry reacting to it? So, I think every producer of ethanol and of sugar has to find their own golden mean, the technology is there to help them make the decision. By itself, you have to look at your capacity of the distillery that you have set up, the process that you have got, the sugar production that you want to do, what kind of cash flows that you are willing to manage. So, there are several questions that need to be answered before one can decide this or that.

Saket Kapoor: Correct sir. To conclude, optimally the distillery's which are currently producing ethanol through this molasses route, they need to do some configuration so that they can directly consume it, apart from the storage part any more modification or capex that is needed to be done at the distillery level?

Shishir Joshipura: Yes.

Saket Kapoor: What kind of ballpark figures can you give and what kind of business opportunity are we going to avail if a distillery say 200 kilo liters per day, wants to convert from directly sugarcane juice to ethanol. What business can be made?

Shishir Joshipura: There are variables that need to be answered. Just to help you understand this so when you go from molasses C conversion, let's say you produce one unit of ethanol of molasses. If you put one unit of juice then you will not produce one unit of ethanol, you probably end up doing something like six to seven units of ethanol. So, one has to find a balance between you must have distillation capacity for that, how much juice it will produce, at what moment in time, what molasses. So, it's not a very easy question to answer, this needs some detailed discussion before one can arrive.

Saket Kapoor: It needs a lot of capex also; if it is not easy then one can conclude the whole distillery structure will change.

Shishir Joshipura: I would not say lot of capex, I would say basis the whole thing gets decided on how viable or feasible it is and I think the technology today is available that makes it very viable to do it.

Moderator: Thank you. Next question is from the line of Sagar Kapadia from Anvil Share & Stock. Please go ahead.

Sagar Kapadia: In this quarter, how many orders have we received for this CBG plant?

Shishir Joshipura: There has not been any CBG order in Q3FY20 that went by. The policy that I was talking to about on the pricing front has just come about now. So, that was one big problem to be solved for gas because gas cannot be stored. So, that policy was required to be out there and it is now out.

Sagar Kapadia: So, probably in the March quarter, we do expect some orders to flow in from the CBG side.

Shishir Joshipura: Yes.

Moderator: Thank you. We take the next question from Levin Shah from ValueQuest. Please go ahead.

Levin Shah: What are the orders that we have received for 1G in this quarter? Is there any order that we have received from domestic 1G in this quarter?

Sachin Raole: So total order intake in this quarter is 67% from the bioenergy side. Naturally the lion's share from the 1G business.

Levin Shah: We had not received any order from 1G in the last quarter?

Shishir Joshipura: No, we did very substantial order in the previous quarter on 1G. I am getting an order book of Rs. 1,150 crore and nearly two third of that is 1G orders in Q2 FY20.

Levin Shah: Okay. But this bioenergy segment will even have export 1G or export 2G and also domestic 2G as well. Right?

Shishir Joshipura: Yes, but the overall bioenergy segment will include domestic and export for both 1G and 2G.

Levin Shah: In your earlier remarks you just mentioned that one of the hurdles, which the sugar mills are facing and even we in our interaction with them, see them mentioning this is that, there is no long term policy on pricing for ethanol and which is what is holding them back from going for a big expansion. So, is that the problem that we are facing and that is slowing down the decision making or is it from the banks, where financing is a problem and that is where the orders are not flowing through?

Shishir Joshipura: No, I think it's not an isolated issue. Both are interconnected, as I was mentioning earlier, that the requirement for risk mitigation in the increased complex environment from the banker's side, from the promoter's side, people are seeking solutions to ensure that they are able to mitigate the risk better. And now with multiple feedstocks coming to play, earlier it was very simple that you have to produce sugar and then what's left is molasses, so you have to produce that to ethanol so that's no longer the case. Now, you can partially produce and go through molasses B route, you can go directly on the juice route. So, I think as the gates are opened up, for different feedstock one has to do a deeper analysis to understand the impact that one could have on defining the product mix of the sugar mill and the ethanol produces put together and that is what is actually driving the decisions as we go forward.

Levin Shah: On the bank's front also whatever issues the sugar mills are facing, that continues to remain the same or is there any change in the environment or is there some mechanism that we were trying to work out where it will be better for sugar mills to arrange for finances. Have we been able to crack something on that front?

Shishir Joshipura: So, as I was saying earlier it was very simple route that there was one feedstock, then it was anyway a waste, no other use possible and hence ethanol was being processed. Now, if you go to multiple feedstock and optional product mix, then obviously, the role of the pricing per unit of output production starts to play a different role. So, then one has to work out the permutation combination saying, what suits me better depending on what crop is expected in my area, what kind of water stress is there for me, what is my sugar position today, what's my contractual position on sugar supply. There are many dimensions to which one has to work and before one arrives at a decision, and I am saying that therefore, by the time I take a complex decision, I would also like to have higher certainty on the pricing front and that is what industry looking for and seeking from the government, not in terms of exact pricing, but in terms of visibility, what would be the likely scenario and what the equations that would come to play etc, so that's one dimension. Bankers on the other hand for the funding are obviously looking; because they are going to fund a project basis on sugar juices so they are asking some more questions to understand the certainty of cash flows for the project, etc.

Levin Shah: If you look at 9MFY20 order inflows, our bioenergy segment has seen order inflows of around Rs.592 crore versus Rs.717 crore last year. So, there has been a big drop in order book this time around. So going forward in next year will this hurt our execution and do we see getting some of the orders in Q4 and trying to fill the gap in the order inflows?

Shishir Joshipura: So, we are very confident that we will see very positive developments as we move forward in Q4 and the quarters to come on this front. So, we are not worried and we are very confident and are capable of executing the order book that we have at hand and even the order book that we start building up now,

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

Sanjeev Zarbade: It was regarding 2G orders. What is the quantum for the Quarter and 9M FY20 from 2G and what is the kind of balance opportunity that is available for us in Q4 and FY21?

Shishir Joshipura: So, as you are aware, we were awarded four contracts to build 2G plants in India for four different sites. And the licensing and the engineering portion of those jobs were awarded in the previous year so that we had got. Then during the year, in the second quarter of this year, we received the contract from BPCL for critical equipment, which is what we are working on right now. So, when we are building that refinery we will be also going and supplying that part of the equipment. And IOCL, we are already executing the EPC contract as well as critical equipment supply contract. Now, two more projects are in the pipeline, because this is two out of four and two more are in the pipeline and you will hear about them as we see the developments coming in.

Sanjeev Zarbade: Yes, but the four contracts that we already have, there would be some balance, not all critical plant packages should have been awarded by now?

Shishir Joshipura: That is correct, that is what I am saying so for two projects we have the orders, for two we still don't have them, they will come to us.

Sanjeev Zarbade: So, again, that will be in the range of relatively Rs. 200 crore to 300 crore kind of opportunity you can expect in FY21?

Shishir Joshipura: For those two projects when they come, they will be of Rs. 160-170 crore.

Sanjeev Zarbade: Okay, it will slightly be in FY21?

Shishir Joshipura: I think what is important to understand is that these projects are progressing and we are expecting constructive development as we promised during the year on both the contracts.

Sanjeev Zarbade: What about the cash and balance on the balance sheet now?

Sachin Raole: It is around Rs.300 crore.

Moderator: Thank you. Next question is from the line of Ritika Agarwal from Quest Investment. Please go ahead.

Ritika Agarwal : My first question is on Dedini, the contract that MoU we signed with them. So, what kind of orders do we expect from this agreement in this calendar year?

Shishir Joshipura: So, Dedini is the leading supplier of sugar machinery in the world and of course in Brazil as well. So, they have got very deep inroads into the Brazilian market, they have a long standing relationship with customers there. And as I had mentioned in my previous call, we are expecting the Brazilian market will move because of the RenovaBio program that they have launched. We are expecting several opportunities to open up, one is on the modernization of existing plants, where we believe that our technology because of the way we have developed our entire technological offering. We have substantial value to offer to Brazilian customers on modernization. So, that's one dimension, the second is around the corn-based plants for which we have the technology that will work with Dedini to bring it to the market in Brazil. So, that would be Greenfield opportunities and a few more may open up because of the RenovaBio program and lowering of carbon footprint etc. So, we are very, very positive about the developments at the back of our association with Dedini who are a very big name in the market.

Ritika Agarwal: Any kind of quantum of number of orders or in terms of value that you could share?

Shishir Joshipura: So, just try to understand it is not Dedini who will give me the order, it's Brazilian customers or ethanol producers from whom we will have to get the order, therefore we are still in initial days of our relationship but we are already seeing a lot of traction in terms of enquiry in flows, demands from the customer in the recently concluded Indo-Brazilian summit, there was lot of interest shown around bioenergy we are very positive and maybe in time to come, I will be to share with you more definitive numbers, but Brazil is world's biggest producer of ethanol and by a very large margin. So, I think we were expecting some constructive development in this market.

Ritika Agarwal: On brewery that we were trying to make our inroads into the international markets. So, any update on that?

Shishir Joshipura: Yes. So, as I had mentioned a couple of quarters ago, for brewery business, our effort is to move to a market which works on a different cycle than India, because it's a seasonal business so that we are able to then even out our business flows. And we have some very good leads out of Africa now, which we are pursuing and engaging in dialogue with customers, as well as in Southeast Asia and we assure that in time to come, we will have some good news to share.

Ritika Agarwal: On the CBG opportunity, you said 500 EOIs have already been issued. So, what is stopping them for on-ground application?

Shishir Joshipura: So, as I was mentioning earlier as well, one big issue that has just recently got solved was the visibility of the pricing because as you know, the gas once produced you can't store it, so you have to pump it out, right. So, the pricing was not clear after October 2021. But now it's been clear upto 2029. So, that's a very good step forward and we expect that constructive engagement will happen as we move forward in the market.

Ritika Agarwal: Out of this 5000 CBG plants to be set up by the Government, what kind of market share do we expect to grab and seeing the competition that is currently already in the market?

Shishir Joshipura: If I look at the competitive landscape, there are not many organized players yet, because this is a very relatively new segment, new technology area as well. And we have a very, very strong offering. So, I would like to, at least for my team I am telling them that we need to build market share, just like what we have as of now.

Ritika Agarwal: Okay. And by when can we expect something really happening on the grounds?

Shishir Joshipura: During this year you will see it.

Moderator: Thank you. We take the next question from the line of Saurabh Ginodia from Stewart & Mackertich. Please go ahead.

Saurabh Ginodia: Last quarter, you talked about development of a technology for boiler which will reduce the fuel consumption by about two third. And you were expecting to commission that boiler shortly, so just wanted to understand how has been the customer feedback on that?

Shishir Joshipura: I'm very happy to share with you that, we have commissioned the first installation and it has given the results we wanted. So, that's a fairly positive development for the technology and we are sure that this will open up ways and path for further inroads of this technology into the business and also create a much better environmental footprint.

Saurabh Ginodia: Okay, and has this technology being developed in-house and are you in a position to share the name of the customer?

Shishir Joshipura: So, this technology has several elements that make it possible for us to achieve this. It includes a significant technology development for Praj but also a collaboration with the boiler maker. Because we don't make the boiler, so we have an agreement with Thermax so both the teams put together and so significant technology development insight, which we have brought to site and then of course, integrating it with the boilers as well.

Saurabh Ginodia: Okay. And by what quantum will the scope of work for Praj increase? Initially, I think we were doing about 45 to 50% of the new orders.

Shishir Joshipura: On the overall project, it is about 20 to 25% of the cost.

Saurabh Ginodia: Is there any clarity on the transfer pricing for the 2G ethanol for an OMC?

Shishir Joshipura: No, there is no such. There is a dialogue still undergoing and there are different mechanisms through which this comes, as a reward mechanism, or a reprimand or a penalty mechanism or a base price to be fixed or a mandate to be given around. I think the dialogue is still on and there is no final decision on that yet.

Saurabh Ginodia: Because for this technology to pick up from the private entrepreneur side, this pricing would be very important.

Shishir Joshipura: You're very correct. The mechanism that comes into play will be an important milestone, important basis for decision making in future.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Sandip Bhadkamkar: Thanks, everyone for your time today on this call. If you have any more questions, feel free to write us at info@praj.net. Thanks again for your time and have a nice day.

Moderator: Thank you very much. On behalf of Praj Industries Limited we conclude today's conference. Thank you all for joining you may now disconnect your lines.

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