Praj Industries Limited

Q3 & 9M FY21 Earnings Conference Call Transcript

February 05, 2021

Moderator: Ladies and gentlemen, good day, and welcome to Praj Industries Limited Q3 FY21 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 now hand the conference over to Mr. Sandip Bhadkamkar from Praj Industries. 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 Q3 & 9M FY21 which were announced yesterday. On this call I have with me Mr. Shishir Joshipura – CEO & MD and Mr. Sachin Raole – CFO and Director (Finance & Commercial).

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 e-mailed to you. These documents, along with our Quarterly Results Presentation have also been posted on our corporate website. I would now like to handover the floor to Mr. Joshipura for his opening remarks.

Shishir Joshipura: Good morning and season's greetings. Wish you a very happy and prosperous new year. I welcome you to Praj Industries' Earnings Call for Q3 & 9M FY21. I trust all of you had the opportunity to go through our results presentation for the quarter and nine-months ended 31st December, 2020. I do hope that you and your family members are safe and healthy. It is once again our pleasure to connect with all of you. I will briefly be covering the quarterly business highlights an industry performance, following which Sachin will take you through the financials.

Let me start by sharing some very good news with all of you:

Praj Industry is ranked second in the list of world's 50 hottest companies in Global Bioeconomy for 2021 by the US-based Biofuel Digest in Low Carbon Fuels and Renewable Chemicals category. This list represents companies who are making outstanding contribution to bioeconomy by developing and deploying sustainable de-carbonization solutions, using innovative technologies that helps conserve the environment.

In addition, Praj has also secured third rank in the newly introduced Bio-design and Engineering Category that recognize hottest companies for their capabilities in innovation and services in commercial scale operation and products. This is the first time any Asian company has secured top ranking in the most coveted list of hottest companies in the advanced global bio-economy. These rankings are at the back of our #1 ranking among the best places to work in the advanced bio-economy in 2020, which was announced last year. Praj also bagged CII Industrial Innovation Award for 2020 in "Manufacturing-Large Enterprise" category for our SHIFT technology. Praj has developed a 'Synchronized High Brix Fermentation Technology' (SHIFT) for sustainable ethanol production that offers higher user benefits with reduced effluent treatment costs as well as processed water requirement in fermentation.

Let me now move to perspectives on the business environment. We believe that the economy for majority of segments that we serve is staging a V-shaped recovery. Domestically, the operating environment is steadily improving and economic activities have picked up across several sectors and with vaccination now a definitive solution, we expect recovery across the board as the year progresses. Agriculture sector is also showing signs of robust growth, with two healthy crop cycles of Kharif and Rabi boding well for the overall economic revivals. The Union Budget presented at the back of the unprecedented year, signals sustainable and predictable growth of the economy. Government's emphasis on improving manufacturing sector and infrastructure investments will drive economy further.

In the Bioenergy sector, the domestic market we are seeing significant momentum with a slew of positive and structured measures announced by the Centre to boost ethanol consumption and production in India. The current average ethanol blending rate as of December 28th stands at 6.05%. However, some states like Uttar Pradesh, Maharashtra, Karnataka and northern states of Delhi, Punjab, Haryana and Uttarakhand have already achieved blending rates of 9% to 10% as of January 11. OMCs have allocated about 310 crore liters for 2021 marketing year, including about 39 crore liters from damaged spoiled grains and surplus rice. This would enable ethanol blending of around 7% to 8% for the 2021 year. The Government has signaled serious intentions to decarbonize the transportation sector by advancing 20% ethanol blending target to year 2025. This is expected to lead creation of nearly 1,000 crore liters per annum of additional ethanol capacity. In order to encourage ethanol production in a more uniform way across the country, the cabinet announced a modified scheme to provide financial assistance to distilleries producing first generation ethanol from surplus/spoiled grains with barley maize, corn, and rice, including cereals.

Total of 368 distilleries have applied for a soft loan of about Rs.19,000 crore. In the last 2 years, 76 ethanol projects were sanctioned that will add around 200 crore liters of ethanol capacity. 31 projects with capacity of 100 crore liters are already complete while the rest are expected to be completed by end of March 2022. The Government has also notified modified interest subvention scheme for setting up grain-based distilleries/expansion of existing grain-based distilleries. State Governments and union territories have also been requested to help entrepreneurs secure land to set up distilleries and provide quick environmental clearance. The Government announced further enhancement of ecosystem for gas distribution by adding 100 cities to the CGD network in the recent budget. This will also pave way for economic dispensing of CBG.

On the whole, increased focus on clean and green mobility builds a very positive momentum and we are witnessing a decisive shift towards renewables across India. Praj remains a front runner to capitalize on this growing opportunity.

Let me now take you through the highlights and developments for the quarter;

On the Bioenergy front, we have witnessed nearly doubling up of our enquiry base. Customers are increasingly interested in setting up ethanol plants using B-heavy molasses and/or syrup up as feed stock. Ethanol production using sugar syrup will soon be a reality. Our unique and path breaking bio-syrup technology solution that enables year-round animal production on syrup is attracting a lot of interest from our customers and the first installation running on this technology will soon be a reality. We are also witnessing very high interest for grain-based ethanol plants following the Government announcements regarding the use of surplus grains. Customers in international markets are bringing back their plants back to negotiating tables as the COVID crisis begins to subside.

On the 2G front, execution of the first three plants in the country is on course. Our offering along with Sekab in the forest residue to ethanol segment is generating significant is interest in Nordic countries and enquiries from there are progressing very constructively.

On the CBG front, in November 2020 Praj entered in a non-binding MoU with Ministry of Petroleum and Natural Gas for providing technology support to CBG projects under the SATAT scheme. The main objective of this MoU is to facilitate technology supports to the entities, for setting up and commissioning of multiple numbers of eligible and qualified CBG plants and their continuous operation for production of CBG and Organic Compost Manure under the scheme. We inaugurated our CBG demonstration plant at the hands of Union Minister, Shri. Prakash Javdekar located at our R&D campus. The plant deploys Praj's technology, which utilizes the proprietary microbial consortium made from the feedstock such as agri residues and press mud.

Overall, we are seeing promising opportunities for our Bioenergy business across both the domestic as well as international markets.

On the Engineering business, our wastewater treatment business has received an order worth Rs. 226.9 crore from Indian Oil Corporation Limited for execution of water and wastewater treatment system, including zero liquid discharge system for their acrylic/oxo-alcohol project in Gujarat. Praj will treat water from entry into the pipe, to the exit from the pipe and save 4.7 million liters per day of water through recycling and zero liquid discharge. The schedule time of completion for this project is 16 months.

On the CPES front, we continue to strengthen our relationship with select global technology and EPC players and we have bagged several repeat orders during the quarter from our customers indicating their faith in our capabilities. The Brewery business still does not see a growth in the domestic market as the domestic market has still not recovered with no new green or brownfield products announced. We expect the recovery time to be almost 12 months in this segment.

On the PHS front, the continued focus on healthcare has resulted in good traction in both domestic and international markets. We have, created some important breakthroughs, with leading business groups and leading pharma players in India as well as abroad. Praj is fully prepared to execute the opportunities that are arising from various favorable developments across all our business segments. On the operational front, all our facilities are operating at normal levels now and we continue to ensure safe working environment for our people.

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

Sachin Raole:

Thank you, Shishir. Just to give a brief about the financials; total income from operations for the quarters stood at Rs. 347.78 crore as compared to Rs. 300.34 crore in Q3 FY20, delivering a growth of 16%. EBITDA grew by 59% stood at Rs. 39.79 crore as against Rs. 24.99 crore in the corresponding period of the last year. PBT came in at Rs. 38.78 crore in Q3 FY21 as compared to Rs. 24.33 crore in Q3 FY20, again up by 59%. Profit after tax stood at Rs. 28.16 crore in Q3 FY21 as compared to Rs. 20.67 crore in Q3 FY20.

For 9M FY21 income from operations was Rs. 737.57 crore as against Rs. 806.64 crore in 9M FY20. EBITDA for the period under review stood at Rs. 44.16 crore as against Rs. 49.78 crore. PBT stood at Rs. 39.92 crore as against Rs. 61.46 crore in 9M FY20. PAT was Rs. 29.05 crore as against Rs. 45.57 crore in 9M FY20. Export revenue accounted for 31% in Q3 FY21. Of the total revenue, 71% was Bioenergy, 17% from Engineering and 12% is from PHS business.

The order intake during the quarter was Rs. 605 crore with 83% coming from the domestic market. Of the total order intake, 41% came from Bioenergy, 50% from Engineering and balance 9% from PHS business. The order backlog as of 31st December, 2020 stood at Rs. 1,665 crore, comprising of 81% of the domestic orders. Cash in hand as on 31st of December stood at Rs. 400 crore.

With this, I will conclude my remarks. Thank you for joining. Would now be happy to discuss any questions, comments, or suggestions you may have.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sandip Sabharwal from asksandipsabharwal.com.

Sandip Sabharwal: I think in the last quarter I asked you a question on how Praj is doing well always for employees and customers and when they will start generating some money for shareholders? I guess the journey has begun now, so congratulations on that. My question to you at this stage was that, you have announced significant orders last quarter, I think, I'm not sure whether it was the biggest quarter ever, but I guess it must be near that. And there have been several announcements in fact, I attended a few conference calls of some sugar companies also and just one sugar company announced two new plants. There seems to be a lot of momentum there. In terms of, like you said, there is a doubling of enquiry pipeline. What kind of numbers would that indicate, not in terms of the order flow you will get, but in terms of customer enquiries? And secondly on the 2G front, new order flow on the existing executions we don't see that, at least you are on top of that, so any indications on that when the next stage of that will come?

Shishir Joshipura: As I mentioned, in a way of speaking almost 1,000 crore liters per annum kind of a capacity is getting unleashed with these two measures that are announced. That's a very significant number that needs to get built between now and next 3 years. As you rightly said, there will be a lot of activity around the natural owners of this land which are sugar mills. Of course, now we will have also the grain based ethanol plants added to the whole sequence. Obviously the momentum is expected to increase its speed and tempo. What's very important from our perspective, as we understand is that there is a very clear, stable, sustainable future direction that is made available for ethanol producers, so that they know that there's a very definitive business proposal that they can go forward with and they need not have any apprehensions about what happens at the end of 1 year. The Government has announced the 5 year tender for procurement. There's a big push on ethanol side. I think all the indications, actions are indicative of the fact that there's a serious story unfolding here on improving the availability of ethanol in the country by pushing the domestic production. We clearly see, a significant change in the inquiry level, as I mentioned, that they have nearly doubled in the last quarter. So which itself is a good indication. I think it's not that they have just indicated and stopped. This is a journey that is continuing, and we are expecting to see very positive developments out of this.

Sandip Sabharwal: On the 2G front.

Shishir Joshipura: On the 2G order inflow as we had mentioned, the first three projects are under construction and they were built under special programs, so they will have to be commissioned. I think that's a very important milestone that needs to be achieved. So, as I mentioned, the construction continues at full speed and we are expecting the first commissioning, which is still some time away, to be about 18 months, away from now and then only we can expect the India story to start unfolding on the 2G side, unless some other interventions happen in between. But this is what our expectation is. On the European front, we are expecting the forest residue base ethanol plants to take off early because there are some very positive and constructive dialogues that we are engaged in right now. As and when they do result into something that is worth mentioning, we will come back to you.

Sandip Sabharwal: On the three orders which you are executing right now, there will be some residual order flow you would also be expecting because some initial mention of what the order flow from a particular 2G order could be to actually what you have got, I think there is still a significant gap.

Shishir Joshipura: There is not a significant gap. We have orders and we announced them for licensing engineering as well as for critical equipment from all the three projects. We had some additional inflow coming in for one of the projects and our ability to participate in those tenders also depends on the route with each of these public sector units are adopting for execution of the projects. For example, in Indian Oil we are also the EPC managers for the job. That means that while we can be the EPC managers for the job we cannot supply anything beyond the critical equipment. There are rules that we have to follow that may not be true for other two cases where we are not the EPC managers. So, it will depend on what is the overall structure of the project that each of the customers decide and based on that it will progress. We already have these additional contracts for one of these projects.

Sandip Sabharwal: What would be the cash on the books right now?

Sachin Raole: Rs. 400 crore.

Moderator: The next question is from the line of from Vivek Ganguly from Nine Rivers Capital.

Vivek Ganguly: I have two questions and you all actually spoke about it in the call, but it wasn't very clear. On the number of distilleries who have applied for loan applications, who have applied with banks for interest subvention, you said they were 368 and how many of those have been completed and how many have been sanctioned?

Shishir Joshipura: 368 distilleries applied for the loan, 76 have been sanctioned so far which will add about 200 crore liters of capacity, of this 31 are already completed. The balance we expect to complete by March of 2022.

Vivek Ganguly: So, of this how many have you all are participating in?

Shishir Joshipura: Our market share is about two third.

Vivek Ganguly: And, you also mentioned about, the 20% blending being preponed to FY25.

Shishir Joshipura: Yes.

Vivek Ganguly: So that would translate into about 1,000 odd crore liters of new capacities?

Shishir Joshipura: Yes. The new capacity that we required to meet that target should be one is 1,000 crore liters per annum.

Vivek Ganguly: Right now, our current capacity is in India when we are doing about 6.5%-7%.

Shishir Joshipura: The current capacity is around 350 crore liters.

Vivek Ganguly: It's at 6% or 7% odd.

Shishir Joshipura: Right.

Vivek Ganguly: On SATAT, what is the kind of traction you all are seeing? Have you all started because you all were doing, not under the SATAT scheme, but earlier also you all were executing such projects for breweries where the waste was being used to generate feed stock gas. But any on SATAT in particular, have we started getting into commercial relations with anybody?

Shishir Joshipura: So, you are very correct. We have built over 55 plants in the distilleries for Bio-methanation, which produces gas. In that case, it was mostly used for internal energy consumption. The SATAT program is very different. It is not only the Biogas, but you further purify it to a grade where it can be used as automotive fuel which is very different than the normal biogas. So that scheme was launched. Where there were a number of initiatives that were subsequently brought about as the supplementary rules to that scheme, based on the market feedback that was available and what the promoters wanted, what the project developers wanted, what the regulatory agencies wanted. And, I think, the ecosystem is being constructed right now in a very favorable fashion. We are currently building to India's first two commercial scale plants. First of them will go on stream in April and the another one in another three months down the line, one in North of India in April and the one in South of India, three months down the line, further to that. So that is what will happen. We are seeing increased traction but this is the first time that such overall eco-structure is being imagined and created both. Customers are also wanting to see the future or prospective customers saying, let me understand how this whole thing works; because gas selling is very different than ethanol selling. Gas production is very different than ethanol production. So there are questions around, how things work. I think that is why a real term demonstration is very-very critical and which is just about 60 days away. So we are very-very hopeful. And from all the dialogue that we are building with customers and they are saying, let me see the proof. Once that is there, then I will know how the whole thing works. It's not only about a technology or handling or management or operations, but the overall ecosystem how the evacuation takes place, what happens to the gas system when the ecosystem getting built up etc. I think that these are initial days for that, but very-very promising because government is giving a lot of emphasis on development of CBG as a very-very important element of the gas part of the economy in the overall energy mix.

Vivek Ganguly: For the EU market when we are talking of forest residue-based ethanol plants; these would be using your 2G tech?

Shishir Joshipura: That is right, that is for second generation technology, yes. And especially for farm residue, as I had mentioned, you would be aware, we had announced collaboration with the company called Sekab.

Vivek Ganguly: So, is it because of the overall economic condition that there is a slowdown, or you are expecting something to happen in those markets?

Shishir Joshipura: For Europe the RED II act is very clear now, so it is under implementation. The unusual 2020 has really put some of the programs, it's pushed them backward because there was a much more urgent and bigger problem to be solved across the globe and Europe was no exception. I think what has happened is it's pushed it by one year or almost a year back, but it is restarting again.

Moderator: We move to the next question from the line of Manish Goyal from Enam Holdings.

Manish Goyal: I just have a little longer-term question on our R&D center. Just want to get a sense as to what kind of investments we have been incurring on a regular basis, or on annual basis. How do we see that going forward? And, I do recollect that in past when we had inaugurated the center and we had kept certain milestone in mind as to, by a certain timeframe, maybe that's quite old, but 2012-13 we were looking to make it as an independent business, division and emerge as a profit center. So, in so many years we have done so many innovations have generated IPs. What's the plan over there, are we also looking to kind of monetize some of our IPs, are we looking to partner with some global major, if you can share your thoughts? That is one broad question. Second question is on, how do we see our user client base changing over medium to long term, point is that lowering our dependence on direct government policy driven businesses like now the biofuels, but we have initiated a lot of other businesses like Process Equipment, Wastewater, Brewery was always there. And, adding to that is pharma for Hi-purity solutions, Zero Liquid Discharge. So just want to get a sense over the next 3 to 5 years, how do we see this landscape emerging for us going forward?

Shishir Joshipura: So, thank you. First of all, I'm not aware of any declaration that we have made around structuring the R&D the way you described it. But moving on from there, if you really look at the two platforms that we have Bio-mobility and Bio-prism and that is what our R&D is actually enabling us to do to create solutions on the Bio-mobility platform. So obviously we'll continue to do so. You saw the one 1G ethanol came out, now it is of course very stable and very-very mature. The 2G, whole story that you saw developing out of that, now the CBG work that they are doing, this is all on the Bio-mobility platform. They're working on sustainable aviation fuel for which we created the first process in India in collaboration with GEVO. We have given our samples and they have not been approved by Indian Air Force. On the same platform we will continue to build some other solutions in very-very close working with ARAI. That was a MoU that we had announced in the last quarter. We are working on different fronts, at the Bio-mobility. We'll also be looking at the future, fuels as we would call it Ultra Advance Bio-fuels which will emerge over a period of time in form of hydrogen, bio-methanol. Many of these things will develop as we go forward, so very strong focus on Bio-mobility. They are also equally focused on the new platform that we unveiled last year on Bio-prism, which is around all renewable chemicals materials. So very clearly we will continue to build solutions that the demand of the market, they will create new interventions that is the whole purpose of R&D and as I said in the past as well that they are very clearly focused on creating solutions that create commercial value for both us and our customers, so that is how it will continue to create value.

On the business front that you asked yes, we are very specific that we would like all of our businesses to grow to their potential and the route that for example for the Zero Liquid Discharge business we are seeing that the business needs to gain traction, not only by building a me-too plant but by creating a differentiated offering to the customer, leveraging the tremendous strength that the organization has got on the microbiology side and use that knowledge and strength to actually create solutions for customers, for problems for which there are no solutions today or for which there are very expensive solutions. How do we bring that down? Similarly we are also looking at creating a differentiated solutions for new emerging companies in the technology side, globally who are trying to create some new solutions on the needs of new energy forms, how can we help them configure their plants and systems so that they become very competitive in a very short period of time so that's the focus that our CPES business is doing. The PHS continues to serve the pharma and healthcare segments which of course right now is witnessing a very increased focus and activity level. Brewery of course very specific to brewery but they are also, while India for next 12 months we do see very subdued activity but we had not sitting, we are actually utilizing this time to build our presence in

African markets which comes at a very different cycle than in India and we have tasted some early success there so we continue to build our businesses as we move forward.

Manish Goyal: On the CBG just to clarify you mentioned we are building two plants and first plant is likely to come up when?

Shishir Joshipura: The first plant will be commissioned in April of this year.

Manish Goyal: Second one?

Shishir Joshipura: Another 3 months down the line.

Manish Goyal: What will be the material which will be used, like is it press mud or agri-waste as well, what is it based on?

Shishir Joshipura: The one in South India is exclusively on press mud, the one in North India is press mud as well as bagasse, a mix of both.

Moderator: The next question is from the line of Kirthi Jain from Sundaram Mutual Fund.

Kirthi Jain: My first question is with regard to the doubling of the enquiry pipeline you mentioned. Is it the pending stock of enquiry or is it the order inflow?

Shishir Joshipura: Over the last 1 year, if we look at our enquiry-base it is doubled as if it compared to a year ago.

Kirthi Jain: With regard to CBG how is the pipeline forming up? Enquiry pipeline how is this building up? You had announced one large project in the current quarter a non-binding MoU you have announced. Apart from that any other things are we adding on the CBG front?

Shishir Joshipura: As I was mentioning we are seeing very high level of interest now building up for CBG. There are several developments in the market. Yes, as I mentioned people also want to see how the overall ecosystem develops and operates before they commit themselves fully to a development of project but there is a big support, big push coming from the Government. It's a financially viable case, so that way there is no problem, there are special instruments announced. This a priority sector lending segment now so there have been several initiatives that has been launched by the Government and from what we understand over the next 6 months we will see starting of the conversion of this potential because the overall plan is very large to build over a 5000 plants and right now as I said but we will have to commission the first projects for everybody to see how it operates and how it work and that is true because it's not only about our plant and technology on which I think people do not have any doubts but it is around the other ecosystem that has to develop on the feed stock management, about the evacuation process fees, about the evacuation speed and etc. That is what has to happen and then it will pick up speed.

Kirthi Jain: With regard to overseas market how is the traction building up? Are things getting back to normal still things are little back?

Shishir Joshipura: Different strokes for different markets. We are just now beginning to see some return or past of return opening up for the South American market which was very badly impacted by COVID. We have also seen Europe is known to everybody as to what is they are really battling on this front. The COVID situation has definitely put a bit of a back seat for some of the very forward-looking programs specially in Europe but that is only a brief period of time and we see that as I was mentioning earlier in my comments, we see a return to dialogue and negotiation table for several customers now in that zone as well. The pharma grade alcohol market which has very quickly picked up as soon as COVID pandemic arrived in the world. We see the initial plants capacities will go into commissioning, we have built some of those and shipped them and we will have to await development further there of as well. We are seeing a gradual opening up of different segments of market. Africa is beginning to look better for ethanol now and then we are expecting that as we move along during this calendar year, the international markets will, as the travel restrictions and the COVID situations ease out, I am sure that we will see heightened activity there as well.

Moderator: The next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund.

Bhagyesh Kagalkar: My question is regarding the operating margin trajectory for this company for next 2 to 3 years. Last years we have struggled with the margins now that orders are coming and the revenues wouldn't rise, what do you feel in view of the fact that commodity costs also are increased in certain cases? What do you feel the margins would be?

Shishir Joshipura: Bhagyesh great point. Yes, commodity price hike has been a concern for everyone who deals with these commodities or buys them as raw material so we are no exception to that. We are trying different means, we have negotiating, we are talking to our customers, we are re-evaluating our bids that we have submitted, we have a long-term contract with some of our suppliers on the raw material side so we are trying to leverage that and I am sure that many companies are doing. We are leaving no stone unturned to minimize the impact of this sudden spurt in steel prices but it is definitely there, there is no running away from the fact that the steel price hike is there for everybody to manage over the next foreseeable period. In terms of the margin development over a longish or mid-term period I think it's not so much what we feel but it is what we deliver and that only time will be able to tell so we will have to wait and see how that actually develops out. Obviously we would want to have a growth which is meaningful, which is protecting our margins.

Bhagyesh Kagalkar: There will be some impact of operating leverage part, as revenues rise in next 2 to 3 year or 4 years?

Sachin Raole: Operating leverage definitely playing a role because the volume is getting built up so we will see that benefit is coming through the operating leverage. What Shishir was trying to mention is the impact which we cannot ignore or something, we will have to wait for one more quarter because we have seen that in this quarter even though we have been through the raw material price increase in this quarter also but because of our stocking, policies, carry forward stock situation anyway having with us, we have not seen any impact per se. We will see a marginal impact in the March quarter. Post March we will be in a position to see this stability into the margins which will start building up in the next financial year but yes your question if I have answered shortly we will see the operating leverage definitely playing going forward.

Moderator: The next question is from the line of Sameer Shah from Value Quest.

Sameer Shah: Just taking the last question forward, my question was also on the margins. This lower gross margin is it a function of high raw material prices alone or is it something to do with competitive intensity or product mix or anything else. How should we look at it because already we are at the lower end of the band?

Shishir Joshipura: Competitive intensity plays out in every single market. No question about it, the product mix, the market mix in terms of domestic versus international commodity prices. There are many dimensions to this, there is no one single dimension that impacts and as what Sachin was mentioning that there are different measures that we are putting in place to combat so how do we go about improving our international business share in the overall business share, how do we manage our inventory and the cost, how much of shock absorption capacity we can create, build dialogues with our customers. One of the good things is that we have long-standing relationships with most of our customers and that helps us to build a very transparent and open dialogue with them and they are also very understanding in their nature. It is an overall response that we have to provide. There is no one single dimension that I would pick out.

Sameer Shah: We are trying to basically mitigate or whatever improve it but result will take time?

Shishir Joshipura: The other thing that also will help us as we move forward and I think I did mention that in my comments and this is just an illustration, there are many more illustrations of this example. I mentioned about the Bio syrup technology. What it does is it allows a sugar mill to actually operate for round the year basis on syrup. As you know syrup has the highest yield of ethanol and that is what the focus and target now for everybody is. If you just operate on syrup can only do it during season of crushing or during the crushing season but if you want to go beyond that then that's when you need the Bio syrup technology which enables you to operate right through the year on the syrup waste ethanol production which otherwise in absence of this technology is not possible. That is a kind of differentiation that we have to bring through the market. We are very sure that if we create value for customers, they will be able to share part of that back with us as well. It's just illustration there are many such examples. Innovation will be another lever that we will use.

Sameer Shah: The second question is the utilization of cash. We had contemplated buyback but due to COVID it was postponed but now we have substantial cash on the balance sheet. What is the thought process on utilization of the same?

Shishir Joshipura: As you can see our business is entering a significant rapid expansion cycle and it is very important for us to ensure that we have the resources available to us so that we are able to not only meet and serve this particular fast rapid expansion demand in terms of working capital but also use the same to build for the next level because if we just become part of the tide then that is not good enough, we have to build sustainable into the business and that is what we are trying to do here and some of those measures will also make sure that if we have resources available with us we are able to put them to better use and that's how we are thinking about. One is to help us meet the demands of this rapid expansion that we are foreseeing and the second one is about building sustainability for future.

Sameer Shah: So basically, will be reinvested into the business or we will need to those kind of reinvestments.

Shishir Joshipura: We will be presenting our plans to the board. They would be taking a cognizant view of the overall things that we need to do. So there is an issue around capacity building but also future capabilities that we can bring, the future value as I was mentioning about some very ultra-advanced biofuels that would emerge in future. So there are multiple canvases on which we will have to paint, we can't paint with the same brush, we will have to paint with different brushes.

Sameer Shah: Would inorganic be a part of it?

Shishir Joshipura: I don't know. From what we see right now our hands are full, in terms of not that we can't manage but we would like to do, as a company we have invested not only money but our emotional energy everything that we stand for into this and we now see a horizon on which there is a definitive realization of this potential possible. Our first focus would be to make sure that that is done and then we will see from there on.

Moderator: The next question is from the line of Vikram Suryavanshi from PhillipCapital.

Vikram Suryavanshi: How is the progress or success of this tripartite agreement and how is your feedback for or what kind of feedback you are getting when you interact with the bank and customers on this tripartite agreement and outlook on that?

Shishir Joshipura: We are participating in dialogues with the leading banks, all the bankers across the country, with the leading customer groups where this model is being discussed and we see a very positive traction build in that dimension because obviously this is a tool that will help mitigate some of the risk and therefore enable funding of the project in a very constructive way and all our dialogue indicates that this is something that is definitely a tool that will help accelerate the funding sanctions.

Vikram Suryavanshi: On CBG side you have said lot about it and even there is very good opportunity coming up but in existing order book apart from that the projects we are doing for South or existing project. Are we having any decent order book in current existing pending order?

Shishir Joshipura: Apart from those two the current order book that we have declared for the quarter does not have any CBG orderes in it so that is something that will start building as we move forward. As I said even earlier that we should look for a 3 to 6 months' time frame for this order books to start to build up and that's what we expect.

Vikram Suryavanshi: The ones which we see the commercialization of the existing projects I think lot of interest should come.

Shishir Joshipura: Yes.

Vikram Suryavanshi: Now in USA particularly with change in leadership and we also have tie ups with for the US market. How is the outlook shaping for overall in USA on renewables as well as different basically Bio mobility, with this change in leadership and can it be emerged again a second wave of investments in renewables. How is the feedback in US markets?

Shishir Joshipura: Vikram thank you for that great question. We definitely know that the new regime is very oriented towards sustainable and responsible development and we are expecting some very positive move forward on that dimension. In fact in a very interesting development just a couple of days ago the Detroit 3, the Big 3, of Detroit automakers and the oil companies in United States had jointly approached the US Government and made a representation to ensure that biofuels get a very significant place in the overall energies landscape because biofuels will make sure that the IC engine technology remains and that is a big enabler for employment, that is a big enabler for that's something time and tested, that does not need a new infrastructure so there are many positives going for moving the bio-mobility ways as we have been saying and that was something echoed, across seven seas as well in this new item. So, we expect, as we move forward, favorable development in this part of the world as well.

Moderator: The next question is from the line of Kunal Sheth from B&K Securities.

Kunal Sheth: I have two set of questions. One was you clarify that, for this blending to reach 20%, we need incremental 1,000 crore liters of capacity. So, is it incremental 1,000 or the 350 need to go to 1,000?

Shishir Joshipura: Incremental 1,000.

Kunal Sheth: And is there a way to quantify opportunity, this 1,000-crore liter, what would it mean in terms of opportunity size for us?

Shishir Joshipura: There are two dimensions to this. One is the sugary base feed stock and ethanol route and the second one is on the gain base ethanol route. We expect a significant traction building in the grain side as well. So there will be a very significant addition to this. Now, overall if you look at this entire 1,000 crore liter development, we are looking at around 60% would happen from the grain side and 40% will happen under the feed stocks. And because grain also has an advantage that it distributes the production of ethanol across the country as opposed to sugar which gets limited to the sugar cane crop stage. That's the second dimension that will help. Therefore the overall, if I can say that, the overall furling of the capacity spectrum would create a very-very significant opportunity at about 10,000 crore in one segment. And then as you start to expand this, at what speed it develops, at what speed it comes to. So size of the plant will probably be the overall investment that is ethanol sector will probably invite is off the odd of 100,000 crores. The total investment that this sector we call for, now under what form, under what business model, under what construction model, the projects come up that will determine what share of pie we can get ourselves plugged into. But very clearly technology will be at the center of all this in a very constructive fashion.

Kunal Sheth: You said, so attributable opportunity size for us could be 10,000 crore over a 3-4-5-year period whenever that happens.

Shishir Joshipura: The overall project outlay is 100,000 crore. 100,000 crores for this opportunity to be served if one has to serve this opportunity. That is the size of the overall capital outlay that'll go. From there, depending on the route as to what is the route, the feedstock route, brownfield versus greenfield, then in terms of, at what speed they're developed under what mix, also under what business models they get developed. So there'll be different dimensions that will determine what level one can look at. But very clearly what is visible to me is over the next 3-4 years; very clearly in excess of 10,000-15,000-20,000 crore kind of opportunity should emerge for us.

Kunal Sheth: Similarly, if you can give us some sense about the Engineering business or how is the end market shaping up there because even there, what we are hearing is there is reasonable amount of traction in the end markets. How are you seeing that part of the business shaping up for the next 2-3 years?

Shishir Joshipura: Kunal we are very-very confident that business will also grow very structurally and in a very good way. As I mentioned, a Zero Liquid Discharge is something that we've been saying for some time. Now we are beginning to see crystallization of orders for large scale ZLD projects. That is something that we are very-very confident about. I also mentioned about how we are planning on using microbiology as a very big pillar on which we will fulcrum our future growth, so of course this is on the technology development side, but that will also augur well in mid to long-term. The focus on healthcare business is driving PHS right now in a very constructive fashion. The CPES business that I mentioned around which I had answered earlier as well about, how they're going to leverage their capabilities of their ability to, conceptualize and build a plant, offer a new technology on to skid and therefore do the cost for the end customer. They will be using those to increase their strength. They're already very focused on working with some of the leading companies in the world on providing solutions of this kind to them. Different strokes for different businesses, but all in very-very positive, direction.

Kunal Sheth: So it is quite safe to assume that, if I look at your last 5-6 years number, you've been in that 1,000 to 1,200-1,300 crore kind of an order inflow run rate for last 6 years. We will definitely now be starting this year likely to get into a very different trajectory because of all kinds of tailwinds that we are seeing in the business.

Shishir Joshipura: That is correct. That is what, as I had mentioned we are readied ourselves for over a period of time working very closely on technology with our customers and the execution capability. So, we are seeing emergence of this opportunity and we are very well geared to take full advantage of this.

Kunal Sheth: Last question, will you require any CAPEX over the next 2 years?

Shishir Joshipura: As I mentioned, in a very unique thing and I keep saying this in fact in every alternate call of mine, for us the investment is on the technology side and not so much on, yes, there is you all obviously need a factory space to build equipment, but we don't foresee any significant investment at least for the next 12 to 18 months into that part of our infrastructure because we know that we have debt covered. So we are very well prepared to serve this emerging need of the market. Also a healthy order book, as you mentioned, will help us to even out a load and better utilize our assets and infrastructure compared to what we've been able to do so far. We believe the combination of these two will help us. We are obviously focused on creating some higher degree of automation on our shop floor, etc., so that we are able to improve the throughput of our shops as well as make sure that our quality goes to the next higher level, so all those steps are being taken.

Moderator: The next question is from the line of Sunil Kothari from Unique Investment.

Sunil Kothari: You very well explained the opportunity, our internal ability to create newer offerings and all these things. Just broadly to understand from you, it looks that the opportunity is big and whatever comes our way we'll be choosing in terms of, high technology offerings and with a reasonably good margin. We'll do qualitative work. So over maybe 3-5-6 years, are we ready as an organization to serve maybe 3,000-5,000 crore worth annual offerings and for that, how prepared we are and what other requirements we have to add? So broadly I'm trying to understand that the offerings, our internal ability, R&D awards and rewards we are getting everything is ready and opportunity also seems to be the nearer. So how prepared we are to capture this bigger opportunity and convert it to revenue?

Shishir Joshipura: As I was mentioning and I would go back in time and one of the questions and get often asked to us saying, so what are you doing with so many people in your company? And we have always answered that our business, it takes time to develop the expertise and the experience plus the fact that there is no other Praj anyways in the nearby geographical region, forget only the country. Not a question that we can go and port from somewhere, so we have to develop our own team. That's something that we've been doing very diligently. We believe that is what will help us actually to meet this sudden expansion of the opportunity. As we move forward, we have obviously, a very-very cognizant of the fact that as we move forward, so 2 or 3 things that we are doing, one of course is to leverage what we already have to a larger level. I think somebody is asking a question on our operating beverage etc. that is what will happen. But what is more important is we also continue to keep investing into our people's development through different programs, to ensure that they are ready and they are able to step up to the next level. So from a people perspective, I know that we have the resources that we will need over the next two to three years obviously we'll keep augmenting as inventory is required to on some of the generic skill side. But on the specialty skill side, I think we have a very ambitious program that we have been running in the company and we have people ready and we continue to focus on that. In terms of infrastructure for manufacturing etc. as I was mentioning currently we don't foresee a need for the next 18 months for sure. Beyond that we will see how we will be able to leverage the whole possibilities of automating some of the processes, shop floor standardization, mass customization; we use different levers to ensure that we are able to do this in a very productive way. We use the opportunity during this very-very demanding time of COVID, where our teams were actually working on now that we can think afresh. What can we do? Because the first two quarters as we all know were not a very high volume throughput quarters. So they were focusing on what can they do starting at zero base to improve their processes. So it's a big exercise that we had undertaken and we are very confident that we will be able to meet the demand of the numbers for the kind that you mentioned. Yes, we are very confident, we are ready.

Sunil Kothari: And just a little lower understanding of mine, you feel that grain-base ethanol will be the major opportunity, or will it be superior in that technology? That is our team means to say this next 1,000 crore litter's opportunity.

Shishir Joshipura: So what is happening is because sugar cane base ethanol can only be produce in states which have sugar cane production and they are limited in India, three-four of them, right. Uttar Pradesh, Maharashtra & Karnataka and couple of others. But if we have to have ethanol availability across E20 will also mean that there will be a base fuel and that is something that we will see as we move forward, there will be a base fuel that we have to be defined because that's the only automotive companies can define their vehicles then, right. So, that means that we have to have ethanol available across the country in a blended form and there is no point in making it one place and trucking it 1,000 kilometers, that doesn't make sense. So, if you combine all these factors, green becomes a very important because green is available widely across the country and therefore we will be able to produce it locally as far as the way in Assam and West Bengal and those states, which do not have access to sugarcane today. So we will be in a position to actually create a very uniform kind of infrastructure and ecosystem in the country with the green based ethanol production and that is what will happen on the ecosystem side. In technology terms the good news for us is that all majority of our international experience, so not all but a significant portion of our international experience is around green-base ethanol plants. We have built UKs largest grain-based ethanol plant many years ago. We are building many of them in South America, we built in America. So we are very cognizant of what does it take to create the light value proposition out of grain-base technology as that. So we are very-very confident and sure that when grain starts to unfold and it is already beginning, we will be able to leverage our experience of the past and bring it to our customers in India. Even in India, we have built a number of grain-based plants, but they were small in capacity because that was for a different purpose, that alcohol production was for different purposes, but now can be for a different purpose, so obvious scale will change as well.

Moderator: The next question is from the line of Forum Makim from Equitree Capital.

Forum Makim: I have one question, you said the incremental 1,000 crore liter capacity will be service to the sugar cane and grain-based technology but SAIL recently came up with an announcement that they are going to set up gas to ethanol based technology in Maharashtra. So what are your thoughts on the same, like on that technology and how efficient is that technology and are we working on developing any such technology?

Shishir Joshipura: Gas fermentation to ethanol is also another route that is available and as 2G, I was mentioning that it is still at very early stage because we have to commission the plant and then see how they move from there onwards. The gas based fermentation in our opinion will take different routes and we will talk about it and we do believe that gas fermentation will have a role to play in advanced bio-fuel construction. Although right now I think the major focus is currently around the grain and sugary feedstocks and then probably with the cellulosic feedstock, which is what the 2G plant is and probably in the fourth stage we will go to the gas based feedstock. And the gas itself what

I should say, iterate itself to a little different form of fuel and that's what we expect will happen as well and our R&D is working on it.

Moderator: The next question is from the line of Jehan Bhadha from Nirmal Bang.

Jehan Bhadha: This quarter we received an order of Rs. 227 crore from Indian Oil, right. So, will it be fair to view this way that if we exclude this order then probably growth in order inflow year-on-year would come down. So, is this order is one-of or like how should we view the order inflow for this Quarter?

Shishir Joshipura: A very good question. So what has happened is and I've been saying this for quite some time that our focus is also on growing the Zero Liquid Discharge business, because water is going to be very-very important resource and we have been working at it, it’s not something that happened accidentally. This was something very much by design. We've been working at it for over 18 months now to come to this stage as you would probably understand that one doesn't qualify overnight for a very large job of this size from a public sector and that too from a leading public sector like IOCL. So this is part of our strategic intent and it is very much reflective of how we expect our water business to build over a period of time. So, I don't think one should look and the way I look at it like this, three months is a cutoff period we have taken because that's a manageable kind of timeframe. So maybe over the next three months some other businesses will come up and grow. So probably a year is a better way to look at the order book period. And of course, we had a very-very unusual year now, so may not be exactly but this quarter 600 crore. In number terms probably I would say that's how the business is likely to develop. In constructions and will be water business or would it be ethanol or second generation of CBG. That as I was describing right through this call as a different opportunity to develop, we will see them walking into different points in time. But we are very clear that we have and I think some of your colleagues also observed that probably we have moved to the next level of business platform. That's where we believe we are now.

Jehan Bhadha: So, just speaking purely about 1G or the traditional business on the ethanol side, so can we expect it next year order inflow will at least grow by 15%-20%?

Shishir Joshipura: Yes, that's what we would like to be. We would like we would like to grow. We would like to ensure that we are able to capitalize on the opportunities that are emerging and as we see the emerging opportunities are likely to be very significant in size and our track record, our presence; our relationships should enable us to actually do a better number. How much better, time will tell.

Moderator: The next question is from the line of VP Rajesh from Banyan Capital.

V.P. Rajesh: If you can just talk a little bit more about the competitive intensity, especially in the Indian market with respect to 1G and 2G, I think that will be very helpful.

Shishir Joshipura: Let me start with 2G first, so on the 2G front, we are building 3 projects. As you know there are four currently under construction in the country, three we are building and fourth one is being built in Assam, but that's not a purely ethanol project. That's overall project from bamboo as a feedstock and different set of chemicals, ethanol is one of them, which is being built under a foreign technology offering. Other than that in India, we have not seen any, there were a couple of other offerings as well, but they have not, they're still in developmental stage of technology. They're not as commercial scaling, commercialization scale. So no much play there in India. On the international front, there are three or four companies that are similar or nearby stages as we are, in terms of on-ground proving of commercial scale plants. So, they are all at different scales, but no company in the world is currently building three plants. Couple of our international competitors are building plant for their own on their own that is they will become the ethanol producers. We are not doing that. So I think we are a unique company in that sense that we are building three plants in the world, that's on 2G. On 1G the competition in India is local. It will not be correct for me to say it, but we said we have two-third…that is a 35% play for other guys as well. But, they are more into the traditional technologies, what's been there for some period of time now specially in 1G. And I don't see there's any structured constructive input available on the technology development as the feedstocks are changing significantly. In terms of size syrup to bio-syrup equation that I talked about, in the past almost all ethanol production used to be from Molasses C. That had become pretty standard technology, but all the new ones syrup, bio-syrup, the grain that we talked about in terms of risk scale. They are very different and there we will see; we expect that we will be able to at least foreseeable period of time there will not be another competitor will be able to offer what we are offering. They may offer alternatives, but not what we are offering.

V.P. Rajesh: My second question is on the CBG side, what's your sense of the rollout of the filling station that may come up? Is it, let's say 6 months away or 12 months away or longer?

Shishir Joshipura: So as I have mentioning that ultimately lots of our customers saying we want to see the, how the whole thing works and the first plant will get commissioned in April. The commissioning is begun already, but by the time it comes to full scale production, it will be around April. Then the whole ecosystem starts to work, the distancing stations, the whole logistics of producing gas, compressing it, putting it into a cascade, shifting it to a gas station. Now there's also talk about, how can we pump this into the existing pipeline network of gas whether it is GAIL or whether it is City Gas networks, so those dialogues are now building up and I'm sure that as we pass through this calendar year, we will see increased level of activities. The early birds, the pioneers, customers, will obviously move forward because they will of course be able to get leverage the great support which the scheme is providing. We expect that as we move forward in the year the activity start to pick up speed. Over the next three to six months is when I see the initial contract beginning getting finalized. I think once that starts to happen, you will also build confidence in some of the other potential customers to say, okay if that guy's doing it, maybe I can do this too, etc.

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

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

Moderator: Thank you, ladies and gentlemen, on behalf of Praj Industries that concludes this conference. Thank you all 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.