



Praj Industries Limited Q4 and FY19 Earnings Conference Call Transcript

May 17, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Praj Industries Limited, Q4 and FY19 Earnings Conference Call. As a reminder, all participant 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, sir.

Sandip Bhadkamkar: Good day, everyone. We welcome you to this Conference Call Organized to discuss Praj Industries' Operating Performance and Financial Results for Q4 and FY 19, which were announced yesterday.

I have with me Mr. Shishir Joshipura – CEO & MD, and Mr. Sachin Raole – CFO and Director (Finance & Commercial) on the call.

Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. Documents relating to our financial performance were emailed to you. These documents, along with Quarterly Results Presentation have also been posted on our corporate website.

I would now like to hand over the floor to Mr. Shishir Joshipura for his opening remarks.

Shishir Joshipura: Good day ladies and gentlemen. I welcome you to Praj Industries' Earnings Call for Q4 & FY19. It is a pleasure to connect with all of you again. I will cover some industry developments and quarterly business updates, following which Sachin will take you through the financials.

Biofuels are acquiring increasing attention in national energy portfolio across several countries. According to the International Energy Agency, global ethanol production increased by 3% last year, primarily led by increased production in the U.S., Brazil, China and the expanding markets of India and Thailand.

Closer Home, Fiscal 2019 was an exciting year for the structural enhancement of the domestic bio-energy landscape. The government undertook a series of steps towards creating conducive policy environment for achieving the desired blending rate defined in the ethanol blending Program. namely expanding the feedstock

basket with differential pricing, interest subvention on ethanol capex and speedy EC for ethanol plants.

For the ethanol supply year 2018-19, a quantity of 2.37 billion liters of ethanol was finalized by oil marketing companies towards the ethanol blending as against 1.5 billion liters last year. That is a significant jump of over 58%. In another positive development, the Cabinet Committee on Economic Affairs (CCEA) has approved the “Pradhan Mantri JI-VAN Yojana”, a scheme that provides financial support to Integrated Bioethanol Projects using lignocellulosic biomass and other renewable feedstock. It will be allocating Rs. 1,800 crore for supporting 12 numbers of 2G Commercial projects. Additionally, Rs.150 crore have been allocated for supporting 10 numbers of Advanced Bio Fuels demonstration Projects. The scheme also focuses to incentivize 2G Ethanol sector and support the industry by creating a suitable ecosystem for setting up commercial projects and increasing Research & Development in this area.

Let me now recap the key events and segmental updates at Praj during the quarter and year ended March 31, 2019.

On the whole, fiscal 2019, was an exciting year for the Company? We witnessed steady improvement in order enquiries across the bio-energy and engineering segments during the year. Our business performance is reflective of positive developments in the market and our response to emerging opportunities. The 1G business is receiving a healthy stream of customer enquiries. We are witnessing continued development on this opportunity and several projects are in the advanced stages of discussion.

During the year, Praj successfully introduced technologies developed inhouse to reduce water consumption in ethanol plants by almost 75%. The Company has also introduced a Revolutionary Technology Solution - “PROFIIT”. This zero liquid discharge solution for molasses based ethanol plants significantly improves the operational efficiency and profitability.

On the 2G front:

Praj is marking a healthy progress on the execution of the 1st batch of 4 numbers of 2G Bio Refineries, contracted by three major oil marketing companies and one refinery. After the Renewable Energy Directive (‘RED II’) was agreed among EU Institutions, European customers are taking keen interest in Praj’s 2G ethanol technology solutions. Several prospective customers have contacted us, visited our 2G demo plant and further discussions for setting up 2nd Gen refineries are underway.

We are on track to commercialize the CBG technology and are in advanced stage of discussions with clients in different segments. I am also happy to share that Praj recently signed a Construction License Agreement with Gevo, Inc, USA to commercialize technology for the production of Isobutanol using sugary-based feedstocks. Isobutanol is high energy feedstock for the jet biofuels.

As for PHS business:

Pharmaceutical industry is experiencing a challenging environment over the past couple of years leading to a reduced capital expenditure on building of new production capacity. We have taken this situation as an opportunity to drive focused improvements in our execution capabilities. We are laying strong emphasis on timely delivery and introducing new products/solutions for improved

plant performance. We continue to make deep investments in customer relationships to build a platform for future growth.

Our Engineering businesses have continued to build on the foundation and have chalked out strategies for a healthy growth. We expect that the track record we are building will stand us in good stead in time to come. A strong on field performance and deep-rooted customer relationships have helped our Brewery Business deliver its best ever performance while further building its market leadership position in India.

Strong focus on seeding and cultivating relationships with key customers is helping CPES business build a very robust foundation for a sustainable growth. Our efforts in collaborating with technology licensors and global EPC players are paving way for us to secure preferred partner status.

A segment focused approach combined with strong application engineering and execution focus is helping us win customers who value technology play for highly complex Zero Liquid Discharge systems. This focused engagement is helping us build a sustainable growth model. We are expanding our international reach across our businesses to leverage emerging opportunities.

I am happy to share that Praj Industries is ranked 8th in the 'Top 50 Hottest Companies in Globe' in Advanced Bioeconomy released by US based Biofuels Digest, a leading global industry publication. Praj is the only Asian company in the list. Mr. Pramod Chaudhari, Executive Chairman is appointed as Chairman of CII Task Force on Bio-Energy for the year 2019-20.

To summarize:

We believe, Praj is poised to capitalize on the emerging opportunities leveraging its technology leadership, deep customer relationships and a strong track record. On the whole, we are witnessing improvement in enquiry inflow and intensity of customer dialogue for all our business segments across domestic and international markets. We remain confident of continuing the growth momentum in the years ahead.

Board of Directors has recommended a dividend of Rs. 1.62 per share for FY19 in addition to the interim dividend of Rs. 0.5 per share bringing the final dividend for FY19 to Rs.2.12 per share of Rs. 2 each.

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

Sachin Raole:

Thank you Shishir. The consolidated revenue from operations stood at Rs. 368.17 crore in Q4FY19, up by 34% as compared to corresponding last quarter's revenue from operations of Rs.330.31 crore , PAT was Rs. 33.36 crore in Q4FY19, registering an improvement of 24% over the corresponding quarter's PAT of Rs.22.43 crore. For FY19, revenue from operations was Rs. 1141.11 crore, higher by 24% as compared to last year's revenue from operations of Rs. 923.46 crore, PBT stood at Rs. 87.94 crore in FY19 against last year's PBT of Rs. 53.01 crore registering a growth 66%. PAT of Rs. 68.22 crore in FY19 as against Rs. 39.49 crore in FY18. EBITDA for FY 19 has improved by 100 basis points over FY18 EBITDA. (7.74% against 6.7%) Export revenues accounted for 30% of Q4FY19. Of the total revenue, 56% is from Bio-energy, 33% from engineering and 11% is from PHS business.

The order intake during the quarter was Rs. 306 crore, with 69% from domestic market. Of the total order intake, 67% came from Bio-energy, 21% from engineering and balance 12% from PHS business. The order backlog as of March 31, 2019 is at Rs. 928 crore. Cash and cash equivalent as of 31st March 2019 stands at 321 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 very much. Ladies & gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Bhalchandra Shinde from Anand Rathi. Please go ahead.

Bhalchandra Shinde: Sir, regarding your order book, in the presentation, you said Rs. 928 crore is the closing order book and on the slide number 9, it is given that for FY19 it is Rs. 1,394 crore, so what is that?

Sachin Raole: So, Rs. 1,394 crore is the the order intake.

Bhalchandra Shinde: Regarding second-generation ethanol, I would like to ask you. Is there anything happening on MoU side, are we expecting any orders or it's likely to go to ICTs and other players?

Shishir Joshipura: So, Bhalchandra, just to give a little more comprehensive answer to your question, as you are aware and I mentioned it as well that under the Pradhan Mantri JI-VAN ledger, there are 12 projects for which the government has sanctioned the grant of Rs. 1,800 crore. In the first phase, six have been awarded, of which we are building four. And those are the four projects with three OMCs - HPCL, IOCL and BPCL; and one with the refinery MRPL that we are building. Of these four projects, we have the three with the OMCs that have already passed the stage of licensing of the technology and the engineering. In fact, in case of IOCL, we have even started with the phase of ordering of the critical equipment. There are other two projects with HPCL and BPCL that are still undergoing the process of ordering out the equipment, and with MRPL we started at a later date, so we are continuing with the engineering phase right now.

Bhalchandra Shinde: So, we are not including this into our closing order book, right?

Shishir Joshipura: The orders that we have are the orders that have been given. Now, there are some potential contracts that have come through BPCL, HPCL and MRPL on the critical equipments that obviously we have not included till the time they come. So, order book that we are reporting now is the one for which firm orders are in place with us. In all the four cases, the firm orders are in place for licensing and engineering, so that are included in our order book. For IOCL's case, we have one case where a part of the critical equipment order is included. For the balance, no orders are included as of yet because that is still in the process.

Bhalchandra Shinde: How much will be our scope of work in that second-generation plant, percentage wise if you can tell?

Shishir Joshipura: Percentage is a difficult number to put because each project has a different cost, even the topography of the land, the basic availability of infrastructure, etc. But roughly, as a thumb rule you can take it that each of the project in its totality will be worth Rs. 150 crore or thereabout for us.

- Moderator:** Thank you. Next question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.
- Vikram Suryavanshi:** Good morning and congratulations on good numbers. Can you give some details on this forex gain which is around Rs. 5 crore?
- Sachin Raole:** Generally we give a separate line item on a foreign exchange gain or a loss, it's nothing but the gain which we have got on account of our forward cover, which we had taken.
- Vikram Suryavanshi:** What was the total 2G order inflow accounted for the full year?
- Sachin Raole:** Around Rs. 130 crore.
- Vikram Suryavanshi:** And in the last quarter, other expenditure there was some inflation impact on raw material side, and so was expected to remain in this quarter. But how do you see it now playing out for coming quarters?
- Sachin Raole:** So, if you look at other expenditure, the component is majorly on account of execution of projects which was happening, so site expenses hit majorly into other expenditure, as the activity was majorly on the site side as compared to on the equipment side. That is the reason why we have seen a spike in the other expenditure. So, overall, if you look at, it generally spreads out across the year, but if you look at the yearly numbers in percentage terms, they are definitely less as compared to last year.
- Vikram Suryavanshi:** How is the traction we have seen, particularly in brewery segment within that, even if you share whether there is a growth or what kind of growth we have seen in brewery, that would be helpful.
- Shishir Joshipura:** So, as I mentioned that we are beginning to witness a different intensity across the businesses, a strong interest from customers and a developing inquiry base, starting with 1G, 2G. Even for engineering businesses, we are seeing growth in the enquiry base, and that is what happened to us during the year also with a brewery. I had mentioned that brewery had the best performance ever in this year.
- Vikram Suryavanshi:** I was just trying to understand this emerging business growth, is it largely led by brewery or even critical process equipment has contributed to significant growth?
- Shishir Joshipura:** So, as I mentioned, there are different growth rates for different businesses, they are not all the same number. But all of them have grown positively.
- Moderator:** Thank you. We take the next question from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.
- Sanjeev Zarbade:** My question was regarding the order intake for the fourth quarter, which basically on a year-on-year basis, in fact, is down. So, are you seeing any slowdown or any deferment of orders, something that has actually led to the momentum to slow down?
- Shishir Joshipura:** So, Sanjeev, if you look at our third quarter order booking that had included an order on the critical equipment that we received on the 2G project program from IOCL. So, that was one clearly differentiating factor, which we did not have in the fourth quarter. The orders for critical equipment are still under discussion with the other three projects that we are executing. So, that's one big reason of a change in number from third quarter to fourth quarter reduction. Overall, given the fact that

there is an election on the horizon and that leads to a different set of priorities for the organization etc, so we are not seeing any slowdown in the enquiry. And I would only say that it's just a minor shift in time as of now.

Sanjeev Zarbade: On the critical plant packages orders of the other second-generation plants that we are doing, what could be the overall quantum, would it be like Rs. 240 crore in totality for FY20 that we can look forward to?

Shishir Joshipura : Yes, it will be of that order, you are right.

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

Anupam Goswami: What is the outlook from the sugar mill side, how is the order backlog over there and what is the interest over there? And for the last quarter, I remember there was around 200 applications for distilleries, how much have been successful and concrete for you?

Shishir Joshipura: Anupam, as I mentioned in the last call also, we are beginning to see the movement of applications even increasing to take advantage of this interest subvention scheme. And the numbers which we had mentioned in the previous call from 114 applications have now gone in excess of 250. So, these are the companies that are seeking interest subvention from the government under the program. So, that's the one dimension of the business. Therefore, we clearly see that if obviously this is being applied for, at different stages it will come through as the other steps get taken up in the project around the environment clearances, around tying up of the finances, because interest subvention will only happen once the finances are tied up. So, those steps are still underway from these promoters or potential promoters. And the intensity dialog as I mentioned has already increased.

Anupam Goswami: Will I be correct if I say if the order pipeline from this and as well as the inquiry levels have increased from the last quarter?

Shishir Joshipura: Inquiry levels have certainly been increasing, yes, that is a correct statement.

Anupam Goswami: And sir the order pipelines from these sugar mills?

Shishir Joshipura: Yes, so as the inquiry levels go up and in hindsight, tying up of the finances and getting the environmental clearances, etc, happen, this should also happen.

Anupam Goswami: The second question would be on the 2G, you mentioned that out of 12 projects, 6 projects already Praj has started working on this. So, what is the scope, you mentioned that Rs. 150 crore is scope of work for Praj, correct?

Shishir Joshipura: So, as I mentioned, of the six projects that are currently underway on second generation ethanol refineries, we are building four of them. And the answer that I had given was, that on an average it is fair to estimate that per project our total potential is about Rs. 150 crore.

Anupam Goswami: And sir, what is the timeline for this?

Shishir Joshipura: So, different timelines for different projects, because they all started at different times. So, as I was mentioning, IOCL project, we started out faster. So, they are really progressing at a different pace. We have already received the order from all the four for engineering and licensing of technology. But from IOCL, we also have

part order for the critical equipment portion . Others are at different stages of their ordering processes.

Anupam Goswami: So, the bulk of it would come in FY20, correct?

Shishir Joshipura: Yes, you are right, because only one has happened out of four, so the other three will follow as time progresses.

Moderator: Thank you. Next question is from the line of Manoj Bahety from Omniscient Capital Advisors. Please go ahead.

Manoj Bahety: How do you see this compressed biogas opportunity? And what is the opportunity for Praj? And if you can also highlight, how it's moving in overall scheme of government, because I understand 31st March was the deadline for within the expression of interest. And second question is how you see HiPurity System and Water Treatment as an opportunity in the next two to three years? And you see it becoming a much larger proportion to Praj?

Shishir Joshipura: So, Manoj, on the CBG opportunity, as you know that the government announced that program called SATAT on 1st of October last year. From there on, the whole program of CBG has gained momentum. Our advantage was that we already had a track record of understanding the biogas production because of our work that we had done in the past with our customers. Given these two, we saw this as an emerging opportunity which we expect will have different segments that will serve, for example, pressed mud that comes out of the sugar mills will be one segment, the biomass will become another, where biomass will be in terms of rice straw or a waste straw from the field and feedstock would be another segment. So, there could be industrial process treatments which could generate biogas, so that could be third segment and so on. So, for different segments we see tractions already happening. Very clearly, the sugar mills with press mud are first to report customers, because they already have the advantage of a secured feedstock available for this. And obviously this makes a great financial sense for them to do. From that perspective, we are seeing a good traction now building, there were some issues that were subsequently been clarified across policy dimensions on what happens to pricing of gas over period of time, what happens to the offtake contract, how will the whole mechanism work? So, we have seen a very good interest develop in the market around CBG. And a healthy, I would say a very, very healthy pipeline is under build up on the enquiry side. So, all things holding well, we see a good and promising future for CBG in India.

Manoj Bahety: How many enquiries we have received till 31st March? And what will we see in next couple of years?

Shishir Joshipura: So, as you know that under the program, the government has announced a 5,000 plants program wherein they would like to see 5,000 plants being setup across the country. The first phase which was up to March, which I would call the initial phase, there is lot of clarification, marketing, the concept itself was being made known to people etc, etc, was being carried out. And we have seen that by the time the 31st March deadline for EOI, which is expression of interest filing has ended, nearly 200 applications have gone to different oil marketing companies and the GAIL under this program, where people have shown that they would like to start. But as you can see, 5,200 is a big journey to undertake. And we expect that this activity will pick up once some more clarity emerges on the overall working of the scheme, which is already underway in form of a dialogue and clarifications to OMCs.

- Manoj Bahety:** My second question was on HiPurity and water treatment, how you see it as an opportunity in overall scheme of Praj, is it going to be a larger proportion in coming years?
- Shishir Joshipura:** So, Praj HiPurity, as you know, is serving a very specific vertical of pharma and couple of associated industries around that, but industries which need ultra-high pure water for their applications. And it largely ends up serving pharma and the surrounding industries. I think the ultra-pure water requirement is very specific to the processes that are deployed in these plants. So, from that perspective, the segments that they will serve are restricted, but what we are planning to do is to see how we can expand our reach because pharma in India is one, but then there is a pharma worldwide. How we can go to serve those segments in a profitable way. But at the same time, pharma industry is, for very obvious reasons, it takes time for you establish your credentials, your acceptance with the customer for them to switch over from a supplier to another, because these are very critical to their end products. And from that perspective, I think it's very important that we continue to build these tests in a structured fashion. So, obviously, this has what I would call as an important role to play in our portfolio.
- Manoj Bahety:** This question is on the 2G ethanol side; in fact still the projects need government grant, so my question is that, when it will be viable on its own where government grant is not required? And I think that will open the entire world of opportunities for us, so that is one thing which I wanted to ask.
- Shishir Joshipura:** As you know that 2G is a very new technology globally, not only in India but globally as well. And therefore, there is a technology development time. There is a path that we are following and there is a plan that we have charted out for the development of the technology. And in the initial years you know what happened with solar and wind, all of these renewable energy technologies, where initial support from the policy side actually helped the industry to become competitive at a later date. We don't expect this to be any different for 2G as well. Already, as I had mentioned earlier, for the European market because of RED II directive, there it is now compulsory for advanced biofuels to be used as the blending medium in the petroleum products. We see a clear need there that the policy will drive the demand for this particular technology.
- Manoj Bahety:** Okay. So, even outside India, government is supporting that by way of grants and all, right?
- Shishir Joshipura:** No, so these are different mechanisms for different markets. Government of India has taken a route, which is what we know of, European directives are different because there it is a mandatory blending of advanced biofuels, so there is no choice but to produce because otherwise there are penal provisions which are very stiff. So, different mechanisms for different markets. And I think what is also happening is, as I was mentioning to you, this is also a technology, where Praj is among the leading global companies in the business, we are at the forefront. This is a new technology frontier that is being pushed outside by us and we are at the forefront of it. So, like any new technology it will need some support to start with, but the effort is obviously to go towards a situation where we can evolve. We are also focusing, therefore, on several other programs around this technology to see how we can develop the core products, what do with the affluent treatment streams, how do we create higher value out of the same input stream of Biomass, etc, etc, So, these are the programs that we are working on to take it to the path that you mentioned.
- Manoj Bahety:** You signed a construction license agreement with Gevo in USA. So, if you can elaborate a bit on that opportunity size and the competitive landscape there?

- Shishir Joshipura:** So, as I mentioned that agreement is for a product called iso-butanol, which becomes the basic platform for generating jet biofuels. And we do foresee, although this is slightly in the medium-to long-term that we foresee a demand coming in for jet biofuels, which is driven from different regulations. Already, as you are aware, there were two demonstrations already undertaken in India, one by Indian Air Force and one by SpiceJet was flown out of Dehradun. And there is a lot of movement in the world now to look at jet fuel produced in the biological root. And that is where this technology will come in very handy. We will speak to you a little later about it as we as we start to evolve this further into an opportunity.
- Moderator:** Thank you very much. Next question is from the line of Ashutosh Mehta from the Edelweiss. Please go ahead.
- Ashutosh Mehta:** Sir, my question was a continuation to the agreement with Gevo. So, like when we look at the ethanol segment, we have some blending mandates. Do we have anything for iso-butanol, not only in India but across the globe; is there any country which has mandated regulations pertaining to that?
- Shishir Joshipura:** No, there is no country which has mandated regulations on iso-butanol. And since you asked the question, I think what is important for me to mention here is that per molecule there is a much higher energy content that gets packed into iso-butanol as compared to ethanol. And therefore, a different set of mechanisms will come into play in terms of the CO2 footprint impact of iso-butanol compared to other fuels, etc, which is obviously much more favorable. But these are early days yet for this market to develop.
- Ashutosh Mehta:** Sir, my second question was related to the tax rate in FY19. So, at the consolidated level, we are at 22%, so is this because of the MAT what we have applicable at the standalone level?
- Sachin Raole:** Yes, that's right. Of course, in the current year we have crossed the MAT level, we were not having MAT credit rating recognized earlier which got credited this year. Secondly, the HiPurity numbers used to be at the higher tax rate, this year there is a little lower number from that side. That is the reason why this average number is looking at 22%.
- Ashutosh Mehta:** Okay, so going ahead is what we should be looking at?
- Sachin Raole:** I think from FY20 onwards, we should get into a normal tax rate.
- Moderator:** Thank you. Next question is from the line of Ritika Agarwal from Quest Investment. Please go ahead.
- Ritika Agarwal:** In the bio-energy segment if you could give us the breakup of order backlog and order inflow in terms of international and domestic orders?
- Sachin Raole:** So, the proportion between export orders or international orders and domestic is in the range of 30% from exports and 70% from domestic.
- Ritika Agarwal:** Sir, for the bio-energy segment alone, from the order backlog of Rs. 715 crore in the bio-energy how much would be from international and domestic?
- Sachin Raole:** Roughly it is the same number.
- Ritika Agarwal:** And sir, recently we saw some news where the Maharashtra sugar factories are demanding for 10 - 15 years of assured purchase agreement for ethanol at a fixed

price escalation clause. So, do we see anything materializing on here or how do we look at this?

Shishir Joshipura: I think this is a dialogue between the industry, or ethanol producing industry and the government. And I think that is something which any producer would actually want it. But as we know that this is a dialogue to be taken to its logical conclusion between the government or the agencies and the producer.

Ritika Agarwal: So, this tells us that there is ambiguity among the sugar mills as to what the ethanol price will be going forward, being very profitable at this point. So, do the sugar mills be seeing some risk in those terms?

Shishir Joshipura: What has been happening is that the government has announced the price depending on the feedstock that the sugar mills use, molasses C, B or the juice itself. And there are differentiated pricing levels depending on the feedstock. And that is a policy that we have announced, not till the time the next one comes around these prices are valid. I think what is important also is to understand that there is excessive sugar production taking place in the country right now, last year we had excessive sugar production, the same projections are there for this year as well. So, a lot of policies are also driven to strike product mix balance for the sugar mills so that they can balance their cash flows in a more constructive fashion. So, as they go to choose different feedstock routes they can balance out between sugar and ethanol production. And I think, very clearly, as I mentioned earlier also, that even if at the current procurement level of ethanol, we are still away from the 10% target which the government has set, so obviously more ethanol needs to get into the stream through the producers which are essentially sugar companies. So, this is a whole dynamic that is at play, there is a sugar glut on one hand, which is not obviously beneficial. On the other hand, there is a demand emerging for ethanol, or an unmet demand for ethanol. How the producers strike the balance between their product mixes if you look at it from that perspective that is what will determine the overall mechanics.

Ritika Agarwal: What is the advance from customers for FY19?

Sachin Raole: Advance from customers in the books is around Rs. 174 crore.

Ritika Agarwal: With a strong bio-energy order backlog currently on the books, and we saw a 24% revenue growth, do we see a similar kind of revenue growth going forward? So, your outlook on the revenue growth and the margins going forward?

Shishir Joshipura: So, we would not be in a position, because as a policy we do not forecast the future, if I can use this word. We can only use our fast track record to build upon. And obviously, like all organization we are all committed to work towards a healthy growth.

Moderator: Thank you. We take the next question from the line of Pritesh Chedda from Lucky Investment. Please go ahead.

Pritesh Chedda: In the order intake for FY19, how much is it from Ethanol? And what would be our market share in that?

Sachin Raole: So, two-thirds of this order inflow will be serving ethanol.

Pritesh Chedda: So, in Rs. 1400 cr of order intake, about Rs. 940 crore is ethanol orders?

- Sachin Raole:** In percentage terms, let me just tell you, around 67% will be bio-energy, Engineering businesses will be 24% and HiPurity around 10% to 11%.
- Pritesh Chedda:** So, bio-energy will be whole ethanol, fully?
- Sachin Raole:** Yes, that's right.
- Pritesh Chedda:** So, the breweries and all, you would report it in engineering?
- Sachin Raole:** That's right.
- Pritesh Chedda:** And what would be our market share in this Rs. 940 crore of inflow that we would have got on ethanol?
- Sachin Raole:** It is about two-third.
- Pritesh Chedda:** And this ordering which happened for FY19, what it would translate into kiloliters or the suitable matrix in terms of ordering? And there are these applications which are pending approval, if you give an idea as to the quantum of these applications, pending approval either in kiloliters or capacity or value of order possible?
- Sachin Raole:** Pritesh, we will just send you the statistics in the number of terms of kiloliter and all, if you don't mind, because these bio-energy orders will be for different things, different capacities, and different purpose. So, we will give you these statistics separately.
- Pritesh Chedda:** Okay and lastly, how many applications have been submitted for ethanol which are pending approval?
- Shishir Joshipura:** As I mentioned, the number of applications now are about 268 under the interest subvention scheme.
- Moderator:** Thank you. We take the next question from the line of Levin Shah from Value Quest. Please go ahead.
- Levin Shah:** The bio-energy order inflow during the quarter is around Rs. 205 crore, so how much of that would be domestic?
- Sachin Raole:** Around 65 percent.
- Levin Shah:** The ethanol order during the year we have received is around Rs. 940 crore. How much out of this would be domestic orders?
- Sachin Raole:** See, generally the percentage hovers around 30% for international and 70% for domestic. So, more or less we will be having the same range of order intake.
- Levin Shah:** Sir then on this, 1G like you said there are 268 applications pending, but if we look at last two, three quarters, we have seen increase in enquiries. But if you look in the order book, conversion has actually not happened. So, what is stopping the sugar mills from going ahead and placing orders with us?
- Shishir Joshipura:** Almost two-thirds of the market share is what we enjoy and as I was mentioning earlier, for a project to see the light of the day, interest subvention is one part but they also have to tie up their finances with bankers for the project, they have to get the environmental clearances, the project clearance from the board. So, it's a

whole process that is going to play out depending on their cash flows, etc. So, like any other project this is a whole project approval and implementation process that even an ethanol producer's project will go through. So, this is the overall cycle that is at play, there is nothing else special here. Except that in this particular case you have an additional incentive in form of interest subvention.

Levin Shah: Right. But do we see this opportunity or the kind of capex that these sugar mills actually have to do going ahead, materializing maybe in the next two, three quarters?

Shishir Joshipura: So, as I mentioned earlier also, this whole excess production of sugar as a dimension that needs to be weighed by the producer or the project owner of the sugar mill before putting up the ethanol capacity. Because it has different dimensions on the cash flow and profitability as compared to sugar. Already sugar is excessive production, so what kind of balance they strike for their own product mix, what is their companies' requirements and demands and cash flow requirements, that is what will determine as we go forward.

Levin Shah: If you see this year, gross margins have actually gone down by around 230 basis points to 220 basis points. So, where do you see this stabilizing going ahead? And even in this quarter we have seen a sharp drop if you compare the numbers YoY.

Sachin Raole: Yes, there were some orders which were getting executed at a lower margin and those were strategic orders, where we are seeing some kind of a momentum to happen going forward with those kinds of customers. So, those were the orders which were getting executed during this quarter. So, we don't see the repetition of those kinds of orders coming in the next year. So, it will stabilize at the normal level then.

Levin Shah: What would be the number that you are looking for, where will it stabilize? So for the total cost of raw material, including changes in inventory and whatever purchase, if at all, is there anything.

Sachin Raole: Okay. So, your number for current quarter is around 46%? So, it should have at least 200 basis point to 250 basis points improvement

Levin Shah: For year as a whole, next year?

Sachin Raole: For the year as a whole, not as a quarter, please note.

Levin Shah: So for CBG earlier, we were seeing a lot of inquiries from the potential customers and we were expecting orders from Q1 FY20. So, where do we stand on that right now? And do we see that orders have already started coming in?

Shishir Joshipura: No, so as I was mentioning in my earlier answer as well, there has been a very significant interest shown. We definitely have leads and inquiries with customers and we are in dialogue with them. And we expect that this will continue to build as time comes. What will happen in first quarter or second quarter, but definitely we see an emerging market here and we have a clear advantage to start with.

Levin Shah: Lastly on the Gevo MoU that we have signed, so what would be the opportunity, that we are looking at? Maybe obviously it will be a medium to long-term, but in terms of this iso-butanol, what would be the opportunity in the domestic market that we are targeting?

- Shishir Joshipura:** So, as I was mentioning earlier, the bigger focus is going to be the jet biofuel, what happens there for aviation turbine fuel replacement, the conventional fuel replaced with bio-jet fuels. This is still a little early for me to comment on the size of the opportunity;. But at an appropriate time, we are working on it and we will definitely share it with you as it becomes a little better visible.
- Moderator:** Thank you. Next question is from the line Bharat Sheth from Quest Investment. Please go ahead.
- Bharat Sheth:** Just taking forward to this 1G opportunity, we said that around 200 plus kind of applications are there and if I'm not mistaken, around 114 already have been approved for interest subvention at the end of Q3 or something. So, when do we really start seeing the ordering in 1G?
- Shishir Joshipura:** First of all, just a minor correction. 114 applications were filed in the first phase of the program, and then now the number has gone to 260. They have not approved 114, they are still under different stages of approval. We only see something like 10, 12 cases that have come out of that approval phase right now. But we expect that the speed will pick up as we go forward in the years.
- Bharat Sheth:** I mean, when do we really see whatever has been approved? And are we seeing more competition, see earlier we were having almost a two-third market share and now with the kind of opportunity several other players also are looking in business. So, competitive scenario is changing, or it is the same?
- Shishir Joshipura:** There is no new player that we see entering this business as of now, because obviously there is a whole technological play here. But having said that, I think what is also important to remember, and very correctly said, as the size of opportunity increases, we are also ensuring that we leverage our innovation capabilities, our technology development capabilities that we have to make sure that we provide solutions to customers that further differentiate us from our competition. And therefore, not only maintain our market share but even build on that.
- Bharat Sheth:** So, we have already developed that or we are in developing stage?
- Shishir Joshipura:** Some of the technologies are already there, as I mentioned earlier in my comment also, the 'PROFIIT' which we discussed last time also about the indigenous solution that we have come up with is already finding a lot of interest from customers. So, that is one example. There are many, the 'SHIFT' technology that we talked about last time with you about how we are going about reducing the water footprint, another solution. So, there are many steps that we have already taken, the solutions are already out in the field. And therefore, we expect that they will start to gain larger traction.
- Bharat Sheth:** In the engineering segment, this year we have seen some kind of a decline in the order intake as well as on revenue number. We were trying to work with the various international EPC players, so where do we see this, going forward?
- Shishir Joshipura:** Overall engineering performances have improved on a year to year basis, so that's one news I would like to share with you. Second, those businesses are differently driven, the demand cycle for them are different, they are more closely linked to normal economy as compared to bio-energy, which is a different segment. So, different strokes for them, but I think we have seen the whole year develop very positively for them and we are confident about it. The last quarter we probably mentioned, Engineering business, only on the brewery side because the cycle is like that, the ordering sort of ends before the calendar year ends, because all the

brewery projects would like to commission in time for catching the summer months. So, that's the only difference you see other than that.

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

Tiger Kapoor: My question was, as the company plans for forward integration like you just mentioned, many of my questions have been answered. But in sugar mills like in Bihar and Uttar Pradesh the disinvestment policies that the government has, many sugar mills are in losses. So, do we have any plans to do some joint venture with them or take over?

Shishir Joshipura: So, Mr. Kapoor, we have no such plans that we will ourselves acquire a sugar mill and become a producer of ethanol. But like you said that there are many mills who themselves are unable to produce ethanol, so now we are seeing that as ethanol is going so much ahead in the market, so people are feeling that such companies who are not able to put up their own projects, they are tying up with such mills so that they can procure molasses from them, and they will aggregate it and based on aggregate capacity the ethanol project will be set up. So, such three or four mills are there with whom we are in talks with.

Tiger Kapoor: Regarding this shareholder rewarding policy, like according to SEBI's listing obligation regulation, many companies whose market cap is more than 25,000 crore for them it's an obligation that they will have to do 30% dividend distribution, this is a general distribution policy. So, do we have such qualified policy for rewarding company's shareholders?

Sachin Raole: We have a dividend distribution policy, and you can see it on our website as well. It is already uploaded on our website.

Tiger Kapoor: So, how much percentage is there?

Sachin Raole: You can go and see the policy, if you are tracking our dividend you will see that every year we are providing 81% at least. This year we have given more Rs. 0.25 additional as an interim.

Tiger Kapoor: How much percentage of our turnover has been spent on R&D?

Shishir Joshipura: The question here is that in which sector are we spending, what can be done to grow that sector. See, there are two kinds of innovations which can happen, one is the fundamental research that we are doing, and the second one is like I was saying where innovation is done by developing basic technology and bringing it out a new product. So, the number that you are asking, its 2% to 2.5% is what we spend on R&D.

Tiger Kapoor: Sir, one final question, we are seeing that every company is innovating, say Tata Chemical has collaborated with DRDO and other institutes to make a lithium ion battery, so have we made any such collaboration with government organizations like DRDO or any satellite organizations that provide R&D, do we have any such tie up with such agencies?

Shishir Joshipura: Mr. Kapoor, you are correct that every business will have to find their own partner who can collaborate and create a higher value. For that we collaborate with IIT Mumbai, Indian Institute of Science Bangalore is there, we are in continuous collaboration with such institutes for R&D.

- Tiger Kapoor:** I am a long-term investor, I wanted to visit your plant at my own expense, so is it possible to visit your plant in Pune that you have, I want to see and would like to increase my investment, I am quite confident on the management. So, can this request be fulfilled?
- Shishir Joshipura:** You can coordinate with Mr. Sandip Bhadkamkar, just send an email to him and he will definitely look at it.
- Moderator:** Thank you. Next question is from the line of Chandra Mouli from Paterson Securities. Please go ahead.
- Chandra Mouli:** You have mentioned that the we have developed the product and efficiency in existing ethanol plants. What kind of orders do you expect?
- Shishir Joshipura:** There is a technology that we can deploy with existing customers, but there is also a technology that we deploy in the Greenfield plants. So, both brownfields and Greenfield solutions are possible.
- Chandra Mouli:** When it comes to brownfield, what kind of order do you expect? For the existing plant, which is your customer already, if they want to go for this efficiency which you have mentioned, the 'PROFIIT' that you have developed, so what kind of order you will expect?
- Shishir Joshipura:** So, it depends on what is the current condition, when I say condition, what is the current process that the person is deploying, how are they treating their effluent. For example, if it is around effluent efficiency, then over a period of time what kind of dynamics has played out for their input costs in terms of what is the cost of utility for them, etc. So, we are able to customize the solution for these plants on specific basis, I can't have one solution and take it to all, I have to engineer for everybody individually. There is a basic technology that we can put to play.
- Chandra Mouli:** What kind of order, if there is any enquiry?
- Shishir Joshipura:** This is a very regular business for us; we have been doing it for years. It's just what I mentioned; we are introducing even newer technologies now, both on the Greenfield and brownfield side.
- Moderator:** Thank you. Next question is from the line of our Amal Shah, individual investor. Please go ahead.
- Amal Shah:** Since the government is appearing to get serious on the air pollution, when do you expect, if at all, that the farm waste to CBG technology to take off? And will it fructify into a regular important part of your business?
- Shishir Joshipura:** There is a technology solution that is available that solves the problem of burning the standing residue in the field; it converts it to a much higher value-added product which in turn reduces the pollution. So, in that sense, I meant the answer is yes to everything. And we do foresee that over the next, let's take a horizon of next two to three years, we expect that this will become a significant solution in the business.
- Amal Shah:** So, what would be a typical plant size which you expect or which you are designing or working on designing for this application?
- Shishir Joshipura:** This will become a significant opportunity as we progress. The technology is there, the commercial case is there, the policy environment is present. So, I think we do foresee a positive development on this technology as we go forward. And as I was

mentioning to you, this is very feedstock driven – so what is the feedstock availability at a given location, and what is radius of economic collection for the biomass. So, in about 20 - 25 kilometers kind of range, one could create a case for economically efficient collection of biomass. So, we expect 50 tons to 200 tons per day of biomass being put as input.

- Amal Shah:** That would convert to what, in terms of biogas or fertilizer?
- Shishir Joshipura:** The fertilizer that comes out will be very equal to the input biomass size, more or less, almost 80% of it. And on the gas side, depending on the biomass, the yields would be different
- Amal Shah:** So, can one expect roughly about 10%, 20%, in that region, of biogas?
- Shishir Joshipura:** Depending on what the input is – so for example, let us take press mud for the feedstock as opposed to say rice straw. Then if press mud is x, the biomass will have 4x, or 3.5x in that range, because that is the kind of chemical distribution or construction of the input material. So, as I said, depending on what the feedstock is the output will happen for the gas. Typical plants could vary between 5 tons of gas output per day to maybe 20 tons of output of gas per day.
- Amal Shah:** Is there any competition from local manufacturers of these plants? And are there any plants which exist or are shortly coming up in this line of business?
- Shishir Joshipura:** So, there are a few, to say that there are none is not correct. So, today, if you ask me, is there a CBG plant? The answer is, no. Is there a biogas plant? There are many, almost 50 of them are built by us also. And that is very different, there is a big difference in the level of purity and the constitution, etc.
- Amal Shah:** In CBG, is this the line of business started to materialize?
- Shishir Joshipura:** There are, as I was mentioning earlier, there are very serious enquiries that have emerged on this. There are 200 EOIs that have been signed and issued. So, I think we will have to see now as to how many of them come with actual business proposal.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would not like to hand the floor back to Mr. Sandip Bhadkamkar for his closing comments. Over to you, sir.
- Sandip Bhadkamkar:** Thank you everyone for your time. In case you have any more questions, feel free to write us on info@praj.net Thanks a lot for your time. Have a good day.
- Moderator:** Thank you very much. Ladies & gentlemen, on behalf of Praj Industries, we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.

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