Praj Industries Limited

Q1 FY19 Earnings Conference Call Transcript
August 8, 2018

Moderator: Ladies and gentlemen, good day and welcome to the Praj Industries Limited's Q1 FY19 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sachin Raole from Praj Industries. Thank you and over to you, Mr. Raole.

Sachin Raole: Good day everyone. We welcome you to this conference call organized to discuss Praj Industries' operating performance and financial results for Q1 FY19, which were announced on August 6, 2018. I have with me Mr. Shishir Joshipura – CEO & MD on the call.

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

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

Shishir Joshipura: Thank you, Sachin. Good day, Ladies and Gentlemen. I welcome you to the Praj Industries' earnings call for Q1 FY19. It is a pleasure to connect with all of you again.

I will touch up on key macro developments and quarterly business updates following which Sachin will take you through the financials for the quarter.

Fiscal 2018-19 has started off on a very exciting note for the ethanol industry in India. The recently announced National Policy on Biofuels 2018 has outlined postulates to capitalize the growth and development of the domestic Biofuel sector. Firstly, the policy aims to address the primary challenge of shortage of feedstock by expanding the basket to include sugarcane juice, damaged grains, rotten potatoes, corn and sugar beet and surplus ways for Ethanol production. Policy accords prominence to the second-generation Ethanol with viability gap funding, differential pricing and tax incentives for built up of the capacity.

It reiterated commitment towards reducing pollution in urban areas providing alternate use to crop residue and improve the farmer income levels. A Biofuel ecosystem will help generate rural employment while meeting India's growth ambition. As a follow up action to the policy, the Cabinet Committee on Economic Affairs(CCEA) has hiked the price of Ethanol used for blending petrol to Rs. 43.7 per liter as against the current price of Rs. 40.85 per liter. In the first time move CCEA also fixed ex-mill price for ethanol derived from B heavy molasses and sugar cane juice at a higher level of Rs. 47.49 per liter.

The recently released sugar bailout package also provides a huge impetus to building new capacity for Ethanol and zero liquid discharge solutions through interest subvention on loan to sugar mills. With the government's sharp focus on wide spread adoption of Ethanol and other alternate fuels, the future for clean energy is quite promising creating avenues of growth for Praj. Our second gen projects, one at Orissa for BPCL and another at Panipat for IOCL are progressing as planned. We are happy to share the finalization of the next second gen bio-refinery project from Hindustan Petroleum Corporation Limited as well. This is the third such project being contracted to Praj. It will come up in Badaun in UP with a production capacity of 100 kilo liters per day of Ethanol from rice straw. The current contract defines Praj's scope as license of proprietary technology and the basic engineering design package.

According to the OECD-FAO Agricultural outlook 2018-2027, the demand for Biofuel is shifting towards developing countries which are increasingly putting in place policies that favor the domestic Biofuel market. Praj HiPurity Systems continues to focus on enhancing the scope of work in internationalization in select markets, emerging pharma markets like Middle East, North Africa, Turkey etc., are showing good growth potential. Coming to our engineering business, our Brewery business has continued to build on its leadership position in the market, very, very strongly in the quarter gone by, while our CPA business has worked on developing relationship with key customers in the process industry and has made significant inroads.

We have also continued to build on improving sentiments across the industry on zero liquid discharge systems for industrial effluents. The company is fully geared up to leverage its core competencies supported by innovation, R&D, technology development and creating a global brand and prudent sustainable practices. I will now hand over to Sachin for his comments on the financial performance.

Sachin Raole: Thank you, Shishir. Good afternoon ladies and gentlemen. In the first quarter of FY19, total income on consolidated basis stands at Rs. 195 crore. Of the total revenue 45% is from Bioenergy, 21% is from HiPurity and engineering business contributed 34%.

Export revenues account for 41%. EBITDA excluding other income is at Rs. 7.23 crore as compared to last year's Rs. 3.43 crore. Profit before Tax is Rs. 4.48 crore against the corresponding previous quarter's Rs. 0.49 crore. Order intake for the quarter stands at Rs. 328 crore - of this, Bioenergy forms 72%, engineering business 21%, and PHS 7%.

The export orders form 37%. Pending order backlog as on 30 June 2018 stands at Rs. 812 crore with 68% contributed by Bioenergy business, 7% by PHS and the remaining 25% from the engineering business. Domestic orders form a larger portion at 74%.

The Company being technology driven continues its R&D activity in the areas of Bioenergy and bio-chemicals and the total expenditure for the quarter on account of R&D amounts to Rs. 6.94 crore. The closing cash and cash equivalent as of 30th June 2018 is Rs. 288 crore.

During this quarter, we had changed the revenue recognition policy in line with the new mandatory accounting standard Ind-AS 115, revenue from construction contracts with customers, the standard offers two options, one where in effect of change in methodologies given in the respective accounting period and second retrospectively with the cumulative effect to the opening balance of retained earnings. The company has adopted the second option and accordingly a cumulative effect of Rs. 15.39 crore is affected to the opening balance of retained earnings.

With this, I will conclude my remarks. Thank you for joining this call. We would be happy to discuss any questions you may have.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

We take the first question from the line of Nirav Vasa from B&K Securities. Please go ahead.

Nirav Vasa: My first question pertains to the outlook from the second-generation plant for which we have signed LOAs and MOUs with the oil marketing companies. So, just wanted to get some idea, after getting the Rs. 17 crore order which was announced last quarter, any particular order that we can expect, the order inflow trajectory for this year, if you can share some light on that preferably if you can share project wise where exactly things are stuck up and by what time are we expecting things to start moving?

Shishir Joshipura: I think what is important is to understand how this whole process works and obviously the first stage post tendering is to contract out the licensing and the basic engineering design package. And once these are delivered by us, they are ordered and then we do the whole engineering package for the project and we hand it over to the customer, then they go ahead and finalize an EPC philosophy for the project and then the equipment awards start.

So, it takes some time for them to come to equipment awarding stage, we are now at a stage where our bids have been given for equipments, our proprietary equipments to Oil Marketing Companies. We are in discussion with them and I am very sure that over the period of next 2 to 4 months, we should see those contracts also rolling out.

Nirav Vasa: Going forward in the next stages of ordering activity that is the EPC and the equipment ordering, would there be separate tendering activity or is it like you have some kind of nomination basis or something like that?

Shishir Joshipura: So, for all the proprietary equipment it is based on nomination, so we will be supplying in nomination basis. In addition to our nominated equipment supply, there will also be a separate EPC enquiry.

Nirav Vasa: Effectively can I conclude that in next 9 months the order inflow can be really very magnificent based on the comments that you are able to share and the build-up that is happening?

Shishir Joshipura: Well, your wish is same as mine.

Nirav Vasa: In the traditional first-generation space, we already have Bolt-On, are we seeing any major success coming for that Bolt-On model because there is an existing base of first-generation Ethanol technology plants in India and the financials of major sugar manufacturers are not that really great, and considering the bank's reluctance to lend money to sectors where the financials are not in best of the shape, do you think there can be a big demand for Bolt-On in the next 1 or 2 years?

Shishir Joshipura: When you say Bolt-On, you actually mean the Bolt-Onof the second-generation or the first-generation?

Nirav Vasa: Yes, from which the existing first-generation plant can migrate to second-generation plant?

Shishir Joshipura: You made some very valid observations that while the policy is made on account of pushing the technology and use of Ethanol etc. and rightfully so, the financial condition of the customer, which is essentially sugar mills in this case has not changed. They have remained where they were, so obviously that challenge has to be overcome irrespective of the policy environment. And that will present some kind of challenges, at the same time what is also happening is, we also see that maybe there will be new models that will emerge on the business side or the financially engineered models that will create some new opportunities beyond the traditional 1G model.

It could be in form of Bolton, it could be in form of gasification we will have to see as to in which direction the cookie crumbles, but there are lot of activities right now underway and since they are not yet in some kind of final shape I am not able to give you a definitive answer. But we clearly see the Biomass to BioCNG as the next route of travel on the 2G which may have a very different financial model which will overcome this obstacle that you described.

Nirav Vasa: In this sugar bailout package which is recently been given by the government, can these existing mills take money from the sugar development plants and set up new 2G plants or can they migrate from 1G to 2G?

Shishir Joshipura: So, there are two or three things. One is that the government is saying we will give you money to setup 1G technology capacity. So, there are two or three packages that we are running - one is on the 2G one where there is project viability gap funding and the OMCs are going ahead and putting it up and things like that. So, that is one track. The second track is government is saying that we will allow you to, the expanded definition of what could form a feedstock we would allow you to put up additional capacity for Ethanol because that is required to meet the targets of blending.

Nirav Vasa: Get your point, because we cannot grow beyond 5% based on the existing 1G technology?

Shishir Joshipura: Exactly. The alternative feedstock will become a key driver there. That is the second one. The third one is that government is saying yes, while you do all these things there has to be an equal eye on the ground water pollution, which is through the effluent discharge and things like that. They have also announced that sugar mills and distilleries shall setup solutions that will ensure zero liquid discharge. So, there are three dimensions to this and all three will, as I would say, will be propelled with different drivers but all three have clear driver's present on market and the good news for us is that we will be able to participate in them.

Nirav Vasa: Regarding the new Biofuel technology, based on your understanding if you can just share what can be the potential going forward? Do you see next 2 or 3 years if there can be any kind of financial systems or you are anticipating new set of entrepreneurs coming in India and setting up standalone Biofuel establishments that is there in several parts of the world once this new policy shapes up?

Shishir Joshipura: I think if you draw some parallels from what is happening in rest of the world, the scenario that you described is not unlikely. Simultaneously the technology is developing from where the 2G ethanol, in many ways the ethanol becomes the basic building block for going further on the Biochemical energy While ethanol will be very high volume in a low margin kind of a business for the producer and from there it can translate all the way to fragrances end which is low volume but extremely high margin and this journey in between for Biochemical and all.

So, very clearly we see not only in India, but globally also a focus shift happening on realization on the part of community at large that we need to find a solution beyond the conventional solutions for this and we see it emerging in different forms, you know the plastic ban which would then push people to go to Bio-degradable plastic, the drop in fuel requirement that is coming up. The whole thing about governments not wanting to be dependent on their energy needs all the time only on imports, the foreign exchange equations there. So, there are many sectors even at macroeconomic level which will drive favorably the development of a Bio-refinery or Bio-economy if I can use that word.

So, we would see in general, direction to be there. There are pharma companies who are talking to us about using this route for extraction of some naturally available elements, there are leaders in chemical and FMCG space who are talking to us about different solutions using the Bio-route because that becomes what I would call a very sustainable, it is very green and it is the right thing to do kind of a situation. So, a lot of activity is developing in this space.

Nirav Vasa: 1G to 2G migration is not happening mainly because of the financial condition and in the bad times sugar mills can make more money by selling ethanol than sugar. So, as you can see what can be the ideal solution for fixing up the financial issues for the sugar mills?

Shishir Joshipura: So, Nirav, if you would recall there was a time for sugar mills when this whole cogeneration thing came about and there was a time when cogeneration was generating more revenue for a sugar mill compared to the sugar itself. We have passed that phase and now I think the next kid on the block if I can say so is the Biofuel. I remember because those were my initial days of my professional life and that is kind of now taking place and it was a big boom that suddenly started to multiply across the landscape and I would like to believe that something similar would happen here as well.

Moderator: Thank you. We take the next question from the line of Sandip Sabharwal from Asksandipsabharwal.com. Please go ahead.

Sandip Sabharwal: As many of the sugar companies have been coming out with results and I have been talking to some of them, so all of them are very bullish on this new Biofuel policy and the Rs. 4,500 odd crore allocation for setting up new plants, which can use B heavy molasses as well as sugarcane juice for making ethanol directly. In fact two of the companies who had concalls over the last two days have announced new plants also. So, are you actually seeing that traction on the ground where you are actually getting these orders and how do you see this moving?

Shishir Joshipura: So, Sandip, as I was mentioning earlier as well that the new policy has obviously created a lot of excitement and rightfully so, because there are some real numbers to backup this policy on the ground and real action follow up action from the government. So, I think this has been a great quarter for us from that perspective and the first thing that would happen is that I will start seeing a change in the inflow of enquiries and serious enquiries.

I can easily see a 30% change in enquiry on the positive side so compared to what we were facing earlier, we are now seeing a real uptick on the enquiries of course from there it will go to natural process. But building onto what was earlier asked, there are two issues. One on the liquidity and financial performance and Balance Sheet of sugar mills and the clearances that they need from the environmental side.

Those two will still have to be gone through without which there is no project, right? So, those two remain which has become an additional wind in the sail.

Sandip Sabharwal: And on with the general pickup in industrial activity which is also reflected in many companies' capital goods booking numbers, how do you see the HiPurity system order flows going through this year?

Shishir Joshipura: HiPurity is as you know is very dependent on one vertical of pharma, and pharma is reflecting some very different dynamics right now although we do believe that it will start to change as we move forward. So, pharma space is seeing a little more of consolidation and the smaller players getting acquired by bigger facilities etc. So, the capacity build on the part of the big guys is right now not through green field expansions but through acquisitions, through inorganic growth. I think once that phase is over then it will happen.

But what is happening interestingly there is that we recognize that if we limit ourselves to our known reach, then we would be under-serving ourselves. So, we have decided to expand our geographical base and even step outside India as I was mentioning in my opening remarks as well. So, Turkey, North African countries, Middle East where we believe that we can definitely have a play to go forward and offer our solutions. Indian pharma companies are going outside and setting up base and that will become a good traction as we go forward.

Sandip Sabharwal: And this second-generation Ethanol plants, by when do you actually see traction on the ground where the equipment etc. supplies will start?

Shishir Joshipura: I think the first supplies of second-generation ethanol we will only see in 2020.

Sandip Sabharwal: Not the supply of Ethanol, from your side the supply of equipment?

Shishir Joshipura: From our side supply of equipment should be in about 4 to 5 quarters from now.

Moderator: Thank you. We take the next question from the line of Shariq Merchant from Quest Investments. Please go ahead.

Shariq Merchant: Firstly, we were in talks with some parties in Europe to setup demo plants for 2G. Has there been any update on that part? And secondly also on Petrobras, any update there?

Shishir Joshipura: On the European side of 2G, yes we are already working on a contract just on the similar lines, just one stage before what the OMC contracts today are. So, we are already in the engagement with two Companies in Europe to establish the feasibility study for them and that will be under submission now because they would like to start building these projects sometime in next year.

So, two projects are already underway and with (RED II) policy which will most likely become a legislation in October would then help to propel the 2G. So, if we just look at the numbers and as I call them as excel sheet numbers, if you look at the excel sheet numbers then they look like over a period of next 5 years, Europe should see almost 50 plants on second-generation technology companies.

Shariq Merchant: Because earlier in one of our interactions you all had mentioned that the challenge in Europe is a lot of suppliers who had tried but did not meet with too much success given challenges around getting the technology right, which I think Praj has managed to overcome. So, is that a fair understanding and therefore Praj would be a disproportionate beneficiary?

Shishir Joshipura: Yes, that is a very clear understanding. I think one of the big advantages on our side is that we have a demonstrated technology on ground. We have to also see that it works at commercial scale. As I said that we will see in 2020 the ethanol flowing out of these plants. At that moment in time, obviously it will be an opportunity for Praj to be not only be a leader of this business in India, but actually stake claim as global leader in this business because as you rightly said lot of other companies have started and has shut shop or has not been successful.

We are very confident that with all the investments that we did on R&D over the years, our approach, our knowledge combined with the fact that we already understood a lot of dimensions around the 1G technology of the business will definitely put us in a good starting position.

Shariq Merchant: Basically, what you are trying to saying is that when the PSU plants come up and start producing Ethanol - that will be the first proof of success that you all can go to market with?

Shishir Joshipura: That is correct. Although there are lot of people who are willing to bet that based on what we have demonstrated in our demonstration plant which we setup ourselves that is enough proof for them that this can be scaled up. But if somebody were asking what is the commercial level scale up, then for that we have to wait till the 1G plants have commissioned

Shariq Merchant: And on Petrobras?

Sachin Raole: On Petrobras, the situation is more or less still same. The issue related to the order being released in favor of Peru still holds true. We are in discussion with them and nothing has moved in a concrete fashion in that direction. So, we are keeping our fingers crossed and it is a wait and watch kind of a situation at this point of time. And they are proposing a meeting with us in the next quarter.

Shariq Merchant: I did not follow your comment on Ind-AS 115 impact, how that adjustment was made?

Sachin Raole: This is basically on a revenue recognition change which accounting standard has brought in. The way in which project company or a construction company is supposed to account the revenue on a contract which runs for a period crossing the account closure dates, how we are supposed to recognize. So, there is a little bit tweaking which has happened and the institute or the accounting standard body has given us the option whether you would like to recast your previous periods accounts then you go back and if the contract still lies, then start from the beginning of the contract, go into those accounting periods and make the changes.

That is one option. Or second option you take the cumulative effect of that and give the effect of that cumulative in the opening results. And that is what exactly we have done in this year because this Accounting Standard is mandatorily applicable from 1st of April. So, on 1st of April we had given this effect into the results. So, basically the revenue which might have got recognized in the earlier period which current revenue standard is not allowing to be recognized we have to reverse that revenue. So, to that extent that impact has come into to the results.

Shariq Merchant: So, the profit impact of that would have gone in to that?

Sachin Raole: Profit impact, you are right.

Shariq Merchant: My last question is on Methanol. The Government has also talked about Methanol very recently as that being an alternative for clean fuel and also that it is more efficient way to use fuel versus Ethanol. Just your thoughts on what the merit is and what the challenges will be in implementing that?

Shishir Joshipura: The way I look at it now is I think there is a chemistry of things and that cannot be denied in terms of what is the impact of Methanol versus Ethanol on to blending that is one dimension. The more important debate for me is at an overall economy like India, what are the priorities that would like to set, for example when we go the 2G ethanol route, we are saying I will provide additional source of income for the farmers, I will solve the air pollution problem, I will create employment in rural parts of the country, I will be the global technology leader, I will create a solution that is environmentally sustainable and CO2 friendly and so on, which is the Ethanol route.

Methanol route, today the way it is known and there are different technologies that play yes, but so let us say it go from coal to methanol too which is what we have been talked about. When you go coal to methanol then the farmer is completely out of the equation, the environment is completely out of the equation.

Shariq Merchant: Methanol is also clean fuel, so environment is still?

Shishir Joshipura: Methanol by itself is clean. But what I am saying is that it does not address the problem of farmer income going up or pollution resultant out of farmer burning troubles you know those things do not get addressed. what it does is you convert coal to liquid or Methanol, and this is something that there is one company in the world which has tried it successfully and now China as well. So, obviously there is a play for this too. So, I do not know whether this is our game, this is probably an end game in which both ethanol and methanol may win.

Shariq Merchant: So, both can coexist together, that is the possibility?

Shishir Joshipura: Yes.

Shariq Merchant: One last question if I may. You also commented on the BioMass to BioCNG technology. That is something that Praj has been working on for a while. Any updates on where that technology now stands because I think there are other players in the market and that is a large opportunity. So, how does that play out, when does it start going to market and the opportunity there?

Shishir Joshipura: So, we will see traction on this happening towards the end of this calendar year not before that. So, a lot of preparative work has to gone into the place, but it is very much on the track and we do believe that this has the potential to becoming a good new sunrise sector for Companies like us. The second good news is that as we know today, on some of the segments of this technology, Praj has a clear leading edge over what is available today anywhere in the Country or world for that matter.

So, we know for sure that there are certain dimensions to technology where because of our deep understanding of having worked with sugar mills for so long, we have understood some of the key constraints or drivers of this technology and we incorporate that while development of our solutions. So, we will see that we will talk about it at an appropriate time, but this is something that has a potential to be a very big opportunity as time comes.

Moderator: Thank you. We take the next question from the line of Avinash Nahata from Aditya Birla Money. Please go ahead.

Avinash Nahata: I have three questions. One is regarding this new distillery, is my understanding right, the fungibility across the current consumption of molasses, B heavy molasses as well as directly drawing ethanol from sugarcane juice?

Shishir Joshipura: Yes, that is correct.

Avinash Nahata: Second is, what is the typical time to put up configuration like 200 kilo liters per day kind of capacity?

Shishir Joshipura: One year, if you are very efficient.

Avinash Nahata: What according to you over the next 2 or 3 years the way policy has come out and of course the Balance sheet issue is there as far as sugar companies are there but it is not that they cannot put up capacities. So, what according to you is the potential size, what kind of capacity do you think, what is your best guess estimate as to in next 3 years how big it could be?

Shishir Joshipura: You mean to say, because of the policy how much additional will happen, is that the question?

Avinash Nahata: Yes.

Shishir Joshipura: Let us understand that policy is an enabling environment. And to that extent some great work has been done and not only in the basic policy but even on the follow up steps. So, one cannot complain that you know environment is not okay so I think nobody can complain about that now. So, the environment is there, the impetus is there, the market is there, and as you rightly said people have to find money and I think somebody also earlier asked this question saying, do I see some independent producer come up and do it based on their financial strength, and I think that will happen because the enabling environment would do precisely that.

It is now becoming attractive for an independent investor to come and setup this project as opposed to somebody who already has been part of the ecosystem in form of a sugar mill or distillery. So, we clearly see this driving the whole thing forward. In terms of numbers, this is still early but as you know the numbers are already out there, they are already saying what kind of money they are willing to put Rs. 4,000 crore or Rs. 5,000 crore is the additional CAPEX that is put on the ground over the next 3 years over and above the normal one that will keep running.

Avinash Nahata: How much capacity do you think actually can come and what is the size Praj is looking at in terms of that market share out of that?

Shishir Joshipura: I wish I had the capability to look into crystal ball and say something but from the looks of it, most of this Rs. 4,500 crore should go on the ground, in addition to the normal business cycles. And we have a majority share in the market, we have no intention to give that up, we obviously have the intention to build on it further. So, we can take a calculator and see what it will be. But this augurs well for us, if it is clears out on the ground, we are very much there to take all that.

Avinash Nahata: And you said that your net cash on the balance sheet is Rs. 288 crore, correct?

Shishir Joshipura: That is correct.

Moderator: Thank you. We take the next question from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: Does this quarterly number also get some benefit of this soft order what we have received for 2G? And how was this costing for that?

Sachin Raole: To some extent yes, it is getting accounted in this period also because it is a completely independent order so on the basis of our deliverables, we are recognizing revenue on that.

Vikram Suryavanshi: And second thing just in terms of working capital, how we are seeing that? Is it getting stretched or there is no material change?

Shishir Joshipura: If you look at our March situation, we have definitely not deteriorated. I do not know how you are concluding that. We are more or less in the same line of our March working capital numbers. So, it is not at all stretched.

Vikram Suryavanshi: No, I just wanted to get feedback, there was no conclusion as such

Shishir Joshipura: We are good on the count and we are putting very special focus to ensure and right now you can imagine we are building up a lot of our resources and capabilities to meet this oncoming demand and we are keeping a very close eye on this to ensure that we do not slip, we actually improve. So, one of the targets that we are working on also is to improve the working capital rather than go back.

Sachin Raole: We are actually building up some kind of stocks for the orders which are coming in the pipeline. So, there will be some kind of a built up going forward, but it will come down by 3rd and 4th quarter. But as of today, yes, it is with par with March number, it has not gone up.

Vikram Suryavanshi: How is our progress in terms of this increasing our service revenue or retrofitting activities?

Shishir Joshipura: So, we continue to focus on that, in fact that is something, that is the portfolio that we are looking at expanding this year and we will talk about it as time comes at an appropriate stage. But we are very focused on having an increase in share into customer's OPEX rather than just stay on the CAPEX side.

So, we are making a lot of efforts on the Retrofit upgrade, O&M services with parts, there are so many dimensions that we are contemplating to bring into the play to improve our share of customer's OPEX pocket.

Moderator: Thank you. We take the next question from the line of Lakshminarayanan KG from Catamaran Capital. Please go ahead.

Lakshminarayanan: You mentioned that you have cash close to Rs. 288 crore. How much of that would be customer advances?

Sachin Raole: It will be in the range of Rs. 150 crore.

Lakshminarayanan: Out of the total revenues, because you classify Bio-energy, HiPurity and the other business, but when I look at from the business segment, which is domestic ethanol plant installation and equipment as one, and then the domestic breweries installation as the other, what kind of revenue split you have between these two?

Shishir Joshipura: Breweries will be ~15%.

Lakshminarayanan: And the rest will be the ethanol plant installation equipment?

Shishir Joshipura: No, so 15% is brewery, we have other businesses as well, the zero liquid discharge systems for industrial effluents, then the other engineering business of CPF. So, roughly overall it is in the range of 20%-25% of our overall revenue would come from our engineering businesses as we call them, which is the chemical process equipment, the zero liquid discharge systems and brewery.

Lakshminarayanan: In terms of your exports, you had given the overall split of the business and also you had given domestic and exports. How the export business splits between products, services and HiPurity?

Sachin Raole: Mainly it will be on our Bio-energy side, but our critical equipment business also does the export business. But if you want to give some kind of a proportion number between Bio-energy and other businesses, it will be 80% bio-energy and 20% other businesses.

Lakshminarayanan: And in terms of the HiPurity which you mentioned that pharma is where you have a strong presence. What kind of capacity build up you see in the pharma space because you mentioned that there is a consolidation going on and what kind of market share we actually enjoy in that HiPurity, is there a specific segment where we enjoy lot of market share or if you can just give some color on the HiPurity business performance?

Shishir Joshipura: There are two segments in Pharma. One is what I would call as ultra-pure water that pharma industry needs, sterile water that they need for their use. So, there are three dimensions to it. You have to take raw water, treat it to produce that ultra-pure water, store the ultra-pure water and then distribute that ultra-pure water into the plant. So, this is the whole science behind it for a pharma company. And that is where our big place, so we will probably have one-third of India market for that business.

There is a new business line that we have started couple of years ago, is that once the water is there then you also need to create medicines out of it. So, in an IV solution, you need to inject whatever microbial compounds or drugs or APIs or whatever it is, so that it finally forms that IV solution that we see for example, and that is another science by itself as to how you manage that. So, we also make plants and systems for that.

That is a relatively new activity. There our share is probably in single digit yet but there is a lot of headroom to grow there as well. But that is the process there, you know it takes time for you to get approval, you have to prove your track record on this because that is the most critical process, the heart of the process of what a pharma company does. So, we are very, very careful in approval process and things like that. So, that may take a little longer time to build the share there.

Lakshminarayanan: One last question, related to your receivables. When compared to 2017-2018 financial year, we had done a commendable, the way we had reduced our account receivables, what is the band in which you like to operate at a consolidated level in terms of receivable days?

Sachin Raole: If you look at from the receivable base point of view they are generally between 100 to 120 days for us. Being a CPC thing, so it ranges between 100 to 120 days. In June, we had 101 days.

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

Kirthi Jain: My first question is with regard to the B heavy molasses and also on the policy related 1G Ethanol. Have you started to receive the enquiry?

Shishir Joshipura: Yes, we are beginning to see enquiries traction go up at the back of this policy.

Kirthi Jain: B heavy molasses, is it a viable proposition, what do you think on that? What will be our scope?

Shishir Joshipura: So, obviously there is this whole lot of equation in terms of what happens to the sugar prices, what is the MSP that they have to provide and what is the ethanol prices that they can get. So, there are a number of equations at play. But the good news is that by freeing it up now there is an option available for the sugar mills to decide which way they want to go or they want to split their revenue stream. So, there are guys who will take that call. Now that depends on their local position and how they are doing their overall opportunity.

Kirthi Jain: Till date have we done any B heavy projects?

Shishir Joshipura: Not in India. Outside India we have done it. In India the policy did not permit so there was no question.

Kirthi Jain: Sir, how much would be the scope? Suppose say if 60 KLPD or 100 KLPD B heavy project has to be brought. How much will be our share of business approximately?

Shishir Joshipura: So, B heavy is just a feedstock and some changes will be required in the plant but as I was answering some earlier question, basically the technology is fungible so it is not so dramatically different that you have a B heavy plant and then you have a C Molasses plant and it does not work that way. It is the same plant with some changes on the recipes and the processes and control of that etc. but nothing to start thinking about different plants. That may not happen.

Kirthi Jain: Only some additional equipments will be required, or some debottlenecking would be required?

Shishir Joshipura: Yes, or the company can take a call that I want to go and set up a new distillery based on B-Heavy.

Kirthi Jain: Okay but is that kind of work coming?

Shishir Joshipura: We are still 60 days into the new policy, but we will see as to how we go about this.

Kirthi Jain: Any ordering or any enquiry level things are happening due to this Biofuel policy?

Shishir Joshipura: We are beginning to see a changed enquiry inflow. We are already witnessing almost a 30% upsurge in the enquiry which is a good sign.

Kirthi Jain: So, this kind of growth in the order flow is it sustainable from the exports market?

Shishir Joshipura: As I had also mentioned that the export markets are also seeing some traction because federal governments are waking up to this reality of blending programs and some of them are enhancing for different reasons but fundamentally everybody has driven from the farmer income, pollution and foreign exchange and energy independence equations. And it is happening across the globe we are seeing that. I just read a news item that today Argentina is now contemplating a 27% mandate for blending, which we will be a huge thing for that market that we are already extremely strongly present in.

So, Thailand is already seeing the traction, China has gone to E10 and so we are seeing in isolated parts of the world, different parts of the globe, Europe has Red-II directive that will give rise to the second-generation ethanol. So, lot of activities on that front.

Moderator: Thank you. We take the next question from the line of Ritika Agarwal from Quest Investments. Please go ahead.

Ritika Agarwal: If you could throw some color on the new segment that you have carved out from your business as to special projects to serve customers to commercialize the next generation molecules as to how are we seeing traction going forward?

Shishir Joshipura: There are two dimensions to this. One is there could be a Company that has developed the technology but does not know how to commercialize that. So, we help them to take that technology from lab to commercial plant through our engineering project management, process development and installation services and the second one is where we have developed a molecule.

And then we take that out to the market on the same group except this time our labs have developed that molecule. And both of these, we believe though they are slightly longer-term engagement with the customers, I am sure that we will have some decent developments to share with you when we meet next time.

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

Sachin Raole: On behalf of Praj, let me thank all the participants for participating in this quarterly call. Thank you very much for joining us and showing your interest in Praj.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Praj Industries Limited, we conclude today's conference. Thank you all for joining us and you may now disconnect your lines.