Praj Industries Limited
Q2 FY24 Earnings Conference Call
November 01, 2023

Moderator: Good evening, gentlemen, good day and welcome to Praj Industries Limited Q2 FY24 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisor. Thank you and over to you sir.

Anuj Sonpal: Thank you. Good morning everyone and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor relations of Praj Industries Limited. On behalf of the company, I would like to thank you all for participating in the Company's Earnings Call for the second quarter and first half of the financial year 2024.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now, let me now introduce you to the management participating with us in today's earnings call and hand it over to them for opening remarks. We firstly have with us Mr. Shishir Joshipura – CEO and Managing Director and Mr. Sachin Raole – CFO Officer and Director of Resources. Without any further delay, I request Mr. Joshipura to start with his opening remarks. Thank you, and over to you, sir.

Shishir Joshipura: Good day everyone. I welcome you to Praj Industries' Earning Call for Q2 & H1 FY24. Trust all of you had the opportunity to go through our results for the quarter ended 30th Sept 2023.

The launch of Global BioFuels Alliance at G20 summit in September 2023 is a very significant event for sustainable global development of Biofuels. The alliance is anchored by India, the United States, and Brazil. 19 countries & 12 International organizations have agreed to be part of it. This alliance is committed to facilitate access to technology, fostering an ecosystem to support biofuel production and consumption, and initiating policy interventions & alterations in the global south. India's leadership across policy, technology & ecosystem development can benefit the larger world & help include Global south in this important journey. We Applaud leadership of G20 for this landmark development.

Coming to business performance, in the 2nd quarter, the business activity continued its build up along the momentum established over the last couple of quarters. This quarter international OB was 29% of the total order book. The share of International OB in overall H1 is 32% as compared to 13% in H1 FY22.

Our domestic bioenergy business, Food Corporation of India's ban on issue of rice to ethanol distilleries led to a brief period of reduced activity. However, with upward revision of rates for Grain based Ethanol from OMCs restored the confidence for on-going and proposed projects. The GST Council's decision to reduce GST on molasses from 28% to 5% will have a positive impact on project viability. Overall, we see continuity in order book for both starch & sugar based ethanol plants.

On International front, low carbon ethanol opportunity in the United States though significant, is moving at a slow pace owing to awaited clarifications on certain provisions in Inflation Reduction Act. We are pleased to announce receipt of our first order for Low Carbon Ethanol even as discussions are moving positively with several other potential cases.

Our services business is receiving good traction in both domestic and international markets especially Brazil. We are in the process of establishing a strong distributor network in chosen markets to offer entire suite of solutions compromising of Enzymes, Yeast and Performance enhancers.

On 2G front, IOCL plant recommissioning has begun last week as the feedstock availability has commenced. In an agreed two stage program with IOCL we will establish the performance of the plant over the next six-month period.

As for CBG, Positive developments in addressing the eco system challenges, strong focus from larger players in establishing capacities augur well for growth momentum in this business. We are moving forward with execution of the first project even as the modus operandi for balance projects of the 5 we announced last quarter is being established with the customer. We are witnessing positive developments on overall enquiry pipeline in this segment.

Energy transition is taking roots and our solutions basket is finding favour in the market. Demand emergence in ETCA segment coupled with repeat orders from our key customers in other served segments is building a strong order book for execution. ETCA segment has significant share of 52% in overall order book for our CPES business.

We have commenced the work on setting up Integrated Manufacturing Facility at Mangalore for Praj GenX and have plans to start manufacturing in the 4^{th} quarter of FY 24.

Our PHS business witnessed development of strong order book and has crossed 100 crore order booking for the quarter. Continued developments in fermentation-based drug production is a positive business driver for growth of high purity business. Potential on semiconductor applications is yet to materialize and we are keeping a close watch on this development.

Zero Liquid Discharge and Brewery business segments are experiencing healthy enquiry inflow and we expect positive business developments in near future across both these segments.

Overall, the business outlook continues to be positive for our business.

Before closing, it gives me immense pleasure to inform you that Dr. Pramod Chaudhari is elected as a Fellow of the prestigious Indian National Academy of Engineering by the Governing Council in recognition of his distinguished contributions to the profession of Engineering and Technology
Dr. Chaudhari is conferred with the '**Lifetime Achievement Award**' by the **Indian Institute of Chemical Engineers** (IIChE). The esteemed accolade recognizes Dr. Chaudhari's remarkable career and innovative work that has significantly impacted the field of chemical engineering.
With this, I will now hand over to Sachin for his comments on the financial performance.

Sachin Raole: Thank you, Shishir.

Good day everyone. Let me take you through the financial highlights for the quarter and half year ended September 30, 2023

The consolidated income from operations stood at Rs. 8.82 billion in Q2FY24. PBT has increased by 29% and stood at Rs. 848.121 million in Q2FY24 as compared to 657.777 million in Q2FY23. Similarly, Profit after tax stood at Rs. 623.679 million in Q2FY24 as compared to Rs. 481.286 million in Q2FY23

For H1FY24, Income from Operations was Rs. 16.19 billion. PBT stood at Rs. 1.62 billion in H1FY24 as against Rs. 1.2 billion in H1FY23. PAT of Rs. 1.21 billion in H1FY24 as against Rs. 893.918 million in H1FY23 .

Export revenues accounted for 16% of Q2FY24. Of the total revenue, 79% is from Bio-energy, 15% from engineering and 6% is from PHS business.

The order intake during the quarter was Rs. 10.63 billion, with 71% from the domestic market. Of the total order intake, 68% came from Bio-Energy, 22% from engineering and 10% from PHS business.

The order backlog as of September 2023 is at Rs. 39.6 billion comprising of 74% of domestic orders. Cash in hand as on Sept 30, 2023 is Rs. 6.87 billion.

I now conclude my remarks and I would like to thank you all for joining us on this call. We would now be happy to discuss any questions, comments, or suggestions you may have.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Amit Anwani from Prabhudas Lilladher Private Limited. Please go ahead.

Amit Anwani: My first question on, the domestic versus exports now we are seeing that export is gaining traction and contributing 25% for this quarter and last quarter also there was an improvement. So would like to highlight going forward any target on this front and any breakup of domestic versus exports, in engineering, HiPurity, bioenergy which you would like to highlight?

Shishir Joshipura: Thank you very much good morning. What we have said two or three drivers and that's important to understand what's going to drive the business in export market and let me start #A on the bioenergy side we talked of low carbon ethanol, movement out of United States at the back of the IRA provision on the SAF production capacity creation. As I mentioned, there are some clarifications required still on the tax treatment side, but they are expected soon but in absence of that as well we have now received the order book actually includes for the quarter, the first order we have received on the low carbon ethanol front, it will be a project to have worked in existing on corn ethanol 1G, ethanol producer and help them reduce the carbon cost, so that becomes quote, unquote, feed stock for SAF production. We have also talked about the energy transition and climate action as a big segment under which we also announce the entire the Genx formation and setting up of Mangalore facility on the CAPEX. All of that is coming from the fact there is a clear push globally for setting under energy transaction for green hydrogen, green ammonia, waste to energy projects being set up very exclusively. And that's the segment that Genx business will serve. So that’s the second one. And we believe that these two are big drivers, we are also started to push in Brazil, as I had mentioned in my opening remarks as well, both for our service business as well as equipment business. So there are several markets in which the drivers are there we are positioning solutions, which will lead to an improved position for us as per the order booking is concerned. And that's what you see reflected in the last two quarters as well.

Amit Anwani: Sure sir. My next question again sir, on the order intake prospects. So if you would like to highlight on 1G you did mention that, you are seeing healthy pipeline for starchy which is ongoing. So if you would like to highlight 1G what is the pending opportunity and as well as for CBG last time you did highlighted that, at least five projects are under progress of either awarding or you are executing from a large corporate, and many opportunities in CBG so just wanted to understand the order prospects for CBG over next 12, 18 months and also for 1G which you might have opt out?

Shishir Joshipura: So, let me start from your second part. So, CBG as we had mentioned we had been awarded a contract for five, in the order booking that we reported. There are issues like stand availability, project site finalization, some registration affected etc which are happening from our customers end, as soon as they are released we will be in a position to move forward with execution of those contracts are not included in the order booking numbers that we have given. We also see some other movements from other corporates, we've seen OMC is announcing projects. So we are with Indian Oil and we are aware, and other OMCs as well. Overall, there is a momentum building up in the CBG market for establishing capacities across the country. And that should hold well for the development of this business in a very, very positive way. And therefore, it's very important that we stay near to ground, as this opportunity develops we are reasonably positive that this will go into a very positive direction from here onwards. At what speed, et cetera some other factors like land availability, feedstock tie up, et cetera are required but I'm sure that will happen as well, because the people who are putting up the project are obviously very, very large professional organization. So they know how to go about these issues to be solved.

In terms of opportunity for 1G, as I said that we remain confident that with this small blip that happened in the second quarter because of the change in the feedstock policy, it did have an impact, both for order book as well as for execution during the quarter because the period was too short. But obviously, very quick actions were also taken by government to correct the price portion at least so that it goes back to enable a different supply chain establishment for these projects. So we believe that these quick actions from the government also indicate a strong unwavering commitment to the EBP 20 program and furthering the cause of biofuels. So, both this and the gas are in good space right now for development.

Moderator: Thank you. The next question is from the line of Lokesh Maru from Nippon India Mutual Fund. Please go ahead.

Lokesh Maru: Sir two questions, one is on the order received from US what the quantum would be of this order in this quarter, 29% is an intake from export so how much would this be. And another question is on if we are able to deliver +43% gross margin, and we had challenges on execution during the quarter, as we enter Q3, Q4, if we maintain these gross levels, given our cost structure isn't it, safe to believe that we will be able to do 14%, 15% or at least +13% EBITDA margins going forward?

Sachin Raole: So, in the order book even the bifurcation between bioenergy and the engineering and PHS we are not right now gaining the bifurcation within the individual segments of bioenergy. So during this quarter you are seeing the order intake of 10.63 billion and 68% from that is from the bioenergy. On the margin side, can you please repeat your question because you are not audible Lokesh, you can just be a little louder.

Lokesh Maru: So my question was, if we are able to do 43.5% gross margin that we did this quarter just because our top line, execution was some bit shot during Q2, isn't it safe to believe that as we get on track with better execution, improved execution from Q3 onwards, our EBITDA levels should improve much higher from here like 13%, 14% from here?

Sachin Raole: I will not be able to talk about exact numbers, but your observation is right. You have already seen that even though the half yearly top line is more or less flattish, but there is a margin expansion which has already been witnessed of almost 2.2% Yes, if the execution is on a higher side there is a possibility of some kind of expansion of the margin, I will not be able to comment whether it is going to be 13%, 14% or 15% but yes, there is a scope on the basis of higher execution which is going to happen in the next H2.

Lokesh Maru: Sir one related question if I may ask, so could you please help understand the challenges on execution that we faced in Q2?

Shishir Joshipura: Sorry, Lokesh you need to repeat yourself, sorry for that.

Lokesh Maru: Sir, I was just checking. Could you please explain the challenges we may have faced during Q2 on execution side?

Shishir Joshipura: Yes. So the execution challenge was not on the capacity side at all, we have all the capacities that we need from our supply chain from a production basis, engineering basis so those were not the challenges. The bigger challenge came from the fact that because of the announcement on the policy from the FCI that they will no longer issue rice for production of ethanol during the quarter. That led to a very quick situation of two things actually, #A customers that were in the process of ordering the project had to halt and say, hi what's going to happen. #B, projects that were already under execution also put to halt because the banks also, the banks that are funding these projects and as you know all these projects are largely funded by banks, the banks also took a halt and say, we need to understand the impact of this action on the viability of the project, whether we should go ahead and commit for the funds, et cetera that was second thing, and then when the price correction happened, which was very quickly announced by the government, but in all this process, start, stop, negotiation, clarification and restart almost eight to 10 weeks, 12 weeks quarter, you lose eight weeks on to the most significant section and as you are aware that over the previous period, a large section of the order booking on ethanol was coming through the Starchy route. So a lot of projects were impacted, both even the new ones that are being built, as well as the ones that are under execution. So that was the biggest challenge, but that seems to have sorted itself out and now we are returning back to normalcy.

Moderator: Thank you. The next question is from the line of Shailesh Kanani from Centrum Broking. Please go ahead.

Shailesh Kanani: Sir I'm aware that we face some challenges in the bio energy sector during the last quarter. However, I'm seeing a decline in the engineering revenues for the quarter and the first half as well. Whereas our order inflow has been very robust in this segment. So can you explain what is happening on the engineering side, revenue booking front?

Sachin Raole: So engineering order book is definitely picking up but it has its own execution cycle Shailesh. So there is no reason to believe that there is a decline in the engineering revenue. But engineering revenue will have its own cycle, because the execution cycles are very, very different for that business. Because major business is naturally going to come up from ETCA segments where the cycle is going to be anywhere between 12 months to 15 months. So it is going to be a very different measure and that's the reason why you are seeing a different execution which has happened during this quarter otherwise, there is nothing else which has happened in engineering business.

Shailesh Kanani: So after order book, there is no delay as such in execution on the pick of the order, is that a fair assessment?

Sachin Raole: There is nothing. The orders which we have received in the recent past has been a little larger scope on the engineering side which has taken more time because naturally, that was the time which was required for completing the engineering activity, the manufacturing activity will follow now and that's the reason you are seeing little lower on the engineering revenue at this time.

Shailesh Kanani: Okay sir fair enough. My second question is a two part question, yesterday evening ISMA has revised their sugar production estimates downward due to declining yields. And a similar situation is observed in the rice industry as well. So given this development, I'm interested in understanding how EBP program is expected to perform in the near term, especially as we approach a year, next year. So, while I recognize that EB P program in general long term is promising, but I will appreciate if you can throw some light on strategies near term to maintain our growth strategy.

Shishir Joshipura: So, for the EBP20 program perspective this sugar season is important, because we know already but there were several customers that their projects are now getting commissioned on the syrup route which produces much larger quantities of ethanol. So, a lot of projects are under commissioning right now. So we will see a very different kind of push in terms of availability of ethanol, already OMCs have come up with a tender for 850 crore liters. And we will see that a lot of new capacities will come into the marketplace with our commissioning feed of the plant has really gone up in the last quarter, it's really picking up speed now as we go to start the sugar season in this quarter. So on EBP20 perspective, we are on the right track, in terms of sugar production coming out. In case of sugar production we will still have the surplus. So from the perspective of feedstock, we don't have a problem there because even if we still even after we divert all the current, all the capacity has been put up right now on the sugar based ethanol, we will still have surplus sugar and we consume all the sugar that we need with all the safety stock, et cetera. As a country, we will still have positive surplus. So I'm not worried about the feedstock side on the side of sugar. On the rice side, the dynamics have changed a little bit. And there what's going to happen is and we also see already happening in the field, is there's a shift taking place from rice based plants to maize based plants. And that is likely to lead to, and maize is a abundant availability right now, it does have some other challenges in terms of stabilizing the plant, et cetera but that's not a, we do that for living internationally every year and for many years now so we are very well aware of what needs to be done. That’s where we are, so there may be a shift in supply chain, but other than that, I don't see a problem.

Shailesh Kanani: Okay, sir thanks a lot. Sir just one clarification if you can give on CBG front Mr. Sachin said that, only one order is booked so 100 crore is booked in this order inflow from CBG and 400 crore is still L1 as on 1st Nov today. Is the understanding right?

Shishir Joshipura: That is correct.

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

Vikram Suryavanshi: Sir just on employee cost, is there any one off during which you have added into one employee cost?

Sachin Raole: So Vikram our increment cycle starts from the July and not from the April month. So the yearly increments and all that stuff takes into account in the quarter of July to September. So that's one action. Second thing, we have started working on beefing up our employee's strength for Genx now. Where the new employees for the new facility are getting rolled in right now. So, that's another reason which has come up into the picture. So, there is no one time kind of a scenario, but because of the increase in the employee count for Genx and the increments which have been announced in the month of July for the next year are the two main reasons because of which you are seeing the increase in the employee cost.

Vikram Suryavanshi: Got it. And in case of high purity we have seen really good traction and sir was mentioning about that we are still yet to see the impact of opportunity in semiconductor side. But I guess there will be opportunity even for green hydrogen which will require pure water so, what kind of opportunity landscape we can look for say two to three years down the line for high purity?

Shishir Joshipura: So Vikram the high purity segment, water treatment is one, industrial water treatment, maybe if there is a sea based plant and sea water RO those are normal industrial water treatment, the PHS segment is slightly different, this is ultra-high purity water. And as that said, if the applications call for ultra-high purity water for sure PHS will benefit because they have been in the field for quite some time. I had also mentioned that for PHS one big driver in the market that is changing for them is that, a lot of large fermentation based capacities are supposed to be set up in India over a period of time as we go forward and that augurs very well for them because fermentation is key strength of the parent company Praj, but hygienic manufacturing around those is the key strength of PHS, we combine the both to become a unique proposition for these companies that are setting up their facility we are already seeing some traction built on that so that will become the second driver for PHS business.

Vikram Suryavanshi: Okay, got it. Sir, just I missed that cash balance, 6. something you said which I was not able to hear.

Shishir Joshipura: Sorry, could you please repeat your question Vikram?

Vikram Suryavanshi: I just was not able to listen the cash balance we said.

Sachin Raole: 6.87 billion.

Moderator: Thank you. The next question is from the line of Levin Shah from Motilal Oswal AMC. Please go ahead.

Levin Shah: So, firstly on the execution front so like we have given in the previous calls also we have highlighted that we will have H2 heavy execution, but if you look at now with this sum impact we had because of this whole grain based plants. So how do you see execution in H2, will there be even more bunch up now that some of Q2 would also spill over to Q3 and anyways we have H2 heavy execution cycle?

Shishir Joshipura: So we stand by our comment that we made earlier that, H2 execution is likely to be larger in size compared to H1. I also said that we are seeing the return to normalcy for the grain disturbance that happened in the market. We are not seeing any reason right now to change or revise what we already committed to you so we stand by the fact that, H2 is likely to be better than H1.

Levin Shah: Sure. And sir in terms of our supply side readiness, because it will be very heavy as compared to H1 we are ready with it. So that, supply side we won't face any issue?

Shishir Joshipura: Yes, on the execution side in terms of our preparedness with our supply chain, our manufacturing facilities, our vendor base, our engineering capability, we do not have a constraint.

Levin Shah: Sure. And another question was on the US market. So like, firstly congratulations that we have got the first set of order. And we have been awaiting this opportunity since some time now. So this whole clarification that the players over there are awaiting from the US government, where is that, how long will it take and where exactly is this stuck, how long do you expect before a few more orders start flowing in?

Shishir Joshipura: So the way this is happening now is that, so customers have engaged with us, they are continuing to engage with us to say, okay let's keep ourselves prepare so the detail feasibility study that we need to do for each plant, that is now underway, that is almost eight projects now, where we have either completed or are doing that right now as we speak. The part on the clarification is the US government action. I'm not an expert to predict when exactly they will do it, but from whatever we know, it is expected that by the end of the quarter that clarification will come and as and when that comes that will start to show the right direction for these projects.

Levin Shah: Okay. And my last question is to Sachin sir on the margin so obviously earlier you explained this, but if we see our gross margins for this half versus the previous year, there has been a significant uptick that we have seen and now with exports becoming our larger portion of our order backlog and incrementally also order inflows from exports will be higher, do we see that there would be a significant change in the margin trajectory what we have seen last couple of years where exports was small and we had this impact of raw materials also significant impact so?

Sachin Raole: So Levin, in the earlier question also I have mentioned the same thing that there is a definite scope of improvement based on what kind of export orders will get executed over a period of time, naturally raw material prices the range is there right now, if they remain in a similar kind of zone, there is definitely a scope for managing expansion, I cannot only tell you, whether it is going to be

11%, 12% or 15%, someone was asking about 15%, so I can't comment on that. But yes, there is a scope for improvement.

Levin Shah: Got it. And sir just a follow up on that, if we look at our other expenses also for this half despite, specifically for this quarter despite the weak execution the other expenses have gone up by 25%. So is there any one off element because generally they are linked to our execution cycle?

Sachin Raole: So no, so the other expenses I will not say there is one off kind of a thing, but if there are certain what I can say the execution related only, but site related expenses if they are coming up there, then naturally that increase will be there. I will get back to you, if there is some specific reason. I don't think there is any specific reason or one off kind of a scenario.

Levin Shah: Sure. Or is it that some of the projects we would have incurred some site related expenses, but the execution will pick up in H2 and hence that will balance out for full year?

Sachin Raole: No, not necessarily but let me specifically give you an answer, we can discuss this separately also. But right now, I don't see anything which is kind of extraordinary thing which is sitting there.

Moderator: Thank you. The next question is from the line of Dhananjai from ASK. Please go ahead.

Dhananjai Bagrodia: Just a couple of questions. #A, is the annual report you mentioned about bio plastics, any update regarding what's happening on that front because I believe that is also a big opportunity with the amount you are seeing in this plastic there is?

Shishir Joshipura: Dhananjai as we had mentioned that we are setting up a pilot project now to demonstrate our technology. And that project is currently being set up and we expect to commission this in the last quarter of the financial year. And once that is set up and we demonstrate then we will be able to be in a position to speak about the business that emanates out of that.

Dhananjai Bagrodia: Okay, sure. And secondly this CBG opportunity, what are the IRR that customers are looking at and are they using this as a, like how sugar ethanol people are using because end user manufacturing sugar and then what is the profile of the customer who is looking at setting up CBG plants, any color on that?

Shishir Joshipura: Well, there are different segments, different kinds of customer profiles, there are ESG funds that are the customers for the project, there are large, particularly every large oil marketing companies, both private and public sector, they are looking at this as an opportunity, the sugar mills are looking at an opportunity. There are a few independent players as well who are thinking of setting other projects. So it's a very varied cross section of people number one green funds. On the other hand, IRR questions tough to answer for the simple fact that everybody has a different cost of funds, everybody has a different expectation of ownership structures. Many dimensions so there is not a plain vanilla answer but every one of them what's happening is with the developments that are taking place the CBG projects are now in the realm of reality in terms of meeting those IIR rates for many people. And as the technology develops and they put a few projects on the ground, I'm sure there will be further positive developments on the IRR improvement side but now, as things stand it is moving in the right direction from different perspective of different stakeholders and a few of them because there are other considerations like cost of carbon reduction cost per tonne. So there are many dimensions to which these projects are being put through and we are seeing very constructive development on that side.

Dhananjai Bagrodia: Sir a follow up question, is there raw material like is there raw material in terms of abundance and how would that look like, actually sugar ethanol work well because there was a lot of abundance in sugar, is that something similar to CBG?

Shishir Joshipura: No, so it’s a sugar mill based, sugar mills that have got press mud, they have got molasses, they also press mud so for them that’s very easy and very simple logistics for feedstock. For the agri residue based feedstock, yes there is a need to and there's a lot of work that is happening in terms of establishing of sustainable supply chains from that dimension as well. As you probably can surmise, this has to be done a year in advance of the project. So we can see a lot of activity that is happening in that space as well.

Dhananjai Bagrodia: Okay. And lastly what would be our CAPEX for this sir?

Shishir Joshipura: The CAPEX line for this year?

Dhananjai Bagrodia: Yes, total amount.

Shishir Joshipura: So, totally we are looking at because of the Genx coming into the picture of 100 crores, but entire 100 crore will not get spent in this year, maybe 60 crores will be from this year and 40 crore from the next year all out of Genx and there will be some routine CAPEX which will be happening for other facilities and for IT, that should be in the range of another 15 to 20 crore. Yes, and I need to mention that two pilot plants which we are putting up, one is for the SAF and another one is for the PLA that should be another in this year, the CAPEX will take to the tune of around 40 crores. So, if all put together 120 crores for this.

Dhananjai Bagrodia: 60 plus 80

Shishir Joshipura: 60, 20 and 40, 120 crores.

Moderator: Thank you. The next question is from the line of Sagar Dhawan from Valuequest Investment Advisors. Please go ahead.

Sagar Dhawan: So just to go a little further on the gross margin sir, what led to the improvement in the gross margin, just to understand the drivers of this, because in the last two quarters there was a significant improvement in the gross margin. So, if you can just talk about give some color on drivers that lead to the improvement in the gross margin?

Sachin Raole: See for gross margin there are two, three drivers. One definitely what is the raw material costs, but also the composition of my revenue, if my composition of revenue has one element definitely which is on the export side. And secondly, if there are only engineering orders, where we are not supposed to supply equipment or take care of any execution kind of a thing, that builds up the margin on a very positive side. So the gross margin is defined in these three ways. One, what is the composition of sales, second one is the element of international sales. And third one is the pure engineering services, so I'm not talking about engineering business, but I'm saying services which is like soft services which we provide to our customers. For example, the audit which we are conducting in the US, will not have any supply and installation activity, but that can give a higher margin because that is only the services which we are providing. So these three elements are the major contributor to define what kind of gross margin which we can have.

Sagar Dhawan: Got it. So just a follow up on this, so what could be the services portion of our sales as a percentage right now?

Sachin Raole: Sorry, your voice, I'm not able to hear you properly.

Sagar Dhawan: Okay, sir just on the services piece wanted to understand what percentage of our sales are currently coming from services?

Sachin Raole: Coming from?

Sagar Dhawan: Services segments side.

Sachin Raole: Services should be out of, today its 880 crores around the services which are mentioned should be in the range of 10 to 15 crores.

Sagar Dhawan: Okay, got it. And on the Genx facility that we are setting up, by when do we expect commissioning to be completed on this new facility for Genx?

Sachin Raole: For Genx we are expecting the commercial production will start in the last quarter of this financial year. So by February, March we should be having commercial production happening in Genx.

Sagar Dhawan: Okay, sir last question from my side. What is the kind of pipeline that we are seeing, enquiry pipeline on Genx side especially for the new plant if you could just quantify that please?

Sachin Raole: So, enquiry basket is definitely pretty big, we generally don't talk about enquiry baskets number for any of our businesses. But it is good enough and gives us the confidence that we can start our production in the last quarter of this financial year.

Moderator: Thank you. The next question is from the line of Sagar Kapadia from Anvil Shares. Please go ahead.

Sagar Kapadia: Congratulations for getting the big order from the US, what is the size of this order which you all have got?

Sachin Raole: We specifically don't talk about order by order for your, but it is good enough.

Sagar Kapadia: Approximate size you can just tell us?

Shishir Joshipura: There are such people also listing this call so we don't want to talk about order-by-order number.

Sagar Kapadia: Okay sir. Sir, two to three years from now, so what will be your expectation from the order side from the US market and from the Brazil market?

Shishir Joshipura: Sorry, could you repeat the question?

Sagar Kapadia: Yes, I'll tell you. Two to three years from now, see what will be your internal order expectations from the US market and Brazil market where you are deploying resources?

Sachin Raole: Two years from now, maybe we can look at, anyway we are looking for changing the trajectory between exports that is international orders and domestic from the current ratio of 20:80 to at least +30 for international orders. And out of that 30% maximum will come from US, some portion will come from Brazil, but maximum contribution because the US is going to contribute for bioenergy business and the Genx business both. So, US is going to be a major contributor in that sense, I cannot give you an exact number. But from what I can say from the visibility point of view the change in the dimension for international is going to be definitely on a higher side and the maximum number is going to be contributed by US and then by Brazil.

Moderator: Thank you. The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: Sir my first question is around the international business. We've seen share of international business go up, meaningfully over the last two, three quarters. So which are the end markets which are contributing meaningfully to the order inflow from the international market, we just got our first order for the low carbon fuel. So that has just started to contribute, but which are other steady state products or end market that have contributed to this international order flow?

Shishir Joshipura: So, as Sachin was mentioning earlier, for both bioenergy business as well as for the business of Genx that we have talked about and the transition in climate action. Markets are United States and Europe for both of them. Depending on, the customers are pretty common but of course US low carbon ethanol is entirely United States right now, but we expect that will also start to move in Europe within a very short period of time, and other markets of the world as well, because as SAF production starts to take priority low carbon ethanol will be a key requirement. So that's one clear directive, as of today it's more United States oriented, but we expect that as we move forward, Brazil, Europe, et cetera will get added into a significant portion. And when the GBA thing kicks in our three, five year kind of horizon, as I was mentioning we expect a lot more business to flow in from many other nations of the world especially global South, island nations, which are all looking for solutions to decarbonize their economy, and that will further change the complexion of the exports business.

Kunal Sheth: But sir currently in the bioenergy is it largely 1G driven order what we are getting?

Shishir Joshipura: For exports it is 1G, we have not got any orders in 2G yet or CBG we have not taken it outside India but when that happens you will see that as well.

Kunal Sheth: Sir and my second question is around Genx. So, what exactly will be our offering in terms of scope in this like in our bioenergy business we also supply equipment so, in Genx what exactly will be our scope of offering?

Shishir Joshipura: So, for the Genx business, they will serve the segment of energy transition and climate action, which is more around hydrogen projects, green ammonia projects, waste to energy projects, but within that broad segmentation of the industry what they will be offering is #A equipment's that are required for those projects plus, more important than anything else they will be offering modularized plant solutions to these projects. So they will have a look at the process that is being deployed by different process licensors, and convert that to a modularized plant and then offer the plant itself.

Moderator: Thank you. The next question is from the line of Abhijeet Singh from Yes Securities. Please go ahead.

Abhijeet Singh: Sir, my first question is on the export side, similar to the previous participant, how do we look at the export opportunity going forward like we have started penetrating into the US market. We have done a few FEL studies and have received an order in this quarter. But if we talk about the overall market size in US, and similarly other geographies how do we quantify it, is there a way to quantify it in the next two, three years, what will be the overall market size there, in terms of the opportunity that arises from FEL or other low carbon opportunities in ethanol?

Shishir Joshipura: So let me put it like this, so under the IRA program, there's a goal to achieve three billion gallons per year of SAF production, by 2030. And that, from the based on the feedstock that we get extra it looks like it's almost of this 3 billion, the first 1.5 to two billion will come from a different route which is the HEFA route. But after that, since there is no feedstock on the HEFA side, further than last one billion plus all the future capacities will come from what is called as alcohol to jet routes. And that is where, so almost a billion gallons of SAF will come through SAF root by 2030, that would mean two billion gallons of ethanol will have to be low carbon ethanol in the United States. So that's the size, and two billion gallons of ethanol has to be decarbonized over a period of between now and 2030. Typically, US plants have a size of either 55 million gallon per year or 100 million gallon per year. That's the two capacities in United States for different plants. So we can run the math to see that in order to reach one billion how many of them will have to actually convert and, go through the solution stages, we had also explain in the past, I'm not going to take up to much time on this call, but it's a three step process. And each of the step involves one after another, and each plant eventually will have to take all the three steps. The contract that we are talking about right now is only for the step one. So that's on you have said in general the drivers for ETCA, the green hydrogen, green ammonia movement, the low carbon ethanol movement, but the third one very critical, is what happens on a middle to long term basis on the GBA platform, because that is a very, very important platform that is being developed. And that will include many nations which today do not have, they have the capability in terms of they have the possibility not only capability, they have a possibility to be a biofuel producer, but they're not looking at it from that perspective. But many countries are now beginning to get aware of very differentiated benefits to their economies from biofuels. So, we are seeing a lot more new countries walk into this dialogue of establishing biofuel capabilities. We'll talk about it as we go through the year and the future period as well, but we clearly see very positive dialogue developing there as well.

Moderator: Thank you. The next question is from the line of Asha Shah from Elara Capital. Please go ahead.

Asha Shah: Sir can you just provide the status of the IOCL JV that we are going to proceed, so what are the expectations, what are the opportunities on the JV front if you could, that's what.

Shishir Joshipura: Please repeat that again as we couldn't follow what you are asking.

Asha Shah: Can you just provide some opportunity on what is the current status of the IOCL JV that we had signed recently, what is the status and what are the opportunities have we decided, have we logged on it or something like that, if you could provide some color on it. That's all from my side.

Sachin Raole: As we mentioned in the last quarter also that, IOCL JV formation is still in work in progress. The JV is basically for entire biofuel segment and within that biofuel segment discussions are right now related to SAF and CBG. We are not yet what I can say, finalized any specific project or something because first the JV has to come into the picture but parallelly we are discussing on these two front in a very active way. And we will see some action happening once the JV is formed that what kind of projects can come up under these two umbrellas, the JV is basically meant for covering entire basket of biofuels and it is not restricted only to one biofuel. So we'll see some action once the JV is in place.

Asha Shah: And follow up to that, when will the JV come up by Q4?

Sachin Raole: Yes, the plans are actually to get this JV firmed up by Q4.

Shishir Joshipura: So, this needs approval from DIPAM and Neeti Aayog which is the process that is undergoing now at IOCL, so once those approvals are in place then we can go forward.

Moderator: Thank you. The next question is from the line of Manan Mundra a private analyst. Please go ahead.

Manan Mundra: Sir, my first question is regarding the retention ratio of our projects. So during the last two, three years the projects that we have executed have we seen any percent of our retention ratio being forfeited by our clients?

Sachin Raole: You are talking about the retention?

Manan Mundra: Yes.

Sachin Raole: No, so we have not seen any forfeiture of any of our retention till date. There can be delays in release of retention for various reasons, but there is no question of forfeiture of our retention money maybe because of, we are not providing services or we have not completed the project no, we have not seen any of those instances.

Manan Mundra: Okay. And if you can share who are our major competitors in the market?

Sachin Raole: So there are many players and main thing different segments for that matter. For biofuel there are different set of people who are working, in ethanol segment different people who are working, CBG segment, for Praj HiPurity there is different competition for brewery business there is a different competition. So, there are many, depending on the competitors in the market for us.

Manan Mundra: Okay understood. And last question sir, we have seen a expansion in our margins. So, is it majorly due to reduction in the commodity prices or is it also an improvement in the execution efficiency also.

Sachin Raole: According to me around 75% to 80% is on account of raw material, because our execution is doing fine that we have seen some upside because of the large volume execution which we are doing, but measure contribution according to me is on account of raw material prices.

Manan Mundra: Okay. So going ahead we can expect if the execution volumes increase, we can expect more efficiencies to come in?

Sachin Raole: That's what I was earlier also saying that there is a scope for that kind of an improvement.

Moderator: Thank you. The next question is from the line of Naushad Chaudhary from Aditya Birla Sun Life AMC. Please go ahead.

Naushad Chaudhary: Some clarification firstly on the US opportunity. So, can you talk about the competition here, can you give us some specific name which compete with you on this opportunity and are these tender based opportunity or what exactly do we pitch to the client to get these orders?

Shishir Joshipura: So, Naushad what happens is that there are about 200 grain based ethanol plants in the United States and about 150 of them are operating right now, 150, 160 such number. And not all of them, but the people who are wanting to produce SAF under the new program that I mentioned, they are obviously looking for their feedstock which is low carbon ethanol. So there are what I would call a dialogue that is taking place between the SAF producers and the ethanol producers to see if there's a possibility for them to come together and work together. That's one dimension. The second is, we also have a presence in US that people know that we have solutions. We've been talking in seminars, we've been making our presentations in industry forums, we have customers who talk about us, we have been meeting customers to tell them how they can reduce the carbon intensity from where they are today, to where the desired level of the carbon intensity traction is. Three, we have a unique solution that is patent protected right now and also covered through an exclusivity agreement. So that we are able to offer a very unique way of reducing this in an existing project. There are alternatives, not that we are the only game in town, there are alternatives, but we believe that ours is a very sustainable, proven kind of a solution. So that it’s not something that is experimental at all in its nature. That’s the second part, third is we are also participating in different forums even with US GOE, USDA to educate customers on their platforms as well, to see how this could be developed further, because very clearly this is a requirement as a feedstock. This is already existing for them and the third thing is that in the United States, the projection is that because of electrification the overall ethanol demand may go down. And the only way for it to be bolstered up and even build more capacity is by positioning if there is a feedstock for SAF and that is where this whole effort of low carbon ethanol is there.

Naushad Chaudhary: Can you name a few competitors here?

Shishir Joshipura: Can I name a few, so depends on what technology pathway is chosen. So for example, if customers say we will go down the carbon capture and sequestration with CCS flow pipeline route, then that also achieves a similar objective. However, pipeline routes are long term because you need to get permissions which are not easy to come by. You need a wellhead locator which is not easy to get today. So that's a very long term prospect and there are lots and lots of what I would call is logistical challenges to be overcome on that route, but that's a definitive route. There are on the side of low carbon ethanol as I said it is a three step process, on one step I want to believe that we do not have an equivalent competition, people are trying to find different routes to solve the problem. On second and third stage, there are also companies that Fluid Quip, ICM, these other ethanol equipment manufacturers in United States also would like to offer solutions.

Naushad Chaudhary: Understood. And in terms of the efficiency, ROI point of view from the client point of view, do you think our solution is better than the peers here or where do we stand?

Shishir Joshipura: Yes, the stage one of solution that we are offering is very, very effective for them.

Naushad Chaudhary: Okay. Second clarification on the similar or some other opportunity we were talking about in Brazil. And at some point of the call, we had mentioned in that Rs.14,000, Rs.15,000 kind of crore of opportunity we seen.

Shishir Joshipura: We are losing you here, Naushad we can't follow after Brazil, we couldn't follow a word.

Naushad Chaudhary: On the Brazil opportunity also earlier, we used to talk about it's a Rs.14,000, Rs.15,000 crore kind of opportunity we see here in Brazil, because they are shifting, they are targeting for coal based capacities by 27-28. Is there any development there, what exactly we are doing here and where we can see the order from the Brazil for these opportunities?

Shishir Joshipura: Yes, so first of all I don't recall having said the number that you mentioned, definitely not by us we think that's large. But yes, Brazil is moving in direction of creating capacities from alternative feedstocks apart from sugar feedstocks. And as that development takes place, there are some elections there all these things are now settled down, there is a much longer time than many other economies to overcome the impact of the COVID on their economy. So now we see constructive developments that are taking place in that market, and will keep you posted as the developments move to a definitive stage.

Moderator: Thank you. The next question is from the line of Prathamesh Sawant from Axis Securities Limited. Please go ahead.

Prathamesh Sawant: Sir two questions from my end, so just more clarity, I know the earlier participant mentioned, but is there any one off item in the operational costs with respect to setting up the new Genx facility or it is just in general high for some other reason?

Sachin Raole: So Prathamesh there will be some cost which will be sitting in the employee cost. And on the other expenses also related to the employee because these new facilities which is coming up naturally the process have started getting built up and increases. But it is not one time, because Praj Genx is going to be there, only the revenue right now is not reflected from Praj Genx which will start happening hopefully from the quarter four of this financial year.

Prathamesh Sawant: Okay. And secondly sir as you were talking about the competitors in the US market, so I just wanted to understand, are these local players who are there or even those players are someone who are exporting to US. In the US, ethanol and SAF?

Shishir Joshipura: They are local guys.

Prathamesh Sawant: Okay. So we'll have certain margin advantages given low cost to them?

Sachin Raole: More than a margin, it's a technology advantage. And of course, there will be a number which will be attached to that.

Shishir Joshipura: Our position in the United States market is not, it's actually not in any market for that matter- of a low-cost solution provider, we are very clearly saying we are best in class technology and therefore bat for me.

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

Sandip Bhadkamkar: So thank you everyone for your time today. In case you have any more questions feel free to write us at info@praj.net. Again, thanks for your time today and wish you a great day and Happy Diwali. Thank you.

Moderator: Thank you members of the management team. Ladies and gentlemen on behalf of Praj Industries Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.