Praj Industries Limited

Q3 & 9M FY2011 Earnings Conference Call

January 24, 2011

Moderator: Ladies and gentlemen, good day and welcome to the Praj Industries Limited Q3 and nine months FY2011 Results Conference Call. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Ms. Vinati Moghe from Praj Industries Limited. Thank you, and over to you.

Vinati Moghe: Thanks, good afternoon everyone. We welcome you to this conference call organized to discuss Praj Industries operating performance and financial results for quarter three, and nine months FY11, which were announced earlier. I have with me Mr. Pramod Chaudhari, our Chairman, Mr. Gajanan Nabar, our CEO and MD, and Mr. Surendra Khairnar Assistant Vice President, Finance. Before we begin I'd like to mention that some of the statements made in today's discussion may be forward-looking in nature, and may involve risks and uncertainty. Documents relating to our financial performance have been emailed to most of you else they are also available on our website. I now invite Mr. Chaudhari to provide an overview of the highlight and business environment for the quarter.

Pramod Chaudhari: Hello. This is Pramod Chaudhari. A very good afternoon ladies and gentlemen I'd like to start first of all by wishing all of you a very happy, prosperous, wealthy and healthy new year. Before we begin let me introduce Gajanan Nabar to all of you. Gajanan has joined us as the CEO and Managing Director from November 15th, 2010. He is with us for last 65-70 days now, and this is the first time he is joining us on this conference call. Gajanan has over 22 years of multifunctional management experience. He was previously with the Indian arm of Praxair as its Managing Director in Bangalore, and prior to that he has worked with many companies such as Monsanto, BASF, Asian Paints. We very much welcome him, and look forward to supporting him in securing the company into a new trajectory. I'll now take you through the numbers as said by Vinati. They are already with you, and we'll just walk through the numbers and the operation highlights. Income from operation was Rs. 148.24 crores in quarter three FY11, was at 147.35 the same quarter last year. The EBITDA excluding other income was at 11.3 crores in quarter three FY11 as compared to 33.35. EBITDA margin as a percentage of revenue has been at 7.62 as against 23 in FY10. PBT was at 15.23 crore, versus 35.67 crore, and the PAT was at 13.66, crores versus 29.14 crore last year this time. Incidentally, on the sequential basis, income from operations, has seen some growth almost 36% over the previous quarter, and average growth of 25% quarter-over-quarter. It would seem like we are heading in the direction of some growth and the turnaround process maybe over much earlier in near future. Let me take the brief overview. The current investment environment remains challenging in some geographies. The global environment has been much slower in its recovery process, but now it would seem that the consolidation space in many of developed economies is through, and it seem to be returning to a situation of low to moderate growth. Of course, the BRIC economies will continue to lead the global GDP growth for coming years. In India, the strong performance of the economy is being challenged by headwinds. High all around inflation and increasing interest rates is of course the cause for concern. However, the food price inflation is not restricted to India.

We are seeing inflation in global food prices and in commodities, so the increase in oil prices is resulting in the spotlight returning to the alternate shares. So, we have got two increases, one on the food prices, and other on the oil prices. What is important to note here is that in the last three years following the economic crisis, the global consumption of energy has actually dipped. However, the growth in the renewable energy industry has continued unabated. So, we are seeing a situation of strong and sustained growth in various sources of renewable energy. The key point to mention here is that the growth in the generation and usage of energy from renewable sources is partly due to regulatory process, and, of course, because of the intent even though the COP 16 at Cancun did not come up with any major solutions towards this. In the ethanol industry, we are seeing an increase is mandates being introduced by regulators around the world. The adoption of biofuel is also being added by an increasing number of countries. his has resulted in an improved demand environment for us, and I'm pleased to share with you that the strong marketing and sales engine of the company has been instrumental in bringing back some of the tractions into the order inflow once again. We have received orders of over Rs. 250 crores during the quarter Q3 of FY11. After accounting for quarterly revenues of approximately Rs. 150 crores, the order backlog as on 31st December, '10 has crossed Rs. 700 crore mark. The order intake is 60% from international, and 40% from domestic. This is a change that the international is now more than the domestic(order flow). There is a growth in international order intake when compared to previous quarter. The non-alcohol, non-ethanol group, we are clubbing all the non-alcohol activities together, is now close to 14%. Of the orders on hand, export accounts for 45% and domestic accounts for 55%, again a small change in the earlier position. These new orders include a breakthrough order from Argentina for a complete plant as well as an order from Europe for a project in West Africa. so as I was telling you that we have got a major breakthrough order from Argentina for a complete plant, and another order from Europe for a project in West Africa where we have increased scope of our (offering), a partial scope of EPC of what you call as increased wallet share. We have added new geographies during this quarter. We are optimistic about the medium to long-term outlook, and I'm confident that we'll be able to maintain and consolidate our market share as there is a stronger recovery, and further improvement in the sentiments. With the ethanol business, now showing signs of both stability and improvement, we are simultaneously working on several strategic initiatives, which we believe we should be able to share with you in a few quarters down the line. I'm pleased to share the strategy for the water and waste water business is now concluded. The implementation is underway. In its first phase, we will concentrate on India as the market is growing, and likely to double in five years. We already contracted orders from chemical, food and beverage sector. Meanwhile, we have started augmenting the organization further in order to achieve quick traction in this business. Our initiatives in the area of customizing engineering and bioconsumables continue to progress well, so our non-ethanol side of business that is excluding ethanol business is being steadily built up, and we see our mixed of breweries, water, waste water, customized engineering and bioconsumables contributing to 25% of revenues in coming years very soon. Let me touch upon some key developments in the biofuel industry. Three national oil companies on the domestic front have begun blending ethanol in 14 states, and 20 will be online by end of this coming month. Five of the states expected to participate in the 5% ethanol blending program. One will be unable to due to a lack ofavailability. It is expected that the three companies will be able to achieve 100% blending in states like Maharashtra, Uttar Pradesh and Karnataka where ethanol supply is ample. It will be achieved by September '11. The country's total demand for ethanol next year is seen at around 3.2 to 4 billion litres with 1 billion litre going for blending of E5. This is being also added by expectation of a better sugar crop in the coming season. While India continues to grow at an even space, international markets are opening up especially the countries in Latin America, Southeast Asia, and especially Africa making the early move in going ahead with the investments. Latin America is moving forward. Columbia, with an increase mandate where you know that we have a more than five references since long. It's looking to developing newer areas for cane cultivation and ethanol production so also as Peru and Argentina, which recently announced 10% blending from 2011 onwards. Guatemala which was going slow has also restarted its planning process for ethanol blending. You will be surprised to know that smaller countries like Uruguay and Paraguay are also stepping up their biofuel commitment. Latin America also has an export potential to USA and EU under free trade agreements. The implementation of RED, Renewable Energy Directives, will greatly benefit Latin region. In USA, EP has recently approved, this is just the news from three days back, E15 blending of pre-2007 vehicle fleet while E15 was earlier approved only for post-2007 vehicle. There still remains a logistical issue for full implementation, but however this is a very welcome find, and along the line it would mean that new capacity build up would restart. Meanwhile, it would also mean pricing power for ethanol. In EU, Renewed Energy Directives, RED have been implemented from January 2011. This is expected to create an additional capacity of around 7 billion litres by 2016. Spain, UK, Poland, Germany and France are at the forefront. Legislative action is prescribed in some countries if the RED mandate is not followed. This would provide opportunity for imports from duty free areas like Africa and South as well as Central America. In Southeast Asia, we see Vietnam coming up with strong mandate. We are already progressing two projects there. Another country with opportunity is Philippines, and Japan has also started blending ETB. They also announced plans to blend 3% ethanol soon. Africa is another destination where two projects are already underway under acquisition where Praj is the supplier. The recent BP, British Petroleum, energy review which was released four days back sounds very optimistic about the role of renewable energy and that of ethanol in transport fuel mix. It projects that ethanol production would go up from current 103 billion litres to over 350 billion litres by 2030. This means an average annual increase of production of roughly 12 billion litres per year. Biofuels are slated to account for 9% of global transport fuel, which stands at around 6% at current levels. Now, coming to corporate development front, a key development during this quarter has been our strategic partnership with Qteros, a company from USA to accelerate global commercialization of cellulosic ethanol. The agreement leverages Qteros's broadly patent protected, and highly flexible consolidated bioprocessing platform called CBP platform with Praj's research capabilities, and it's technology, process engineering, designing and construction expertise to deliver fully integrated engineering design package for the lowest cost production of ethanol from a broad variety of non-food based feedstocks, which will help us to make significant progress in our program to make cellulosic ethanol commercially viable.

On corporate development as shared earlier, we are augmenting the board with new member addition which saw us adding Mr. Prakash Kulkarni as the non-executive director. The recent appointment of Mr. Gajanan Nabar as the CEO and MD is fast taking on the reigns of the operation. I have full confidence that the company will grow in strength. The board is actively providing the management with insightful guidance that would not only lead the company in the scale of rebuilding of growth trajectory. It is also expected to provide many, many active imports to take on accelerated growth. Coming to the CAPEX update, the company had chalked out an expenditure budget program of Rs. 35 crores in the beginning of the year, out of which more than 14 crores are expended so far. The new facility at Kandla SEZ for fabrication of high thickness equipment is planned for commissioning during March, April 2011 and another facility for the production of bionutrients is getting ready in June 2011 at a place MIDC, Jejuri. To conclude, it has been a very encouraging quarter given the continued challenges that we faced. We are all geared up to continue the traction in our business, and to make steady progress in all verticals. Encouragingly, our cash flow position, and our balance sheet remains healthy. This allows us to pursue our strategic initiatives, and simultaneously focus on growth of our current operation in an unhindered manner. I strongly remain optimistic and confident, and that we will demonstrate visible progress over medium to long-term growth, which may get further augmented with development of our various strategic initiatives. With this, ladies and gentlemen, I will be very happy to take your questions. Thank you very much.

Moderator: Thank you. We have the first question from the line of Harish KS from Tower Capital. Please go ahead.

Harish KS: My first question pertains to the margins in the current quarter. If you look at the turnover sequentially has grown from about 37% quarter-on-quarter, but the margins have still remained at those levels at 7 .5 percent. What has happened in this quarter? Are we seeing some mix change, or are we taking contracts at their lower margin rates? The second question is with respect to any order inflows likely. What is the bidding status of any new fresh orders globally and in the domestic segment? What order inflows are we going to see in the next six to eight months, and the third, with respect to the partnership with Qteros, I want to understand more about that in terms of the cost of production, and in terms of the viability of the cellulosic, ethanol, etc?

Pramod Chaudhari: Thank you sir, I will go one-by-one. As far the margins are concerned, yes I agree the margins on percentage basis or numbers wise it is lower compared to the earlier period. The reasons are threefold, one is of course we are having more of a domestic content in the whole sales which we are doing this quarter, and our margins are a little less compared to the international business there. There is a substantial payment especially on the consultancy fee, which we have cleared on our strategic assignment with our consultant. This has fallen due this quarter. And thirdly, there is a ramp-up on two areas; one is on the new businesses, ramp up with the manpower, and also in the R&D expenditure. So, these three, four things put together our margins are lower compared to the performance of the revenue, which we have generated. I think in time to come, they will start getting adjusted. I won't be able to give you exact number, but it's definitely expected to start getting adjusted in near future. As regards to order intake is concerned yes there are variety of orders in pipeline in different stages. The numbers and the value is not given out normally because of the confidentiality reason, because of the competitive nature, we would not like to disclose that, but going forward as I said in my opening remarks overall situation is easing out, and we are also stepping up our effort which should see improvement in the order book in time to come. As regards to Qteros is concerned, Qteros program, I must explain a little bit more. It is a joint development program. It's a kind of a partnership to convert the basic technology into a commercializable technology, and the expectation is that the cost of production of ethanol from Biomass will be very, very comparable and that should see good growth prospects.. The program is drawn over a period of two years, and actually the results will start flowing of the successes of the joint development maybe 12 to 15 months down the line, and by end of the joint development program by say end of 2012, early '13 we expect to come with the commercializable package in the market place.

Harish KS: Except in the breweries, the other three segments which you've recently formed, of the current order backlog, do we have anything with respect to those segments, or in future only will we be able to get that?

Pramod Chaudhari: Yes definitely some order backlog is there. It will not be more than even 5% or so but it will be in that range; roughly 5% will be order backlog in this fair segment.

Harish KS: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Nirmal Shah from Alchemy. Please go ahead.

Nirmal Shah: Regarding your new orders what you've received in this quarter, you mentioned about increasing the wallet share, so roughly how much percentage of the ethanol plant you address, and going ahead what would be your strategy?

Pramod Chaudhari: Yes, as I said that our normal course, our wallet share would have in the range of about 15% plus minus of the project cost, and I think we have land up to 25-30% now, and we'll continue to make efforts to increase it further in time to come definitely.

Nirmal shah: Okay and is there a delay in terms of commercializing the cellulosic ethanol timeline? Earlier we were focusing between 2011-'12, now we are talking about 2012-'13. So, is there a delay?

Pramod Chaudhari: Yeah it's like this, what you're perceiving earlier was based on our in-house technology, , This is a new approach which is launched by Qteros. In the consolidated bioprocessing, three steps are brought down to two steps, and that's where the whole viability improves, so this is a different route. We are continuing with our previous route also, but we are now adding this one more route. So this program is for 2012, 2013 beginning.

Nirmal Shah: Okay, and what would be the further excess capacity left in U.S. for construction?

Pramod Chaudhari: Yeah, now with current situation about 13 billion gallons are I think getting fully utilized to meet the demand, and I think practically the existing or under construction capacity, which are lying ideal is almost getting over. We should see the discussion on the new capacity commencing during this calendar year.

Nirmal shah: Okay thanks a lot.

Moderator: Thank you. The next question is from the line of Kirti Dalvi from Enam Assets Management. Please go ahead.

Kirti Dalvi: Could you a break up of your orders between breweries and ethanol?

Pramod Chaudhari: Pending order or as a quarterly order?

Kirti Dalvi: No, quarterly order inflow, sir?

Pramod Chaudhari: Quarterly order could be in the range of about 10% a term, yeah..

Kirti Dalvi: And same thing for the order? 700 crore order book? Share of breweries in the order book, sir.

Pramod Chaudhari: In the backlog?

Kirti Dalvi: Yeah.

Pramod Chaudhari: Okay, in the backlog, it'll be range of again in the range of 10-11%.

Kirti Dalvi: Okay, and so similarly domestic and international, breakup of the order book?

Pramod Chaudhari: Break up of the order book as I said that the international has come a little more this time than the domestic, international 55 is pending order is 55% domestic, 45% international, and at this quarter intake has been 60% international, and 40% domestic.

Kirti Dalvi: Okay and you did mention about this at a quite elaborate length about this increasing our scope of operations, but could you give a broad range what is the share of our EPC business in our total order book?

Pramod Chaudhari: EPC, we have just commenced, we are not, I say that we have just started on those lines of increasing the wallet share, and doing some EPC business, so the new order which we have got for West Africa is contained some portion of EPC portion that's what I said.

Kirti Dalvi: Okay, and since 90% odd belongs to ethanol, and other businesses of a current order book, in terms of basic raw material like sugar based, or beet root, or other grain based, could you give a broad break up for the same?

Pramod Chaudhari: That break up we are generally not giving, I can give only the break up between sugar and starch.

Kirti Dalvi: Okay fair enough even that will do.

Pramod Chaudhari: So sugar is 9sugarcane, molasses, beet), so all put together will be around 65-70% and starch is around 30%.

Kirti Dalvi: Okay, now the new areas which we are talking about the waste water treatment any updates on that front again?

Pramod Chaudhari: Yeah as I said that we have started getting some small breakthroughs. They are not very huge order, but in the chemicals, and food and beverage sector, we already got some entry orders, and we hope that it will continue with some more traction in the coming quarter.

Kirti Dalvi: But is this in the domestic arena only?

Pramod Chaudhari: Yeah we said that water and waste water, we are consigning to domestic to start with Indian market, which is going to get doubled in five years now.

Kirti Dalvi: So going forward do we see more focus on these two areas probably say FY'12 or 13 onwards or our main ethanol business will remain our forte?

Pramod Chaudhari: We would like to increase the pie; definitely these businesses will take some portion of that pie.

Kirti Dalvi: Sure so currently it is less than 5%, or approximately 5% of our order book. Do you see that proportion going up to say more than 30-40% over the next couple of years?

Pramod Chaudhari: Yeah I said that 25% we have to cross.

Kirti Dalvi: Sure, over the period of next two years?

Pramod Chaudhari: Yeah, hopefully yes.

Kirti Dalvi: Sure and just a book-keeping question, could you throw a little light on the working capital situation?

Pramod Chaudhari: Actually, we continue to remain a debt free company.

Kirti Dalvi: Okay.

Pramod Chaudhari: Not a single rupee we are drawing and our treasury cash continues to be in the range of 400 crores.

Kirti Dalvi: Okay fine, thank you.

Moderator: Thank you. The next question is from the line of Jeremy Higgs from Green Dragon Fund. Please go ahead.

Jeremy Higgs: Thank you. I just got three brief questions. One, before the end of last year you were saying that you were actively looking for an acquisition in the water business within India, has there been any progress on that? Secondly, you spoke a lot about Central America, and South America, but nothing about the present status of the joint venture with Jaragua in Brazil, so I was wondering if you possibly were going to wind up that joint venture. And thirdly, just about Qteros, and it is a very, very interesting joint venture that you have there. I would just wants to know on that CBP platform, has that been proven already?

Pramod Chaudhari: Okay Jeremy one-by-one. Acquisition in water and waste water, the progress is pretty good. We have identified some prospective candidates, and I think we should be able to conclude in the near future because of the valuations being little more unrealistic,we have to be very careful. Central and South America I think -- sorry --

Jeremy Higgs: Is it complete acquisition within this year?

Pramod Chaudhari: This year may be difficult. Calendar year, yes, not the financial year. Hopefully, it should happen. Coming to your very interesting comment about situation in South Central America excluding Brazil, yes Brazil we have not been successful so far. Our joint venture is still there, like last time we said, we are keeping it dormant because Brazil no new capacity was being added that was the reason, and we wanted to cut down on the overheads, so we had kept it dormant. It is not wound up. It is very much live, and I think this year we are going to make renewed efforts to see as to what's going to happen in Brazilian scenario. Here, if we don't land up in selling something, but I'm sure there will be a chance for us to buy some of the machinery from Brazil, so we will like to keep that joint venture partnership alive. As far as the Qteros thing is concerned, the CBP platform that is Consolidated Bioprocessing Platform, there is already one company that has already introduced that concept, and I think that has come to a level where they're going for a full scale commercial production plant with the help of DOE guarantees. So, it is a concept. Now the microbes which is used by those people, and the microbes which is being used by Qteros, there will be a different kind of characteristic of the microbes. So, CBP is a known platform and what we are trying to follow along with Qteros is that something with a different kind of microbes which has been tested or it is operating only at the last level and the bench level which will be taken to the pilot level, and then to commercialization. And really it is a joint development program, and not a joint venture, the way you mentioned it. It's a joint development program.

Jeremy Higgs: Okay, thank you Mr. Chaudhari.

Moderator: Thank you. The next question is from the line of Nirav Vasa from SBI Caps. Please go ahead.

Nirav Vasa: My question pertains to the globally competitive scenario that you are facing as of now, as you just informed that the revival is happening in this industry so can you just throw some light on what are the type of competitive pressure that you are facing?

Pramod Chaudhari: That's a very interesting question. See luckily what was happened the way we could maintain and carry on during this dull period, I think not all competitors were lucky to carry on that basis, so I think we are reasonably well placed, and we are not lost any market share during this period, and I think we will be in better position to bounce back with this increase in demand so we are not feeling any major pressure just now.

Nirav Vasa: So would it be reasonable to expect that the EBITDA margins that you would be getting in the new orders as of now for which the negotiations are in pipeline would be higher because the competitive pressures are bit lower?

Pramod Chaudhari: I hope to agree with you.

Nirav Vasa: Okay thank you.

Moderator: Thank you. The next question is from the line of Shefali Doshi from KJMC Capital Markets, please go ahead.

Shefali Doshi: Yeah as far as your order inflow and order book is concerned you mentioned 60% is from the international orders inflow, can I have the break up over there I mean which economies exactly?

Pramod Chaudhari: I told you that two major orders during this period have been one from Argentina. Which is presently for South America and one from Europe for their project in West Africa.

Shefali Doshi: Okay so these were the two only orders which consist to 60%.

Pramod Chaudhari: Those are major one. They are major ones rising from the small here and there, but these are the two major ones.

Shefali Doshi: Okay, and as far as the water and waste water area is concerned, can you elaborate it like where exactly the scope of your work extends?

Pramod Chaudhari: If you understand the space, there are three to four major areas. One is the water treatment for the intake water, and we are offering those technologies. The other area is called waste water. Waste water is in the industrial plant where we are already offering both technologies, then both water for municipality and waste water for municipality are the areas which we are trying to explore as the next phase of attack and other area is desalination, so these are the four, five areas which have been broadly identified, and in two areas we already made a breakthrough.

Shefali Doshi: So you just provide the technology it doesn't include the EPC side of the.

Pramod Chaudhari: We'll do the complete job in that area.

Shefali Doshi: So it will include EPC also.

Pramod Chaudhari: Yeah, EPC is more common for the municipality job, and not for the small industrial jobs.

Shefali Doshi: Okay well is it anything similar what VA Tech Wabag is into?

Pramod Chaudhari: No. I don't know about that company.

Shefali Doshi: Okay and as far as your tax rate for the current quarter is concerned just wanted to know what was the reason for the reduced tax rate?

Pramod Chaudhari: I think we are getting SEZ benefits, that is the main thing.

Shefali Doshi: So that must be available in the last quarter as well?

Pramod Chaudhari: This is to the extent of the business done in that quarter for exports. It depends on that.

Shefali Doshi: Okay, so you mean to say this quarter there was a higher…

Pramod Chaudhari: Yeah, higher business of international business in this quarter.

Shefali Doshi: So overall tax rate stands at 18%, right?

Pramod Chaudhari: No overall this year is expected to be around 13 to 14%.

Shefali Doshi: 13 to 14%?

Pramod Chaudhari: Yes Ma'am.

Shefali Doshi: For this, and for going ahead also the same way?

Pramod Chaudhari: I can't promise, but it should be in that, even better than that.

Shefali Doshi: Okay and sir if you can just give me the breakup of your total revenue for this quarter into domestic and international?

Pramod Chaudhari: Domestic and international revenue break up is approximately 80-20.

Shefali Doshi: And whatever discussions we are reading in the paper about the ethanol price being fixed below Rs. 27, taking into consideration the bumper sugar production can you just elaborate about the opportunities for the Praj in the domestic market in terms of the existing install capacities and the new capacities which are likely to come up?

Pramod Chaudhari: See, existing install capacity I don't need any potential out of the existing. So the future capacity is like this that if there is a more of molasses production there is a tendency of the sugar mills to establish new distillery, so then we get a potential to supply new machinery. It's like that. Now it is a little complex cycle. It is not so straightforward because with that the higher molasses, and higher availability of alcohol, the alcohol prices starts fluctuating, so it basically depends on the state wise demand, beverage demand which is growing year-by-year in India, and slowly with fuel ethanol catching up, so it is a combination of all these three factors that creates the capacity in the domestic market.

Shefali Doshi: Yeah, but where do you see the opportunity for Praj taking into consideration all these factors?

Pramod Chaudhari: All these factors are favorable, we'll do more business.

Shefali Doshi: No I want you to quantify some numbers for us.

Pramod Chaudhari: That will be very difficult. We can take it up offline where we can discuss, and develop a model, and share the model in front of you.

Shefali Doshi: Okay and for FY 11 and FY 12 where do you see the growth on the top line and bottom line?

Pramod Chaudhari: No guidance.

Shefali Doshi: Okay thank you.

Moderator: Thank you. The next question is from the line of Gagan Thareja from B & K securities. Please go ahead.

Gagan Thareja: You quoted a figure for the demand estimates for ethanol in India. Is this the calendar year you are talking about, and if that is the case could you give the demand for 2010 calendar and the break up, and could you then subsequently give your basis for your estimate of the demand calculation for 2011, I think you mentioned, and could you also indicate what is the existing plant capacity in India as per your estimates?

Pramod Chaudhari: Gagan, I think your questions are very, very interesting, but I think we can speak across the table offline and view all the calculations, and there is no, nothing, but it will be just a lengthy exercise to co-share also, but you're most welcome to visit, and we can work on that.

Gagan Thareja: Okay then in that case could you just clarify that 1.2 billion litre figure that you gave, does that take into consideration only 5% blending or that takes into consideration more than that?

Pramod Chaudhari: No. It's a little more than that 5% actually 5% is very close to 1 billion.

Gagan Thareja: My next question is pertaining to Range Fuels where I think a few years ago you had some sort of a tie up with Range Fuels?

Pramod Chaudhari: Yeah we were supposed to supply some equipment to them. Yes.

Gagan Thareja: Yes, subsequently over a period of time what is the status?

Pramod Chaudhari: They are not successful, and they have I think more or less wound up their business. Their technology was to go for ethanol but could not achieve the required quantity or quality of ethanol . They then proceeded with methanol, and I think, it's already all over the papers that they're not successful.

Gagan Thareja: And over the last couple of years, the mandate that have come in U.S. for ethanol through the cellulose route have also been downgraded quite sharply If I remember the figures from 100 million gallons a year right down to 3 million gallons a year, and a whole load of questions have been asked about the scalability of all processes. There are 30 odd companies working on cellulosic ethanol. Where do you see this technology maturing in what timeline, and what sort of policy support do you feel is needed for that. I think we have a blender's credit what's the discussion on that? Will blender's credit need to increase significantly for any cellulosic technology to be viable?

Pramod Chaudhari: I think it is a very valid point Gagan, as the cellulosic ethanol has not got much success even in USA, or in Europe. All the technology providers who are trying with this are behind schedule, and that's how the dates are getting shifted, and hopefully by '13-'14 they're saying now that something should materialize, and that's why they're brought down the limits of cellulosic ethanol under RFS-2, and now the EPA has increased the percentage blending. So, the next move perhaps could be that the corn blend wall may get expanded from current level of 15 billion gallons which is the limit. They may extend it to 18 that's the talk that is going on. So, you're right cellulosic ethanol it's going to be a little delayed further.

Gagan Thareja: And do you see that causing their blending mandates itself to be reduced over a period of time from the 36 billion gallon figure that they have by 2022 right now?

Pramod Chaudhari: No I don't think that is going to be happen. What is going to be happening is that there will be some more respite for addition of corn ethanol capacity which will be good news for everybody.

Gagan Thareja: Okay and you feel the blender's credit will continue and I think it was coming up.

Pramod Chaudhari: I mean as far as I know, and what the senators have been talking that currently they are continuing, always it is reduced amount but the trade is continuing. Only there is an issue going on with the volumetric, something is going on there, but I think by and large the things are moving, and I think moving for the better for ethanol.

Gagan Thareja: Okay and you already had one process for cellulosic ethanol where you are following the enzymatic route for biochemical processes. What was the rationale behind again going with the tie up with an alternative route?

Pramod Chaudhari: To bring down the cost of production. Our process is a three step process. This is a two step process.

Gagan Thareja: So are you saying that the process that you're following is Qteros might substitute your own process entirely?

Pramod Chaudhari: It can create a hybrid process also there will be many opportunities, many possibilities.

Gagan Thareja: Okay, is it possible to understand your outlook on Brazil and EU in terms of demand and supply over the next two years?

Pramod Chaudhari: Brazil is little difficult currently because of the high sugar prices, their entire scenario has undergone a change especially the ratio between sugar production to ethanol production, but EU is having a steady growth. There we are quite confidentand bullish also there that from 7 billion litre steadily going up to 18 billion litres over a period of time seems to be a reality.

Gagan Thareja: What's the consumption figure in EU now?

Pramod Chaudhari: 7 billion litres.

Gagan Thareja: 7 billion is the capacity or is it the actual bioethanol consumption?

Pramod Chaudhari: Biofuel consumption is 5.5. Yeah 5.5 to 6 billion litre.

Gagan Thareja: And I would think there is already 7 billion litres of capacity plus another 1 odd billion in the system under construction?

Pramod Chaudhari: Yeah, but they are having a very systematic approach to increase the blending because the RED is a legislation.. I think that steadily those mandates have being implemented step by step.

Gagan Thareja: But could one presume that the demand will come, but it might not be uniformly distributed you might see a few more months of leanness in the area, and then subsequently after a period of consolidation demand might come back.

Pramod Chaudhari: Yeah because see what happened there is like one plant which we are building just now it is 1.2 million litres per day. I mean such kind of big capacity suddenly come on screen for kind of momentary spikes in the capacity creation, so like that it keeps on happening, but it gets averaged out over a period of time, so we are really not worried from that angle.

Gagan Thareja: Okay, alright.

Moderator: Thank you. The next question is from the line of Shailesh Kumar from KR Choksey. Please go ahead.

Shailesh Kumar: First thing I would love to know about the financial contours of your deal with Qteros, what are the financial arrangements for the joint development agreement which you've entered with them?

Pramod Chaudhari: We have not disclosed all the financial arrangements, but we say that the total outlay on our part will be in the range of about $10 million over a period of two years. **T**hat would include CAPEX and OPEX all put together.

Shailesh Kumar: Great now because of this E15 mandate for pre-2007 vehicles in U.S., so that came three days ago, which is the additional demand that would be generated at U.S. market?

Pramod Chaudhari: I'm just trying to find out those numbers. It could be in the range of 4 billion gallon or something like that. Yeah so it's -- beyond the current demand of 12 or 13 billion, so therefore the next step by that I was referring to somebody else I don't know you heard that, the corn limit that is off now, see one-by-one the things are moving in that direction if you've seen over the period of last two, three months, so they came with E15 .

Shailesh Kumar: I came across the report which was saying that most of the agro consumables across the globe now people are maintaining JIT kind of inventory earlier it used to be around 30-35% of annual consumption. Now, it is hardly around 15% or may be 20%, and China has become a big decisive factor, a very big demand driver for corn and all these things. Given the scenario, do you really think being in the field for so long U.S. will continue with the kind of tax credit and other benefit it provides to ethanol manufacturer from corn and other food commodities?

Pramod Chaudhari: No I think this corn and wheat, in Europe and corn in USA I mean they are not really getting directly committed with the food commodities and beyond that it is the total commitment required for making bio-fuel. It is maybe 30% to some extent in certain areas, so there is not much of a diversion of those kinds of things that is point number one. Point number two is they have learned that going by the speculation in the commodity market and all those things maybe they'll get a better pricing or costing with the JIT kind of the possibility that may be one of the reasons, but I think we'll definitely try to find out what is exactly happening.

Shailesh Kumar: Because my concern is the way Chinese demand has upset the global equation in hard commodities like iron ore, coal and maybe other things, and that China has become one of the largest importer from U.S. of corn in last few years, so in that case don't you really think that unless until there is some breakthrough in second generation or may be lignocellulosic ethanol, this particular line of business itself will be in danger?

Pramod Chaudhari: That's a good one, but the point is that that's why these efforts are going on very strongly, and with the support from various governments, various programs to go for non-food, agri-residue based ethanol, I mean that will continue. And till then this support of corn or wheat will continue. Apple cart will not be totally disturbed in next at least four to five years; I don't see anything of that kind of happening. It will continue for some more time because again the issue of oil prices is there, , so I think there are means and seeing non-tariff barriers can be always there to support this kind of movement, so I don't see it that kind of debacle anywhere.

Shailesh Kumar: Okay and now that you have said that your consultant A.T. Kearney has already suggested the business plan for your water segment. Could you throw some light on that? Which direction are we heading now?

Pramod Chaudhari: As I said that the first step is we are going to focus on India, and we have identified some five sectors which I just referred about it, and we are already started getting some breakthroughs and more are in the offeing, so we are quite updated and are getting well organized to get the fruits of our hard work.

Shailesh Kumar: So you will not hesitate to cover municipal segment as well?

Parmod Chaudhari: Yeah it's the second phase, yes definitely.

Shailesh Kumar: And after how long will that second phase come?

Pramod Chaudhari: It should be between say one year to two years.

Shailesh Kumar: What is the Cash on your books as on December 31st, 2010?

Pramod Chaudhari: I can say the same number of 400 crores.

Shailesh Kumar: Thanks Mr. Chaudhari.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Just wanted to check a number on the R & D expenditure. What kind of expenditure we have on the R & D front as a percentage of revenue of one can get a ballpark number?

Pramod Chaudhari: Roughly 1.25 crores per month.

Achal Lohade: Okay and how do we see it growing over a couple of years?

Pramod Chaudhari: It will increase with this program which we have declared and we are ramping up the manpower also, so it should increase, it should increase at least by another 50% to 80% in the near future.

Achal Lohade: That's great sir, thank you.

Moderator: Thank you. The next question is from the line of Jinal Sheth from Century Asset Management. Please go ahead.

Jinal Sheth: Are there any synergies with your waste water business and the normal ongoing business that has been there, is there any synergy?

Pramod Chaudhari: Sir, we have been in the waste water business, and water business for our basic core sectors like distillery and brewery. We have always been there. We are quite familiar there. What we have done we have expanded to other verticals, so here we are having end-to-end. Now we are going with the front end and the rear end to other areas which are in the nearby like beverages, pharma, chemicals, so it is there is definitely a substantial synergy in our business plans

Jinal Sheth: Okay, and do you foresee the margin in that business are going to be similar to the current business, or could be better off?

Pramod Chaudhari: I think time will prove that because we have entered that line. Our excel sheet show that we should be having the similar range.

Jinal Sheth: Okay, what is the number that the non-ethanol business as a percentage of sales as of today?

Pramod Chaudhari: As of today, it is in the range of about 15%, 14 to 15%.

Jinal Sheth: Okay and where do you see Praj in the next five years?

Pramod Chaudhari: I think we can pick it off line.

Jinal Sheth: Okay we'll do that.

Moderator: The last question is from the line of Sanjeev Zarbade from Kotak. Please go ahead.

Sanjeev Zarbade: I just wanted to understand the execution cycle of this 700 crore order backlog we have and how is it divided between product and projects?

Pramod Chaudhari: This 700 crore backlog 90-95% is project, and it should go anywhere from 6 months to 15 months.

Sanjeev Zarbade: Okay so roughly around 12 months, the order backlog should be executable is that right?

Pramod Chaudhari: Partly it will go up some of the portion may cross to the subsequent FY**Sanjeev Zarbade:** And sir going by the order backlog we have the share of exports have started to inch up the tax rate should be around 13,-14% that's what you said?

Pramod Chaudhari: Yeah that's what I said. We already confirmed that is between 13 to 14% flat rate.

Sanjeev Zarbade: No problem.

Moderator: Thank you ladies and gentlemen. That was the last question. I would now like to hand the floor back to the management of Praj Industries for closing comments. Please go ahead, sir.

Vinati Moghe: I would like to thank everybody for joining us this afternoon on the call. If there are any queries left unanswered, we would like to them offline, and you are welcome to send in your queries by e-mail to me vinatimoghe@praj.net or to surendrakhairnar@praj.net, or call us at any point in time, and clarify us questions. Thank you very much once again. Bye.

Moderator: Thank you. Ladies and gentlemen, on behalf of Praj Industries Limited that concludes the conference call. Thank you for joining us and you may now disconnect your line.