



Praj Industries Limited

Q3&9MFY15 Earnings Conference Call Transcript

January 22, 2015

Moderator: Ladies and gentlemen, good day and welcome to the Q3& 9MFY15 Earnings Conference Call of Praj Industries Limited. 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 this 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 Ms. Vinati Moghe of Praj Industries. Thank you and over to you ma'am.

Vinati Moghe: Thank you. Good day everyone. We welcome you to this conference call organized to discuss Praj Industries' operating performance & financial results for Q3 & 9MFY2015 which were announced on 20th January, 2015.

I have with me, Mr. Gajanan Nabar, CEO & Managing Director, Mr. Surendra Khairnar, Associate Vice President, Accounts, Mr. Dattatraya Nimbolkar, CFO and Company Secretary and Priyanka Watane – Associate Manager Corporate.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Documents relating to our financial performance were emailed to all of you earlier. These documents, along with a quarterly results presentation, have also been posted on our corporate website. I would now like to hand over the floor to Mr. Nabar for his opening remarks.

Gajanan Nabar: Thank you Vinati. Good Afternoon. I welcome you all to Praj Industries' conference call to discuss the key events and financial performance for the quarter and nine months ended December 31, 2014. I also take this opportunity to wish you all a very happy and prosperous new year.

We have uploaded a presentation on our website. I invite you to follow that in conjunction with today's call.

I would like to take you through some of the key developments in terms of the business operations. Our focus is on creating sustainable order inflow, rapidly scaling up the emerging businesses and establishing ourselves as a leading player in multiple sectors. The change of balance towards emerging business is already evident in the new orders contracted during the quarter and during the 9 months where emerging business forms over 40% of the total order intake. Now we will walk you through new business initiatives and the progress so far.

At Praj HiPurity Systems we are driving internationalization, value added services and expansion in wallet share through "process offering" for pharma and biotech sector. PHS is experiencing good traction in the international markets. We are consolidating into 5-7 countries and have gained momentum on the enquiry book. We have started contracting orders from these countries. The technology team recently showcased the BioWiz Bioreactor which addresses the core process requirements of the pharma and biotech industry.

Similarly, in the water & wastewater business we are focused upon new sustainable technologies. One of them is EcoPhotox initiative where we have already shipped the first containerized STP plug-&-play system to Africa. This technology finds applications in many industries like pharmaceuticals, metal cutting and also distilleries

The Ganga Action Plan is also throwing up interesting opportunities. We are working along with several clients to design zero liquid discharge systems. After extensive field trials, our technology solutions are ready to be deployed. A sizeable number of proposals have been developed.

During the quarter, we announced a Rs. 235 crore order win for a Petrobras project. This order is significant for the CPES business as it indicates that CPES has climbed the value chain in terms of qualifying for process skids.

On the core business front, we won an order from Kakira Sugar, Uganda for their beverage alcohol plant. This plant will be the largest distillery in Uganda employing our advanced EcoSmart technology

In the effort towards internationalization of brewery business, I am happy to share that we have completed commissioning of SAB Miller's Namibia Brewery. The other international project in Myanmar is progressing well.

We had launched Modernization of ethanol plants as a key growth initiative some time ago. We have contracted orders from domestic and international markets and the business visibility is improving. The outlook remains strong backed by a healthy order backlog and recent order wins. Our endeavor is to further scale up emerging business and grow international business for each vertical.

Coming to the order intake for 9 months, it is Rs.937 crore, a 50% increase over corresponding period. New initiatives like process skids by CPES, value added services for pharma industry, modernization of distilleries etc contribute 45%. Emerging business is 41% as against 33% in the corresponding period. Ethanol business is Rs 531 crore. The fuel ethanol business is 5% of the total order book. International business forms 48% as against 30% in the corresponding period.

For the quarter, order intake is at Rs. 539 crore. Emerging business forms 48%. Ethanol business forms 50%. Fuel ethanol is negligible out of this. International business forms 66%.

Coming to the financial performance, in the previous quarter you will recollect we had provided guidance on the likely performance for this quarter. We see the impact. Revenue for the quarter stands at Rs. 219.33 crore as against Rs 269.10 crore in the corresponding quarter while for the nine months it is Rs. 705.65 crore as against Rs 636.41 crore in the corresponding period. PBT is at Rs. 14.98 crore for Q3FY15 as compared to Rs. 33.61 crore in the corresponding quarter and Rs. 40.13 crore in the 9 months of FY15 as against Rs. 46.35 crore in corresponding period. We would like to state that we have a one time management consultancy expenditure of approximately Rs 12 crore for the whole year out of which so far, Rs 5 crore have been spent. Export revenues accounted for 42% in Q3FY15. Of the total revenue, 51% is from ethanol, 19% from brewery and 30% is from emerging business. The order backlog as of Dec 2014 is at Rs. 1,050 crore out of which international business stands at 50% and core business forms 60% and emerging business forms 40%.

Before closing, I would like to present our assessment on the business environment. I am sure all of you want to know the impact of falling crude prices on our business. Two of our businesses, international fuel ethanol and CPES have exposure to oil trends. It needs to be noted that our international ethanol business is not all fuel ethanol driven. Some of our markets like Africa and Asia offer opportunities for both – fuel and beverage grade ethanol plants. We will continually assess our exposure to the falling oil prices, which is currently at below 5%. In India, the government has taken positive steps towards ironing out various issues which were holding back the implementation of blending policy. Recently the CCEA

fixed the delivered price of ethanol, while resolving some of the logistical issues. The government of India has expressed its intent to set up 5 demonstration plants for 2nd Generation ethanol production. This is certainly positive news from Praj's standpoint. Our bolt-on demonstration plant is on track to be commissioned by the end of this calendar year.

In India, we see some positive stimuli. The recently announced interest rate reduction will certainly support healthy capex cycle. We will have to wait and watch areas of new investments. There are already talks of green-field expansion in the Pharma and biotech sectors where we have a lot to offer. Given the order book and our preparedness, we expect the period ahead to be better.

On another note, I would like to inform you that Mr. Pramod Chaudhari was nominated for the Platts Energy Lifetime Achievement Award. It is a worthy recognition for his contribution to the sector. With that, we will now take questions. Thank you.

Moderator: We have the first question from the line of Bhalchandra Shinde from B&K Securities. Please go ahead.

Bhalchandra Shinde: Regarding the order backlog of Rs. 1,050 crore, within that can you indicate number of international fuel ethanol related orders?

Gajanan Nabar: 5%

Bhalchandra Shinde: How much is the PHS contribution in the total order book?

Gajanan Nabar: As you know we do not give the split, but the order traction on HiPurity, CPES and waste water is showing the traction that we are expecting them to show.

Bhalchandra Shinde: Related to water segment, how much it will be in emerging business as a percentage of total order book?

Gajanan Nabar: I would say in total water segment, PHS would be about 60% and the rest would be 40%.

Bhalchandra Shinde: Regarding the management fees which you indicated of Rs. 12 crore, Have we given Rs. 5 crore in the nine months?

Gajanan Nabar: Yes.

Bhalchandra Shinde: Was this one of the reasons that showed the impact on the margins and from next year we may not show that kind of impact? Like our margins will improve by Rs. 5 to 8 crore.

Gajanan Nabar: Certainly this is one time. But I don't want to say that this is the only reason for the impact on the margins. There was a Rs. 5 crore impact for the nine months. But if you look at from the variable margin standpoint, the variable margin this quarter is better than the preceding quarters. So, the variable margin on the core business was definitely good. The issue was on the total revenue that we booked for the quarter. We had expressed that we are seeing some headwinds and invoicing in the last call. And that is what actually has caused the impact on the further going down to the bottom line.

Bhalchandra Shinde: With improving execution, are we expecting to show improvement in margins or because of sales mix our margins will stay at these current levels?

Gajanan Nabar: Yes, we are doing margin accretive work with the management consultants, so definitely that should also get into play going forward.

Bhalchandra Shinde: Will sales mix create an impact? If our emerging business sales are higher in next year, so how will we look out for the margins? I am not asking any number but do we see any improvement?

Gajanan Nabar: Yes, we are looking positively at the margin profile, going forward.

Bhalchandra Shinde: Regarding the Ganga purification project, as you said about 750 industries are in consultation regarding this. But how much market potential do we see, any ballpark number that you can provide?

Gajanan Nabar: It is difficult to gauge a number but in our very rough assessment the number could be very large. And we are talking about only up-streams industry clean-up; we are not talking about actually cleaning the bank of Ganga. Not the infrastructural work, just upstream work, which is to be done to make sure that the industries are not polluting the waters. They are using reduce, recycle reuse technologies, zero liquid discharge; there is enough technical mechanism in-play to make sure that the polluted water does not flow into Ganga. Because there are thousands of industries, that work would be significantly large. It will also depend on how far the mandates get stringent, like if the industries are told that there would be no compromise on zero liquid discharge solution, but, they have not so far come on that decision yet. They are working on variety of options, including zero liquid discharge solution. The total value of the opportunity will depend on the stringency of this solution. So we have to probably give it another couple of months, but it would be a significantly large opportunity for the waste water business.

Bhalchandra Shinde: Per plant-wise, what kinds of potential do we see in water treatment? If tanneries are told to close down the operation or to improve, what kind of potential do we see in that plant?

Gajanan Nabar: A very rough estimate and top-of-my-mind is a mid-sized plant anywhere between Rs. 20 crore to Rs. 40 crore, it could be in that range.

Moderator: We have next question from the line of Gaurav Jalan from Avant Guard Wealth Management. Please go ahead.

Gaurav Jalan: Can you talk about the execution period for your order book? Rs. 1,050 crore order book will be executed over what timeline?

Gajanan Nabar: Between 12 to 15 months.

Gaurav Jalan: Within your order book, in terms of sales mix, are there certain kinds of products that typically take longer to execute and certain parts that take less and is there any general rule of thumb there?

Gajanan Nabar: Yes. We had shared this earlier with the investors. Our shortest cycle business is PHS, which takes between three to four months for complete execution. Our CPES and waste water is between seven to ten months. And brewery and distilleries could be in the range of twelve to fifteen months. That is how the cycle is.

Gaurav Jalan: In terms of the ethanol capacity in India, when you talk about the government coming up with good regulations to enable capacity addition, what kind of potential do you see in terms of total ethanol capacity that can be added in India if regulations are favorable, etc., over the next two years?

Gajanan Nabar: A rough indication - 5% of fuel ethanol blending is about 100 crore liters of requirement roughly at current consumption of petrol. And petrol is growing double digits year-on-year, so that growth would also be taken into account. Currently government is pushing for 5% blending and there is not enough ethanol that they are getting for variety of reasons; I will not say that capacity constraint is the only reason but there are other commercial and non-commercial reasons why they are not getting enough ethanol. Now if it goes for further 5%

blending, which is 10% overall blending, it adds large billion liters of ethanol, 100 crore liters, that would be a large capital play but that is obviously a futuristic view.

- Gaurav Jalan:** Correct. What is the current capacity in India, approximately, for fuel ethanol?
- Gajanan Nabar:** About 3 billion liters - about 300 crore liters of total ethanol.
- Gaurav Jalan:** Most of it is fungible between fuel and beverage?
- Gajanan Nabar:** Yes, you could clamp on downstream equipment to change between beverages to fuel.
- Gaurav Jalan:** The Kakira Sugar order is around 9-10 crore, is that approximately the size of that order in terms of capacity if I calculate?
- Gajanan Nabar:** We are restricted by the customer to express the exact value of the order but the order size is more than Rs.100 crore.
- Gaurav Jalan:** Is this not included in your Q4 order book?
- Gajanan Nabar:** It is. Matter of clarification, though we announced this in January, the order had actually come in about couple of weeks before. So, from the timing perspective, announcement followed after a couple of weeks but the order is taken into the order book that we have shown.
- Gaurav Jalan:** When you say Rs.100 crore that translates into approximately Rs.1.5 crore per kilo liter per day. Isn't that fairly large? I thought typically it was around Rs. 15-20 lakhs for Indian ethanol plant?
- Gajanan Nabar:** It depends on the scope of the project. It is very difficult, if I put everything on just the process which is the heart of the plant. It would look different if you add other equipment like waste water, water treatment and other things such as integration with boiler, turbine etc. So, it is not a good idea to do a like-to-like comparison, plus it is an international order in a different geography. So, I would request you not to do that kind of comparison.
- Gaurav Jalan:** The Petrobras order that you have got for skids, where is it used in the process?
- Gajanan Nabar:** They are used upstream in the gas separation process as gas separation skids, they are process units, which are put on skid formation and they are used in separating gas and water or gas and oil. There are different types of processes that go into both oil and gas and these are the skids which play a role there.
- Gaurav Jalan:** Is this related to a particular new upstream project that Petrobras is doing?
- Gajanan Nabar:** Yes, this is actually the toe-end of the upstream project that Petrobras is doing, called Comperj (Petrochemical complex at Rio de Janeiro) and this is absolutely towards the toe-end. This was a very large project, which Petrobras executed over the last two - three years spending more than \$12 billion.
- Gaurav Jalan:** So this project is already in place, there is no risk of ordering being canceled because oil prices are lower in India?
- Gajanan Nabar:** That is correct.
- Moderator:** Next question is from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.
- Sanjeev Zarbade:** The gross margins for this quarter have expanded substantially so anything specific to this quarter or the nature of projects or revenue mix? Is it likely to sustain in the future?

- Gajanan Nabar:** There were a couple of soft engineering orders in this quarter that got executed, so that was one of the main reasons. But as we have said earlier, the work that we are doing on the back-end with the management consulting firm would definitely help us, but right now we want to watch it for the next couple of quarters till we really say how much has this changed and what has changed. But for this quarter, specifically, it was couple of soft invoicing orders plus a good mix of different orders.
- Sanjeev Zarbade:** Management fees, which are around Rs. 12 crore, of which Rs.5 crore we have paid, so will this Rs.7 crore come in the fourth quarter?
- Gajanan Nabar:** Yes. It will come in the fourth quarter.
- Sanjeev Zarbade:** So total Rs. 12 crore will get paid out in this fiscal?
- Gajanan Nabar:** Yes.
- Sanjeev Zarbade:** Regarding the Petrobras order, what is the status in terms of commencement of work and any billing?
- Gajanan Nabar:** The work has already commenced, the advance is already flown in, engineering is at a very advanced stage and hopefully it will get completed in the next two to three weeks. So it is on, but there is no invoicing to the effect in this quarter.
- Sanjeev Zarbade:** The entire order should get completed by around August-September?.
- Gajanan Nabar:** That is correct.
- Sanjeev Zarbade:** What is the cash on the books right now?
- Gajanan Nabar:** Rs.220 crore.
- Sanjeev Zarbade:** That has remained stable for the last quarter. You did give some flavor on the third quarter, when we spoke in the second quarter conference call. How is the outlook towards the fourth quarter because fourth quarter typically is the largest and lot of profits are booked in that quarter?
- Gajanan Nabar:** As you know, we normally do not provide guidance. Since during the execution cycle, we had seen some headwinds in the third quarter, thus we had expressed that the third quarter would have headwinds. But now, we have seen that the fourth quarter would be better from the third quarter.
- Moderator:** Next question is from the line of Arun Malhotra from Santalum Capital Advisors. Please go ahead.
- Arun Malhotra:** Is there any cross selling in water business? Are we pitching this business to our existing relationships in the past?
- Gajanan Nabar:** Certainly. Long term customer relationship - we have used that for cross selling, used that in other geographies. For example, we saw the enquiries in South East Asia or orders in South East Asia has come to us because of our connect for Ethanol to newer businesses. So that definitely is main stay of how we will drive our businesses.
- Arun Malhotra:** What kind of margin profile we are looking at the emerging business on a sustainable basis?
- Gajanan Nabar:** We would like to hold that answer, mainly from the account that it is from the competitive stand point, these are the businesses we are taking off. But, certainly as we are growing significantly and gaining market share the margin profile is improving.

- Arun Malhotra:** But there is nothing to be concerned from the investing point of view on the margin front?
- Gajanan Nabar:** No.
- Arun Malhotra:** Since the oil prices have come down drastically and nobody knows when it will stabilize, have we seen any dilly-dallying or delay on our existing orders and is there any increase in receivables?
- Gajanan Nabar:** No, we have not seen that. As I also mentioned in the commentary, the exposure for fuel ethanol based projects is not very high. I also clarified that the order from Petrobras though it is an oil and gas field, it is at the toe-end of a very large project. So, it is inevitable that this project gets executed; otherwise their overall expansion program will not get completed after spending \$12 billion, so we do not foresee that currently.
- Arun Malhotra:** Our order book would also not be with clients whose economies would depend on oil?
- Gajanan Nabar:** That's right.
- Arun Malhotra:** Okay. Thank you.
- Moderator:** Next question is from the line of Chintan Sheth from SKS Capital & Research. Please go ahead.
- ChintanSheth:** You mentioned about the traction in order booking and you have given us some guidance about Q4 that it will be better than what we have seen so far this year, but the big chunk of management fees of Rs.7 crore will hit P&L next quarter. How confident are you that this cost can be easily absorbed given the top line booking you will be doing in Q4? Will it be absorbed and give us a better margin profile in Q4?
- Gajanan Nabar:** We have to look at this as a one-time cost only, clearly we felt that this is an investment that we are doing in our business to make it more margin accretive. We started this transformation with this management consultant about 6 months ago and so far, we are very happy to see the change that is taking place. Certainly we really need to look at this as a one-time cost and not get that mixed into the total overall margin. But we are also looking at better execution in terms of both, so we are pretty hopeful that the quarter will look better.
- ChintanSheth:** What kind of consultancy is it? Are they providing any service, is there a link with the performance or is it a one-time cost that you will incur this year and results will follow as you are expecting? So what is your expectation?
- Gajanan Nabar:** No it is not performance linked. This is one-time and that is it.
- ChintanSheth:** What kind of expectations are you looking at since you are spending Rs. 12 crore on a consultancy? What kind of business or what kind of efficiency you will get in the future?
- Gajanan Nabar:** The management has taken a call to spend this, subject to approval from the Board; we are spending such a large sum because we clearly saw the benefit of multi-folds accruing to the business, so that thought-process has gone into making that kind of spend.
- ChintanSheth:** Any numbers for the next two years or so?
- Gajanan Nabar:** We are getting multi-fold benefit over on a given time period, so there is no point in spending that amount. Since the execution period starts from middle of the year or third quarter onwards, that is how the accruals will happen.
- ChintanSheth:** So the benefit will accrue in Q3 FY16 that is the December quarter?

- Gajanan Nabar:** No, we believe that the benefit should start accruing from the first quarter of next year. But we will have to see. We have another quarter of very close monitoring and there is implementation going on currently.
- ChintanSheth:** Coming back to your order book of Rs.1,050 crore, it is good to see the order coming back to the four digit number, last five to six quarters we have been lagging. Just wanted to confirm that you mentioned Rs.100 crore of Kakira order is being included in this and Rs. 235 crore Petrobras order is also into this, so if we remove both, it comes back to Rs. 700 crore order level. Is the assessment correct?
- Gajanan Nabar:** Yes.
- ChintanSheth:** If we add the previous Rs.730 crore order backlog of the last quarter and we had two big projects that you won in this quarter, so in terms of HiPurity or any other emerging business, you mentioned that 40% order intake is from emerging business. So, of the total order intake of this quarter of Rs.539 crore, around Rs. 300 odd crore is from two projects itself, right?
- Gajanan Nabar:** How we would like the investor to look at this is like - The emerging business has contracted a large order of more than Rs. 200 crore, this is probably the first for the emerging business for getting such a large order. That also shows the stabilization of emerging business, which we launched couple of years ago and we were brick-by-brick building it. Clearly a testimonial from investor standpoint is that this business of Praj has now started contracting such kind of orders. So that is how we would look at this. As far as the Kakira order goes, that is our standard offering, the offering is the new technology, but it is a standard space of beverage grade ethanol which should be considered along with the overall order book.
- ChintanSheth:** On distillery, as you mentioned that current capacity is of 300 crores liters in India, what will be the average age of this entire industry, in terms of what kind of opportunity will come in play if any improvement or anything related to upgrade in the existing capacity comes in?
- Gajanan Nabar:** Praj is completing 31 years, the age of the industry may be around the same or another three to four years one can add to it. Many of the plants are more than seven to eight years old, so there is an opportunity to modernize; technologies have improved over the last five to six years, which is a benefit to the customer.
- Moderator:** We have next question from the line of Rajendra Mishra from IDFC Asset Management. Please go ahead.
- Rajendra Mishra:** On emerging businesses, you said that on HiPurity business you are consolidating some opportunities in five-seven countries. So would it be possible to add some color on which countries would it be? What could be the opportunity pipeline?
- Gajanan Nabar:** We had mentioned earlier that we are going to focus on South East Asia and most of the countries are from South East Asia and also Eastern part of Europe, where we clearly see that there is wide space and a significant amount of activities are happening in pharma sector, but there are no high quality or world quality players to supply and that is where Praj is playing important role with some suppliers. Then we are selectively looking at Middle East to Upper North Africa, but we have some focus countries.
- Rajendra Mishra:** Any indicative numbers on what kind of opportunity pipeline that is building in?
- Gajanan Nabar:** We have seen that the enquiry pipeline is significantly large close to Rs. 300 crore. In Indian market, we clearly know the time from enquiry to order, but in international markets, we still have to test the time it takes from enquiry to the order and then also establish our win rates. These are the two things which we are working on currently, but the inquiry book has expanded to Rs. 300+ crore.

- Rajendra Mishra:** On Ganga Action Plan, you said you are already working on proposals and field trials have been conducted. So is it possible to quantify what kind of opportunity is building or how many companies you are working with?
- Gajanan Nabar:** For the sake of competitive research as well as little advance in the process so, it will be very futuristic and we will save that, may be, after we have a little better definition, we can share that number.
- Rajendra Mishra:** No issues. The whole committee, which is driving the whole Ganga Action Plan, is that going through in terms of time lines or in terms of pushing it forward?
- Gajanan Nabar:** Yes. It is going through but definitely slower than what we expected it to happen. It is better than what we have seen in the past and may be it is rightly so because there are multiple agencies and people involved. The focus right now is also on municipal side, it looks like. Some of the orders have already started flowing in. So, industrial is slightly running behind, but hopefully it should catch up in this quarter, let us see how it goes.
- Rajendra Mishra:** With regards to that earlier Q&A, you said that the plant size would be between Rs. 20 to 40 crore, so what exactly were you referring to?
- Gajanan Nabar:** This is for waste water, if we go for a zero liquid discharge solution, the kind of equipment and the plant system that we need to build- Overall, I was referring to the capex.
- Rajendra Mishra:** Capex of Praj or capex for the end-user?
- Gajanan Nabar:** Capex of a mid-sized customer. It is very difficult to generalize and give you very pin-pointed number but, I was just trying to attempt. Basically, it would be in that range, it would not be like Rs. 2-3 crore or Rs. 200 crore per plant.
- Moderator:** Thank you. Next question is from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.
- Kamlesh Kotak:** Could you help us understand this order book is across how many projects that you are having?
- Gajanan Nabar:** In business like PHS, the order book could be more than 30-35 projects whereas in international ethanol, there could be four to five projects. In our new vector, which is PBMR, which is modification and retrofits, again there could be 10-15 projects. So it depends, we will get back to you with the data.
- Kamlesh Kotak:** Is it also possible to break it down in number of clients, will it be more or less the same?
- Gajanan Nabar:** We will get back to you on that.
- Kamlesh Kotak:** When you said the outlook for ethanol market is not that great, were you referring to the overseas market or Indian market? Is it almost the same for both?
- Gajanan Nabar:** I did not say the outlook is not great. I was just stating the fact that since there are general concerns in the investor community with the oil price going down. So, we just wanted to clarify to the investors that to the extent of our fortunes tied to the oil price, it is only about 5% of the total order book. Ethanol is also there, but it is beverage grade or industrial grade so that has nothing to do with oil price. It is consumption-driven and it is economy-driven. In fact, in domestic industry, in ethanol market, we are actually seeing some good movement for variety of reasons and one of them importantly is that ethanol prices are also very high and it is a good investment opportunity. So apart from that, I did not say that the prospects are bad, but if the price of oil remains subdued below \$50, on fuel ethanol, there could be some effect, at least, in developed countries, where it is only linked to financials. Whereas in a country like India or major countries in Africa, where it is not so much linked to financial, at least up to

about 10% blending, it is more of rural economies, more of import substitution and there are multiple other drivers. You are replacing MTBE (methyl tertiary butyl ether – an oxygenate added to petrol), which is different but we have to wait and watch what happens.

Kamlesh Kotak: What is your sense in terms of the sugar price? How do you see the outlook panning out from that perspective?

Gajanan Nabar: Sugar prices, the glut in sugar remains. We see that there is obviously an opportunity, in general. More molasses or more sugar in molasses form will get diverted towards making ethanol because that is more lucrative than making sugar today. And we believe government would revive sugar sector and that will take further positive steps, which would indirectly help the ethanol business in any way.

Kamlesh Kotak: When you say pipeline is pretty good overseas, how is your pipeline in Indian context for emerging business?

Gajanan Nabar: For emerging business, the split again remains 50-50, so it is evenly balanced currently for emerging business.

Kamlesh Kotak: That includes PHS as well?

Gajanan Nabar: Yes. All emerging businesses.

Kamlesh Kotak: From this point of view, how do you see emerging business growing in percentage terms from the current level, given the traction you are mentioning? How do you see the growth trajectory over the next two- three years?

Gajanan Nabar: We are expecting that all these businesses should grow mid-teens or higher. We see that the traction is coming from the international side also. We were sensing this opportunity but now we can talk about the opportunities being real for us. Of course there is a learning curve and building some of the capabilities gaps if we have to, but these businesses should certainly grow mid-teens or higher.

Kamlesh Kotak: How about the competitive intensity, is it also going to remain the way it is or are we expecting to get better deals in terms of the competitors, once we reach the scale or we get more clients and selling of our business credentials; how you see the margin profile and competitive intensity panning out for us both in India and overseas?

Gajanan Nabar: What we are seeing is that as we have become more proven in a given market, for a given application, as you spend and dig deeper and also go for more challenging solution delivery profile keeps expanding; that is our experience of last three years.

Kamlesh Kotak: Any investment that we need to make over the next 1-1.5 years in terms of strengthening our technology or infrastructure, or manufacturing? What kind of investment capex do we need to have?

Gajanan Nabar: The usual Rs.15 to 20 crore annually, nothing significant for the next 2 years.

Kamlesh Kotak: So the current infrastructure can take our growth to may be next two to three years?

Gajanan Nabar: Yes, definitely for two years.

Moderator: Next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

BhagyeshKagalkar: Can you share with us the ethanol price data, how it has moved in the last one year and what is the price in India as well as abroad?

- Gajanan Nabar:** Yes, we will send it to you. Right now it is between Rs.42 to Rs.45, depending on the geography.
- BhagyeshKagalkar:** What is the capex this year and what is the capex next year including the bolt-on plant? Because you are saying Rs.15 to 20 crore capex, but that excludes bolt-on plant, I believe.
- Gajanan Nabar:** We will be spending between Rs. 10 to 12 crore, excluding the bolt-on plant. Now for bolt-on plant, we are obviously looking at variety of other things including some government funding; as I shared earlier there is some good move on that. So, capex itself would be close to Rs.70 crore for two years. But we will have to see how of much of that we will have to bring ourselves and how much of that we would get some support of some investors.
- Moderator:** Next question is from the line of Piyush Mittal from Franklin Templeton Investments. Please go ahead.
- Piyush Mittal:** On Ganga Action Plan, how would the ordering happen as in would it happen through some government agency from the industrial side or will it be individual customers?
- Gajanan Nabar:** What will happen is the government, a whole team which is formed, will come up with a solution to be implemented by all the industries and make sure that those solutions are implemented and monitor the progress but the ordering will happen through individual industries only. But they would need to know whether it is complete zero liquid discharge or what kind of solution that they would need to acquire. So whatever the technology that needs to be deployed, this action committee will authorize or approve.
- Piyush Mittal:** That means that there can be a substantial time delay from the point something is notified to the point where they appoint consultants and then to the point where may be an ordering actually translates on the ground?
- Gajanan Nabar:** There are lot of things happening for the last six months, so the work of appointing consultants and all that was already in the play. I am not saying that there will not be any delay, being government machinery plus there are so many industries to deal with, there could be some delay on that account, but that is how it is going to be.
- Piyush Mittal:** Would it be a safe assessment to think that second half of next fiscal is when we see some ordering happening on this?
- Gajanan Nabar:** Yes, that is our estimate too from a safe conservative standpoint.
- Piyush Mittal:** Coming to the Petrobras order, is it possible for you to share what exactly you did that possibly led to a conversion of this order? What was the sequence of the events and what played in your favor that you were able to win this?
- Gajanan Nabar:** From the competitiveness, I am sharing little more, but the technology player in this order is a company called TECNA, which is an Argentine company with a Spanish origin. We have executed couple of orders for them and hopefully, we have executed to their satisfaction and they have assessed our capabilities. TECNA and the other partners in this have seen our manufacturing facilities, they have seen our engineering strength, they have seen our quality processes and the differentiator is the skid, designing and manufacturing. So these are the few things which kind of contributed for us to win this order.
- Piyush Mittal:** Is it a part of a bigger order, of which you have been given a smaller chunk. Is that how I understand?
- Gajanan Nabar:** Yes. For us, it is not small but it is a total project of \$12 billion.
- Piyush Mittal:** Any updates on the animal nutrient initiative, what is happening on that front? Any update on what is going on the commercial front?

- Gajanan Nabar:** Clearly, we are seeing some traction there but unfortunately I don't have too much to share. It would still take some time for it to come off the ground, but the efforts are still on and we are getting some positive results, but to share significantly with investors will take another two quarters.
- Piyush Mittal:** On a commercial basis, should we wait for second half of next fiscal?
- Gajanan Nabar:** That could be a good assessment.
- Piyush Mittal:** On the oil side on the fuel ethanol, is it possible for you to share in last fiscal or on a trailing 12 months basis, how much revenues have you gotten from the fuel ethanol business?
- Gajanan Nabar:** We will send this to you.
- Moderator:** The next question that is from the line of Satish Ramanathan from Tattva Capital. Please go ahead.
- Satish Ramanathan:** We see the ethanol business cross subsidizing the emerging business because you need to achieve critical scale, you need to achieve your name in that business. So is it some kind of cross subsidy taking place right now? The second question is, as we become more of an export-oriented Company, the complications, installations, risk of cost overrun becomes an increasing threat and challenge for us. So how would a Company like Praj overcome that? Because cost overrun, currency volatility all of these are issues we have seen in the case of KEC International and in several other companies that have international operations, the profits are not as great as they seem to be even though the top line does come through. So how would you minimize risks in your international operations? On the emerging business or even in your ethanol brewery business, how high are you on the technology curve, would you require any joint venture, assistance, or strategic relationships that can further your business or grow your business significantly?
- Gajanan Nabar:** First, when you start any new business you do some kind of investment in those businesses. More or less, that was what was happening till last year. This year onwards, we believe that the businesses will become fully independent and would work, operate as separate business units typically called strategic business units. So that is the transition, which is taking place. We want it as a cross-subsidized, complete de-alignment by next year, so that is definitely a very important parameter for us to achieve. Couple of those businesses are already on their own, for example PHS is very independently done in not getting cross-subsidized and so is CPES. Water and waste water would get some traction in going in that direction, we are on course to do that. It depends on the execution model and what we are trying to do and it could be different for different businesses. It will be wrong on my part to give you a very generalistic approach to de-risk our international execution part. So we make sure that the geographies that we select to do projects of execution, we are familiar with those geographies. For example, in Petrobras project, we have zero execution at that site. There is skid-mounted sent from here, which is factory accepted, and goes there. So is the case with our PHS business where, everything is on skid, customers come approve at our factory, they call it factory acceptance test, and then we ship it to the destination. Then, the work that we have to do at the site is only connecting to the utilities so that is not even say 5 to 7% of the work at best. On larger projects, it could be brewery or international ethanol project. The model that works for us is we choose the scope wherever we can, sometimes customer is not willing to deal with that. But, we choose the scope where we do not take the civil portion on our dime. We only provide civil engineering support but rest everything. So only mechanical and electrical instrumentation work is what we take and our model works with Indian vendors, Indian contractors who have been working with us for many years and taking to the geographies. But that is where you need to have this recipe in place. We have been doing this for many years and a lot depends on what quality of proposal you have prepared and how much detail has gone in making the proposal for execution, so that is where the key lies. On currency risk, the currency is we have a natural hedge of 50% of thereof, and then we take hedge further covers as and how we need. On technology, definitely either internally or externally, will have to continue to add and that is part of what we call the innovation agenda. We continue to add,

continue to develop on our own; we just cannot wait for us to develop on our own but we also do joint venture, acquire and add technologies and we continue to be on the lookout for that. So that goes without saying that no matter how, at what stage of business you are in, you will have to probably look at options to make your offering better from the previous day.

Satish Ramanathan: The steel prices and couple of key raw material prices have been on the down trend, would that impact your margins or is it just a pass through?

Gajanan Nabar: That positively or negatively impacts our margins; it is not a pass through.

Satish Ramanathan: Are all your quotes for exports in dollars or are they in local currency?

Gajanan Nabar: If there is any significant or some execution-related work, which has to be done there, only that portion sometimes we sign up in the local currency, but otherwise all contracts are in dollar terms with confirmed LC, so we don't take exposure on receivables.

Satish Ramanathan: Is there any retention money that your customers keep?

Gajanan Nabar: Normally 5% to 10%, but wherever possible we push for bank guarantees and not cash.

Satish Ramanathan: In terms of the ethanol and brewery business, can you just tell us what your market share in India would be and what your market share potentially is on a global basis and how you can expand that as well?

Gajanan Nabar: In ethanol, in India, our market share is close to 70% and internationally, it could be in the range of between 30 to 33%. Whereas for brewery, internationally we do not have much presence as we have only contracted two or three projects, so it is not significant but, in India, our brewery business market share is more than 70%.

Satish Ramanathan: In terms of the brewery scope overseas, what is the size of pie and since you do not have a preference would that be also a leg of growth for us?

Gajanan Nabar: We mentioned that is one of the vectors that we are driving but again we want to be selective, we do not want to go into geographies that we do not understand, and also do not want to take the scope that we are not very happy to take. So, the parameters remain the same for selection of orders.

Satish Ramanathan: Could you also tell us about this consultancy project? What is the scope of the consultancy project? Is it a reorg of business or is it a new tie up?

Gajanan Nabar: It is value maximization mainly to drive business process improvement, which looks at optimization of cost and how we could deal with the back-end. It is not much of organization restructuring; that is not part of it.

Satish Ramanathan: In terms of other intake, Q3FY15 was Rs. 539 crore, what is the visibility that you have for next year and year after next across your verticals?

Gajanan Nabar: The visibility remains good. I would not like to state any number but currently we are seeing the visibility. This quarter, we had a benefit of one very large order for us, which is the Petrobras order coming in so that was a big lump which came in, but otherwise also we are looking at some good visibility in all our sectors, all our business verticals.

Satish Ramanathan: How have your exports done? Do you have agents overseas or do you have offices overseas, do you have reps or is it just done on commission basis with?

Gajanan Nabar: We have six offices overseas, we have people overseas, and we have some franchises or partners in geographies, so we use mix of all that.

Satish Ramanathan: In PHS business, what is the traction given that India is a big export hub for Pharma and cosmetics? Could you just tell us what is the size and scale of this business both in India and overseas?

Gajanan Nabar: It could get significantly large, because right now we are not having anything of significance in our current revenue stream on international. As I said, international order enquiry book itself is showing good traction of more than Rs. 300 crore. So that business could significantly grow in the next two to three years internationally.

Moderator: Ladies and gentlemen, due to time constraint, this was the last question. I would now like to hand over the floor back to Ms. Vinati Moghe for her closing comments. Over to you ma'am.

Vinati Moghe: Thank you all for joining us today. If there are any more questions, we will be happy to take them on email or on phone. We would also encourage whoever is traveling to Pune to visit us at any point at time with prior appointment. It will be great to see you. Thank you, once again.

Moderator: Thank you very much ma'am. Ladies and gentlemen, on behalf of Praj Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.