Praj Industries Limited

Q3 & 9M FY16 Earnings Conference Call Transcript
February 1, 2016

Moderator Ladies and gentlemen good day and welcome to the Praj Industries Limited Q3 FY16 Earning conference call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Vinati Moghe of Praj Industries. Thank you and over to you Ma'am.

Vinati Moghe Good day everyone. We welcome you to this conference call organized to discuss Praj Industries' operating performance & consolidated financial results for Q3 and 9M 2015-16 ended 31st Dec, 2015, which were announced on 29th January.

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. Good afternoon and welcome to Praj Industries' Earnings call. I hope all of you had the chance to refer to the results circulated earlier. The presentation for the same is available on our website. I would like to bring to your notice a small a change in the presentation – the quantum of international order intake for Q3 is 33%, and not 11%. Please refer to slide 6 of the results presentation.

Before I take you through the financials, let me touch upon some of the key events and developments globally.

On the macro-economic front, there have been some structural shifts. The US Fed finally hiked interest rates in December. The end of the quantitative easing program combined with the slowdown in China and overall tepid growth in the world economy has resulted in significant easing of commodity prices, most notably crude oil. These events have also led to currency volatility; with commodity exporting countries being worst hit.

Against this, India has emerged as one of the more stable economies, especially in the latter half of 2015, as the three key indicators – inflation, current account deficit and fiscal deficit have been stable to improving. While recent developments in the world economy have created a concern regards economic growth, the Paris

Agreement on Climate Change was of specific interest to us as it clearly indicates a move towards de-carbonization which in turn calls for increased use of renewable energy in transport including ethanol. It also calls for upgradation of existing production facilities to incorporate energy and water efficiency.

In the previous discussions, we mentioned that our exposure to fuel ethanol plants was significantly low. However, as a result of the intensified focus on clean transport fuels, we see some bright spots with the strengthening of fuel ethanol mandates.

Take India for a starter – The Government has indicated that a larger policy is in the making for ethanol blending. Sugar mills have offered 1.4 bn liter ethanol against the Expression of Interest (EOI) for 2.6 bn liters raised by OMCs. The volume is to be supplied till November 2016. The actual contracted volume of 1.1 bn liter indicates a blending ratio of 4.2 % which was 1.5% at the beginning of the fiscal. This is a significant improvement over the past. A fresh tender of 1.4 bn liters points to reinforcement of commitment to the mandate.

The exports of sugar and expected firming up of sugar prices will help sugar mills improve their financials and likely create a positive investment climate for ethanol plants. We already see an uptick in interest for fuel ethanol production plants. You will likely see impact of this in the coming quarters on order book in the coming quarters. With the government's intention to increase ethanol mandate, there is also a move to introduce cellulosic ethanol technology in India. One of the OMCs has invited EOI for development of 2nd generation cellulosic ethanol project from ethanol manufacturers. EOI has been invited from technology suppliers as well.

We see some interesting developments in the international markets too. In South America, Argentina has increased ethanol price by 5%. Argentina has an ambitious ethanol blending program with mandate increased from 10% to 12%. Recently, we commenced work on a fuel ethanol plant in Argentina. This is our 60th reference in the region and strengthens our position in this market. Last quarter we also commissioned one of the most modern plants in Colombia. This 400,000 liter/day capacity plant is capable of reducing GHG emissions by 20% on lifecycle basis. Another major development was the US EPA's announcement of mandates for the year 2016 which supports advanced biofuels viz. sugarcane based & cellulosic ethanol. USA also reinstated $1.01/ gallon credit for 2nd generation cellulosic ethanol, clearly demonstrating confidence in the cellulosic ethanol technology.

Looking at South East Asia, in addition to elimination of 100% gasoline, Thailand is encouraging sugar mills to increase area under cane and is issuing licenses for new sugar mills. In Australia, Queensland Parliament has passed the bill to blend 10% ethanol in gasoline sold in the state. The above goes to show that mandates are as important a driver as oil prices. We continue to benefit from our thrust on innovation as a key differentiator. Over the past nine months, new technologies coupled with modernization efforts have contributed ~15% to our order book and we expect to increase this as we expand our offerings. Brewery orders are also building up. Order intake has doubled over the previous quarter. We see fresh leads from international geographies and our inquiry basket for the segment is picking up.

Coming to developments in the emerging business – MOEF has come up with stricter pollution control norms for coal-fired thermal power plants. All existing plants have to restrict water consumption to 3.5 m3 per unit whereas plants coming up after Jan 2017 need to reduce it to 2.5 m3 per unit and achieve zero liquid discharge. We are working on several enquiries in this sector. Effluent from thermal power plant includes thermal discharges, blowdowns of boilers and cooling towers, ash handing waste water, flue gas desulfurization discharge etc. This is where our effluent treatment solutions will come into play. In the last 9 months, this business unit has made significant progress in terms of improvement in the ticket size, retention of key accounts and has won 2 international orders.

On Praj HiPurity front we see a traction in the international markets with order wins in South East Asia and MENA region for process vessels and modular systems. Biowiz Bioreactor, which was introduced a year ago, has made a mark with orders from pharmaceutical companies, both from India and abroad. Also, modular process systems and value added services introduced a year ago show improvement. Modular Process Systems now account for 25% of the PHS order booking for 9 months. Biosimilars market is likely to grow exponentially from $1.5 bn to $35 bn by 2020, which has major positive ramifications on biopharma and in turn, MPS business. This is a key opportunity for PHS business. Further, Indian companies setting up manufacturing facilities in the developed world and stricter US FDA norms is helping Praj HiPurity Systems to get recognition as a reliable and internationally acceptable solution supplier. We are convinced about the directionality of the growth of PHS.

CPES business has established itself as a preferred skid supplier for various industrial applications. We continue to receive orders from select international markets. We recently shipped a gas processing and MEG unit skid for a global EPC company. With India moving toward Bharat Stage VI in 2020, refineries will be required to make technological shift. This calls for additional refining of crude oil to reduce SOx, NOx and particulate matter and also addition of capacity to accommodate low sulfur crude processing. It is expected to result into demand for critical process equipment & systems in the future.

Petrobras order continues to be on hold. We expect to get some clarity on it in the 4th quarter. Coming to financial performance for the 3rd quarter – Consolidated income from operations stands at Rs 290.42 cr, which is 43% improvement over previous quarter and 32% over the corresponding quarter. Of this, exports account for 50%. Business segment wise - 63% is from ethanol, 8% from brewery and 29% is from emerging business. Our focus is to improve speed of execution and to bring in greater operational efficiency. This is reflected in our EBITDA margins. EBITDA (excluding other income) at Rs 41.19 cr has improved four-fold over the previous quarter and doubled over the corresponding quarter at 14% EBITDA margin.

PBT at Rs. 34.66 cr and PAT at Rs.25.51 cr also registered growth over previous and corresponding quarters. Order intake for the quarter stands at Rs. 300 cr. Ethanol forms 56%, brewery 16% and emerging businesses 28%. Domestic orders form 67% of the total order book. The net order backlog as of 31st December, 2015 is Rs 1115 cr. Export orders are at 45%. Core business forms 68%, whereas emerging business forms 32%.

On 9 months basis, Consolidated income from operations for 9M FY16 stand at Rs 685.97 cr against Rs cr over the corresponding period of previous fiscal. Order intake stands at at Rs 832 cr. Of this, 66% comes from ethanol business, 9% from brewery and 25% from emerging businesses. Domestic orders form 64%. EBITDA stands at Rs 66.64 cr against Rs 52.83 cr in the corresponding period, a 26% increase. PBT and PAT stand at Rs 49.16 cr and Rs 35.44 respectively.

Cash on hand continues to improve and stands at Rs 245 cr. On stand-alone basis, the Company remains debt free. CRISIL upgraded its rating on the long-term bank facilities of Praj HiPurity Systems from A/Stable to A+/Stable and has reaffirmed its rating on the short-term bank facilities as A1.

To sum up, we continue to implement our strategy of innovation, excellence and diversification across our business model. Increasing profit and profitability will be our continued focus. We aim to make the performance of the Company more sustainable to improve shareholder value. With our global presence, solid foundation and strong operational capabilities, braced by a gradual and positive anticipated turn-around in the economic cycle, we are confident of consistent improvement in our business parameters going forward.

Thank you ladies and gentlemen. We will now take questions..

Moderator Thank you very much. The first question is from the line of Bhalchandra Shinde from Centrum Broking. Please go ahead.

Bhalchandra Shinde Raw material gross margins have improved largely because of the commodity prices softening or is it largely because of sales mix?

Gajanan Nabar The commodity prices have helped all the businesses but this is not a phenomena of this quarter, commodity prices have been falling for last several quarters and that has reflected in the results. But some of the operational efficiency improvement programs, the balance of exporter and domestic order execution also has helped, this would be on the more sustainable side and we are looking at that.

Bhalchandra Shinde Has Praj HiPurity Systems segment comparatively contributed majorly in the sales or it has remained in the similar manner?

Gajanan Nabar In the first two quarters, we had a comparatively subdued performance from Praj HiPurity Systems and it's a matter of timing. This quarter the performance has come back and if you look at the overall results, PHS is catching up so that is the phenomena that you are seeing and we should not read anything exceptional in that.

Bhalchandra Shinde So will Q4 FY16 also be comparatively better for PHS and other segments?

Gajanan Nabar We had shared with the investors that our H2FY16, which is Q3 & Q4, is going to be better than H1FY16 and we continue to hold that.

Bhalchandra Shinde Regarding order inflows especially in alcohol and beverages, we have heard that there is a capex plan of Rs. 11.5 billion in pipeline by different brewery companies, can you give us insight of what exactly is happening on those capex investments and when you feel comparatively that orders will come in pipeline?

Gajanan Nabar Rs. 11.5 billion is a lot of capex, but we play a portion of it. This is a global capex, so there is a lot of money which is spent in a variety of parts of the world on this business and also a substantial part of this goes into the packaging lines and downstream, where we do not play. So what we have mentioned in the narrative is that we clearly see some increase in the international enquiry book and that we continue to hold and we'll see how those enquiries can be converted into order book. So I would request investors to also take into account that we play into the brewery process plant and much more concentric offering, and not the overall supply chain.

Bhalchandra Shinde But as per the CMI report in alcohol and beverages, in India most of the alcohol and brewery companies are going to do a capex of around Rs. 11.8 billion over the next two years. So, what scope of work will you have in that capex and how much percentage of the total capex will be related to your part?

Gajanan Nabar I have not seen that exact number. What I would like to say is that Praj's expertise in the process block and adjacent areas where some of the utility factors like wastewater and other areas that we play our part, we do not obviously focus on things such as downstream packaging lines or distribution lines, etc., so we will have to qualify this response.

Moderator Next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal On the ethanol blending in India you said that higher tender has come in and as a country we have reached 4.2% blending, so how do you read it for the next two years and are the current capacities able to meet and at what level will the new capex start getting triggered?

Gajanan Nabar The current mandate is at 5%. There is a very confirmed and solid reason to go to 10% and the new tender, which had come from the OMCs was considering 10% blending and it had come for Rs. 263 crore litres, so definitely there is a plan in the next one or two years to move this blending program to 10% blending. As far as how much it can be produced from current capacity, on paper, the capacity is fairly large and it can cover up to 7% to 8%, but we have to look at the effective capacity and where are the feed stock gaps and that is one of the reasons, which government agencies realized. For the first time in this tender of Rs. 263 crore litres, they have allowed to use biomass as a feedstock. So there is a clear realization at the government departments that if they have to meet the 10% blending mandate, it will not be possible only with molasses as a feedstock but they will also have to open up this blending program or support this blending program with 2G biofuels that means biomass-based biofuels. That is what has been expressed in this current tender.

Madan Gopal Is this related to our second generation plan that we are working on?

Gajanan Nabar Yes.

Madan Gopal So are you seeing some enquiries for the 2G plant?

Gajanan Nabar One of the OMCs have come up with expression of interest and we also believe that other OMCs will follow that and they are looking for both, they are looking for companies to partner with to build this 2G plants and also look at suitable technology suppliers, like Praj for that matter.

Madan Gopal So do they need someone to work with them?

Gajanan Nabar Yes

Madan Gopal Their balance sheets are in a good shape right now, so can't they invest directly?

Gajanan Nabar They are also investing, it clearly says that they would invest up to 50% but they also require the whole food chain, they require supply chain of biomass, they require technology to convert it and there are a lot of other things at play, so they have taken this route of partnering and collaborating.

Madan Gopal What time you think it will take to see a meaningful activity in this space?

Gajanan Nabar The expression of interest is already there and from here it should take may be another six months to one year but it's difficult to say a firm timeframe for this.

Madan Gopal Can you elaborate a bit on the emission on relative zero liquid discharge in power plants as well as water consumption getting restricted. this? Do we have any of the critical process equipment supply because there are many components that are going to be getting into this SOx and NOx related norms?

Gajanan Nabar The first time they have said that thatall the existing power plants can spend 3.5 meter cube per unit of power that they produce as much water, so that is the restriction they have brought on all the existing plants. The plants, which are going to get billed from January 2017 onwards, will have to match it to 2.5 meter cube per unit, so it is much more stricter for newer plants and they have to not only meet this criteria, they also have to demonstrate zero liquid discharge because government and Environmental Ministry has clearly identified that power plants and the effluent of power plant would obviously pollute and not only pollute but they also consume lot of water. They have put this restriction as newer and more number of thermal power plants are coming into play. Now this would mean that higher technology play will come and the competitive index will go down, not everybody would be able to participate and it leads to zero liquid discharge solutions and it is overall good for the people who are supplying higher technology wastewater play. And if there are critical equipments to be used for air pollution or other areas of any industry including power plants, I think our critical process business will definitely be in a position to supply them.

Madan Gopal Is there any component that you make right now in air pollution control?

Gajanan Nabar Not right now.

Madan Gopal Are you working to tie-up with any of the international guys, the technology for both SOx and NOx necessarily needs to come from outside India, right?

Gajanan Nabar Yes. But we are not working in that direction right now.

Madan Gopal On zero liquid discharge, can you explain is it going to be an advanced technology, is it not necessarily about any new component being manufactured?

Gajanan Nabar It is a new process technology for wastewater treatment wherein you use, reduce recycle and then use all the water inside and you actually don't discharge anything out.

Madan Gopal To meet 3.5 cubic meter condition, what sort of capex you expect in a particular plant, say in a supercritical plant of 660 MW size or for a new plant which has to restrict it to 2.5 cubic meter?

Gajanan Nabar There would be a substantial capex but it has to be a qualified response because it will change from input water conditions, the kind of process they use, the wastewater conditions, so wastewater new capex remains in the range of around Rs. 30 to 50 crore, but take it as a qualified response.

Moderator We move on to the next question that is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera You mentioned that with improvement in the sugar mills profitability, the order booking could improve so have we started to get any sense in terms of the improvement or as of now, this is what we are estimating?

Gajanan Nabar We are seeing that in the enquiry book and hopefully we will see that in the order book.

Sachin Kasera Last year, there were certain expenses which could probably be one time in nature depending on how the year progresses by. So, if I see for 9M, your other expenditure is almost flat only up by around Rs. 4 - 5 crore. So, most of that other expenditure was a part of Q4? And secondly, now that we are into January almost into February, do you have any clarity in terms of one-time expenses for the full year FY 16?

Gajanan Nabar We will provide enough analysis at the end of year so it's better for everybody to understand how it has moved. Right now, its work-in-progress and we are three quarters gone, so I would request you to hold on for one more quarter.

Sachin Kasera Can you give us the idea as to majority of that was booked in Q4 last year or part of that was also in the nine months?

Gajanan Nabar It is both, but most of it was proportionately booked in the fourth quarter and some of it in the first quarter.

Moderator Next question is from the line of Swarnim Maheshwari from Edelweiss Securities. Please go ahead.

Swarnim Maheshwari Can you share the status of the Petrobras order?

Gajanan Nabar It is still on hold and we are likely to get further clarity in the fourth quarter, so as soon as we hear something we will share with the investors.

Swarnim Maheshwari The reason of harping on this Petrobras order is because it actually now constitutes almost about 25% of the current order book so if there is any delay or if you may want to remove that from the current order book, then FY 17 revenues may see a substantial hit?

Gajanan Nabar We will take that call in the fourth quarter, so right now we are seeing that as a part of the order book and we will follow the same discipline on all orders but if we see that it has to be treated otherwise, we will come back or if we have to put it back on a different track we will also share that with the investors.

Swarnim Maheshwari We have not booked any revenues as such at this point of time from that order?

Gajanan Nabar Not in FY16.

Moderator Next question is from the line of Vinod Malviya from Florintree Advisors. Please go ahead.

Vinod Malviya I understand that you do not want to share the profitability number in the emerging business, but can you give a view whether it is profitable at the EBITDA level and what would be the likely scenario, going forward?

Gajanan Nabar We do not share it, mainly from the competition standpoint but all those businesses are at the EBITDA level, profitable.

Vinod Malviya So has that happened in Q3?

Gajanan Nabar No, for some time now.

Vinod Malviya So the margin improvement was on the back of all operations and not just because of the emerging business?

Gajanan Nabar Yes at the beginning I have said that it is due to the three elements, one is, the operational efficiency that we brought in, second is that export orders constitute 50% of the total executed orders for the quarter, so it's a mix as well. And third, is commodity pricing, but it is a continuous phenomenon for the last few quarters so there is nothing exceptional in this quarter on the commodity price.

Vinod Malviya With the current ethanol prices, how much in terms of IRR and return is it viable for an independent player to set up an ethanol plant?

Gajanan Nabar Given the price that government has fixed for fuel ethanol at Rs. 49 and also beverage grade ethanol around the same price on delivered basis, on the molasses base, it is a very attractive proposition for the sugar mills.

Vinod Malviya But what would be likely IRR that they would be making?

Gajanan Nabar So more than IRR, it would depend on a variety of other reasons. A simple breakeven can be achieved between 3.5 to 4 years, which is fairly good. Our prices currently are very attractive even on global standards.

Moderator Next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor Coming to the point of ethanol blending program, crude they are settling in a new paradigm altogether and if the prices do hover around this region for a longer period, how much value will this ethanol program add, just not only connected to the environmental issues but considering the calorific value derived from ethanol fuel being much lower than that derived from the fossil fuel?

Gajanan Nabar The oil price is very important. But something like Paris Convention, which necessarily compels various governments to blend and use renewable fuels, as fuels becomes very imperative. In India, we have two more angles to look at, one is balance of payment because this saves considerable amount of foreign exchange. And number two, it also goes directly in the pockets of the farmers or helps the sugar industry to survive and grow, which is also obviously government's larger agenda. These are the two or three factors which weigh in favor of the blending mandate. Now when you look at blending up to 5% or 10%, we mentioned earlier that you are not necessarily replacing crude to crude, but you are also replacing some of the oxygenates and you have to look at the cost of those oxygenates. So it is a little more complicated formula than just looking at per barrel crude price and ethanol price. Other factors also play a role both positively or negatively, currently the other factors are weighing towards positivity.

Saket Kapoor You mentioned that second half would be much better than the first half, so what should be the trajectory going forward? Will this lumpiness continue due to the nature of business or now with things having a better shape in terms of the order book and the execution? Could we look on a sustainable revenue booking or order execution over the period?

Gajanan Nabar Our objective is the same, we have now multiple businesses to counter the lumpiness, counter a lower cycle of some businesses with better cycle of other businesses and hope this strategy works and our businesses become much more even. As an investor, you would like but as Management we would also like to have.

Saket Kapoor In the fourth quarter, you will be in a position to give some more color to it or today also things would be remaining the same in terms of this lumpiness getting evened out?

Gajanan Nabar We always give qualitative responses for this as you may appreciate. We said that our objective is to improve our EBITDA margins over the next 2 to 3 years and we are on course, we will sustain that hopefully and bring it forward. At the same time, lumpiness is an issue with many of the project companies and you address it with variety of ways and the actions are under play. So yes, every quarter we will definitely update you on how the progress has been.

Moderator Next question is from the line of Khadija Mantri from Dalal & Broacha. Please go ahead.

Khadija Mantri My question is regarding the EBITDA margins again, what could be the sustainable margins going forward for YoY?

Gajanan Nabar Our objective is to achieve higher teens margins over the next 2 to 3 years and we are on course to do that. I would also once again request all the investors that do not look at us on one quarter performance and definitely we want to make it sustainable and repetitive and we are on course to do that.

Khadija Mantri In the current order book, around Rs. 100 crore to Rs. 120 crore orders are from fuel ethanol and they are domestic orders predominantly, is it correct?

Gajanan Nabar I am not sure from where you picked this up

Khadija Mantri From your presentation, it says that out of the total domestic order book, 56% are from the fuel ethanol, so accordingly I have done my calculation

Gajanan Nabar Maybe we want to do the clarification on the slides that is not the data we have shared yet.

Khadija Mantri So how much would be the fuel ethanol orders?

Gajanan Nabar There is some amount of fuel ethanol orders in this but you will see more impact of that in the coming quarters.

Khadija Mantri What type of orders enquiries are you seeing, is it just the dehydration plants or the brownfield expansion or greenfield expansion is also coming in?

Gajanan Nabar It is all three.

Khadija Mantri Rs. 48 per litre for ethanol is only for this year from October to March 2016 and is it subject to revision for the next year?

Gajanan Nabar We have no information on that. One of the queues for fuel grade ethanol price is the beverage grade ethanol price. Based on that, the government has fixed the fuel grade ethanol price and we do not see any change in the beverage grade ethanol price, so we do not foresee that fuel grade ethanol price will change but we have our ears to the ground we will see if we get to know some more details.

Moderator Next question is from the line of Sandeep Sabarwal from Sun Capital. Please go ahead.

Sandeep Sabarwal Around 8-10 days back along with this thermal plant discharge, the government also came out with some norms for sugar plants where they have said that the discharge should be halved from 200 litres to around 100 litres. You work closely with sugar companies, so have you also seen that and evaluated that opportunity and if yes what kind of opportunity could that be?

Gajanan Nabar We will have to re-verify this and we will get back to you on this.

Sandeep Sabarwal On the second-generation ethanol plant, the initial hesitation of setting it up was because of the higher production costs and it would require some sort of subsidy. So in this new model, where the oil companies themselves come out with EOI and are maybe looking to invest around 50% of the plant cost, then how will this work because then pricing would have to be different or it would be the same?

Gajanan Nabar There is also an option of viability gap funding by the government on these projects and that formula is being worked out right now. Some initial push from overall incentive model of the government will have to happen and as the government is very serious about making it happen, we believe that also will follow through but we have to wait and see how it is moving.

Moderator Next question is the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi How is the enquiry in the critical process post most of these hydro carbon companies cutting their expenditure? And how is the crush margin and blending happening in US and Brazil?

Gajanan Nabar The number of enquiries and also the size of enquiries have gone down in CPES, but we are working specifically on few enquiries and those are live and few more are likely to come because of our initiative to go for 'Bharat 6' standard and that would lead to generation of some enquiries for the domestic market. But yes, due to the oil scenario, those enquiries remain subdued, maybe if I consider it a two year ago scenario. Brazil, right now we are not really tracking because of the typical financial condition and as far as we know on macro level, there is nothing much happening in terms of new investments on ethanol projects. As far as US goes, second-generation ethanol looks to be where the investment will happen but we do not have any specific enquiries or mandates right now but certainly RFS is holding the numbers as well as the incentive program for the time being.

Vikram Suryavanshi Was there earlier a benefit for second-generation ethanol also in US?

Gajanan Nabar Yes. There is $ 1.01 benefit which continues.

Vikram Suryavanshi For our second-generation demo plant, is there any progress?

Gajanan Nabar We are now taking it on opportunistic basis. We believe we have enough wherewithal of scaling it up based on the last 2 to 3 years trials we have done in our existing demo plant, which is a smaller size pilot plant capacity and based on that, at the right opportunity we will be able to scale it up. So we are not really pursuing that aggressively, unless the viability gap funding happens from the government, which I had updated few quarters back, is still lying on the government's desk.

Moderator Next question is from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.

Sanjeev Zarbade My question is regarding the EBITDA margin outlook, we have been sharing that they will strengthen in the future and to some extent we have achieved that, but looking at the order backlog assuming the Petrobras order gets eventually cancelled then you will be having around flattish order backlog at the end of this fiscal. Given this scenario, what levers we have so far as the margin expansion is concerned going into FY 17?

Gajanan Nabar It is a big assumption that we will end up at a flattish order book. I would request investors to hold on for the last quarter order book numbers. Now the advantage with our portfolio is that there are multiple other opportunities that we are working on and we will obviously share with the investors at the appropriate time as the order book starts seeing the traction or if any intake happens. That is on the overall order book basis. On individual businesses, there is a plan in place to improve the business-wise P&Ls and improve the EBITDA margins of individual businesses especially the more established businesses like ethanol and that continues to have a play and that would sustain. , Next quarter this picture would be clear but we are optimistic that we are on track to do the EBITDA expansion of higher teens in the next 2 to 3 years.

Sanjeev Zarbade When we had the analysts meet around two years back, we had given an indication that by FY 17, our emerging business and ethanol business would be around 50-50% contribution.. At this moment, we are seeing that the ratio is still work-in-progress and going by the improved enquiry levels in ethanol, do you see the ethanol business growing at a faster rate as compared to the emerging business may be in the 12 months' timeframe?

Gajanan Nabar Again I would not say it is premature, but it is little more symbolic of one quarter. On panned out basis, some of the other orders which are coming in, there are timing issues and all that, so India's story for ethanol and some of the other things are definitely helping the ethanol business, but there are certain other triggers in place for our emerging businesses, which will help them, so we still feel that we are on track for the 2 to 3 years, 50% contribution and we have always said that the ethanol business is on a growing pie so hopefully we will still be able to hold those numbers.

Sanjeev Zarbade Regarding the fourth quarter, you already said that the second half should be better than the first half but margin-wise would it be comparable to third quarter? Gajanan Nabar We just want to take utmost care in not being speculative and that is what I think you all like us for.

Moderator We take the last question from the line of Pawan Parekh from HDFC Securities. Please go ahead.

Pawan Parekh There is enough capacity to produce ethanol in the country but it is not usable, why is it so?

Gajanan Nabar Couple of reasons, one, it depends on which geography it is. Second, it is also largely dependent on the feedstock availability, so many of the capacities become non-viable because of the feedstock, which is used for conversion. Third, because of the cycle, which the domestic ethanol and the sugar industry went through, many of these units have become defunct, financially non-viable, so you need to take all that out. So, on paper, these capacities look to be there but when you actually try and get that ethanol, that number goes down significantly.

Pawan Parekh Assuming we consider only the usable capacity then what can be the blending that we can achieve in the country without further capacity?

Gajanan Nabar With feedstock available and assuming that we also can go to B molasses, now when the sugar price was at Rs. 22-24 it was making great sense, but at Rs. 31 it does not make sense because of obvious financial reasons but if you consider all that then 6 to 7% technically we can go with available capacity, you have to obviously de-bottleneck, add the dehydration units, etc.

Pawan Parekh So 6 to 7% is achievable with current set of capacity.

Gajanan Nabar Yes, but there would be some capex addition, modification of the plants, dehydration units and all that.

Pawan Parekh So for 6 to 7% you are assuming that these capacities will shift from beverage ethanol or industrial ethanol to completely fuel ethanol?

Gajanan Nabar Some shift will happen, but I do not think it will completely snowball because on overall price basis they are all at par. Dealing with OMCs, is a different cup of tea, than beverage and alcohol trades. There is also a preference of beverage alcohol in terms of it is an advanced money trade and all that, so there will be snowballing, which will happen, it will only be additional capacity, debottlenecking some of our technologies, which will enhance the capacities of the plant and will allow them to use higher feedstock, it will also help them to produce higher quantities and thereby provide that additional ethanol for fuel.

Pawan Parekh You said that there is some EOI being floated for second-generation cellulosic ethanol, can you throw some light on exactly what is this EOI and what is the project like?

Gajanan Nabar First of all, the overarching target is to blend 20%, that is the mandate. There are issues of cost of oil and all other things, but that is the overarching target. But definitely 10% in a shorter run and they are very serious about going to 10% in the next 1 to 2 years. Now to achieve 10%, we don't have enough molasses and obviously the government will not allow green-based ethanol to become fuel, because that will spiral inflation. So the next alternative is to use bio mass based ethanol and that is what the OMCs have been mandated with. So this time one big significant shift is that even Oil Ministry is playing role in this ethanol and they are also pushing oil marketing companies to use ethanol and push the blending and that is a significant change. You must have seen some announcement by the Oil Ministry that ethanol will be becoming priority segment, etc.. So there is clearly a bias towards blending and to achieve that blending you need to go for second gen to go to 10% even with the current feedstock available. The government is pushing to build some capacity on second gen basis.

Pawan Parekh So this EOI is like a procurement interest that they have shown?

Gajanan Nabar No. Not procurement, to invest. So they will bring 50%, the rest will be brought by the partner who would be typically a sugar mill or someone who has access to biomass, it could be an agriculture aggregator also and third part of it could be from either technology supplier or any other investor

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Pawan Parekh Thirdly on this margin improvement, it is because of operational efficiency but if you were to drill down into the said three segments, can you actually help us understand this margin improvement in the order of the three segments?

Gajanan Nabar We can take that off-line with you.

Moderator Thank you. With this I would now like to hand over the conference to Ms. Vinati Moghe for her closing comments, over to you Ma'am.

Vinati Moghe Thank you all for joining us today. If any of you have questions, you may write into us and we will be happy to speak to you. Thank you and have a great day.

Moderator Thank you very much ma'am. Ladies and gentleman, on behalf of Praj Industries, that concludes this conference call.