



Praj Industries Q1FY13 Results

Investor/Analyst Conference Call Transcript

July 23, 2012

Moderator Ladies and gentlemen, good day and welcome to the Praj Industries Q1 FY13 results conference call. As a reminder for the duration of this call, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing * and then 0 on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Vinati Moghe. Thank you and over to you.

Vinati Moghe Thank you. We welcome you to this conference call organized to discuss Praj Industries operating performance and financial results for Q1 FY2013 which were announced earlier. I have with me Mr. Pramod – Executive Chairman, Mr. Gajanan Nabar – CEO and Managing Director and Mr. Surendra Khairnar – Assistant Vice President, Accounts. Mr. will cover the key developments and global highlights following which Mr. Nabar will walk you through the operating financial highlights.

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 uncertainties. Documents relating to our financial performance have been emailed to most of you earlier. These documents have also been posted on our corporate website. I now invite Mr. Chaudhary to provide an overview of the highlights and business environment for the quarter.

Pramod Thank you Vinati and thank you for joining us on this conference call. I will give you a brief overview of the company and the environment followed by Gajanan will brief you on overall operations.

Our performance this quarter has been at a sustained level. Amidst growing challenges both domestically and internationally. We have benefited from our strategy to widen our presence. As economies in Europe and North America continue to face pressure, our presence in regions like Latin America, Africa and Asia Pacific have contributed to our performance. We see an enhanced focus on biofuels from countries in South America such as Argentina and Colombia. The Philippines and Vietnam are showing a lot of promise and there are signs of policy changes that have been undertaken resulting in increased blending mandates. On the non ethanol business some industrial sectors are presenting a consistent investment rationale including those like pharma, food and beverage, chemical and the refining sector. Water and wastewater together with Neela Systems and the critical process equipment business are highly focused onto these sectors.



Domestically interest rates are still on a higher side. The monsoon this year has added to the pressure with the likelihood of insufficient rainfall in many parts of India curbing the already beaten down expectations of growth. Add to that the drought in US, Russia, and some other regions which raised some more concerns. However customers continue to approach us and our enquiry pipeline remains robust. That said, I must mention that the cycle from concept to commissioning, is getting slightly prolonged compared to before but we feel that this could be a temporary phenomenon and will ease out sooner.

A quick overview on the global developments in the ethanol industry, USA now considers cane juice based ethanol as advanced bio fuel. This is likely to see growth in cane based ethanol, exports to USA from the South American region. More cane based ethanol plants could be set up in the region even beyond Brazil. Brazil has announced that it will return to the 25% blending target. With softening of sugar prices the focus should shift from sugar to ethanol in the latin region. This is expected to shift investments into ethanol. Thailand has seen a sharp increase in exports of ethanol to neighboring countries. This has boosted the domestic industry with plants running at healthy capacity and new plants scheduled to come on stream. However order wins in newer regions are leading to traction in the international market and this should provide an impetus to our order book in near terms.

Coming to recent development in India: there are reports that the Central government is once again seriously considering 5% ethanol blending as mandatory. This will significantly ease the oil import bill which we are expanding due to the depreciating rupee. While ethanol blending mandate has shown a pendulum movement, beverage alcohol uptake has been steadily rising.

On the brewery front, situation in the 1st quarter has improved with growing in place from the international markets also. Per capita of beer consumption in India has reached close to 2 liters. It is likely to continue to grow, if you benchmark with global per capita consumption. On the water and waste water treatment and critical process equipment business, we are seeing a continued traction, both in the domestic and the international market. We expect the market to start building up in the near future. We have had some key order wins and are looking to increasing the ticket size. Our valued proposition in the market is very robust. And as you may recollect we have commenced action on the lignocellulosic ethanol commercial based demo plant in India. Internal actions are proceeding well on engineering and design of the plant and other execution related preparations.

We are also in an advanced discussions with various stake holders to freeze on a variety of parameters including the site location of the plant and are looking at some partnerships. The outlook is encouraging. Overall, the economic situations seems to have bottomed out. The strategic initiatives including the investments are aimed at optimizing opportunities as the environment stabilizes. We are well positioned globally in terms of our focus on high emerging markets wherein we have a strong foothold in more than 60% of these regions. Our internal preparation in terms of new offerings, more streamlined delivery and a strong pool of talent will certainly enable us to be the first off the block when the tide turns for the better.

Before I hand over to Gajanan for further details on the business front, I wish to clarify on the recent reports making the rounds in the media and amongst the investors on the order from Australia. Yes, we have contracted a project in Australia. The total project outlay is approximately around AUD 200 million. However the contract involves 2 major phases, engineering in the first phase, followed by 2nd phase of supplies of machinery. We are presently executing the first phase of the project. The 2nd phase will follow only after due completion of other procedures and formalities at the customer end. The exact quantum of the

project value for Praj will be announced at a later time. I will now hand over the floor to Gajanan for operating and financial details. Thank you very much.

Gajanan Nabar

Thank you Mr. . I will walk you through the key developments in the business.

Consolidated income for operations was Rs. 204.58 crore with Rs. 179.50 crore for standalone along with execution subsidies. This translates in to a quarter on corresponding quarter growth of 6%. Of the Rs.163.9 crore standalone income, 52% was domestic and 48% from international. The ethanol plant business accounted for 87% and non-ethanol for 13%. But EBITDA excluding other income is at Rs. 14.6 crore when compared to Rs. 15.7 crore in Q1 FY12. As mentioned it will be our endeavor to improve on this. We have launched an engineering innovation initiative that will help us to achieve this. And also the first quarter usually being lighter we are expecting improvements as we move into the year with the top line and sales mix improving. PBT margin at 9% is at Rs. 15.02 crore against Rs. 17.28 crore and PAT for Q1 FY13 is at Rs. 12.07 crore against 13.66 crore. We have maintained an order backlog as on date at Rs. 800 crore resulting in net addition of Rs. 165 crore during the quarter. Out of the total order book of Rs. 800 crore, 57% orders are from domestic and 43% are from international. For this quarter 43% of the total orders came from the non-ethanol groups.

During the quarter, we had an inflow of 75% from domestic and 25% of international orders. As mentioned by Mr. the CAPEX cycle has become very tight. And many orders remain in the pipeline for a prolonged period. Regulatory approvals and fund disbursements is another reason the cycle is getting prolonged. On the ethanol front several orders are in the pipeline and awaiting various compliances and closures both in India as well as internationally. We are hopeful that this quarter should see a number of these orders move forward and one of them being the Australian order mentioned by Mr. .

On the execution front we recently commissioned a large capacity ethanol plant in Kenya. As you know we are presently executing 4 projects across Africa. On the non-ethanol front: non-brewery businesses we see built up an overseas interest as well. We are working towards converting these enquiries quickly in to orders, as the cycle time for order to sale is fairly short in comparison. We recently contracted the first order overseas for a non-ethanol application.

On the brewery front too, we have seen a high order intake during this quarter and enquiries also shaping up well. The process of integration of Neela Systems with Praj is progressing well. We continue to maintain a strong balance sheet following the buyback in FY12 and the acquisition of Neela. Cash on the books is at Rs. 230 crore. Apart from the healthy balance sheet, we continue to have recourse to funding if required. I am glad to inform you that CRISIL has re-affirmed its ratings on Praj Industries. The cash credit facility has been assigned at AA stable rating. Letter of credit and bank guarantee facility has been assigned at A1 positive rating and proposed long term bank loan facility has been assigned an AA stable rating. The first quarter of FY13 has been challenging. Although operationally Praj has made progress, while the circumstances do not permit us to fire on all cylinders, we are maintaining our market share in the core business and have created a strong foundation in the non-ethanol businesses. There remains a significant uncertainty in the operating environment and we see slow and cautious progress from our customers. Amidst this we remain optimistic as we believe visibility is gradually returning to our core business and our non-ethanol businesses are poised for the next league of growth. Our strong healthy balance sheet and low gearing should work to our advantage to counter this adverse economic situation. With that we will now take questions. Thank you very much.

Moderator Thank you very much. We will now begin the question and answer session. The first question is from the line of Amitabh Sonthalia from SKS Capital, please go ahead.

Amitabh Sonthalia Just wanted a quick update on the income tax issues that we had in the previous quarter? Is there any update, is the matter fully resolved or any further provisioning outcome of the assessment or scrutiny whatever we had last quarter? Any further details and light on that please.

Pramod We have tried to compile the information sought by income tax under 132. And you know that we have provided Rs. 25 crore in the last quarter. Actually we an amount of cash, Rs. 25 crore was paid as income tax. And we are yet to get the demand note and assessment is still pending. So at this juncture we don't expect any happenings on that front. It may still take some more time from their side. 30

Amitabh Sonthalia Sorry to harp on this point but what is the background of their enquiry and what are the key findings or allegations that they had in their order?

Pramod In the larger interest, the company and investors and the customers, I think it will be wrong on our part to explain, what was the claim they had made especially disallowing such an expenditure, that's all I can say.

Amitabh Sonthalia Okay so it's more on the expenditure disallowance side. And what was their total demand if you may share that with us?

Pramod No there is no demand so far. There is no specific demand. Demand note has not been received by us. And this is in consultation with tax consultants and auditors and legal advisors, what we have provided as a prudent practice in the very beginning of this financial year towards last year.

Amitabh Sonthalia As per management's best estimate, do we expect to have any further liabilities on that front?

Pramod I will tend to agree with you.

Moderator The next question is from the line of Ankush Mahajan from KR Choksey, please go ahead.

Ankush Mahajan My question is regarding this Australian order: would you describe it once again? How Praj will execute it in terms of parts and second is in terms of the execution in the first quarter, there is an execution of Rs. 165 crore and what was the reason that we expect execution is at the lower end and the order inflow is at Rs. 165 crore. So how do you see the order inflow for the whole year?

Gajanan Nabar I will take the order inflow question. As I mentioned there are many orders in the pipeline and some of them have already expressed interest to work with Praj either informally or even formally. But due to various other contingencies like disbursements of funds, availability of land in India specifically and licenses and things like that, some of these orders are holding fire and they are actually our backlog. So what we are seeing, hopefully with some more clarity coming in the investment situations, these orders will go through and the order book is likely to look much healthier if these orders go through, going forward. So that's what we mentioned and this is the reason why the 1st quarter is always softer compared to other quarters usually and that has also added to it. So mix of both hopefully should be able to help us address few quarters.

Amitabh Sonthalia And what about the Australian order sir?

Pramod As regards to the Australian order as I mentioned that the customer has awarded us the contract. It is in 2 phases. After the first engineering phase they have to comply with some formalities and that will take some time, so the second part of the order becomes executable once they complete those formalities and what I said is that the second portion of the order we will announce the exact quantum of that order because the overall reference is worked out but actual value will be worked out once the engineering is over and the dollar – rupee rate and other things will be involved in that. So we will announce that value at a later date.

Amitabh Sonthalia So the first part of the order is what have received that one in the engineering part.

Pramod Yes, the contract is combined, it's an integrated contract, only engineering part has been cleared for execution. Just to add to Mr. Nabar's comment we have become second of very conservative and prudent practice that we will take the order as executable and once all the parameters are met with.

Amitabh Sonthalia If you see it is actually quite a big order, so can you tell us what is the percentage of engineering portion in that order?

Pramod No, I don't want to mention that, just once we get the second portion we will announce the total portion together.

Amitabh Sonthalia So we can expect in this month or the next month?

Pramod I can't comment. I think we are expecting it sooner but we don't know. You know these kind of things can take time.

Amitabh Sonthalia Have we got the EPC contract of the order?

Pramod I won't say EPC contract, the plant and machinery supply contract, yes.

Moderator Thank you. The next question is from the line of Ravish Kumar from Narnolia Securities, please go ahead?

Ravish Kumar My question was how do you see your margins playing out in the water treatment segment especially in terms of Neela Systems?

Gajanan Nabar As you probably are aware I think we mentioned on our last few calls, the water segment in general is becoming very crowded with a lot of competition. Everybody wants to get into water. However we have thoughtfully and strategically selected a segment where we feel that our technology is valued and the customer would pay for that. And even if you look at our acquisition of Neela, it is into a very niche pharma processing water supply systems which is again not as coveted as any other sectors that you see. So we are very confident and that's what the traction we are seeing on our order book in terms of the margins that we are looking at in these segments are gradually improving. Neela's margins were at fairly good levels and we were absolutely confident of sustaining it.

Ravish Kumar Could we have some numbers or range to work with?

Pramod We do not share this information but as you see our businesses is making progress and become a substantial proportionate of our total business you will see the confirmation of what I am saying.

Ravish Kumar How long typically your order execution cycle starts and does it differ between your ethanol businesses and non-ethanol segment?

Gajanan nabar Absolutely, we have 4 broad business lines. Ethanol, brewery equipments, water and waste water and critical process equipment systems and for each business vertical the project cycle is different. I would say the shortest would be for the Critical Process Equipments and Systems because it normally entails supplying equipments with some kind of installation and probably the longest for a full menu of ethanol.

Ravish Kumar Can we have some kind of a guidance in terms of how many months are the shortest execution cycles and how many months are the longest,?

Gajanan Nabar 5 – 7 months are the shortest and between 13 – 15 months is the longest.

Ravish Kumar Typically we have been reading a lot about how adverse weather conditions prevailing in certain parts of the US for example it is leading to higher feedstock prices, so do you see an impact from that sector because what I am given to believe is that ethanol production is largely a mandatory target to be measured in countries. So you see an impact arising out of that?

Gajanan Nabar Yes i think there would be an impact but right now for the past first few years, US and Europe we are not seeing much of activity on the ethanol front. So I wouldn't say that this would have a direct impact. But it would certainly slow down the chances of recovery and new Greenshoes that were suppose to appear might get little pushed out.

Moderator Thank you. The next question is from the line of Bhalchandra Shinde from B&K Securities, please go ahead.

Bhalchandra Shinde I want to clarify on the Australian order. Is the engineering portion completed or is it in the process of getting completed?

Pramod It's in the process.

Bhalchandra Shinde Is the engineering component included in the current order book or it's excluded, it will get included afterwards?

Gajanan Nabar The premium portion is included. The portion for which we have got clearance is included.

Bhalchandra Shinde Okay so once that is cleared then the equipment order value will get included in our order book?

Pramod Yes but as I said depending on the customers formalities and some clearance at their end.

Bhalchandra Shinde And sir I want to get again the numbers which actually Mr. Nabar told for the quarter, breakup of order book?

Gajanan Nabar Break up in terms of?

Bhalchandra Shinde Ethanol, non-ethanol and all.

Gajanan Nabar We have an order book back log of Rs. 800 crore. Out of which 57% are for domestic and 43% are for international.

Bhalchandra Shinde And for the quarter?

Gajanan Nabar For the quarter we mentioned the order book is or Rs. 165 crore and out of which 43% orders were from non-ethanol.

Bhalchandra Shinde And you said 78% is ethanol, 13% is non-ethanol, so remaining 9% will be of water and pure water?

Gajanan Nabar Are you asking on the order book or on stage?

Bhalchandra Shinde Order book.

Gajanan Nabar No this is sales for the quarter. It is 87% for ethanol and balance 13% was non-ethanol.

Moderator Thank you. The next question is form the line of Manish Goyal from Enam, please go ahead.

Manish Goyal On this Australian order, what is the nature of the order, is it sugar based?

Pramod Sugarcane.

Manish Goyal Is it for ethanol only?

Pramod Ethanol.

Manish Goyal And by when do we expect to complete the engineering work?

Pramod It should be in the next 4 – 5 months.

Manish Goyal And on this standalone and consolidated, the difference in the profit is practically not much. In fact sir if you can probably share the numbers on Neela Systems?

Gajanan Nabar Neela Systems the income is at Rs. 13.4 crore and the profit is at 75 lakhs, which is PBT.

Manish Goyal So even for Neela, quarter 1 is subdued basically, is it seasonal like what we saw in Praj also and what is the order book for Neela Systems sir?

Gajanan Nabar Yes. It's in the range of Rs. 45 crore.

Manish Goyal Also if you can give the breakup of order book in terms of ethanol and non-ethanol?

Gajanan Nabar Our order book, roughly 25% is non-ethanol of Rs. 800 crore.

Manish Goyal Just a clarification, order intake of Rs. 165 crore, was 75% from domestic?

Pramod That's correct.

Manish Goyal Last question on this lignocelluloses, now as we have started the engineering works, what is the CAPEX and what would be the Praj share if you can just highlight?

Pramod All these are work-in-progress actually. We have started the engineering work but engineering, it will be frozen by another 2 – 3 months' time. So I think October will be a good time, we will have a lot of things to share on variety of fronts. Progress is pretty good.

Manish Goyal And in US you mentioned that now sugarcane is also qualified as an advanced bio fuel. We are seeing the corn crop expected to be much lower. So is there a large opportunity in sugarcane also. I believe we have executed one – two orders in the US for sugarcane.

Pramod We have not executed. The order did not go to fortification ultimately. That was in the state of Louisiana. It was sugarcane cum sweet sorghum but the promoters could never raise the money at that point of time. This is what we referred about the sugarcane is the potential of exports for sugarcane ethanol from South America to USA. Chances of that potential has increased and typically countries like Peru and all those places, they are planning or already working on those things. Last quarter I told you we are commissioning one plant in Peru.

Manish Goyal And on this African project sir, we have completed the 1st project and how is the outlook in terms of new order enquiries in Africa?

Pramod Africa, of course traditionally it is slower than others but there are many in the pipeline but it takes a longer time than the other countries because of the finances that have to be tied up, it takes a little longer.

Moderator The next question is from the line of Ravish Kumar from Narnolia Securities, please go ahead.

Ravish Kumar ZThe last time you had mentioned that you had given a guidance of meeting roughly 30% of your revenue from the non-ethanol business, so would you like to revisit that or any change in guidance on that front?

Pramod We don't see any reason for that, no.

Ravish Kumar My question was do you wish to retain that guidance?

Pramod What we are saying that earlier original plan was 75 – 25 and last time we had said we are looking forward to increasing it to 70 – 30. That's what we said and we currently believe to stick to that.

Ravish Kumar And sir what are your CAPEX plans for FY13?

Pramod We have got a routine CAPEX plan in the range of about Rs. 10 crore. The mix is routine, typically from upgradations and maintenance and there is no major CAPEX plan at this juncture.

Ravish Kumar And sir one final question, how is the progress on the demo of ethanol plant that you mentioned?

Pramod That's what I said, engineering is going on.

Moderator Thank you. The next question is from the line of Bhalchandra Shinde from B&K Securities, please go ahead.

Bhalchandra Shinde Just wanted to know on your outlook on the order book, do you see the current order book growing in this year or to stay at the same levels?

Gajanan Nabar No we are expecting it to grow. As I mentioned earlier that a lot of orders which are holding fire that means they are absolutely at the final stages. We have not taken them in the order book because obviously we want to use the principle of conservatism and they are not fully qualified per us to be called as orders. We are certainly seeing as the improvement in the environment takes place, these orders will simply come into the kitty and we feel the order book situation would look better than what it is looking today.

Bhalchandra Shinde But can we expect this to take place in second half at least?

Gajanan Nabar It's difficult to say. I think we don't want to make any guess like that. So we are absolutely ready to execute as the orders are flowing. So that's what we have done overtime.

Bhalchandra Shinde So if at all, all this takes place, can we expect around 10 – 15% growth in the order book at least?

Gajanan Nabar Sorry we can't make such statements.

Moderator The next question is from the line of Chavi Agarwal from Ambit Capital, please go ahead.

Chavi Agarwal My question is regarding the water segment. Can you throw some light as to what are the opportunities that you are looking at in this segment and are you considering municipal to be better than industrial and in industrial which segment will drive the orders?

Gajanan Nabar As we mentioned earlier, we are focused on the water and wastewater side. On the water side our arm: Neela, which is on pharmaceutical high pure water and processed water side and very selectively to food and beverages and biotech is what we are looking at on the water side. On the wastewater side, it is industrial, we are not playing in to municipal at all and it is also into selective segments of pharma, biotech, CETPs on a selective basis and may be some very selective textile usages that we are looking at. So we are not spread across all segments. We are very focused and that's why we are seeing that we can add more value to our customers.

Moderator The next question is from the line of Keerti Dalvi from Enam AMC, please go ahead.

Keerti Dalvi If you could give us the breakup of your order book, revenue as well as order in flow in 3 major categories, fuel ethanol, portable ethanol, and breweries?

Pramod Chaudahri We can send it to you and actually ethanol and brewery sometimes it becomes also combined, when the mother plant being the same.

Vinati Moghe I think you requested for it earlier also. We will add that out.

Keerti Dalvi If you could help us with what is happening with our OPMs because our margins on our YoY basis have also taken a big hit almost 60 – 70 bps. So where do we see this for the year as a whole?

Gajanan Nabar We are very confident that the margin will look better. It's also the run rate of top line and as we are geared for higher throughput, we obviously see the margins improving as our sales would go through.

Keerti Dalvi Was there any one-off in your employee cost this quarter or any kind of incentives which have been paid off in the last quarter or it's the regular expenditure?

Gajanan Nabar I think it's all regular expenditure.

Moderator Thank you. The next question is from the line of Krunal Shah from Amideep, please go ahead.

Krunal Shah The question is regarding the industry as general in the global perspective. We have seen that the energy prices in terms of gas have fallen: the natural gas prices internationally. Would that concern us because that would lead to the decline of use of blended fuels?

Gajanan Nabar No it's not really concerning us right away because obviously there is some correlation but it is not very direct industry correlation and there are geographies who are committed to the blending mandates like certain geographies in South East Asia, in Africa and in South America. And those countries irrespective of oil prices would continue to build capacities and go through the project so it's not really concerning but obviously higher prices do help in terms of an overall environment but it is not concerning right now.

Moderator Thank you. The next question is from the line of Arpit Agarwal from Barclays, please go ahead.

Arpit Agarwal

Arpit Agarwal What is your growth outlook and what do you think would be your targeted growth rate?

Pramod Our targets are pretty ambitious but you know the way situation has taken place just now, there is nothing wrong internally. But you have to really take care of the external environment like USA in 2008, nobody envisaged US slowdown, nobody envisaged European slowdown. So one is having an aspiration and vision, but actually looking at this number at this juncture could perhaps be overambitious at his juncture.

Arpit Agarwal And lastly I missed that number, what is the cash on books currently?

Pramod Rs. 230 crore.

Moderator Thank you. Ladies and Gentlemen due to time constraints, no further questions can be taken. I would now like to hand over the floor to the management for closing comments.

Vinati Moghe Thank you everybody for joining us today. If you have any further questions or clarifications, please do write in to us or visit our website.

Moderator

On behalf of Praj Industries that concludes this conference call.