



Praj Industries Limited

Q1 FY 2014

Investor/Analyst Conference Call Transcript August 12, 2013

Moderator Ladies and gentlemen, good day and welcome to the Praj Industries Q1 FY14 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Vinati Moghe from Praj Industries. Thank you and over to you.

Vinati Moghe Thanks. We welcome you to this conference call organized to discuss Praj Industries' operating performance and financial results for Q1 FY2013 – '14, which were announced on Friday. I have with me Mr. Gajanan Nabar - CEO and Managing Director, Praj Industries and Mr. Surendra Khairnar – Assistant Vice President (Accounts).

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 e-mailed to you earlier. These documents have also been posted onto our website. I would now like to invite Mr. Nabar to take over and give his opening remarks. Thank you.

Gajanan Nabar Thank you Vinati. Good morning everyone and thank you for taking the time to join this conference call for Q1 results of fiscal '14. As you would have noticed, we have shared numbers on a consolidated basis and will continue to do so going forward. This has been done keeping in mind requests from investors and also to reflect the increasing scale of work undertaken by our local execution companies, both in India and overseas, as well as the progress of our subsidiaries including Neela systems. We are very excited to share the news of ground-breaking of our second generation cellulosic ethanol plant at Shirala in Sangli district of Maharashtra. This is a historic moment for us as this makes us one of the first companies in South and South-East Asia to set up a demonstration cellulosic ethanol plant based on second generation technology and this continues our tradition of being at the forefront of ethanol business globally. We have been talking to potential investors and the discussions are in advanced stages. That said, we will employ prudent investment strategies to evaluate investor options. The success of this project will enable us to participate in significant business opportunities world-wide. It will also be a major enabler for the Indian Ethanol Blending Program. We see greater impetus from Central Government towards implementation of the 5% blending mandate. While this has been talked about for several times in the past, there is now greater seriousness about getting the

mechanism implemented. The Ministry of Petroleum and the PSU Oil companies are pursuing sourcing of ethanol. PSU OMCs have already arranged for 50% of the requirement and the tendering process for the balance 50% has concluded. The early news on the pricing indicates an improvement in margins for sugar mills and ethanol producers. Keeping in mind the improving economics of the ethanol business and also the Central Government's target of 20% ethanol blending by 2017 which can only be achieved with viable second generation cellulosic ethanol program, we feel that circumstances are more conducive for second generation now more than ever. The first quarter fiscal of '13 – '14 has seen some new developments on the ethanol front, not only in India but also in the international markets. President Obama has re-instated bio-fuels in his climate change action plan. More than 35 states in the U.S have established renewable energy targets and more than 25 have set energy efficiency targets. The plan states that bio-fuels have an important role to play in increasing United States' energy security, fostering rural economy development and reducing greenhouse gas emissions from the transportation sector. The action plan reaffirms the administration's support of the renewable fuel standards which is called RFS and notes the government is investing in research and development to help bring next generation bio-fuels online. The European Union also saw some development in the form of environment committee's vote in favor of a 5.5% cap on conventional bio-fuels and an additional 2% target for advanced bio-fuels in transport energy sector which would translate into 3 billion liters of capacity creation. This vote promotes a shift away from crop-based bio-fuels to those made from advanced feedstocks in order to reduce GHG and conserve environment. This is yet to be passed in the EU parliament. In South-East Asia, Thailand has announced new fiscal benefits for sugar and agro-industries as well as bio-ethanol plants. In Vietnam too, we see government strongly supporting bio-fuel programs. In South Africa, which is awaiting a decision on ethanol pricing, sugar mills have joined the call of urgency to implement ethanol blending mandate. In Zambia as well, government has indicated ethanol blending plans. The first quarter of fiscal '14, we also saw the opening of U.K's largest bio-ethanol plant Vivergo Fuels. As you know, Praj has supplied the technology and some equipment for the process plant. The plant adheres to EU's sustainability criteria for green house gas savings. Vivergo Fuels, for your information is a JV between AB Sugars, BP and DuPont. On the domestic brewery front, we enjoy a market share of around 65%. Our efforts are directed towards taking this business to international markets as said on the past few calls. Although we have done business in Sri Lanka, Egypt, Myanmar, Nepal, Bhutan earlier, we are happy to share that we have received an order from SABMiller, a global brewery player for a complete brewery plant in Namibia. The value of this order is Rs. 54 crore. This follows the brewery order contracted in Myanmar in the previous fiscal. This project has now been taken over by one of the world's leading beer producer and we will see rapid progress. With this, we have now got a good foothold in 2 of the growth markets in brewery, South-East Asia and Africa. Both ethanol and brewery market share continues to be strong. Now, we will move to the emerging businesses. Emerging business is also gathering momentum. The pending orders show a threefold increase as of Q1 FY14 when compared to the corresponding quarter of the previous fiscal. We see order gains from the international markets for all the businesses - Water, Critical Process Equipment and Systems as well as Neela Systems. Post our success in the Tirupur Textile Waste Water Solutions; we have received an order from a yarn and chemicals manufacturing company. With this, the Water Group has moved up their capability benchmark and will address bigger capacity and more complex applications. Neela Systems has gained a big ticket order with a breakthrough from Hospira, a global specialty Pharma company for Water and Distribution Systems in a Pharmaceutical Manufacturing facility in Vizag, Andhra Pradesh. Neela has also received an export order from Central Asia. The Indian Pharmaceutical Industry is growing at a CAGR of 13% and is a large consumer of water and generates waste water which contains toxins, contaminants and organics. As the U.S FDA norms become more demanding, we expect up-gradation in Pharma facilities which will

spell better opportunities for our emerging business. Now, for a run through our financial of the first quarter.

While Q1 is seasonally a weak quarter, the current investment mood in the country remains one of abundant caution. Clients are delaying the execution as they continuously try to assess the situation on the ground for improving signals. The enquiry pipeline remains healthy and pending orders are also robust and expanding. While in this quarter, the pace of execution was impacted by the order entry cycle which is mirrored in our revenues. We expect the pace to quicken in the second half. Having said that, I would also like to remind investors that it is more appropriate to evaluate our businesses on an annual basis rather than on the basis of a single quarter. This is because of the order entry point as well as the fact that the performance is getting adjusted to a new execution cycle. Based on a healthy and growing order book, we see the trend reversing in the later half of the year. The consolidated income from operations was Rs. 173.06 crore in Q1FY14 versus Rs. 200.23 crore in Q1FY13. EBITDA was at Rs. 0.48 crore in Q1FY14 versus Rs. 19.31 crore in Q1FY13. PBT of Rs. 4.88 crore in Q1FY14 versus Rs. 17.23 crore in Q1FY13 and PAT at Rs. 3.1 crore in Q1FY14 versus Rs. 13.69 crore in Q1FY13. The break up of the revenue of Rs. 173 crore is as follows. Export is at 40% and Domestic at 60%. Ethanol business forms 63%, Brewery business 5% and emerging business forms 32%. The order back log as on June 13th has improved to Rs. 1,010 crore, a 12% increase over the previous quarter. The break up of the order backlog of Rs. 1,010 crore is as follows. Export is at 56%, Domestic at 44% and Ethanol business forms 64%, Brewery business at 14% and emerging business forms 22%. Of this, the order backlog of Neela Systems stood at Rs. 61 crore. The order intake for Q1 is at Rs. 252 crore, it has been healthy with a good mix of international orders. The order intake for this quarter constitutes 28% of international orders and 32% of the total orders from emerging business. To conclude, I would like to mention that the micro environment remains challenging. While large fresh capital investments are not being undertaken, it will be our effort to leverage the strong existing base of our customers in both ethanol and brewery plants as well as the up-gradation opportunities in the emerging business. The internationalization of emerging business is also being strengthened further. Our operations remain strong. Our financial position continues to be on solid footing. We remain a debt free company on a standalone basis. On the corporate front, we have distributed the dividend for the fiscal '12 – '13. The dividend yield at 5% has been appreciated. Looking at the quality and size of the order book and our preparedness to execute it, we believe that this year will turn out stronger than the previous fiscal. I would like to re-iterate that we would continue to work on improving profitability of this business. With that, we will now take your questions. Thank you.

- Moderator** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Bhalchandra Shinde from B&K Securities. Please go ahead.
- Bhalchandra Shinde** On the order intake which you have mentioned on a consolidated basis, how much growth was there this quarter on a YoY basis?
- Gajanan Nabar** It is a 15% growth.
- Bhalchandra Shinde** Earlier whatever the order intake and order book which we were giving, we were on standalone basis and this is the first time we are giving on the consolidated basis. In the order book, sir, what is the YoY growth?
- Gajanan Nabar** The order book YoY growth is 12%.

Bhalchandra Shinde Regarding the breweries business, actually I missed out the sales percentage ethanol of 53%?

Gajanan Nabar You know Bhalchandra, what we have done is we have put the whole presentation, giving all these break ups on our website. So, all these questions can be answered. If you need some further information, you could check out.

Bhalchandra Shinde As in the commentary which you have just mentioned, about 3 billion liters of capacity creation potentially seen in the European Union, we see this to be passed in parliament and to trickle down into potential orders? Do we see any timeline or will it take time?

Gajanan Nabar We believe that this would get passed in the EU parliament by October of this year and then further they would form into some kind of ordinance and then the execution cycle would start. So, it will take anywhere between 6 months to 1 year to kick start any activity on execution.

Bhalchandra Shinde In this quarter results, was there any deferment from the customer side or it was just due to the mismatch in the execution timing?

Gajanan Nabar No, there was some deferment but it was largely the order intake point which has caused the lower revenues.

Bhalchandra Shinde Are we expecting any more customer deferments in the existing order book or we think it should stagnate out and bottom out?

Gajanan Nabar Obviously this is a little bit of a speculation. Right now, we do not have any particular indications. But we know that the market in India and some other countries remain choppy from the investment claimants stand point. So, some of that effect might also come back. But, right now we have no indication that a particular customer or specific indication that anybody is delaying that project, in the order book that we have.

Bhalchandra Shinde In the U.S, actually we just wanted to know in RFS, has there been any change in the mandates, regarding the first generation and cellulosic second generation bio-fuels? Are there any changes in the mandates or are the mandates are same??

Gajanan Nabar No, their mandates remain intact. In fact, there are more and more states going for the E15 blending program. So, to answer your question, there is no change in mandate. Going back to your earlier question on the order book and delayed execution cycle, we are using abundant precaution to publish the order book looking at the quality of orders. So, wherever we see that at the gate there is going to be a delay or deferment of the order execution, we do not put that in our order book which is published. Just so that you understand the quality of the order book that we are showing.

Bhalchandra Shinde So, does that mean comparatively our order book is more than what we state in the releases, that you mean to say?

Gajanan Nabar Yes. So, we say the only the executable order book where we strongly believe that these orders are executable.

Bhalchandra Shinde And regarding emerging markets, in last three quarters which we have seen, we have continuously got good orders from emerging markets for the ethanol plant. Do we expect these things to sustain or do we expect things to subside further? Does this mean we expect more or may expect more?

Gajanan Nabar No, I think we also mentioned in our previous calls that the good part is that we are present and are capable of executing orders on various geographies, including emerging markets and wherever we see the opportunities; we can convert them into orders. So, that unabatedly continues.

Moderator Thank you. The next question is from the line of Sudhakar Prabhu from Span Capital. Please go ahead.

Sudhakar Prabhu First of all let me congratulate you for the new second generation plant. Just wanted to understand what is the progress on this? Has the initial production started? What has been the initial expectation?

Gajanan Nabar Thank you for your enquiry about second gen. We are also excited about this. Right now we did the ground breaking ceremony, it takes between 12 – 15 months of the execution cycle to commission the plant. The engineering is at a completion stage and we are in the process of doing further work on equipment finalization, specification and further ordering. So, that is the state of the second gen plant right now.

Sudhakar Prabhu And Mr. Nabar, just coming back to the results. I think the results have been very disappointing.. Even at the EBITDA level, there was a loss. You mentioned in the initial remarks that execution has been a problem but what exactly is going on? Is it the execution that is slow because of the customer's part or is it because of you? And what gives you the confidence that in the second half, the execution would be better?

Gajanan Nabar First of all, my request to all of you is not to look at this quarter as a representative quarter for the year. We are very clear on that. We stated that in my remarks earlier. Having said that, the results are impacted more due to entry point of the orders which resulted in less of revenue this quarter against corresponding quarter-on-quarter.

Sudhakar Prabhu So what do you mean by that entry point? I just want to understand?

Gajanan Nabar When the orders get executable, at that point there is certain time lag when the execution starts or the invoicing starts. That is the period I am talking about. So, if you look at the order book which is at about of Rs. 1,000 crore, any of these orders which get entered in the last 4-5 months, and you would see that effect going forward in the later half, that is what we said.

Sudhakar Prabhu You mean to say that the execution is in progress but the invoicing is yet to be done. Is my understanding right?

Gajanan Nabar That is correct. They are all executable orders. Absolutely right. So, there are various stages but the invoicing starts only once we start dispatching the equipments. So, there could be various stages of engineering or manufacturing at procurement stages.

Sudhakar Prabhu So, if you could give us this number that out of this Rs. 1,000 crore, how much of this order are you actually executing at the moment? Is that possible to quantify?

Gajanan Nabar No. So, again let me clarify. When we announce the order book, it is all an executable order book.

Sudhakar Prabhu Yes, I understand that.

Gajanan Nabar So, all the Rs. 1,000 crore are at various stages of execution. There would be some at basic process engineering stages, some could be at detail engineering stages, some could be at ordering stages, some could be at manufacturing stages, at the various stages of execution.

Sudhakar Prabhu That is why you say that at the second half of the revenue accounting will be better than the first half?

Gajanan Nabar We feel confident about that. Yes.

Sudhakar Prabhu Secondly on the margins.. How do you see margins panning out this year? Would this be better than last year or would it be worse?

Gajanan Nabar I would not like to comment at this point in time. But as I said, as the execution improves on that, we are also having several programs for value engineering and all that which I had already shared with you earlier and focus on our preparedness for execution. So, all that augurs well with the execution cycle, I would say.

Sudhakar Prabhu What is the cash in the books and debtors and debt level, if any?

Gajanan Nabar Cash on the book is Rs. 200 crore.

Sudhakar Prabhu Debt?

Gajanan Nabar We have practically no debt on a standalone basis.

Sudhakar Prabhu And at the debtors level? Has it improved from the March quarter? Have the receivables improved?

Gajanan Nabar It has marginally improved, over March.

Moderator Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.

VP Rajesh In terms of the various businesses that you talked about, where do you see the maximum growth in the next couple of years? Is it more on the ethanol side or is it more on the emerging business side? Could you just add some comments on that.

Gajanan Nabar If you ask pure percentage growth, obviously where the emerging businesses are concerned we see more growth because it is growing from a smaller base. But our big strong block remains of ethanol where we have also seen substantial traction. One, as I mentioned, the blending program which is getting more and more serious in India with OMCs buying 50%. in, they are out in the bid for 50%. It also has corrected the pricing mechanism which is auguring very well with capacity building. So, we hope that even that would augur well with the business of domestic ethanol. We have seen breweries with some international headways. We would see that it is our driver for the next level of growth on brewery side and emerging business, as I said, definitely will grow on its pharma and biotech and cosmetic side growth in the industry as well as oil and gas global opportunity because our CPES business caters to our customers through the global opportunities for this business. So, we on percentage terms, definitely we see a larger growth percentage in emerging business but we feel that our ethanol and brewery business also would continue to grow.

VP Rajesh On the CAPEX side, I believe you mentioned something like Rs. 125 – 150 crore will be spent towards the second generation plant. Is there any other significant CAPEX planned, apart from that?

Gajanan Nabar No, there is no other significant CAPEX apart from the routine CAPEX.

Moderator Thank you. The next question is from the line of Mahesh Bendre from Quantum Securities. Please go ahead.

Mahesh Bendre In the last 2 quarters, we had received 2 major orders – one was from Columbia and other one was from Philippines. So, are these orders ones that you have you started executing? What is the status now?

Gajanan Nabar Yes, certainly. I think both these orders are under execution and are in the pipeline of execution.

Mahesh Bendre What is the Neela performance this quarter, are there any specific details you would like to share?

Gajanan Nabar Neela has done a revenue of Rs. 15.5 crore. And PAT of 50 lakhs, 49 lakhs.

Mahesh Bendre The operating margin seems to be becoming a function of operating leverage. I mean, if I look at our gross margins for a standalone business, it has actually improved, based on the last 4-5 years. So how is the revenue growth is expected over the next few quarters?

Gajanan Nabar I am not sure whether I understood your question correctly. But we have one pending order book of Rs. 1,010 crore on a consolidated basis which is obviously under execution and as I earlier said, we are not putting a flag of any stoppage or delayed execution on these orders. The moment we see that, we take them out of the order book. So, that is the process that we use diligently. Certainly as they are in different stages of execution, it will go through the cycle of quarters to reflect into our revenues. But we do not see any unwarranted or unnatural movement of delaying this at this point in time. If we share something to our customers, we will flag it if it is substantial or we will take it out of our order book.

Mahesh Bendre I was looking from the angle that our revenue has declined 25% in a standalone business. So, the employee cost and admin cost has more or less remained same and because the material cost has gone down in line with sales. So, fixed cost has basically remained flattish. And that really impacted our profitability. So, going forward also, margins seems to be a function of operating leverage. If we are not able to scale up our sales, then again profitability will be depressed. So, I am just wondering how the execution cycle will pick up going forward because if I see the last 4 quarters, our standalone business, first quarter of the last year was the weakest, Rs. 164 crore and last and three quarters, rest of the year were identical in terms of sale, of around Rs. 188 crore. So, do you see an improvement in the next 3 quarters compared to a year-on-year basis?

Gajanan Nabar Yes, without being speculative, we are certainly confident that there will be an improvement.

Mahesh Bendre At least revenue growth could be better than last year. Is it a fair assumption, for the full year?

Gajanan Nabar I think that is what we said in the remarks that we are confident looking at the order book and our preparedness, both and you know, Mr. Bendre, this comes from the

	fact that we are maintaining certain level of resources because we are seeing that order book. We certainly feel that it is a possibility.
Mahesh Bendre	When you gave the details of this quarter's revenue, the emerging businesses contributed 35%, 33%. So, is this the reason also because of the depressed profitability, because I guess we had yet to breakeven in this business?
Gajanan Nabar	No, I would not necessarily say that. That is not the reason for profitability. I think overall total revenues is the reason. If you break down by businesses, I do not know the necessarily the shift from first quarter of last years to this quarter, that is the shift which has caused the lower profitability.
Mahesh Bendre	What is the view on the order inflow going forward, I mean, despite the depressed environment, the order inflow has been relatively better. So, do you think it is sustainable going forward?
Gajanan Nabar	We are working on very serious enquiries globally and that is the important point to notice and we believe that the entry point depends on how a customer finalizes. Though we try to work with the customer very closely in terms of that, but certainly those enquiries are giving us a good feel.
Mahesh Bendre	Are customers internationally looking to set up a second generation, first generation bio-fuel plant or are they waiting for second generation technology to evolve? How is the situation is globally?
Gajanan Nabar	It would be difficult to explain in one sentence for one question but world-wide there are different patterns. In certain geographies, people are still setting up first generation projects and certain geographies like U.S, obviously because of the "corn wall" and other RFS challenges or incentives, whichever way you look at it, the second generation impetus is growing.
Moderator	Thank you. The next question is from the line of Manish Goel from ENAM Holdings. Please go ahead.
Manish Goel	Just to take forward on this cellulosic project., Could you highlight in terms of what is our relationship with Viraj Alcohol because we had set up along with them. So, going forward, would they share any CAPEX related cost Could you just highlight on the relationship with Viraj?
Gajanan Nabar	As we progress, you will understand we are also talking to a lot of other strategic investors. So, it is a little delicate situation. So, we want to keep that information limited to that right now. Manish Goel Even if we do not receive any government grants, will we continue to set up a plant at our cost?
Gajanan Nabar	Yes, that is correct. That is what we said earlier as well.
Manish Goel	If you can highlight the developments on the livestock health and nutrients business? How has it been progressing and what do you see in current year?
Gajanan Nabar	I think we are certainly seeing a good amount of take off there. We added few more customers to the kitty but as you would appreciate, this is a very nascent stage business and particularly a newer line for us. So, we are in fact making sure that whatever information we are sharing with our investors, goes through a lot of rigor. So, I think, that the third quarter of this year, we should be able to substantially give more information but it is on the track for the progress target that we have kept for ourselves. We added a few more customers. We have got few

	more approvals for our ingredients into their formulation which is very critical and right now it is at that stage. So, we are liking what we are seeing there.
Manish Goel	Are you intending to do some more CAPEX in this part of the business?
Gajanan Nabar	No capital on that side, right now.
Manish Goel	And do you on the current year as you has mentioned, expect the current year to be better than last year. So, earlier we were looking at 30 – 35% contribution from non-ethanol business which is emerging and breweries. So, would you like to share any number on that?
Gajanan Nabar	No, we continue to hold. In fact, Manish, over the last few quarters, we made our segmentation as the ethanol beer group and emerging business group. We will say that the emerging business group which does not include brewery, is Neela systems, our water and waste water business and critical process equipment and systems business will contribute 30% of the revenue and we continue to hold that estimate.
Manish Goel	And just a question on the current quarter performance, just to understand that what we have seen is that the raw material cost has come down significantly while the other expenses have gone up. So, has it made any change in the composition of the revenue mix or why is it that other expenses have gone up significantly, in particular?
Management	No, I think there is money, there is no change in the mix. The only thing what has happened is our subsidiaries are mainly doing erection work. The cost against these sales has gone in other expenses.
Moderator	Thank you. The next question is from the line of Ashwini Agarwal from Ashmore India. Please go ahead.
Ashwini Agarwal	The second generation cellulosic plant that has been set up. What does this include in the order book of Rs. 1,010 crore?
Gajanan Nabar	The second generation is not included in the Rs. 1,010 crore.
Ashwini Agarwal	And like someone earlier asked and you had mentioned that irrespective of whether a JV partner is found or some subsidy is granted, you will continue to go ahead and the capital expenditure number, has it been sort of frozen? The range is from Rs. 125 – 150 crore, if I recall correctly.
Gajanan Nabar	This is getting more and more clear as the engineering progresses and we reiterate that we are confident of our technology and the business opportunity that we see. Though we are in very advanced stage of discussions with a few investors. If it does not materialize, we will continue to do it on our own.
Ashwini Agarwal	And so it will be a maximum of a Rs. 150 crore?
Gajanan Nabar	That is correct.
Ashwini Agarwal	And what would be the ongoing normal CAPEX?
Gajanan Nabar	Between Rs. 20 – 25 crore.

Ashwini Agarwal And lastly, you had mentioned that the company has no debt on a standalone basis. What would be the debt on a consolidated basis?

Management About Rs. 12 crore.

Ashwini Agarwal When you look at the order book of Rs. 1,010 crore, what will be the order execution cycle for this? Three to four quarters or longer?

Gajanan Nabar Actually this is a very pertinent question, Mr. Agarwal. Now we have multiple businesses in different cycles of project execution. For example, Neela is between a 3 – 5 months cycle. CPS is on a different cycle. Water on a different cycle. So, I would say between 9 months – 15 months is a range that you could safely take.

Moderator Thank you. The next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

Bhagyesh Kagalkar Can you throw more light on this 5% norm because as you yourself mentioned, we have been hearing this for a long time. So, what is the stage now?

Gajanan Nabar So, the government has brought an ordinance to blend 5% by oil marketing companies. I would say it is an ordinance. It is necessary that they need to do it. So, oil marketing companies went out in the market and called for a public bid and they have secured 50% of the requirement through the tendering process. Now, we understand they have also gone out for the balance 50% and the bids are in the final stages. What we understand is that the major change which has happened from the past is that the earlier the price was fixed at Rs. 27 at which most of the ethanol manufacturers, especially using grain, was not becoming commercially very viable. But now, since it is at the market pricing, and we understand that the market prices have moved to between Rs. 40 – 42 rupees, it has become more viable for sugar mills and ethanol companies to supply or even to build capacity.

Moderator Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain My question is mostly related to your second generation ethanol plant. I would like to understand, at what ethanol prices this project can be viable since earlier it was at 27, Ethanol prices, are now Rs. 36 – 40. So, at these prices whether I standalone, this ethanol plant is viable?

Gajanan Nabar The viability has definitely improved. This is a new technology. We had also said earlier that we are very confident of the yields, the conversion costs and everything. But obviously there would be an evolution going forward also. It will continue to go on the research and development side, especially on the development side. So, it will be continuous but it will definitely become more viable now than in the past.

Sunil Jain At least it will be EBITDA positive at this level – at Rs. 36 ?

Gajanan Nabar Actually, it would be a very complex question to answer because it will depend on certain feedstocks. What will be the feedstocks cost at that given point and all that. So, we are very confident of the conversion cost numbers that we have got. It is benchmarked to the world scale and we feel that we are in the ballpark.

Sunil Jain And what will be the feedstock be in this case? Is there any assured supply for that or near about area, how is the supply, what will be this feedstock - corn cobs or sugar bagasse, whatever it will be?

Gajanan Nabar Very valid question. In fact the selection of the site has been done on that basis. We are going to see 2 major feedstocks - corn based and sugar cane based. For sugar cane based, it is going to be bagasse and cane trash and for corn, it is going to be the corn cobs and corn stover.

Sunil Jain Is there any assured supply we had signed up or are we in the process of doing that or something like that?

Gajanan Nabar Yes, we are closer to the sugar mill. It is in close proximity. So, obviously the sugar-based, the feedstock is kind of planned 44.00 and corn based feedstock is also there. There are corn growing areas in the near vicinity which we are working on to tie up.

Sunil Jain And sir, this investment is in 2 years, like FY14 and '15, how will it be split out of Rs. 150 crore, how much will be in FY14 and how much will be in FY15?

Gajanan Nabar I would say about 60 – 65% in this fiscal and the balance in the next fiscal.

Sunil Jain The major investment will be coming in the current year, itself?

Gajanan Nabar Yes.

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

Nirmal Shah One is on the emerging business side, the new orders that you are receiving, are they in line with the margins what you get on your ethanol and brewery orders?

Gajanan Nabar I think they are 2 distinct different businesses addressing different market segments, different project cycles. So, again within that emerging business, there has been three different distinct businesses. So, it is very difficult to give a one shot answer. But we believe that as we become more encouraged and get more expectance from the customer, our opportune profitability would definitely improve in those businesses.

Nirmal Shah But in terms of profitability, like within emerging businesses, as you have mentioned, there are three new businesses. So, last year was a phase when you started building presence in that. But now, going ahead, do you think that there will be some more time required to achieve a company level profitability on those new businesses or do you think probably this year itself you would start achieving those?

Gajanan Nabar No, I think we are targeting for this year itself to make it a substantive business contribution.

Nirmal Shah And sir, my second question is regarding your earlier comments where you said that in the current order book, bulk of the orders you have received are in the last 4 – 6 months. So, I just wanted one clarification. When I looked at your order inflow, the last 7 – 8 quarters, it has been consistently in the range of Rs. 175 – 250 odd crore order inflow per quarter. So, I was not be able to reconcile why you mentioned that a bulk of the orders in the current order book are coming from the previous 4 – 6 months because the order book has been consistently at around

Rs. 800 – 900 crore. This is the first quarter you are going above Rs. 1,000 crore. So, I was not able to understand how the order inflow timing is impacting because I do not see in terms of any big movements in the order inflow over the last 3 – 4 quarters, they are consistently in the Rs. 200 crore range.

Gajanan Nabar

I think probably Vinati can talk to you offline on this because if you look at our last quarter of the last fiscal order book and the third quarter of last fiscal order book, I think it is different than the first 2 quarters and again one is the quarter, you also have to look at whether the entry point was towards the end of the quarter or towards the beginning of the quarter. So, we can have a little more detailed discussion with you.

Moderator

Thank you. I would now like to hand the conference over to the management for closing comments. Please go ahead.

Vinati Moghe

Thank you very much all of you for joining us today. We have realized that we have for the first time put up the consolidated results and many of you would want some data points on this. So, to help you with this, we have put up a presentation which is clearly giving the break up segment-wise. Please do go through that. Beyond that, if you have any more queries, we will be happy to send it across to you.

Moderator

Thank you. Ladies and gentlemen, on behalf of Praj Industries that concludes this conference call.