Praj Industries Limited

Q1 FY16 Earnings Conference Call Transcript
August 10, 2015

Moderator Ladies and gentlemen, good day and welcome to Praj Industries Limited Q1 FY16 Earnings conference call. As a reminder all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing * then 0 on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Vinati Moghe from 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 audited financial results for Q1 and fiscal 2015-16 which were announced on 6th August. I have with me, Mr. Gajanan Nabar, CEO & Managing Director, Mr. Surendra Khairnar, Associate Vice President, Accounts, Mr. Dattatraya Nimbolkar, CFO and Company Secretary and Priyanka Watane, Associate Manager, Corporate.

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

Gajanan Nabar Thank you Vinati and good afternoon everyone. I welcome you to Praj Industries' Earnings call. I hope all of you have had a chance to refer to the results presentation which was circulated earlier and is available on our website.

I will now cover the key developments and financial performance for the quarter ended June 30, 2015. To begin with, let me provide you with a brief on the business operations followed by the performance during the quarter. In terms of our business operations, our focus towards Innovation and Excellence remains resolute. We continue to build on our strategy to drive the established businesses in a steady manner while ramping up operations in the emerging businesses. In line with this strategy, our emerging businesses continue to make progress. They have contributed 23% to the total revenues in Q1 of FY16.

Our focus on internationalization of this business has led us to a healthy lead bank in this segment. Praj HiPurity saw traction in new geographies globally with a breakthrough in the US market. This indicates acceptability of Praj HiPurity solutions in one of the most demanding markets. As one of the few companies to offer the entire range of industrial waste water treatment technologies in India, our water and waste water business is favorably placed in the domestic market and has gradually built key references across various sectors.

Here the enhanced focus on sustainability and environmental protection is throwing up many opportunities. As a result of the Ganga Action Plan, many industrial units are now scouting for solutions to their effluent treatment problems. Although small, we have begun contracting orders. We expect this to build up in due course. In Critical Process Equipment & Systems business, we are building relationship with new EPC/Consulting organizations to create a wider base in the market. The previously announced order from Brazil, contracted for oil & gas skids, is yet to come into full execution mode. We will share updates on the status as it develops.

Coming to the established businesses of ethanol and brewery plants. In the brewery business, we will continue to expand our global footprint, especially in Africa & the Asia Pacific region. During the quarter we saw one of our international projects being commissioned in Myanmar. In the ethanol business, we see greater opportunity from beverage alcohol. In India, the thrust on fuel ethanol mandate is also creating immediate demand for dehydration plants. While we have higher enquiry pipeline, conversion into executable orders remains a concern due to credit squeeze in the market. The international pipeline is also promising but order intake has slipped in terms of timelines.

Now coming to the financial performance for the quarter. The Q1 FY16 order intake stands at Rs. 162.6 cr which is a 21% increase over the corresponding quarter. Core businesses form 70% and emerging businesses 30% of the total order intake. Domestic orders form 59%. Revenue on consolidated basis stand at Rs 192.5 cr. Export revenues accounted for 37% of the total revenue and 60% is from ethanol, 17% from brewery and 23% is from emerging business.

EBITDA margin (excluding other income) is at 8% of revenue as against 5% over corresponding quarter. EBITDA is at Rs. 15.1 cr, PBT at Rs. 8.96 cr and PAT at Rs. 5.18 cr. The order backlog as of 30th June, 2015 is Rs 980 cr. The export orders stand at 43%. Ethanol business forms 61%, brewery business 4% and emerging business forms 35%. We are happy to share that Praj Tower – our corporate office has been awarded LEED Platinum certification by the Indian Green Building Council.

During the quarter, Praj showcased its solutions and established itself as a thought leader in the area of biotechnology, process equipment & systems and water & waste water treatment at BIO and ACHEMA in Europe – which are leading process solutions platforms.

During this year we see an improvement in the quality of orders with order book moving up. Coupled with the efficiency of execution, focus will remain on higher profitability as we move into the year. As shared earlier, the first half is expected to be subdued. We expect to see greater traction in the second half of FY 16

We will now take questions.

Moderator The first question is from the line of Bhalchandra Shinde from Batlivala and Karani Securities. Please go ahead.

Bhalchandra Shinde The sales mix and the execution mix has changed over the last 2-3 years. Can you clarify more on the execution trend, like say 30% to 40% is executed in the first half, then how much is executed in the second half??

Gajanan Nabar I will throw some light on the execution cycle and that will give some indication of how it is going to be. As we said earlier, ethanol and brewery always has a longer schedule of between 12 to 14 months, CPES would be around 9 to 10 months, Water & Wastewater is around 7 months to 9 months and PHS water would be around 3 months. For PHS process, it could be between 5 to 7 months. So, there are different project cycles for all our different businesses. There are multiple factors such as how the order intake happens, how execution cycle goes through, the execution of orders, which ultimately will determine how much drawdown of this orders happens. For the sake of clarity, when we do announce our carry forward order book, we are particular about making sure that it is an executable order book. Based on the variety of different businesses contributing to the order book, it could lead to different outcome every quarter depending on the mix in that particular quarter.

Bhalchandra Shinde Can't we generalize it? Because since last two years, our execution was very heavy on the first half and in the second half, was comparatively subdued whereas in this year we are expecting first half to be subdued, largely because of the high base effect. But can we draw a particular trend where around 30% to 40% is executable in first half and the remaining 70% gets executable into the second half?

Gajanan Nabar No, we would not like to hazard a guess though there is an internal working on it. We would like to hold it because as you rightly said they are emerging businesses, newer businesses are being added, for example PBMR would have a shorter execution cycle. So as there are different mixes within the order book, we would like to hold it. May be after couple of quarters down the line, we probably can give some indication of how it would be.

Bhalchandra Shinde On the EBITDA margin front, we have seen around 250 bps improvement in this quarter. Is it a sustainable improvement, which we may also see over the next three or four quarters? Are we expecting a comparatively lower provision in this year than last year? One-off related to consultancy fees will also not be there this year, so around 250 bps margin improvements will be sustained over full year?

Gajanan Nabar For the margin improvement, there are few things at play. One is the mix, the mix always matters in how ultimately the margin for the quarter will look. So the mix was favorable in this quarter. Secondly, we have taken some internal measures, some of which have contributed to improvement of the margins. Although the total international orders executed were about 37%, the quality of these orders matter. So it is a mix of all these, which is seen in our results.

Bhalchandra Shinde As stated in the fourth quarter, after consultancy, operational efficiencies are expected to show margin improvement in FY16. This is the first year after implementing all those measures related to operational efficiencies, so what margin improvement do you see over the whole year?

Gajanan Nabar Whatever initiatives that we have taken, they all are on track. We are continuously tracking them on periodic basis and are satisfied with what we have seen so far. As the year progresses, we will try to share more information about it but right now, I would just say that these initiatives are in place.

Bhalchandra Shinde Regarding the order enquiries that you specified, can you elaborate on the prospects that we are seeing on international and domestic front?

Gajanan Nabar Some of our emerging business like PHS where we started to our forays into the international markets, we have shared with our investors that we are seeing certainly a good amount of development and have started receiving enquiries, there is a good amount of lead banks that have got generated. Now what we have to see is how this lead bank is followed by enquiry and then to order. Although, we have got some initial conversions we have to really see how over time this enquiry basket gets converted into orders on the international front. On domestic front, the blending program as we have said in the narrative, the government is pushing for it very seriously and now the blending percentage also seems to be improving, which resulted into people showing more interest towards dehydration units to make fuel grid ethanol. So these are the enquiries which are coming our way. Ganga Action Plan has clearly started showing some impact on the industries. Industries have started looking for solutions for zero liquid discharge kind of applications and we have not only got some enquiries, but small amount of orders have also started trickling in. As the year progresses, from the third or fourth quarter onwards, we should see little more traction in these areas. So that is how we are placed currently.

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

Sanjeev Zarbade Although we were expecting muted first quarter revenue, till what extent were the revenues lower because of delay in the Petrobras order? Just wanted to understand the revenue slippage in the first quarter?

Gajanan Nabar Over the last quarter, we had anticipated the way engineering had progressed or the way approval process had happened with Petrobras as well as our customer directly, so we had not baked anything of the revenue in this current quarter. So I would say that it has not caused any adverse impact currently.

Sanjeev Zarbade So it was not because of this order that the revenues declined in this quarter, it is more due to the execution of the order backlog that we received in the second half and it took its own time to reach the execution stage?

Gajanan Nabar Yes, it is more due to timing of entry of orders.

Sanjeev Zarbade Our order backlog is up by an impressive level of 30% so for the full year we should be able to achieve revenue growth in the high single digit level, is that a reasonable assumption?

Gajanan Nabar Our order book is higher as compared to the period last year and as I have said earlier, most of these orders go on different lifecycles, from lowest being 3 months' time period and the highest being 14 months' time period. Correspondingly, that gets executed. So I would stop at this instead of saying how much growth we will deliver because some of the things are also beyond Company's control, it is governed by market conditions, approval by the customers, and funds availability during the project execution and there are many more. So they all will come in play and we will leave it at that.

Sanjeev Zarbade The other income was down on a year-on-year basis despite having an improved cash surplus, so any particular reasons for that?

Gajanan Nabar You are right that the cash position has improved and on an annualized basis, you should see that impact.

Sanjeev Zarbade The difference between consolidated and standalone revenues shows a decline on a year-on-year basis. So is there any decline in subsidiary revenues?

Gajanan Nabar The subsidiaries mainly except PHS are all execution subsidiaries, so it depends on what stage the project cycle is for different subsidiaries. So we don't have to read too much into that.

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

Swarnim Maheshwari On Petrobras order, can you tell us what is the exact status of that order because that actually forms almost around 25% of our order book?

Gajanan Nabar We have reconfirmed with the customer that this order has started and the engineering work for this order is happening but as most of you would have seen, there are challenges with Petrobras itself and the version that we know is that the problems are there but they are getting resolved. In fact, we are also in touch with people in Petrobras as well as our customers directly and the assurances that we have got is that this order is getting executed.

Swarnim Maheshwari So then there is no risk of slippage or cancellation?

Gajanan Nabar Right now, we are looking at slippage in delivery time frame but definitely not cancellation.

Swarnim Maheshwari You mentioned in your opening remarks that you expect H2FY16 to be very significant in terms of revenue growth, so are you factoring the execution ramp up in Petrobras while giving that statement?

Gajanan Nabar Yes, so we said there is a greater traction in second half of FY16 and we expect the first half to be subdued. And yes, some part of this order has been considered in the latter half of the year.

Swarnim Maheshwari And the execution time needed for this order remains at 10 months?

Gajanan Nabar Because of some delays, it would get pushed on overall timeframe.

Swarnim Maheshwari On the PHS business, we have taken this business on an international scale. So at this point in time, what is the proportion of the international revenues to the overall PHS revenues?

Gajanan Nabar Around 15%.

Swarnim Maheshwari We have already done 15%?

Gajanan Nabar Yes.

Swarnim Maheshwari On other CPES orders, are we seeing some traction in big ticket size orders, like how we have won the Petrobras one?

Gajanan Nabar What happens in CPES type of business is that your last job becomes your qualifying job for the next. We have already mentioned in our narratives that for both PBA and then CPES, there is some good amount of track record and that opens the window for getting bigger and better jobs. And we are seeing that clearly in the lead bank as well as enquiry book. And now we continue to work on converting that into orders.

Amit Mahawar: Once we conclude the Brazilian contract, what does it mean for our pre-qualification that we have the reference points in Indian market and the global market? Just trying to understand how much target market could we basically address by executing these large contracts successfully? In the CPES segment, how much traction do you expect in India and overseas markets now?

Gajanan Nabar We precisely got this job because we have done similar jobs may be smaller size, but similar jobs for our customers who are outside India. So that means we get qualified to build skids or design skids. From our standpoint, if you execute a very large job like this, it certainly gives much better confidence to other customers and it becomes a very, very important reference point. But Praj is already qualified, by many of the oil companies to build skids and design skids. So definitely execution will further enhance that prospect. For your second question, in India the capital formation is slow though we see one or two bright spots here and there, but no large projects are getting built by Indian companies and that remains a challenge. Not only in CPES business, in multiple businesses of ours.

Moderator The next question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi Can you just update us on second generation ethanol plant? Are we seeing more enquiries for such kind of project or will it be demonstration first and then probably we can start getting enquiries?

Gajanan Nabar There is definitely an interest. Demonstration not only from customer standpoint, but we also believe that to give a very sustainable long lasting solution to our customers, it would be always advisable that we build this demonstration unit to the extent that we have planned to. At the same time, as we clarified last time we are also waiting for the government funding to happen and from the last call to this, unfortunately there is not much progress on that.

Vikram Suryavanshi Despite the orders we got from Ganga Action Plan and Praj HiPurity breakthrough in the US market, on an absolute level we still see lower order inflow in emerging businesses when compared to the last year or previous period. So can you just update on that front also?

Gajanan Nabar: It is a matter of timing of winning the contracts. It is better for us to look at from either a six-monthly or at least yearly timeframe of how we have done on overall basis because these are projects keep coming in tranches. It is very difficult to say that there is a trend that we see and now we expect higher or lower orders. In terms of the traction on enquiry baskets, we are seeing a good traction there.

Moderator The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor What will you attribute to the revenue dip in this quarter and vis-à-vis though there is a revenue dip the expenditure has not fallen in that proportion?

Gajanan Nabar: As we explained earlier, the revenue dip is a criteria outcome of the timing of the order entry. We had anticipated some of these and had shared with our investors in previous calls that the first two quarters or the first half looks softer and it is in line with that.

Saket Kapoor Till September, next quarter, it is looking at the softer side and the execution will get in to the third quarter?

Gajanan Nabar: That is what we said in the narrative, yes.

Saket Kapoor We are attributing the expenditure part in the first quarter itself because if we take the expenditure ratio to the revenue book it is on the higher side, Especially the other expenditure part

Gajanan Nabar: Against the last quarter, the other expenditure has gone down. But against the corresponding quarter of last year, it has gone up.

Saket Kapoor It has gone up in proportion to our revenue booking. Does it have any one-off item in the other expenditure?

Gajanan Nabar: It is all part of inflation built into the cost and obviously the way the orders were executed and again it is not representative.

Saket Kapoor The order book is healthy and there is no doubt about it. But how confident are you about the execution, what should be reasonable revenue or the turnover for March '16? What should we look out in the ballpark figure?

Gajanan Nabar: I am sure you have been following our Company for some time and we do not give futuristic numbers. But, we are definitely confident about the execution and we would also keep enough amount of transparency with the investors to make sure that they understand what is executable and what is, if at all, becoming non-executable. So these two things should help you.

Saket Kapoor Investors find it very difficult to understand the nature of this because it is very patchy, if you take the revenue distribution and the profit also. So what is the ideal way to look at companies like Praj?

Gajanan Nabar: We are open to having further discussions with investors, so if you write to us or make a call we can have a separate discussion with you. Just from the varieties of business that we have, we are addressing multiple markets and multiple customers. So I understand your question and we are certainly open for more information if you want to have.

Saket Kapoor Any update on the Praj Matrix and Cellulosic plant?

Gajanan Nabar: I would encourage you to separately write to us and also look at our presentation or our annual report and you will get enough clarity. If you need some further information, please do call us. This call is specifically for this quarter's happenings.

Moderator The next question is from the line of Chintan Seth from SKS Capital & Research. Please go ahead.

Chintan Seth In the last call, we were quite optimistic about Rs. 500 crore of opportunity from the brewery segment. In this quarter, on the order book front, Rs. 900 crore looks like the current run rate of your revenue so it is less than one year multiple of order book to sales. How confident are you in terms of second half that depleting order book can be restored at a healthy level? Because your execution of the order book on an average is around 8 to 9 months, so if you take the entire cycle average and if you see the current order book, then it can be executable in next nine months or 12 months, then we are left out with no orders. As you mentioned that the first half will be subdued in terms of order booking, but the enquiry levels are still high and healthy. So for the order bookings in the second half, how confident are you that we can close the order book at a very healthy pace?

Gajanan Nabar: Let me clarify, we did not say order book is to be subdued but we said the revenue will be subdued, mainly because of the subdued quarter led by how we have looked at the entry times of the order book. The current enquiry and lead book bank that we have certainly gives us confidence that going forward there could be a possibility of order book improvement but as time goes by, we will have to update you from time-to-time and if any significant orders are contracted during the period we will definitely make separate announcements of that and share with all the investors.

Chintan Seth What will be the Q1 order inflow number?

Gajanan Nabar Rs. 162.6 crore.

Chintan Seth On your annual report, three things which stand out was your focus on Emerging business; second was on your internationalization of your brewery segment and third was the monetization of R&D efforts wherein in R&D you have mentioned about the demo plant, you updated about the government funding which you are anticipating for quite some time but there is no update as of for the quarter. We also find that there are 16 patents, which were applied for of which 5 were granted last year. Can you throw some light what segments did we win patents from?.

Gajanan Nabar: R&D matrix supports three broad platforms. First platform helps us in our existing business, supports our existing business with the mapping of feed stock or treatability studies and variety of other things that we require for being competitive and having a differentiated offering in the market place. Second platform is working on second generation bio-fuels and third platform is different types of bio-chemicals or bio-ingredients, out of which we had launched some additives for animal health care and others some time ago. As you know, these are coming out of new research and development, newer technologies they also have a life cycle of getting accepted and getting commercialized. We already have told the investors that it is anywhere between 2 to 3 year cycle. Currently what we are seeing is and as we have mentioned in our annual report that it remains very high on agenda to monetize our Matrix. The efforts are fully on to monetize and bring up a different value perspective for Matrix, but once we see that there is certainty of change in that direction and as soon as we have some more information or some events we would definitely share with the investors.

Chintan Seth So in the two to three year cycle, any products or any patents which can get commercialized this year? Or any timeline like 2017 will be the threshold or 2018, where we can see very strong offerings coming from R&D side?

Gajanan Nabar There is already some offerings which are there. We are only looking at the commercialization and monetization of that and the good period to look is between 3 to 6 quarters from here.

Moderator The next question is from the line of Bhalchandra Shinde from Batlivala and Karani Securities. Please go ahead.

Bhalchandra Shinde Regarding subsidiaries, what we have found is that in first quarter margins were much robust, if we deduct standalone numbers from consolidated numbers, margins were in the range of around 19.5%. So is there any one-off or it is largely because of execution of highly profitable orders?

Gajanan Nabar: There is no one-off, this is how the phase of execution and type of execution and quality of execution is. So it moves into different quarters and little more in one of the quarters. So there was nothing very specific.

Bhalchandra Shinde Even though our subsidiaries sales has declined by around 19%, we were able to give margins in the range of around 19.5%. So if we assume that from here onwards those sales are going to show pick-up or strong growth, then can it be that due to operating leverage, margins will be much better than what you are showing at 19.5% in this quarter?

Gajanan Nabar: I would advise against looking at it in that fashion. Our subsidiaries except Praj HiPurity Systems are all local execution arms. They only execute the portion of installation to the extent that they need to execute. They are also tuned from a tax optimization standpoint, so I would advise not to look at it in that sense. The subsidiary that you should look at from that standpoint is Praj HiPurity only.

Bhalchandra Shinde Praj HiPurity will be how much of that portion?

Gajanan Nabar: We do not give that number.

Moderator Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Vinati Moghe for closing comments.

Vinati Moghe Thank you all for joining us today. If you have any more queries please do e-mail to us and we will try and respond at the earliest. Good day to all of you.

Moderator Thank you very much, members of the management. Ladies and gentlemen, on behalf of Praj Industries that concludes this conference call. Thank you for joining us and you may now disconnect your lines.