Praj Industries Limited
Q4 and FY' 2011 Financial Results Conference Call
May 27, 2011

Moderator: Good afternoon ladies and gentlemen. I am Triveni, the moderator for this conference. Welcome to the Praj Industries' Q4 and FY' 2011 Results Conference Call. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to WebEx International. After that, the question and answer session will be conducted for participants in India. I would now like to handover the floor to Vinati Moghe. Thank you and over to you ma'am.

Vinati Moghe: Thanks Triveni. Good day everyone. We welcome you to this conference call organized to discuss Praj Industries' operating performance and financial results for Q4 and FY' 2011, which were announced earlier. I have with me Pramod Chaudhari, Chairman; Gajanan Nabar, CEO and Managing Director; and Surendra Khairnar, Assistant VP, 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 are emailed to most of you. These documents have been posted on to our corporate website as well and I will now invite Mr. Chaudhari to provide an overview of the highlights and business environment for the quarter.

Pramod Chaudhari: Very good afternoon, ladies and gentlemen. It is my pleasure to address Q4 & FY11 performance of the company. As explained by Vinati, our new CEO who has just completed 6 months is with me, Gajanan Nabar along with Surendra Khairnar. Thank you for joining us on this conference call. I will walk you through the numbers and operational highlights, following which we shall take your questions. For the quarter ending March 2011, income from operations stood at Rs. 202.86crore with a moderate increase of 37% over consecutive quarter and almost 59% increase over the corresponding quarter in the previous fiscal. You will definitely notice that there is an upward movement here on both the counts. EBITDA margins stood at 10% Q 4 FY' 11 against 4.7% in quarter 4 FY' 10. Over the previous quarter, there is a 79% gain in EBITDA margin. Profit before tax is at Rs. 22.4 crore or Rs. 8.65 crore in Q4 FY' 10. On a consecutive quarter basis, there is also a gain of almost 47%. Profit after tax is at Rs. 20.57 crore in quarter 4 FY' 11 versus Rs. 19.81crore in Q4 FY' 10. The other expenditure which is on the higher side includes a one-time expenditure like dimunition in the value of investment of Praj Jaragua in Brazil to the extent of Rs. 7.2 crore and also another

Rs. 3 crore of expenditure on account of consultancy fees paid to consultants for strategy formulations. So, almost Rs. 10.2 crore both put together are kind of one time expenditure. For the full year, income from operations stand at Rs. 552.93 crore as against Rs. 602.28 crore in the previous fiscal ended March 2010. So, there is a drop of 8% over the corresponding fiscal in the topline. For the whole year, EBITDA was at Rs. 48.75crore without other income as against Rs. 101 crore, which is a substantial drop in EBITDA over last year. PBT and PAT respectively are at 59.94 and 53.47 crore against Rs. 123 crore and Rs. 114 crore in the previous fiscal. While on a full year basis, the performance is yet to catch up, it is on the lower side. The quarter on quarter trend shows that there is an upward movement. Going by this, the market indications and the movement of orders, we expect the trend to get consolidated in the near future; however, we maintain our stand that in our business quarterly performance is not the only indicator.

Let us go through the overall review. The operating environment continues to reflect significant levels of volatility in the global market. In Europe, the larger economies are displaying some signs of growth but the fiscal position of countries like Greece and Portugal remains in an overhang. Plus the political unrest in Middle East has also contributed to the enhanced volatility and this was more visible in the sudden and price rise in the price of crude oil following reports of events in Egypt and Libya. While on one hand, high oil prices is considered positive for renewable energy, on the other hand it tends to push commodity prices, which can impact margins for both producers and machinery suppliers. Even emerging economies in Asia have to face volatility as they have been able to demonstrate growth but increase in liquidity and sharp rise in commodity prices have led to heightened inflation and many countries, especially India and China, have undertaken monetary tightening in turn putting pressure on project funding. Domestically, we have seen a significant tightening resulting into higher input prices for several products. The recent fuel hike has added to the number of challenges and factors that will impact inflation and lockdown growth rate. Due to rising food prices, there is also a perception towards biofuels triggering food crisis and the food versus fuel debate. The biofuel industry meanwhile is working towards identifying these parameters. Given this backdrop, there are two vectors clearly visible with regard to the biofuel industry. One is that the generation and consumption of energy from renewable sources continue to grow. Secondly, the continuous volatility in prices were being accepted as a trend of globalization is now galvanizing country to make plan to improve the energy security. Many of these plans include significant component of energy generation from renewable sources. Coming to recent developments in our key markets. In India, a supply over 650 million liters of fuel ethanol as against the target of 1,000 million liters which was contracted and almost 65% supply has taken place. Demand for beverage alcohol continues unabated. Molasses production is slated to improve as a result of projected higher sugar production bringing down the input cost of alcohol. Beer consumption in India has grown nearly 25% over previous fiscal. Some of the other developments around the world: US continues to be the largest producer of ethanol in the world. Support of second generation has continued. With IPOs for renewable energy companies finding strong support once again, there is expected to be more fund flow for second-generation biofuel. The US has pledged to reduce its oil import by 1/3 by 2022. It would require increased support from advanced biofuels. This has led to improved outlook of ethanol production in the US and the US has projected more than 500 bio-refineries will be needed to be built between now and 2022 in the United States to meet the added requirement of advanced biofuels. This results in an estimated market potential of over 150 billion dollars. However, in the interim, the full E15 support with 15% blending of ethanol has not found any backers for first-generation corn-based ethanol. One way it is a good news. One way it is a bad news. The good news is that it brings the pressure on the advanced biofuels. The bad news is that first generation projects are not going to take place in the near future. There has been increase in the ethanol prices in Brazil. This is despite an increase of over 10% in ethanol production this year. Ethanol supplies are slated to be higher in light of cane being used for ethanol for the ensuing sugar season. Many countries in Latin America have taken biofuels mandates that include Columbia, Argentina, Peru and even Mexico. Recently, Uruguay has also introduced 5% blending mandate. So, most of these countries in Latin America are going for more and more stage of ethanol. Europe continues to remain the largest importer of ethanol being imported partly from USA. The RED, Renewable Energy Directive will come into full force this year. Some more countries have already implemented or are expecting to implement mandates. This has resulted in an improved demand environment for us. This has been reflected in our order enquiries, order pipeline and order inflow. We have received orders worth Rs. 250 crore in the quarter, the fourth quarter. After accounting revenues for Rs. 202 crore in the quarter, the order backlog at the end of fiscal 2011 has climbed to Rs. 750 crore from Rs. 700 crore over the last quarter. These new orders include orders for ethanol/alcohol plants business as well as good traction on our non-ethanol business. 35% of the order inflows were from the Non-Ethanol segments including beer plants. Of the Rs. 750 crore order on hand, 40% is from India and balance from overseas. On other parameters, of the Rs. 750 crore orders, 87% is fromr alcohol and balance 13% of our other businesses including water, waste water and beer plants. Of the orders from ethanol/alcohol business, 62% of the orders are for fuel ethanol application. The share for international has reversed on the higher side now. That means our mix has now started going more in favor of international business for alcohol distilleries. Apart from these businesses, our strategic initiative into verticals like water and waste water management, customized equipment and manufacturing of bioconsumables continue to make progress. This forms 8% of the sales revenue, balance 75% comes from alcohol/ethanol and 17% from brewery equipment. So, 75% alcohol/ethanol, 17% from breweries and 8% from other segments. During the quarter, we have moved up in terms of order value and water and waste water treatment plans. We expect that this traction is constrained in the coming quarters. Further, we had undertaken capex for the businesses of customized engineering and bioconsumables. As we commence operations and gradually scale up, this will begin to provide us with greater amount of diversification for our revenue streams and we are confident of the non-ethanol businesses contributing to 25% of revenues in FY' 13. Total capex expended during the year is Rs. 25 crore as against Rs. 35 crore planned. Normal capex planned for the next year is also Rs. 25crore. We have sounded you off on our plans to consolidate our manufacturing facilities for which we envisage additional expenditure of Rs. 25 crore in the current fiscal which I am happy that the board has recently approved. The expenditure on account of new state-of-the-art brewery shops as we see a potential to do business even overseas in brewery equipment. Our facilities for bioconsumables as biotech products is progressing as per schedule and we should see the facilities in operation in the second quarter at the current fiscal. The facilities are coming up at a place called Jejuri which is about 60 Km from Pune. The facility at Kandla for high thickness equipment in SEZ in Kandla also will go on stream in July this year. So, by July, you will be expecting both these facilities going on stream. Research and development work for advanced biofuels which involves lignocellulosic biomass to ethanol process is progressing further. The joint development program which may commence in January has completed its first 3 to 4 months and it is also progressing reasonably well. Industrial biotech program is being put on a fast track, so all the 3 major Program of in-house development, of lignocelluloses to ethanol, joint development program with Qteros and other program for industrial biotech, all are taking good shape and progressing as expectation. Keeping in mind the support demonstrated by our shareholders and anticipation of better things to come in the future, the board has recommended a dividend of Rs. 1.26 per equity share of Rs. 2 each. This is little higher on the payout percentage compared to the previous year. The company has also suggested and the board has approved an ESOP scheme which will be put to the shareholders for their approval in the ensuing AGM. AGM will be planned in the month of July, the date is finalized as 22nd of July. The Brazilian subsidiary, Praj Jaragua, is currently dormant. We will activate our Brazil activities as and when market conditions change. Meanwhile, keeping in mind prudent accounting practices, we have provided for diminution of value of shares in this company, which I mentioned earlier and we have taken a hit of Rs. 7.2crore. We also have now a subsidiary operating in USA which is 100% subsidiary, which support our efforts in North America and South America. The subsidiary is operating out of Houston. We are optimistic about the medium to long-term outlook in our businesses. We believe that we are well placed to continue the traction in our businesses and to make steady progress in all our verticals. Our financial position continues to be strong and we are confident of improving it further in the coming financial year. I am sure that we will demonstrate visible progress over medium to longterm which may get further augmented with development of many strategic initiatives and with this, ladies and gentlemen, I will be happy to take your questions. Thank you very much.

Q & A

Manish Goel: Good afternoon, Manish Goel here.

Pramod Chaudhari: Good afternoon Manish, how are you?

Manish Goel: . Sir, on the order book sir, you mentioned that 60% of the order book is from the overseas, and order inflow has been roughly Rs. 250 to Rs. 260crore, so just wanted to get a sense about that?

Vinati Moghe: So, you wanted some clarification on the order books?

Manish Goel: Yes, so just wanted to get a sense what is the order flow in the recent past because in quarter 2 also we had a Rs. 250-crore order flow. So, just want to get a sense how sustainable is this order flow going forward?

Pramod Chaudhari: As I said that this time also there are little additions from non-ethanol business also, almost 35% orders are from non-ethanol businesses, so that is also one area which is opening up and we are getting reasonably traction. As per ethanol side order book is concerned, I think it is sustainable going forward. This runrate of about, I can't say the exact number but it could be in the range of 150 to 200 for the ethanol and something 30 to 35% on non-ethanol. It should be sustainable at least as we go by in the new fiscal. I feel confident about that.

Manish Goel: Is this coming in from our Europe side or if you can give us a sense what is driving this overseas order flow?

Pramod Chaudhari: I think I tried to explain in my opening comments that the demand for the blending regulations or the blending is definitely growing in

Latin America and some of the African countries. Columbia is going ahead with some more expansion in the blending program, so I think it is quite dispersed in various parts. So, nothing from the North America but yes, definitely from Latin America, something from West Africa in the previous fiscal. So, that is coming. Argentina, we opened the chapters and there something is happening. So, it is definitely assorted in the international markets.

Manish Goel: In Europe, when do you think the momentum will start?

Pramod Chaudhari: The RED has become effectively, but because of this GHG calculation being very stringent, there are some cases which are there at the doorstep which are not being rechecked for the GHG, greenhouse gas reduction calculation and those are really taking little time. So, there are some cases which should come also in the near future during the course of this fiscal.

Manish Goel: You said 35% orders came in from non-ethanol, so one is the brewery, which would have contributed significantly. Then, would the others be customized engineering and waste water?

Pramod Chaudhari: Yes, both, water, waste water and customized engineering partly, but like I said, out of that, within that, brewery is little larger chunk.

Manish Goel: And is brewery largely from India?

Pramod Chaudhari: Brewery so far has been from India. There also we are now hoping that international breakthroughs will start flowing in. We are looking actively in that area, that is why we want to expand and upgrade our manufacturing facilities where we are expecting some movement in the international brewery business also.

Manish Goel: And on the margin front, going forward, do you expect further improvement in the last 2 quarters, we have seen improvements and with increase in order flow from overseas, do we expect the margins should be better in FY' 12?

Pramod Chaudhari: I would not say as blanket this thing, but the improvement has to happen. So, your arguments are very clear, it is on the other expenditure if we are going to bring down one-time expenditure, yes. We are having more international business, yes. So, both things are contributing factors for improving the margins. At the same time, you have to remember that our expenditure on R&D is going up and we are also recruiting higher manpower for our new businesses. So, all put together we will have to see there will be a balancing happening between both these parameters. One side, we are improving the margins because of international business and the other side, we are improving the cost especially overheads for our R&D and for manpower.

Manish Goel Also if you can highlight on the cellulosic program, how is it progressing and what is the plan on the commercial demo plant?

Pramod Chaudhari: We are definitely progressing pretty good on both the in-house program as well as Qteros as mentioned in my speech. The timetable wise, I think we will be in a position to take a major call somewhere in October, last quarter of this fiscal about the demo and other niche tractions.

Manish Goel So, the call will be to set up a commercial demo plant at that point?

Pramod Chaudhari: Yes, based on which route we will have to decide at that time. By that time will the picture will be more clear.

Manish Goel And one last question on the Kandla facility. The new facility that you mentioned was for the customized engineering which is getting ready in July?

Pramod Chaudhari: June-July, yes. We are little behind schedule by a month or so, but it should be ready by June-July.

Manish Goel And have we got any traction in customized engineering in international area sir?

Pramod Chaudhari: Not so much yet, but they would like to definitely see the machinery in position because I use the word high-thickness. The machine has just arrived and getting installed and then only they will be able to give us orders for that.

Moderator: Next in line, we have Parineeta Poddar from ICICI Direct.

Parineeta Poddar: Hi, I just have a couple of questions. I want to know that the order book that is Rs. 750crore in what proportion are you expected to fulfill that in the coming quarters?

Pramod Chaudhari: Quarter-wise, I won't be able to tell you because we don't give quarterly guidance, but overall lifecycle of this order book will be about 15 months.

Parineeta Poddar: 15 months?

Pramod Chaudhari: Yes.

Parineeta Poddar: So, with the fresh inflow of approximately Rs. 200crore if we take per quarter, so by the end of next year, again you will be standing at the same order position?

Pramod Chaudhari: It should increase further.

Parineeta Poddar: It will increase further, okay, just one more question. The international and domestic breakup of sales that you have given is this for the whole year?

Pramod Chaudhari: I gave a breakup for the pending order. Which is 60:40. So, this is for the orders which are pending as of April 1. This is indirectly the break up for the order book in the coming period.

Parineeta Poddar: And what about for the quarter, if you could give me a breakup of the sales in the fourth quarter?

Pramod Chaudhari: Export is roughly 36%.

The next in line we have Saby Ganguly from Indiabulls Securities.

Sabyasachi Ganguly: One is, can you please elaborate on your arrangement with Qteros. What is this your in-house efforts, in what way are they different?

Pramod Chaudhari: One is called consolidated bioprocessing where the hydrolysis fermentation happens simultaneously. In other process, it happens in steps. So, one is a two-step and one is single step.

Sabyasachi Ganguly: So, with the Qteros, is a a single step?

Pramod Chaudhari: Yes.

Sabyasachi Ganguly: Okay, now assuming and hopefully your arrangement with Qteros succeeds, will you have proprietary rights over the technology?

Pramod Chaudhari: We have proprietary territory. We have got exclusive territory for those rights.

Sabyasachi Ganguly: Okay. Could you say which are those territories, some of them?

Pramod Chaudhari: That will keep for the time being. India is definitely one of them.

Sabyasachi Ganguly: Okay and your in-house efforts in cellulosic, hopefully that will also be successful, in that will we have proprietary rights.

Pramod Chaudhari: All over the world.

Sabyasachi Ganguly: All over the world?

Pramod Chaudhari: Yes.

Sabyasachi Ganguly: Okay, is there a chance of conflict in interest if both are successful?

Pramod Chaudhari: Well, we can give a choice to the customer. The customer will get a choice.

Moderator: Thank you very much sir. Next in line, we have Shailesh from KR Choksey. Over to you sir.

Shailesh Kumar: Should we assume that the worst is over for the company?

Pramod Chaudhari: Definitely, I would like to say that worst is over.

Shailesh Kumar: What is the progress on water and waste water business?

Pramod

Chaudhari: It is shaping up. We have got some orders and have started representing orders from different parts of the industry. We have started getting them and for different processes, and we are trying to sort of online consolidate them, so that goes for the total holistic approach for the water and waste water for both front-end and for the rear-ended. That means for the water treatment and waste water treatment.

Shailesh Kumar: And FY' 12 onwards, if I am not wrong, we have to pay MAT compulsorily?

Pramod Chaudhari: Yes.

Shailesh Kumar: Next question is what is our R&D expenditure in FY' 12?

Male Speaker: It will be around Rs. 12 crore.

Shailesh Kumar: Rs. 12 crore?

Pramod Chaudhari: Yes.

Shailesh Kumar: I had missed on the capex part, which you have done in FY' 11, and what is the plan for FY' 12, basically I mean which segment we are going to do the capex on?

Pramod Chaudhari: Capex we had an approval of Rs. 35 crore, we spent Rs. 25 crore on that, so there is a carry-forward budget available and our routine budget is for Rs. 25 crore for this year and we are having an extra sanction for Rs. 25 crore of the new factory facilities for brewery workshops.

Shailesh Kumar: Okay.

Pramod Chaudhari: So, we have a Rs. 10-crore carry-forward and Rs. 25 crore of routine plus Rs. 25 crore of special, so about, we are talking about Rs. 60 crore.

Shailesh Kumar: So, this Rs. 25 crore routine will be spent on basically what?

Pramod Chaudhari: There is an expenditure on computer, for software, for some machinery and balancing machinery.

Shailesh Kumar: Okay, fine sir, I will get back to you in case for further questions.

Moderator: . The next question comes from Shefali Doshi from KJMC Capital. Over to you sir.

Shefali Doshi: As far as your consolidated results which you have mentioned, the Rs. 694 crore turnover and consolidated profits of Rs. 57 crore, I would like to have the consolidated EBITDA numbers.

Pramod Chaudhari: Consolidated EBITDA. Just a moment, just hold on for a moment.. Roughly 11%.

Shefali Doshi: Okay, okay and how about your debtors' days and creditors days.

Vinati Moghe: That is given.

Pramod Chaudhari: That is there in the balance sheet.

Shefali Doshi: I am done.

Moderator: Thank you very much ma'am. The next question comes from Nirmal Shah from Alchemy Shares.

Nirmal Shah: I just wanted to check, I mean, if we compare to the last 2 years, there has been probably some kind of stability in terms of order inflows from the ethanol side, I mean, in the range of let us say Rs. 600 to Rs. 700 crore, ethanol cum alcohol. So, now going ahead, do you see the growth on top of this in terms of order inflow in context of the outlook what you are seeing right now?

Pramod Chaudhari: See, there will be a growth but it will not be a substantial growth unless we go to the second generation.

Nirmal Shah: Okay.

Pramod Chaudhari: And second generation, one does not know exactly when that will start, maybe another 2 to 3 years' time, second generation will start giving that kind of growth. So, current growth will be, we can say will be like kind of organic growth will continue in case of businesses.

Nirmal Shah: Okay.

Pramod

Chaudhari: But what we are trying to do is which we have shared the strategy, to increase the wallet share and all that. So, the growth will come from the wallet share increase.

Nirmal Shah: And for the full year, the revenue breakup what you gave, it was for the quarter, roughly 36% exports. Is it the same for the entire year as well?

Pramod Chaudhari: It is for the entire year actually.

Nirmal Shah: Okay..

Pramod Chaudhari: 30% is the entire year.

Nirmal Shah: Okay, and sir, now my second question is regarding your new businesses, now probably it may take a year or two to get into second-generation fuel. So, meanwhile, you are diversifying into new areas, so can we expect Can you give some sense in terms of orders what you are targeting in terms of magnitude or probably growth in the business what you are targeting from new businesses?

Pramod Chaudhari: We have said that by 2013, we should have 25% business coming from non-ethanol. That we have gone on record already.

Nirmal Shah: Non-ethanol, non-alcohol basically.

Pramod Chaudhari: Non-alcohol, non-ethanol, yes.

Nirmal Shah: Okay, and regarding sir, your margins now, one thing is like your revenue mix would change going ahead again in favor of exports, but now since you are addressing a larger pie of the order, so to that extent again, can we expect some kind of margin pressure as compared to the historical year?

Pramod Chaudhari: Yes, when the same apple to apple increase in the international market happens it will be the same margin, but with the increased wallet share.

The margin definitely comes down because we are going for the items which are not proprietary item. One proprietary item don't fetch enough margins.

Moderator: Thank you very much sir. The next question comes from Anish from Reuters India.

Anish: Working capital days has gone up significantly.

Pramod Chaudhari: Yes.

Anish: So, could you clarify that?

Pramod Chaudhari: Yes, there were some delays which we have experienced, especially from some of the domestic customers and I think they have been set right now. Definitely some dislocations due to some delays in terms of permission by the customer?

Anish: Delay in execution of the projects?

Pramod Chaudhari: Because of the requirement which came from the customer side in most of the cases basically or because of certain delays in the sanction of their loans or maybe some overruns they have faced in other areas. These are some of the cumulative reasons which have caused a little bit increase in the debtors amount which we have seen from the settlement. Resulted into working capital increase.

Pramod Chaudhari: But we as a company we have not taken any debt.

Anish: Absolutely, so what will be the working capital requirement for FY' 12 moving forward?

Pramod Chaudhari: I think we should be able to improve on this definitely, what current working capital is there, we will improve.

Anish: Because debtors days are almost doubled.

Pramod Chaudhari: So, we expect them to be brought down to maybe earlier levels in couple of stages.

We feel these things are under control. There is no specific cases which have added to this thing and this is happening in the domestic market.

Anish: Okay.

Pramod

Chaudhari: Yes, because some of the people who could not continue with their business effectively, have been acquired by bigger houses, alcohol beverage especially in India and that is bringing helping to bring the situation under control also.

Anish: So, the worst is behind us, the worst is behind Praj and we are all set and we are all positioned to sort of deliver going forward.

Pramod Chaudhari: I would like to believe that, yes.

Anish: Could you also provide me the sales, domestic and international breakup of sales numbers?

Pramod Chaudhari: I said just now that for the full year, it is about 30% is international and 70% is domestic.

Anish: 30% is international and rest is domestic?

Pramod Chaudhari: Yes.

Moderator: Thank you very much sir. The next question comes from Rohan from Subhkam Capital.

Rohan Gala: Just wanted to know during the quarter, has there been any cancellation of orders or you know like delays in the financial commitments from the client side?

Pramod Chaudhari: See, in the past this has happened and this time, we are very, very clear that we take those businesses which are only executable and going smoothly. So, we are trying to keep those kinds of things out of our statistics. They will not reflect in the numbers which we talked.

Rohan Gala: Going forward as you said, there is consolidation happening in this side. So, is there any inorganic way of Praj might be growing, you know, like by acquiring any companies. Is the management looking something like that?

Pramod Chaudhari: No, not many on the anvil though we are willing to do that. We will share with you when the right time comes.

Rohan Gala: Last question sir, on the execution part, as you said, there have been some delays, so you might see the same thing in FY' 12 or there might be some improvement here.

Pramod Chaudhari: I was referring to the debtors' position going higher.

Rohan Gala: Okay.

Pramod Chaudhari: That is not for execution because of delay because of that, because of some customers, because of their own financial position, there were some delays.

Rohan Gala: Okay.

Pramod Chaudhari: Yes, that is how the debtors got increased.

Moderator: Thank you very much.. The next question comes from Gagan from B&K Securities. Over to you sir.

Gagan Thareja: Sir, Praj has been mentioning over the last year or more than that, you know, that there will be an increase in scope of work related to the ethanol segment itself. I would just like to understand that in the year gone by, you have done around roughly Rs. 550crore of turnover. If you could please elaborate as to you know what part of this is coming from projects related to ethanol and were you to have continued with your original scope of work, you know, what would have your turnover been and now with this increased scope of work, what is being added in, in terms of turnover.

Pramod Chaudhari: See, in the last year, my rough guess, I have not done this. This is a very good question. I think there could be about 5% to 10% could have been coming out of the increased scope in the last year, and in this year, especially, the pending order position which we are having, there again it will be in the range of about 5% to 10%, so it will be out of the increasing wallet share, increased scope. My order book would have been in the range of about Rs. 675 crore.

Gagan Thareja: And would this have an impact on your working capital cycle?

Pramod Chaudhari: See, as I say that working capital cycle does undergo change basically based on the money or the inventory and the debtors. These are the two areas which are affecting us, but we feel that we don't have to really get concerned about that because our position, the cash flow position is pretty good, especially in the project business we get sufficient advances and that is how we are able to manage still remaining a zero-debt company.

Gagan Thareja: Okay. Would the margin profile on this increased scope of work be substantially different?

Pramod Chaudhari: Marginally different.

Gagan Thareja: Marginally different?

Pramod Chaudhari: Yes.

Gagan Thareja: Marginally on the lower side?

Pramod Chaudhari: Yes.

Gagan Thareja: Okay. My second question is related to the US scenario. I think there is off late, you know, legislation, or at least tentative legislation for eliminating the blender's credit and there supposed to be a 3-year transition period for completely eliminating this out, I mean this is just a proposal. It could take a different form altogether, it could be even a year's time. My question to you is does this, you know, have repercussions both for first and second generation, the development of both the first and second generation biofuels?

Pramod Chaudhari: I think it will be mainly for the first generation. The second generation will still continue to go because they require to bridge the gap. From the demand side, if you see the number, they want to go to 35 to 36 billion gallons, and today, topping the corn was around 12 to 15 billion gallons. The increment has to come out of the second generation and second generation will get more and more attention. This is my personal opinion, maybe we are slowly making progress.for the second generation.

Gagan Thareja: So, you are possibly indicating that the development, the commercial development of the second generation also presumes a certain amount of subsidy already?

Pramod Chaudhari: Yes.

Gagan Thareja: And would it be fair to assume that the subsidy presumed in this case would be significantly higher than what was actually there for the first-generation biofuels?

Pramod

Chaudhari: I feel so, yes.

Gagan Thareja: And you are saying that viable development over the next 2 to 3 years will be subject to subsidy?

Pramod Chaudhari: Will assume certain position., Because as I said because of the fuel issue which are coming with the first generation and towards on that second generation has to be encouraged more and more and that becomes more and more viable only with the help of some support at least in the early stages or initial stages.

Gagan Thareja: I know that capital costs and operating costs for cellulosic facility, I mean, although quite a few of them are at bench scale or pilot scale or demo scale. Have they been in multiples of, the corresponding cost. For the first generation figures were around 3-1/2 to 4x year or so, have they reduced and where do they stand today. I mean has there been a uniform and continuous reduction the companies have been able to generate in both capital and operating costs?.

Pramod Chaudhari: The entire focus is on opex. Capex, nobody is really, really looking at it because first we have to make the opex more manageable.

Gagan Thareja: So, even in terms of opex, could one, get a handle on what the opex would be for the cellulosic facilities that are in existence as compared to the first generation ones?

Pramod Chaudhari: Yes, one can say that people are looking at opex of somewhere in between 2-1/2 Dollars to say 5 Dollars a gallon, but then again everybody's calculation method is different, calculations are different. Unfortunately, nobody is really coming out very clearly and what kind of calculator they are using. That is the main thing because it is a wide range which I am referring to.

Gagan Thareja: Okay.

Pramod Chaudhari: One thing is very clear that it has still not become viable.

Gagan Thareja: Even at 2-1/2 to 5, I mean, there would be certain presumptions on feedstock cost?

Pramod Chaudhari: That is why I used the word calculator. Everybody's assumptions are different.

Gagan Thareja: Okay, even in assumptions, I would just like to understand one more thing which is that since bulk of these facilities are at very small LPD capacities right now, could one you know assume a linear scale when they move up to larger capacities and say that you know on a linear scale there will be a reduction in cost or is that a wrong assumption and because of that a lot of companies which would have announced them, they would be able to do ethanol at x or y Dollar per gallop have somehow fail to meet their promises?

Pramod Chaudhari: I think you know already what is happening. People have announced and then they are not able to meet that and because the assumptions were See, the scale normally gives advantage, sometimes the scale can be a big question mark because in biomass handling in a bigger scale is also a big challenge because the bulk delivering lower and all those things. So, it is not an easy straight-line answer.

Gagan Thareja: For you, when you develop your process, what would be the most critical elements as far as reducing your operating costs. Would it be enzyme consumption?

Pramod Chaudhari: Enzyme cost has to be the focal point.

Gagan Thareja: By what magnitude you feel you would still need?

Pramod Chaudhari: I think we can take it off the line. If you are interested, we can come down, we can sit across because you seemed to know a lot and it can be discussed threadbare.

Gagan Thareja: Okay

Pramod Chaudhari: I told you as far as my view. I think you really have done a good study and we can go into details, absolutely it will be a pleasure.

Gagan Thareja: Fine . I will move away from cellulosic thing and I just want to understand, you have been talking about getting into water treatment and scaling it up over the next 2 years. Could you elaborate and be a little more specific, where exactly, and what niche in water treatment are you looking at and you know, what would be your addressable market be?

Pramod Chaudhari: Industrial waste water treatment is a major area where we feel we are quite geared up and we already got some breakthroughs in that area.

Gagan Thareja: Okay.

Pramod

Chaudhari: So, we will not go immediately into the mundane thing like what you call municipal waste water. In each case it is different, so it not a generalized thing.

Each case is different. So, there is no generalized kind of a thing.

Gagan Thareja: Okay, thanks. One last book-keeping question and I mean, what should one presume your effective tax rate to be when you go into next year?

Pramod Chaudhari: We will be able to manage in the same range.

Moderator: Thank you very much sir. Next in line, we have Vishal Shah from Parag Parikh.

Vishal Shah: My question was related to the waste management sector. My question was how much growth do you see in this area. In the sense, would not there be more competitors along with you in this space, so how are you trying to differentiate yourself?

Pramod Chaudhari: As I said, we are looking at industrial waste water as a niche area. Industrial waste water, there is no duplication or replication of the case. Different industry requires different processes, different norms and it cannot be a run-of-the-mill for everybody. So, we are able to deploy our knowledge expertise and experience to handle this business.

Vishal Shah: Okay, thank you..

Pramod Chaudhari: Thanks.

Moderator: Thank you very much sir. At this moment, I would like to handover the floor back to Vinati Moghe for final remarks.

Vinati Moghe: Thank you everybody for joining us today. We will try and put the transcript at the earliest, so you have the details of the discussion at the earliest with you. Beyond that, if you have any queries, please write in to us and we will be happy to respond. Thank you very much.

Moderator: Thank you very much ma'am. Ladies and gentlemen, thank you for choosing WebEx's Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.