



PRAJ Industries Limited
Investor/Analyst Conference Call Transcript
May 14, 2013 14:00 pm IST

- Moderator** Ladies and gentlemen good day and welcome to the Q4 and FY2013 Earnings Conference Call for PRAJ Industries Limited. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand over the conference to Ms. Vinati Moghe from PRAJ Industries Limited. Thank you and over to you, ma'am.
- Vinati Moghe** Thank you. We welcome you to this conference call organized to discuss Praj Industries' operating performance and financial results for Q4 and fiscal 2012-13 which were announced earlier. You noticed that we have also included the full consolidated results as well as standalone results in our announcement. I have with me Mr. Gajanan Nabar – CEO and Managing Director, Praj Industries and Mr. Surendra Khairnar – Assistant Vice President, Accounts. Mr. Nabar will share with you the key developments and macro environment followed by operating highlights. 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 have been e-mailed to most of you earlier. These documents are also available on our corporate website. I now invite Mr. Gajanan Nabar to provide an overview of the highlights and the business environment for the quarter and the year. Thank you.
- Gajanan Nabar** Thank you Vinati. In the previous quarter though we saw some green shoots in the global and Indian economy, the environment still remains challenging. Various factors like liquidity, approvals and land transactions are the issues which have affected execution of projects in the ethanol and brewery businesses in India. Consequently we have seen a slow progress in the domestic market on project execution in spite of our growing order book. We continue to focus on emerging economies with a strong market share. Our recent large order from South East Asia is a case in point. However, emerging businesses have demonstrated growth. Our strategy of focusing on the high purity sectors of pharma, biotech, food and beverages, cosmetics is also showing a promise with some key customer gains during the quarter.
- The Indian ethanol blending program has shown some progress with OMCs receiving tender fulfillment of 550 million liters (55 crore liters). However, there is still a gap of about 500 million liters for which international tenders have been floated. The prices in the international market seem to be far



higher than those contracted from the Indian suppliers. It is to be seen how the tenders progress for meeting with the June 2013 deadline for the implementation of this program. We expect that the capacity expansion movement will only happen once the program is under way.

The partial decontrol of sugar is likely to benefit the sugar mills in the long run with export opportunities for sugar mills helping to unlock value. Investment sentiments for the ethanol sector are driven by mandates, investment climate and consumption. The Indian consumption story is still intact and so are mandates in many of the emerging countries. Our emerging businesses of water and critical process equipment and systems and Neela Systems as well as brewery and beverage ethanol plants are led by consumption while the fuel ethanol plant business is led by mandates.

Now on the first generation ethanol and beverage alcohol front – In South East Asia, Thailand has announced an E20 program replacing all grades of gasoline with gasohol. This will require fresh capacity to be built. Beverage alcohol is growing in the Philippines at about 8% and combined with the fuel ethanol mandate this would translate into fresh capacity additions in Philippines. The ethanol blending program in South Africa is in the final stages of roll out for 3% ethanol blending.

On Brazil – Brazil has announced tax breaks for the ethanol sector. Also more sugarcane will be diverted to ethanol with 25% blending being mandated. We will continue to look for signs of further investment and capacity augmentation in Brazil. The US ethanol margins have also shown improvement with lower corn prices and better ethanol prices leading to higher production levels. The US continues to be an exporter with sizeable exports to Brazil and Philippines.

In the Indian beverage alcohol space, we see a growing interest because of the entry of Diageo. It is to be seen how the market structure will change in response to their entry.

On the second generation ethanol front, funding for certain projects in Brazil and USA is progressing well. However, the commercial scale viability is yet to be fully demonstrated. The PACE that is the “PRAJ Advanced Cellulosic Ethanol” program will now move up on ground breaking by June and July of 2013 of this fiscal.

Emerging businesses which consist of water, waste water solutions and critical process equipments as well as high purity water are seeing traction. Following the success of our textile ETP system, we have received repeat orders during the quarter. We also received orders from pharmaceutical and food and beverage companies.

For critical process systems, we are moving up the value chain with high skill engineering and critical fabrication. One such order is from a global engineering company for their Russian project. The critical process equipment business has now moved from a bill to print model to a design to bill model which has better value additions. Nearly 80% of this business comes from international markets and from multiple geographies. The current drought situation as well as the increasing stress of industrial activities is making it imperative for industries to move to a reduce, recycle and reuse type of water technologies as well as zero liquid discharge led solutions. We are already seeing this as an opportunity for our water business.

On our strategy for high purity segments consisting of pharma, biotech, F&B and cosmetics industries, we see a marked change in the way these industries are looking at their new investment decisions, especially in the pharma segment wherein we see trends like reduced time to market, higher regulatory audit and demands therein along with international benchmarking of facilities and processes as well as the consolidation which will require an integrated approach for pharmaceutical installations.

The pharma industry is also going through a greater environmental awareness. Our ability to provide end-to-end solutions to these sectors will see us gain in this market. After a lean first half, Neela Systems has picked up pace with the order book looking up and sales getting back on line. Neela is also seeing an increased export activity with governments in South East Asia, Central Asia and the MENA region focusing on healthcare systems. We expect these markets to generate sizeable businesses for us in the near future. For emerging businesses, we have already seen an order intake from adjoining markets like Thailand and Bangladesh.

Now on the performance front – In the Praj standalone results for the fourth quarter of the fiscal 2013, income from operations stood at Rs. 187.77 crore as against Rs. 268.01 crore in the corresponding quarter. 59% comes from the domestic region and the remaining 41% from the international markets. 86% is from the ethanol and brewery group while the remaining 14% comes from the emerging businesses. The EBITDA excluding other income is at Rs. 18.59 crore when compared to Rs. 27.76 crore in quarter 4 of FY12. The EBITDA margin is at 9.9% as against 10.36% in the corresponding quarter. PBT is at Rs. 19.35 crore with a margin of 10.10% and PAT is at Rs. 14.85 crore with a margin of Rs. 7.75%. As we grow the scope of our orders that at times fall under the ambit of local execution companies, I will also brief you on the Praj plus Local Execution Company combined results.

For the quarter, Praj plus LEC as the short form goes, clocked revenues of Rs. 228 crore. During the quarter, we received orders worth Rs. 287 crore. We received a major order from Philippines for a 200,000 liters per day ethanol plant at Rs. 160 crore. While the domestic order intake stood at 30% and international at 70%, ethanol and brewery equipment business formed 85% and emerging businesses formed 15%. Water and the wastewater group picked orders from Tirupur Textile Industries for zero liquid discharge schemes. This follows a successful commissioning of the previous plant where we have continuously demonstrated the performance of our solutions.

In the past full year - FY12-13, standalone income from operations stood at Rs. 729.43 crore as against 880.86 crore. The EBITDA excluding other income is at Rs. 67.72 crore. The PBT is at Rs.80.72 crore with a margin of 11.06%, whereas thePAT is at Rs. 66.18 crore for the period at a margin of 9%. For the full year, Praj and LEC together registered sales of Rs. 828 crore against the previous fiscal at Rs. 912 crore.

At the end of the quarter the pending orders stood at Rs. 870 crore, of which the domestic market forms 38% and the international market constitutes 60%. The share of ethanol stands at 70% and that of the brewery at 10%, while the emerging businesses form 20% of the orders in hand. This is excluding Neela orders. Over the last three quarters, we have seen a steady increase in the share of the international business. EPS showed a slight improvement at Rs. 3.73 for the year when compared to the corresponding fiscal FY12 at Rs. 3.58.

On the Neela Systems front, the company has Q4 sales of Rs. 39.90 crore with a PBT at Rs. 14.6 crore and PAT of Rs. 10 crore in the fourth quarter. The company has billed 15% on sales from international regions during the quarter. On a year-on-year basis, exports have grown fourfold for Neela. Orders in hand and are at Rs. 35 crore.

EBITDA for the year is at Rs. 21.80 crore with a margin of 25.8%. In the full year, Neela registered sales of Rs. 84.6 crore and PBT of Rs. 16.9 crore with a margin at 20% and PAT of Rs.11.4 crore. We expect the emerging businesses to form more than 30% of our total business by the end of this current fiscal. Although we have been able to contain certain fixed costs in the past two quarters, margins have proven to be stubborn. With growing non-ethanol businesses we expect this to change for the better.

On a consolidated basis, the sales for the year stood at Rs. 922.03 crore and PBT at Rs.92.32 crore and PAT at Rs.71.53 crore. There has been a gain in the net profit over the previous fiscal. The consolidated EPS was at Rs. 3.83, which is also a gain against Rs. 3.69 in the previous fiscal. The company received the prestigious biotechnology award from ABLE(Association of Biotechnology Led Enterprises) during this quarter. The Board of Praj industries has recommended a dividend of 81% at Rs. 1.62 per equity share of Rs.2. On the tax rated issue, the matter is now admitted to the settlement commission.

In the short term, even as the markets remain subdued it will be our attempt to bring new elements of our offerings, so as to gain business competitively and maintain and grow our market share. Our innovation and applied technology group has been working on this aspect. Similarly for water and wastewater treatment we are exploring new technology solutions which will help us gain market share. Internally too, we are looking at ways and means of optimizing cost and bringing better value additions through value engineering programs. With these internal efforts combined with our rigorous efforts in the market, the company has shown a resilient performance even against a very challenging climate. Focus will remain on further improvement of this performance. I will take questions now.

- Moderator** Thank you very much sir. Participants we will now begin with question and answer session. We have the first question from the line of Sudhakar Prabhu from Span Capital. Please go ahead.
- Sudhakar Prabhu** I have a couple of questions. My first question would be on your order book. Out of your order book of Rs..870 crore, how much would be large orders and how much of it would be the small orders? Large orders would be typically worth more than Rs.100 crore..
- Gajanan Nabar** About 35% of our total orders would be the large orders and the rest would be less than Rs.100 crore in order size.
- Sudhakar Prabhu** And sir is it possible for you to give us a number as to how many customers would constitute this Rs.870 crore worth of orders, in terms of the number of orders?
- Gajanan Nabar** It is slightly difficult to answer especially on this call because we now have three businesses contributing to our total order size of Rs. 870 crore. It is not a singular business and each business has a different order profile. So, for

some business like ethanol the order size is larger, whereas for businesses of CPS and Neela which is not into this, the order size is smaller. So, I think it is a kind of question which we can't answer directly on the call.

Sudhakar Prabhu And is it possible for you to give us a break-up of the order book among your three different segments, out of the Rs.870 crore amount?

Gajanan Nabar For the quarter, the domestic orders are at 30% and the international ones at 70%.

Sudhakar Prabhu So, can you give me the break-up for the full year?

Gajanan Nabar So, the break-up is as follows. The domestic ethanol orders contribute about 25%, the international orders for ethanol amounted close to 50%, whereas the brewery orders contributed about 10% and the rest had a share of about 20%.

Sudhakar Prabhu Would the orders for brewery be largely domestic?

Gajanan Nabar *No. Brewery orders on hand for FY 13 are mostly international.

Sudhakar Prabhu What is the progress on the 5% ethanol blending? You had already mentioned that orders for 500 million liters have already been issued and the order for another 500 million liters is in the process of being issued. When do you think that will happen?

Gajanan Nabar June 13 is the deadline for all the quantities to be collected. Out of which, 55 crore liters have already been collected. We believe the remaining 50 odd crore liters should be plugged by June with the help of domestic as well as international suppliers. Though it remains to be seen as to how this progresses because it certainly has a positive impact on the overall ethanol market in India.

Sudhakar Prabhu And how do you see this market growing over the next 2 – 3 years?

Gajanan Nabar Now, there are two elements to this. One, of course, is the the beverage side, India is predominantly a beverage market with its consumption story continuing to grow, as I mentioned in my opening remarks. We are seeing a double digit growth on the consumption side for beverage grade ethanol. The fuel side for the past few years was dormant because of certain policy issues which we believe with the new policy outlook and mandates have been overcome. And if the next month's deadline is met, we should certainly see a positive impact in the next 6 to 9 months. . This will firstly fulfill the existing capacity and then spunthe future growth of the new capacity portfolio for fuel ethanol.

Sudhakar Prabhu And my last question is on your cellulose ethanol offering. What is the progress on it? And in the last call you had mentioned about the demo plant being ready. What has been the progress on that?

Gajanan Nabar In the last call. I had mentioned that the engineering was in progress and that by the first quarter we would do the ground breaking for this project. We are still on course. We are expecting the ground breaking to happen between June and July of this year. The engineering is almost completed barring a few

	small things in the end. And we have also finalized the site. So, there are all positive indications towards that.
Sudhakar Prabhu	What would be the CAPEX and the size for this plant and ?
Gajanan Nabar	The total estimated CAPEX right now is Rs.135 crore and the plant is 30 KLPD in size.
Sudhakar Prabhu	And once this plant is ready and the testing for it is done when do you think you can commercialize it?
Gajanan Nabar	Actually, it will take about 12 to 14 months to build the plant and once the plant is ready, our objective is to demonstrate that we can use different bio feed stock and run this operation 24x7. As the plant operations progress, the same will immediately lead to the commercialization profits.
Sudhakar Prabhu	So can we assume that would take at least 1.5 years to 2 years from today?
Gajanan Nabar	Yes.
Sudhakar Prabhu	What are your aspirations for the company? Right now, your standalone and consolidated revenues are at around Rs.700 crore and Rs.900 crore, respectively. Do you think a 15% to 20% growth is possible in the next 3 to 4 years?
Gajanan Nabar	We don't speculate.
Sudhakar Prabhu	I understand that you guys don't give guidance but in terms of aspirations, do you have a vision that you can at least be a Rs.1,200 to Rs.1,400 crore company?
Gajanan Nabar	We are working towards making more money for the shareholders by generating more profits. So definitely, the focus is towards increasing our profitability and profits.
Moderator	Thank you. We have the next question from the line of Mahesh Bendre from Quantum Securities. Please go ahead.
Mahesh Bendre	I need a few data points. For the full year, is it possible for you to break-up the full year sales into that for domestic ethanol, domestic brewery, water and customary engineering segment?
Gajanan Nabar	Vinati will send the information across to you.
Mahesh Bendre	Also, between the domestic and standalone numbers, the PAT difference is around Rs.4.5 crore. While we mentioned that Neela has posted Rs.11 crore in profits. So, does that mean that other international subsidiaries have posted losses?
Gajanan Nabar	No. That doesn't necessarily mean that. We've had a goodwill amortization which is to the tune of Rs.5.5 crore along with our portion and obviously there is a minority interest as we have a 60% holding in Neela.
Mahesh Bendre	So have the other international subsidiaries not posted any losses?

Gajanan Nabar	No.
Mahesh Bendre	Over the next 12 to 18 months, how do you see the order booking? Since the last two quarters have been fine for us. We are seeing healthy order booking across geographies but will we be able to maintain this momentum over the next 12 months?
Gajanan Nabar	If I say something it would be speculative but let me take you through the indicators across both India and international markets as Praj is present in a varied geographies. The Indian story, as all of you know, remains choppy and also uncertain on various counts. So, that would continue. And in the international markets, we have seen that wherever there are possibilities of growth for our ethanol and brewery business as well as our new businesses, we are putting all our efforts to be present in those markets.
Mahesh Bendre	I know we don't give any guidance but from a direction standpoint will this year be better than last year?
Gajanan Nabar	I can only say that if you recollect the FY12 call, our order book was about Rs.760 crore, Our carry forward order book vis-à-vis that number which is a public number was around 870 crore. So you can draw conclusions from there.
Mahesh Bendre	Based on enquiry flows and situation on the ground in the international market, do you get the sense that this year would probably be better?
Gajanan Nabar	We certainly hope that this year will be better.
Mahesh Bendre	And with regard to margins, do you think we will be able to improve the same here onwards?
Gajanan Nabar	As I mentioned in my opening remarks, there were certain efforts taken on value added engineering looking at the cost, different sources of raw material etc. Also, international orders contribute to higher margins. So, all these factors would certainly help us to improve our margins going forward.
Mahesh Bendre	You have been highlighting the fact that you are looking to scale up the non-ethanol business which was expected to cross 30% this year. How do you see that business especially the water business in our standalone operations and even Neela progressing over the next 2 to 3 years?
Gajanan Nabar	We mentioned that we will have 30% of new or emerging businesses constituting our total sales in FY14 and we are standing by that. Infact, I had confirmed that during my opening remarks. We will certainly see good traction on all fronts including the high purity segment and the wastewater segment. I already said there are opportunities because of the water stress situation all across India and especially from some geographies in Western India. Also since the critical process equipment side, caters to the worldwide markets, the same should certainly help us to shore up the businesses of India based sourcing houses or even international companies trying to buy and source high quality fabrication from India. .
Moderator	Thank you. We have the next question from the line of Pranav Gokhale from Religare Asset Management. Please go ahead.

Pranav Gokhale What is your current cash-in-cash equivalent in the balance sheet? And what would be the amount which you have already invested in the cellulosic ethanol plant?

Gajanan Nabar Our cash-and-cash equivalent is Rs.200 crore currently.

Pranav Gokhale And how much total debt is there on the books?

Gajanan Nabar We are a debt free company.

Pranav Gokhale And how much money has been invested in the second generation plants?

Gajanan Nabar Currently I have said we are at the engineering stage. The moment we start the ordering and building stage, we would start spending. Currently we have not spent any of the dollars directly outside. We have only spent internally so far.

Pranav Gokhale On the domestic business front, how much of ethanol is consumed by the chemical and brewery segment and how much is actually being used by the OMCs? Can you provide us some broad number for our understanding?

Gajanan Nabar Do you want to know as to how much is the OMC usage?

Pranav Gokhale Yes. As a percentage of may be the total ethanol production?

Gajanan Nabar I think the current consumption of the OMCs is in the range of 2% to 2.5% due to the pricing and availability issues of the ethanol. The complete 5% would be equivalent to about one billion liters. This 2% would be in that proportion.

Pranav Gokhale And how much of the total ethanol production is the actual chemical and brewery segment utilizing currently?

Vinati Beverage would roughly utilize between 2 and 2.2 billion liters and the rest is made available for the industrial purpose.

Pranav Gokhale With the new mandate, does it open some more opportunities for Praj as a whole for may be either in terms of the storage tanks or in terms of getting the entire fuel ethanol plants in the country?

Gajanan Nabar We'll have to find out about that. Though , it is certainly a very positive development for us. We have to see how the capacity gets filled up. It would lead to some opportunities for modifications and retrofitting as well as for storage tanks but more on the process side which are more value added solutions for the customers. We certainly see opportunities round the corner with this mandate.

Pranav Gokhale But your earlier statements seem to suggest that the domestic business is still not good. So, I'm just trying to correlate the two things.

Gajanan Nabar . I didn't say that domestic is not a good business. I said due to the related risks, an unknown territory in an international arena is slightly better than domestic. That doesn't mean that the domestic segment is not a good business. And in the domestic piece, we have certainly seen a lot of good

traction in the environment between (1) The blending program, (2) The decontrol of sugar industries, (3) Entries of groups like Diageo. So these are all positive indicators. We have to wait and see as to how the action on the real ground happens. But they are all positive indicators for the time being.

Pranav Gokhale There some players like KiOR who have opened up commercial cellulosic bio-fuel plants in the US and there are few others who are following suit. Do they have the first more advantage in some way or are we looking at a totally different technology to go ahead with the second generation?

Gajanan Nabar There are different types of technologies that few people are already working on. But as I already said in my opening remarks that none of these technologies, which are at different stages of commercialization, have been yet able to prove that they are completely commercially viable. So these technologies are at different stages. Somebody has already commissioned the demonstration plant but is waiting for the final results, somebody is tilting it, somebody like us is coherently following up the execution. We have to wait and see as to whose technology becomes the most viable and successful. We also believe that the market pie is so big in the US alone (16 billion gallons) that multiple technologies will easily have space to accommodate each other.

Pranav Gokhale This is the information collected from various journals etc. I believe KiOR is coming up with a 13 million ton capacity plant and **Eneos** is also putting together a 8 million ton capacity. Both are saying that they will operate at a 50% plus kind of capacity. I understand 13 million tones will not be pilot.

Gajanan Nabar I am not sure. They were building a higher size demo plant. We are since waiting for the results of that higher capacity demo plant. After which they are going to build this commercial size plant that they are mentioning. So unfortunately, we don't have lot of information on that as of now. We are watching the markets. If we hear something we will definitely let all of you know.

Moderator Thank you. We have the next question from the line of Achint Bhagat from Ambit Capital. Please go ahead.

Achint Bhagat My question was about the water treatment industry. So, I basically wanted to understand your outlook on the industry and what kind of orders are you expecting and from where?

Gajanan Nabar In water, we have two pieces, water and wastewater side. Our predominant presence in water today is through high purity segment which is represented by Neela. I could term it as the 'hygienic' segment. In pharma, food and beverages, cosmetic and biotechnology sectors, we are seeing that there is a fair bit of new capital formation taking place, which is leading obviously to requirement of our solutions and technologies and should continue.

On the wastewater side Praj is presenting a complete array from pretreatment to grind, which means complete zero liquid discharge kind of solutions. We believe that not many companies offer that. Our aim in water and wastewater both is to provide solutions. We are taking a solutions led approach. We do not have a brick & motor and cement and steel kind of offering for the customers. Though growth might be little slower compared to the industry, we believe that it is profitable and extremely sustainable.

Achint Bhagat	But my question was pertaining more to the industry. Sir, do you think that orders are coming in the industry and what are the pockets from where the orders can be expected in the wastewater space?
Gajanan Nabar	Whatever happens to the industry overall and all that happens to the capital formation overall will also impact and affect the wastewater treatment industry to a certain extent. But there are definitely pockets for orders because the mandates are getting stringent. The PCBs which are the local pollution control boards are becoming very strict. In fact, companies themselves are becoming aware of environmental hazards and they want to have sustainable solutions. So a variety of different industries present opportunities for us. These include pharma, textile, CETPs, chemical processing units etc. We are geared up to cater to all their requirements.
Moderator	Thank you. The next question is from the line of Manit Varaiya from Vallum Capital. Please go ahead.
Manit Varaiya	My question is related to the impact of shale gas from the alternative energy markets like the global markets and how it could affect the future business of our company because if there are a lot of shale gas plants coming up around the world, this could impact the oil prices and which could indirectly impact the alternative energy markets too. So just wanted to have your view point on how this can have an impact on your business areas?
Gajanan Nabar	Yes, this is a very valid question. We obviously are aware of this. We are tracking this very closely. There are pluses and minuses to this. There are stories which have talked about shale gas as a complete solution to every form of energy crisis. Secondly to the extent that it has a huge environmental impact because of water consumption and quality of ground water among other things. So, right now the jury is still out on that. US is definitely pursuing shale gas but you would also see that the US gas prices have started to inch up. So, it would only be speculative to comment either way. But nonetheless there is a new player in the play and we have to watch that development very carefully.
Manit Varaiya	As we can see the order book currently that 70% - 80% odd is structured towards the ethanol area and you have mentioned that by this year-end we would diversify 30% of the revenues to the emerging areas. So just wanted to know as to what is the strategy going forward and what are the thrust areas? So if you can just throw some more light on that?
Gajanan Nabar	The strategy is that we have a well balanced portfolio which is driven by ethanol. And if we were to look at a 3 to 5 years horizon, there is the first generation ethanol including bio-fuels and brewery and the other new businesses including animal health additives and CPE (Critical Process Equipment) and water business. So we have a balanced portfolio to address multiple segments of the industry in multiple geographies. So that gives us much more stability and opportunities for growth. Having said that, in the new and emerging businesses especially water and wastewater we are trying to be very focused on solutions based approach, as I had already mentioned. In addition, we are being driven by profits and we are not currently participating in any large tenders, which are purely driven on prices and other arrangements. We are just focused on providing customer level solutions including zero liquid discharge solutions. So that's where our growth lies.

Wherein pharma, food and beverages, cosmetics, biotech are our segments to target.

On the critical process equipment front, we are catering to the global market through obviously some of the Indian offices of global companies and the rest of the global industry by way of our sales and business development efforts. And there we have, in the last one or two years, proved our mettle by demonstrating good quality fabrication and engineering capabilities. That's the road map for us.

- Moderator** Thank you. We have the next question from the line of Ankush Mahajan from KR Choksey. Please go ahead.
- Ankush Mahajan** If we were to look at the Q4 revenues, there is a de-growth of 30% on a year-on-year basis. Could you throw some light on it? Why was the revenue recognition low in this quarter?
- Gajanan Nabar** As I mentioned in the opening remarks, we are also executing some portion of our orders in other countries outside India, through what we refer to as local execution companies. For example, Praj Tanzania and Praj Philippines etc. It is more relevant to look from that standpoint. So, the sales for PRAJ plus Local Execution Companies (PRAJ LECs), have gone down. Praj and LECs have together registered sales of Rs. 828 crore against Rs. 912 crore in the previous fiscal. So, the de-growth that you're referring to is on that account.
- Ankush Mahajan** So when can we see the pickup in the sales?
- Gajanan Nabar** The order book for the last two quarters is much better compared to the order book for the first two quarters of the last fiscal. Of which the order book is the lead indicator for the revenues and we hope that we don't foresee much roadblocks in execution and obviously that would be reflecting in our revenues stream going forward.
- Ankush Mahajan** So will that be in the second half of this year or in the first half?
- Gajanan Nabar** I think there is always an incubation period from the time you get the order till when you start seeing the revenues. So it should take a couple of quarters.
- Moderator** Thank you. We have the next question from the line of Deepak Malhotra from Silver Streak Asset Management. Please go ahead.
- Deepak Malhotra** You mentioned that your cash-and-cash equivalents are at about Rs.200 crore today. What is the CAPEX planned for FY14 and FY15?
- Gajanan Nabar** Majority of the CAPEX which is required for our new businesses is almost over; we have invested the same in the last couple of years. We currently have some bit of an improvement CAPEX and maintenance CAPEX left to the tune of about Rs.15 crore. The amount that we will spend on our second generation plant would be in addition to this.
- Deepak Malhotra** What will be the cash position likely to be at the end of the year? Would you like to comment on that?

Gajanan Nabar Our objective is to keep the same level of cash position going forward and obviously based on the advances that we receive and the amount that we spend on CAPEX, we would try to do the balancing act of keeping the cash at the levels of what we see.

Deepak Malhotra My second question is regarding Neela Systems. I think you have already answered this and thrown some light on the water treatment business and what you are trying to do there particularly. But you mentioned specifically that you are basically focusing on a zero liquid discharge system. While at the same time you mentioned that you are basically being a solution provider. Can you could kindly throw more light on what do you exactly mean by that? What do you see yourself in the future as – an EPC player or an O&M player?

Last year you have reported a turnover of about Rs.84 to Rs.85 crore. So, how do you see this business growing up in terms of entering into new segments and how are you going to cater to the various segments and lastly, how does it looks like over the next three to five years rather than just over the next few quarters?

Gajanan Nabar Let me clarify that the zero liquid discharge technology as well as reduce, recycle, reuse kind of solutions are from the wastewater side and not from the high purity segment, which is the Neela side.

Secondly, I think we obviously have a strategy to increase the overall play with Neela. One of the reasons is that now Neela is offering high quality solutions for the pharmaceutical industry. Now with Praj and Neela together we not only offer wastewater treatment solutions but also the process and equipment part of it. So our wallet share with pharma company which was to be to the tune of 8% to 10% has gone up to about 25% to 30%. So, that itself would mean that the order sizes going forward, if we need to be able to successfully execute this, would increase our order size. So that's one part of it.

And when we are talking about a solution based approach, this is more from the customer's endpoint where we have done something similar in the textile industry in Thirupur which I mentioned in my opening remarks. We had a problem there and we solved it by using our technology and knowhow. That does not necessarily mean it is an EPC model. It is a complete solution to the customer, which also means that building the plant, commissioning and handing it over. If required, we also look at operational maintenance on case-to-case basis.

Deepak Malhotra But at the moment you haven't undertaken the same?

Gajanan Nabar Yes, We haven't undertaken O&M bit.

Deepak Malhotra But in the future do you think that you could be looking at that?

Gajanan Nabar Yes, we could.

Deepak Malhotra I am not asking for any guidance but again since this is a new addition and as you mentioned that a significant part of the growth in future is going to come from the emerging businesses which I understood as coming from segments like Neela. So what is the kind of growth which you are looking at from this?

Since when we look at the general industry sector, it is being talked in really very substantial terms but how is it going to basically play out?

Gajanan Nabar I think the growth from Neela would come from a couple of ways as I said. First, through the expansion of the wallet share, the second is obviously the international reach because of Praj's presence in variety of markets including South East Asia, Middle East and some parts of Africa. We are also looking at selectively growing Neela, the water and the wastewater business in these areas. So the growth trajectory for this would certainly be significantly higher going forward.

Deepak Malhotra Would you also be looking at entering newer areas such as handling sewerage or even getting into desalination at a later stage?

Gajanan Nabar We are right now not considering sewerage but we definitely have couple of technologies that we can work with on the desalination side. So, we are selectively looking at those kind of options as well.

Moderator Thank you. We have the next question from the line of Rishinder Goswami from Locus Investments. Please go ahead.

Rishinder Goswami Can I confirm your stake in Neela at 60%?

Gajanan Nabar Yes.

Rishinder Goswami Do you plan to hike that stake through FY14 and 15?

Gajanan Nabar Yes. I think we have already announced when we made this acquisition. It is a complete deal and every year we would acquire an incremental 10%.

Rishinder Goswami And what is the spend that you are looking at for acquiring the other 40%?

Gajanan Nabar It is the extrapolation of the same valuation that you have seen on a percentage basis.

Moderator Thank you. We have the next follow-up question from the line of Mahesh Bendre from Quantum Securities. Please go ahead.

Mahesh Bendre How much of the current order book of Rs.870 crore is going to get executed in the current year?

Gajanan Nabar These are micro level details, which are being already worked on currently. There are different orders from different businesses, as I had explained earlier, which means that the execution cycle keeps changing as we move across the verticals. So it is a little more detailed exercise and I don't want to really comment on it as I believe that it will lead to unnecessary speculation on our numbers and revenues.

Mahesh Bendre But in the past, we had indicated that the general execution period for our business is anywhere between 12 to 15 months. So, has there been any change to that?

Gajanan Nabar No. Ethanol business and brewery business stays in that period. Water business obviously has a shorter cycle. Waste water business has a different cycle. CPE also has different lower cycles. So, it is a solution of all these.

Mahesh Bendre So, is it fair to assume that this order book will get executed within 15 months?

Gajanan Nabar Yes.

Mahesh Bendre What is the CAPEX you incurred in this current year?

Gajanan Nabar Rs.50 crore in this year.

Mahesh Bendre Is there any special manufacturing set up that you have created, basis that amount?

Gajanan Nabar No, there is some augmentation of capabilities and capacities for manufacturing and the rest was spent on the new office building.

Mahesh Bendre So are we shifting our office to the new place?

Gajanan Nabar Yes.

Mahesh Bendre You have been highlighting the fact that Praj Matrix is likely to play a major role going forward in terms of introducing new products. So what are the plans regarding the same over the next 12 to 18 months?

Gajanan Nabar Firstly, the second generation bio-fuel plant which is coming out with our technology developed in Praj Matrix. Also, recently we have made an announcement for the launch of animal health additives and livestock health additives which are again coming out of our Matrix portfolio. There are f more products which are currently at different stages of research and development as well as final study which you would see coming to the market and subsequently commercialized in the next 3 to 5 years.

Mahesh Bendre But do you think over the next 2 years there is any potential of launching a new products from this facility?

Gajanan Nabar Certainly. We are working on it and believe that those can be brought to the market on a commercial scale.

Moderator Thank you. We have the next question from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal What were the revenue and profit numbers for Neela Systems during Q4?

Gajanan Nabar The Q4 revenue was Rs.39.9 crore. While the PBT and PAT were Rs.14.6 crore and Rs.10 crore, respectively.

Manish Goyal So, is seasonality a factor in Neela Systems' numbers? As historically, we have seen the first two quarters are very subdued while the 3rd and 4th quarter numbers are better.

Gajanan Nabar No, I would say there was some skew but not to the extent of almost 45%, as it has happened in the fourth quarter. However, there is always some skew towards the fourth quarter. But this year especially, the first two quarters have been really rough from Neela's order intake standpoint. Its order to execution cycle being much shorter will impact directly on the sales as well as the skew that we are seeing.

Manish Goyal And you mentioned that 15% revenue came from international markets. Was this in Q4?

Gajanan Nabar Yes.

Manish Goyal And is the Rs.35 crore order book of Neela Systems included in the total order book of Rs.870 crore?

Gajanan Nabar No. We are maintaining the Neela order book separately from the total order book. That is not included in the Rs.870 crore amount.

Manish Goyal And when you said emerging business will generate 30% of the revenues in FY14, does the same include Neela Systems ?

Gajanan Nabar That is correct.

Manish Goyal What was this number in FY13?

Gajanan Nabar Over 18%.

Manish Goyal Would it be possible to give a revenue break-up for the full year?

Gajanan Nabar Vinati will send it to you.

Manish Goyal Historically, we have seen that whenever we get large orders, the international ones particularly, margins tend to be on a little higher side than the average margins. So with the Rs.160 crore order from Philippines, do you think at an execution of 15 months we can expect that in FY14 the margin should be a little better?

Gajanan Nabar Yes.. Of course there is a risk associated with the international business but the margins are always on the higher side. So hopefully, the margin improvement should happen.

Manish Goyal So, is the Rs.160 crore order is an EPC order or an equipment and designing one?

Gajanan Nabar There is a local execution piece as well.

Manish Goyal Is this in addition to Rs.160 crore?

Gajanan Nabar No, it is included in the Rs.160 crore amount.

Manish Goyal So is this designing, equipment plus the local execution?

Gajanan Nabar	Correct. So it includes designing, engineering, fabrication of some equipment to suppliers and local execution.
Manish Goyal	Have our new emerging businesses reached the breakeven level? And with the increasing turnover, from 18% to 30%, do you think that will also help our margins improve?
Gajanan Nabar	In FY13, it was not reached but we are looking forward to bring it up to the level where they would, going forward.
Manish Goyal	In FY13, was the emerging business excluding Neela Systems below the average margins?
Gajanan Nabar	Yes, excluding Neela.
Manish Goyal	So would the margins be below the average level?
Gajanan Nabar	Yes, in FY13.
Manish Goyal	Is it possible to give us a number that you should probably reach as the threshold company level margin?
Gajanan Nabar	We can take this offline. We have to see how much of that is speculative and how much we can share with you.
Manish Goyal	And in which part of the business was there an amortization on goodwill of Rs.5.5 crore?
Surendra Khairnar	It relates to the Neela business, which we have taken over.
Manish Goyal	So is that the reason why at a consolidated level your depreciation is higher?
Surendra Khairnar	Yes.
Manish Goyal	And on a broader aspect, can you tell me if your order enquiries at the current level, from the perspective of enquiry levels and finalizations, are significantly better than what you were possibly at one year back?
Gajanan Nabar	It is too early but we are seeing the enquiry levels holding up for the last two quarters. So this quarter too, we are hopefully seeing the same level of enquiries. Finalization in the last 12 to 15 months, as you would all know has got a bit stretched. So, we are not seeing faster finalization thus far.
Moderator	Thank you. I would now like to hand the floor back to the management for closing comments. Over to you.
Vinati Moghe	Thanks everybody for joining us today. If there is any balance questions we will take them offline. Have a good day.
Moderator	Thank you. Ladies and gentlemen on behalf of PRAJ Industries Limited that concludes this conference call.

Note - * This answer has been corrected.