

Praj Industries Limited
Q2 & H1FY2011 Earnings Conference Call
October 12, 2010

Moderator: Good afternoon ladies and gentlemen. I am Triveni, the moderator for this conference. Welcome to the Praj Industries' Q2 and H1 FY 2011 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 to Ms. Vinati Moghe of Praj Industries. Thank you and over to you ma'am.

Vinati Moghe: Thanks Triveni. Good afternoon everyone. We welcome you to this conference organized to discuss Praj Industries' operating performance and financial results for Q2 FY' 11, which were announced earlier. I have with me Mr. Pramod Chaudhari, Chairman; and Mr. 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 have been emailed to all of you earlier. These documents have also been posted on to our corporate website. I now invite Mr. Chaudhari to provide an overview of the highlights and business environment for the quarter. Over to you Mr. Chaudhari.

Pramod Chaudhari: Very good afternoon, ladies and gentlemen, and thank you for joining us on this conference call. I am pleased to be addressing all of you after fairly a very long gap of more than 2 years. I will be taking you through the numbers and operational highlights. Following which I will be more than happy to take your questions. The numbers which are taken on record by the board of directors yesterday have been circulated but just to go over them again, income from operations are around ₹108 crore in the second quarter of 2011 against ₹200 crore in the same period last year. EBITDA is around ₹8.58 crore against almost ₹41 crore in FY' 10. PBT is ₹10.31 crore in this quarter versus ₹48 crore in quarter the same period last year. PAT is around ₹8.9 crore as against almost close to 40 crore last year same period. Before I progress, let me throw some light on the numbers. It is absolutely a very disappointing performance. Praj's prominent position with respect to global market share remains intact. We continue to be in the forefront position in our segment of operation throughout varied operating cycles. I can say it is heartening that for Praj it shows our strong sector position. This was perhaps the fourth consecutive quarter of a dismal performance but I think the tides

are changing in our favour now. . We have seen recent traction of new orders, especially in the ASEAN and Africa region, which we believe will result in improved performance in coming quarters. We believe that the performance graph should show a definitive uptick going forward. While the near-term outlook and business performance of the global biofuel sector has been challenging due to number of factors in the past, especially the overhang of the economic situation and funding issues, we continue to remain strongly optimistic about the medium to long-term outlook where we believe we are one of the best players in this sector to be able to capitalize on the recovery and improvement of sentiments for this sector. With the conventional business showing signs of both stability and improvement, we are simultaneously working on several strategic initiatives, which we believe we should be able to share with you, may be not completely today but in few quarters down the line. This is because these initiatives are fairly competitive, sensitive and we would like to share concrete progress as and when it is visible. These initiatives are in the area of second-generation biofuels, in the area of bio-consumables, water and waste-water treatment and also in the area of customized engineering and manufacturing. Our optimism for the medium to long-term remains intact. We believe that we have to be prepared in advance to take advantage of upsides when they emerge, rather than be reactive to the external environment. . Keeping this in view, we have gone ahead with the investment almost of ₹34 to 35 crore, which the board had sanctioned last time, which we shared with you about the additional facility at Kandla. In fact, we acquired additional lease land in the Kandla-SEZ and that is mainly to be used for customized engineering and manufacturing business and manufacturing and supply of that for the export markets. A manufacturing facility for bio-consumables which definitely is required not only in distillery and brewery but also in many allied food processing and dairy industry and this consumables manufacturing facility is being set up about 60 km from Pune area and I hope this will be up and running in the near future. For the water and waste-water and customized engineering business, we have started getting orders, of course these are small orders but with our track record we are getting approvals and registration with various domestic and multinational companies who are always looking at India as a sourcing point for customized equipment.

Coming to the order book position. The order book as on September 30, 2010, stands at ₹600 crore. As a part of prudent business practices, I had a good look at the entire order book. We have been looking at it periodically but with a more critical look at the situation. This present quarter, we have excluded certain orders, which we feel do not have clear visibility. I did not see any in carrying these orders forward due to the delays on the execution, funding issues with the customers or the environmental issues at the customer's end. It is about ₹150 crore worth of

orders are definitely deleted from the order book and the clean order book stands at 600 crore. Technically, these orders could be still alive, but I would like to omit them at present, to provide a realistic picture for our other planning and execution point of view. Once they get revised or renewed in the coming future, we will take them at the definition, revised definition or executable order book and they will be taken inside. As I said earlier, we are encouraged by some recent order wins in the ASEAN region; especially countries like Philippines and Vietnam, and they are have been added to our order book size even after this exclusion of these orders. So, order intake during this quarter is again around ₹150 crore, where 60% is from the international market. After a long gap, the share of international orders has started climbing up. This is an example which has become very clear in Q2 and I expect that this trend could get further firmed up in time to come. In the total order book, the non-ethanol business which we have clubbed together from the new businesses and from the brewery businesses is around 21% and we expect that as time passes, the non-ethanol business will start getting more and more firmed up. Coming to the scenario in this sector, the US and European markets are of course continuing to make some progress albeit very slow. The talk of E15 blend that is 15% blending of ethanol in USA seems to be gaining strength, but till the law is passed, we will remain cautious. It is expected that before the end of this calendar year, this order should be there and USA will embark on higher percentage blending. You have also seen a sign of optimism coming up in USA with the revival of sector companies which are real-estate companies and the market response has started getting more and more interesting. ASEAN markets like India continue to be on the forefront of the global recovery and we are slowly beginning to see some more traction in the South East Asian Countries, Vietnam, Philippines to name a few. Africa is a new chapter and we have opened the quarter with a very prestigious order from a large sugar mill in Kenya that is for an ethanol order from sugar cane molasses. I would also like to share some of the key developments pertaining to the global biofuel industry. As you all know that in India, the government has taken a big step forward. After a long time the Empowered Group of Ministers have mandated an interim price of ₹27 per liter to be paid by oil marketing companies to the ethanol producer. It is definitely encouraging news and we expect that by November 1, 2010, the blending will start on a regular basis. The final price will be determined by an expert committee appointed for this purpose, but this should help in commencement of E5 mandated compliance and open avenues to grow the mandate. I think the 10% blending will not remain a pipe dream anymore and with this getting stabilized; one can look at increasing the percentage blending in near future. The sentiments will also be aided by the increase in availability of molasses due to bumper sugar cane crop this season. In the US, the corn crush margin has improved reasonably and it has been driven by a fall in the price of

corn and the price of ethanol remains firm. This is also a positive sign for demand for ethanol in USA. There is also a good amount of activity happening in funding of companies in the ethanol sector or M&A activities in the biofuels sector in many parts of the world. The big names in the biofuels are also raising funds by issue of equity or from private funds. There have been very few projects announced. There has been some takeover of existing plants and also the consolidation is happening in the industry. This has started helping the industry to emerge stronger as more serious players will lead in the next phase. Coming to Europe; Germany, UK, and France, they have increased their ethanol production in response to the mandate which is being implemented from January 1st in light of the RED, renewable energy directive. In other small and medium size countries like Kenya, they are going for 10% ethanol blending and they will try to increase their national production in coming years for which they will have to produce more than triple the amount of ethanol. Philippines and Vietnam are also committed to biofuels and you know that Peru and Columbia are also going on for this blending on a regular basis. I will now discuss some corporate developments during the quarter. As you know that Mr. Shashank Inamdar had resigned as MD and CEO of the company during this quarter. He will continue to be a non-executive director on the board once the appointment of new CEO, MD, happens. We expect the appointment of a new Managing Director and the CEO in the very near future. Until then, I am personally looking after day-to-day operations and monitoring the day-to-day affairs of the company. We are to embark on a very exciting and very challenging program to be back on the growth track at earliest. I would also like to announce the augmentation of our board. We recently appointed Mr. Prakash Kulkarni as a non-executive director of Praj Industries. Mr. Prakash Kulkarni has been the Managing Director of Thermax and he has rich experience in the engineering sector in India. He is also currently the executive chairman of Gabriel India and independent director on the board of Sulzer India. It has been a stable quarter giving challenges in the external operating environment. I would say that we are expecting an improved outlook going forward. We are expecting some tailwinds that have started flowing and encouraging our business to generate free operating cash flows and our balance sheet also continues to remain very healthy. This allows us to pursue our strategic initiatives and simultaneous focus on growth of our current operation in an unhindered manner. Though disappointing for the last couple of quarters, I remain robustly, optimistic and confident that we will demonstrate visible progress over medium to long-term which may get further augmented with development of our strategic initiatives, which as I said we will be in a position to share with you in maybe a couple of quarters down the line. With that said, I will be very happy to take your questions. Thank you.

Moderator: Thank you very much sir. At this moment, I would like to handover the proceedings to WebEx International Moderator to conduct the Q&A for participants connected to WebEx International. After this, we will have a question and answer session for participants at India Bridge. Thank you and over to you International Moderator.

International Moderator: Thank you Moderator. We will now begin the Q&A session for participants connected to the WebEx International Bridge. Please press *1 to ask a question. Your first question comes from the line of Keith Olson.

Keith Olson: I have a few follow-up questions. Question No.1, the consultant firm, have they completed with their consulting reports, and if so, are there any recommendations from them to share with us?

Pramod Chaudhari: The consultancy is almost in the finishing stages and we expect to compile the whole recommendation by middle of November and that is why I say that after analyzing the whole thing and other strategic initiatives, that we will be starting to share those programs with you guys maybe in next the quarter, that is the quarter commencing January.

Keith Olson: Can you give me some update and share a little bit more on the growth strategy in the water business, something along the lines of timeline and whether those will be organic?

Pramod Chaudhari: As we have shared with you in the past, we are looking at water and waste water. Both businesses are of very keen interest to us, A. Because the expertise to offer for these businesses is already there. We are expanding a team specializing into these businesses, and we are also open to looking at inorganic prospects. After the reports and the recommendations are finalized, we will definitely take a very careful look at this entire scenario and then take actions. So, the whole gamut will be more clear and worth sharing with you by the first quarter of 2011 calendar year.

Keith Olson: One additional question, concerning matrix. Can you give us the progress report towards the commercialization of any developments from Matrix?

Pramod Chaudhari: In Matrix, we have a 2-pronged program, one is on the second-generation lignocellulose and the second one is on the area of biochemicals. In the area of biochemicals, one of the products for which the process package is ready and we are looking at the various possibilities of commercializing that. This is a product which is a high value, low quantity and we are yet to firm up the game plan for production. We have not yet firmed up a plan

whether to offer this product in the open market. We are looking at carefully scrutinizing the opportunities. There are other few products in the pipeline. The process on the lignocellulose side, which we had developed, technical feasibility is more than established. On the economic feasibility, we are still not yet fully comfortable and we are looking at other opportunities on that side to bring down the cost of production, and you know that we are working with various enzyme manufacturers and other players to see how the cost of production can be brought down. I think we will be in a better position to comment on this in the coming quarters, when this can become cost effective and commercially viable. The year 2011 is going to be very crucial from that point of view and we will be also taking a decision on our field demo plant which we wanted to do this year, but we have deferred it for a period of 3 to 6 months.

Keith Olson:

Just a quick follow-up question, as I am also working on the green dragon project, how active is the new direction from Prakash Kulkarni going to be within the activities, day-to-day activities of Praj and then second quick question is if you can give a quick update on the progress particularly with the Brazil and Jaragua. Thank you very much.

Pramod
Chaudhari:

As far as role of Mr. Prakash Kulkarni is concerned, he is non-executive director, so he is not going to participate on day-to-day basis, but we are definitely privileged to have his guidance and counsel for our growth plans. He is also a successful executive in Thermax, and especially in the challenging years of Thermax, he was involved, and I am sure his wisdom and experience will be highly useful for our journey to be back on the growth track. With regards to Praj Jaragua, He we have not been able to get major breakthrough worth reporting, but we are keeping our efforts on looking for right opportunities to get some kind of an entry in Brazilian markets which has also suffered because of the economic downturn. And because of the potential, the consumption of ethanol is more or less stabilized at this juncture, so the opportunities are not coming in that manner what was available about 3 to 4 years back, but we are waiting and watching the scene in Brazil along with Jaragua partner.

International
Moderator:

if you would like to ask a question, press *1. Please press *1 to ask a question. At this moment, there are no further questions from participants at WebEx International Center. I would now like to handover the proceedings back to India Moderator.

Moderator:

Thank you WebEx International Moderator. We will now begin the Q&A interactive session for India participants. The first question

comes from Mr. Manish Goel from Enam Holdings. Over to you sir.

Manish Goel: On your remarks regarding recovery being seen, can you tell us as to what is leading to demand recovery from ASEAN and African regions?

Pramod Chaudhari: See, the biofuels programs are really the need of the hour for many countries and these programs have started taking shape gradually. The impact of the economic slowdown, is now easing out. Our boys are also in forefront in contact with the customers. I think it is time and customers have started taking actions. So, I cannot give you any specific inflection point that is taking place, but Kenya for example, has declared the program, we have got some references, and the discussions have started and that is what resulted into a contract. The same thing is going on in Vietnam, they have declared a program. We are already doing another project in Vietnam. There is also a story in Philippines, that they have declared the program of blending to 10% for a couple of years now and things are taking shape there.

With the combination of feedstock, availability of project finance and little bit of hand-holding by us, we have a combination of all those 3 to 4 things put together. I think things have started shaping up.

Manish Goel: Right, but again we are seeing that all the commodity prices are going up, corn or sugar cane, so would it be a short-lived recovery or do you expect the traction to be a little stronger?

Pramod Chaudhari: This is definitely a very difficult question to answer at this juncture. I would like to definitely believe that if there is recovery it will be there at least in the medium term. I will take it as a definitive. On a long-term, there will be many factors. One of the major factors would be the oil and what kind of environmental regulations keep on coming. What will happen in Cancun, Mexico, in terms of climate change. So, there is a combination of lot of things, but short to medium term, I would like to definitely believe that there is a good recovery expected. We have a strong market share. We are still a preferred supplier. We would like to build up on that and try to be on a growth track.

Manish Goel: Sure and as far as India is concerned, what kind of demand growth do you see after implementation of 5% blending? and also can you highlight on the market in terms of alcoholic beverages which are going for you?

Pramod
Chaudhari:

I will answer the second question. Alcoholic beverages have been there and is growing. It has been growing at around 15% and you know that the quality of life or the standard of living or the overall economic prosperity, the demand on that side has been good. What has happened is that the 5% program has been cleared after lot of hiccups in the last 3 to 4 years and this , is a good feeling, good sentiment among the producers that it is a good beginning. Now, this has paved the way out for going to the next level of higher blending. So, this 5% is basically the kind of a psychological impetus for the producers. I don't think this will immediately influence the investment in biofuel sector, but it will have a cross-selling effect on the beverage sector. Breweries would like to definitely safeguard their raw material which is again alcohol, if it is going to get diverted for biofuels, they would like to get themselves better equipped and that may give a push for more capacity into beverage alcohol, so by and large both put together should be able to give steady growth, to the Indian scenario.

Manish Goel:

Okay, and can you tell us what is the breakup of revenues, say in the first half between domestic and exports?

Pramod
Chaudhari:

30% is export.

Manish Goel:

And sir, on capex, just wanted to clarify. You mentioned, you are looking to spend ₹35 crore at Kandla for customization?

Pramod
Chaudhari:

No, ₹35 crore is in three places put together. Kandla, that is in the range of about 16 crore. Then, we have the third phase expansion at Matrix R&D, which is about 5 to 6 crore. Then, this bio-consumables which are about 12 to 13 crore. So, these 3 put together we have taken a sanction and the exact amount we are spending is something like 34 to 35 crore and not Kandla alone.

Manish Goel:

And also on your water and waste water treatment as well as customized engineering, what kind of traction are we seeing?

Pramod
Chaudhari:

Currently, there are trickle of orders, lot of registrations are required which we have more or less been completed and order sizes are small but definitely there is a traction, almost 5% order booking is from these 2 items, that is CEM and water and waste water. I think the number should become interesting as we go by.

Moderator:

The next question comes from Mr. Nirmal Shah from Alchemy Capital. Over to you sir.

Nirmal Shah: I wanted to check on the order book side. Things are turning around right now though gradual, but in terms of the order execution cycle, has it changed vis-à-vis what we used to do earlier?

Pramod Chaudhari: It is little premature to tell you that right now, but I think it should get little faster because I think at this time when traction starts, we are better experienced and we are better geared up with lot of facilities in our manufacturing shops or the experience which we have gained over a period of time. Of course, customer preparedness will continue as a major factor which we will be there, so from our side, I don't see any issue. The customer's preparedness and their capacity will play a role, but by and large, the order cycle time between 9 months to 18 months could be varying from place to place.

Nirmal Shah: Okay, on a current order book of ₹600 crore, what would be our average execution period put together?

Pramod Chaudhari: It will be in the range of about 9 months to 18 months basically and for the non-ethanol business, it could basically be between 6 months about a year perhaps.

Nirmal Shah: The second question is on the profitability side. In terms of traction, for the first time we are witnessing that the international order inflow has been improving, and what we understand is that the margins in the domestic market are relatively lower vis-à-vis international orders. So, based on that, what would be your outlook for the profitability of the company in this year as well as next year?

Pramod Chaudhari: I think it will be difficult to comment and that it will amount to speculation, but compared to domestic, yes, international orders, get better margins. Again, there are two types of international orders. We have orders from totally developed countries and orders from the emerging countries, then again there is a difference there, but I think by and large the profit margin should improve. And secondly, we are operating close to a very low scale. The overheads were high, so the profits were apparently coming lower. Individual order wise profit is one thing and overall companywide profit is another thing.

So, what we have suffered is the company wide profit because the overheads are definitely kept in place with what we had planned, but the revenues have not been commensurate with that kind of a plan. So, I think the cumulative effect in times to come should be

in improvement in the profitability and our aim will be to go back to our glorious years.

Nirmal Shah: The last question is regarding the strategic initiatives of Tata Group, like earlier we were hearing that Tata Chemicals had big plans on the biofuel side. Since Tata company is also one of our shareholders, any sense on their expansion plans.

Pramod Chaudhari: No, I cannot comment on my customers for my investors. I think we will have to find out from them first.

Moderator: The next question comes from Mr. Shailesh Kumar from KR Choksey. Over to you sir.

Shailesh Kumar: First thing is your other expenditure seems to have gone up from 13% to 18% in the last two quarters, Is it going to stabilize at these levels?

Pramod Chaudhari: Are you talking about the percentages vis-à-vis revenues?

Shailesh Kumar: Yes.

Pramod Chaudhari: If you see from the absolute numbers it hasin fact it has come down little bit. This quarter, it has come down. The percentages taken on the current revenue levels are not really the representative.

Pramod Chaudhari: So, if you look at the absolute number. It is ₹19 crore for the quarter.

Shailesh Kumar: Vis-à-vis ₹16.89 crore for last quarter?

Pramod Chaudhari: No last year same quarter was ₹25 crore.

Shailesh Kumar: Yes, but previous quarter it was around ₹16.89.

Pramod Chaudhari: Okay, so you are asking quarter-on-quarter.

Shailesh Kumar: Yes.

Pramod Chaudhari: So, basically I think there is no relationship vis-à-vis with that because this other expenditure is mainly through with the other overheads and most of the costs are under control there. Can I ask Mr. Khairnar to answer.

- Surendra Khairnar: These certain expenses are related to variable cost. Let us say freight and all. So that would vary along with the sales mix you have and the cost you would be incurring.
- Shailesh Kumar: Second thing, What kind of orders are you people building for, I mean, at this moment, what is the order book size for which your sales guys are in the process, in the field.
- Pramod Chaudhari: On enquiry basket?
- Shailesh Kumar: Yes.
- Pramod Chaudhari: Once enquiry is converted into definite contract, we call it order. So, enquiry basket is substantial, I mean, I can't give you the exact number because again the quality of enquiry also plays a role. So, it is quite a complex answer to all these things. The basket is quite substantial and as I said that interest is increasing day by day in various parts of the world and how can I tell you that the production capacity of alcohol or ethanol is to get doubled up in the next 6 to 8 years, so that is the kind of potential which we are pursuing and that is why we are still upbeat from medium to long-term basis.
- Shailesh Kumar: What is the tax rate that is going to be applicable to you this year and next year?
- Pramod Chaudhari: Effective tax rate is around in the range of 14%. So, in FY' 11. We are operating at 14% to 18%.
- Shailesh Kumar: And what is your capex plan for the year, whole year?
- Pramod Chaudhari: No, right now what we have declared that ₹34 crore sanctioned in the last board meeting is for the coming year, that is this financial year, the next year's capex plans will be known to us in the quarter January to March
- Shailesh Kumar: Your raw material costs are going to stabilize at these levels, at around 58%?
- Pramod Chaudhari: They have always been in the range of 55% to 58%
- Shailesh Kumar: And is this ₹600 crore of order book to be executable over the next 12 months?

- Pramod Chaudhari: Yes, at an average you can take 12 to 15 months.
- Moderator: The next question comes from Mr. Gagan Thareja from B&K Securities. Over to you sir.
- Gagan Thareja: Sir, there were some order cancellations in Q4. I think they were also roughly around ₹150 to 170 crore. So, are these over and above those order cancellations that you have announced this quarter?
- Pramod Chaudhari: This is for this quarter period July-September. There is a definition of cancellation or what I say that we take the review and we keep them aside and don't count them as a pending order, now, this is the call which management takes on certain orders which are not moving at the required speed or which have not become executable. Cancellation is where the customer comes forward and says, look, I want to cancel the order. This ₹150 crore which I said I removed from the pending order book, basically using management judgment that this order may not be effective in the near future.
- Gagan Thareja: Okay, were these by and large outside India or within India if you could sort of indicate that?
- Pramod Chaudhari: It is 60% international and 40% domestic.
- Gagan Thareja: Okay sir. Moving on to the second question you mentioned that in the domestic market, the interim ethanol price has been set at 27 rupees and I mean that as part of help the 5% blending mandate, would it be fair to assume that with the given plant capacity we have in India, 5% blending could be theoretically met from that plant capacity comfortably.
- Pramod Chaudhari: Yes, you are absolutely right.
- Gagan Thareja: And the other thing that I want to know is if at all there is a movement to 10% blending, would it be possible to do it purely from molasses or there have to be some policy movement to use cane juice directly for blending purposes rather than sticking to just the use of molasses?
- Pramod Chaudhari: This is a very good question. See, the point is that for 10% blending we have to look for other feedstock also, and cane juice will be definitely one of the important feedstocks. Driver would be coming out of the realization, of the sugar price, because juice is going either for making sugar or going for ethanol and any

producer would like to take a call on the economy, whether it is good to make sugar in a bag or make ethanol. That will be the deciding factor at that point of time and that will also give a chance for beverage alcohol perhaps more grain and starch can be used. So it will be a combination of multiple feedstocks and multiple products.

Gagan Thareja: Sir, just to verify a few numbers. USDA reports that India has around 4,000 million liters of annual plant capacity which can generate 4,000 million liters for rectified spirit, out of which 1800 million liters could be ethanol of the grade that can be used for blending, that is dehydrated ethanol. Would these figures be fairly representative as far as you are concerned? Would this be a fair representation of what India has in terms of capacity for rectified spirit.

Pramod Chaudhari: See, the only thing is how you calculate the capacity because being the seasonal utilization, many times these numbers or these kind of definitions can create some confusion. Let's say plant is producing about 100,000 liters per day, you can call it capacity of 30 million liters or you can say the capacity is 20 million liters because you are working only 200 days. So, like that, these kinds of things do change, so I don't know the numbers that you have taken are from what data. I will suggest you please get in touch with Vinati Moghe who is handling our marketing services also and I am sure she will be in a position to give you a full picture on that.

Gagan Thareja: Okay, and from the demand point of view, would 800 million liters be enough for 5% blending?

Pramod Chaudhari: That is a simple calculation because this is a function of 5% of petrol.

Gagan Thareja: And for the industrial and beverage, what could your estimate be for the requirement in India?

Pramod Chaudhari: See, industries and beverage, both put together will be between 1.2 to 1.5 billion liters. It depends on industrials, depending on the petroleum prices, the consumption could be up and down. It is not a steady state, whereas beverage consumption is reasonably stable, which is ascertainable and growing.

- Pramod Chaudhari: You can take about 1.5 billion as a referral figure for both put together.
- Gagan Thareja: So, if I add up all the three, it would come to around 2.3 to 2.4 billion liters for all the addressable Indian market.
- Pramod Chaudhari: 5%.
- Gagan Thareja: Yes so if we take it to 10% blending that probably goes up to 3 billion liters roughly, if I am correct.
- Pramod Chaudhari: Yes.
- Gagan Thareja: And if we assume that 4,000 million liter capacity is operated at 60%, that is around 2,400. So, would it be fair to assume a 500 to 600-million liter capacity creation is possible if 10% blending mandate comes through?
- Pramod Chaudhari: There is one more parameter which I don't want to confuse you, but beverage alcohol is a state subject. And interstate movement is another problem, so there could be a imbalance because of that, and there could be higher capacity coming up. Because certain states, don't allow the movement in which they have to state the capacity within the state or the given number of days, so these are some of those peculiarities of this sector.
- Gagan Thareja: Okay, but it is a given that there will be a constraint in terms of feedstock because molasses might not be able to address it. Is that also a fair assessment?
- Pramod Chaudhari: There could be yes and no again because as I told you that the other feedstock, we will definitely find a position like you have said, so it will depend on that economics. Damaged grain could be another thing. So, there are multiple things and I hope by that time, second generation biofuel becomes possible, then the whole picture will change dramatically.
- Gagan Thareja: Okay, and sir, coming on to Europe, I think you mentioned that in Europe, the RAD goes through this December for 10% blending. If I sort of pick up the figures in Europe, these are again figures that are mentioned by European Bioethanol Fuel Association. They give roughly 7-billion liter sort of capacity for Europe with another 1-1/2 billion under construction and again, the estimates, even if were to take 10% blending into factor, for demand would possible be around 6-1/2 to 7, so what that indicates prima facie is that

Europe is basically in an excess capacity situation, would that be correct to say?

Pramod
Chaudhari:

In Europe, the numbers coming from the Western Europe is one thing. Of course there is Central Europe, Eastern Europe, and all those things, those capacities are yet to be firmed up or they are yet to take the shape.

There will be an issue about, that is not state wide, but there is an issue about a huge amount of subsidy involved and you want to subsidize the farmer of other country to have your blending ratios completed I think that also remains a very major issue. So, most of the countries will try to become self-sufficient in terms of the requirement, maybe they would like to see that their own farmers are benefited, so the steady state for Europe also will take some more time because of all these reasons.

Gagan Thareja:

In the US, you mentioned that the blend could move from 10% to 15%. As far as I understand, there is already corn-based capacity of about 13 billion gallons and another 1-1/2 or 2 billion gallons under construction in the system. So, we are almost reaching the 15 billion gallon corn-based capacity, and I think there is a cap at 15 billion gallons.

Pramod
Chaudhari:

They are expecting that the corn wall also may also shift, that is the thinking going on. So, the picture will be clear after the elections in November.

Gagan Thareja:

So, what you are saying is that this 15% blending, the corn-based capacities could go beyond the 15 billion gallon cap that is there.

Pramod
Chaudhari:

What I am saying is that is what experts in USA are saying.

Gagan Thareja:

Okay sir, and just the last clarification. You had subsidiary there C. J. Schneider. Now, that subsidiary is not with you and if there is at all let us say a blend wall movement to 15%, would that impact you in terms of being able to get prequalification or orders in US?

Pramod
Chaudhari:

We have a full-fledged office. We have got another subsidiary which is 100% owned by us now which is in Houston. So, the presence is very much there in the Americas.

Moderator:

Thank you very much sir. The next question comes from Mr. Sachin Relekar from Tata Mutual Fund.

Sachin Relekar: I have actually questions on your non-ethanol business, which are actually new areas or strategic business areas for you. Water and Waste Water. Just wanted to know, I mean, you are saying these plans will be announced in a firm manner by November or so.

Pramod Chaudhari: I will be in a position to share in the quarter of January.

Sachin Relekar: Okay, just wanted a brief outline of your strategic initiatives like what kind of opportunity you are looking at here and is it actually an India thing or do you want to address some of the overseas markets and what kind of client profile you are choosing here because I think you are not dealing right now with municipalities and all which are actually going to give you lot of business in water and waste water.

Pramod Chaudhari: You are absolutely right because one of the things is strategy whether you go after municipality business or you go after industrial business and of course the numbers are more in favor of municipality business but the numbers for industrial business are also not bad. I think the ratio is roughly 1/3rd and 2/3rd, and 1/3rd number is pretty big, so I think we are quite familiar or proven with the industry sector, but municipality we cannot totally turn our backs, maybe there is a new concept catching up called township concepts, which may not be a municipality concept, so there is a huge analysis being done and carried out for the time being. India is changing the profile in that sector, so I think we stand to gain a lot out of that. Can you repeat the other part of your question?

Sachin Relekar: India or overseas?

Pramod Chaudhari: Our starting point, first, as a philosophy we try to create references locally and then we take it abroad because we have got network outside India. We are one of those few Indian companies who have established good brand equity outside successfully, so why not take opportunities outside also. Like I said, initially, we would like to take or dirty our hands in the Indian waters.

Sachin Relekar: And in terms of the preparedness what has gone into it, had you created a separate team?

Pramod Chaudhari: Yes. We have created a separate team. There is substantial amount of deployment taking place in terms of recruitment.

Sachin Relekar: And on strategic front your business portfolio is still very heavily tilted towards the ethanol business which is where your expertise lies, and now you want to balance this with waste water treatment foray. What will your revenue mix be like for about 2-3 years down the line?

Pramod Chaudhari: Well, god willing, we should be reasonably balanced; you can say 2/3rd, 1/3rd, 50:50.

Sachin Relekar: Okay, and on your custom process engineering business?

Pramod Chaudhari: That is significantly non-ethanol. We are talking about water, waste water, and customized engineering. Those are the fabricated equipment required and specialized into oil & gas, petroleum and all those sectors.

Sachin Relekar: Okay, and who are your competitors in the second business, that is customized engineering.

Pramod Chaudhari: L&T could be a customer; it can be a competitor too. So, these are very high, heavy duty, and niche areas which we are operating, there may be very limited number of players. I don't think many of them are listed companies.

Sachin Relekar: What could be the opportunity size there?

Pramod Chaudhari: This entire process industry, oil and gas, all those investments which go into the manufacturing or capital investment for reactors, heat exchangers, even equipment required on the platforms The are huge possibilities there . So, it's a go, choose and pick kind of a situation, in areas we have to offer.

Sachin Relekar: What about your qualifications and pre-qualifications.

Pramod Chaudhari: Yes. We are very much on that. I am proud that we have got most of the things, even our new Kandla workshop is already approved. So there are many things going on.

Moderator: Thank you very much sir. The last question comes from Ms. Shefali Doshi from KJMC Capital.

Shefali Doshi: I just wanted some more details on your new orders from the African market?

Pramod Chaudhari: Is it from Kenya that you are talking about?

Shefali Doshi: Correct.

Pramod Chaudhari: For a distillery attached to the sugar mill?

Shefali Doshi: Yes, what will the execution period be?

Pramod Chaudhari: The execution period will be about 15 months.

Shefali Doshi: And who is the customer?

Pramod Chaudhari: Mumias.

Shefali Doshi: Sir, can you spell it out?

Vinati Moghe: M-u-m-i-a-s.

Shefali Doshi: Okay fine. As far as you mentioned your order book is 60% of international orders, so if you can just give more detailed breakup of the international order book?

Shefali Doshi: I mean, I wanted on the continent wise, how exactly it is something in Europe, US.

Pramod Chaudhari: Okay, Vinati is willing to do that, so she will get in touch with you.

Shefali Doshi: Initially, you mentioned that your market share is intact; I just wanted to know what is your market share?

Pramod Chaudhari: In the domestic side, we are in the range of about 60% to 65% which has been fairly steady for quite some time. In the Southeast Asian market, we are more or less 50% in the known markets that we are basically talking about, Over there also we are fairly intact Now, earlier it was known that in Brazil and the USA, our presence was not pretty good, but luckily nothing is happening there. So, that is how we say that our market share is fairly intact.

Shefali Doshi: Okay and actually it was mentioned in your Q1 FY' 11 con-call that you will be having a capex of 500 million, that is ₹50 crore.

Pramod Chaudhari: Yes, ₹50 crore, we have cut down on some of the costs and it was just a broad provision. It was to go for the board approval.

Shefali Doshi: So, it is overall reduced to 35 crore.

Pramod Chaudhari: Exactly.

Shefali Doshi: Is that the correct interpretation?

Pramod Chaudhari: Exactly.

Shefali Doshi: If you look at your financials, the employee to sales ratio has also gone up by some 800 to 900 basis points, what is the reason.

Pramod Chaudhari: Reason is very simple. Numerator has come down, denominator has remained same. Or we can say that the sales have come down.

Shefali Doshi: No but then there is a huge increase, so just wanted to check it out whether there are some new appointments?

Pramod Chaudhari: Yes, the absolute number has gone up because we are having these recruitments in new businesses as well as in the R&D center. These two things are going up here.

Shefali Doshi: Okay, was there any VRS kind of thing or not?

Pramod Chaudhari: No We are recruiting people.

Shefali Doshi: Okay, fine, and once again, I just wanted the breakup of your order book in sugar cane and starch based order.

Vinati Moghe: For the first half, it has been almost equal. With 50% coming from starch and 50% from sugar cane. In terms of value.

Shefali Doshi: Okay, and for this quarter?

Vinati Moghe: This quarter, there is more sugar cane than starch.

Moderator: Thank you very much ma'am. At this moment, there are no further questions from participants. I would like to handover the floor back to Ms. Vinati Moghe for final remarks. Over to you ma'am.

Vinati Moghe: Thank you everybody for joining us. If there are any unanswered questions which I hope there would be, we will take them offline and you can send an email to me or to Mr. Khairnar and we will attend to respond to them at the earliest. Thank you very much. Have a good day.

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 evening.
