



Praj Industries Limited

Q2 & H1FY15 Earnings Conference Call Transcript

October 20, 2014

Moderator: Ladies and gentlemen, good day and welcome to the Q2 & H1FY15 Earnings Conference Call of Praj Industries. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing '*' then '0' on a touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Vinati Moghe of Praj Industries. Thank you and over to you ma'am.

Vinati Moghe: Good afternoon everyone. We welcome you to this conference call organized to discuss Praj Industries' operating performance and financial results for Q2 & H1FY15 which were announced on Thursday, October 16, 2014. Mr. Gajanan Nabar, CEO & Managing Director, will address this conference call.

Before we begin, I would like to mention that some of the statements made in today's discussion maybe forward-looking in nature and may involve risks and uncertainties. Documents relating to our financial performance were emailed to all of you earlier. These documents are also posted on our corporate website.. I would, now, like to invite Mr. Nabar for his opening remarks. Thank you.

Gajanan Nabar: Thank you Vinati and good afternoon everyone. A warm welcome to all of you and thank you for joining us today. I trust all of you have been through the result documents. Before getting into details of the financial performance, I would like to walk you through major developments and operating highlights during the quarter. India is making moves - our PM's visits abroad, successful Mangalyan launch and launch of Make in India movement. All these events are certainly adding further to the sentiment improvement in the Indian industry. Though right now the positiveness is broadly restricted to sentiments only, but let's not discount the importance of positive sentiments. We are experiencing overall improvement in the investment climate. We are getting more calls for finalization and also getting to hear more companies talking about Green Field investments – which augurs very well for most of our business verticals.

We at Praj are getting a good sense of opportunities pipeline improving and some of the macro level opportunities like Make in India, Clean Ganga would prove significantly beneficial to a solution providing, manufacturing excellence driven Company like Praj. I would now like to take you through some of the key developments and operational progress in each of our segments followed by the financial performance for the quarter and half year for the fiscal 2014-15. In India, the government has indicated a positive inclination towards enforcement of the ethanol blending program and also has demonstrated far greater resolve to implement the mandate. This coupled with sustained growth in beverage grade alcohol market has brought further attractiveness to the domestic ethanol market. Praj, with market share of over 65%, stands to gain from this movement. We are keenly watching two significant developments – diesel de-control and oil price movement.

Currently, investment in ethanol plants is making investment in sugar mills more viable and some states are actively encouraging this option. Faster environmental clearances and ease

of money supply will further help this sector. There is a move towards enhancing operational efficiency of plants. Distilleries are looking to improve on energy cost, waste-water solutions and in the case of grain distilleries, addition of DDGS module - a value added animal feed. We see a growing interest in our modernization and enhancement solutions with a growing enquiry pipeline.

Now for some quick insights into global ethanol markets. Internationally, geographies such as United States, Africa and South East Asia are reporting increased ethanol production. In South America, apart from Mexico, governments in Ecuador and Paraguay are in discussions to increase the ethanol mandate. In Brazil, the federal government has raised the ethanol blend to 27.5% from the current 25%.

In Africa, Nigeria is experimenting with small sized ethanol plants. Other countries are also looking at how ethanol can be used for different applications. However, the larger investments in fuel and beverage grade ethanol plants will continue in most parts of Africa. In Vietnam, E5 ethanol blends have fully replaced traditional gasoline at more than 150 stations. The E5 policy is expected to reach nationwide penetration in 2015. Indonesia is also moving toward its target of E1. The outlook continues to be moderate. We believe opportunities will be created across several pockets due to increasing emphasis on higher mandate intensity including in the EU where the Energy Commission is likely to take a decision on the E7 RED mandate.

Having a wide global spread definitely works for Praj. It provides opportunities for modernization and enhancement solutions which are in full swing in the international markets too. It is yielding results. The enquiry pipeline is robust and order flow has begun. To update on cellulosic ethanol scenario. As another plant goes on-stream in the USA for cellulosic ethanol production, we see a greater enthusiasm and rebuilding of confidence in the development of cellulosic ethanol technology. These plants are yet to achieve full commercial results. By this time next year, Praj's 2nd generation ethanol plant too will be in operation. The progress on the permitting and financing front is on track.

On brewery sector, we would like to share with our investors that we successfully commissioned our first Large International brewery plant for SAB miller in Namibia to the satisfaction of our customer. This successful installation would open more international brewery opportunities for Praj. The Brewery markets in India and also internationally in Africa, South East Asia are showing significant growth, which likely would lead to further capital formation in the sector. Praj is looking to build further on our success in Namibia and on-going project in Myanmar. Overall, the performance of our core segment remains stable and we expect this to be supported with greater traction in the modernization and retro-fitting space. On the emerging business front, the improving business sentiments bode well for our water & wastewater, High Purity and Critical Process Equipment & Systems verticals. The Ganga Action Plan is in a consultative mode. Praj is a member of the Ganga River Basin Management which is a consortia of 7 IITs created for this purpose. Technology will play a critical role in successful implementation of this plan.

We are simultaneously exploring independent opportunities thrown up by this initiative. The water group successfully commissioned a ZLD solution for the largest terry-towel manufacturing facility in the world. This is our 7th installation in the textile industry. Pharmaceutical, F&B and Personal Care Sectors are also witnessing double digit growth. All our emerging businesses are focused on these sectors, particularly Praj HiPurity Systems. Praj HiPurity is gearing up for growth through its two pronged strategy of internationalization and creation of recurring revenue stream from value added services including O&M. Newer geographies have been tapped with a new order from the largest pharma company in Turkey. It has also received repeat orders during the half year. Global oil & gas sector for refining and other downstream sectors are also witnessing enhanced activity levels. Our CPES business is emphasizing on new applications in the Oil & gas industry including skids and many other standard products. We are receiving significant project enquiries from the international markets. Emerging businesses are on track and contribute 30%+ to the revenue in the first half of fiscal.

Let us have a look at the Q2 FY15 performance. Revenues increased 20% over preceding quarter and 36% over the corresponding quarter at Rs. 265 crore with ethanol forming 44%, brewery 30% and emerging businesses 26% share. Also 40% of the revenue is contributed by exports. During the quarter, we received fresh orders worth Rs 264 crore with 22% from international. The core business of ethanol and brewery is contributing 74% and 36% is from emerging businesses.

Order backlog stands at Rs 730 crore with ethanol and brewery forming 79% and emerging businesses 21%. 30% is contributed by export orders. EBITDA at Rs 18.22 crore shows a 56% increase over the preceding quarter. PBT and PAT stand at Rs 18.41 crore and Rs 25.19 crore respectively. On half year basis - Revenues for H1Y15 stand at Rs 486.32 crore, increasing 32% over H1FY14. EBITDA for H1Y15 stands at Rs 29.9 crore against Rs 9.81 crore in H1Y14, a significant increase over the corresponding half year. Also, PBT stands at Rs 25.16 crore against Rs 12.74 crore reported in the corresponding period of FY14. PAT stands at Rs 28.94 crore against Rs 9.48 crore reported in the corresponding period of FY14. .

Now on corporate events – We added 10% stake in Praj High Purity Systems Limited, for Rs. 20.4 crore. With this, Praj Industries now holds 80% stake in Praj High Purity Systems. We are happy to share that MrPramodChaudhari, Executive Chairman has been nominated for the Platts 2014 Global Energy Lifetime Achievement Award for his contribution to the renewable energy sector.

The matter on income tax stands heard by the Settlement Commission. During the quarter the Company received the order from the Income Tax Department which has been given effect to in the accounts of the quarter and half year ended 30th September 2014. The excess of Rs. 10.76 crore over the demand raised has been credited as a prior period adjustment in the quarter and half year ended 30th September 2014. In summary, we continue to work upon various levers of growth and value maximization. As the global and Indian economy shows further uptick, we are poised to capitalize on the opportunities. While concluding, I would like to reiterate our request to the investors not to look at us on quarterly basis. This was a good quarter but there could be normalization going forward. While saying this, I would like to add that the lead indicators for some of our businesses are looking good and we are drawing significant confidence of better business performance from it.

Thank you ladies and gentlemen. Wish you all a very happy and prosperous Diwali and a Happy New Year. We will now take questions.

- Moderator:** The first question is from the line of Bhalchandra Shinde from B&K Securities. Please go ahead.
- Bhalchandra Shinde:** After seeing the consolidated results and standalone results, what we found is that we had a really good EBITDA level profitability in subsidiary, mostly towards Praj HiPurity Systems. Do we expect that profitability to sustain in future?
- Gajanan Nabar:** When we had done the acquisition of Neela Systems, we had always looked at it as an opportunity to get into the hygienic sector. We find that the sector is very interesting because we are addressing sectors such as Pharma, Food , Biotech and other hygienic sectors. And now with the growth momentum back in the Indian industry, some of these sectors will start making significant moves. So, we remain confident that Neela Systems, which is now called as Praj HiPurity Systems, will benefit from it.
- Bhalchandra Shinde:** There is almost 15% margin at the subsidiary level and we believe Praj HiPurity is the significant contributor. So will we be able to sustain and do we have that kind of order inflow with us?
- Gajanan Nabar:** If you look at the past performance of this subsidiary, it has always been in that range and we have continued to do that. As I mentioned in my commentary, we are also focusing on international businesses and we are already seeing some opportunities coming our way from international efforts that we have put in, in the last one and a half years.

- Bhalchandra Shinde:** Okay. If we combine total industrial water, Water and waste water business and Praj HiPurity Systems. How much is the total percentage contribution to the total sales?
- Gajanan Nabar:** About 30%
- Bhalchandra Shinde:** On the technology wise or marketing front wise, where do we see ourselves as compared to Peers in the total water segment?
- Gajanan Nabar:** We benchmark ourselves to be more as a solutions provider, as we mentioned earlier, this is our positioning. We look at challenges faced by the industry that is why we have got the seventh plant. As I mentioned in the commentary, the seventh plant that we commissioned in the textile sector and it is for the largest terry towel project in the world. So, we believe that we have the technological skills to integrate the right and required solutions for our customers.
- Bhalchandra Shinde:** Do we have sufficient technological skills to tend to the various opportunities that may arise from the water related business.
- Gajanan Nabar:** Yes, we feel confident of that.
- Bhalchandra Shinde:** On the marketing side front, do we need to take extra effort or do we have sufficient backing on the marketing front?
- Gajanan Nabar:** We have been working on it for the last couple of years. The efforts are already on and in some sectors it takes longer time to get the result for these efforts. On technology front, we continue to develop and also acquire technology access. Also we continue to build our muscles on the business development and marketing side. So both these efforts are ongoing and there is no full stop to both these efforts. It is a continuous improvement program.
- Bhalchandra Shinde:** Where do we see ourselves in next three to five years in the water related business, what kind of percentage of sales, will it reach?
- Gajanan Nabar:** As you know, we normally do not give futuristic projections but we certainly would be in the top three of the water solution providing Company for industrial, in the next three to five years.
- Moderator:** Next question is from the line of Kartik Mehta from Sushil Financial Services. Please go ahead.
- Kartik Mehta:** My question is pertaining to Ganga clean-up which is a gigantic exercise. What could be our scope of work in that, if you can quantify?
- Gajanan Nabar:** It is a very good and important question. We have already started working with some of our customers, who have plants on the banks of Ganga, who could be letting out water into the river. We are helping them with multiple solutions such as zero-liquid discharge, also reduce, recycle and reuse so that the water, which is let off into the river, is cleaned up so that further degradation of Ganga does not happen. So our role, clearly, is to work with all the industrial clusters, it could be Tannery, textile mills, dyeing and distilleries as well and provide them commercially viable environmental solutions. That is what we see as our role and we want to work more and put our efforts in that direction.
- Kartik Mehta:** That is basically the discharges, which are getting infused into the river. But existing clean-up, suppose if the river itself is very polluted, so would you be involved for that cleaning exercise or not?
- Gajanan Nabar:** No. The infrastructural level work, like dredging or similar activities is not our forte. Our forte, as you understand and appreciate, is solutions providing and that is what we would continue to do. So, it will not be lot of civil work that we will undertake on these projects, but technological solutions to our customers.

- Kartik Mehta:** Once the civil work is done on the river front, then for the cleaning of the river is where Praj will also get involved right?
- Gajanan Nabar:** Yes. We have technologies to do that as well.
- Kartik Mehta:** Any back of the envelope calculation of what could be our scope of work for the next couple of years, number-wise?
- Gajanan Nabar:** Not yet. But we are working on it and it could be a very-very large opportunity as it goes through.
- Kartik Mehta:** Can you just give me order inflow for the first half including the break-up of ethanol, breweries and emerging business.
- Gajanan Nabar:** Yes. We will send it to you
- Kartik Mehta:** On the HiPurity side, the valuation is increasing because the overall cost of acquisition is one thing, and last acquisition cost is little higher. So, any word on that?
- Gajanan Nabar:** We always felt that this is the area where we wanted to get into. From the opportunities that we see in this acquisition, the kind of the margins as well as opportunity to make money, this acquisition is appropriately priced.
- Kartik Mehta:** So, incremental acquisition cost is increasing basically?
- Gajanan Nabar:** It is also predetermined. We have already said this, when we did the acquisition that this is the deal in motion, so it is a prefixed price. It is only the way the cash flow is structured.
- Kartik Mehta:** Emerging business is contributing 30% and few of them have started inching up on the margin front. So, would you see shift in the margin profile at the company level, given there is scalability more visible in the emerging business?
- Gajanan Nabar:** Yes. We have been saying that to our investors that as you take lead positions, as you start building more meaningful and larger projects, start giving further deeper solutions, then the margin profile improves. Also, we have been there and earned ourselves some rightful respect from the customers. So, the margin profile improves with all that, which we knew. As you get into any new business, your margin profile improves.
- Kartik Mehta:** You need to be in a stage wherein there could be a shift in the margin profile. So far it was a drag from that element, which is now going to perform.
- Gajanan Nabar:** Yes. We are working towards that.
- Kartik Mehta:** On the capacity utilization front, on both emerging business as well as the existing business, how are we placed as of now?
- Gajanan Nabar:** We mentioned in our earlier call that we always carry little higher capacity within Praj, for our last year's turnover.
- Kartik Mehta:** I think it was 30%-40% scalability.
- Gajanan Nabar:** That continues and we will try to see how we can sweat that. As the opportunity pipeline improves, then our order book would improve. I think we are well positioned to cater to this incremental work load. So, we do not have to park in more capital if this revenue is out of the door.
- Moderator:** Next question is from the line of Pooja Swami from Span Capital. Please go ahead.

- Pooja Swami:** On the other income, we have seen it increasing from Rs. 5 crore to Rs. 9 crore in this quarter, is there any exceptional item included in that?
- Gajanan Nabar:** Yes. There is an interest on the payment which was due from the income tax department of about Rs. 5.86 crore.
- Pooja Swami:** In the balance sheet, you had mentioned that you would launch a new biotech product for livestock, health, and nutrition. What is the progress on that, how have you seen it capitalizing?
- Gajanan Nabar:** It is moving well, it is in the direction that we want it to go. We got some FDA link approvals for this product which was very essential because it also deals with livestock. So, we are meeting all the milestones that we have set for this business. But we already had said that it would probably take a couple of years for this business to come out of ground and really start making a big impact and we remain very optimistic about that happening.
- Pooja Swami:** What would be the timeline that you are seeing for it to contribute in the business?
- Gajanan Nabar:** At least another year.
- Pooja Swami:** On the second generation ethanol plant, will it be operational next year by this time?
- Gajanan Nabar:** Yes.
- Pooja Swami:** So are you done with all the investments that you were supposed to do for this plant or is there anything left?
- Gajanan Nabar:** All the soft investments have been done, the engineering is almost done. As you know, we are looking at a retrofit option, where we are using some of the existing plant assets as part of this plant. We are waiting for final clearances from the government agencies, so that we can start cutting steel.
- Pooja Swami:** What would be the overall investment you have done on this plant?
- Gajanan Nabar:** In terms of dollars, there has been no investment on ground. We have done only the engineering investment, currently.
- Pooja Swami:** On the margin front, this quarter EBITDA margin is seen to be improving; it is 6.7% for the quarter. How do you see it, going forward for this year and for the next few years?
- Gajanan Nabar:** We do not give very forward-looking statements on our margin indication. But, as I already mentioned in the commentary, there will be some normalization in the next one or two quarters. By then, we are also looking at certain opportunities flowing through. So it is a balance of both.
- Moderator:** The next question is from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.
- Sanjeev Zarbade:** What are the margin levers that we have for the future? Because our order backlog is currently flat and may be in the near term, the revenue growth would take time to respond positively. So, in this scenario, what could be the several margin levers that we are looking at for expanding our profitability?
- Gajanan Nabar:** A very good question but we could have a separate discussion on this because it would be a long answer. I will try to summarize the answer. All our business verticals have different profit levers. For example, our core business which is ethanol and brewery segment – the internationalization of brewery is getting more traction. Additionally, the modernization and

retrofits business, which is now showing significant inquiry inflow and conversion to orders, would definitely drive profitability of this business. As the international scenario for ethanol stabilizes and improves, that is the next level. On Praj HiPurity Systems, as internationalization comes in and order profile changes a bit, margins will be driven. Oil and gas, which we are working on over the last few years in CPES (Critical Process Equipment and Systems) will certainly help us in driving that margin profile. So there are different levers

- Sanjeev Zarbade:** Would you need to add man power in the future in the next two to three years to cater to the upcoming growth, or would you do with the current?
- Gajanan Nabar:** I could very easily say with the current, in terms of total number of man power. We need to probably just fine tune for the skills. If there are any skill gaps then we will have to see. But, in broad numbers, yes.
- Sanjeev Zarbade:** What is our cash and liquid investment on the balance sheet?
- Gajanan Nabar:** Rs. 217 crore.
- Moderator:** The next question is from the line of Madanagopal Ramu from Sundaram Mutual Fund. Please go ahead.
- Madanagopal Ramu:** You referred to modernization and retrofit business showing some traction; can you elaborate which region is helping you to drive this improvement in pipeline?
- Gajanan Nabar:** We are seeing improvement happening in the domestic ethanol industry - as everybody would like to have lower opex, get more products out of their plant and also make the plant more environmental friendly. On our domestic business, the enquiry basket is improving. Then, we are focusing on Southeast Asia and South and Central America. In these regions, we are seeing that there could be significant opportunities for us. The area that we have fully not explored is North America and we are putting efforts to even explore further opportunities in that market as well.
- Madanagopal Ramu:** You were also referring to the overall scenario changing in India because of Government more serious on ethanol blending. I understand that ethanol blending mandate requirement was already higher in India, but the actual ground level mix was much lower. So what is driving your optimism now, has anything significantly changed?
- Gajanan Nabar:** Government has taken certain steps - one is that they rationalized the excise duty. So, the overall inflow for an ethanol producer is now at about Rs.42. Now, at Rs. 42, if I look at it against the beverage grade it might still be slightly lower. The manufacturers of ethanol also have to do some adjustment of their requirement; how much they want to make money from this source. What is happening with this 5% blending is that it is adding Rs.100 crore of new ethanol requirements in the market. And every 5% would add another Rs. 100 crore. We believe that the government is very serious; they are talking about the blending mandate to go up to 20% by FY17. As Praj, the leading ethanol technology supplier in the world, we are working with governmental agencies, with manufacturers, with users to see how this could meaningfully be done. Second generation ethanol in this overall play, becomes a very significant addition, because that would help to take out the pressure on the feed stock, if we go for much incremental blending. So, these are few things, which definitely give us signals that most importantly the money that ethanol producers are making and the pricing of ethanol, certainly would help ethanol industry in the market.
- Madanagopal Ramu:** The second generation plant will straight away make ethanol the viable option or will there be some further investments with manufacturers?
- Gajanan Nabar:** Up to 10% is the straight off blending, there is no further modification. Once we go higher than 10%, we will have some changes in the engine mechanism but we will have some time on hand to do that. But up to 10%, there is no problem at all. One can straight away blend it.

- MadanagopalRamu:** Any new order enquiry or something on the brewery front, since you have recently commissioned this Namibia plant?.
- Gajanan Nabar:** Yes, we are working on it. There are different levels or quality of enquires, we are certainly working on few enquiries internationally as well as few enquires domestically. As the project has now been completed, it is a milestone for Praj to cross and it is to the satisfaction of the customer. So, we have announced our arrival into the international arena for breweries.
- MadanagopalRamu:** What is the order backlog?
- Gajanan Nabar:** Rs. 730 crore.
- MadanagopalRamu:** Can you give the splits between ethanol, brewery and emerging business?
- Gajanan Nabar:** We can send you the details.
- Moderator:** The next question is from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.
- VP Rajesh:** My first question is to understand your gross margins, for the first half it was around 46% and last year, same period was 56%. I know you do not want to give future guidance and I am just trying to understand whether from 46%, are they likely to go up or do you think because the business mix is changing, this could come down even further?
- Gajanan Nabar:** The local area execution, we call it LEC, which comes at the toe-end and is more of the execution part of the invoicing, which happens outside India. The proportion of that impacts the overall margin profile to a greater extent. Also, the total split of International to domestic, in this quarter we had 41% of international business whereas last year it was more than 50%, so that also determines the overall variable margin profile. These are two significant contributors or impactors on a variable margin. As the mix grows or as the mix becomes different and we move towards more of 50-50 mix between the emerging businesses and the existing core businesses, our sense is that it would positively impact the overall margin profile.
- VP Rajesh:** Last year, we saw a big jump in the second half in terms of revenue contribution and EBITDA, so what is your sense now, because you have talked about it a year ago that this is going to be the case. So, for the second half what are your thoughts?
- Gajanan Nabar:** It is little speculative but I will just reiterate what I said. I think we had a fair second quarter, so there could be some normalization in the second half of the fiscal. But, at the same time, our medium-term outlook is looking good. We are getting more encouraged with what we see as an opportunity pipeline. We are keenly working on getting those opportunities home. So, hopefully we should be able to share some of this information in the next couple of months and that definitely augurs well with the overall business performance. But, we believe we are looking at a tough third quarter.
- VP Rajesh:** In terms of the second generation plant, you said that there is no major capex done so far and it is going to go operational next year same time. So two questions, what is the sense of the capex that is currently planned over the next 12 months and what would be the government subsidy that Company was looking at, what is the timing of that getting resolved in particular mix?
- Gajanan Nabar:** We are looking at the normal other capex to be about between Rs. 20 to Rs. 22 crore, so that does not change. The government subsidy is working in the right direction. We are also seeing lot more intent from the government side, as this project is also in the overall vision of the government to blend 20% ethanol. This kind of technologies would certainly help that vision. So, the files are moving in the right direction but, until it is in our bank account, we do not know how much time it will take.

- VP Rajesh:** Rs. 20-22 crore is just for the second generation plant, is it right?
- Gajanan Nabar:** No, this is the regular other capex.
- VP Rajesh:** What is the capex number for the second generation plant?
- Gajanan Nabar:** We had brought this down significantly, if you recollect. For the second generation plant, since we are doing a retrofit model we have brought it down to about Rs.70 crore and the efforts are on to further reduce the capex. But it is significantly lower than our earlier announcement of Rs. 125 crore.
- VP Rajesh:** That is right. So nothing of Rs. 70 crore has been spent as yet?
- Gajanan Nabar:** No hard dollars have been yet spent.
- VP Rajesh:** Looking at the cash number, you said your cash equivalent was around Rs. 217 crore at the end of September. What was the corresponding number for the year ended March 2014?
- Gajanan Nabar:** Rs. 150 crore.
- VP Rajesh:** You talked a lot about positive sentiments at the global level. So, from your perspective, what are the milestones that you are looking at and the timing of those policy initiatives to start translating into hard orders for Praj?
- Gajanan Nabar:** For the Indian scenario, faster environmental clearances, we know that some lacunas have been taken away, some processes have been eased, some fine-tuning of what sizes of plant should go to Central Pollution Control Board have changed significantly. All these positive changes or structural changes have happened. But, I would not say that the approvals are happening really quickly. So, the delay is still there in the system but we are seeing that there is an intent towards reducing it. So, that is positive and same is the case with money flow for this investment. As that improves, we would certainly see a big shift in terms of finalization and order inflow on the domestic front.
- Moderator:** Thank you. The next question is from the line of Bhalchandra Shinde from B&K Securities. Please go ahead.
- Bhalchandra Shinde:** In current order inflows towards ethanol related orders, do we see these modernization and retrofits being higher contributors or are we still on the traditional ethanol related capex?
- Gajanan Nabar:** Right now we have a good enquiry basket but not order inflow. Order flow is on its way. But, right now, it is all traditional ethanol related capex.
- Bhalchandra Shinde:** But are we positive that most of these orders will come into play in the next one or two years?
- Gajanan Nabar:** Yes, because we believe that it will certainly help the customer to improve his return on investment by doing modernization and retrofit aspects to his plant.
- Bhalchandra Shinde:** For this modernization and retrofit opportunities, are we expecting any specific region or are we expecting it all over the world?
- Gajanan Nabar:** India is, of course, the big focus. We have a large team focusing on modernization and retrofit opportunities. Southeast Asia, some parts of South America and Africa, each region has different driver. For some regions, it could be steam and power consumption reduction, somewhere it could be higher output, somewhere it could be water and waste water solution. So, it could differ from region to region.

Bhalchandra Shinde: Considering all these factors, are we expecting that emerging business will reach to at around 50% level by say next one or two years?

Gajanan Nabar: Yes.

Bhalchandra Shinde: Are we expecting more growth from the water and wastewater treatment or more towards the critical process equipment systems, from which segment do you expect a good kind of growth to be there?

Gajanan Nabar: All three verticals looks equally poised for growth. There are different drivers for each segment, pollution or environmental driver for water and wastewater, pharma and biotech driver for Praj HiPurity and oil and gas for CPES. But the growth opportunities and potentials are probably very-very similar.

Bhalchandra Shinde: The HiPurity segment might be earning better margins than as compared to other emerging businesses. So my analysis says that if we see a good kind of robust growth there, we may see a good significant margin upside potential.

Gajanan Nabar: Yes. We are obviously focusing lot of energies in that market as well.

Bhalchandra Shinde: Do we have a sufficient capacity with the HiPurity segment or will we need capex to add on, or to cater the demand?

Gajanan Nabar: No significant new capex for any of the above businesses.

Bhalchandra Shinde: Can we say that next 30%-35% growth will be easily catered by the businesses?

Gajanan Nabar: Yes.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

Priyanka Watane: Thank you all for taking the time out to join the call. In case you have any further queries, please reach out to our investor relations team. Before we close, on behalf of Praj Industries Limited, I would like to convey our best wishes to all of you for the festive season. Once again, thank you very much and have a good day.

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