Praj Industries Limited

Earnings Conference Call Transcript
May 27, 2020

Moderator: Ladies and Gentlemen, Good day and Welcome to the Praj Industries Limited Q4 & FY 20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sandip Bhadkamkar from Praj Industries. Thank you and over to you, Sir.

Sandip Bhadkamkar: Good day everyone, we welcome you to this conference call organized to discuss Praj Industries' operating performance and financial results for Q4 & FY20, which were announced yesterday. I have with me Mr. Shishir Joshipura – CEO and Managing Director, and Mr. Sachin Raole – CFO and Director (Finance & Commercial) on this 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 you, these documents along with quarterly results presentation have also been posted on our corporate website. I would like to hand over the floor to Mr. Joshipura for his opening remarks.

Shishir Joshipura: Thank you. I welcome you to Praj Industries' Earnings Call for Q4 & FY20. I will be covering the industry developments and quarterly business highlights for the quarter following which Sachin will take you through the financials.

- As the quarter progressed, an unprecedented challenge in the form of Corona virus pandemic emerged disrupting life and economy at a massive scale across the globe. In absence of a cure, lockdown appeared as the only viable alternative to save human lives. This led to an unprecedented shutdown of economy and human activities across the world. The complete impact on business of this pandemic is still to be ascertained.
- Praj operations were no exception and we were equally impacted. Before I cover the business update, I would like to share with you how Praj is coping with the COVID-19 crisis.
- People care and safety was and is our first and highest priority even as we started to work on other dimensions of Business care, Society care, and Customer care as the lockdown was announced. Our facilities halted operations completely across our plants at Sanaswadi in Pune, Kandla, Wada, Matrix, our R&D Centre at Urawade, and our HQ at Pune and offices across the country for nearly six weeks.

We undertook all the safety and sanitizing measures across all our facilities, maintaining full compliance with the Government Advisory.

- Forming a Business Continuity Plan, we were able to shift majority of our employees on 'Work From Home' model to serve our customers and minimize the work loss during this period. Our engineers adopted modern technology and developed tools to help our customers commission their plants remotely as also help troubleshoot running units. When the law permitted, our people have travelled to sites brazing odds to help our customers operate their plants.
- Supply chain has been disrupted globally, impacting availability of raw material, parts, and components.
- As economy reopens gradually, we have restarted our operations at all our production factories as well as R&D and we are ramping up our production in complete alignment with the Government directives. Our headquarters and city offices are still not fully functional, given the local restrictions; however, our 'Work From Home' model is working really well for the employee based at these locations. We are working closely with our supply chain partners to streamline supplies of goods and services.
- Our strong focus remains on conserving cash during these trying times. A strong focus on collection of dues and advances from customers, constructive dialogue with our supply chain partners, and focus inventory dilution are key areas.
- We are taking a dynamic look at our costs to drive higher efficiencies. We are undertaking different measures such as cutting down fixed costs, avoid discretionary spends, reevaluate overhead expenditure, optimize infrastructure costs, work from home policies, salary adjustments, inventory dilution etc..
- We are reconfiguring R&D cost for a deeper business impact. Innovation is DNA of Praj and we will continue to invest in R&D initiatives such as advanced biofuel, renewable chemicals and materials that will help us build our value proposition in a sustainable way in near and long-term future. We are not reducing our R&D expenses.
- We are thankful to our customers, supply chain partners, and employees who are helping us address the challenges of the situation.

Let me now take you through the highlights and the developments during the quarter:

- Leveraging strong innovation, our 1G business has gained a market share in excess of 75% in domestic market in FY20.
- To address the challenges of sugar glut and storage, Government is encouraging diversion of sugarcane juice and sugar syrup for production of Ethanol instead of sugar. This will also help improve the Ethanol blend with petrol.
- In an important development, the Government has allowed conversion of surplus rice available with Food Corporation of India to Ethanol for making alcohol-based hand wash sanitizers and blending in petrol. This will help bridge the gap in demand supply of hand wash sanitizers and improve the Ethanol blending percentage.
- Pharmaceutical blend alcohol across the globe may see an increase in demand as it has applications in space sanitization and personal hygiene apart from medicines. Ethanol plants around the world has the infrastructure necessary for meeting demand in short-term and Praj technology in form of ECOSMART can help quick commissioning of capacities in short-term and efficient operations in long-term for production of pharma-grade alcohol with minimum modifications. Praj's two-step solutions anchored on our patented technology, ECOSMART, puts us in a pole position to address this opportunity.

- We have a large global customer base and we are establishing communication with them for arriving at a comprehensive solution to address pharma-grade alcohol opportunity.
- Oil and Gas industry is amidst an unprecedented crisis owing to combination of excess supply with an unprecedented demand drop due to COVID-19 pandemic that has resulted in a price collapse. This will have short-term impact on demand for Ethanol in the international markets in terms of attracting investments in Greenfield projects. However, domestic market capacity creation is not likely to be impacted due to these oil price dynamics as India Ethanol pricing is premised on sugarcane prices. In international markets, Brownfield expansion projects for pharma-grade alcohol may present an attractive opportunity.
- Due to longer cycle time require to build 2G Ethanol facilities mandated under RED II directives in Europe, we see a renewed interest in European markets for 1G capacity creation over the next couple of years. With this, there will be co-existence of 1G and 2G in near future.
- On the 2G front, HPCL has issued a letter to us on May 22nd confirming transfer of license from Badaun to Bathinda for the 2G bio refinery project. This reaffirms Government commitment to advanced Biofuels program as specific in the National Biofuel Policy.
- Praj recently signed a cooperation agreement with SEKAB E-Technology AB of Sweden to upgrade and commercialize base technology to produce advanced biofuels and biochemicals from forest residue as feedstock. As a part of this cooperation, Praj will add significant value to SEKAB's CelluAPP technology of converting forest residue in the form of softwood to Ethanol, through Praj's proven capabilities to improve, optimize, integrate, and scale up advanced biofuel technology globally.
- On the CBG front, we have begun commissioning of a pilot facility which is a full-scale pilot facility at our R&D Centre and there is increasing interest from industrial and bulk consumer segment that include MNCs from auto and FMCG sectors. CBG presents a very attractive avenue for carbon footprint reduction while substituting LNG / LPG as a source of energy.
- PHS business continued to work on its strategy on key accounts and innovative product offering.
- On the engineering businesses front, our brewery business has been successful in building a market share of 80%+ in the domestic market. Internationalization plans of brewery business are showing results as we received an order from Niger. We are pushing the innovation envelope in this business to generate new business opportunities in addition to our traditional business.
- Our sustained efforts to establish strong relationships with key MNC customer have resulted in CPES securing strategic supplier status with several key accounts. We are concentrating on LNG, petrochemcials, industrial gases and green energy segments.
- Praj's value proposition now stands expanded to TEMPO with the addition of operations and maintenance services to its portfolio. Our ZLD business recently commenced a multi-year contract for Operations & Maintenance services for treating effluent using ZLD solution for India's leading steel manufacturer.
- To summarize, we believe, our people, strong customer base and our focus on customer value proposition creation through technology, coupled with conservative and prudent financial policies and operations will help us overcome the current extraordinary situation. Once broader market sentiments stabilize, we remain confident of continuing the growth momentum in the years to come.
- Before I end, I am delighted to share with you all that US based Biofuels Digest, the world's most read biofuels daily, announced Praj Industries being ranked No. 1 among the Best Places to Work in the advanced bioeconomy 2020.

With this, I will now hand over to Sachin for his comments on the financial performance

Sachin Raole: Thank you Shishir. I will now take you through the financial performance for Q4 & FY20, following which we will open the forum for your questions and suggestions.

Revenue from operations for the quarter stood at Rs. 296.29 crore in Q4 FY20 as against Rs, 368.17 crore in Q4FY19, EBITDA for Q4FY20 was at Rs. 32.23 Cr when compared to Rs. 39.41 crore in Q4FY19. PAT was Rs. 24.86 crore in Q4 FY20 as against Rs. 33.36 crore.

For the full year ended 31st March 2020, revenue from operations stood at Rs. 1,102.37 Cr crore as against Rs. 1,141.1 crore. EBITDA for FY20 stood at Rs. 82.01 crore against Rs. 88.34 crore in FY19. PAT stood at Rs. 70.43 crore as against Rs. 68.22 crore in FY19.

During the quarter, Export revenues has accounted for 40%. Of the total revenues, Bio-energy accounted for 63%, 30% from engineering and 7% is from PHS business.

Effective tax rate is 15% for the year. This year, tax was subjected under normal tax and because of that company could utilize its MAT credit.

The order intake for the quarter was at Rs. 222 crore, with 83% from domestic market. Of the total order intake, 72% came from Bio-energy, 13% from engineering and balance 15% from PHS business.

The order backlog as of March 31, 2020 is at Rs. 1,083 crore. Cash and cash equivalent as of March 31, 2020 stands at 226 crore. During the current period, we are noticing collections of receivables are not normal. We have put in special emphasize on collections and working capital management with the help of specific team.

I now conclude my remarks and I would like to thank you all for joining us on this call. We would now be happy to discuss any questions, comments, or suggestions you may have.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: Sir, can you share more in terms of HiPurity outlook because of the order inflow has been substantially weak and I guess this hand sanitization market opportunity will be a part of our HiPurity or Bioenergy? So, I just want to get clarity because I think on website I saw that it will be part of HiPurity and are we seeing some kind of orders from that segment if you can highlight outlook on HiPurity in this regard?

Shishir Joshipura: Vikram, the hand wash sanitizer market is split in two parts. One is existing distilleries that have ready access to Ethanol and they becoming producers for sanitizers. The second is the consumer care companies, independent FMCG companies, that segment which may not have natural access to Ethanol, but still who have decent access to the marketplace in terms of retail network, etc. So, this is still a little bit early for us to comment given the fact that we are still coming out of a lockdown, but we are seeing an interest being received for both these distinctive segments. So, we are addressing for obvious reasons the distillery based enquiries where the relationships are held by Praj Industries' Ethanol team whereas on the other side may be PHS is a better owner of the relationship. So, it is currently split that is number one. Number two, there is another team that Government said that up to July, there is no licensing or certification requirement because of the unprecedented scale of emergency and people were allowed, but I think there is a lot of those who are wanting to be serious players in the market are awaiting for the lockdown to clear out and the Government does the inspection in July and certifies facility. So that is when we will see as to what the actual opportunities look like. So, still early days to call for what the size of the opportunity is going to look like. As you are aware, we had put out the hand wash technology and engineering package as a part of our service to the society. In general, it was available as a free download on our website, so almost nearly 400 downloads all the way from Fiji on one end to United States and everything in between. So, we did see a lot of interest from people down the way, for the technology part of it. We then went one step ahead and told them if you do want to set up this capacity, we would be happy to help you continue the plant and put it together for you. Still early days because, of course, as you know that there is a big literal shutdown for almost entire month of April globally. So, we are still assessing the exact nature of seriousness of these enquiries, but as time progresses, we will let you know.

Vikram Suryavanshi: I have two more questions; one is regarding when we have seen price fixed for five years for CBG projects. So, are we seeing more traction or enquiries for CBG project?.

Shishir Joshipura: As you correctly said, some interesting development that came in January along the pricing lines, it was a long outstanding demand to get some kind of visibility, so that has been a very, very positive development that you have price visibility for 10 years at a minimum level. So, this is something amazing for any business. As things would stand and as all of us know, there was not much time between announcements for the time we were placed in this unprecedented problem, so too early for me to comment, but obviously this has removed one of the big bottlenecks in the funding of the projects in terms of how they would be constructed. There is another development in typically these projects, each project size from what we know are below Rs. 100 crore on turnover, so they can go to MSME segments now which will be a good development for them. So, we have to watch as to how that development also aids in development of the projects. What we have witnessed in the last six to eight weeks, is an increased level of dialogue both from the prospective developers on the retail side, which is a SATAT program of the equation but also as I had mentioned, we are also seeing increased dialogue from several MNCs because they see this as a clear path to reduce their carbon footprint and they will definitely target on reduction of carbon footprint, so we expect movement to come through in both dimensions.

Vikram Suryavanshi: On distillery, where the Government has given interest subvention and all other benefits. So, there were number of proposals with the Government for setting up the distillery, so what is the current status of this proposal and how you are seeing the sanctioning of this projects or liquidity available for these projects?

Shishir Joshipura: I think one big development is this announcement from the Government about allowing Ethanol production from rice grain for blending programs and I think that is a big development as I was mentioning earlier, which will aid to build a capacity and also bridge the gap that is on a clear direction. We were in a seminar and one of the State Governments has also said that yes, we have taken cognizance of this and we are now thinking of establishing and supporting not themselves but supporting establishment of six projects now State, this is Chhattisgarh where there lot of rice as you know is available. So, early days yet and I think what has happened is some of these developments also came very close to the crisis or during the crisis, so in order to actually gauge their impact on the business side, it is still early days to comment but obviously directionally these are all positive developments. Similarly, on the sugar mill side of equation, lower consumption and how do you overcome that problem because on the other hand, we are going to have excess and a bumper crop, so how do you benefit so we have to see how the thing unfolds. Sugar consumption has gone down. Government is encouraging use of sugar as a feedstock for Ethanol production, this can bridge the big gap on the capacity side.

Directionally, it is a positive development, specifics we will have to see as we unfold out of this situation.

Sachin Raole: Additionally, Vikram, this scheme is extended for one more year, which is a clear recognition from the Government that we need to do something of.

Vikram Suryavanshi: I heard that the number of proposals are almost in excess of 300, is that the right number or if you have any updated number I think it would be helpful if you can share that?

Shishir Joshipura: Vikram, the number that you heard is the applications that got filed, then they were scrutinized and sanctioned. So unless there is a loan, there is nothing to subvent that. So, these are all subvention applications, so what is to happen along with the subvention part is also that the project needs to be funded by a bank and only then the loan component interest was the subvention available, so subvention is an incentive to put up the project. By itself, the project has to have its own independent approval on the funding side to sort of avail this benefit, so, subvention is an aid to the industry to help them improve the viability of the project.

Moderator: Thank you. The next question is from the line of Ashutosh Mehta from Edelweiss Securities Limited. Please go ahead.

Ashutosh Mehta: Sir, my first question is pertaining to the 2G Ethanol projects, so what is the status there and out of the FY20 order inflow in the Ethanol segment of around Rs. 750 crore, what will be the contribution from the 2G projects specifically?

Shishir Joshipura: On the 2G status, the first project that we are building is for Indian Oil in Panipat where the work has gone ahead in full swing, all approvals are in place, the project is under construction as I speak with you. All the major long-lead equipment have been ordered, in fact we have gone to second stage now where civil construction is in full pace, foundations are up, and the customers plan is to finish the foundations over the next two months so that we cannot be hampered by the rains, monsoon season that will obviously come to that part of the country couple of months down the line. On the BPCL project, they have appointed, as you know Tata Projects are EPC consultant, there also significant progress has been made, already dialogues are underway, all the equipment contracting is underway right now and there is a little different shift of timeline if I can use the word, compared to IOCL. It is three to six months behind on a different curve. Third, is about HPCL, so as we had been mentioning in our previous calls, they awarded the contract to us for building the 2G plant in Badaun in UP and their first priority was to build the project in Bathinda and that was awarded to DBT-ICT and the communication that we have just received from them, in fact just five days ago, they have informed us that they would like to shift our license to Bathinda, which is the priority project for them. It is a new development so we will now begin work on that, so that is also a very positive development that shows path forward for the third project to be built as well. On the fourth one, there is still discussion going on with the customers on what are the viable alternatives for them some internal issues that will be hold on viability, etc., that is the fourth one. So, that is happening as far as India 2G projects are concerned.

Ashutosh Mehta: What would be the contribution in overall order inflows from these 2G projects in FY20?

Shishir Joshipura: We received an order from BPCL last year, so about Rs. 100 crore of contribution on order booking is sitting from 2G.

Ashutosh Mehta: So we still have two critical equipment orders yet to be booked, that should be done in FY21 if I am not wrong?

Shishir Joshipura: Yes, HPCL looks to be progressing in that direction now. For the fourth order, I will reserve my comments for now. It will definitely happen, but when is the question.

Ashutosh Mehta: Second question was related more towards the financials in Q4, so we have seen some sharp reduction in raw material cost as well as employee cost during this quarter, any specific measures that we have taken or was it related to mix or anything that we should be aware about?

Sachin Raole: This spike in the contribution has been, you are right, it is because of the mix of the revenue or the mix of orders which we executed during this quarter. Maximum was coming from exports, almost 40% export orders were executed so that has helped us in having a better margin. On the employee cost, there was a provisioning which we used to make for the incentives on the basis of the performance of the company, which we decided in Q4 looking at the overall number the way which it was getting post-COVID scenario, we have not provided that kind of a number and that is the reason why you are seeing the reduction in the employee cost during Q4.

Ashutosh Mehta: So, is it that there is also a reversal of the first nine months of provision that was left?

Sachin Raole: You are right.

Ashutosh Mehta: Sir, just one thing on the tax part, so going ahead what will be the effective tax rate we should be looking at?

Sachin Raole: Our estimate is that we should be in a range of 20% of effective tax rate because we still have some MAT credit redemption which is possible in next one year, so we will remain in the range of maximum 20% kind of a thing.

Moderator: Thank you. The next question is from the line of Ankush Mahajan from JM Financial. Please go ahead.

Ankush Mahajan: Sir, I want to know about the outlook on the export business. Now it is 34%, the revenue from the export side and how is the outlook for the order booking from the overseas market considering this COVID-19 situation now?

Shishir Joshipura: Ankush, the situation is extremely dynamic right now and for anybody to take a looking glass and predict is not possible at this stage to say what would happen. We are using as I had mentioned Work From Home model, the good news is the customers abroad are very used to interacting over the E-platform so that becomes easy, but still we are not able to be physically there in the marketplace. Even on the creation side, we are creating webinars for our prospective customers and for existing customers. Having said that, I would say that this model, the technology and Work From Home format that has been very, very successful. We have been able to establish connect with lot of waiting customers and establish a dialogue with them on what the leads are, what can we do for them, how we can respond to enquiry, so we are creating quotations and submitting to them because the world is getting used to working remotely. It will be a very premature for me to say what will the numbers look like on the export side right now because this is just a beginning to get out of this lockdown, so perhaps next quarter, but as of now it will be premature.

Ankush Mahajan: Sir, on the domestic front, how do you see the investment for Ethanol distilleries for the next two years, investment in this sector?

Shishir Joshipura: Good question, I think what is very important to understand is that what is the demand in India and when we go back to normal situation, we know that there is a huge gap between the demand at 10% blending rate and the production of Ethanol in the country today. So, we need to more than double the current capacity to just meet the demand at 10% blending rates as per the Government. From a demand side, the product has a pull that is available and with of course that should drive creation of capacity. On the other hand, the developing situation on the sugar very clearly indicates that there will be a push to produce Ethanol through different routes and not just stick to molasses. We are currently engaged in dialogue with several producers to see how we can use syrup for production of Ethanol because from syrup obviously the Ethanol quantity will be higher. More important than that is also the fact that there is a big technology play there because you cannot store syrup for a long period of time, it goes bad. So, you have to treat it specially, store it in a special way and then use it in a specific way to produce Ethanol out of it. It is a requirement and that creates a business opportunity for us, because we have the technology. On the syrup side, as you probably would know, as a company, we have very deep experience internationally, our famous Columbia projects were all based on this and several others after that. So, in terms of converting juice to Ethanol, there is a very rich, very deep experience available with the organization and that we believe can be put to good use.

Ankush Mahajan: If we deduct consol minus standalone, so this HiPurity business has delivered better margins. So, any outlook for the sustainability of these margins for the HiPurity?

Shishir Joshipura: So we have embarked on a plan, as I mentioned in my remarks as well, to ensure that we deploy a strategy of focusing on a few key customers very, very strongly, which obviously enables us to not only create deep relationship, but also create better solutions, more understood solutions, and if we can create a higher value, we can also capture part of it, which is what you see reflected. There is also a push for internationalization in that business, and we will see how that develops as we move forward.

Moderator: Thank you. We take the next question from the line of Sadanand Shetty from True Equity Advisor. Please go ahead.

Sadanand Shetty: Can you please share with me the metrics that has been evaluated for the rank in Advanced Bioeconomy 2020?

Shishir Joshipura: As I have mentioned, this is a global publication with a very high following. So, they have their own methodology, they scroll it amongst their members, I think that that's what probably they do and ask them to rank these 297 companies that participated in this globally. And then they come out with a rank. We have no visibility to what exact criteria they use because obviously it's their own internal methodology. I hope that answers your question. But it was really a moment of pride that we were rated and there were some very big companies out there who were also a part of this, all the big oil majors, all the big green energy companies globally, 297 were there.

Sadanand Shetty: You talked about managing current situation, is there any change in your business parity, as in medium-term, which has an impact on your business plan and capex program?

Shishir Joshipura: So, the way we look at it is, of course, we have to evaluate our response through the situation as it develops. And different segments will need different recalibrated responses and that is what we are currently working out. In terms of capex, we are not a very capex heavy company, so that is the good part. What is important for us, and which is what I mentioned, is our R&D expense. We are a technology centric company. What we have done is we took a decision that there will be some cost-cutting programs, but we will not cut any cost or reduce any budget for R&D. We will continue on our R&D program. The only thing that we have done is we said, all right, let us understand what can create a deeper impact on our business vis-à-vis our earlier program because of the changed circumstances. So that we have realigned our expenses, but other than that our R&D program continues to be on the same cost level, the same budget, no change for them. On the side of CAPEX, as I mentioned, we are not a very heavy CAPEX company. Each business we will have to evaluate, for example, our HiPurity business, what happens to the pharma segment as we go forward? Our main core Bioenergy business, what is the development in different economies and we have to give different responses to different economies, it may not be same. So, we are aligned, we are agile, and we are aware of the fact that one shoe may not fit all and we will have to create responses for different economies.

Moderator: Thank you. We take the next question from the line of Deepesh Agarwal from UTI Mutual Fund. Please go ahead.

Deepesh Agarwal: If I look at the inflows in exports, it has been quite weak this year, especially in the past two quarters. What has led to such a sharp fall? And when do you expect it to recover back?

Shishir Joshipura: Yes, we have seen some slowing down of order inflows from our International markets. A couple of reasons. One is obviously a slowdown in capacity creation that we were witnessing, United States had a very different problem in terms of, if I remember my numbers correctly, over 60% of Ethanol plants in the United States have closed down, shut over a period of time because of this oil crisis and things like that. So, different markets have seen different levers that have come into play. We have seen not too much of Greenfield capacity being created in several of our leading markets like Southeast Asia, or for that matter even South America, which had a different set of problems. As they were coming out of this curve and we were beginning to see green shoots in terms of definitive inquiries, definitive interest where dialogue was progressed, we were struck with this global problem. So, we will have to see how they reopen, and how we will recalibrate, it is early for me to comment on what or how it will happen. We are in close touch with our customers, there could be opportunities that may emerge out of the current situation as well. I am not able to predict but from the looks of it, maybe pharma with alcohol could become an opportunity as we move forward. I am not able to put a definitive figure yet on that for the obvious reasons. The other business of ours, which is very strongly export oriented is our Critical Processing Equipment and Skids business. There we have, I would like to submit that, we have made some deep relationship with our customers, we have signed a couple of agreements. But again, the current situation has sort of pushed everything out on a different timeline. So, we will have to wait and see how the recovery plan happens at our customers end as well and their customers and we will calibrate accordingly.

Deepesh Agarwal: Okay. And net on the domestic side again, there seems to be some hurdle we are facing in converting 1G opportunity into inflows. So, can you touch up on what are the challenges and by when you expect them to resolve in converting the 1G potential into inflows?

Shishir Joshipura: I think we all know that there is a very progressive set of policies that were announced by the Government to drive the Ethanol blending program in the country and also the Ethanol production. The interest subvention program, the policy for blending, there have been many steps that have been announced in the National Biofuel Policy in 2018. And there was a rush of people wanting to set up and there were differentiated prices based on feedstock. So, several levers were put in place at the government, so great work done by them. However, two things. One was that the natural producers of Ethanol, many of them have stressed balance sheets, sugar industries especially, not all but many of them. And banks were averse to lending to them. So that became a big bottleneck to get funding. So people had the project, they had the raw material, they had the end market, but the mechanism to actually tie it together and a stressed balance sheet to create a perfect mix out of this was something that was not happening. I think sugar is on the negative list of the bank for lending. So there are many of these factors on the ground in terms of capacity creation, not Ethanol, Ethanol is not an issue, Sugar is. So, I think what has happened is, the capital formation has taken longer than one would have desired, so that's one very clear issue. Last year specifically, we also saw a very different situation emerge that Maharashtra had a very low production owing to both drought and excessive rains. So, that created some imbalance in the system. Based on whatever has happened on the monsoon side in the last year finally, we expect that over the next couple of years, good cane crop to come through, which is also detected recognition that government is now pushing syrup based production, because syrup can be taken and convert much larger Ethanol volumes compared to sugar based molasses. So, we do see some positive vectors coming into place. But again, those are in a normal market scenario. What happens post COVID in terms of how the recovery rates are, we have several interests from many companies for understanding how syrup can be put to use in the coming season, which is in October. And as I was mentioning earlier, syrup needs treatment to store effectively for a year. It allows them to operate on syrup for one full year, which is a very, very big plus for the capacity. So there are additional positives, if I can use such words for the industry to switch to syrup, we are very glued to that, we are in the pole position in terms of technology, in terms of experience, customer relationships. So, we will have to just see how this evolves.

Deepesh Agarwal: if I read news article, it seems like the work on some of the bio-CNG plant in the country has already started, like four projects in Tamil Nadu and all. So, in your assessment, how many plants are under construction on bio CNG? And what proportion of plant, Praj is executing?

Shishir Joshipura: The big problem on bio CNG from a raw material stage of the press mud or agriculture based feedstock to Bio CNG conversion, CBG conversion as the case may be. There was a big bottleneck on the clarification of the pricing, because pricing was not visible beyond one year, beyond this calendar year. That has now been resolved in January 2020 and Government has now given, counting this year, nine more years of visibility on the pricing, which has been a very, very positive development on that front. And just to back-track a little bit, we already had over 55 plants commissioned in the country based on cellulosic biomass based biogas generation. So, this is not the first plant, it's a different feedstock, that’s it. There the focus was on treating the effluent and taking biogas as a byproduct. Now when this program comes through, people will put it up as a main product. So there is obviously a little different approach, treading effluent versus treating the output byproduct as the main product. So that is calling for a different setup. Now it is not only an effluent treatment plant, it's a production system. We are building country's first press mud-based plant of a very large size in North of India already, it's under construction. As we speak, we have already bagged orders for another one this year already. So, the movement is visible on the CBG side.

And as I was mentioning earlier, there is another very interesting segment that is emerging, and that is a carbon footprint reduction-based approach for CBG plants. And we are moving on that as well. So several dialogues on the way there as well. So, we will have to see when the things start to normalize, at what speed they come back. From our dialogue that we have been having, and we have asked this question very specifically to some of our customers, saying, so when you come back with carbon footprint reduction or sustainable form of energy or cost reduction in energy does it take a back foot? They said, no, on the contrary. So that is the good news for us. So, we are only hoping that things return to normal fast and we are able to build further.

Deepesh Agarwal: So, what led to gross margin expansion? And is it sustainable? Because it is almost all 20-quarter high right now.

Sachin Raole: I was mentioning about expansion has happened on account of the export orders, which got executed during this quarter. So, it's a mix of revenue which has contributed in the higher margins.

Deepesh Agarwal: So, going ahead, do you expect it to be kind of a sustainable range?

Sachin Raole: Not necessarily that this will continue in the similar range, because again we will have to see how the composition of sales happens in the coming quarters, and what will be the composition from the exports and domestic. Depending on that, margin will change to that extent.

Moderator: Thank you. Next question is from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.

Sanjeev Zarbade: Sir, my question was on the cash and liquid investments that is there on the balance sheet, if you could tell us that.

Sachin Raole: So, the total cash and liquid investment which we have is in the range of Rs. 226 crore.

Sanjeev Zarbade: Regarding your thoughts on the buyback and dividend policy going ahead.

Sachin Raole: So, I don't know whether you noticed or not, we have already taken a decision in the Board Meeting that we are not going ahead with buyback. Considering the current situation and to look at the conservation of cash, the Board has not approved the resolution to go ahead with the buyback at this point of time.

Sanjeev Zarbade: We have a decent order book, which is like up in double-digit levels on a year-on-year basis. But the first two months of current fiscal has been, because of the restriction, it has got kind of impacted. So, are we in a position to recoup the revenues in the remaining months of the fiscal, so that we would be able to manage the revenue level of last year at least?

Shishir Joshipura: So, there are two dimensions here. One, can we execute and produce results that are required to meet this number? And do we have capacity to do that? The answer is yes, from the sense that we internally have the capacity, the answer is yes. However, there is another dimension to this, and that is the preparation on this end and the customer as well, how they are prepared, how their balance sheets are, or their loan disbursements are. And we have come to a period when everything was sort of shut, so we are not in a position to ascertain the second part. We have broad level confirmation from them that, yes, they are going ahead, that's the good news. However, for us to ascertain their exact cash flows, maybe a little too early for us to comment on that. In terms of capability and capacity, we can.

Moderator: Thank you. We take the next question from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Sir, firstly, the Government has now mandated that Ethanol can directly be produced from the sugarcane juice itself. So, what kind of retrofitting are you expecting going forward? I mean, what can be the landscape on new order intake or the retrofitting that can happen in the existing distilleries?

Shishir Joshipura: So, as I was mentioning that sugar cane juice to Ethanol is a route that is open number one. Number two, we commissioned, we have over 10 years of experience now in designing, manufacturing, installing, commissioning and tracking performance for several plants globally, based on juice to Ethanol route. So very very rich experience with Praj as a company, which is absolutely unparalleled. So that puts us in a good position to serve this need that is likely to emerge based on syrup. What I was mentioning to you, syrup has two dimensions. One is, of course, that it gives an increase on Ethanol side, no question. On the second, you cannot store syrup just like that for the full year. I mean, if you just want to run it in the sugar season, that's one way to look at it. But then that is unnatural, because the demand for the product is like through the year, than Ethanol as a product. So if you want to run the Ethanol production for full year, because the demand for Ethanol is for the full year, just the juice itself will not be enough because it will not be possible to store safely beyond the production season, which is just like 150 days in a year, maximum, 120-150 days, in that range. So, what you do is you have to convert that to a storable form of syrup, what we call, a Bio-syrup. So, there is a processing required, there is a conservation required and when there is a reorientation required for the plant to make that happen. Then you can run it for full year. And that's the technology that we have with us. So we are expecting there's a lot of dialogues that are open right now, several dialogs, with India based sugar mills and Ethanol producers to see how this could be done in the next season. Given the situation from where we are coming, this is still early days for me to say, this presence opportunity for x crore in this quarter versus next quarter; that is too early to say that. But a very definitive dialog has opened, there is a lot of interest. We have the technology, we have the experience, there is a good case, good financial case for producers themselves, therefore it should be a positive for the industry.

Saket Kapoor: What kind of yield improvements are you seeing in this case? I mean, if we take both aspects into account, meaning the storage part and the application for it to hold on, what is the delta in going through the direct part and then going for the molasses one?

Shishir Joshipura: What is the product mix, that sugar cum Ethanol complex will decide for itself. It's a factor of many things, what is their own molasses production, what is their position of sugar, how much of syrup they want to divert, how much they want to produce during the season versus after the season. So, it's a little complex calculation to be done, which we are having it and we are sharing with the customer. I am not able to give you a ready thumbs-up kind of a rule saying this is what happens. Except to tell you that the numbers that we have run clearly indicate that we are able to, this is the revenue and therefore margin maximizer approach for the producers to opt for the syrup route.

Saket Kapoor: So it is a profitable one?

Shishir Joshipura: Yes.

Saket Kapoor: And there is a payback there, I mean, whatever the capex they will be putting up.

Shishir Joshipura: Yes.

Saket Kapoor: And say for 100 kilo liter per day distillery, what kind of retrofitting cost, any ballpark capex may be required?

Shishir Joshipura: As I said that depends, because is it that they will not produce sugar at all versus that they will produce some sugar, versus they will go 50:50. So it is a complex question to answer from me right now.

Saket Kapoor: So, what is the business opportunity for you that also could not be quantified?

Shishir Joshipura: So, as I said, because of the fact that the situation is variable, there are too many moving parts.

Saket Kapoor: Taking into account what the current situation and the crude oil dynamics that are playing out, what should investor look forward for companies like us in terms of revenue?

Shishir Joshipura: So, as I was mentioning earlier, during my comment, that in India, the oil prices have no impact on ethanol prices. Because India's pricing mechanism, Ethanol prices are linked to sugarcane prices and the feedstock. So, no connection to what happens to oil. And as you know, the government keeps increasing the duty, excise duty on the petrol, so the price composition changes. So, there is no likely impact of oil prices on India's Ethanol. Right now, the ethanol consumption itself has dropped because of the mobility reduction that will come back to normal. So that's one dimension.

Internationally, different markets are behaving differently. For example, in the United States, one fact is that nearly half the capacity is shuttered of Ethanol. But the rest of the half, which is there, they are wanting to become more efficient in their operation side, they want to cut out their operating cost. So that creates an opportunity for us, because our technology can help them do that. In Brazil, it is a very different model because there the producers have flexible model between producing sugar versus producing Ethanol, and they are at a different business cycle, so their sugar season is right now. So, we will have to see different markets. And what happens to the sugar production. In India, already we have seen a dramatic drop in sugar consumption over the last few months, for obvious reasons. So, one indicator is that the Ethanol consumption in India is not impacted, except for this brief mobility related issues. There is a big gap between what is required versus what is being produced, so that is another driver from the demand. In the international market, the demand for technology-led solutions will be higher as against setting up a new Greenfield project or anything like that. And we have to see, and next quarter when we talk, we will also have some clarity on what is happening. So, there will be different drivers coming up that will emerge out of the situation on the other side of the curve.

Saket Kapoor: And for the U.S. front, you told they are running on 50% capacity, demand destruction is the only reason or what is the reason why they are on 50% capacity?

Shishir Joshipura: It is a very dynamic market. As I said, one big reason of course is big drop in mobility right now, big drop. The second one is, what is happening to oil prices. Because there the Ethanol prices are linked to oil prices, they are not linked to sugarcane prices or corn prices or anything like that. That is the second dynamic at play. The third dynamic, of course, is the policies that the governments in different market announce. So different dynamics at play. I was mentioning about Europe, for example, in my opening remarks, where I said that our understanding at the beginning of this year was that because of the RED II directives, there may not be any new creation of 1G capacity. But 2G capacity takes longer time to establish on ground compared to 1G project, so they may actually consider setting up some capacities locally on 1G side to bridge the gap. So different factors are playing out in different markets. And we will have to tailor our response for every one of them.

Saket Kapoor: Sir in all, it is not a grim picture in our industry?

Shishir Joshipura: Not at all.

Saket Kapoor: We only have to weather the storm?

Shishir Joshipura: Yes, weather the storm and that every industry has to do.

Saket Kapoor: Barring Ethanol and that 2G Ethanol, which other arenas Praj is exploring?

Shishir Joshipura: Worldwide, the need for pharma grade alcohol is likely to go up, because of the huge usage it may find in space sanitization and personal sanitization, because alcohol is the base. So very early days, and when that happens, the natural producers are the Ethanol producers, because they already have most of the infrastructure. We have a technology called ECOSMART that allows us to position ourselves in a good way - it is a proven technology. So, we will have to see how that may unfold.

Saket Kapoor: And what kind of business opportunity we are looking in this space?

Shishir Joshipura: All I am saying is, we know that right now the spaces are closed, all the public spaces are closed, they are not open, the offices and all. But as and when they open, whenever they open, there will be a big sanitization drive on a constant basis. So that is likely to create demand for pharma grade alcohol. So how that thing develops, we have to see.

Moderator: Thank you. We take the next question is from the line of Arvind Joshi from Bataleur Advisors. Please go ahead.

Arvind Joshi: I just had a query, recent stimulus that the Government announced for the agriculture sector, had a large amount for agri logistics. Does this include the agri logistics and aggregation mechanism that would be needed for CBG, because that will provide a very big missing link in our plans?

Shishir Joshipura: So, I think the details are still not out on that, so that is number one. Number two, you are right, any stimulus on the capex side of the feedstock will obviously aid the industry. But very early days for me to comment, because the details are still to be out

Arvind Joshi: Okay. Especially in the light of this migrant problem that we are facing, with so many people are migrated back to UP and Bihar, I think we could have a very strong case being built up. I don't know, maybe you will be in a better position to explore that.

Shishir Joshipura: What you are saying is very valid, and I think we have to see as to how this whole thing in terms of the people who shifted back, would they look for employment.

Arvind Joshi: Yes, they could find employment there.

Shishir Joshipura: Exactly. So those are questions on which, society models have been formed and economic impact we will have to see. We have always been arguing that this is a technology that creates employment in the rural sector. We have talked about the fact that the whole concept of Bio economy is that, A, nothing is wasted; B, it creates a local capability; C, it creates local employment, especially at rural scale, which is very, very critical. It is foreign exchange accretive, it is efficient; it is greenhouse efficient, it is environmentally friendly, society friendly, it is economically viable. And therefore, we should get a lot more push. And what you said right now, it's clearly in the direction that there will actually be a possibility to create a large-scale employment in the rural side.

Arvind Joshi: Do you see any silver linings to these dark Corona clouds, any chances of migration of manufacturing capacities migrating from China especially in the critical equipment section? And especially in light of your strong tie-ups that you have been able to build up with several people? So would that open up some fresh avenues to our business?

Shishir Joshipura: Our current view is, so there are two dimensions, there is an emotional dimension then there is a rational dimension, as I call it. Mostly, everybody wants to create alternate capacity, alternative source. Rationally, it takes time to create the capacity, which is number one. Number two, we have to be aware of the fact that if it takes one year, 18 months, 24 months, at the end of the day we will have to be at a similar level of efficiencies and cost efficiency. There is no taking that away, eventually, when things settle down. Yes, there is a risk perspective and from that perspective, I think people will look to diversify their sourcing, which is good. We have to be fixed. We have to be competitive. And we have to be able to fight shoulder to shoulder every competition in global arena to win. That is not being taken away. The only additional dimension that is coming is nobody envisaged that such a thing can happen, that the whole globe is shut. Now they are saying, the risk can come in dimension that I have not thought about, so at least technically, whatever risks that I know off, let me try and mitigate that. So that should create opportunity for us. We are ready, we are already at a company level we have a global footprint that's been Praj's motto for years, almost since its inception, that we have a global footprint in our core business areas that is very value-accretive. So that is the positive side that we understand.

Sachin Raole: Secondly, definitely we are also eyeing for that, we are also closely monitoring that. We believe we will have some kind of an advantage of our relationship, which we have built up in our Critical Equipment story. But as I was also mentioning, it's a little time consuming process. So we will definitely see a shift and we are completely aware about and in touch with our customers to build up that kind of a relationship.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to turn the conference over to Mr. Sandip Bhadkamkar for his closing comments. Over to you, sir.

Sandip Bhadkamkar: First of all, thanks everyone for your time today. If you have any more questions, you are free to write us on our email id, info@praj.net. Thanks again for your time. And have a nice day. And stay safe. Thank you.

Moderator: Thank you very much. On behalf of Praj Industries Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.
