

Praj Industries

Margin expansion +ve; FY24 order inflow the key

Praj Industries (PRJ) reported its 4QFY23 numbers which were in line with our estimates mainly on the consolidated revenue front as PRJ posted YoY growth of 21.1% at Rs10,040mn vs our estimates of Rs10,850mn. On the consolidated EBITDA margins front it posted 12.4% (vs. 10.3% in 4QFY22) higher than our estimates of 11.0%. On the consolidated earnings front PRJ posted an impressive 52.9% YoY increase to Rs881mn - ~9.1% above our estimates (CentrumE of Rs808mn). This beat is primarily due to margin expansion (+210bps), higher other income (Rs.161mn vs. 112mn in 4QFY22) and lower tax rate (22%). We retain BUY rating with a revised target price of Rs542 (Rs532) based on 30x 1HFY25E EPS.

All time high quarterly revenue booking – thanks to strong order backlog

Praj reported all time high revenues for the quarter at Rs10,040mn (+21% YoY) primarily led by Bioenergy division (Rs7,170mn, +YoY 12%) followed by engineering (Rs2,062mn, +24% YoY) and Hi-purity division (Rs808mn, +225% YoY). On geographical basis, domestic revenues continued to dominate with 81% share in line with share in order backlog. For FY23, PRJ has clocked revenue jump of 51% to Rs35,204mn. Margins for the quarter came in healthy at 12.4% (+210bps) beating our and street estimates. Going ahead, for FY24 as per management margins to be benefitted because of cooling in commodity prices. Further, healthy product mix will also aid margins.

Order inflow key going ahead given stupendous execution

For the sixth consecutive quarter PRJ reported order bookings of ~Rs10bn. For 4QFY23, inflows came in at Rs10,380mn vs. Rs11,015 during the same quarter last year. The bioenergy sector remains the primary contributor, accounting for 81% of the total, while engineering and HPS followed with a share of 12% and 7%, respectively. PRJ ended the quarter with ATH order backlog of Rs34.3bn. The bioenergy sector remains the primary contributor, accounting for 84% of the total, while engineering and HPS followed with a share of 11% and 5%, respectively.

Other key highlights

IOCL Panipat 2G plant is successfully commissioned and first ethanol is out. Continuous operations and reliability enhancement plan under implementation. Praj joined hands with AirAsia India and IOCL to fly first commercial flight in India powered by a blend of 'indigenous' SAF. The SAF blended in the ATF was produced by Praj using indigenous feedstock leveraging its relationship with Gevo, Inc USA.

Maintain BUY with a target price of Rs542

We expect PRJ to post healthy revenue CAGR of 17% over FY23-25E on the back of robust order backlog (Rs34.3bn) and continuing momentum in order booking. Further, we expect PRJ to register 21% earnings CAGR over FY23-25E driven by cooling commodity prices. We assign a PE multiple of 30x on 1HFY25E earnings and arrive at a target price of Rs542, a potential upside of 45.0%. At CMP, the stock is trading at 19.6x FY25E EPS at a discount of 20% of its historic multiples. **We believe strong focus on execution, healthy return ratios and development/commercialization of new products will lead to re-rating of the stock and worries of order inflow slowdown are overdone.**

Financial and valuation summary

YE Mar (Rs mn)	4QFY23A	4QFY22A	YoY (%)	3QFY23A	QoQ (%)	FY23A	FY24E	FY25E
Revenues	10,040	8,290	21.1	9,100	10.3	35,280	45,173	48,442
EBITDA	1,083	742	46.0	862	25.7	3,147	4,201	4,384
EBITDA margin (%)	10.8	9.0	20.5	9.5	14.0	8.9	9.3	9.0
Adj. Net profit	881	577	52.9	623	41.4	2,398	3,167	3,318
Adj. EPS (Rs)	4.8	3.1	52.8	3.4	41.4	13.1	17.2	18.1
EPS growth (%)						59.6	32.1	4.8
PE (x)						28.7	21.7	20.7
EV/EBITDA (x)						19.9	15.3	14.4
PBV (x)						6.4	5.3	4.5
RoE (%)						24.1	26.8	23.7
RoCE (%)						23.9	26.5	23.5

Source: Company, Centrum Broking

Result Update

India I Mid Cap

26 May, 2023

BUY

Price: Rs374

Target Price: Rs542

Forecast return: 45%

Institutional Research

Market Data

Bloomberg:	PRJ IN
52 week H/L:	462/288
Market cap:	Rs68.8bn
Shares Outstanding:	183.7mn
Free float:	61.8%
Avg. daily vol. 3mth:	544,488

Source: Bloomberg

Changes in the report

Rating:	BUY; no change
Target price:	Rs 542; +2%
EPS:	FY24E: Rs17.2; +2.6% FY25E: Rs18.1; -3.4%

Source: Centrum Broking

Shareholding pattern

	Mar-23	Dec-22	Sep-22	Jun-22
Promoter	32.8	32.9	32.8	32.8
FIs	16.1	17.6	17.0	15.9
DIs	7.7	7.5	10.2	9.9
Public/other	43.4	42.0	40.0	41.3

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q4FY23	Actual Q4FY23	Variance (%)
Revenue	10,850	10,040	-7.5
EBITDA	1082	1083	0.1
EBITDA margin %	11.0	12.4	140bps
Adj. PAT	808	881	9.1

Source: Bloomberg, Centrum Broking



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Mid Cap

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	45,173	44,651	1.17	48,442	47,823	1.29
EBITDA	4,201	4,153	1.17	4,384	4,153	5.56
EBITDA margin %	9.3	9.3	nm	9.1	9.5 (40)bps	
Adj. PAT	3,167	3,095	2.34	3,318	3,427	-3.18
Diluted EPS (Rs)	17.2	16.8	2.63	18.1	18.7	-3.41

Source: Centrum Broking

Praj Industries versus NIFTY Midcap 100

	1m	6m	1 year
PRJ IN	6.0	(3.9)	17.3
NIFTY Midcap 100	3.5	1.0	13.4

Source: Bloomberg, NSE

Key assumptions

Key Assumptions (Rs mn)	FY24E	FY25E
Bio-energy order booking	37,777	41,555
Bio-energy net revenues	35,913	38,107
Engineering order booking	6,354	8,260
Engineering net revenues	6,358	7,067
HPS order booking	3,040	3,496
HPS net revenues	2,902	3,268
Consolidated EBITDAM (%)	9.3	9.6

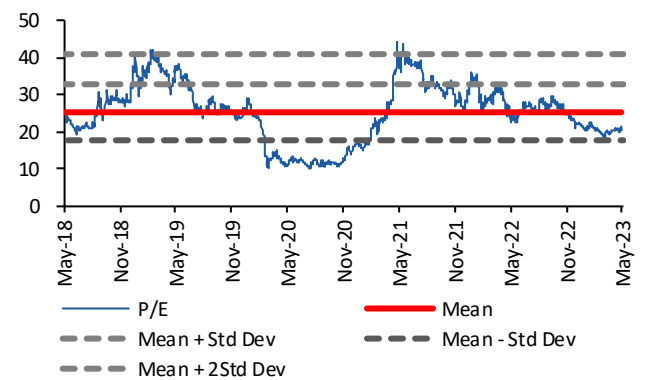
Source: Centrum Broking

Valuations

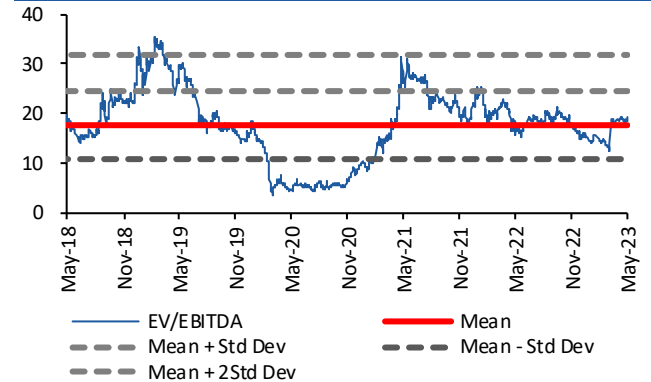
We expect PRJ to post healthy revenue/earnings CAGR of 17/21% respectively over FY23-25E on the back of robust order backlog (Rs34.3bn) and continuing momentum in order booking. **At CMP, the stock is trading at 18.1x FY25E EPS at a discount of 20% of its historic multiples. We believe strong focus on execution, healthy return ratios and development/commercialization of new products will lead to re-rating of the stock and worries of order inflow slowdown are overdone**

Valuations	Rs/share
1HFY25E EPS	18.1
Target multiple (x)	30
Target Price	542

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Key highlights and Summary

Segmental order inflows and Backlog

- For the sixth consecutive quarter PRJ reported order bookings of ~Rs10bn. For 4QFY23, inflows came in at Rs10,380mn vs. Rs11,015 during the same quarter last year. The consolidated order backlog as on FY23 stood at Rs34,140 million (+19% YoY). The bioenergy sector remains the primary contributor, accounting for 81% of the total, while engineering and HPS followed with a share of 12% and 7%, respectively. PRJ ended the year with ATH order backlog of Rs34.3bn (+19% YoY). The bioenergy sector remains the primary contributor, accounting for 84% of the total, while engineering and HPS followed with a share of 11% and 5%, respectively.

Geographical order inflows and Backlog

- Domestic orders dominated the order inflows, accounting for 83% of the total. The order backlog also reflected this trend, with domestic orders making up 85% of the total.

Share of international revenue remain flattish

- The share of international revenue in consolidated revenues came in at 19/17% for the 4Q/FY23 vs. 25/21% in 4Q/FY22. However, PRJ management has indicated that they expect an increase in the share of international revenue in the future, which would lead to margin expansion.

Other Key highlights

- **E2G plant:** IOCL Panipat 2G plant is successfully commissioned and first ethanol is out. Continuous operations and reliability enhancement plan under implementation.
- **SAF:** Praj joined hands with AirAsia India and IOCL to fly first commercial flight in India powered by a blend of 'indigenous' SAF. The SAF blended in the ATF was produced by Praj using indigenous feedstock leveraging its relationship with Gevo, Inc USA.
- **Praj to set up a new manufacturing facility:** To capitalize growing opportunity basket from ETCA segment, PRJ is setting up most modern manufacturing facility. The new facility will be set up near a major port with capex of Rs1,000mn.
- **Dividend:** PRJ has announced a final dividend of Rs.4.5/equity share for FY23.

Summary

- PRJ had an excellent quarter, exceeding expectations, particularly in terms of order inflows. The planned capital expenditure is in line with higher execution levels and the company's partnership with international players in the technology space bodes well for PRJ to seize upcoming opportunities in the bioenergy sector. Overall, PRJ's performance this quarter is very positive.

KTAs of earnings Concall

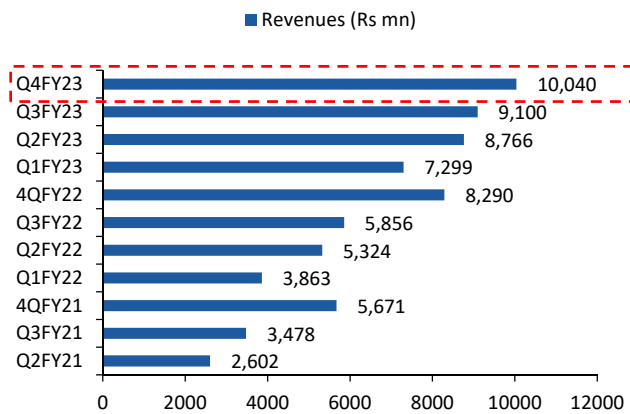
- **Order inflow** – Order inflow/enquiry pipeline remains very healthy and management sees no slowdown going ahead in terms of order booking. PRJ order inflow mix – sugary (40%) and starchy (60%) feedstock for 4QFY23/FY23, respectively. India's E1G ethanol manufacturing capacity - FY2 Capacity was ~10bn litres and is expected to reach 12.5bn by FY23. Pertinently, management believes that ethanol demand to sustain as application enhances.
- **Margin update** – FY24 margins to be benefitted because of cooling in commodity prices. Further, healthy product mix will also aid margins going ahead.
- **Export Orders** -- US market has seen some slowdown (expected for 2-3quarters) in terms of order booking given clarifications pending with respect to tax benefits under IRA. Going ahead, management believes that increase in share of export orders which would also lead to higher margins.
- **Other Key pointers** -- 1) SAF mandate is expected in future which is expected to lead opportunities for PRJ going ahead; 2) Eight ethanol deficient states (like TN/Gujarat/Kerala) are being urged to increase production by 300cr litres which can create Rs40bn ordering opportunity in E1G; 3) CGB order booking is still low and is expected to pick up in 2HFY24; 4) Traditional business (CPES/Brewery) is getting good traction; and 5) JV with IOCL to fructify by end of FY24. Business plans for the JV is primarily into bioenergy space. Investments needed for PRJ will be decided in future date as per the business plans.

Exhibit 1: Consolidated Financial Snapshot 4QFY23

YE Mar (Rs mn)	4QFY23A	4QFY22A	YoY (%)	3QFY23A	QoQ (%)	FY23	FY22	YoY (%)
Revenues	10,040	8,290	21.1	9,100	10.3	35,204	23,333	50.9
Raw material	5,925	5,235	13.2	5,568	6.4	21,938	14,538	50.9
Gross margins (%)	41.0	36.8	420bps	38.8	220bps	37.7	37.7	nm
Staff costs	705	584	20.6	675	4.4	2,576	2,176	18.4
Other Mfg. expenses	2,326	1,729	34.6	1,995	16.6	7,543	4,682	61.1
Total expenditure	8,957	7,548	18.7	8,238	8.7	32,057	21,395	49.8
EBITDA	1,083	742	46.0	862	25.7	3,147	1,938	62.4
EBITDAM (%)	10.8	9.0	180bps	9.5	130bps	8.9	8.3	60bps
Depreciation	95	67	42.5	72	31.8	302	226	33.9
Interest	22	8	179.8	8	169.6	46	25	84.4
Other income + Income from Associates	162	113	43.4	78	108.7	389	362	7.5
PBT	1,128	781	44.5	859	31.3	3,187	2,049	55.6
Tax	247	204	21.0	236	4.7	789	546	44.5
Reported Net profit	881	577	52.9	623	41.4	2,398	1,503	59.6
EPS (Rs.)	4.8	3.1	52.9	3.4	41.4	13.1	8.2	59.6

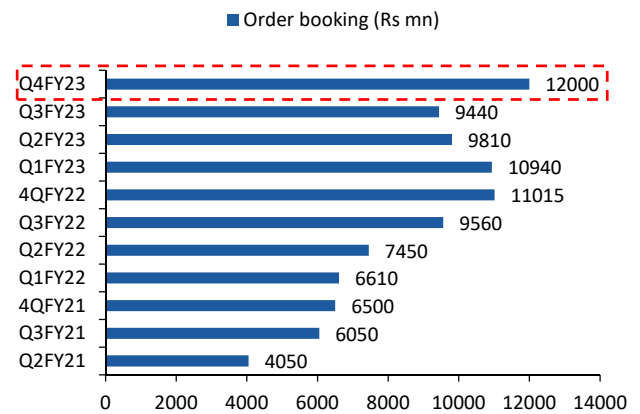
Source: Centrum Broking, Company Data

Exhibit 2: Quarterly Consolidated revenue trend



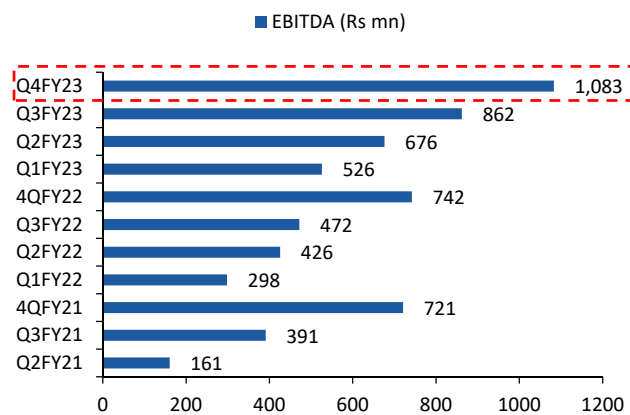
Source: Centrum Broking, Company Data

Exhibit 3: Quarterly Consolidated order booking trend



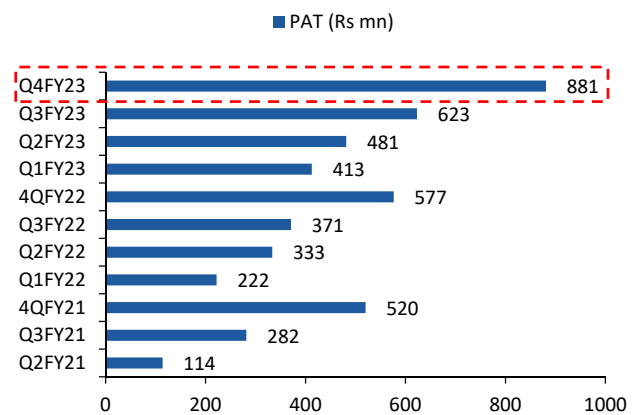
Source: Centrum Broking, Company Data

Exhibit 4: Quarterly Consolidated EBITDA trend



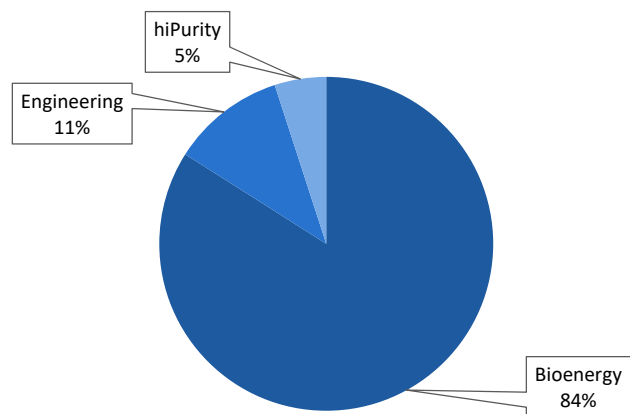
Source: Company Data, Centrum Broking

Exhibit 5: Quarterly Consolidated PAT trend



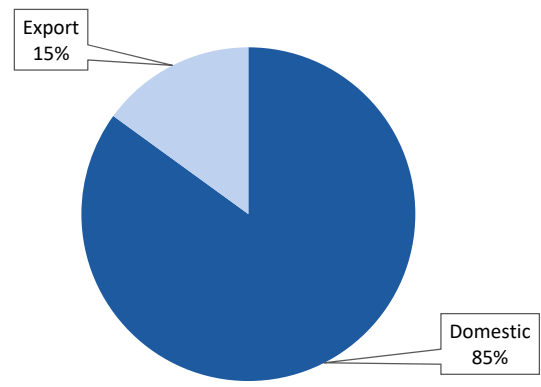
Source: Company Data, Centrum Broking

Exhibit 6: 4QFY23 - Segmental OB - Rs34,140mn



Source: Centrum Broking, Company Data

Exhibit 7: 4QFY23 - Geographical OB - Rs34,140mn



Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenues	13,047	23,333	35,280	45,173	48,442
Operating Expense	11,923	21,395	32,133	40,972	44,058
Employee cost	1,722	2,176	2,576	3,162	3,391
Others	2,302	3,910	6,485	7,770	8,308
EBITDA	1,123	1,938	3,147	4,201	4,384
Depreciation & Amortisation	221	226	302	346	392
EBIT	902	1,712	2,845	3,855	3,992
Interest expenses	29	25	46	50	50
Other income	257	362	389	428	492
PBT	1,131	2,049	3,187	4,233	4,434
Taxes	320	546	789	1,065	1,116
Effective tax rate (%)	28.3	26.7	24.8	25.2	25.2
PAT	811	1,502	2,398	3,167	3,318
Minority/Associates	0	0	0	0	0
Recurring PAT	811	1,502	2,398	3,167	3,318
Extraordinary items	0	0	0	0	0
Reported PAT	811	1,502	2,398	3,167	3,318

Ratios					
YE Mar	FY21A	FY22A	FY23A	FY24E	FY25E
Growth (%)					
Revenue	18.4	78.8	51.2	28.0	7.2
EBITDA	43.9	72.5	62.4	33.5	4.4
Adj. EPS	15.0	84.9	59.6	32.1	4.8
Margins (%)					
Gross	43.6	37.7	37.6	37.3	37.0
EBITDA	8.6	8.3	8.9	9.3	9.0
EBIT	6.9	7.3	8.1	8.5	8.2
Adjusted PAT	6.2	6.4	6.8	7.0	6.8
Returns (%)					
ROE	10.7	17.5	24.1	26.8	23.7
ROCE	10.9	17.5	23.9	26.5	23.5
ROIC	14.1	33.3	48.6	41.8	32.0
Turnover (days)					
Gross block turnover ratio (x)	2.3	3.9	5.3	5.8	5.7
Debtors	110	75	68	79	97
Inventory	60	59	56	53	64
Creditors	131	96	77	73	85
Net working capital	33	3	3	17	29
Solvency (x)					
Net debt-equity	(0.5)	(0.6)	(0.6)	(0.3)	(0.4)
Interest coverage ratio	39.3	77.2	68.0	84.0	87.7
Net debt/EBITDA	(3.8)	(2.9)	(1.9)	(1.0)	(1.2)
Per share (Rs)					
Adjusted EPS	4.4	8.2	13.1	17.2	18.1
BVPS	43.8	49.9	58.7	70.1	82.2
CEPS	5.6	9.4	14.7	19.1	20.2
DPS	2.2	4.2	4.5	5.5	6.0
Dividend payout (%)	48.8	51.3	34.5	31.9	33.2
Valuation (x)					
P/E	84.5	45.7	28.7	21.7	20.7
P/BV	8.5	7.5	6.4	5.3	4.5
EV/EBITDA	24.5	35.3	19.9	15.3	14.4
Dividend yield (%)	0.6	1.1	1.2	1.5	1.6

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity share capital	366	367	367	367	367
Reserves & surplus	7,652	8,790	10,413	12,518	14,734
Shareholders fund	8,018	9,157	10,781	12,886	15,102
Minority Interest	7	7	1	1	1
Total debt	0	0	0	0	0
Non Current Liabilities	113	148	269	269	269
Def tax liab. (net)	(104)	0	0	0	0
Total liabilities	8,034	9,312	11,050	13,156	15,371
Gross block	5,603	5,991	6,602	7,802	8,502
Less: acc. Depreciation	(2,904)	(3,130)	(3,433)	(3,779)	(4,170)
Net block	2,699	2,861	3,169	4,023	4,331
Capital WIP	6	21	69	69	69
Net fixed assets	2,705	2,882	3,238	4,092	4,400
Non Current Assets	89	124	161	161	161
Investments	535	791	968	1,016	1,067
Inventories	1,289	3,450	3,336	4,959	5,771
Sundry debtors	4,534	5,118	7,948	11,572	14,106
Cash & Cash Equivalents	4,275	5,529	6,033	4,382	5,469
Loans & advances	954	922	0	0	0
Other current assets	1,454	3,311	4,503	4,959	5,771
Trade payables	3,416	4,248	5,050	6,206	8,061
Other current liab.	3,960	8,058	9,187	10,882	12,414
Provisions	424	510	899	899	899
Net current assets	4,705	5,515	6,684	7,886	9,743
Total assets	8,034	9,312	11,050	13,156	15,371

Cashflow					
YE Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Profit Before Tax	1,131	2,049	3,187	4,233	4,434
Depreciation & Amortisation	221	226	302	346	392
Net Interest	50	68	(41)	50	50
Net Change – WC	1,159	93	(1,222)	(2,853)	(770)
Direct taxes	(149)	(450)	(625)	(1,065)	(1,116)
Net cash from operations	2,251	1,747	1,621	710	2,990
Capital expenditure	(85)	(185)	(353)	(1,200)	(700)
Acquisitions, net	0	0	0	0	0
Investments	(1,628)	(1,170)	(491)	868	(1,151)
Others	70	87	0	0	0
Net cash from investing	(1,643)	(1,268)	(844)	(332)	(1,851)
FCF	608	479	777	379	1,139
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	0	0	0	0	0
Dividend paid	(4)	(397)	(771)	(1,010)	(1,102)
Interest paid	(22)	(19)	(42)	(50)	(50)
Others	(37)	(27)	(121)	(52)	0
Net cash from financing	(63)	(444)	(934)	(1,112)	(1,152)
Net change in Cash	545	36	(157)	(734)	(14)

Source: Company, Centrum Broking

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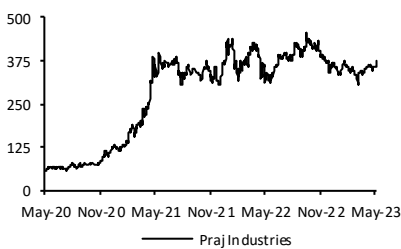
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Praj Industries



Source: Bloomberg

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