

Praj Industries Ltd (PRJ IN)

Building sustainable business drivers

INDIA | ENGINEERING | Quarterly Update

28 May 2023

Top takeaways from 4QFY23

- Results better than expected. Reducing seasonality with improvement in non-sugar-based order inflow (60% of bio-energy in FY24) and healthy order execution.
- Expect margin improvement with favourable revenue mix and stabilization of RM cost.
- Capacity addition and technology tie-ups for energy transition opportunities.

Key highlights

Revenue grew by 21.1%yoy (up 10.3%qoq) to Rs 10.0bn, 5.6% higher than estimates of Rs 9.5bn. Domestic revenue increased by 27.4% to Rs 8.13bn while export revenue remained stable yoy to Rs 1.9bn. Bioenergy revenue increased by 31.2%yoy to Rs 7.17bn while Engineering business (including brewery) declined by 8.1% yoy to Rs 2.06bn. High purity reported revenue increase of 34.7% yoy to Rs 808mn. Order intake remained flat yoy (up 10.0% qoq) to Rs 10.38bn; domestic orders declined by 13.6% to Rs 7.9bn, export orders increased by 35.5%yoy growth to Rs 2.38bn. Order backlog improved by 18.6% yoy (up 1.0% qoq) to the highest levels of Rs 34.14bn. Order book has a domestic order share of 85.0% at Rs 29.0bn; exports orders are 15.0% at Rs 5.12bn. Order book in ethanol (bioenergy) segment is Rs 28.6bn representing 84.0% share while share from engineering and Hi-purity is 11.0% and 5% respectively. EBITDA grew by 40.7%yoy to Rs 1.04bn in 4QFY23, 7.9% higher than estimates of Rs 969mn. EBITDA margins improved by 145bps at 10.4% in 4QFY23 compared to 9.0% in 4QFY22. Adjusted profit was at Rs 843mn, vs. estimates of Rs 750mn. Reported profit was at Rs 881mn including forex gain of Rs 38mn.

Conference call takeaways

- Capex of Rs 2bn+: (1) Praj is investing Rs 1bn for capacity addition under new subsidiary "Praj GenX to capitalise demand emerging from energy transition and climate action (ETCA) and expect to be operational by 4QFY24. (2) It is also setting up demo plant with capex of Rs 600mn at Jejuri, near Pune for bio-plastic opportunities. (3) Capital expenditure of Rs 150mn in R&D.
- Technology demonstrations: (1) First large scale 2G ethanol production started from IOCL Panipat plant. (2) First rice straw based commercial plant for HPCL commenced biogas generation and expects regular dispatch of CBG by end of June 2023.
- IOCL in partnership with Praj Industries supplied indigenous SAF blends for successful first commercial passenger flight of AirAsia I5-767 from Pune to New Delhi on 19 May 2023. This is significant step in the decarbonization of aviation sector.
- Praj has announced a JV Company with IOCL with 50:50 equity participation. This JVC would set up Biofuel production facilities and marketing of CBG, Ethanol, SAF and various coproducts and intermediates.
- The company is expecting export opportunities in design and fabrication for low carbon ethanol manufacturing plans with recent government support in USA.

Outlook and valuation: The stock is trading at 19.3x our FY25 earnings. Praj with its leadership in biofuel technology will benefit from upcoming opportunities in Bio-mobility, Bio-CNG and RCM with global push for sustainable environment. Praj has strong balance sheet with net cash of c. Rs 6.04bn and scalable business model. We revise valuations from 25x FY24 to 25x FY25 with a target of Rs 485 (earlier Rs 450).

BUY (Maintain)

CMP RS 374

TARGET RS 485 (+30%)

SEBI CATEGORY: SMALL CAP

COMPANY DATA

O/S SHARES (MN) :	184
MARKET CAP (RSBN) :	69
MARKET CAP (USDBN) :	0.8
52 - WK HI/LO (RS) :	462 / 288
LIQUIDITY 3M (USDMN) :	2
PAR VALUE (RS) :	2

SHARE HOLDING PATTERN, %

	Mar 23	Dec 22	Sep 22
PROMOTERS :	32.8	32.9	32.8
DII :	7.8	7.7	10.3
FII :	17.8	17.6	17.0
OTHERS :	41.5	41.8	39.9

KEY FINANCIALS

Rs mn	FY23	FY24E	FY25E
Net Sales	35,280	40,560	43,805
EBITDA	3,078	4,228	4,682
Net Profit	2,398	3,190	3,559
EPS, Rs	13.1	17.4	19.4
PER, x	28.7	21.5	19.3
EV/EBITDA, x	22.0	15.9	14.2
PBV, x	6.4	5.3	4.5
ROE, %	24.0	27.0	25.4

CHANGE IN ESTIMATES

Rs mn	Revised Est.		% Revision	
	FY24E	FY25E	FY24E	FY25E
Revenue	40,560	43,805	1	0
EBITDA	4,228	4,682	-5	0
Core PAT	3,190	3,559	-3	0
EPS (Rs)	17.4	19.4	-3	0

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Rs mn)	4QFY23	4QFY22	yoy	3QFY23	qoq	vs. expect. %	Comments
Revenue	10040	8290	21.1	9100	10.3	5.6	Domestic up 27.4% yoy; Ethanol up 31.2% yoy
Raw material	5925	5235	13.2	5568	6.4	4.7	Impact of revenue mix, stability in RM prices.
Other expenses	2365	1729	36.8	1997	18.4	15.0	
EBITDA	1045	743	40.7	860	21.5	7.9	
EBITDA margins (%)	10.4	9.0	145bps	9.5	96bps	100 bps	
Adj PAT	843	566	48.9	622	35.6	12.3	
Order inflow	10380	11015	-5.8	9440	10.0		Domestic 77%, ethanol 82%; High Purity 8%; engineering 10%
Order book	34140	28775	18.6	33800	1.0		Ethanol 84%, High Purity 5%, and emerging 11%

Quarterly Financials

Rs mn	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Total Revenue	5,856	8,290	7,299	8,766	9,100	10,040
YoY growth	68.4%	46.2%	89.0%	64.6%	55.4%	21.1%
Raw material cost	3,590	5,235	4,719	5,726	5,568	5,925
Raw material % of Sales	61.3%	63.1%	64.7%	65.3%	61.2%	59.0%
Employee Cost	585	584	541	655	675	705
Other expenditure	1,209	1,729	1,513	1,738	1,997	2,365
Total Cost	5,385	7,548	6,773	8,119	8,240	8,995
EBITDA	472	743	526	647	860	1,045
EBITDA margin (%)	8.1%	9.0%	7.2%	7.4%	9.5%	10.4%
Depreciation	52	67	64	72	72	95
EBIT	420	676	462	575	788	950
Interest	5	8	7	8	8	22
EBT	414	668	455	567	780	928
Other income	50	75	55	62	78	162
PBT	464	743	509	628	858	1,090
Tax	132	177	130	177	236	247
Tax rate (%)	28.4%	23.8%	25.5%	28.1%	27.5%	22.7%
PAT	333	566	380	452	622	843
Forex gain / (loss)	38	38	33	30	2	38
Extraordinary	-	-28	1	-	-	-
Reported PAT	371	577	413	481	623	881
EPS-adjusted (Rs)	1.8	3.1	2.1	2.5	3.4	4.6
EPS-Reported (Rs)	2.0	3.1	2.2	2.6	3.4	4.8
Order book	22,353	26,050	28,775	32,417	33,457	34,140
Order inflow	7,450	9,560	11,015	10,940	9,810	10,380

Source: PhillipCapital India Research

Additional Conference Call takeaways

- The company has c. 60% orders from starch-based feedstock and c.40% sugar-based feedstock in FY24 for ethanol plants in India.
- EBP 20 program progressing ahead of its target. OMCs have floated EOI for additional capacity worth 3bn litres for 8 ethanol deficit states creating investment opportunity of Rs 40bn.
- Tamil Nadu government unveiled its 'TN Ethanol Blending Policy 2023', to attract investments worth Rs 50bn in molasses/grain-based Ethanol production capacity.
- Budget: Additional outlay of Rs 197bn to facilitate transition of the economy to low carbon intensity and reduce dependence on fossil fuel imports. India's target is to reach an annual production of 5 MMT Green Hydrogen by 2030.
- Praj promoter, Dr. Pramod Chaudhari conferred with the Prestigious Eminent Engineer Award 2022.

Flex-fuel vehicles in India Auto Expo 2023

Different car and bike makers displayed vehicles running on Flex Fuel engines- Clear indication that auto industry is gearing up for ethanol adoption beyond EBP20



WagonR can run on Ethanol-petrol blend of 20-85%



Toyota Corolla Altis flex fuel



Bajaj Pulsar Ns160 flex fuel has 12L fuel tank capacity and can work in the E20-E85 range



The TVS Apache RTR 160 flex fuel has compatibility of 20-85% ethanol mix



The Hero Glamour Xtec has a 125cc engine, 10L fuel tank and compatibility of E20-E85 ethanol mix



Honda is also ready with flex fuel technology as seen in XRE 300 rally's E20-E85 compliance range

Sustainable Aviation Fuel (SAF) opportunity

Sustainable aviation fuel is being promoted in developed countries with mandate from 2027 which will be gradually followed by developing countries. IOCL in partnership with Praj Industries supplied indigenous SAF blends for successful first commercial passenger flight of AirAsia I5-767 from Pune to New Delhi on 19 May 2023. This is significant step in the decarbonization of aviation sector and Ministry of Civil Aviation is expected to promote SAF to mitigate environmental impact of Aviation. SAF initiative by Praj is developed in Partnership with Gevo Inc from Alcohol to Jet technology using bio-based feedstock. India will require c. 700mn ltr of SAF per annum assuming 5% blending from 2025. We believe success of SAF is positive for the company with sustainable and incremental demand drivers in India as well as in global markets.

Praj success in domestic Sustainable Aviation Fuel (SAF) with Air Asia and IOCL

Making history, Praj, AirAsia India and IOCL join hands to fly the first commercial flight in India powered by a blend of 'indigenous' Sustainable Aviation Fuel (SAF)



AirAsia India flight departed from Pune to New Delhi using a blend of indigenous SAF supplied by IOCL in partnership with Praj

Coverage Universe

Company	Size	Fw PE (FY24x)	Reco/Upside	
Container Corporation	M	31.1	BUY	28%
Praj Industries Ltd	S	21.5	BUY	30%
Pennar Industries Ltd	S	9.9	BUY	37%
Indo Count Industries	S	11.1	BUY	27%
KDDL	S	22.6	BUY	13%
Gateway Distriparks Ltd	S	13.3	BUY	60%
Navkar Corporation	S	11.7	BUY	29%
Allcargo Logistics Ltd	S	12.2	BUY	39%
Aegis Logistics	S	24.4	SELL	-18%
Mahindra Logistics Limited	S	46.4	BUY	38%
Transport Corporation of India	S	16.2	BUY	25%
VRL Logistics Ltd	S	30.2	BUY	8%

Source: Company, PhillipCapital India Research (Note: L/M/S = Large/Mid/Small Cap)

Financials

Income Statement

Y/E Mar, Rs mn	FY22	FY23	FY24E	FY25E
Net sales	23,333	35,280	40,560	43,805
Growth, %	78.8	51.2	15.0	8.0
Other operating income	-	-	-	-
Raw material expenses	14,538	22,014	25,025	26,940
Employee expenses	2,176	2,576	2,781	2,976
Other Operating expenses	4,682	7,612	8,525	9,207
EBITDA (Core)	1,938	3,078	4,228	4,682
Growth, %	72.5	58.8	37.4	10.7
Margin, %	8.3	8.7	10.4	10.7
Depreciation	226	302	331	365
EBIT	1,712	2,776	3,897	4,317
Growth, %	89.7	62.1	40.4	10.8
Margin, %	7.3	7.9	9.6	9.9
Interest paid	25	46	35	36
Other Income	241	356	420	496
Non-recurring Items	-	-	-	-
Pre tax profit	1,928	3,085	4,281	4,777
Tax provided	518	789	1,092	1,218
Profit after tax	1,410	2,296	3,190	3,559
Minorities/JV shares	-	-	-	-
Net Profit	1,503	2,398	3,190	3,559
Growth, %	26.9	47.6	18.0	18.0
Net Profit (adjusted)	1,503	2,398	3,190	3,559
Unadj. shares (m)	184	184	184	184
Wtd avg shares (m)	184	184	184	184

Balance Sheet

Y/E Mar, Rs mn	FY22	FY23	FY24E	FY25E
Cash & bank	1,551	1,448	2,132	2,905
Marketable securities at cost	3,979	4,584	5,043	5,951
Debtors	5,118	7,948	10,001	10,801
Inventory	3,450	3,336	4,445	4,801
Loans & advances	74	187	196	204
Other current assets	4,233	4,261	4,688	5,156
Total current assets	14,426	17,181	21,462	23,868
Investments	-	-	-	-
Gross fixed assets	4,928	5,728	6,928	7,728
Less: Depreciation	(2,706)	(2,968)	(3,259)	(3,583)
Add: Capital WIP	21	69	62	56
Net fixed assets	2,882	3,495	4,397	4,866
Non-current assets	822	1,018	1,018	1,018
Total assets	22,108	26,278	31,920	35,702
Trade Payables	4,248	5,050	7,223	7,801
Provisions	486	571	617	666
Total current liabilities	12,729	14,651	18,397	19,869
Non-current liabilities	211	428	432	436
Total liabilities	9,379	11,370	13,523	15,834
Paid-up capital	367	367	367	367
Reserves & surplus	8,790	10,413	12,518	14,777
Minorities	7	1	1	1
Shareholders' equity	9,164	10,781	12,887	15,145
Total equity & liabilities	22,108	26,278	31,920	35,702

Source: Company, PhillipCapital India Research

Cash Flow

Y/E Mar, Rs mn	FY22	FY23	FY24E	FY25E
Pre-tax profit	1,928	3,085	4,281	4,777
Depreciation	226	302	331	365
Chg in working capital	214	(936)	149	(161)
Total tax paid	(518)	(789)	(1,092)	(1,218)
Cash flow from operating activities	1,856	1,381	3,329	3,344
Capital expenditure	(222)	(848)	(1,193)	(794)
Chg in investments	(1,277)	(802)	(458)	(908)
Chg in marketable securities	-	-	-	-
Cash flow from investing activities	(1,258)	(1,294)	(1,231)	(1,206)
Free cash flow	617	121	2,124	2,165
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	98	217	4	4
Dividend (incl. tax)	(910)	(867)	(1,084)	(1,300)
Cash flow from financing activities	(1,064)	(707)	(1,140)	(1,356)
Net chg in cash	(466)	(620)	958	782

Valuation Ratios

	FY22	FY23	FY24E	FY25E
Per Share data				
EPS (INR)	8.2	13.1	17.4	19.4
Growth, %	85.3	59.6	33.0	11.6
Book NAV/share (INR)	49.9	58.7	70.2	82.5
FDEPS (INR)	8.2	13.1	17.4	19.4
CEPS (INR)	9.4	14.7	19.2	21.4
CFPS (INR)	10.1	7.5	18.1	18.2
DPS (INR)	4.2	4.0	5.0	6.0

Return ratios

Return on assets (%)	7.9	9.9	11.0	10.5
Return on equity (%)	17.5	24.0	27.0	25.4
Return on capital employed (%)	15.2	20.5	23.8	22.6
ROIC (%)	16.0	20.8	25.5	24.9

Turnover ratios

Asset turnover (x)	10.4	12.5	10.9	10.4
Sales/Net FA (x)	8.1	10.1	9.2	9.0
Working capital/Sales (%)	7.3	7.2	7.6	9.1
Receivable days	75.5	67.6	80.8	86.7
Inventory days	59.5	56.3	56.7	62.6
Payable days	59.9	48.1	55.2	62.6
Working capital days	26.6	26.2	27.6	33.3

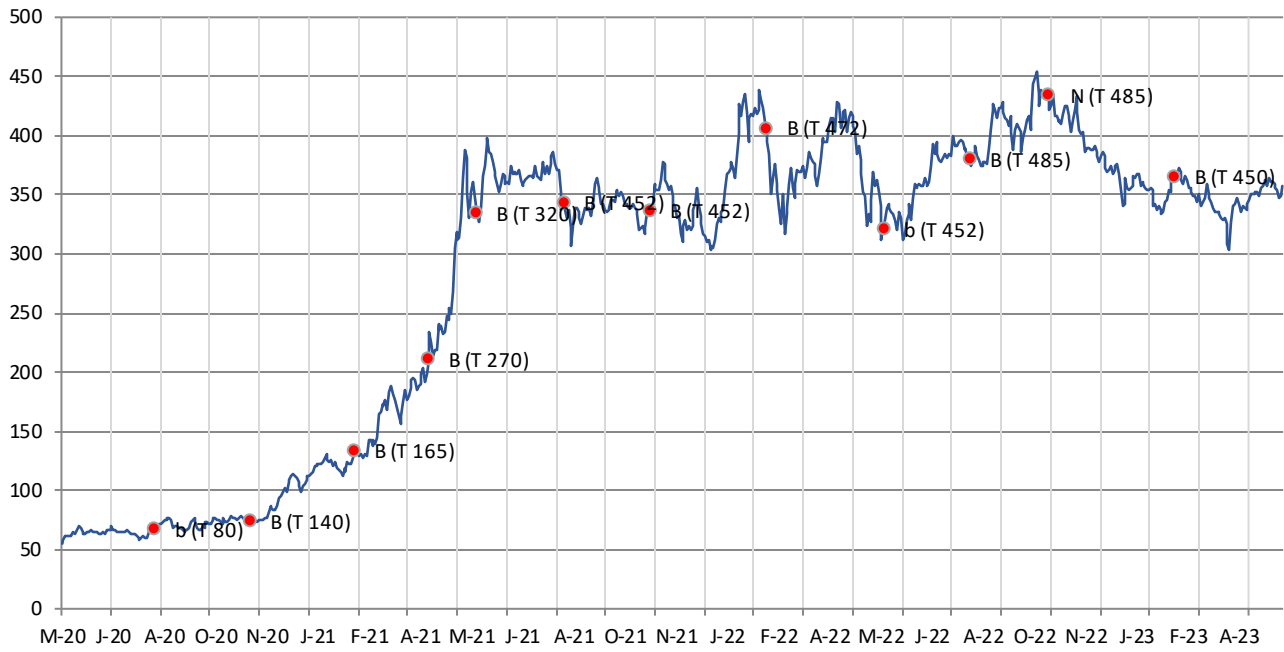
Liquidity ratios

Current ratio (x)	1.1	1.2	1.2	1.2
Quick ratio (x)	1.2	1.2	1.3	1.2
Interest cover (x)	68.2	60.0	110.1	121.6
Total debt/Equity (x)	0.0	0.0	0.0	0.0
Net debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)

Valuation

PER (x)	45.7	28.7	21.5	19.3
PEG (x) yoy growth	0.5	0.5	0.7	1.7
Price/Book (x)	7.5	6.4	5.3	4.5
EV/Net sales (x)	2.9	1.9	1.7	1.5
EV/EBITDA (x)	34.8	22.0	15.9	14.2
EV/EBIT (x)	39.4	24.4	17.2	15.3

Stock Price, Price Target and Rating History



Source: PhillipCapital India Research

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$(10\% > \text{to} < +10\%$	Target price is less than +10% but more than (10%
SELL	$\leq (10\%$	Target price is less than or equal to (10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$(15\% > \text{to} < +15\%$	Target price is less than +15% but more than (15%
SELL	$\leq (15\%$	Target price is less than or equal to (15%.

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