

## Continued traction in New Order Book Growth & Execution, Encouraging Outlook in CPS & ZLD business; Maintain BUY

Praj Industries posted a robust set of numbers for the quarter with the company's performance inline with our expectations, Orderbook came in at 956 Cr against our expectation of 711 Cr. Company's Bio Energy orderbook grew by 6% q-o-q & 146% y-o-y on account of strong demand for grain based distilleries which formed ~66% of the new orderbook this quarter. The Engineering segment Orderbook stood at 287 Cr for this quarter as company is experiencing improved traction in CPS business, whereas the High Purity business bagged orders worth 57 Cr in the current quarter. The Order Backlog stands at 2605 Cr consisting of 66% Bio Energy, 28% Engineering & 6% High Purity, geographically ~90% of the Order book consists of domestic orders & International constitutes 10%. Praj's revenue for the quarter stood at Rs 585 Cr (our estimate - Rs 590 Cr) as compared to Rs 348 Cr in Q3 FY21, reporting a growth of 68% YoY. Reported EBITDA came in at Rs 47.25 Cr (our estimate - Rs 50 Cr), a 21% YoY increase. Praj reported an EBITDA margin of 8.07% (our estimate - 8.47%), a 317bps YoY contraction. PAT came in at Rs 37.1 Cr (our estimate - Rs 38.2 Cr) as compared to Rs 28.1 Cr in Q3 FY21, a growth of 32% YoY. Orderbook execution rate remained constant. We expect the company's Revenues/Earnings to grow at 54%/68% CAGR over FY21-FY23. **We maintain our BUY rating with a revised Target Price of Rs 477 (from Rs 472 earlier) valuing the company at 39x FY23 EPS.**

### Key Concall Takeaways

- Continued Strong Demand for Domestic Grain based 1G Ethanol plants:** During Q2 FY22 ~118 Cr Litres of capacity was ordered built in the country of which ~94 cr litres was for Grain based capacity(starchy feedstock) indicating momentum in Grain based distilleries, this will ensure wide spread of Ethanol across country and help in achieving EBP targets. During the current quarter company received orders worth 433 Cr from grain based distilleries. The BSPD has announced availability of 17 MMT of surplus grains, this shall help to continue the starchy feedstock momentum. Govt has given green signal to 196 grain based Ethanol projects amounting Ethanol Production capacity of almost 859 Cr Litres per annum.
- Key Business Updates:** India has achieved highest ever Ethanol blend of 8.1% in 2021 with around 90% of Ethanol supplied from Sugary feedstock, to give further encouragement for diverting excess sugar to ethanol, the government has hiked the price of ethanol extracted from sugarcane for by up to Rs 1.47 per litre for 2021-22. On International front company is seeing good momentum in capacity building in North and South America. BioSyrup is witnessing good response on initial levels in Brazil.
- CBG Update:** Govt has withdrawn the subsidy for the CBG business which is counter intuitive to its earlier initiative, many bodies have asked for the restoration of the subsidy. The gas prices are also due for an impending revision, this along with the positive traction in the co-product development shall improve the overall commercial feasibility for the CBG plant helping to improve the CBG ecosystem.

### Outlook & Valuation – Maintain BUY

Praj is witnessing strong growth in its key segment Bio Energy in Domestic business, the overall demand-supply gap of Ethanol, increased interest in grain based distilleries and decarbonisation impetus is auguring well for Praj along with development in other key verticals such as CPS, ZLD & High Purity gaining traction. Praj is a key beneficiary of multiple tailwinds provided by the bio-economic revolution, giving strong growth & revenue visibility for the next 3-5 years. We expect a robust Revenue/Earnings CAGR of 38%/54% over the same period. **We maintain our BUY with a revised target price of Rs 477 (from Rs 472 earlier) valuing the company at 39x (~30% discount to TTM PE of 55x) FY23 EPS, implying an upside of 19% from the CMP 400.**

### Key Financials

(Rs Cr)	FY21	FY22E	FY23E
Net Sales	1,305	2,194	3,103
EBITDA	112	179	308
Net Profit	81	135	229
EPS (Rs)	4.41	7.35	12.44
P/E (x)	44x	55x	33x
ROE (%)	10.7%	15.9%	22.7%
ROA (%)	5.9%	7.9%	11.2%

Source: Company, Axis Research

CMP as of 9<sup>th</sup> Feb, 2022

CMP (Rs)	400
Upside /Downside (%)	19.2%
High/Low (Rs)	448/125
Market cap (Cr)	7,438
Avg. daily vol. (6m) Shrs.	1,32,000
No. of shares (Cr)	18.37

### Shareholding (%)

	Jun-21	Sep-21	Dec-21
Promoter	32.9	32.9	32.9
FII's	12.3	11.6	13.1
MFs / UTI	14.3	14.7	6.8
Banks / FIs	0.3	0.0	0.3
Others	40.2	40.7	46.9

### Financial & Valuations

Y/E Mar (Rs Cr)	FY21	FY22E	FY23E
Net Sales	1,305	2,194	3,103
EBITDA	112	179	308
Net Profit	81	135	229
EPS (Rs.)	4.42	7.35	12.44
PER (x)	92	55	33
EV/EBITDA (x)	65	41	24
ROE (%)	11%	16%	23%

### Key Drivers (%) (Growth in %)

Y/E Mar	FY22E	FY23E	FY24E
Net Sales	68%	41%	11%
EBITDA	59%	73%	31%
Net Profit	67%	69%	30%

### ESG disclosure Score\*\*

Environmental Disclosure Score	N/A
Social Disclosure Score	N/A
Governance Disclosure Score	N/A
Total ESG Disclosure Score	N/A

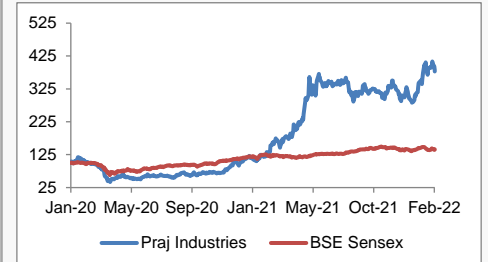
Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

### Axis vs Consensus

EPS Estimates	2022E	2023E
Axis	7.35	12.44
Consensus	8.16	-
Mean Consensus TP (12M)(Rs)	485	

### Relative performance



Source: Capitaline, Axis Securities

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**Praj Industries Q3 FY22 Financial Highlights (Consolidated)**

(Rs Cr)	Q3 FY22	ASL Estimates	ASL Var (%)	Q2 FY22	Q-o-Q Growth (%)	Q3 FY21	Y-o-Y Growth (%)
Revenue	586	590	-0.7%	532	10.0%	348	68.4%
Less:							
Net Raw Material consumed	359	367	-2.2%	345	4.2%	191	87.5%
Employee	58.52	59	-0.8%	56.23	4.1%	42.79	36.8%
Other Expenses	120.90	114	6.1%	99.11	22.0%	73.51	64.5%
Total Expenditure	538	540	-0.3%	490	9.9%	309	74.4%
EBIDTA	47.25	50	-5.5%	42.56	11.0%	39.10	20.8%
Less: Depreciation	5.23	5.3	-1.3%	5.38	-2.8%	5.67	-7.8%
EBIT	50.85	45	13.8%	47.34	7.4%	39.5	28.7%
Less: Net Interest	0.54	0.58	-6.9%	0.57	-5.3%	0.72	-25.0%
Add: Other income	5	7	-28.7%	7	-24.3%	5	-7.2%
Profit Before Extra-ordinary items and Tax	50.31	52.2	-3.6%	46.77	7.6%	38.78	29.7%
Less: Extraordinary Expense (net)	0	0		0		0	
Profit Before Tax	50.31	52.2	-3.6%	46.77	7.6%	38.78	29.7%
Less: Total Tax	13.2	14	-5.7%	13.43	-1.7%	10.62	24.3%
Profit After Tax	37.11	38.2	-2.9%	33.34	11.3%	28.16	31.8%
Shares Outstanding (mn)	18.36	18.36		18.36			
Reported EPS (Rs.)	2.02	2.08	-2.8%	1.82	11.3%	1.54	31.3%

Source: Company; Axis Securities

### Other Key Concall Takeaways

- Introduction of additional excise duty of Rs 2 per litre on unblended fuel indicated govt intent to shift towards Low Carbon economy.
- OMC have tendered for Ethanol requirement of 459 Cr litres in current ESY and have issued Letter of Intent for 369.4 Cr litres as on Jan 16, to match the deficit the OMCs have issued separate tender of 95 Cr Litre on Jan 31.
- On 2G - Execution of IOCL project has reached 80% level and is on path
- Rising commodity prices, logistics and longer delivery cycles continue to dampen companies operating profits
- Cash in hand stood at 488 Cr as of Dec, 2021.
- Company is planning on capacity expansion, more details will be available in coming quarter.
- ZLD business showing good traction Repeat order win from a leading metal major is testament to Praj technology prowess.
- Praj is currently executing Hydrogen plant project for leading players in the world & the company is in position to build several solutions in this space, the development in CPS business on back of focussed effort offerings to clean tech and green tech companies who are trying to commercialise their technologies should yield result in coming quarters
- Bio Diesels commercial feasibility can open up a similar size market as the current E20 program, although availability of feed stock remains challenge
- Progress on Ligno Cellulosic feedstock, company strives hard for commercial feasibility any improvement can open up a huge market in India given the abundant availability of raw material.
- Overall impact of the rising commodity prices on companies operating margin was 2%
- Company saw rise in other Operating Expense on account of increased site related activity and as travel expense increase post lockdown.

### Change in Estimates

	Revised			Old			% Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,194	3,103	3,438	2,163	2,930	3,388	1%	6%	1%
EBITDA	179	308	404	188	335	408	-5.0%	-8.0%	-1.0%
PAT	135	229	298	142	248	301	-4.9%	-7.9%	-1.1%
EPS	7.35	12.44	16.21	7.73	13.49	16.38	-4.9%	-7.8%	-1.0%

Source: Company, Axis Securities

## Financials

### Profit & Loss

(RsCr)

Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Net sales	1,102	1,305	2,194	3,103	3,438
Raw Material	552	736	1,358	1,893	2,019
Employee benefit expenses	164	172	219	260	292
Other Expenses	308	284	438	642	722
EBITDA	78	112	179	308	404
Other income	30	26	33	33	33
PBIDT	108	138	212	341	437
Depreciation	22	22	21	21	21
Interest & Fin Chg.	3	3	3	3	3
E/o income / (Expense)	-	-	-	-	-
Pre-tax profit	83	113	188	317	414
Tax provision	13	32	53	89	116
RPAT	70	81	135	229	298

Source: Company, Axis Securities

### Balance Sheet

(RsCr)

Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	37	37	37	37	37
Reserves & Surplus	683	765	857	1,085	1,383
Total Equity	720	803	894	1,122	1,420
Total Non-Current Liabilities	32	27	27	27	27
Trades Payable	187	342	487	679	725
Other Current Liabilities	197	376	376	376	376
Total Current Liabilities	409	764	910	1,102	1,147
<b>Total Capital Employed</b>	<b>1,162</b>	<b>1,594</b>	<b>1,831</b>	<b>2,251</b>	<b>2,595</b>
Net Block	217	206	205	202	200
Goodwill	63	63	63	63	63
Total Non-Current Assets	382	358	357	354	352
Cash	46	101	42	140	398
Inventory	111	129	219	296	304
Receivables	330	453	661	910	989
Investments	124	295	295	295	295
Total Current Assets	780	1,235	1,474	1,897	2,243
<b>Total Assets</b>	<b>1,162</b>	<b>1,594</b>	<b>1,831</b>	<b>2,251</b>	<b>2,595</b>

Source: Company, Axis Securities

**Cash Flow**

(RsCr)

Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Net Profit before Tax	83	113	188	317	414
Depreciation	22	22	21	21	21
Working Capital Changes	-76	116	-153	-133	-43
Tax Paid	-18	-15	-53	-89	-116
Cash From Operating Activities	15	225	-28	86	245
Cash From Investing Act	62	-164	14	15	15
Cash Flow from Financing	-98	-6	-46	-2	-2
Change in Cash	-21	54	-59	98	258
Opening Cash	64	46	101	42	140
Closing Cash	46	101	42	140	398

Source: Company, Axis Securities

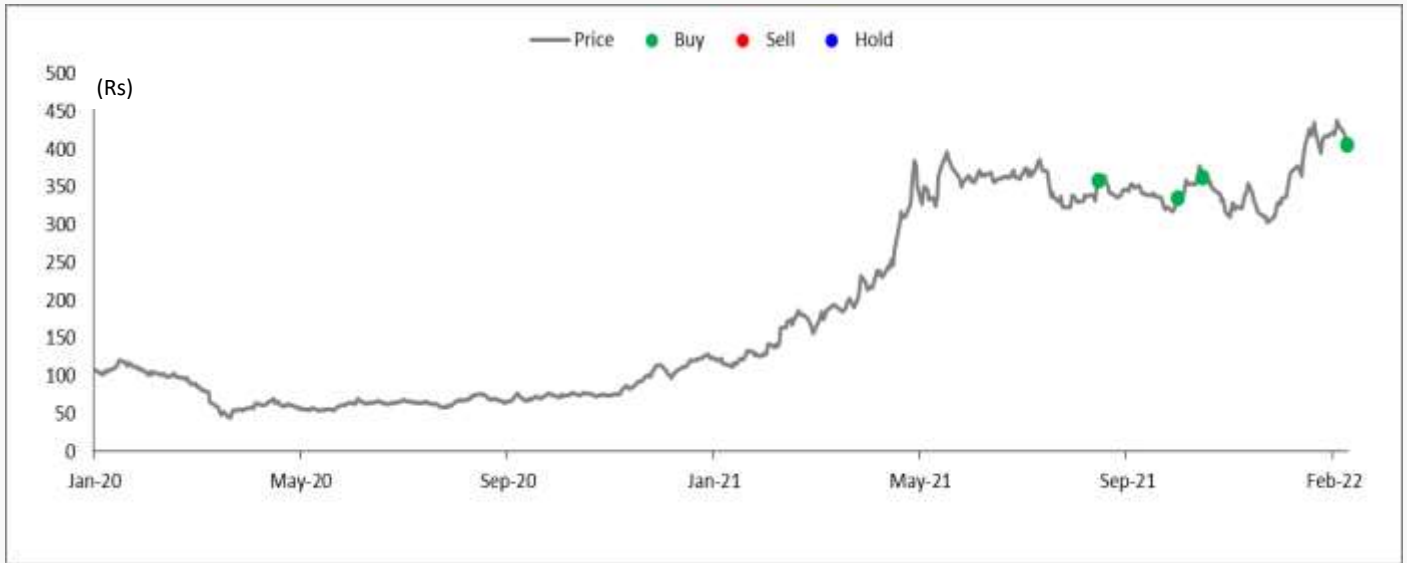
**Ratio Analysis**

(%)

Y/E March	FY20	FY21	FY22E	FY23E	FY24E
<b>Operational Ratios</b>					
Gross profit margin	50%	44%	38%	39%	41%
EBITDA margin	7%	9%	8%	10%	12%
PAT margin	6%	6%	6%	7%	9%
<b>Growth Indicators</b>					
Sales growth	-3%	18%	68%	41%	11%
EBITDA growth	-2%	44%	59%	73%	31%
PAT growth	3%	15%	67%	69%	30%
<b>Efficiency Ratios</b>					
Total Asset turnover (x)	0.9	0.9	1.3	1.5	1.4
Inventory turnover (x)	4.7	6.1	7.8	7.4	6.7
Sales/Working Capital	4.4	5.0	4.4	5.0	5.8
Sales/ Total Assets					
<b>Liquidity Ratios</b>					
Total Debt/Equity(x)	0.00	0.00	0.00	0.00	0.00
Total Asset/Equity(x)	1.81	2.02	2.02	1.91	1.76
Current Ratio(x)	1.91	1.62	1.62	1.72	1.95
Quick Ratio(x)	1.63	1.45	1.38	1.45	1.69
Interest Cover(x)	25.18	39.29	62.50	107.81	141.38
<b>Per Share Data</b>					
Earnings Per Share (Rs)	3.85	4.42	7.35	12.44	16.21
<b>Valuation Ratios</b>					
Adjusted PE (x)	14.3	44.0	55.1	32.5	25.0
Price / Book Value(x)	1.4	4.5	8.3	6.6	5.2
EV/Net Sales(x)	0.9	2.6	3.3	2.4	2.1
EV/EBITDA(x)	8.9	24.9	41.1	23.8	18.2
EV/EBIT(x)	11.1	29.6	38.5	22.9	17.6
<b>Return Ratios</b>					
ROA	5.85%	5.88%	7.89%	11.20%	12.29%
ROE	9.62%	10.66%	15.93%	22.68%	23.43%
ROCE	11.39%	14.66%	21.76%	30.94%	32.07%

Source: Company, Axis Securities

### Praj Industries Chart and Recommendation History



Date	Reco	TP	Research
13-Sep-21	Buy	492	Initiating Coverage
29-Oct-21	BUY	472	Result Update
15-Nov-21	BUY	472	Event Update
10-Feb-22	BUY	477	Result Update

Source: Axis Securities

**About the analyst**

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Sector: Sugar, Textile & Midcap Opportunities

Analyst Bio: Prathamesh is a CFA with 4 years of experience in Equity Market/Research.

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