

## Increasing Share of Export & Services Orderbook to Improve Margins

**Est. Vs. Actual for Q2FY24:** Revenue- **MISS**; EBITDA - **MISS**; PAT- **MISS**

### Changes in Estimates post Q2FY24

**FY24E/FY25E:** Revenue: -4%/-1%; EBITDA:-2.4%/-1%; PAT: -5.5%/1%

### Recommendation Rationale

- **Strong Exports, Good Quality Orderbook Momentum likely to continue-** The company received its first big order from the USA and the management remains confident in demand for low-carbon intensity Ethanol in the USA as SAF demand increases. The company also expects the revenue share of Engineering Services to increase in future and both have higher margins than the traditional business.
- **CBG& Other Business** – 1/5 large CBG project has started with execution, enquiry pipeline remains strong. The PHS segment was surprised with a 100 Cr+ order in Q2FY24. Engineering continues strong order inflow as CPES caters to ETCA needs.
- **Hiccup in Domestic Ethanol Business** – A change in domestic grain policy stopped the supply of rice for ethanol production which halted several prospective and existing grain-based projects, although revised prices for grain-based ethanol by OMCs and reduction on GST for molasses have given certain comfort. On the other hand, lower sugar production guidance by the ISMA may have a possible impact on sugar-based plants. We remain cautious about the impact of these developments.

**Company Outlook & Guidance:** We maintain our **Positive** outlook on Praj Industries. However, the company's stock has seen a massive run-up which has led to the stock being fairly valued. We marginally revise our FY24/25E estimates to factor in the hiccup in order execution in H1FY24 and higher margins in the coming quarters.

**Valuation:** 25x FY26E (Earlier: 30x FY25E)

**Current TP:** Rs 580 (Earlier: Rs 510)

**Recommendation:** We believe that the transition towards cleaner forms of energy is the only sustainable way to grow and this will attract major global investments in the coming years as global environmental issues create existential challenges. As we roll forward our estimates to FY26E, we revise our rating from **BUY** to **HOLD** as the recent move limits the upside potential to 9% from the CMP.

**Financial Performance:** Praj Industries reported a weak set of numbers in Q2FY24, missing our estimates on all fronts on account of lower execution in grain-based distilleries. The company reported revenue of Rs 882 Cr, up 19.8%/0.7% YoY/QoQ. EBITDA came in at Rs 78 Cr, a 190bps drop from our expectations on account of higher operating and employee expenses. The company's PAT stood at Rs 62 Cr, up 29%/6.3% YoY/QoQ inline with overall performance.

**Outlook:** Praj Industries is one of the most pure-play investment strategies aiming at carbon neutrality and environmental sustainability. The global commitments and interest in the decarbonisation theme are only increasing with time. This bolsters our confidence in the company's long-term growth prospects.

**Valuation & Recommendation:** We revise our target price upwards to account for the impact of improvement in margins as the company's new orderbook comprises higher margin profile orders and better commodity prices improve gross margins. We roll forward our estimates to FY26E with a revised target price of Rs 585/share, valuing the company at 26x FY26E. We revise our BUY rating on the stock to HOLD with an upside potential of 9% from the CMP.

### Key Financials (Consolidated)

(Rs Cr)	Q2FY24	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	882.4	1%	20%	1,114.0	-21%
EBITDA	77.9	20%	9%	120.0	-35%
EBITDA Margin	8.82%	144bps	-86bps	11.20%	-238bps
Net Profit	62.4	30%	6%	99.1	-37%
EPS (Rs)	3.4	30%	6%	5.4	-37%

Source: Company, Axis Research

(CMP as of 1<sup>st</sup> Nov 2023)

CMP (Rs)	534
Upside /Downside (%)	9.3%
High/Low (Rs)	615/299
Market cap (Cr)	9,812
Avg. daily vol. (1m, lakh)Shrs.	9.93
No. of shares (Cr)	18.3

### Shareholding (%)

	Mar-23	Jun-23	Sep-23
Promoter	32.8	32.8	32.8
FIIIs	17.8	18.3	17.9
DIIIs	7.8	8.4	10.2
Retail	41.5	40.5	39.0

### Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	3,884	4,514	5,371
EBITDA	420	522	607
Net Profit	311	372	429
EPS (Rs)	16.9	20.2	23.3
PER (x)	31.6	26.4	22.9
EV/EBITDA (x)	23.1	18.6	16.0
ROE (%)	25%	24%	22%

### Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	-4%	-1%
EBITDA	-2.1%	-1%
PAT	-5.5%	-1%

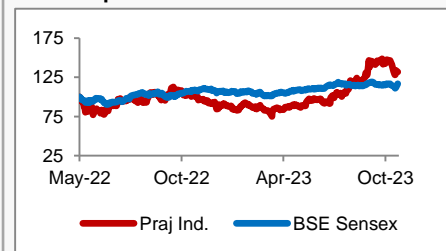
### ESG disclosure Score\*\*

Environmental Disclosure	1.93
Social Disclosure Score	20.6
Governance Disclosure	83.6
Total ESG Disclosure Score	35.4
Sector Average Score	44.1

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 2022 disclosures

### Relative performance



Source: ACE Equity, Axis Securities

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## Recommendation Rationale & Key Highlights

- **International Orders** –The company received its first order from the USA. Under the IRA programmed, there is a goal to achieve 3 Bn gallons per year of production by 2030 out of which 2Bn gallon ethanol has to be low carbon ethanol by 2030. US has a total requirement of 1200 cr ltr of SAF over the next three years. Brazil is seeing the development of alternative feedstock apart from sugar.
- **Services Business Development** - Praj is building up its base by developing the distribution channel for a variety of its service portfolio which includes yeast, enzymes and yield-enhancing services. Currently, it contributes less than 3% of overall revenues.
- **Cash in Book** stands at 687 Cr. The company saw higher employee expenses on account of pay revision and new hiring for GenX. Gross margins improved by more than 300 bps Q-o-Q as commodity prices softened.
- **Praj GenX Limited**- To address growing opportunities from the Energy Transition & Climate Action (ETCA) segment, Praj launched a new subsidiary with a capex of 100 Cr (*Praj GenX Limited*) to offer cutting-edge modularized solutions as well as critical equipment for various low carbon fuel projects such as Blue and Green Hydrogen/ ammonia etc. The company expects commercial production to start from Q4FY24 onwards.

## Key Risks to our Estimates and TP

- Delay in order execution, or cancellation of orders.
- Delay in execution of Government policies and International policies and regulations
- Raw material inflation and technological advancement by competitors may disrupt the business.

## Change in Estimates

	Revised		Old		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	3,884	4,514	4,033	4,561	-4%	-1%
EBITDA	420	522	429	526	-2.1%	-0.9%
PAT	311	372	328	375	-5.5%	-0.9%
EPS	16.90	20.24	17.88	20.43	-5.5%	-0.9%

Source: Company, Axis Securities

**Results Review Q2FY24**

(Rs Cr)	Q2FY23	Q1FY24	Q2FY24 Axis Est	Q2FY24	Y-o-Y Growth (%)	Q-o-Q Growth (%)	Axis Variance
Revenue	876.6	736.7	1,114	882.4	1%	20%	-21%
Net Raw Material consumed	572.6	439.5	664	498.9	-13%	14%	
Gross Profit	304.0	297.2	451	383.5	26%	29%	
Gross Margin %	34.68%	40.34%	40.50%	43.46%	878bps	311bps	296bps
Employee	65.5	62.8	77	88.9	36%	42%	
Other Expenses	173.8	163.1	253	216.7	25%	33%	
Total Expenditure	811.9	665.4	994	804.5	-1%	21%	
EBIDTA	64.7	71.3	120	77.9	20%	9%	-35%
EBIDTA Margin	7.4%	9.7%	11.2%	8.8%	144bps	-86bps	-238bps
Less: Depreciation	7.2	8.8	9	9.1	26%	3%	
EBIT	66.6	78.8	128	85.8	29%	9%	
Less: Net Interest	0.8	1.1	1	1.0	25%	-7%	
Add: Other income	9.1	16.3	12	17.1	87%	5%	
Profit Before Extra-ordinary items and Tax	65.8	77.7	127	84.8	29%	9%	
Less: Extraordinary Expense (net)	-	-	-	-			
Profit Before Tax	65.8	77.7	127	84.8	29%	9%	
Less: Total Tax	17.7	19.0	28	22.4	27%	18%	
Profit After Tax	48.1	58.7	99	62.4	30%	6%	-37%
Reported EPS (Rs.)	2.62	3.19	5	3.40	30%	6%	-37%

Source: Company, Axis Securities

## Financials (consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Net sales	3,528	3,884	4,514	5,371
Raw Material	2,201	2,252	2,595	3,115
Employee benefit expenses	258	333	381	413
Other Expenses	761	878	1,016	1,235
EBITDA	308	420	522	607
Other income	46	37	52	47
PBIDT	354	457	574	654
Depreciation	30	34	66	67
Pre-tax profit	319	415	497	573
Tax provision	79	105	125	145
RPAT	240	311	372	429

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Share Capital	37	37	37	37
Reserves & Surplus	1,041	1,352	1,724	2,153
Total Equity	1,078	1,389	1,760	2,189
Total Non-Current Liabilities	40	40	40	40
Trades Payable	505	463	533	640
Other Current Liabilities	864	864	864	864
Total Current Liabilities	1,501	1,426	1,496	1,603
<b>Total Capital Employed</b>	<b>2,619</b>	<b>2,854</b>	<b>3,297</b>	<b>3,832</b>
Net Block	237	473	478	483
Goodwill	63	63	63	63
Total Non-Current Assets	437	673	678	683
Cash	99	138	414	702
Inventory	334	339	377	452
Receivables	795	745	866	1,030
Investments	458	458	458	458
Total Current Assets	2,182	2,181	2,619	3,149
<b>Total Assets</b>	<b>2,619</b>	<b>2,854</b>	<b>3,297</b>	<b>3,832</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Net Profit before Tax	319	415	497	573
Depreciation	30	34	66	67
Working Capital Changes	-122	-5	-94	-140
Tax Paid	-63	-105	-125	-145
Cash From Operating Activities	162	275	299	319
Cash From Investing Act	-84	-234	-19	-25
Cash Flow from Financing	-93	-8	-11	-14
Change in Cash	-16	33	269	281
Opening Cash	107	99	138	414
Closing Cash	99	138	414	702

Source: Company, Axis Securities

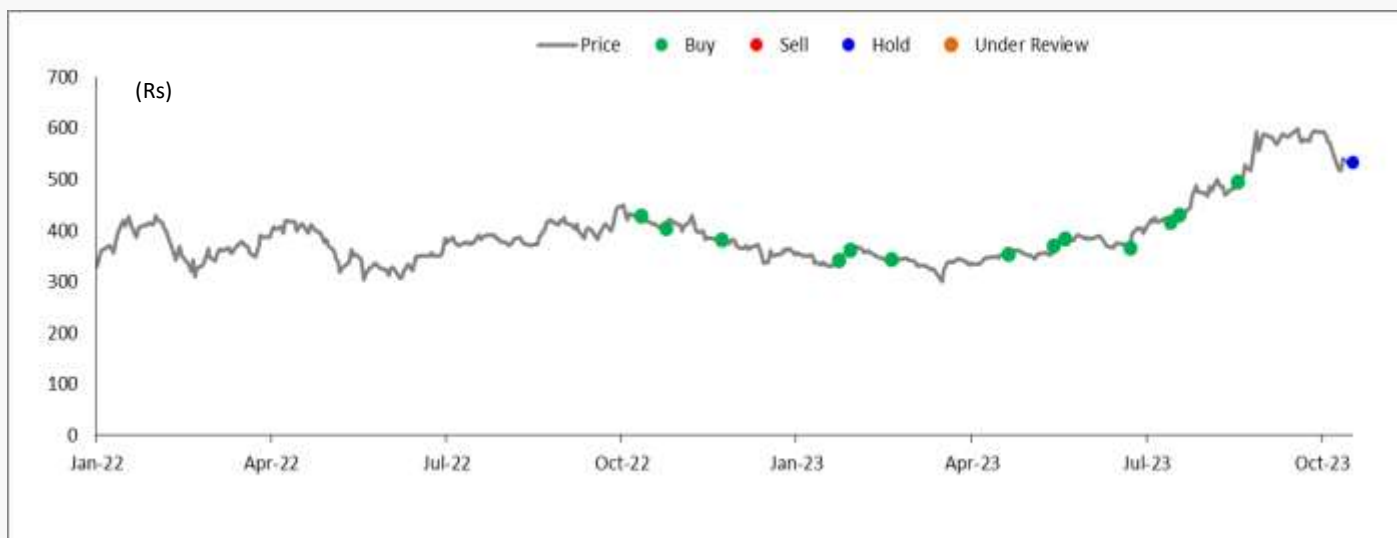
**Ratio Analysis**

(%)

Y/E March	FY23	FY24E	FY25E	FY26E
<b>Operational Ratios</b>				
Gross profit margin	38%	42%	43%	42%
EBITDA margin	9%	11%	12%	11%
PAT margin	7%	8%	8%	8%
<b>Growth Indicators</b>				
Sales growth	51%	10%	16%	19%
EBITDA growth	59%	37%	24%	16%
PAT growth	60%	29%	20%	15%
<b>Efficiency Ratios</b>				
Total Asset turnover (x)	1.5	1.4	1.5	1.5
Inventory turnover (x)	6.5	6.7	7.2	7.5
Sales/Working Capital	4.7	6.0	5.9	5.9
Sales/ Total Assets				
<b>Liquidity Ratios</b>				
Total Debt/Equity(x)	0.00	0.00	0.00	0.00
Total Asset/Equity(x)	2.22	1.95	1.80	1.75
Current Ratio(x)	1.45	1.53	1.75	1.96
Quick Ratio(x)	1.23	1.29	1.50	1.68
Interest Cover(x)	66.49	55.11	49.08	44.53
<b>Per Share Data</b>				
Earnings Per Share (Rs)	13.05	16.90	20.24	23.35
<b>Valuation Ratios</b>				
Adjusted PE (x)	40.9	31.6	26.4	22.9
Price / Book Value(x)	9.1	7.1	5.6	4.5
EV/Net Sales(x)	2.8	2.5	2.2	1.8
EV/EBITDA(x)	31.5	23.1	18.6	16.0
EV/EBIT(x)	30.0	23.0	19.1	16.5
<b>Return Ratios</b>				
ROA	9.92%	11.35%	12.09%	12.03%
ROE	24.06%	25.18%	23.62%	21.72%
ROCE	31.30%	33.20%	31.45%	29.14%

Source: Company, Axis Securities

## Praj Industries Price Chart and Recommendation History



Date	Reco	TP	Research
01-Jul-22	BUY	477	Top Picks
08-Aug-22	BUY	477	Result Update
01-Sep-22	BUY	477	Top Picks
01-Oct-22	BUY	477	Top Picks
20-Oct-22	BUY	550	Result Update
01-Nov-22	BUY	550	Top Picks
01-Dec-22	BUY	550	Top Picks
01-Jan-23	BUY	550	Top Picks
01-Feb-23	BUY	550	Top Picks
08-Feb-23	BUY	550	Result Update
01-Mar-23	BUY	550	Top Picks
01-Apr-23	BUY	550	Top Picks
02-May-23	BUY	550	Top Picks
29-May-23	BUY	500	Result Update
01-Jun-23	BUY	500	Top Picks
01-Jul-23	BUY	500	Top Picks
06-Jul-23	BUY	500	Event Update
28-Jul-23	BUY	500	Result Update
01-Aug-23	BUY	510	Top Picks
01-Sep-23	BUY	550	Top Picks
02-Nov-23	Hold	580	Result Update

Source: Axis Securities

**About the analyst**


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