

Margins expand but execution takes a breather

PRJ reported its 2QFY24 consolidated numbers which are lower than our estimates on revenue front but margin was substantial to post healthy earnings growth (+30%). PRJ posted YoY growth of 1% at Rs8824mn vs (CentrumE Rs9850mn). During the quarter, PRJ encountered challenges in execution due to the suspension of new customer acquisitions and the temporary halt of under-construction projects, mainly as a result of the FCI embargo, which disrupted operations for a few weeks. GMs for the quarter improved and came in at 43.5 - a YoY/QoQ improvement of +880/320bps. On the consolidated EBITDA margins print came in at 9.5% (vs. 7.7% in 2QFY23) in line with our estimates of 9.6% in spite of revenue disappointment. **We believe Praj is currently progressing towards its desired growth trajectory, with a strategic emphasis on securing high-margin international orders.**

This approach is expected to further enhance the company's position and profitability. We retain ADD rating with a revised target price of Rs601 (TP Rs535) based on 30x 1HFY26E EPS.

Revenue booking disappoint due to one off event

Praj reported flattish revenues for the quarter at Rs8,824mn. Revenue mix continues to be in favour of Bioenergy division (Rs5,894mn, +YoY 5%) followed by engineering (Rs1,031mn, -18% YoY) and HPS division (Rs516mn, +25% YoY). On geographical basis, domestic revenues continued to dominate with 84% share in line with share in order backlog. **Margins for the quarter came in healthy at 9.5% (+200bps).**

International order book now forms 26% vs. 13% as on 1HFY23

For the seventh consecutive quarter PRJ reported order bookings of ~Rs10bn. For 2QFY24, inflows came in at Rs10,630mn vs. Rs9,810 during the same quarter last year. The bioenergy sector accounted for 68%, while Engineering and HPS followed (22% and 10%, respectively). PRJ ended the quarter with ATH order backlog of Rs39.6bn with increasing share of higher margin international orders. **In the 1HFY24, there was a remarkable 150% surge in international order inflow, while domestic order inflows experienced a decline of 18%. As a result, international orders now constitute a substantial 26% of the total order backlog (Rs39.6 billion), compared to the 13% share they held as of 1HFY23. This increased international presence provides us with confidence that PRJ would sustain higher profit margin profile.**

CBG orders worth Rs4bn remain in pipeline

Regarding CBG, PRJ has commenced the execution of the first project (Rs1bn) among the five in their pipeline. **PRJ is currently in the process of establishing the operational procedures for the remaining four projects in collaboration with the respective customers.** It's worth noting that customer base in the CBG sector is quite diverse, including entities such as ESG funds, as well as both government and private OMCs.

Maintain ADD with a target price of Rs601

We project a healthy revenue CAGR of 12% for PRJ between FY23-26E. This is underpinned by a robust order backlog amounting to Rs39.6bn and a consistent trend in order bookings. Furthermore, we forecast an impressive 18% earnings CAGR for PRJ from FY23 to FY26, primarily driven by margin expansion, particularly due to the increasing contribution of international orders. By applying a PE multiple of 30x to 1HFY26E earnings, we have derived a target price of Rs601, indicating a potential upside of 12%.

Financial and valuation summary

YE Mar (Rs mn)	2QFY24A	2QFY23A	YoY (%)	1QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	8,824	8,766	0.7	7,367	19.8	37,648	43,380	48,864
EBITDA	840	676	24.2	755	11.3	3,840	4,446	5,009
EBITDA margin (%)	9.5	7.7	180 bps	10.2	(70 bps)	10.2	10.2	10.2
Adj. Net profit	624	481	29.6	587	6.3	2,973	3,451	3,914
Adj. EPS (Rs)	3.4	2.6	29.6	3.2	6.3	16.2	18.8	21.3
EPS growth (%)						24.0	16.1	13.4
PE (x)						33.1	28.5	25.1
EV/EBITDA (x)						24.1	20.5	17.9
PBV (x)						7.7	6.5	5.5
RoE (%)						25.3	24.9	23.8
RoCE (%)						25.1	24.7	23.6

Source: Company, Centrum Broking

Result Update

India I Mid Cap

01 November, 2023

ADD

Price: Rs536

Target Price: Rs601

Forecast return: 12%

Institutional Research

Market Data

Bloomberg:	PRJ IN
52 week H/L:	615/299
Market cap:	Rs98.4bn
Shares Outstanding:	183.7mn
Free float:	63.7%
Avg. daily vol. 3mth:	19,59,015

Source: Bloomberg

Changes in the report

Rating:	ADD; no change
Target price:	Rs 601; changed +12%
EPS:	FY25E: Rs18.8; changed FY26E: Rs21.3; changed

Source: Centrum Broking

Shareholding pattern

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	32.8	32.8	32.8	32.9
FIs	17.9	18.3	17.8	17.6
DIs	9.2	7.6	7.7	7.5
Public/other	40.1	41.3	41.7	42.0

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY24	Actual Q2FY24	Variance (%)
Revenue	9,850	8,824	(10.4)
EBITDA	944	840	(11.0)
EBITDA margin %	9.6	9.5	(6bps)
Adj. PAT	721	624	(13.5)

Source: Bloomberg, Centrum Broking



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Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	37,648	43,761	(14.0)	43,380	46,589	(6.9)
EBITDA	3,840	4,070	(5.6)	4,446	4,216	5.5
EBITDA margin %	10.2	9.3	90 bps	10.3	9.1	120 b
Adj. PAT	2,973	3,143	(5.4)	3,451	3,276	5.3
Diluted EPS (Rs)	16.2	17.1	(5.4)	18.8	17.8	5.3

Source: Centrum Broking

Praj Industries versus NIFTY Midcap 100

	1m	6m	1 year
PRJ IN	(8.7)	50.7	29.6
NIFTY Midcap 100	(0.8)	30.8	30.6

Source: Bloomberg, NSE

Key assumptions

Key Assumptions (Rs mn)	FY24E	FY25E	FY26E
Bio-energy order booking	29,713	29,713	32,685
Bio-energy net revenues	26,581	29,270	32,504
Engineering order booking	9,842	10,826	14,074
Engineering net revenues	7,773	9,862	11,475
HPS order booking	3,952	4,544	5,226
HPS net revenues	3,293	4,248	4,885
Consolidated EBITDAM (%)	10.2	10.3	10.3

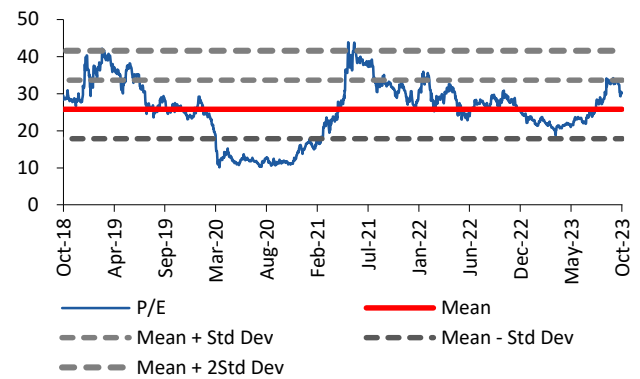
Source: Centrum Broking

Valuations

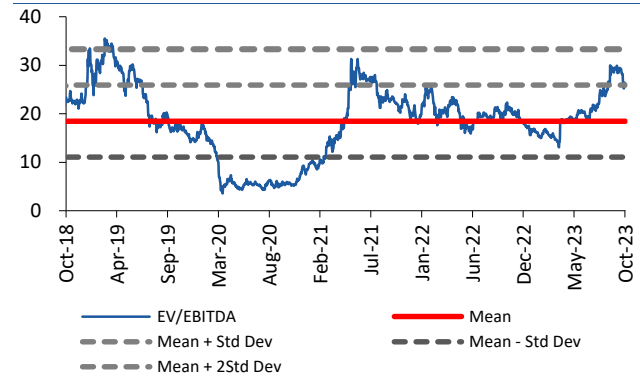
We project a healthy revenue CAGR of 12% for PRJ between FY23-26E. This is underpinned by a robust order backlog amounting to Rs39.6bn and a consistent trend in order bookings. Furthermore, we forecast an impressive 18% earnings CAGR for PRJ from FY23 to FY26, primarily driven by margin expansion, particularly due to the increasing contribution of international orders. By applying a PE multiple of 30x to 1HFY26E earnings, we have derived a target price of Rs601, indicating a potential upside of 12%.

Valuations	Rs/share
1HFY26E EPS	20.0
Target multiple (x)	30
Target Price	601

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

KTAs of earnings Concall

Order inflow

- The order inflow for EBP remains strong, and despite the FCI embargo's impact during the quarter, PRJ has managed to maintain a steady order inflow. This is mainly attributed to their increasing diversification of product offerings.
- It's important to note that the order bookings for the quarter include only one CBG project (Rs1bn), while the remaining four projects (Rs4bn) will be included as they progress further.
- In the case of PHS, PRJ achieved order bookings exceeding Rs. 100crs in Q2 FY24.
- Furthermore, GenX project has a substantial inquiry basket, and company anticipates revenue bookings to occur by the 4QFY24.

CBG

- Regarding CBG, PRJ has commenced the execution of the first project among the five in their pipeline. PRJ is currently in the process of establishing the operational procedures for the remaining four projects in collaboration with the respective customers.
- It's worth noting that customer base in the CBG sector is quite diverse, including entities such as ESG funds, as well as both government and private OMCs.

Export market

- The proportion of international orders in overall order book for the quarter was 29%. Management's strategic aim is to enhance the contribution of exports to revenue mix, transitioning from the current 20:80 ratio to a more balanced 30:70 ratio.
- Under 1G International, PRJ received their first order for Low Carbon Ethanol (LCE) in the USA, and they are actively engaged in discussions for several other projects in the pipeline.
- Additionally, in CPES division, 52% of order book is attributed to the Energy Transition and Climate Action (ETCA) segment. PRJ have already initiated work on establishing an Integrated Manufacturing Facility in Mangalore to support Praj GenX.
- PRJ's focal international markets are presently the USA and Europe. However, as the GBA initiative gains traction, company anticipates that other regions across the globe will also contribute significantly to international business.

Other key points

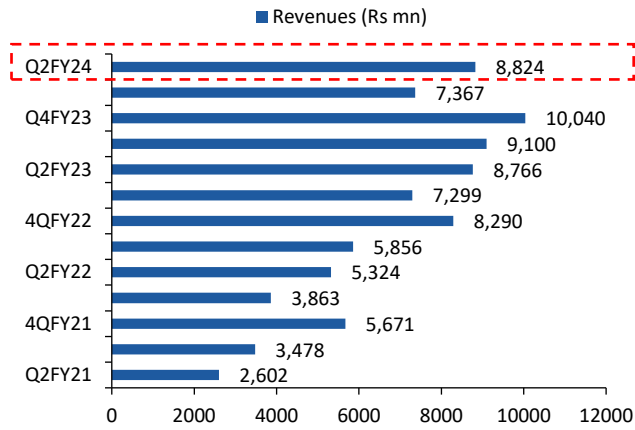
- PRJ encountered challenges in execution due to the suspension of new customer acquisitions and the temporary halt of under-construction projects, mainly as a result of the FCI embargo, which disrupted operations for a few weeks. However, PRJ highlighted that things have returned to normal, and there is no sign of any slowdown in EBP program.
- In the realm of 2G, PRJ have initiated the recommissioning of the IOCL Panipat plant, marking the start of feedstock availability.
- A noteworthy event for the company was the launch of the GBA) at the G20 summit in September 2023. This development holds significant importance for the sustainable global advancement of biofuels and is poised to have a positive impact on PRJ.
- As of the 1HFY24, PRJ has a substantial cash and investments reserve of Rs6.87bn.
- PRJ is currently in the process of setting up a pilot project for bio-plastics, with expectations to complete it by March 2024.
- Capital expenditure for the year is projected to be approximately 120 crore.
- In terms of services revenue, PRJ anticipates it to range between Rs10-15 crore for the quarter.

Exhibit 1: Consolidated Financial Snapshot 2QFY24

YE Mar (Rs mn)	2QFY24A	2QFY23A	YoY (%)	1QFY24A	QoQ (%)	FY23	FY22	YoY (%)
Revenues	8,824	8,766	0.7	7,367	19.8	35,204	23,333	50.9
Raw material	4,989	5,726	(12.9)	4,395	13.5	21,938	14,538	50.9
Gross margins (%)	43.5	34.7	880 bps	40.3	320 bps	37.7	37.7	nm
Staff costs	889	655	35.7	628	41.7	2,576	2,176	18.4
Other Mfg. expenses	2,105	1,709	23.2	1,590	32.4	7,543	4,682	61.1
Total expenditure	7,984	8,090	(1.3)	6,612	20.7	32,057	21,395	49.8
EBITDA	840	676	24.2	755	11.3	3,147	1,938	62.4
EBITDAM (%)	9.5	7.7	180 bps	10.2	(72bps)	8.9	8.3	60bps
Depreciation	91	72	26.1	88	3.0	302	226	33.9
Interest	10	8	25.1	11	(6.5)	46	25	84.4
Other income + Income from Associates	109	62	76.8	121	(10.1)	389	362	7.5
PBT	848	658	28.9	777	9.1	3,187	2,049	55.6
Tax	224	177	27.2	190	17.9	789	546	44.5
Reported Net profit	624	481	29.6	587	6.3	2,398	1,503	59.6
EPS (Rs.)	3.4	2.6	29.6	3.2	6.3	13.1	8.2	59.6

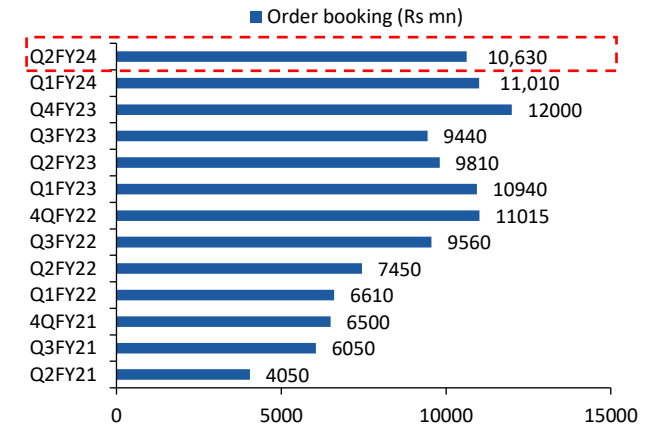
Source: Centrum Broking, Company Data

Exhibit 2: Quarterly Consolidated revenue trend



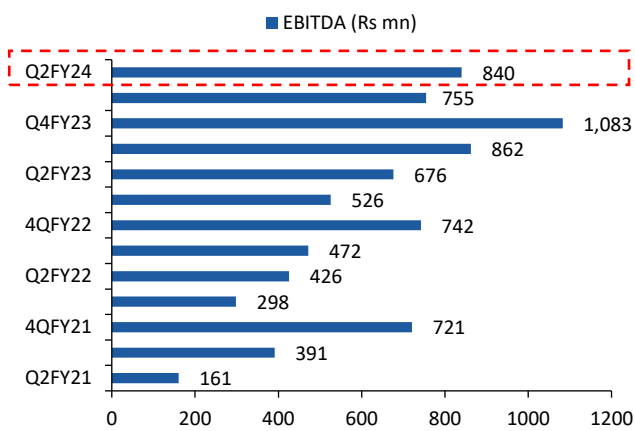
Source: Centrum Broking, Company Data

Exhibit 3: Quarterly Consolidated order booking trend



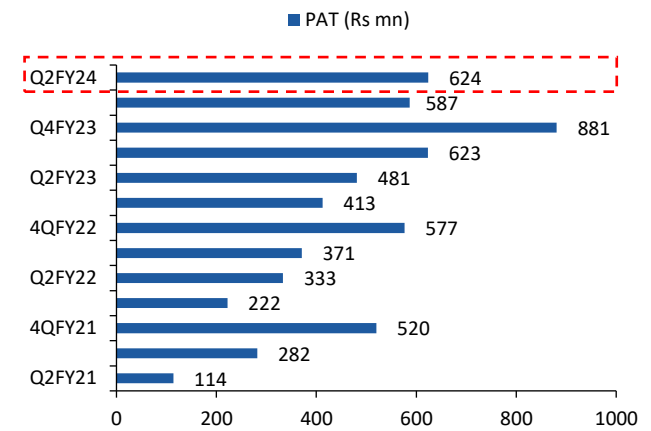
Source: Centrum Broking, Company Data

Exhibit 4: Quarterly Consolidated EBITDA trend



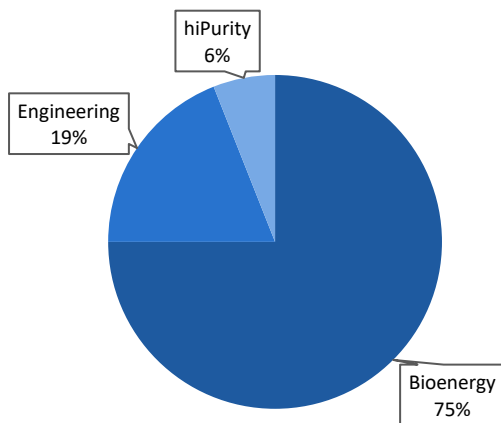
Source: Company Data, Centrum Broking

Exhibit 5: Quarterly Consolidated PAT trend



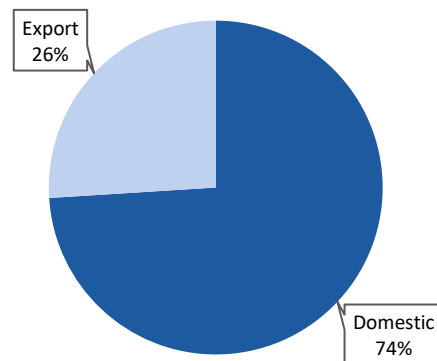
Source: Company Data, Centrum Broking

Exhibit 6: 2QFY24 - Segmental OB - Rs39,600mn



Source: Centrum Broking, Company Data

Exhibit 7: 2QFY24 - Geographical OB – Rs39,600mn



Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	23,333	35,280	37,648	43,380	48,864
Operating Expense	21,395	32,202	33,807	38,933	43,856
Employee cost	2,176	2,576	2,635	3,037	3,421
Others	3,910	6,434	6,475	7,440	8,380
EBITDA	1,938	3,078	3,840	4,446	5,009
Depreciation & Amortisation	226	302	343	389	423
EBIT	1,712	2,776	3,497	4,057	4,585
Interest expenses	25	46	50	50	50
Other income	362	458	504	579	666
PBT	2,049	3,187	3,951	4,587	5,202
Taxes	546	789	978	1,135	1,288
Effective tax rate (%)	26.7	24.8	24.8	24.8	24.8
PAT	1,502	2,398	2,973	3,451	3,914
Minority/Associates	0	0	0	0	0
Recurring PAT	1,502	2,398	2,973	3,451	3,914
Extraordinary items	0	0	0	0	0
Reported PAT	1,502	2,398	2,973	3,451	3,914

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	78.8	51.2	6.7	15.2	12.6
EBITDA	72.5	58.8	24.8	15.8	12.6
Adj. EPS	84.9	59.6	24.0	16.1	13.4
Margins (%)					
Gross	37.7	37.6	38.2	38.0	38.0
EBITDA	8.3	8.7	10.2	10.2	10.2
EBIT	7.3	7.9	9.3	9.4	9.4
Adjusted PAT	6.4	6.8	7.9	8.0	8.0
Returns (%)					
ROE	17.5	24.1	25.3	24.9	23.8
ROCE	17.5	23.9	25.1	24.7	23.6
ROIC	33.3	47.5	42.3	38.9	39.0
Turnover (days)					
Gross block turnover ratio (x)	3.9	5.5	4.9	5.2	5.4
Debtors	75	68	89	95	98
Inventory	59	56	61	64	64
Creditors	96	77	83	85	89
Net working capital	3	3	14	20	23
Solvency (x)					
Net debt-equity	(0.6)	(0.6)	(0.4)	(0.5)	(0.5)
Interest coverage ratio	77.2	66.5	76.8	88.9	100.2
Net debt/EBITDA	(2.9)	(2.0)	(1.4)	(1.6)	(1.7)
Per share (Rs)					
Adjusted EPS	8.2	13.1	16.2	18.8	21.3
BVPS	49.9	58.7	69.1	81.9	97.2
CEPS	9.4	14.7	18.0	20.9	23.6
DPS	4.2	4.5	5.5	6.0	6.0
Dividend payout (%)	51.3	34.5	34.0	31.9	28.2
Valuation (x)					
P/E	65.4	41.0	33.1	28.5	25.1
P/BV	10.7	9.1	7.7	6.5	5.5
EV/EBITDA	35.3	30.0	24.1	20.5	17.9
Dividend yield (%)	0.8	0.8	1.0	1.1	1.1

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	367	367	367	367	367
Reserves & surplus	8,790	10,413	12,324	14,672	17,484
Shareholders fund	9,157	10,781	12,691	15,040	17,851
Minority Interest	7	1	1	1	1
Total debt	0	0	0	0	0
Non Current Liabilities	148	269	269	269	269
Def tax liab. (net)	0	0	0	0	0
Total liabilities	9,312	11,050	12,961	15,310	18,121
Gross block	5,991	6,465	7,665	8,365	9,065
Less: acc. Depreciation	(3,130)	(3,433)	(3,776)	(4,165)	(4,588)
Net block	2,861	3,032	3,889	4,200	4,476
Capital WIP	21	69	69	69	69
Net fixed assets	2,882	3,101	3,958	4,268	4,545
Non Current Assets	124	161	161	161	161
Investments	791	1,105	1,160	1,218	1,279
Inventories	3,450	3,336	4,496	4,995	5,686
Sundry debtors	5,118	7,948	10,490	12,210	13,900
Cash & Cash Equivalents	5,529	6,033	5,532	7,025	8,695
Loans & advances	922	0	0	0	0
Other current assets	3,311	4,503	4,496	4,995	5,686
Trade payables	4,248	5,050	5,583	6,871	7,834
Other current liab.	8,058	9,187	10,850	11,793	13,099
Provisions	510	899	899	899	899
Net current assets	5,515	6,684	7,682	9,662	12,136
Total assets	9,312	11,050	12,961	15,310	18,121

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	2,049	3,187	3,951	4,587	5,202
Depreciation & Amortisation	226	302	343	389	423
Net Interest	68	(41)	50	50	50
Net Change – WC	93	(1,222)	(1,499)	(487)	(804)
Direct taxes	(450)	(625)	(978)	(1,135)	(1,288)
Net cash from operations	1,747	1,621	1,867	3,404	3,583
Capital expenditure	(185)	(353)	(1,200)	(700)	(700)
Acquisitions, net	0	0	0	0	0
Investments	(1,170)	(491)	862	(1,158)	(1,491)
Others	87	0	0	0	0
Net cash from investing	(1,268)	(844)	(338)	(1,858)	(2,191)
FCF	479	777	1,528	1,546	1,392
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	0	0	0	0	0
Dividend paid	(397)	(771)	(1,010)	(1,102)	(1,102)
Interest paid	(19)	(42)	(50)	(50)	(50)
Others	(27)	(121)	(52)	0	0
Net cash from financing	(444)	(934)	(1,112)	(1,152)	(1,152)
Net change in Cash	36	(157)	416	393	240

Source: Company, Centrum Broking

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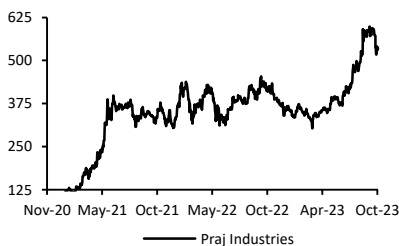
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Praj Industries



Source: Bloomberg

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