

NOVEMBER 02, 2023

## Result Update

### Stock Details

Market cap (Rs mn)	:	9810
52-wk Hi/Lo (Rs)	:	614 /299
Face Value (Rs)	:	2
3M Avg. daily volume (lakh)	:	20
Shares o/s (cr)	:	18

Source: Moneycontrol, BSE

### Financial Summary

Y/E Mar (Rs cr)	FY24E	FY25E	FY26E
Revenue	3,808	4,214	4,650
Growth (%)	7.9	10.7	10.3
EBITDA	379	447	512
EBITDA margin (%)	10.0	10.6	11.0
PAT	287	332	399
EPS	15.6	18.1	21.7
EPS Growth (%)	19.7	15.6	20.4
BV (Rs/share)	68.5	80.3	95.8
Dividend/share (Rs)	4.8	5.2	5.2
ROE (%)	24.6	24.3	24.7
ROCE (%)	28.7	29.3	30.0
P/E (x)	34.2	29.6	24.6
EV/EBITDA (x)	24.0	20.2	19.1
P/BV (x)	7.8	6.6	5.6

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Sep-23	Jun-23	Mar-23
Promoters	32.8	32.8	32.8
FII	17.9	18.3	17.8
DII	10.2	8.4	7.8
Others	39.0	40.5	41.5

Source: Moneycontrol, BSE

### Price Performance (%)

(%)	1M	3M	6M
Praj	-9.0	23.7	50.3
Nifty	-3.3	-3.8	5.1

Source: Moneycontrol, BSE

### Price chart (Rs)



Source: Moneycontrol, BSE

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## PRAJ INDUSTRIES LTD (PRAJ)

PRICE Rs.534

TARGET Rs.565

ADD

Praj Q2FY24 results missed our estimates on revenue and margin as execution got impacted due to FCI ban on rice to ethanol distilleries. The company reported 0.7%/24.2%/29.6% yoy growth in revenue/EBITDA/PAT, respectively. EBITDA margin at 9.5% fell 70 bps qoq, despite strong gross margin, due to higher employee and other expenses. As per management, execution returned to normalcy after upward revision in rates by OMCs for grain based Ethanol. The company is positive on stronger execution in H2FY24. In a major achievement, the company bagged first order for low carbon ethanol in the US in 1G ethanol and is positive on similar orders in future. The company began execution of first among five CBG projects bagged in July (Rs100 cr added to order backlog out of total ~Rs500 cr) from a business conglomerate. The order inflows in the past 7-8 quarters have been in the range of Rs900-1100 cr per quarter, which indicates risk of moderation in revenue growth in the near to medium term. The management is positive long term growth prospects emerging from Low Carbon emission projects in US, CBG, SAF, Energy transition, etc.

We revise estimates for FY24/FY25 in 4-5% range to factor in strong gross margin and expected pickup in execution in H2FY24. We remain positive on long-term growth prospects, but recent run-up in the stock price leaves limited upside at current levels. We maintain ADD with revised fair value of Rs565 (from Rs450), as we roll forward PE multiple of 26x to FY26E earnings.

### Key Highlights

- ❑ Praj reported moderation in Q2FY24 revenue and was lower than estimates. Execution in the quarter got impacted due to FCI ban on rice to ethanol distilleries delaying execution and financing of new projects. The government took proactive steps to avoid any hindrance to EBP-20 program and revised rates upward for Grain based Ethanol from OMCs.
- ❑ Order intake in the quarter was lower than estimates at Rs1063 cr (+8%/-3 yoy/qoq) and took the order backlog to Rs3,960 cr (+18% yoy, 5% qoq). This looks lower as the company did not include 4 CBG projects (~Rs400cr), as modus operandi of those being established with the customer. The share of new orders from international market (which has relatively high margin) remained higher at 29% in Q2FY24 (Vs 17% in FY23).
- ❑ The order intake is moving in the range of Rs900-1100 cr for the past 7-8 quarters. The company continue to have strong enquiry pipeline related to EBP-20, CBG, SAF, international market, etc. Based on the strong opportunity in 1G/2G ethanol, CBG, SAF, etc coupled with continuous focus on R&D and new opportunities in clean fuel space in domestic and international market, we expect the order book of the company to expand in the long run.
- ❑ Decline in commodity prices and better mix resulted in strong gross margin at 43.5% +880/310 bps yoy/qoq. This was offset by higher operating cost. Lower execution due to FCI ban on supply of rice impacted operating leverage. This coupled with increased employee and other expenses

attributed towards Praj GenX also impacted EBITDA margin. In view of improved business mix and pickup in execution, EBITDA margin likely to improve in H2FY24 and sustain at double digit in the coming years.

- Praj will be incurring capex in building capability in existing and new technologies. It is setting up a manufacturing facility with ~Rs100 cr investment under a new subsidiary - Praj GenX to address demand from Energy Transition and Climate Action (ETCA) segment. The same is expected to be completed by Q4FY24.

#### Quarterly performance table (consolidated)

Year to March (Rs Cr.)	Q2FY24	Q2FY23	% Change	Q1FY24	% Change
<b>Net Revenues</b>	<b>882</b>	<b>877</b>	<b>0.7</b>	<b>737</b>	<b>19.8</b>
Direct Expenses	499	573	(12.9)	439	13.5
<b>Gross Profit</b>	<b>383</b>	<b>304</b>	<b>26.1</b>	<b>297</b>	<b>29.0</b>
Gross margin%	43.5	34.7	8.8	40.3	3.11
Employee Expenses	89	66	35.7	63	41.7
Forex loss/(gain)	(6)	(3)		(4)	
Other Expenses	217	174	24.7	163	32.8
Operating Expenses	798	809	(1.3)	661	20.7
<b>EBITDA</b>	<b>84</b>	<b>68</b>	<b>24.2</b>	<b>75</b>	<b>11.3</b>
EBITDA margin	9.5%	7.7%		10.2%	
Depreciation	9	7	26.1	9	3.0
Other income	11	6	76.8	12	(10.1)
Net finance expense	1	1	25.1	1	(6.5)
<b>Profit before tax</b>	<b>85</b>	<b>66</b>	<b>28.9</b>	<b>78</b>	<b>9.1</b>
Provision for taxes Incl tax write back	22	18	27.2	19	17.9
<b>Reported net profit</b>	<b>62</b>	<b>48</b>	<b>29.6</b>	<b>59</b>	<b>6.3</b>
NPM%	7.1	5.5		8.0	
<b>% of Revenue</b>					
Employee cost	10.1	7.5		8.5	
Other Expenses	24.6	19.8		22.1	
Operating expenses	90.5	92.3		89.8	
Tax rate (% of PBT)	26.5	26.8		24.5	

Source: Company

## Outlook and valuations

We believe Praj is a key beneficiary from the government's focus on reducing carbon footprints through encouraging bio fuel and energy transition. The company has technological capabilities in bioenergy segment and is focused on the future technology to reduce carbon footprint. There are significant opportunities in 1G, 2G, CBG (Compressed Bio-gas), SAF (sustainable aviation fuel), etc. The order inflows in the past several quarters have moderated in the range of Rs900-1100 cr per quarter. This indicates risk of moderation in revenue growth in the near to medium term. Praj bagging low carbon Ethanol project in US and CBG projects in India are positive development for the company and likely to boost its future order book. We believe that the business activity levels for Praj is expected to remain buoyant in the long run, though moderation in order intake may impact revenue growth in the near term to medium term.

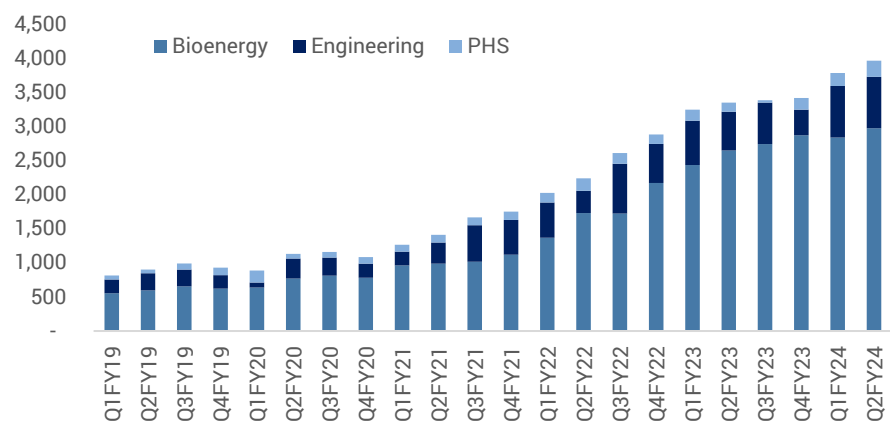
We marginally revise our estimates for FY24E/FY25E by 4%/5% on higher gross margin and higher other income. We introduce estimates for FY26E with expectation of some pickup in ordering momentum. Praj currently trades at 34.2x/29.6/24.6x on FY24E/FY25E/FY26E earnings of Rs15.6/18.1/Rs21.7 (Rs15/17.3 earlier for FY24E/FY25E), respectively. We roll forward our valuation multiple (PE) of 26x to FY26E and arrive at revised fair value of Rs565 (Vs Rs450 earlier). We maintain ADD as recent run in the stock prices limits upside from

current level. Key risk includes, sharp increase in commodity price, slowdown in order inflows, change in government policy on bio fuel blending, etc.

### Other highlights

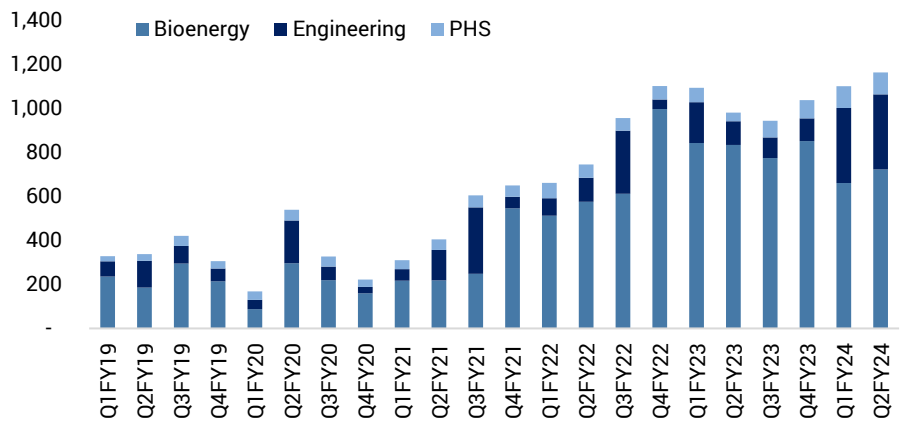
- Praj added orders worth Rs1063 cr (+8/-3% yoy/qoq) during the quarter which comprised of 71% domestic & 29% international, indicating improved order inflows from international. In terms of segment, 68% of order was from Bioenergy, 22% from Engineering & 10% from Hi Purity (HPS).
- As per management, Exports is gaining traction and seeing improvement in 1) Bio energy: low carbon ethanol, 2) Energy transition (Praj Genx building capability in green hydrogen, green ammonia, etc) and 3) service and equipment business in Brazil.
- As per management, Praj is working with IOCL and other OMCs. Momentum building up in CBG business. The management is reasonably positive on growth in the business.
- In CBG projects, ESG funds, OMCs, large private players, sugar player, etc are looking at setting up projects.
- The management is positive on maintaining 43% gross margin based on improved mix and traction in international orders. EBITDA margin may tend towards higher levels once execution picks-up.
- As per management, EBP-20 is on right track and there is no problem in terms of both sugar and starchy feed stock availability.
- Praj has formed 50:50 JV with IOCL for Biofuel production facilities and marketing of CBG, Ethanol, SAF and various coproducts and intermediates. Going ahead blending of SAF with aviation fuel, CBG blending, energy transition and focus on green hydrogen mission are growth levers for the company.
- Praj is focusing on SAF opportunities. For that, Praj has signed MoU with Axens to work on SAF projects in India. As per government estimates, 1% blending of SAF in Jet Fuel is expected to create 14 cr litres of SAF per annum and requires 28 cr litres of Ethanol. In management's view, SAF likely to see big push in the next two years.

### Order book & mix trend (Rs Cr)



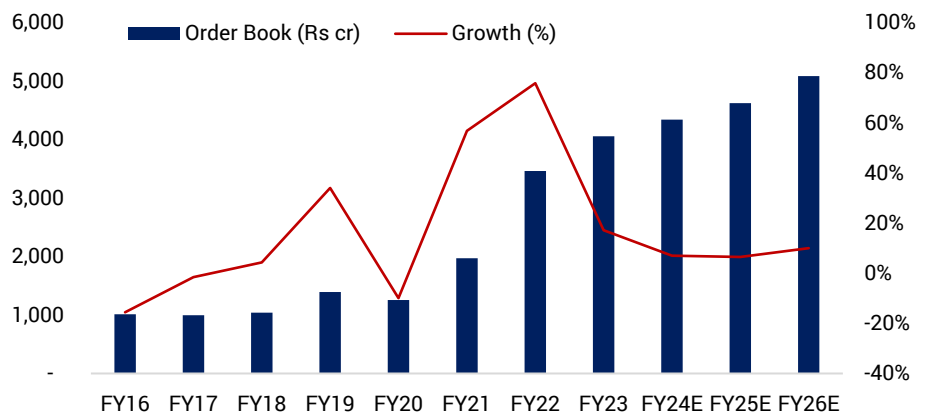
Source: Company, Kotak Securities Private Client Group

**Order intake & mix trend (Rs Cr)**



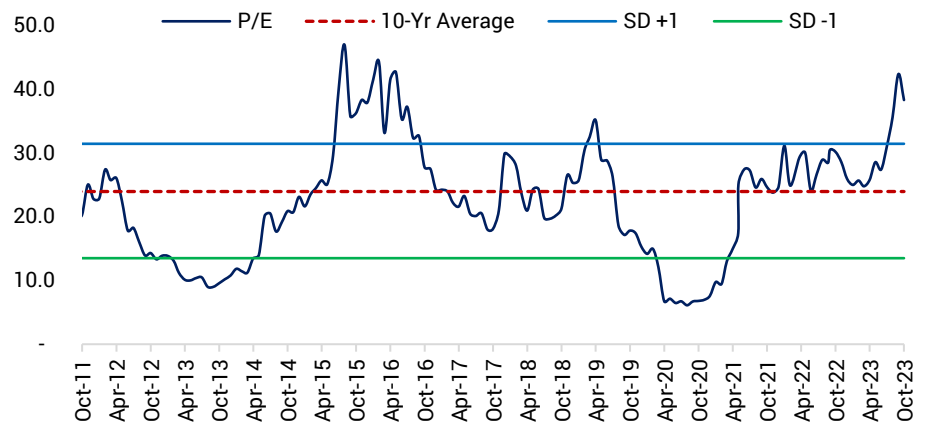
Source: Company, Kotak Securities - Private Client Group

**Order Book and Growth**



Source: Company, Kotak Securities - Private Client Group

**Forward PE band (x)**



Source: Capitaline, Kotak Securities - Private Client Group

## Company Background

Praj, India's one of the most accomplished industrial biotechnology company is driven by innovation, integration, and delivery capabilities. Over the past four decades, Praj has focused on the environment, energy, and agri-process industry, with over 750 customer references spanning 75 countries across 5 continents. Biomobility™ and Bio-Prism™ are the mainstays of Praj's contribution to the global Bioeconomy. The BioMobility™ platform offers technology solutions globally to produce renewable transportation fuel, thus ensuring sustainable decarbonization through circular bioeconomy. The company's Bio-Prism™ portfolio comprises of technologies for production of renewable chemicals and materials solutions, promises sustainability, while reimagining nature. Praj Matrix, the state-of-the-art R&D facility, forms the backbone for the company's endeavours towards a clean energy-based Bioeconomy. Praj's diverse portfolio comprises of Bio-energy solutions, Critical process equipment & skids, Breweries, Zero liquid discharge systems and High purity water systems. Led by an accomplished and caring leadership, Praj is a socially responsible corporate citizen. Praj is listed on the Bombay and National Stock Exchanges of India. (Source: Company)

## Financials: Consolidated

### Profit and Loss Statement (Rs cr)

(Year-end Mar)	FY23	FY24E	FY25E	FY26E
<b>Revenues</b>	<b>3,528</b>	<b>3,808</b>	<b>4,214</b>	<b>4,650</b>
% change YoY	50.6	7.9	10.7	10.3
<b>EBITDA</b>	<b>308</b>	<b>379</b>	<b>447</b>	<b>512</b>
% change YoY	58.8	23.2	17.8	14.7
Other Income	35.6	41.0	47.0	52.0
Depreciation	30.2	36.5	38.6	19.6
<b>EBIT</b>	<b>313</b>	<b>384</b>	<b>455</b>	<b>545</b>
% change YoY	60.3	22.6	18.6	19.7
Interest costs	4.6	2.4	2.4	0.0
<b>Profit before tax</b>	<b>319</b>	<b>392</b>	<b>453</b>	<b>545</b>
% change YoY	55.6	22.9	15.6	20.4
Tax	78.9	104.6	120.9	145.5
as % of PBT	24.8	26.7	26.7	26.7
<b>Profit after tax</b>	<b>239.8</b>	<b>287.1</b>	<b>331.9</b>	<b>399.4</b>
Minority interest	0.0	0.0	0.0	0.0
Share of profit of associates	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>239.8</b>	<b>287.1</b>	<b>331.9</b>	<b>399.4</b>
% change YoY	59.6	19.7	15.6	20.4
Shares outstanding (cr)	18.4	18.4	18.4	18.4
<b>EPS (reported) (Rs)</b>	<b>13.1</b>	<b>15.6</b>	<b>18.1</b>	<b>21.7</b>
CEPS (Rs)	14.7	17.6	20.2	22.8
DPS (Rs)	4.5	4.8	5.2	5.2

Source: Company, Kotak Securities – Private Client Group

### Cash flow Statement (Rs cr)

(Year-end Mar)	FY23	FY24E	FY25E	FY26E
PBDIT	308	379	447	512
Direct tax paid	-79	-105	-121	-145
Adjustments	17	-3	-3	-3
Cash flow from operations	246	272	323	364
Net Change in Working Capital	-54	-7	-85	-151
<b>Net Cash from Operations</b>	<b>192</b>	<b>265</b>	<b>238</b>	<b>213</b>
Capital Expenditure	-69	-120	-100	-100
Cash from investing	-44	41	47	52
<b>Net Cash from Investing</b>	<b>-114</b>	<b>-79</b>	<b>-53</b>	<b>-48</b>
Interest paid	-5	-2	-2	0
Issue of Shares/ESOPS/(buyback)	0	0	0	0
Dividends Paid	-100	-106	-115	-115
Debt Raised	-11	-2	0	0
<b>Net cash from financing</b>	<b>-116</b>	<b>-111</b>	<b>-118</b>	<b>-115</b>
Net change in cash	-37	75	68	50
Free cash flow	123	145	138	113
cash at end	58	134	202	251
Deposits over 3 months	48	48	48	48
Effect of exch rate	3	3	3	3
<b>Cash as in balance sheet</b>	<b>121</b>	<b>199</b>	<b>269</b>	<b>322</b>

Source: Company, Kotak Securities – Private Client Group

### Balance sheet (Rs cr)

(Year-end Mar)	FY23	FY24E	FY25E	FY26E
Cash and cash equivalents	121	199	269	322
Accounts receivable	795	856	866	956
Inventories	334	365	462	573
Loans and Adv & Others	492	543	750	828
<b>Current assets</b>	<b>1,741</b>	<b>1,962</b>	<b>2,347</b>	<b>2,679</b>
Misc Assets	87	87	87	87
Investments	543	543	543	543
Net fixed assets	237	320	382	462
Def tax assets	11	11	11	11
<b>Total assets</b>	<b>2,619</b>	<b>2,933</b>	<b>3,370</b>	<b>3,782</b>
<b>Current liabilities</b>	<b>1,424</b>	<b>1,513</b>	<b>1,732</b>	<b>1,847</b>
Provisions	57	104	115	127
Current tax liabilities	33	33	33	33
LT debt	27	25	25	25
Min. int	0	0	0	0
Equity	37	37	37	37
Reserves	1,041	1,222	1,439	1,723
<b>Total liabilities</b>	<b>2,619</b>	<b>2,933</b>	<b>3,370</b>	<b>3,782</b>
BVPS (Rs)	58.7	68.5	80.3	95.8

Source: Company, Kotak Securities – Private Client Group

### Ratio Analysis

(Year-end Mar)	FY23	FY24E	FY25E	FY26E
EBITDA margin (%)	8.7	10.0	10.6	11.0
EBIT margin (%)	8.9	10.1	10.8	11.7
Net profit margin (%)	6.8	7.5	7.9	8.6
Receivables (days)	82.2	82.0	75.0	75.0
Inventory (days)	34.5	35.0	40.0	45.0
Sales/gross assets(x)	0.7	0.6	0.6	0.5
Interest coverage (x)	66.5	159.7	188.1	#DIV/0!
Debt/equity ratio(x)	0	0	0	0
ROE (%)	24.1	24.6	24.3	24.7
ROCE (%)	27.0	28.7	29.3	30.0
EV/ Sales (x)	2.6	2.4	2.1	2.1
EV/EBITDA (x)	29.8	24.0	20.2	19.1
Price to earnings (x)	40.9	34.2	29.6	24.6
Price to book value (x)	9.1	7.8	6.6	5.6

Source: Company, Kotak Securities – Private Client Group

## RATING SCALE (PRIVATE CLIENT GROUP)

### Definitions of ratings

<b>BUY</b>	–	We expect the stock to deliver more than 15% returns over the next 12 months
<b>ADD</b>	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
<b>REDUCE</b>	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
<b>SELL</b>	–	We expect the stock to deliver < -5% returns over the next 12 months
<b>NR</b>	–	<b>Not Rated.</b> Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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<b>RS</b>	–	<b>Rating Suspended.</b> Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
<b>NA</b>	–	<b>Not Available or Not Applicable.</b> The information is not available for display or is not applicable
<b>NM</b>	–	<b>Not Meaningful.</b> The information is not meaningful and is therefore excluded.
<b>NOTE</b>	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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NOVEMBER 02, 2023

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