

# Praj Industries Ltd (PRJ IN)

## Building sustainable business drivers

### INDIA | ENGINEERING | Quarterly Update

01 November 2023

#### Top takeaways from 2QFY24

- Results below estimates as execution in grain-based distilleries impacted during quarter.
- Margin improvement with stabilization of raw material and revenue mix.
- Capacity addition and technology tie-ups for energy transition opportunities.

#### Key highlights

Revenue remained flat yoy (up 19.8%qoq) to Rs 8.8bn, 12.5% lower than estimates of Rs 10.0bn. Domestic revenue increased 1.9% yoy to Rs 6.1bn while export revenue declined by 5.3% yoy to Rs 1.41bn. Bioenergy revenue grew by 6.5% yoy to Rs 6.98bn while Engineering business (including brewery) declined by 25.3% yoy to Rs 1.28bn. High purity reported revenue increase of 11.6% yoy to Rs 560mn. Order intake grew by 8.4% yoy (down 3.5% qoq) to Rs 10.6bn; domestic orders declined by 17.3% to Rs 7.5bn, export orders increased by 349% yoy to Rs 3.0bn. Order backlog improved by 18.4% yoy (up 4.8% qoq) to the highest levels of Rs 39.6bn. Order book has a domestic order share of 74% at Rs 29.3bn; exports orders are 26.0% at Rs 10.3bn. Order book in ethanol (bioenergy) segment is Rs 29.7bn representing 75.0% share while share from engineering and Hi-purity is 19.0% and 6% respectively. EBITDA grew by 20.4% yoy to Rs 779mn in 2QFY24, lower than estimates of Rs 1bn. EBITDA margins improved by 144bps at 8.8% in 2QFY24 compared to 7.4% in 2QFY23. Adjusted profit grew by 24.4% yoy to Rs 562mn vs. estimates of Rs 729mn. Reported profit was at Rs 624mn including forex gain of Rs 62mn in 2QFY24.

#### Conference call takeaways

- Execution during the quarter impacted due to reduction in grain-based ethanol project activity for brief period. FCI has stopped supplying rice to ethanol manufacturers to contain inflation and to ensure adequate availability of food in the domestic market. Grain based ethanol capex is returning to normalcy with realign in supply chain towards market purchase with upward revision of ethanol price for grain-based projects.
- CBG: Praj accounted for order of one project in 2QFY24 order inflow out of confirmation for setting up 5 projects with option of additional 5 projects. The capacity of each biogas plant is c. 20 tonne per day gas output using Agri waste with capex of c. Rs 1bn per plant.
- Share of export orders increased from 12.5% in 2QFY23 to 29% in 2QFY24. It received first order for Low carbon ethanol (LCE) in the USA.
- Employee cost increased due to annual revision and employee addition. Praj has started work on manufacturing facility at Mangalore for Praj GenX with capex of Rs 1bn and expect to be operational by 4QFY24. It is also setting up demo plant with capex of Rs 600mn at Jejuri, near Pune for bio-plastic opportunities.
- 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, Biodiesel and various coproducts and intermediates.

**Outlook and valuation:** The stock is trading at 26.4x 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 6.8bn and scalable business model. We revise valuations from 25x to 30x FY25 with a target of Rs 608 (earlier Rs 485) considering opportunities in exports and energy transition.

Rs mn)	2QFY24	2QFY23	yoy	1QFY24	qoq	vs. expect. %	Comments
Revenue	8824	8766	0.7	7367	19.8	-12.5	Domestic up +1.9% yoy; Bio-energy up +6.5% yoy
Raw material	4989	5726	-12.9	4395	13.5	-18.2	Stability in RM prices.
Employee	889	655	35.7	628	41.7	23.5	
EBITDA	779	647	20.4	713	9.1	-23.1	
EBITDA margins (%)	8.8	7.4	144bps	9.7	-86bps		
Adj PAT	562	452	24.4	545	3.1	-22.9	
Order inflow	10630	9810	8.4	11010	-3.5		Domestic 71%, Bio-energy 68%; High Purity 10%; Engineering 22%
Order book	39600	33457	18.4	37786	4.8		Bio-energy 75%, High Purity 6%, and Engineering 19%

#### BUY (Maintain)

CMP RS 534

TARGET RS 608 (+14%)

SEBI CATEGORY: SMALL CAP

#### COMPANY DATA

O/S SHARES (MN) :	184
MARKET CAP (RSBN) :	98
MARKET CAP (USDBN) :	1.2
52 - WK HI/LO (RS) :	615 / 299
LIQUIDITY 3M (USDMN) :	12
PAR VALUE (RS) :	2

#### SHARE HOLDING PATTERN, %

	Sep 23	Jun 23	Mar 23
PROMOTERS :	32.8	32.8	32.9
DII :	8.4	7.8	7.7
FII :	18.3	17.8	17.6
OTHERS :	40.5	41.5	41.8

#### KEY FINANCIALS

Rs mn	FY23	FY24E	FY25E
Net Sales	35,280	38,438	44,005
EBITDA	3,078	3,914	4,913
Net Profit	2,398	2,940	3,720
EPS, Rs	13.1	16.0	20.3
PER, x	40.9	33.4	26.4
EV/EBITDA, x	31.5	24.7	19.5
PBV, x	9.1	7.8	6.5
ROE, %	24.0	25.1	26.9

#### CHANGE IN ESTIMATES

Rs mn	Revised Est.		% Revision	
	FY24E	FY25E	FY24E	FY25E
Revenue	38,438	44,005	-5	0
EBITDA	3,914	4,913	-7	5
Core PAT	2,940	3,720	-8	5
EPS (Rs)	16.0	20.2	-8	5

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**Quarterly Financials**

Rs mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Total Revenue	7,299	8,766	9,100	10,040	7,367	8,824
YoY growth	89.0%	64.6%	55.4%	21.1%	0.9%	0.7%
Raw material cost	4,719	5,726	5,568	5,925	4,395	4,989
Raw material % of Sales	64.7%	65.3%	61.2%	59.0%	59.7%	56.5%
Employee Cost	541	655	675	705	628	889
Other expenditure	1,513	1,738	1,997	2,365	1,631	2,167
Total Cost	6,773	8,119	8,240	8,995	6,654	8,045
EBITDA	526	647	860	1,045	713	779
EBITDA margin (%)	7.2%	7.4%	9.5%	10.4%	9.7%	8.8%
Depreciation	64	72	72	95	88	91
EBIT	462	575	788	950	625	688
Interest	7	8	8	22	11	10
EBT	455	567	780	928	614	678
Other income	55	62	78	162	121	109
PBT	509	628	858	1,090	736	786
Tax	130	177	236	247	190	224
Tax rate (%)	25.5%	28.1%	27.5%	22.7%	25.9%	28.5%
PAT	380	452	622	843	545	562
Forex gain / (loss)	33	30	2	38	42	62
Extraordinary	1	-	-	-	-	-
Reported PAT	413	481	623	881	587	624
EPS-adjusted (Rs)	2.1	2.5	3.4	4.6	3.0	3.1
EPS-Reported (Rs)	2.2	2.6	3.4	4.8	3.2	3.4
Order book	28,775	32,417	33,457	34,140	37,786	39,600
Order inflow	11,015	10,940	9,810	10,380	11,010	10,630

Source: PhillipCapital India Research

**Coverage Universe**

Company	Size	Fw PE (FY24x)	Reco/Upside	
Container Corporation	M	29.0	BUY	13%
Adani Ports & SEZ	L	19.9	BUY	19%
Praj Industries Ltd	S	26.3	BUY	14%
Pennar Industries Ltd	S	11.0	BUY	9%
Indo Count Industries	S	14.5	BUY	-3%
KDDL	S	26.2	Neutral	-10%
Gateway Distriparks Ltd	S	15.3	BUY	20%
Allcargo Logistics Ltd	S	12.9	Neutral	32%
Aegis Logistics	S	19.5	SELL	2%
Mahindra Logistics Limited	S	28.4	BUY	25%
Transport Corporation of India	S	16.6	BUY	22%
VRL Logistics Ltd	S	20.4	BUY	22%

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
<b>Net sales</b>	<b>23,333</b>	<b>35,280</b>	<b>38,438</b>	<b>44,005</b>
Growth, %	78.8	51.2	9.0	14.5
Other operating income	-	-	-	-
Raw material expenses	14,538	22,014	22,909	26,315
Employee expenses	2,176	2,576	3,090	3,399
Other Operating expenses	4,682	7,612	8,525	9,378
<b>EBITDA (Core)</b>	<b>1,938</b>	<b>3,078</b>	<b>3,914</b>	<b>4,913</b>
Growth, %	72.5	58.8	27.1	25.5
Margin, %	8.3	8.7	10.2	11.2
Depreciation	226	302	352	380
<b>EBIT</b>	<b>1,712</b>	<b>2,776</b>	<b>3,562</b>	<b>4,533</b>
Growth, %	89.7	62.1	28.3	27.3
Margin, %	7.3	7.9	9.3	10.3
Interest paid	25	46	35	36
Other Income	241	356	420	496
Non-recurring Items	-	-	-	-
<b>Pre tax profit</b>	<b>1,928</b>	<b>3,085</b>	<b>3,946</b>	<b>4,993</b>
Tax provided	518	789	1,006	1,273
<b>Profit after tax</b>	<b>1,410</b>	<b>2,296</b>	<b>2,940</b>	<b>3,720</b>
Minorities/JV shares	-	-	-	-
<b>Net Profit</b>	<b>1,503</b>	<b>2,398</b>	<b>2,940</b>	<b>3,720</b>
Growth, %	26.9	47.6	18.0	18.0
<b>Net Profit (adjusted)</b>	<b>1,503</b>	<b>2,398</b>	<b>2,940</b>	<b>3,720</b>
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	1,726	2,868
Marketable securities at cost	3,979	4,584	5,043	5,951
Debtors	5,118	7,948	9,478	10,851
Inventory	3,450	3,336	4,212	4,823
Loans & advances	74	187	196	204
Other current assets	4,233	4,261	4,688	5,156
Total current assets	14,426	17,181	20,300	23,902
Investments	-	-	-	-
Gross fixed assets	4,928	5,728	6,928	7,728
<b>Less: Depreciation</b>	<b>(2,706)</b>	<b>(2,968)</b>	<b>(3,280)</b>	<b>(3,620)</b>
Add: Capital WIP	21	69	62	56
Net fixed assets	2,882	3,495	4,376	4,830
Non-current assets	822	1,018	1,018	1,018
<b>Total assets</b>	<b>22,108</b>	<b>26,278</b>	<b>30,737</b>	<b>35,700</b>
Trade Payables	4,248	5,050	6,845	7,837
Provisions	486	571	617	666
Total current liabilities	12,729	14,651	17,467	19,957
Non-current liabilities	211	428	432	436
Total liabilities	9,379	11,370	13,270	15,744
Paid-up capital	367	367	367	367
Reserves & surplus	8,790	10,413	12,269	14,688
Minorities	7	1	1	1
Shareholders' equity	9,164	10,781	12,637	15,056
<b>Total equity &amp; liabilities</b>	<b>22,108</b>	<b>26,278</b>	<b>30,737</b>	<b>35,700</b>

Source: Company, PhillipCapital India Research

### Cash Flow

Y/E Mar, Rs mn	FY22	FY23	FY24E	FY25E
Pre-tax profit	1,928	3,085	3,946	4,993
Depreciation	226	302	352	380
Chg in working capital	214	(936)	(25)	30
Total tax paid	(518)	(789)	(1,006)	(1,273)
<b>Cash flow from operating activities</b>	<b>1,856</b>	<b>1,381</b>	<b>2,926</b>	<b>3,711</b>
Capital expenditure	(222)	(848)	(1,193)	(794)
Chg in investments	(1,277)	(802)	(458)	(908)
Chg in marketable securities	-	-	-	-
<b>Cash flow from investing activities</b>	<b>(1,258)</b>	<b>(1,294)</b>	<b>(1,231)</b>	<b>(1,206)</b>
Free cash flow	617	121	1,721	2,532
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	98	217	4	4
Dividend (incl. tax)	(910)	(867)	(1,084)	(1,300)
<b>Cash flow from financing activities</b>	<b>(1,064)</b>	<b>(707)</b>	<b>(1,140)</b>	<b>(1,356)</b>
Net chg in cash	(466)	(620)	555	1,149

### Valuation Ratios

	FY22	FY23	FY24E	FY25E
<b>Per Share data</b>				
EPS (INR)	8.2	13.1	16.0	20.3
Growth, %	85.3	59.6	22.6	26.5
Book NAV/share (INR)	49.9	58.7	68.8	82.0
FDEPS (INR)	8.2	13.1	16.0	20.3
CEPS (INR)	9.4	14.7	17.9	22.3
CFPS (INR)	10.1	7.5	15.9	20.2
DPS (INR)	4.2	4.0	5.0	6.0

### Return ratios

Return on assets (%)	7.9	9.9	10.3	11.2
Return on equity (%)	17.5	24.0	25.1	26.9
Return on capital employed (%)	15.2	20.5	22.4	23.8
ROIC (%)	16.0	20.8	23.0	26.2

### Turnover ratios

Asset turnover (x)	10.4	12.5	10.4	10.6
Sales/Net FA (x)	8.1	10.1	8.8	9.1
Working capital/Sales (%)	7.3	7.2	7.4	9.0
Receivable days	75.5	67.6	82.7	84.3
Inventory days	59.5	56.3	60.1	62.7
Payable days	59.9	48.1	56.5	60.9
Working capital days	26.6	26.2	26.9	32.7

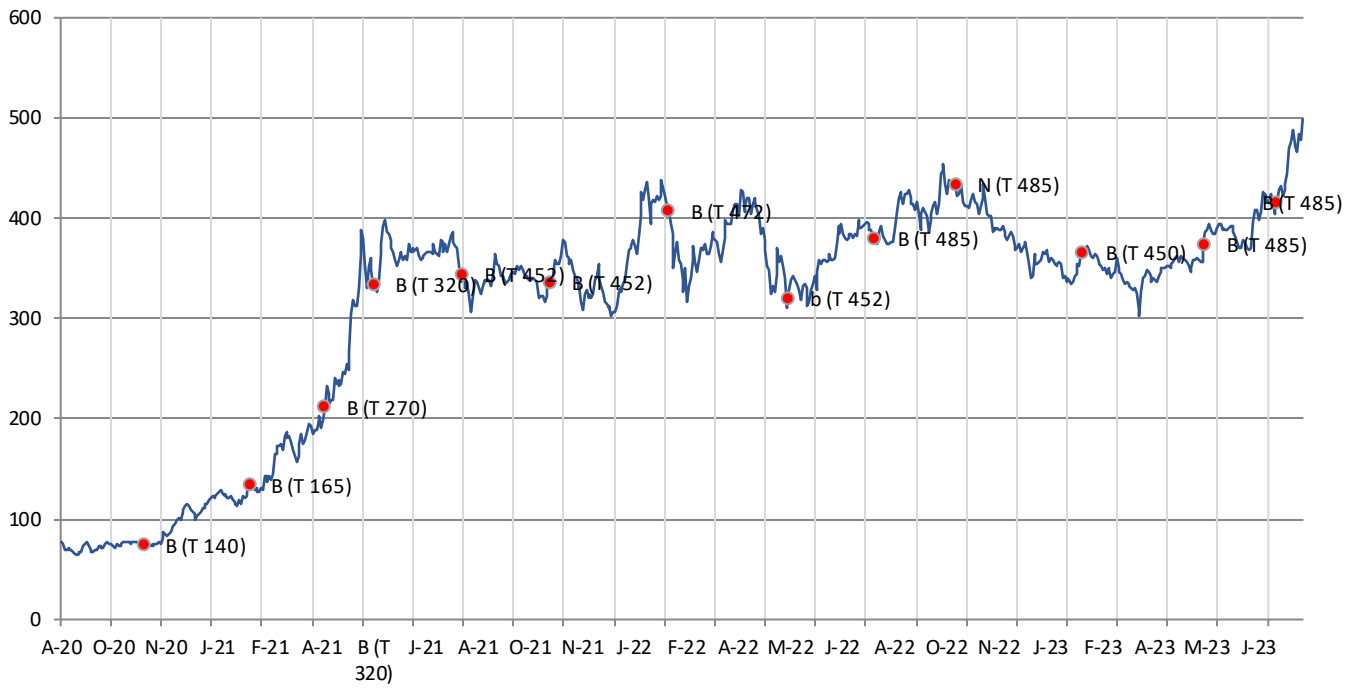
### Liquidity ratios

Current ratio (x)	1.1	1.2	1.2	1.2
Quick ratio (x)	1.2	1.2	1.2	1.2
Interest cover (x)	68.2	60.0	100.6	127.7
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)	65.3	40.9	33.4	26.4
PEG (x) yoy growth	0.8	0.7	1.5	1.0
Price/Book (x)	10.7	9.1	7.8	6.5
EV/Net sales (x)	4.1	2.8	2.5	2.2
EV/EBITDA (x)	49.9	31.5	24.7	19.5
EV/EBIT (x)	56.5	35.0	27.2	21.1

**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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