



TM

Praj Industries

02 November 2023

Margins healthy; order execution to pick up in H2FY24

RESULT UPDATE

Sector: Sugar Rating: BUY

CMP: Rs 537 Target Price: Rs 620

Stock Info

Sensex/Nifty	63,851 / 19,076
Bloomberg	PRJ IN
Equity shares (mn)	184
52-wk High/Low	Rs 615/ Rs 299
Face value	Rs 2
M-Cap	Rs 98bn/ USD 1.2bn
3-m Avg trading value	USD 12.4mn

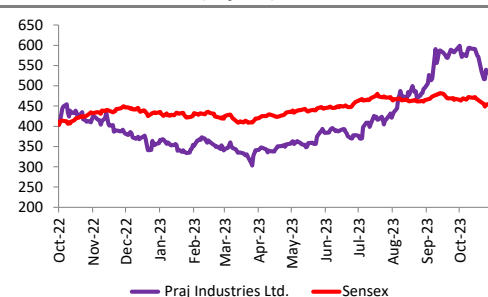
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Net sales	35,280	40,679	47,853
EBITDA	3,078	3,943	5,120
PAT (adj.)	2,398	2,925	3,793
EPS (adj.) (Rs)	13.1	15.9	20.7
PE (x)	41.1	33.7	26.0
P/B (x)	9.2	7.9	6.7
EV/EBITDA (x)	30.1	23.6	18.2
RoE (%)	22.2	23.5	25.7
RoCE (%)	28.2	31.5	34.4
D/E (x)	0.04	0.03	0.03
OPM (%)	8.7	9.7	10.7
DPS (Rs)	3.0	5.8	6.8
Dividend Yield (%)	0.6	0.6	1.1
Dividend payout (%)	23.0	36.4	32.9

Shareholding Pattern (%)

	Sep'23	Jun'23	Mar'23
Promoter	32.8	32.8	32.8
- Pledged	--	--	--
FII	17.9	18.3	17.8
DII	10.2	8.4	7.8
Others	39.1	40.5	41.6

Stock Performance (1-year)



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Praj Industries (PRJ IN) reported flat YoY and 20% QoQ revenue growth in Q2FY24 at Rs 8.8bn (estimate of Rs 9.6bn). Bio energy grew by 6% YoY to Rs 7bn, partly offsetting the 21% YoY revenue decline of Rs 1.3bn in the engineering segment. Domestic revenue saw marginal 1.4% YoY growth at Rs 7.4bn, as the company executed lesser projects, given the FCI ban on rice supply to produce ethanol; export revenue fell 5.7% YoY to Rs 1.4bn. The gross margin expanded 893bps YoY and 311bps QoQ to 43.5% (our estimate 40.3%) on softening raw material (RM) prices. Although EBITDA margin improved 148bps YoY to 8.8% but was lower than our estimate of 9.7%. EBITDA grew by 20% YoY to Rs 779mn (16% below our estimate). The 36% YoY surge in employee costs came on account of the increase in employee count hired for GenX (its new subsidiary) and annual increments, effective July. Finance costs rose 25% YoY and other income increased 77% YoY to Rs 109mn. Consequently, PAT increased 30% YoY to Rs 624mn. Order intake during Q2FY24 grew by 8.4% QoQ to Rs 10.6bn, with domestic orders slipping by 17.3% YoY, but offset by 4x YoY increase in export orders. The company had an order backlog of Rs 39.6bn, up 18% YoY and 5% QoQ, as of 30th Sep 2023. Management believes the order execution to be higher in H2FY24 which would also aid margin expansion. We have cut our FY24 and FY25 revenue by 1% each to factor in the muted Q2FY24. However, for FY24E/FY25E, we have slightly raised our EBITDA margin by 20bps/60bps, and PAT by 1%/4%, respectively. We estimate 16%/29%/26% revenue/EBITDA/PAT CAGR over FY23-25E and expect RoE to improve to 25.7% in FY25E from 22.2% in FY23 on superior profitability. Reiterating BUY with a revised TP of Rs 620 (Rs 497 earlier), based on 30x FY25E P/E. Key risks: Change in Gol's ethanol blending policy, inability to pass-through RM cost volatility, technological obsolescence, supply-chain imbalance.

Bio-energy division - Revenue increased 6% YoY to Rs 6.9bn in Q2FY24. The company received 13% YoY lower orders at Rs 7.2bn, while its order book of Rs 29.7bn was up 0.8% QoQ. The decline in orders was primarily due to the ban on supply of FCI rice to produce ethanol, as customers halted their orders and those under execution were stalled, as banks temporarily stopped funding the projects. However, upward revision in the rates for grain-based ethanol from Oil Marketing Companies (OMC) restored confidence for ongoing and proposed projects. Overall, PRJ expects continuity in order book for both starchy and sugar-based ethanol plants. The company received its first order for Low Carbon Ethanol (LCE) in the US, and the company is upbeat on further opportunities in the region.

Engineering division- Revenue fell ~21% YoY to Rs 1.3bn in Q2FY24. PRJ received 116.7% YoY higher orders at Rs 2.3bn, while its order book of Rs 7.5bn was up 17% QoQ. The Energy Transition and Climate Action (ETCA) space has opened up an array of opportunities and PRJ is setting up a modern manufacturing facility to be housed at its new subsidiary, Praj GenX Ltd, at an investment of Rs 1bn, to address the same. PRJ has commenced work on setting up an integrated manufacturing facility at Mangalore for Praj GenX and execution plans are underway to start manufacturing by Q4FY24. ETCA order book is expected to build up in H2FY24 and execution could start from Q4FY24.

HiPurity division: Revenue growth was flat YoY at Rs 529mn in Q2FY24. Order intake increased by 171% YoY to Rs 1bn and order book of Rs 2.4bn was up 26% QoQ. The PHS business has developed a strong order book of over ~Rs 1bn in Q2FY24. India has huge interest and potential in creating fermentation-based manufacturing capacity, and the PHS business is capitalizing on PRJ's fermentation capabilities to explore expanding opportunities in this space. PRJ has received an order for a large-size fermenter for pharma application from Oman, and it has also booked its first significant order for COLD WFI (Water for Injection) system, based on proven and successful GLACIER™ technology. PRJ sees significant demand growth for COLD WFI in the Indian subcontinent over the next 3-5 years. India's rapidly evolving semiconductor industry would also create high growth opportunities in ultra-high purity water solutions.

Other key takeaways from the concall

Industry

- The launch of Global Biofuels Alliance is a significant event to sustainably develop biofuels globally. This alliance is committed to facilitating access to technology, fostering an ecosystem to support biofuel production and consumption.
- The GST Council's decision to reduce GST on molasses from 28% to 5% would have a positive impact on the viability of the project. Overall, PRJ expects continuity in the order book for both starchy and sugar based ethanol plants.
- Indian Sugar Mills Association (ISMA) released its preliminary projections for the SS 2023-24, wherein it forecasts sugar production to decline by ~8% to ~33.7mn tonnes, versus the estimated 36.6mn tonnes for SS 2022-23. However PRJ believes the industry would still be left with sugar surplus stock and India is on track to achieve 20% ethanol blending in petrol by 2025/2026 under its Ethanol Blending Programme (EBP).

Segmental performance

- **1G:** PRJ received its first order for Low Carbon Ethanol (LCE) in the US.
- **2G:** Recommissioning of IOCL Panipat plant started with commencement of feedstock availability and the company will further establish the performance of the plant over the next six months period.
- **CBG:** Execution of the first among five projects has started. Modus operandi for balance four projects is being established with the customer. The company is witnessing positive developments in its overall enquiry pipeline in this segment.
- **CPES:** With demand emerging in the ETCA segment and repeat orders from key customers in other served segments, PRJ is building a strong order book for execution. The ETCA segment held a significant ~52% share in the overall order book of its CPES business during the quarter.
- **Domestic bioenergy business** witnessed a brief period of reduced activity due to ban on the supply of FCI (Food Corporation of India) rice to produce ethanol. However, with the upward rate revision in grain-based ethanol from OMCs restored confidence in the ongoing and proposed projects. Also, given the abundant availability of maize, there is a shift taking place from rice-based to maize base plants.

- **Engineering** revenues fell YoY despite robust YoY growth in order intake, as execution cycles are different in this segment, and as most of the business would be contributed by the ETCA segment, which usually has a 12-15 month cycle.
- **PHS:** Developed strong order book and has crossed Rs 1bn of order booking in Q2FY24.
- **PRJ's services business** is seeing good traction in both domestic and international markets, especially Brazil. Services business contributes ~Rs 100mn of PRJ's total revenue of Rs 8.8bn.
- The company is in the **process of establishing a strong distributor network** in chosen markets to offer entire suite of solutions comprising Enzymes, Yeast and Performance enhancers.
- **Zero liquid discharge and brewery business segments** are experiencing healthy enquiry inflows and management expects positive business development in the near future across these segments.
- **Margin expansion:** With execution expected to improve from Q3FY24, management sees scope for margin expansion in H2FY24. Management believes order execution in H2FY24 would be larger in size than in H1FY24.

Capex

- PRJ plans a total capex of ~Rs 1bn on account of GenX, where ~Rs 600mn would be incurred in H2FY24 and the balance Rs 400mn is earmarked for next year. It has planned routine capex of ~Rs 200mn for other facilities and ~Rs 400mn for two pilot plants. Total capex is projected at ~Rs 1.2bn for FY24.

Order intake guidance

- 70:30 domestic to export order ratio from 80:20 currently. Management expects US to contribute minimum ~30% of the total international orders.

Exhibit 1: Change in estimates

(Rs mn)	Old Estimates		New Estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Sales	41,132	48,527	40,679	47,853	(1.1)	(1.4)
EBITDA	3,919	4,907	3,943	5,120	0.6	4.3
EBITDA Margin (%)	9.5	10.1	9.7	10.7	17bp	59bp
Adjusted PAT	2,900	3,652	2,925	3,793	0.9	3.9
EPS (INR)	15.8	19.9	15.9	20.7	0.9	3.9
Target Price		497		620		24.7

Source: Company, Systematix Institutional Research

Exhibit 2: Financial snapshot

YE March (Rs mn)	Q2FY24	Q2FY23	YoY(%)	Q1FY24	QoQ(%)	H1FY24	H1FY23	YoY(%)
Net Sales	8,824	8,806	0.2	7,367	19.8	16,191	16,105	0.5
RM cost	4,989	5,766	(13.5)	4,395	13.5	9,384	10,485	(10.5)
Employee Cost	889	655	35.7	628	41.7	1,517	1,196	26.8
Other Expenses	2,167	1,738	24.7	1,631	32.8	3,798	3,251	16.8
Operating Expenses	8,045	8,159	(1.4)	6,654	20.9	14,699	14,932	(1.6)
% of Sales	91	93	(147.9)	90	86bp	91	93	(193.3)
EBITDA	779	647	20.4	713	9.1	1,492	1,173	27.2
EBITDA Margins (%)	9	7	147.9	10	-86bp	9	7	193.3
Other Income	109	62	76.8	121	(10.1)	230	116	97.6
Finance Cost	10	8	25.1	11	(6.5)	21	16	36.2
Depreciation	91	72	26.1	88	3.0	179	136	31.6
Less: Minority interest	0	0		0		-	-	
Forex gain / (loss)	62	30		42		-	-	
Extraordinary item	-	-		-		-	-	
PBT	848	658	28.9	777	9.2	1,522	1,138	33.8
Tax	224	177	27.2	190	17.9	415	306	35.5
Effective Tax Rate (%)	26	27	-37bp	24	197bp	27	27	34bp
Reported PAT	624	481	29.6	587	6.3	1,107	831	33.2
NPM (%)	7.1	5.5	160bp	8.0	-89bp	6.8	5.2	168bp
No. of equity shares	184	184		184		-	184	
Adj. EPS (Rs)	3	3	29.6	3	6.4	6	5	33.2

Source: Company, Systematix Institutional Research

Exhibit 3: Key ratios (% of Net Sales)

Key Ratios (% of revenues)	Q2FY24	Q2FY23	YoY(%)	Q1FY24	QoQ(%)	H1FY24	H1FY23	YoY(%)
Raw Material Cost	57	65	-893bp	60	-311bp	58	65	-714bp
Employee Cost	10	7	263bp	9	156bp	9	7	194bp
Other Expenses	25	20	482bp	22	242bp	23	20	327bp
Effective Tax rate	26	27	-37bp	24	197bp	27	27	34bp
Gross Margin	43.5	34.5	893bp	40.3	311bp	42.0	34.9	714bp
OPM	8.8	7.3	148bp	9.7	-86bp	9.2	7.3	193bp
NPM	7.1	5.5	160bp	8.0	-89bp	6.8	5.2	168bp

Source: Company, Systematix Institutional Research

Exhibit 4: Segmental financial snapshot

YE March (Rs mn)	Q2FY24	Q2FY23	YoY(%)	Q1FY24	QoQ(%)	H1FY24	H1FY23	YoY(%)
REVENUE								
Bio-Energy	6,971	6,605	6%	5,894	18%	12,864	12,225	5%
Engineering	1,324	1,673	-21%	1,031	28%	2,355	2,914	-19%
High Purity	529	528	0%	516	3%	1,045	966	8%
Net Revenues	8,824	8,806	-15%	7,441	19%	16,191	16,105	-6%
Sales mix (%)								
Bio-Energy	79	75		79		79	76	
Engineering	15	19		14		14	18	
High Purity	6	6		7		6	6	
Order Intake								
Bio-Energy	7,228	8,339	-13%	6,606	9%			
Engineering	2,339	1,079	117%	3,413	-31%			
High Purity	1,063	392	171%	991	7%			
Order Backlog								
Bio-Energy	29,700	26,431		29,473				
Engineering	7,524	5,688		6,424				
High Purity	2,376	1,338		1,889				

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net revenues	13,047	23,333	35,280	40,679	47,853
Revenue growth (%)	18.3	78.8	51.2	15.3	17.6
- Op. expenses	11,923	21,395	32,202	36,735	42,733
EBITDA	1,124	1,938	3,078	3,943	5,120
EBITDA margins (%)	8.6	8.3	8.7	9.7	10.7
- Interest expenses	29	25	46	63	60
- Depreciation	221	226	302	357	435
+ Other income	190	241	356	430	500
- Tax	313	518	789	1,028	1,333
Effective tax rate (%)	29	27	26	26	26
Reported PAT	751	1,410	2,296	2,925	3,793
+/- Extraordinary items	(8)	(28)	-	-	-
+/- Minority interest	-	(0)	0	-	-
Adjusted PAT	811	1,502	2,398	2,925	3,793
EPS (Rs/share)	4.4	8.2	13.1	15.9	20.7

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	366	367	367	367	367
Warrants	-	-	-	-	-
Reserves & Surplus	7,652	8,790	10,413	12,082	14,401
Networth	8,018	9,157	10,780	12,449	14,768
Minority interest	1	1	1	1	1
Total Debt	113	211	421	421	401
Def. tax liab. (net)	(89)	(19)	(111)	(111)	(111)
Other Financial Liabilities	6	6	6	6	6
Capital employed	8,050	9,356	11,097	12,766	15,065
Net Fixed assets	2,842	2,882	3,238	4,581	5,147
Investments	3,523	4,800	5,602	5,602	5,602
Net Working capital	1,685	1,674	2,257	2,583	4,317
Cash and bank balance	1,011	1,075	986	516	269
Capital deployed	8,050	9,356	11,097	12,766	15,065
Net debt	(898)	(864)	(564)	(95)	132
WC (days)	69	53	55	55	55
DE(x)	0	0	0	0	0

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	1,131	2,049	3,187	3,953	5,125
- Cash Tax	(149)	(450)	(625)	(1,028)	(1,333)
+ Non cash items	109	55	281	420	495
Cash profit	1,092	1,654	2,843	3,345	4,287
- Incr/(Decr) in WC	1,159	223	(1,222)	(795)	(1,981)
Operating cash flow	2,251	1,876	1,621	2,550	2,306
- Capex	(87)	(185)	(352)	(1,700)	(1,000)
Free cash flow	2,164	1,691	1,269	850	1,306
- Dividend	4	397	771	1,256	1,473
+ Equity raised	3	26	4	-	-
+ Debt raised	-	-	-	-	(20)
- Investments	1,626	1,299	572	-	-
- Misc. items	27	68	55	(63)	(60)
Net cash flow	545	36	(157)	(470)	(247)
+ Opening cash	458	1,039	1,074	986	516
Closing cash	1,011	1,074	986	516	269

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	121.7	65.7	41.1	33.7	26.0
P/BV (x)	12.3	10.8	9.2	7.9	6.7
EPS (Rs/share)	4.4	8.2	13.1	15.9	20.7
EV/EBITDA (x)	83.9	48.0	30.1	23.6	18.2
RoE (%)	10.1	16.4	22.2	23.5	25.7
RoCE (%)	13.6	20.9	28.2	31.5	34.4
DE(x)	0.0	0.0	0.0	0.0	0.0
Fixed Asset turnover (x)	5.9	10.5	14.1	15.0	13.7
Dividend (%)	107.8	150.0	150.0	290.0	340.0
Dividend yield (%)	0.4	0.6	0.6	1.1	1.3
Dividend payout (%)	48.8	36.7	23.0	36.4	32.9
Debtors days	126.9	80.1	82.2	70.0	70.0
Creditor days	95.6	66.4	52.2	50.0	50.0
Inventory days	36.1	54.0	34.5	35.0	35.0
Revenue growth (%)	18.3	78.8	51.2	15.3	17.6
EBITDA growth (%)	43.9	72.5	58.8	28.1	29.8
PAT growth (%)	15.1	85.3	59.6	22.0	29.6

Source: Company, Systematix Institutional Research

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I. ANALYST CERTIFICATION

I, **Pratik Tholiya, Yogeeta Rathod**; hereby certify that (1) views expressed in this research report accurately reflect my/our personal views about any or all of the subject securities or issuers referred to in this research report, (2) no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by **Systematix Shares and Stocks (India) Limited (SSSIL)** or its group/associate companies, (3) reasonable care is taken to achieve and maintain independence and objectivity in making any recommendations.

Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

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