

FEBRUARY 05, 2024

## Result Update

### Stock Details

Market cap (Rs mn)	:	8763
52-wk Hi/Lo (Rs)	:	650 /299
Face Value (Rs)	:	2
3M Avg. daily volume (lakh)	:	32
Shares o/s (cr)	:	18

Source: Moneycontrol, BSE

### Financial Summary

Y/E Mar (Rs cr)	FY24E	FY25E	FY26E
Revenue	3,358	3,780	4,236
Growth (%)	-5	13	12
EBITDA	359	407	468
EBITDA margin (%)	10.7	10.8	11.0
PAT	279	308	373
EPS	15.2	16.7	20.3
EPS Growth (%)	16	10	21
BV (Rs/share)	68	79	93
Dividend/share (Rs)	4.8	5.2	5.2
ROE (%)	23.9	22.8	23.7
ROCE (%)	27.1	26.9	28.1
P/E (x)	31.4	28.5	23.5
EV/EBITDA (x)	22.4	19.6	18.7
P/BV (x)	7.0	6.1	5.2

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Dec-23	Sep-23	Jun-23
Promoters	32.8	32.8	32.8
FII	17.4	17.9	18.3
DII	13.1	10.2	8.4
Others	36.7	39.0	40.5

Source: Moneycontrol, BSE

### Price Performance (%)

(%)	1M	3M	6M
Praj	-11.3	13.3	34.9
Nifty	0.9	14.2	11.9

Source: Moneycontrol, BSE

### Price chart (Rs)



Source: Moneycontrol, BSE

## PRAJ INDUSTRIES LTD (PRAJ)

PRICE Rs.477

TARGET Rs.525

ADD

Praj reported mixed Q3FY24 results as revenue missed our estimates while margin was better than estimates. The company reported 8.9% yoy decline in revenue, while EBITDA and PAT grew 13.2% and 13% respectively. EBITDA margin at 11.8% (vs 10% estimates) grew 230 bps yoy and qoq, on robust gross margin at 45.7% (+690 bps/230 bps yoy/qoq) led by better mix, higher exports & engineering (servicing orders) and lower raw material prices. As per management, the company lost revenue in the bioenergy segment due to temporary shift in execution of sugary feedstock based bioenergy orders due to government's ban on use of sugar syrups for ethanol manufacturing. As per management, the shift is of temporary in nature as the companies and bankers are reassessing viability and awaiting more clarity on viability of these projects. As per management, Praj is geared up with alternative solutions like multiple feed stock based plants for its clients. The order inflows in the quarter was at Rs1037 cr and continued to be in the range of Rs900-1100 cr per quarter, which indicates risk of moderation in revenue growth in the near to medium term, in our view. The management is positive on the long term growth prospects emerging from low carbon emission projects in US, CBG, SAF, Energy transition, etc. We cut earnings estimates for FY24E-26E in the range of 3-7% to factor in challenges related to execution of sugary feedstock based bio fuel orders. We maintain ADD with revised fair value of Rs525 (from Rs565), valued at 26x FY26E earnings.

### Key Highlights

- ❑ Praj reported 8.9% yoy decline in Q3FY24 revenue (at Rs829cr) and was lower than estimates (of Rs1028 cr). Execution in the quarter got impacted in the bioenergy segment due to temporary shift in execution of sugary feedstock based bioenergy orders led by government's decision to ban use of sugar syrups for ethanol.
- ❑ As per management, pure syrup based order is ~Rs250cr and ~Rs400 cr is B-heavy molasses based order (which also contains C-heavy molasses based order). Hence affected order backlog is ~16% of total order backlog.
- ❑ Order intake in the quarter was lower than estimates at Rs1037cr (+10%/-2 yoy/qoq) and took the order backlog to Rs3,950 cr (+17% yoy, flattish on qoq). The share of orders from international market (which has relatively high margin) was higher at 25% in Q3FY24 (Vs 17% in FY23). The company aims to achieve 50% of business from international market in the long run.
- ❑ In view of improved business mix and lower raw material prices, EBITDA margin is expected to sustain at low double digit in the coming years.

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**Quarterly performance table (consolidated)**

Year to March (Rs Cr.)	Q3FY24	Q3FY23	%Change	Q2FY24	%Change
<b>Net Revenues</b>	<b>829</b>	<b>910</b>	<b>(8.9)</b>	<b>882</b>	<b>(6.1)</b>
Direct Expenses	450	557	(19.3)	499	(9.9)
<b>Gross Profit</b>	<b>379</b>	<b>353</b>	<b>7.3</b>	<b>383</b>	<b>(1.2)</b>
Gross margin%	45.7	38.8	6.9	43.5	2.29
Employee Expenses	85	67	26.3	89	(4.2)
Forex loss/(gain)	(1)	(0)		(6)	
Other Expenses	197	200	(1.1)	217	(8.9)
Operating Expenses	731	824	(11.3)	798	(8.4)
<b>EBITDA</b>	<b>98</b>	<b>86</b>	<b>13.2</b>	<b>84</b>	<b>16.1</b>
EBITDA margin	11.8%	9.5%		9.5%	
Depreciation	11	7	50.9	9	19.7
Other income	9	8	16.8	11	(16.8)
Net finance expense	4	1	362.6	1	274.1
Profit before tax	92	86	7.0	85	8.4
Provision for taxes Incl tax write back	22	24	(8.8)	22	(4.2)
Reported net profit	70	62	13.0	62	12.9
NPM%	8.5	6.8		7.1	
<b>% of Revenue</b>					
Employee cost	10.3	7.4		10.1	
Other Expenses	23.8	21.9		24.6	
Operating expenses	88.2	90.5		90.5	
Tax rate (% of PBT)	23.4	27.5		26.5	

Source: Company

## Outlook and valuations

We believe Praj is a key beneficiary from the government's focus on reducing carbon emission 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), RCM, etc. Based on robust future opportunities in the bioenergy space, the company aims to achieve 3x its revenue by 2030.

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. Further recent government restriction on usage of sugarcane syrup add worries on execution of these orders and new order inflows in the near term. However, we continue to believe that the business activity levels for Praj is expected to remain buoyant in the long run.

We cut our earnings estimates for FY24E-26E in the range of 3-7% to factor in recent challenges impacting execution and near term order intake. Praj currently trades at 31.4x/28.5x/23.5x on FY24E/FY25E/FY26E revised earnings of Rs15.2/16.7/Rs20.3 (Rs15.6/18.1/Rs21.7 earlier), respectively. We maintain ADD with revised fair value of Rs525 (Vs Rs565 earlier). Key risk includes, sharp increase in commodity price, slowdown in order inflows, change in government policy on bio fuel blending, etc.

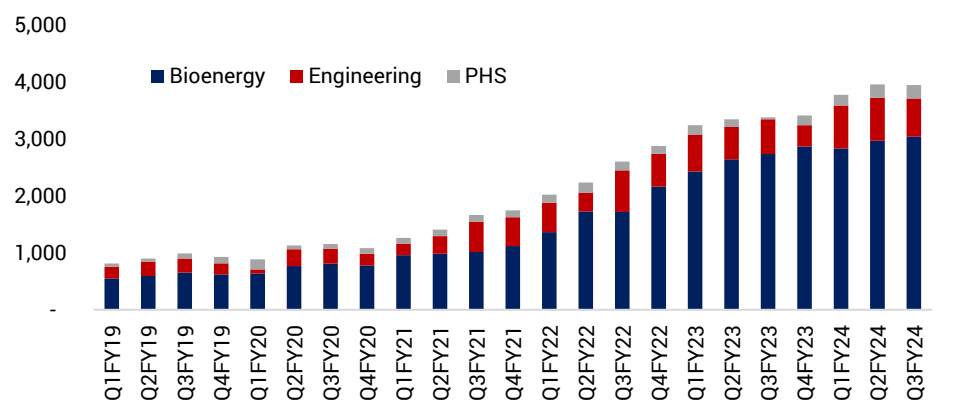
## Other highlights

- The company has bagged pending (4 out of 5) CBG projects of ~Rs450 cr value from a business conglomerate and has a healthy pipeline of orders from the space.
- As per management, key challenge for CBG projects is the availability of feed stocks. Government is providing assistance in collection and

availability of feedstock. These projects, in management’s view, is likely to take 12-15 months to be on line as the government aims to blend 1% of CBG to CNG by FY26 and 5% by FY29. This is expected to create opportunity worth ~Rs37,000 cr.

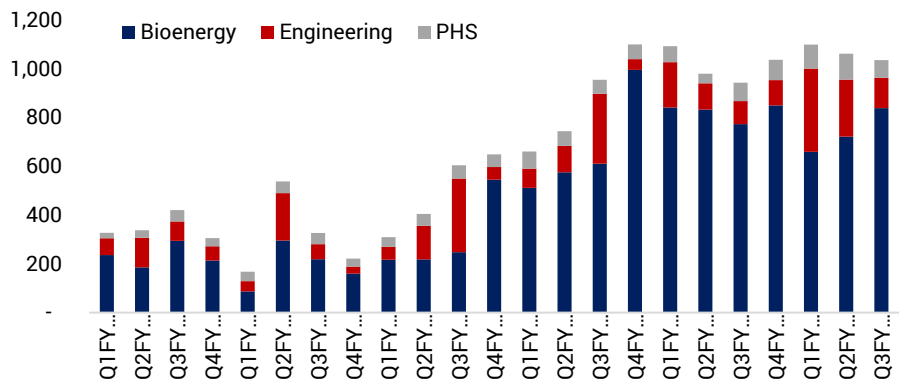
- In Bio-manufacturing: (like bioplastic, biopolymer, biopharma, etc), the management believes that Praj as a leader in business, recognized opportunity much ahead of time. The company is putting up pilot projects in the next financial year and is positive on opportunity from the same as it was announced in the budget.
- Exports is likely to gain traction due to 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.
- 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. It has completed statutory compliances for the commissioning of operations at the Mangalore facility and the first commercial production activity is planned in February 2024.
- Praj has formed a 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 the 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 is likely to see a big push in the next two years.
- As per management there is an immense opportunity from the US for SAF blending as it will require low-carbon ethanol. The company has already bagged projects in the last quarter for low-carbon ethanol and expects more projects in the future once regulatory clarity comes in.

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



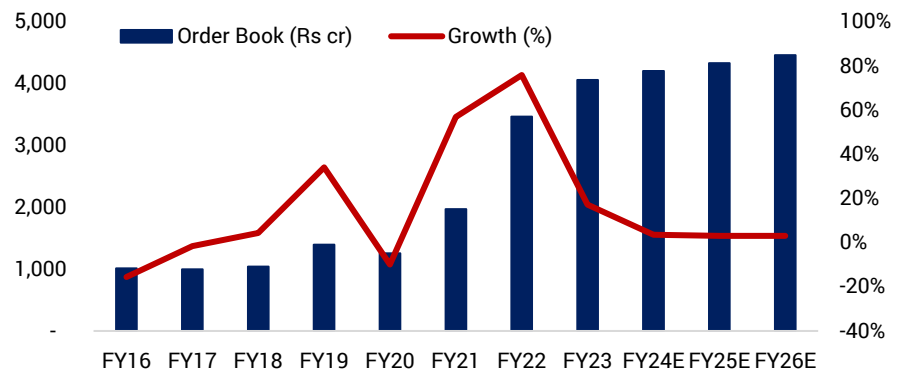
Source: Company, Kotak Securities Private Client Group

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



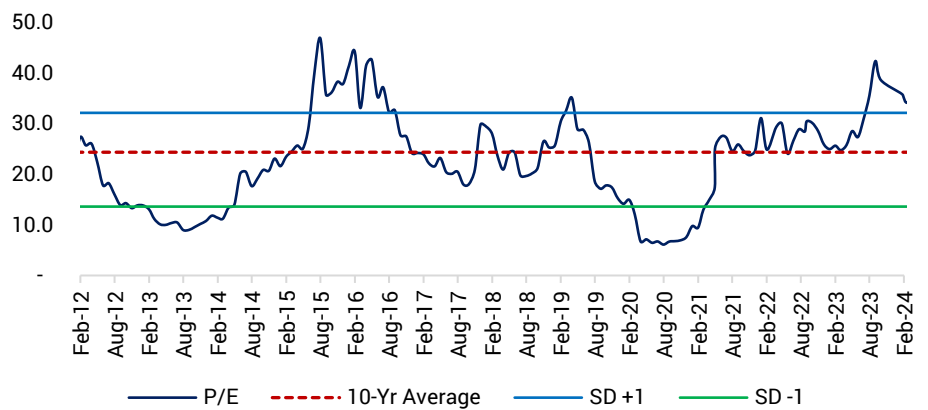
Source: Company, Kotak Securities - Private Client Group

**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 the renewable transportation fuel, thus ensuring sustainable decarbonization through a circular bioeconomy. The company's Bio-Prism™ portfolio comprises of technologies for production of renewable chemicals and materials solutions and promises sustainability; while reimagining nature. Praj Matrix, the state-of-the-art R&D facility, forms the backbone for the company's endeavors 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>3,358</b>	<b>3,780</b>	<b>4,236</b>
% change YoY	50.6	-4.8	12.6	12.1
<b>EBITDA</b>	<b>308</b>	<b>359</b>	<b>407</b>	<b>468</b>
% change YoY	58.8	16.8	13.2	15.0
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>364</b>	<b>415</b>	<b>500</b>
% change YoY	60.3	16.2	14.1	20.5
Interest costs	4.6	2.4	2.4	0.0
<b>Profit before tax</b>	<b>319</b>	<b>374</b>	<b>413</b>	<b>500</b>
% change YoY	55.6	17.4	10.4	21.2
Tax	78.9	95.4	105.3	127.6
as % of PBT	24.8	25.5	25.5	25.5
<b>Profit after tax</b>	<b>239.8</b>	<b>278.7</b>	<b>307.6</b>	<b>372.8</b>
Minority interest	0.0	0.0	0.0	0.0
Share of profit of associates	0.0	0.0	0.0	0.0
Net income	239.8	278.7	307.6	372.8
% change YoY	59.6	16.2	10.4	21.2
Shares outstanding (cr)	18.4	18.4	18.4	18.4
<b>EPS (reported) (Rs)</b>	<b>13.1</b>	<b>15.2</b>	<b>16.7</b>	<b>20.3</b>
CEPS (Rs)	14.7	17.2	18.8	21.4
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	359	407	468
Direct tax paid	-79	-95	-105	-128
Adjustments	17	-3	-3	-3
<b>Cash flow from operations</b>	<b>246</b>	<b>261</b>	<b>299</b>	<b>338</b>
Net Change in Working Capital	-54	10	-78	-141
Net Cash from Operations	192	272	221	197
Capital Expenditure	-69	-120	-100	-100
<b>Cash from investing</b>	<b>-44</b>	<b>41</b>	<b>47</b>	<b>52</b>
Net Cash from Investing	-114	-79	-53	-48
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	82	50	33
Free cash flow	123	152	121	97
cash at end	58	141	190	224
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>205</b>	<b>258</b>	<b>294</b>

Source: Company, Kotak Securities – Private Client Group

### Balance sheet (Rs cr)

(Year-end Mar)	FY23	FY24E	FY25E	FY26E
Cash and cash equivalents	121	205	258	294
Accounts receivable	795	754	777	870
Inventories	334	322	414	522
Loans and Adv & Others	492	478	673	754
<b>Current assets</b>	<b>1,741</b>	<b>1,760</b>	<b>2,122</b>	<b>2,441</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>2,721</b>	<b>3,145</b>	<b>3,544</b>
<b>Current liabilities</b>	<b>1,424</b>	<b>1,334</b>	<b>1,554</b>	<b>1,683</b>
Provisions	57	92	104	116
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	1,214	1,406	1,664
<b>Total liabilities</b>	<b>2,619</b>	<b>2,721</b>	<b>3,145</b>	<b>3,544</b>
BVPS (Rs)	58.7	68.1	78.5	92.6

Source: Company, Kotak Securities – Private Client Group

### Ratio Analysis

(Year-end Mar)	FY23	FY24E	FY25E	FY26E
EBITDA margin (%)	8.7	10.7	10.8	11.0
EBIT margin (%)	8.9	10.8	11.0	11.8
Net profit margin (%)	6.8	8.3	8.1	8.8
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	0.5	0.5	0.5
Interest coverage (x)	66.5	151.3	171.3	#DIV/0!
Debt/equity ratio(x)	0	0	0	0
ROE (%)	24.1	23.9	22.8	23.7
ROCE (%)	27.0	27.1	26.9	28.1
EV/ Sales (x)	2.3	2.4	2.1	2.1
EV/EBITDA (x)	26.4	22.4	19.6	18.7
Price to earnings (x)	36.5	31.4	28.5	23.5
Price to book value (x)	8.1	7.0	6.1	5.2

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
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<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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FEBRUARY 05, 2024

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