



TM

## Praj Industries

04 February 2024

## RESULT UPDATE

Sector: Mid Cap

Rating: BUY

CMP: Rs 477

Target Price: Rs 578

## Stock Info

Sensex/Nifty	72,086 / 21,854
Bloomberg	PRJ IN
Equity shares (mn)	184
52-wk High/Low	Rs 651/ Rs 299
Face value	Rs 2
M-Cap	Rs 91bn/ USD 1.1bn
3-m Avg trading value	USD 9.4mn

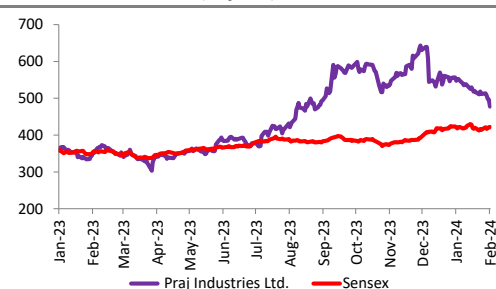
## Financial Snapshot (Rs mn)

Y/E Mar	FY24E	FY25E	FY26E
Net sales	36,078	42,503	50,158
EBITDA	3,783	4,665	5,775
PAT (adj.)	2,809	3,450	4,241
EPS (adj.) (Rs)	15.3	18.8	23.1
PE (x)	31.2	25.4	20.7
P/B (x)	7.1	6.1	5.1
EV/EBITDA (x)	21.5	17.6	14.2
RoE (%)	22.8	24.1	24.8
RoCE (%)	30.1	31.8	32.7
D/E (x)	0.03	0.03	0.02
OPM (%)	10.5	11.0	11.5
DPS (Rs)	5.8	6.8	6.8
Dividend Yield (%)	0.9	1.2	1.4
Dividend payout (%)	37.9	36.2	29.4

## Shareholding Pattern (%)

	Dec'23	Sep'23	Jun'23
Promoter	32.8	32.8	32.8
- Pledged	--	--	--
FII	17.4	17.9	18.3
DII	13.1	10.2	8.4
Others	36.7	39.1	40.5

## Stock Performance (1-year)



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## Margin improvement to continue; new growth areas hold key

Praj Industries' (PRJ IN) Q3FY24 revenue slipped 9% YoY and 6% QoQ to Rs 8.3bn (21% below estimate of Rs 10.5bn). Bio energy and Hi-Purity segments degrew by 12%/9% YoY, respectively, while the engineering segment reported flat revenue of Rs 1.7bn. Domestic revenue dropped 13.5% YoY due to the government's recent policy flip flop, restricting the diversion of sugar towards ethanol. This resulted in an unusual quarter, with no order finalization for sugar-based ethanol plants. However, PRJ attracted a steady flow of starchy feedstock-based inquiries that translated into orders. Gross margin expanded 700bps YoY and 229bps QoQ to a healthy 45.7%, higher than our estimate of 43.5%, owing to softening raw material (RM) prices. EBITDA margin expanded 220bps YoY and 282bps QoQ to 11.6% (estimate of 10%) due to better sales mix, higher exports, increasing service orders and soft RM prices. EBITDA increased 12% YoY and 24% QoQ to Rs 965mn (8% lower than our estimate). Interest expenses tripled to Rs 38mn, with depreciation increasing 50% YoY to Rs 109mn. Other income grew 17% YoY to Rs 91mn. APAT increased 13% YoY to Rs 704mn but was 10% below our estimate. Order intake during Q3FY24 grew by 9.9% YoY to Rs 10.4bn, with 13.8% YoY growth in domestic orders, partly offset by 9.5% YoY fall in export orders. Order backlog at Rs 39.5bn grew 17% YoY (flat QoQ) as of 31<sup>st</sup> Dec 2023. Management is optimistic on tripling revenue by FY30, expected to be fueled by government initiatives in the new growth areas of Bioenergy, energy transition climate action services, PHS, Sustainable Aviation Fuel (SAF), and global CBG segments. All these segments are on a growth trajectory and hold huge expansion potential. Management expects margin growth trajectory to continue going forward. We have cut FY24E/ FY25E revenue by 11% each to factor in the muted Q3FY24, but slightly raised EBITDA margin by 80bps/30bps, anticipating RM softening benefits to continue. We cut EPS by 4%/9% for FY24/FY25 largely due to the cut in topline. We roll forward valuations to FY26E. Since the stock has corrected by ~25% in last 2 months, we upgrade our rating to BUY from HOLD, with a revised TP of Rs 578 (Rs 620 earlier), based on 25x FY26E P/E (earlier 30x). Key risks: Change in Govt's ethanol blending policy, inability to pass-through RM cost volatility, technology obsolescence, supply-chain imbalance.

**Bio-energy division** - Revenue dropped 12% YoY to Rs 5.9bn owing to weak execution, while order intake grew by 9% YoY to Rs 8.4bn. PRJ's domestic Bioenergy business witnessed reduced order booking activity due to the sudden restrictions imposed on diversion of sugar towards ethanol. However, PRJ believes this is temporary, and is working with sugar customers to convert their existing single-feedstock plants to multi-feedstock plants. Slow-moving syrup projects recorded order book of ~Rs 2.5bn.

**Engineering division**- Revenue was flat at Rs 1.7bn. PRJ received 26.8% YoY lower orders at Rs 1.2bn, with its Rs 6.7bn order book up 98% YoY and down 11% QoQ. The company is witnessing positive developments on the overall inquiry pipeline in this segment and ~2/3<sup>rds</sup> of its orderbook is from the Energy Transition and Climate Action (ETCA) space. Work on the GenX facility at Mangalore is in full swing with first commercial production activity expected to commence this month. PRJ has completed all statutory compliances required to commission operations.

**Praj HiPurity segment (PHS):** Revenue dropped 9.1% YoY to Rs 663mn in Q3FY24. Order intake increased by 8x YoY and decreased 32% QoQ to Rs 726mn and the order book of Rs 2.4bn was flat QoQ. The order book has already crossed the entire order booking of FY23, signaling strong development. In 9MFY24, PRJ received its first international order for high-capacity fermenters and has also completed the first order of water system for a lithium-ion battery project having application requirements like that of water-like semiconductors.

### Other key takeaways from the concall

**Inauguration of Sustainable Aviation Fuel (SAF) facility:** On 20<sup>th</sup> January, Union Minister Shri Hardeep Singh Puri inaugurated the first-of-its-kind fully integrated Alcohol to Jet, SAF demonstration facility at PRJ Matrix - a milestone achievement in PRJ's pursuit of sustainable decarbonization of the transportation sector.

### New scheme of bio-manufacturing and bio-foundry in Union Budget 2024

The government in its recent budget announced several initiatives aimed at bolstering the bio-energy sector. These initiatives include phased mandatory blending of compressed biogas and financial assistance for the procurement of biomass aggregation equipment. Additionally, the budget has announced schemes to support the biomanufacturing and foundry sectors, which will provide eco-friendly alternatives, such as biodegradable polymers, bioplastics, and biopharmaceuticals. These green growth initiatives have been designed to promote energy security while simultaneously achieving the nation's climate action objectives.

**Restricted sugar diversion for ethanol:** The government's recent policy flip flop has changed the supply-chain dynamics in the sugar sector. Initially the government ordered a ban on the use of sugar syrup for ethanol production in Ethanol Supply Year (ESY) 2023-24 with immediate effect, and later, it revised this order, restricting the use of both sugar syrup and B-Heavy molasses to 1.7mt to produce ethanol. These factors created feedstock supply challenges and reduced activity in the order book.

**Hike in ethanol prices from alternative feedstocks:** The government announced an incentive of Rs 6.87/litre for ethanol produced from C-Heavy molasses and Rs 5.79/litre for ethanol produced from maize, to promote alternative feedstock.

**1G international:** With the continuous development of Global Biofuel Alliance (GBA), 22 countries and 12 international organizations are now part of GBA. PRJ has already initiated dialogue with 10 countries and has interacted with over seven organizations to help in developing their bio energy programs and in providing technological solutions.

**CBG:** The government has announced CBG Blending Obligation (CBO), that mandates blending of 1% CBG in CNG & PNG from FY26. Blending is expected to reach 5% by FY29 from 1% in FY26, encouraging investments to the tune of ~Rs 370bn and facilitating establishment of 750 CBG product projects by 2029. PRJ has received 4 orders (part of five project LOI) from one of the conglomerates. Management expects positive developments and a healthy pipeline going forward. These projects would require 12-15 months to become operational.

**Low-carbon ethanol opportunity** in US continues to be viable. However, clarity on Inflation Reduction Act (IRA) in the US is still awaited causing capex decision delays in these projects. Clarifications on these matters are expected by Q1FY24, which could help PRJ in converting engineering contracts to supply of equipment by H2FY25.

**Zero Liquid Discharge:** PRJ is experiencing a healthy inquiry inflow and expects to soon deliver its first modularized ZLD plant. The company has also received its next order, for which it is in discussions with several customers.

**Update on Polylactic Acid plant (PLA):** Installation of demo plant for PLA at Jejuri is nearing completion, and operation of the demo plant is expected to start by April 2024.

**FY25 capex and R&D:** PRJ expects regular capex of ~Rs 300-400mn and R&D expense of Rs 700-800mn in FY25.

#### Change in estimates

We have cut our revenue estimates by 11% each for FY24E and FY25E, respectively, to factor in the lower execution in 1G ethanol projects, given the sudden policy changes. We have raised EBITDA margin by 80/30bps for FY24/25E, as we expect RM softening benefits to continue. We have chopped our FY24E/FY25E EPS by 4%/9%, respectively, to factor in the lower topline. We have rolled forward our valuations to FY26E, and upgraded the stock to BUY from HOLD, as the stock has corrected ~25% since Dec 2023. Our TP of Rs 578 (Rs 620 earlier) is based on 25x FY26E P/E (earlier 30x).

#### Exhibit 1: Change in estimates

	Old Estimates		New Estimates		Introduced	Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY26E	FY24E	FY25E
Net Sales	40,679	47,853	36,078	42,503	50,158	(11.3)	(11.2)
EBITDA	3,943	5,120	3,783	4,665	5,775	(4.1)	(8.9)
EBITDA Margin (%)	9.7	10.7	10.5	11.0	11.5	79bp	28bp
Adjusted PAT	2,925	3,793	2,809	3,450	4,241	(4.0)	(9.0)
EPS (INR)	15.9	20.7	15.3	18.8	23.1	(4.0)	(9.0)
Target Price		620			578		(6.8)

Source: Company, Systematix Institutional Research

#### Exhibit 2: Financial snapshot

YE March (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
<b>Net Sales</b>	<b>8,286</b>	<b>9,115</b>	<b>(9.1)</b>	<b>8,824</b>	<b>(6.1)</b>	<b>24,477</b>	<b>25,220</b>	<b>(2.9)</b>
RM cost	4,496	5,583	(19.5)	4,989	(9.9)	13,880	16,068	(13.6)
Employee Cost	852	675	26.3	889	(4.2)	2,369	1,871	26.6
Other Expenses	1,974	1,997	(1.1)	2,167	(8.9)	5,772	5,248	10.0
<b>Operating Expenses</b>	<b>7,322</b>	<b>8,255</b>	<b>(11.3)</b>	<b>8,045</b>	<b>(9.0)</b>	<b>22,021</b>	<b>23,187</b>	<b>(5.0)</b>
% of Sales	88	91	(220.5)	91	-282bp	90	92	(197.6)
<b>EBITDA</b>	<b>965</b>	<b>860</b>	<b>12.1</b>	<b>779</b>	<b>23.9</b>	<b>2,457</b>	<b>2,033</b>	<b>20.8</b>
EBITDA Margins (%)	12	9	220.5	9	282bp	10	8	197.6
Other Income	91	78	16.8	109	(16.8)	321	194	65.3
Finance Cost	38	8	362.6	10	274.1	60	24	149.5
Depreciation	109	72	50.9	91	19.7	287	208	38.3
Less: Minority interest	0	0		0		0	0	
Forex gain / (loss)	11	1		62		114	64	
Extraordinary item	-	-		-		-	-	
<b>PBT</b>	<b>919</b>	<b>859</b>	<b>7.0</b>	<b>848</b>	<b>8.4</b>	<b>2,544</b>	<b>2,059</b>	<b>23.6</b>
Tax	215	236	(8.8)	224	(4.2)	630	542	16.2
Effective Tax Rate (%)	23	27	-406bp	26	-307bp	25	26	-157bp
<b>Reported PAT</b>	<b>704</b>	<b>623</b>	<b>13.0</b>	<b>624</b>	<b>12.9</b>	<b>1,914</b>	<b>1,517</b>	<b>26.2</b>
NPM (%)	8.5	6.8	166bp	7.1	143bp	7.8	6.0	181bp
No. of equity shares	184	184		184		184	184	
<b>Adj. EPS (Rs)</b>	<b>4</b>	<b>3</b>	<b>13.0</b>	<b>3</b>	<b>12.9</b>	<b>10</b>	<b>8</b>	<b>26.2</b>

Source: Company, Systematix Institutional Research

**Exhibit 3: Key ratios (% of Net Sales)**

Key Ratios (% of revenues)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Raw Material Cost	54	61	-700bp	57	-229bp	57	64	-701bp
Employee Cost	10	7	288bp	10	21bp	10	7	226bp
Other Expenses	24	22	192bp	25	-74bp	24	21	277bp
Effective Tax rate	23	27	-406bp	26	-307bp	25	26	-157bp
Gross Margin	45.7	38.7	700bp	43.5	229bp	43.3	36.3	701bp
OPM	11.6	9.4	220bp	8.8	282bp	10.0	8.1	198bp
NPM	8.5	6.8	166bp	7.1	143bp	7.8	6.0	181bp

Source: Company, Systematix Institutional Research

**Exhibit 4: Segmental financial snapshot**

YE March (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
<b>REVENUE</b>								
Bio-Energy	5,883	6,654	-12%	6,971	-16%	18,748	18,878	-1%
Engineering	1,740	1,732	0%	1,324	31%	4,095	4,646	-12%
High Purity	663	729	-9%	529	25%	1,708	1,695	1%
<b>Net Revenues</b>	<b>8,286</b>	<b>9,115</b>	<b>-20%</b>	<b>8,824</b>	<b>-6%</b>	<b>24,551</b>	<b>25,220</b>	<b>-12%</b>
<b>Sales mix (%)</b>								
Bio-Energy	71	73		79		76	75	
Engineering	21	19		15		17	18	
High Purity	8	8		6		7	7	
<b>Order Intake</b>								
Bio-Energy	8,400	7,646	10%	7,228	16%			
Engineering	1,244	1,699	-27%	2,339	-47%			
High Purity	726	94	669%	1,063	-32%			
<b>Order Backlog</b>								
Bio-Energy	30,415	27,716	10%	29,700	2%			
Engineering	6,715	3,380	99%	7,524	-11%			
High Purity	2,370	2,704	-12%	2,376	0%			

Source: Company, Systematix Institutional Research

# FINANCIALS

## Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	23,333	35,280	36,078	42,503	50,158
<b>EBITDA</b>	<b>1,938</b>	<b>3,078</b>	<b>3,783</b>	<b>4,665</b>	<b>5,775</b>
Add:- Non Op. Income	241	356	430	450	450
Less :- Depr. & Amortization	226	302	410	470	542
EBIT	1,953	3,132	3,803	4,644	5,682
Less:- Interest Expenses	25	46	82	75	65
<b>PBT</b>	<b>1,928</b>	<b>3,085</b>	<b>3,721</b>	<b>4,569</b>	<b>5,617</b>
Less :- Taxes	518	789	912	1119	1376
Add: Share of Loss in Associate	-0	0	-	-	-
<b>Adjusted PAT</b>	<b>1,410</b>	<b>2,296</b>	<b>2,809</b>	<b>3,450</b>	<b>4,241</b>
Add/Less: - Extra ordinary items	93	102	-	-	-
<b>Reported PAT</b>	<b>1,502</b>	<b>2,398</b>	<b>2,809</b>	<b>3,450</b>	<b>4,241</b>

Source: Company, Systematix Institutional Research

## Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>PBT</b>	<b>2,049</b>	<b>3,187</b>	<b>3,721</b>	<b>4,569</b>	<b>5,617</b>
Add: Non cash items	55	281	492	545	607
<b>Cash profit</b>	<b>2,104</b>	<b>3,468</b>	<b>4,213</b>	<b>5,115</b>	<b>6,225</b>
Add/Less : WC Changes	(228)	(1,847)	(1,014)	(2,988)	(3,430)
<b>Operating Cash Flow</b>	<b>1,876</b>	<b>1,621</b>	<b>3,200</b>	<b>2,127</b>	<b>2,795</b>
Less:- Capex	(185)	(352)	(1,700)	(1,200)	(1,200)
<b>Free Cash Flow</b>	<b>1,691</b>	<b>1,269</b>	<b>1,500</b>	<b>927</b>	<b>1,595</b>
Financing Cash Flow	(444)	(934)	(1,338)	(1,568)	(1,558)
Investing Cash Flow	(1,397)	(844)	(1,700)	(1,200)	(1,200)
<b>Net change in Cash</b>	<b>36</b>	<b>(157)</b>	<b>161</b>	<b>(641)</b>	<b>37</b>
Add: Opening Cash	1,011	1,074	986	1,147	506
Closing Cash	1,074	986	1,147	506	543

Source: Company, Systematix Institutional Research

## Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	367	367	367	367	367
Reserves	8,790	10,413	11,965	13,942	16,710
<b>Net Worth</b>	<b>9,157</b>	<b>10,780</b>	<b>12,333</b>	<b>14,309</b>	<b>17,077</b>
Minority Interest	1	1	1	1	1
Borrowings	211	421	421	401	381
Deferred Tax (Net)	(19)	(111)	(111)	(111)	(111)
<b>Total Liabilities</b>	<b>9,349</b>	<b>11,090</b>	<b>12,643</b>	<b>14,600</b>	<b>17,348</b>
Gross Block	5,462	6,066	6,635	7,835	9,035
Less:- Accumulated Dep	2,595	2,897	3,307	3,778	4,320
Net Block	2,867	3,169	3,327	4,057	4,715
Add:- Capital WIP	14	69	1,200	1,200	1,200
Investments	4,800	5,602	5,602	5,602	5,602
Inventories	3,450	3,336	3,460	4,076	4,810
Trade Receivables	5,118	7,948	6,919	8,151	9,619
Cash Balances	1,075	986	1,147	506	543
Other Bank Balances	476	462	462	462	462
Trade Payables	4,248	5,050	4,942	5,822	6,871
Other Assets	(4,197)	(5,426)	(4,526)	(3,626)	(2,726)
<b>Total Assets</b>	<b>9,356</b>	<b>11,097</b>	<b>12,650</b>	<b>14,606</b>	<b>17,354</b>
Net Debt	(5,664)	(6,166)	(6,328)	(5,707)	(5,763)
WC days	53	55	55	55	55
D/E (x)	(0.6)	(0.6)	(0.5)	(0.4)	(0.3)

Source: Company, Systematix Institutional Research

## Ratios

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Income Statement Ratio (%)</b>					
Revenue Growth	78.8	51.2	2.3	17.8	18.0
EBITDA Growth	72.5	58.8	22.9	23.3	23.8
PAT Growth	85.3	59.6	17.1	22.8	22.9
EBITDA Margin	8.3	8.7	10.5	11.0	11.5
Net Margin	6.4	6.8	7.8	8.1	8.5
<b>Return &amp; Liquidity Ratio</b>					
Net Debt/Equity (x)	(0.6)	(0.6)	(0.5)	(0.4)	(0.3)
ROE (%)	16.4	22.2	22.8	24.1	24.8
ROCE (%)	20.9	28.2	30.1	31.8	32.7
<b>Per Share data &amp; Valuation Ratio</b>					
Diluted EPS (Rs/Share)	8.2	13.1	15.3	18.8	23.1
EPS Growth (%)	84.9	59.6	17.1	22.8	22.9
DPS (INR/Share)	2.7	4.5	5.8	6.8	6.8
P/E Ratio (x)	58.3	36.5	31.2	25.4	20.7
EV/EBITDA (x)	42.3	26.5	21.5	17.6	14.2
EV/Sales (x)	3.5	2.3	2.3	1.9	1.6
BVPS (INR)	49.9	58.7	67.2	77.9	93.0
Price/Book (x)	9.6	8.1	7.1	6.1	5.1
Dividend Yield (%)	0.6	0.9	1.2	1.4	1.4

Source: Company, Systematix Institutional Research

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