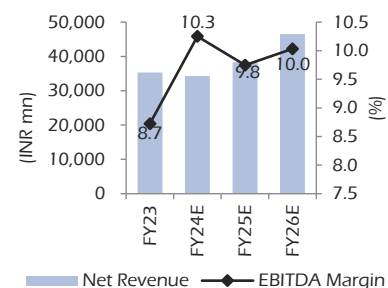


Q3FY24 - Quarterly Result Analysis

Praj Industries: Policy changes delay execution; long-term visibility intact

Mcap: INR 88bn, Accumulate, TP: INR 575, CMP: INR 477, Upside: 20%

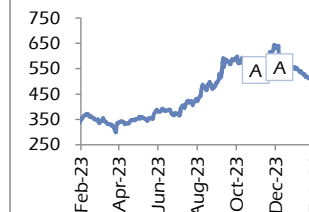
Revenue growth & margin trend



Source: Company, Elara Securities Estimate

- Praj Industries (PRJ IN) reported lower-than-estimated revenue at INR 8.3bn, down 9% YoY, due to halting and delay in execution of customer orders on account of the government’s decision on limiting use of sugar syrup for production of ethanol. Consolidated EBITDA rose 13% YoY to INR 0.97bn and margin expanded by 230bp YoY to 11.8%, due to better sales mix, improved execution of engineering export orders and lower raw material prices. PAT increased by 13% YoY to INR 0.7bn. For 9MFY24, revenue decreased 3% YoY to INR 24.5bn, with an expansion in EBITDA margin by 230bp YoY to 10.5%, and PAT increase of 26% YoY to INR 1.9bn
- Q3FY24 order inflows rose 10% YoY to INR 10.4bn, taking overall orderbook to INR 39.5bn and a book-to-bill visibility of 1.1x. During the quarter, the company received four pending Compressed Bio-gas (CBG) orders enhancing its intake despite a slowdown in order finalization from the sugar segment. Policy changes and restrictions by the government on using sugar syrup for ethanol production propelled customers to pause and rework on other feedstock options; as a result, there were no new orders during the quarter. The company anticipates this to be temporary and expects normalcy. Better prospects on order inflows are anticipated upon commissioning of its operations at its Mangaluru facility, likely by February 2024, to play a vital role in the energy transition segment (ETCA) catering to clients in the US and Brazil for customers in industries, such as green hydrogen, green ammonia, and waste to energy
- As on Q3FY24, international orders (high margin) contributed 25% of orderbook vs 15% in FY23. This would be further driven by the bioenergy segment and the ETCA segment. Within bioenergy, the company will focus on low carbon ethanol from the US on which more clarity is expected by June 2024 upon finalization of the Act. Engineering order enquiries are picking up, which currently make up a mere 12% of total order intake. Post the Global Biofuel Alliance among 22 countries, it has initiated talks in 10 countries with various organizations
- Valuation:** We believe inflows and execution delay on policy changes are a one-off and likely to pick up gradually. To promote alternate means of feed stock use, the government also has announced an incentive of INR 6.87/liter for C-heavy molasses. Management expects margin to continue on an upward trajectory. With 300 patents, presence in 100 countries, debt-free standing, superior return ratios, and global focus on energy self-sufficiency (without harming the environment), we believe PRJ is a key beneficiary of energy transition. We expect a revenue CAGR of 10%, an EBITDA CAGR of 15% and a PAT CAGR of 14% during FY23-26E. We retain **Accumulate** with a TP of INR 575 based on 30x FY25E P/E.

Coverage history



Note: Stock under coverage since September 2022

| YE March (INR mn) | Key metrics | | | | | | | | (INR mn) | | | Growth (%) | | |
|----------------------|-------------|---------|---------|--------|---------|--------|---------|--------|----------|--------|----------|------------|----------|--|
| | Q3FY24 | Q3FY24E | Var (%) | Q2FY24 | QoQ (%) | Q3FY23 | YoY (%) | FY24E | FY25E | FY26E | FY23-24E | FY24-25E | FY25-26E | |
| Revenue | 8,286 | 10,564 | (21.6) | 8,824 | (6.1) | 9,115 | (9.1) | 34,273 | 38,313 | 46,529 | (2.9) | 11.8 | 21.4 | |
| EBITDA | 975 | 1,056 | (7.7) | 840 | 16.1 | 862 | 13.2 | 3,513 | 3,735 | 4,669 | 14.1 | 6.3 | 25.0 | |
| Adj net profit | 704 | 796 | (11.5) | 624 | 12.9 | 623 | 13.0 | 2,595 | 2,808 | 3,522 | 8.2 | 8.2 | 25.4 | |
| EPS (INR) | 3.8 | 4.3 | (11.5) | 3.4 | 12.9 | 3.4 | 13.0 | 14.1 | 15.3 | 19.2 | 8.2 | 8.2 | 25.4 | |

Note: pricing as 2 February 2024, Source: Company, Elara Securities Estimate

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Note: B: Buy, A: Accumulate, R: Reduce, S: Sell; Source: Company, Bloomberg, Elara Securities Estimate

Guide to Research Rating: BUY: Absolute Return >+20%; ACCUMULATE: Absolute Return +5% to +20%; REDUCE: Absolute Return -5% to +5%; SELL: Absolute Return < -5%

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