

## Praj Industries

### Expect recovery only in 2HFY25

Praj Industries (PRJ) released its consolidated figures for 3QFY24, which fell below our modest projections due to a macro headwinds. Firstly, the FCI rice embargo for ethanol production, and secondly, the Govt's decision to suspend ethanol procurement through the Direct and BH routes which not only affected the execution of existing orders but also created uncertainty regarding the order pipeline. Despite having other product offerings in various stages of commercialization, none have advanced sufficiently to offset the anticipated impact of these adverse developments. Given this scenario, we bake in a 10% YoY decline in order inflow for FY25 vis-à-vis a 12% increase expected earlier. We believe that the near-term performance of the stock may be subdued due to a lack of positive developments. However, considering PRJ's unique position in the Bio-energy sector and its distinctive product offerings like SAF, E2G, and CBG, we maintain our "ADD" rating, albeit with a revised target price of Rs 576.

#### PRJ maintains resilient EBITDA margins despite revenue decline

PRJ presented consolidated revenues at Rs8,286mn (down by 9%). Revenue mix continues to be in favour of Bioenergy division (Rs5,883mn, -11% YoY) followed by engineering (Rs1,740mn, +1% YoY) and HPS division (Rs616mn, -9% YoY). On geographical basis, domestic revenue share declined to 79% for the quarter vs. 83% for the corresponding last year. Resultantly, EBITDA margins for the quarter came in healthy at 11.8% (vs. 9.5 in Q3 FY23).

#### International order book now forms 25% vs. 13% as on Q3FY23

PRJ continuously reported order bookings of +Rs10bn on quarterly basis. For 3QFY24, inflows came in at Rs10,370mn vs. Rs9,440mn during the same quarter last year. The bioenergy sector accounted for 81%, while Engineering and HPS followed (12% and 7%, respectively). PRJ ended the quarter with order backlog of Rs39.5bn with increasing share of higher margin international orders. **International orders now make up 25% of the total order backlog, as compared to 13% share in Q3FY23. This increased international presence instills confidence in maintaining a stronger profit margin profile for PRJ.**

#### CBG blending mandate to aid order inflow

The CBG blending obligation mandates the compulsory blending of CBG in both CNG and PNG starting from FY25-26. With the blending percentage expected to reach 5% by the FY28-29 PRJ is expected to benefit with incremental orders in CBG space. Furthermore, PRJ has successfully received four orders that were initially included in the LOI for the five projects with the conglomerate.

#### Maintain ADD with a target price of Rs576

We project revenue CAGR of 7% for PRJ between FY23-26E. This is underpinned by an order backlog amounting to Rs39.5bn and a consistent trend in order bookings. Furthermore, we forecast a ~14% earnings CAGR for PRJ from FY23 to FY26E, primarily driven by margin expansion, particularly due to the increasing contribution of international orders. By applying a PE multiple of 30x to FY26E earnings, we have derived a target price of Rs576, indicating a potential upside of 21%. **Critical factors to monitor include:** 1) PRJ's concluded JV with IOCL, operating within the broader bioenergy domain. Detailed information on this collaboration is anticipated and holds the potential to drive significant order inflows for PRJ; and 2) The irregularities in CBG order inflows have been a concern. Any positive developments in this area would alleviate a major burden on the stock.

#### Financial and valuation summary

YE Mar (Rs mn)	3QFY24A	3QFY23A	YoY (%)	2QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	8,286	9,100	(8.9)	8,824	(6.1)	34,352	37,501	43,256
EBITDA	975	862	13.2	840	16.1	3,624	4,050	4,737
EBITDA margin (%)	11.8	9.5	230bps	9.5	225bps	10.5	10.8	11.0
Adj. Net profit	704	623	13.0	624	12.9	2,662	2,988	3,528
Adj. EPS (Rs)	3.8	3.4	13.0	3.4	12.9	14.5	16.3	19.2
EPS growth (%)						11.0	12.3	18.1
PE (x)						33.1	29.5	25.0
EV/EBITDA (x)						22.8	20.2	16.9
PBV (x)						7.1	6.2	5.3
RoE (%)						23.0	22.4	22.8
RoCE (%)						23.1	22.5	22.9

Source: Company, Centrum Broking

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#### Result Update

India I Mid Cap

02 February, 2024

#### ADD

Price: Rs477

Target Price: Rs576

Forecast return: 21%

Institutional Research

#### Market Data

Bloomberg:	PRJ IN
52 week H/L:	651/299
Market cap:	Rs87.8bn
Shares Outstanding:	183.8mn
Free float:	64.9%
Avg. daily vol. 3mth:	13,66,719

Source: Bloomberg

#### Changes in the report

Rating:	ADD; no change
Target price:	Rs 576; Changed (4%)
EPS:	FY25E: Rs16.3; Changed by (14%) FY26E: Rs19.2; Changed by (10%)

Source: Centrum Broking

#### Shareholding pattern

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	32.8	32.8	32.8	32.8
FIs	17.4	17.9	18.3	17.8
DIs	13.1	10.2	8.4	7.8
Public/other	36.7	39.0	40.5	41.5

Source: BSE

#### Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q3FY24	Actual Q3FY24	Variance (%)
Revenue	10,296	8,286	-19.52
EBITDA	1,009	975	-3.32
EBITDA margin %	9.8	11.8	197 bps
Adj. PAT	761	704	-7.4

Source: Bloomberg, Centrum Broking



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Mid Cap

# Thesis Snapshot

## Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	34,352	37,648	-8.8	37,501	43,380	-13.6
EBITDA	3,624	3,840	-5.6	4,050	4,446	-8.9
EBITDA margin %	10.6	10.2	35bps	10.8	10.3	55bps
Adj. PAT	2,662	2,973	-10.5	2,988	3,451	-13.4
Diluted EPS (Rs)	14.5	16.2	-10.5	16.3	18.8	-13.5

Source: Centrum Broking

## Praj Industries versus NIFTY Midcap 100

	1m	6m	1 year
PRJ IN	(12.9)	13.3	34.9
NIFTY Midcap 100	7.2	40.4	72.3

Source: Bloomberg, NSE

## Key assumptions

Key Assumptions (Rs mn)	FY24E	FY25E	FY26E
Bio-energy order booking	26,412	19,809	35,656
Bio-energy net revenues	25,681	25,259	28,474
Engineering order booking	8,366	10,039	13,050
Engineering net revenues	6,391	8,389	9,965
HPS order booking	3,425	4,281	5,351
HPS net revenues	3,030	3,853	4,816
Consolidated EBITDAM (%)	10.6	10.8	11.0

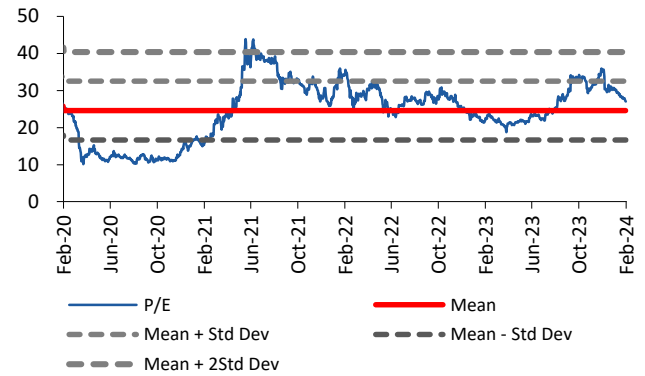
Source: Centrum Broking

## Valuations

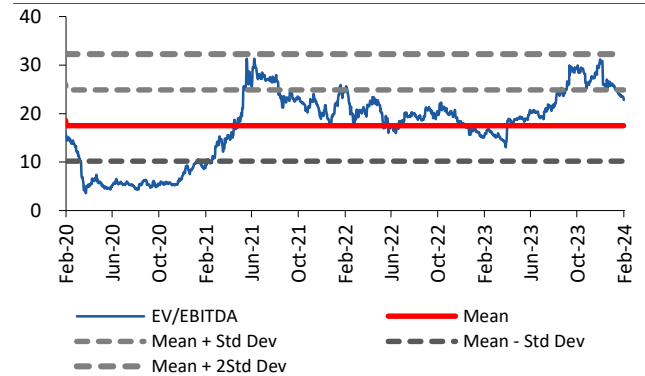
We project revenue CAGR of 7% for PRJ between FY23-26E. This is underpinned by order backlog amounting to Rs39.5bn and a consistent trend in order bookings. Furthermore, we forecast a ~14% earnings CAGR for PRJ from FY23 to FY26E, primarily driven by margin expansion, particularly due to the increasing contribution of international orders. By applying a PE multiple of 30x to FY26E earnings, we have derived a target price of Rs576, indicating a potential upside of 21%.

Valuations	Rs/share
FY26E EPS	19.2
Target multiple (x)	30
<b>Target Price</b>	<b>576</b>

### P/E mean and standard deviation



### EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

## KTAs of earnings Concall

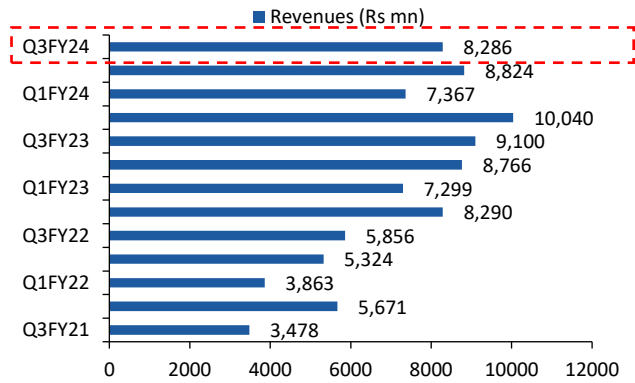
- The **lower revenue booking** in the quarter and for the 9MFY24 can be attributed to the FCI embargo on rice, Government of India restrictions on sugar diversion for ethanol, and a decline in engineering revenues.
- The total sugary feedstock order book currently stands at Rs7bn, representing 18% of the total order backlog. **However, slow-moving orders amount to Rs2.5bn under the Direct route and Rs4.5bn under BH/CH route have been highlighted by the management**
- On the positive side, a better sales mix, increased exports, a rise in engineering services orders, and a decrease in material costs contributed to **improved margins** for the quarter. Additionally, reduced one-time expenses and lower site activities further bolstered the financial performance.
- PRJ maintains a cash balance of Rs 6.4 billion as of 3QFY24, and the capital expenditure for FY25 is planned in the range of Rs 30 crore to Rs 40 crore.
- In a significant development, PRJ inaugurated a fully integrated Alcohol to Jet (SAF) demonstration facility on January 20, 2024.
- The GBA structure is progressing, with 22 countries now part of GBA compared to the initial 12 countries.
- **In the CBG space**, PRJ foresees a TAM of Rs37,000cr over the next 3-5 years. Despite anticipating higher competition compared to E1G ethanol, PRJ aims to establish leadership in the CBG space. **Notably, CBG L1 orders worth Rs 400 crore were booked in the quarter.**
- The Mangalore facility has completed statutory compliances for commissioning operations, and the first commercial production activity is scheduled for February 2024.
- **While the PRJ IOCL JV has been finalized with complete structure/details approved by both boards, pending approval from NITI AAYOG means that detailed information can only be shared by the company post the required approvals.**

**Exhibit 1: Consolidated Financial Snapshot 3QFY24**

YE Mar (Rs mn)	3QFY24A	3QFY23A	YoY (%)	2QFY24A	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenues	8,286	9,100	-8.9	8,824	-6.1	24,477	25,164	-2.7
Raw material	4,496	5,568	-19.3	4,989	-9.9	13,880	16,013	-13.3
Gross margins (%)	45.7	38.8	700 bps	43.5	229 bps	43.3	36.4	693bps
Staff costs	852	675	26.3	889	-4.2	2,369	1,871	26.6
Other Mfg. expenses	1,963	1,995	-1.6	2,105	-6.8	5,658	5,217	8.5
Total expenditure	7,311	8,238	-11.3	7,984	-8.4	21,907	23,100	-5.2
<b>EBITDA</b>	<b>975</b>	<b>862</b>	<b>13.2</b>	<b>840</b>	<b>16.1</b>	<b>2,571</b>	<b>2,064</b>	<b>24.6</b>
<b>EBITDAM (%)</b>	<b>11.8</b>	<b>9.5</b>	<b>230 bps</b>	<b>9.5</b>	<b>225 bps</b>	<b>10.5</b>	<b>8.2</b>	<b>230bps</b>
Depreciation	109	72	50.9	91	19.7	287	208	38.3
Interest	38	8	362.6	10	274.1	60	24	149.5
Other income + Income from Associates	91	78	16.8	109	-16.8	321	227	41.3
<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
<b>Reported Net profit</b>	<b>704</b>	<b>623</b>	<b>13.0</b>	<b>624</b>	<b>12.9</b>	<b>1,915</b>	<b>1,517</b>	<b>26.2</b>
EPS (Rs.)	3.8	3.4	12.9	3.4	12.8	10.4	8.3	26.2

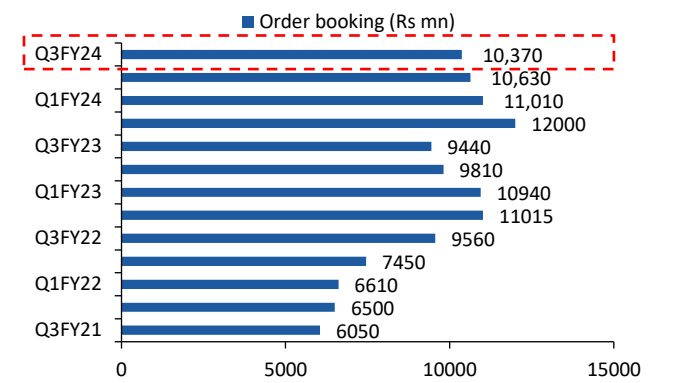
Source: Centrum Broking, Company Data

**Exhibit 2: Quarterly Consolidated revenue trend**



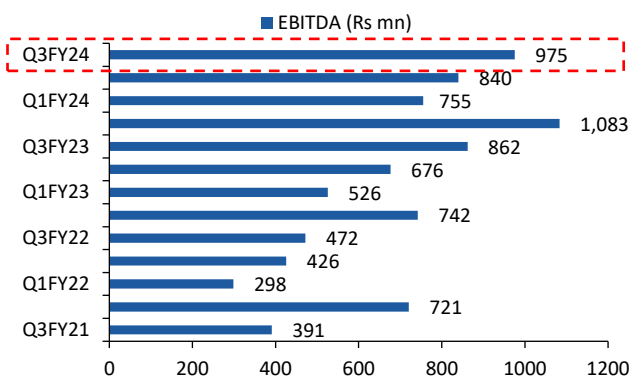
Source: Centrum Broking, Company Data

**Exhibit 3: Quarterly Consolidated order booking trend**



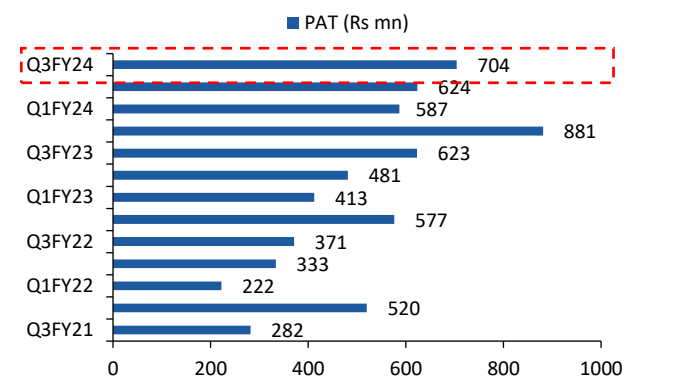
Source: Centrum Broking, Company Data

**Exhibit 4: Quarterly Consolidated EBITDA trend**



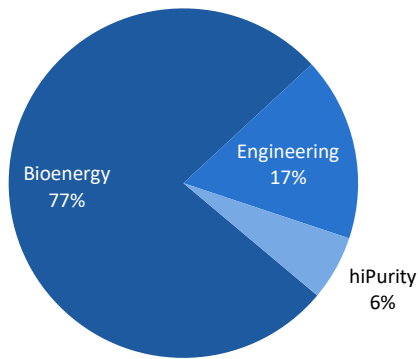
Source: Company Data, Centrum Broking

**Exhibit 5: Quarterly Consolidated PAT trend**



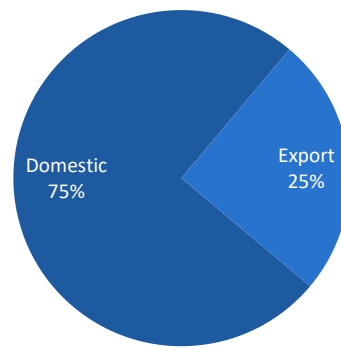
Source: Company Data, Centrum Broking

**Exhibit 6: 3QFY24 - Segmental OB - Rs39,500mn**



Source: Centrum Broking, Company Data

**Exhibit 7: 3QFY24 - Geographical OB – Rs39,500mn**



Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Revenues</b>	<b>23,333</b>	<b>35,280</b>	<b>34,352</b>	<b>37,501</b>	<b>43,256</b>
Operating Expense	21,395	32,202	30,728	33,451	38,519
Employee cost	2,176	2,576	3,257	3,563	4,109
Others	3,910	6,434	6,482	7,013	8,089
<b>EBITDA</b>	<b>1,938</b>	<b>3,078</b>	<b>3,624</b>	<b>4,050</b>	<b>4,737</b>
Depreciation & Amortisation	226	302	399	453	492
<b>EBIT</b>	<b>1,712</b>	<b>2,776</b>	<b>3,225</b>	<b>3,597</b>	<b>4,244</b>
Interest expenses	25	46	100	100	100
Other income	362	458	412	474	545
<b>PBT</b>	<b>2,049</b>	<b>3,187</b>	<b>3,537</b>	<b>3,971</b>	<b>4,689</b>
Taxes	546	789	876	983	1,161
Effective tax rate (%)	26.7	24.8	24.8	24.8	24.8
<b>PAT</b>	<b>1,502</b>	<b>2,398</b>	<b>2,662</b>	<b>2,988</b>	<b>3,528</b>
Minority/Associates	0	0	0	0	0
<b>Recurring PAT</b>	<b>1,502</b>	<b>2,398</b>	<b>2,662</b>	<b>2,988</b>	<b>3,528</b>
Extraordinary items	0	0	0	0	0
<b>Reported PAT</b>	<b>1,502</b>	<b>2,398</b>	<b>2,662</b>	<b>2,988</b>	<b>3,528</b>

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Growth (%)</b>					
Revenue	78.8	51.2	(2.6)	9.2	15.3
EBITDA	72.5	58.8	17.7	11.8	16.9
Adj. EPS	84.9	59.5	11.0	12.3	18.1
<b>Margins (%)</b>					
Gross	37.7	37.6	43.4	44.0	44.2
EBITDA	8.3	8.7	10.5	10.8	11.0
EBIT	7.3	7.9	9.4	9.6	9.8
Adjusted PAT	6.4	6.8	7.7	8.0	8.2
<b>Returns (%)</b>					
ROE	17.5	24.1	23.0	22.4	22.8
ROCE	17.5	23.9	23.1	22.5	22.9
ROIC	33.3	47.5	39.2	35.2	37.3
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	3.9	5.5	4.5	4.5	4.8
Debtors	75	68	95	101	97
Inventory	59	56	72	76	71
Creditors	96	77	95	93	89
Net working capital	3	3	15	23	24
<b>Solvency (x)</b>					
Net debt-equity	(0.6)	(0.6)	(0.4)	(0.5)	(0.5)
Interest coverage ratio	77.2	66.5	36.2	40.5	47.4
Net debt/EBITDA	(2.9)	(2.0)	(1.5)	(1.6)	(1.7)
<b>Per share (Rs)</b>					
Adjusted EPS	8.2	13.0	14.5	16.3	19.2
BVPS	49.9	58.7	67.4	77.6	90.8
CEPS	9.4	14.7	16.7	18.7	21.9
DPS	4.2	4.5	5.5	6.0	6.0
Dividend payout (%)	51.3	34.5	38.0	36.9	31.3
<b>Valuation (x)</b>					
P/E	58.6	36.8	33.1	29.5	25.0
P/BV	9.6	8.2	7.1	6.2	5.3
EV/EBITDA	35.3	26.7	22.8	20.2	16.9
Dividend yield (%)	0.9	0.9	1.3	1.3	1.3

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	367	368	368	368	368
Reserves & surplus	8,790	10,413	12,011	13,897	16,322
Shareholders fund	9,157	10,780	12,379	14,264	16,690
Minority Interest	7	1	1	1	1
Total debt	0	0	0	0	0
Non Current Liabilities	148	269	269	269	269
Def tax liab. (net)	0	0	0	0	0
<b>Total liabilities</b>	<b>9,312</b>	<b>11,050</b>	<b>12,649</b>	<b>14,534</b>	<b>16,960</b>
Gross block	5,991	6,465	7,665	8,365	9,065
Less: acc. Depreciation	(3,130)	(3,433)	(3,832)	(4,285)	(4,777)
Net block	2,861	3,032	3,833	4,080	4,288
Capital WIP	21	69	69	69	69
Net fixed assets	2,882	3,101	3,902	4,149	4,356
Non Current Assets	124	161	161	161	161
Investments	791	1,105	1,160	1,218	1,279
Inventories	3,450	3,336	4,292	4,429	4,978
Sundry debtors	5,118	7,948	10,016	10,827	12,169
Cash & Cash Equivalents	5,529	6,033	5,301	6,484	7,884
Loans & advances	922	0	0	0	0
Other current assets	3,311	4,503	4,292	4,429	4,978
Trade payables	4,248	5,050	5,111	5,540	6,186
Other current liab.	8,058	9,187	10,466	10,724	11,761
Provisions	510	899	899	899	899
Net current assets	5,515	6,684	7,426	9,006	11,163
<b>Total assets</b>	<b>9,312</b>	<b>11,050</b>	<b>12,649</b>	<b>14,534</b>	<b>16,960</b>

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	2,049	3,187	3,537	3,971	4,689
Depreciation & Amortisation	226	302	399	453	492
Net Interest	68	(41)	100	100	100
Net Change – WC	93	(1,222)	(1,474)	(398)	(757)
Direct taxes	(450)	(625)	(876)	(983)	(1,161)
<b>Net cash from operations</b>	<b>1,747</b>	<b>1,621</b>	<b>1,687</b>	<b>3,143</b>	<b>3,364</b>
Capital expenditure	(185)	(353)	(1,200)	(700)	(700)
Acquisitions, net	0	0	0	0	0
Investments	(1,170)	(491)	862	(1,158)	(1,491)
Others	87	0	0	0	0
<b>Net cash from investing</b>	<b>(1,268)</b>	<b>(844)</b>	<b>(338)</b>	<b>(1,858)</b>	<b>(2,191)</b>
<b>FCF</b>	<b>479</b>	<b>777</b>	<b>1,349</b>	<b>1,285</b>	<b>1,173</b>
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	0	0	0	0	0
Dividend paid	(397)	(771)	(1,011)	(1,103)	(1,103)
Interest paid	(19)	(42)	(100)	(100)	(100)
Others	(27)	(121)	(52)	0	0
<b>Net cash from financing</b>	<b>(444)</b>	<b>(934)</b>	<b>(1,163)</b>	<b>(1,203)</b>	<b>(1,203)</b>
Net change in Cash	36	(157)	186	82	(30)

Source: Company, Centrum Broking

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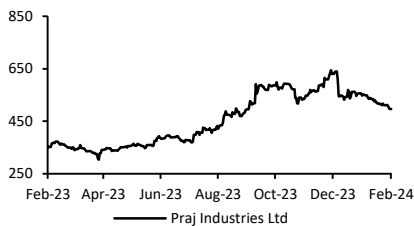
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**Praj Industries**



Source: Bloomberg



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