

Praj Industries

Margin expansion to drive earnings growth

Praj Industries (PRJ) released its 4QFY24 results, which were broadly in line with expectations, except for an impressive margin beat compared to our already high margin projections. PRJ reported a YoY revenue growth of 1.5%, reaching Rs10,186mn (CentrumE Rs9,875mn). GMs for the quarter improved to 43.6%, close to our estimate of 43.7%, reflecting a YoY improvement of 265bps. The consolidated EBITDA margins stood at 12.4%, surpassing our estimate of 11.5%, primarily due to lower other expenses. **Additionally, the increasing share of higher-margin international orders (29% of the OB compared to 15% in FY23), subdued stainless steel prices, and positive management commentary bode well for future margin improvement.** In light of this, we have factored in higher margins, leading to an upward revision of earnings for FY25/26. Consequently, we have upgraded the stock from **ADD to BUY** as we roll over to FY26 numbers, resulting in a revised TP of Rs678 based on a 30x PE multiple.

PRJ posts better than expected margins, thanks to higher international revenue booking

PRJ presented consolidated revenues at Rs10,186mn (up by 1.5% YoY). Revenue mix continues to be in favour of Bioenergy (Rs6,926mn, -3.4% YoY) followed by engineering (Rs2,037mn, -1% YoY) and HPS division (Rs1,222mn, 51% YoY). On geographical basis, domestic revenue share declined to 78% for the quarter vs. 81% for the Q4FY23. Further, Gross margins for the quarter improved and came in at 43.6% vs. our estimate of 43.7% (YoY improvement of 265bps). **Resultantly, EBITDA margins for the quarter came in healthy at 12.4% (vs. 10.4 in Q4 FY23).**

Increasing International order book now forms 29% vs. 15% as on Q4FY23

PRJ continuously reported order bookings of +Rs9bn on quarterly basis. For 4QFY24, inflows came in at Rs9,240mn vs. Rs10,380mn during the same quarter last year. The bioenergy sector decline to 65% (82% in Q4FY23), while Engineering share increase to 30% (10% in Q4FY23) and HPS followed 5%, respectively. PRJ ended the quarter with order backlog of Rs38.5bn with increasing share of higher margin international orders. **International orders now increase to 29% of the total order backlog, as compared to 15% share in Q4FY23. 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, commercial operationalization of CBG plant for clients has been satisfactory (read yields/performance). With this Praj has proven technology/commercialization record for – spent wash, press mud and rice straw as different feed stocks.

We recommend BUY rating with a target price of Rs678

We project revenue CAGR of 15% for PRJ between FY24-26E. This is underpinned by an order backlog amounting to Rs38.5bn and a consistent trend in order bookings. Furthermore, we forecast a +21% earnings CAGR for PRJ from FY24 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 Rs678, indicating a potential upside of 35%.

Financial and valuation summary

YE Mar (Rs mn)	4QFY24A	4QFY23A	YoY (%)	3QFY24A	QoQ (%)	FY24A	FY25E	FY26E
Revenues	10,186	10,040	1.5	8,286	22.9	34,663	38,394	45,846
EBITDA	1,262	1,045	20.7	975	34.0	3,718	4,338	5,410
EBITDA margin (%)	12.4	10.4	198bps	11.6	75bps	10.7	11.3	11.8
Adj. Net profit	919	881	4.3	704	30.6	2,834	3,302	4,156
Adj. EPS (Rs)	5.0	4.8	4.3	3.8	30.6	15.4	18.0	22.6
EPS growth (%)						18.2	16.5	25.8
PE (x)						32.5	27.9	22.2
EV/EBITDA (x)						22.8	20.2	16.9
PBV (x)						7.2	6.2	5.1
RoE (%)						24.1	23.9	25.2
RoCE (%)						23.1	22.1	23.6

Source: Company, Centrum Broking

Result Update

India I Mid Cap

31 May, 2024

BUY

Price: Rs501

Target Price: Rs678

Forecast return: 35%

Institutional Research

Market Data

Bloomberg:	PRJ IN
52 week H/L:	651/366
Market cap:	Rs92.1bn
Shares Outstanding:	183.8mn
Free float:	64.9%
Avg. daily vol. 3mth:	8,45,670

Source: Bloomberg

Changes in the report

Rating:	Change from ADD to BUY
Target price:	Rs678; Changed 18%
EPS:	FY25E: Rs18.0; Changed by 10% FY26E: Rs22.6; Changed by 18%

Source: Centrum Broking

Shareholding pattern

	Mar-24	Dec-23	Sep-23	Jun-23
Promoter	32.8	32.8	32.8	32.8
FIIs	18.9	17.4	17.9	18.3
DIIIs	13.7	13.1	10.2	8.4
Public/other	34.6	36.7	39.0	40.5

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q4FY24	Actual Q4FY24	Variance (%)
Revenue	9,875	10,186	3.1
EBITDA	1,131	1,262	11.61
EBITDA margin %	11.5	12.4	94bps
Adj. PAT	862	919	6.7

Source: Bloomberg, Centrum Broking



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Mid Cap

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg	FY26E New	FY26E Old	% chg
Revenue	38,394	37,501	2.4	45,846	43,256	6.0
EBITDA	4,338	4,050	7.1	5,410	4,737	14.2
EBITDA margin %	11.3	10.8	50bps	11.8	11.0	85bps
Adj. PAT	3,302	2,988	10.5	4,156	3,528	17.8
Diluted EPS (Rs)	18.0	16.3	10.5	22.6	19.2	17.8

Source: Centrum Broking

Praj Industries versus NIFTY Midcap 100

	1m	6m	1 year
PRJ IN	(8.5)	(22.3)	27.3
NIFTY Midcap 100	(2.3)	17.2	63.4

Source: Bloomberg, NSE

Key assumptions

Key Assumptions (Rs mn)	FY25E	FY26E
Bio-energy order booking	22,592	25,981
Bio-energy net revenues	25,109	30,420
Engineering order booking	11,233	14,042
Engineering net revenues	9,330	10,866
HPS order booking	4,052	5,065
HPS net revenues	3,954	4,559
Consolidated EBITDAM (%)	11.3	11.8

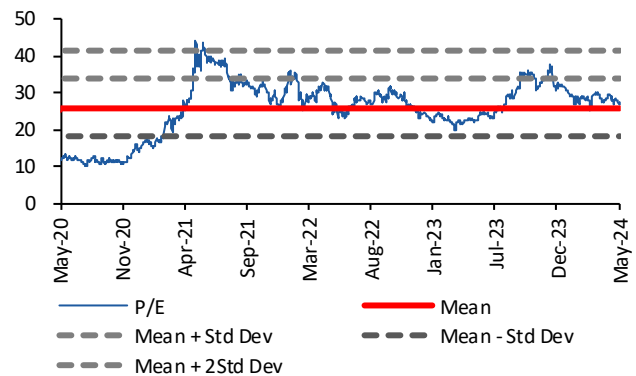
Source: Centrum Broking

Valuations

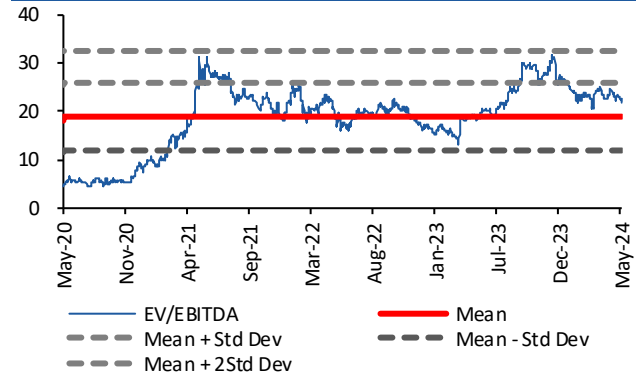
We project revenue CAGR of 15% for PRJ between FY24-26E. This is underpinned by an order backlog amounting to Rs38.5bn and a consistent trend in order bookings. Furthermore, we forecast a +21% earnings CAGR for PRJ from FY24 to FY26E, primarily driven by margin expansion, particularly due to the increasing contribution of international orders. By applying a PE multiple of 30x to FY26E earnings, we have derived a target price of Rs678, indicating a potential upside of 35%.

Valuations	Rs/share
FY26E EPS	22.6
Target multiple (x)	30
Target Price	678

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

KTAs of earnings Concall

Opening remarks

- **Commercial operationalisation of CBG plant for clients has been satisfactory (read yields/performance). With this Praj has proven technology/commercialization record for – spent wash, press mud and rice straw as different feedstocks. Further, company are working on development of other feedstock.**
- Order pipeline remains robust with discussion to enhance projects from one to multiple feed stocks.
- **In Brazil, company has delivered first grain based ethanol facility and also bagged order in 4QFY25 which would start contributing to revenues in FY25.**
- Commercial operationalization has started at new facility in CPEC segment.
- Capex investment in expected from brewery industry in FY25.
- **Management guidance of 3x of revenues by FY2030 is maintained. Also management is expecting each and every segment to grow. Revenue contribution of service businesses is ~4-5% and is expected to go up given increasing in offerings. Company aspires that the International orders to contribute 50% by 2030.**

Order book/inflow:

- 2HFY24 has witnessed higher contribution in terms of order inflow from newer products like CBG, CPEC etc.
- Bio-energy order inflow includes CBG orders. International orders were Rs1500mn in the segment and balance came in from domestic markets.

International opportunity:

- IRA notification is pending and clarity is awaited. However, company is already working one project.
- New traction for performance enhancers seen across.
- Brazil is witnessing lot of traction on grain based ethanol plant.

Margin profile:

- Praj expects margin expansion to continue given the current order book and order pipeline.

Others:

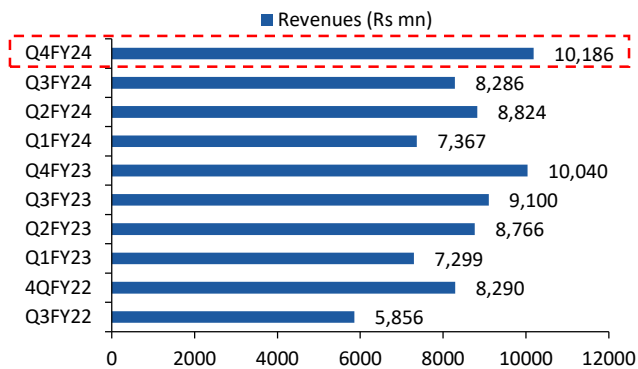
- PLA project is planned to be monetized in future. All development expenses are debited rather than capitalized.
- CBG projects are having IRR from 14-16%.
- Average execution period for orders are 9-12months barring engineering segment which can be on higher side.

Exhibit 1: Consolidated Financial Snapshot 4QFY24

YE Mar (Rs mn)	4QFY24	4QFY23A	YoY (%)	3QFY24A	QoQ (%)	FY24	FY23	YoY (%)
Revenues	10,186	10,040	1.5	8,286	22.9	34,663	35,204	-1.5
Raw material	5,741	5,925	-3.1	4,496	27.7	19,621	21,938	-10.6
Gross margins (%)	43.6	41.0	265bps	45.7	(211bps)	43.4	37.7	571bps
Staff costs	819	705	16.2	852	-3.9	3,187	2,576	23.7
Other Mfg. expenses	2,364	2,365	-0.0	1,974	19.7	8,136	7,612	6.9
Total expenditure	8,924	8,995	-0.8	7,322	21.9	30,944	32,126	-3.7
EBITDA	1,262	1,045	20.7	965	30.8	3,718	3,078	20.8
EBITDAM (%)	12.4	10.4	198bps	11.6	75bps	10.7	8.7	198bps
Depreciation	153	95	61.8	109	41.3	441	302	45.7
Interest	38	22	70.9	38	-0.4	98	46	111.5
Other income + Income from Associates	160	200	-20.1	101	57.4	595	458	29.8
PBT	1,230	1,128	9.0	919	33.8	3,775	3,187	18.4
Tax	311	247	25.9	215	44.5	941	789	19.2
Reported Net profit	919	881	4.3	704	30.6	2,834	2,398	18.2
EPS (Rs.)	5.0	4.8	4.3	3.8	30.7	15.4	13.1	18.2

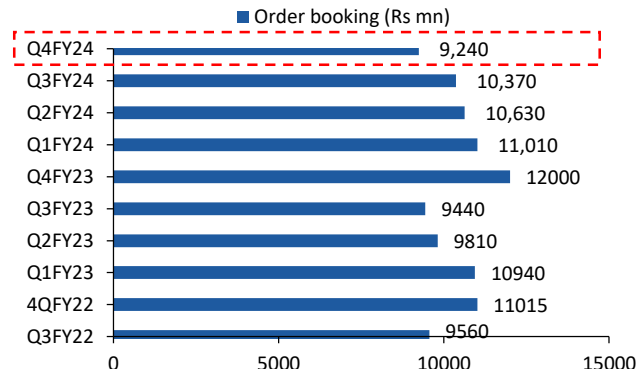
Source: Centrum Broking, Company Data

Exhibit 2: Quarterly Consolidated revenue trend



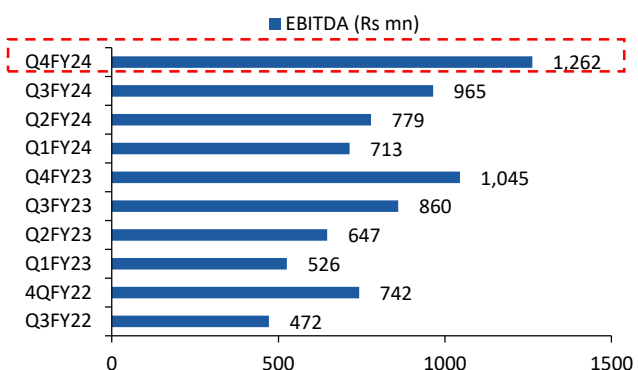
Source: Centrum Broking, Company Data

Exhibit 3: Quarterly Consolidated order booking trend



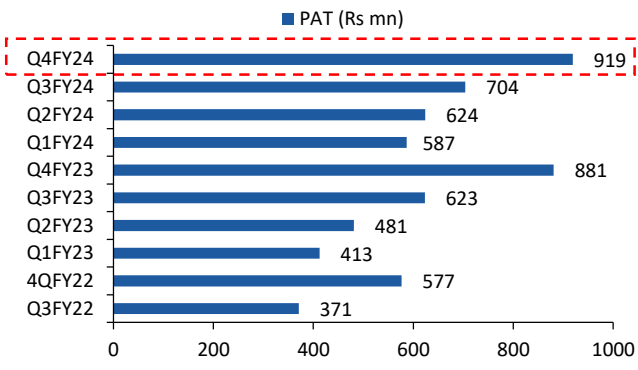
Source: Centrum Broking, Company Data

Exhibit 4: Quarterly Consolidated EBITDA trend



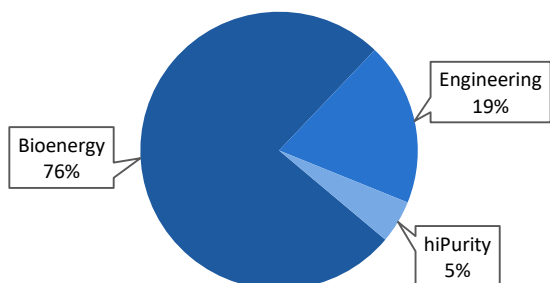
Source: Company Data, Centrum Broking

Exhibit 5: Quarterly Consolidated PAT trend



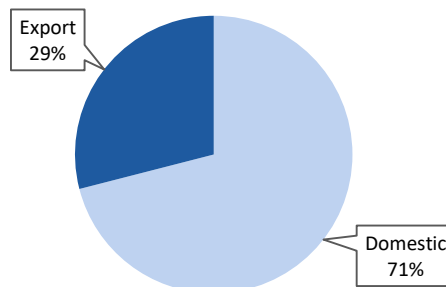
Source: Company Data, Centrum Broking

Exhibit 6: 4QFY24 - Segmental OB - Rs38,550mn



Source: Centrum Broking, Company Data

Exhibit 7: 4QFY24 - Geographical OB - Rs38,550mn



Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenues	23,333	35,280	34,663	38,394	45,846
Operating Expense	21,395	32,202	30,944	34,055	40,436
Employee cost	2,176	2,576	3,187	3,647	4,355
Others	3,910	6,434	8,136	7,180	8,573
EBITDA	1,938	3,078	3,718	4,338	5,410
Depreciation & Amortisation	226	302	441	533	573
EBIT	1,712	2,776	3,278	3,805	4,837
Interest expenses	25	46	98	100	100
Other income	362	458	595	684	786
PBT	2,049	3,187	3,775	4,389	5,523
Taxes	546	789	941	1,087	1,367
Effective tax rate (%)	26.7	24.8	24.9	24.8	24.8
PAT	1,502	2,398	2,834	3,302	4,156
Minority/Associates	0	0	0	0	0
Recurring PAT	1,502	2,398	2,834	3,302	4,156
Extraordinary items	0	0	0	0	0
Reported PAT	1,502	2,398	2,834	3,302	4,156

Ratios					
YE Mar	FY22A	FY23A	FY24A	FY25E	FY26E
Growth (%)					
Revenue	78.8	51.2	(1.8)	10.8	19.4
EBITDA	72.5	58.8	20.8	16.7	24.7
Adj. EPS	84.9	59.5	18.2	16.5	25.8
Margins (%)					
Gross	37.7	37.6	43.4	44.5	45.0
EBITDA	8.3	8.7	10.7	11.3	11.8
EBIT	7.3	7.9	9.5	9.9	10.6
Adjusted PAT	6.4	6.8	8.2	8.6	9.1
Returns (%)					
ROE	17.5	24.1	24.1	23.9	25.2
ROCE	17.5	23.9	23.1	22.1	23.6
ROIC	33.3	47.5	37.7	34.5	39.8
Turnover (days)					
Gross block turnover ratio (x)	3.9	5.5	3.8	4.0	4.4
Debtors	75	68	86	83	77
Inventory	59	56	52	44	49
Creditors	96	77	93	93	92
Net working capital	3	3	10	14	17
Solvency (x)					
Net debt-equity	(0.6)	(0.6)	(0.5)	(0.5)	(0.5)
Interest coverage ratio	77.2	66.5	38.0	43.4	54.1
Net debt/EBITDA	(2.9)	(2.0)	(1.7)	(1.8)	(1.8)
Per share (Rs)					
Adjusted EPS	8.2	13.0	15.4	18.0	22.6
BVPS	49.9	58.7	69.3	81.3	97.9
CEPS	9.4	14.7	17.8	20.9	25.7
DPS	4.2	4.5	6.0	6.0	6.0
Dividend payout (%)	51.3	34.5	38.9	33.4	26.5
Valuation (x)					
P/E	61.2	38.4	32.5	27.9	22.2
P/BV	10.0	8.5	7.2	6.2	5.1
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	FY24A	FY25E	FY26E
Equity share capital	367	368	368	368	368
Reserves & surplus	8,790	10,413	12,377	14,577	17,630
Shareholders fund	9,157	10,780	12,745	14,944	17,997
Minority Interest	7	1	1	1	1
Total debt	0	0	0	0	0
Non Current Liabilities	148	269	1,424	1,424	1,424
Def tax liab. (net)	0	0	0	0	0
Total liabilities	9,312	11,050	14,169	16,369	19,422
Gross block	5,991	6,465	9,019	9,719	10,419
Less: acc. Depreciation	(3,130)	(3,433)	(3,873)	(4,407)	(4,980)
Net block	2,861	3,032	5,146	5,312	5,439
Capital WIP	21	69	32	32	32
Net fixed assets	2,882	3,101	5,178	5,344	5,471
Non Current Assets	124	161	171	171	171
Investments	791	1,105	1,367	1,435	1,507
Inventories	3,450	3,336	2,209	2,919	3,800
Sundry debtors	5,118	7,948	8,360	9,007	10,386
Cash & Cash Equivalents	5,529	6,033	6,148	7,807	9,702
Loans & advances	922	0	0	0	0
Other current assets	3,311	4,503	5,523	5,504	6,347
Trade payables	4,248	5,050	4,968	5,838	6,908
Other current liab.	8,058	9,187	8,836	9,012	10,085
Provisions	510	899	981	968	968
Net current assets	5,515	6,684	7,454	9,419	12,273
Total assets	9,312	11,050	14,169	16,369	19,422

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Profit Before Tax	2,049	3,187	3,775	4,389	5,523
Depreciation & Amortisation	226	302	441	533	573
Net Interest	68	(41)	(59)	100	100
Net Change – WC	93	(1,222)	(1,118)	(293)	(959)
Direct taxes	(450)	(625)	(1,045)	(1,087)	(1,367)
Net cash from operations	1,747	1,621	1,994	3,643	3,870
Capital expenditure	(185)	(353)	(893)	(700)	(700)
Acquisitions, net	0	0	0	0	0
Investments	(1,170)	(491)	792	(1,275)	(1,640)
Others	87	0	0	0	0
Net cash from investing	(1,268)	(844)	(101)	(1,975)	(2,340)
FCF	479	777	1,893	1,668	1,530
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	0	0	0	0	0
Dividend paid	(397)	(771)	(827)	(1,103)	(1,103)
Interest paid	(19)	(42)	(94)	(100)	(100)
Others	(27)	(121)	(318)	0	0
Net cash from financing	(444)	(934)	(1,239)	(1,203)	(1,203)
Net change in Cash	36	(157)	654	465	327

Source: Company, Centrum Broking

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Praj Industries



Source: Bloomberg

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