

JUNE 03, 2024

## Result Update

### Stock Details

Market cap (Rs mn)	:	9590
52-wk Hi/Lo (Rs)	:	650 /366
Face Value (Rs)	:	2
3M Avg. daily volume (lakh)	:	8
Shares o/s (cr)	:	18

Source: Moneycontrol, BSE

### Financial Summary

Y/E Mar (Rs cr)	FY24	FY25E	FY26E
Revenue	3,466	3,839	4,305
Growth (%)	-2	11	12
EBITDA	372	418	482
EBITDA margin (%)	10.7	10.9	11.2
PAT	283	313	378
EPS	15.4	17.0	20.6
EPS Growth (%)	18	10	21
BV (Rs/share)	69	80	94
Dividend/share (Rs)	6.0	5.2	5.2
ROE (%)	24.1	22.8	23.6
ROCE (%)	26.0	25.7	28.1
P/E (x)	33.8	30.7	25.4
EV/EBITDA (x)	24.1	21.1	19.9
P/BV (x)	7.5	6.5	5.5

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Mar-24	Dec-23	Sep-23
Promoters	32.8	32.8	32.8
FII	18.9	17.4	17.9
DII	13.7	13.1	10.2
Others	34.6	36.7	39.0

Source: BSE

### Price Performance (%)

(%)	1M	3M	6M
Praj	-4.7	3.9	-17.2
Nifty	-0.3	0.7	11.2

Source: BSE

### Price chart (Rs)



Source: Moneycontrol, BSE

## PRAJ INDUSTRIES LTD (PRAJ)

PRICE Rs.522

TARGET Rs.555

ADD

Praj reported flat Q4FY24 numbers but was ahead of our estimates in terms of revenue and margins led by favorable mix and benefits from lower raw material prices. The company reported 1.5%/2.1%/4.4% yoy growth in revenue, EBITDA and PAT, respectively. EBITDA margin at 12.8% (vs 12.6% estimates) grew 210 bps yoy and 110 bps qoq, on strong gross margin at 43.6% (+260 bps yoy) led by better mix and lower raw material prices. As per management, the government's restriction on sugarcane syrups for ethanol manufacturing has delayed capex on sugary feedstock based bioenergy projects. The management is hopeful of these projects to be back on track as there is positive outlook on sugarcane for upcoming season which may support the case for easing restrictions. Praj is geared up with alternative solutions like multiple feed stock based plants for its clients. The company is also optimistic on opportunities from multiple feedstock based CBG projects, SAF projects, international markets (US & Brazil), ETCA, etc. Rs924 cr order inflows in the quarter was decent in the current scenario. The management is positive on the long term growth prospects emerging from low carbon emission projects in US, CBG, SAF, Energy transition, etc. In our view, there is near term risk of moderation in revenue growth, though long term outlook remains promising. We marginally raise earnings estimates for FY25-26E in the range of 1-2% with the expectation of pickup in ordering from engineering and international geography, offsetting impact of slowdown in sugary feedstock orders. We maintain ADD with revised fair value of Rs555 (from Rs525), valued at 27x FY26E earnings.

### Key Highlights

- ❑ Praj reported 1.5% yoy growth in Q4FY24 revenue (at Rs1019cr) and was better than our estimates (of Rs910 cr) led by 17% yoy growth in exports revenue. Domestic bioenergy projects based on sugary feedstock continued to face challenges due to government's decision to ban use of sugar syrups for ethanol. The company has seen traction in starchy feedstock based order which contributed 90% of the new order inflows for 1G domestic projects.
- ❑ EBITDA margin remained strong at 12.8% led by improved mix positively impacting gross margin. The management is positive on maintaining strong margins based on improved mix particularly from international market. 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.
- ❑ Order intake in the quarter declined 11% yoy/qoq to Rs934cr, but looks decent in the current challenging scenario. This took the order backlog to Rs3,855 cr (+13% yoy, -2% on qoq). The share of orders from international market (which has relatively high margin) was higher at 29% in Q4FY24 (Vs 17% in FY23). The company aims to grow its revenue to 3x by FY30 (over FY23) with 50% of business expected from international market in the long run.

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**Quarterly performance table (consolidated)**

Year to March (Rs Cr.)	Q4FY24	Q4FY23	% Change	Q3FY24	% Change
<b>Net Revenues</b>	<b>1,019</b>	<b>1,004</b>	<b>1.5</b>	<b>829</b>	<b>22.9</b>
Direct Expenses	574	593	(3.1)	450	27.7
<b>Gross Profit</b>	<b>444</b>	<b>411</b>	<b>8.0</b>	<b>379</b>	<b>17.3</b>
Gross margin%	43.6	41.0	2.7	45.7	(2.11)
Employee Expenses	82	70	16.2	85	(3.9)
Forex loss/(gain)	(5)	(4)		(1)	
Other Expenses	236	236	(0.0)	197	19.7
Operating Expenses	888	896	(0.9)	731	21.4
<b>EBITDA</b>	<b>131</b>	<b>108</b>	<b>20.8</b>	<b>98</b>	<b>34.0</b>
EBITDA margin	12.8%	10.8%		11.8%	
Depreciation	15	9	61.8	11	41.3
Other income	11	16	(29.5)	9	26.0
Net finance expense	4	2	70.9	4	(0.4)
<b>Profit before tax</b>	<b>123</b>	<b>113</b>	<b>9.1</b>	<b>92</b>	<b>33.8</b>
Provision for taxes Incl tax write back	31	25	25.9	22	44.5
<b>Reported net profit</b>	<b>92</b>	<b>88</b>	<b>4.4</b>	<b>70</b>	<b>30.6</b>
NPM (%)	9.0	8.8		8.5	
<b>% of Revenue</b>					
Employee cost	8.0	7.0		10.3	
Other Expenses	23.2	23.6		23.8	
Operating expenses	87.2	89.2		88.2	
Tax rate (% of PBT)	25.3	21.9		23.4	

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 continued government restriction on usage of sugarcane syrup for ethanol production is a point of concern. Based on positive outlook on output for upcoming sugar season, the management is hopeful of ease in some of these restrictions. We continue to believe that the business activity levels for Praj is expected to remain buoyant in the long run.

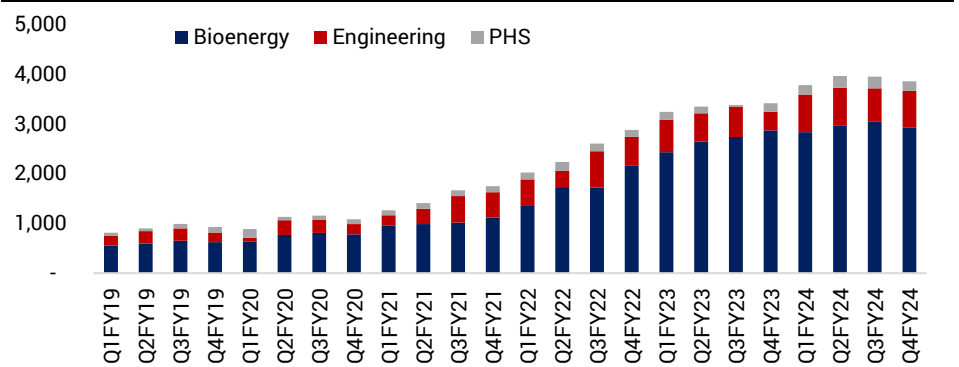
We marginally raise our earnings estimates for FY25E-26E in the range of 1-2%. Praj currently trades at 30.7/25.4x on FY25E/FY26E revised earnings of Rs17.0/Rs20.6 (Rs16.7/Rs20.3 earlier), respectively. We maintain ADD with revised fair value of Rs555 (Vs Rs525 earlier), valued at 27x FY26E earnings (Vs 26x earlier). Key risk includes, sharp increase in commodity price, slowdown in order inflows, change in government policy on bio fuel blending, etc.

## Other highlights

- Praj has successfully commissioned commercial scale CBG plants based on press mud and rice straw and also achieved benchmark results for yield. With this, Praj now has proven commercial scale CBG projects operating on three key feedstocks (spent wash, press mud and rice straw).

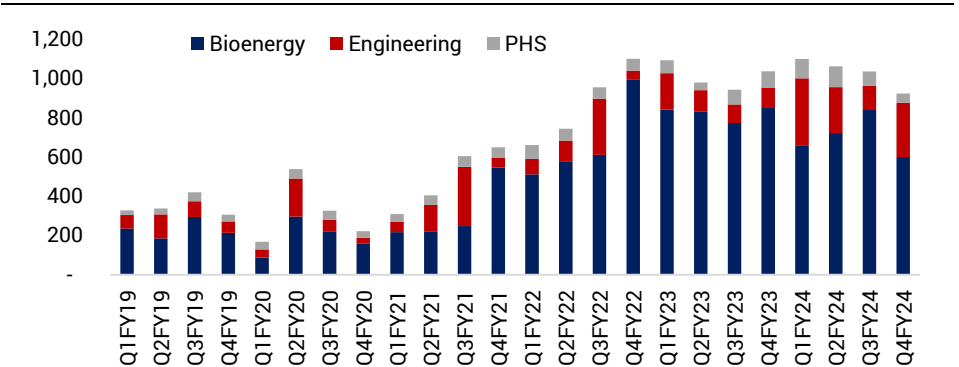
- As per management, CBG has large opportunity from domestic and international markets. Several large corporates are exploring opportunities to setup units in the space. Praj with expertise on multiple feed stocks is well placed to grab opportunity from the same. Earlier the management had indicated about ~Rs37,000 cr of opportunity from CBG space.
- Praj has successfully commissioned first grain to ethanol plant in Brazil. Further, it has already signed up contract with BE8 for next grain to ethanol plant. In Brazil, there is potential for more such projects as the country is diversifying from sugar to starchy feed stock based projects particularly in areas where sugarcane is not grown.
- Praj has been chosen to build state-of-the-art modules for one of the largest Blue Hydrogen projects in Europe.
- Praj is building capability in existing and new technologies by 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.
- 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)**



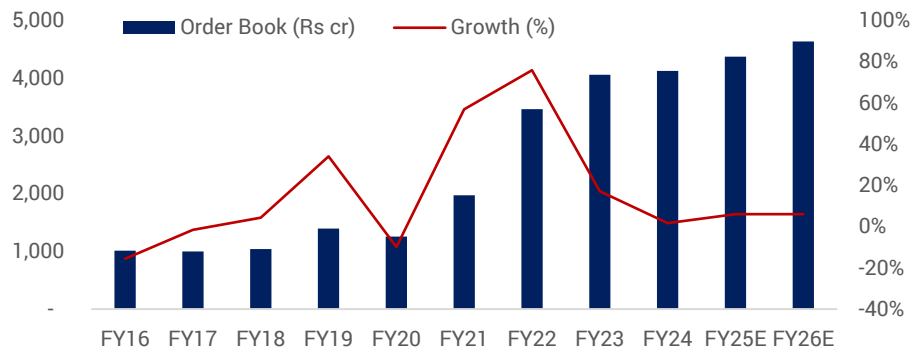
Source: Company, Kotak Securities Private Client Group

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



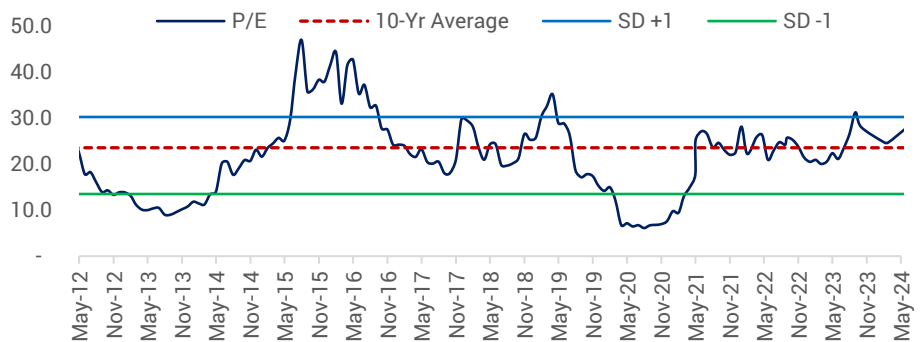
Source: Company, Kotak Securities - Private Client Group

### 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	FY24	FY25E	FY26E
<b>Revenues</b>	<b>3,528</b>	<b>3,466</b>	<b>3,839</b>	<b>4,305</b>
% change YoY	50.6	-1.8	10.8	12.1
<b>EBITDA</b>	<b>308</b>	<b>372</b>	<b>418</b>	<b>482</b>
% change YoY	58.8	20.8	12.5	15.1
Other Income	35.6	43.5	47.0	52.0
Depreciation	30.2	44.1	43.5	24.3
<b>EBIT</b>	<b>313</b>	<b>371</b>	<b>422</b>	<b>509</b>
% change YoY	60.3	18.6	13.7	20.7
Interest costs	4.6	9.8	2.4	2.4
<b>Profit before tax</b>	<b>319</b>	<b>377</b>	<b>420</b>	<b>507</b>
% change YoY	55.6	18.4	11.2	20.8
Tax	78.9	94.1	107.0	129.3
As % of PBT	24.8	24.9	25.5	25.5
<b>Profit after tax</b>	<b>239.8</b>	<b>283.4</b>	<b>312.6</b>	<b>377.7</b>
Minority interest	0.0	0.0	0.0	0.0
Share of profit of associates	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>239.8</b>	<b>283.4</b>	<b>312.6</b>	<b>377.7</b>
% change YoY	59.6	18.2	10.3	20.8
Shares outstanding (cr)	18.4	18.4	18.4	18.4
<b>EPS (reported) (Rs)</b>	<b>13.1</b>	<b>15.4</b>	<b>17.0</b>	<b>20.6</b>
CEPS (Rs)	14.7	17.8	19.4	21.9
DPS (Rs)	4.5	6.0	5.2	5.2

Source: Company, Kotak Securities – Private Client Group

### Cash flow Statement (Rs cr)

(Year-end Mar)	FY23	FY24	FY25E	FY26E
PBDIT	308	372	418	482
Direct tax paid	-79	-94	-107	-129
Adjustments	17	80	-3	-3
<b>Cash flow from operations</b>	<b>246</b>	<b>358</b>	<b>309</b>	<b>350</b>
Net Change in Working Capital	-54	-76	-8	-108
<b>Net Cash from Operations</b>	<b>192</b>	<b>283</b>	<b>301</b>	<b>242</b>
Capital Expenditure	-69	-211	-100	-100
Cash from investing	-44	90	47	52
<b>Net Cash from Investing</b>	<b>-114</b>	<b>-121</b>	<b>-53</b>	<b>-48</b>
Interest paid	-5	-10	-2	-2
Issue of Shares/ESOPS/(buyback)	0	0	0	0
Dividends Paid	-100	-133	-115	-115
Debt Raised	-11	115	-117	0
<b>Net cash from financing</b>	<b>-116</b>	<b>-27</b>	<b>-235</b>	<b>-118</b>
Net change in cash	-37	134	13	76
Free cash flow	123	72	201	142
Cash at end	59	193	206	282
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>257</b>	<b>273</b>	<b>352</b>

Source: Company, Kotak Securities – Private Client Group

### Balance sheet (Rs cr)

(Year-end Mar)	FY23	FY24	FY25E	FY26E
Cash and cash equivalents	121	257	273	352
Accounts receivable	795	836	894	1,003
Inventories	334	221	263	354
Loans and Adv & Others	492	590	650	754
<b>Current assets</b>	<b>1,741</b>	<b>1,904</b>	<b>2,081</b>	<b>2,463</b>
Misc Assets	87	66	66	66
Investments	543	497	497	497
Net fixed assets	237	407	464	539
Def tax assets	11	8	8	8
<b>Total assets</b>	<b>2,619</b>	<b>2,882</b>	<b>3,115</b>	<b>3,572</b>
<b>Current liabilities</b>	<b>1,424</b>	<b>1,380</b>	<b>1,525</b>	<b>1,710</b>
Provisions	57	76	84	94
Current tax liabilities	33	21	21	21
LT debt	27	142	25	25
Min. int	0	0	0	0
Equity	37	37	37	37
Reserves	1,041	1,238	1,435	1,698
<b>Total liabilities</b>	<b>2,619</b>	<b>2,882</b>	<b>3,115</b>	<b>3,572</b>
<b>BVPS (Rs)</b>	<b>58.7</b>	<b>69.4</b>	<b>80.1</b>	<b>94.4</b>

Source: Company, Kotak Securities – Private Client Group

### Ratio Analysis

(Year-end Mar)	FY23	FY24	FY25E	FY26E
EBITDA margin (%)	8.7	10.7	10.9	11.2
EBIT margin (%)	8.9	10.7	11.0	11.8
Net profit margin (%)	6.8	8.2	8.1	8.8
Receivables (days)	82.2	88.0	85.0	85.0
Inventory (days)	34.5	23.3	25.0	30.0
Sales/gross assets(x)	0.7	0.5	0.5	0.5
Interest coverage (x)	66.5	38.0	176.2	202.8
Debt/equity ratio(x)	0	0	0	0
ROE (%)	24.1	24.1	22.8	23.6
ROCE (%)	27.0	26.0	25.7	28.1
EV/ Sales (x)	2.5	2.6	2.3	2.2
EV/EBITDA (x)	29.1	24.1	21.1	19.9
Price to earnings (x)	40.0	33.8	30.7	25.4
Price to book value (x)	8.9	7.5	6.5	5.5

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
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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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