

February 6, 2023

Q3FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	495		520	
Sales (Rs. m)	39,434	40,904	37,058	37,790
% Chng.	6.4	8.2		
EBITDA (Rs. m)	3,967	4,279	4,064	4,250
% Chng.	(2.4)	0.7		
EPS (Rs.)	16.5	17.6	16.9	17.7
% Chng.	(2.3)	(0.4)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	23,333	35,384	39,434	40,904
EBITDA (Rs. m)	1,938	3,001	3,967	4,279
Margin (%)	8.3	8.5	10.1	10.5
PAT (Rs. m)	1,502	2,291	3,029	3,240
EPS (Rs.)	8.2	12.5	16.5	17.6
Gr. (%)	84.9	52.5	32.2	7.0
DPS (Rs.)	4.2	6.0	7.9	8.5
Yield (%)	1.2	1.6	2.2	2.3
RoE (%)	17.5	23.5	27.2	25.4
RoCE (%)	19.9	28.1	33.0	30.9
EV/Sales (x)	2.6	1.7	1.5	1.5
EV/EBITDA (x)	31.7	20.2	15.2	13.9
PE (x)	44.5	29.2	22.1	20.6
P/BV (x)	7.3	6.5	5.6	4.9

Key Data

PRAJ.BO | PRJ IN

52-W High / Low	Rs.462 / Rs.288
Sensex / Nifty	60,507 / 17,765
Market Cap	Rs.67bn/ \$ 809m
Shares Outstanding	184m
3M Avg. Daily Value	Rs.313.88m

Shareholding Pattern (%)

Promoter's	32.87
Foreign	17.61
Domestic Institution	7.69
Public & Others	41.83
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.8)	(5.0)	(15.0)
Relative	(1.8)	(8.3)	(17.6)

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Praj Industries (PRJ IN)

Rating: BUY | CMP: Rs364 | TP: Rs495

Healthy performance with margins improving

Quick Pointers:

- Order inflow came in healthy at Rs9.4bn, driven by bioenergy segment.
- EBITDA margins expanded 139bps YoY to 9.5%, due to better absorption of fixed overheads and completion of older orders.

We revise our FY23/24 estimates by 6.6%/-2.3%, factoring in strong Q3 performance and completion of legacy orders in medium term. Praj Industries (PRJ) reported healthy quarterly revenue (up 55% YoY), along with EBITDA margins improving 139bps YoY to 9.5%. The company has turned selective on taking profitable orders to protect its margins, especially in starchy-based 1G-plants orders from new customers. Nonetheless, order for ~4.5-5bn liter is yet to be tendered out to meet EBP20 target, for which it's addressable opportunity is ~Rs60bn. PRJ is in advance stage of discussion for 2G ethanol plant offerings in Europe. Management guided 1) EBP20 (1G plant) to be short term growth driver, 2) CBG and 2G plants both to drive medium term growth and 3) Sustainable Aviation Fuel (SAF) to drive growth in the long run.

We believe PRJ is well poised to benefit from upcoming opportunities given 1) its strong leadership in domestic ethanol plants (~50% market share), 2) global presence and 3) focus on future-ready technologies like 2G plants, Compressed Bio Gas (CBG) etc. We roll forward to FY25E and maintain 'BUY' rating at revised TP of Rs495 (Rs520 earlier) valuing 28x FY25E EPS.

Key segments drives revenue growth of ~55% YoY: PRJ reported strong revenue growth of 55.4% YoY to Rs9.1bn (vs PL estimate of ~Rs9.2bn). On segmental front, Bioenergy reported a strong revenue growth of ~48% YoY to Rs6.6bn, Engineering business grew 87.6% YoY to Rs1.6bn and Hi-Purity segment grew 45.9% YoY to Rs728mn. EBITDA grew 82.3% YoY to Rs860mn (PL estimate of ~Rs721mn), with EBITDA margin expanding by 139bps YoY to 9.5%, on account of better absorption of fixed overheads and older orders getting to near completion level. PAT grew 68.2% YoY to Rs623mn (vs PL estimate of Rs527mn), mainly due to strong operating performance.

Healthy order book at Rs33.8bn: Order inflows came in at Rs9.4bn (down 1.3% YoY), mainly driven by healthy growth in Bioenergy segment up 26.5% YoY to Rs7.7bn. Engineering business order inflows were down 67% YoY to Rs944bn, due to high base. Enquiry pipeline continues to remain strong from 1G ethanol plant in near term. Order book stands healthy at Rs33.8bn (1x TTM revenue), comprising of Bioenergy (81%), HiPurity (1%) and Engineering segment (18%). Automobile sector is gearing up for ethanol adoption beyond EBP20 (flex flue engine), which will drive demand post EBP20. CBG is likely to witness traction, with government focus on clean energy and introduction of 5% CBG mandate for organizations selling natural and Bio Gas.

Exhibit 1: Better absorption of fixed overheads drives EBITDA margin (up 139bps YoY)

Y/e March (Rs mn)	Q3FY21	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY gr. (%)	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Revenue	5,856	8,290	7,299	8,766	9,100	55.4	3.8	25,164	15,043	67.3
Total Revenues	5,856	8,290	7,299	8,766	9,100	55.4	3.8	25,164	15,043	67.3
Expenditure	5,385	7,548	6,773	8,119	8,240	53.0	1.5	23,131	13,847	67.0
<i>as % of sales</i>	<i>91.9</i>	<i>91.0</i>	<i>92.8</i>	<i>92.6</i>	<i>90.5</i>			<i>91.9</i>	<i>92.1</i>	
Consumption of RM	3,590	5,235	4,719	5,726	5,568	55.1	(2.7)	16,013	9,302	72.1
<i>as % of sales</i>	<i>61.3</i>	<i>63.2</i>	<i>64.7</i>	<i>65.3</i>	<i>61.2</i>			<i>63.6</i>	<i>61.8</i>	
Employee Cost	585	584	541	655	675	15.3	3.0	1,871	1,592	17.5
<i>as % of sales</i>	<i>10.0</i>	<i>7.0</i>	<i>7.4</i>	<i>7.5</i>	<i>7.4</i>			<i>7.4</i>	<i>10.6</i>	
Other expenditure	1,209	1,729	1,513	1,738	1,997	65.1	14.9	5,248	2,953	77.7
<i>as % of sales</i>	<i>20.6</i>	<i>20.9</i>	<i>20.7</i>	<i>19.8</i>	<i>21.9</i>			<i>20.9</i>	<i>19.6</i>	
EBITDA	472	742	526	647	860	82.3	33.0	2,033	1,196	70.0
Depreciation	52	67	64	72	72	37.5	-	208	159	30.3
EBIT	420	676	462	575	788	87.8	37.1	1,825	1,036	76.1
Other Income	88	113	88	91	79	(10.4)	(13.2)	258	249	3.6
Interest	5	8	7	8	8	53.7	1.2	24	17	39.8
PBT	503	781	542	658	859	70.9	30.6	2,059	1,268	62.4
Total Tax	132	204	130	177	236	78.7	33.7	542	342	58.4
Adjusted PAT	371	577	413	481	623	68.2	29.5	1,517	926	63.8
(Profit)/loss from JV's/Ass/MI	-	-	-	-	0	-	-	0	-	-
PAT after MI	371	577	413	481	623	68.2	29.5	1,517	926	63.9
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	371	577	413	481	623	68.2	29.5	1,517	926	63.9
Adjusted EPS	2.0	3.1	2.3	2.6	3.4	68.1	29.4	8.3	5.1	63.8
Margins (%)	Q3FY21	Q4FY22	Q1FY23	Q2FY23	Q3FY23	bps	bps	9MFY23	9MFY22	bps
EBIDTA	8.1	9.0	7.2	7.4	9.5	139	207	8.1	7.9	13
EBIT	7.2	8.1	6.3	6.6	8.7	150	210	7.3	6.9	36
EBT	8.6	9.4	7.4	7.5	9.4	86	194	8.2	8.4	(25)
PAT	6.3	7.0	5.7	5.5	6.8	52	136	6.0	6.2	(13)
Effective Tax rate	26.3	26.1	23.9	26.8	27.5	119	63	26.3	27.0	(66)

Source: Company, PL

Conference Call Highlights

- **Off the total 10bn litre of capacity required to meet 20% ethanol blending,** ~4.5-5bn liter is yet to be tendered out, for which PRJ's addressable opportunity is ~Rs60bn.
- **EBITDA margin expanded (up 139bps YoY)** on account of older fixed price contract coming to closure (which is likely to be completed in Q4FY23). Hence margins are expected to improve FY24 onwards.
- **EBP20 (1G plant) to be growth driver, in the short term.** For the medium term 2G and CBG will be key growth drivers, while in long run SAF will take the position.
- **BioEnergy driven by 1G ethanol plant:** Focus is on selecting orders, with emphasis on profitable order over market share resulting in market share falling down to 50% in Q3FY23 vs ~60% earlier. Successfully commissioned Asia's largest single train 510 KLPD syrup to ethanol plant in Karnataka.
 - Current ethanol blending with petrol has reached 12%.
 - Automobile sector is gearing up for ethanol adoption beyond EBP20 (flex flue engine), which will drive demand post EBP20. Sugary feedstock is likely to witness increased traction for ethanol capacity enhancement.
 - Company is in advance stage of discussion for 2G ethanol plant technology offering in Europe. 2G plant cost in Europe stands at ~Euro200-250mn.
- **CBG is likely to witness traction** with budget allocation towards development of CBG plant and introduction of 5% CBG mandate for organization selling natural and Bio Gas. Within CBG, company caters to process equipment which is ~50-55% of total investment.
- **Energy transition and climate action is emerging,** as a strong development agenda is globally opening up more opportunities for CPES business. Company is undergoing capex of ~Rs1bn in new facility at Kandla to meet the upcoming demand.
- **HiPurity Systems have witnessed increasing traction** for offerings in the High Capacity fermenters space. Company received 1st order from semiconductor sector, during the quarter.
- **Recently signed MoU with Axens** to work on of Sustainable Aviation Fuel (SAF) projects in India for SAF from low carbon alcohols through Alcohol to Jet (ATJ) pathway.
 - Europe and American airlines have committed for usage of SAF, while there is no such development in India.
- **Within service segment, focus is on providing performance enhancer** for plant (Bio solution -consumables). While Operation and Maintenance opportunity is likely to remain strong from CBG and 2G ethanol plant.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	23,333	35,384	39,434	40,904
YoY gr. (%)	78.8	51.6	11.4	3.7
Cost of Goods Sold	14,538	22,292	23,227	23,601
Gross Profit	8,796	13,092	16,207	17,302
Margin (%)	37.7	37.0	41.1	42.3
Employee Cost	2,176	2,587	3,076	3,559
Other Expenses	1,142	1,981	2,760	2,863
EBITDA	1,938	3,001	3,967	4,279
YoY gr. (%)	72.5	54.8	32.2	7.9
Margin (%)	8.3	8.5	10.1	10.5
Depreciation and Amortization	226	261	293	332
EBIT	1,712	2,740	3,675	3,947
Margin (%)	7.3	7.7	9.3	9.6
Net Interest	25	35	39	45
Other Income	362	372	414	429
Profit Before Tax	2,049	3,076	4,050	4,331
Margin (%)	8.8	8.7	10.3	10.6
Total Tax	546	784	1,020	1,092
Effective tax rate (%)	26.7	25.5	25.2	25.2
Profit after tax	1,502	2,291	3,029	3,240
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,502	2,291	3,029	3,240
YoY gr. (%)	85.4	52.5	32.2	7.0
Margin (%)	6.4	6.5	7.7	7.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,502	2,291	3,029	3,240
YoY gr. (%)	85.4	52.5	32.2	7.0
Margin (%)	6.4	6.5	7.7	7.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,502	2,291	3,029	3,240
Equity Shares O/s (m)	184	184	184	184
EPS (Rs)	8.2	12.5	16.5	17.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	4,817	5,117	5,417	5,717
Tangibles	4,817	5,117	5,417	5,717
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,731	2,992	3,285	3,616
Tangibles	2,731	2,992	3,285	3,616
Intangibles	-	-	-	-
Net fixed assets	2,085	2,124	2,132	2,100
Tangibles	2,085	2,124	2,132	2,100
Intangibles	-	-	-	-
Capital Work In Progress	659	659	659	659
Goodwill	-	-	-	-
Non-Current Investments	928	948	947	953
Net Deferred tax assets	19	19	19	19
Other Non-Current Assets	31	35	79	123
Current Assets				
Investments	3,979	4,688	4,866	5,195
Inventories	3,450	4,168	4,646	4,931
Trade receivables	5,118	7,174	8,211	8,629
Cash & Bank Balance	1,551	1,579	1,837	2,063
Other Current Assets	4,233	4,246	4,850	5,624
Total Assets	22,108	25,712	28,325	30,420
Equity				
Equity Share Capital	367	367	367	367
Other Equity	8,790	9,981	11,556	13,241
Total Network	9,157	10,349	11,924	13,609
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,248	6,204	6,969	7,284
Other current liabilities	8,715	9,171	9,445	9,539
Total Equity & Liabilities	22,108	25,712	28,325	30,420

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	2,049	3,076	4,050	4,331
Add. Depreciation	0	-	-	-
Add. Interest	-	-	-	-
Less Financial Other Income	362	372	414	429
Add. Other	56	296	332	377
Op. profit before WC changes	2,104	3,372	4,381	4,708
Net Changes-WC	93	(414)	(1,132)	(1,162)
Direct tax	(450)	(784)	(1,020)	(1,092)
Net cash from Op. activities	1,747	2,173	2,229	2,455
Capital expenditures	(184)	(300)	(300)	(300)
Interest / Dividend Income	87	-	-	-
Others	(1,171)	(710)	(178)	(329)
Net Cash from Invt. activities	(1,268)	(1,010)	(478)	(629)
Issue of share cap. / premium	26	-	-	-
Debt changes	-	-	-	-
Dividend paid	(397)	(1,100)	(1,454)	(1,555)
Interest paid	(19)	(35)	(39)	(45)
Others	(54)	-	-	-
Net cash from Fin. activities	(444)	(1,135)	(1,493)	(1,600)
Net change in cash	36	28	257	226
Free Cash Flow	1,562	1,873	1,929	2,155

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	8.2	12.5	16.5	17.6
CEPS	9.4	13.9	18.1	19.4
BVPS	49.9	56.3	64.9	74.1
FCF	8.5	10.2	10.5	11.7
DPS	4.2	6.0	7.9	8.5
Return Ratio(%)				
RoCE	19.9	28.1	33.0	30.9
ROIC	41.1	58.6	62.0	53.6
RoE	17.5	23.5	27.2	25.4
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.6)	(0.5)
Net Working Capital (Days)	68	53	55	56
Valuation(x)				
PER	44.5	29.2	22.1	20.6
P/B	7.3	6.5	5.6	4.9
P/CEPS	38.7	26.2	20.1	18.7
EV/EBITDA	31.7	20.2	15.2	13.9
EV/Sales	2.6	1.7	1.5	1.5
Dividend Yield (%)	1.2	1.6	2.2	2.3

Source: Company Data, PL Research

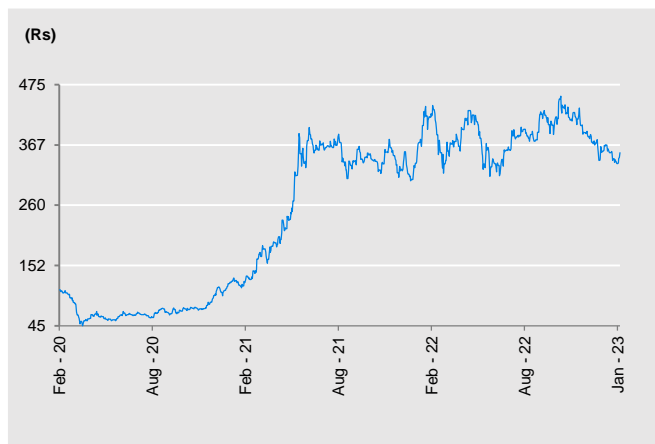
Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	8,290	7,299	8,766	9,100
YoY gr. (%)	46.2	89.0	64.6	55.4
Raw Material Expenses	5,235	4,719	5,726	5,568
Gross Profit	3,055	2,580	3,040	3,531
Margin (%)	36.8	35.3	34.7	38.8
EBITDA	742	526	647	860
YoY gr. (%)	(1.0)	76.3	52.0	82.3
Margin (%)	8.9	7.2	7.4	9.5
Depreciation / Depletion	67	64	72	72
EBIT	675	462	575	788
Margin (%)	8.1	6.3	6.6	8.7
Net Interest	8	7	8	8
Other Income	113	88	91	79
Profit before Tax	780	542	658	859
Margin (%)	9.4	7.4	7.5	9.4
Total Tax	204	130	177	236
Effective tax rate (%)	26.1	23.9	26.8	27.5
Profit after Tax	576	412	481	623
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	576	412	481	623
YoY gr. (%)	10.8	85.9	44.4	68.2
Margin (%)	7.0	5.7	5.5	6.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	576	412	481	623
YoY gr. (%)	10.8	85.9	44.4	68.2
Margin (%)	7.0	5.7	5.5	6.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	576	412	481	623
Avg. Shares O/s (m)	183	183	183	183
EPS (Rs)	3.1	2.3	2.6	3.4

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-23	BUY	520	367
2	19-Oct-22	BUY	520	434
3	06-Oct-22	BUY	507	415
4	26-Aug-22	BUY	507	390

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	3,291	2,689
2	Apar Industries	BUY	2,260	1,687
3	Bharat Electronics	BUY	125	93
4	BHEL	Sell	36	80
5	Cummins India	Accumulate	1,514	1,396
6	Engineers India	BUY	89	80
7	GE T&D India	Hold	102	116
8	Kalpataru Power Transmission	Accumulate	549	570
9	KEC International	Accumulate	500	457
10	Larsen & Toubro	BUY	2,481	2,113
11	Praj Industries	BUY	520	367
12	Siemens	Accumulate	3,290	2,837
13	Thermax	Accumulate	2,556	1,956
14	Triveni Turbine	BUY	340	276
15	Voltamp Transformers	Hold	3,150	2,691

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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