

May 26, 2023

Q4FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	475		495	
Sales (Rs. m)	39,378	41,228	39,434	40,904
% Chng.	(0.1)	0.8		
EBITDA (Rs. m)	3,961	4,312	3,967	4,279
% Chng.	(0.1)	0.8		
EPS (Rs.)	16.3	17.5	16.5	17.6
% Chng.	(1.3)	(0.5)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	23,433	35,280	39,378	41,228
EBITDA (Rs. m)	1,938	3,078	3,961	4,312
Margin (%)	8.3	8.7	10.1	10.5
PAT (Rs. m)	1,502	2,398	2,992	3,223
EPS (Rs.)	8.2	13.1	16.3	17.5
Gr. (%)	84.9	59.6	24.8	7.7
DPS (Rs.)	4.2	4.5	6.5	7.0
Yield (%)	1.1	1.2	1.7	1.9
RoE (%)	17.5	24.1	25.6	23.8
RoCE (%)	19.9	27.8	30.7	28.7
EV/Sales (x)	2.7	1.8	1.6	1.5
EV/EBITDA (x)	32.6	20.4	15.8	14.3
PE (x)	45.8	28.7	23.0	21.3
P/BV (x)	7.5	6.4	5.5	4.7

Key Data

PRAJ.BO | PRJ IN

52-W High / Low	Rs.462 / Rs.288
Sensex / Nifty	62,502 / 18,499
Market Cap	Rs.69bn/ \$ 833m
Shares Outstanding	184m
3M Avg. Daily Value	Rs.186.61m

Shareholding Pattern (%)

Promoter's	32.32
Foreign	17.83
Domestic Institution	8.34
Public & Others	41.51
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	6.0	(3.9)	17.3
Relative	2.3	(4.2)	1.8

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Healthy performance, near term outlook intact

Quick pointers:

- Gross margin improvement (expanded 420bp YoY- on low base) visible with execution of newer contracts.
- Order inflows declined 5.8% YoY, owing to decline in Bio-energy segment (down 15% YoY).

Praj reported healthy quarterly performance with revenue growth of ~21% and EBITDA margin expansion of 148bps YoY to 10.4%. FY23 order inflows came in at Rs50.6bn, up 17% YoY, driven by 1G ethanol orders in Bio Energy segment (up 22%-Rs33bn). As 1G order inflows are likely to peak out in FY24, order inflows sustainability in FY25 from newer opportunities will be closely watched. Recent trials of commercial flight with blend of Sustainable Aviation Fuel (SAF) by Praj, IOCL and Air Asia, augers well for future opportunities. (likely requirement of 140mn ltr SAF/yr to meet 1% blending). Praj has envisaged capex of ~Rs2bn, including 1) setting up a modern manufacturing facility for Energy Transition and Climate Action (ETCA) segment (Rs1bn-having revenue potential of 30-40x over time) and 2) demo plant for Polylactic Acid (PLA) for commercialization of bioplastics (Rs600mn).

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), ECTA, SAF etc. We expect PRJ to report revenue/PAT CAGR of ~8%/16% from FY23-25E. The stock is currently trading at PE of 23x/21.3x FY24/25E. We maintain 'BUY' rating with revised TP of Rs475 (Rs495 earlier) valuing 27x FY25E (28x FY25E earlier), owing to plateauing order visibility post FY24.

Strong revenue growth of 20% drives PAT growth: Praj reported strong revenue growth of 20.8% YoY to Rs10bn (vs PL estimate of ~Rs10.2bn), owing to strong execution in Bio energy segment (up 31% YoY to Rs7.1bn). Gross margins came in at 41% (vs 36.8% in Q4FY22 being partly impacted by commodity inflation). EBITDA grew 40.8% YoY to Rs1bn (PL estimate of ~Rs968mn), with EBITDA margin expanding by 148bps YoY to 10.4% (PL estimate of 9.5%), despite factoring in higher other expenses (up 36.8%, YoY). PAT grew 52.9% YoY to Rs881mn (vs PL estimate of Rs761mn) aided by higher other income (up 77% to Rs200mn).

Order book healthy at Rs34bn: Order inflows for Q4FY23 came in at Rs10.4bn, down 5.8% YoY, owing to decline in Bioenergy inflows (down 15% YoY to Rs8.5%), while it increases for HiPurity (up 88% to Rs830mn) and Engineering Business (up 71% YoY to Rs1bn). Enquiry pipeline continues to remain strong from 1G ethanol plant in near term. Order book stands healthy at Rs34bn, (1x FY23 revenue) comprising of Bio energy (84%), Hi-Purity (5%) and Engineering (11%). Within exports market, Low carbon ethanol is emerging as good opportunity in the USA.

Exhibit 1: Strong revenue growth of ~21% drives profitability

Y/e March (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY (%)	QoQ (%)	FY23	FY22	YoY (%)
Revenue	8,310	7,299	8,766	9,115	10,040	20.8	10.2	35,280	23,433	50.6
Total Revenues	8,310	7,299	8,766	9,115	10,040	20.8	10.2	35,280	23,433	50.6
Expenditure	7,568	6,773	8,119	8,254	8,995	18.9	9.0	32,202	21,495	49.8
<i>as % of sales</i>	<i>91.1</i>	<i>92.8</i>	<i>92.6</i>	<i>90.6</i>	<i>89.6</i>			<i>91.3</i>	<i>91.7</i>	
Consumption of RM	5,255	4,719	5,726	5,583	5,925	12.8	6.1	22,014	14,637	50.4
<i>as % of sales</i>	<i>63.2</i>	<i>64.7</i>	<i>65.3</i>	<i>61.3</i>	<i>59.0</i>			<i>62.4</i>	<i>62.5</i>	
Employee Cost	584	541	655	675	705	20.6	4.4	2,576	2,176	18.4
<i>as % of sales</i>	<i>7.0</i>	<i>7.4</i>	<i>7.5</i>	<i>7.4</i>	<i>7.0</i>			<i>7.3</i>	<i>9.3</i>	
Other expenditure	1,729	1,513	1,738	1,996	2,365	36.8	18.4	7,612	4,682	62.6
<i>as % of sales</i>	<i>20.8</i>	<i>20.7</i>	<i>19.8</i>	<i>21.9</i>	<i>23.6</i>			<i>21.6</i>	<i>20.0</i>	
EBITDA	742	526	647	860	1,045	40.8	21.5	3,078	1,938	58.8
Depreciation	66	64	72	72	95	42.6	31.7	302	226	33.9
EBIT	676	462	575	788	950	40.7	20.6	2,776	1,712	62.1
Other Income	113	88	91	79	200	77.2	153.0	458	362	26.6
Interest	8	7	8	8	22	180.4	168.6	46	25	84.6
PBT	781	542	658	859	1,128	44.5	31.3	3,187	2,049	55.6
Total Tax	204	130	177	236	247	21.0	4.7	789	546	44.4
Adjusted PAT	577	413	481	623	881	52.8	41.4	2,398	1,502	59.6
(Profit)/loss from JV's/Ass/MI	-	-	-	0	0	-	-	-	-	-
PAT after MI	577	413	481	623	881	52.9	41.4	2,398	1,502	59.6
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	577	413	481	623	881	52.9	41.4	2,398	1,502	59.6
Adjusted EPS	3.1	2.3	2.6	3.4	4.8	52.8	41.4	13.1	8.2	59.6
Margins (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	bps	bps	FY23	FY22	bps
EBIDTA	8.9	7.2	7.4	9.4	10.4	148	97	8.7	8.3	45
EBIT	8.1	6.3	6.6	8.6	9.5	133	82	7.9	7.3	56
EBT	9.4	7.4	7.5	9.4	11.2	184	181	9.0	8.7	29
PAT	6.9	5.7	5.5	6.8	8.8	184	194	6.8	6.4	39
Effective Tax rate	26.1	23.9	26.8	27.5	21.9	(426)	(557)	24.8	26.7	(191)

Source: Company, PL

Conference Call Highlights

- Praj, IOCL and Air Asia joined hands to fly first commercial flight in India powered by a blend of 'indigenous' Sustainable Aviation Fuel. By 2025, if India targets to blend 1% SAF blending in Jet fuel, it would require around 14 crore liters of SAF/annum.
- **Exports market:** Low carbon ethanol emerging as good business opportunity in the USA. However, slowdown is witnessed in US which may lead to delay in order finalization. In Europe company is in discussion for few green field projects.
- **Bio Energy:** Traction continues from 1G ethanol plant mainly from starchy based feedstock.
 - Off the total order inflow for FY23 in Bio energy segment (Rs33bn), Starchy based feedstock accounted ~60%.
 - Tamil Nadu government announced 'TN Ethanol Blending Policy 2023', to attract investments worth Rs50bn in molasses/grain based Ethanol production capacity.
 - OMCs have floated Expression of Interest (EOI) for additional capacity worth 3bn liters for 8 ethanol deficit states, which is likely to attract additional opportunity of Rs40bn.
 - **2G:** Have produced first ethanol from IOCL Panipat and now focus is on establishing continuous operations and reliability enhancement of the plant.
 - **CBG:** First rice straw based commercial plant for HPCL has commenced biogas generation. The plant is now under stabilization and should start the regular dispatch of CBG by end of June 2023. It is still yet to pickup, no major activity has been seen as of now.
- **Brewery:** Though market has reached pre-covid levels, there are no significant announcements for capacity enhancements.
- **HiPurity Systems:** Increasing offerings in the High-Capacity fermenters space. Received order for large-size fermenters from Oman. Enquiry pipeline remains healthy for the segment.
- **ZLD:** Praj has implemented modularization approach in the ZLD process. Received first order for modularized ZLD system.
- **Energy transition and climate action (ETCA)** agenda has opened new opportunities for our engineering businesses.
- Company has planned capex of ~Rs2bn, including 1) setting up a modern manufacturing facility, to address demand from Energy Transition and Climate Action (ETCA) segment (Rs1bn- revenue capacity of 30-40x over a period of time) and 2) demo plant for Polylactic Acid (PLA) for commercialization of bioplastic (Rs600mn).

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	23,433	35,280	39,378	41,228
YoY gr. (%)	79.6	50.6	11.6	4.7
Cost of Goods Sold	14,637	22,014	23,233	23,789
Gross Profit	8,796	13,266	16,145	17,439
Margin (%)	37.5	37.6	41.0	42.3
Employee Cost	2,176	2,576	3,032	3,546
Other Expenses	1,142	2,105	2,756	2,927
EBITDA	1,938	3,078	3,961	4,312
YoY gr. (%)	72.5	58.8	28.7	8.9
Margin (%)	8.3	8.7	10.1	10.5
Depreciation and Amortization	226	302	375	432
EBIT	1,712	2,776	3,586	3,880
Margin (%)	7.3	7.9	9.1	9.4
Net Interest	25	46	39	45
Other Income	362	458	453	474
Profit Before Tax	2,049	3,187	4,000	4,309
Margin (%)	8.7	9.0	10.2	10.5
Total Tax	546	789	1,008	1,086
Effective tax rate (%)	26.7	24.8	25.2	25.2
Profit after tax	1,502	2,398	2,992	3,223
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,502	2,398	2,992	3,223
YoY gr. (%)	85.3	59.6	24.8	7.7
Margin (%)	6.4	6.8	7.6	7.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,502	2,398	2,992	3,223
YoY gr. (%)	85.3	59.6	24.8	7.7
Margin (%)	6.4	6.8	7.6	7.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,502	2,398	2,992	3,223
Equity Shares O/s (m)	184	184	184	184
EPS (Rs)	8.2	13.1	16.3	17.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	4,817	5,400	6,700	7,200
Tangibles	4,817	5,400	6,700	7,200
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,731	3,034	3,409	3,841
Tangibles	2,731	3,034	3,409	3,841
Intangibles	-	-	-	-
Net fixed assets	2,085	2,366	3,291	3,359
Tangibles	2,085	2,366	3,291	3,359
Intangibles	-	-	-	-
Capital Work In Progress	659	735	735	735
Goodwill	-	-	-	-
Non-Current Investments	928	1,105	1,139	1,146
Net Deferred tax assets	19	111	111	111
Other Non-Current Assets	31	50	79	124
Current Assets				
Investments	3,979	4,584	4,607	5,360
Inventories	3,450	3,336	4,639	4,857
Trade receivables	5,118	7,948	8,199	8,584
Cash & Bank Balance	1,551	1,448	1,514	1,584
Other Current Assets	4,064	4,316	5,513	6,514
Total Assets	22,158	26,075	29,913	32,469
Equity				
Equity Share Capital	367	367	367	367
Other Equity	8,790	10,413	12,208	14,142
Total Networkth	9,157	10,780	12,575	14,509
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,248	5,050	6,473	6,777
Other current liabilities	8,772	10,356	10,975	11,294
Total Equity & Liabilities	22,158	26,075	29,913	32,469

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	2,049	3,187	4,000	4,309
Add. Depreciation	0	3	-	-
Add. Interest	-	11	-	-
Less Financial Other Income	362	458	453	474
Add. Other	56	267	415	477
Op. profit before WC changes	2,104	3,468	4,414	4,787
Net Changes-WC	223	(1,222)	(1,342)	(1,353)
Direct tax	(450)	(625)	(1,008)	(1,086)
Net cash from Op. activities	1,877	1,621	2,064	2,348
Capital expenditures	(184)	(353)	(1,300)	(500)
Interest / Dividend Income	87	80	-	-
Others	(1,300)	(571)	(23)	(752)
Net Cash from Inv. activities	(1,397)	(844)	(1,323)	(1,252)
Issue of share cap. / premium	26	4	-	-
Debt changes	-	-	-	-
Dividend paid	(397)	(771)	(1,197)	(1,289)
Interest paid	(19)	(42)	(39)	(45)
Others	(54)	(125)	561	309
Net cash from Fin. activities	(444)	(934)	(675)	(1,025)
Net change in cash	36	(157)	66	70
Free Cash Flow	1,691	1,269	764	1,848

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	8.2	13.1	16.3	17.5
CEPS	9.4	14.7	18.3	19.9
BVPS	49.9	58.7	68.4	79.0
FCF	9.2	6.9	4.2	10.1
DPS	4.2	4.5	6.5	7.0
Return Ratio(%)				
RoCE	19.9	27.8	30.7	28.7
ROIC	41.1	53.1	48.3	44.0
RoE	17.5	24.1	25.6	23.8
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.5)	(0.5)
Net Working Capital (Days)	67	64	59	59
Valuation(x)				
PER	45.8	28.7	23.0	21.3
P/B	7.5	6.4	5.5	4.7
P/CEPS	39.8	25.5	20.4	18.8
EV/EBITDA	32.6	20.4	15.8	14.3
EV/Sales	2.7	1.8	1.6	1.5
Dividend Yield (%)	1.1	1.2	1.7	1.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	7,299	8,766	9,115	10,040
YoY gr. (%)	89.0	64.6	55.6	20.8
Raw Material Expenses	4,719	5,726	5,583	5,925
Gross Profit	2,580	3,040	3,531	4,115
Margin (%)	35.3	34.7	38.7	41.0
EBITDA	526	647	860	1,045
YoY gr. (%)	76.3	52.0	82.3	40.9
Margin (%)	7.2	7.4	9.4	10.4
Depreciation / Depletion	64	72	72	95
EBIT	462	575	788	950
Margin (%)	6.3	6.6	8.6	9.5
Net Interest	7	8	8	22
Other Income	88	91	79	200
Profit before Tax	542	658	859	1,128
Margin (%)	7.4	7.5	9.4	11.2
Total Tax	130	177	236	247
Effective tax rate (%)	23.9	26.8	27.5	21.9
Profit after Tax	412	481	623	881
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	412	481	623	881
YoY gr. (%)	85.9	44.4	68.2	52.9
Margin (%)	5.7	5.5	6.8	8.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	412	481	623	881
YoY gr. (%)	85.9	44.4	68.2	52.9
Margin (%)	5.7	5.5	6.8	8.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	412	481	623	881
Avg. Shares O/s (m)	183	183	183	183
EPS (Rs)	2.3	2.6	3.4	4.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	BUY	495	343
2	06-Feb-23	BUY	495	364
3	05-Jan-23	BUY	520	367
4	19-Oct-22	BUY	520	434
5	06-Oct-22	BUY	507	415
6	26-Aug-22	BUY	507	390

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	4,119	3,719
2	Apar Industries	BUY	3,832	3,056
3	Bharat Electronics	BUY	125	109
4	BHEL	Sell	36	71
5	Cummins India	Accumulate	1,750	1,649
6	Engineers India	BUY	85	74
7	GE T&D India	Hold	184	188
8	Harsha Engineers International	BUY	440	414
9	Kalpataru Power Transmission	BUY	625	527
10	KEC International	Accumulate	559	514
11	Larsen & Toubro	BUY	2,615	2,364
12	Praj Industries	BUY	495	343
13	Siemens	Accumulate	4,018	3,723
14	Thermax	BUY	2,613	2,280
15	Triveni Turbine	Accumulate	416	398
16	Voltamp Transformers	Hold	3,056	2,905

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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