

July 27, 2023

Q1FY24 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	475		475	
Sales (Rs. m)	39,313	41,276	39,378	41,228
% Chng.	(0.2)	0.1		
EBITDA (Rs. m)	3,955	4,318	3,961	4,312
% Chng.	(0.2)	0.1		
EPS (Rs.)	16.3	17.6	16.3	17.5
% Chng.	(0.2)	0.1		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	23,433	35,280	39,313	41,276
EBITDA (Rs. m)	1,938	3,078	3,955	4,318
Margin (%)	8.3	8.7	10.1	10.5
PAT (Rs. m)	1,502	2,398	2,986	3,227
EPS (Rs.)	8.2	13.1	16.3	17.6
Gr. (%)	84.9	59.6	24.5	8.1
DPS (Rs.)	4.2	4.5	6.5	7.0
Yield (%)	1.0	1.1	1.6	1.7
RoE (%)	17.5	24.1	25.6	23.8
RoCE (%)	19.9	27.8	30.7	28.7
EV/Sales (x)	3.0	2.0	1.8	1.7
EV/EBITDA (x)	36.6	22.9	17.8	16.1
PE (x)	50.8	31.9	25.6	23.7
P/BV (x)	8.3	7.1	6.1	5.3

Key Data

PRAJ.BO | PRJ IN

52-W High / Low	Rs.462 / Rs.299
Sensex / Nifty	66,267 / 19,660
Market Cap	Rs.76bn/ \$ 932m
Shares Outstanding	184m
3M Avg. Daily Value	Rs.471.37m

Shareholding Pattern (%)

Promoter's	32.82
Foreign	18.30
Domestic Institution	8.40
Public & Others	40.48
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	12.4	24.5	6.4
Relative	7.5	11.5	(10.4)

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Healthy Margins; close watch on order inflows

Quick pointers:

- Order inflows came in at Rs11bn (flat YoY), comprising of international order inflows contributing ~35% vs 19% in Q1FY23.
- Received LOI for five CBG plants worth ~Rs1bn/plant (20-25ton/day capacity).

Praj Industries (PRJ) reported mix quarterly performance with revenue remaining flat YoY, while EBITDA margins expanded 250bps YoY to 9.7%. Margins likely to sustain owing to execution of newer fixed price contracts amid normalizing commodity prices and likely pickup in execution of exports led engineering segment H2FY24 onwards. Domestic 1G Grain-based ethanol orderings might witness challenges owing to government reviewing its policy to supply excess rice from Food Corporation of India (FCI) to ethanol plants owing to grain shortage. However, increasing traction from Compressed Bio Gas (CBG) plants and improving opportunities from exports market for engineering segment will likely drive order inflows in near to medium term. Blending mandates coming up in countries like Indonesia, Mexico and Africa will likely boost international order booking in coming years. Praj and Indian Oil signed term sheet for JV formation to strengthen biofuels production capacities in India which includes initiatives like SAF, CBG, Biodiesel etc.

We remain positive on PRJ in losng run, given 1) its strong leadership in domestic ethanol plant (~50-55% market share), 2) increasing traction from CBG plants, 3) focus on future-ready technologies like 2G plants, CBG, ECTA, SAF etc. and 4) healthy outlook for engineering segment from exports market. The stock is trading at PE of 25.6x/23.7x on FY24/25E. We maintain 'BUY' rating with TP of Rs475 (same as earlier) valuing it at PE of 27x FY25E EPS.

Healthy margins and other income drive PAT growth of 42% YoY: Consolidated revenue came in at Rs7.4bn flat YoY (vs PLe ~Rs9bn), owing to growth in Bio-energy segment (up 4.6% YoY to Rs5.9bn), while it declined for Engineering segment (down 17% YoY to Rs1bn). Gross margins came in at 40.3% vs 35.2% in Q1FY23, due to normalizing commodity prices and execution efficiencies. EBITDA grew 35.6% YoY to Rs713mn (PLe ~Rs794mn), with EBITDA margin expanding by 250bps YoY to 9.7% (PL estimate of 8.8%), despite factoring in higher employee cost (up 16% YoY) and other expenses (up ~8%, YoY). PAT grew ~42.2% YoY to Rs587mn (vs PLe Rs593mn) aided by higher other income (up 85.6% to Rs163mn).

Order book healthy at Rs37.8bn: Order inflows for Q1FY24 came in at ~Rs11bn, (up 0.6% YoY), owing to decline in Bioenergy inflows (down ~22% YoY to Rs6.6bn), while it increases for Engineering Business (up 84% YoY to Rs3.4bn) and HiPurity (up 51% to Rs991mn). Recently traction has been witnessed in CBG plants ordering. Praj has received LOI for 5 CBG plant worth ~Rs1bn/plant. Order book stands healthy at Rs37.8bn, (1.1x TTM revenue) comprising of Bio energy (78%), Hi-Purity (5%) and Engineering (17%).

Exhibit 1: Healthy margins and other income drive PAT growth of 42% YoY

Y/e March (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY gr. (%)	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Revenue	7,320	8,766	9,115	10,040	7,367	0.6	(26.6)	35,280	23,433	50.6
Total Revenues	7,320	8,766	9,115	10,040	7,367	0.6	(26.6)	35,280	23,433	50.6
Expenditure	6,794	8,119	8,254	8,995	6,654	(2.1)	(26.0)	32,202	21,495	49.8
<i>as % of sales</i>	92.8	92.6	90.6	89.6	90.3			91.3	91.7	
Consumption of RM	4,740	5,726	5,583	5,925	4,395	(7.3)	(25.8)	22,014	14,637	50.4
<i>as % of sales</i>	64.8	65.3	61.3	59.0	59.7			62.4	62.5	
Employee Cost	541	655	675	705	628	16.0	(11.0)	2,576	2,176	18.4
<i>as % of sales</i>	7.4	7.5	7.4	7.0	8.5			7.3	9.3	
Other expenditure	1,513	1,738	1,996	2,365	1,631	7.8	(31.0)	7,612	4,682	62.6
<i>as % of sales</i>	20.7	19.8	21.9	23.6	22.1			21.6	20.0	
EBITDA	526	647	860	1,045	713	35.6	(31.7)	3,078	1,938	58.8
Depreciation	64	72	72	95	88	37.8	(7.1)	302	226	33.9
EBIT	462	575	788	950	625	35.3	(34.2)	2,776	1,712	62.1
Other Income	88	91	79	200	163	85.6	(18.7)	458	362	26.6
Interest	7	8	8	22	11	48.8	(51.0)	46	25	84.6
PBT	542	658	859	1,128	777	43.3	(31.1)	3,187	2,049	55.6
Total Tax	130	177	236	247	190	46.7	(22.9)	789	546	44.4
Adjusted PAT	413	481	623	881	587	42.2	(33.4)	2,398	1,502	59.6
(Profit)/loss from JV's/Ass/MI	0	-	0	0	0	-	-	-	-	-
PAT after MI	413	481	623	881	587	42.2	(33.4)	2,398	1,502	59.6
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	413	481	623	881	587	42.2	(33.4)	2,398	1,502	59.6
Adjusted EPS	2.3	2.6	3.4	4.8	3.2	42.2	(33.4)	13.1	8.2	59.6
Margins (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	bps	bps	FY23	FY22	bps
EBIDTA	7.2	7.4	9.4	10.4	9.7	250	(73)	8.7	8.3	45
EBIT	6.3	6.6	8.6	9.5	8.5	218	(98)	7.9	7.3	56
EBT	7.4	7.5	9.4	11.2	10.5	314	(69)	9.0	8.7	29
PAT	5.6	5.5	6.8	8.8	8.0	233	(81)	6.8	6.4	39
Effective Tax rate	23.9	26.8	27.5	21.9	24.5	57	260	24.8	26.7	(191)

Source: Company, PL

Conference Call Highlights

- PRJ and IndianOil signed term sheet for JV formation to strengthen biofuels production capacities in India which includes initiative include SAF, Ethanol, CBG, Biodiesel. Formation of JV will take another 5-6 months.
- Post ethanol blending with petrol, upcoming opportunity arises from SAF, E-27 flex fuel policy, Bio-Chemical, Bio plastic etc. 1% blending SAF will require ~280mn ltr of ethanol in India itself. While in US market opportunity stands for 30bn gallons over next 5 years for SAF.
- Margins are expected to remain at current level, given execution of newer contacts, commodity prices normalizing and focus on execution efficiency.
- Exports margins are higher by ~500bps vs domestic orders as exports only involves supply of equipment's.
- Exports inflows are mainly from engineering segment. Order size of engineering segment in international market range from US\$5mn-US\$20mn.
- Services business is witnessing traction in domestic as well as international market. Within Brazil market company is strengthening its distributor network.
- Cash in hand as on Q1FY24 stands at Rs8.1bn.
- **Bio Energy:** OB stands healthy from both sugary and starchy feedstock. Closely monitoring situation regarding ban of rice supply to ethanol plant by FCI. Government is now also focusing on ethanol deficit state (9 ethanol deficit state) to spread out ethanol production.
 - **International market:** Blending mandates coming up in Indonesia, Mexico and several countries in Africa to boost international orderings. Low carbon ethanol opportunity in USA are developing positively. Currently undertaking various feasibility studies of project in USA.
- **2G:** PRJ team is working with Indian Oil to define necessary modifications in feedstock supply system for the process plant. 2G ethanol plant under construction (2 plants) is likely to be commissioned in H2FY25.
- **CBG:** Received LOI for setting up 5 projects worth Rs1bn each (capacity 20-25ton/day) from a various business conglomerate. Projects to be set over next 15 to 18 month. IOCL plans to set up 30 CBG plant in near to medium term. There is competition from MNC as well domestic players in CBG.
- **Critical Process Equipment & Skids (CPES):** Secured significant orders from leading technology-EPC companies focused on oil & gas and fertilizers segments. Execution is likely to be higher in H2FY24 compared to H1FY23, with improving order book position.
- **HiPurity Systems (PHS):** New opportunities arising from semiconductors space.
- **Praj Genx:** Strong enquiry pipeline is building up in ETCA segment. Capex of Rs1bn is planned for Praj Genx at Bangalore location, which at full utilization level can generate revenue of Rs15bn.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	23,433	35,280	39,313	41,276
YoY gr. (%)	79.6	50.6	11.4	5.0
Cost of Goods Sold	14,637	22,014	23,195	23,816
Gross Profit	8,796	13,266	16,118	17,460
Margin (%)	37.5	37.6	41.0	42.3
Employee Cost	2,176	2,576	3,027	3,550
Other Expenses	1,142	1,675	2,752	2,931
EBITDA	1,938	3,078	3,955	4,318
YoY gr. (%)	72.5	58.8	28.5	9.2
Margin (%)	8.3	8.7	10.1	10.5
Depreciation and Amortization	226	302	375	432
EBIT	1,712	2,776	3,580	3,886
Margin (%)	7.3	7.9	9.1	9.4
Net Interest	25	46	39	45
Other Income	362	458	452	474
Profit Before Tax	2,049	3,187	3,992	4,314
Margin (%)	8.7	9.0	10.2	10.5
Total Tax	546	789	1,006	1,087
Effective tax rate (%)	26.7	24.8	25.2	25.2
Profit after tax	1,502	2,398	2,986	3,227
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,502	2,398	2,986	3,227
YoY gr. (%)	85.3	59.6	24.5	8.1
Margin (%)	6.4	6.8	7.6	7.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,502	2,398	2,986	3,227
YoY gr. (%)	85.3	59.6	24.5	8.1
Margin (%)	6.4	6.8	7.6	7.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,502	2,398	2,986	3,227
Equity Shares O/s (m)	184	184	184	184
EPS (Rs)	8.2	13.1	16.3	17.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	4,817	5,361	6,661	7,161
Tangibles	4,817	5,361	6,661	7,161
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,731	2,996	3,371	3,803
Tangibles	2,731	2,996	3,371	3,803
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	1,147
Net Deferred tax assets	19	111	111	111
Other Non-Current Assets	31	50	79	124
Current Assets				
Investments	3,979	4,584	4,600	5,366
Inventories	3,450	3,336	4,631	4,863
Trade receivables	5,118	7,948	8,186	8,595
Cash & Bank Balance	1,551	1,448	1,535	1,561
Other Current Assets	4,064	4,316	5,504	6,522
Total Assets	22,158	26,075	29,895	32,476
Equity				
Equity Share Capital	367	367	367	367
Other Equity	8,790	10,413	12,204	14,140
Total Network	9,157	10,780	12,572	14,508
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	6,462	6,785
Other current liabilities	8,772	10,356	10,972	11,294
Total Equity & Liabilities	22,158	26,075	29,895	32,476

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	2,049	3,187	3,992	4,314
Add. Depreciation	0	3	-	-
Add. Interest	-	11	-	-
Less Financial Other Income	362	458	452	474
Add. Other	56	267	415	477
Op. profit before WC changes	2,104	3,468	4,407	4,791
Net Changes-WC	223	(1,222)	(1,323)	(1,387)
Direct tax	(450)	(625)	(1,006)	(1,087)
Net cash from Op. activities	1,877	1,621	2,078	2,317
Capital expenditures	(184)	(353)	(1,300)	(500)
Interest / Dividend Income	87	80	-	-
Others	(1,300)	(571)	(15)	(766)
Net Cash from Invt. activities	(1,397)	(844)	(1,315)	(1,266)
Issue of share cap. / premium	26	4	-	-
Debt changes	-	-	-	-
Dividend paid	(397)	(771)	(1,195)	(1,291)
Interest paid	(19)	(42)	(39)	(45)
Others	(54)	(125)	558	311
Net cash from Fin. activities	(444)	(934)	(676)	(1,025)
Net change in cash	36	(157)	87	26
Free Cash Flow	1,691	1,269	778	1,817

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	17.6
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	9.9
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	43.9
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	50.8	31.9	25.6	23.7
P/B	8.3	7.1	6.1	5.3
P/CEPS	44.2	28.3	22.7	20.9
EV/EBITDA	36.6	22.9	17.8	16.1
EV/Sales	3.0	2.0	1.8	1.7
Dividend Yield (%)	1.0	1.1	1.6	1.7

Source: Company Data, PL Research

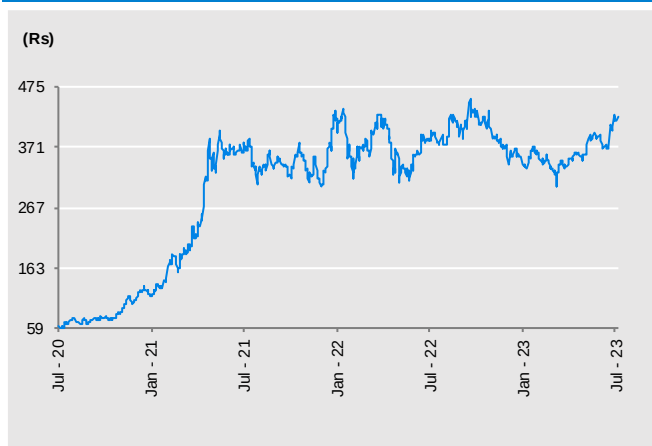
Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	8,766	9,115	7,367	7,367
YoY gr. (%)	64.6	55.6	(11.3)	0.7
Raw Material Expenses	5,726	5,583	4,395	4,395
Gross Profit	3,040	3,531	2,972	2,972
Margin (%)	34.7	38.7	40.3	40.3
EBITDA	647	860	713	713
YoY gr. (%)	52.0	82.3	(3.9)	35.7
Margin (%)	7.4	9.4	9.7	9.7
Depreciation / Depletion	72	72	88	88
EBIT	575	788	625	625
Margin (%)	6.6	8.6	8.5	8.5
Net Interest	8	8	11	11
Other Income	91	79	163	163
Profit before Tax	658	859	777	777
Margin (%)	7.5	9.4	10.5	10.5
Total Tax	177	236	190	190
Effective tax rate (%)	26.8	27.5	24.5	24.5
Profit after Tax	481	623	587	587
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	481	623	587	587
YoY gr. (%)	44.4	68.2	1.8	42.2
Margin (%)	5.5	6.8	8.0	8.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	481	623	587	587
YoY gr. (%)	44.4	68.2	1.8	42.2
Margin (%)	5.5	6.8	8.0	8.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	481	623	587	587
Avg. Shares O/s (m)	183	183	183	183
EPS (Rs)	2.6	3.4	3.2	3.2

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	BUY	475	371
2	26-May-23	BUY	475	374
3	11-Apr-23	BUY	495	343
4	06-Feb-23	BUY	495	364
5	05-Jan-23	BUY	520	367
6	19-Oct-22	BUY	520	434
7	06-Oct-22	BUY	507	415
8	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	4,400
2	Apar Industries	BUY	3,725	3,493
3	Bharat Electronics	BUY	125	125
4	BHEL	Reduce	67	93
5	Carborundum Universal	BUY	1,501	1,203
6	Cummins India	Accumulate	1,750	1,916
7	Engineers India	Accumulate	116	120
8	GE T&D India	Hold	184	216
9	Grindwell Norton	BUY	2,604	2,191
10	Harsha Engineers International	Accumulate	475	469
11	Kalpataru Projects International	BUY	625	555
12	KEC International	Accumulate	578	598
13	Larsen & Toubro	BUY	2,955	2,560
14	Praj Industries	BUY	475	371
15	Siemens	Accumulate	4,018	3,731
16	Thermax	BUY	2,613	2,240
17	Triveni Turbine	Accumulate	416	396
18	Voltamp Transformers	Hold	3,961	4,069

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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