

September 18, 2023

Management Meet Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		BUY	
Target Price	618		475	
Sales (Rs. m)	39,677	43,721	39,313	41,276
% Chng.	0.9	5.9		
EBITDA (Rs. m)	3,992	4,573	3,955	4,318
% Chng.	0.9	5.9		
EPS (Rs.)	16.4	18.7	16.3	17.6
% Chng.	1.0	6.3		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	23,433	35,280	39,677	43,721
EBITDA (Rs. m)	1,938	3,078	3,992	4,573
Margin (%)	8.3	8.7	10.1	10.5
PAT (Rs. m)	1,502	2,398	3,017	3,431
EPS (Rs.)	8.2	13.1	16.4	18.7
Gr. (%)	84.9	59.6	25.8	13.7
DPS (Rs.)	4.2	4.5	6.6	7.5
Yield (%)	0.7	0.8	1.1	1.3
RoE (%)	17.5	24.1	25.8	25.2
RoCE (%)	19.9	27.8	30.9	30.4
EV/Sales (x)	4.3	2.9	2.5	2.3
EV/EBITDA (x)	52.2	32.7	25.3	21.9
PE (x)	71.1	44.5	35.4	31.1
P/BV (x)	11.7	9.9	8.5	7.3

Key Data

PRAJ.BO | PRJ IN

52-W High / Low	Rs.610 / Rs.299
Sensex / Nifty	67,597 / 20,133
Market Cap	Rs.107bn/ \$ 1,282m
Shares Outstanding	184m
3M Avg. Daily Value	Rs.1042.7m

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	21.6	73.3	44.0
Relative	16.8	48.6	25.4

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Praj Industries (PRJ IN)

Rating: ACCUMULATE | CMP: Rs581 | TP: Rs618

CBG, SAF to drive Bio-fuel theme post EBP-20

We revise our FY24/25E estimate by 1%/6.3% post factoring in improved visibility from CBG plants and its engineering business (Modular process equipment), however, downgrade the rating to 'Accumulate' from Buy given recent steep run up in share price. We met with Mr. Shishir Joshipura, CEO and MD of PRAJ Industries (PRJ) where management highlighted that Global Biofuels Alliance (GBA) announced at G20 event is positive development for Bio-energy. Traction is witnessed from Compressed Bio Gas (CBG) plants and management expects tenders of 100 CBG plants to be out in next one year totaling to opportunity worth Rs100bn (~Rs1bn/plant). Post ethanol blending with petrol and CBG, upcoming opportunity arises from SAF from FY27 onwards. PRJ has been continuously focusing on R&D and has setup PRAJ Matrix with investment of US\$30mn, which will focus on development of new technology and Renewable Chemicals and Materials (RCM).

We remain positive on PRJ in long 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. 4) healthy outlook for engineering segment from exports market and 5) upcoming opportunity from SAF post FY27. The stock is trading at PE of 35.4x/31.1x on FY24/25E. We revise our TP to Rs618 (Rs475 earlier), valuing it at PE of 33x FY25E (27x FY25 earlier), factoring in improved revenue visibility, amidst opportunities arising from CBG and Sustainable Aviation Fuel (SAF) in long run. Downgrade to 'Accumulate'.

Key management meet takeaways

- Global Biofuels Alliance (GBA) announced at G20 event is positive development for Bio-energy.
- GBA will support worldwide development and deployment of sustainable biofuels by offering capacity-building exercises across the value chain, technical support for national programs and promoting policy lessons-sharing.
- CBG:** 100 projects worth Rs100bn are expected to be set up in next one year. Currently projects tendered out are for full orders. PRJ's equipment's accounts for 80% of total cost. The company has bagged orders for 4 plants to set up CBG, out of which 3 is already commissioned and one is likely to be commissioned soon.
- EBP-20:** Off the total 11bn ltr of capacity required for EBP-20, ~5bn ltr capacity is yet to be tendered out.
- Sustainable Aviation Fuel (SAF):** SAF is global in nature and by 2027 world will need SAF. 1% blend of SAF will create opportunity for ~14 crores ltr of SAF in India itself. Successfully completed trail run for SAF from Pune to Delhi in Air Asia flight.
- 2G ethanol plant Output:** 1ton of rice straw can produce ~250lt of ethanol, Corn ~300ltr etc.

- **PRAJ R&D Matrix Center:** Invested ~US\$30mn from internal accruals so far in the R&D units. PRJ has 375+ patents.
- **Capacity:** Capacity to test from Lab level (0-10ltr) to Pilot scale plant (few thousand ltrs).
- **Feedstock tested:** PRAJ Matrix has tested feedstock such as 1) Sugary based, 2) Starchy based, 3) lignocellulosic and 4) Oil based feedstock.
- PRJ operates through two platforms 1) Bio-Mobility and 2) Bio-Prism.
- **Bio-Mobility** focus towards Bio fuel and **Bio Prism** focus on Renewable Chemicals and Materials (RCM).
- **Bio-Prism portfolio** comprises a variety of bio-industrial products, including bioplastics as a priority, along with cellulose-lignin refinery products and specialty products. These products have applications in industry sectors such as automotive, packaging, furnishing, construction, agriculture, and food.
- RCM factory is under construction and expects it to be operational from March-24.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	23,433	35,280	39,677	43,721
YoY gr. (%)	79.6	50.6	12.5	10.2
Cost of Goods Sold	14,637	22,014	23,409	25,227
Gross Profit	8,796	13,266	16,268	18,494
Margin (%)	37.5	37.6	41.0	42.3
Employee Cost	2,176	2,576	3,055	3,760
Other Expenses	1,142	1,675	2,777	3,104
EBITDA	1,938	3,078	3,992	4,573
YoY gr. (%)	72.5	58.8	29.7	14.6
Margin (%)	8.3	8.7	10.1	10.5
Depreciation and Amortization	226	302	375	432
EBIT	1,712	2,776	3,616	4,141
Margin (%)	7.3	7.9	9.1	9.5
Net Interest	25	46	40	48
Other Income	362	458	456	494
Profit Before Tax	2,049	3,187	4,033	4,587
Margin (%)	8.7	9.0	10.2	10.5
Total Tax	546	789	1,016	1,156
Effective tax rate (%)	26.7	24.8	25.2	25.2
Profit after tax	1,502	2,398	3,017	3,431
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,502	2,398	3,017	3,431
YoY gr. (%)	85.3	59.6	25.8	13.7
Margin (%)	6.4	6.8	7.6	7.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,502	2,398	3,017	3,431
YoY gr. (%)	85.3	59.6	25.8	13.7
Margin (%)	6.4	6.8	7.6	7.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,502	2,398	3,017	3,431
Equity Shares O/s (m)	184	184	184	184
EPS (Rs)	8.2	13.1	16.4	18.7

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	1,140	1,156
Net Deferred tax assets	19	111	111	111
Other Non-Current Assets	31	50	79	131
Current Assets				
Investments	3,979	4,584	4,364	4,940
Inventories	3,450	3,336	4,674	5,151
Trade receivables	5,118	7,948	8,262	9,103
Cash & Bank Balance	1,551	1,448	1,497	1,546
Other Current Assets	4,064	4,316	5,753	6,820
Total Assets	22,158	26,075	29,994	33,161
Equity				
Equity Share Capital	367	367	367	367
Other Equity	8,790	10,413	12,223	14,281
Total Network	9,157	10,780	12,590	14,649
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	6,522	7,187
Other current liabilities	8,772	10,356	10,993	11,436
Total Equity & Liabilities	22,158	26,075	29,994	33,161

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	2,049	3,187	4,033	4,587
Add. Depreciation	0	3	-	-
Add. Interest	-	11	-	-
Less Financial Other Income	362	458	456	494
Add. Other	56	267	415	480
Op. profit before WC changes	2,104	3,468	4,448	5,067
Net Changes-WC	223	(1,222)	(1,630)	(1,766)
Direct tax	(450)	(625)	(1,016)	(1,156)
Net cash from Op. activities	1,877	1,621	1,802	2,145
Capital expenditures	(184)	(353)	(1,300)	(500)
Interest / Dividend Income	87	80	-	-
Others	(1,300)	(571)	220	(576)
Net Cash from Invt. activities	(1,397)	(844)	(1,080)	(1,076)
Issue of share cap. / premium	26	4	-	-
Debt changes	-	-	-	-
Dividend paid	(397)	(771)	(1,207)	(1,372)
Interest paid	(19)	(42)	(40)	(48)
Others	(54)	(125)	573	400
Net cash from Fin. activities	(444)	(934)	(673)	(1,020)
Net change in cash	36	(157)	49	49
Free Cash Flow	1,691	1,269	502	1,645

Source: Company Data, PL Research

Key Financial Metrics

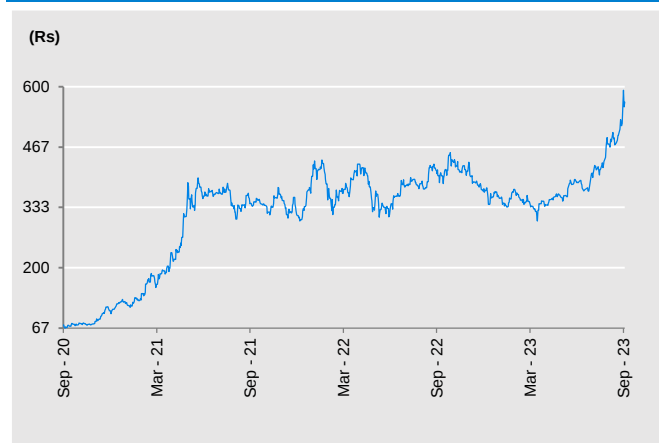
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	8.2	13.1	16.4	18.7
CEPS	9.4	14.7	18.5	21.0
BVPS	49.9	58.7	68.5	79.7
FCF	9.2	6.9	2.7	9.0
DPS	4.2	4.5	6.6	7.5
Return Ratio(%)				
RoCE	19.9	27.8	30.9	30.4
ROIC	41.1	53.1	46.5	43.4
RoE	17.5	24.1	25.8	25.2
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.5)	(0.4)
Net Working Capital (Days)	67	64	59	59
Valuation(x)				
PER	71.1	44.5	35.4	31.1
P/B	11.7	9.9	8.5	7.3
P/CEPS	61.8	39.5	31.5	27.6
EV/EBITDA	52.2	32.7	25.3	21.9
EV/Sales	4.3	2.9	2.5	2.3
Dividend Yield (%)	0.7	0.8	1.1	1.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	8,766	9,115	10,040	7,367
YoY gr. (%)	64.6	55.6	20.8	0.7
Raw Material Expenses	5,726	5,583	5,925	4,395
Gross Profit	3,040	3,531	4,115	2,972
Margin (%)	34.7	38.7	41.0	40.3
EBITDA	647	860	1,045	713
YoY gr. (%)	52.0	82.3	40.9	35.7
Margin (%)	7.4	9.4	10.4	9.7
Depreciation / Depletion	72	72	95	88
EBIT	575	788	950	625
Margin (%)	6.6	8.6	9.5	8.5
Net Interest	8	8	22	11
Other Income	91	79	200	163
Profit before Tax	658	859	1,128	777
Margin (%)	7.5	9.4	11.2	10.5
Total Tax	177	236	247	190
Effective tax rate (%)	26.8	27.5	21.9	24.5
Profit after Tax	481	623	881	587
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	481	623	881	587
YoY gr. (%)	44.4	68.2	52.9	42.2
Margin (%)	5.5	6.8	8.8	8.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	481	623	881	587
YoY gr. (%)	44.4	68.2	52.9	42.2
Margin (%)	5.5	6.8	8.8	8.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	481	623	881	587
Avg. Shares O/s (m)	183	183	183	183
EPS (Rs)	2.6	3.4	4.8	3.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	28-Jul-23	BUY	475	416
2	06-Jul-23	BUY	475	371
3	26-May-23	BUY	475	374
4	11-Apr-23	BUY	495	343
5	06-Feb-23	BUY	495	364
6	05-Jan-23	BUY	520	367
7	19-Oct-22	BUY	520	434
8	06-Oct-22	BUY	507	415

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	5,013	4,511
2	Apar Industries	Accumulate	5,418	5,047
3	Bharat Electronics	Accumulate	140	130
4	BHEL	Reduce	67	93
5	Carborundum Universal	BUY	1,482	1,259
6	Cummins India	Hold	1,788	1,796
7	Engineers India	Accumulate	165	155
8	GE T&D India	Hold	260	273
9	Grindwell Norton	BUY	2,604	2,215
10	Harsha Engineers International	Accumulate	474	432
11	Kalpataru Projects International	BUY	732	635
12	KEC International	Hold	645	658
13	Larsen & Toubro	BUY	3,302	2,944
14	Praj Industries	BUY	475	416
15	Siemens	Accumulate	4,241	3,779
16	Thermax	Hold	2,613	2,721
17	Triveni Turbine	Accumulate	419	398
18	Voltamp Transformers	Hold	4,611	4,802

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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