

November 1, 2023

Q2FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	611		618	
Sales (Rs.m)	39,595	43,873	39,677	43,721
% Chng.	(0.2)	0.3		
EBITDA (Rs.m)	3,959	4,563	3,992	4,573
% Chng.	(0.8)	(0.2)		
EPS (Rs.)	16.3	18.7	16.4	18.7
% Chng.	(0.5)	0.1		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	35,280	39,595	43,873	48,809
EBITDA (Rs. m)	3,078	3,959	4,563	5,369
Margin (%)	8.7	10.0	10.4	11.0
PAT (Rs. m)	2,398	3,001	3,436	4,027
EPS (Rs.)	13.1	16.3	18.7	21.9
Gr. (%)	59.6	25.1	14.5	17.2
DPS (Rs.)	4.5	6.5	7.5	8.8
Yield (%)	0.8	1.2	1.4	1.6
RoE (%)	24.1	25.7	25.2	25.4
RoCE (%)	27.8	30.7	30.3	30.7
EV/Sales (x)	2.6	2.3	2.1	1.9
EV/EBITDA (x)	29.9	23.3	20.1	17.1
PE (x)	40.9	32.7	28.6	24.4
P/BV (x)	9.1	7.8	6.7	5.8

Key Data

PRAJ.BO | PRJ IN

52-W High / Low	Rs.615 / Rs.299
Sensex / Nifty	63,591 / 18,989
Market Cap	Rs.98bn/ \$ 1,178m
Shares Outstanding	184m
3M Avg. Daily Value	Rs.1033.84m

Shareholding Pattern (%)

Promoter's	32.82
Foreign	17.93
Domestic Institution	10.22
Public & Others	39.03
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.9)	50.3	30.3
Relative	(5.7)	44.4	25.2

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Praj Industries (PRJ IN)

Rating: ACCUMULATE | CMP: Rs534 | TP: Rs611

Mixed performance; all eyes on order inflows

Quick Pointers:

- Order inflows came in at Rs10.6bn up 8.4% YoY, driven by strong growth in engineering segment.
- Gross margins expanded to 43.4% vs 34.5%, mainly due to business mix and normalized commodities prices.

Praj Industries (PRJ) reported mix quarterly performance with revenue remaining flat YoY, while EBITDA margins expanded 147bps YoY to 8.8%, amidst softening commodities prices. Revenue was impacted due to slowdown in execution of ongoing grain based plants owing to constrain on diversion of rice for ethanol production. However, execution in H2FY24 is expected to pick-up on back of upward revision of rates for grain based Ethanol from OMC's. EBITDA margins are likely to improve on back of execution of newer contracts and likely pickup of exports orders. Increasing traction from CBG plants and exports opportunities for Engineering and Bio-Energy (low carbon ethanol plant opportunity in USA) segment to drive ordering activities going forward. Company is strengthening its distribution channel in Brazil and USA to expand its services business.

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, ETCA, 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 32.7x/28.6x/24.4x on FY24/25/26E. We roll forward to Sep'25E and maintain 'Accumulate' rating on stock with revised TP of Rs 611 (Rs618 earlier) valuing at PE of 30x Sep'25E (33x FY25 earlier).

Higher Other income aided PAT growth of ~29% YoY: Consolidated revenue came in at Rs8.8bn, broadly flat YoY (vs PLe ~Rs9.5bn), on back of continued execution of opening order book (Rs37.8bn as on Q1FY24). Gross margins came in at 43.4% vs 34.5% in Q2FY23 (low base), due to business mix and normalized commodities prices. EBITDA grew 20.2% YoY to Rs778mn (PLe ~Rs952mn), with EBITDA margin expanding by 147bps YoY to 8.8% (PLe of 10%), partly impacted due to higher employee cost (up 35.7% YoY) and other expenses (up 24.7%, YoY). PAT grew ~29.4% YoY to Rs623mn (vs PLe Rs702mn) aided by higher other income (up 87.1% to Rs171mn).

Order book stands healthy at Rs39.6bn: Order inflows for Q2FY24 came in at ~Rs10.6bn, (up 8.4% YoY), owing to strong growth in Engineering Business (up 117% YoY to Rs2.3bn) and HiPurity (up 171% to Rs1nn), while it declined for Bio-energy (down 13% YoY to Rs7.2bn). Order book stands at Rs39.6bn (1.1x TTM revenue) comprising of Bio energy (75%), Hi-Purity (6%) and Engineering (19%).

Exhibit 1: Higher other income aided PAT growth of ~29% YoY

Y/e March (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue	8,806	9,115	10,040	7,367	8,824	0.2	19.8	16,191	16,126	0.4
Total Revenues	8,806	9,115	10,040	7,367	8,824	0.2	19.8	16,191	16,126	0.4
Expenditure	8,160	8,254	8,995	6,654	8,046	(1.4)	20.9	14,700	14,953	(1.7)
as % of sales	92.7	90.6	89.6	90.3	91.2			90.8	92.7	
Consumption of RM	5,766	5,583	5,925	4,395	4,990	(13.5)	13.5	9,385	10,506	(10.7)
as % of sales	65.5	61.3	59.0	59.7	56.6			58.0	65.1	
Employee Cost	655	675	705	628	889	35.7	41.7	1,517	1,196	26.8
as % of sales	7.4	7.4	7.0	8.5	10.1			9.4	7.4	
Other expenditure	1,738	1,996	2,365	1,631	2,167	24.7	32.8	3,798	3,251	16.8
as % of sales	19.7	21.9	23.6	22.1	24.6			23.5	20.2	
EBITDA	647	860	1,045	713	778	20.2	9.0	1,491	1,173	27.1
Depreciation	72	72	95	88	91	26.2	3.0	179	136	31.7
EBIT	575	788	950	625	687	19.5	9.8	1,312	1,037	26.6
Other Income	91	79	200	163	171	87.1	4.8	333	179	86.3
Interest	8	8	22	11	10	25.2	(6.5)	21	16	36.4
PBT	658	859	1,128	777	847	28.8	9.0	1,624	1,200	35.3
Total Tax	176	236	247	190	224	27.2	17.9	415	306	35.4
Adjusted PAT	481	623	881	587	623	29.4	6.1	1,209	894	35.3
(Profit)/loss from JV's/Ass/MI	-	0	0	0	0	-	-	0	0	-
PAT after MI	481	623	881	587	623	29.4	6.1	1,210	894	35.3
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	481	623	881	587	623	29.4	6.1	1,210	894	35.3
Adjusted EPS	2.6	3.4	4.8	3.2	3.4	29.4	6.2	6.6	4.9	35.2
Margins (%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	bps	bps	H1FY24	H1FY23	bps
EBIDTA	7.3	9.4	10.4	9.7	8.8	147	(87)	9.2	7.3	194
EBIT	6.5	8.6	9.5	8.5	7.8	126	(70)	8.1	6.4	167
EBT	7.5	9.4	11.2	10.5	9.6	213	(95)	10.0	7.4	259
PAT	5.5	6.8	8.8	8.0	7.1	159	(91)	7.5	5.5	193
Effective Tax rate	26.8	27.5	21.9	24.5	26.5	(34)	200	25.5	25.5	2

Source: Company, PL

Conference Call Highlights

- Q2FY24 revenues were partly impacted due to slowdown in execution of ongoing grain based plant due to ban on diversion of rice from FCI warehouse to ethanol production.
- Shift is seen from rice based ethanol plant to wheat based plant.
- Employee cost were higher due to 1) increasing employee count for Genx and 2) increment cycle starting from July month.
- **Capex:** Planned capex of Rs1.2bn for FY24, comprising of Rs600mn for Praj Genx plant. Rs400mn towards Pilot plants and Rs200mn towards regular maintenance capex.
- Strengthening distribution network for services business offering in Brazil and USA. Increasing penetration in newer geographies for products as well as services business.
- **Domestic 1G Ethanol Plant:** Grain based ordering was impacted due to Food Corporation of India's ban on issue of rice to ethanol distilleries. However, it is returning to normalcy after upward revision of rates for Grain based Ethanol from OMC.
- Grain based and sugar based ethanol is likely to see traction with reduction in GST from 28% to 5%.
- **1G ethanol International market:** First order received for Low Carbon Ethanol (LCE) in the USA.
- **2G ethanol plant:** IOCL Panipat plant recommissioning begun with commencement of feedstock availability.
- **CBG:** Execution for 1st among five projects started. Modus operandi for balance four projects is being established with the customer. Overall CBG is gaining momentum for capacity establishment, thereby benefiting the bio-energy segment going forward.
- **CPES:** 52% of OB from the Energy Transition and Climate Action (ETCA) segment. Work started on setting up Integrated Manufacturing Facility at Mangalore for Praj GenX.
- **PHS:** Received orders worth Rs1bn+ in Q2FY24. Traction is being seen from large fermentation plant in India.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	35,280	39,595	43,873	48,809
YoY gr. (%)	50.6	12.2	10.8	11.3
Cost of Goods Sold	22,014	22,925	25,008	27,528
Gross Profit	13,266	16,669	18,865	21,281
Margin (%)	37.6	42.1	43.0	43.6
Employee Cost	2,576	3,088	3,773	4,246
Other Expenses	1,675	2,574	2,896	3,221
EBITDA	3,078	3,959	4,563	5,369
YoY gr. (%)	58.8	28.6	15.2	17.7
Margin (%)	8.7	10.0	10.4	11.0
Depreciation and Amortization	302	375	434	503
EBIT	2,776	3,584	4,128	4,866
Margin (%)	7.9	9.1	9.4	10.0
Net Interest	46	40	48	54
Other Income	458	467	513	571
Profit Before Tax	3,187	4,012	4,593	5,383
Margin (%)	9.0	10.1	10.5	11.0
Total Tax	789	1,011	1,158	1,357
Effective tax rate (%)	24.8	25.2	25.2	25.2
Profit after tax	2,398	3,001	3,436	4,027
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,398	3,001	3,436	4,027
YoY gr. (%)	59.6	25.1	14.5	17.2
Margin (%)	6.8	7.6	7.8	8.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,398	3,001	3,436	4,027
YoY gr. (%)	59.6	25.1	14.5	17.2
Margin (%)	6.8	7.6	7.8	8.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,398	3,001	3,436	4,027
Equity Shares O/s (m)	184	184	184	184
EPS (Rs)	13.1	16.3	18.7	21.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	5,361	6,661	7,361	7,861
Tangibles	5,361	6,661	7,361	7,861
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,996	3,371	3,805	4,308
Tangibles	2,996	3,371	3,805	4,308
Intangibles	-	-	-	-
Net fixed assets	2,366	3,291	3,556	3,553
Tangibles	2,366	3,291	3,556	3,553
Intangibles	-	-	-	-
Capital Work In Progress	735	735	735	735
Goodwill	-	-	-	-
Non-Current Investments	1,105	1,140	1,157	1,274
Net Deferred tax assets	111	111	111	111
Other Non-Current Assets	50	79	132	146
Current Assets				
Investments	4,584	4,355	4,651	4,759
Inventories	3,336	4,665	5,169	5,750
Trade receivables	7,948	8,244	9,135	10,163
Cash & Bank Balance	1,448	1,514	1,579	1,648
Other Current Assets	4,316	5,741	6,844	8,542
Total Assets	26,075	29,962	33,176	36,912
Equity				
Equity Share Capital	367	367	367	367
Other Equity	10,413	12,213	14,275	16,691
Total Networth	10,780	12,581	14,642	17,058
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	5,050	6,509	7,212	8,023
Other current liabilities	10,356	10,983	11,433	11,942
Total Equity & Liabilities	26,075	29,962	33,176	36,912

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	3,187	4,012	4,593	5,383
Add. Depreciation	3	-	-	-
Add. Interest	11	-	-	-
Less Financial Other Income	458	467	513	571
Add. Other	267	415	483	557
Op. profit before WC changes	3,468	4,427	5,076	5,940
Net Changes-WC	(1,222)	(1,605)	(1,839)	(2,241)
Direct tax	(625)	(1,011)	(1,158)	(1,357)
Net cash from Op. activities	1,621	1,811	2,080	2,342
Capital expenditures	(353)	(1,300)	(700)	(500)
Interest / Dividend Income	80	-	-	-
Others	(571)	229	(295)	(108)
Net Cash from Invt. activities	(844)	(1,071)	(995)	(608)
Issue of share cap. / premium	4	-	-	-
Debt changes	-	-	-	-
Dividend paid	(771)	(1,200)	(1,374)	(1,611)
Interest paid	(42)	(40)	(48)	(54)
Others	(125)	565	403	-
Net cash from Fin. activities	(934)	(675)	(1,019)	(1,664)
Net change in cash	(157)	65	65	70
Free Cash Flow	1,269	511	1,380	1,842

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	13.1	16.3	18.7	21.9
CEPS	14.7	18.4	21.1	24.7
BVPS	58.7	68.5	79.7	92.9
FCF	6.9	2.8	7.5	10.0
DPS	4.5	6.5	7.5	8.8
Return Ratio(%)				
RoCE	27.8	30.7	30.3	30.7
ROIC	53.1	46.1	41.8	38.5
RoE	24.1	25.7	25.2	25.4
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.5)	(0.4)	(0.4)
Net Working Capital (Days)	64	59	59	59
Valuation(x)				
PER	40.9	32.7	28.6	24.4
P/B	9.1	7.8	6.7	5.8
P/CEPS	36.3	29.1	25.4	21.7
EV/EBITDA	29.9	23.3	20.1	17.1
EV/Sales	2.6	2.3	2.1	1.9
Dividend Yield (%)	0.8	1.2	1.4	1.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	9,115	10,040	7,367	8,824
YoY gr. (%)	55.6	20.8	0.7	0.2
Raw Material Expenses	5,583	5,925	4,395	4,990
Gross Profit	3,531	4,115	2,972	3,834
Margin (%)	38.7	41.0	40.3	43.4
EBITDA	860	1,045	713	778
YoY gr. (%)	82.3	40.9	35.7	20.3
Margin (%)	9.4	10.4	9.7	8.8
Depreciation / Depletion	72	95	88	91
EBIT	788	950	625	687
Margin (%)	8.6	9.5	8.5	7.8
Net Interest	8	22	11	10
Other Income	79	200	163	171
Profit before Tax	859	1,128	777	847
Margin (%)	9.4	11.2	10.5	9.6
Total Tax	236	247	190	224
Effective tax rate (%)	27.5	21.9	24.5	26.5
Profit after Tax	623	881	587	623
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	623	881	587	623
YoY gr. (%)	68.2	52.9	42.2	29.4
Margin (%)	6.8	8.8	8.0	7.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	623	881	587	623
YoY gr. (%)	68.2	52.9	42.2	29.4
Margin (%)	6.8	8.8	8.0	7.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	623	881	587	623
Avg. Shares O/s (m)	183	183	183	183
EPS (Rs)	3.4	4.8	3.2	3.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-23	Accumulate	618	571
2	18-Sep-23	Accumulate	618	581
3	28-Jul-23	BUY	475	416
4	06-Jul-23	BUY	475	371
5	26-May-23	BUY	475	374
6	11-Apr-23	BUY	495	343
7	06-Feb-23	BUY	495	364
8	05-Jan-23	BUY	520	367

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	5,013	4,068
2	Apar Industries	Accumulate	5,630	5,165
3	Bharat Electronics	Accumulate	143	133
4	BHEL	Reduce	67	127
5	Carborundum Universal	BUY	1,408	1,076
6	Cummins India	Hold	1,788	1,691
7	Engineers India	Accumulate	165	143
8	GE T&D India	Hold	260	413
9	Grindwell Norton	BUY	2,604	2,092
10	Harsha Engineers International	Accumulate	474	415
11	Hindustan Aeronautics	BUY	2,266	1,889
12	Kalpataru Projects International	BUY	732	647
13	KEC International	Hold	645	672
14	Larsen & Toubro	BUY	3,437	2,929
15	Praj Industries	Accumulate	618	571
16	Siemens	Accumulate	4,241	3,559
17	Thermax	Hold	2,613	3,101
18	Triveni Turbine	Accumulate	419	421
19	Voltamp Transformers	Hold	5,079	4,989

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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