

June 14, 2024

## Management Meet Update

■ Change in Estimates | ☒ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	815		671	
Sales (Rs. m)	41,268	50,945	41,268	50,945
% Chng.	-	-	-	-
EBITDA (Rs. m)	4,457	5,808	4,457	5,808
% Chng.	-	-	-	-
EPS (Rs.)	18.7	24.0	18.7	24.0
% Chng.	-	-	-	-

### Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	35,280	34,663	41,268	50,945
EBITDA (Rs. m)	3,078	3,718	4,457	5,808
Margin (%)	8.7	10.7	10.8	11.4
PAT (Rs. m)	2,398	2,834	3,438	4,406
EPS (Rs.)	13.0	15.4	18.7	24.0
Gr. (%)	59.6	18.2	21.3	28.2
DPS (Rs.)	4.5	6.0	7.5	9.6
Yield (%)	0.6	0.9	1.1	1.4
RoE (%)	24.1	24.1	24.7	26.6
RoCE (%)	27.3	25.6	25.5	28.8
EV/Sales (x)	3.5	3.6	3.0	2.4
EV/EBITDA (x)	40.0	33.4	27.5	20.9
PE (x)	53.7	45.4	37.4	29.2
P/BV (x)	11.9	10.1	8.5	7.1

### Key Data

PRAJ.BO | PRJ IN

52-W High / Low	Rs.712 / Rs.366
Sensex / Nifty	76,993 / 23,466
Market Cap	Rs.129bn / \$ (2,14,68,26,273)m
Shares Outstanding	184m
3M Avg. Daily Value	Rs.801.58m

### Shareholding Pattern (%)

Promoter's	32.81
Foreign	18.87
Domestic Institution	13.69
Public & Others	34.63
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	38.8	31.5	80.6
Relative	31.8	20.5	48.3

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## Gearing up to become a bio-economy leader

We recently interacted with Praj Industries' management team, wherein they highlighted opportunities across energy transition & climate action (ETCA), compressed biogas (CBG), SAF, low-carbon ethanol, and services, which will propel the company to achieve its target of 3x revenue growth by 2030. Growth will be largely driven by exports, with Praj looking to increase export revenue share to ~50% by 2030 (vs ~19% currently). Globally, increased focus on ETCA by oil & gas majors is leading to strong traction in modularization solutions. There is also a significant opportunity to convert ethanol plants in the US to low-carbon to cater to the country's 3bn gallon SAF capacity target by 2030. Brazil market is opening up as well with a growing pipeline of grain-based ethanol plants. In India, CBG continues to remain a robust opportunity, while there is also potential for ethanol blending in diesel. Meanwhile, Praj is focusing on expanding its services business to ~10% of revenue by 2030 (vs ~4% currently).

We remain positive on PRJ in the long run given 1) its leadership in domestic ethanol (50-55% market share), 2) large domestic CBG pipeline, 3) healthy export outlook in Engineering driven by ETCA, 4) focus on new technologies such as 2G ethanol, SAF, bio-manufacturing, and multi-feedstock plants, and 5) improving margins owing to growing share of exports & services. The stock is trading at a P/E of 37.4x/29.2x FY25/26E. We maintain 'Buy' rating on the stock with a revised TP of Rs815 (Rs671 earlier), valuing the stock at a P/E of 34x F26E (28x FY26E earlier) factoring in substantial long-term growth opportunities amid a stable policy environment.

## Management Meet Key Highlights:

**Low-carbon ethanol is a big opportunity:** The US announced a target of ~3bn gallons of SAF capacity by 2030, of which ~1.5bn gallons will be via the alcohol-to-jet route, which requires low-carbon ethanol. 2 gallons of ethanol are used to produced 1 gallon of SAF, implying that ~3bn gallons of low carbon ethanol capacity will be required by 2030. The US has ~200 ethanol plants that need to be converted to low-carbon with an average ticket size of ~\$15mn per plant, presenting a significant market opportunity for Praj. The company has already started working on 1 project.

**ETCA business to significantly ramp up from FY26:** ETCA is a key focus for global oil & gas majors, leading to strong demand for modularization solutions for green energy projects such as green/blue hydrogen, SAF, etc. Demand is primarily driven by US. customers. Praj has set up a large ETCA-dedicated facility in Mangaluru that has revenue potential of ~Rs20bn per annum once it scales up. Individual order sizes can range from Rs150-200mn (for a single module) to ~Rs20bn (for multiple modules). The company has already engaged 8 clients who will complete their plant audits this year, following which execution can be ramped up with scope to add another 8 ETCA clients. Praj does not face much competition from Chinese players here.

**Exports are a key focus area:** Exports currently contribute to ~19% of revenue. Praj is looking to increase the share to ~50% by 2030 on the back of robust opportunities in ETCA and low-carbon ethanol in the US & Europe. Brazil market is also picking up with traction in grain-based ethanol plants. The company has completed 1 grain-based plant there and is already working on the second one. It sees scope for 4-5 such projects in Brazil annually. Its performance enhancer – Juicezyme – which improves yield and color of sugar, is also gaining traction in Brazil. Increase in export contribution will also aid profitability, given margins are ~200bps higher in international markets vs domestic.

**Huge domestic opportunities in CBG and diesel:** CBG remains a key growth opportunity in India, despite higher competition in this segment as compared to ethanol. Praj successfully commissioned 3 CBG plants and set the benchmark yield on a consistent and reliable basis. CBG investments are expected to be primarily driven by large corporates. Meanwhile, 1% ethanol blending in diesel is another potential opportunity given diesel consumption is ~3x of petrol in India.

**Aiming to grow services business to ~10%:** Praj is focusing on service offerings such as consumables, performance enhancers, and digital solutions, and is building distribution channels across global markets, with a view to increase services contribution to ~10% of revenue by 2030 (vs ~4% currently). Higher share of services will be margin accretive.

**Awaiting approval from government on IOCL JV:** Praj expects to receive approval on its JV with Indian Oil Corp (IOCL) shortly, following which they can incorporate the entity and begin work on multiple biofuels such as SAF, CBG, etc. Both Praj and IOCL have made ~Rs2bn equity commitments each to this JV.

**Bio-plastics demo plant to be operational in Aug-24:** Praj is currently providing large-scale samples to clients. Revenue from renewable chemical materials (RCM) is expected to start flowing in from FY27. Bio-plastics currently account for ~0.4% of total plastic consumption, indicating significant headroom for growth.

**Fermentation & semiconductors to drive growth in HiPurity business:** Pharma sector is undergoing a transformation, with fermentation enabling drug manufacturing to become more cost-effective. Praj is looking to capitalize on this trend by supplying fermenters, thereby turning into a systems supplier, rather than just a high-purity water supplier for the pharma sector. Furthermore, ultra-pure water for semiconductors is another big opportunity in the HiPurity business.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Net Revenues</b>	<b>35,280</b>	<b>34,663</b>	<b>41,268</b>	<b>50,945</b>
YoY gr. (%)	50.6	(1.8)	19.1	23.4
Cost of Goods Sold	22,014	19,621	23,275	28,402
Gross Profit	13,266	15,042	17,993	22,543
Margin (%)	37.6	43.4	43.6	44.3
Employee Cost	2,576	3,187	3,673	4,432
Other Expenses	1,675	1,897	2,517	3,286
<b>EBITDA</b>	<b>3,078</b>	<b>3,718</b>	<b>4,457</b>	<b>5,808</b>
YoY gr. (%)	58.8	20.8	19.9	30.3
Margin (%)	8.7	10.7	10.8	11.4
Depreciation and Amortization	302	441	476	549
<b>EBIT</b>	<b>2,776</b>	<b>3,278</b>	<b>3,981</b>	<b>5,259</b>
Margin (%)	7.9	9.5	9.6	10.3
Net Interest	46	98	45	56
Other Income	458	595	660	688
<b>Profit Before Tax</b>	<b>3,187</b>	<b>3,775</b>	<b>4,596</b>	<b>5,891</b>
Margin (%)	9.0	10.9	11.1	11.6
Total Tax	789	941	1,158	1,484
Effective tax rate (%)	24.8	24.9	25.2	25.2
<b>Profit after tax</b>	<b>2,398</b>	<b>2,834</b>	<b>3,438</b>	<b>4,406</b>
Minority interest	0	0	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>2,398</b>	<b>2,834</b>	<b>3,438</b>	<b>4,406</b>
YoY gr. (%)	59.6	18.2	21.3	28.2
Margin (%)	6.8	8.2	8.3	8.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,398</b>	<b>2,834</b>	<b>3,438</b>	<b>4,406</b>
YoY gr. (%)	59.6	18.2	21.3	28.2
Margin (%)	6.8	8.2	8.3	8.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,398	2,834	3,438	4,406
<b>Equity Shares O/s (m)</b>	<b>184</b>	<b>184</b>	<b>184</b>	<b>184</b>
<b>EPS (Rs)</b>	<b>13.0</b>	<b>15.4</b>	<b>18.7</b>	<b>24.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>5,361</b>	<b>7,508</b>	<b>8,208</b>	<b>8,708</b>
Tangibles	5,361	7,508	8,208	8,708
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>2,996</b>	<b>3,436</b>	<b>3,912</b>	<b>4,461</b>
Tangibles	2,996	3,436	3,912	4,461
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>2,366</b>	<b>4,072</b>	<b>4,296</b>	<b>4,247</b>
Tangibles	2,366	4,072	4,296	4,247
Intangibles	-	-	-	-
Capital Work In Progress	735	1,106	1,106	1,106
Goodwill	-	-	-	-
Non-Current Investments	1,105	1,367	1,234	1,302
Net Deferred tax assets	111	78	78	78
Other Non-Current Assets	50	80	83	102
<b>Current Assets</b>				
Investments	4,584	4,021	4,952	5,604
Inventories	3,336	2,209	3,618	4,327
Trade receivables	7,948	8,360	9,497	11,305
Cash & Bank Balance	1,448	2,127	2,737	3,570
Other Current Assets	4,316	5,370	6,190	7,642
<b>Total Assets</b>	<b>26,075</b>	<b>28,864</b>	<b>33,919</b>	<b>39,409</b>
<b>Equity</b>				
Equity Share Capital	367	368	368	368
Other Equity	10,413	12,377	14,712	17,743
<b>Total Networth</b>	<b>10,780</b>	<b>12,745</b>	<b>15,079</b>	<b>18,111</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	263	1,417	1,417	1,417
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	159	276	276	276
Trade payables	5,050	4,968	5,879	6,979
Other current liabilities	9,934	9,535	11,344	12,702
<b>Total Equity &amp; Liabilities</b>	<b>26,075</b>	<b>28,864</b>	<b>33,919</b>	<b>39,409</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	3,187	3,775	4,596	5,891
Add. Depreciation	302	441	476	549
Add. Interest	11	0	45	56
Less Financial Other Income	458	595	660	688
Add. Other	(32)	(206)	-	-
Op. profit before WC changes	3,468	4,010	5,117	6,495
Net Changes-WC	(1,222)	(971)	(2,314)	(1,595)
Direct tax	(625)	(1,045)	(1,158)	(1,484)
<b>Net cash from Op. activities</b>	<b>1,621</b>	<b>1,994</b>	<b>1,645</b>	<b>3,416</b>
Capital expenditures	(353)	(885)	(700)	(500)
Interest / Dividend Income	80	159	-	-
Others	(571)	625	(931)	(652)
<b>Net Cash from Invt. activities</b>	<b>(844)</b>	<b>(101)</b>	<b>(1,631)</b>	<b>(1,152)</b>
Issue of share cap. / premium	4	9	-	-
Debt changes	-	-	-	-
Dividend paid	(771)	(827)	(1,103)	(1,375)
Interest paid	(42)	(94)	(45)	(56)
Others	(125)	(327)	1,744	1,318
<b>Net cash from Fin. activities</b>	<b>(934)</b>	<b>(1,239)</b>	<b>596</b>	<b>(113)</b>
<b>Net change in cash</b>	<b>(157)</b>	<b>654</b>	<b>610</b>	<b>2,151</b>
Free Cash Flow	1,269	1,101	945	2,916

Source: Company Data, PL Research

## Key Financial Metrics

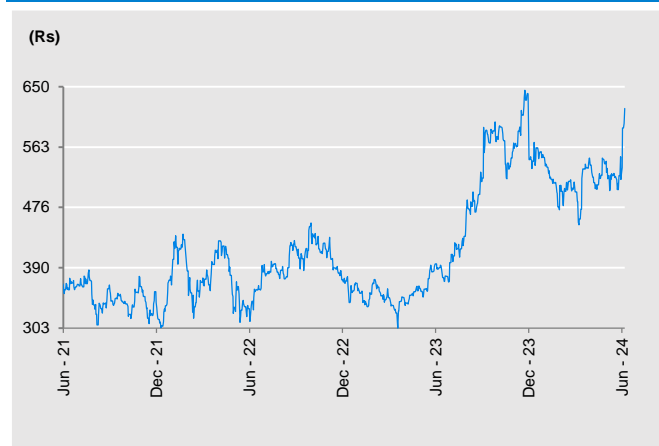
Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	13.0	15.4	18.7	24.0
CEPS	14.7	17.8	21.3	27.0
BVPS	58.6	69.3	82.0	98.5
FCF	6.9	6.0	5.1	15.9
DPS	4.5	6.0	7.5	9.6
<b>Return Ratio(%)</b>				
RoCE	27.3	25.6	25.5	28.8
ROIC	50.4	36.9	37.6	43.2
RoE	24.1	24.1	24.7	26.6
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.5)	(0.3)	(0.4)	(0.4)
Net Working Capital (Days)	64	59	64	62
<b>Valuation(x)</b>				
PER	53.7	45.4	37.4	29.2
P/B	11.9	10.1	8.5	7.1
P/CEPS	47.6	39.3	32.9	26.0
EV/EBITDA	40.0	33.4	27.5	20.9
EV/Sales	3.5	3.6	3.0	2.4
Dividend Yield (%)	0.6	0.9	1.1	1.4

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
<b>Net Revenue</b>	<b>7,367</b>	<b>8,824</b>	<b>8,286</b>	<b>10,186</b>
YoY gr. (%)	0.7	0.2	(9.1)	1.5
Raw Material Expenses	4,395	4,990	4,496	5,741
Gross Profit	2,972	3,834	3,790	4,444
Margin (%)	40.3	43.4	45.7	43.6
<b>EBITDA</b>	<b>713</b>	<b>778</b>	<b>965</b>	<b>1,262</b>
YoY gr. (%)	35.7	20.3	12.2	20.7
Margin (%)	9.7	8.8	11.6	12.4
Depreciation / Depletion	88	91	109	153
<b>EBIT</b>	<b>625</b>	<b>687</b>	<b>856</b>	<b>1,109</b>
Margin (%)	8.5	7.8	10.3	10.9
Net Interest	11	10	38	38
Other Income	163	171	101	160
<b>Profit before Tax</b>	<b>777</b>	<b>847</b>	<b>919</b>	<b>1,230</b>
Margin (%)	10.5	9.6	11.1	12.1
Total Tax	190	224	215	311
Effective tax rate (%)	24.5	26.5	23.4	25.3
<b>Profit after Tax</b>	<b>587</b>	<b>623</b>	<b>704</b>	<b>919</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>587</b>	<b>623</b>	<b>704</b>	<b>919</b>
YoY gr. (%)	42.2	29.4	13.0	4.3
Margin (%)	8.0	7.1	8.5	9.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>587</b>	<b>623</b>	<b>704</b>	<b>919</b>
YoY gr. (%)	42.2	29.4	13.0	4.3
Margin (%)	8.0	7.1	8.5	9.0
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>587</b>	<b>623</b>	<b>704</b>	<b>919</b>
Avg. Shares O/s (m)	184	184	184	184
<b>EPS (Rs)</b>	<b>3.2</b>	<b>3.4</b>	<b>3.8</b>	<b>5.0</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	31-May-24	BUY	671	522
2	12-Apr-24	BUY	636	520
3	05-Feb-24	BUY	636	474
4	09-Jan-24	Accumulate	611	540
5	01-Nov-23	Accumulate	611	534
6	05-Oct-23	Accumulate	618	571
7	18-Sep-23	Accumulate	618	581
8	28-Jul-23	BUY	475	416
9	06-Jul-23	BUY	475	371

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,400	7,984
2	Apar Industries	Accumulate	8,877	8,340
3	BEML	Hold	4,520	4,549
4	Bharat Electronics	Hold	290	284
5	BHEL	Reduce	264	302
6	Carborundum Universal	Accumulate	1,631	1,516
7	Cummins India	Hold	3,719	3,597
8	Engineers India	Hold	264	251
9	GE T&D India	Reduce	1,100	1,430
10	Grindwell Norton	Accumulate	2,749	2,576
11	Harsha Engineers International	Hold	436	438
12	Hindustan Aeronautics	Hold	4,515	4,715
13	Kalpataru Projects International	Hold	1,211	1,188
14	KEC International	Hold	754	770
15	Larsen & Toubro	BUY	4,047	3,487
16	Praj Industries	BUY	671	522
17	Siemens	Accumulate	7,030	6,660
18	Thermax	Reduce	3,923	4,609
19	Triveni Turbine	Hold	653	631
20	Voltamp Transformers	Hold	10,018	9,985

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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