

July 28, 2024

Q1FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	804		815	
Sales (Rs. m)	39,846	49,655	41,268	50,945
% Chng.	(3.4)	(2.5)		
EBITDA (Rs. m)	4,463	5,834	4,457	5,808
% Chng.	0.1	0.5		
EPS (Rs.)	17.6	23.6	18.7	24.0
% Chng.	(5.8)	(1.4)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	35,280	34,663	39,846	49,655
EBITDA (Rs. m)	3,078	3,718	4,463	5,834
Margin (%)	8.7	10.7	11.2	11.8
PAT (Rs. m)	2,398	2,834	3,237	4,347
EPS (Rs.)	13.0	15.4	17.6	23.6
Gr. (%)	59.6	18.2	14.2	34.3
DPS (Rs.)	4.5	6.0	7.0	9.5
Yield (%)	0.6	0.9	1.0	1.4
RoE (%)	24.1	24.1	23.3	26.2
RoCE (%)	27.3	25.6	23.8	27.6
EV/Sales (x)	3.5	3.6	3.1	2.4
EV/EBITDA (x)	40.0	33.4	27.5	20.7
PE (x)	53.6	45.4	39.7	29.6
P/BV (x)	11.9	10.1	8.5	7.1

Key Data

PRAJ.BO | PRJ IN

52-W High / Low	Rs.759 / Rs.398
Sensex / Nifty	81,333 / 24,835
Market Cap	Rs.129bn/ \$ 1,536m
Shares Outstanding	184m
3M Avg. Daily Value	Rs.982.19m

Shareholding Pattern (%)

Promoter's	32.81
Foreign	18.55
Domestic Institution	16.65
Public & Others	31.99
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.4	36.8	72.9
Relative	(1.9)	18.9	41.8

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Praj Industries (PRJ IN)

Rating: BUY | CMP: Rs700 | TP: Rs804

Soft quarter; long-term outlook remains intact

Quick Pointers:

- Export order book stands strong at Rs13.3bn (vs Rs8.3bn in Q1FY24) driven by a growing Engineering order book (Rs9.3bn vs Rs6.4bn in Q1FY24)
- Completed first ETCA supply order from the GenX facility in Mangaluru

We revise our FY25/26E EPS estimate by -5.8%/-1.4% factoring in increased D&A expenses from the new GenX facility and higher interest costs. Praj Industries (PRJ) reported mixed quarterly performance with revenue falling 5.1% YoY and EBITDA margin expanding by 273bps YoY to 12.4%. Praj's ETCA business is set to scale up from H2. While some feedstock and supply chain issues still need to be resolved in India's CBG ecosystem, the enquiry pipeline is strong. Meanwhile, grain-based ethanol continues to gain traction in India and Brazil as an alternative to sugar-based ethanol. Low-carbon ethanol opportunity driven by SAF in the US is worth up to ~\$400mn for Praj over the next 4-5 years. The company is also seeing healthy uptake in high-capacity fermenters and ZLD modular solutions.

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, biomanufacturing, and multi-feedstock plants, and 5) improving margins owing to growing share of exports & services. The stock is trading at a P/E of 39.7x/29.6x FY25/26E. We maintain 'Buy' rating with a revised TP of Rs804 (Rs815 earlier), valuing the stock at a P/E of 34x FY26E (same as earlier).

Margins expand, but weak execution in Bio Energy drives revenue de-growth:

Consolidated revenue fell 5.1% YoY to Rs7.0bn (PLe: Rs9.1bn) as soft execution in Bioenergy (-14.2% YoY to Rs5.0bn) offset strong growth in Engineering (+42.3% YoY to Rs1.4bn). HiPurity grew 7.9% YoY to Rs530mn. Domestic/exports mix came in at 77%/23% (vs 83%/17% in Q1FY24). EBITDA grew 21.7% YoY to Rs868mn (PLe: Rs998mn). EBITDA margin increased by 273bps YoY to 12.4% (PLe: 11.0%) owing to higher share of exports & engineering and softer input costs, partly offset by higher employee costs (+23.8% YoY to Rs777mn) and other expenses (+25.3% YoY to Rs2.0bn). Adj. PAT rose 5.8% YoY to Rs620mn (PLe: Rs752mn) as the higher operating profit was partly offset by a spike in D&A expenses (Rs202mn vs Rs88mn in Q1FY24) and higher interest costs (Rs49mn vs Rs11mn in Q1FY24).

Order book stands at Rs40.4bn with share of exports & Engineering rising:

Q1 order inflow fell 19.3% YoY to Rs8.9bn with Bio Energy falling 30% YoY to Rs4.6bn owing to softness in domestic ethanol market due to the general elections and uncertainty regarding certain feedstock. Engineering inflow was flattish at Rs3.4bn. Domestic/exports inflow mix came in at 58%/42% (vs 65%/35% in Q1FY24). Order book stands at Rs40.4bn (1.2x TTM revenue) with a mix of 71%/6%/23% in Bio Energy/Engineering/HiPurity (vs 78%/5%/17% in Q1FY24) and 67%/33% in domestic/exports (vs 78%/22% in Q1FY24).

Exhibit 1: Weak domestic Bio Energy execution drags down topline, but better mix & softer input costs drive margins up

Y/e March (Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY gr. (%)	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Revenue	7,367	8,824	8,286	10,186	6,991	(5.1)	(31.4)	34,663	35,280	(1.8)
Total Revenues	7,367	8,824	8,286	10,186	6,991	(5.1)	(31.4)	34,663	35,280	(1.8)
Expenditure	6,654	8,046	7,322	8,924	6,123	(8.0)	(31.4)	30,944	32,202	(3.9)
as % of sales	90.3	91.2	88.4	87.6	87.6			89.3	91.3	
Consumption of RM	4,395	4,990	4,496	5,741	3,304	(24.8)	(42.5)	19,621	22,014	(10.9)
as % of sales	59.7	56.6	54.3	56.4	47.3			56.6	62.4	
Employee Cost	628	889	852	819	777	23.8	(5.1)	3,187	2,576	23.7
as % of sales	8.5	10.1	10.3	8.0	11.1			9.2	7.3	
Other expenditure	1,631	2,167	1,974	2,364	2,043	25.3	(13.6)	8,136	7,612	6.9
as % of sales	22.1	24.6	23.8	23.2	29.2			23.5	21.6	
EBITDA	713	778	965	1,262	868	21.7	(31.2)	3,718	3,078	20.8
Depreciation	88	91	109	153	202	129.0	31.5	441	302	45.7
EBIT	625	687	856	1,109	666	6.6	(39.9)	3,278	2,776	18.1
Other Income	163	171	101	160	172	5.6	7.4	595	458	29.8
Interest	11	10	38	38	49	348.2	28.6	98	46	111.5
Extra ordinary items	-	-	-	-	282	-	-	-	-	-
PBT	777	847	919	1,230	1,070	37.8	(13.0)	3,775	3,187	18.4
Total Tax	190	224	215	311	229	20.1	(26.5)	941	789	19.2
PAT before MI	587	623	704	919	842	43.5	(8.4)	2,834	2,398	18.2
Profit/(loss) from MI	0	0	0	0	0	(87.9)	(40.0)	0	0	-
Reported PAT	587	623	704	919	842	43.5	(8.4)	2,834	2,398	18.2
Adjusted PAT	587	623	704	919	620	5.8	(32.5)	2,834	2,398	18.2
Adjusted EPS	3.2	3.4	3.8	5.0	3.4	5.8	(32.5)	15.4	13.0	18.2
Margins (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	bps	bps	FY24	FY23	bps
Gross	40.3	43.4	45.7	43.6	52.7	1,240	912	43.4	37.6	579
EBITDA	9.7	8.8	11.6	12.4	12.4	273	2	10.7	8.7	200
EBIT	8.5	7.8	10.3	10.9	9.5	104	(135)	9.5	7.9	159
EBT	10.5	9.6	11.1	12.1	15.3	476	323	10.9	9.0	186
PAT	8.0	7.1	8.5	9.0	8.9	91	(15)	8.2	6.8	138
Effective Tax rate	24.5	26.5	23.4	25.3	21.4	(314)	(392)	24.9	24.8	16

Source: Company, PL

Conference Call Highlights

- **1G Domestic:** Delays in execution and order finalization due to the general elections and uncertainty around use of B-heavy molasses and FCI rice as feedstock. Bulk of orders came from starchy feedstock (~75%). Domestic inquiry pipeline continues to be strong in alternative feedstock such as maize (where availability is improving). Praj has established a Centre of Excellence & Innovation with Vasantdada Sugar Institute to develop alternate feedstock.
- **2G Ethanol:** IOCL Panipat plant recommissioning is in progress, and will hopefully be commissioned by end of the year. Praj has also commenced a feasibility study for a straw-based ethanol plant for a Spanish MNC.
- **Low-carbon ethanol (LCE) in US:** Received a major order for modularization of an alcohol-to-jet SAF project in the US. SAF production will be the main demand driver for LCE. At least 20 plants in the US will have to be converted to LCE over the next 4 years, with an opportunity size of \$10-20mn per plant for Praj. However, industry is still awaiting clarity on the IRA 45Z notification.
- **SAF:** Praj is in talks for at least 6 projects globally. With mandatory 1% SAF blending in India by Jan-27, some traction will build up towards end of the year.
- **Brazil:** Grain-based ethanol is gaining increasing acceptance. Discussions ongoing with several customers for engineering + supply orders. Model is a bit different – first engineering is done, then project cost is evaluated. Working with BE8 (leading player in Brazil) has opened up new opportunities for Praj.
- **ETCA:** Completed first order from Mangaluru GenX facility. Execution in GenX should ramp up from H2, but could take 2 years to reach peak revenue of ~Rs20bn as order book needs to build up first. ETCA applications include blue/green hydrogen, waste to energy, green ammonia, etc. Praj offers modular solutions as well as equipment (heat exchangers, columns, reactors).
- **CBG:** Healthy domestic inquiry pipeline given CBG blending will be mandatory in 18 months. Overall ecosystem is not smooth, with some issues yet to be resolved regarding supply chain, feedstock, etc. Overall opportunity is bigger than ~Rs375bn driven by CNG vehicles, SATAT scheme, etc.
- **Services grew ~2x YoY,** with healthy growth in order book in domestic and international markets. Biogenic CO2 capture is gaining traction. Praj has won orders from Thailand and Zambia.
- **HiPurity Solutions:** Strong traction in high-capacity fermenters. Praj is setting up a large fermentation complex for a reputed pharma company in South India.
- **Margins:** Gross margin jumped to 52.7% (vs 40.3% in Q1FY24) because certain site expenses were classified under other expenses. Excluding this, gross margin improved by ~400bps (200bps from higher engineering & exports; 200bps from softer input costs). Exports margin is higher than domestic because export orders include only engineering, technology, and equipment, but not construction under EPC, which has a lower margin.
- **Capex:** Rs750mn-1bn is planned in FY25 on GenX facility, PLA pilot projects, and IOCL JV. Capex could be partly funded by external funding.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	35,280	34,663	39,846	49,655
YoY gr. (%)	50.6	(1.8)	15.0	24.6
Cost of Goods Sold	22,014	19,621	22,075	27,310
Gross Profit	13,266	15,042	17,771	22,345
Margin (%)	37.6	43.4	44.6	45.0
Employee Cost	2,576	3,187	3,546	4,221
Other Expenses	1,675	1,950	2,351	3,103
EBITDA	3,078	3,718	4,463	5,834
YoY gr. (%)	58.8	20.8	20.0	30.7
Margin (%)	8.7	10.7	11.2	11.8
Depreciation and Amortization	302	441	750	786
EBIT	2,776	3,278	3,712	5,048
Margin (%)	7.9	9.5	9.3	10.2
Net Interest	46	98	120	119
Other Income	458	595	717	859
Profit Before Tax	3,187	3,775	4,592	5,788
Margin (%)	9.0	10.9	11.5	11.7
Total Tax	789	941	1,143	1,441
Effective tax rate (%)	24.8	24.9	24.9	24.9
Profit after tax	2,398	2,834	3,449	4,347
Minority interest	0	0	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,398	2,834	3,237	4,347
YoY gr. (%)	59.6	18.2	14.2	34.3
Margin (%)	6.8	8.2	8.1	8.8
Extra Ord. Income / (Exp)	-	-	212	-
Reported PAT	2,398	2,834	3,449	4,347
YoY gr. (%)	59.6	18.2	21.7	26.0
Margin (%)	6.8	8.2	8.7	8.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,398	2,834	3,449	4,347
Equity Shares O/s (m)	184	184	184	184
EPS (Rs)	13.0	15.4	17.6	23.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	5,361	7,536	8,336	8,836
Tangibles	5,361	7,536	8,336	8,836
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,996	3,464	4,214	5,001
Tangibles	2,996	3,464	4,214	5,001
Intangibles	-	-	-	-
Net fixed assets	2,366	4,072	4,122	3,835
Tangibles	2,366	4,072	4,122	3,835
Intangibles	-	-	-	-
Capital Work In Progress	735	1,106	1,106	1,106
Goodwill	-	-	-	-
Non-Current Investments	1,105	1,367	1,224	1,293
Net Deferred tax assets	111	78	78	78
Other Non-Current Assets	50	80	80	99
Current Assets				
Investments	4,584	4,021	4,981	5,959
Inventories	3,336	2,209	3,602	4,353
Trade receivables	7,948	8,360	9,279	11,427
Cash & Bank Balance	1,448	2,127	2,693	3,394
Other Current Assets	4,316	5,370	5,977	7,200
Total Assets	26,075	28,864	33,263	38,866
Equity				
Equity Share Capital	367	368	368	368
Other Equity	10,413	12,377	14,723	17,775
Total Network	10,780	12,745	15,091	18,142
Non-Current Liabilities				
Long Term borrowings	263	1,417	1,417	1,417
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	159	276	276	276
Trade payables	5,050	4,968	5,567	6,802
Other current liabilities	9,934	9,535	10,988	12,304
Total Equity & Liabilities	26,075	28,864	33,263	38,866

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	3,187	3,775	4,592	5,788
Add. Depreciation	302	441	750	786
Add. Interest	11	0	120	119
Less Financial Other Income	458	595	717	859
Add. Other	(32)	(206)	-	-
Op. profit before WC changes	3,468	4,010	5,462	6,693
Net Changes-WC	(1,222)	(971)	(2,187)	(1,659)
Direct tax	(625)	(1,045)	(1,143)	(1,441)
Net cash from Op. activities	1,621	1,994	2,131	3,593
Capital expenditures	(353)	(885)	(800)	(500)
Interest / Dividend Income	80	159	-	-
Others	(571)	625	(959)	(978)
Net Cash from Invt. activities	(844)	(101)	(1,759)	(1,478)
Issue of share cap. / premium	4	9	-	-
Debt changes	-	-	-	-
Dividend paid	(771)	(827)	(1,103)	(1,295)
Interest paid	(42)	(94)	(120)	(119)
Others	(125)	(327)	1,417	1,269
Net cash from Fin. activities	(934)	(1,239)	194	(145)
Net change in cash	(157)	654	566	1,970
Free Cash Flow	1,269	1,101	1,331	3,093

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	13.0	15.4	17.6	23.6
CEPS	14.7	17.8	21.7	27.9
BVPS	58.6	69.3	82.1	98.7
FCF	6.9	6.0	7.2	16.8
DPS	4.5	6.0	7.0	9.5
Return Ratio(%)				
RoCE	27.3	25.6	23.8	27.6
ROIC	50.4	36.9	35.1	42.3
RoE	24.1	24.1	23.3	26.2
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.3)	(0.4)	(0.4)
Net Working Capital (Days)	64	59	67	66
Valuation(x)				
PER	53.6	45.4	39.7	29.6
P/B	11.9	10.1	8.5	7.1
P/CEPS	47.6	39.3	32.3	25.1
EV/EBITDA	40.0	33.4	27.5	20.7
EV/Sales	3.5	3.6	3.1	2.4
Dividend Yield (%)	0.6	0.9	1.0	1.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	8,824	8,286	10,186	6,991
YoY gr. (%)	0.2	(9.1)	1.5	(5.1)
Raw Material Expenses	4,990	4,496	5,741	3,304
Gross Profit	3,834	3,790	4,444	3,688
Margin (%)	43.4	45.7	43.6	52.7
EBITDA	778	965	1,262	868
YoY gr. (%)	20.3	12.2	20.7	21.7
Margin (%)	8.8	11.6	12.4	12.4
Depreciation / Depletion	91	109	153	202
EBIT	687	856	1,109	666
Margin (%)	7.8	10.3	10.9	9.5
Net Interest	10	38	38	49
Other Income	171	101	160	172
Profit before Tax	847	919	1,230	789
Margin (%)	9.6	11.1	12.1	11.3
Total Tax	224	215	311	229
Effective tax rate (%)	26.5	23.4	25.3	29.0
Profit after Tax	623	704	919	560
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	623	704	919	560
YoY gr. (%)	29.4	13.0	4.3	(4.5)
Margin (%)	7.1	8.5	9.0	8.0
Extra Ord. Income / (Exp)	-	-	-	282
Reported PAT	623	704	919	842
YoY gr. (%)	29.4	13.0	4.3	43.5
Margin (%)	7.1	8.5	9.0	12.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	623	704	919	842
Avg. Shares O/s (m)	184	184	184	184
EPS (Rs)	3.4	3.8	5.0	3.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-24	BUY	815	733
2	14-Jun-24	BUY	815	700
3	31-May-24	BUY	671	522
4	12-Apr-24	BUY	636	520
5	05-Feb-24	BUY	636	474
6	09-Jan-24	Accumulate	611	540
7	01-Nov-23	Accumulate	611	534
8	05-Oct-23	Accumulate	618	571
9	18-Sep-23	Accumulate	618	581

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,400	8,679
2	Apar Industries	Accumulate	8,872	8,862
3	BEML	Hold	4,520	5,060
4	Bharat Electronics	Hold	290	324
5	BHEL	Reduce	264	316
6	Carborundum Universal	Accumulate	1,631	1,690
7	Cummins India	Hold	3,719	4,134
8	Engineers India	Hold	264	268
9	GE T&D India	Reduce	1,100	1,690
10	Grindwell Norton	Accumulate	2,749	2,650
11	Harsha Engineers International	Hold	436	572
12	Hindustan Aeronautics	Hold	4,515	5,552
13	Kalpataru Projects International	Hold	1,211	1,228
14	KEC International	Hold	754	903
15	Larsen & Toubro	BUY	4,130	3,519
16	Praj Industries	BUY	815	733
17	Siemens	Accumulate	7,030	7,884
18	Thermax	Reduce	3,923	5,605
19	Triveni Turbine	Hold	653	633
20	Voltamp Transformers	Hold	10,041	13,220

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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