

All Segments Show Strong Growth Potential, Sugar Blip in Short Term

Est. Vs. Actual for Q3FY24: Revenue-**MISS**; EBITDA - **MISS**; PAT- **MISS**

Changes in Estimates post Q3FY24

FY25E/FY26E: Revenue: 2%/1%; EBITDA: 7%/14%; PAT: 4.6%/13%

Recommendation Rationale

- **Mandatory CBG blending with CNG & Focus on Bio-Plastics:** The Finance Minister in her Interim Budget which focused on leveraging captive resources in energy Mix, that aligned with the Government's vision of energy independence by 2047, announced mandatory mixing of CBG with CNG and PNG. Initiatives aimed at promoting the bio energy sector include mandatory blending of biogas, financial assistance for procurement of biomass aggregation machinery. The Budget also announced a scheme for bio manufacturing sector, providing environmental friendly alternatives such as biodegradable polymers, bioplastics.
- **Growth Across Segments:** SAF related demand is expected to see traction from June'24 as USA gets clarity on 45Z Interest Reduction Act. Higher execution in ETCA segment (Engineering) post commissioning of Mangalore facility along with strong development in ZLD and CHS verticals. Usage of Hi-Purity water in battery chemicals and semiconductor chips to drive PHS growth.
- **Govt Restriction on use of Sugar Syrup & Limited use of B-Heavy posed a near-term drag:** Due to policy changes, the company witnessed a arid quarter with zero orders from sugar based ethanol plants. Praj has already developed solutions for mitigating the feed stock challenges for sugar stock customers with multiple feed stock solutions.

Company Outlook & Guidance: Although the company witnesses few short term hurdles, company is positive on the long term growth prospects of Praj Industries with multiple segments showing long term growth potential as the Bio-Energy story builds-up.

Valuation: 25x FY26E

Current TP: Rs. 635 (Earlier: Rs 580)

Recommendation: We believe that the transition towards cleaner forms of energy is the only sustainable way to grow and this will attract major global investments in the coming years. The recent correction in stock prices leaves a healthy upside of 33% from CMP and we therefore revise our HOLD rating to **BUY**.

Financial Performance: Praj Industries numbers missed our estimates on all fronts due to lower order booking in current quarter from sugar based-plants. The company reported revenue of Rs 829 Cr, down by 9%/6% YoY/QoQ missing our estimate by 19%. EBITDA came in at Rs 96 Cr, up by 12%/24% YoY/QoQ, missing our estimate by 4%, company reported EBITDA margin of 11.6% v/s 8.8% in Q2, a 181 bps upside from our expectations on account of Sales mix, higher exports and engineering (services) orders and softening of material costs and Decrease in one-time other expenses and lower site activities. The company's PAT stood at Rs 70 Cr, up by 13% YoY/QoQ with overall performance, missing our estimate by 10%

Outlook: Praj Industries is one of the best pure-play investment at carbon neutrality and sustainable environment. The global commitments and interest in the decarbonisation theme are only increasing with time. This bolsters our confidence in the company's long-term growth prospects.

Valuation & Recommendation: We revise our target price upwards to account for the impact of improvement in margins as the company's new orderbook comprises higher margin profile orders and better commodity prices improve gross margins. We value the stock at 25x FY26E which results to target price of Rs 635/share, which implies a 33% upside from CMP and therefore revise our HOLD rating on the stock to **BUY**.

Key Financials (Consolidated)

(Rs Cr)	Q3FY24	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	828.6	-9%	-6%	1,023.8	-19%
EBITDA	96.5	12%	24%	100.7	-4%
EBITDA Margin	11.64%	219bps	282bps	9.83%	181bps
Net Profit	70.4	13%	13%	78.0	-10%
EPS (Rs)	3.8	13%	13%	4.2	-10%

Source: Company, Axis Research

(CMP as of 2nd Feb 2024)

CMP (Rs)	477
Upside /Downside (%)	33%
High/Low (Rs)	650/299
Market cap (Cr)	8,784
Avg. daily vol. (1m, lakh)Shrs.	8.55
No. of shares (Cr)	18.4

Shareholding (%)

	Jun-23	Sep-23	Dec-23
Promoter	32.8	32.8	32.8
FII	18.3	17.9	17.4
DII	8.4	10.2	13.1
Retail	40.5	39.0	36.7

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	3,554	4,607	5,419
EBITDA	375	561	692
Net Profit	276	389	485
EPS (Rs)	15.0	21.2	26.4
PER (x)	31.7	22.5	18.1
EV/EBITDA (x)	23.1	15.5	12.5
ROE (%)	23%	25%	24%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	2%	1%
EBITDA	7.4%	14.1%
PAT	4.6%	13.3%

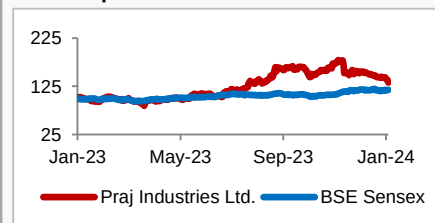
ESG disclosure Score**

Environmental Disclosure	1.93
Social Disclosure Score	20.6
Governance Disclosure	83.6
Total ESG Disclosure Score	35.4
Sector Average Score	44.1

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: ACE Equity, Axis Securities

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Recommendation Rationale & Key Highlights

- **CBG Business:** CBG Blending Obligation (CBO) announced that mandates blending of CBG in CNG & PNG from FY 25-26. By the end of FY29, CBO mandates are expected to increase from 1% to 5% for blending. This will encourage an investment of almost 37,000 cr, in order to facilitate the establishment of 750 CBG projects by the end of the FY 28-29. Praj received Four contracts which were part of five project LOI with one of the conglomerates. In this segment, the company is now experiencing positive developments with regard to an overall enquiry pipeline.
- **Domestic bio-energy business:** The supply chain dynamic for sugar sector change as government ordered banned on use of sugar syrup for ethanol production in 23-24 with immediate effect, later the government revised the order that allowed use of both sugar syrup and B-heavy molasses but with the cap of diversion of upto 1.7 Mn MT of sugar for ethanol production. To promote the ethanol production from C Heavy Molasses OMCs offering incentive of 6.87 litres per litre. The government has increased the price by Rs. 5.89 to Rs. 71.86 per litre in order to support ethanol production from maize, so as to encourage alternative sources of feedstock.
- **Global Potential:** The potential for low carbon ethanol continues to be viable; however clarity on section 45Z of inflation reduction act in US is still awaited. This leads to delays in the allocation of capital expenditure for such projects. These clarifications are expected to be made before June 2024, which would enable praj to convert an energy contract into a supply agreement in order to provide equipment for the financial year 2025.
- **SAF:** In the USA, under the IRA programme the inflation reduction act set a target of 3 bn gallons per year of SAF capacity by 2030, of which 1.4 bn gallons are likely to be on the alcohol to jet route and where ethanol will play an important role in the future. It is necessary to achieve low carbon ethanol status for the ethanol that is required for this SAF production. There's a lot of ethanol plants in the U.S., but now they have to convert to low carbon ethanol, and that's where Praj's looking for an opportunity.
- **GenX:** Mangalore facility is developing along the planned lines and the order pipeline to feed this facility is also growing stronger. Successfully completed the statutory requirements for the start of operations in the Mangalore facility. In February 2024, initial commercial production to be carried out.
- **PHS:** PHS business witnessed strong order book that has already cross the entire order booking of FY23 in First 9M of FY24. Praj completed First order of water system for lithium iron batteries' plant with similar requirement like semiconductor application.
- **Bio-Plastic pilot plant:** Installation of Pilot plant for Bio-Plastics and Bio-Polymers is nearing to completion and company expects demo plant operation to start by April 2024 that is Q1FY25.
- **Improvement In EBITDA Margin:** Company witnessed improvement in EBITDA margin due to better Sales mix, higher exports and engineering (services) orders and softening of material costs and Decrease in one-time other expenses and lower site activities

Key Risks to our Estimates and TP

- Delay in order execution, or cancellation of orders.
- Delay in execution of Government policies and International policies and regulations
- Raw material inflation and technological advancement by competitors may disrupt the business.

Change in Estimates

	Revised		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	4,607	5,419	4,514	5,371	2%	1%
EBITDA	561	692	522	607	7.4%	14.1%
PAT	389	485	372	429	4.6%	13.1%
EPS	21	26	20.2	23.3	4.9%	13.3%

Source: Company, Axis Securities

Q3FY24 Results Review

(Rs Cr)	Q3FY23	Q2FY24	Q3FY24 Axis Est	Q3FY24	Y-o-Y Growth (%)	Q-o-Q Growth (%)	Axis Variance
Revenue	910.0	882.4	1,023.8	828.6	-9%	-6%	-19%
Net Raw Material consumed	556.8	498.9	593.8	449.6	-19%	-10%	
Gross Profit	353.1	383.5	430.0	379.0	7%	-1%	
Gross Margin %	38.81%	43.46%	42.00%	45.74%	694bps	229bps	374bps
Employee	67.5	88.9	90.8	85.2	26%	-4%	
Other Expenses	199.7	216.7	238.6	197.4	-1%	-9%	
Total Expenditure	824.0	804.5	923.2	732.2	-11%	-9%	
EBIDTA	86.0	77.9	100.7	96.5	12%	24%	-4%
EBIDTA Margin	9.5%	8.8%	9.8%	11.6%	219bps	282bps	181bps
Less: Depreciation	7.2	9.1	9.7	10.9	51%	20%	
EBIT	86.7	85.8	105.0	95.8	10%	12%	
Less: Net Interest	0.8	1.0	1.0	3.8	363%	274%	
Add: Other income	7.9	17.1	14.0	10.1	28%	-40%	
Profit Before Extra-ordinary items and Tax	85.9	84.8	104.0	91.9	7%	8%	
Less: Extraordinary Expense (net)	-	-	-	-			
Profit Before Tax	85.9	84.8	104.0	91.9	7%	8%	
Less: Total Tax	23.6	22.4	26.0	21.5	-9%	-4%	
Profit After Tax	62.3	62.4	78.0	70.4	13%	13%	-10%
Reported EPS (Rs.)	3.39	3.40	4.24	3.83	13%	13%	-10%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Net sales	3,528	3,554	4,607	5,419
Raw Material	2,201	2,013	2,603	3,062
Employee benefit expenses	258	324	361	392
Other Expenses	761	843	1,083	1,274
EBITDA	308	375	561	692
Other income	46	37	37	37
PBIDT	354	411	597	729
Depreciation	30	34	66	67
Pre-tax profit	319	369	520	648
Tax provision	79	93	131	163
RPAT	240	276	389	485

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Share Capital	37	37	37	37
Reserves & Surplus	1,041	1,317	1,707	2,192
Total Equity	1,078	1,354	1,743	2,228
Total Non-Current Liabilities	40	40	40	40
Trades Payable	505	414	535	629
Other Current Liabilities	864	864	864	864
Total Current Liabilities	1,501	1,376	1,498	1,592
Total Capital Employed	2,619	2,771	3,281	3,860
Net Block	237	473	478	483
Goodwill	63	63	63	63
Total Non-Current Assets	437	673	678	683
Cash	99	154	380	729
Inventory	334	303	378	445
Receivables	795	682	884	1,039
Investments	458	458	458	458
Total Current Assets	2,182	2,097	2,603	3,178
Total Assets	2,619	2,771	3,281	3,860

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Net Profit before Tax	319	369	520	648
Depreciation	30	34	66	67
Working Capital Changes	-122	45	-162	-135
Tax Paid	-63	-93	-131	-163
Cash From Operating Activities	162	291	264	391
Cash From Investing Act	-84	-234	-34	-35
Cash Flow from Financing	-93	-8	-11	-14
Change in Cash	-16	49	219	342
Opening Cash	107	99	154	380
Closing Cash	99	154	380	729

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY23	FY24E	FY25E	FY26E
Operational Ratios				
Gross profit margin	38%	43%	44%	44%
EBITDA margin	9%	11%	12%	13%
PAT margin	7%	8%	8%	9%
Growth Indicators				
Sales growth	51%	1%	30%	18%
EBITDA growth	59%	22%	50%	23%
PAT growth	60%	15%	41%	25%
Efficiency Ratios				
Total Asset turnover (x)	1.5	1.3	1.5	1.5
Inventory turnover (x)	6.5	6.3	7.6	7.4
Sales/Working Capital	4.7	6.2	5.6	5.9
Sales/ Total Assets				
Liquidity Ratios				
Total Debt/Equity(x)	0.00	0.00	0.00	0.00
Total Asset/Equity(x)	2.22	1.95	1.80	1.73
Current Ratio(x)	1.45	1.52	1.74	2.00
Quick Ratio(x)	1.23	1.30	1.49	1.72
Interest Cover(x)	66.49	49.09	52.74	50.80
Per Share Data				
Earnings Per Share (Rs)	13.05	15.03	21.18	26.40
Valuation Ratios				
Adjusted PE (x)	36.5	31.7	22.5	18.1
Price / Book Value(x)	8.1	6.5	5.0	3.9
EV/Net Sales(x)	2.5	2.4	1.9	1.6
EV/EBITDA(x)	28.1	23.1	15.5	12.5
EV/EBIT(x)	26.8	23.0	16.3	13.1
Return Ratios				
ROA	9.92%	10.25%	12.86%	13.58%
ROE	24.06%	22.71%	25.13%	24.42%
ROCE	31.30%	30.00%	33.42%	32.68%

Source: Company, Axis Securities

Praj Industries Price Chart and Recommendation History



Date	Reco	TP	Research
01-Jul-22	BUY	477	Top Picks
08-Aug-22	BUY	477	Result Update
01-Sep-22	BUY	477	Top Picks
01-Oct-22	BUY	477	Top Picks
20-Oct-22	BUY	550	Result Update
01-Nov-22	BUY	550	Top Picks
01-Dec-22	BUY	550	Top Picks
01-Jan-23	BUY	550	Top Picks
01-Feb-23	BUY	550	Top Picks
08-Feb-23	BUY	550	Result Update
01-Mar-23	BUY	550	Top Picks
01-Apr-23	BUY	550	Top Picks
02-May-23	BUY	550	Top Picks
29-May-23	BUY	500	Result Update
01-Jun-23	BUY	500	Top Picks
01-Jul-23	BUY	500	Top Picks
06-Jul-23	BUY	500	Event Update
28-Jul-23	BUY	500	Result Update
01-Aug-23	BUY	510	Top Picks
01-Sep-23	BUY	550	Top Picks
02-Nov-23	BUY	580	Result Update
02-Feb-24	BUY	635	Result Update

Source: Axis Securities

About the analyst



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Sector: Chemicals, & Mid-Cap Opportunities

Analyst Bio: Prathamesh is a CFA charter holder with 7 years of experience in Equity Research & Valuation.



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