

Order Execution Slows Down; Maintain HOLD

Est. Vs. Actual for Q3FY25: Revenue: MISS; EBITDA: MISS; PAT: MISS

Changes in Estimates post Q3FY25

FY25E/FY26E/FY27E: Revenue: -12%/-9%/-5%; EBITDA: -31%/-15%/-7%; PAT: -30%/-18%/-10%

Recommendation Rationale

- **Slower Execution Defers Growth:** Praj's Engineering segment posted a 10% YoY revenue degrowth during the quarter, limiting overall revenue growth to 3% YoY. Order execution was impacted by multiple factors, including the delayed launch of the GenX facility, slower execution at customer ends, and the delayed entry of international orders in FY25. Management indicated that these challenges have extended the execution cycle to as much as 16 months in some cases. Additionally, profitability was impacted due to a shift in product mix and increased fixed costs related to the new GenX facility.
- **Order Inflow Improved:** The company recorded a robust 14% sequential growth in order inflow, the highest in the last three quarters, with an increased share of international business. International orders now constitute 40% of the order book. The Bio-energy segment saw a modest 5% QoQ growth in order inflow, impacted by liquidity challenges and extended project closure timelines. Additionally, management noted strong growth in the services order book and revenue booking.

Sector Outlook: Cautiously Optimistic

Company Outlook & Guidance: The company believes that long-term growth levers remain intact, driven by substantial interest in its newer offerings. However, delays in execution may defer revenue growth and margin expansion by a couple of quarters. It continues to work on reducing dependence on the sugar-based ethanol business while leveraging its strong R&D capabilities and geographic presence to enhance both product and geographic mix. Overall, the company remains confident in meeting its broader guidance of tripling revenue by 2030 with a steady margin improvement.

Valuation: 25x FY27E (Earlier: 25x FY27E)

Current TP: Rs. 690 /share; (Earlier TP: Rs 765/share)

Recommendation: We maintain our **HOLD** rating on the stock.

Financial Performance: The company reported revenue of Rs 853 Cr, up 3% YoY and 5% QoQ, missing our estimate by 5%. EBITDA stood at Rs 59 Cr, down 39% YoY and 38% QoQ, significantly below our estimate of Rs 104 Cr. EBITDA margin declined to 6.9% from 11.6% in Q3FY24. PAT stood at Rs 41 Cr (-42% YoY and -24% QoQ), with overall performance missing our estimate by 43%. Order intake during the quarter was Rs 1,053 Cr, compared to Rs 921 Cr in the previous quarter.

Outlook: Praj Industries continues diversifying its offerings while strengthening its existing capabilities, with management expecting stronger momentum. As previously highlighted, effective order execution will be crucial in the coming quarters, and any further delays could impact the company's 2030 targets. While we remain positive on its long-term growth prospects, we will closely monitor progress over the next few quarters.

Valuation & Recommendation: We have revised our estimates downward to account for the expectation of deferred revenue growth and margin expansion. While we continue to anticipate robust performance over the medium term, we now expect key milestones to be achieved with a delay of a couple of quarters. We continue to value the stock at 25x FY27E, with a target price of Rs 690/share (previously Rs 765/share), implying an upside of 9% from the CMP. **We maintain our HOLD rating on the stock.**

Key Financials (Consolidated)

(Rs Cr)	Q3FY25	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	853	3%	5%	897	-5%
EBITDA	59	-39%	-38%	104	-44%
EBITDA Margin	6.87%	-478bps	-467bps	11.62%	-475bps
Net Profit	41	-42%	-24%	72	-43%
EPS (Rs)	2.2	-42%	-24%	3.9	-43%

Source: Company, Axis Securities Research

(CMP as of 31st January 2025)

CMP (Rs)	633
Upside /Downside (%)	9%
High/Low (Rs)	875/448
Market cap (Cr)	11,611
Avg. daily vol. (1m) Shrs.	11,37,172
No. of shares (Cr)	18.4

Shareholding (%)

	Jun-24	Sep-24	Dec-24
Promoter	32.8	32.8	32.8
FII's	18.6	19.0	18.63
DII's	16.6	17.3	18.19
Retail	32	30.8	30.4

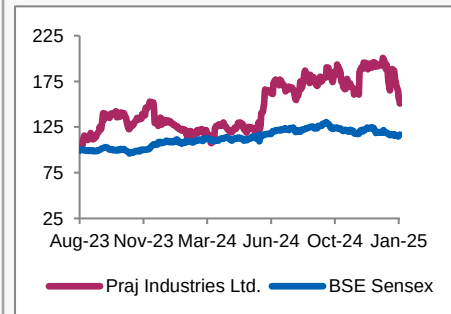
Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	3,466	3,336	4,232
EBITDA	372	334	543
Net Profit	283	242	376
EPS (Rs)	15.4	13.2	20.5
PER (x)	41.0	48.1	30.9
EV/EBITDA (x)	30.8	34.3	21.1
ROE (%)	24%	17%	22%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
Sales	-12%	-9%	-5%
EBITDA	-31%	-15%	-7%
PAT	-30%	-18%	-10%

Relative Performance



Source: ACE Equity, Axis Securities Research

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Key Highlights

- **Financial Performance:** Revenue growth slowed due to order execution delays, mainly in the engineering segment. Margins declined due to a change in sales mix, resulting from lower export order execution and some engineering services orders. Increases in finance, depreciation, and amortization costs were attributable to the capex in the new facility at Praj GenX in Mangalore.
- **Bio-energy Business:** The starch-based ethanol segment continues to dominate in the domestic bio-energy business, with the 1G Domestic Ethanol order book comprising 100% starch-based projects. The reduction in FCI rice procurement price from Rs 29 to Rs 22.5 per kg has improved project viability. Additionally, the government recently approved an upward revision in ethanol prices for C-heavy molasses by Rs 1.39 per litre. However, project execution has been delayed due to liquidity challenges in the domestic ethanol market. The company is focusing on developing co-products such as bio-bitumen, distillers, corn oil, and rice protein, which are expected to enhance the financial viability of bio-energy projects significantly.
- **1G International:** During the quarter, Praj witnessed strong inflows of inquiries from Brazil, Argentina, and Paraguay for corn ethanol. The company received a significant international order to set up 50 KLPD Molasses to Ethanol plant (sugar feedstock-based ENA plant) in Tanzania, Africa.
- **1G Service:** The company observed a healthy enquiry pipeline for biogenic CO2 Capture solutions from domestic and international markets. 9MFY25 order book stands at 80% higher than the entire FY24 order book.
- **CBG:** The company received an order to set up a plant inside the field for Napier grass. It is observed that there is increasing traction for Napier Grass-based projects. The Praj board has approved the formation of a JV with BPCL to set up CBG plants across India. Management noted that the CBG ecosystem is developing positively with a healthy inquiry pipeline.
- **Praj GenX:** The land acquisition and preparation of the GenX facility were delayed by almost two quarters, affecting plant operations within the generic business this year. These delays in readying the Mangalore facility have affected the planned business operations for the GenX business this year, which management anticipates making up for in the next financial year. The order book for this facility is expected to start growing from this quarter, while revenues will start flowing in from H2FY26. With a total investment of over Rs. 200 Cr in CapEx and almost Rs. 80 Cr YTD in operating expenses.
- **Appointment of new MD:** The Board at its meeting, approved an appointment of Mr. Ashish Gaikwad as Managing Director- Designate for period of 5 years with effect from 3rd Feb 2025.

Key Risks to Our Estimates and TP

- Delay in order execution or cancellation of orders.
- Delays or adverse developments in government policies and/or international policies and regulations.
- Raw material inflation and technological advancement by competitors may disrupt the business.

Change in Estimates

	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	3,336	4,232	5,352	3,792	4,671	5,631	-12%	-9%	-5%
EBITDA	334	543	705	487	640	761	-31%	-15%	-7%
PAT	242	376	509	344	459	563	-30%	-18%	-10%
EPS	13	20	28	19	25	31	-30%	-18%	-10%

Source: Company, Axis Securities Research

Q3FY25 Results Review

(Rs Cr)	Q3FY24	Q2FY25	Q3FY25 Axis Est	Q3FY25	YoY Growth (%)	QoQ Growth (%)	Axis Variance
Revenue	829	816	897	853	3%	5%	-5%
Net Raw Material consumed	450	429	469	483	7%	13%	
Gross Profit	379	387	428	370	-2%	-4%	
Gross Margin %	45.7%	47.4%	47.7%	43.4%	-237bps	-404bps	-433bps
Employee	85	85	86	91	7%	8%	
Other Expenses	197	208	238	220	12%	6%	
Total Expenditure	732	722	793	794	9%	10%	
EBIDTA	96	94	104	59	-39%	-38%	-44%
EBITDA Margin	11.6%	11.5%	11.6%	6.9%	-478bps	-467bps	-475bps
Less: Depreciation	11	21	23	23	115%	13%	
EBIT	96	79	100	63	-34%	-20%	
Less: Net Interest	4	5	5	4	14%	-7%	
Add: Other income	10	6	19	28	175%	400%	
Profit Before Extraordinary Items and Tax	92	74	96	59	-36%	-21%	
Less: Extraordinary Expense (net)	-	-	-	-			
Profit Before Tax	92	74	96	59	-36%	-21%	
Less: Total Tax	22	21	24	18	-18%	-14%	
Profit After Tax	70	54	72	41	-42%	-24%	-43%
Reported EPS (Rs)	3.8	2.9	3.9	2.2	-42%	-24%	-43%

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Net sales	3,528	3,466	3,336	4,232	5,352
Raw Material	2,201	1,962	1,775	2,222	2,810
Employee benefit expenses	258	319	347	410	550
Other Expenses	761	814	880	1,058	1,288
EBITDA	308	372	334	543	705
Other income	46	59	70	77	89
PBIDT	354	431	404	620	794
Depreciation	30	44	90	98	93
Pre-tax profit	319	377	295	503	680
Tax provision	79	94	82	127	171
RPAT	240	283	242	376	509

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	37	37	37	37	37
Reserves & Surplus	1,041	1,238	1,480	1,856	2,364
Total Equity	1,078	1,275	1,517	1,893	2,401
Total Non-Current Liabilities	40	162	162	162	162
Trades Payable	505	497	462	578	731
Other Current Liabilities	864	793	793	793	793
Total Current Liabilities	1,501	1,459	1,424	1,541	1,694
Total Capital Employed	2,619	2,895	3,103	3,595	4,257
Net Block	237	407	520	682	793
Goodwill	63	63	63	63	63
Total Non-Current Assets	437	671	785	946	1,057
Cash	99	168	345	418	643
Inventory	334	221	243	304	385
Receivables	795	836	731	928	1,173
Investments	458	402	402	402	402
Total Current Assets	2,182	2,224	2,318	2,649	3,199
Total Assets	2,619	2,895	3,103	3,595	4,257

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Net Profit Before Tax	319	377	295	503	680
Depreciation	30	44	90	98	93
Working Capital Changes	-122	-97	48	-141	-173
Tax Paid	-63	-104	-82	-127	-171
Cash From Operating Activities	162	199	370	352	449
Cash From Investing Act	-84	-10	-204	-260	-205
Cash Flow from Financing	-93	-124	-18	-18	-20
Change in Cash	-16	65	148	73	224
Opening Cash	107	99	168	345	418
Closing Cash	99	168	345	418	643

Source: Company, Axis Securities Research

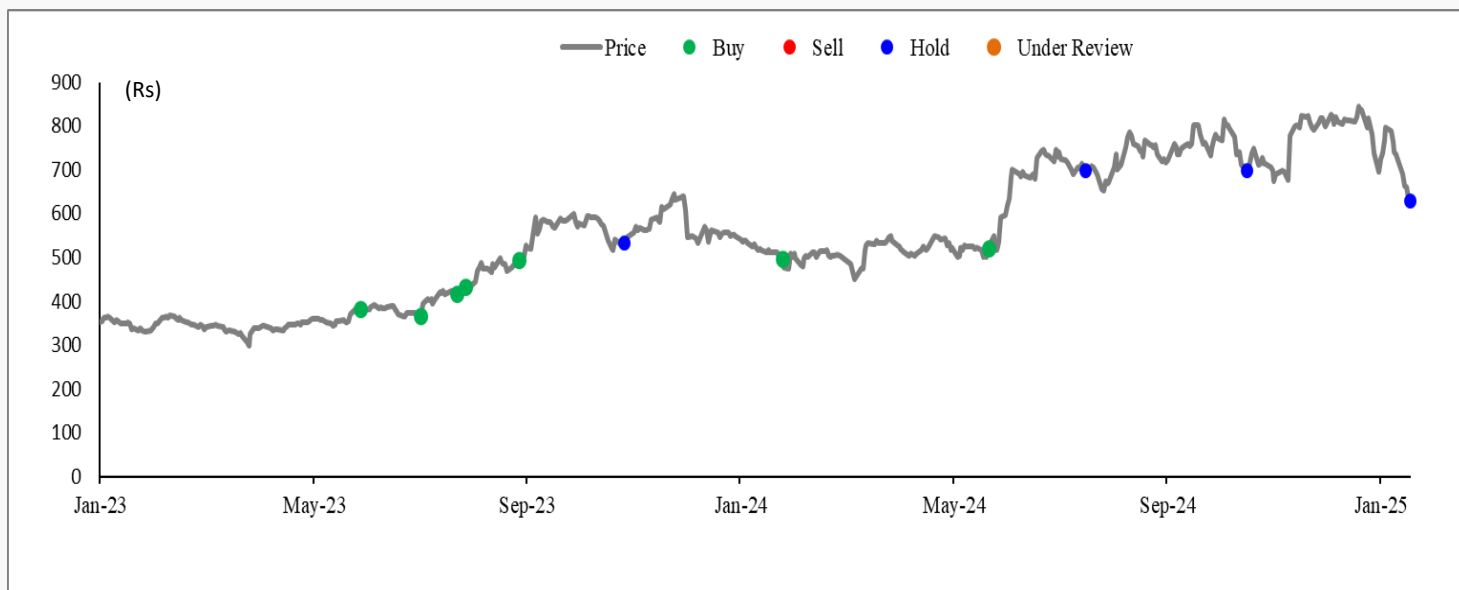
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Operational Ratios					
Gross profit margin	38%	43%	47%	48%	48%
EBITDA margin	9%	11%	10%	13%	13%
PAT margin	7%	8%	7%	9%	10%
Growth Indicators					
Sales growth	51%	-2%	-4%	27%	26%
EBITDA growth	59%	21%	-10%	62%	30%
PAT growth	60%	18%	-15%	56%	35%
Efficiency Ratios					
Total Asset Turnover (x)	1.5	1.3	1.1	1.3	1.4
Inventory turnover (x)	6.5	7.1	7.7	8.1	8.2
Sales/Working Capital	4.7	6.2	6.6	5.8	5.8
Sales/ Total Assets					
Liquidity Ratios					
Total Debt/Equity(x)	0.00	0.00	0.00	0.00	0.00
Total Asset/Equity(x)	2.34	2.15	1.96	1.83	1.77
Current Ratio(x)	1.45	1.52	1.63	1.72	1.89
Quick Ratio(x)	1.23	1.37	1.46	1.52	1.66
Interest Cover(x)	66.49	37.99	18.16	29.46	34.80
Per Share Data					
Earnings Per Share (Rs)	13.05	15.43	13.17	20.48	27.68
Valuation Ratios					
Adjusted PE (x)	48.5	41.0	48.1	30.9	22.9
Price / Book Value(x)	10.8	9.1	7.7	6.1	4.8
EV/Net Sales(x)	3.2	3.3	3.4	2.7	2.1
EV/EBITDA(x)	37.2	30.8	34.3	21.1	16.3
EV/EBIT(x)	35.4	29.6	36.5	22.0	16.4
Return Ratios					
ROA	10%	10%	8%	11%	13%
ROE	24%	24%	17%	22%	24%
ROCE	31%	30%	20%	28%	30%

Source: Company, Axis Securities Research

Praj Industries Price Chart and Recommendation History



Date	Reco	TP	Research
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	HOLD	580	Result Update
02-Feb-24	BUY	635	Result Update
03-Jun-24	BUY	618	Result Update
29-Jul-24	HOLD	760	Result Update
29-Oct-24	HOLD	765	Result Update
01-Feb-25	HOLD	690	Result Update

Source: Axis Securities Research

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