

Praj Industries

Turnaround not visible in near term

Praj Industries (PRJ) reported Q3FY25 results that fell short of our muted expectations. The company posted consolidated revenue growth of 2.9% YoY, reaching Rs8.53bn compared to our estimate of Rs8.88bn. GM contracted to 43.4%, down 230bps YoY while consolidated EBITDA margin stood at 8.5% - the lowest level in the past eight quarters. This decline was primarily attributed to slower execution and an unfavorable revenue mix. Despite near-term pressures, the quarter saw strong order inflows exceeding Rs10bn, with higher-margin international orders contributing 40%. Notably, the international order book share increased to 33% in Q3FY25 from 28% in Q2FY25. However, we have revised our order inflow growth estimate for FY26/FY27 to ~13% (previously 20%), factoring in the muted performance expected in FY25E (with order inflows anticipated to decline by 6%) and uncertainty in domestic ethanol market. Looking ahead, we project a ~14% CAGR in earnings for PRJ over FY24-27E, driven by order book and an improved execution cycle (supported by expanded capacity). Previously, we had downgraded PRJ from BUY to ADD due to the sharp run-up in the stock price and expected challenges in H2FY25 (LINK). Since then, the stock has corrected by over 25% and we believe near-term headwinds will persist. However, given the company's strong positioning in the evolving bio energy space, we upgrade PRJ to BUY for long-term investors. While we have adjusted our FY26/FY27 earnings estimates to reflect the recent performance, we maintain our target valuation multiple, as PRJ's TAM remains significant. Applying a PE multiple of 35x to our FY27E earnings, we arrive at a revised target price of Rs801 (previously Rs882).

Operational performance disappoints on all fronts

PRJ's Q3FY25 results disappointed across all key metrics, with consolidated revenue rising by just 2.9% YoY to Rs8.53bn, missing our estimate of Rs8.88bn. GM contracted by 230bps YoY to 43.4% (vs. est. 47%) while EBITDA margin fell sharply to 8.5% (vs. 11.6% in Q3FY24; est. 11.5%) due to an unfavorable revenue mix. Depreciation surged by 115% YoY following the operationalization of a new facility, further impacting profitability. As a result, PAT declined by 42% YoY to Rs411mn, significantly below our estimate of Rs685mn.

Order inflow crosses Rs10bn with international orders comprising 40%

PRJ reported order booking of Rs10.5bn. The Bio Energy sector's share stood at 81% (flattish YoY) while Engineering segment's share slumped to 8% (12% in Q3FY24) and HPS followed at 11%. PRJ ended Q3FY25 with order backlog of Rs43.5bn with increasing share of higher margin international orders at 33%. The increased international presence bolsters confidence that PRJ will be able to maintain a stronger profit margin profile.

Valuations: Recommending long-term investment case

Despite the near-term earnings cut, we maintain our valuation multiple at 35x FY27E EPS as we have confidence in PRJ's long-term TAM. The decision to hold the PE multiple steady stems from the company's strong positioning in the bio-energy space, which continues to be a high-growth potential and a niche segment. The long-term drivers include: (1) **Sustained order inflows**, particularly from high-margin international markets (2) **Expanding production capacity**, which should help mitigate execution challenges (3) **Regulatory tailwinds** supporting biofuels despite short-term uncertainties in the domestic ethanol market. With these factors in mind coupled with a sharp correction in stock price, we upgrade PRJ to BUY, reflecting a moderation in growth assumptions but we maintain conviction in its long-term potential.

Financial and valuation summary

YE Mar (Rs mn)	3QFY25A	3QFY24A	YoY (%)	2QFY25A	QoQ (%)	FY25E	FY26E	FY27E
Revenues	8,530	8,286	2.9	8,162	4.5	34,556	39,811	52,041
EBITDA	727	965	(24.6)	862	(15.7)	3,372	4,514	6,213
EBITDA margin (%)	8.5	11.6	(310)bps	10.6	(210)bps	9.8	11.3	11.9
Adj. Net profit	411	704	(41.6)	538	(23.6)	2,104	2,976	4,208
Adj. EPS (Rs)	2.2	3.8	(41.6)	2.9	(23.6)	11.4	16.2	22.9
EPS growth (%)						(25.7)	41.4	41.4
PE (x)						55.2	39.0	27.6
EV/EBITDA (x)						22.8	20.2	16.9
PBV (x)						8.3	7.3	6.1
RoE (%)						15.7	19.9	24.1
RoCE (%)						15.1	19.1	23.1

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India I Mid Cap

31 January, 2025

BUY

Price: Rs632

Target Price: Rs801

Forecast return: 27%

Institutional Research

Market Data

Bloomberg:	PRJ IN
52 week H/L:	875/448
Market cap:	Rs116.1bn
Shares Outstanding:	183.8mn
Free float:	65.4%
Avg. daily vol. 3mth:	12,22,447

Source: Bloomberg

Changes in the report

Rating:	Changed from ADD to BUY
Target price:	Changed from Rs882 to Rs801
EPS:	FY25E: Rs11.4 FY26E: Rs16.2

Source: Centrum Broking

Shareholding pattern

	Dec-24	Sep-24	Jun-24	Mar-24
Promoter	32.8	32.8	32.8	32.8
FII's	18.6	19.0	18.6	18.9
DII's	18.2	17.3	16.7	13.7
Public/other	30.4	30.8	32.0	34.6

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q3FY25	Actual Q3FY25	Variance (%)
Revenue	8,885	8,530	(4.0)
EBITDA	1,022	727	(28.8)
EBITDA margin %	11.5	8.5	(300bps)
Adj. PAT	685	411	(40.0)

Source: Bloomberg, Centrum Broking



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Mid Cap

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg	FY26E New	FY26E Old	% chg
Revenue	34,556	37,251	-7.2	39,811	46,988	-15.3
EBITDA	3,372	4,209	-19.9	4,514	5,797	-22.1
EBITDA margin %	9.8	11.3	(150bps)	11.3	12.3	(100bps)
Adj. PAT	2,386	3,109	-23.3	2,976	4,121	-27.8
Diluted EPS (Rs)	13.0	16.9	-23.1	16.2	22.4	-27.7

Source: Centrum Broking

Praj Industries versus NIFTY Midcap 100

	1m	6m	1 year
PRJ IN	(23.1)	(10.4)	26.8
NIFTY Midcap 100	(9.9)	(11.6)	5.5

Source: Bloomberg, NSE

Key assumptions

Key Assumptions (Rs mn)	FY25E	FY26E
Bio-energy order booking	29,352	32,287
Bio-energy net revenues	24,535	27,977
Engineering order booking	5,569	7,240
Engineering net revenues	7,257	7,243
HPS order booking	3,699	4,069
HPS net revenues	2,764	4,591
Consolidated EBITDAM (%)	9.8	11.3

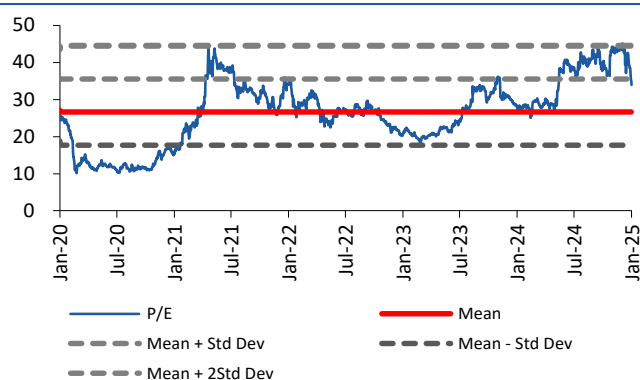
Source: Centrum Broking

Valuation

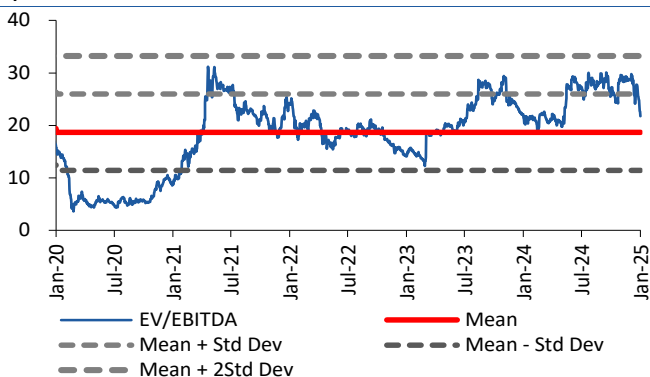
Given the company's strong positioning in the evolving bio-energy space, we upgrade PRJ to BUY for long-term investors. While we have adjusted our FY26/FY27 earnings estimates to reflect recent performance, we maintain our target valuation multiple as PRJ's TAM remains significant. Applying a PE multiple of 35x to our FY27E earnings, we arrive at a revised target of Rs801 (previously Rs882).

Valuation	Rs/share
FY27E EPS	22.9
Target multiple (x)	35
Target Price	801
Upside	27%

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Exhibit 1: Key conference call takeaways and metrics

Centrum Quarterly Monitor	Q2FY25	Q3FY25	Our Comments
Order inflow	▪ Bulk of the order booking for 1G Domestic continues to be on the starchy feedstock ▪ Service business has seen good traction for 1H FY25 across segments with 40% jump vs. FY24 orders. ▪ Napier grass order received in CBG space. ▪ Order backlog doesn't have significant orders from sugary feedstock.	▪ Order inflow crosses Rs10bn with 40% coming from export market. ▪ 4 CBG projects bagged last year would be delivered in 1QFY26. ▪ Order inflow for E1G continues to be on starchy feedstock	▪ We have revised our order inflow numbers to factor in slowdown in domestic market ▪ In terms of execution cycle given the delays in FC we have revised the same as well.
Margins and Profitability	▪ Gross margins – are expected to be maintained. ▪ R&D spend – opex Rs15cr and capex – Lactic acid plant Rs55cr and balance Rs10cr in 2H FY25.	▪ Margins – for the year would be higher vs. FY24. ▪ 4Q business impact on margins would also be witnessed	▪ Operating leverage is expected post full scale commercialization of Mangalore facility – 2H FY26/27. ▪ We have baked in margins improvement for FY26/27.
Outlook and guidance	▪ Cellulosic feedstock can be the key feedstock for future ethanol production ▪ Doubling of revenues in next three year guidance maintained.	▪ Aim of Growing 3x in revenue front and 5x on Bottom-line.*	▪ We project a ~15% CAGR in earnings for PRJ over FY24-27E, primarily fuelled by capacity expansion and revival in order inflows

Source: Centrum Broking

KTAs of earnings concall

Opening remarks:

- **Domestic orders have witnessed elongated execution cycle.**
- Brazil has passed the future law increasing mandate to 30%.
- Service business is expecting a healthy growth.
- Guidance – Aim of growing revenue 3x and profit by 5x.
- This quarter's performance was an aberration and PRJ would be back on the growth path in FY26; some pain will be witnessed in Q4FY25.
- **Change in sales mix (lower exports and service contracts) led to lower margins.**
- Cash in BS – Rs6.4bn.

Order book/inflow:

- Order inflow crosses Rs10bn with 40% coming from export market.
- The consolidated order backlog as on Q3FY25 stood at Rs43.4bn (up 10%), which comprises 67% domestic orders and 33% international orders.
- **4 CBG projects bagged last year would be delivered in Q1FY26.**
- Order inflow for E1G continues to be on starchy feedstock.

International opportunity

- A significant contract from a customer in Tanzania received for 50KL plant.
- **US – SAF prospects remain attractive in spite of regime change.**

Margin profile

- Margins – for FY25 would be higher vs. FY24.
- Q4 business impact on margins would also be witnessed.

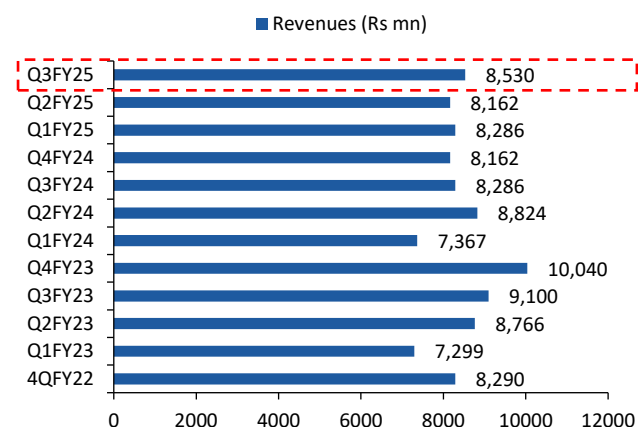
Others

- **Mangalore facility revenue booking expected in H2FY26. Capex: Rs2bn with additional Rs800mn operating expense incurred. Order inflow expected from now onwards.**
- **PRJ's Board has approved a JV with BPCL to set up CBG plants across India; contours of the same would be revealed in coming quarters.**
- PRJ's offerings in the CBG space cover a variety of feedstocks, excluding MSW. Initially, the order book will be driven by feedstocks such as press mud, napier grass and rice straw.

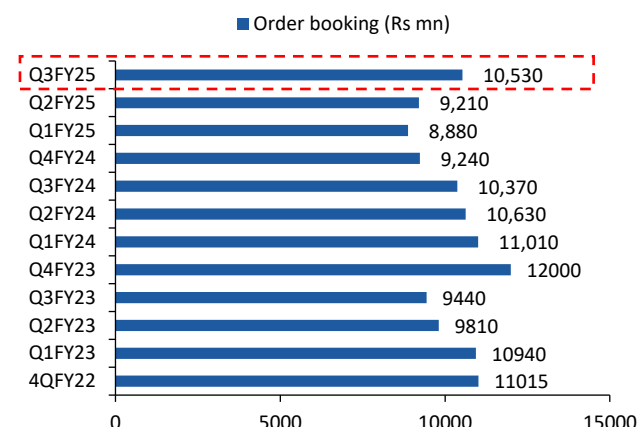
Exhibit 2: Consolidated financial snapshot Q3FY25

YE Mar (Rs mn)	Q3FY25A	Q3FY24A	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Revenues	8,530	8,286	2.9	8,162	4.5	23,684	24,477	-3.2
Raw material	4,831	4,496	7.4	4,292	12.6	12,426	13,880	-10.5
Gross margins (%)	43.4	45.7	(230)bps	47.4	(400)bps	47.5	43.3	420bps
Staff costs	912	852	7.0	847	7.7	2,535	2,369	7.0
Other Mfg. expenses	2,061	1,974	4.4	2,161	-4.6	6,266	5,772	8.5
Total expenditure	7,803	7,322	6.6	7,300	6.9	21,226	22,021	-3.6
EBITDA	727	965	-24.6	862	-15.7	2,457	2,457	0.0
EBITDAM (%)	8.5	11.6	(310)bps	10.6	(210)bps	10.4	10.0	40BPS
Depreciation	233	109	114.5	206	13.2	640	287	122.8
Interest	44	38	14.2	47	-7.1	140	60	135.2
Other income + Income from Associates	138	101	35.6	135	1.9	444	435	2.3
PBT	588	919	-36.0	744	-21.0	2,121	2,544	-16.6
Tax	177	215	-17.6	206	-14.0	612	630	-2.9
Reported Net profit	411	704	-41.6	538	-23.6	1,510	1,915	-21.2
EPS (Rs.)	2.2	3.8	-41.6	2.9	-23.6	9.8	10.4	-6.4

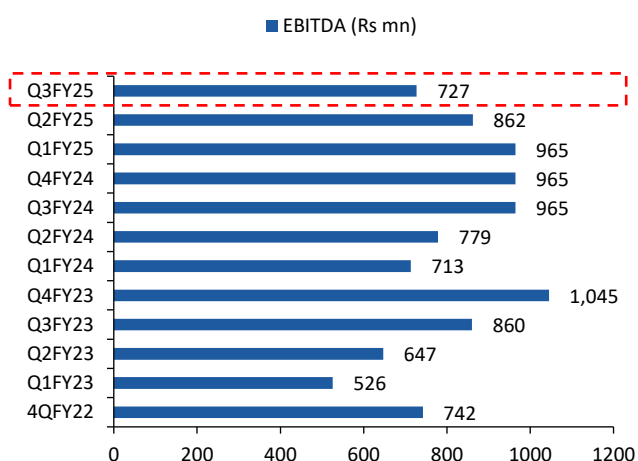
Source: Centrum Broking, Company Data

Exhibit 3: Quarterly consolidated revenue trend

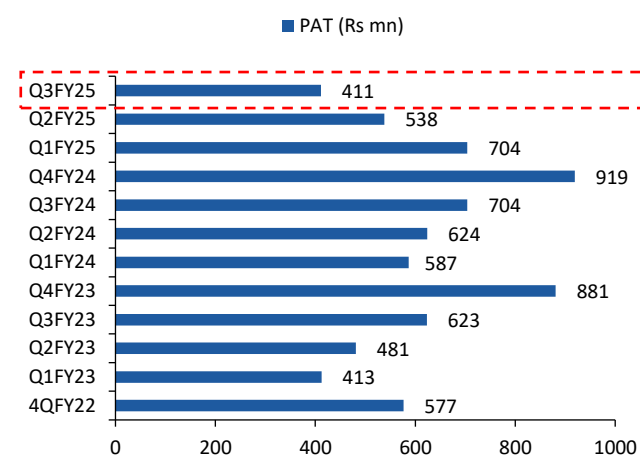
Source: Centrum Broking, Company Data

Exhibit 4: Quarterly consolidated order booking trend

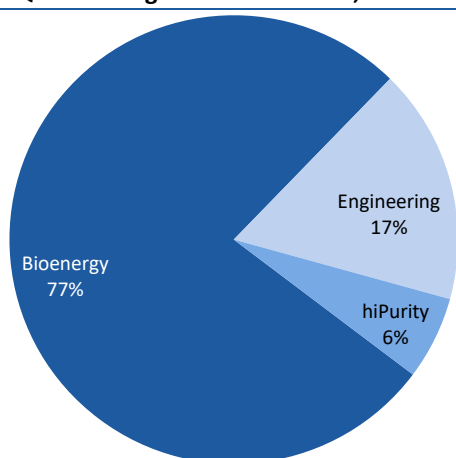
Source: Centrum Broking, Company Data

Exhibit 5: Quarterly consolidated EBITDA trend

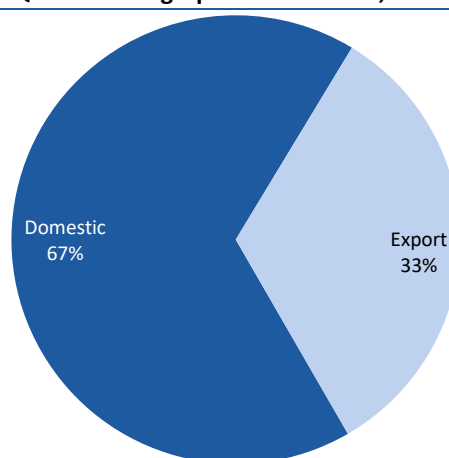
Source: Company Data, Centrum Broking

Exhibit 6: Quarterly consolidated PAT trend

Source: Company Data, Centrum Broking

Exhibit 7: Q3FY25 - Segmental OB – Rs43,490mn

Source: Centrum Broking, Company Data

Exhibit 8: Q3FY25 - Geographical OB – Rs43,490mn

Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenues	35,280	34,663	34,556	39,811	52,041
Operating Expense	32,202	30,945	31,184	35,298	45,828
Employee cost	2,576	3,187	3,680	4,061	5,204
Others	6,434	6,631	6,635	7,843	10,252
EBITDA	3,078	3,718	3,372	4,514	6,213
Depreciation & Amortisation	302	441	876	941	993
EBIT	2,776	3,277	2,496	3,572	5,220
Interest expenses	46	98	185	200	200
Other income	458	595	606	606	606
PBT	3,187	3,774	2,917	3,979	5,626
Taxes	789	941	813	1,003	1,418
Effective tax rate (%)	24.8	24.9	27.9	25.2	25.2
PAT	2,398	2,833	2,104	2,976	4,208
Minority/Associates	0	0	0	0	0
Recurring PAT	2,398	2,833	2,104	2,976	4,208
Extraordinary items	0	0	282	0	0
Reported PAT	2,398	2,833	2,386	2,976	4,208
Ratios					
YE Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Growth (%)					
Revenue	51.2	(1.8)	(0.3)	15.2	30.7
EBITDA	58.8	20.8	(9.3)	33.9	37.6
Adj. EPS	59.5	18.1	(25.7)	41.4	41.4
Margins (%)					
Gross	37.6	43.4	46.1	47.7	48.1
EBITDA	8.7	10.7	9.8	11.3	11.9
EBIT	7.9	9.5	7.2	9.0	10.0
Adjusted PAT	6.8	8.2	6.9	7.5	8.1
Returns (%)					
ROE	24.1	24.1	15.7	19.9	24.1
ROCE	23.9	23.1	15.1	19.1	23.1
ROIC	20.5	19.5	12.2	16.3	20.7
Turnover (days)					
Gross block turnover ratio (x)	5.5	3.8	3.6	3.8	4.8
Debtors	68	86	94	90	80
Inventory	56	52	57	66	62
Creditors	77	93	99	95	89
Net working capital	3	10	20	25	26
Solvency (x)					
Net debt-equity	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)
Interest coverage ratio	66.5	38.0	18.2	22.6	31.1
Net debt/EBITDA	(2.0)	(1.7)	(1.9)	(1.8)	(1.6)
Per share (Rs)					
Adjusted EPS	13.0	15.4	11.4	16.2	22.9
BVPS	58.7	69.3	76.3	86.5	103.4
CEPS	14.7	17.8	16.2	21.3	28.3
DPS	4.5	6.0	6.0	6.0	6.0
Dividend payout (%)	34.5	38.9	46.2	37.1	26.2
Valuation (x)					
P/E	48.4	41.0	55.2	39.0	27.6
P/BV	10.8	9.1	8.3	7.3	6.1
EV/EBITDA	35.3	26.7	22.8	20.2	16.9
Dividend yield (%)	0.9	0.9	1.3	1.3	1.3

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity share capital	368	368	368	368	368
Reserves & surplus	10,413	12,377	13,660	15,533	18,639
Shareholders fund	10,780	12,745	14,028	15,901	19,007
Minority Interest	1	1	1	1	1
Total debt	0	0	0	0	0
Non Current Liabilities	269	1,424	1,424	1,424	1,424
Def tax liab. (net)	0	0	0	0	0
Total liabilities	11,050	14,169	15,452	17,326	20,431
Gross block	6,465	9,019	9,719	10,419	10,819
Less: acc. Depreciation	(3,433)	(3,873)	(4,749)	(5,691)	(6,684)
Net block	3,032	5,146	4,970	4,728	4,135
Capital WIP	69	32	32	32	32
Net fixed assets	3,101	5,178	5,002	4,760	4,167
Non Current Assets	161	171	171	171	171
Investments	1,105	1,367	1,435	1,507	1,582
Inventories	3,336	2,209	3,572	3,990	5,176
Sundry debtors	7,948	8,360	9,482	10,187	12,582
Cash & Cash Equivalents	6,033	6,148	6,345	7,968	10,063
Loans & advances	0	0	0	0	0
Other current assets	4,503	5,523	5,215	5,603	6,920
Trade payables	5,050	4,968	5,102	5,700	7,394
Other current liab.	9,187	8,836	9,698	10,192	11,868
Provisions	899	981	968	968	968
Net current assets	6,684	7,454	8,845	10,888	14,511
Total assets	11,050	14,169	15,452	17,326	20,431

Cashflow					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Profit Before Tax	3,187	3,774	3,199	3,979	5,626
Depreciation & Amortisation	302	441	876	941	993
Net Interest	(41)	(59)	185	200	200
Net Change – WC	(1,222)	(971)	(1,181)	(420)	(1,528)
Direct taxes	(625)	(1,045)	(813)	(1,003)	(1,418)
Net cash from operations	1,621	1,993	2,266	3,698	3,874
Capital expenditure	(353)	(893)	(700)	(700)	(400)
Acquisitions, net	0	0	0	0	0
Investments	(491)	792	(1,275)	(1,640)	(2,114)
Others	0	0	0	0	0
Net cash from investing	(844)	(101)	(1,975)	(2,340)	(2,514)
FCF	777	1,892	291	1,357	1,359
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	0	0	0	0	0
Dividend paid	(771)	(827)	(1,103)	(1,103)	(1,103)
Interest paid	(42)	(94)	(185)	(200)	(200)
Others	(121)	(318)	0	0	0
Net cash from financing	(934)	(1,239)	(1,288)	(1,303)	(1,303)
Net change in Cash	(157)	653	(997)	55	57

Source: Company, Centrum Broking

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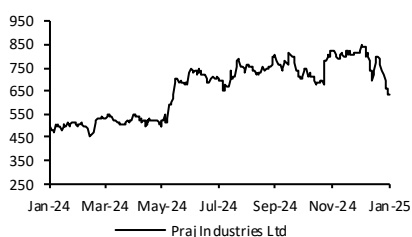
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Praj Industries



Source: Bloomberg

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