Praj Industries

01 February 2025

Dent in margins mars 3Q earnings; Orderbook remains strong

RESULT UPDATE

Sector: Mid Cap	**Rating: BUY**
CMP: Rs 632	**Target Price: Rs 758**

Stock Info

Sensex/Nifty	77,501 / 23,508
Bloomberg	PRJ IN
Equity shares (mn)	184
52-wk High/Low	Rs 875/ Rs 448
Face value	Rs 2
M-Cap	Rs 121bn/ USD 1.4bn
3-m Avg trading value	USD 11mn

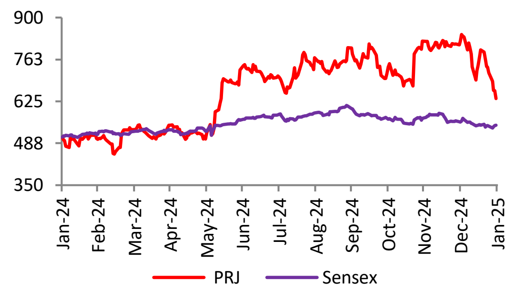
Financial Snapshot (Rs mn)

Y/E Mar	FY25E	FY26E	FY27E
Net sales	35,488	46,146	55,308
EBITDA	3,904	5,768	7,467
PAT (adj.)	2,473	3,920	5,155
EPS (adj.) (Rs)	13.5	21.4	28.1
PE (x)	46.2	29.2	22.2
P/B (x)	8.3	7.1	5.8
EV/EBITDA (x)	27.6	18.7	14.3
RoE (%)	18.0	24.2	25.9
RoCE (%)	23.1	30.1	32.5
D/E (x)	-	-	-
OPM (%)	11.0	12.5	13.5
DPS (Rs)	6.8	6.8	6.8
Dividend payout (%)	50.5	31.8	24.2

Shareholding Pattern (%)

	Dec'24	Sep'24	Jun'24
Promoter	32.8	32.8	32.8
–Pledged	-	-	-
FII	19	19.0	18.6
DII	18	17.3	16.7
Others	30.37	30.8	32.0

Stock Performance (1-year)



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Praj Industries' (PRJ IN) 3QFY25 revenue grew 3% YoY and 5% QoQ to Rs 8.5bn (missing estimate of Rs 9.3bn by 8%). Engineering segment revenues dropped 10% YoY and 19% QoQ, offset by 6% YoY and 11% QoQ growth in Bio energy revenues and 6% YoY and 17% QoQ growth in Hi-Purity revenues. Domestic revenue grew 2.9% YoY and 13% QoQ to Rs 6.7bn and export revenue grew by 2.9% YoY but was down 19% QoQ to Rs 1.8bn, impacted by delayed export orders during 1HFY25 which dragged export revenues. Gross margin contracted 237bps YoY and 404bps QoQ to 43.4% (estimate of 46.5%) due to higher raw material costs. EBITDA margin contracted sharply by 478bps YoY and 467bps QoQ to 6.9% (estimate of 12%) on account of delayed exports and fewer order executions in the engineering segment. EBITDA fell 39% YoY and 38% QoQ to Rs 586mn (47% below estimate). PAT nosedived 42% YoY and 24% QoQ to Rs 411mn (44% below estimate) on higher depreciation and interest costs. During 3QFY25, overall order intake saw modest 1.5% YoY growth to Rs 10.5bn (highest in last 3 quarters), reflecting increased share of 40% international vs 60% of domestic orders (14%-86% in 3QFY24). Domestic orders slipped 29.2% YoY while export orders surged 3x YoY. Order backlog of Rs 43.5bn (67%-33% domestic-exports) grew 10% YoY and 5% QoQ as at 31 December 2024. We have cut our FY25E/26E/27E revenue by 7% each to factor in the lower growth in 3QFY25 and cut EBITDA margin for FY25E/26E by 150bps/100bps, respectively, while retaining the same for FY27E on expected higher export contribution; EPS is cut by 21.5%/16/8% for FY25/26/27E, respectively. Reiterating BUY, with a revised target price of Rs 758 (Rs 827 earlier), based on 27x FY27E P/E (unchanged). Key risks: Change in government's ethanol blending policy, inability to pass-through raw material (RM) cost volatility, and supply-chain imbalance.

Management reaffirms 3x revenue growth guidance by FY30: Management has reaffirmed its guidance of 3x revenue growth and 5x PAT growth by FY30, as part of its ambitious 5-year growth strategy. Strategic investments in multi-feed, multi-product biofuel solutions position the company well towards sustaining its profitability and market leadership. PRJ aims for a 50-50 mix of domestic and export orders by 2030, anticipating 8x growth in export revenues. Key catalysts for this growth include its wholly export-oriented GenX business and a rapidly expanding Bioenergy segment, which is seeing acceleration in international market penetration. Management highlighted that the international business is projected to yield superior margins vs. domestic operations, enhancing its overall profitability. PRJ is witnessing increasing customers interest in solutions such as Biogenic CO_2 capture, fermentation process management, and O&M services.

Bio-energy division (73% revenue share): Revenue grew 6% YoY to Rs 6.2bn and order intake saw muted 1.5% YoY growth at Rs 8.5bn. Starchy feedstock dominated capacity buildup for the quarter with 100% share in the order booking. However, management highlighted that liquidity challenges have extended project execution cycles from 12 to 16 months or more. PRJ is actively focused on developing co-product solutions such as bio-bitumen, corn oil etc, significantly improving the financial viability of its ethanol projects. On the international bioenergy front, management anticipates a strong buildup of enquiry pipelines

Investors are advised to refer disclosures made at the end of the research report.

Engineering division (18% revenue share): Performance was weak, as revenue fell 10% YoY and 19% QoQ to Rs 1.56bn. Order intake dropped 32% YoY and grew 52% QoQ to Rs 842mn, as the execution of major Energy Transition & Climate Action (ETCA) orders were delayed. PRJ had a total order backlog of Rs 7.4bn, up 10% YoY but down 6% QoQ as of 31 December 2024. The GenX facility is now fully operational, following an overall investment of Rs 2bn and Rs 800mn incurred in 9MFY25. Delays in land acquisition pushed the facility's operational readiness by two quarters, impacting generic business activity in the current year. Management stated that the customer approval processes are now complete, and orders are expected to start building from 4QFY25, with revenue expected to flow in during 2HFY26.

Praj Hi-Purity segment (PHS) (9% revenue share): Revenue grew at 6% YoY and strong 17% QoQ to Rs 740mn. Order intake reported robust 60% YoY and over 2x QoQ growth to Rs 1.2mn, with the company recording an order book of Rs 2.6bn (up 10% YoY and 26% QoQ) as at 31 December 2024.

Higher depreciation and interest costs drag 3QFY25 PAT: PRJ recently commissioned its new facility, GenX in Mangalore (Karnataka), causing depreciation and finance costs to surge by 115%/14% YoY to Rs 233mn/44mn, respectively. Employee costs jumped 7% YoY and 8% QoQ to Rs 912mn due to addition of resources in Praj GenX, services business as well as annual increments. Consequently, PBT fell 36% YoY and 21% QoQ to Rs 588mn (40% below our estimate of Rs 979mn). A higher effective tax rate of 30.1% vs. 23.4% in 3QFY24 and 27.7% in 2QFY25, further caused PAT to decelerate 42% YoY and 24% QoQ to Rs 411mn, 44% below our estimate.

Key takeaways from the concall

- **Recent positive policy developments:**
  - **Price of FCI rice reduced:** In a major relief to grain-based ethanol producers, the government has reduced the price of FCI rice for distilleries producing ethanol. The government has set the reserve price at Rs 2,250 per quintal (fixed) pan India vs earlier fixed price of Rs 2,800 per quintal. Management highlighted this as a favorable development, as it would not only boost ethanol production, but also enhance the economic viability of ethanol projects that utilize FCI rice as feedstock.
  - **Upward price revision in C-Heavy molasses-based ethanol:** The government has increased the price of C-Heavy molasses-based ethanol by Rs 1.39/litre to Rs 57.97/litre for ESY (Ethanol Supply Year) 2024-25 from Rs 56.58/litre earlier.
- **India's first National Highway constructed using bio-bitumen** developed by PRJ was inaugurated by Minister Shri Nitin Gadkari in December 2024. Roads constructed with lignin-based bio-bitumen, blended at 15% can achieve a 70% reduction in greenhouse gas emissions compared to conventional fossil-based bitumen.

1G international

- PRJ is witnessing a notable surge in order enquiries from Brazil, Argentina, Paraguay, etc., for corn ethanol.
- The company has secured a significant contract from a customer in Tanzania, Africa, to set up 50 KLPD sugary feedstock-based ENA (Extra Neutral Alcohol) plant.
- Brazil's "Fuel of the Future" law, aimed at raising the blending mandate from 27% currently to 30% to enhance the country's ethanol production capacity, is

anticipated to add ~4bn liters largely from the starchy feedstock. PRJ continues to capitalize on this opportunity and is currently in advanced stages of discussions with several customers for their engineering requirements and potential supply orders from them.

- Argentina and Panama have announced plans to implement increased blending mandates for ethanol, signaling potential expansion in market opportunities.

1G services

- PRJ's 9MFY25 order book is 1.9x (up 80% YoY) of its entire order book in FY24. The management believes if it continues to increase the traction of its service offerings in the domestic and international markets, it could boost the order book and revenue in the business. Other businesses like compressed biogas (CBG), O&M, etc. are expected to contribute to the services business.

- PRJ is witnessing healthy enquiries for biogenic CO_2 solutions, as capturing CO_2 is rapidly gaining traction as a significant activity for several customers globally. Going forward, management expects the biogenic CO_2 to capture a significant part of its services business.

SAF opportunity:

- Management highlighted that the Sustainable Aviation Fuel (SAF) ecosystem is progressing favorably, with the ATJ (Alcohol-to-Jet) pathway emerging as a preferred long-term solution in major parts of the world for decarbonizing aviation, which also augurs well in driving the demand for low-carbon ethanol solutions.
- The mandatory 1% SAF blending with ATF (aviation turbine fuel) for domestic airlines in India, set to be enforced from 1 January 2027, remains a strong demand driver.
- PRJ's dialogue on accelerating SAF production and deployment is developing constructively with all its stakeholders.

2G ethanol

- The company is progressing steadily with the recommissioning of IOCL's 2G ethanol plant.

- The company is also working on two more 2G biorefineries for HPCL and BPCL, expected to be commissioned during 2025.

CBG

- Management highlighted that the CBG ecosystem is developing positively, with the mounting inquiries expected to translate into firm business commitments moving forward.

- PRJ has received an order to set up a (Napier Grass) plant strategically located inside the Napier Grass feedstock field, eliminating logistics costs (plant expected to be built in 12 months). The company is also witnessing a surge in enquiries for Napier grass-based plant projects.

- The board of PRJ has approved the formation of a JV (50% share) with BPCL (Bharat Petroleum Corporation Ltd) to set up CBG plants across India. Project details and financial structures are likely to be finalized over the next three to four months.

- 4 CBG projects which were announced last year and under construction and are expected to be in the commissioning phase in 1QFY26.
- Management remains optimistic about long-term growth of CBG plant orders, both in India and globally, though short-term order flow remains irregular. It anticipates the enquiry pipeline to develop positively, as regulatory and ecosystem improvements continue.
- According to management, Napier Grass, Press Mud, and Rice Straw are emerging as preferred feedstocks (due to their availability and economic feasibility) for developing bio-bitumen as a co-product. The company offers solutions for all different types of feedstock-based CBG plants, except MSW (Municipal Solid Waste) feedstock.

Brewery business: According to management, the brewery segment, after a prolonged slowdown, is beginning to show signs of recovery, with capacity expansion expected to accelerate in FY26.

Zero liquid discharge (ZLD): The ZLD business continues to gain momentum, with the market acceptance for PRJ's modularized ZLD system increasing. Several innovative technological solutions are under development to offer highly differentiated products to customers.

PLA: The company is engaged in active discussions with multiple potential customers for establishing a PLA (Polylactic Acid) facility, both in India and abroad. Management indicated while demonstration and technology capabilities have evinced significant interest from prospective customers, dialogues are currently underway, given the novelty of the technology.

Biopolymer: PRJ's newly commissioned biopolymer demo plant is strategically positioned to capitalize the emerging opportunities in the renewable chemicals and materials space. The company is currently in dialogue with several customers.

Margin outlook: Management attributed the recent dip in margins to increased material costs and change in product mix but believes this may not be a long-term trend. Going forward, margins would depend on the composition of orders executed. On a cumulative basis, margins may see a positive trend compared to previous years.

Change in estimates

We have cut PRJ's FY25/26/27E revenue by 7% each on the back of weak growth in 3QFY25. We have cut EBITDA margins by 150bps/100bps for FY25/26E to factor in the higher RM costs and lower export contribution. We keep our FY27E margin unchanged, as we expect export contribution to rise to 30% from 24% in 9MFY25. We have cut our FY25/26/27E EPS by 21.5%/16%/8%, respectively. Reiterating BUY with a revised TP of Rs 758 (Rs 827 earlier), based on 27x FY27E P/E (unchanged).

Exhibit 1: Change in estimates

(Rs mn)	Old estimates			New estimates			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net sales	38,156	49,749	59,704	35,488	46,146	55,308	(7.0)	(7.2)	(7.4)
EBITDA	4,769	6,716	8,060	3,904	5,768	7,467	(18.2)	(14.1)	(7.4)
EBITDA margin (%)	*12.5*	*13.5*	*13.5*	*11.0*	*12.5*	*13.5*	*(150)bps*	*(100)bps*	*()bps*
Adjusted PAT	3,149	4,662	5,626	2,473	3,920	5,155	(21.5)	(15.9)	(8.4)
EPS (Rs)	17.2	25.4	30.6	13.5	21.4	28.1	(21.5)	(15.9)	(8.4)
Target price			**827**			**758**			**(8.4)**

Source: Company, Systematix Institutional Research

Exhibit 2: Financial snapshot

(Rs mn)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Net sales	**8,530**	**8,286**	**2.9**	**8,162**	**4.5**	**23,684**	**24,477**	**(3.2)**
RM cost	4,831	4,496	7.4	4,292	12.6	12,426	13,880	(10.5)
Employee cost	912	852	7.0	847	7.7	2,535	2,369	7.0
Other expenses	2,203	1,974	11.6	2,082	5.8	6,328	5,772	9.6
Operating expenses	**7,945**	**7,322**	**8.5**	**7,221**	**10.0**	**21,289**	**22,021**	**(3.3)**
% of sales	93	88	478bps	88	467bps	90	90	(8)bps
EBITDA	**586**	**965**	**(39.3)**	**941**	**(37.8)**	**2,395**	**2,457**	**(2.5)**
EBITDA margins (%)	**7**	**12**	**(478)bps**	**12**	**(467)bps**	**10**	**10**	**8bps**
Other income	138	91	51.9	135	1.9	393	321	22.4
Finance cost	44	38	14.2	47	(7.1)	140	60	135.2
Depreciation	233	109	114.5	206	13.2	640	287	122.8
Forex gain / (loss)	142	11	1,204.0	(79)	(278.5)	114	114	0.0
Exceptional Items	-	-	-	-	-	282	-	-
PBT	**588**	**919**	**(36.0)**	**744**	**(21.0)**	**2,403**	**2,544**	**(5.6)**
Tax	177	215	(17.6)	206	(14.0)	612	630	(2.9)
Effective tax rate (%)	30	23	672bps	28	243bps	25	25	71bps
Reported PAT	**411**	**704**	**(41.6)**	**538**	**(23.6)**	**1,791**	**1,915**	**(6.4)**
Less: Minority interest	0	0	19.7	0	(12.0)	0	0	(41.7)
Exceptional Items	-	-	-	-	-	282	-	-
Adjusted PAT	**411**	**704**	**(41.6)**	**538**	**(23.6)**	**1,509**	**1,914**	**(21.1)**
NPM (%) Reported PAT	4.8	8.5	(368)bps	6.6	(178)bps	7.6	7.8	(26)bps
No. of equity shares	184	184		184		184	184	
Reported EPS (Rs)	**2.2**	**3.8**	**(41.6)**	**2.9**	**(23.6)**	**9.8**	**10.4**	**(6.4)**

Source: Company, Systematix Institutional Research

Exhibit 3: Key ratios

(% of revenues)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Raw material cost	57	54	237bps	53	404bps	52	57	(424)bps
Employee cost	11	10	40bps	10	31bps	11	10	103bps
Other expenses	26	24	200bps	26	31bps	27	24	314bps
Effective tax rate	30	23	672bps	28	243bps	25	25	71bps
Gross margin	43.4	45.7	(237)bps	47.4	(404)bps	47.5	43.3	424bps
OPM	6.9	11.6	(478)bps	11.5	(467)bps	10.1	10.0	8bps
NPM	4.8	8.5	(368)bps	6.6	(178)bps	7.6	7.8	(26)bps

Source: Company, Systematix Institutional Research

Exhibit 4: Segmental financial snapshot

(Rs mn)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Revenue								
Bio-energy	6,230	5,860	6%	5,600	11%	16,870	18,717	(10)%
Engineering	1,560	1,730	(10)%	1,930	(19)%	4,910	4,008	23%
High Purity	740	696	6%	632	17%	1,903	1,752	9%
Net revenues	**8,530**	**8,286**	**3%**	**8,162**	**5%**	**23,683**	**24,477**	**(3)%**
Sales mix (%)								
Bio-energy	73	71		69		71	76	
Engineering	18	21		24		21	16	
High purity	9	8		8		8	7	
Order intake								
Bio-energy	8,529	8,400	2%	8,105	5%	21,252	22,234	(4)%
Engineering	842	1,244	(32)%	553	52%	4,769	6,996	(32)%
High Purity	1,158	726	60%	553	110%	2,599	2,780	(7)%
Order backlog								
Bio-energy	33,487	30,415	10%	31,532	6%	93,732	89,588	5%
Engineering	7,393	6,715	10%	7,883	(6)%	24,578	20,663	19%
High Purity	2,609	2,370	10%	2,075	26%	7,110	6,635	7%
Geographical Revenue (Rs mn)	**8,530**	**8,286**		**8,162**		**23,684**	**24,477**	
Domestic	6,739	6,546	3%	5,958	13%	18,081	20,073	(10)%
Exports	1,791	1,740	3%	2,204	(19)%	5,603	4,404	27%
Geographical revenue mix (%)								
Domestic	79	79		73		76	82	
Exports	21	21		27		24	18	

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net revenues	**35,280**	**34,663**	**35,488**	**46,146**	**55,308**
Revenue growth (%)	51.2	(1.8)	2.4	30.0	19.9
- Op. expenses	32,202	30,944	31,584	40,378	47,842
EBITDA	**3,078**	**3,718**	**3,904**	**5,768**	**7,467**
EBITDA margins (%)	8.7	10.7	11.0	12.5	13.5
- Interest expenses	46	98	184	165	147
- Depreciation	302	441	883	995	1,135
+ Other income	356	435	531	584	642
Exchange gain/Loss	102	160	-	-	-
- Tax	789	941	894	1,272	1,673
Effective tax rate (%)	26	26	27	25	25
Reported PAT	**2,398**	**2,834**	**2,755**	**3,920**	**5,155**
+/- Extraordinary items	-	-	282	-	-
+/- Minority interest	0	0	-	-	-
Adjusted PAT	**2,398**	**2,834**	**2,473**	**3,920**	**5,155**
EPS (Rs/share)	13.1	15.4	13.5	21.4	28.1

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	3,187	3,775	3,649	5,192	6,827
- Cash tax	(625)	(1,045)	(894)	(1,272)	(1,673)
+ Non cash items	281	235	785	1,160	1,282
Cash profit	2,843	2,965	3,540	5,080	6,436
- Incr/(Decr) in WC	(1,222)	(971)	(161)	(2,360)	(2,155)
Operating cash flow	**1,621**	**1,994**	**3,380**	**2,720**	**4,281**
- Capex	(352)	(893)	(2,200)	(1,500)	(1,500)
Free cash flow	**1,269**	**1,101**	**1,180**	**1,220**	**2,781**
- Dividend	771	827	1,473	1,473	1,473
+ Equity raised	4	9	-	-	-
+ Debt raised	-	-	-	-	-
- Investments	572	(632)	-	-	-
- Misc. items	55	(164)	(204)	(185)	(167)
Net cash flow	**(157)**	**654**	**(497)**	**(438)**	**1,141**
+ Opening cash	1,074	986	1,684	1,187	748
Closing cash	986	1,684	1,187	748	1,889

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	367	367	367	367	367
Warrants	-	-	-	-	-
Reserves & Surplus	10,413	12,377	13,377	15,824	19,505
Networth	**10,780**	**12,744**	**13,744**	**16,191**	**19,872**
Minority interest	1	1	1	1	1
Total debt	-	-	-	-	-
Def. tax liab. (net)	(111)	(78)	(78)	(78)	(78)
Other financial liabilities	428	1,700	1,680	1,660	1,640
Capital employed	**11,097**	**14,367**	**15,347**	**17,774**	**21,435**
Net fixed assets	3,238	5,178	6,494	6,999	7,365
Investments	5,602	5,468	5,468	5,468	5,468
Net working capital	2,257	3,722	3,385	5,307	8,603
Cash and bank balance	986	1,684	1,187	748	1,889
Capital deployed	**11,097**	**14,367**	**15,347**	**17,774**	**21,435**
Net debt	(986)	(1,684)	(1,187)	(748)	(1,889)
WC (days)	55	62	50	50	50
DE (x)	-	-	-	-	-

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	47.9	40.5	46.5	29.3	22.3
P/BV (x)	10.7	9.0	8.4	7.1	5.8
EPS (Rs/share)	13.1	15.4	13.5	21.4	28.1
EV/EBITDA (x)	35.2	29.0	27.7	18.8	14.4
RoE (%)	22.2	22.2	18.0	24.2	25.9
RoCE (%)	28.2	25.8	23.1	30.1	32.5
DE (x)	-	-	-	-	-
Fixed asset turnover (x)	14.1	8.5	8.4	10.4	11.5
DPS (Rs)	5	6	7	7	7
Dividend yield (%)	0.7	1.0	1.1	1.1	1.1
Dividend payout (%)	34.4	38.9	50.5	31.8	24.2
Debtor days	82.2	88.0	70.0	70.0	70.0
Creditor days	52.2	52.3	50.0	50.0	50.0
Inventory days	34.5	23.3	30.0	30.0	30.0
Revenue growth (%)	51.2	(1.8)	2.4	30.0	19.9
EBITDA growth (%)	58.8	20.8	5.0	47.8	29.4
PAT growth (%)	59.6	18.2	(12.8)	58.5	31.5

Source: Company, Systematix Institutional Research

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