Praj Industries Limited (PRAJIND)

14 February 2023

CMP: ₹ 363

Q3-FY23 Result Update

Target: ₹ 470

- Praj Industries reported consolidated revenue of ₹ 9,100 million during Q3FY23 as compared to ₹5,856 million during Q3FY22, grew by 55.4% YoY. Export revenue accounted for 17% of total revenue during Q3FY23. Bio-energy segment constituted 72.7% of the overall reported revenue. The Engineering and Hi-Purity segment constituted 19.6% and 7.7% of the revenue respectively.

- On profitability front, EBITDA from operation for the quarter stood at ₹860 million with a margin of 9.46%, an increase of 75 basis points in margins YoY. The company achieved the reported PAT of ₹622 million with a margin of 6.84%, an increase of 51 basis points in margins YoY.

- The order book of the company is continuously growing thereby providing sustainability to the business. The order intake during Q3FY23 was ₹9,440 millions of which 83% orders were from domestic markets. Out of the total order Intake during the month, 82% pertains to bioenergy, 10% towards engineering and 8% towards Hi-purity business. The order backlog as on 31st December 2022 is at ₹33,800 million out of which 87% orders are from domestic markets. Overall, 81% of the order backlog is from bioenergy segment. and rest 14% and 5% backlog coming from engineering and Hi-purity segments respectively.

- In domestic market, bioenergy business continued strong performance on the order book. Around 75% of the orders came for ethanol plants based on the starchy feedstock. On 2G front, pre-commissioning activities are underway in full swing at IOCL Panipat plant. On international front, in Europe, their discussions are advancing in a positive way with various prospects regarding their technology offering.

- Energy transition and climate action is emerging, as a strong development agenda which is globally opening up more opportunities for CPES business. Company is undergoing capex of ~ ₹ 1,000 million in new facility at Kandla to meet the upcoming demand. CBG is likely to witness traction with budget allocation towards development of CBG plant and introduction of 5% CBG mandate for organization selling natural and bio gas. Within CBG, company caters to process equipment which is ~50-55% of total investment.

- To address growing opportunity basket from Energy Transition and Climate Actions agenda, company is planning to setup a new subsidiary with an investment of ₹ 1,000 million. Company is witnessing traction and positive development in USA (1G ethanol) & Euro (2G ethanol). Hi-Purity Systems have witnessed increasing traction for offerings in the high-capacity fermenters space. Company received 1st order from semiconductor sector, during the quarter.

- Praj industries is well positioned for upcoming opportunities given the announcements made by government regarding CBG projects, subsidies to encourage ethanol capacity creation, demand for ethanol by way of flex fuel vehicles etc. Hence, we maintain our **BUY** rating with a revised target price of **₹470** per share.

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Key takeaways from concall

- Company successfully commissioned Asia’s largest single train 510 KLPD syrup to ethanol plant. After successful demonstration of their RenGas technology, they are now building a large scale commercial CBG plant for one of the leading business conglomerates in India. Axens and Praj signed a Memorandum of Understanding (MOU) to work jointly on projects in India for production of sustainable aviation fuel (SAF) from low carbon alcohols through Alcohol-to-Jet (ATJ) pathway.

- Current ethanol blending with petrol has reached 12%. Automobile sector is gearing up for ethanol adoption beyond EBP20 (flex flue engine), which will drive demand post EBP20. Sugary feedstock is likely to witness increased traction for ethanol capacity enhancement. Company is in advance stage of discussion for 2G ethanol plant technology offering in Europe. 2G plant cost in Europe stands at ~Euro200-250 million.

- Order for ~4.500-5,000 million liter is yet to be tendered out to meet EBP20 target, for which its addressable opportunity is ~ ₹ 6,000 million.

- The Jharkhand government has issued Ethanol Production Promotion Policy-2022. It has a provision for a subsidy of 25% or a maximum of ₹ 300 million for setting up ethanol plant to encourage the ethanol capacity creation.

- The budget has made specific announcement to give further momentum to development of CBG projects. 500 new ‘waste to wealth’ plants under GOBARdhan (Galvanizing Organic Bio-Agro Resources Dhan) scheme will be established for promoting circular economy. These will include 200 compressed biogas (CBG) plants, including 75 plants in urban areas, and 300 community or cluster-based plants at total investment of ₹ 10,000 crore.

- At India Auto expo, number of automobile companies showcased vehicle that can run on ethanol blend up to 85% clearly indicating further demand for ethanol by the way of flex fuel vehicles.

- Management is being selective in the selection of orders, especially from new segment and is looking somewhere of around 50% of market share. It is still executing old orders and it should get over by 4^{th} quarter and will see normal margins playing role.

Source: Company, Anand Rathi Research

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Quarterly Results

(In ₹ mn)	Q3-FY23	Q2-FY23	Q3-FY22	Chg	9M-FY23	9M-FY22	Chg
Net Sales	9,100	8,766	5,856	55.4%	25,164	15,043	67.3%
Operating Expense	8,240	8,090	5,385	53.0%	23,131	13,847	67.0%
EBITDA	860	676	471	82.3%	2,033	1,196	70.0%
Other Income	79	62	88		258	249	
Depreciation	72	72	52		208	159	
EBIT	867	666	507	70.8%	2,083	1,286	62.1%
Interest	8	8	5		24	17	
PBT	859	658	502	70.9%	2,059	1,269	62.4%
Tax	236	177	132		542	342	
Consolidated PAT	**623**	**481**	**370**	**68.2%**	**1,517**	**927**	**63.8%**

Margins	Q3-FY23	Q2-FY23	Q3-FY22	Chg BPS	9M-FY23	9M-FY22	Chg BPS
Operating Margin %	9.5%	7.7%	8.1%	139	8.1%	7.9%	13
Net Margin %	6.8%	5.5%	6.3%	52	6.0%	6.2%	-13

Source: Company, Anand Rathi Research

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Consolidated Financials

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Net Sales	13,126	22,129	33,552	38,585
Operating Expense	12,002	20,191	30,029	34,534
EBITDA	1,123	1,938	3,523	4,051
Other Income	257	362	416	479
Depreciation	221	226	959	983
EBIT	1,160	2,074	2,981	3,547
Interest	29	25	52	58
PBT	1,131	2,049	2,928	3,489
Tax	320	546	528	637
PAT	**810**	**1,502**	**2,400**	**2,852**

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Liabilities				
Equity Share Capital	385	397	397	397
Reserves & Surplus	7,633	8,760	10,557	12,722
Totat Shareholder's Funds	8,018	9,157	10,954	13,118
Minority Interest	7	7	7	7
Long-Term Liabilities	-	-	-	-
Other Long-term Liabilities	270	318	318	318
Deferred Tax Liability	(104)	(19)	(19)	(19)
Short-term Liabilities	7,643	12,645	17,344	19,410
Total	**15,834**	**22,108**	**28,603**	**32,834**
Assets				
Net Fixed Assets	2,705	2,745	19,901	19,529
Long-Term L&A	152	114	114	114
Non Current Investments	535	789	789	789
Other Non-Current Assets	89	55	55	55
Current Asset	12,354	18,405	7,744	12,347
Total	**15,834**	**22,108**	**28,603**	**32,834**

Margins	FY-21	FY-22	FY-23E	FY-24E
Sales Growth %	-	68.6%	51.6%	15.0%
Operating Margin %	8.6%	8.8%	10.5%	10.5%
Net Margin %	6.2%	6.8%	7.2%	7.4%

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
EPS (₹)	4.4	8.2	11.5	13.9
P/E (x)	82.2	44.3	31.5	26.2
P/B (x)	8.3	7.3	6.1	5.1
ROE	10.1%	16.4%	19.3%	19.4%

Source: Company, Anand Rathi Research

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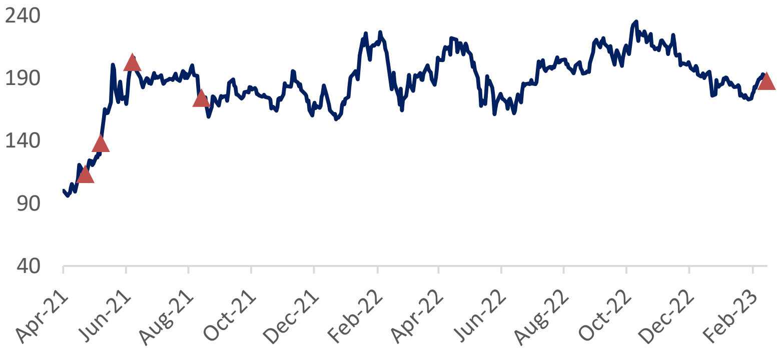
Rating and Target Price History:

Praj rating history & price chart



Source: Ace Equity, Anand Rathi Research

NOTE: Prices are as on 14 February 2023 close.

Praj rating details

Date	Rating	Target Price	Share Price
22-April-2021	BUY	270	218
7-May-2021	BUY	348	267
7-June-2021	BUY	462	375
13-Aug-2021	BUY	462	337
14-Feb-2023	BUY	470	363

Source: Ace Equity, Anand Rathi Research

Source: Company, Anand Rathi Research

Key Risks :

- Any reduction or rollback of government mandate on ethanol blending or any change in government regulation can affect its order book and future revenue.
- Praj operates in capital goods sector, so its demand depends on capex cycle of other industries. Any delay in other industries capex will impact its order intake.
- Raw material inflation, technological advancement by competitors may disrupt the business.

Source: Company, Anand Rathi Research

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Source: Company, Anand Rathi Research

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Source: Company, Anand Rathi Research

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