

Bioenergy Regaining Momentum; Maintain HOLD

Est. Vs. Actual for Q2FY25: Revenue: **MISS**; EBITDA: **Broadly INLINE**; PAT: **MISS**

Changes in Estimates post Q2FY25

FY25E/FY26E: Revenue: -9%/-7%; EBITDA: -9%/-3%; PAT: -12%/-5%

Recommendation Rationale

- Healthy bioenergy order inflow:** The company's order inflow increased during the quarter after declining for four consecutive quarters. The Bio-energy segment witnessed healthy order inflow during the quarter, resulting in a 76% QoQ growth in the segment's order book. This comes on the back of weaker performance in the bio-energy segment over the last couple of quarters. Notably, all domestic 1G ethanol business order bookings came from the starchy feedstock segment. Although revenue was impacted due to a lower pace of execution, the company expects the segment to gain traction in the coming quarters with improvements in execution. Management is also hopeful for stronger order inflow in the engineering business (especially in international markets), which was weak during this quarter.
- Long-term revenue visibility:** Praj's Engineering segment posted a 51% YoY revenue growth during the quarter. The company also recognizes the need to develop new growth avenues and is expanding its offerings to cover different feedstocks and the services segment (the order book for H1 of FY25 is 40% higher than the order book for the entire previous year). Management stated that the execution of CBG plants is progressing well and expects it to contribute a significant level of sales in H2. Additionally, management mentioned a strong inquiry pipeline and ongoing dialogues with customers, supporting its confidence in the second half of the year.

Sector Outlook: Optimistic

Company Outlook & Guidance: The company believes that long-term growth levers remain intact, as it continues to see substantial interest in its newer offerings. However, management noted that there was no momentum in the sugar business and believes that a long-term policy on ethanol blending is crucial for encouraging sugar players to invest in ethanol-related capex. The company has been working on reducing its dependence on the sugar-based ethanol business and remains focused on leveraging its strong R&D capabilities and geographic presence to improve both product and geographic mix. Overall, the company expressed confidence in meeting its broader guidance of tripling revenue by 2030, with steady improvement in margins.

Valuation: 25x FY27E (Earlier: 29x FY26E)

Current TP: Rs765/share; (Earlier TP: Rs 760/share)

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

Financial Performance: The company reported revenue of Rs 816 Cr, down 7% YoY and up 17% QoQ, missing our estimate by 5%. EBITDA came in at Rs 94 Cr, up 21% YoY and 8% QoQ, largely in line with our estimate. The company's PAT stood at Rs 54 Cr (-36% YoY and -14% QoQ), with overall performance missing our estimate by 19%. The PAT miss was primarily due to an exchange loss of Rs 8 Cr. Order intake during the quarter was Rs 921 Cr, compared to Rs 888 Cr in the previous quarter.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	816	-7%	17%	855	-5%
EBITDA	94	21%	8%	96	-2%
EBITDA Margin	11.53%	271bps	-88bps	11.28%	26bps
Net Profit	54	-14%	-36%	67	-19%
EPS (Rs)	2.9	-14%	-36%	3.6	-19%

Source: Company, Axis Securities Research

(CMP as of 28th October 2024)

CMP (Rs)	701
Upside /Downside (%)	9%
High/Low (Rs)	827/448
Market cap (Cr)	12,938
Avg. daily vol. (1m)Shrs.	11,18,623
No. of shares (Cr)	18.4

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	32.8	32.8	32.8
FII's	18.9	18.6	19.0
DII's	13.7	16.6	17.3
Retail	34.6	32	30.8

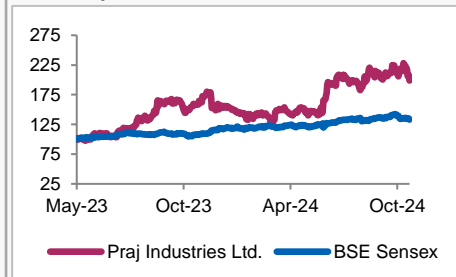
Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	3,466	3,792	4,671
EBITDA	372	487	640
Net Profit	283	344	459
EPS (Rs)	15.4	18.7	25.0
PER (x)	33.8	37.4	28.0
EV/EBITDA (x)	25.5	26.1	19.8
ROE (%)	24%	24%	25%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-9%	-7%
EBITDA	-9%	-3%
PAT	-12%	-5%

Relative performance



Source: ACE Equity, Axis Securities Research

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Outlook

Praj Industries continues to work on diversifying its offerings while building on its existing strengths. The company recently inaugurated a demo biopolymers facility, which is expected to open up new growth avenues for the company. Management also expects stronger momentum going forward, supported by the commissioning of the IOCL Panipat plant, CBG growth, and policy tailwinds in overseas markets. We believe that while the domestic market experienced strong order inflow, effective order execution will be key over the next few quarters. While we remain positive about the company's long-term growth prospects, we continue to closely monitor order execution in both the domestic and overseas markets.

Valuation & Recommendation

We have revised our estimates downwards to reflect current industry dynamics and near-term challenges. However, we have rolled forward our estimates to FY27E, taking into account the long-term levers and improving product mix. We believe that while full-year FY25 performance may be impacted due to recent challenges, the company remains on track to meet its long-term guidance and rates the stock at 25x FY27E (previously 29x FY26E). Our valuation translates into a target price of Rs 765/share (previously Rs 760/share), implying an upside of 9% from the CMP. **We maintain our HOLD rating on the stock.**

Key Highlights

- **Financial Performance:** Margins improved YoY due to softening raw material prices and a favourable sales mix. Employee costs increased due to the addition of resources in PrajGenX, the services business, and annual increments. Mark-to-market adjustments of forward contracts resulted in a loss in H1FY25 compared to a profit in H1FY24. Increases in finance, depreciation, and amortization costs were attributable to the capex in the new facility at PrajGenX in Mangalore.
- **Bio-energy business:** In the domestic bio-energy business, while the ban on the use of sugar syrup for ethanol production has been lifted, the company has not seen any movement in the market yet. However, the development of the starch-based ethanol business has been strong. The 1G Domestic Ethanol order book comprised 100% starch-based business (compared to 75% in Q1FY25). While FCI rice is available for procurement, challenges remain regarding project viability due to high grain prices. The company is in discussions with various customers about converting their existing single-feedstock plants to multi-feedstock and is receiving a robust inquiry pipeline for alternative feedstocks such as maize. The company believes that the industry will require a long-term solution to address feedstock availability issues and is also positive about the government's focus on enhancing feedstock availability, such as corn imports and corn production.
- **1G International:** During the quarter, Praj witnessed strong inflows of inquiries from Brazil, Argentina, and Paraguay for corn ethanol. Additionally, grain-based ethanol projects appear to be gaining increasing acceptance in the Brazilian market. With Brazil registering the Fuel of the Future law, an additional 4 billion litres of potential ethanol is expected from new grain-based plants. Management also mentioned discussions about increased blending mandates in Argentina and Panama, as well as a clean cooking initiative likely to open up ethanol capacity creation opportunities in Africa. Going forward, the company's plans to expand its offerings across varying feedstocks and geographies will be a key factor driving growth in the 1G ethanol business.
- **CBG:** The company received its first order for a plant exclusively based on Napier grass, as well as its first international order for biogas desulfurization. Management noted a healthy inquiry pipeline in the domestic market, along with increasing inquiries for plants based on Napier grass.
- **Energy Transition & Climate Action (ETCA):** In the ETCA segment, the deferment of major orders by a couple of months has resulted in a subdued order book during the quarter. However, management stated that the overall inquiry pipeline remains strong.
- **Other updates:** The H1FY25 order book from the 1G service business is 1.4 times the entire FY24 order book. The company is experiencing a healthy inquiry pipeline for biogenic CO2 capture solutions. The GenX facility at Mangalore has commenced operations, and customer approvals for the facility are currently underway. The current expenditure is for building the infrastructure, with revenue expected to flow through in due course. The re-commissioning of the IOCL Panipat plant is on track.
- **Commission demo plant for Corn Oil:** The company has set up a demo plant at one of its customers' corn-to-ethanol plants and has a corn oil production capacity of 4 tons per day. This development is expected to further improve the financial viability of corn-based ethanol plants.
- **R&D Spend:** The company incurred a capex of around Rs. 50-55 Cr for the lactic acid plant and an opex of around Rs 15 Cr in H1FY25. The total capex for R&D spending is expected to be around Rs 65-70 Cr for FY25.
- **MTM Loss:** The total quantum of MTM losses was approximately Rs. 10 Cr in Q2, mainly due to adverse movements

in the Euro exchange rate. Management mentioned that these losses tend to even out over time and may see a reversal in the coming quarters.

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	FY25E	FY26E	FY25E	FY26E
Revenue	3,792	4,671	4,151	5,032	-9%	-7%
EBITDA	487	640	538	661	-9%	-3%
PAT	344	459	392	482	-12%	-5%
EPS	19	25	21.4	26.2	-12%	-5%

Source: Company, Axis Securities Research

Q2FY25 Results Review

(Rs Cr)	Q2FY24	Q1FY25	Q2FY25 Axis Est	Q2FY25	YoY Growth (%)	QoQ Growth (%)	Axis Variance
Revenue	882	699	855	816	-7%	17%	-5%
Net Raw Material consumed	499	330	449	429	-14%	30%	
Gross Profit	383	369	406	387	1%	5%	
Gross Margin %	43.5%	52.7%	47.5%	47.4%	396bps	-533bps	-8bps
Employee	89	78	79	85	-5%	9%	
Other Expenses	217	204	231	208	-4%	2%	
Total Expenditure	805	612	758	722	-10%	18%	
EBIDTA	78	87	96	94	21%	8%	-2%
EBITDA Margin	8.8%	12.4%	11.3%	11.5%	271bps	-88bps	26bps
Less: Depreciation	9	20	20	21	127%	2%	
EBIT	86	84	92	79	-8%	-6%	
Less: Net Interest	1	5	5	5	360%	-4%	
Add: Other income	17	17	16	6	-67%	-67%	
Profit Before Extraordinary Items and Tax	85	79	87	74	-12%	-6%	
Less: Extraordinary Expense (net)	-	-28.2	-	-			
Profit Before Tax	85	107	87	74	-12%	-30%	
Less: Total Tax	22	23	20	21	-8%	-10%	
Profit After Tax	62	84	67	54	-14%	-36%	-19%
Reported EPS (Rs)	3.4	4.6	3.6	2.9	-14%	-36%	-19%

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	3,792	4,671	5,631
Raw Material	2,201	1,962	1,955	2,452	2,956
Employee benefit expenses	258	319	334	377	506
Other Expenses	761	814	1,016	1,202	1,408
EBITDA	308	372	487	640	761
Other income	46	59	62	83	96
PBIDT	354	431	549	724	857
Depreciation	30	44	98	90	82
Pre-tax profit	319	377	432	614	753
Tax provision	79	94	116	155	190
RPAT	240	283	344	459	563

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	1,582	2,041	2,605
Total Equity	1,078	1,275	1,619	2,078	2,641
Total Non-Current Liabilities	40	162	162	162	162
Trades Payable	505	497	509	638	769
Other Current Liabilities	864	793	793	793	793
Total Current Liabilities	1,501	1,459	1,471	1,601	1,732
Total Capital Employed	2,619	2,895	3,252	3,840	4,535
Net Block	237	407	432	501	581
Goodwill	63	63	63	63	63
Total Non-Current Assets	437	671	696	765	845
Cash	99	168	505	806	1,154
Inventory	334	221	268	336	405
Receivables	795	836	831	1,024	1,234
Investments	458	402	402	402	402
Total Current Assets	2,182	2,224	2,581	3,121	3,726
Total Assets	2,619	2,895	3,277	3,886	4,571

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Net Profit Before Tax	319	377	432	614	753
Depreciation	30	44	98	90	82
Working Capital Changes	-122	-97	14	-88	-104
Tax Paid	-63	-104	-116	-155	-190
Cash From Operating Activities	162	199	375	388	454
Cash From Investing Act	-84	-10	-35	-83	-104
Cash Flow from Financing	-93	-124	-8	-8	-8
Change in Cash	-16	65	332	297	343
Opening Cash	107	99	168	505	806
Closing Cash	99	168	505	806	1,154

Source: Company, Axis SecuritiesResearch

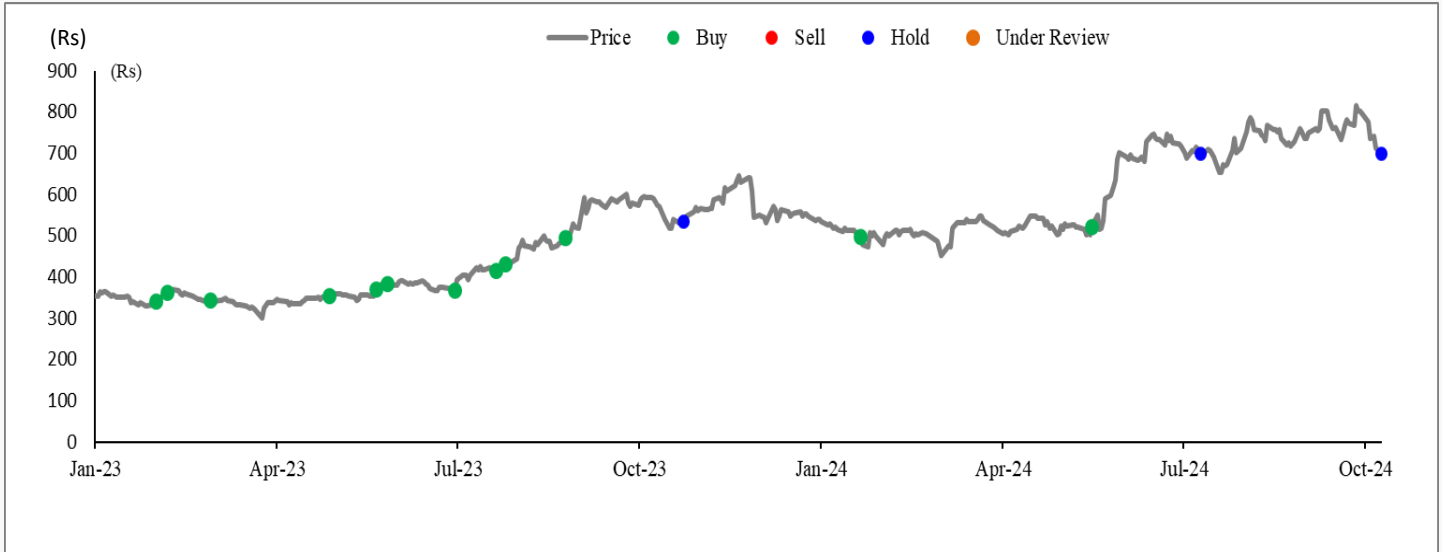
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Operational Ratios					
Gross profit margin	38%	43%	48%	48%	48%
EBITDA margin	9%	11%	13%	14%	14%
PAT margin	7%	8%	9%	10%	10%
Growth Indicators					
Sales growth	51%	-2%	9%	23%	21%
EBITDA growth	59%	21%	31%	31%	19%
PAT growth	60%	18%	21%	33%	23%
Efficiency Ratios					
Total Asset Turnover (x)	1.5	1.3	1.2	1.3	1.3
Inventory turnover (x)	6.5	7.1	8.0	8.1	8.0
Sales/Working Capital	4.7	6.2	6.1	5.9	5.9
Sales/ Total Assets					
Liquidity Ratios					
Total Debt/Equity(x)	0.00	0.00	0.00	0.00	0.00
Total Asset/Equity(x)	2.22	2.10	1.94	1.79	1.73
Current Ratio(x)	1.45	1.52	1.75	1.95	2.15
Quick Ratio(x)	1.23	1.37	1.57	1.74	1.92
Interest Cover(x)	66.49	37.99	25.54	32.31	34.92
Per Share Data					
Earnings Per Share (Rs)	13.05	15.43	18.73	25.00	30.67
Valuation Ratios					
Adjusted PE (x)	36.5	33.8	37.4	28.0	22.9
Price / Book Value(x)	8.1	7.5	8.0	6.2	4.9
EV/Net Sales(x)	2.5	2.7	3.4	2.7	2.3
EV/EBITDA(x)	28.1	25.5	26.1	19.8	16.7
EV/EBIT(x)	26.8	24.5	28.2	20.1	16.4
Return Ratios					
ROA	9.92%	10.28%	11.15%	12.82%	13.32%
ROE	24.06%	24.09%	23.79%	24.85%	23.88%
ROCE	31.30%	30.32%	27.82%	30.98%	30.25%

Source: Company, Axis SecuritiesResearch

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
0-Feb-24	BUY	580	Result Update
03-Jun-24	BUY	618	Result Update
29-Jul-24	HOLD	760	Result Update
29-Oct-24	HOLD	765	Result Update

Source: Axis SecuritiesResearch

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