

Lack of Momentum in Bio-energy Impacts Business; Downgrade to SELL
Est. Vs. Actual for Q1FY26: Revenue: MISS; EBITDA: MISS; PAT: MISS
Changes in Estimates post Q1FY26
FY26E/FY27E: Revenue: -11%/-19%; EBITDA: -26%/-28%; PAT: -37%/-30%
Recommendation Rationale

- **Lacklustre Demand in Bio-energy Segment:** Praj Industries posted a subdued Q1FY26 performance, weighed down by cautious sentiment in the domestic ethanol market following the achievement of the 20% EBP target and the absence of new blending mandates. The prevailing geopolitical environment and uncertainty surrounding US tariff policies further delayed capital expenditure decisions.
- **Fixed Costs Building Up:** Revenue decline, coupled with increasing fixed costs, resulted in a 685 bps YoY decline in EBITDA margins during the quarter. Additionally, expenses in the GenX business were incurred without corresponding revenue generation, further impacting the profitability. The management expects EBITDA margins for FY26 to be in the range of high single digits.
- **Order Inflow Slows Down:** Order inflows moderated to Rs 795 Cr versus Rs 1,032 Cr in the preceding quarter, with all three business segments reporting sequential declines. While the management has expressed confidence in regaining the momentum, the timing and pace of such recovery remain uncertain. The company is, however, seeing strong traction in the CBG and services businesses, and a healthy enquiry pipeline for biogenic CO2 capture solutions.

Sector Outlook: Cautiously Optimistic

Company Outlook & Guidance: The company asserts that its long-term growth drivers remain strong, supported by robust interest in its newer products. Nonetheless, execution delays may continue impacting revenue growth and margin improvement for a quarter or two. In H2FY26, management anticipates progress on delayed projects, with execution activity picking up as pending orders enter the implementation phase. Praj aims to achieve high single-digit EBITDA margins in FY26. It is actively working to reduce reliance on the sugar-based ethanol segment, while diversifying across newer products in order to meet its FY30 targets.

Valuation: 20x FY27E (Unchanged)
Current TP: Rs. 350/share; (Earlier TP: Rs 500/share)

Recommendation: We **downgrade our rating on the stock from HOLD to SELL** owing to a slowdown in the momentum and risks posed by tariff-related uncertainties.

Financial Performance: The company reported revenue of Rs 640 Cr, down 8% YoY and 26% QoQ, missing our estimate by 6%. EBITDA stood at Rs 36 Cr, down 59% YoY and 53% QoQ, significantly below our estimate of Rs 59 Cr. EBITDA margins declined to 5.56% from 12.4% in Q1FY25. PAT stood at Rs 5 Cr, reflecting a 94% YoY and an 87% QoQ decline, with overall performance missing our estimate. The company reported an Exchange loss of 4 Cr vs Exchange gains of Rs. 5 Cr in Q1FY25. Order intake during the quarter was Rs 795 Cr, compared to Rs 1,032 Cr in the previous quarter.

Key Financials (Consolidated)

(Rs Cr)	Q1FY26	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	640	-8%	-26%	682	-6%
EBITDA	36	-59%	-53%	59	-39%
EBITDA Margin	5.6%	-685bps	-320bps	8.6%	-307bps
Net Profit	5	-94%	-87%	34	-84%
EPS (Rs)	0.3	-94%	-87%	1.9	-84%

Source: Company, Axis Securities Research

(CMP as of 12th August, 2025)

CMP (Rs)	414
Upside /Downside (%)	-15%
High/Low (Rs)	874/406
Market cap (Cr)	7,594
Avg. daily vol. (1m) Shrs.	4,87,299
No. of shares (Cr)	18.4

Shareholding (%)

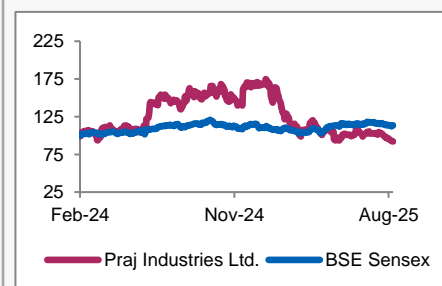
	Dec-24	Mar-25	June-25
Promoter	32.8	32.8	32.8
FII's	18.63	17.16	16.86
DII's	18.19	19.51	17.43
Retail	30.38	30.52	32.89

Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	3,228	3,282	4,015
EBITDA	315	344	483
Net Profit	219	195	322
EPS (Rs)	11.9	10.6	17.5
PER (x)	34.7	39.0	23.6
EV/EBITDA (x)	23.8	21.7	15.5
ROE (%)	16%	13%	19%

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	-11%	-19%
EBITDA	-26%	-28%
PAT	-37%	-30%

Relative Performance


Source: ACE Equity, Axis Securities Research

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Outlook

Although Praj is expanding its portfolio and enhancing existing strengths, near-term growth momentum is likely to moderate. The company has also invested in the Mangalore facilities, which have yet to provide a meaningful revenue. A lack of momentum in the bio-energy and delays in extracting growth from new facilities are likely to impact its near-term performance. While the long-term outlook remains positive, a clear recovery will be contingent on multiple external factors, including domestic demand for biofuels and improvement in global macroeconomic conditions.

Valuation & Recommendation

We have revised our estimates downward to account for the expectation of deferred revenue growth and margin expansion, and tariff-related uncertainties. We continue to value the stock at 20x FY27E, reflecting expectations of slower growth and downside risks related to the execution of the growth strategy. This translates into a TP of Rs 350/share (down from Rs 500/share), implying a downside of 15% from the CMP. We downgrade our rating on the stock from HOLD to SELL.

Key Highlights

- **Financial Performance:** Revenue growth was impacted by lower domestic ethanol volumes due to delayed execution cycles and liquidity issues at the customers' end. Additional costs from the GenX business were incurred without corresponding revenues. The international business contributed ~45% to the Q1FY26 order book. Delayed execution of a couple of high-value engineering orders at Kandla resulted in higher labour and infrastructure expenses. Cash on hand as of Jun'25 stood at Rs. 4.5 Bn.
- **Effective Tax Rate (ETR):** The consolidated ETR for Q1FY26 stood at 44%, driven by recognition of deferred tax assets on Praj GenX losses at a lower rate.
- **Bio-energy Business:** On the domestic front, EBP20 target achieved; installed capacity now exceeds requirements, slowing greenfield ethanol plant enquiries. Ethanol demand expected to rise with higher blending mandates. Funding challenges persist (for customers), with lenders seeking higher equity and tighter credit norms, leading to delays in project executions.
- **1G International:** Strong enquiry pipeline from the Americas; however, order booking remains muted due to tariff uncertainty and slow decision-making. Latin America shows robust traction supported by favourable policies. The U.S. IRA approval for 45Z/45Q incentives (extended to 2029) creates a significant opportunity for ATCS and CO₂ solutions, strengthening the low-carbon ethanol pipeline. However, the tariff-related uncertainties continue to impact capex decisions. The Global Biofuel Alliance's formal governance adoption is expected to generate fresh demand.
- **1G Service:** The company observed a continued growth journey with healthy performance and a healthy enquiry pipeline for biogenic CO₂ Capture solutions.
- **CBG:** There is positive traction for Napier grass-based projects and strong enquiry interest in press mud-based plants, though some orders are delayed due to pending funding closures. BPCL JV for 10 CBG projects is under agreement discussion. Management noted steady ecosystem development with a healthy enquiry pipeline.
- **Energy Transition & Climate Action (ETCA):** Projects face delays or are on hold due to tariff uncertainty and lower prioritisation of energy transition. The company is exploring opportunities in non-U.S. markets.
- **SAF:** Praj received a detailed engineering order for a commercial-scale SAF plant in the U.S. It partnered with IATA and ISMA to promote SAF carbon assessment and certification in India. Moreover, multiple states are encouraging SAF investments, with supportive policy announcements anticipated.
- **Other Developments:** The company received an order for detailed engineering of a commercial-sized SAF plant (30 MGPA). IRA approval of 45Z/ 45Q with clarity and extension through 2029 presents a strong short to mid-term opportunity for low-carbon ethanol solutions. Furthermore, it also partnered with IATA and ISMA to advance SAF Carbon Assessment and Certification in India.
- **Praj Genx:** During the quarter, the company secured two additional framework agreements under the GenX segment. Looking ahead to next year, firm proposals worth over Rs 1,000 Cr (70% from US customers and 30% from non-US customers) remain under customer evaluation, with final decisions pending.
- **Order Book Outlook:** Management expects order inflow in the current quarter to sustain at prevailing levels. However, in the absence of fresh blending mandates, topline growth may be constrained, as domestic order inflows—particularly greenfield projects—are likely to remain limited.
- **Guidance:** Praj reiterated its Vision 2030 target of tripling top line by 2030. For FY26, the company aims to achieve high single-digit EBITDA margins. It views potential diesel blending mandates as a significant growth opportunity, given that diesel consumption in India is ~2.5–3x higher than petrol.

Key Risks to Our Estimates and TP

- Changes in the pace of order execution or cancellation of orders.
- Changes in government policies and/or international policies and regulations.
- Advent of newer technologies leading to changes in business models/prospects.

Change in Estimates

	Revised		Old		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	3,282	4,015	3,683	4,956	-11%	-19%
EBITDA	344	483	464	671	-26%	-28%
PAT	195	322	308	458	-37%	-30%
EPS	11	18	17	25	-37%	-30%

Source: Company, Axis Securities Research

Q1FY26 Results Review

(Rs Cr)	Q1FY25	Q4FY25	Q1FY26 Axis Est	Q1FY26	YoY Growth (%)	QoQ Growth (%)	Axis Variance
Revenue	699	860	682	640	-8%	-26%	-6%
Net Raw Material consumed	330	412	351	298	-10%	-28%	
Gross Profit	369	448	331	342	-7%	-24%	
Gross Margin %	52.7%	52.1%	48.5%	53.4%	65bps	133bps	490bps
Employee	78	95	91	82	5%	-14%	
Other Expenses	204	277	181	224	10%	-19%	
Total Expenditure	612	784	623	605	-1%	-23%	
EBIDTA	87	75	59	36	-59%	-53%	-39%
EBITDA Margin	12.4%	8.8%	8.6%	5.6%	-685bps	-320bps	-307bps
Less: Depreciation	20	22	22	25	25%	12%	
EBIT	84	63	50	15	-82%	-77%	
Less: Net Interest	5	5	5	5	6%	8%	
Add: Other income	17	10	14	4	-74%	-57%	
Profit Before Extraordinary Items and Tax	79	58	45	10	-88%	-84%	
Less: Extraordinary Expense (net)	-28.2	-	-	-			
Profit Before Tax	107	58	45	10	-91%	-84%	
Less: Total Tax	23	18	11	4	-81%	-77%	
Profit After Tax	84	40	34	5	-94%	-87%	-84%
Reported EPS (Rs)	4.6	2.2	1.9	0.3	-94%	-87%	-84%

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Net sales	3,528	3,466	3,228	3,282	4,015
Raw Material	2,201	1,962	1,655	1,655	2,063
Employee benefit expenses	258	319	349	364	477
Other Expenses	761	814	910	919	993
EBITDA	308	372	315	344	483
Other income	46	59	61	36	58
PBIDT	354	431	376	380	541
Depreciation	30	44	86	99	90
Pre-tax profit	319	377	270	261	431
Tax provision	79	94	80	66	109
RPAT	240	283	219	195	322

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Share Capital	37	37	37	37	37
Reserves & Surplus	1,041	1,238	1,345	1,540	1,862
Total Equity	1,078	1,275	1,382	1,577	1,899
Total Non-Current Liabilities	40	162	174	174	174
Trades Payable	505	497	482	431	537
Other Current Liabilities	864	793	990	990	990
Total Current Liabilities	1,501	1,459	1,605	1,553	1,659
Total Capital Employed	2,619	2,895	3,160	3,304	3,732
Net Block	237	407	446	571	653
Goodwill	63	63	63	63	63
Total Non-Current Assets	437	671	730	855	937
Cash	99	168	126	35	193
Inventory	334	221	253	227	283
Receivables	795	836	556	692	825
Investments	458	402	358	358	358
Total Current Assets	2,182	2,224	2,430	2,449	2,796
Total Assets	2,619	2,895	3,160	3,304	3,732

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Net Profit Before Tax	319	377	299	261	431
Depreciation	30	44	86	99	90
Working Capital Changes	-122	-97	-200	-161	-82
Tax Paid	-63	-104	-103	-66	-109
Cash From Operating Activities	162	199	43	153	350
Cash From Investing Act	-84	-10	71	-223	-171
Cash Flow from Financing	-93	-124	-161	-21	-21
Change in Cash	-16	65	-47	-91	158
Opening Cash	107	99	168	126	35
Closing Cash	99	168	126	35	193

Source: Company, Axis Securities Research

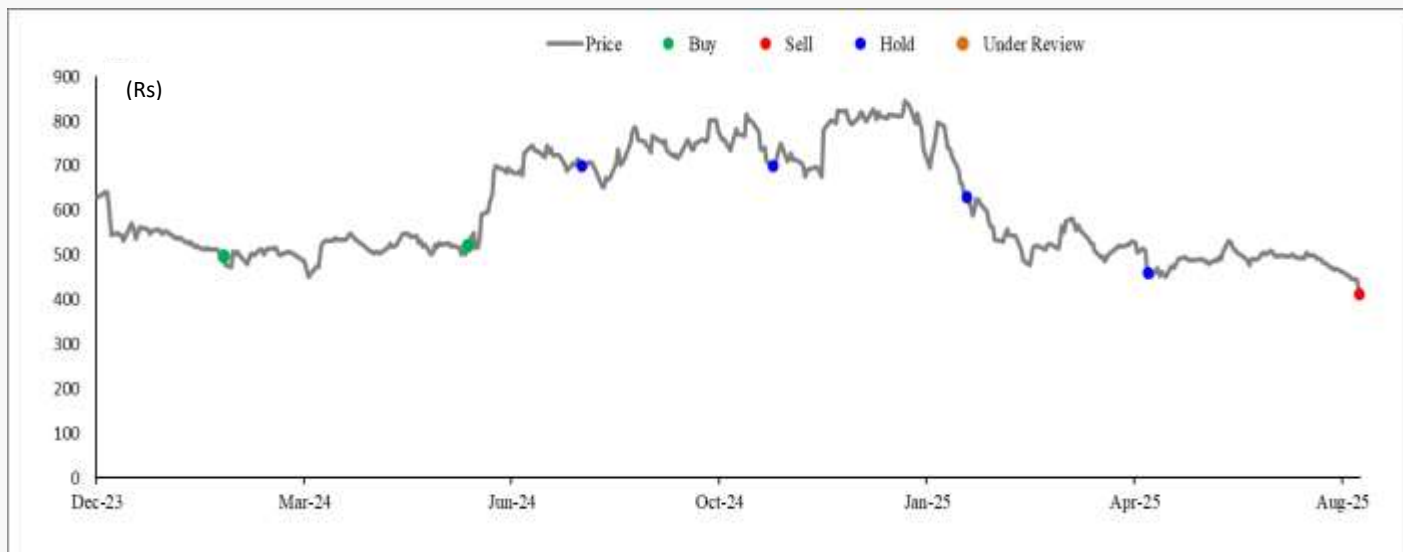
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Operational Ratios					
Gross profit margin	38%	43%	49%	50%	49%
EBITDA margin	9%	11%	10%	10%	12%
PAT margin	7%	8%	7%	6%	8%
Growth Indicators					
Sales growth	51%	-2%	-7%	2%	22%
EBITDA growth	59%	21%	-15%	9%	40%
PAT growth	60%	18%	-23%	-11%	65%
Efficiency Ratios					
Total Asset Turnover (x)	1.5	1.3	1.1	1.0	1.1
Inventory turnover (x)	6.5	7.1	7.0	6.9	8.1
Sales/Working Capital	4.7	6.2	10.2	6.7	6.4
Liquidity Ratios					
Total Debt/Equity(x)	0.00	0.00	0.00	0.00	0.00
Total Asset/Equity(x)	2.34	2.28	2.18	2.02	1.97
Current Ratio(x)	1.45	1.52	1.51	1.58	1.68
Quick Ratio(x)	1.23	1.37	1.36	1.43	1.51
Interest Cover(x)	66.49	37.99	16.72	16.57	23.24
Per Share Data					
Earnings Per Share (Rs)	13.05	15.43	11.92	10.61	17.55
Valuation Ratios					
Adjusted PE (x)	31.7	26.8	34.7	39.0	23.6
Price / Book Value(x)	7.1	6.0	5.5	4.8	4.0
EV/Net Sales(x)	2.1	2.2	2.3	2.3	1.9
EV/EBITDA(x)	24.3	20.1	23.8	21.7	15.5
EV/EBIT(x)	23.1	19.3	25.9	26.6	16.6
Return Ratios					
ROA	10%	10%	7%	6%	9%
ROE	24%	24%	16%	13%	19%
ROCE	31%	30%	19%	17%	24%

Source: Company, Axis Securities Research

Praj Industries Price Chart and Recommendation History



Source: Axis Securities Research

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