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Phillip Capital note on #Prajindustries

PhillipCapital

Praj Industries Ltd (PRJ IN)

Strong execution in seasonally weak quarter

INDIA | LOGISTICS | Quarterly Update

12 August 2021

BUY (Maintain)

CMP RS 344

TARGET RS 452 (+31%)

SEBI CATEGORY: SMALL CAP

Top takeaways from 1QFY22

- ✓ Results better than expected.
- ✓ Strong improvement in order inflow, order book and margin recovery.
- ✓ Growing business opportunity with push for de-carbonization and renewable fuels.

Key highlights

Revenue grew by 198.2%yoy (down 31.9%qoq) to Rs 3.86bn, higher than estimates of Rs 1.9bn. Domestic revenue increased by 202.2% to Rs 2.89bn while export revenue up by 186.7%yoy to Rs 966mn. Ethanol (Bioenergy) revenue increased by 259.3%yoy to Rs 2.74bn while Engineering business (including brewery) grew by 220.5% yoy to Rs 664mn. High purity reported revenue increase of 39.5% yoy to Rs 452mn. Order intake increased by 113.2% yoy to Rs 6.6bn; domestic orders grew by 171.0% to Rs 4.95bn, export orders also seen pick up with 30.0%yoy growth to Rs 1.6bn. Order backlog improved by 60.2% yoy (up 15.7% qoq) to the highest levels of Rs 20.2bn. Order book has a domestic order share of 83% at Rs 16.7bn; exports orders are 17% at Rs 3.4bn. Order book in ethanol (bioenergy) segment is Rs 13.6bn representing 67.5% share while share from engineering and Hi-purity is 25.6% and 6.9% respectively. EBITDA was at Rs 298mn compared to loss of Rs 149mn in 1QFY21 and higher than estimates of Rs 133mn. EBITDA margins improved from -11.5% in 1QFY21 to 7.7% in 1QFY22. Adjusted profit was at Rs 214mn compared to estimated Rs 93mn. Reported profit was at Rs 222mn with exchange gain of Rs 8mn in 1QFY22.

Conference call takeaways

- The ethanol blending in country is expected to reached at c.10% ESY 2020-21at 3.32bn ltr compared to 1.73bn ltr in previous year - highest ever all India basis. The government plan to achieve 20% ethanol blending in 2025 will require additional 10bn ltr of ethanol capacity from sugar and gain based raw material.
- Praj has commissioned first CBG project in India from press mud and has got order from HPCL for setting up CBG project in Uttar Pradesh using rice straw as feed stock using proprietary microbe. The company has CBG technology for Agri feed stock, press mud and spent wash which will help to capitalize opportunities under SATAT programme for 5000 Bio-gas plants in India with an investment of c. Rs 1.75tn.
- The Government has allowed ethanol as standalone fuel with intention of E100 (like Brazil) with flexi fuel vehicles and pilot project is launched in Pune by OMC for retailing. The use of Bio-fuels in Aviation and Shipping to promote de-carbonization and reduce CHG will increase the opportunity for the company.

Outlook and valuation: The stock is trading at 22.8x our FY23 earnings. Praj with its leadership in biofuel technology will benefit from upcoming opportunities in Bio-mobility, Bio-CNG and RCM with global push for sustainable environment. Management is expecting significant traction in development of bio-CNG projects supported under Sustainable Alternative towards Affordable Transportation (SATAT). Praj has strong balance sheet with net cash of Rs 5.2bn and scalable business model. We have raised our earnings by 13%/18% for FY22/23; with valuation at 30x FY23 from 25xFY23 EPS with a target of Rs 452 (Rs 320 earlier).

COMPANY DATA

O/S SHARES (MN) :	183
MARKET CAP (RSBN) :	63
MARKET CAP (USDBN) :	0.8
52 - WK HI/LO (RS) :	407 / 64
LIQUIDITY 3M (USDMN) :	10
PAR VALUE (RS) :	2

SHARE HOLDING PATTERN, %

	Jun 21	Mar 21	Dec 20
PROMOTERS :	32.8	32.9	32.9
DII :	7.1	15.2	16.1
FII :	13.1	11.6	12.3
OTHERS :	46.9	40.3	38.7

KEY FINANCIALS

Rs mn	FY21	FY22E	FY23E
Net Sales	13,047	19,517	28,443
EBITDA	1,124	2,154	3,751
Net Profit	811	1,589	2,766
EPS, Rs	4.4	8.7	15.1
PER, x	77.8	39.7	22.8
EV/EBITDA, x	55.1	28.6	16.4
PBV, x	7.9	7.0	5.8
ROE, %	10.7	18.7	27.9

CHANGE IN ESTIMATES

	__Revised Est.__		__% Revision__	
Rs mn	FY22E	FY23E	FY22E	FY23E
Revenue	19,517	28,443	8	9
EBITDA	2,154	3,751	13	19
Core PAT	1,589	2,766	13	19
EPS (Rs)	8.7	15.1	13	18

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(Rs mn)	1QFY22	1QFY21	yoy	4QFY21	qoq	vs. expect. %	Comments
Revenue	3863	1296	198.2	5671	-31.9	98.8	Domestic up 202.2% yoy; Ethanol up 259.3% yoy
Raw material	2367	695	240.4	3268	-27.6	134.2	Impact of revenue mix, raw material inflation
Employee	445	368	20.9	555	-19.9	14.0	
Other expenses	753	381	97.4	1127	-33.2	83.7	
EBITDA	298	-149	-300.5	721	-58.6	124.7	
EBITDA margins (%)	7.7	-11.5		12.7			Margin improvement with operating leverage
Adj PAT	214	-120	-278.7	497	-57.0	129.9	
Order inflow	6610	3100	113.2	6500	1.7		Domestic 75%, ethanol 77.5%; High Purity 10.5%; engineering 12%
Order book	20227	12630	60.2	17480	15.7		Ethanol 83%, High Purity 7%, and emerging 26%

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