

PRAJ INDUSTRIES

Ends FY19 on a good note; potential priced in

India Equity Research | Engineering and Capital Goods



Praj Industries' (Praj) healthy execution momentum sustained with Q4FY19 and FY19 revenue jumping 34% and 25%, respectively. Key highlights: a) healthy backlog triggered strong execution in the ethanol segment (up 50% YoY) spurring overall revenue 34% YoY; b) a few strategic projects entailing lower margins impacted gross margin—down 500bps YoY; and c) absence of critical equipment ordering in Q4FY19 impacted order intake—down 18% YoY. FY19 order intake grew 34% YoY. Management expects INR2.5bn orders from 2G projects in FY20 (INR1.5bn in FY18) given ordering from oil marketing companies (OMC) for critical equipment. While 2G ethanol ordering is gaining traction with commencement of awarding of critical equipment, we believe large part of growth (37% PAT CAGR over FY19-21E) is already priced in given 22x FY21E EPS. Maintain 'HOLD' with TP of INR145 (30x June 2020 EPS).

Ethanol execution traction sustains; 2G gaining momentum

Healthy revenue growth of 34% YoY was led by 50% and 30% YoY spurt in ethanol and engineering segments, respectively. However, hi-purity segment's revenue continued to decline (down 8% YoY) given weak order backlog. Praj has bagged part order of a critical equipment from IOCL (2G project order intake at INR1.5bn in FY19) and management expects INR2.5bn worth of 2G orders in FY20 as ordering for critical equipment picks up, driving FY20/21 execution.

Margins to improve; enquiries across segments perking up

While execution of a few low margin projects impacted gross margins, management expects 200-250bps expansion in FY20, driving EBITDA. Management also highlighted the fact that enquiries across segments (CBG, ethanol, international market, brewery) are improving; their translation in to orders remains a key monitorable.

Outlook and valuation: Rich valuations; maintain 'HOLD'

Praj is poised to garner a higher share in the expanding domestic ethanol market along with selective opportunities in compressed biogas, hi-purity solutions and international ethanol market driving 15% and 37% revenue and PAT CAGR, respectively, over FY19–21E. However, we believe, a large part of the growth is already priced in at 30x/22x FY20/21E EPS. Hence, we maintain 'HOLD'.

EDELWEISS RATINGS

Absolute Rating	HOLD
Investment Characteristics	Growth

MARKET DATA (R: PRAJ.BO, B: PRJ IN)

CMP	: INR 130
Target Price	: INR 145
52-week range (INR)	: 168 / 72
Share in issue (mn)	: 182.7
M cap (INR bn/USD mn)	: 24 / 338
Avg. Daily Vol. BSE/NSE ('000)	: 2,688.3

SHARE HOLDING PATTERN (%)

	Current	Q3FY19	Q2FY19
Promoters *	33.1	33.1	33.2
MF's, FI's & BKs	19.1	19.1	17.2
FII's	13.8	13.8	14.6
Others	34.0	34.0	34.9
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(6.3)	(16.9)	(10.5)
3 months	0.4	(14.8)	(15.3)
12 months	(11.6)	30.7	42.3

Financials

(INR mn)

Year to March	Q4FY19	Q4FY18	% Chg	Q3FY19	% Chg	FY19	FY20E	FY21E
Net revenues	3,682	2,745	34.1	3,303	11.5	11,411	13,157	15,076
EBITDA	343	271	26.6	239	43.4	794	1,250	1,688
Adjusted Profit	282	228	23.8	185	52.8	592	811	1,110
Diluted EPS (INR)	1.5	1.2	23.8	1.0	52.8	3.2	4.4	6.1
Diluted P/E (x)						40.7	29.7	21.7
EV/EBITDA (x)						27.2	17.3	12.6
ROAE (%)						8.0	10.7	13.8

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Q4FY19 conference call: Key highlights

Segments / Market

- **Ethanol**
 - India plans to blend 2.7bn litres for 2018-19 (up 58% from last year 1.5bn). Targeted blending rate of 7.2% for 2018-19 versus 4.22% YoY.
 - INR18bn allocated for supporting 12 2G commercial projects.
 - US, Brazil, China and India— 3% increase in blending around the world.
 - 2G ethanol: In first phase six projects have been awarded. Four have been bagged by Praj—scope INR1.5bn per project.
 - IOCL has started awarding of critical equipment.
 - HPCL and BPCL have yet to award critical equipment.
 - MRPL engineering work on going.
- **Interest subvention scheme**
 - Earlier, 114 companies had applied for the interest subvention scheme; now, 268 companies have applied. 10-12 applications have been approved.
 - The companies are at different stages of planning / awarding—tie up for finances, obtaining environmental clearances, etc.
- **Compressed bio gas**
 - The government has announced 5,000 plants. First phase (up to March 2019) – 200 applications have gone to OMCs and GAIL.
- **International market**
 - RED 2 (Renewable Energy Development): Several European companies are taking interest in setting up plants using Praj's technology.
- **Engineering segment**
 - Enquiry base is growing, particularly in the brewery segment.
- **Praj's agreement with Gevo**
 - Praj signed a construction licence agreement with Gevo, USA, to commercialise technology for the production of Isobutanol, high energy feedstock for jet biofuel.
 - Commercial production of Isobutanol for jet bio-fuels is at a very nascent stage and will take time to evolve.
 - No mandates from any country for compulsory blending of Isobutanol in jet fuel.

Financial performance

- Technology development - 75% reduction in water consumption in ethanol plants.
- Cash & cash equivalents – INR3.21bn.
- Order book stands at INR 9.28bn.
- Order intake includes INR1.5bn pertaining to 2G ethanol projects in FY19.

- Tax rates—Lower contribution from Hi-purity and standalone taxed at MAT rate led to 22% tax rate. Going ahead, the tax rate should be at full rate.
- Order intake - 30% from exports and 70% from domestic.
- Customer advances as at FY19 – INR1.74bn.
- Gross margin declined – A few strategic orders (lower margin) were executed during the quarter. This should normalise (200-250bps improvement in FY20 expected versus FY19).

Financial snapshot

(INR mn)

Year to March	Q4FY19	Q4FY18	% change	Q3FY19	% change	FY19	FY20E	FY21E
Net revenues	3,682	2,745	34.1	3,303	11.5	11,411	13,157	15,076
Raw material costs	2,013	1,372	46.8	1,828	10.2	6,095	6,750	7,628
Staff costs	398	392	1.4	402	(1.0)	1,606	1,842	2,080
Other operating expenses	928	711	30.6	835	11.2	2,917	3,316	3,678
Total expenditure	3,339	2,475	34.9	3,064	9.0	10,618	11,907	13,387
EBITDA	343	271	26.6	239	43.4	794	1,250	1,688
Depreciation	54	61	(10.4)	56	(3.9)	230	264	279
EBIT	288	210	37.3	183	58.0	564	986	1,410
Interest	2	3	(40.0)	2	(25.0)	8	10	13
Other income	74	101	(26.8)	74	(0.3)	233	217	235
Add: Exceptional items	52	40	28.0	40	29.6	90	-	-
Profit before tax	412	348	18.3	294	40.1	879	1,193	1,632
Tax	78	80	(2.1)	70	12.5	197	382	522
Minority interest								
Reported net profit	334	268	24.4	224	48.7	682	811	1,110
Adjusted Profit	282	228	23.8	185	52.8	592	811	1,110
Equity capital(FV INR 2)	365	365		365		365	365	365
No. of shares (mn)	183	183		183		183	183	183
Diluted EPS (INR)	1.5	1.2	23.8	1.0	52.8	3.2	4.4	6.1
As % of revenue								
Raw material	54.7	50.0		55.3		53.4	51.3	50.6
Employee cost	10.8	14.3		12.2		14.1	14.0	13.8
Other expenses	25.2	25.9		25.3		25.6	25.2	24.4
EBITDA	9.3	9.9		7.2		7.0	9.5	11.2
Depreciation	1.5	2.2		1.7		2.0	2.0	1.8
Other income	2.0	3.7		2.2		2.0	1.6	1.6
Adjusted net profit	7.7	8.3		5.6		5.2	6.2	7.4
Tax rate	19.0	23.0		23.7		22.4	32.0	32.0

Company Description

Since its inception in 1984, Praj has evolved from a dominant single-business enterprise into a global organisation driven by technology innovation and integration capabilities in process engineering and industrial biotechnology domains. The company offers innovative technology solutions and project implementation and management services to the bio-ethanol industry. It is also involved in two major growth platforms—one focusing on industrial solutions for water & waste water management and critical process equipment & systems, and the other on bio-based products. As a global leader with over 600 references in more than 60 countries across five continents, Praj has acquired an international reputation for responsible and reliable solutions. Having established a global leadership in first generation ethanol technology, Praj has initiated a project to expand its 2G Cellulosic Ethanol Program to demo scale. Its manufacturing facilities—one in Pune and two at Kandla (Gujarat) port of India and another at Wada near Mumbai —are state-of-the-art.

Investment Theme

Diversification to high growth segments imparts scalability

Praj has diversified its revenue base over the past four-five years with Ethanol business contribution moving from 80% in FY12 to 50% currently; emerging businesses—critical process equipment, waste water, Neela—contribute the balance.

Core business steady; favourable domestic policy

Led by global references and ethanol blending mandates in key export regions like US, Brazil, Columbia, Peru, Thailand, Malaysia etc, Praj has sustained a steady position in the global ethanol market. Growth in domestic market will be driven by favourable government policy (higher ethanol prices, blending mandates, interest subvention scheme, GST).

Significant inroads in 2G project: Next big trigger

Praj is executing three 2G ethanol projects awarded by oil marketing companies (OMCs). Current the government is supporting the viability of these projects via viability gap funding and differential pricing. Praj is working on a mechanism to reduce capex cost to make these projects viable.

Key Risks

Regulatory mandate: A large part of Praj's business (~50% ethanol business) comes from regulatory mandate. Any delay or change in the decision of the government could impact the business adversely.

Slowdown in industrial capex: Any slowdown in industrial capex and consumption may impact revenue and hence the company's profit.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
Revenue growth (%)				
A) Ethanol business	(10.9)	22.1	23.7	22.2
B) Brewery business	114.1	52.0	9.4	5.5
C) Emerging business	(41.2)	(10.9)	(0.6)	5.2
Order inflow growth (%)				
A) Ethanol business	(16.6)	77.6	12.0	10.0
B) Brewery business	337.8	(11.6)	10.0	12.0
C) Emerging business	(49.4)	(4.7)	10.0	8.0

Income statement

				(INR mn)
Year to March	FY18	FY19	FY20E	FY21E
Income from operations	9,166	11,411	13,157	15,076
Materials costs	4,693	6,095	6,750	7,628
Employee costs	1,495	1,606	1,842	2,080
Other mfg expenses	2,463	2,917	3,316	3,678
Total operating expenses	8,651	10,618	11,907	13,387
EBITDA	515	794	1,250	1,688
Depreciation	241	230	264	279
EBIT	274	564	986	1,410
Less: Interest Expense	11	8	10	13
Add: Other income	172	233	217	235
Profit Before Tax	530	879	1,193	1,632
Less: Provision for Tax	135	197	382	522
Add: Exceptional items	95	90	-	-
Reported Profit	395	682	811	1,110
Exceptional Items	95	90	-	-
Adjusted Profit	300	592	811	1,110
Shares o/s (mn)	183	183	183	183
Adjusted Basic EPS	1.6	3.2	4.4	6.1
Diluted shares o/s (mn)	183	183	183	183
Adjusted Diluted EPS	1.6	3.2	4.4	6.1
Adjusted Cash EPS	2.9	4.7	5.9	7.6
Dividend per share (DPS)	1.6	2.1	2.3	2.6
Dividend Payout Ratio(%)	88.8	66.2	61.3	49.3

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Materials costs	51.2	53.4	51.3	50.6
Staff costs	16.3	14.1	14.0	13.8
Other mfg expenses	26.9	25.6	25.2	24.4
Operating expenses	94.4	93.0	90.5	88.8
Depreciation	2.6	2.0	2.0	1.8
Interest Expense	0.1	0.1	0.1	0.1
EBITDA margins	5.6	7.0	9.5	11.2
Net Profit margins	3.3	5.2	6.2	7.4

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	0.2	24.5	15.3	14.6
EBITDA	(29.6)	54.0	57.5	35.1
Adjusted Profit	(32.8)	97.6	37.0	36.8

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	362	365	365	365	
Reserves & Surplus	6,900	7,085	7,399	7,962	
Shareholders' funds	7,261	7,450	7,764	8,328	
Minority Interest	7	7	7	7	
Long term borrowings	-	-	-	-	
Short term borrowings	59	-	-	-	
Total Borrowings	60	-	-	-	
Long Term Liabilities	160	160	160	160	
Deferred tax (net)	(41)	(93)	(93)	(93)	
Sources of funds	7,447	7,523	7,837	8,401	
Gross Block	4,174	4,332	4,582	4,832	
Net Block	2,208	2,137	2,124	2,095	
Capital work in progress	179	159	169	179	
Intangible Assets	626	626	626	626	
Total Fixed Assets	3,013	2,922	2,919	2,900	
Non current investments	100	448	458	468	
Cash and Equivalents	2,711	2,537	2,550	2,893	
Inventories	808	1,264	1,479	1,672	
Sundry Debtors	2,625	3,053	3,965	4,543	
Loans & Advances	73	52	58	65	
Other Current Assets	1,962	2,101	2,206	2,316	
Total current assets	5,467	6,469	7,708	8,596	
Trade payable	1,764	2,345	3,051	3,448	
Other Current Liab	2,082	2,509	2,747	3,009	
Total Current Liab	3,846	4,854	5,798	6,458	
Net current assets	1,623	1,616	1,911	2,139	
Uses of funds	7,447	7,523	7,837	8,401	
BVPS (INR)	39.8	40.8	42.5	45.6	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	395	682	811	1,110	
Add: Depreciation	241	230	264	279	
Interest (Net of Tax)	8	6	7	9	
Others	39	(58)	(7)	(9)	
Less: Changes in WC	(331)	(7)	295	229	
Operating cash flow	1,014	866	780	1,160	
Less: Capex	161	139	260	260	
Free Cash Flow	853	727	520	900	

Cash flow metrics				
Year to March	FY18	FY19	FY20E	FY21E
Operating cash flow	1,014	866	780	1,160
Financing cash flow	(247)	(508)	(497)	(547)
Investing cash flow	(707)	(739)	(270)	(270)
Net cash Flow	60	(381)	13	343
Capex	(161)	(139)	(260)	(260)
Dividend paid	(349)	(452)	(497)	(547)

Profitability and efficiency ratios				
Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	4.2	8.0	10.7	13.8
ROACE (%)	6.2	10.8	15.8	20.4
Inventory Days	72	62	74	75
Debtors Days	111	91	97	103
Payable Days	152	123	146	155
Cash Conversion Cycle	31	30	26	23
Current Ratio	2.1	1.9	1.8	1.8
Gross Debt/EBITDA	0.1	-	-	-
Gross Debt/Equity	-	-	-	-
Debt/Equity (x)	-	-	-	-
Interest Coverage Ratio	24.1	74.2	99.8	109.8

Operating ratios				
Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	1.2	1.5	1.7	1.9
Fixed Asset Turnover	4.4	5.3	6.2	7.1
Equity Turnover	1.3	1.5	1.7	1.9

Valuation parameters				
Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	1.6	3.2	4.4	6.1
Y-o-Y growth (%)	(32.8)	97.6	37.0	36.8
Adjusted Cash EPS (INR)	2.9	4.7	5.9	7.6
Diluted P/E (x)	78.9	39.9	29.2	21.3
P/B (x)	3.3	3.2	3.0	2.8
EV / Sales (x)	2.3	1.9	1.6	1.4
EV / EBITDA (x)	40.8	26.6	16.9	12.3
Dividend Yield (%)	1.3	1.6	1.8	2.0

Additional Data

Directors Data

Mr. Pramod Chaudhari	Executive Chairman	Mr. Sachin Raole	CFO & Director - Finance & Commercial
Mr. Berjis Desai	Directors (Non-Executive)	Mr. Daljit Mirchandani	Directors (Non-Executive)
Mrs. Parimal Chaudhari	Directors (Non-Executive)	Mr. Rajiv Maliwal	Directors (Non-Executive)
Mr. Sivaramakrishnan S. Iyer	Directors (Non-Executive)	Ms. Mrunalini Joshi	Directors (Non-Executive)
Shishir Joshipura	CEO & Managing Director	Dr. Shridhar Shukla	Director (Non-Executive)

Auditors - M/s P.G. Bhagwat

**as per last available data*

Holding – Top10

	Perc. Holding		Perc. Holding
Chaudhari pramod m	21.18	Chaudhari pramod m	21.18
Hdfc asset managemen	8.74	Hdfc asset managemen	8.74
Chaudhari parimal	7.88	Chaudhari parimal	7.88
Tata cap financial s	7.35	Tata cap financial s	7.35
Chaudhari parimal	3.94	Chaudhari parimal	3.94

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
09 Jan 2019	GOTHIC CORPORATION	BUY	4984726	133.05
09 Jan 2019	GHI LTP LTD	SELL	4984726	133.05
09 Jan 2019	GHI ERP LTD	SELL	928331	133.05
09 Jan 2019	GOTHIC HSP CORPORATION	BUY	1785202	133.05
09 Jan 2019	EMPLOYEES RETIREMENT PLAN OF DUKE UNIVERSITY	BUY	928331	133.05
09 Jan 2019	THE DUKE ENDOWMENT	BUY	1804880	133.05
09 Jan 2019	GHI JBD LTD	SELL	1804880	133.05
09 Jan 2019	GHI HSP LTD	SELL	1785202	133.05

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
12 Mar 2019	Ravindra Utgikar	Sell	21100.00
25 Jan 2019	Pramod Kumbhar	Sell	19000.00
16 Jan 2019	Vasudeo B. Joshi	Sell	17750.00
11 Jan 2019	Mallikarjun Navalgund	Sell	20000.00
22 Oct 2018	Sanjay Kulkarni	Sell	45000.00

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s): Engineering and Capital Goods

ABB India, Bharat Heavy Electricals, Bharat Forge, CG Power and Industrial Solutions, Engineers India Ltd, Greaves Cotton, KEC International, Cummins India, Kalpataru Power, Larsen & Toubro, Praj Industries, Ramkrishna Forgings, Siemens, Techno Electric & Engineering, Thermax, Triveni Turbine, VA Tech

Recent Research

Date	Company	Title	Price (INR)	Recos
30-Dec-99	Siemens	A smarter reconfiguration; Event Update	1130	Buy
30-Dec-99	Siemens	Portfolio aligned to changing capex; Result Update	1090	Buy
30-Dec-99	Larsen & Toubro	Services compensates for weak infra ; Result Update	1356	Buy

Distribution of Ratings / Market Cap

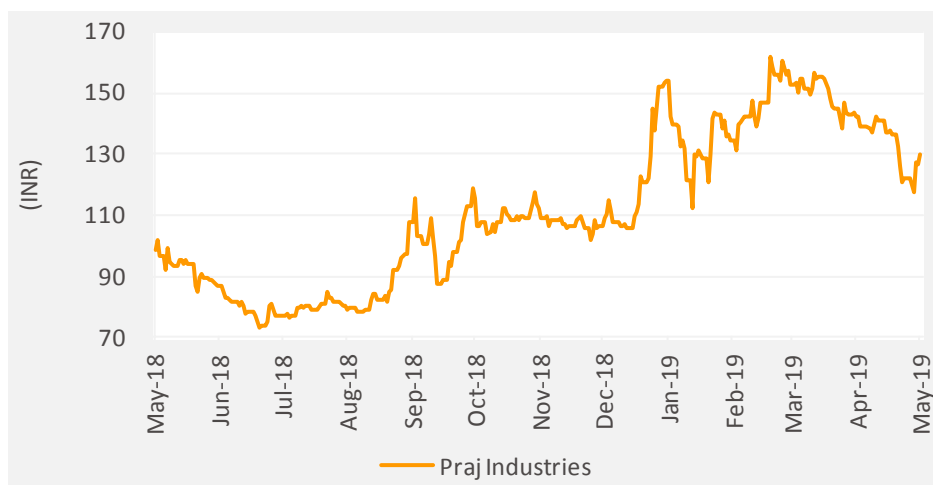
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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