

Engineering segment drags performance

1 February 2025

Praj Industries (PRJ IN) execution remains muted for the past seven quarters due to several headwinds, such as the ban on sugar feedstock for ethanol production, delay in commissioning of the engineering facility and decline in new order inflows during the year. We believe the stock lacks near-term triggers as engineering customers take longer to inspect the new facility, macro liquidity challenges leading to delay in financial closure of new ethanol projects, policy push needed toward higher ethanol blending target to rebound inflows (EBP-20 already achieved up to 18%). However, international orders could provide respite as enquiries are building up in 2G ethanol in South America and Sustainable Aviation Fuel (SAF) in the US. We remain cautious and factor in delay in inflows & execution, leading to an earnings cut of 18% for FY26E and 16% for FY27E. We reiterate **Accumulate** and lower TP to INR 676 on 32x FY27E P/E.

Slowdown in the engineering segment drags overall performance: Q3 revenue grew at a mere 3% YoY to INR 8.5bn, 6% lower than our estimates, as engineering revenue was down 10% YoY, which also negatively affected EBITDA margin, down 478bp YoY, to 6.9%. Post commissioning of the new Mangalore Gen X facility in Q1FY25, incremental opex cost rose to INR 250-300mn per quarter; however, new orders and execution were delayed due to time spend by customers during the inspection process. Depreciation and interest expense also increased on capitalizing of the new facility, leading to a lower PAT at INR 411mn, down 42% YoY.

Opportunities plenty, conversion crucial: While domestic order inflows remain uneven, management is hopeful of a pickup in international projects, including: 1) SAF opportunity in the US intact even after changes in the government and ethanol production continues with SAF blending mandated from 2027, and 2) healthy inquiry pipeline in Brazil (moving to blending mandate of 30%), and other LATAM countries focusing on 2G ethanol from corn. In India, PRJ expects bio bitumen (for roads) to be an upcoming opportunity (currently India imports 50% of bitumen), which provides synergy to Compressed Biogas (CBG) producers as its byproduct lignin is used as a raw material for bio-bitumen. The company is already in talks with customers in India and abroad. It has signed a JV with BPCL to set up CBG plants across India (earlier signed a JV with IOCL for exploring bioenergy opportunities).

Reiterate Accumulate with a TP of INR 676: Amid changing business dynamics, management expects similar muted performance to continue in Q4. Engineering orders are likely to pick up from 2HFY26 and bioenergy order finalization may take longer than usual. We await the pickup in business momentum as also the new professional leadership takes charge from June 2025 (Ashish Gaikwad appointed as Managing Director for the next five years). We cut our earnings by 18% for FY26E and 16% for FY27E. We expect a revenue CAGR of 8%, an EBITDA CAGR of 14% and a PAT CAGR of 11% during FY24-27E. We reiterate **Accumulate** with a lower TP of INR 676 from 802 on 32x (unchanged) FY27E P/E.

Rating: **Accumulate**

Target Price: **INR 676**

Upside: **7%**

CMP: **INR 632**

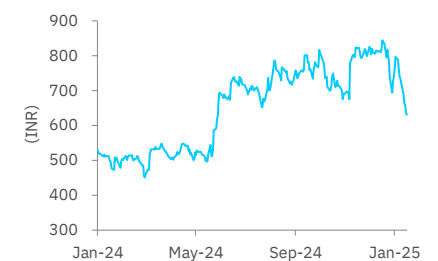
As on 31 January 2025

Key data

Bloomberg	PRJ IN
Reuters Code	PRAJ.NS
Shares outstanding (mn)	184
Market cap (INR bn/USD mn)	116/1340
Enterprise Value (INR bn/USD mn)	110/1265
Avg daily volume 3M (INR mn/USD mn)	979/11
52 week high/low	875/448
Free float (%)	67

Note: as on 31 January 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	32.8	32.8	32.8	32.8
% Pledged	-	-	-	-
FII	18.9	18.6	19.0	18.6
DII	13.9	16.8	17.7	18.4
Others	34.4	31.8	30.5	30.2

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(2.9)	(5.8)	8.2
Praj Industries	(14.6)	(10.4)	26.8
NSE Midcap	(4.3)	(8.9)	10.6
NSE Smallcap	(9.1)	(11.6)	5.5

Key financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	35,280	34,663	34,097	38,377	44,201
YoY (%)	50.6	(1.8)	(1.6)	12.6	15.2
EBITDA (INR mn)	3,078	3,718	3,751	4,605	5,525
EBITDA margin (%)	8.7	10.7	11.0	12.0	12.5
Adj PAT (INR mn)	2,398	2,834	2,818	3,186	3,881
YoY (%)	59.6	18.2	(0.6)	13.1	21.8
Fully DEPS (INR)	13.1	15.4	15.3	17.3	21.1
RoE (%)	24.1	24.1	20.5	20.0	20.9
RoCE (%)	31.3	30.3	23.7	25.1	26.1
P/E (x)	48.9	41.4	41.7	36.8	30.2
EV/EBITDA (x)	36.2	29.9	29.2	23.5	19.3

Note: Pricing as on 31 January 2025; Source: Company, Elara Securities Estimate

Ankita Shah

Infrastructure, Ports & Logistics,
Industrials
+91 22 6164 8516
ankita.shah@elaracapital.com

Associate
Jinesh Kothari



Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenue	35,280	34,663	34,097	38,377	44,201
EBITDA	3,078	3,718	3,751	4,605	5,525
Add:- Non operating Income	458	595	614	470	494
OPBIDTA	3,536	4,313	4,364	5,076	6,019
Less :- Depreciation & Amortization	302	441	712	660	686
EBIT	3,234	3,872	3,652	4,416	5,333
Less:- Interest Expenses	46	98	176	167	159
Less:- Exceptional item	0	0	282	0	0
PBT	3,187	3,775	3,195	4,248	5,174
Less :- Taxes	789	941	939	1,062	1,294
Reported PAT	2,398	2,834	2,255	3,186	3,881
Adjusted PAT	2,398	2,834	2,818	3,186	3,881
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	367	368	368	368	368
Reserves	10,413	12,377	14,372	16,730	19,783
Minority Interest	1	1	1	1	1
Net worth	10,781	12,746	14,740	17,098	20,151
Deferred Tax (Net)	(111)	(91)	(91)	(91)	(91)
Other non-current liabilities	401	1,618	1,655	1,750	1,857
Total Liabilities	11,070	14,273	16,305	18,758	21,918
Net Block	2,542	4,118	4,351	4,545	4,699
Add:- Capital work in progress	69	434	434	434	434
Investments	5,429	4,967	5,168	5,379	5,601
Cash & bank balances	1,448	2,127	3,547	4,564	5,891
Net Working Capital	782	1,500	1,665	2,684	4,127
Other Assets	799	1,127	1,140	1,153	1,167
Total Assets	11,070	14,273	16,305	18,758	21,918
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash profit adjusted for non-cash items	3,180	3,878	4,193	4,605	5,525
Add/Less:- Working Capital changes	(1,457)	(1,887)	(1,131)	(2,073)	(2,722)
Operating Cash Flow	1,723	1,991	3,062	2,533	2,803
Less:- Capex	655	2,383	945	854	840
Free Cash Flow	1,068	(392)	2,117	1,679	1,964
Financing Cash Flow	(710)	203	(949)	(921)	(909)
Investing Cash Flow	(461)	867	251	259	272
Net change in Cash	(102)	678	1,420	1,017	1,327
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue Growth	50.6	(1.8)	(1.6)	12.6	15.2
EBITDA Growth	58.8	20.8	0.9	22.8	20.0
PAT Growth	59.6	18.2	(0.6)	13.1	21.8
EBITDA Margin	8.7	10.7	11.0	12.0	12.5
Net Margin	6.8	8.2	8.3	8.3	8.8
Return & Liquidity Ratios (%)					
Net Debt/Equity (x)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)
ROE (%)	24.1	24.1	20.5	20.0	20.9
ROCE (%)	31.3	30.3	23.7	25.1	26.1
Per Share data & Valuation Ratios					
Reported EPS (INR)	13.1	15.4	15.3	17.3	21.1
Adjusted EPS (INR)	13.1	15.4	15.3	17.3	21.1
EPS growth (%)	59.6	18.1	(0.6)	13.1	21.8
DPS (INR)	4.2	4.5	4.5	4.5	4.5
P/E (x)	48.9	41.4	41.7	36.8	30.2
EV/EBITDA (x)	36.2	29.9	29.2	23.5	19.3
EV/Sales (x)	3.2	3.2	3.2	2.8	2.4
Price/Book (x)	10.9	9.2	8.0	6.9	5.8
Dividend Yield (%)	0.7	0.7	0.7	0.7	0.7

We expect a revenue CAGR of 8%, an EBITDA CAGR of 14% and a PAT CAGR of 11% during FY24-27E

Margin is likely to improve from FY26 post increase in engineering exports orders

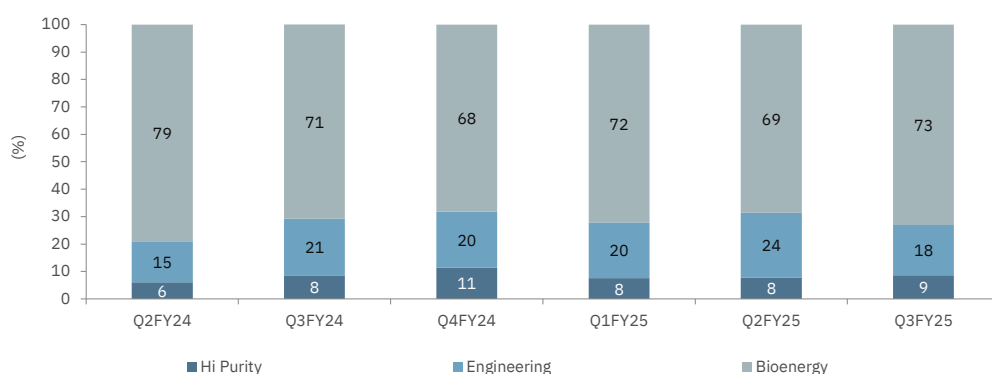
Note: Pricing as on 31 January 2025; Source: Company, Elara Securities Estimate

Quarterly financials

YE March (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Variance (%)
Net sales	8,530	8,286	2.9	8,162	4.5	9,103	(6.3)
EBITDA	586	965	(39.3)	941	(37.8)	1,095	(46.5)
EBITDA margin (%)	6.9	11.6		11.5		12.0	
Other Income	138	91	51.9	135	1.9	115	19.8
Interest	44	38	14.2	47	(7.1)	48	(7.8)
Depreciation	233	109	114.5	206	13.2	201	16.0
Exceptional				(282)			
PBT	447	908	(50.8)	824	(45.8)	962	(53.6)
Tax	177	215	(17.6)	206	(14.0)	242	(26.9)
Effective tax rate (%)	39.7	23.7		25.0		25.2	
PAT	270	693	(61.1)	618	(56.4)	720	(62.5)
Reported NPM (%)	3.2	8.4		7.6		7.9	
EPS (INR)	1.5	3.8	(61.1)	3.4	(56.4)	3.9	(62.5)

Source: Company, Elara Securities Estimate

Exhibit 1: Lower engineering segment revenue is a result of an adverse sales mix, which drags margin



Source: Company, Elara Securities Research

Exhibit 2: Valuation

(INR mn)	FY27E
PAT	3,881
P/E (x)	32
Equity value	124,185
Shares (mn)	184
TP per share (INR)	676
CMP (INR)	639
Upside (%)	7

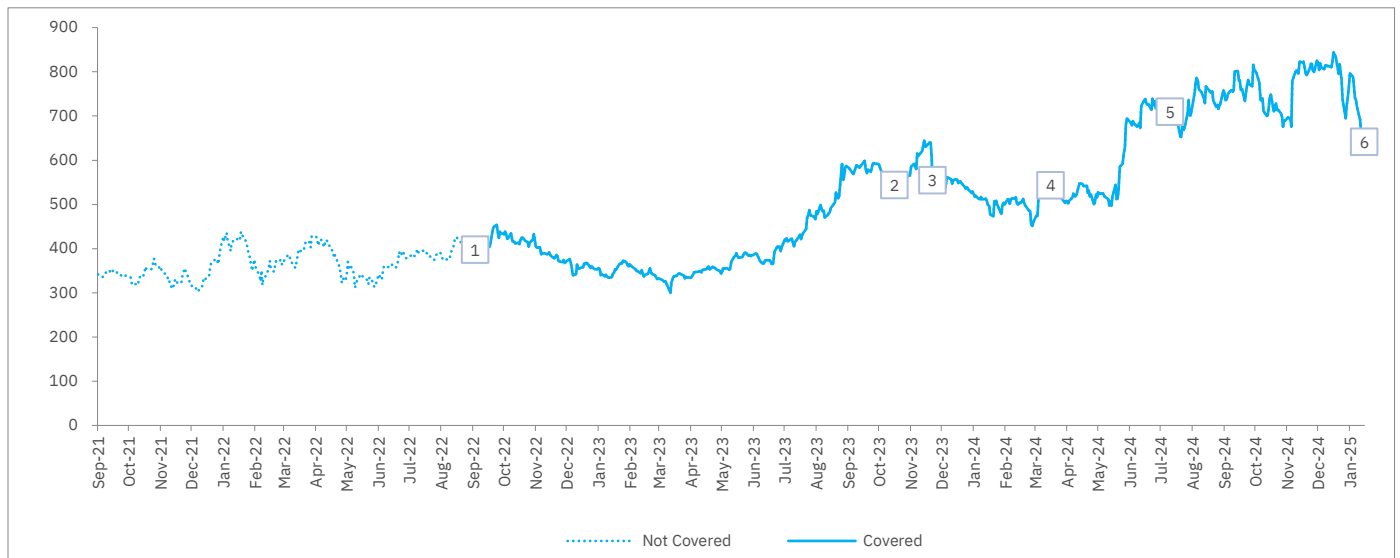
Note: pricing as on 31 January 2025; Source: Elara Securities Estimate

Exhibit 3: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	35,779	42,041	49,180	34,097	38,377	44,201	(4.7)	(8.7)	(10.1)
EBITDA	4,293	5,465	6,393	3,751	4,605	5,525	(12.6)	(15.7)	(13.6)
PAT	3,189	3,902	4,603	2,818	3,186	3,881	(11.6)	(18.3)	(15.7)
TP (INR)			802			676			(16)

Source: Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
1	19-Sep-2022	Buy	INR 515	INR 388
2	1-Nov-2023	Accumulate	INR 596	INR 534
3	8-Dec-2023	Accumulate	INR 575	INR 545
4	1-Apr-2023	Accumulate	INR 619	INR 533
5	26-Jul-2024	Accumulate	INR 802	INR 700
6	31-Jan-2025	Accumulate	INR 676	INR 632

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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India Elara Securities (India) Private Limited One International Center, Tower 3, 21st Floor, Senapati Bapat Marg, Elphinstone Road (West) Mumbai – 400 013, India Tel : +91 22 6164 8500	Europe Elara Capital Plc. 6th Floor, The Grove, 248A Marylebone Road, London, NW1 6JZ, United Kingdom Tel : +44 20 7486 9733	USA Elara Securities Inc. 230 Park Avenue, Suite 2415, New York, NY 10169, USA Tel: +1 212 430 5870 Fax: +1 212 208 2501	Asia / Pacific Elara Capital (Asia) Pte.Ltd. One Marina Boulevard, Level 20, Singapore 018989 Tel : +65 6978 4047
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	Managing Director	Harendra Kumar harendra.kumar@elaracapital.com +91 22 6164 8571
	Head of Research	Dr Bino Pathiparampil bino.pathiparampil@elaracapital.com +91 22 6164 8572

Sales Team

	India	Hitesh Danak - hitesh.danak@elaracapital.com - +91 22 6164 8543 Ashok Agarwal - ashok.agarwal@elaracapital.com - +91 22 6164 8558
	India, APAC & Australia	Sudhanshu Rajpal - sudhanshu.rajpal@elaracapital.com - +91 22 6164 8508 Joshua Saldanha - joshua.saldanha@elaracapital.com - +91 22 6164 8541 Shraddha Shrikhande - shraddha.shrikhande@elaracapital.com - +91 22 6164 8567
	India & UK	Prashin Lalvani - prashin.lalvani@elaracapital.com - +91 22 6164 8544
	India & US	Karan Rathod - karan.rathod@elaracapital.com - +91 22 6164 8570
	Corporate Access, Conference & Events	Anita Nazareth - anita.nazareth@elaracapital.com - +91 22 6164 8520 Tina D'souza - tina.dsouza@elaracapital.com - +91 22 6164 8595

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 Investor Grievance Email ID: investor.grievances@elaracapital.com - Tel. +91 22 6164 8509
 Compliance Officer: Mr. Anand Rao - Email ID: anand.rao@elaracapital.com - Tel. +91 22 6164 8509