



## Praj inks MoU with IndianOil for accelerating transition to cleaner skies through production of Alcohol to Jet fuels.

### Reaffirming our Positive Outlook; Maintain BUY

IndianOil have inked an MoU to explore opportunities to fast-track India's transition to cleaner and greener sources of energy by exploring avenues such as the production of Alcohol to Jet (ATJ) fuels, 1G & 2G Ethanol, Compressed Bio-Gas (CBG) and related opportunities in the Biofuels industry. The MoU indicates the intent of IOCL & Government push of de-carbonisation theme. This development is in line with the 'Panchamrit' agenda unveiled by Hon'ble Prime Minister at the COP26 Glasgow Summit, to fight climate change and global warming." CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) guidelines to substantially reduce carbon emissions in the aviation sector augurs well for Praj with its early mover advantage in sustainable aviation fuel.

Indian Aviation sector is at the cusp of high growth but also happens to be one of the significant sources of Green House Gas (GHG) emissions. This MOU will boost ATJ fuel production capacity and its use in India which will in turn help curb emissions emanating from the airplanes as per IATA's (The International Air Transport Association) mandate.

As per the MoU, IndianOil and Praj will also collaborate to set up Biofuel production facilities, including CBG, Biodiesel and Ethanol. The two companies would also work together to facilitate the sales and marketing of various co-products and intermediate produced from these facilities. Praj and IndianOil would explore and jointly work towards forming a 50:50 Joint Venture and identify partners to form special purpose vehicles (SPVs) under the proposed alliance. The synergy between India's largest Energy PSU and the leading company in Industrial Biotech shall boost the mainstream bio-economy and India's overall growth.

The MoU pact concerning 1G & 2G Ethanol, CBG is considered in our existing investment thesis and our outlook on the company but any further development in ATJ fuels will come as a positive surprise. Although these developments are strengthening our belief in our investment thesis, we believe the company's ATJ fuel segment is at very nascent stage to materially affect our valuation model and our growth assumptions, hence we maintain our Buy rating on the stock without any revision in our estimates. We are keenly watching expect this momentum on focus of decarbonisation to continue and expect other government entities such as HPCL, BPCL to follow the bandwagon behind IOCL which will boost the orderbook & Revenue growth.

### Outlook & Valuation – Maintain BUY

Praj is witnessing strong growth in its key segment Bio Energy in Domestic business, the overall demand-supply gap of Ethanol, increased interest in grain based distilleries and decarbonisation impetus is auguring well for Praj along with development in other key verticals such as CPS, ZLD & High Purity gaining traction. Praj is a key beneficiary of multiple tailwinds provided by the bio-economic revolution, giving strong growth & revenue visibility for the next 3-5 years. **We maintain our BUY with a revised target price of Rs 472 valuing the company at 35x (~20% discount to TTM PE of 45x) FY23 EPS, implying an upside of 33% from the CMP 355.**

#### Key Financials

(Rs Cr)	FY21	FY22E	FY23E
Net Sales	1,305	2,033	2,545
EBITDA	112	172	247
Net Profit	81	266	327
EPS (Rs.)	4.42	7.36	10.47
PER (x)	79	48	33
EV/EBITDA (x)	56	37	26
ROE (%)	11%	16%	19%

Source: Company, Axis Research

CMP as of 15<sup>th</sup> November, 2021)

CMP (Rs)	355
Upside /Downside (%)	33%
High/Low (Rs)	407/72.75
Market cap (Cr)	6520
Avg. daily vol. (6m) Shrs.	28,72,380
No. of shares (Cr)	18.37

#### Shareholding (%)

	Dec-20	Mar-21	Jun-21
Promoter	32.9	32.9	32.9
FIIs	12.3	11.6	13.1
MFs / UTI	14.3	14.7	6.8
Banks / FIs	0.3	0.0	0.3
Others	40.2	40.7	46.9

#### Financial & Valuations

Y/E Mar (Rs Cr)	FY21	FY22E	FY23E
Net Sales	1,305	2,033	2,545
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#### Key Drivers (%) (Growth in %)

Y/E Mar	FY22E	FY23E
Net Sales	56	25
EBITDA	53	44
Net Profit	67	42

#### ESG disclosure Score\*\*

Environmental Disclosure Score	N/A
Social Disclosure Score	N/A
Governance Disclosure Score	N/A
Total ESG Disclosure Score	N/A

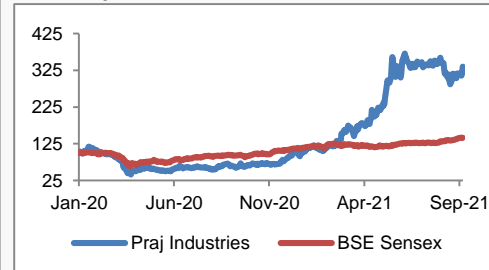
Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

#### Axis vs Consensus

EPS Estimates	2022E	2023E
Axis	7.36	10.47
Consensus	8.37	-
Mean Consensus TP (12M)(Rs)	457	

#### Relative performance



Source: Capitaline, Axis Securities

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**Q2FY22 Financial Highlights (Consolidated)**
**Financials**
**Profit & Loss**

(Rs Cr)

Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Net sales	1,102	1,305	2,033	2,545	3,040
Raw Material	552	736	1,246	1,476	1,779
Employee benefit expenses	164	172	186	211	240
Other Expenses	308	284	429	611	730
EBITDA	78	112	172	247	292
Other income	30	26	33	33	33
PBIDT	108	138	205	280	325
Depreciation	22	22	21	21	21
Interest & Fin Chg.	3	3	3	3	3
E/o income / (Expense)	-	-	-	-	-
Pre-tax profit	83	113	180	257	302
Tax provision	13	32	45	64	76
RPAT	70	81	135	192	226

Source: Company, Axis Securities

**Balance Sheet**

(Rs Cr)

Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	37	37	37	37	37
Reserves & Surplus	683	765	857	1,049	1,275
Total Equity	720	803	894	1,086	1,312
Total Non-Current Liabilities	32	27	27	27	27
Trades Payable	187	342	447	530	638
Other Current Liabilities	197	376	376	376	376
Total Current Liabilities	409	764	870	953	1,061
<b>Total Capital Employed</b>	<b>1,162</b>	<b>1,594</b>	<b>1,791</b>	<b>2,066</b>	<b>2,400</b>
Net Block	217	206	205	202	200
Goodwill	63	63	63	63	63
Total Non-Current Assets	382	358	357	354	352
Cash	46	101	68	183	354
Inventory	111	129	201	231	268
Receivables	330	453	613	746	875
Investments	124	295	295	295	295
Total Current Assets	780	1,235	1,434	1,712	2,048
<b>Total Assets</b>	<b>1,162</b>	<b>1,594</b>	<b>1,791</b>	<b>2,066</b>	<b>2,400</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Net Profit before Tax	83	113	180	257	302
Depreciation	22	22	21	21	21
Working Capital Changes	-76	116	-126	-80	-57
Tax Paid	-18	-15	-45	-64	-76
Cash From Operating Activities	15	225	-1	102	158
Cash From Investing Act	62	-164	14	15	15
Cash Flow from Financing	-98	-6	-46	-2	-2
Change in Cash	-21	54	-33	115	171
Opening Cash	64	46	101	68	183
Closing Cash	46	101	68	183	354

Source: Company, Axis Securities

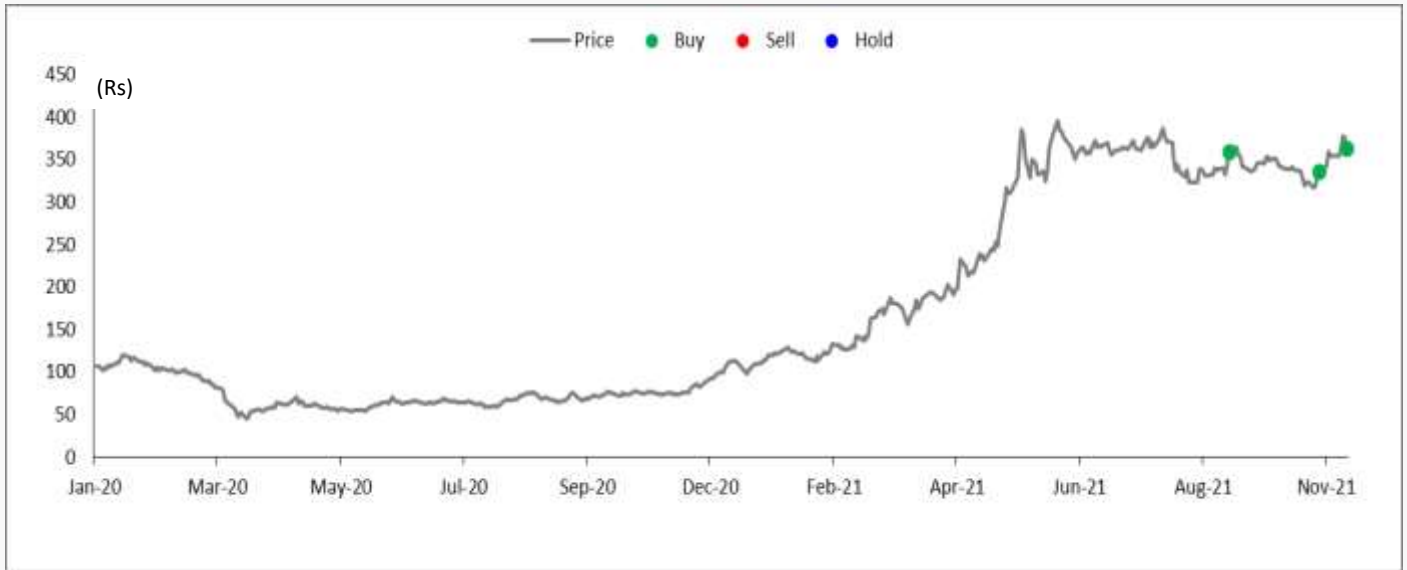
**Ratio Analysis**

(%)

Y/E March	FY20	FY21	FY22E	FY23E	FY24E
<b>Operational Ratios</b>					
Gross profit margin	50%	44%	39%	42%	42%
EBITDA margin	7%	9%	8%	10%	10%
PAT margin	6%	6%	7%	8%	7%
<b>Growth Indicators</b>					
Sales growth	-3%	18%	56%	25%	19%
EBITDA growth	-2%	44%	53%	44%	18%
PAT growth	3%	15%	67%	42%	18%
<b>Efficiency Ratios</b>					
Total Asset turnover (x)	0.9	0.9	1.2	1.3	1.4
Inventory turnover (x)	4.7	6.1	7.5	6.8	7.1
Sales/Working Capital	4.4	5.0	4.5	5.1	5.5
Sales/ Total Assets					
<b>Liquidity Ratios</b>					
Total Debt/Equity(x)	0.00	0.00	0.00	0.00	0.00
Total Asset/Equity(x)	1.81	2.00	1.95	1.86	1.79
Current Ratio(x)	1.91	1.62	1.65	1.80	1.93
Quick Ratio(x)	1.63	1.45	1.42	1.55	1.68
Interest Cover(x)	25.18	39.29	60.03	86.54	102.17
<b>Per Share Data</b>					
Earnings Per Share (Rs)	3.85	4.42	7.36	10.47	12.30
<b>Valuation Ratios</b>					
Adjusted PE (x)	14.3	44.0	47.5	33.4	28.5
Price / Book Value(x)	1.4	4.5	7.2	5.9	4.9
EV/Net Sales(x)	0.9	2.6	3.1	2.5	2.1
EV/EBITDA(x)	8.9	24.9	36.9	25.6	21.7
EV/EBIT(x)	11.1	29.6	34.5	24.4	20.8
<b>Return Ratios</b>					
ROA	5.85%	5.88%	7.99%	9.96%	10.11%
ROE	9.62%	10.66%	15.95%	19.42%	18.84%
ROCE	11.39%	14.66%	20.95%	25.51%	24.83%

Source: Company, Axis Securities

### Praj Industries Chart and Recommendation History



Date	Reco	TP	Research
20-Sep-21	Buy	422	Initiating Coverage
29-Oct-21	BUY	472	Result Update
15-Nov-21	BUY	472	Event Update

Source: Axis Securities

**About the analyst**

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Sector: Sugar, Textile & Midcap Opportunities

Analyst Bio: Prathamesh is a CFA with 4 years of experience in Equity Market/Research.

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<b>HOLD</b>	Between 10% and -10%
<b>SELL</b>	Less than -10%
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