

Praj Industries Ltd (PRJ IN)

Creating a base for long-term growth

INDIA | MIDCAP-ENGINEERING | Quarterly Update

30 October 2015

Top takeaways from Q2FY16

- ✗ Execution remained weak, below estimates, particularly in emerging business.
- ✓ Strong growth in order inflow and order backlog setting stage for growth recovery.
- ✓ Standalone in line, with improvement in margin - weakness in Hi-Purity and local execution.
- ✗ Margin decline at consolidated level with negative operating leverage.
- ✓ Acquired remaining 20% stake in Hi-Purity, now owns 100%.

Key highlights: Export fell 29% and emerging business revenues by 28% yoy. Brewery revenue fell 70% to Rs 233mn due to high base of Rs 795mn in 2QFY15. High operating leverage associated with employee cost and other fixed cost impacted margins. Standalone revenue fell 16% with EBITDA growth of 85% yoy to Rs 127mn. Standalone margins improved 400bps to 7.3% supported by 580bps increase in gross margin to 48.1%. Adjusted profit was Rs 41mn vs. Rs 107mn in 2QFY15. The company had extraordinary income of Rs 108mn from tax settlement and Rs 27mn forex gain in 2QFY15 - this resulted in an 80% fall in reported profit.

Conference call takeaways:

- ✓ Developed five new technologies in ethanol; contributed 15% to order inflow.
- ✓ Encouraging order pipeline; pick up in international orders in CPE and water businesses.
- No further progress in second-generation demo plant for funding.
- ✗ Petrobras (QGIT) order continues to be on hold in 2HFY16. No cost overrun.
- ✓ Increase in ethanol realization by Rs 3 per litre to sugar companies after tax benefit and increased ethanol blending to 10% from 5% is very positive.
- ✓ Praj is favourably placed to benefit from growth in the domestic market and is focusing on export opportunity in Hi-Purity and Critical Process Equipment business.
- ✓ Expect significant traction in execution during 2HFY16.

Outlook and valuation: At its CMP, the stock is trading at 13x our FY17 earnings and at a FY15 P/BV of 2.5x. Praj aspires to be a major player in environment-, energy-, and agri-process-led applications. The commercial success of the second generation of bio-ethanol plants would be a game changer for the company. We have cut our estimates by 6% and 3% considering 1HFY16 performance and outlook. We maintain our valuation at 18x FY17 with a target price of Rs 115 (Previous Rs 125) per share.

BUY (Maintain)

CMP RS 86 / TARGET Rs 115 (+36%)

COMPANY DATA

O/S SHARES (MN) :	178
MARKET CAP (RSBN) :	16
MARKET CAP (USDBN) :	0.2
52 - WK HI/LO (RS) :	117 / 55
LIQUIDITY 3M (USDMN) :	1.7
PAR VALUE (RS) :	2

SHARE HOLDING PATTERN, %

	Jun 15	Mar 15	Dec 14
PROMOTERS :	34.0	34.0	33.5
FII / NRI :	11.1	11.8	10.6
FI / MF :	18.2	15.5	16.7
NON PRO :	10.0	8.9	8.8
PUBLIC & OTHERS :	30.7	34.2	34.8

Key Financials

Rs mn	FY15	FY16E	FY17E
Net Sales	10,119	10,833	13,920
EBIDTA	844	1,128	1,803
Net Profit	456	696	1,150
EPS, Rs	2.6	3.9	6.5
PER, x	33.6	22.0	13.4
EV/EBIDTA, x	17.2	12.5	7.8
ROE, %	7.3	10.8	16.5
Debt/Equity (%)	2.8	2.8	2.6
BLM Cons EPS, Rs	3.9	4.4	5.7

CHANGE IN ESTIMATES

Rs mn	Revised Est.		% Revision	
	FY16E	FY17E	FY16E	FY17E
Revenue	10,833	13,920	-9	-7
EBITDA	1,128	1,803	-9	-4
Core PAT	696	1,150	-6	-3
EPS (Rs)	3.9	6.5	-6	-3

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(Rs mn)	Q2FY16	Q2FY15	yoy growth %	Q1FY16	qoq vs. expectations growth %	Comments
Revenue	2030.5	2650.4	-23.4	1925.0	5.5	-11.7 Execution remains weak
Raw material	983.7	1419.9	-30.7	807.3	21.9	-8.5
Raw material (%) of sales	48.4	53.6		41.9		
Employee cost	366.6	352.0	4.1	382.9	-4.3	4.7 High operating leverage
Other expenses	583.2	723.2	-19.4	622.5	-6.3	-15.5
EBITDA	97.0	155.3	-37.5	112.3	-13.6	-47.6
EBITDA margins (%)	4.8	5.9		5.8		
Other Income	41.0	98.6	-58.4	27.2	50.7	2.5 Higher base last year; cash balance of Rs 2.2bn in 2QFY16
Depreciation	85.0	90.1	-5.7	84.8	0.2	-1.2
Interest	4.1	6.6	-37.9	3.8	7.9	-18.0 No long term debt
Tax	9.0	47.2	-80.9	36.6	-75.4	-77.6
Adj PAT	41.0	106.8	-61.6	13.1	213.0	-55.7
Extraordinary	6.5	134.5	-95.2	38.7	-83.2	
Reported PAT	47.5	241.3	-80.3	51.8	-8.3	
Order inflow	3690	2640	39.8	1620	127.8	Pick up in export and ethanol orders
Order book	11470	7300	57.1	9800	17.0	Ethanol 64%, brewery 4%, and emerging 32%



Quarterly financial performance

Rs mn	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Total Revenue	2,213	2,650	2,193	3,062	1,925	2,031
YoY growth	27.9%	36.4%	-18.5%	-12.4%	-13.0%	-23.4%
Raw material cost	1,211	1,420	1,028	1,426	807	984
Raw material % of Sales	54.7%	53.6%	46.9%	46.6%	41.9%	48.6%
Employee Cost	313	352	324	342	383	367
Other expenditure	601	723	650	911	623	583
Total Cost	2,125	2,495	2,003	2,679	1,813	1,934
EBITDA	88	155	191	383	112	97
EBITDA margin (%)	4.0%	5.9%	8.7%	12.5%	5.8%	4.8%
Depreciation	93	90	97	99	85	85
EBIT	-5	65	94	285	28	12
Interest	6	7	7	5	4	4
EBT	-11	59	87	280	24	8
Other income	50	99	51	49	27	41
PBT	38	157	138	328	51	49
Tax	30	47	24	95	37	9
Tax rate (%)	78.1%	30.0%	17.4%	29.1%	71.9%	18.4%
PAT	8	110	114	233	14	40
Less: Minority interest	13	3	3	1	1	-1
Forex gain / (loss)	29	27	11	15	39	7
Extraordinary	-	108	-	119	-	-
Reported PAT	25	241	123	366	52	47
EPS-adjusted (Rs)	-0.0	0.6	0.6	1.3	0.1	0.2
EPS-Reported (Rs)	0.1	1.4	0.7	2.1	0.3	0.3
Order book	7,300	7,300	10,500	10,100	9,800	11,470

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Net sales	9,858	10,119	10,833	13,920
Growth, %	7	3	7	28
Total income	9,858	10,119	10,833	13,920
Raw material expenses	-4,791	-5,060	-5,016	-6,626
Employee expenses	-1,240	-1,331	-1,518	-1,685
Other Operating expenses	-2,961	-2,884	-3,172	-3,806
EBITDA (Core)	867	844	1,128	1,803
Growth, %	(4.2)	(2.6)	33.6	59.9
Margin, %	8.8	8.3	10.4	13.0
Depreciation	-238	-378	-384	-485
EBIT	629	466	743	1,318
Growth, %	(8.7)	(26.0)	59.6	77.3
Margin, %	6.4	4.6	6.9	9.5
Interest paid	-14	-25	-20	-21
Other Non-Operating Income	238	222	205	236
Pre-tax profit	852	663	928	1,533
Tax provided	-204	-187	-232	-383
Profit after tax	648	476	696	1,150
Others (Minorities, Associates)	-19	-20	0	0
Net Profit	629	456	696	1,150
Growth, %	(10.9)	(27.4)	52.5	65.1
Net Profit (adjusted)	629	456	696	1,150
Unadj. shares (m)	177	177	177	177
Wtd avg shares (m)	177	177	177	177

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Cash & bank	572	997	1,370	1,900
Debtors	3,203	2,805	2,819	3,737
Inventory	2,221	2,272	2,379	2,771
Loans & advances	2,493	1,447	1,519	1,550
Other current assets	100	0	0	0
Total current assets	8,589	7,521	8,088	9,958
Investments	910	1,579	1,297	1,297
Gross fixed assets	4,358	4,543	4,993	5,393
Less: Depreciation	-1,132	-1,524	-1,908	-2,393
Add: Capital WIP	16	14	16	14
Net fixed assets	3,241	3,033	3,101	3,013
Total assets	12,740	12,133	12,485	14,268
Current liabilities	4,287	4,280	4,452	5,568
Provisions	2,124	1,325	1,431	1,546
Total current liabilities	6,411	5,605	5,883	7,114
Non-current liabilities	290	160	144	175
Total liabilities	6,701	5,765	6,027	7,289
Paid-up capital	355	355	355	355
Reserves & surplus	5,470	5,865	6,100	6,621
Shareholders' equity	6,039	6,368	6,458	6,979
Total equity & liabilities	12,740	12,133	12,485	14,268

Source: Company, PhillipCapital India Research Estimates

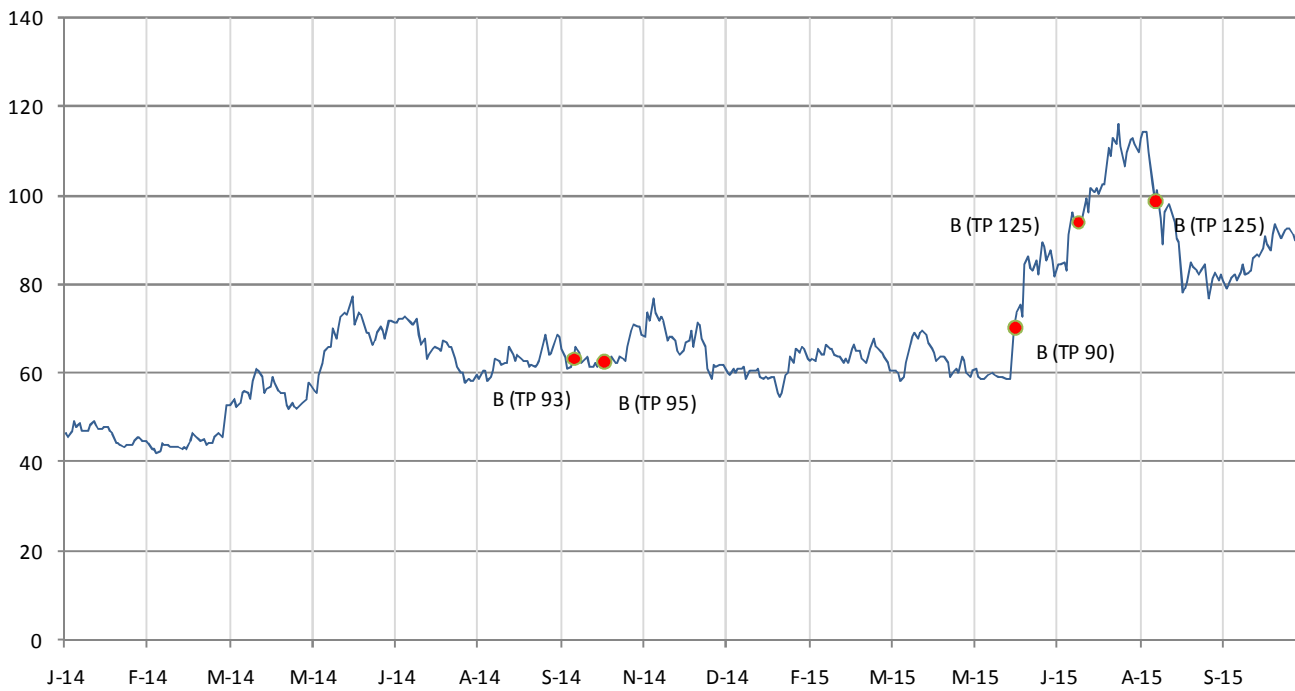
Cash Flow

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Pre-tax profit	852	663	928	1,533
Depreciation	238	378	384	485
Chg in working capital	-746	687	84	-109
Total tax paid	-226	-276	-254	-353
Cash flow from operating activities	118	1,452	1,142	1,556
Capital expenditure	-532	-170	-452	-398
Chg in investments	719	-669	283	0
Cash flow from investing activities	187	-839	-170	-398
Free cash flow	305	613	973	1,158
Equity raised/(repaid)	74	64	65	65
Debt raised/(repaid)	74	-41	6	0
Dividend (incl. tax)	-461	-346	-461	-628
Cash flow from financing activities	-364	-408	-535	-563
Net chg in cash	-58	205	437	595

Valuation Ratios

	FY14	FY15	FY16e	FY17e
Per Share data				
EPS (INR)	3.5	2.6	3.9	6.5
Growth, %	(10.9)	(27.4)	52.5	65.1
Book NAV/share (INR)	32.8	35.0	36.4	39.3
FDEPS (INR)	3.5	2.6	3.9	6.5
CEPS (INR)	4.9	4.7	6.1	9.2
CFPS (INR)	(0.7)	6.9	5.8	4.1
DPS (INR)	2.2	1.6	2.2	3.0
Return ratios				
Return on assets (%)	5.2	4.0	5.7	8.6
Return on equity (%)	10.8	7.3	10.8	16.5
Return on capital employed (%)	13.7	10.5	14.4	21.7
Turnover ratios				
Asset turnover (x)	1.6	1.7	2.1	2.5
Sales/Total assets (x)	0.8	0.8	0.9	1.0
Sales/Net FA (x)	3.2	3.2	3.5	4.6
Working capital/Sales (x)	0.4	0.2	0.2	0.2
Fixed capital/Sales (x)	0.1	0.1	0.1	0.1
Liquidity ratios				
Current ratio (x)	2.0	1.8	1.8	1.8
Quick ratio (x)	1.5	1.2	1.3	1.3
Interest cover (x)	43.7	18.9	37.6	63.5
Dividend cover (x)	1.6	1.6	1.8	2.2
Total debt/Equity (%)	3.7	2.8	2.8	2.6
Net debt/Equity (%)	(6.2)	(13.3)	(19.8)	(17.6)
Valuation				
PER (x)	24.4	33.6	22.0	13.4
PEG (x) - y-o-y growth	(2.2)	(1.2)	0.4	0.2
Price/Book (x)	2.6	2.5	2.4	2.2
Yield (%)	2.6	1.9	2.5	3.5
EV/Net sales (x)	1.5	1.4	1.3	1.0
EV/EBITDA (x)	17.3	17.2	12.5	7.8
EV/EBIT (x)	23.8	31.2	18.9	10.7

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.



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