

February 5, 2024

## Q3FY24 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

### Change in Estimates

|                     | Current    |        | Previous          |        |
|---------------------|------------|--------|-------------------|--------|
|                     | FY25E      | FY26E  | FY25E             | FY26E  |
| <b>Rating</b>       | <b>BUY</b> |        | <b>ACCUMULATE</b> |        |
| <b>Target Price</b> | <b>636</b> |        | <b>611</b>        |        |
| Sales (Rs. m)       | 42,316     | 51,165 | 43,873            | 48,809 |
| % Chng.             | (3.5)      | 4.8    |                   |        |
| EBITDA (Rs. m)      | 4,570      | 5,833  | 4,563             | 5,369  |
| % Chng.             | 0.2        | 8.6    |                   |        |
| EPS (Rs.)           | 19.1       | 23.9   | 18.7              | 21.9   |
| % Chng.             | 2.0        | 9.2    |                   |        |

### Key Financials - Consolidated

| Y/e Mar        | FY23   | FY24E  | FY25E  | FY26E  |
|----------------|--------|--------|--------|--------|
| Sales (Rs. m)  | 35,280 | 34,880 | 42,316 | 51,165 |
| EBITDA (Rs. m) | 3,078  | 3,645  | 4,570  | 5,833  |
| Margin (%)     | 8.7    | 10.5   | 10.8   | 11.4   |
| PAT (Rs. m)    | 2,398  | 2,845  | 3,507  | 4,398  |
| EPS (Rs.)      | 13.0   | 15.5   | 19.1   | 23.9   |
| Gr. (%)        | 59.6   | 18.6   | 23.3   | 25.4   |
| DPS (Rs.)      | 4.5    | 6.2    | 7.6    | 9.6    |
| Yield (%)      | 0.9    | 1.3    | 1.6    | 2.0    |
| RoE (%)        | 24.1   | 24.5   | 25.9   | 27.6   |
| RoCE (%)       | 27.8   | 28.1   | 30.6   | 33.5   |
| EV/Sales (x)   | 2.3    | 2.3    | 1.9    | 1.6    |
| EV/EBITDA (x)  | 26.4   | 22.3   | 17.8   | 13.9   |
| PE (x)         | 36.3   | 30.6   | 24.8   | 19.8   |
| P/BV (x)       | 8.1    | 7.0    | 6.0    | 5.1    |

### Key Data

PRAJ.BO | PRJ IN

|                     |                    |
|---------------------|--------------------|
| 52-W High / Low     | Rs.651 / Rs.299    |
| Sensex / Nifty      | 71,731 / 21,772    |
| Market Cap          | Rs.87bn/ \$ 1,049m |
| Shares Outstanding  | 184m               |
| 3M Avg. Daily Value | Rs.788.76m         |

### Shareholding Pattern (%)

|                         |       |
|-------------------------|-------|
| Promoter's              | 32.81 |
| Foreign                 | 17.37 |
| Domestic Institution    | 13.09 |
| Public & Others         | 36.74 |
| Promoter Pledge (Rs bn) | -     |

### Stock Performance (%)

|          | 1M     | 6M    | 12M  |
|----------|--------|-------|------|
| Absolute | (13.5) | 9.1   | 34.8 |
| Relative | (13.2) | (0.1) | 14.3 |

**Amit Anwani**

amitanwani@plindia.com | 91-22-66322250

**Shirom Kapur**

shiromkapur@plindia.com | 91-22-66322344

# Praj Industries (PRJ IN)

**Rating: BUY | CMP: Rs474 | TP: Rs636**

## Robust opportunities across the bio-economy

### Quick Pointers:

- Policy restricting use of sugar syrup as feedstock impacted Bio Energy execution, leading to 9.1% YoY fall in quarterly revenue.
- Higher share of exports & services and lower RM costs drove margins higher.

**We revise our FY24/25/26E EPS estimates by -5.2%/+2.1%/+9.2% factoring in lower execution this year followed by strong pipeline of opportunities across segments going forward and upgrade to 'Buy' rating from Accumulate with a revised TP of Rs647 (Rs611 earlier). Praj Industries (PRJ) reported mixed quarterly performance with revenue declining 9.1% YoY, while EBITDA margin expanded by 220bps YoY to 11.6%. Restriction on use of sugar syrup in ethanol production delayed execution (syrup-based contracts account for Rs2.5bn in the order book); however, we believe this is likely a temporary phenomenon. The company is aiming for 3x revenue growth by 2030 driven by significant opportunities in exports (energy transition & climate action across the globe, low-carbon ethanol for SAF in US, etc.), ~Rs370bn investment pipeline in CBG, and alternative feedstock in 1G & 2G ethanol.**

**We remain positive on PRJ in long run given 1) its leadership in domestic ethanol (~50-55% market share), 2) large domestic CBG pipeline, 3) focus on newer technologies like 2G ethanol, bio-manufacturing, SAF, multi feedstock plants, etc. 4) healthy export outlook in Engineering driven by ETCA, and 5) improving margins owing to growing share of services & exports. The stock is trading at a P/E of 25.0x/19.9x FY25/26E. We roll-forward to Dec-25, valuing the stock at a P/E of 28x Dec-25E (30x Sep-25E earlier). Upgrade to 'Buy'.**

**Lower execution in Bio Energy drives revenue decline:** Consolidated revenue fell 9.1% YoY to Rs8.3bn (PLe: Rs10.2bn), as domestic Bio Energy execution was impacted by the policy restriction on use of sugar syrup as feedstock, with revenue falling 11.6% YoY to Rs5.9bn. Engineering revenue also fell 3.1% YoY to Rs1.7bn, while HiPurity revenue was flattish at Rs700mn. Domestic revenue declined 13% YoY to Rs6.5bn, while exports rose 12% YoY to Rs1.7bn. Gross margin expanded by 700bps YoY to 45.7% (PLe: 42.8%) due to better mix (higher exports and services) and softening material costs. EBITDA grew 12.1% YoY to Rs965mn (PLe: Rs.977mn). EBITDA margin increased by 220bps YoY to 11.6% (PLe: 9.6%), as gross margin expansion was partly offset by higher employee costs (up 26.3% YoY to Rs852mn). PAT rose 13.0% YoY to Rs704mn (PLe: Rs727mn), aided by better operating margins and a lower effective tax rate (23.4% vs 27.9% in Q3FY23), despite interest costs rising sharply to Rs38mn (vs Rs8mn in Q3FY23).

**Order book stands healthy at Rs39.5bn with increased export share:** Q3 order inflow came in at Rs10.4bn (up 9.9% YoY) owing to healthy growth in Engineering (up 32% YoY to Rs1.2bn) and Bio Energy (up 9% YoY to Rs8.4bn), while HiPurity fell 4% YoY to Rs0.7bn. Order book stands at Rs39.5bn (1.1x TTM revenue) comprising of Bio Energy (77%), HiPurity (6%) and Engineering (17%). Domestic/Export mix in the order book is 75/25% (vs 87/13% in Q3FY23).

**Exhibit 1: Better mix (higher exports & services) and softening input costs drive EBITDA margin expansion of 220bps YoY**

| Y/e March (Rs mn)              | Q3FY23        | Q4FY23        | Q1FY24        | Q2FY24        | Q3FY24        | YoY gr.<br>(%) | QoQ gr.<br>(%) | 9MFY24        | 9MFY23        | YoY gr.<br>(%) |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|---------------|---------------|----------------|
| <b>Revenue</b>                 | <b>9,115</b>  | <b>10,040</b> | <b>7,367</b>  | <b>8,824</b>  | <b>8,286</b>  | <b>(9.1)</b>   | <b>(6.1)</b>   | <b>24,477</b> | <b>25,241</b> | <b>(3.0)</b>   |
| <b>Total Revenues</b>          | <b>9,115</b>  | <b>10,040</b> | <b>7,367</b>  | <b>8,824</b>  | <b>8,286</b>  | <b>(9.1)</b>   | <b>(6.1)</b>   | <b>24,477</b> | <b>25,241</b> | <b>(3.0)</b>   |
| <b>Expenditure</b>             | <b>8,254</b>  | <b>8,995</b>  | <b>6,654</b>  | <b>8,046</b>  | <b>7,322</b>  | <b>(11.3)</b>  | <b>(9.0)</b>   | <b>22,022</b> | <b>23,208</b> | <b>(5.1)</b>   |
| <i>as % of sales</i>           | <i>90.6</i>   | <i>89.6</i>   | <i>90.3</i>   | <i>91.2</i>   | <i>88.4</i>   |                |                | <i>90.0</i>   | <i>91.9</i>   |                |
| Consumption of RM              | 5,583         | 5,925         | 4,395         | 4,990         | 4,496         | (19.5)         | (9.9)          | 13,881        | 16,089        | (13.7)         |
| <i>as % of sales</i>           | <i>61.3</i>   | <i>59.0</i>   | <i>59.7</i>   | <i>56.6</i>   | <i>54.3</i>   |                |                | <i>56.7</i>   | <i>63.7</i>   |                |
| Employee Cost                  | 675           | 705           | 628           | 889           | 852           | 26.3           | (4.2)          | 2,369         | 1,871         | 26.6           |
| <i>as % of sales</i>           | <i>7.4</i>    | <i>7.0</i>    | <i>8.5</i>    | <i>10.1</i>   | <i>10.3</i>   |                |                | <i>9.7</i>    | <i>7.4</i>    |                |
| Other expenditure              | 1,996         | 2,365         | 1,631         | 2,167         | 1,974         | (1.1)          | (8.9)          | 5,772         | 5,248         | 10.0           |
| <i>as % of sales</i>           | <i>21.9</i>   | <i>23.6</i>   | <i>22.1</i>   | <i>24.6</i>   | <i>23.8</i>   |                |                | <i>23.6</i>   | <i>20.8</i>   |                |
| <b>EBITDA</b>                  | <b>860</b>    | <b>1,045</b>  | <b>713</b>    | <b>778</b>    | <b>965</b>    | <b>12.1</b>    | <b>24.1</b>    | <b>2,456</b>  | <b>2,033</b>  | <b>20.8</b>    |
| Depreciation                   | 72            | 95            | 88            | 91            | 109           | 50.8           | 19.7           | 287           | 208           | 38.3           |
| <b>EBIT</b>                    | <b>788</b>    | <b>950</b>    | <b>625</b>    | <b>687</b>    | <b>856</b>    | <b>8.6</b>     | <b>24.6</b>    | <b>2,168</b>  | <b>1,825</b>  | <b>18.8</b>    |
| Other Income                   | 79            | 200           | 163           | 171           | 101           | 28.3           | (40.5)         | 435           | 258           | 68.6           |
| Interest                       | 8             | 22            | 11            | 10            | 38            | 360.7          | 274.1          | 60            | 24            | 149.5          |
| <b>PBT</b>                     | <b>859</b>    | <b>1,128</b>  | <b>777</b>    | <b>847</b>    | <b>919</b>    | <b>7.0</b>     | <b>8.5</b>     | <b>2,543</b>  | <b>2,059</b>  | <b>23.5</b>    |
| Total Tax                      | 236           | 247           | 190           | 224           | 215           | (8.8)          | (4.2)          | 630           | 542           | 16.2           |
| <b>Adjusted PAT</b>            | <b>623</b>    | <b>881</b>    | <b>587</b>    | <b>623</b>    | <b>704</b>    | <b>13.0</b>    | <b>13.1</b>    | <b>1,914</b>  | <b>1,517</b>  | <b>26.1</b>    |
| (Profit)/loss from JV's/Ass/MI | 0             | 0             | 0             | 0             | 0             | (35.8)         | 24.5           | 0             | 0             | -              |
| <b>PAT after MI</b>            | <b>623</b>    | <b>881</b>    | <b>587</b>    | <b>623</b>    | <b>704</b>    | <b>13.0</b>    | <b>13.1</b>    | <b>1,914</b>  | <b>1,517</b>  | <b>26.1</b>    |
| Extra ordinary items           | -             | -             | -             | -             | -             | -              | -              | -             | -             | -              |
| <b>Reported PAT</b>            | <b>623</b>    | <b>881</b>    | <b>587</b>    | <b>623</b>    | <b>704</b>    | <b>13.0</b>    | <b>13.1</b>    | <b>1,914</b>  | <b>1,517</b>  | <b>26.1</b>    |
| <b>Adjusted EPS</b>            | <b>3.4</b>    | <b>4.8</b>    | <b>3.2</b>    | <b>3.4</b>    | <b>3.8</b>    | <b>13.0</b>    | <b>13.1</b>    | <b>10.4</b>   | <b>8.3</b>    | <b>26.1</b>    |
| <b>Margins (%)</b>             | <b>Q3FY23</b> | <b>Q4FY23</b> | <b>Q1FY24</b> | <b>Q2FY24</b> | <b>Q3FY24</b> | <b>bps</b>     | <b>bps</b>     | <b>9MFY24</b> | <b>9MFY23</b> | <b>bps</b>     |
| Gross                          | 38.7          | 41.0          | 40.3          | 43.4          | 45.7          | 700            | 230            | 43.3          | 36.3          | 703            |
| EBITDA                         | 9.4           | 10.4          | 9.7           | 8.8           | 11.6          | 220            | 283            | 10.0          | 8.1           | 198            |
| EBIT                           | 8.6           | 9.5           | 8.5           | 7.8           | 10.3          | 168            | 255            | 8.9           | 7.2           | 163            |
| EBT                            | 9.4           | 11.2          | 10.5          | 9.6           | 11.1          | 167            | 149            | 10.4          | 8.2           | 223            |
| PAT                            | 6.8           | 8.8           | 8.0           | 7.1           | 8.5           | 166            | 144            | 7.8           | 6.0           | 181            |
| Effective Tax rate             | 27.5          | 21.9          | 24.5          | 26.5          | 23.4          | (406)          | (310)          | 24.8          | 26.3          | (156)          |

Source: Company, PL

## Conference Call Highlights

- Policy restriction on use of sugar syrup as feedstock created a near-term challenge in the market. Government revised the order to allow use of both sugar syrup and B-heavy molasses, but with a cap of diversion of up to 1.7mn MT of sugar for ethanol production.
- Government announced incentive of Rs6.87 per liter for encouraging ethanol production from C-Heavy molasses, and an upward revision in price by Rs5.79 per liter to Rs71.86 per liter for ethanol produced from maize.
- **1G Domestic:** Unusual quarter with no order finalization for sugar-based ethanol plants, though this should be a temporary situation. Offering solutions to convert single feedstock plants to multi feed stock plants. Demand for ethanol is not going away; need to create flexibility at the input side. Syrup-based order book is ~Rs2.5bn – this execution is delayed. B-Heavy order book is ~Rs4.5bn, but this also has option to use C-Heavy feedstock. Witnessed steady flow of starchy feedstock-based inquiries getting converted into orders.
- **2G Ethanol:** IOCL Panipat plant recommissioning in progress. Delay has occurred vs original target due to challenges in feedstock supply chain (quality and physical availability). An agreed two-stage program with IOCL will establish the performance of plant in Q1FY25.
- **Engineering Services:** Energy transition is a very important growth agenda globally for the business. ~2/3<sup>rd</sup> third of the order book is from ETCA. GenX Mangalore facility expected to start commercial production by mid-Feb. This is facilitating diversification of order book with ETCA. ZLD is also seeing healthy inquiry inflow. Establishing strong distribution network to offer solutions in enzymes, yeast and performance enhancers.
- International business saw minor shifts in order booking cycle, but inquiries are very healthy with energy transition as a clear phenomenon. GenX plant has taken an additional quarter to get commissioned; hence there are delays in orders from international engineering customers.
- **Sustainable Aviation Fuel (SAF):** IRF set goal in US of 3bn gallons of SAF capacity by 2030 – 1.6bn via HEFA route and balance via alcohol to jet route, which requires low-carbon ethanol. Accordingly, there is large opportunity to convert ethanol plants in US to low-carbon. Every 2L of ethanol will give 1L of SAF. Currently working on 6 engineering projects in US. Clarification on Section 45Z of IRA is expected before Jun-24. This can help in converting the engineering contracts into supply of equipment in H2FY25.
- **Compressed Biogas (CBG):** CBG Blending Obligation mandates blending of CBG in CNG & PNG from FY26. Blending to reach 5% by FY29, creating Rs370bn opportunity to establish 750 CBG projects by 2029. Capacity creation will take time, but may see healthy inquiry volumes develop towards end of FY25. Key question is on accessibility to feedstock; government announced financial assistance for feedstock collection.
- **Bio manufacturing:** Installation of PLA demo plant is nearing completion; expect operations to start by April-24.

## Financials

### Income Statement (Rs m)

| Y/e Mar                       | FY23          | FY24E         | FY25E         | FY26E         |
|-------------------------------|---------------|---------------|---------------|---------------|
| <b>Net Revenues</b>           | <b>35,280</b> | <b>34,880</b> | <b>42,316</b> | <b>51,165</b> |
| YoY gr. (%)                   | 50.6          | (1.1)         | 21.3          | 20.9          |
| Cost of Goods Sold            | 22,014        | 19,742        | 23,867        | 28,525        |
| Gross Profit                  | 13,266        | 15,138        | 18,450        | 22,641        |
| Margin (%)                    | 37.6          | 43.4          | 43.6          | 44.3          |
| Employee Cost                 | 2,576         | 3,244         | 3,766         | 4,451         |
| Other Expenses                | 1,675         | 1,971         | 2,581         | 3,300         |
| <b>EBITDA</b>                 | <b>3,078</b>  | <b>3,645</b>  | <b>4,570</b>  | <b>5,833</b>  |
| YoY gr. (%)                   | 58.8          | 18.4          | 25.4          | 27.6          |
| Margin (%)                    | 8.7           | 10.5          | 10.8          | 11.4          |
| Depreciation and Amortization | 302           | 375           | 427           | 495           |
| <b>EBIT</b>                   | <b>2,776</b>  | <b>3,270</b>  | <b>4,143</b>  | <b>5,338</b>  |
| Margin (%)                    | 7.9           | 9.4           | 9.8           | 10.4          |
| Net Interest                  | 46            | 70            | 47            | 56            |
| Other Income                  | 458           | 593           | 592           | 599           |
| <b>Profit Before Tax</b>      | <b>3,187</b>  | <b>3,793</b>  | <b>4,689</b>  | <b>5,880</b>  |
| Margin (%)                    | 9.0           | 10.9          | 11.1          | 11.5          |
| Total Tax                     | 789           | 948           | 1,182         | 1,482         |
| Effective tax rate (%)        | 24.8          | 25.0          | 25.2          | 25.2          |
| <b>Profit after tax</b>       | <b>2,398</b>  | <b>2,845</b>  | <b>3,507</b>  | <b>4,398</b>  |
| Minority interest             | -             | -             | -             | -             |
| Share Profit from Associate   | -             | -             | -             | -             |
| <b>Adjusted PAT</b>           | <b>2,398</b>  | <b>2,845</b>  | <b>3,507</b>  | <b>4,398</b>  |
| YoY gr. (%)                   | 59.6          | 18.6          | 23.3          | 25.4          |
| Margin (%)                    | 6.8           | 8.2           | 8.3           | 8.6           |
| Extra Ord. Income / (Exp)     | -             | -             | -             | -             |
| <b>Reported PAT</b>           | <b>2,398</b>  | <b>2,845</b>  | <b>3,507</b>  | <b>4,398</b>  |
| YoY gr. (%)                   | 59.6          | 18.6          | 23.3          | 25.4          |
| Margin (%)                    | 6.8           | 8.2           | 8.3           | 8.6           |
| Other Comprehensive Income    | -             | -             | -             | -             |
| Total Comprehensive Income    | 2,398         | 2,845         | 3,507         | 4,398         |
| <b>Equity Shares O/s (m)</b>  | <b>184</b>    | <b>184</b>    | <b>184</b>    | <b>184</b>    |
| <b>EPS (Rs)</b>               | <b>13.0</b>   | <b>15.5</b>   | <b>19.1</b>   | <b>23.9</b>   |

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

| Y/e Mar                               | FY23          | FY24E         | FY25E         | FY26E         |
|---------------------------------------|---------------|---------------|---------------|---------------|
| <b>Non-Current Assets</b>             |               |               |               |               |
| <b>Gross Block</b>                    | <b>5,361</b>  | <b>6,661</b>  | <b>7,361</b>  | <b>7,861</b>  |
| Tangibles                             | 5,361         | 6,661         | 7,361         | 7,861         |
| Intangibles                           | -             | -             | -             | -             |
| <b>Acc: Dep / Amortization</b>        | <b>2,996</b>  | <b>3,371</b>  | <b>3,798</b>  | <b>4,293</b>  |
| Tangibles                             | 2,996         | 3,371         | 3,798         | 4,293         |
| Intangibles                           | -             | -             | -             | -             |
| <b>Net fixed assets</b>               | <b>2,366</b>  | <b>3,291</b>  | <b>3,564</b>  | <b>3,569</b>  |
| Tangibles                             | 2,366         | 3,291         | 3,564         | 3,569         |
| Intangibles                           | -             | -             | -             | -             |
| Capital Work In Progress              | 735           | 735           | 735           | 735           |
| Goodwill                              | -             | -             | -             | -             |
| Non-Current Investments               | 1,105         | 1,121         | 1,151         | 1,288         |
| Net Deferred tax assets               | 111           | 111           | 111           | 111           |
| Other Non-Current Assets              | 50            | 70            | 127           | 153           |
| <b>Current Assets</b>                 |               |               |               |               |
| Investments                           | 4,584         | 4,360         | 4,443         | 4,605         |
| Inventories                           | 3,336         | 4,300         | 5,101         | 5,958         |
| Trade receivables                     | 7,948         | 7,549         | 8,811         | 10,513        |
| Cash & Bank Balance                   | 1,448         | 1,472         | 1,567         | 1,745         |
| Other Current Assets                  | 4,316         | 5,581         | 6,982         | 8,698         |
| <b>Total Assets</b>                   | <b>26,075</b> | <b>28,653</b> | <b>32,692</b> | <b>37,622</b> |
| <b>Equity</b>                         |               |               |               |               |
| Equity Share Capital                  | 367           | 367           | 367           | 367           |
| Other Equity                          | 10,413        | 12,119        | 14,224        | 16,863        |
| <b>Total Network</b>                  | <b>10,780</b> | <b>12,487</b> | <b>14,591</b> | <b>17,230</b> |
| <b>Non-Current Liabilities</b>        |               |               |               |               |
| Long Term borrowings                  | -             | -             | -             | -             |
| Provisions                            | -             | -             | -             | -             |
| Other non current liabilities         | -             | -             | -             | -             |
| <b>Current Liabilities</b>            |               |               |               |               |
| ST Debt / Current of LT Debt          | -             | -             | -             | -             |
| Trade payables                        | 5,050         | 5,447         | 6,840         | 8,411         |
| Other current liabilities             | 10,356        | 10,830        | 11,371        | 12,092        |
| <b>Total Equity &amp; Liabilities</b> | <b>26,075</b> | <b>28,653</b> | <b>32,692</b> | <b>37,622</b> |

Source: Company Data, PL Research

### Cash Flow (Rs m)

| Y/e Mar                               | FY23         | FY24E          | FY25E          | FY26E          |
|---------------------------------------|--------------|----------------|----------------|----------------|
| PBT                                   | 3,187        | 3,793          | 4,689          | 5,880          |
| Add. Depreciation                     | 302          | 375            | 427            | 495            |
| Add. Interest                         | 11           | 70             | 47             | 56             |
| Less Financial Other Income           | 458          | 593            | 592            | 599            |
| Add. Other                            | (32)         | -              | -              | -              |
| Op. profit before WC changes          | 3,468        | 4,238          | 5,163          | 6,431          |
| Net Changes-WC                        | (1,222)      | (1,470)        | (2,097)        | (2,295)        |
| Direct tax                            | (625)        | (948)          | (1,182)        | (1,482)        |
| <b>Net cash from Op. activities</b>   | <b>1,621</b> | <b>1,819</b>   | <b>1,884</b>   | <b>2,655</b>   |
| Capital expenditures                  | (353)        | (1,300)        | (700)          | (500)          |
| Interest / Dividend Income            | 80           | -              | -              | -              |
| Others                                | (571)        | 224            | (83)           | (162)          |
| <b>Net Cash from Invt. activities</b> | <b>(844)</b> | <b>(1,076)</b> | <b>(783)</b>   | <b>(662)</b>   |
| Issue of share cap. / premium         | 4            | -              | -              | -              |
| Debt changes                          | -            | -              | -              | -              |
| Dividend paid                         | (771)        | (1,138)        | (1,403)        | (1,759)        |
| Interest paid                         | (42)         | (70)           | (47)           | (56)           |
| Others                                | (125)        | 488            | 443            | 583            |
| <b>Net cash from Fin. activities</b>  | <b>(934)</b> | <b>(720)</b>   | <b>(1,006)</b> | <b>(1,232)</b> |
| <b>Net change in cash</b>             | <b>(157)</b> | <b>24</b>      | <b>94</b>      | <b>761</b>     |
| Free Cash Flow                        | 1,269        | 519            | 1,184          | 2,155          |

Source: Company Data, PL Research

### Key Financial Metrics

| Y/e Mar                    | FY23  | FY24E | FY25E | FY26E |
|----------------------------|-------|-------|-------|-------|
| <b>Per Share(Rs)</b>       |       |       |       |       |
| EPS                        | 13.0  | 15.5  | 19.1  | 23.9  |
| CEPS                       | 14.7  | 17.5  | 21.4  | 26.6  |
| BVPS                       | 58.6  | 67.9  | 79.4  | 93.7  |
| FCF                        | 6.9   | 2.8   | 6.4   | 11.7  |
| DPS                        | 4.5   | 6.2   | 7.6   | 9.6   |
| <b>Return Ratio(%)</b>     |       |       |       |       |
| RoCE                       | 27.8  | 28.1  | 30.6  | 33.5  |
| ROIC                       | 53.1  | 42.3  | 41.2  | 41.8  |
| RoE                        | 24.1  | 24.5  | 25.9  | 27.6  |
| <b>Balance Sheet</b>       |       |       |       |       |
| Net Debt : Equity (x)      | (0.6) | (0.5) | (0.4) | (0.4) |
| Net Working Capital (Days) | 64    | 67    | 61    | 58    |
| <b>Valuation(x)</b>        |       |       |       |       |
| PER                        | 36.3  | 30.6  | 24.8  | 19.8  |
| P/B                        | 8.1   | 7.0   | 6.0   | 5.1   |
| P/CEPS                     | 32.3  | 27.1  | 22.2  | 17.8  |
| EV/EBITDA                  | 26.4  | 22.3  | 17.8  | 13.9  |
| EV/Sales                   | 2.3   | 2.3   | 1.9   | 1.6   |
| Dividend Yield (%)         | 0.9   | 1.3   | 1.6   | 2.0   |

Source: Company Data, PL Research

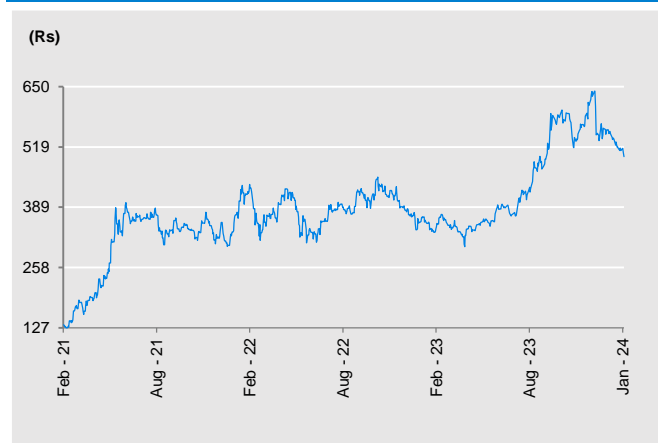
### Quarterly Financials (Rs m)

| Y/e Mar                           | Q4FY23        | Q1FY24       | Q2FY24       | Q3FY24       |
|-----------------------------------|---------------|--------------|--------------|--------------|
| <b>Net Revenue</b>                | <b>10,040</b> | <b>7,367</b> | <b>8,824</b> | <b>8,286</b> |
| YoY gr. (%)                       | 20.8          | 0.7          | 0.2          | (9.1)        |
| Raw Material Expenses             | 5,925         | 4,395        | 4,990        | 4,496        |
| Gross Profit                      | 4,115         | 2,972        | 3,834        | 3,790        |
| Margin (%)                        | 41.0          | 40.3         | 43.4         | 45.7         |
| <b>EBITDA</b>                     | <b>1,045</b>  | <b>713</b>   | <b>778</b>   | <b>965</b>   |
| YoY gr. (%)                       | 40.9          | 35.7         | 20.3         | 12.2         |
| Margin (%)                        | 10.4          | 9.7          | 8.8          | 11.6         |
| Depreciation / Depletion          | 95            | 88           | 91           | 109          |
| <b>EBIT</b>                       | <b>950</b>    | <b>625</b>   | <b>687</b>   | <b>856</b>   |
| Margin (%)                        | 9.5           | 8.5          | 7.8          | 10.3         |
| Net Interest                      | 22            | 11           | 10           | 38           |
| Other Income                      | 200           | 163          | 171          | 101          |
| <b>Profit before Tax</b>          | <b>1,128</b>  | <b>777</b>   | <b>847</b>   | <b>919</b>   |
| Margin (%)                        | 11.2          | 10.5         | 9.6          | 11.1         |
| Total Tax                         | 247           | 190          | 224          | 215          |
| Effective tax rate (%)            | 21.9          | 24.5         | 26.5         | 23.4         |
| <b>Profit after Tax</b>           | <b>881</b>    | <b>587</b>   | <b>623</b>   | <b>704</b>   |
| Minority interest                 | -             | -            | -            | -            |
| Share Profit from Associates      | -             | -            | -            | -            |
| <b>Adjusted PAT</b>               | <b>881</b>    | <b>587</b>   | <b>623</b>   | <b>704</b>   |
| YoY gr. (%)                       | 52.9          | 42.2         | 29.4         | 13.0         |
| Margin (%)                        | 8.8           | 8.0          | 7.1          | 8.5          |
| Extra Ord. Income / (Exp)         | -             | -            | -            | -            |
| <b>Reported PAT</b>               | <b>881</b>    | <b>587</b>   | <b>623</b>   | <b>704</b>   |
| YoY gr. (%)                       | 52.9          | 42.2         | 29.4         | 13.0         |
| Margin (%)                        | 8.8           | 8.0          | 7.1          | 8.5          |
| Other Comprehensive Income        | -             | -            | -            | -            |
| <b>Total Comprehensive Income</b> | <b>881</b>    | <b>587</b>   | <b>623</b>   | <b>704</b>   |
| Avg. Shares O/s (m)               | 184           | 184          | 184          | 184          |
| <b>EPS (Rs)</b>                   | <b>4.8</b>    | <b>3.2</b>   | <b>3.4</b>   | <b>3.8</b>   |

Source: Company Data, PL Research

## Price Chart

## Recommendation History



| No. | Date      | Rating     | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|------------|----------|-------------------|
| 1   | 09-Jan-24 | Accumulate | 611      | 540               |
| 2   | 01-Nov-23 | Accumulate | 611      | 534               |
| 3   | 05-Oct-23 | Accumulate | 618      | 571               |
| 4   | 18-Sep-23 | Accumulate | 618      | 581               |
| 5   | 28-Jul-23 | BUY        | 475      | 416               |
| 6   | 06-Jul-23 | BUY        | 475      | 371               |
| 7   | 26-May-23 | BUY        | 475      | 374               |
| 8   | 11-Apr-23 | BUY        | 495      | 343               |
| 9   | 06-Feb-23 | BUY        | 495      | 364               |

## Analyst Coverage Universe

| Sr. No. | Company Name                     | Rating     | TP (Rs) | Share Price (Rs) |
|---------|----------------------------------|------------|---------|------------------|
| 1       | ABB India                        | Accumulate | 4,984   | 4,753            |
| 2       | Apar Industries                  | Accumulate | 6,890   | 6,069            |
| 3       | Bharat Electronics               | Hold       | 182     | 186              |
| 4       | BHEL                             | UR         | -       | 195              |
| 5       | Carborundum Universal            | BUY        | 1,347   | 1,116            |
| 6       | Cummins India                    | Hold       | 1,811   | 2,005            |
| 7       | Engineers India                  | BUY        | 166     | 199              |
| 8       | GE T&D India                     | UR         | -       | 585              |
| 9       | Grindwell Norton                 | BUY        | 2,604   | 2,283            |
| 10      | Harsha Engineers International   | Accumulate | 415     | 395              |
| 11      | Hindustan Aeronautics            | BUY        | 2,266   | 2,996            |
| 12      | Kalpataru Projects International | BUY        | 740     | 737              |
| 13      | KEC International                | Hold       | 686     | 657              |
| 14      | Larsen & Toubro                  | BUY        | 4,071   | 3,480            |
| 15      | Praj Industries                  | Accumulate | 611     | 540              |
| 16      | Siemens                          | Accumulate | 4,359   | 4,020            |
| 17      | Thermax                          | Hold       | 2,771   | 3,200            |
| 18      | Triveni Turbine                  | Accumulate | 450     | 407              |
| 19      | Voltamp Transformers             | Hold       | 7,619   | 7,910            |

## PL's Recommendation Nomenclature (Absolute Performance)

|                          |                                   |
|--------------------------|-----------------------------------|
| <b>Buy</b>               | : > 15%                           |
| <b>Accumulate</b>        | : 5% to 15%                       |
| <b>Hold</b>              | : +5% to -5%                      |
| <b>Reduce</b>            | : -5% to -15%                     |
| <b>Sell</b>              | : < -15%                          |
| <b>Not Rated (NR)</b>    | : No specific call on the stock   |
| <b>Under Review (UR)</b> | : Rating likely to change shortly |

## ANALYST CERTIFICATION

### (Indian Clients)

We/I, Mr. Amit Anwani- MBA (Finance), Mr. Shirom Kapur- BSc, Passed CFA Level III Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

### (US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

## DISCLAIMER

### Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at [www.plindia.com](http://www.plindia.com).

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is a registered with SEBI under the SEBI (Research Analysts) Regulation, 2014 and having registration number INH000000271.

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Amit Anwani- MBA (Finance), Mr. Shirom Kapur- BSc, Passed CFA Level III Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

### US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

**Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

[www.plindia.com](http://www.plindia.com)