



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

PRAJ INDUSTRIES

WHAT WE LIKE

CLASSIC CASE OF PICK & SHOVEL PLAY

While India goes all-in on biofuels, it is hard to envisage how demand and supply will match each other in the next few years. However, **Praj Ind is definitely going to benefit from this big change. It is India's most successful company in the field of bio-based technologies and engineering with more than 750 references in more than 75 countries. A classic case of Pick-and-Shovel Play in the space of Ethanol and other biofuels.**

COMPLETE PORTFOLIO FOR BIOENERGY

Praj has technology solutions for

- **Biofuels** such as 1st generation ethanol, biodiesel
- **Advanced biofuels** such as 2nd generation ethanol and Compressed Bio Gas (CBG)
- **Future biofuels** such as Sustainable Aviation Fuel (SAF), bio-marine fuel, bio methanol, and biohydrogen

STRONG ORDER BACKLOG & RECENT WINS

Bio-energy & Engineering: Witnessed robust order-booking in FY21 and closed the year with an **order backlog of INR 1748 Cr.**

Praj Tech: To set up India's **largest capacity syrup-based ethanol plant** for Godavari Biorefineries in Karnataka.

IOCL order: Setting up **three 2G ethanol plants**, at Panipat (Haryana) and Dahej (Gujarat). Each of these 2G ethanol plants will have the capacity to produce **100,000 litres of ethanol per day.**

HPCL order: Setting up CBG project at Badaunin Uttar Pradesh. Praj is offering its state-of-the-art RenGas™ process to produce CBG from rice straw using proprietary technology.

MULTIPLE TAILWINDS FOR THE SECTOR

- COP26 Glasgow summit (Nov 2021) & “Race to Zero” campaign
- E20 fuel has shown **reduced emission levels by 50% for 2 wheelers and 30% for 4 wheelers**
- 20% blending target (E20) **revised ahead by 5 years from 2030 to 2025** by the Indian Govt
- Decisions of the **opening of an expanded range of feedstock**, especially starchy and other means
- The **huge demand-supply gap** in Ethanol
- A **robust & remunerative ethanol pricing model** along with the interest subvention scheme
- **International demand rise** in the biofuel sector due to **increasing pressure to reduce emissions**

WHAT WE DON'T LIKE

DEPENDENCE ON CAPEX CYCLE OF END-USER INDUSTRIES

History provides ample evidence that **in periods of economic slowdown (2010-2013) and low Capex addition in end-user industries (2017- 2020), Praj had a tough time scaling up its operations.** The current optimism on the business is **based on the robust order backlog** that got a push from the Capex upcycle. **Praj would not be able to do well if this momentum slows down for any reason.**

CAPITAL INTENSIVE OPERATIONS

The bulk of the revenues is **built through projects and solutions that have elongated cycle of 12-24 months.** This leads to **higher inventory days and debtor days.** Debtor days and inventory days were **127 days and 91 days** respectively for FY21.

FIXED PRICE CONTRACTS WITH NO PROTECTION AGAINST INFLATION

Turnkey projects in India (whether government or private) mostly **do not have any price escalation clause.** Hence, it leaves companies like Praj **exposed to inflationary risk in commodity prices.**

Management admits this in the Q4FY21 call:

“On our existing jobs, it is going to create some impact, no question. Because as we execute and if during the execution itself the costs go up, then they will have some impact.”

ROLE OF GOVT

BioEnergy forms **the majority of the business** for Praj. This is a **sunrise sector where the government has made a lot of positive changes** in the policies. Therefore, to a large extent, the growth of the sector is **dependent on govt efforts and policies.** If the government, under political pressure, **makes policy changes that are not favorable for the industry,** all the optimism will go for a toss.

We, at SSS, however, feel that the probability of this happening is very low at the moment as the government looks to be making all the right moves in this sector.

