

Praj Industries (PRAIN)

Rs 76.6

WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 77.4 to Rs 72
EPS (FY11E)	Changed from Rs 6.4 to Rs 6.2
EPS (FY12E)	Changed from Rs 8.6 to Rs 7.2
RATING.....	Unchanged

Disappointment continues...

Praj Industries reported its Q1FY11 results and continued to show muted performance with a 26% decline in topline to Rs.93.7 crore from Rs.126.4 crore in Q1FY10. The company's margins dipped to 9.3% during the quarter from 22.1% in the corresponding quarter last year due to higher raw material costs and lower engineering income. Profit after tax declined by 59.4% on a YoY basis and stood at Rs.10.4 crore, this was on the back of lower other income and higher depreciation provided during the quarter.

Order book position

The company's order book continues to remain at Rs 700 crore (55% domestic and 45% international). The company has added only ~90 crores of fresh orders this quarter. The company has not received any new orders from US and Brazilian subsidiaries due to lower demand outlook of Ethanol and renewable fuel. However mandatory blending of ethanol with petrol in USA has increased from 10% to 12%, which could result in incremental demand 6 billion gallon.

Valuation

At the current price of Rs 76.6, the stock is trading at 12.0x its FY11E EPS of Rs 6.2 and 10.7x its FY12E EPS of Rs 7.2. Increasing ethanol blending in USA may result in higher demand in future. However, a decline in sugar prices and other feed stock could result in new order intakes for Praj in domestic market. However, with the slowdown in ethanol and other renewable fuel in developed countries, orders from these markets will not come in next few quarters. Considering the lower growth in FY11 and declining margins earning would be negatively impacted, which makes stock expensive at current valuation. We have valued the stock at 10x its FY12 EPS of Rs 7.2 to arrive at a target price of Rs 72 per share.

Exhibit 1: Performance Highlight

(Rs Crore)	Q1FY11	Q1FY10E	Q1FY10	Q4FY10	YoY(%)	QoQ(%)
Net Sales	93.7	174.7	126.4	127.8	-25.9	-26.7
EBITDA margin (%)	9.3	22.3	22.1	10.4	-1278bps	-111bps
Depreciation	2.7	2.4	2.4	3.1	11.7	-12.1
Interest	0.0	0.0	0.2	0.0	-100.0	NA
Other Income	6.0	4.5	11.6	5.7	-48.3	5.4
Reported PAT	10.4	32.9	25.5	19.6	-59.4	-47.2
EPS (Rs)	0.6	1.8	1.4	1.1	-59.8	-47.6

Source: Company, ICICIdirect.com Research

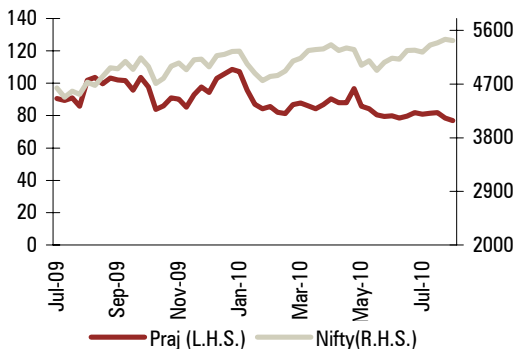
Rating matrix	
Rating	: Reduce
Target	: Rs 72
Target Period	: 12 months
Potential Upside	: -6.0%

Key Financials (Rs crore)				
Rs Crore	FY09	FY10	FY11E	FY12E
Net Sales	771.9	602.3	644.0	671.7
EBITDA	158.9	115.3	138.4	164.5
Net Profit	129.8	113.9	117.4	131.6
EPS (Rs)	7.1	6.2	6.4	7.2

Valuation summary				
	FY09	FY10	FY11E	FY12E
P/E	10.8	12.3	12.0	10.7
Target P/E	10.9	12.6	12.1	10.8
EV / EBITDA	8.2	11.5	9.7	8.0
Price to BV	3.2	2.8	2.5	2.2
RoNW(%)	32.7	24.1	22.0	21.8
RoCE (%)	39.0	25.3	27.2	27.7

Stock data	
Market Capitalization	Rs. 1415.2 crore
Total Debt (FY09)	Rs. 12.7 crore
Cash and Investments (FY09)	Rs. 327 crore
EV	Rs. 1305 crore
52 week H/L	122.6 / 75.5
Equity capital	Rs. 36.95 crore
Face value	Rs. 2
MF Holding (%)	11.8
FII Holding (%)	8.9

Price movement (Stock vs. Nifty)



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Revising estimates

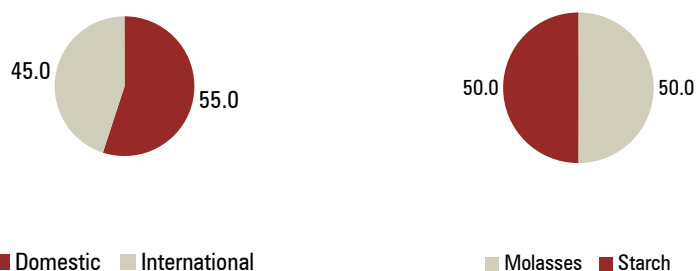
In light of the stagnant order book due to demand slowdown in overseas markets, we believe growth in topline would be impacted. Simultaneously margins are also declining due to lower proportion of engineering income. Hence, we have revised our estimates for FY11 and FY12.

Exhibit 2: Revising estimates

	FY11E			FY12E		
	Old	New	% Change	Old	New	% change
Revenue	644.0	602.3	(6.5)	765.7	671.7	(0.12)
EBITDA	138.4	115.3	(16.7)	198.2	164.5	(0.17)
EBITDA Margin %	21.5	0.2	-2130 bps	25.89	24.5	139bps
PAT	117.4	113.9	(3.0)	157.2	131.6	(0.16)
EPS	6.4	6.2	(3.8)	8.6	7.2	(0.16)

Source: Company, ICICIdirect.com Research

Exhibit 3: Order book break-up (%)



Source: Company, ICICIdirect.com Research

Exhibit 4: Ethanol prices (US\$ per litre)



Source: Company, ICICIdirect.com Research

Ethanol prices remain subdued, slowing down inflow of overseas orders

Exhibit 5: Crude prices (US\$ per barrel)



Source: Company, ICICIdirect.com Research

Exhibit 6: Corn prices (US\$ per bushel)



Source: Company, ICICIdirect.com Research

Valuation

At the current price of Rs 76.6, the stock is trading at 12.0x its FY11E EPS of Rs 6.2 and 10.7x its FY12E EPS of Rs 7.2. Increasing ethanol blending in USA may result in higher demand in future. However, a decline in sugar prices and other feed stock could result in new order intakes for Praj in domestic market. However, with the slowdown in ethanol and other renewable fuel in developed countries, orders from these markets will not come in next few quarters. Considering the lower growth in FY11 and declining margins earning would be negatively impacted, which makes stock expensive at current valuation. We have valued the stock at 10x its FY12 EPS of Rs 7.2 to arrive at a target price of Rs 72 per share.

Exhibit 7: Valuation matrix

	Sales (Rs cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY09	771.9	10.0	7.1	-15.6	10.8	8.2	32.7	39.0
FY10	602.3	-22.0	6.2	-12.9	12.3	11.5	24.1	25.3
FY11E	644.0	6.9	6.4	4.0	12.0	9.7	22.0	27.2
FY12E	671.7	11.5	7.2	16.5	10.7	8.0	21.8	27.7

Source: Company, ICICIdirect.com Research

Exhibit 8: ICICIdirect.com Coverage Universe

Praj Industries				Sales (Rs crore)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	PRAIN	CMP	76.6 FY10	602.3	6.2	12.4	11.5	24.1	25.3
		Target	72 FY11E	644.0	6.4	12.0	9.7	22.0	27.2
MCap	1415.2	Upside	-6.0% FY12E	671.7	7.2	10.7	8.0	21.8	27.7
Everest Kanto Cyliders				Sales (Rs crore)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	EVEKAN	CMP	117.3 FY10	649.7	1.3	92.3	28.7	2.0	4.9
		Target	145 FY11E	685.1	5.1	22.9	10.6	7.6	12.1
MCap	1184.73	Upside	23.6% FY12E	804.7	10.1	11.7	7.0	12.9	17.7
Nitco Tiles				Sales (Rs crore)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	NITTIL	CMP	60.6 FY10	315.5	-2.7	-22.4	9.7	-1.6	-3.5
		Target	40 FY11E	363.6	1.8	33.0	9.4	1.1	-0.4
MCap	195.2	Upside	-34.0% FY12E	418.7	8.7	6.9	4.8	5.1	3.8
Nitin Fire Protection				Sales (Rs crore)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	NITFIR	CMP	361 FY10	315.5	34.9	10.3	7.6	23.7	20.8
		Target	406 FY11E	363.6	40.9	8.8	7.1	21.9	20.1
MCap	491.2	Upside	12.5% FY12E	418.7	47.0	7.7	5.8	20.2	20.3

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: 20% or more;
 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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