

Rating Rationale

May 09, 2023 | Mumbai

Praj Industries Limited

Ratings reaffirmed at 'CRISIL AA / Stable / CRISIL A1+ '

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Rating Action

Total Bank Loan Facilities Rated	Rs.535 Crore
Long Term Rating	CRISIL AA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its "CRISIL AA/Stable/CRISIL A1+" ratings on the bank facilities of Praj Industries Ltd (Praj).

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The ratings continue to reflect an improvement in the performance of Praj, given healthy order book owing to the increasing focus of the government on ethanol blending and established market position in the ethanol project and process engineering business. The ratings also take into account satisfactory order pipeline, healthy diversity in revenue profile and strong capital structure marked by nil debt and robust liquidity. These strengths are partially offset by exposure to cyclical in the capital goods industry and to project risks.

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Revenue grew by 79% (on-year) in fiscal 2022, driven by growth of above 80% in the bioenergy business (both 1G and 2G) and engineering segments due to huge demand pertaining to sustainable fuel option and increasing ethanol blending initiatives. Topline increased by 67% during the first nine months of fiscal 2023, compared to the previous corresponding period. Order backlog stood at Rs 3,380 crore as on December 31, 2022, as against Rs 2,605 crore a year back, reflecting healthy revenue visibility over the medium term. Operating margin moderated to around 8.1% during the first nine months of fiscal 2023 from 8.8% in fiscal 2022 due to increase in material prices and is expected to improve over the medium term.

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Financial risk profile remains supported by minimal debt and liquidity of over Rs 600 crore as on December 31, 2022. Sizeable stretch in the working capital cycle or delay in execution for the orderbook will be key monitorables.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Praj and its subsidiaries because of the operational and financial linkages between them; all the entities are also under a common management. The subsidiaries are Praj HiPurity Systems Ltd (previously, Neela Systems Ltd; 'CRISIL A+/Stable/CRISIL A1'), Praj Engineering & Infra Ltd (formerly Pacecon Engineering Projects Ltd), and three overseas execution subsidiaries - Praj Far East Co Ltd (Thailand), Praj Far East Philippines Ltd Inc (Philippines), and Praj Americas Inc (USA).

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Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

Established market position

Praj has been an undisputed market leader in the domestic ethanol plant installation and equipment business and the domestic breweries installation segment. The market position is also supported by its global presence with over 1,000 references in more than 100 countries and across five continents. The company provides end-to-end solutions, which include process technology and equipment (distillery and brewery segments), wastewater treatment technology and critical process equipment. Further, successful commercialisation of demonstration second-generation ethanol plant and order execution for upcoming plants in India will benefit the business risk profile. Additionally, new collaborations such as Axens, France (for Sustainable Aviation Fuel), Sekab E-Technology AB, Sweden (producing biofuels using forest residue feedstock), Indian Oil Corporation Ltd (for biofuels segment) and increased government focus for achieving a target of 20% in the ethanol blending by fiscal 2025 are expected to be the growth drivers for the medium term.

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Satisfactory order pipeline

Orders worth Rs 3,380 crore as on December 31, 2022, across the three business segments assure medium-term revenue visibility. During the first nine months of fiscal 2023, new order inflow improved for ethanol business owing to favourable policies being announced by the government. Rising demand and support from recent government policies should benefit the bioenergy segment of Praj. Order inflow is expected to gradually improve and any development in this front will remain closely monitored.

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Healthy diversity in revenue profile

Praj has diversified into water and wastewater management, critical process equipment, bio-nutrients, HiPurity Systems with the objective of reducing its dependence on core business of ethanol-based products. These areas, which are divided into two business divisions "HiPurity and engineering businesses contributed 25-30% to the consolidated revenue for the first nine months of fiscal 2023. The company also has diversified geographical presence, with exports contributing 15-20% to the revenue over the five fiscals through December 2022.

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Strong financial risk profile and liquidity

Financial risk profile remains healthy, supported by adequate cash accrual and negligible debt. Networth stood robust at Rs 927 crore as on September 30, 2022, and is expected at more than Rs 950 crore in the coming fiscals, supported by expected cash accrual of more than Rs 150 crore per annum. Debt protection metrics were comfortable, with adjusted interest coverage ratio of 89.4 times in fiscal 2022. Total outside liabilities to tangible networth ratio stood at 1.52 times as on March 31, 2022. Liquidity is strong, reflected by cash and cash equivalents of over Rs 600 crore as on December 31, 2022, absence of any repayment obligation, and nil utilisation of the fund-based limit.

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Weaknesses

Exposure to cyclical in the capital goods industry

Praj operates in the inherently cyclical capital goods sector, where demand is dependent on the capital expenditure (capex) cycle of its end-user industries. Any slowdown in the growth prospects of end-user industries affects Praj's topline and its profitability. For instance, revenue fell in fiscals 2010, 2011 and 2013 owing to overall global economic slowdown, which led to fewer orders from developed countries. Further, in fiscals 2017 and 2020, weak capex momentum resulted in lower revenue from operations. This also impacts the working capital cycle, which gets stretched significantly due to slow project execution during economic slowdown.

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Exposure to project-related risks

Business is exposed to project-related risks such as fluctuations in input prices. As the average duration of a project is 12 months, volatility in input prices during this period impacts cost, and therefore, profitability. Further, turnkey projects in India normally do not contain escalation clauses. However, Praj collects advance payment in most of the fixed price contracts and has prudent purchase policies in place, thereby partially mitigating the impact of any adverse movement in the cost of raw materials.

Liquidity: Strong

Liquidity is strong, marked by cash and cash equivalents of over Rs 600 crore as on December 31, 2022. In the absence of any repayment obligation over the medium term, the entire cash accrual (post dividend) -- projected at over Rs 150 crore per annum -- will meet the capex and working capital requirements. Bank limit remained unutilised for the 12 months through March 2023.

Outlook Stable

Praj should continue to benefit from its established position in the domestic distillery and brewery installation business, improving order pipeline for second-generation ethanol units and growing revenue diversity. Financial risk profile should remain strong, supported by steady cash accrual, prudent funding for capex programmes and strong liquidity.

Rating Sensitivity factors

Upward factors

- Substantial and sustainable increase in revenue and profitability, resulting in cash accrual of Rs 300-400 crore per annum
- Sustenance of healthy financial risk profile

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Downward factors

- Continued weak operating profitability and a consequent decline in cash accrual
- Larger-than-expected, debt-funded capex, leading to gearing above 1 time

About the Company

Incorporated in November 1985, Praj is promoted by Mr Pramod Chaudhari and associates. In 2007, the manufacturing facility was commissioned in the special economic zone in Kandla (Gujarat). In 2008, Praj started its pilot plant to carry out research and development (R&D) on second-generation cellulosic ethanol technology at Praj Matrix R&D Center. In 2012, Praj acquired 50.2% stake in Praj HiPurity Systems Ltd and subsequently raised its stake to 100% in 2015. This company manufactures and sets up water treatment plants and modular process systems; it mainly caters to the pharmaceuticals, biotechnology, cosmetics, and food and beverages industries.

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There are three business segments: (a) bioenergy business (involves process design, engineering, fabrication, and commissioning of ethanol plants), accounted for 71% of consolidated revenue in fiscal 2022); b) HiPurity Systems, accounted for 9% of consolidated revenue; c) engineering business accounted for 20% -- this segment has three sub-divisions: water & waste water treatment (operates in the industrial waste water systems), critical process engineering (provides high-end equipment and systems finding applications in industries such as oil & gas, petrochemical, fertiliser and chemicals industries), and brewery plants and equipment.

Key Financial Indicators

As on / for the period ended March 31	À	2022	2021
Revenue	Rs crore	2333	1305
Adjusted profit after tax (APAT)	Rs crore	148	81
APAT margin	%	6.4	6.2
Adjusted debt/adjusted networth	Times	0	0
Interest coverage	Times	66.08	45.13

*The company has achieved revenue of Rs 2,516 crore with PAT margin of ~6% in 9M FY23.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -À Details of Instrument'À in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Cash credit	NA	NA	NA	18	NA	CRISIL AA/Stable
NA	Letter of credit & bank guarantee*	NA	NA	NA	517	NA	CRISIL A1+

*Interchangeable between bank guarantee and letter of credit

Annexure â€” List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Praj Hipurity Systems Ltd	100%	Wholly owned subsidiary
Praj Engineering & Infra Ltd	100%	Wholly owned subsidiary
Praj Far East Co Ltd	100%	Wholly owned subsidiary
Praj Far East Philippines Ltd Inc	100%	Wholly owned subsidiary
Praj Americas Inc	100%	Wholly owned subsidiary

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	18.0	CRISIL AA/Stable	Â	--	28-02-22	CRISIL AA/Stable	Â	--	05-11-20	CRISIL AA/Stable	CRISIL AA/Stable
Non-Fund Based Facilities	ST	517.0	CRISIL A1+	Â	--	28-02-22	CRISIL A1+	Â	--	05-11-20	CRISIL A1+	CRISIL A1+

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	3	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AA/Stable
Cash Credit	3	Citibank N A	CRISIL AA/Stable
Cash Credit	3	ICICI Bank Limited	CRISIL AA/Stable
Cash Credit	3	Standard Chartered Bank Limited	CRISIL AA/Stable
Cash Credit	6	Bank of Maharashtra	CRISIL AA/Stable
Letter of credit & Bank Guarantee&	87	ICICI Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee&	10	ICICI Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee&	97	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A1+
Letter of credit & Bank Guarantee&	129	Bank of Maharashtra	CRISIL A1+
Letter of credit & Bank Guarantee&	87	Citibank N. A.	CRISIL A1+
Letter of credit & Bank Guarantee&	97	Standard Chartered Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee&	10	Citibank N. A.	CRISIL A1+

This Annexure has been updated on 09-May-2023 in line with the lender-wise facility details as on 04-May-2023 received from the rated entity.

& - Interchangeable between bank guarantee and letter of credit

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Engineering Sector
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com</p> <p>Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com</p> <p>Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com</p>	<p>Gautam Shahi Director CRISIL Ratings Limited D: gautam.shahi@crisil.com</p> <p>Prateek Kasera Team Leader CRISIL Ratings Limited D: Prateek.Kasera@crisil.com</p> <p>Raj Kumar Rating Analyst CRISIL Ratings Limited D: Raj.Kumar@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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