

PRAJ INDUSTRIES LTD.

BSE CODE: 522205
RECCOMENDATION: BUY

NSE CODE: PRAJIND
CMP: 480

BACKGROUND

The company is engaged in the design, manufacture, supply, and commissioning of fermentation and distillation equipments for the manufacture of ethanol. The company was promoted by Pramod Chaudhari in 1985. The company's plant is located at Bhosari, Pune (Maharashtra). PIL came out with a public issue of Rs.6.20 crore in January 1994. PIL manufactures plate head exchangers in collaboration with REHEAT, Sweden. The company sells its product under the name, 'HIFLUX' and solvent recovery systems under the brand name 'Ecofine'. The company also manufactures pressure fermentation breweries in collaboration with Dab Brav Consult GmbH, Germany. The company, in collaboration with Vogellbusch GmbH, Austria, introduced cascade continuous fermentation process, for the first time in India. PIL has promoted a subsidiary in Singapore, Praj Far East Pte Ltd, for export of design and engineering services and industrial products to the South East Asian countries. The company plans to expand its manufacturing facilities near Pune.

INTRODUCTION

Praj Industries Limited provides cutting edge biotechnology solutions to the Distillery, Brewery, wastewater treatment and customized engineering/fabrication (ASME stamped) for the process industry. The company is also engaged in the design, manufacture, supply and commissioning of fermentation and distillation equipments for the manufacture of ethanol, located in Pune, India, Praj's operations are spread worldwide including India (with offices in Delhi and Bangalore) and in Colombia, South America, Singapore, Bangkok, Thailand and Johannesburg, South Africa. The Company is constantly expanding its reach with an office planned in UAE very shortly and an entry into Europe. A small beginning has been made in Eastern Europe. The company has a market share of 70 per cent and is the market leader in ethanol plant and equipment manufacture. Apart from molasses based distilleries Praj also offers 'Grain Spirit Technology'. Two new grain based distillery plants are coming up in North India, based on Praj technology. Apart from India, Praj is also setting up grain spirit plant in Australia. Recently, Praj introduced 'Sweet Sorghum to Ethanol Technology' based on its patented Thermo permeation technology.

EXPORT THRUST

Praj recently achieved a huge milestone by crossings exports of over 100crs. Praj is now keen on tapping new markets like the European Union and entering related business segments. It has also plans to grow by acquisition route. The company recently commissioned a 3,20,000 litres per day fuel ethanol plant in Central America for a Euro American conglomerate which plans to export fuel ethanol to the US. The brewery business is also growing a pace and it recently got two orders, of total value Rs.18 crore, one for setting up Bhutan's first ever brewery, and another brewery in Orissa, SABMiller has also entrusted their modernisation project, to Praj. Praj also bagged an export order from West Africa for a microbrewery. A microbrewery usually caters to the local demand of draft beer, which is ready-to-drink. A popular concept in many emerging economies including China, this concept of is yet to be introduced in India. Once launched, Praj

will have an edge in this segment too.

DOMESTIC MARKET

On the domestic front too, Praj has bagged large orders, especially distilleries attached to sugar mills in north India. Bajaj Hindustan, Rana Sugars and JHV Sugars had placed orders in the current year cumulatively for Rs 40 crore. It has now nearly 100% market share in north Indian markets. Praj has also bagged a number of prestigious orders which include orders from Banari Amman Sugars, KCP, Dwarikesh Sugars Etc. The Company has eight patents on distillery processes and waste-water management. With large companies expanding their capacity players like Praj are benefiting the most and thus increase in turnover and bottomline. Praj is all set to become the largest player in the segment in which it is operating.

RESEARCH & DEVELOPMENT

PRAJ continues its innovation agenda at Matrix, The Innovation Center. Programs undertaken during the year include laboratory, pilot and industrial trials for ethanol production process from an alternative 'energy crop' wherein PRAJ is taking a lead. PRAJ has extended its role to identification of seed varieties and cultivation of the crop in order to establish clear parameters for promotion of this energy crop. On the brewery front, Matrix has successfully concluded laboratory and industrial trials on 'Accelerated Fermentation' which would help brewers to catch up on higher market demand during peak seasons without sacrificing the quality of beer.

BUSINESS OUTLOOK

In the development of renewable transport fuels, bio-ethanol is just a first step. In fact, bio-ethanol will become the building block of all other transport fuels including fuel cells. With ethanol production likely to double over the decade, plant capacities will undergo a dramatic change in India and around the world. Praj envisages significant volume of business being generated in the overseas markets. The trend has already begun with a number of countries looking at various options for not only the distillery sector but also for customized engineering and manufacturing projects too and also international business is likely grow substantially in the coming yrs. Praj's biggest opportunity would be in the area of environmental systems wherein larger capacities would mean new and innovative systems employed for wastewater treatment, it is again a leading player in this technology segment. Praj is now exploring ways and means to expand its current offering in current markets, building on the brand equity already developed. This will also take Praj on the 'value-up' chain.

CONCLUSION

Praj has grown too fast and the same trend is likely to continue over the coming yrs. It is sure to receive huge orders from both domestic and international markets as there is not much competition in this segment and with Praj's quality orders r only going to get better and larger. It has established a good brand image for itself in the global markets. With all segments of the company looking up people can only expect Praj to touch the sky.

In the financial results also Praj has only heightened its stature and brightened its image which can be understood by seeing the accuracy and consistency of the company over the last 5yrs(from a turnover of just 40crs in yr 2001 to 233cr in 2005 similarly PAT has rocketed from a mere 94lakhs to 22cr in the last 5yrs).Praj management is expecting a 50%growth in both topline and bottomline (that is 350cr and 33cr for this fiscal fy-05-06).But its a very conservative target and surely Praj will surpass it quite easily .At the current price of 480,praj is quoting at a P.E of less than 12times its expected fy-06 earnings(estimating EPS of Rs. 40, based on management's

conservative guidance). Stock market legend RAKESH JHUNJHUNWALA holds more than 12% stake in the company and FIIS and mutual funds also holds a good number of shares. With a good dividend yield and strong reserves, PRAJ IS A GREAT BUY AT CURRENT LEVELS.

Target: Our target is Rs. 800 on a timeframe of 1yr horizon.

Category	No. of Shares	%
Promoter's Holding		
Promoters		
Indian Promoters	3129559	38.58
Sub Total	3129559	38.58
Non Promoter's Holding		
Institutional Investors		
Mutual Funds and UTI	705816	8.70
Banks, Financial Institutions, Insurance Companies	300	0.00
FIIS	297141	3.66
Sub Total	1003257	12.37
Others		
Private Corporate Bodies	888280	10.95
Indian Public	3026044	37.31
NRIs/OCBs	64112	0.79
Sub Total	3978436	49.05
Grand Total	8111252	100.00

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