The ethanol opportunity

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Thanks to the government-mandated blending of petrol with ethanol, ethanol manufacturers are in a favourable position. Here is a promising stock to profit from this theme.

Ethanol (chemical name: ethyl alcohol), a biofuel, has been a part of the government's energy agenda for over two decades now. Of its several uses (chemical and pharma products), this organic chemical compound, which is produced from feedstock (sugarcane, sugar, molasses, maize and damaged food grains, etc.), also blends with petrol and power vehicles.

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The attractiveness of ethanol blending with petrol program stems from:

- A reduction of import dependence on fossils (estimated annual savings of ₹30,000 crore on full implementation)

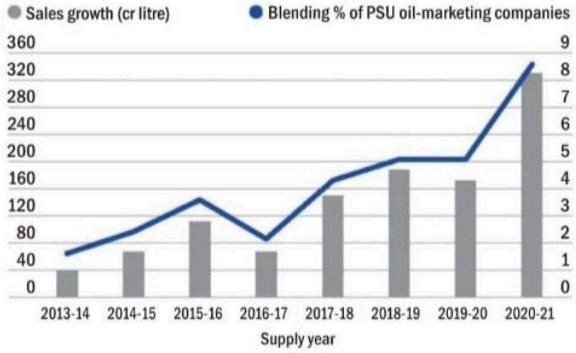
- Lower emission through E20 fuel (20 per cent ethanol, 80 per cent petrol), which reduces hydrocarbon effluents by 20 per cent (carbon monoxide by 30–50 per cent)

- Additional income source and employment for farmers

- Ethanol is also a better-quality fuel due to its highoctane number, which enhances engine efficiency considerably, even though it has less calorific value than that of petrol

To meet this ambitious government target, the total ethanol capacity is required to be augmented by three times the capacity as of FY2021.

Ethanol quantity supplied and percentage blending trends



Source: NITI Aayog roadmap for ethanol blending in India 2020-25

Ethanol demand projection

Requirement of ethanol for blending is set to increase threefold over the next five years

Supply year	Projected petrol sale (cr litre)	Blending (%)	Requirement of ethanol for blending in petrol (cr litre)
2019-20	3,413	5.0	173
2020-21	3,908	8.5	332
2021-22	4,374	10.0	437
2022-23	4,515	12.0	542
2023-24	4,656	15.0	698
2024-25	4,939	20.0	988
2025-26	5,080	20.0	1,016

Source: NITI Aayog roadmap for ethanol blending in India 2020-25

As can be seen in table 'Ethanol demand projection', the requirement of ethanol blending, which was 332 crore litres in FY21, is expected to expand three times to 1,016 crore litres by FY26. This is expected to result in significant capacity expansion by ethanol manufacturers. Estimates peg this outlay to be of a magnitude of ₹100,000 crore over the next few years.

Praj Industries: A key beneficiary

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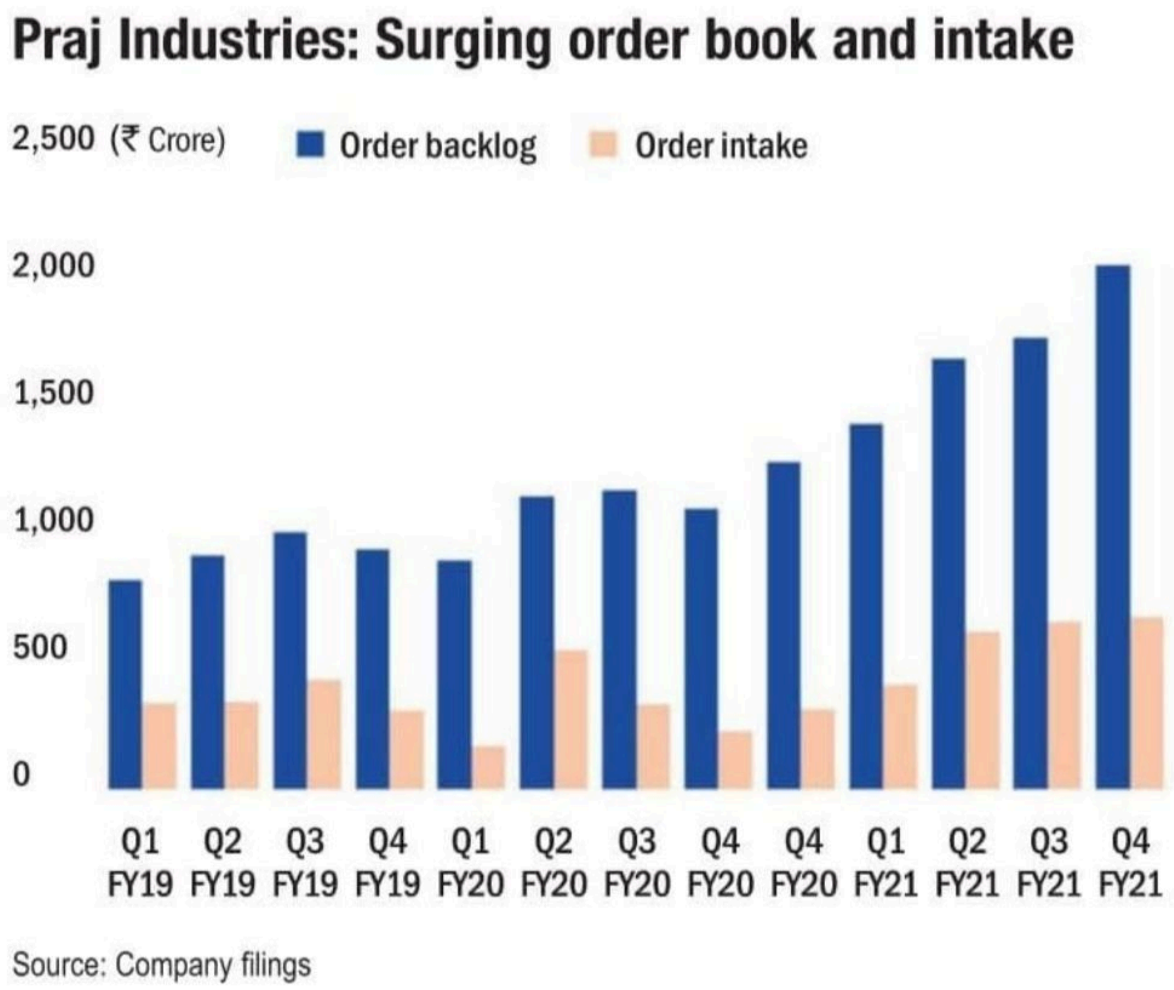
Praj Industries, headquartered in Pune and founded 37 years ago by Pramod Chaudhari, is at the forefront of bio-based engineering and farm-to-fuel technology solutions. It commands a leadership position with a market share of 60 per cent. Praj's technologies are used to produce about 8 per cent of the total ethanol production in the world.

One of the few companies in the world, it develops second-generation ethanol technology by using agro residue like rice and wheat straw, cane trash, corncobs and stover, cotton stalk, bagasse, empty fruit bunches, etc. Its diverse product portfolio comprises bio-energy plants, zero liquid discharge plants, critical process equipment and skids for oil and gas industries, breweries and high-purity water systems.

Biotechnology plants based on its technologies are deployed in more than 100 countries at more than 1,000 sites. The Indian ethanol market opportunity presents an addressable opportunity of ₹14,000–15,000 crore over the next few years. It is now experiencing a doubling of inquiries and the order backlog is swelling (see the chart 'Praj Industries: Surging order book and intake).

Praj ended Q1FY2022 with its highest ever order backlog and order intake. With the industry tailwinds intact, the company is likely to improve its five-year performance of a revenue CAGR of 12.6 per cent and PAT of 16.1 per cent. With zero leverage, low capital expenditure requirements and cash and equivalents, its balance sheet is strong. Faster conversion of a brimming order book into revenue is likely to translate into higher profitability aided by operating return on equity significantly. Higher growth rates and a marked improvement in the return ratios justify the high valuation of 54 times on a trailing 12-month basis.



In this era of ESG (environmental, social and governance), this engineering expert can prove to be a promising investment that ticks all the boxes and believes in transforming the fuel to fuel the transformation.