

HOLD

TP: Rs 3,000 | ▲ 11%

THERMAX

| Capital Goods

| 15 December 2023

Focus on energy transition

- Energy transition identified as focus for next five years, especially areas of coal gasification, biomass, bio-CNG and green hydrogen
- Management plans to bump up R&D budget over three years from ~0.5% of sales at present
- Maintain HOLD with TP of Rs 3,000 (unchanged), set at target P/E of 40x Sep'25E EPS

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We attended the 'Thermax Fest' in Pune where the company showcased offerings in the field of energy transition. Key takeaways:

5Y green transition roadmap: TMX announced that it will focus wholly on green energy over the next five years. Subsidiary TOESL has already moved from 10 renewable energy plants to 40, adding Rs 1.5bn-2bn in revenue (FY23). In bio-CNG, the company has gone from nil to 14 plants under execution this year. In green hydrogen, it plans to make electrolyzers and is scouting for technology partners, in addition to the engineering, procurement and construction (EPC) or build-own-operate (BOO) models. The event showcased HVAC solutions that use biofuels to lower energy costs and offerings in zero liquid discharge and effluent treatment that can similarly save costs.

New energy offerings at early stages: TMX has identified focus areas such as coal gasification, biomass and bio-CNG, green hydrogen, and solutions for zero liquid discharge, energy-efficient HVAC and heat pumps. Progress on these offerings is at an early stage and each comes with its own set of challenges. For instance, TMX's coal gasification solution, developed with IIT Delhi, is commercially feasible only with viability gap funding, where the company expects clarity from the government in the next 12 months. Similarly, for biomass, the aggregation of supply is a key challenge. Green hydrogen is still nascent and could remain in the planning stage for 18-24 months.

Pursuing growth in margins, higher focus on R&D: TMX has taken a conscious decision to step away from low-margin projects, such as power and flue gas desulfurisation (FGD) plants, rather than chasing order book growth. The company also plans to double down on R&D efforts by scaling up the budget over the next three years from the current level of ~0.5% of sales. It is also open to partnerships and collaborations, along the lines of the IIT Delhi model for coal gasification.

Maintain HOLD: We maintain our TP of Rs 3,000, valuing the stock at a P/E of 40x Sep'25E EPS (in line with its 5Y mean), while retaining HOLD given limited upside potential.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TMX IN/Rs 2,705
Market cap	US\$ 3.9bn
Free float	32%
3M ADV	US\$ 3.6mn
52wk high/low	Rs 3,230/Rs 1,831
Promoter/FPI/DII	62%/12%/16%

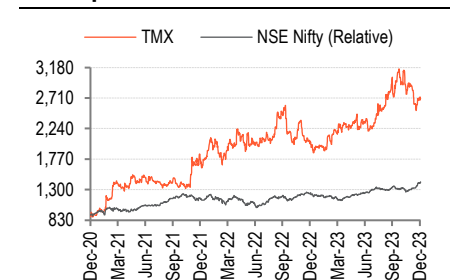
Source: NSE | Price as of 14 Dec 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	80,898	95,857	1,09,346
EBITDA (Rs mn)	5,976	7,621	9,558
Adj. net profit (Rs mn)	4,507	5,981	7,791
Adj. EPS (Rs)	37.8	50.2	65.4
Consensus EPS (Rs)	37.8	43.3	60.1
Adj. ROAE (%)	12.2	14.8	17.4
Adj. P/E (x)	71.5	53.9	41.4
EV/EBITDA (x)	54.9	42.7	35.1
Adj. EPS growth (%)	44.3	32.7	30.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	61,283	80,898	95,857	1,09,346	1,24,770
EBITDA	4,214	5,976	7,621	9,558	11,381
Depreciation	1,132	1,169	1,138	1,080	1,090
EBIT	3,081	4,807	6,483	8,478	10,290
Net interest inc./(exp.)	252	376	350	301	301
Other inc./(exp.)	1,270	1,602	1,842	2,210	2,653
Exceptional items	0	0	0	0	0
EBT	4,100	6,033	7,975	10,388	12,642
Income taxes	978	1,524	1,994	2,597	3,160
Extraordinary items	0	0	506	0	0
Min. int./Inc. from assoc.	1	(2)	0	0	0
Reported net profit	3,123	4,507	5,475	7,791	9,481
Adjustments	0	0	506	0	0
Adjusted net profit	3,123	4,507	5,981	7,791	9,481

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	14,598	14,979	19,697	20,970	23,928
Other current liabilities	20,002	25,181	27,575	31,456	35,893
Provisions	0	0	0	0	0
Debt funds	3,596	8,158	5,000	4,300	4,300
Other liabilities	1,491	1,367	1,620	1,847	2,108
Equity capital	225	225	225	225	225
Reserves & surplus	34,700	38,456	42,014	47,078	53,241
Shareholders' fund	34,925	38,702	42,261	47,325	53,488
Total liab. and equities	74,611	88,386	96,153	1,05,898	1,19,717
Cash and cash eq.	9,535	11,316	17,961	20,480	24,562
Accounts receivables	14,237	17,621	22,323	25,464	29,056
Inventories	7,270	7,556	7,879	8,987	10,255
Other current assets	16,336	24,309	18,384	19,473	22,219
Investments	7,034	2,168	2,569	2,931	3,344
Net fixed assets	12,014	12,645	12,707	12,827	12,937
CWIP	443	4,338	4,338	4,338	4,338
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	7,743	8,433	9,992	11,398	13,006
Total assets	74,611	88,386	96,153	1,05,898	1,19,717

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	3,247	4,596	14,627	8,686	10,360
Capital expenditures	(838)	(6,499)	(1,200)	(1,200)	(1,200)
Change in investments	(4,263)	(993)	(401)	(362)	(413)
Other investing cash flows	885	696	(1,307)	(1,178)	(1,347)
Cash flow from investing	(4,216)	(6,797)	(2,908)	(2,740)	(2,961)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	762	4,481	(3,158)	(700)	0
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(968)	(996)	(1,916)	(2,727)	(3,318)
Cash flow from financing	(206)	3,485	(5,074)	(3,427)	(3,318)
Chg in cash & cash eq.	(1,175)	1,284	6,645	2,520	4,081
Closing cash & cash eq.	9,535	11,316	17,961	20,480	24,562

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	26.2	37.8	45.9	65.4	79.6
Adjusted EPS	26.2	37.8	50.2	65.4	79.6
Dividend per share	8.0	10.0	11.0	12.0	12.0
Book value per share	293.1	324.6	354.5	397.0	448.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	5.5	4.1	3.4	3.1	2.7
EV/EBITDA	80.6	54.9	42.7	35.1	29.7
Adjusted P/E	103.2	71.5	53.9	41.4	34.0
P/BV	9.2	8.3	7.6	6.8	6.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	76.2	74.7	75.0	75.0	75.0
Interest burden (PBT/EBIT)	133.1	125.5	123.0	122.5	122.9
EBIT margin (EBIT/Revenue)	5.0	5.9	6.8	7.8	8.2
Asset turnover (Rev./Avg TA)	87.7	99.3	103.9	108.2	110.6
Leverage (Avg TA/Avg Equity)	2.1	2.2	2.3	2.3	2.2
Adjusted ROAE	9.3	12.2	14.8	17.4	18.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	27.9	32.0	18.5	14.1	14.1
EBITDA	18.6	41.8	27.5	25.4	19.1
Adjusted EPS	20.5	44.3	32.7	30.2	21.7
Profitability & Return ratios (%)					
EBITDA margin	6.9	7.4	8.0	8.7	9.1
EBIT margin	5.0	5.9	6.8	7.8	8.2
Adjusted profit margin	5.1	5.6	6.2	7.1	7.6
Adjusted ROAE	9.3	12.2	14.8	17.4	18.8
ROCE	8.3	10.9	14.1	17.0	18.2
Working capital days (days)					
Receivables	85	80	85	85	85
Inventory	43	34	30	30	30
Payables	87	68	75	70	70
Ratios (x)					
Gross asset turnover	2.5	3.1	3.5	3.8	4.1
Current ratio	1.3	1.4	1.3	1.3	1.4
Net interest coverage ratio	12.2	12.8	18.5	28.2	34.2
Adjusted debt/equity	(0.2)	(0.1)	(0.3)	(0.3)	(0.4)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

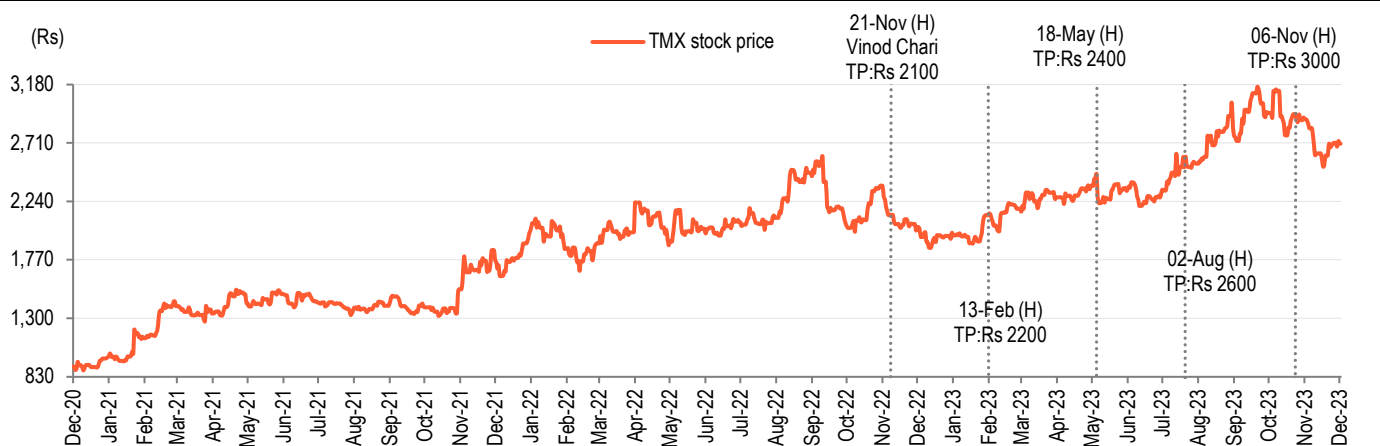
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): THERMAX (TMX IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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