

**HOLD**  
 TP: Rs 3,300 | ▼ 1%

**THERMAX**

| Capital Goods

| 12 February 2024

**Improving order outlook; maintain HOLD**

- Q3 operating performance stable with EBITDA margin inching up 20bps YoY despite a Rs 100mn hit from cost overruns
- Management expects large orders to return in FY25, led by domestic power and Middle East projects
- TP raised to Rs 3,300 (vs. Rs 3,000) upon rollover and hike in our FY25/ FY26 EPS estimates by ~7% each; retain HOLD

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**Decent operating performance:** TMX reported topline growth of 13% YoY to Rs 23bn, with gross and EBITDA margin expansion of 50bps and 20bps YoY to 44.6% and 8.1% respectively. PAT rose 87% YoY to Rs 2.4bn during the quarter, which includes a one-time gain and loss of Rs 1.2bn and Rs 100mn respectively.

**Robust industrial segment performance; green solutions on track:** The industrial products and industrial infra segments – together ~90% of sales – delivered robust topline growth of 20% YoY and 10% YoY respectively. EBIT margins were healthy across segments, but with green solutions accounting for ~50% of the interest costs, losses continue at the net level for that segment. However, these losses remain aligned with TMX’s internal targets and the segment is guided to turn profitable in FY26.

**Large-order pipeline to improve in FY25:** TMX expects big-ticket orders to make a comeback in FY25, led by orders from the power sector. It has seen strong inquiries for coal-fired plants in the last three months from utilities as well as entities seeking captive power units. Management expects the formal bidding cycle for power projects to commence over the next two quarters and is already working to structure packages as per customer requirements. Large orders are also expected from the international business, especially in the downstream sector in the Middle East.

**Temporary slowdown in domestic business:** TMX is witnessing a slight slowdown in order inquiries in the domestic market but believes this will change within a quarter. Sectors such as food & beverages and pharmaceuticals remain positive while there has been a slackening of demand in the ethanol space. Management also noted a lull in orders for waste heat recovery systems from the cement sector and distilleries but expects this to reverse in a quarter.

**Retain HOLD:** We cut our FY24 EPS estimate by 12% to reflect the 9MFY24 numbers but increase our FY25/FY26 forecasts by ~7% each given management’s positive commentary. On rolling valuations forward to Dec’25E, we have a revised TP of Rs 3,300 (earlier Rs 3,000). Our TP is set at an unchanged 40x P/E multiple, in line with the stock’s 5Y average. We maintain HOLD on limited upside potential.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	TMX IN/Rs 3,350
Market cap	US\$ 4.9bn
Free float	32%
3M ADV	US\$ 4.3mn
52wk high/low	Rs 3,509/Rs 1,992
Promoter/FPI/DII	62%/12%/16%

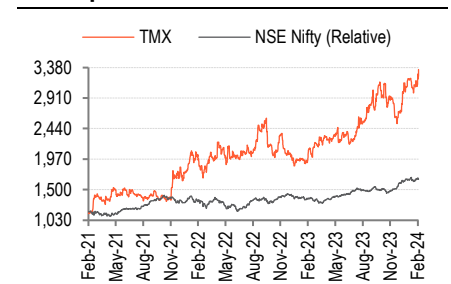
Source: NSE | Price as of 9 Feb 2024

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	80,898	90,597	1,09,735
EBITDA (Rs mn)	5,976	7,318	9,886
Adj. net profit (Rs mn)	4,507	5,259	8,385
Adj. EPS (Rs)	37.8	44.1	70.4
Consensus EPS (Rs)	37.8	43.3	60.1
Adj. ROAE (%)	12.2	12.9	18.5
Adj. P/E (x)	88.6	75.9	47.6
EV/EBITDA (x)	67.8	55.0	41.8
Adj. EPS growth (%)	44.3	16.7	59.5

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	23,244	20,493	13.4	23,025	1.0	65,598	57,790	13.5
Gross Profit	10,363	9,042	14.6	10,219	1.4	29,138	24,310	19.9
Gross Margin (%)	44.6	44.1	0.5bps	44.4	0.2bps	44.4	42.1	2bps
EBITDA	1,874	1,611	16.4	2,046	(8.4)	5,242	3,977	31.8
EBITDA Margin (%)	8.1	7.9	20bps	8.9	(82bps)	8.0	6.9	111bps
Depreciation	358	291	23.3	330	8.7	982	874	12.3
Interest	266	91	191.8	198	34.4	598	237	152.6
Other Income	584	423	38.0	659	(11.3)	1,773	1,027	72.7
PBT	1,834	1,652	11.0	2,177	(15.8)	5,436	3,893	39.6
Tax	721	386	87.0	589	22.5	1,625	942	72.5
Adjusted PAT	1,109	1,264	(12.2)	1,586	(30.1)	3,811	2,950	29.2
Exceptional item	(1,261)	0	-	0	-	(755)	-	-
Reported PAT	2,371	1,264	87.5	1,586	49.5	4,556	2,945	54.7
Adj. PAT Margin (%)	4.8	6.2	(140bps)	6.9	(212bps)	5.8	5.1	70bps
EPS (Rs)	9.9	11.2	(12.2)	14.1	(30.0)	33.84	26.20	29.2

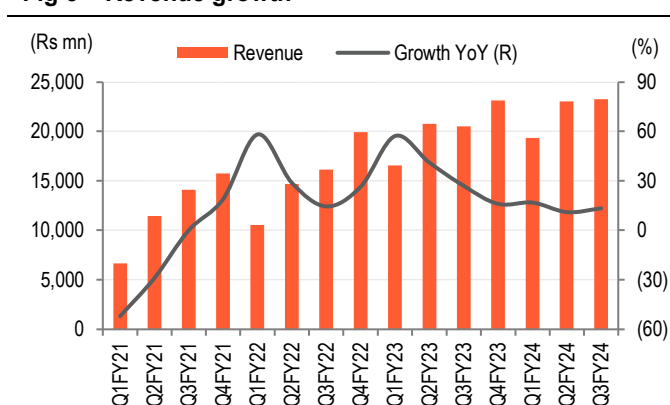
Source: Company, BOBCAPS Research

**Fig 2 – Segmental performance**

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
<b>Revenue</b>								
Industrial Products	10,226	8,559	19.5	9,894	3.4	28,478	23,570	20.8
Industrial Infra	10,974	10,006	9.7	10,851	1.1	30,987	27,679	12.0
Green Solutions	1,235	846	45.9	1,246	(0.9)	3,612	2,777	30.1
Chemical	1,606	1,645	(2.4)	1,879	(14.5)	5,092	5,050	0.8
<b>EBIT</b>								
Industrial Products	1,015	801	26.7	988	2.7	2,563	1,699	50.8
Margin (%)	9.9	9.4	57bps	10.0	(6bps)	9.0	7.2	179bps
Industrial Infra	389	537	(27.5)	573	(32.1)	1,264	1,449	(12.7)
Margin (%)	3.5	5.4	(182bps)	5.3	(173bps)	4.1	5.2	(115bps)
Green Solutions	133	52	155.0	80	67.0	313	132	137.2
Margin (%)	10.8	6.2	461bps	6.4	438bps	8.7	4.7	391bps
Chemical	331	232	42.9	345	(4.2)	942	338	178.7
Margin (%)	20.6	14.1	652bps	18.4	222bps	18.5	6.7	1180bps

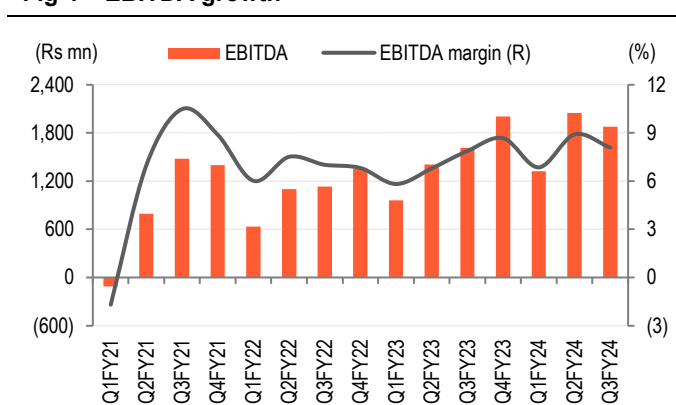
Source: Company, BOBCAPS Research

**Fig 3 – Revenue growth**



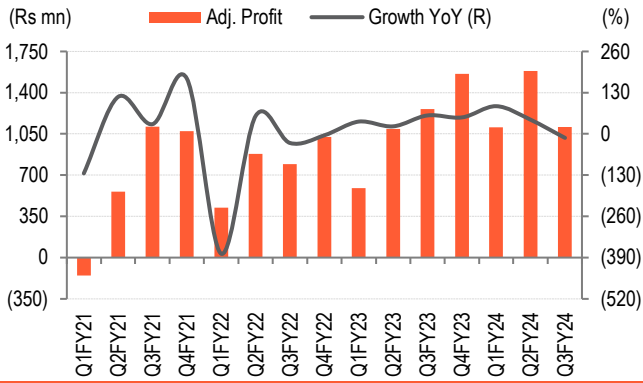
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA growth**



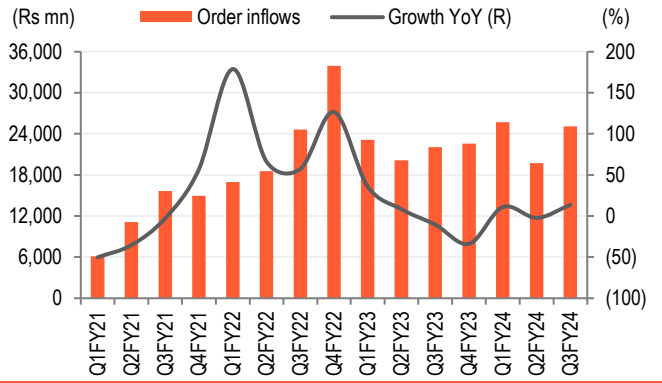
Source: Company, BOBCAPS Research

**Fig 5 – Profit growth**



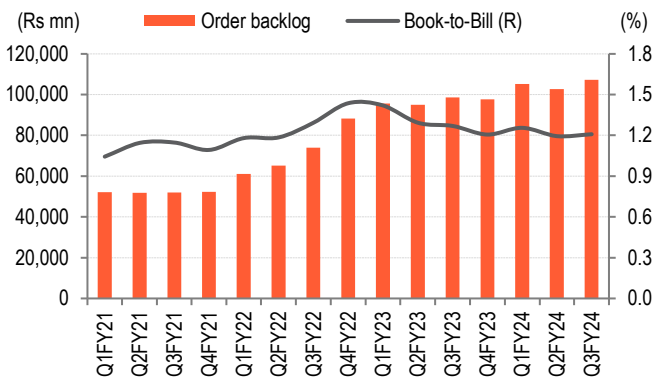
Source: Company

**Fig 6 – Order inflow**



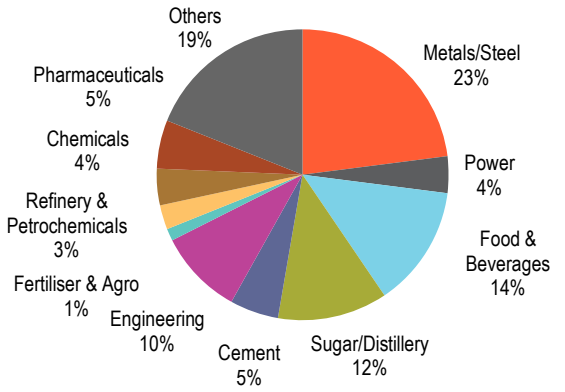
Source: Company

**Fig 7 – Order backlog**



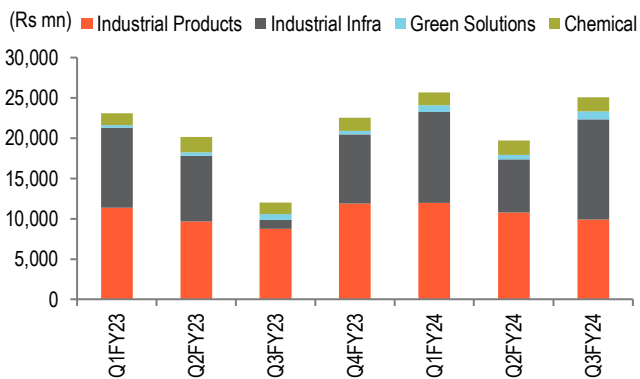
Source: Company, BOBCAPS Research

**Fig 8 – Order backlog mix**



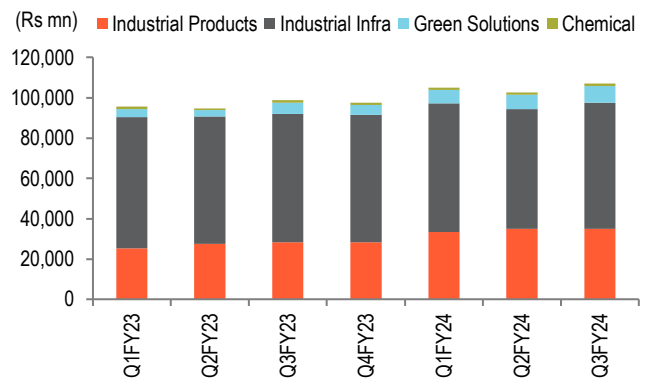
Source: Company, BOBCAPS Research

**Fig 9 – Segment order booking**



Source: Company, BOBCAPS Research

**Fig 10 – Segment order backlog**



Source: Company, BOBCAPS Research

## Earnings call highlights

- **Profitability:** Q3FY24 PAT stood at Rs 2.4bn, which includes a one-off gain of Rs 1.3bn relating to property sale and a one-time cost of Rs 100mn relating to a sulphur recovery project that had a mismatch in engineering design. Management expects this one-time hit to cover any future potential losses at this project.
- **International business:** TMX indicated improvement in boiler subsidiary Danstoker, where orders have been stable. While not as profitable as the India business, this subsidiary is aligned with TMX's targets. Its other subsidiary, PTTI, continues to make losses, though ordering has improved.
- **Industrial products:** The topline in the industrial products business grew 20% YoY to Rs 10.2bn in Q3, with EBIT margin expansion of 55bps YoY to 9.9%. Order booking for the quarter grew 13% YoY to Rs 9.9bn. TMX has been earning 9.5-10% EBIT margins in the segment for the last four quarters and expects to maintain this band in the near future. A bulk of the business pertains to the heating and boilers category, which is reasonably profitable, and management expects some trade-off between profitability and market share.
- **Industrial infra:** The industrial infra segment grew 10% YoY to Rs 11bn, accompanied by EBIT margin contraction of 180bps YoY to 3.5%. Profitability is on the relatively lower side and management aims to improve this going forward. Additionally, the upcoming bio-CNG projects in the segment command a higher margin profile than past projects, which should aid profitability. The water business is guided to reach a Rs 10bn annual revenue run-rate by FY25.
- **Chemicals:** The chemicals segment posted a 2% YoY revenue decline to Rs 1.6bn in Q3, with EBIT margin expansion of 650bps YoY to 20.6%. Management is comfortable with the margin profile and expects minimal expansion. It has, however, guided for significant volume growth going forward.
- **Green solutions:** Topline growth in green solutions stood at 46% to Rs 1.2bn, but profits were erased by a Rs 133mn interest cost for the segment. Losses also stemmed from the floods in Chennai in early Dec'23, which significantly affected production at the Tamil Nadu facility. Additionally, the facility was operational for a month during the quarter, but depreciation taken pertained to the entire quarter, further impacting margins. TMX continues to take losses in subsidiary First Energy (FEPL) and expects the segment to turn profitable towards the end of FY25.

## Orders and Outlook

- **Outlook:** TMX has not reported significant order wins in the last six quarters, though management expects this to change in the coming quarters with an order pipeline larger than that projected at the start of FY24. TMX is bullish on the power sector but foresees challenges in ethanol and steel demand.
- **International business:** The order pipeline in the international business has been encouraging, with higher inquiries from the Middle East. Management does not expect significant order booking over the next 2-3 months but believes FY25 will see an uptick.

- **Power:** The power sector has made a significant comeback in the last three months, with a pipeline stronger than that visible in the petrochem and refining sectors a year ago. Discussions on thermal power projects and shortage of power have increased significantly, and management has received inquiries for both thermal utilities as well as captive power plants. TMX is currently working with customers to frame the packages correctly and indicates that more information on the pricing and margin profile will become available as the formal bidding cycle commences in the next 3-6 months.
- **Cement:** Order inquiry in the cement sector has been decent but still lower than that seen two years ago.
- **Sugar & distilleries:** The past year has been slower for sugar & distilleries, though management expects a bounce back in as little as 1-2 months. TMX has received orders in this segment, but order booking takes place only when the company receives advances, which are expected over the next few weeks.
- **Refining:** Ordering from the domestic refining and petrochemical sectors has stagnated. Internationally, downstream petrochem and related industries have started to grow, especially in the Middle East.
- **Biomass:** Management sees potential to significantly scale up the bio-CNG segment. In the biomass category, it is currently looking at orders with scope for technology, engineering, procurement & construction (EPC), and operations & maintenance (O&M).
- **Heat pumps:** TMX has received two orders for heat pumps from two large customers, one a leader in the F&B sector and one large automotive player.

## Valuation methodology

Though the ordering outlook for Q4FY24 is slightly soft ahead of India's general elections, TMX remains bullish on the order pipeline over the next two years led by demand from the domestic power sector and the Middle East market.

We reduce our FY24 EPS estimate by 12% to reflect the 9MFY24 numbers but raise our FY25/FY26 forecasts by ~7% each given management's positive commentary. On rolling valuations forward to Dec'25E, we have a higher TP of Rs 3,300 (earlier Rs 3,000) but maintain our HOLD rating due to the limited upside potential. Our TP is set at an unchanged 40x P/E multiple, in line with the stock's five-year average.

**Fig 11 – Revised estimates**

Particulars (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	90,597	1,09,735	1,24,849	95,857	1,09,346	1,24,770	(5.5)	0.4	0.1
EBITDA	7,318	9,886	11,711	7,621	9,558	11,381	(4.0)	3.4	2.9
PAT	5,259	8,385	10,169	5,981	7,791	9,481	(12.1)	7.6	7.3
EPS (Rs)	44.1	70.4	85.3	50.2	65.4	79.6	(12.1)	7.6	7.3
EBITDA Margin (%)	8.1	9.0	9.4	8.0	8.7	9.1	13bps	27bps	26bps

Source: Company, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- swift recovery in the chemicals segment that translates to higher margins, and
- faster payback from newly incubated businesses.

Key downside risks to our estimates are:

- inability to scale up new businesses, and
- cyclical in end-user markets.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	11.6	4,489	4,700	HOLD
AIA Engineering	AIAE IN	4.5	3,936	4,000	HOLD
Cummins India	KKC IN	8.8	2,603	2,900	BUY
Hitachi Energy	POWERIND IN	3.2	6,191	4,200	SELL
KEC International	KECI IN	2.1	659	700	HOLD
Larsen & Toubro	LT IN	56.8	3,325	4,200	BUY
Thermax	TMX IN	4.9	3,350	3,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 9 Feb 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>61,283</b>	<b>80,898</b>	<b>90,597</b>	<b>1,09,735</b>	<b>1,24,849</b>
EBITDA	4,214	5,976	7,318	9,886	11,711
Depreciation	1,132	1,169	1,391	1,059	1,071
EBIT	3,081	4,807	5,927	8,828	10,641
Net interest inc./(exp.)	252	376	875	473	473
Other inc./(exp.)	1,270	1,602	2,355	2,826	3,391
Exceptional items	0	0	0	0	0
EBT	4,100	6,033	7,407	11,180	13,558
Income taxes	978	1,524	2,148	2,795	3,390
Extraordinary items	0	0	(755)	0	0
Min. int./Inc. from assoc.	1	(2)	0	0	0
<b>Reported net profit</b>	<b>3,123</b>	<b>4,507</b>	<b>6,014</b>	<b>8,385</b>	<b>10,169</b>
Adjustments	0	0	(755)	0	0
<b>Adjusted net profit</b>	<b>3,123</b>	<b>4,507</b>	<b>5,259</b>	<b>8,385</b>	<b>10,169</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	14,598	14,979	18,616	21,045	23,944
Other current liabilities	20,002	25,181	26,062	31,567	35,916
Provisions	0	0	0	0	0
Debt funds	3,596	8,158	5,000	4,300	4,300
Other liabilities	1,491	1,367	1,531	1,854	2,109
Equity capital	225	225	225	225	225
Reserves & surplus	34,700	38,456	42,364	47,815	54,424
Shareholders' fund	34,925	38,702	42,611	48,061	54,671
<b>Total liab. and equities</b>	<b>74,611</b>	<b>88,386</b>	<b>93,820</b>	<b>1,06,828</b>	<b>1,20,940</b>
Cash and cash eq.	9,535	11,316	19,236	21,398	25,946
Accounts receivables	14,237	17,621	21,098	25,555	29,075
Inventories	7,270	7,556	7,446	9,019	10,262
Other current assets	16,336	24,309	17,375	19,542	22,233
Investments	7,034	2,168	2,428	2,941	3,346
Net fixed assets	12,014	12,645	12,454	12,596	12,725
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	9,444	11,439	13,015
<b>Total assets</b>	<b>74,611</b>	<b>88,386</b>	<b>93,820</b>	<b>1,06,828</b>	<b>1,20,940</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>3,247</b>	<b>4,596</b>	<b>15,490</b>	<b>9,182</b>	<b>11,032</b>
Capital expenditures	(838)	(6,499)	(1,200)	(1,200)	(1,200)
Change in investments	(4,263)	(993)	(260)	(513)	(405)
Other investing cash flows	885	696	(847)	(1,672)	(1,320)
<b>Cash flow from investing</b>	<b>(4,216)</b>	<b>(6,797)</b>	<b>(2,307)</b>	<b>(3,385)</b>	<b>(2,925)</b>
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)	(2,105)	(2,935)	(3,559)
<b>Cash flow from financing</b>	<b>(206)</b>	<b>3,485</b>	<b>(5,263)</b>	<b>(3,635)</b>	<b>(3,559)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(1,175)</b>	<b>1,284</b>	<b>7,920</b>	<b>2,162</b>	<b>4,548</b>
<b>Closing cash &amp; cash eq.</b>	<b>9,535</b>	<b>11,316</b>	<b>19,236</b>	<b>21,398</b>	<b>25,946</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	26.2	37.8	50.5	70.4	85.3
Adjusted EPS	26.2	37.8	44.1	70.4	85.3
Dividend per share	8.0	10.0	11.0	12.0	12.0
Book value per share	293.1	324.6	357.4	403.2	458.6

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	6.8	5.0	4.4	3.8	3.3
EV/EBITDA	98.9	67.8	55.0	41.8	35.5
Adjusted P/E	127.8	88.6	75.9	47.6	39.3
P/BV	11.4	10.3	9.4	8.3	7.3

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	76.2	74.7	71.0	75.0	75.0
Interest burden (PBT/EBIT)	133.1	125.5	125.0	126.7	127.4
EBIT margin (EBIT/Revenue)	5.0	5.9	6.5	8.0	8.5
Asset turnover (Rev./Avg TA)	87.7	99.3	99.4	109.4	109.6
Leverage (Avg TA/Avg Equity)	2.1	2.2	2.2	2.2	2.2
Adjusted ROAE	9.3	12.2	12.9	18.5	19.8

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	27.9	32.0	12.0	21.1	13.8
EBITDA	18.6	41.8	22.5	35.1	18.5
Adjusted EPS	20.5	44.3	16.7	59.5	21.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	6.9	7.4	8.1	9.0	9.4
EBIT margin	5.0	5.9	6.5	8.0	8.5
Adjusted profit margin	5.1	5.6	5.8	7.6	8.1
Adjusted ROAE	9.3	12.2	12.9	18.5	19.8
ROCE	8.3	10.9	12.8	17.4	18.5
<b>Working capital days (days)</b>					
Receivables	85	80	85	85	85
Inventory	43	34	30	30	30
Payables	87	68	75	70	70
<b>Ratios (x)</b>					
Gross asset turnover	2.5	3.1	3.3	3.8	4.1
Current ratio	1.3	1.4	1.4	1.3	1.4
Net interest coverage ratio	12.2	12.8	6.8	18.7	22.5
Adjusted debt/equity	(0.2)	(0.1)	(0.3)	(0.4)	(0.4)

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

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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

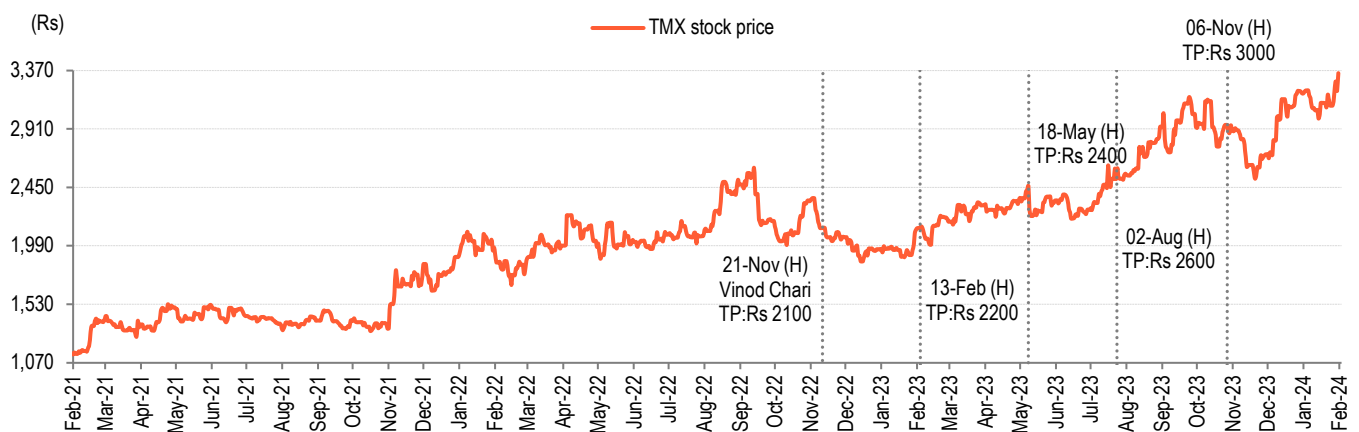
**HOLD** – Expected return from -6% to +15%

**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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