

HOLD

TP: Rs 2,400 | ▲ 5%

THERMAX

| Capital Goods

| 18 May 2023

Cautious outlook continues

- Order book has flattened with a lack of big orders in the pipeline; management outlook on FY24 cautious
- Investment in new energy initiatives to continue but TMX guarded on the evolution of these businesses
- Given the mixed outlook, we retain HOLD; on rollover, our TP stands revised TP to Rs 2,400 (vs. Rs 2,200)

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Q4 a good quarter: TMX’s Q4FY23 revenue grew 16% YoY to Rs 23.1bn, with the industrial products business up 12% to Rs 9.8bn, industrial infrastructure up 18% to Rs 11.6bn, green solutions up 2% to Rs 850mn and chemicals business up 27% to Rs 1.7bn. Led by strong sales momentum, EBITDA grew 48% YoY to Rs 2bn and margins expanded 185ps YoY to 8.7%. Adj. PAT increased 52% YoY to Rs 1.6bn.

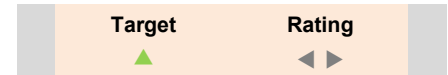
Cautious outlook on order pipeline: TMX has seen a plateauing of its order book over the past two quarters. Its pipeline of large projects has flagged, especially in the petrochemicals and power sectors. FY22 had four large orders in petchem and two FGD orders in power, whereas similar big wins were missing in FY23. Management expects order flows to remain muted in these two segments but expects to manage the shift through smaller orders worth Rs 500mn-1,000mn.

Continued investment in new energy initiatives: TMX indicated that it continues to invest in the solar business under FEPL and in biomass-to-hydrogen under TOESL, though these will take time to evolve. It plans to infuse equity of Rs 5bn-6bn in both subsidiaries, which will further take on combined debt of Rs 15bn-20bn without recourse to TMX’s balance sheet.

International business looking up: Though exports have been soft for some time, the pipeline is improving and includes midsize projects in waste-to-energy (WTE), waste heat recovery (WHR) and biomass. The company expects both overseas subsidiaries, Danstoker and PTTI, to be profitable in the next 15 months as guided in the previous quarter.

Retain HOLD: A potential moderation in revenue due to flattening of the order book, coupled with a tentative margin outlook in the chemicals division and back-ended returns from new clean energy businesses, drives our cautious view on the company. We increase FY24 EPS estimates by 3% while retaining HOLD and rolling valuations forward to Mar’25E for a revised TP of Rs 2,400 (earlier Rs 2,200). Our TP is set at an unchanged 40x P/E multiple, in line with the stock’s 5Y average.

Key changes



Ticker/Price	TMX IN/Rs 2,280
Market cap	US\$ 3.3bn
Free float	32%
3M ADV	US\$ 1.3mn
52wk high/low	Rs 2,679/Rs 1,831
Promoter/FPI/DII	62%/12%/16%

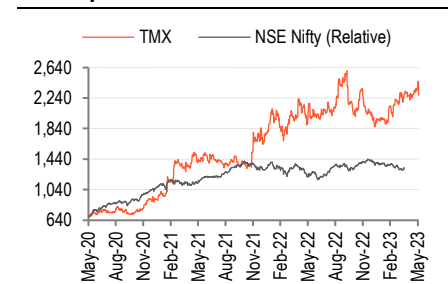
Source: NSE | Price as of 18 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	80,898	95,857	1,09,346
EBITDA (Rs mn)	5,976	6,758	8,684
Adj. net profit (Rs mn)	4,507	5,334	7,135
Adj. EPS (Rs)	37.8	44.8	59.9
Consensus EPS (Rs)	37.8	43.3	60.1
Adj. ROAE (%)	12.2	13.2	16.0
Adj. P/E (x)	60.3	50.9	38.1
EV/EBITDA (x)	46.5	40.7	32.8
Adj. EPS growth (%)	44.3	18.4	33.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly and Annual Performance

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	23,108	19,919	16.0	20,493	12.8	80,898	61,283	32.0
EBITDA	1,999	1,352	47.8	1,611	24.1	5,976	4,214	41.8
EBITDAM (%)	8.7	6.8	186bps	7.9	79bps	7.4	6.9	51bps
Depreciation	294	295	(0.1)	291	1.3	1,169	1,132	3.2
Interest	139	101	38.1	91	52.6	376	252	49.3
Other Income	575	357	61.0	423	35.8	1,602	1,270	26.1
PBT	2,140	1,314	62.9	1,652	29.6	6,033	4,100	47.2
Tax	581	290	100.7	386	50.8	1,524	978	55.8
Adjusted PAT	1,562	1,025	52.3	1,264	23.6	4,507	3,123	44.3
Exceptional item	0	0	0.0	0	0.0	0	0	0.0
Reported PAT	1,562	1,025	52.3	1,264	23.6	4,507	3,123	44.3
Adj. PATM (%)	6.8	5.1	161bps	6.2	59bps	5.6	5.1	48bps
EPS (Rs)	13.8	9.1	52.2	11.2	23.1	37.82	26.21	44.3

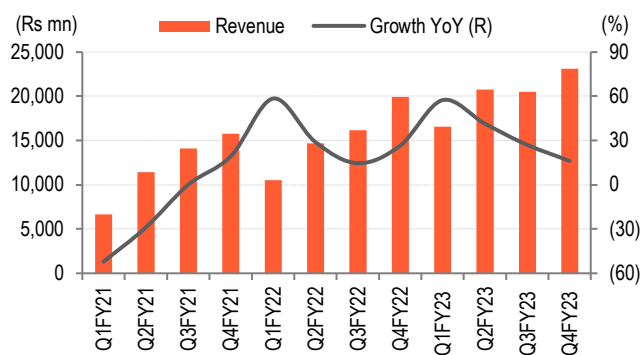
Source: Company, BOBCAPS Research

Fig 2 – Actuals vs. Estimates

Particulars	Actual	Estimate	Variance (%)
Revenue	23,108	17,527	31.8
EBITDA	1,999	1,287	55.3
EBITDA Margin (%)	8.7	7.3	135bps
Adj. PAT	1,562	1,196	30.6

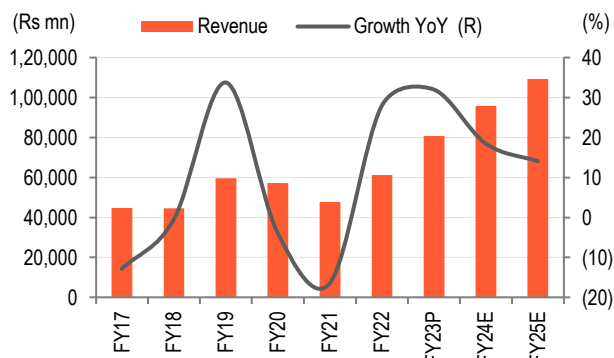
Source: Company, BOBCAPS Research

Fig 3 – Quarterly revenue trend



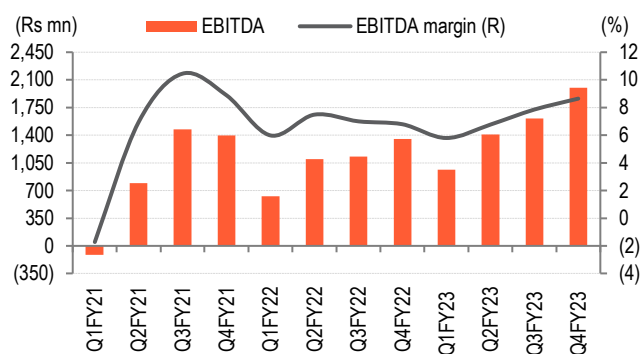
Source: Company, BOBCAPS Research

Fig 4 – Annual revenue trend



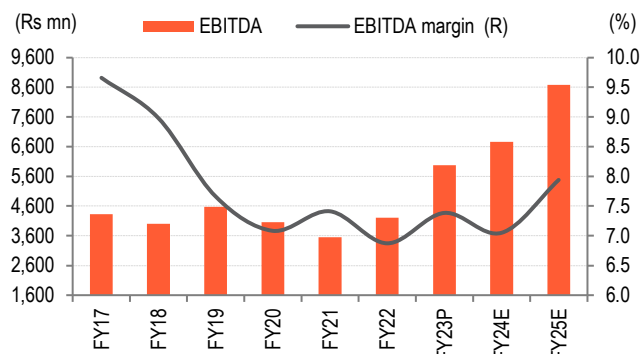
Source: Company, BOBCAPS Research

Fig 5 – Quarterly EBITDA trend



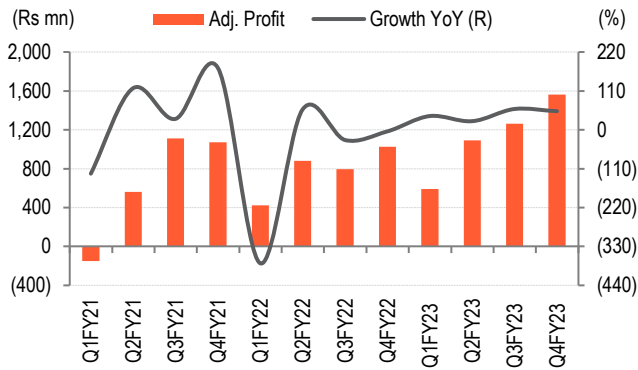
Source: Company, BOBCAPS Research

Fig 6 – Annual EBITDA trend



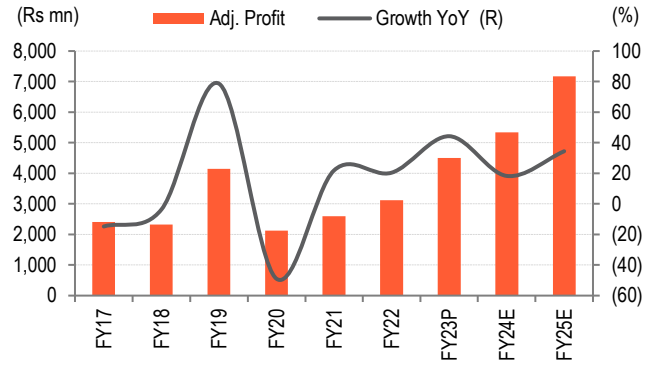
Source: Company, BOBCAPS Research

Fig 7 – Quarterly net profit trend



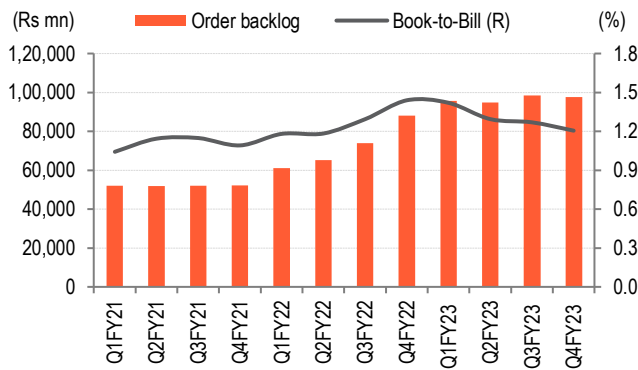
Source: Company, BOBCAPS Research

Fig 8 – Annual net profit trend



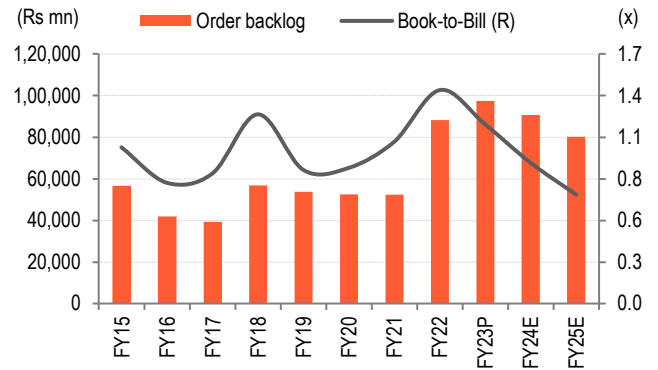
Source: Company, BOBCAPS Research

Fig 9 – Quarterly order backlog



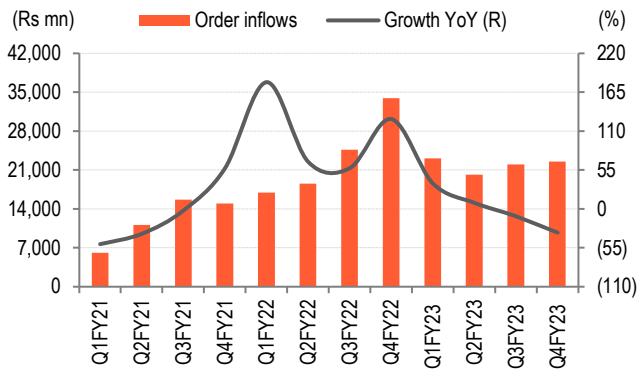
Source: Company, BOBCAPS Research

Fig 10 – Annual order backlog



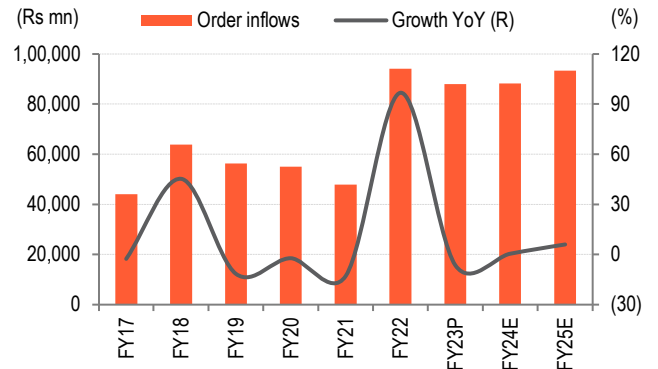
Source: Company, BOBCAPS Research

Fig 11 – Quarterly order inflows



Source: Company, BOBCAPS Research

Fig 12 – Annual order inflows



Source: Company, BOBCAPS Research

Earnings call highlights

- **New energy:** TMX aspires to enter into electrolyser manufacturing and biomass-to-hydrogen capabilities, which are both technology-related. Secondly, it is interested in engineering, procurement & construction (EPC) projects, which not only include electrolysers but also the renewable energy portion of these projects. Thirdly, it wants to build-own-operate (BOO) hydrogen projects for industrial customers depending on the level of customer interest.
- **Exports:** Losses in the international business are coming down, but management did not provide expected breakeven timelines.
- **Industrial infrastructure:** TMX currently has four large orders from the refining sector and two for flue-gas desulphurisation (FGD) systems from the power sector. It does not see much activity here in the near future but indicated that it is seeing traction in the steel industry. New energy projects are also potential opportunities.
- **Industrial products:** Management is bullish on the industrial products segment, with a wide base of products and decent enquiries & conversions.
- **Chemicals:** The chemical segment did face some issues in previous quarters, but strength is visible in adjacencies. Management believes the chemical sector will experience a long cycle of growth, which will benefit TMX.
- **Competition:** TMX witnessed Chinese competition in two recent projects in the cement sector.
- **Subsidiaries:** The company plans to invest in FEPL (First Energy) and TOESL (Thermax Onsite Energy Solutions) through the equity route. The entities also plan to take additional debt in the range of Rs 15bn-20bn over the next two years at the special purpose vehicle (SPV) level, with no recourse to TMX.

Valuation methodology

A potential moderation in revenue due to flattening of the order book, coupled with a tentative margin outlook in the chemicals division and back-ended returns from new clean energy businesses, drives our cautious view on the company. We increase FY24 EPS estimates by 3% while retaining HOLD and rolling valuations forward to Mar'25E for a revised TP of Rs 2,400 (earlier Rs 2,200). Our TP is set at an unchanged 40x P/E multiple, in line with the stock's five-year average.

Fig 13 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	95,857	1,09,346	88,633	1,01,102	8.2	8.2
EBITDA	6,758	8,684	6,695	9,042	1.0	(4.0)
PAT	5,334	7,173	5,160	7,163	3.4	0.1
EPS	44.8	60.2	43.3	60.1	3.4	0.1
EBITDA Margin (%)	7.1	7.9	7.6	8.9	(50bps)	(100bps)

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- swift recovery in the chemicals segment translating 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 the end-user market.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	10.1	3,898	3,700	HOLD
AIA Engineering	AIAE IN	3.3	2,856	3,300	BUY
Cummins India	KKC IN	5.5	1,644	1,600	HOLD
KEC International	KECI IN	1.5	480	500	HOLD
Larsen & Toubro	LT IN	37.4	2,188	2,630	BUY
Siemens India	SIEM IN	16.6	3,832	4,500	BUY
Thermax	TMX IN	3.3	2,280	2,400	HOLD

Source: BOBCAPS Research, NSE | Price as of 18 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	47,913	61,283	80,898	95,857	1,09,346
EBITDA	3,552	4,214	5,976	6,758	8,684
Depreciation	1,146	1,132	1,169	1,138	1,080
EBIT	2,406	3,081	4,807	5,620	7,603
Net interest inc./(exp.)	206	252	376	350	301
Other inc./(exp.)	1,077	1,270	1,602	1,842	2,210
Exceptional items	0	0	0	0	0
EBT	3,277	4,100	6,033	7,112	9,513
Income taxes	686	978	1,524	1,778	2,378
Extraordinary items	525	0	0	0	0
Min. int./Inc. from assoc.	0	1	(2)	0	0
Reported net profit	2,066	3,123	4,507	5,334	7,135
Adjustments	525	0	0	0	0
Adjusted net profit	2,591	3,123	4,507	5,334	7,135

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	11,380	14,598	14,979	19,697	20,970
Other current liabilities	16,497	20,002	25,181	27,575	31,456
Provisions	0	0	0	0	0
Debt funds	3,051	3,596	8,158	5,000	4,300
Other liabilities	1,627	1,491	1,367	1,620	1,847
Equity capital	225	225	225	225	225
Reserves & surplus	32,289	34,700	38,456	41,923	46,560
Shareholders' fund	32,514	34,925	38,702	42,170	46,807
Total liab. and equities	65,069	74,611	88,386	96,061	1,05,381
Cash and cash eq.	20,545	9,535	11,316	17,869	19,962
Accounts receivables	12,371	14,237	17,621	22,323	25,464
Inventories	4,047	7,270	7,556	7,879	8,987
Other current assets	7,702	16,336	24,309	18,384	19,473
Investments	1,192	7,034	2,168	2,569	2,931
Net fixed assets	12,451	12,014	12,645	12,707	12,827
CWIP	211	443	4,338	4,338	4,338
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	6,550	7,743	8,433	9,992	11,398
Total assets	65,069	74,611	88,386	96,061	1,05,381

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	7,695	3,247	4,596	14,486	8,030
Capital expenditures	(834)	(838)	(6,499)	(1,200)	(1,200)
Change in investments	(5,789)	(4,263)	(993)	(401)	(362)
Other investing cash flows	266	885	696	(1,307)	(1,178)
Cash flow from investing	(6,357)	(4,216)	(6,797)	(2,908)	(2,740)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	947	762	4,481	(3,158)	(700)
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(174)	(968)	(996)	(1,867)	(2,497)
Cash flow from financing	772	(206)	3,485	(5,025)	(3,197)
Chg in cash & cash eq.	2,110	(1,175)	1,284	6,553	2,093
Closing cash & cash eq.	20,545	9,535	11,316	17,869	19,962

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	17.3	26.2	37.8	44.8	59.9
Adjusted EPS	21.7	26.2	37.8	44.8	59.9
Dividend per share	7.0	8.0	10.0	11.0	12.0
Book value per share	272.9	293.1	324.6	353.7	392.6

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	5.9	4.7	3.4	2.9	2.6
EV/EBITDA	79.5	68.6	46.5	40.7	32.8
Adjusted P/E	104.9	87.0	60.3	50.9	38.1
P/BV	8.4	7.8	7.0	6.4	5.8

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	79.1	76.2	74.7	75.0	75.0
Interest burden (PBT/EBIT)	136.2	133.1	125.5	126.5	125.1
EBIT margin (EBIT/Revenue)	5.0	5.0	5.9	5.9	7.0
Asset turnover (Rev./Avg TA)	76.9	87.7	99.3	103.9	108.6
Leverage (Avg TA/Avg Equity)	2.0	2.1	2.2	2.3	2.3
Adjusted ROAE	8.3	9.3	12.2	13.2	16.0

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	(16.4)	27.9	32.0	18.5	14.1
EBITDA	(12.6)	18.6	41.8	13.1	28.5
Adjusted EPS	22.0	20.5	44.3	18.4	33.7
Profitability & Return ratios (%)					
EBITDA margin	7.4	6.9	7.4	7.1	7.9
EBIT margin	5.0	5.0	5.9	5.9	7.0
Adjusted profit margin	5.4	5.1	5.6	5.6	6.5
Adjusted ROAE	8.3	9.3	12.2	13.2	16.0
ROCE	7.0	8.3	10.9	12.3	15.4
Working capital days (days)					
Receivables	94	85	80	85	85
Inventory	31	43	34	30	30
Payables	87	87	68	75	70
Ratios (x)					
Gross asset turnover	2.0	2.5	3.1	3.5	3.8
Current ratio	1.5	1.3	1.4	1.3	1.3
Net interest coverage ratio	11.7	12.2	12.8	16.1	25.3
Adjusted debt/equity	(0.5)	(0.2)	(0.1)	(0.3)	(0.3)

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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