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FIRST LIGHT

19 May 2023

RESEARCH

THERMAX | TARGET: Rs 2,400 | +5% | HOLD

Cautious outlook continues

ERIS LIFESCIENCES | TARGET: Rs 800 | +27% | BUY

Integration costs weigh on quarter

AFFLE (INDIA) | TARGET: Rs 1,110 | +23% | BUY

Seasonality impacts Q4; outlook remains healthy

Daily macro indicators

Ticker	16-May	17-May	Chg (%)
US 10Y yield (%)	3.53	3.56	3bps
India 10Y yield (%)	6.96	6.97	0bps
USD/INR	82.22	82.39	(0.2)
Brent Crude (US$/bbl)	74.9	77.0	2.7
Dow	33,012	33,421	1.2
Hang Seng	19,978	19,561	(2.1)
Sensex	61,932	61,561	(0.6)
India FII (US$ mn)	**15-May**	**16-May**	**Chg ($ mn)**
FII-D	(43.2)	141.3	184.4
FII-E	228.5	208.6	(19.9)

Source: Bank of Baroda Economics Research

SUMMARY

THERMAX

- 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)

Click here **for the full report.**

ERIS LIFESCIENCES

- Consolidated Q4 revenue/EBITDA growth of 32%/23% YoY missed consensus by 3%/10%
- Higher tax and integration costs for acquired businesses resulted in 19% YoY PAT decline
- We cut FY24/FY25 EPS 11%/3% and roll to a revised TP of Rs 800 (vs. Rs 810) based on 15x FY25E EV/EBITDA (vs. 17x)

Click here **for the full report.**

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AFFLE (INDIA)

- Device addition remained tepid during the quarter but strong additions in converted users
- International business declined 8% QoQ though management expects momentum to return
- Healthy growth outlook backed by a diversified model; we assume coverage with BUY and a TP of Rs 1,110

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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

Target	Rating
▲	◀ ▶

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%

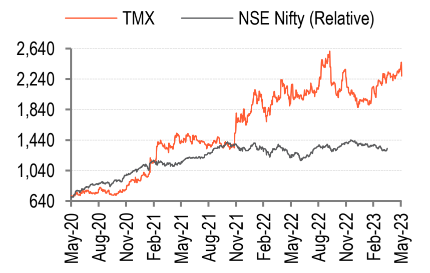
Source: NSE | Price as of 18 May 2023

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

RESULT REVIEW

BUY
TP: Rs 800 | ⮝ 27%

ERIS LIFESCIENCES | Pharmaceuticals | 18 May 2023

Integration costs weigh on quarter

- **Consolidated Q4 revenue/EBITDA growth of 32%/23% YoY missed consensus by 3%/10%**
- **Higher tax and integration costs for acquired businesses resulted in 19% YoY PAT decline**
- **We cut FY24/FY25 EPS 11%/3% and roll to a revised TP of Rs 800 (vs. Rs 810) based on 15x FY25E EV/EBITDA (vs. 17x)**

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Q4 a miss: ERIS' Q4FY23 revenue/EBITDA grew 32%/23% YoY (-5%/-13% QoQ) to Rs 4bn/Rs 1bn but were 3%/10% short of consensus estimates. While integration-led costs led to the miss on EBITDA, PAT at Rs 654mn (-19% YoY, -36% QoQ) was 17% below consensus due to higher depreciation & amortisation costs on acquired businesses, deferred tax reversal and interest on debt taken to fund the acquisitions. Standalone Q4 revenue growth was muted at 11% YoY to Rs 3bn with a weaker EBITDA margin of 35.4% (-60bps YoY/-260bps QoQ) due to a high base as well as write-offs during the year.

Margins guided to improve: Gross margin expanded 215bps YoY to 81.9% (+290bps QoQ), but EBITDA margin contracted 215bps due to higher other operating expenses on account of the ongoing integration of the three acquired businesses. ERIS expects EBITDA margin to improve led by scale-up of the new businesses, reducing losses from insulin and revival in base business growth.

Continued traction in Oaknet: During FY23, ERIS achieved organic growth of 22% in Oaknet base business which had three flat years before acquisition from FY20-FY22. Full year equivalent revenue for the year was at Rs 2.5bn (+28% YoY) with EBITDA of Rs 610mn (margin 24.4%).

Maintain positive stance…: We remain positive on ERIS given sustained traction in Oaknet business together with scope for margin improvement, therapy diversification from the acquired portfolios of Glenmark Pharma and Dr Reddy's, and anticipated revival in base business. Gross margin expansion should come from the shifting of outsourced manufacturing to the newly commissioned Gujarat facility. Moreover, though the tax benefit from the Guwahati facility will end by FY24, the new plant would be under a lower 15% tax rate.

…reiterate BUY: We cut our FY24/FY25 EPS estimates by 11%/3% and apply a lower target EV/EBITDA multiple of 15x to the stock from 17x – a 20% discount to the 5Y average – to reflect higher costs arising from integration and debt. On rollover to FY25E valuations, our TP stands revised to Rs 800 (from Rs 810). BUY.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	ERIS IN/Rs 629
Market cap	US$ 1.0bn
Free float	29%
3M ADV	US$ 0.8mn
52wk high/low	Rs 750/Rs 551
Promoter/FPI/DII	53%/15%/10%

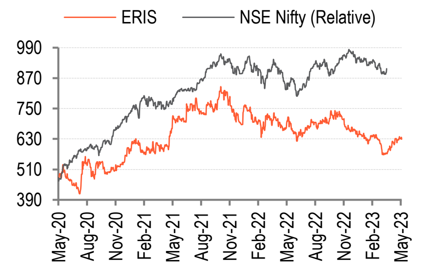
Source: NSE | Price as of 18 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	16,851	19,808	22,742
EBITDA (Rs mn)	5,367	6,542	7,734
Adj. net profit (Rs mn)	3,822	4,221	4,748
Adj. EPS (Rs)	28.1	31.1	35.0
Consensus EPS (Rs)	28.1	34.0	37.2
Adj. ROAE (%)	19.6	18.3	18.4
Adj. P/E (x)	22.4	20.2	18.0
EV/EBITDA (x)	15.8	13.6	11.8
Adj. EPS growth (%)	(5.9)	10.5	12.5

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

Stock performance



Source: NSE

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BUY
TP: Rs 1,110 | ⮝ 23%

AFFLE (INDIA) | Technology & Internet | 18 May 2023

Seasonality impacts Q4; outlook remains healthy

- **Device addition remained tepid during the quarter but strong additions in converted users**
- **International business declined 8% QoQ though management expects momentum to return**
- **Healthy growth outlook backed by a diversified model; we assume coverage with BUY and a TP of Rs 1,110**

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Seasonality dents Q4: AFFLE's Q4FY23 revenue of Rs 3.6bn was down 5.4% QoQ (+12.9% YoY) due to seasonal weakness and the impact of macro headwinds in the food tech and entertainment verticals in developed markets. International business witnessed a decline of 8% QoQ whereas India business was flattish. Converted users fell 8% QoQ to 62mn while cost per converted user (CPCU) was flat QoQ and YoY.

Positive growth outlook: Management indicated that AFFLE has achieved 20-25% growth in India and emerging markets in FY24, and expects similar growth in FY24. From a long-term perspective, we believe the company will see strong device additions and better client acquisition given high penetration in international markets, which should boost revenue growth potential.

Strategic initiatives to fuel growth: Management pointed to an increased focus on up-selling and cross-selling all platform use-cases via the CPCU business model to avoid being limited by a single platform. AFFLE has strengthened its strategic partnerships and execution strategies, and aims to secure multi-million-dollar contracts with supply-side partner OEMs and operator partners. The company has also introduced all CPCU use-cases on its connected TV product, enabling greater competitiveness in the advertising market.

Margin guided to hover upward of 20%: EBITDA margin declined 195bps QoQ (+85bps YoY) to 19.4% in Q4 as other operating expenses increased owing to audit fees or other professional services, while employee cost was largely stable. Management expects a margin upwards of 20% for FY24. Net profit for Q4 stood at Rs 624mn, down 9.6% QoQ owing to the weaker revenue and lower other income

BUY, TP Rs 1,110: The stock is currently trading at 47.5x/42x FY24E/FY25E EPS, at the lower band of its 1Y forward P/E multiple. We expect AFFLE to perform well in its key domestic and global emerging markets. Further, the company is well-diversified with regards to markets, use cases, platforms and customers/publishers. We thus assume coverage with BUY and have a TP of Rs 1,110, valuing the stock at 50.6x FY25E EPS.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	AFFLE IN/Rs 901
Market cap	US$ 292.9mn
Free float	40%
3M ADV	US$ 3.2mn
52wk high/low	Rs 1,369/Rs 867
Promoter/FPI/DII	60%/20%/20%

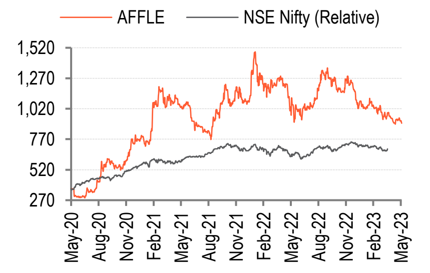
Source: NSE | Price as of 17 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	14,340	16,139	18,474
EBITDA (Rs mn)	2,904	2,970	3,325
Adj. net profit (Rs mn)	2,446	2,574	2,911
Adj. EPS (Rs)	18.4	19.3	21.9
Consensus EPS (Rs)	18.4	19.5	22.2
Adj. ROAE (%)	17.2	15.0	15.3
Adj. P/E (x)	49.1	46.6	41.2
EV/EBITDA (x)	7.4	5.9	5.1
Adj. EPS growth (%)	14.6	5.2	13.1

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

Stock performance



Source: NSE

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Note: Recommendation structure changed with effect from 21 June 2021

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