FIRST LIGHT

03 August 2023

RESEARCH

AIA ENGINEERING | TARGET: Rs 4,000 | +15% | BUY

Strong quarter, guidance maintained.

THERMAX | TARGET: Rs 2,600 | +3% | HOLD

Good quarter, healthy order flows

SYRMA SGS | TARGET: Rs 600 | +25% | BUY

Margin miss an aberration; guidance intact

SUMMARY

AIA ENGINEERING

- All-round beat with Q1 topline up 15% YoY, EBITDA margin expansion of 480bps and PAT up 43%
- FY24 volume growth guidance retained at 30,000mt; margin outlook intact at 22-24%
- FY24/FY25 EPS estimates raised 10%/11% to factor in the Q1 beat; TP revised to Rs 4,000 (vs Rs 3,500) post rollover – maintain BUY

Click here for the full report.

THERMAX

- Good Q1 performance though legacy orders continue to weigh on infrastructure margins
- Order inflow and execution improves along with stronger pipeline commentary; new energy investments to continue
- Outlook mixed; retain HOLD with a revised TP of Rs 2,600 (vs. Rs 2,400) on rollover

Click here for the full report.

Daily macro indicators

Ticker	31-Jul	01-Aug	Chg (%)
US 10Y yield (%)	3.96	4.02	6bps
India 10Y yield (%)	7.18	7.16	(1bps)
USD/INR	82.25	82.26	0.0
Brent Crude (US$/bbl)	85.6	84.9	(0.8)
Dow	35,560	35,631	0.2
Hang Seng	20,079	20,011	(0.3)
Sensex	66,528	66,459	(0.1)
India FII (US$ mn)	**28-Jul**	**31-Jul**	**Chg ($ mn)**
FII-D	46.9	31.3	(15.6)
FII-E	152.3	(94.1)	(246.4)

Source: Bank of Baroda Economics Research

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SYRMA SGS

- Q1 topline growth robust at 54% YoY but margins falter on lower healthcare business
- Acquired JDHL to foray into the medical devices segment; confident of strong growth ahead
- We raise FY25 EPS by 4% to bake in the new acquisition; maintain BUY with a revised TP of Rs 600 (vs. Rs 440)

Click here for the full report.

BUY
TP: Rs 4,000 | ⮝ 15%

AIA ENGINEERING | Capital Goods | 02 August 2023

Strong quarter, guidance maintained.

- **All-round beat with Q1 topline up 15% YoY, EBITDA margin expansion of 480bps and PAT up 43%**
- **FY24 volume growth guidance retained at 30,000mt; margin outlook intact at 22-24%**
- **FY24/FY25 EPS estimates raised 10%/11% to factor in the Q1 beat; TP revised to Rs 4,000 (vs Rs 3,500) post rollover – maintain BUY**

Vinod Chari | Swati Jhunjhunwala
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Strong performance: AIAE's Q1FY24 revenue grew 15% YoY to Rs 12.4bn backed by volume/realisation growth of 9%/5% YoY. EBITDA margin swelled 480bps YoY to 27.7% due to a favourable product mix, supporting a 43% YoY rise in PAT to Rs 2.7bn. The order book stood at Rs 6.6bn as at the quarter-end.

Guidance maintained: The company achieved production volumes of 288,000mn tonnes in FY23 and maintained its earlier forecast of incremental volumes of 30,000mt for FY24, totalling to ~320,000mt. This is expected to be underpinned by a mix of new and existing customers. Management continues to guide for a 22-24% EBITDA margin for FY24.

Improving tailwinds: AIAE indicated a strong outlook and does not anticipate major macroeconomic challenges for its customers in the mining, cement and utilities verticals over the next 12 months. Australia, North America, LATAM and CIS nations remain key geographies for the company. AIAE's strategy is to serve as a complete solution provider for grinding media and mill liners. On the cost side, management stated that freight-related challenges post Covid have abated and it is now able to pass on freight cost to customers.

Capex to spur growth: To capitalise on the conversion trend from forged media to high chrome mill internals in the mining industry, AIAE plans to expand capacity from 440,000mt to 520,000mt by FY24 through brownfield capex of Rs 2bn. The company has a healthy balance sheet (net cash of Rs 25bn as of FY23) with negligible leverage and strong free cash flow generation. We believe this will keep ROCE above 15%.

Retain BUY: We scale up our FY24/FY25 EPS estimates by 10%/11% to incorporate the Q1 numbers and roll valuations forward to Jun'25E, translating to a revised TP of Rs 4,000 (from Rs 3,500). Our target price is set at an unchanged 30x P/E multiple – a 25% premium to the stock's 5Y average. We retain BUY as we remain positive on AIAE's structural growth story.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	AIAE IN/Rs 3,465
Market cap	US$ 4.0bn
Free float	42%
3M ADV	US$ 3.8mn
52wk high/low	Rs 3,618/Rs 2,358
Promoter/FPI/DII	59%/18%/21%

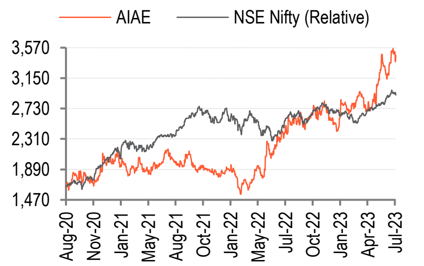
Source: NSE | Price as of 2 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	49,088	55,246	57,099
EBITDA (Rs mn)	12,406	14,261	14,713
Adj. net profit (Rs mn)	10,559	11,774	12,173
Adj. EPS (Rs)	112.0	124.8	129.1
Consensus EPS (Rs)	112.0	104.5	114.8
Adj. ROAE (%)	20.2	19.3	17.5
Adj. P/E (x)	30.9	27.8	26.8
EV/EBITDA (x)	26.3	22.6	21.8
Adj. EPS growth (%)	70.4	11.5	3.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD

TP: Rs 2,600 | ▲ 3%

THERMAX | Capital Goods | 02 August 2023

Good quarter, healthy order flows

- **Good Q1 performance though legacy orders continue to weigh on infrastructure margins**
- **Order inflow and execution improves along with stronger pipeline commentary; new energy investments to continue**
- **Outlook mixed; retain HOLD with a revised TP of Rs 2,600 (vs. Rs 2,400) on rollover**

Vinod Chari | Swati Jhunjhunwala
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Good Q1 but infrastructure margin remains soft: TMX's Q1FY24 revenue grew 17% YoY to Rs 19.3bn, with the industrial products business up 26% to Rs 8.4bn, industrial infrastructure up 13% to Rs 9.2bn, green solutions up ~2x to Rs 1.1bn and chemicals rising 7% to Rs 1.6bn. EBITDA grew 38% YoY to Rs 1.3bn but the margin was muted at 6.8% (+105bps) due to legacy infrastructure orders under execution. Going forward, TMX will commence more lucrative projects, aiding full-year margins. Adj. PAT increased 88% YoY to Rs 1bn in Q1, excluding one-time provisioning of Rs 500mn for an arbitration award that went against the company.

Stronger order pipeline commentary: After plateauing over the past two quarters, TMX's order book has risen from Rs 97bn in Q4FY23 to Rs 105bn. The Q1 order inflow stood at Rs 25.7bn, with base orders forming 70-75% and growing in double digits. Management expects a healthy pipeline across most end-customer segments, albeit comprising smaller orders worth Rs 500mn-1,000mn. The company sees potential for only 4-5 big-ticket projects and even these may not materialise in FY24.

International business a mixed bag: Management indicated that international subsidiaries had fallen short of order intake and operating margin expectations in Q1, with cost runups in some projects. While the company expects both overseas subsidiaries, Danstoker and PTTI, to be profitable in 15-18 months as guided previously, the turnaround is likely to be faster for Danstoker than PTTI in FY24.

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

Retain HOLD: Though order inflows were healthy and the outlook is improving, weak infrastructure margins from legacy orders remain a drag. We retain HOLD and roll valuations forward to Jun'25E for a revised TP of Rs 2,600 (earlier Rs 2,400). 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 2,516
Market cap	US$ 3.6bn
Free float	32%
3M ADV	US$ 1.7mn
52wk high/low	Rs 2,729/Rs 1,831
Promoter/FPI/DII	62%/12%/16%

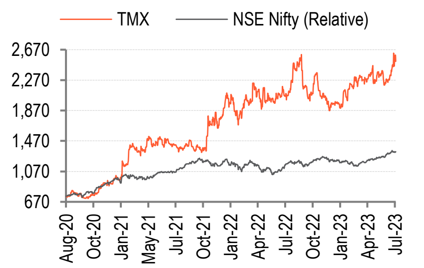
Source: NSE | Price as of 1 Aug 2023

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	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	13.3	16.2
Adj. P/E (x)	66.5	56.2	42.0
EV/EBITDA (x)	51.2	44.8	36.0
Adj. EPS growth (%)	44.3	18.4	33.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 600 | 25%

SYRMA SGS | Consumer Durables | 02 August 2023

Margin miss an aberration; guidance intact

- **Q1 topline growth robust at 54% YoY but margins falter on lower healthcare business**
- **Acquired JDHL to foray into the medical devices segment; confident of strong growth ahead**
- **We raise FY25 EPS by 4% to bake in the new acquisition; maintain BUY with a revised TP of Rs 600 (vs. Rs 440)**

Vinod Chari | Swati Jhunjhunwala
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Strong topline; miss on margin: Syrma posted topline growth of 54% YoY in Q1FY24, but EBITDA margin contracted 250bps YoY to 6.1%. This can be attributed to low contribution from healthcare business during the quarter, which recorded a topline of Rs 150mn compared to Rs 450mn in Q4FY23 and Rs 550mn in Q1FY23. Management estimates that the temporary dip in healthcare had a negative YoY impact of close to Rs 170mn on EBITDA but expects sales to bounce back in Q2, suggesting a margin rebound.

Guidance retained: Management indicated that the Q1 margin miss was an aberration and expects a return to form in subsequent quarters, retaining guidance of a double-digit EBITDA margin for FY24. Syrma also reiterated both its full-year revenue growth guidance of 35-40% and expectation of outpacing the industry. Net working capital is guided to stay within the current range of 70-75 days.

Order book: The order book stands at Rs 35bn, of which Rs 22bn-23bn is expected to be delivered in the next 12 months. Syrma bagged a major contract in the electronics manufacturing services (EMS) space worth Rs 11bn during Q1, comprising automotive (25%), consumer electronics and original design manufacturing (40%), healthcare (8-9%), industrials (22%), and railways (3-4%). The rail order book has grown strongly and momentum is likely to continue, albeit off a small base.

Johari acquisition to be accretive: During Q1, Syrma acquired a 51% stake in Johari Digital Healthcare (JDHL), a medical devices company based out of Jodhpur, for a consideration of Rs 2.6bn. This acquisition marks the company's foray into the medical devices business. Syrma expects its own global reach, management bandwidth and financial strength to play a key role in fostering growth in this new venture. The business is also expected to grow rapidly as further USFDA approvals come through.

Maintain BUY: We raise our FY25 EPS estimate by 4% to bake in the acquisition and hike our target P/E to 40x (from 35x) given a strong growth outlook. Rolling valuations over to Jun'25E, we arrive at a revised TP of Rs 600 (vs. Rs 440). Our multiple is at a 30% discount to DIXON, the sector leader in the EMS space. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SYRMA IN/Rs 480
Market cap	US$ 1.0bn
Free float	53%
3M ADV	US$ 6.0mn
52wk high/low	Rs 517/Rs 248
Promoter/FPI/DII	47%/5%/9%

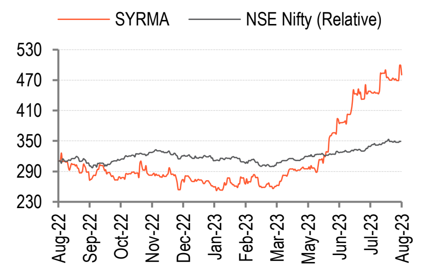
Source: NSE | Price as of 2 Aug 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	20,484	26,682	36,371
EBITDA (Rs mn)	1,878	2,510	3,634
Adj. net profit (Rs mn)	1,193	1,634	2,303
Adj. EPS (Rs)	6.7	9.2	13.0
Consensus EPS (Rs)	6.7	-	-
Adj. ROAE (%)	11.3	10.2	12.9
Adj. P/E (x)	71.2	52.0	36.9
EV/EBITDA (x)	45.2	33.8	23.4
Adj. EPS growth (%)	56.1	36.9	41.0

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

Stock performance



Source: NSE

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BUY – Expected return >+15%

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Note: Recommendation structure changed with effect from 21 June 2021

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