

RESEARCH
THERMAX | TARGET: Rs 3,000 | +11% | HOLD

Focus on energy transition

SUMMARY
THERMAX

- 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

[Click here for the full report.](#)
Daily macro indicators

| Indicator | 13-Dec | 14-Dec | Chg (%) |
|------------------------|--------|--------|-------------|
| US 10Y yield (%) | 4.02 | 3.92 | (10bps) |
| India 10Y yield (%) | 7.26 | 7.20 | (6bps) |
| USD/INR | 83.40 | 83.33 | 0.1 |
| Brent Crude (US\$/bbl) | 74.3 | 76.6 | 3.2 |
| Dow | 37,090 | 37,248 | 0.4 |
| Hang Seng | 16,229 | 16,402 | 1.1 |
| Sensex | 69,585 | 70,514 | 1.3 |
| India FII (US\$ mn) | 12-Dec | 13-Dec | Chg (\$ mn) |
| FII-D | 74.6 | (26.4) | (101.0) |
| FII-E | 310.4 | 635.6 | 325.2 |

Source: Bank of Baroda Economics Research



HOLD

TP: Rs 3,000 | ▲ 11%

THERMAX

| Capital Goods

| 15 December 2023

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Vinod Chari | Arshia Khosla
 Swati Jhunjhunwala
 research@bobcaps.in

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% |

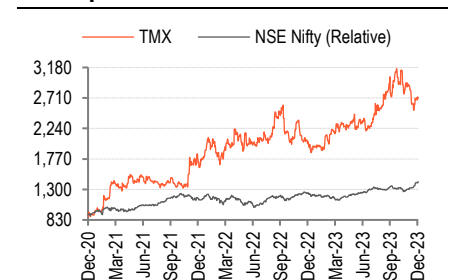
Source: NSE | Price as of 14 Dec 2023

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



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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

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