INSTITUTIONAL RESEARCH

Thermax

Decarbonisation theme augurs well

Thermax has been at the forefront of green technology for more than a decade. TMX ordering from the green portfolio has expanded from 40% in FY10 to 74% in FY22. The lower carbon footprint target around the globe has allowed TMX to position itself globally in clean water, air and energy products and solutions. Over the years, it has streamlined its business segments (synergising via boiler business transfer) and modified the business model (Capex to opex model in solar and biomass), partnered with tech provider (FGD tech imported in 2015 and partnership for Green Hydrogen tech in 2023) and strengthened its supply chain (manufacturing base rejig in Europe and Asia). TMX stands to benefit from the investment in clean energy, sustainability, decarbonisation, normalisation of the international market and government impetus for cleaner air and water. We initiate on TMX with ADD (given the lofty valuation) with a TP of INR 2,433/sh (40x Mar-25E EPS).

- **Base order pipeline robust; large orders slowing down:** During FY22, TMX won four large orders each of size more than INR 2.5bn. However, in FY23, TMX is witnessing such large orders drying up with a visible slowdown in domestic refining and petrochemicals and FGDs. The pipeline in smaller-sized orders of less than INR 2.5bn is strong. Export order pipelines that generally are high-value orders are weak on account of the slowdown in the refineries and petrochemical segment and a slowdown in the US affecting the chemical segment. For Q3FY23, TMX reported an order inflow of INR 22bn (-10/+9% YoY/QoQ), which took the 9MFY23 order inflow to INR 65bn (70% of FY22 orders).
- **Green portfolio driving multiple expansions:** The ordering under the green portfolio has expanded from 40% in FY10 to 74% in FY22. Waste-to-heat recovery, FGDs (impetus from the mandate to reduce sulphur dioxide emission) and chemicals in the water treatment drove this increase. As a result of the increased share of green offering, we can see that the PE multiple for the company increased significantly and now trades at 44x (on 12-month forward consensus EPS), more than its +1 SD.
- **Margins to improve on the back of various factors:** High commodity prices and logistics costs in FY22 impacted the EBIT margins, dropping to 7.1% from pre-Covid levels of 9%+. However, with the cooling off of input prices, correction in logistics cost, higher revenue recognition for its two FGD projects and the international subsidiaries expecting to be profitable within a year, the EBIT margin on an overall level is expected to be between 8-9% in the medium term.
- **New technologies monetisation can lead to further PE expansion:** TMX has been investing in new technologies and new areas like (1) bio-CNG, (2) solar opex and wind opex, (3) It is looking to add storage technology, (4) coal gasification (it has developed the technology to be used for high ash coal and looking for orders in the INR 2-5bn range), (4) hydrogen (the company has been working on biomass to hydrogen and is looking at another hydrogen-related tech like electrolyser and also looking at carbon capture tech). All these tech initiatives may lead to further PE rerating.

Consolidated Financial summary

YE March (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	44,649	59,732	57,313	47,913	61,283	80,798	93,251	105,202
EBITDA	4,009	4,574	4,062	3,552	4,214	5,811	7,901	9,031
APAT	2,301	3,926	2,125	2,460	3,123	4,309	5,868	6,849
Diluted EPS (INR)	20.4	34.9	18.9	21.8	27.7	38.3	52.1	60.8
P/E (x)	106.7	62.6	115.6	99.8	78.6	57.0	41.9	35.9
EV / EBITDA (x)	57.9	51.6	57.7	63.9	53.4	38.6	28.0	24.1
RoE (%)	8.8	13.7	7.0	7.8	9.3	11.8	14.6	15.2

Source: Company, HSIE Research

ADD

CMP *(as on 16 Mar 23)*	INR 2,254
Target Price	INR 2,433
NIFTY	16,986

KEY STOCK DATA	
Bloomberg code	TMX IN
No. of Shares (mn)	119
MCap (INR bn) / ($ mn)	269/3,244
6m avg traded value (INR mn)	157
52 Week high / low	INR 2,679/1,830

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	15.3	(12.0)	15.5
Relative (%)	21.3	(10.0)	14.1

SHAREHOLDING PATTERN (%)	Sep-22	Dec-22
Promoters	61.98	61.98
FIs & Local MFs	15.34	15.34
FPIs	12.35	12.27
Public & Others	10.33	10.41
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Growth driving strategies

Strategy 1: Increase the Share of Green Offerings

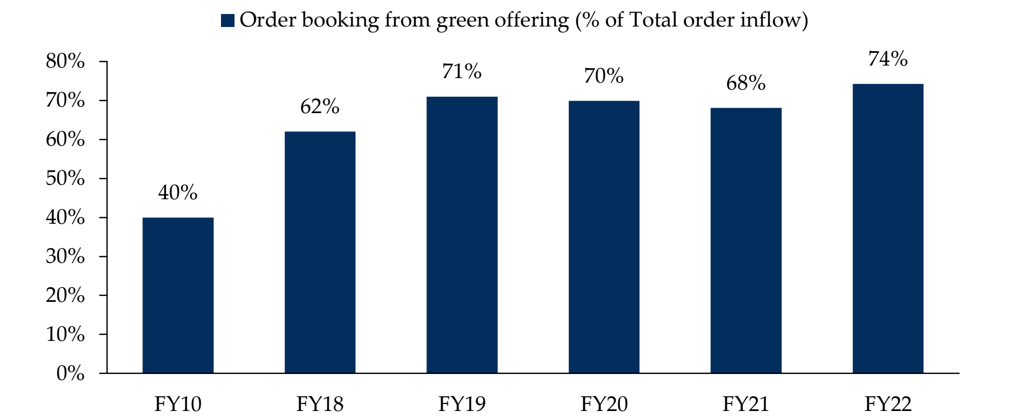
Strategy 1	Performance during the year
Increase the Share of Green Offerings	During the year FY22, TOESL bagged several contracts for 100% biomass-based green utility delivery solutions.
	Thermax negotiated two substantial contracts with one of the world's leading equity funds players to produce roughly 15 tonnes of CBG (compressed biogas) and prevent the annual burning of approximately 36,000 tonnes of stubble in Punjab per project.
	Projects and Energy Solutions (P&ES) commissioned a 15 MW captive power plant utilising coke oven waste gas for a renowned manufacturer of pig iron and ductile iron pipes in West Bengal
	P&ES also commissioned a 3 x 9 MW cement waste heat recovery power plant for a large cement mill in Andhra Pradesh, India.
	During the year, TBWES successfully installed a waste heat recovery boiler at one of the largest cement factories and a spent wash fired boiler in Maharashtra.

Source: Company, HSIE Research

TMX defines 'green' as orders that comprise utilisation of non-fossil fuels from the energy segment, all orders booked by the environment segment and non-fossil application-based orders from the chemical segment. The ordering under the green portfolio has expanded from 40% in FY10 to 74% in FY22. Waste-to-heat recovery, FGDs (impetus from a mandate to reduce sulphur dioxide emission) and chemicals in the water treatment are particularly driving the orders.

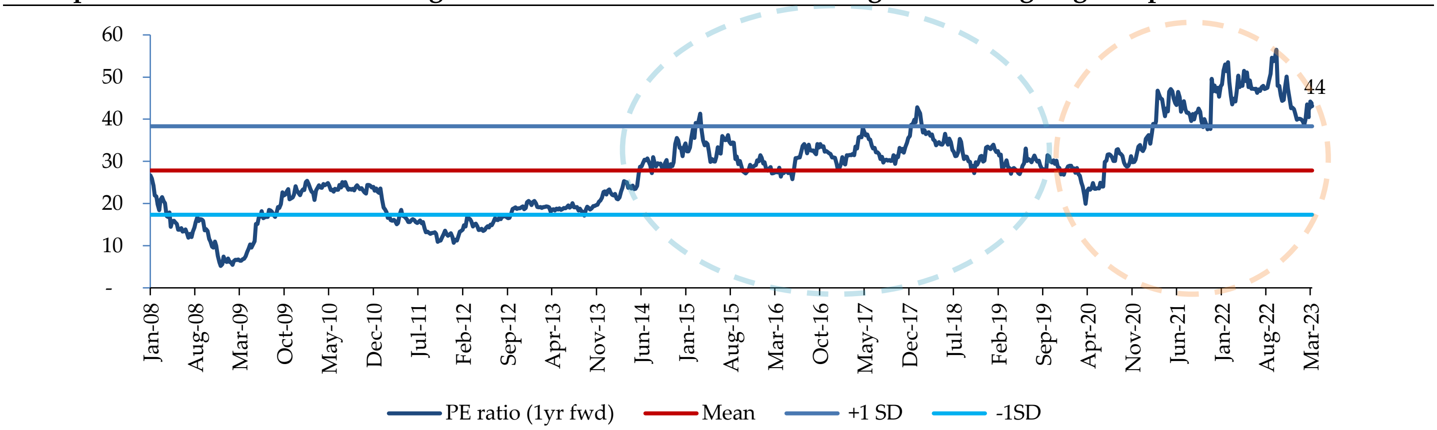
In line with this strategy, TMX in Mar'23 signed an MoU with Fortescue Future Industries (FFI), a green arm of an Australian conglomerate, for exploring green hydrogen projects in India. This marks TMX's entry into the green hydrogen market. Under the partnership, the JV will explore green hydrogen projects for commercial and industrial customers, including new manufacturing facilities for electrolysers and subsystems in India. The PLI scheme under the National Green Hydrogen mission could be leveraged for setting up a new manufacturing facility for electrolysers. Apart from meeting the domestic demand, TMX expects to export electrolysers and subsystems. FFI is currently developing Green Energy Manufacturing Centre in Gladstone, Queensland. Under the first phase, it is constructing electrolysers with a capacity of 2GW per annum. This project is a JV with an American hydrogen fuel cell developer, Plug Power Inc.

As a result of the increased share of green offerings, we can see that the PE multiple for the company increased significantly and is now trading at 44x, more than its +1 Standard Deviation. Multiples have rerated also in 2014 when the new government came to power, which brought along the expectation of higher infra spending.



Source: Company, HSIE Research

Multiples rerated twice:(1) on new government and (2) on account of higher ordering in green portfolio



Source: Company, HSIE Research

Strategy 2: Grow products and services portfolio

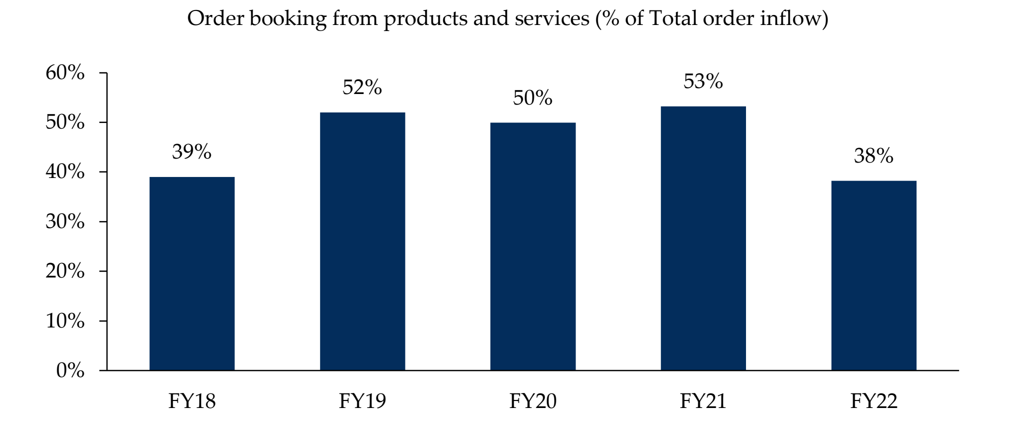
Strategy 2	Performance during the year
Grow Products and Services Portfolio	Launched the new version of Combipac—a multi-fuel fired boiler and Revomax Nxt—a next-generation instant steam generator. Most of the domestic as well as international businesses were received from industries such as F&B, pharma, chemical and textile sectors during the year FY22.
	The cooling business launched an ultra-low temperature hot water chiller to cater to very low-grade waste heat recovery of 60C to 80C that can be used for cooling and heating utilities in processes.
	Under the Process Heating business, the company dispatched and installed its first low voltage electric boiler to a customer in Bhutan.
	The chemical business developed non-phosphate environment-friendly chemicals for cooling water treatment and won major orders from steel and oil & gas companies.
	Under the New Energy business portfolio, Thermax expanded its solar business under FEPL, transitioning from the rooftop-based capex model to a solution-based opex model.

Source: Company, HSIE Research

In terms of the operating structure, three categories are defined—products, services and projects. Products are both standard and custom-designed. Larger unit products are generally custom-designed and built. Services include lifecycle and O&M services to operate plants and other services that the company provides to customers and projects include EPC contracts, which are for larger non-standard products.

Projects business by nature is cyclical and in order to mitigate the cyclicality in it, TMX increased the share of business from products and services. The proportion of such an order might look low at 38% in FY22. However, in absolute terms, the product and service business has increased to INR 36bn (FY22), from INR 25bn in FY18.

In the medium term, within the project business, margins have been in the range of 5-6% and TMX expects to increase the margin to the 5-8% range with the business being less capital intensive and running on negative working capital. Margins in the product business are expected to be 10% on the back of lower commodity prices and better economic growth.



Source: Company, HSIE Research

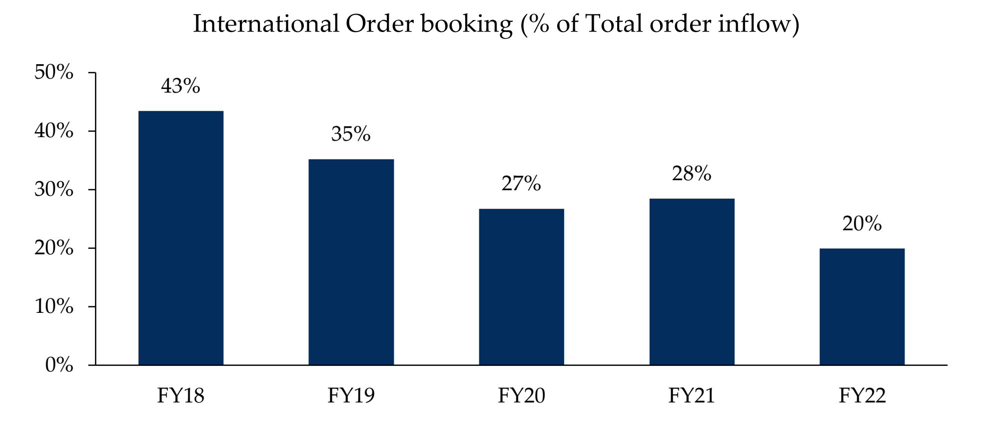
INR bn	FY18	FY19	FY20	FY21	FY22
Order booking from products and services	25	29	27	25	36

Source: Company, HSIE Research

Strategy 3: Focus on internationalisation

Strategy 3	Performance during the year
Focus on Internationalisation	Low overall booking from international market against the backdrop of COVID 19
	With the increasing enforcement of air pollution rules and owing to its experience in project execution, the APC business has built a strong reputation throughout South East Asia in recent years
	In the Chemical segment, topline growth was driven by US and European markets as well as South East Asian markets.

Source: Company, HSIE Research

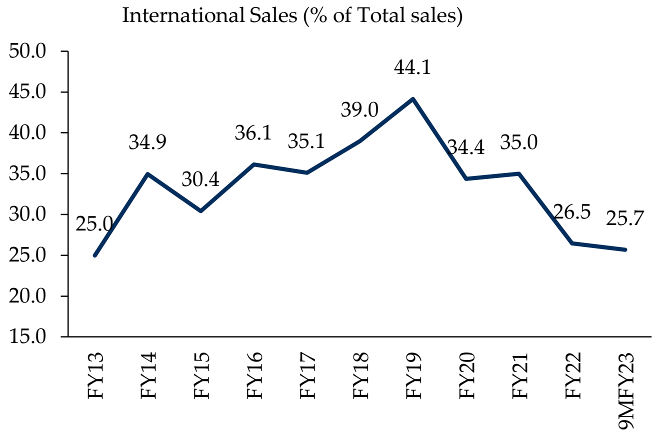


Source: Company, HSIE Research

INR bn	FY18	FY19	FY20	FY21	FY22
International Order booking	27	20	15	14	19

Export market tepid—base order pipeline strong

TMX is finding a strong pipeline in INR 0.5-1bn sized orders. More specifically, the demand for waste-to-energy solutions in South East Asia and Africa is strong. TMX is also seeing examples of China plus one strategy with global waste-to-energy leaders coming to India for partnership. A significant portion of the chemicals business comes from the export market and with the US slowdown the ordering has been affected. However, with the overall market and order pipeline for chemicals strong, TMX expects decent ordering from this space as well.



Source: Company, HSIE Research

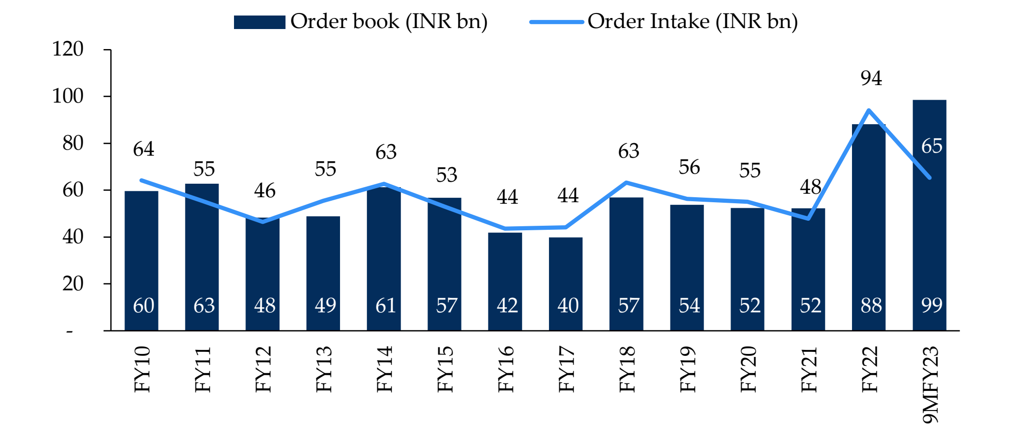
Order inflow looks moderating in absence of large orders

For the past few quarters, TMX is witnessing a slowdown in large-order wins. In FY22, it won four large projects, which were of more than INR 2.5bn. These include a sulphur recovery block order (INR 11.7bn), a gas-fired boiler (INR 2.9bn) and two FGD orders (INR 8.3bn and INR 5.5bn). However, in FY23, TMX is witnessing such large orders drying up with a visible slowdown in domestic refining and petrochemicals and FGDs. Within the refining and petrochemical space, demand is buoyant in downstream projects in the Middle East. However, in that market, the local player holds the clout and TMX has not committed to chasing the market share there. Right now, the company is committed to the Southeast Asian market.

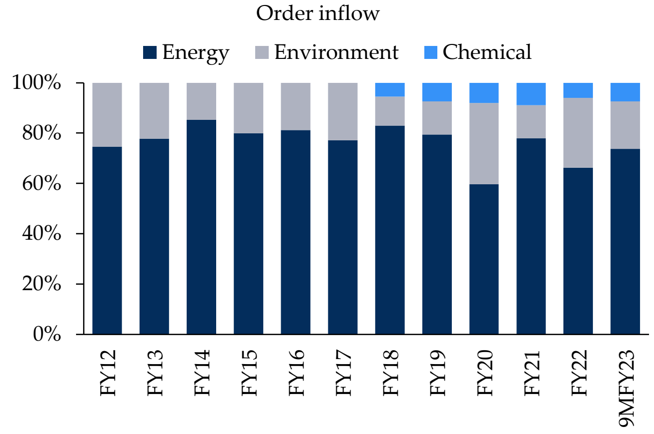
During the year, TMX backed out of two large orders on account of a lower margin than its target. As part of its strategy, TMX will not compromise on margin for order wins and, hence, the growth in orders has been fuelled mainly by small-sized orders of value INR 500-1,000mn.

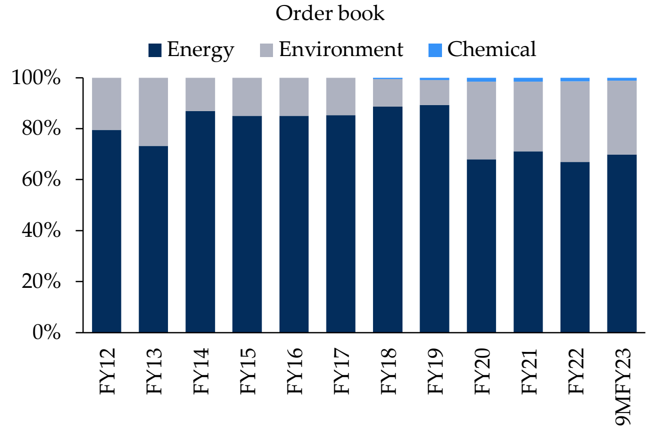
The energy segment accounts for more than 70% of the new orders and the demand pipeline for relatively smaller projects is strong for its green utilities Opex business. The pipeline of smaller-sized orders is also strong across sub-segments such as sugar and ethanol distillery, cement, chemicals, pharma and food & beverage industries. TMX expects large orders from the steel industry in FY24. With the transition to clean energy picking pace and starting to become a priority for the overall industry, the energy segment will be lifting more weight in terms of new orders for TMX. Ordering in the chemical segment has been subdued recently on account of the slowdown in the export market, especially in the US. This is compensated by the strong demand for chemicals for construction applications like repairing, waterproofing, etc. The order pipeline is strong in chemicals and TMX is expecting a five-year cycle and will be adding new capacity and sub-segments. The environment segment has been the second largest contributor to new orders. In the past year, the segment had been driven by some large orders, mainly in FGD. TMX does not expect any FGD orders in the next 12 months.

For Q3FY23, TMX reported an order inflow of INR 22bn (-10/+9% YoY/QoQ), which took the 9MFY23 order inflow to INR 65bn (+8.5% YoY). The Q3FY22 orders were higher on account of a major FGD order worth INR 8.3bn. So, on a like-to-like basis, the new order growth has been 35% YoY for Q3FY23.



Source: Company, HSIE Research





Source: Company, HSIE Research

Order Inflow (INR bn)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	9MFY23
Energy	34.5	42.1	55.2	43.3	34.2	34.2	52.5	44.8	32.8	37.2	62.4	48.1
Environment	11.8	12.1	9.6	10.9	7.9	10.1	7.3	7.4	17.8	6.4	26.0	12.4
Chemical	-	-	-	-	-	-	3.5	4.2	4.4	4.3	5.7	4.8

Order book (INR bn)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	9MFY23
Energy	38.4	35.7	53.2	48.2	35.6	33.9	50.4	47.9	35.6	37.2	59.0	68.8
Environment	9.9	13.1	8.0	8.5	6.3	5.9	6.1	5.3	16.0	14.3	27.9	28.6
Chemical	-	-	-	-	-	-	0.3	0.5	0.8	0.8	1.3	1.1

A well-diversified order book across sub-segments

The order book for TMX stands at an all-time high of INR 98.6bn (c.1.2x FY22 revenue). This was on account of an unexecuted portion of large orders won in FY22 for refinery & petrochemical and metals & steel sub-segments; and recent order wins in cement and fertiliser sub-segment. The majority of the orders are short cycle in nature except refinery & petrochemical and cement, power, metals and steel sub-segment orders, which are generally either heating/cooling solution orders or pollution control orders like sulphur recovery and FGD.

Historically, the O&G industry has been the driver for TMX's order book and with the slowdown in the O&G segment, OB will be affected. However, this will be compensated by new technology orders for solar and biomass solutions across the industry segment and heat recovery solutions from Cement, Steel and Metals industries for electricity cogeneration. Apart from this, chemical will start contributing more to the order book with new capacity addition planned as TMX positions itself for a five-year cycle in chemicals with the current application varying from water to oilfield to construction chemicals. Within the sugar/distillery sub-segment, TMX is finding a strong build-up in the pipeline with the next 12 months particularly strong. Within sugar/distillery, the technology is still evolving in the ethanol blending space and TMX is cautiously winning orders.

Sub-segment-wise order book:

Sub-segment OB (%)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Metals/ Steel	12%	6%	12%	10%	14%	15%	7%	4%	18%	16%	10%
Chemical	7%	7%	4%	20%	7%	7%	7%	6%	7%	12%	0%
Refinery and Petro Chemical	0%	17%	31%	11%	26%	19%	7%	6%	24%	11%	10%
Sugar/ Distillery	7%	0%	3%	5%	0%	10%	9%	4%	10%	9%	12%
Power	0%	5%	5%	6%	5%	0%	40%	17%	10%	9%	0%
Cement	0%	21%	8%	19%	16%	4%	11%	5%	5%	6%	19%
Fertiliser	0%	4%	4%	8%	6%	0%	0%	0%	4%	4%	15%
Pharma	6%	0%	0%	3%	4%	0%	2%	4%	3%	0%	0%
Food and Beverage	8%	10%	10%	8%	6%	10%	4%	8%	9%	11%	7%
Textile	0%	5%	0%	0%	0%	10%	0%	0%	0%	0%	0%
Paper and Pulp	0%	4%	3%	3%	0%	0%	0%	0%	0%	0%	7%
Transportation	0%	0%	0%	0%	0%	6%	0%	34%	0%	0%	8%
Bioenergy	0%	0%	0%	0%	0%	0%	0%	0%	0%	5%	0%
Others	60%	21%	20%	7%	16%	19%	14%	12%	10%	17%	12%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

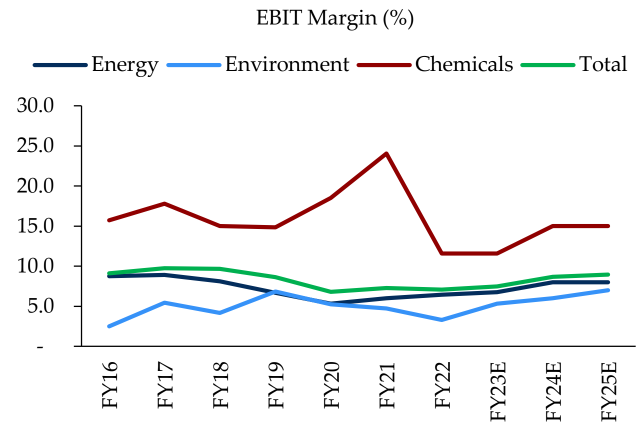
Source: Company, HSIE Research

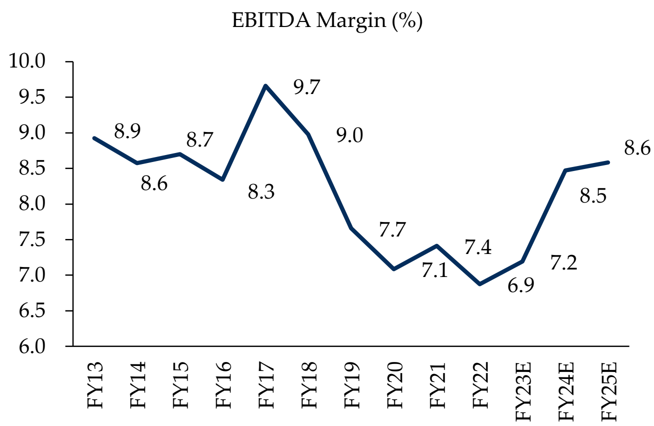
Margin improving—likely to remain in single digit

As TMX had been winning orders in FY22, high commodity prices had affected the margins. For example, the environment segment's EBIT margin dipped by 3.3% in FY22, partly explained by higher prices for exotic steel used in FGD. However, with the commodity prices cooling off and the higher base cost for the FGD projects already recognised and execution of INR 5-6bn each in the two FGD projects in FY23 and FY24, the EBIT margins will improve. Similarly, prices of chemicals such as lithium and lithium bromide had increased 4x, affecting the cooling business margins. The two material international subsidiaries, Danstoker and PTTI, which service and manufactures boilers for European and South East Asia resp. are expected to become profitable within a year.

'Solutions' businesses i.e. FEPL and TOESL, which provide Opex solutions in green utility space are expected not to be profitable in the medium term as they go through a higher investment phase with the business and team getting ramped up. 'Projects' business, historically, has been 5% to 6%. Margins in the business are expected in the range of 5% to 8%. And in the 'products and associated services' business, TMX is striving to attain a 10% margin in the medium term. Overall, the company is expecting to reach a profitable margin of 8-9% in the medium term.

Margin trend





Source: Company, HSIE Research

EBIT Margin (%)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Energy	8.8	8.9	8.1	6.7	5.3	6.0	6.4	7.0	8.0	8.0
Environment	2.5	5.4	4.2	6.8	5.3	4.7	3.3	5.0	6.0	7.0
Chemicals	15.7	17.8	15.0	14.9	18.5	24.1	11.6	13.0	15.0	15.0
Total	**9.1**	**9.7**	**9.7**	**8.6**	**6.8**	**7.3**	**7.1**	**7.7**	**8.6**	**8.9**

Source: Company, HSIE Research

Segmental revenue (Rs bn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Energy	43	36	35	48	47	36	44	60	75	78
Environment	7	7	7	8	7	8	13	18	19	20
Chemicals	3	3	4	4	4	4	5	6	7	8

Source: Company, HSIE Research

The subsidiaries overhang is largely over

TMX's subsidiaries in the last six years have been its pain point, especially the European and Chinese subsidiaries. Industries moving to greener technology, higher energy prices, Covid-induced market slowdown and the subsequent commodity inflation had resulted in TMX taking impairment in these subsidiaries. However, with the company's strategy to shift towards a greener portfolio, focusing more on products and services with plug-and-play modular engineering solutions and building localised EPC capability, it has solved many of its problems in its subsidiaries.

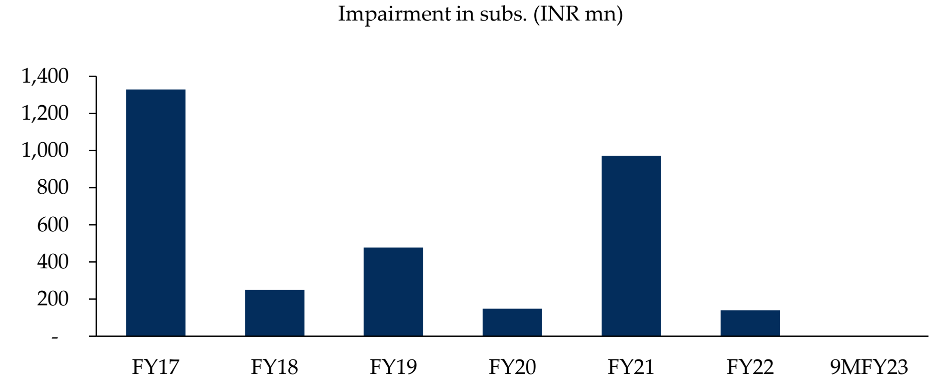
Some of the steps taken in this direction in the past few years are (1) closing of TZL, a Chinese subsidiary, as the cost arbitrage with India had reduced significantly; (2) transfer of Boiler & Heater division from Thermax Ltd. to its Indian subsidiary TBWES to create operational synergy; (3) shifting the Boiler manufacturing plant for the European market from Denmark to a low-cost facility in Poland and; (4) Danstoker group, serving the European market, selling the service business of its one of the subsidiary to reduce cyclicality in the business while retaining a profitable portfolio of heat exchange line of products.

As a result of all these measures, TMX has not taken any impairment provision in FY23TD. Also, the two material international subsidiaries, Danstoker and PTTI (Indonesian step-down subsidiary), which service and manufacture boilers for European and South East Asia resp., are expected to become profitable within a year.

Impairment in subsidiaries	**Country of Incorporation**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Thermax (Zhejiang) Cooling and Heating Engineering Co Ltd. (TZL)	China	50	200	154	71	-	-	-
Thermax Netherlands B.V. (related to Denmark subsidiary)	Netherlands	-	-	1,264	-	747	-	-
First Energy Private Limited (FEPL)	India	160	-	127	78	-	-	-
First Energy Private Limited - Equity shares		-	-	*8*	*42*	-	-	
First Energy Private Limited - Preference shares		-	-	*119*	-	-	-	
First Energy Private Limited – Loan		-	-	-	*36*	-	-	
Thermax Cooling Solutions Limited, India	India	-	50	52	-	-	-	-
Thermax Engineering Singapore Pte. Ltd (related to Indonesian subsidiary)	Singapore	-	-	-	-	225	140	-
Thermax Babcock & Wilcox Energy Solutions Private Limited (TBWES)	India	1,118	-	-	-	-	-	-
Reversal of Impairment in subsidiaries		-	-	-	-	-	-	-
Thermax Babcock & Wilcox Energy Solutions Private Limited	India	-	-	(1,118)	-	-	-	-
Net impairment in subsidiaries		**1,328**	**250**	**479**	**149**	**972**	**140**	**-**
Others								
Voluntary Retirement Scheme		-	-	-	-	59	-	-
Total Exceptional item		**1,328**	**250**	**479**	**149**	**1,030**	**140**	**-**

Source: Company, HSIE Research

No impairment of investment in subsidiaries taken in FY23TD



Source: Company, HSIE Research

Thermax business segments and its drivers

The three business segments of TMX are driven mainly by applications for cleaner tech. On a broader view, the demand for cleaner air, water and energy drives the demand for TMX products and solutions. As the enforcement of these elements becomes more stringent globally, the demand for clean tech is expected to become more pronounced. Over the years, the orders that use clean/fossil fuels have increased/decreased dramatically from 40%/60% in FY10 to 74%/26% in FY22. Also, to provide the impetus for faster green tech adoption, TMX has moved from Capex to OPEX-based model, which is also known as pay-per-use models in its energy segment (like in its solar and biomass solutions).

Business segment	Drivers
Energy	Energy transition and action on climate change are major priorities of governments globally
	Emphasis on clean energy driving shift in energy mix, creating opportunities for greenfield projects and brownfield replacements
	Increasing demand for EPC, renewable energy, waste to energy, waste heat recovery plants and biofuels due to focus on sustainability and energy-efficient solutions
	Gradual shift from capex to opex-based models
	Increase in demand for dry cooling solutions and adiabatic cooling towers on account of sustainability and water consumption regulations
	Growth across industries such as food, pharma, chemicals, cement, and steel, owing to policies and macro-economic factors
Environment	Lack of access to water
	Stringent regulatory norms for water and effluent treatment
	Market demand for modularised/plug-and-play water and wastewater treatment products
	Shift from coal to biomass or agro-based fuels
	Government's mandate to power companies on installation of FGD systems within a stipulated timeframe to mitigate SOx emissions
	Enforcement of air pollution emission norms globally
Chemical	Increase in demand for solvent-free and low total organic carbon (TOC) resins for ultrapure water applications in industries such as food, pharma, and electronics
	Rise in demand for RO, multi effect evaporator (MEE), and incinerators which help boost water treatment chemicals that aid in zero liquid discharge and effluent treatment
	Investments in the petrochemical sector are leading to opportunities for monoethylene glycol (MEG) and catalyst resins

Source: Company, HSIE Research

The focus area for its business segments

TMX has set certain focus areas for its different segments such as the focus on clean energy, waste-to-heat recovery, waste-to-energy, modularisation of products, investment in new technology, expansion to international markets, and digitisation, among others.

Business segment	Focus area
Energy	Diversification of EPC offering into international markets, unconventional fuels, and renewable energy
	Waste heat recovery, waste to energy and municipal solid waste (MSW) incineration in line with the demand to increase the green portfolio
	Considering the volatile nature of fuels available as well as their cost, focus on multi-fuel fired boilers for higher flexibility
	Continued momentum of domestic growth in Opex-based biomass solutions and penetration in international markets. Also, Penetrate India as well as Asian and African markets for solar Opex-based solutions
	Due to considerable industry pressure, focus on complete solutions to minimise energy costs and carbon footprint
	Continued investments in value-added service offerings, such as industrial internet of things (IIoT) solutions, remote assistance technology, and automation
Environment	Continued focus on digitalisation and remote monitoring of products and solutions
	Modularisation of new products
	Focus on urban and commercial segments to offer sewage recycling solutions with newer compact products based on membrane bioreactor (MBR) and sequential batch reactor (SBR) technologies
	Emphasis on zero liquid discharge (ZLD) systems with advanced multi effect evaporator (MEE) and mechanical vapour recompression (MVR) technologies, developed in-house
	Development of new air pollution control technologies to manage diverse versions of gaseous pollutants and enable agro-based fuel combustion
	Expansion of spares and services portfolio
Chemical	Enhance market presence and broaden the portfolio of specialty resins, build references for specialty applications
	Expand global market presence through dealer network and collaboration with industrial licensors and consultants
	Widen the market reach of water treatment chemicals by focusing on digitalisation and remote monitoring of water treatment products and systems

Source: Company, HSIE Research

Export market recovering to pre-Covid levels

The export market has picked up from FY21 lows, affected by Covid19; however, it is yet to attain the pre-Covid level. The momentum in terms of ordering in FY23TD has been strong, with INR 16.5bn of order inflows from international markets. Within the environment segment, Air Pollution Control (APC) solutions and products are expected to drive demand in South-East Asia as pollution control norms enforcement intensifies. In the chemical segment, top-line growth had been driven by US and European markets as well as South-East Asian markets. And the global demand for cleaner energy tech augurs well for the energy segment.

Exports (INR mn)	FY19	FY20	FY21	FY22	9MFY23
Order inflow					
Energy	16,700	11,480	10,300	14,900	11,710
Environment	810	820	800	870	1,930
Chemical	2,330	2,400	2,520	3,000	2,870
Total	**19,840**	**14,700**	**13,620**	**18,770**	**16,510**
Revenue					
Energy	23,200	16,520	13,690	12,560	11,540
Environment	890	880	600	900	600
Chemical	2,280	2,290	2,470	2,750	2,900
Total	**26,370**	**19,690**	**16,760**	**16,210**	**15,040**
Order backlog					
Energy	18,210	13,460	8,920	12,870	13,300
Environment	540	490	590	610	1,880
Chemical	370	480	480	740	740
Total	**19,120**	**14,430**	**9,990**	**14,220**	**15,920**

Source: Company, HSIE Research

Exports (% of Total)	FY19	FY20	FY21	FY22	9MFY23
Order inflow					
Energy	29.6%	20.9%	21.5%	15.8%	17.9%
Environment	1.4%	1.5%	1.7%	0.9%	3.0%
Chemical	4.1%	4.4%	5.3%	3.2%	4.4%
Total	**35.2%**	**26.7%**	**28.5%**	**19.9%**	**25.3%**
Revenue					
Energy	38.4%	28.4%	28.2%	20.0%	19.7%
Environment	1.5%	1.5%	1.2%	1.4%	1.0%
Chemical	3.8%	3.9%	5.1%	4.4%	5.0%
Total	**43.6%**	**33.8%**	**34.6%**	**25.9%**	**25.7%**
Order backlog					
Energy	33.9%	25.7%	17.1%	14.6%	13.5%
Environment	1.0%	0.9%	1.1%	0.7%	1.9%
Chemical	0.7%	0.9%	0.9%	0.8%	0.8%
Total	**35.6%**	**27.5%**	**19.1%**	**16.1%**	**16.1%**

Source: Company, HSIE Research

Business segments and products

Business segment	Product category	Product sub-category	Products	Contribution to Order Book	Revenue Contribution	EBIT Margin	PAT Margin
Energy	A. Heating	a. Boilers and Fired Heaters	1. Energy Plants 2. Fired Heaters 3. Heat Recovery Boilers 4. Heat Recovery Systems 5. High Pressure Boilers 6. Hot Water Generators 7. Lean Gas Fired Boilers 8. Oil & Gas Fired Boilers 9. Solid Fuel Fired Boilers 10. Steam Boilers 11. Supercritical Boilers 12. Thermal Oil Heaters and Vapourisers 13. Waste to Energy Boilers	FY20: 68% FY21: 71% FY22: 67% 9MFY23: 70%	FY20: 82% FY21: 76% FY22: 72% 9MFY23: 72%	FY20: 5.3% FY21: 6.0% FY22: 6.4% 9MFY23: 6.4%	FY20: 5.3% FY21: 6.0% FY22: 6.4%
		b. Steam Engineering Solutions	1. Condensate Management Systems and Valves 2. Process Automation and Monitoring Equipment 3. Steam Generation and Distribution Products				
	B. Cooling	a. Absorption Cooling and Heating	1. Chiller-Heaters 2. Heat Pumps 3. Heat Transformers 4. Hybrid Chillers 5. Vapour Absorption Chillers				
		b. Process Cooling	1. Adiabatic Coolers 2. Closed Loop Cooling Towers 3. Evaporative Condensers 4. Air Cooled Heat Exchangers 5. Dry Coolers 6. Radiators				
	C. Renewable Energy		1. Build and Operate Bespoke and Flexible Energy Assets 2. RE Power Project Developers 3. Solar Hybrid Farms and Storage Batteries 4. Utility Delivery Services on Build-Own-Operate Model				
	D. Projects and Energy Solutions	a. EPC Offerings	1. Air Cooled Condensers 2. Bio-CNG Plants 3. Cogen/Trigen Power Plants 4. Refinery Process Units 5. Waste Heat Recovery Power Plants				
	E. Specialised Services		1. Energy Audit and Utility Piping Consultancy 2. Energy Management Solutions 3. Genuine and Reliable Spare Parts 4. Life Extension Services 5. Operations & Maintenance of Utilities 6. Plant Improvement Projects 7. Proactive, Preventive and Corrective Maintenance Services 8. Remote Monitoring and Assistance Services 9. Retrofits and Upgrades				
Environment	A. Air Pollution Control		1. Bag Filters 2. Coal Preparation Plants 3. ComboFilter 4. Electrostatic Precipitators 5. Gaseous Abatement Systems, Including FGD Systems 6. Heat Exchangers 7. Scrubbers	FY20: 31% FY21: 27% FY22: 32% 9MFY23: 29%	FY20: 13% FY21: 17% FY22: 21% 9MFY23: 20%	FY20: 5.3% FY21: 4.7% FY22: 3.3% 9MFY23: 5.1%	FY20: 5.3% FY21: 4.8% FY22: 3.3%
	B. Water and Waste Solutions		1. Desalination 2. Recycle and Zero Liquid Discharge 3. Wastewater Treatment (Sewage and Effluent) 4. Waste Incineration 5. Water Treatment				
	C. Specialised Services		1. Annual Service and Maintenance Contract 2. Overhauling & Repairs, Plant Improvements & Upgrades 3. Plant Automation, Audits and Evaluation				

			4. Spare Parts Management and Support 5. Thermax Differentiated Services (Customised Service lans for Industrial and Urban Segments) 6. Virtual Technical Support				
Chemical			1. Construction Chemicals 2. Ion Exchange Resins 3. Oil Field Chemicals 4. Water and Fuel Treatment 5. Chemicals	FY20: 1.5% FY21: 1.5% FY22: 1.5% 9MFY23: 1.1%	FY20: 7% FY21: 9% FY22: 9% 9MFY23: 9%	FY20: 18.5% FY21: 24.1% FY22: 11.6% 9MFY23: 10.7%	FY20: 18.5% FY21: 24.0% FY22: 11.6%

Source: Company, HSIE Research

Opportunities and threat

Opportunities	With India's commitment to COP26 to reduce the carbon intensity to less than 45% by the end of the decade and net-zero carbon emissions by 2070, Thermax seizes opportunities in the sunrise areas.
	Tightened ESG standards, decarbonisation, and energy transition would create opportunities
	Air pollution control equipment, such as FGDs to arrest sulphur dioxide (SOX) and related services, would continue to be in demand as environmental regulations tighten in various locations, including MENA and other Asian countries
	Digitalisation, IoT and remote online service with dependable systems are helping open up new territories and possibilities
	In a shift from capex to opex, outsourcing is poised to set the pace for growth in the Company's business across the globe.
	Sustainability of industries will be based on the criteria of reduction in operational cost through. the implementation of various efficiency improvement solutions, modernisation, and adoption of new technologies to reduce energy consumption. This will drive demand for Thermax.
	The government announced relief packages to strengthen economies in sectors such as infrastructure, food processing, pharmaceuticals, textile, chemicals, iron & steel, oil & gas, and power in order to mitigate the impact of Covid-19. This would have a favourable impact on industries' willingness to continue investing and fulfil the rising demand.
Threats	The Russia-Ukraine war continues to be the main risk factor on asset prices, particularly commodity prices.
	Many multinational corporations are making efforts to transition away from the use of fossil fuels and towards biomass. Established local competitors with a robust biomass sourcing network and database offering BOO solutions pose a threat to the Thermax's capex and opex model.
	Due to the fact that many orders received by the company are sourced from fossil fuel-based industries, an industry-wide shift to a green model will have a detrimental effect on revenue.

Source: Company, HSIE Research

Valuation punchy—at the higher end of the band

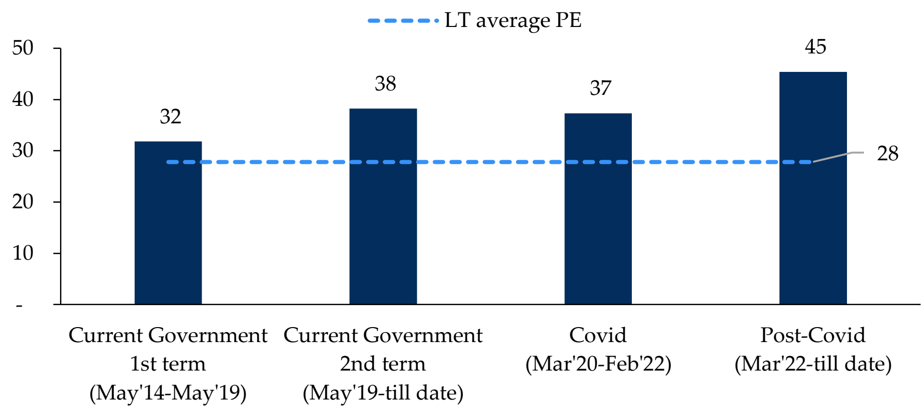
TMX is currently trading at a valuation higher than most of the listed capital goods players. The higher valuation reflects the expectation of it gaining a higher market share in green technology. We expect it to be further rerated with large-size order wins and normalisation in international ordering. For now, we value the company at 40x 1-yr forward PE multiple.

Peer valuation (sorted on FY25 PE)

Company	Mcap (Rs mn)	CMP	Rating	TP	SA / Cons	PE (x)				EV/EBITDA (x)				ROE (%)			
						FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
NRB Bearings	12,503	129		174	SA	17.1	14.1	11.8	10.4	9.2	224.8	193.0	173.3	13.2	14.1	14.6	14.4
Apar Industries	84,497	2,208		2,080	Cons	34.2	17.7	15.3	14.0	4.6	8.6	7.6	7.1	16.5	24.4	25.8	23.4
Kirloskar Oil engines	54,557	377		427	SA	26.6	20.9	17.4	14.4	5.2	11.8	10.0	8.4	10.1	12.5	13.7	15.3
Kalpataru Power	83,682	562	BUY	708	SA	22.2	21.8	17.4	13.8	15.0	12.4	10.2	8.6	9.2	8.4	9.7	11.1
KEC International	120,574	469	REDUCE	392	Cons	36.3	77.2	25.2	15.0	18.7	21.6	13.0	9.5	9.5	4.3	12.4	18.2
ISGEC Heavy Eng.	33,456	455		663	SA	32.7	22.6	18.6	14.7	18.7	14.0	11.8	10.1	6.5	8.0	9.0	11.1
Action Construction Equipment	42,989	361		400	SA	41.6	26.8	20.1	19.7	18.0	19.4	14.9	14.9	16.6	19.1	20.8	19.0
MTAR Technologies	49,831	1,620		2,165	Cons	81.9	45.6	34.0	24.4	56.8	188.3	133.8	97.0	12.2	19.2	22.0	25.6
TEGA Industries	42,931	647		735	Cons	34.7	27.8	23.6	20.3	17.2	18.2	15.7	13.4	17.3	19.4	19.0	19.2
Larsen & Toubro	3,049,579	2,174	BUY	2,432	Cons	35.6	29.5	25.0	20.6	20.8	19.0	16.2	13.6	10.8	12.1	13.4	15.0
GMM Pfaudler	67,346	1,498		2,350	Cons	80.6	37.2	26.4	21.1	25.0	17.6	14.8	12.7	18.2	26.7	28.4	28.5
Kirloskar Pneumatic	38,061	589		685	SA	46.4	32.8	27.0	21.3	17.7	20.5	16.9	13.6	13.6	16.2	17.0	18.5
Greaves Cotton	28,482	123		194	SA	107.2	29.0	27.1	22.4	88.9	18.1	16.3	13.5	3.0	6.2	8.3	9.5
AIA Engineering	257,212	2,727		3,128	Cons	41.5	26.6	27.0	24.2	19.1	25.0	24.8	22.1	13.8	18.7	15.8	15.4
SKF India	211,298	4,274		4,853	Cons	53.5	39.0	33.2	29.2	30.7	39.9	33.4	29.2	22.9	24.8	23.9	22.8
Cummins India	461,538	1,665	BUY	1,818	SA	58.9	42.9	34.7	30.6	50.6	36.8	28.9	24.4	16.9	20.9	22.7	22.1
Schaeffler India	437,650	2,800		3,142	SA	10.0	42.4	36.2	31.6	5.5	19.2	16.3	13.9	22.1	22.2	22.5	23.1
Timken India	214,073	2,846		3,241	SA	65.4	54.5	42.3	35.2	31.4	55.7	42.4	35.5	21.8	21.4	22.5	22.1
Thermax	**268,578**	**2,254**	**ADD**	**2,433**	**Cons**	**81.3**	**58.9**	**43.3**	**37.1**	**58.8**	**42.6**	**30.9**	**26.6**	**9.3**	**11.8**	**14.6**	**15.2**
ELGI Equipments	151,799	479		433	Cons	84.9	58.7	47.9	39.8	30.8	75.9	64.3	54.1	18.8	22.7	22.5	22.6
Grindwell Norton	196,639	1,776		2,186	Cons	66.5	54.5	45.4	38.9	48.2	60.9	51.2	44.1	20.2	21.3	22.1	21.9
Siemens	1,162,310	3,264	ADD	3,313	SA	93.0	61.1	50.1	44.9	68.4	43.8	35.0	30.6	11.5	15.7	16.9	16.4
Honeywell Automation India	307,402	34,768		37,395	SA	90.6	69.2	54.4	45.0	80.0	63.7	49.5	41.5	12.5	14.4	16.2	16.9
ABB india	705,203	3,328	REDUCE	2,819	SA	107.9	92.0	73.8	63.8	113.9	65.4	51.9	42.4	17.2	17.5	18.5	18.4
KSB	69,128	1,986		2,348	Cons	37.9	30.8	26.1	NA	26.2	22.1	19.1	NA	17.0	17.4	17.9	NA

Source: Company, HSIE Research

Thermax—average one-year fwd. PE during different time periods



Source: Company, HSIE Research

Q3FY23 performance highlight

Consolidated quarterly financials:

Particulars	3QFY23	3QFY22	YoY (%)	2QFY23	QoQ (%)	9MFY23	9MFY22	YoY(%)
Net Sales	20,493	16,147	**26.9**	20,753	**(1.3)**	**57,790**	**41,364**	**39.7**
Material Expenses	11,451	9,058	26.4	12,323	(7.1)	33,480	22,465	49.0
Employee Expenses	2,371	2,067	14.7	2,367	0.2	6,887	5,934	16.1
Other Operating Expenses	5,060	3,892	30.0	4,657	8.7	13,446	10,103	33.1
EBITDA	**1,611**	**1,131**	**42.4**	**1,406**	**14.6**	**3,977**	**2,862**	**39.0**
Depreciation	291	290	0.3	298	(2.4)	874	838	4.3
EBIT	**1,320**	**841**	**56.9**	**1,108**	**19.2**	**3,102**	**2,024**	**53.3**
Other Income	423	292	45.1	398	6.3	1,027	913	12.5
Interest Cost	91	53	73.4	80	14.3	237	151	56.9
PBT	**1,652**	**1,080**	**52.9**	**1,426**	**15.9**	**3,893**	**2,786**	**39.7**
Tax	386	286	34.8	332	16.0	942	688	36.9
Exceptional Item	-	-		-		-	-	
RPAT	**1,267**	**795**	**59.4**	**1,094**	**15.8**	**2,950**	**2,098**	**40.6**
APAT	**1,267**	**795**	**59.4**	**1,094**	**15.8**	**2,950**	**2,098**	**40.6**

Source: Company, HSIE Research

Consolidated Margin Summary

MARGIN ANALYSIS	3Q FY23	3Q FY22	YoY (bps)	2Q FY23	QoQ (bps)	9M FY23	9M FY22	YoY (%)
Material Expenses % Net Sales	55.9	56.1	(21.9)	59.4	(350.3)	57.9	54.3	362.3
Employee Expenses % Net Sales	11.6	12.8	(122.8)	11.4	16.3	11.9	14.3	(242.9)
Other Operating Expenses % Net Sales	24.7	24.1	59.1	22.4	225.2	23.3	24.4	(115.7)
EBITDA Margin (%)	**7.9**	**7.0**	**85.6**	**6.8**	**108.8**	**6.9**	**6.9**	**(3.7)**
Tax Rate (%)	23.3	26.5	(312.8)	23.3	2.4	24.2	24.7	(49.8)
APAT Margin (%)	6.2	4.9	126.0	5.3	91.1	5.1	5.1	3.4

Source: Company, HSIE Research

Key takeaways from Q3FY23 call:

- Total **investments within its opex-based businesses** i.e. TOESL and FEPL stand at INR 6.1bn. Equity investment in TOESL is INR 2.5bn with a debt of INR 900mn and equity investment in FEPL is INR 1.5bn with a debt investment of INR 1.2bn.
- For its opex-based businesses, the company is looking for an **IRR of 15%+** on a blended basis. For the solar business, IRR expected is at least 15%. IRR in the biomass business, which falls under FEPL, is expected to be at least 18% due to the higher risk in the business.
- Going forward, TMX expects to invest more in the solar side than on the biomass side as the biomass business is generating better free cash flow.
- In terms of **ordering**, the company is not seeing any big orders of the size INR 8-10bn, which it had two in the last year. Also, TMX is not compromising on its margins to win projects (it backed out of a large order six months back as it doesn't want to compromise on low margins).
- The **order pipeline is strong**; however, for the base orders with size INR 100-500mn, testified by the 9MFY23 order inflows of INR 65bn (70% of FY22 OI).
- TMX is seeing decent **demand across the industry** except in refining and petrochemical. Strong demand is being seen in the steel industry (although not driven by energy transition) with new capex planned; sugar and ethanol distillery demand momentum started twelve months back is expected to continue for the next 12 months; the cement industry's demand for new capacity (earlier was demanding brownfield replacement for heat recovery); and decent demand from Chemicals, Pharma and Food & Beverage industries.
- TMX is especially bullish on the **chemical segment** and is focusing on double-digit profitable growth. It is looking at capacity expansion and expects investment for a longer period as it prepares for a 3-5-year cycle in chemicals.
- TMX expects stable margins in the medium term on a blended basis across its three businesses. Margins in the **solutions business** which includes solar and wind opex and other green utilities will be subdued. Solar for example, which started last year, has been a loss-making business and will be a loss-making business in FY24 as well. However, TMX expects to reach 200MW of installed capacity by next year from 0MW a year ago. Within the **project business**, margins have been in the range of 5-6% and TMX expects to increase the margin to the 5-8% range with the business being less capital intensive and running on negative working capital. Margins in the **product business** are expected to be 10% on the back of lower commodity prices and better economic growth.
- The **export** business for TMX has been slow on the lack of any large-size projects. There has been a pick-up in INR 0.5-1bn-sized orders and the company has waste-to-energy projects in the pipeline in SE Asia and Africa. Chemicals in the export segment have underperformed the internal expectation mainly, on account of the slowdown in the US.
- In the Middle East, TMX is witnessing demand in the downstream petrochemical space, especially in Saudi Arabia. However, the market there is dominated by local players. TMX is clear on its focus in SE Asia and in the new energy business.
- TMX has been investing on **new technologies and new areas**—(1) Bio-CNG – here it is seeing orders of INR 400-500mn with having built a leadership position in this area; 2) Solar opex – TMX is confident of achieving 200MW installed capacity milestone within a year. It recently added wind opex and is looking to add storage technology; 3) Coal gasification – TMX has developed and demonstrated this technology used in high ash coal in past one year and is looking for orders in INR 2-5bn range; 4) Hydrogen – TMX has been working on biomass to hydrogen and is looking at other hydrogen related tech like electrolyser and is also looking at carbon capture tech.

INCOME STATEMENT (INR mn)

Year ending March	FY18	FY19	FY20	FY21	FY22	FY23E	FY23E	FY23E
Net Revenues	**44,649**	**59,732**	**57,313**	**47,913**	**61,283**	**80,798**	**93,251**	**105,202**
Growth (%)	***(0.4)***	***33.8***	***(4.0)***	***(16.4)***	***27.9***	***31.8***	***15.4***	***12.8***
Material Expenses	23,493	33,367	30,857	25,386	34,850	46,927	54,179	61,122
Employee Expenses	6,966	7,675	7,990	7,588	8,129	9,308	10,053	10,857
Other Operating Expenses	10,180	14,116	14,404	11,387	14,090	18,752	21,119	24,191
EBIDTA	**4,009**	**4,574**	**4,062**	**3,552**	**4,214**	**5,811**	**7,901**	**9,031**
EBIDTA (%)	***9.0***	***7.7***	***7.1***	***7.4***	***6.9***	***7.2***	***8.5***	***8.6***
EBIDTA Growth (%)	***(7.4)***	***14.1***	***(11.2)***	***(12.6)***	***18.6***	***37.9***	***36.0***	***14.3***
Depreciation	824	920	1,166	1,146	1,132	1,167	1,189	1,179
EBIT	**3,185**	**3,654**	**2,896**	**2,406**	**3,081**	**4,644**	**6,712**	**7,852**
Other Income	1,164	1,499	1,000	1,077	1,270	1,393	1,380	1,571
Interest	129	143	150	206	252	327	250	270
PBT	**4,220**	**5,010**	**3,745**	**3,277**	**4,100**	**5,710**	**7,842**	**9,153**
Tax	1,658	849	1,621	686	978	1,399	1,974	2,304
Minority Interest	10	-	-	-	-	-	-	-
Share of Associate profits	(252)	(11)	-	-	1	(2)	-	-
EO gain/(loss)	-	(895)	-	(525)	-	-	-	-
RPAT	**2,301**	**3,254**	**2,125**	**2,066**	**3,123**	**4,309**	**5,868**	**6,849**
APAT	**2,301**	**3,926**	**2,125**	**2,460**	**3,123**	**4,309**	**5,868**	**6,849**
APAT Growth (%)	***3.3***	***70.6***	***(45.9)***	***15.8***	***27.0***	***38.0***	***36.2***	***16.7***
EPS	20.4	34.9	18.9	21.8	27.7	38.3	52.1	60.8
EPS Growth (%)	***3.3***	***70.6***	***(45.9)***	***15.8***	***27.0***	***38.0***	***36.2***	***16.7***

Source: Company, HSIE Research

BALANCE SHEET (INR mn)

As at March	FY18	FY19	FY20	FY21	FY22	FY23E	FY23E	FY23E
SOURCES OF FUNDS								
Share Capital	225	225	225	225	225	225	225	225
Reserves	26,922	29,918	30,054	32,289	34,700	37,768	42,263	47,596
Total Shareholders Funds	**27,147**	**30,143**	**30,279**	**32,514**	**34,925**	**37,993**	**42,489**	**47,821**
Minority Interest	-	-	-	-	-	-	-	-
Long Term Debt	530	351	334	222	614	-	-	-
Short Term Debt	1,807	2,052	1,969	2,829	2,940	-	-	-
Total Debt	**2,337**	**2,403**	**2,303**	**3,051**	**3,554**	**-**	**-**	**-**
Other Non Current Liabilities								
Deferred Taxes	(917)	(2,120)	(1,510)	(1,540)	(1,271)	(1,271)	(1,271)	(1,271)
TOTAL SOURCES OF FUNDS	**28,568**	**30,425**	**31,072**	**34,024**	**37,208**	**36,722**	**41,217**	**46,550**
APPLICATION OF FUNDS								
Net Block	8,207	12,550	10,780	10,716	10,285	10,618	10,929	11,250
CWIP	1,034	401	560	242	443	443	443	443
Intangible Assets	1,520	569	2,050	1,704	1,663	1,663	1,663	1,663
Other Non Current Assets	1,889	-	-	-	66	66	66	66
Total Non-current Assets	**12,650**	**13,520**	**13,390**	**12,662**	**12,457**	**12,790**	**13,101**	**13,422**
Inventories	3,666	5,086	4,546	4,047	7,270	9,585	11,062	12,480
Debtors	13,409	14,917	14,785	13,380	15,972	21,030	24,271	27,381
Cash & bank balances	2,940	3,691	4,761	19,392	9,535	3,530	3,465	4,313
Current investment (mainly MF's)	12,828	8,293	8,752	2,345	14,699	17,699	20,699	23,699
ST Loans & Advances	226	265	241	219	72	72	72	72
Other Assets	12,650	20,009	11,531	11,414	13,304	13,969	14,668	15,401
Total Current Assets	**45,719**	**52,260**	**44,616**	**50,796**	**60,852**	**65,884**	**74,236**	**83,346**
Creditors	10,605	13,994	10,000	11,710	15,074	19,874	22,937	25,877
Provisions	1,845	1,593	1,903	2,210	2,392	2,512	2,637	2,769
Other Current Liabilities	17,352	19,768	15,030	15,515	18,635	19,567	20,545	21,572
Total Current Liabilities	**29,801**	**35,355**	**26,933**	**29,434**	**36,101**	**41,952**	**46,120**	**50,218**
Net Current Assets	**15,918**	**16,906**	**17,683**	**21,362**	**24,751**	**23,932**	**28,117**	**33,128**
Misc Expenses & Others	-	-	(0)	0	-	-	-	-
TOTAL APPLICATION OF FUNDS	**28,568**	**30,425**	**31,072**	**34,024**	**37,208**	**36,722**	**41,217**	**46,550**

Source: Company, HSIE Research

CASH FLOW STATEMENT (INR mn)

Year ending March	FY18	FY19	FY20	FY21	FY22	FY23E	FY23E	FY23E
PBT	4,220	4,114	3,745	2,752	4,101	5,710	7,842	9,153
Non-operating & EO items	(758)	69	(648)	(117)	(1,084)	(2)	-	-
Interest expenses	72	97	86	118	135	327	250	270
Depreciation	824	920	1,166	1,146	1,132	1,167	1,189	1,179
Working Capital Change	2,748	(4,485)	218	4,734	(5)	(2,306)	(1,376)	(1,295)
Tax paid	(1,771)	(1,870)	(1,313)	(938)	(1,030)	(1,279)	(1,848)	(2,172)
OPERATING CASH FLOW (a)	**5,336**	**(1,154)**	**3,256**	**7,695**	**3,248**	**3,617**	**6,057**	**7,135**
Capex	(2,004)	(1,547)	(480)	(834)	(838)	(1,500)	(1,500)	(1,500)
Free cash flow (FCF)	3,332	(2,701)	2,776	6,861	2,411	2,117	4,557	5,635
Investments	(3,433)	5,032	(1,443)	(5,789)	(4,198)	(3,000)	(3,000)	(3,000)
Non operating income	125	(830)	238	266	820	-	-	-
INVESTING CASH FLOW (b)	**(5,311)**	**2,655**	**(1,685)**	**(6,357)**	**(4,216)**	**(4,500)**	**(4,500)**	**(4,500)**
Share capital Issuance	-	-	-	-	-	-	-	-
Debt Issuance	693	256	(310)	947	762	(3,554)	-	-
Dividend Payment	(824)	(813)	(1,901)	-	(788)	(1,241)	(1,372)	(1,517)
Others	-	-	(28)	(56)	(45)	-	-	-
Interest expenses	(72)	(97)	(85)	(118)	(135)	(327)	(250)	(270)
FINANCING CASH FLOW (c)	**(203)**	**(654)**	**(2,325)**	**772**	**(206)**	**(5,122)**	**(1,622)**	**(1,787)**
NET CASH FLOW (a+b+c)	**(178)**	**847**	**(754)**	**2,110**	**(1,173)**	**(6,005)**	**(65)**	**849**
Other Adjustments	908	(97)	1,824	12,521	(8,684)	-	-	-
Closing Cash & Equivalents	**2,940**	**3,691**	**4,761**	**19,392**	**9,535**	**3,530**	**3,465**	**4,313**

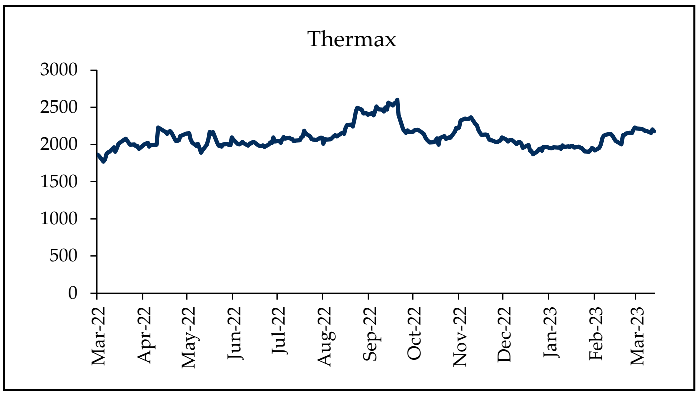
Source: Company, HSIE Research

KEY RATIOS

	FY18	FY19	FY20	FY21	FY22	FY23E	FY23E	FY23E
PROFITABILITY (%)								
GPM	47.4	44.1	46.2	47.0	43.1	41.9	41.9	41.9
EBITDA Margin	9.0	7.7	7.1	7.4	6.9	7.2	8.5	8.6
EBIT Margin	7.1	6.1	5.1	5.0	5.0	5.7	7.2	7.5
APAT Margin	5.2	6.6	3.7	5.1	5.1	5.3	6.3	6.5
RoE	8.8	13.7	7.0	7.8	9.3	11.8	14.6	15.2
Core RoCE	16.4	20.7	9.1	12.7	18.6	24.7	31.0	33.1
RoCE	8.5	13.0	6.8	7.7	9.0	11.9	15.0	15.6
EFFICIENCY								
Tax Rate (%)	39.3	17.0	43.3	20.9	23.9	24.5	25.2	25.2
Asset Turnover (x)	3.1	3.1	3.2	2.6	3.3	4.0	4.3	4.6
Inventory (days)	30	31	29	31	43	43	43	43
Debtors (days)	110	91	94	102	95	95	95	95
Other Current Assets (days)	105	124	75	89	80	63	58	54
Payables (days)	87	86	64	89	90	90	90	90
Other Current Liab (days)	142	121	96	118	111	88	80	75
Net Working Capital Cycle (Days)	**16**	**40**	**39**	**14**	**17**	**24**	**26**	**27**
Debt/EBITDA (x)	0.6	0.5	0.6	0.9	0.8	-	-	-
Net D/E	(0.49)	(0.32)	(0.37)	(0.57)	(0.59)	(0.56)	(0.57)	(0.59)
Interest Coverage	24.8	25.5	19.3	11.7	12.2	14.2	26.8	29.1
PER SHARE DATA								
EPS (Rs/sh)	20.4	34.9	18.9	21.8	27.7	38.3	52.1	60.8
CEPS (Rs/sh)	27.8	43.0	29.2	32.0	37.8	48.6	62.7	71.3
DPS (Rs/sh)								
BV (Rs/sh)	241.1	267.7	268.9	288.8	310.2	337.4	377.3	424.7
VALUATION								
P/E	110.3	64.6	119.5	103.2	81.3	58.9	43.3	37.1
P/BV	9.3	8.4	8.4	7.8	7.3	6.7	6.0	5.3
EV/EBITDA	60.0	53.4	59.7	66.2	55.3	40.0	29.1	25.0
OCF/EV (%)	2.2	(0.5)	1.3	3.3	1.4	1.6	2.6	3.2
FCF/EV (%)	1.4	(1.1)	1.1	2.9	1.0	0.9	2.0	2.5
FCFE/Market Cap (%)	1.6	(1.0)	1.0	3.1	1.2	(0.6)	1.8	2.2
Dividend Yield (%)	-	-	-	-	-	-	-	-

Source: Company, HSIE Research

1 Yr Price movement



Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: >10% Downside return potential

Disclosure:

We, **Parikshit Kandpal, CFA, Manoj Rawat, MBA & Nikhil Kanodia, MBA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.
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