

August 2, 2023

**RESULT REPORT Q1 FY24** | Sector: Capital Goods

# Thermax Ltd

## Green Energy and Chemicals to drive growth

### Our view

Thermax Ltd (TMX) reported a largely in-line set of numbers with a healthy 17% YoY revenue growth at Rs19.3bn led by growth across segments such as Industrial Products (up 26% YoY), Industrial Infra (up 13% YoY), Green Solutions (up 94% YoY) and Chemicals (up 7% YoY). Order inflows came in at Rs25.7bn (up 11% YoY) while the order book as of 1QFY24 stands at Rs105bn (1.3x TTM revenues), providing revenue visibility for 1-2 years. EBITDA margins expanded by ~100bps YoY owing to easing RM pressures. Though the ordering pipeline for large projects has plateaued, management sees decent traction in green energy, water treatment, ZLD, waste to energy, biomass, waste heat recovery, clean air solutions, etc. both in India and globally.

We believe TMX is well placed to capitalize on revival of economic activities in the long run given its 1) strong balance sheet, 2) prudent working capital management, and 3) recent technological tie-ups. The stock is currently trading at 49.8x/39.5x FY24E/25E. With the recent run-up in the stock price, we downgrade it to NEUTRAL (ADD previously) with a revised target price of Rs2,633 valuing the company at 40x FY25E EPS.

### Result Highlights

- Consol sales came in at ~Rs19.3bn (up 17% YoY) (YSLe Rs19.2bn) led by growth across all segments – Industrial products (26% YoY growth), Industrial infra (up 13% YoY), Green solutions (up 94% YoY) and Chemicals (7% YoY growth). (NB: segmental reporting has changed 4QFY23 onwards)
- Gross margins expanded by ~200bps YoY while on a QoQ basis there was a ~50bps contraction to 44.3%
- EBITDA grew by 38% YoY at Rs1.3bn (YSLe: Rs1.4bn) with EBITDA margins expanding by ~100bps YoY at 6.8% while there was a QoQ contraction of ~190bps. EBIT margin for Industrial Infra segment contracted by ~310bps YoY
- Adj PBT grew by 75% YoY supported by a 158% YoY increase in other income
- Adj PAT came in at Rs1.1bn (Rs590mn in 1QFY23), up 88% YoY
- Order inflow came in at Rs25.7bn, a 11% YoY growth
- Order book stood at Rs105bn, up 10% YoY translating into 1.3x TTM revenue

### Exhibit 1: Actual vs Estimate

Rs mn	Actual	Estimate		% variation		Comments
		YSec	Consensus	YSec	Consensus	
Sales	19,330	19,165	19,043	0.9	1.5	Legacy contracts impact margins
EBITDA	1,322	1,388	1,350	(4.7)	(2.0)	
EBITDA margin %	6.8	7.2	7.1	-40 bps	-25 bps	
Adj.Pat	1,106	1,077	1,240	2.7	(10.8)	

Source: Company, YES Sec

Reco	: <b>NEUTRAL</b>
CMP	: Rs 2,602
Target Price	: Rs 2,633
Potential Return	: +1%

### Stock data (as on Aug 2, 2023)

Nifty	19,527
52 Week h/l (Rs)	2729 / 1831
Market cap (Rs/USD mn)	283378 / 3450
Outstanding Shares (mn)	113
6m Avg t/o (Rs mn):	120
Div yield (%):	0.4
Bloomberg code:	TMX IN
NSE code:	THERMAX

### Stock performance



	1M	3M	1Y
Absolute return	14.0%	12.9%	24.4%

### Shareholding pattern (As of Jun'23 end)

Promoter	62.0%
FII+DII	27.9%
Others	4.7%

### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	ADD
Target Price	2,633	2,591

### Δ in earnings estimates

	FY24E	FY25E
EPS (New)	52.3	65.8
EPS (Old)	52.0	64.8
% change	0.6	1.6

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenues	80,898	95,334	112,781
YoY growth (%)	32.0	17.8	18.3
OPM (%)	7.4	8.4	9.0
EPS (Rs)	40.0	52.3	65.8
EPS growth (%)	44.4	30.6	25.9
P/E (x)	65.0	49.8	39.5
EV/EBITDA (x)	48.5	36.4	28.9
Debt/Equity (x)	0.2	0.2	0.3
RoE (%)	9.3	11.2	12.6
RoCE (%)	7.9	9.2	10.1

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## Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)	FY23	FY22	YoY (%)
Revenue	16,545	20,753	20,493	23,108	19,330	16.8	(16.4)	80,898	61,283	32.0
Total Revenues	16,545	20,753	20,493	23,108	19,330	16.8	(16.4)	80,898	61,283	32.0
Expenditure	15,585	19,347	18,882	21,109	18,008	15.5	(14.7)	74,923	57,070	31.3
as % of sales	94.2	93.2	92.1	91.3	93.2			92.6	93.1	
Consumption of RM	9,707	12,323	11,451	12,767	10,774	11.0	(15.6)	46,247	34,850	32.7
as % of sales	58.7	59.4	55.9	55.2	55.7			57.2	56.9	
Employee Cost	2,149	2,367	2,371	2,655	2,558	19.0	(3.6)	9,542	8,129	17.4
as % of sales	13.0	11.4	11.6	11.5	13.2			11.8	13.3	
Other expenditure	3,729	4,657	5,060	5,688	4,676	25.4	(17.8)	19,134	14,090	35.8
as % of sales	22.5	22.4	24.7	24.6	24.2			23.7	23.0	
EBITDA	960	1,406	1,611	1,999	1,322	37.7	(33.9)	5,976	4,214	41.8
Depreciation	286	298	291	294	294	3.0	(0.1)	1,169	1,132	3.2
EBIT	675	1,108	1,320	1,705	1,028	52.3	(39.7)	4,807	3,081	56.0
Other Income	205	398	423	575	531	158.3	(7.7)	1,602	1,270	26.1
Interest	66	80	91	139	134	103.5	(4.0)	376	252	49.3
PBT	815	1,426	1,652	2,140	1,425	74.9	(33.4)	6,033	4,100	47.2
Total Tax	224	332	386	409	315	40.5	(23.0)	1,352	978	38.2
Adjusted PAT	590	1,094	1,267	1,731	1,110	88.0	(35.9)	4,681	3,122	50.0
(Profit)/loss from JV's/Ass/MI	(1)	(2)	(3)	3	(4)	-	-	(2)	-	-
PAT after MI	590	1,091	1,264	1,734	1,106	87.6	(36.2)	4,679	3,122	49.9
Extra ordinary items	-	-	-	-	(506)	-	-	-	-	-
Reported PAT	590	1,091	1,264	1,734	600	1.7	(65.4)	4,679	3,122	49.9
Adjusted EPS	5.2	9.7	11.2	15.4	9.8	87.6	(36.2)	42	28	49.9
<b>Margins (%)</b>	16,545	20,753	20,493	23,108	19,330	16.8	(16.4)			
EBIDTA	16,545	20,753	20,493	23,108	19,330	16.8	(16.4)	7.4	6.9	51
EBIT	15,585	19,347	18,882	21,109	18,008	15.5	(14.7)	5.9	5.0	91
EBT	94.2	93.2	92.1	91.3	93.2			7.5	6.7	77
PAT	9,707	12,323	11,451	12,767	10,774	11.0	(15.6)	5.8	5.1	69
Effective Tax rate	58.7	59.4	55.9	55.2	55.7			22.4	23.9	(145)

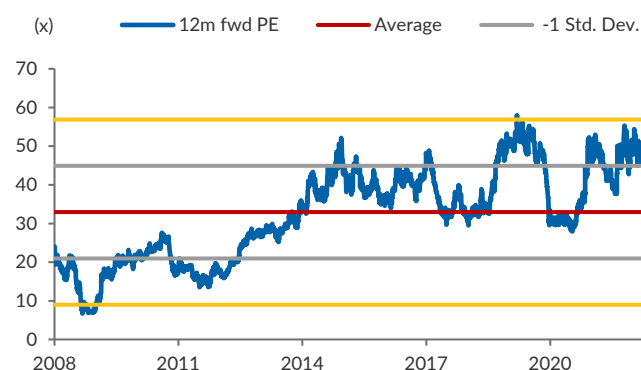
Source: Company, YES Sec

## Exhibit 3: Segmental Revenue

Revenue	Q1FY24	Q1FY23	Q4FY23	YoY (%)	QoQ (%)	FY23	FY22	YoY (%)
Industrial products	8,359	6,628	9,806	26.1	(14.8)	33,375	25,757	29.6
Industrial infra	9,162	8,083	11,602	13.4	(21.0)	39,280	29,879	31.5
Green solutions	1,132	584	850	93.8	33.1	3,627	2,168	67.3
Chemicals	1,608	1,501	1,679	7.1	(4.2)	6,728	5,385	24.9
Less: Intersegment	931	251	828	270.5	12.5	2,113	1,906	10.8
<b>Total</b>	<b>19,330</b>	<b>16,545</b>	<b>23,108</b>	<b>16.8</b>	<b>(16.4)</b>	<b>80,898</b>	<b>61,283</b>	<b>32.0</b>
<b>EBIT</b>								
Industrial products	560	241	1,040	132.2	(46.2)	2,739	1,815	50.9
EBIT margin (%)	6.7	3.6	10.6			8.2	7.0	
Industrial infra	303	503	719	(39.7)	(57.9)	2,168	1,310	65.4
EBIT margin (%)	3.3	6.2	6.2			5.5	4.4	
Green solutions	100	52	17	91.8	475.3	150	161	(7.2)
EBIT margin (%)	8.8	8.9	2.0			4.1	7.4	
Chemicals	265	56	323	374.4	(17.8)	865	624	38.6
EBIT margin (%)	16.5	3.7	19.2			12.8	11.6	

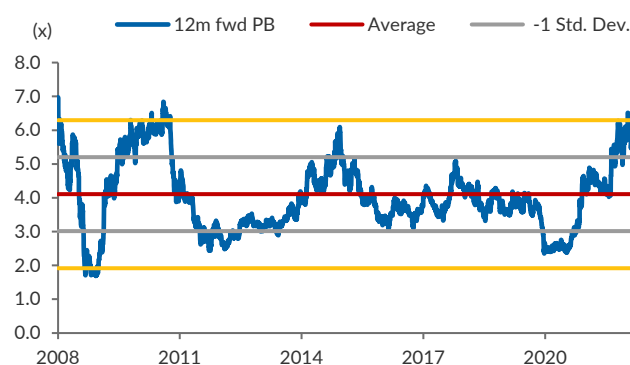
Source: Company, YES Sec

## Exhibit 4: P/E Band



Source: Company, YES Sec

## Exhibit 5: P/B band



Source: Company, YES Sec

## CONCALL HIGHLIGHTS

- Management indicated that the inquiry pipeline for large orders (>Rs5bn) is plateauing, especially in the refineries space. However, the company is seeing decent momentum in medium and small ticket-size orders and will continue to focus on the same until the large order pipeline picks up
- In India the company is very optimistic about the prospects for its new-age businesses on the back of a buoyant macroeconomic situation, growing demand for heating and cooling solutions, wastewater treatment, air pollution control, zero liquid discharge, waste to energy, waste heat recovery, etc. The company also aims to increase its focus on the services aspect which has a superior margin profile and also helps it increase presence in the market
- In the near term the company doesn't expect any significant capex from OMCs. However, in the medium-to-long term it remains bullish on the opportunity pipeline and also expects private players to participate in a meaningful manner
- Margins are expected to be on the upward trajectory in coming quarters as most of the legacy low-margin orders are on the verge of completion and stability in commodity prices. However, employee costs will inch up 2QFY24 onwards as the company has made efforts to arrest the attrition levels in the mid and lower rungs of the organization
- On the exports front there is a bit of slowdown with order inflows and margins declining on a YoY basis in both the Danstoker and Indonesia subsidiaries. While the FY24 ordering pipeline for Danstoker is very promising, the same for Indonesia may remain flat at FY23 levels
- The company highlighted a worrying aspect in the form of Chinese participation in major cement projects which does not bode well for domestic players
- In light of a tapering large order pipeline, the company will continue to invest in new products and solutions and keep investing in adjacencies. In the water business, it expects robust opportunities from desalination in the medium to long term
- The subsidiary FEPL has already commissioned a 45 MW hybrid solar and wind power plant in Gujarat and is executing similar projects in Maharashtra, Tamil Nadu, etc. Going forward it also plans to foray into energy storage solutions as well

### Segment-wise

- **Industrial Products:** Revenue grew by 26% YoY. Order inflows grew by 5% YoY. Order backlog remains strong at Rs33.4bn. The adverse impact of commodity inflation is already waning and margin contraction was largely due to losses reported by international subsidiaries
- **Industrial Infra:** Revenue grew by 13% YoY. Order inflows grew by 14% YoY. Order backlog is at Rs63.8bn. Margin pressures are expected to ease and the international pipeline is in excess of Rs20bn
- **Green solutions:** Revenue grew by 94% YoY. Order inflows grew by 152% YoY. Order backlog is at Rs6.7bn. TOESL and FEPL have a combined debt burden of Rs5bn. Equity infusion towards FEPL would be to the tune of ~Rs2.5bn and for TOESL it would be ~Rs650mn
- **Chemicals:** Revenue grew by 7% YoY. Order inflows grew by 7% YoY. Order backlog stands at Rs1.1bn. Order inflows and volume growth were muted vis a vis management expectations however the company will continue to invest in adding capacity and new products as it sees Chemicals as a long-term growth driver

## FINANCIALS

### Exhibit 6: Balance Sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
<b>Sources of Funds</b>					
Equity capital	225	225	225	225	225
Reserves	32,289	34,700	38,456	42,918	48,538
Minority Int.	0	0	22	0	0
Net worth	32,514	34,925	38,681	43,144	48,763
Debt	3,279	3,677	8,105	10,105	13,105
Deferred tax liab (net)	(1,540)	(1,271)	(1,057)	(1,057)	(1,057)
<b>Total liabilities</b>	<b>34,253</b>	<b>37,331</b>	<b>45,751</b>	<b>52,192</b>	<b>60,811</b>
<b>Application of Funds</b>					
<b>Gross Block</b>	<b>19,878</b>	<b>20,067</b>	<b>21,192</b>	<b>24,192</b>	<b>29,342</b>
Depreciation	7,777	8,525	9,033	10,605	12,513
<b>Fixed Asset</b>	<b>12,451</b>	<b>11,947</b>	<b>12,482</b>	<b>13,909</b>	<b>17,152</b>
CWIP	211	443	4,338	4,338	4,338
Investments	2,345	14,765	16,261	20,020	23,684
Net Working Capital	19,246	10,175	12,670	13,925	15,637
Inventories	4,047	7,270	7,556	8,619	9,888
Sundry debtors	13,380	15,972	18,766	23,507	27,809
Cash & equivalents	19,392	9,535	11,316	12,294	13,579
Loans & Advances	5,246	6,733	7,409	10,677	12,631
Other Current Asset	6,386	6,643	9,173	10,677	12,631
Sundry creditors	11,710	15,074	15,286	23,507	27,809
Provisions	2,210	2,392	2,421	3,813	4,511
Other current liabilities	15,286	18,512	23,842	24,530	28,581
<b>Total Assets</b>	<b>34,253</b>	<b>37,331</b>	<b>45,751</b>	<b>52,192</b>	<b>60,811</b>

Source: Company, YES Sec

## Exhibit 7: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	47,913	61,283	80,898	95,334	112,781
% Change YoY	(16.4)	27.9	32.0	17.8	18.3
Operating profit	3,552	4,214	5,976	7,999	10,139
EBITDA margins	7.4	6.9	7.4	8.4	9.0
% Change YoY	(12.6)	18.6	41.8	33.9	26.8
Depreciation	1,146	1,132	1,169	1,573	1,907
EBIT	2,406	3,081	4,807	6,426	8,232
EBIT margins	5.0	5.0	5.9	6.7	7.3
Interest expense	206	252	376	470	587
Other income	1,077	1,270	1,602	1,907	2,256
Profit before tax	3,277	4,100	6,033	7,863	9,900
Taxes	686	978	1,524	1,975	2,487
Effective tax rate (%)	20.9	23.9	25.3	25.1	25.1
Net profit	2,591	3,122	4,509	5,888	7,413
Minorities and other	0	0	0	0	0
Net profit after minorities	2,591	3,122	4,509	5,888	7,413
Exceptional items	(525)	1	(2)	0	0
Net profit	2,066	3,123	4,507	5,888	7,413
% Change YoY	(2.8)	20.5	44.4	30.6	25.9
EPS (Rs)	23.0	27.7	40.0	52.3	65.8

Source: Company, YES Sec

## Exhibit 8: Cash flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before Tax	2,752	4,100	6,033	7,863	9,900
Interest	118	135	260	470	587
Depreciation	1,017	995	1,169	1,573	1,907
Other Items	12	(947)	(726)	(1,907)	(2,256)
(Inc)/Dec in WC	4,734	(5)	(628)	(276)	(428)
Direct Taxes Paid	938	1,030	1,512	1,975	2,487
CF from Oper. Activity	7,695	3,247	4,596	5,747	7,224
(Inc)/Dec in FA	834	838	6,499	3,000	5,150
Free Cash Flow	6,861	2,409	(1,904)	2,747	2,074
(Pur)/Sale of Invest.	(7,191)	(5,054)	(13,296)	(7,853)	(11,708)
CF from Inv. Activity	(6,357)	(4,216)	(6,797)	(4,853)	(6,558)
Change in Network	-	-	-	-	-
Inc/(Dec) in Debt	947	762	4,481	2,000	3,000
Interest Paid	(118)	(135)	(256)	(470)	(587)
Dividends Paid	-	(788)	(1,021)	(1,425)	(1,794)
Others	(56)	(45)	281	(22)	(0)
CF from Fin. Activity	772	(206)	3,485	84	619
Inc/(Dec) in Cash	2,110	(1,175)	1,284	978	1,285
Opening cash Balance	1,990	4,188	3,034	4,528	5,507
Others	88	21	159	-	-
Closing cash Balance	4,188	3,034	4,477	5,507	6,792

Source: Company, YES Sec

## Exhibit 9: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	2.8	2.4	2.4	2.4	2.5
Interest burden (x)	0.3	0.3	0.3	0.3	0.3
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	1.4	1.6	1.8	1.8	1.9
Financial leverage (x)	1.1	1.1	1.2	1.2	1.2
RoE (%)	5.9%	6.7%	9.3%	11.2%	12.6%

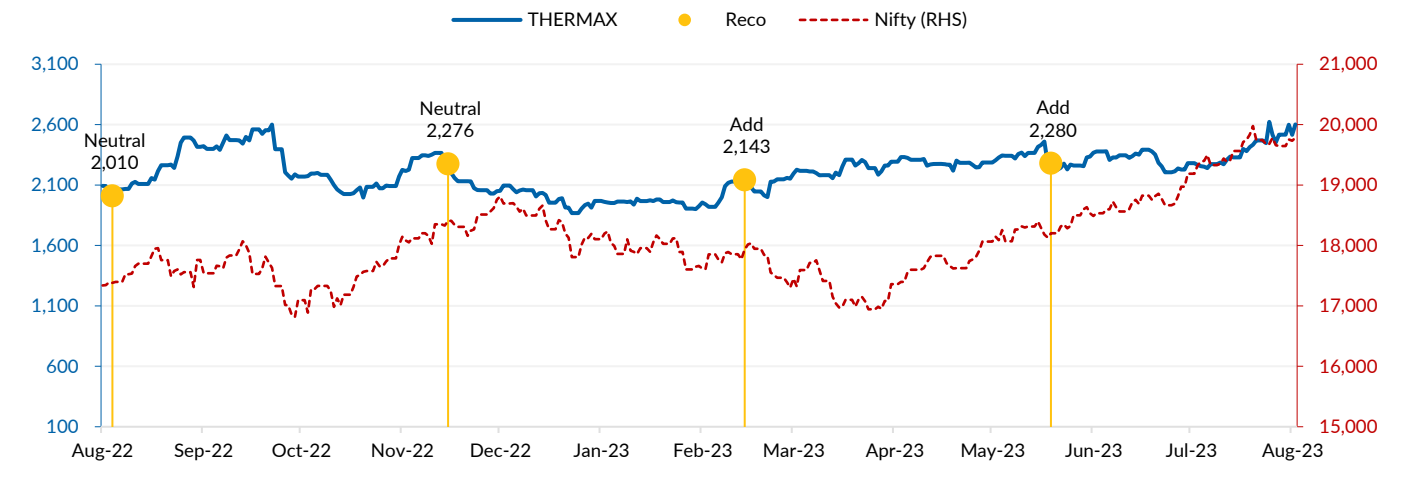
Source: Company, YES Sec

## Exhibit 10: Ratio Analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (Rs)</b>					
EPS	23.0	27.7	40.0	52.3	65.8
Dividend per share	5.6	9.0	10.0	12.7	15.9
Cash EPS	33.2	37.8	50.4	66.3	82.8
Book value per share	288.8	310.2	343.7	383.2	433.1
Div. payout (%)	30.4	32.4	25.0	24.2	24.2
<b>Valuation ratios (x)</b>					
P/E	113.1	93.9	65.0	49.8	39.5
P/CEPS	78.4	68.9	51.6	39.3	31.4
P/B	9.0	8.4	7.6	6.8	6.0
EV/EBIDTA	78.0	68.1	48.5	36.4	28.9
Dividend yield (%)	0.2	0.3	0.4	0.5	0.6
<b>Profitability Ratios (%)</b>					
RoIC	5.6	8.4	10.1	11.9	13.1
RoE	5.9	6.7	9.3	11.2	12.6
RoCE	5.6	6.3	7.9	9.2	10.1
<b>Liquidity ratios</b>					
Debtor (days)	102	95	85	90	90
Inventory (days)	31	43	34	33	32
Creditor (days)	89	90	69	90	90
Net working Capital (days)	(1)	4	6	6	7
Asset Turnover (x)	1.4	1.6	1.8	1.8	1.9

Source: Company, YES Sec

## Recommendation Tracker





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### YES Securities (India) Limited

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Website: www.yesinvest.in

**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single  
Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member  
Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL &  
NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 |  
RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER:  
INA000007331 | Sponsor and Investment Manager to YSL Alternates  
Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 |  
AMFI ARN Code - 94338.

**Details of Compliance Officer:** Name: Aditya Goenka,  
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**Grievances Redressal Cell:** customer.service@ysil.in/igc@ysil.in

## DISCLOSURE OF INTEREST

Name of the Research Analyst : Harsh Tewaney

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

## ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.