Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Thermax (TMX IN)

Rating: REDUCE | CMP: Rs4,609 | TP: Rs3,923

May 13, 2024

Q4FY24 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	REDUCE		UNDER REVIEW	
Target Price	3,923		-	
Sales (Rs. m)	1,09,730	1,22,361	1,05,330	1,19,151
% Chng.	*4.2*	*2.7*		
EBITDA (Rs. m)	10,028	11,732	9,415	11,186
% Chng.	*6.5*	*4.9*		
EPS (Rs.)	64.0	75.8	61.3	73.1
% Chng.	*4.4*	*3.6*		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	80,898	93,235	1,09,730	1,22,361
EBITDA (Rs. m)	5,976	7,974	10,028	11,732
Margin (%)	*7.4*	*8.6*	*9.1*	*9.6*
PAT (Rs. m)	4,507	6,628	7,203	8,531
EPS (Rs.)	40.0	58.9	64.0	75.8
Gr. (%)	*44.3*	*47.1*	*8.7*	*18.4*
DPS (Rs.)	10.6	12.7	19.8	23.5
Yield (%)	*0.2*	*0.3*	*0.4*	*0.5*
RoE (%)	*12.2*	*16.0*	*15.4*	*16.3*
RoCE (%)	*11.2*	*12.5*	*13.3*	*13.9*
EV/Sales (x)	6.2	5.5	4.7	4.2
EV/EBITDA (x)	84.0	63.8	51.1	43.6
PE (x)	115.2	78.3	72.1	60.8
P/BV (x)	13.4	11.7	10.5	9.4

Key Data	THMX.BO | TMX IN
52-W High / Low	Rs.4,980 / Rs.2,192
Sensex / Nifty	72,776 / 22,104
Market Cap	Rs.549bn/ $ 6,575m
Shares Outstanding	119m
3M Avg. Daily Value	Rs.668.27m

Shareholding Pattern (%)

Promoter's	61.99
Foreign	12.24
Domestic Institution	15.82
Public & Others	9.95
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.4	58.9	94.8
Relative	3.5	41.8	66.1

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Decent quarter; slightly soft order inflows

Quick Pointers:

- Order book stands at ~Rs101.1bn (1.1x TTM revenue) diversified across sectors.
- Green Solutions PBT loss came in at Rs40mn in Q4FY24 versus Rs30mn YoY.

We revise our FY25/FY26E EPS by +4.4%/+3.6% factoring in strong traction in Green Solutions. Thermax (TMX) reported 19.6% YoY revenue growth with EBITDA margin rising 123bps YoY to 9.9%. Although large orders were soft, order enquiries remain robust across steel, chemical, F&B and biofuel. Meanwhile, international order pipeline has improved this year against previous years. Water business continues to see growth opportunities in desalination, effluent water treatment etc. In Chemicals segment, TMX is expanding into new customer segments while continuing to add new capabilities. Bio-CNG faced certain technical setbacks in rice straw feedstock based projects which might take a few quarters to resolve.

We believe TMX is well placed to gain from increasing thrust on energy transition & de-carbonization initiatives led by its 1) sustainable green industrial solutions in bio-energy, heating & cooling, chemicals, and water, 2) technical expertise, and 3) strong balance sheet & prudent working capital management. We roll forward to FY26 and re-assign 'Reduce' rating with a revised SoTP derived TP of Rs3923 (Rs3017 earlier), valuing the core business (ex. Green Solutions) at a P/E of 50x FY26E.

Healthy operating performance drives margin up: Consolidated revenue rose 19.6% YoY to Rs27.6bn (PLe: Rs26.7bn) driven by growth in Industrial Products, Industrial Infra and Green Solutions. Industrial products revenue grew 23.1% YoY to Rs12.1bn; Industrial Infra grew 16.9% YoY to Rs13.6bn; Green Solutions grew 71.5% YoY to Rs1.2bn; Chemicals fell 8.2% YoY Rs1.5bn. Gross margin fell 169bps YoY to 43.1% (PLe: 44.6%). EBITDA rose 36.6% YoY to Rs2.7bn (PLe: Rs2.4bn). EBITDA margin expanded by 123bps YoY to 9.9% (PLe: 8.9%) as relatively lower other expenses (down 288bps YoY as a % of sales) partly offset the gross margin decline. Industrial Products margin came in at 11.7% (+105bps YoY); Industrial Infra margin dipped to 6.1% (-12bps YoY); Green Solutions margin jumped to 9.2% (vs 2.0% in Q4FY23); Chemicals margin was flat at 19.2%. PAT rose 20.1% YoY to Rs1.9bn (PLe: Rs1.8bn), led by a strong operating performance which was partly offset by interest costs doubling YoY Rs278mn and a spike in depreciation & amortization (+69.4% YoY to Rs499mn).

Strong order book stands at Rs101.1bn: Order inflow came in at Rs23.1bn (+2.4% YoY), led by Industrial Infra, while Industrial Products and Green Solutions inflows were lower due to delayed finalization and deferment of orders. Order book stands at Rs101.1bn (1.1x TTM revenue), mainly consisting of Metals & Steel (18%), F&B (14%), Cement (12%), and Fertilizer & Agro (11%).

Exhibit 1: Healthy operating performance drive PAT growth, partly offset by higher interest costs

Y/e March (Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY gr. (%)	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Revenue	**23,108**	**19,330**	**23,025**	**23,244**	**27,637**	***19.6***	***18.9***	**93,235**	**80,898**	***15.2***
Total Revenues	**23,108**	**19,330**	**23,025**	**23,244**	**27,637**	***19.6***	***18.9***	**93,235**	**80,898**	***15.2***
Expenditure	**21,109**	**18,008**	**20,978**	**21,369**	**24,905**	***18.0***	***16.5***	**85,261**	**74,923**	***13.8***
as % of sales	*91.3*	*93.2*	*91.1*	*91.9*	*90.1*			*91.4*	*92.6*	
Consumption of RM	12,767	10,774	12,805	12,880	15,736	*23.3*	*22.2*	52,196	46,247	*12.9*
as % of sales	*55.2*	*55.7*	*55.6*	*55.4*	*56.9*			*56.0*	*57.2*	
Employee Cost	2,655	2,558	2,843	2,920	3,162	*19.1*	*8.3*	11,483	9,553	*20.2*
as % of sales	*11.5*	*13.2*	*12.3*	*12.6*	*11.4*			*12.3*	*11.8*	
Other expenditure	5,688	4,676	5,330	5,569	6,007	*5.6*	*7.9*	21,582	19,123	*12.9*
as % of sales	*24.6*	*24.2*	*23.2*	*24.0*	*21.7*			*23.1*	*23.6*	
EBITDA	**1,999**	**1,322**	**2,046**	**1,874**	**2,732**	***36.6***	***45.7***	**7,974**	**5,975**	***33.4***
Depreciation	294	294	330	358	499	*69.4*	*39.2*	1,481	1,169	*26.7*
EBIT	**1,705**	**1,028**	**1,717**	**1,516**	**2,233**	***31.0***	***47.3***	**6,493**	**4,807**	***35.1***
Other Income	575	531	659	584	553	*(3.9)*	*(5.4)*	2,326	1,602	*45.2*
Interest	139	134	198	266	278	*99.8*	*4.5*	876	376	*133.0*
Extra ordinary items	-	(506)	-	1,261	-	-	-	755	-	-
PBT	**2,140**	**919**	**2,177**	**3,095**	**2,507**	***17.1***	***(19.0)***	**8,698**	**6,033**	***44.2***
Total Tax	581	315	589	721	633	*8.8*	*(12.2)*	2,258	1,524	*48.2*
Profit/(loss) from JVs	3	(4)	(3)	(3)	2			(8)	(2)	-
Reported PAT	**1,562**	**600**	**1,586**	**2,371**	**1,876**	***20.1***	***(20.9)***	**6,432**	**4,507**	***42.7***
Adjusted PAT	**1,562**	**932**	**1,586**	**1,403**	**1,876**	***20.1***	***33.7***	**5,873**	**4,507**	***30.3***
Adjusted EPS	**13.1**	**8.2**	**14.1**	**12.8**	**16.7**	***27.1***	***30.6***	**49.3**	**37.8**	***30.3***

Source: Company, PL

Exhibit 2: Healthy growth in Industrial Products, Industrial Infra and Green Solutions; Green Solutions margin expands

Segment Performance	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY gr. (%)	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Revenue (Rs mn)										
Industrial Products	9,806	8,359	9,894	10,226	12,074	*23.1*	*18.1*	40,552	33,375	*21.5*
Industrial Infra	11,602	9,162	10,851	10,974	13,565	*16.9*	*23.6*	44,552	39,280	*13.4*
Green Solutions	850	1,132	1,246	1,235	1,458	*71.5*	*18.1*	5,071	3,627	*39.8*
Chemical	1,679	1,608	1,879	1,606	1,541	*(8.2)*	*(4.0)*	6,634	6,728	*(1.4)*
EBIT (Rs mn)										
Industrial Products	1,040	560	988	1,015	1,407	*35.3*	*38.7*	3,970	2,739	*44.9*
Industrial Infra	719	303	573	389	825	*14.7*	*112.0*	2,089	2,168	*(3.6)*
Green Solutions	17	100	80	133	137	*684.5*	*2.6*	449	150	*200.4*
Chemical	323	265	345	331	296	*(8.2)*	*(10.5)*	1,238	865	*43.2*
EBIT margin (%)										
Industrial Products	10.6	6.7	10.0	9.9	11.7	*105*	*173*	9.8	8.2	*158*
Industrial Infra	6.2	3.3	5.3	3.5	6.1	*(12)*	*254*	4.7	5.5	*(83)*
Green Solutions	2.0	8.8	6.4	10.8	9.4	*731*	*(142)*	8.9	4.1	*474*
Chemical	19.2	16.5	18.4	20.6	19.2	*0*	*(138)*	18.7	12.8	*581*

Source: Company, PL

Exhibit 3: Green Solutions business includes subsidiaries TOESL and FEPL

	FY26E (Rs mn)	Valuation basis	Target multiple (X)	Target Value (Rs mn)	Value/ Share
Core Business PAT	9,074	P/E	50	453,693	3,808
Green Solutions BV	2,740	P/B	5	13,699	115
Total Target (Rs mn)				**467,392**	**3,923**

Source: Company, PL

Conference Call Highlights

- **Order inflows were softer than expected** entirely due to lower large orders. Despite the current environment for larger orders, pipeline has built up and traction is expected in H1FY25. Sugarcane waste based Ethanol distillery business has seen some slowdown; waiting on policy continuity and rains. Healthy enquiry inflow is seen from steel, chemical and F&B sectors. Biofuel sector order enquiries continue to trend upwards while international pipeline has improved versus past couple of years.

- **Industrial Infra:** Profitability should improve in FY25. FGD projects revenue is expected to be ~Rs6bn. Although FGD margins have a dilutive effect on the overall margin, an improvement is expected in FY25. Sulphur recovery is also expected to have good revenue booking in FY25.

- **Bio-CNG:** Faced more technical setbacks than expected while using rice straw as feedstock which resulted in losses. Company has invested heavily to rectify these setbacks and refrained from booking new orders till issues are resolved.

- **Industrial Products:** Water business to be a key growth driver for the segment with opportunities present in desalination, effluent water treatment (MVR, ZLD, etc.) while the company continues to add new technologies.

- **THVAC:** Receiving positive customer feedback, but underperformed due to technical issues during the retrofitting process. The company is focused on improving the HVAC system from an engineering perspective.

- **Green Solutions:** Biofuel enquiry pipeline continues to remain robust. Management's focus is on commissioning and mitigation of technical risks of projects. Segment's profitability to be supported by market leading position of TOESL in biomass business while FEPL business will likely incur losses for the next 2 years before turning profitable.

- **Chemical:** Rs100-200mn of revenue was not recognized in Q4 as inventory was stuck in transit to USA due to longer shipping times. Although the segment has not met internal targets, Q1FY25 is expected to be better. TMX is putting up a new plant and continues to add to capabilities and customer segments.

- **Super and Ultrasuper critical thermal utility projects**, thermal utility projects have become less standardized, and Thermax does not yet meet the requirements. Due to the uncertainty of earnings from these projects, the company is currently refraining from taking on large-scale projects.

- **Outlook:** Margin stability is expected to continue from recent quarters given the effective management of commodity costs.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	**80,898**	**93,235**	**1,09,730**	**1,22,361**
YoY gr. (%)	*32.0*	*15.2*	*17.7*	*11.5*
Cost of Goods Sold	46,247	52,196	59,541	65,844
Gross Profit	34,651	41,039	50,189	56,516
Margin (%)	*42.8*	*44.0*	*45.7*	*46.2*
Employee Cost	9,553	11,483	13,497	15,050
Other Expenses	6,751	8,250	10,754	11,991
EBITDA	**5,976**	**7,974**	**10,028**	**11,732**
YoY gr. (%)	*41.8*	*33.4*	*25.8*	*17.0*
Margin (%)	*7.4*	*8.6*	*9.1*	*9.6*
Depreciation and Amortization	1,169	1,481	1,888	2,026
EBIT	**4,807**	**6,493**	**8,139**	**9,706**
Margin (%)	*5.9*	*7.0*	*7.4*	*7.9*
Net Interest	376	876	1,104	1,314
Other Income	1,602	2,326	2,634	3,059
Profit Before Tax	**6,033**	**8,698**	**9,668**	**11,451**
Margin (%)	*7.5*	*9.3*	*8.8*	*9.4*
Total Tax	1,524	2,258	2,465	2,920
Effective tax rate (%)	*25.3*	*26.0*	*25.5*	*25.5*
Profit after tax	**4,509**	**6,440**	**7,203**	**8,531**
Minority interest	-	-	-	-
Share Profit from Associate	(2)	(8)	-	-
Adjusted PAT	**4,507**	**6,628**	**7,203**	**8,531**
YoY gr. (%)	*44.3*	*47.1*	*8.7*	*18.4*
Margin (%)	*5.6*	*7.1*	*6.6*	*7.0*
Extra Ord. Income / (Exp)	-	559	-	-
Reported PAT	**4,507**	**7,187**	**7,203**	**8,531**
YoY gr. (%)	*44.3*	*59.5*	*0.2*	*18.4*
Margin (%)	*5.6*	*7.7*	*6.6*	*7.0*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,507	7,187	7,203	8,531
Equity Shares O/s (m)	**113**	**113**	**113**	**113**
EPS (Rs)	**40.0**	**58.9**	**64.0**	**75.8**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	**21,192**	**29,259**	**30,459**	**31,659**
Tangibles	21,192	29,259	30,459	31,659
Intangibles	-	-	-	-
Acc: Dep / Amortization	**9,033**	**10,514**	**12,402**	**14,428**
Tangibles	9,033	10,514	12,402	14,428
Intangibles	-	-	-	-
Net fixed assets	**12,160**	**18,745**	**18,056**	**17,230**
Tangibles	12,160	18,745	18,056	17,230
Intangibles	-	-	-	-
Capital Work In Progress	4,660	5,564	5,564	5,564
Goodwill	-	-	-	-
Non-Current Investments	4,212	6,409	8,964	10,622
Net Deferred tax assets	1,057	963	963	963
Other Non-Current Assets	4,322	3,740	6,035	6,730
Current Assets				
Investments	13,929	13,635	14,135	15,135
Inventories	7,556	7,649	11,123	12,404
Trade receivables	18,766	22,671	25,554	28,495
Cash & Bank Balance	11,316	9,753	7,820	11,050
Other Current Assets	4,851	6,641	6,255	6,607
Total Assets	**87,300**	**1,00,445**	**1,09,903**	**1,20,848**
Equity				
Equity Share Capital	225	225	225	225
Other Equity	38,456	44,173	49,143	55,029
Total Networth	**38,681**	**44,398**	**49,368**	**55,255**
Non-Current Liabilities				
Long Term borrowings	4,373	8,059	8,462	8,885
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,933	4,715	7,312	9,889
Trade payables	15,286	15,810	22,848	25,478
Other current liabilities	26,063	28,425	22,875	22,304
Total Equity & Liabilities	**87,300**	**1,00,445**	**1,09,903**	**1,20,848**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	6,033	8,698	9,668	11,451
Add. Depreciation	1,169	1,481	1,888	2,026
Add. Interest	260	837	1,104	1,314
Less Financial Other Income	1,602	2,326	2,634	3,059
Add. Other	(751)	(1,213)	(2,634)	(3,059)
Op. profit before WC changes	6,711	9,802	10,028	11,732
Net Changes-WC	(628)	(4,760)	(1,701)	(3,095)
Direct tax	1,512	1,863	2,465	2,920
Net cash from Op. activities	**4,570**	**3,179**	**5,861**	**5,717**
Capital expenditures	(8,059)	(2,955)	(1,200)	(1,200)
Interest / Dividend Income	696	872	2,634	3,059
Others	567	(3,009)	(3,198)	(2,400)
Net Cash from Invt. activities	**(6,797)**	**(5,092)**	**(1,764)**	**(541)**
Issue of share cap. / premium	-	-	-	-
Debt changes	4,481	4,306	3,000	3,000
Dividend paid	(1,021)	(1,128)	(2,233)	(2,645)
Interest paid	(256)	(821)	(1,104)	(1,314)
Others	281	(101)	(5,693)	(987)
Net cash from Fin. activities	**3,485**	**2,257**	**(6,030)**	**(1,946)**
Net change in cash	**1,259**	**343**	**(1,933)**	**3,230**
Free Cash Flow	(2,072)	(5,260)	4,661	4,517

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	40.0	58.9	64.0	75.8
CEPS	50.4	72.0	80.7	93.8
BVPS	343.5	394.3	438.4	490.7
FCF	(18.4)	(46.7)	41.4	40.1
DPS	10.6	12.7	19.8	23.5
Return Ratio(%)				
RoCE	11.2	12.5	13.3	13.9
ROIC	20.5	16.8	15.5	16.7
RoE	12.2	16.0	15.4	16.3
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.2)	(0.1)	(0.1)
Net Working Capital (Days)	50	57	46	46
Valuation(x)				
PER	115.2	78.3	72.1	60.8
P/B	13.4	11.7	10.5	9.4
P/CEPS	91.4	64.0	57.1	49.2
EV/EBITDA	84.0	63.8	51.1	43.6
EV/Sales	6.2	5.5	4.7	4.2
Dividend Yield (%)	0.2	0.3	0.4	0.5

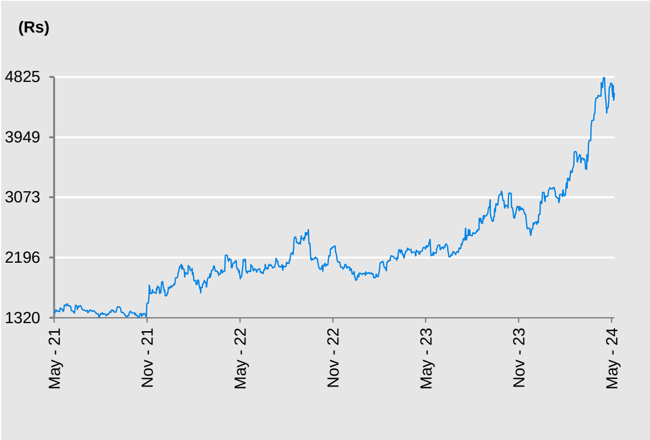
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	**19,330**	**23,025**	**23,244**	**27,637**
YoY gr. (%)	*16.8*	*10.9*	*13.4*	*19.6*
Raw Material Expenses	10,774	12,805	12,880	15,736
Gross Profit	8,556	10,219	10,363	11,901
Margin (%)	*44.3*	*44.4*	*44.6*	*43.1*
EBITDA	**1,322**	**2,046**	**1,874**	**2,732**
YoY gr. (%)	*37.7*	*45.6*	*16.4*	*36.6*
Margin (%)	*6.8*	*8.9*	*8.1*	*9.9*
Depreciation / Depletion	294	330	358	499
EBIT	**1,028**	**1,717**	**1,516**	**2,233**
Margin (%)	*5.3*	*7.5*	*6.5*	*8.1*
Net Interest	134	198	266	278
Other Income	531	659	584	553
Profit before Tax	**919**	**2,177**	**1,834**	**2,507**
Margin (%)	*4.8*	*9.5*	*7.9*	*9.1*
Total Tax	315	589	721	633
Effective tax rate (%)	*34.3*	*27.0*	*39.3*	*25.2*
Profit after Tax	**603**	**1,589**	**1,113**	**1,874**
Minority interest	-	-	-	-
Share Profit from Associates	(4)	(3)	(3)	2
Adjusted PAT	**932**	**1,586**	**1,109**	**1,876**
YoY gr. (%)	*58.1*	*45.3*	*(12.2)*	*20.1*
Margin (%)	*4.8*	*6.9*	*4.8*	*6.8*
Extra Ord. Income / (Exp)	(333)	-	-	-
Reported PAT	**600**	**1,586**	**1,109**	**1,876**
YoY gr. (%)	*1.7*	*45.3*	*(12.2)*	*20.1*
Margin (%)	*3.1*	*6.9*	*4.8*	*6.8*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**600**	**1,586**	**1,109**	**1,876**
Avg. Shares O/s (m)	119	119	119	119
EPS (Rs)	**7.8**	**13.3**	**9.3**	**15.7**

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Apr-24	UR	-	4,550
2	13-Feb-24	Reduce	3,017	3,319
3	09-Jan-24	Hold	2,771	3,200
4	18-Dec-23	Hold	2,771	2,822
5	06-Nov-23	Hold	2,771	2,895
6	05-Oct-23	Hold	2,613	3,101
7	23-Aug-23	Hold	2,613	2,721
8	02-Aug-23	Hold	2,613	2,602
9	06-Jul-23	BUY	2,613	2,240
10	18-May-23	BUY	2,613	2,280

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	5,331	6,645
2	Apar Industries	Accumulate	6,564	7,153
3	BEML	BUY	3,345	3,465
4	Bharat Electronics	Hold	182	229
5	BHEL	UR	-	263
6	Carborundum Universal	Accumulate	1,631	1,516
7	Cummins India	Hold	2,480	3,001
8	Engineers India	Hold	257	223
9	GE T&D India	UR	-	930
10	Grindwell Norton	Accumulate	2,512	2,196
11	Harsha Engineers International	Accumulate	441	412
12	Hindustan Aeronautics	Hold	2,787	3,565
13	Kalpataru Projects International	Hold	1,211	1,188
14	KEC International	Hold	750	737
15	Larsen & Toubro	BUY	4,047	3,487
16	Praj Industries	BUY	636	520
17	Siemens	Accumulate	4,617	5,570
18	Thermax	UR	-	4,550
19	Triveni Turbine	BUY	532	555
20	Voltamp Transformers	Hold	10,018	9,985

PL's Recommendation Nomenclature (Absolute Performance)

Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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