

HOLD

TP: Rs 3,000 | ▲ 2%

THERMAX

| Capital Goods

| 06 November 2023

Sound operations, measured commentary

- Q2 operating performance strong with 210bps YoY margin expansion, half of which management believes is sustainable
- Guidance on order pipeline measured; new energy investments to continue
- TP raised to Rs 3,000 (vs. Rs 2,600) upon rollover and hike in FY24/FY25 EPS by 12%/9%; retain HOLD

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Strong operating performance: TMX reported topline growth of 11% YoY to Rs 23bn, with gross and EBITDA margin expansion of 380bps and 210bps YoY to 44.4% and 8.9% respectively. Management expects only half of the operating margin gains to sustain as employee costs will trend upward now that a large project is nearly complete. Adj. PAT rose 45% YoY to Rs 1.6bn during the quarter, largely due to operational leverage.

Industrial segment shines: The industrial infrastructure and industrial products segments – together ~90% of sales – delivered robust topline growth of 18% YoY and 13% YoY respectively, while the green solutions and chemical businesses declined. On the EBIT margin front, all segments clocked expansion YoY.

Order pipeline commentary measured: Order inflow stood at Rs 19.7bn for the quarter, a slight dip of 2% YoY, with TMX indicating that one key order worth Rs 3bn-4bn will spill into H2FY24. The company closed Q2 with a Rs 102.6bn order book (+8.2% YoY), of which the power and metals segments accounted for more than a quarter. Management continues to see enquiries across most end-customer segments, except for refining and petrochemicals where it anticipates a lull in ordering for 4-5 quarters followed by a pickup.

Investments continue in new energy initiatives: TMX continues to invest in the solar business under subsidiary FEPL and in biomass-to-hydrogen under TOESL, though these will take time to evolve. It has invested Rs 2.5bn so far in these entities. Management plans to cap its equity at Rs 7bn-8bn in both subsidiaries and expects the two entities to take on combined debt of Rs 15bn-20bn without recourse to TMX’s balance sheet.

Retain HOLD: We increase our FY24/FY25 EPS forecasts by 12%/9% on better profitability in H1FY24 and a positive outlook. On rolling valuations forward to Sep’25E, we have a revised TP of Rs 3,000 (earlier Rs 2,600). Our TP is set at an unchanged 40x P/E multiple, in line with the stock’s 5Y average.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TMX IN/Rs 2,941
Market cap	US\$ 4.3bn
Free float	32%
3M ADV	US\$ 2.2mn
52wk high/low	Rs 3,230/Rs 1,831
Promoter/FPI/DII	62%/12%/16%

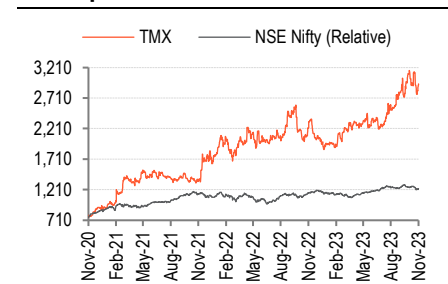
Source: NSE | Price as of 3 Nov 2023

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)	77.8	58.6	45.0
EV/EBITDA (x)	59.6	46.4	38.0
Adj. EPS growth (%)	44.3	32.7	30.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue	23,025	20,753	10.9	19,330	19.1	42,354	37,297	13.6
EBITDA	2,046	1,406	45.6	1,322	54.8	3,368	2,366	42.4
EBITDA Margin (%)	8.9	6.8	211bps	6.8	205bps	8.0	6.3	161bps
Depreciation	330	298	10.6	294	12.1	624	584	6.9
Interest	198	80	148.1	134	48.1	332	146	128.0
Other Income	659	398	65.4	531	24.1	1,189	604	97.0
PBT	2,177	1,426	52.7	1,425	52.8	3,602	2,241	60.8
Tax	589	332	77.1	315	86.8	904	557	62.4
Adjusted PAT	1,586	1,091	45.3	1,106	43.4	2,698	1,684	60.2
Exceptional item	0	0		506		506		
Reported PAT	1,586	1,091	45.3	600	164.6	2,162	1,681	28.6
Adj. PATM (%)	6.9	5.3	163bps	5.7	117bps	6.4	4.5	186bps
EPS (Rs)	14.1	9.7	45.3	9.9	43.1	23.96	14.95	60.2

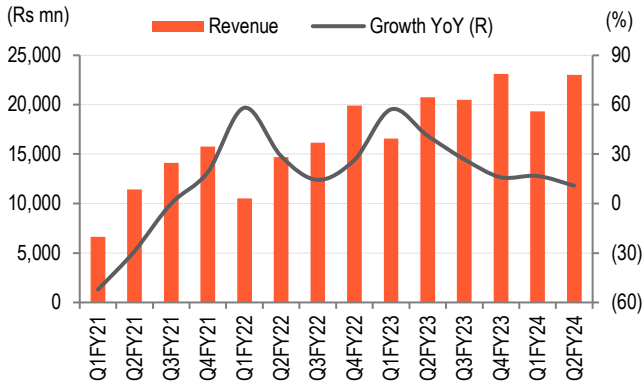
Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue								
Industrial Products	9,894	8,383	18.0	8,359	18.4	18,276	15,011	21.8
Industrial Infrastructure	10,851	9,590	13.1	9,162	18.4	20,440	17,673	15.7
Green Solutions	1,246	1,347	(7.5)	1,132	10.1	2,593	1,931	34.3
Chemicals	1,879	1,904	(1.3)	1,608	16.9	3,783	3,405	11.1
EBIT								
Industrial Products	988	657	50.4	560	76.4	1,645	898	83.2
Margin (%)	10.0	7.8	215bps	6.7	329bps	9.0	6.0	302bps
Industrial Infrastructure	573	410	39.8	303	89.0	982	912	7.7
Margin (%)	5.3	4.3	101bps	3.3	197bps	4.8	5.2	(36bps)
Green Solutions	80	28	189.8	100	(20.4)	107	80	34.5
Margin (%)	6.4	2.0	435bps	8.8	(245bps)	4.1	4.1	1bps
Chemicals	345	254	35.8	265	30.2	600	338	77.5
Margin (%)	18.4	13.4	503bps	16.5	189bps	15.9	9.9	593bps

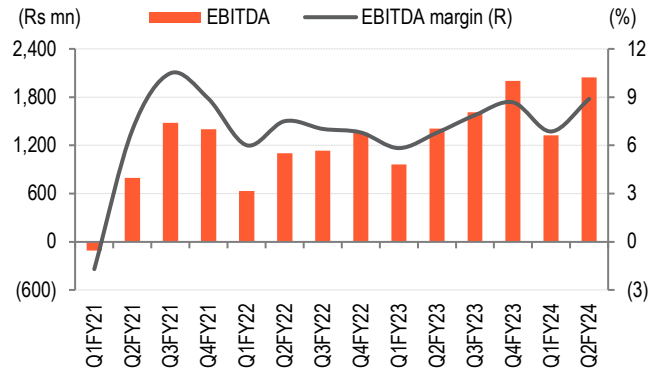
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



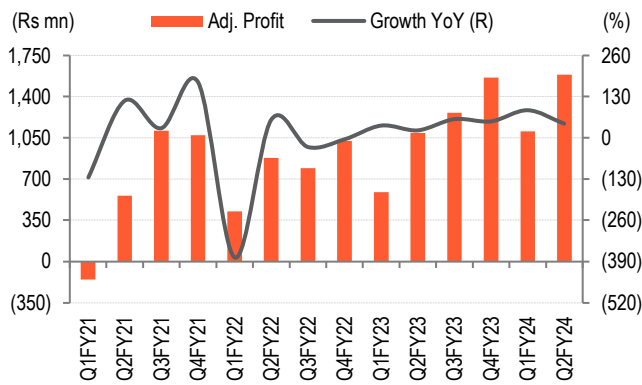
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



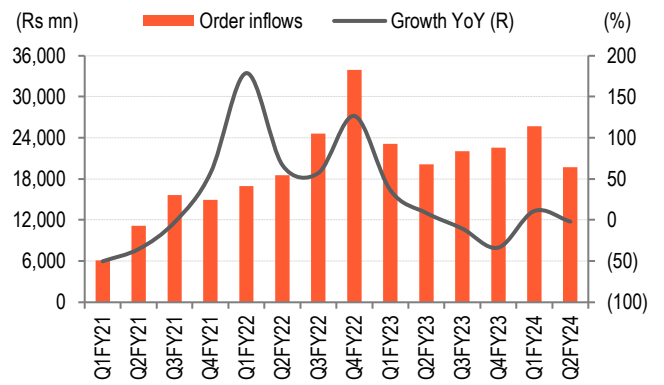
Source: Company, BOBCAPS Research

Fig 5 – Profit growth



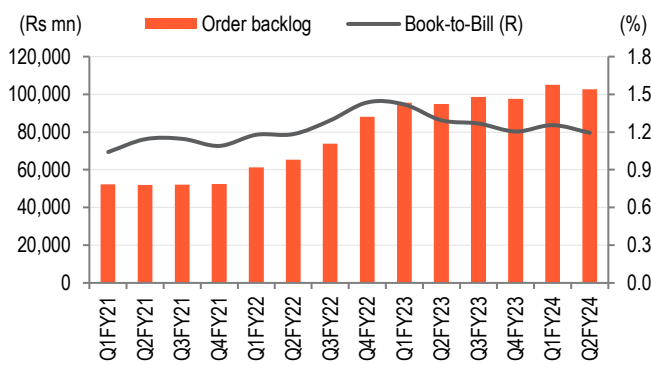
Source: Company, BOBCAPS Research

Fig 6 – Order inflows



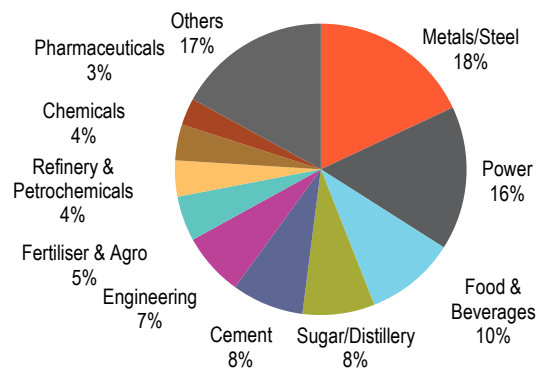
Source: Company, BOBCAPS Research

Fig 7 – Order backlog



Source: Company, BOBCAPS Research

Fig 8 – Order backlog mix



Source: Company, BOBCAPS Research

Earnings call highlights

- **Margin:** Management believes that half of the 210bps YoY expansion in EBITDA margin achieved during Q2FY24 is sustainable.
- **International order pipeline:** TMX pointed to good demand from international waste-to-energy and biomass projects, in addition to demand as usual from the refineries and petrochemicals segments. The company indicated a larger order pipeline on the international front as compared to six months ago and expects geopolitical instability in Israel to have minimal impact on business.
- **Green energy:** Management expects to cap investment in green energy at Rs 7bn-8bn, of which it has currently put in Rs 2.5bn.
- **Industrial products:** TMX executed one large order in the industrial products segment during the quarter with a superior margin profile, which was largely responsible for the 215bps YoY expansion in segmental EBIT margin. During Q2, the company increased pricing in line with higher commodity prices, but with cost normalisation thereafter, it saw a small window of high pricing and low cost, which boosted margins.
- **Chemicals:** The chemicals segment topline declined 1% YoY largely due to a softening of commodity prices, which was passed on, but management expects healthy growth in H2FY24.
- **Cement:** The company is witnessing fragmentation of the market for cement, in addition to Chinese entrants, contributing to intensifying competition.
- **Boilers:** According to management, the boilers market is turning less fragmented with larger players coming up with more applications than local or Chinese players.
- **Petrochemicals:** The company expects petrochemical ordering to sustain at current levels and believes the prevailing revenue run rate will act as a baseline for the industry.
- **Outlook:** TMX is witnessing a substantial influx of smaller orders and also has a few larger orders in play. It expects some of these revenues to be realised in H2FY24. The company also pointed to improvement in captive power plant orders.

Valuation methodology

Although TMX saw robust project execution in Q2FY24 and retains its order inflow guidance of Rs 18bn-20bn for the full fiscal year, it remains circumspect on the pipeline. Management indicated enquiries across most end-customer segments, except for refining and petrochemicals where it anticipates a lull in ordering for 4-5 quarters followed by a pickup.

We increase our FY24/FY25E EPS estimates by 12%/9% on better profitability in H1FY24 and a positive outlook. This together with rollover of valuations to Sep'25E yields a revised TP of Rs 3,000 (earlier Rs 2,600). We also introduce FY26 forecasts in this report. Our TP is set at an unchanged 40x P/E multiple, in line with the stock's five-year average. Retain HOLD.

Fig 9 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	95,857	1,09,346	95,857	1,09,346	0.0	0.0
EBITDA	7,621	9,558	6,758	8,684	12.8	10.1
PAT	5,981	7,791	5,334	7,135	12.1	9.2
EPS	50.2	65.4	44.8	59.9	12.1	9.2
EBITDA Margin (%)	8.0	8.7	7.1	7.9	90bps	80bps

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- swift recovery in the chemicals segment translating to higher margins, and
- faster payback from newly incubated businesses.

Key downside risks are:

- inability to scale up new businesses, and
- cyclicity in the end-user market.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	10.7	4,168	4,400	HOLD
Cummins India	KKC IN	5.8	1,712	2,110	BUY
Hitachi Energy	POWERIND IN	2.3	4,469	4,400	HOLD
KEC International	KECI IN	1.9	601	670	HOLD
Larsen & Toubro	LT IN	49.8	2,911	3,500	BUY
Siemens India	SIEM IN	14.6	3,368	3,900	HOLD
Thermax	TMX IN	4.3	2,941	3,000	HOLD

Source: BOBCAPS Research, NSE | Price as of 3 Nov 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	61,283	80,898	95,857	1,09,346	1,24,770
EBITDA	4,214	5,976	7,621	9,558	11,381
Depreciation	1,132	1,169	1,138	1,080	1,090
EBIT	3,081	4,807	6,483	8,478	10,290
Net interest inc./(exp.)	252	376	350	301	301
Other inc./(exp.)	1,270	1,602	1,842	2,210	2,653
Exceptional items	0	0	0	0	0
EBT	4,100	6,033	7,975	10,388	12,642
Income taxes	978	1,524	1,994	2,597	3,160
Extraordinary items	0	0	506	0	0
Min. int./Inc. from assoc.	1	(2)	0	0	0
Reported net profit	3,123	4,507	5,475	7,791	9,481
Adjustments	0	0	506	0	0
Adjusted net profit	3,123	4,507	5,981	7,791	9,481

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	14,598	14,979	19,697	20,970	23,928
Other current liabilities	20,002	25,181	27,575	31,456	35,893
Provisions	0	0	0	0	0
Debt funds	3,596	8,158	5,000	4,300	4,300
Other liabilities	1,491	1,367	1,620	1,847	2,108
Equity capital	225	225	225	225	225
Reserves & surplus	34,700	38,456	42,014	47,078	53,241
Shareholders' fund	34,925	38,702	42,261	47,325	53,488
Total liab. and equities	74,611	88,386	96,153	1,05,898	1,19,717
Cash and cash eq.	9,535	11,316	17,961	20,480	24,562
Accounts receivables	14,237	17,621	22,323	25,464	29,056
Inventories	7,270	7,556	7,879	8,987	10,255
Other current assets	16,336	24,309	18,384	19,473	22,219
Investments	7,034	2,168	2,569	2,931	3,344
Net fixed assets	12,014	12,645	12,707	12,827	12,937
CWIP	443	4,338	4,338	4,338	4,338
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	7,743	8,433	9,992	11,398	13,006
Total assets	74,611	88,386	96,153	1,05,898	1,19,717

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	3,247	4,596	14,627	8,686	10,360
Capital expenditures	(838)	(6,499)	(1,200)	(1,200)	(1,200)
Change in investments	(4,263)	(993)	(401)	(362)	(413)
Other investing cash flows	885	696	(1,307)	(1,178)	(1,347)
Cash flow from investing	(4,216)	(6,797)	(2,908)	(2,740)	(2,961)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	762	4,481	(3,158)	(700)	0
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(968)	(996)	(1,916)	(2,727)	(3,318)
Cash flow from financing	(206)	3,485	(5,074)	(3,427)	(3,318)
Chg in cash & cash eq.	(1,175)	1,284	6,645	2,520	4,081
Closing cash & cash eq.	9,535	11,316	17,961	20,480	24,562

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	26.2	37.8	45.9	65.4	79.6
Adjusted EPS	26.2	37.8	50.2	65.4	79.6
Dividend per share	8.0	10.0	11.0	12.0	12.0
Book value per share	293.1	324.6	354.5	397.0	448.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	6.0	4.4	3.7	3.3	2.9
EV/EBITDA	87.3	59.6	46.4	38.0	32.2
Adjusted P/E	112.2	77.8	58.6	45.0	37.0
P/BV	10.0	9.1	8.3	7.4	6.6

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	76.2	74.7	75.0	75.0	75.0
Interest burden (PBT/EBIT)	133.1	125.5	123.0	122.5	122.9
EBIT margin (EBIT/Revenue)	5.0	5.9	6.8	7.8	8.2
Asset turnover (Rev./Avg TA)	87.7	99.3	103.9	108.2	110.6
Leverage (Avg TA/Avg Equity)	2.1	2.2	2.3	2.3	2.2
Adjusted ROAE	9.3	12.2	14.8	17.4	18.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	27.9	32.0	18.5	14.1	14.1
EBITDA	18.6	41.8	27.5	25.4	19.1
Adjusted EPS	20.5	44.3	32.7	30.2	21.7
Profitability & Return ratios (%)					
EBITDA margin	6.9	7.4	8.0	8.7	9.1
EBIT margin	5.0	5.9	6.8	7.8	8.2
Adjusted profit margin	5.1	5.6	6.2	7.1	7.6
Adjusted ROAE	9.3	12.2	14.8	17.4	18.8
ROCE	8.3	10.9	14.1	17.0	18.2
Working capital days (days)					
Receivables	85	80	85	85	85
Inventory	43	34	30	30	30
Payables	87	68	75	70	70
Ratios (x)					
Gross asset turnover	2.5	3.1	3.5	3.8	4.1
Current ratio	1.3	1.4	1.3	1.3	1.4
Net interest coverage ratio	12.2	12.8	18.5	28.2	34.2
Adjusted debt/equity	(0.2)	(0.1)	(0.3)	(0.3)	(0.4)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

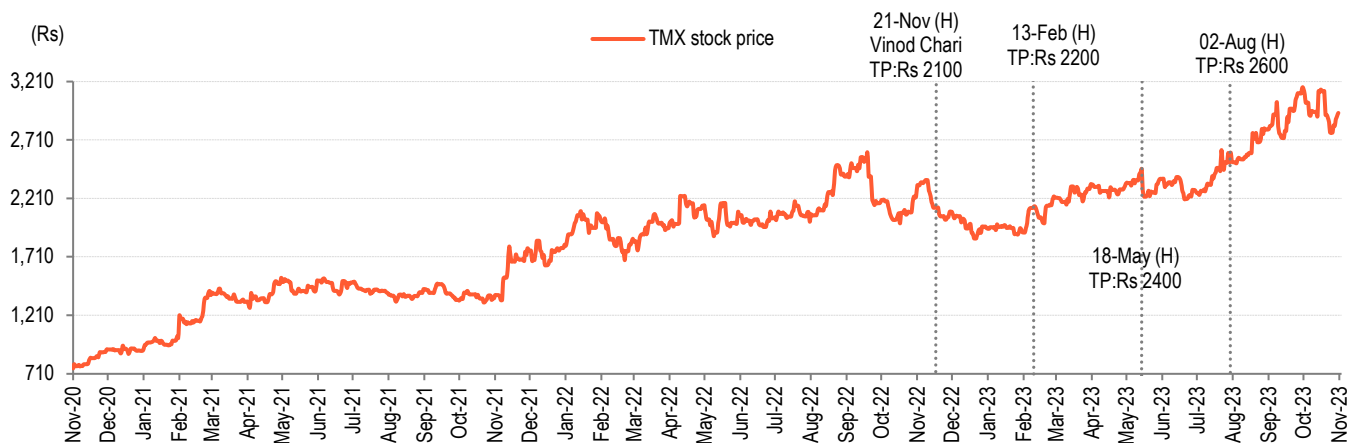
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): THERMAX (TMX IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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