Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Thermax

A beneficiary of India's green energy transition

Capital Goods	Sharekhan code: THERMAX
Reco/View: Buy ↔	CMP: **Rs. 2,021**
	Price Target: **Rs. 2,400** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 38.51

Updated Jan 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

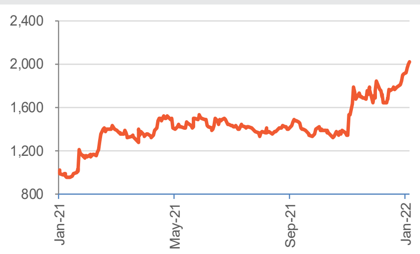
Company details

Market cap:	Rs. 24,083 cr
52-week high/low:	Rs. 2,029 / 940
NSE volume: (No of shares)	1.0 lakh
BSE code:	500411
NSE code:	THERMAX
Free float: (No of shares)	4.5 cr

Shareholding (%)

Promoters	62.0
FII	12.3
DII	20.5
Others	5.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	15.4	45.7	42.1	98.6
Relative to Sensex	10.0	45.8	26.3	75.1

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on Thermax with a revised PT of Rs. 2,400, led by upwardly revised estimates and the healthy traction expected in order inflows.
- Thermax is slated to benefit from India's ambitious target of achieving 500GW renewable energy capacity by 2030. Strong order intake in green energy offerings and exposure to key industries places it in a favourable position.
- The company has started to receive large orders in FGD announced during November 2021 and January 2022 highlighting its competitiveness in reducing power plant emissions.
- The company's strong treasury corpus would aid in investment in newer technologies like hydrogen providing next leg of growth.

Thermax is slated to benefit from its strong positioning in green energy offering (on an average 70% order intake during FY2019-FY2021) to key industries (Cement, Steel, Chemicals comprised 34% of FY2021 order book) in the current decade. India's PM's announcement of achieving 500GW renewable energy capacity by 2030 entails 40GW RE addition per annum. Heavy industries comprising quarter of domestic greenhouse emissions would be undertaking major capex plans towards green energy providing strong growth opportunities to Thermax. The company has bagged large orders in FGD during November and January portraying its competitiveness in power plant emission reductions. For the Union Budget 2022-23, industry bodies FICCI and CII have advocated incentivizing industry in adoption of green technologies through tax concessions, providing a policy framework for country's energy transition towards green technologies and developing hydrogen as alternative fuel. These measures would aid companies like Thermax in providing strong order inflow visibility going ahead.

- **India's 500GW RE target by 2030 to entail heavy industries investing in greener technologies:** India's PM recently announced in climate conference India's target of achieving 500GW Renewable Energy capacity (currently 101GW excluding large hydro capacities) by 2030 which entails ~40GW addition per annum till 2030. Cement, Steel, Chemical and other heavy industries accounts for almost a quarter of India' greenhouse emissions which would be undertaking major capex plans towards increasing green energy power consumption by 2030.
- **Exposure towards key sectors places Thermax in a beneficial position:** Thermax has received on an average 70% of its order intake during FY2019-FY2021 from green energy offerings. The company's order book as on FY2021 is skewed towards key industries like Cement (14% share), Metals & Steel (10%) and Chemicals (10%) highlighting its strong positioning in offering green products & solutions to key industries. Hence, we expect it to receive strong order inflows related to green energy offerings to heavy industries over the current decade.
- **Strong order inflows in FGD:** Thermax won Rs. 546 crore to set up flue gas desulphurisation (FGD) systems for two units of 500 MW capacity from domestic power public sector company In January 2022. During November 2021 end, it had won Rs. 830 crore FGD orders for three units of 660MW from domestic power private sector company. The large order wins highlights its competitiveness in cutting down emissions in power plants.

Revision in estimates – We have upwardly revised estimates for FY2022-FY2024 factoring higher order inflows.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 2,400: Thermax is expected to benefit from India's transitioning to green energy setting up ambitious targets for 2030 in the renewable energy space. The company's enquiries pipeline remains positive for small ticket-size orders in waste heat recovery in cement and steel apart from large orders from oil and gas, FGD, and chemical. The international opportunities in Biomass, WHR, water desalination remain strong. Further, it has a strong balance sheet with healthy cash position which provides investment avenues in new energy technologies like hydrogen. The stock is currently trading at a PE of 31x its FY2024E EPS. We maintain our Buy rating with a revised PT of Rs. 2,400 led by upwardly revised estimates.

Key Risks

- Slower-than-expected revival in private capex resulting in muted order picking
- Slowdown in tendering activities and slower pick-up in its subsidiary companies

Valuation (Consolidated)

Rs cr

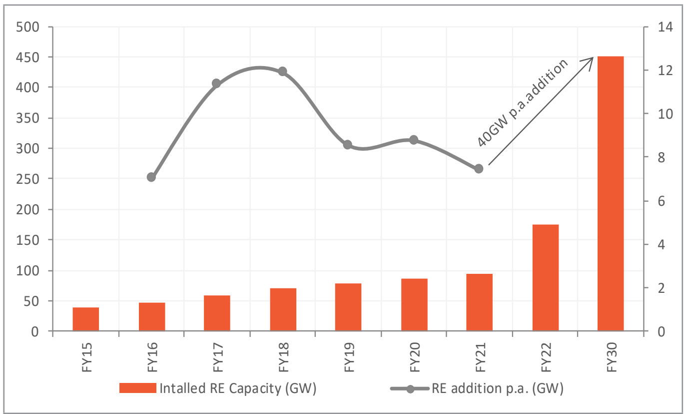
Particulars	FY21	FY22E	FY23E	FY24E
Net Sales	4,791	5,634	6,332	7,147
OPM (%)	7.4	7.6	7.7	8.1
Adj. Net Profit	207	304	353	428
% y-o-y Growth	*(2.8)*	*47.4*	*16.0*	*21.2*
Adj. EPS (Rs.)	18.3	27.0	31.4	38.0
PER	110.2	69.8	43.9	30.6
P/B	8.9	2.9	2.5	2.1
EV/EBIDTA	47.3	11.9	7.8	7.0
ROCE (%)	11.6	14.8	15.8	36.5
RONW (%)	9.3	11.4	12.2	28.4

Source: Company; Sharekhan estimates

Renewable capacity target set at 500GW by 2030

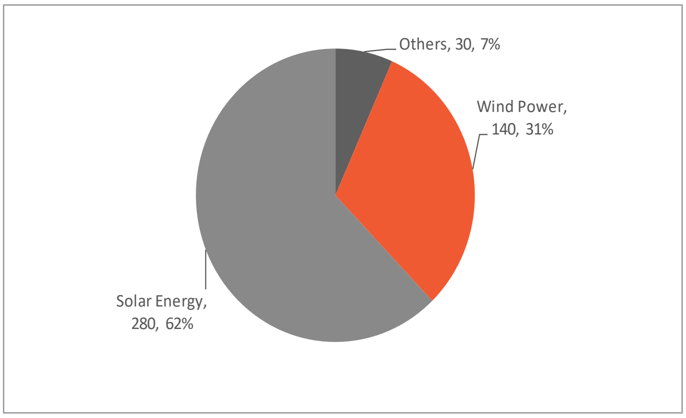
India's prime minister Mr. Narendra Modi recently announced India's intent to achieve 500GW of its installed capacity through non-fossil fuels and 50% of its energy requirement from renewables by 2030, at COP26 (Climate conference at Glasgow). India's current capacity is at 101MW (excluding large hydro capacities) entails another 400MW RE capacity addition till 2030. Earlier, RE target was set at 450GW comprising 280GW Solar and 140GW Wind Power. Steel, Cement, chemicals and other heavy industries account for roughly a quarter of India's greenhouse gas emissions. Thermax's stronghold in green energy in sectors like Metal & steel, cement, chemicals places it in a strong position to grab the opportunity of rising green energy adoption in these industries over the coming decade. The company already has around 70% share in order inflows during FY2019-FY2021.

RE capacity addition trend



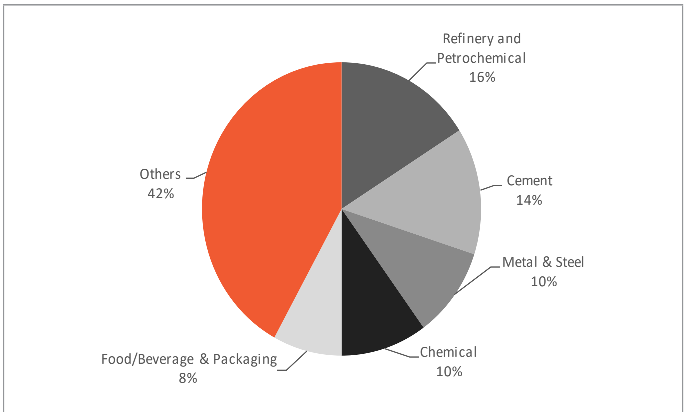
Source: Company, Sharekhan Research

450GW breakup by 2030



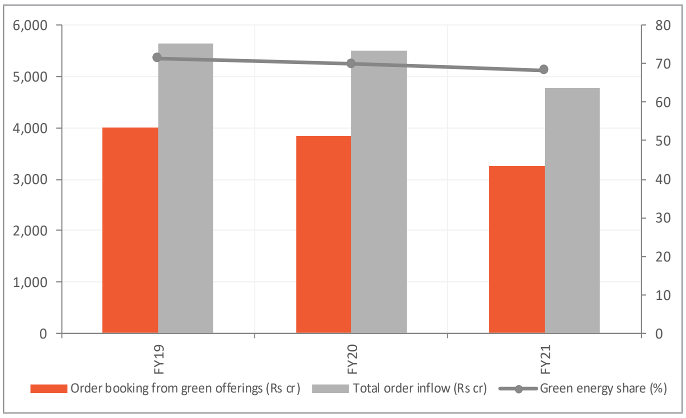
Source: Company, Sharekhan Research

Industry-wise OB mix (FY21)



Source: Company, Sharekhan Research

Green share in order inflows



Source: Company, Sharekhan Research

Focus to be on renewable energy in budget 2022-23

The Federation of Indian Chambers of Commerce and Industry has asked for incentivizing technology adoption in the renewable energy sector in the upcoming Union Budget 2022-23 through tax concessions and credit guarantee. As per FICCI, the Government must extend concessional tax rate of 15% to companies which invest in green technologies and must allow full deduction towards investment or purchase of green technology assets. Confederation of Indian Industry (CII) recommends a policy framework for transitioning towards decarbonization. As per CII, Industry should be incentivized to transition to low carbon products; production of renewable energy products should be rewarded and for hydrogen should be developed as an alternative fuel, companies should be provided with investment allowance for investing in installing electrolysers. We believe that budget's focus on renewable energy would aid in achieving its ambitious targets and would benefit companies like Thermax in providing order inflow visibility.

Outlook and Valuation

■ Sector view – Ample growth opportunities

Improving tailwinds in the sector and select industrial sectors such as steel and cement continue to perform, despite recurrence of COVID-19. Further, the Indian Government's Union Budget announcement for infrastructure and development and PLI package will support demand in the coming quarters. The government's NIP plan where the total capital expenditure in infrastructure sectors in India during FY2020-FY2025 is projected at ~Rs. 111 lakh crores also augurs well. During the same period, sectors such as energy (24%), roads (18%), urban (17%), and railways (12%) amount to ~71% of the projected infrastructure investments in India. The huge outlay towards infrastructure is expected to provide healthy growth opportunities for companies in this space.

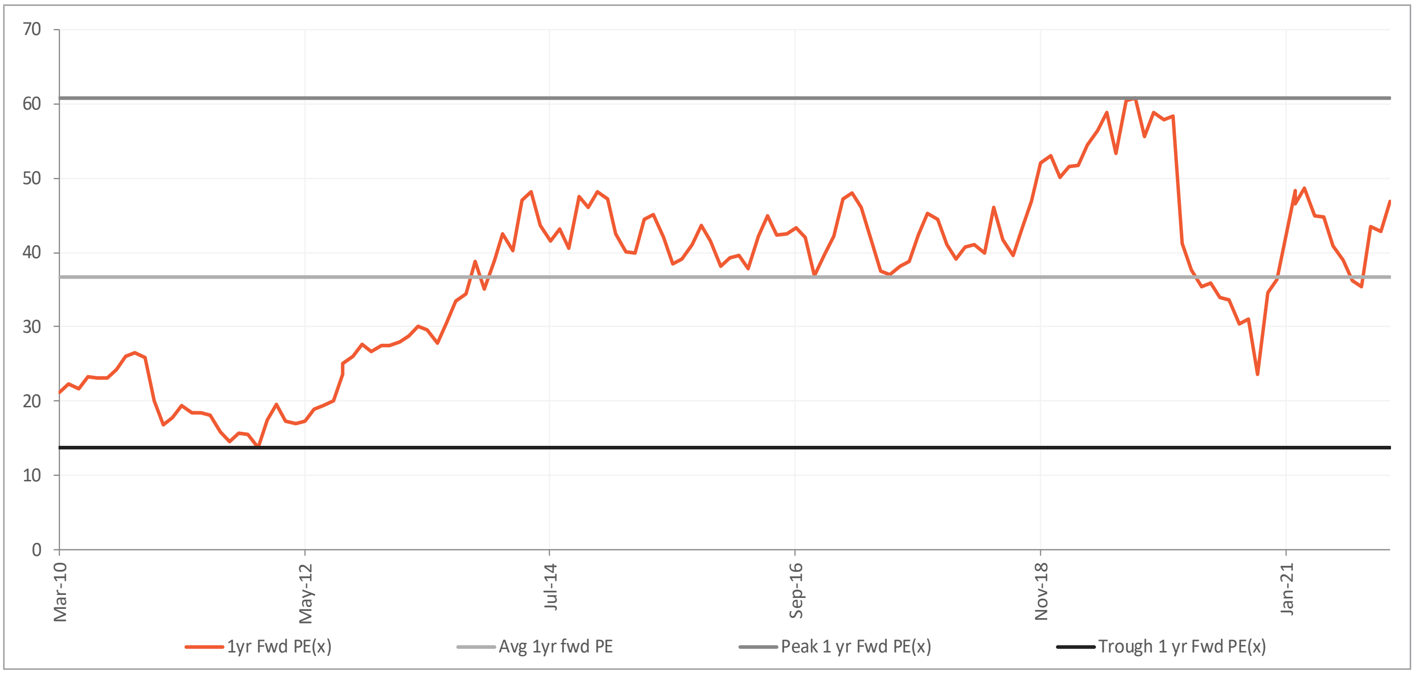
■ Company outlook – Capitalizing on opportunities

The management commentary on the enquiries pipeline remains positive for small ticket-size orders across food processing, chemical, and pharma in domestic markets, including large orders from oil and gas, FGD, and chemical. Further, it expects the finalization of 1-2 big orders during H2FY2022 where it would be bidding for the same. The management highlighted big order opportunities in waste heat recovery in cement and steel sectors both in the domestic as well as the export markets. On the commodity front, the management highlighted that there are challenges due to commodity headwinds. However, the company is able to hedge the price for smaller contracts as it buys the material in around 30 days before signing the agreement. Thermax is also contemplating opportunities across newer technologies, which will provide the next leg of growth.

■ Valuation – Retain Buy with a revised PT of Rs. 2,400

Thermax is expected to benefit from India's transitioning to green energy setting up ambitious targets for 2030 in the renewable energy space. The company's enquiries pipeline remains positive for small ticket-size orders in waste heat recovery in cement and steel apart from large orders from oil and gas, FGD, and chemical. The international opportunities in Biomass, WHR, water desalination remain strong. Further, it has a strong balance sheet with healthy cash position which provides investment avenues in new energy technologies like hydrogen. The stock is currently trading at a PE of 31x its FY2024E EPS. We maintain our Buy rating with a revised PT of Rs. 2,400 led by upwardly revised estimates.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Thermax provides solutions in the energy and environment space. The energy business contributes 75-78% to the revenue, whereas the environment business contributes 15-16% and chemical business contributes 7-8%. The company operates globally through 33 international offices and 13 manufacturing facilities, seven of which are in India and six are overseas. Thermax is present in 86 countries across Asia Pacific, Africa, Middle East, CIS countries, Europe, US, and South America.

Investment theme

Green shoots of revival in private capex are visible in a few segments (metals and cement), with most other companies resorting to brownfield expansions. However, a broad-based recovery is key for Thermax. Historically, Thermax's growth has been led by the domestic market, incremental growth from international markets exposes Thermax to the risk of rising commodity prices, given fixed-price contracts.

Key Risks

- Slower-than-expected revival in private capex resulting in muted order picking
- Slowdown in tendering activities and slower pick-up in its subsidiary companies.

Additional Data

Key management personnel

Mrs. Meher Pudumjee	Chairman
Mr. Pheroz Pudumjee	Non-Independent Director
Mr. Ashish Bhandari	Executive Director-CEO-MD
Mr. Rajendran Arunachalam	Group Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	RDA Holdings Pvt. Ltd.	53.99
2	ARA TRUSTEESHIP COMPANY PVT LTD	7.99
3	Nalanda India Equity Fund Ltd.	6.26
4	Kotak Mahindra Asset Management Co.	6.11
5	SBI Funds Management Pvt. Ltd.	2.18
6	Life Insurance Corp of India	1.73
7	PineBridge Investments LP	1.09
8	L&T Mutual Fund Tustee Ltd/India	0.9
9	Aditya Birla Sun Life Asset Manage	0.85
10	Vanguard Group Inc.	0.74

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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