

Retail Equity Research
Thermax Ltd
Capital Goods

BSE CODE : 500411 NSE CODE: THERMAX
BLOOMBERG CODE: TMX:IN SENSEX : 59,537

Reduce

12Months Investment Period Rating as per Mid Cap

CMP Rs. 2,419 TARGET Rs. 2,178 RETURN -10% ↓
(Closing: 30-08-22)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↑

Expensive valuation- a near term headwind...

Thermax Ltd (TMX) is a leading energy and environment solutions provider. They offer integrated innovative solutions in the areas of heating, cooling, power, water & waste management, air pollution control and chemicals.

- TMX reported a robust revenue growth of 57% YoY during the quarter, led by strong execution in Energy (61% YoY) and Environment (62% YoY), while the Chemical segment grew by 22% YoY.
- However, due to higher commodity prices and the execution of legacy FGD order in Environment segment, EBITDA margin fell by 19bps YoY to 5.8%.
- Q1FY23 order book grew by 56% YoY (which is 1.4x TTM revenue), supported by 36% YoY growth in new orders.
- The company expects a gradual recovery in the margin profile due to a favourable mix in the chemical segment and a correction in commodity prices.
- TMX is currently trading at a P/E of 56x on a 1 year forward basis, which is well above its 1 year average P/E of 46x, implying limited room for further upside in the near term. Therefore, we revise our rating to REDUCE and value TMX at a P/E of 43x on FY24E EPS with a TP of Rs. 2,178.

Pick up in order inflows...

Order inflow during the quarter grew by 36% YoY to Rs2,309cr, supported by large ticket order finalisation in the hydrocarbon segment, leading to an order book of Rs9,554cr. The domestic order book grew by 70% YoY to Rs.8,081cr, while the export order book grew by 9% YoY to Rs.1,473cr. The company expects orders in the FGD segment to remain low to moderate as government orders is currently witnessing some delays in finalization and Thermax has adopted a cautious stance while bidding for FGD orders.

Robust execution supported top-line...

In Q1FY23, TMX reported a robust consolidated revenue growth of 57% YoY to Rs.1,654cr, aided by strong execution in the Energy segment by 61% YoY to Rs1,227cr and the Environment segment by 62% YoY to Rs292cr, while Chemical segment revenue grew by 22% YoY. The management witnessed an upward trend in petrochemicals as the commodity prices have stabilised, waste heat recovery, paper & pulp industries, food & beverages. We revise our FY23E/FY24E estimate by 12%/15%, respectively, due to the strong order book pipeline and execution pick up.

Margins to improve from H2FY23...

The EBITDA margin declined by 19bps YoY to 5.8% on account of higher commodity prices and execution of legacy FGD order in environment segment. We expect margins to improve in H2FY23 due to a fall in commodity prices and the completion of existing FGD orders (~90% of the work completed). The Adj. PAT during the quarter grew by 39% YoY to Rs59cr.

Valuations

TMX is currently trading at a P/E of 56x on a 1 year forward basis which is well above its 1 year average P/E of 46x, implying limited room for further upside in the near term. Therefore, we revise our rating to REDUCE and value TMX at a P/E of 43x on FY24E EPS with a TP of Rs2,178.

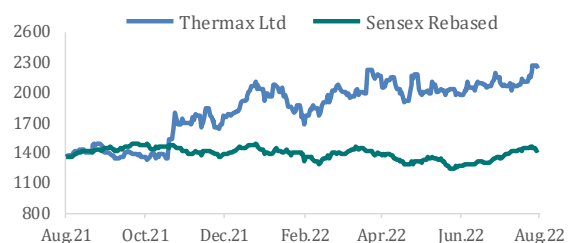
Company Data

Market Cap (cr)	₹ 28,823
Enterprise Value (cr)	₹ 29,035
Outstanding Shares (cr)	12
Free Float	38%
Dividend Yield	0.4%
52 week high	₹ 2,536
52 week low	₹ 1,307
6m average volume (cr)	0.006
Beta	0.7
Face value	₹ 2

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23
Promoters	62.0	62.0	62.0
FII's	12.3	11.8	11.9
MFs/Insti	12.7	15.7	15.7
Public	13.0	10.5	10.4
Total	100.0	100.0	100.0
Promoter pledge	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	18%	39%	73%
Absolute Sensex	9%	8%	6%
Relative Return*	10%	30%	67%

over or under performance to benchmark index



Consolidated (cr)	FY22	FY23E	FY24E
Sales	6,128	7,761	9,053
Growth (%)	27.9	26.6	16.6
EBITDA	421	598	788
EBITDA Margin(%)	6.9	7.7	8.7
PAT Adj.	312	453	603
Growth (%)	20.5	45.1	33.1
Adj.EPS	26.2	38.0	50.6
Growth (%)	20.5	45.1	33.1
P/E	94.4	65.7	48.7
P/B	8.5	7.8	6.8
EV/EBITDA	70.8	50.5	37.8
ROE (%)	9.3	12.3	14.7
D/E	0.1	0.1	0.1

Antu Eapan Thomas
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

(Rs cr)	Q1FY23	Q1FY22	YoY Growth (%)	Q4FY22	QoQ Growth (%)
Sales	1,654	1,052	57.2	1,992	-16.9
EBITDA	96	63	52.3	135	-29.0
EBITDA margins (%)	5.8	6.0	-19bps	7	-98bps
Depreciation	29	27	4.2	29	-3.1
EBIT	67	36	89.3	106	-36.2
Interest	7	5	37.4	10	-34.8
Other Income	21	25	-19.1	36	-42.5
Exceptional Items	-	0	-	0	-
PBT	81	56	44.8	131	-38.0
Tax	22	14	61.8	29	-22.6
Reported PAT	59	42	39.0	103	-42.5
Adjustments	-	-	-	0	-
Adj PAT	59	42	39.0	103	-42.5
No. of Shares	12	12	-	12	-
EPS (Rs)	5	4	39.0	9	-42.5

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	6,939	7,886	7,761	9,053	12	15
EBITDA	583	741	598	788	3	6
Margins (%)	8.40	9.40	7.70	8.70	-70bps	-70bps
Adj. PAT	445	579	453	603	1.9	4.3
EPS	37.3	48.6	38.0	50.6	1.9	4.3

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	5,731	4,791	6,128	7,761	9,053
% change	-4.0	-16.4	27.9	26.6	16.6
EBITDA	406	355	421	598	788
% change	-11.2	-12.6	18.6	41.8	31.8
Depreciation	117	115	113	114	115
EBIT	290	241	308	484	672
Interest	15	21	25	29	22
Other Income	100	108	127	150	160
PBT	375	275	410	604	810
% change	-9.0	-26.5	49.0	47.4	34.0
Tax	162	69	98	151	207
Tax Rate (%)	43.3	24.9	23.9	25.0	25.5
Reported PAT	212	207	312	453	603
Adj*	0	-53	0	0	0
Adj PAT	212	259	312	453	603
% change	-33.1	22.0	20.5	45.1	33.1
No. of shares (cr)	12	12	12	12	12
Adj EPS (Rs.)	18	17	26	38	51
% change	-33.1	22.0	20.5	45.1	33.1
DPS (Rs.)	8.4	7.8	8.4	8.4	8.4

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Net inc. + Depn.	491	390	523	718	925
Non-cash adj.	-123	-51	-46	-124	-186
Changes in W.C	22	-119	95	-691	-531
C.F. Operation	326	112	445	-247	48
Capital exp.	-48	25	44	46	20
Change in inv.	1	-60	-591	-35	-37
Other invest.CF	0	0	0	0	0
C.F – Investment	-169	73	-420	160	142
Issue of equity	0	0	0	0	0
Issue/repay debt	-31	94	50	11	9
Dividends paid	-190	-92	-100	-100	-100
Other finance.CF	-3	43	-101	137	-39
C.F – Finance	-232	23	-176	19	-153
Chg. in cash	-75	207	-150	-67	38
Closing cash	254	461	311	244	281

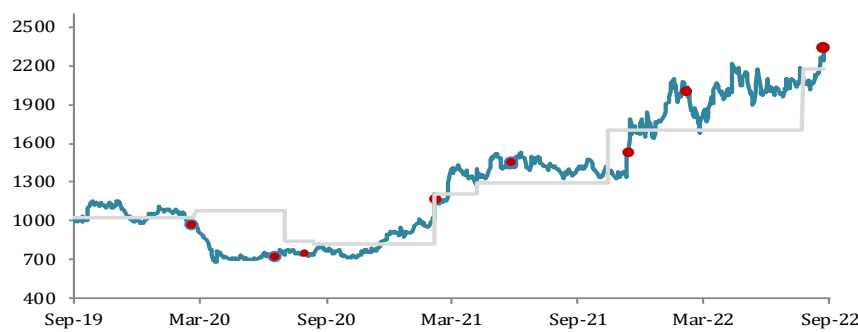
BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	254	461	311	244	281
Accounts Receivable	1,547	1,410	1,699	2,126	2,480
Inventories	455	405	727	634	720
Other Cur. Assets	2,123	2,662	2,638	3,721	4,340
Investments	59	119	710	745	783
Gross Fixed Assets	1,752	1,802	1,822	1,872	1,882
Net Fixed Assets	1,225	1,210	1,154	888	804
CWIP	55	21	44	20	20
Intangible Assets	59	35	41	34	22
Def. Tax (Net)	151	154	127	129	131
Other Assets	-	-	-	-	-
Total Assets	5,951	6,500	7,458	8,573	9,619
Current Liabilities	2,522	2,722	3,371	4,021	4,498
Provisions	190	221	239	340	397
Debt Funds	212	305	355	366	375
Other Liabilities	-	-	-	-	-
Equity Capital	23	23	23	23	23
Reserves & Surplus	3,005	3,229	3,470	3,823	4,326
Shareholder's Fund	3,028	3,251	3,492	3,846	4,349
Total Liabilities	5,951	6,500	7,458	8,573	9,619
BVPS (Rs.)	254	273	293	323	365

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	7.1	7.4	6.9	7.7	8.7
EBIT margin (%)	5.1	5.0	5.0	6.2	7.4
Net profit mgn.(%)	3.7	5.4	5.1	5.8	6.7
ROE (%)	7.0	8.2	9.3	12.3	14.7
ROCE (%)	5.2	6.0	7.5	9.0	10.5
W.C & Liquidity					
Receivables (days)	96.7	112.6	92.6	89.9	92.9
Inventory (days)	57.0	61.8	59.3	55.8	48.9
Payables (days)	137.9	150.8	133.4	116.5	105.7
Current ratio (x)	1.6	1.7	1.5	1.5	1.6
Quick ratio (x)	0.7	0.7	0.6	0.5	0.6
Turnover & Leverage					
Gross asset T.O (x)	3.1	2.7	3.4	4.2	4.8
Total asset T.O (x)	0.9	0.8	0.9	1.0	1.0
Int. coverage ratio (x)	19.3	11.7	12.2	16.5	30.0
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	5.2	6.2	4.9	3.8	3.3
EV/EBITDA (x)	72.9	83.7	70.6	49.8	37.8
P/E (x)	138.4	113.5	94.2	64.9	48.7
P/BV (x)	9.9	9.1	8.5	7.7	6.8

Recommendation summary (last 3 Years)



Dates	Rating	Target
19-Feb-19	Hold	1,018
16-Aug-19	Reduce	1,027
24-Feb-20	Accumulate	1,084
02-Jul-20	Accumulate	840
17-Aug-20	Accumulate	820
09-Feb-21	Hold	1,206
27-May-21	Reduce	1,299
15-Nov-21	Accumulate	1,695
11-Feb-22	Sell	1,700
01-Sep-22	Reduce	2,178

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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