

November 14, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	2,556		2,190	
Sales (Rs. m)	85,867	93,716	86,274	93,729
% Chng.	(0.5)	-		
EBITDA (Rs. m)	7,550	8,849	7,672	8,850
% Chng.	(1.6)	-		
EPS (Rs.)	49.7	59.5	50.9	59.5
% Chng.	(2.4)	(0.1)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	61,283	77,332	85,867	93,716
EBITDA (Rs. m)	4,214	6,142	7,550	8,849
Margin (%)	6.9	7.9	8.8	9.4
PAT (Rs. m)	3,123	4,496	5,594	6,694
EPS (Rs.)	27.7	39.9	49.7	59.5
Gr. (%)	26.9	44.0	24.4	19.7
DPS (Rs.)	9.0	12.8	16.4	18.4
Yield (%)	0.4	0.6	0.7	0.8
RoE (%)	9.3	12.3	14.0	15.2
RoCE (%)	8.3	12.3	14.2	15.4
EV/Sales (x)	3.9	3.1	2.8	2.5
EV/EBITDA (x)	57.2	39.1	31.7	26.9
PE (x)	82.1	57.0	45.8	38.3
P/BV (x)	7.3	6.7	6.1	5.5

Key Data

THMX.BO | TMX IN

52-W High / Low	Rs.2,679 / Rs.1,551
Sensex / Nifty	61,624 / 18,329
Market Cap	Rs.271bn/ \$ 3,338m
Shares Outstanding	119m
3M Avg. Daily Value	Rs.246.77m

Shareholding Pattern (%)

Promoter's	61.98
Foreign	12.35
Domestic Institution	15.34
Public & Others	10.33
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	12.3	18.6	48.4
Relative	5.6	1.6	46.2

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Better execution; margins likely to improve

Quick Pointers:

- Order inflows was mainly driven by base orders, from sectors such as steel, chemical, and refinery, while large order witnessed slowdown.
- Demand momentum continues to remain healthy, however growth in enquiry generation has plateaued sequentially, mainly in large orders.

Thermax (TMX) reported a healthy quarterly performance, with consolidated revenue growth of 41.2% YoY and order inflow growth of 8.6% YoY. Margins were impacted due to higher input cost in Energy and Chemical segment. Going forward, with revival in energy segment margins (on account of commodity softening) and chemical segment margins stabilizing, we expect overall margins to improve in coming quarters. Traction is being witnessed in base orders (Rs2-10bn orders) from sectors such as oil & gas, refinery, petrochemicals, steel etc., while large orders are witnessing slowdown. Though demand scenario continues to remain strong, growth in enquiry generation has witnessed moderation during the quarter, which may affect the order inflows in near term. Management highlighted that it will be selective in taking orders with focus on profitability.

TMX is well placed to gain from increasing thrust on clean energy & de-carbonization initiatives and broad base visibility in private capex given its 1) technical expertise, 2) strong balance sheet and 3) prudent working capital management. Given strong order book, better execution and likely margin revival, we expect TMX to report, revenue/PAT CAGR of 15.2%/28.9% between FY22-25E. Stock is currently trading at PE of 57x/45.8x/38.3x for FY23/24/25E. We roll forward to FY25E, with revised TP of Rs2,556 (Rs2,190 earlier) valuing it at PE of 43x FY25E and maintain 'Accumulate' rating on stock.

Healthy growth across segments: Consol. sales grew 41.2% YoY to Rs20.8bn (above PL estimate ~Rs18.96bn), led by growth across segments. Energy segment grew 38.6% YoY to Rs14.7bn, Environment segment grew 44% YoY to Rs4.5bn and Chemical segment grew 48% YoY to Rs1.9bn. EBITDA grew 27.8% YoY to Rs1.4bn, (PL estimate ~Rs1.2bn) with EBITDA margins contracting by 71bps YoY to 6.8%, mainly due to lower gross margin (40.6% in Q2FY23 vs 45% in Q2FY22). On segmental front, Energy segment EBIT margin contracted 244bps YoY to 5.5% and Chemicals margin contracted by 211bps YoY to 13.4%. While it expanded for environment segment by 437bps YoY to 6.4%. PAT grew 24.1% YoY to Rs1.1bn (PL estimate of Rs811mn).

Healthy order inflows: Order inflows grew 8.6% Rs20.2bn, led by orders wins from steel, chemical, and refinery sectors. Energy segment inflows grew ~4% YoY to Rs14.9bn, Environment grew ~16% YoY to Rs3.3bn, while Chemical grew ~37% YoY to Rs1.9bn. Order book stands at Rs94.9bn as on Q2FY23, up 45.6% (1.3x TTM revenue), comprising of Energy (70%) and Environment (29%).

Exhibit 1: Healthy growth across segment

Y/e March (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY gr. (%)	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
Revenue	14,693	16,147	19,919	16,545	20,753	41.2	25.4	37,297	25,217	47.9
Total Revenues	14,693	16,147	19,919	16,545	20,753	41.2	25.4	37,297	25,217	47.9
Expenditure	13,593	15,016	18,567	15,585	19,347	42.3	24.1	34,932	23,486	48.7
<i>as % of sales</i>	<i>92.5</i>	<i>93.0</i>	<i>93.2</i>	<i>94.2</i>	<i>93.2</i>			<i>93.7</i>	<i>93.1</i>	
Consumption of RM	8,080	9,058	12,385	9,707	12,323	52.5	27.0	22,030	13,407	64.3
<i>as % of sales</i>	<i>55.0</i>	<i>56.1</i>	<i>62.2</i>	<i>58.7</i>	<i>59.4</i>			<i>59.1</i>	<i>53.2</i>	
Employee Cost	1,956	2,067	2,195	2,149	2,367	21.0	10.1	4,516	3,868	16.8
<i>as % of sales</i>	<i>13.3</i>	<i>12.8</i>	<i>11.0</i>	<i>13.0</i>	<i>11.4</i>			<i>12.1</i>	<i>15.3</i>	
Other expenditure	3,558	3,892	3,987	3,729	4,657	30.9	24.9	8,386	6,211	35.0
<i>as % of sales</i>	<i>24.2</i>	<i>24.1</i>	<i>20.0</i>	<i>22.5</i>	<i>22.4</i>			<i>22.5</i>	<i>24.6</i>	
EBITDA	1,100	1,131	1,352	960	1,406	27.8	46.4	2,366	1,731	36.7
Depreciation	274	290	295	286	298	8.7	4.4	584	548	6.5
EBIT	826	841	1,058	675	1,108	34.1	64.1	1,782	1,182	50.7
Other Income	368	292	357	205	398	8.4	93.9	604	621	(2.8)
Interest	51	53	101	66	80	58.0	21.5	146	98	48.0
PBT	1,143	1,080	1,314	815	1,426	24.8	75.1	2,241	1,706	31.4
Total Tax	264	286	290	224	332	26.1	48.2	557	402	38.4
Adjusted PAT	879	795	1,024	590	1,094	24.4	85.3	1,684	1,303	29.2
(Profit)/loss from JV's/Ass/MI	-	-	1	(1)	(2)	-	-	(3)	-	-
PAT after MI	879	795	1,025	590	1,091	24.1	85.1	1,681	1,303	29.0
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	879	795	1,025	590	1,091	24.1	85.1	1,681	1,303	29.0
Adjusted EPS	7.8	7.1	9.1	5.2	9.7	24.1	85.1	14.9	11.6	29.0
Margins (%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	bps	bps	H1FY23	H1FY22	bps
EBIDTA	7.5	7.0	6.8	5.8	6.8	(71)	97	6.3	6.9	(52)
EBIT	5.6	5.2	5.3	4.1	5.3	(28)	126	4.8	4.7	9
EBT	7.8	6.7	6.6	4.9	6.9	(91)	195	6.0	6.8	(76)
PAT	6.0	4.9	5.1	3.6	5.3	(72)	170	4.5	5.2	(66)
Effective Tax rate	23.1	26.5	22.1	27.5	23.3	24	(423)	24.8	23.6	126

Source: Company, PL

Exhibit 2: Segmental performance

(Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY gr. (%)	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
Energy	10,572	11,632	14,512	12,274	14,655	38.6	19.4	26,928	18,199	48.0
Environment	3,119	3,393	4,624	2,923	4,494	44.1	53.8	7,417	4,923	50.7
Chemicals	1,287	1,554	1,317	1,501	1,904	48.0	26.8	3,405	2,514	35.5
Less: Intersegment	(285)	(431)	(533)	(153)	(300)	5.2	96.4	(452)	(419)	8.0
Total	14,693	16,147	19,920	16,545	20,753	41.2	25.4	37,297	25,217	47.9
EBIT										
Energy	841	728	1,007	746	809	(3.9)	8.4	1,555	1,120	38.8
<i>EBIT margin (%)</i>	<i>8.0</i>	<i>6.3</i>	<i>6.9</i>	<i>6.1</i>	<i>5.5</i>			<i>5.8</i>	<i>6.2</i>	
Environment	64	107	232	50	288	352.5	475.6	338	91	270.8
<i>EBIT margin (%)</i>	<i>2.0</i>	<i>3.2</i>	<i>5.0</i>	<i>1.7</i>	<i>6.4</i>			<i>4.6</i>	<i>1.9</i>	
Chemicals	199	171	37	56	254	27.8	354.9	310	415	(25.3)
<i>EBIT margin (%)</i>	<i>15.5</i>	<i>11.0</i>	<i>2.8</i>	<i>3.7</i>	<i>13.4</i>			<i>9.1</i>	<i>16.5</i>	

Source: Company, PL

Concall highlights

- Enquiry generation growth has plateaued in Q2FY23 (down 5-10% QoQ); however, demand scenario remains consistent across sector.
- Order inflow growth was driven by major orders coming in from steel, chemical, and refinery sectors.
 - Momentum continues from base orders, while large projects are witnessing slowdown.
 - Received major orders for waste heat recovery and bioenergy applications.
- Enquiry remain strong from sectors such as beverage, steel etc. while it declined for cement, pharma and Edible oil etc.
 - Going forward focus will be on taking profitable orders.
- **Energy:** Margins were impacted due to higher commodity prices and is likely to improve going forward.
- **Solar business:** Thermax is setting up three solar plant in Tamil Nadu, Maharashtra and Gujarat. Tamil Nadu and Maharashtra plant are expected to contribute to revenue from Q3FY23 onwards, while Gujarat from Q1FY24 onwards. For FY23 company has commitment for 70MW and targets for 150-200MW for FY24 on Opex model, with expected equity IRR of 16-19%.
- **Environment:** Profitability has improved due to higher revenue and better margins. ZLD is likely to continue its growth momentum for next couple of year given the increasing focus on ESG. Thermax domestic market share (exl. municipal and government) is less than 10% and market size stands ~Rs70-100bn.
 - On FGD front, 90% of raw material procurement for 2 legacy projects is completed. Margins are likely to be recognized from 3QFY23 onwards and to be in range of 4-5%.
 - On biofuel front opportunity is strong from Bio-CNG, Bio-gasification, biomass to hydrogen. On FGD front Don't expect to bag any FGD order for next 12 months.
- **Chemicals:** Profitability has been impacted by higher input costs over the last year Resign accounts for ~25-30%, water treatment accounts for ~40%, Construction, pulp, paper etc accounts for ~20%. Capacity utilization level at Dahej stands at ~50%. Going forward margins are likely to stabilize at current level (13.5% as o Q2FY23) with commodity and freight cost softening.
- **Subsidiary:** Danstoker and Indonesian subsidiary reported a loss in Q2FY23. On order front, momentum continues to remain strong.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	61,283	77,332	85,867	93,716
YoY gr. (%)	27.9	26.2	11.0	9.1
Cost of Goods Sold	34,850	43,273	47,062	50,380
Gross Profit	26,433	34,059	38,805	43,336
Margin (%)	43.1	44.0	45.2	46.2
Employee Cost	8,129	9,512	10,905	11,902
Other Expenses	5,199	7,656	8,501	9,372
EBITDA	4,214	6,142	7,550	8,849
YoY gr. (%)	18.6	45.8	22.9	17.2
Margin (%)	6.9	7.9	8.8	9.4
Depreciation and Amortization	1,132	1,214	1,347	1,477
EBIT	3,081	4,928	6,203	7,372
Margin (%)	5.0	6.4	7.2	7.9
Net Interest	252	287	290	302
Other Income	1,270	1,353	1,546	1,856
Profit Before Tax	4,100	5,995	7,458	8,926
Margin (%)	6.7	7.8	8.7	9.5
Total Tax	978	1,499	1,865	2,231
Effective tax rate (%)	23.9	25.0	25.0	25.0
Profit after tax	3,122	4,496	5,594	6,694
Minority interest	-	-	-	-
Share Profit from Associate	1	-	-	-
Adjusted PAT	3,123	4,496	5,594	6,694
YoY gr. (%)	26.9	44.0	24.4	19.7
Margin (%)	5.1	5.8	6.5	7.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,123	4,496	5,594	6,694
YoY gr. (%)	51.2	44.0	24.4	19.7
Margin (%)	5.1	5.8	6.5	7.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,123	4,496	5,594	6,694
Equity Shares O/s (m)	113	113	113	113
EPS (Rs)	27.7	39.9	49.7	59.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	20,067	21,267	22,467	23,667
Tangibles	20,067	21,267	22,467	23,667
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,525	9,739	11,085	12,563
Tangibles	8,525	9,739	11,085	12,563
Intangibles	-	-	-	-
Net fixed assets	11,542	11,528	11,382	11,105
Tangibles	11,542	11,528	11,382	11,105
Intangibles	-	-	-	-
Capital Work In Progress	849	849	849	849
Goodwill	-	-	-	-
Non-Current Investments	8,951	10,222	11,740	14,030
Net Deferred tax assets	1,271	1,271	1,271	1,271
Other Non-Current Assets	2,854	3,944	5,667	6,092
Current Assets				
Investments	7,665	7,665	7,665	7,665
Inventories	7,270	8,475	8,704	8,986
Trade receivables	14,237	17,797	18,820	20,541
Cash & Bank Balance	11,270	11,992	12,693	13,852
Other Current Assets	3,789	4,563	4,894	5,998
Total Assets	73,309	80,692	86,520	94,300
Equity				
Equity Share Capital	225	225	225	225
Other Equity	34,700	37,757	41,505	46,124
Total Networkth	34,925	37,982	41,730	46,349
Non-Current Liabilities				
Long Term borrowings	696	730	767	805
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,982	2,947	2,910	2,872
Trade payables	15,074	18,009	19,291	20,541
Other current liabilities	20,904	22,295	23,093	25,004
Total Equity & Liabilities	73,309	80,692	86,520	94,300

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	4,100	5,995	7,458	8,926
Add. Depreciation	995	1,214	1,347	1,477
Add. Interest	135	287	290	302
Less Financial Other Income	1,270	1,353	1,546	1,856
Add. Other	(947)	(1,353)	(1,546)	(1,856)
Op. profit before WC changes	4,283	6,142	7,550	8,849
Net Changes-WC	(5)	(1,416)	(1,933)	(1,765)
Direct tax	1,030	1,499	1,865	2,231
Net cash from Op. activities	3,247	3,227	3,752	4,852
Capital expenditures	(5,036)	(1,200)	(1,200)	(1,200)
Interest / Dividend Income	885	1,353	1,546	1,856
Others	(65)	(933)	(1,260)	(1,972)
Net Cash from Inv. activities	(4,216)	(780)	(915)	(1,316)
Issue of share cap. / premium	-	-	-	-
Debt changes	762	-	-	-
Dividend paid	(788)	(1,439)	(1,846)	(2,075)
Interest paid	(135)	(287)	(290)	(302)
Others	(45)	-	-	-
Net cash from Fin. activities	(206)	(1,726)	(2,136)	(2,377)
Net change in cash	(1,175)	722	701	1,159
Free Cash Flow	2,409	2,027	2,552	3,652

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	27.7	39.9	49.7	59.5
CEPS	37.8	50.7	61.6	72.6
BVPS	310.2	337.3	370.6	411.6
FCF	21.4	18.0	22.7	32.4
DPS	9.0	12.8	16.4	18.4
Return Ratio(%)				
RoCE	8.3	12.3	14.2	15.4
ROIC	12.9	18.1	20.1	21.1
RoE	9.3	12.3	14.0	15.2
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	38	39	35	35
Valuation(x)				
PER	82.1	57.0	45.8	38.3
P/B	7.3	6.7	6.1	5.5
P/CEPS	60.2	44.9	36.9	31.4
EV/EBITDA	57.2	39.1	31.7	26.9
EV/Sales	3.9	3.1	2.8	2.5
Dividend Yield (%)	0.4	0.6	0.7	0.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	16,147	19,919	16,545	20,753
YoY gr. (%)	14.5	26.5	57.2	41.2
Raw Material Expenses	9,058	12,385	9,707	12,323
Gross Profit	7,089	7,534	6,838	8,430
Margin (%)	43.9	37.8	41.3	40.6
EBITDA	1,131	1,352	960	1,406
YoY gr. (%)	(23.4)	(3.2)	52.3	27.8
Margin (%)	7.0	6.8	5.8	6.8
Depreciation / Depletion	290	295	286	298
EBIT	841	1,058	675	1,108
Margin (%)	5.2	5.3	4.1	5.3
Net Interest	53	101	66	80
Other Income	292	357	205	398
Profit before Tax	1,080	1,314	814	1,426
Margin (%)	6.7	6.6	4.9	6.9
Total Tax	286	290	224	332
Effective tax rate (%)	26.5	22.1	27.5	23.3
Profit after Tax	795	1,024	590	1,094
Minority interest	-	-	-	-
Share Profit from Associates	-	1	(1)	(2)
Adjusted PAT	795	1,025	589	1,091
YoY gr. (%)	(23.4)	(4.5)	39.0	24.1
Margin (%)	4.9	5.1	3.6	5.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	795	1,025	589	1,091
YoY gr. (%)	(4.6)	(4.5)	39.0	24.1
Margin (%)	4.9	5.1	3.6	5.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	795	1,025	589	1,091
Avg. Shares O/s (m)	113	113	113	113
EPS (Rs)	7.1	9.1	5.2	9.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	Accumulate	2,190	2,199
2	03-Aug-22	Accumulate	2,190	2,019
3	05-Jul-22	Accumulate	2,181	2,049
4	23-May-22	Accumulate	2,181	2,025
5	08-Apr-22	Accumulate	2,158	1,970
6	08-Feb-22	Accumulate	2,158	2,038
7	11-Jan-22	Accumulate	1,633	1,922

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	3,115	3,100
2	Apar Industries	BUY	1,834	1,464
3	Bharat Electronics	BUY	125	110
4	BHEL	Sell	36	62
5	Cummins India	Accumulate	1,514	1,335
6	Engineers India	BUY	89	65
7	GE T&D India	Hold	102	129
8	Kalpataru Power Transmission	Accumulate	549	504
9	KEC International	Accumulate	495	435
10	Larsen & Toubro	BUY	2,384	2,023
11	Praj Industries	BUY	520	434
12	Siemens	Accumulate	3,116	2,750
13	Thermax	Accumulate	2,190	2,199
14	Triveni Turbine	BUY	328	283
15	Voltamp Transformers	Hold	3,150	3,013

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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