

February 14, 2023

## Q3FY23 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
<b>Rating</b>	<b>BUY</b>		<b>ACCUMULATE</b>	
<b>Target Price</b>	<b>2,604</b>		<b>2,556</b>	
Sales (Rs. m)	87,786	96,205	85,867	93,716
% Chng.	2.2	2.7		
EBITDA (Rs. m)	7,718	9,084	7,550	8,849
% Chng.	2.2	2.7		
EPS (Rs.)	50.7	60.6	49.7	59.5
% Chng.	2.1	1.9		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	61,283	79,677	87,786	96,205
EBITDA (Rs. m)	4,214	6,193	7,718	9,084
Margin (%)	6.9	7.8	8.8	9.4
PAT (Rs. m)	3,123	4,610	5,709	6,819
EPS (Rs.)	27.7	40.9	50.7	60.6
Gr. (%)	26.9	47.6	23.8	19.4
DPS (Rs.)	9.0	13.1	16.7	18.8
Yield (%)	0.4	0.6	0.8	0.9
RoE (%)	9.3	12.6	14.3	15.4
RoCE (%)	8.3	12.4	14.6	15.9
EV/Sales (x)	3.7	2.8	2.6	2.3
EV/EBITDA (x)	53.8	36.5	29.2	24.8
PE (x)	77.5	52.5	42.4	35.5
P/BV (x)	6.9	6.4	5.8	5.2

### Key Data

THMX.BO | TMX IN

52-W High / Low	Rs.2,679 / Rs.1,651
Sensex / Nifty	60,432 / 17,771
Market Cap	Rs.256bn/ \$ 3,095m
Shares Outstanding	119m
3M Avg. Daily Value	Rs.110.03m

### Shareholding Pattern (%)

Promoter's	61.98
Foreign	12.27
Domestic Institution	20.26
Public & Others	5.49
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	9.2	1.9	15.6
Relative	8.9	0.3	11.2

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## Thermax (TMX IN)

**Rating: BUY | CMP: Rs2,149 | TP: Rs2,604**

### Strong performance; improving margins

#### Quick Pointers:

- Order inflows (Rs22bn) was mainly driven by base orders momentum.
- Demand to remain strong across steel, sugar, ethanol, chemicals, pharma and F&B (short cycle orders) with moderation in large orders (Oil & gas).

**We revise our FY23/24/25E EPS by 2.5%/2.1%/1.9% and upgrade to 'BUY' rating from Accumulate after factoring 1) sustainable growth in base orders, 2) likely improvement in subsidiary performance, 3) improving margins and 4) investments in - capacity addition & new technologies in chemicals segment (owing to robust demand outlook), that suggest strong growth. Thermax (TMX) reported healthy performance with consolidated revenue up 26.9% YoY and EBITDA margin expanding 86bps YoY. Investments worth Rs4bn are entitled towards opex business i.e Solar (Rs1.5bn) and Biomass business -TOESL (Rs2.5bn) with minimum target IRR of 15% for medium term, in order to reap long term benefits. Exports opportunities for Waste to Energy are also seeing good traction due to China +1 strategy.**

**We believe, TMX is well placed to gain from increasing thrust on clean energy & de-carbonization initiatives given 1) technical expertise, 2) strong balance sheet and 3) prudent working capital management. Upgrade to 'BUY' with revised TP of Rs2,604 (Rs2,556 earlier), valuing it at PE of 43x FY25E.**

**Revenue growth of 27%; softening commodities drive profitability:** Consol. sales grew 26.9% YoY to Rs20.5bn (PL estimate of ~Rs20.7bn), comprising of Energy (72.2% of total sales), Environment (21.4% of total sales) and Chemical (8% of total sales). Energy segment grew 27.2% YoY to Rs14.8bn, Environment segment grew 29% YoY to Rs4.4bn and Chemical segment grew 5.8% YoY to Rs1.7bn. EBITDA grew 42.4% YoY Rs1.6bn, (PL estimate ~Rs1.5bn) with EBITDA margins expanding by 86bps YoY to 7.9%, due to lower employee cost as % of sales (11.6% in Q3FY23 vs 11% in Q3FY22). On segmental front, Energy segment's EBIT margin expanded 135bps YoY to 7.6%, environment margin expanded 283bps YoY to 6% and Chemicals margin expanded 305bps YoY to 14.1%. PAT grew 59% YoY to Rs1.3bn (PL estimate of Rs1.2bn), due to higher other income (up 45.1% YoY to Rs423mn).

**Order book of Rs99bn provided revenue visibility:** Order inflows declined by 10.5% to Rs22bn on high base (last year booked order worth Rs8.3bn for FGD systems). Energy segment grew 34% YoY to Rs15.6bn, while it declined for Environment (on high base) by 56% YoY to Rs5bn and Chemical by 12% to Rs1.4bn. Order book stands at Rs98.6bn as on Q3FY23, up 33.4% (1.3x TTM revenue), comprising of Energy (70%) and Environment (29%). In export markets such as Europe, Africa etc. the company sees good opportunities and inquiry pipeline from biomass, waste to energy, etc.

## Exhibit 1: Strong revenue growth of 27% drives profitability

Y/e March (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY gr. (%)	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Revenue	16,147	19,919	16,545	20,753	20,493	26.9	(1.3)	57,790	41,364	39.7
Total Revenues	16,147	19,919	16,545	20,753	20,493	26.9	(1.3)	57,790	41,364	39.7
Expenditure	15,016	18,567	15,585	19,347	18,882	25.7	(2.4)	53,813	38,503	39.8
as % of sales	93.0	93.2	94.2	93.2	92.1			93.1	93.1	
Consumption of RM	9,058	12,385	9,707	12,323	11,451	26.4	(7.1)	33,480	22,465	49.0
as % of sales	56.1	62.2	58.7	59.4	55.9			57.9	54.3	
Employee Cost	2,067	2,195	2,149	2,367	2,371	14.7	0.2	6,887	5,934	16.1
as % of sales	12.8	11.0	13.0	11.4	11.6			11.9	14.3	
Other expenditure	3,892	3,987	3,729	4,657	5,060	30.0	8.7	13,446	10,103	33.1
as % of sales	24.1	20.0	22.5	22.4	24.7			23.3	24.4	
EBITDA	1,131	1,352	960	1,406	1,611	42.4	14.6	3,977	2,862	39.0
Depreciation	290	295	286	298	291	0.3	(2.4)	874	838	4.3
EBIT	841	1,058	675	1,108	1,320	56.9	19.2	3,102	2,024	53.3
Other Income	292	357	205	398	423	45.1	6.3	1,027	913	12.5
Interest	53	101	66	80	91	73.4	14.3	237	151	56.9
PBT	1,080	1,314	815	1,426	1,652	52.9	15.9	3,893	2,786	39.7
Total Tax	286	290	224	332	386	34.8	16.0	942	688	36.9
Adjusted PAT	795	1,024	590	1,094	1,267	59.4	15.8	2,950	2,098	40.6
(Profit)/loss from JV's/Ass/MI		1	(1)	(2)	(3)			(6)		-
PAT after MI	795	1,025	590	1,091	1,264	59.1	15.8	2,945	2,098	40.4
Extra ordinary items	-	-	-	-	-	-	-	-		-
Reported PAT	795	1,025	590	1,091	1,264	59.1	15.8	2,945	2,098	40.4
Adjusted EPS	7.1	9.1	5.2	9.7	11.2	59.1	15.8	26.2	18.6	40.4
Margins (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	bps	bps	9MFY23	9MFY22	bps
EBIDTA	7.0	6.8	5.8	6.8	7.9	86	109	6.9	6.9	(4)
EBIT	5.2	5.3	4.1	5.3	6.4	123	111	5.4	4.9	48
EBT	6.7	6.6	4.9	6.9	8.1	137	119	6.7	6.7	0
PAT	4.9	5.1	3.6	5.3	6.2	125	91	5.1	5.1	2
Effective Tax rate	26.5	22.1	27.5	23.3	23.3	(313)	2	24.2	24.7	(50)

Source: Company, PL

## Exhibit 2: Growth across segments drives revenue

Revenue	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY gr. (%)	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Energy	11,632	14,512	12,274	14,655	14,798	27.2	1.0	41,726	29,831	39.9
Environment	3,393	4,624	2,923	4,494	4,376	29.0	(2.6)	11,793	8,316	41.8
Chemicals	1,554	1,317	1,501	1,904	1,645	5.8	(13.6)	5,050	4,068	24.1
Less: Intersegment	(431)	(533)	(153)	(300)	(326)	(24.4)	8.8	(778)	(850)	(8.4)
Total	16,147	19,920	16,545	20,753	20,493	26.9	(1.3)	57,790	41,364	39.7
EBIT										
Energy	728	1,007	746	809	1,126	54.7	39.2	2,681	1,848	45.1
EBIT margin (%)	6.3	6.9	6.1	5.5	7.6			6.4	6.2	
Environment	107	232	50	288	262	144.9	(9.0)	600	198	202.8
EBIT margin (%)	3.2	5.0	1.7	6.4	6.0			5.1	2.4	
Chemicals	171	37	56	254	232	35.2	(8.9)	542	587	(7.6)
EBIT margin (%)	11.0	2.8	3.7	13.4	14.1			10.7	14.4	

Source: Company, PL

## Conference Call Highlights

**Momentum continues from base orders (below Rs2bn)**, while large order has seen moderation, mainly due to slowdown in petrochemical and refinery capex. However, there are 2-3 large orders (Rs2bn+) in the pipeline for the next couple of quarters

- **Healthy momentum continues** in steel, sugar, ethanol, distilleries, chemicals, pharma, F&B, etc. In cement, company expects strong traction on the back of greenfield expansion.
- **Company remains selective** and is only bidding for order with healthy margin visibility.
- **Invested equity of ~Rs1.5bn in Solar & ~Rs2.5bn in Biomass (TOESL)** that are mainly a part of company's opex businesses. Blended IRR expected from both is ~15%.
- **Waste to energy (WTE) and Biomass command ~40% of market share** in domestic market.
- **Good opportunities in exports market such as Europe, Africa etc.** along with healthy inquiry pipeline from biomass, waste to energy, etc.
- **Working on technology development of coal gasification technology** for the past 6-7 years, however has demonstrated technology in last 1-1.5 years.
- **China + 1 strategy is showing some pickup** with orders for Waste to energy equipment, which earlier went to China is now coming to India.
- **Energy: Revenue grew by 27% YoY.** Order inflows grew by 34% YoY. Order backlog remains strong at Rs68.8bn. Company's focus is on new energy areas in India. It is preparing internally for a much longer investment cycle with a 3-5-year perspective. On margin front, project business margins is likely to be 5-8%, while product and service business margins to reach 10%.
- **Environment: Revenue grew by 29% YoY.** Order inflows de-grew by 56% YoY. Order backlog remains healthy at Rs28.6bn. in FGD, it expects to book revenue worth ~Rs5-6bn for both FY23 and FY24.
- **Chemicals: Revenue grew by 6% YoY.** Order inflows declined by 11% YoY. Order backlog stands at Rs1.1bn. Segment doing well but below expectation due to slowdown in US, however bullish on growth story in long run and company is looking for capacity expansion to meet upcoming demand in long run.
- **Danstoker & Indonesia subsidiaries to break-even in next 4/5 quarters**, driven by healthy order pipeline.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>61,283</b>	<b>79,677</b>	<b>87,786</b>	<b>96,205</b>
YoY gr. (%)	27.9	30.0	10.2	9.6
Cost of Goods Sold	34,850	45,541	48,070	51,910
Gross Profit	26,433	34,135	39,716	44,295
Margin (%)	43.1	42.8	45.2	46.0
Employee Cost	8,129	9,322	10,754	11,833
Other Expenses	5,199	7,545	8,691	9,620
<b>EBITDA</b>	<b>4,214</b>	<b>6,193</b>	<b>7,718</b>	<b>9,084</b>
YoY gr. (%)	18.6	47.0	24.6	17.7
Margin (%)	6.9	7.8	8.8	9.4
Depreciation and Amortization	1,132	1,214	1,347	1,472
<b>EBIT</b>	<b>3,081</b>	<b>4,979</b>	<b>6,372</b>	<b>7,612</b>
Margin (%)	5.0	6.2	7.3	7.9
Net Interest	252	331	320	324
Other Income	1,270	1,434	1,580	1,828
<b>Profit Before Tax</b>	<b>4,100</b>	<b>6,082</b>	<b>7,632</b>	<b>9,116</b>
Margin (%)	6.7	7.6	8.7	9.5
Total Tax	978	1,472	1,923	2,297
Effective tax rate (%)	23.9	24.2	25.2	25.2
<b>Profit after tax</b>	<b>3,122</b>	<b>4,610</b>	<b>5,709</b>	<b>6,819</b>
Minority interest	-	-	-	-
Share Profit from Associate	1	-	-	-
<b>Adjusted PAT</b>	<b>3,123</b>	<b>4,610</b>	<b>5,709</b>	<b>6,819</b>
YoY gr. (%)	26.9	47.6	23.8	19.4
Margin (%)	5.1	5.8	6.5	7.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,123</b>	<b>4,610</b>	<b>5,709</b>	<b>6,819</b>
YoY gr. (%)	51.2	47.6	23.8	19.4
Margin (%)	5.1	5.8	6.5	7.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,123	4,610	5,709	6,819
<b>Equity Shares O/s (m)</b>	<b>113</b>	<b>113</b>	<b>113</b>	<b>113</b>
<b>EPS (Rs)</b>	<b>27.7</b>	<b>40.9</b>	<b>50.7</b>	<b>60.6</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>20,067</b>	<b>21,267</b>	<b>22,467</b>	<b>23,667</b>
Tangibles	20,067	21,267	22,467	23,667
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>8,525</b>	<b>9,739</b>	<b>11,085</b>	<b>12,558</b>
Tangibles	8,525	9,739	11,085	12,558
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>11,542</b>	<b>11,528</b>	<b>11,382</b>	<b>11,110</b>
Tangibles	11,542	11,528	11,382	11,110
Intangibles	-	-	-	-
Capital Work In Progress	849	849	849	849
Goodwill	-	-	-	-
Non-Current Investments	8,951	10,764	12,174	14,606
Net Deferred tax assets	1,271	1,271	1,271	1,271
Other Non-Current Assets	2,854	4,064	5,092	6,253
<b>Current Assets</b>				
Investments	7,665	7,665	7,665	7,665
Inventories	7,270	8,295	8,899	9,225
Trade receivables	14,237	17,900	19,241	21,086
Cash & Bank Balance	11,270	11,901	12,738	13,007
Other Current Assets	3,789	4,701	5,004	6,157
<b>Total Assets</b>	<b>73,309</b>	<b>81,435</b>	<b>87,239</b>	<b>95,278</b>
<b>Equity</b>				
Equity Share Capital	225	225	225	225
Other Equity	34,700	37,835	41,660	46,364
<b>Total Network</b>	<b>34,925</b>	<b>38,060</b>	<b>41,885</b>	<b>46,590</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	696	730	767	805
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	2,982	2,947	2,910	2,872
Trade payables	15,074	18,555	19,722	21,086
Other current liabilities	20,904	22,415	23,227	25,196
<b>Total Equity &amp; Liabilities</b>	<b>73,309</b>	<b>81,435</b>	<b>87,239</b>	<b>95,278</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	4,100	6,082	7,632	9,116
Add. Depreciation	995	1,214	1,347	1,472
Add. Interest	135	331	320	324
Less Financial Other Income	1,270	1,434	1,580	1,828
Add. Other	(947)	(1,434)	(1,580)	(1,828)
Op. profit before WC changes	4,283	6,193	7,718	9,084
Net Changes-WC	(5)	(1,109)	(1,971)	(2,613)
Direct tax	1,030	1,472	1,923	2,297
<b>Net cash from Op. activities</b>	<b>3,247</b>	<b>3,612</b>	<b>3,824</b>	<b>4,174</b>
Capital expenditures	(5,036)	(1,200)	(1,200)	(1,200)
Interest / Dividend Income	885	1,434	1,580	1,828
Others	(65)	(1,409)	(1,163)	(2,096)
<b>Net Cash from Invt. activities</b>	<b>(4,216)</b>	<b>(1,175)</b>	<b>(783)</b>	<b>(1,468)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	762	-	-	-
Dividend paid	(788)	(1,475)	(1,884)	(2,114)
Interest paid	(135)	(331)	(320)	(324)
Others	(45)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(206)</b>	<b>(1,806)</b>	<b>(2,204)</b>	<b>(2,437)</b>
<b>Net change in cash</b>	<b>(1,175)</b>	<b>631</b>	<b>837</b>	<b>269</b>
Free Cash Flow	2,409	2,412	2,624	2,974

Source: Company Data, PL Research

**Key Financial Metrics**

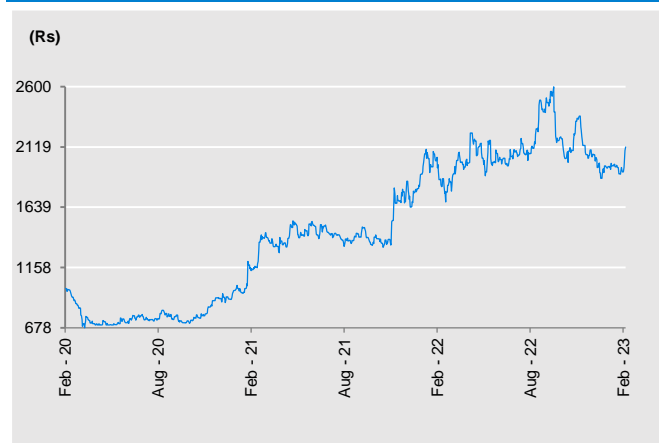
Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	27.7	40.9	50.7	60.6
CEPS	37.8	51.7	62.7	73.6
BVPS	310.2	338.0	372.0	413.8
FCF	21.4	21.4	23.3	26.4
DPS	9.0	13.1	16.7	18.8
<b>Return Ratio(%)</b>				
RoCE	8.3	12.4	14.6	15.9
ROIC	12.9	18.3	20.5	20.9
RoE	9.3	12.6	14.3	15.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	38	35	35	35
<b>Valuation(x)</b>				
PER	77.5	52.5	42.4	35.5
P/B	6.9	6.4	5.8	5.2
P/CEPS	56.9	41.5	34.3	29.2
EV/EBITDA	53.8	36.5	29.2	24.8
EV/Sales	3.7	2.8	2.6	2.3
Dividend Yield (%)	0.4	0.6	0.8	0.9

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Revenue</b>	<b>19,919</b>	<b>16,545</b>	<b>20,753</b>	<b>20,493</b>
YoY gr. (%)	26.5	57.2	41.2	26.9
Raw Material Expenses	12,385	9,707	12,323	11,451
Gross Profit	7,534	6,838	8,430	9,042
Margin (%)	37.8	41.3	40.6	44.1
<b>EBITDA</b>	<b>1,352</b>	<b>960</b>	<b>1,406</b>	<b>1,611</b>
YoY gr. (%)	(3.2)	52.3	27.8	42.4
Margin (%)	6.8	5.8	6.8	7.9
Depreciation / Depletion	295	286	298	291
<b>EBIT</b>	<b>1,058</b>	<b>675</b>	<b>1,108</b>	<b>1,320</b>
Margin (%)	5.3	4.1	5.3	6.4
Net Interest	101	66	80	91
Other Income	357	205	398	423
<b>Profit before Tax</b>	<b>1,314</b>	<b>814</b>	<b>1,426</b>	<b>1,652</b>
Margin (%)	6.6	4.9	6.9	8.1
Total Tax	290	224	332	386
Effective tax rate (%)	22.1	27.5	23.3	23.3
<b>Profit after Tax</b>	<b>1,024</b>	<b>590</b>	<b>1,094</b>	<b>1,267</b>
Minority interest	-	-	-	-
Share Profit from Associates	1	(1)	(2)	(3)
<b>Adjusted PAT</b>	<b>1,025</b>	<b>589</b>	<b>1,091</b>	<b>1,264</b>
YoY gr. (%)	(4.5)	39.0	24.1	59.1
Margin (%)	5.1	3.6	5.3	6.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,025</b>	<b>589</b>	<b>1,091</b>	<b>1,264</b>
YoY gr. (%)	(4.5)	39.0	24.1	59.1
Margin (%)	5.1	3.6	5.3	6.2
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,025</b>	<b>589</b>	<b>1,091</b>	<b>1,264</b>
Avg. Shares O/s (m)	113	113	113	113
<b>EPS (Rs)</b>	<b>9.1</b>	<b>5.2</b>	<b>9.7</b>	<b>11.2</b>

Source: Company Data, PL Research

**Price Chart**

**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jan-23	Accumulate	2,556	1,956
2	14-Nov-22	Accumulate	2,556	2,276
3	04-Oct-22	Accumulate	2,190	2,199
4	03-Aug-22	Accumulate	2,190	2,019
5	05-Jul-22	Accumulate	2,181	2,049
6	23-May-22	Accumulate	2,181	2,025
7	08-Apr-22	Accumulate	2,158	1,970

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	3,291	2,689
2	Apar Industries	BUY	2,260	1,687
3	Bharat Electronics	BUY	125	93
4	BHEL	Sell	36	80
5	Cummins India	Accumulate	1,708	1,578
6	Engineers India	BUY	89	80
7	GE T&D India	Hold	102	116
8	Kalpataru Power Transmission	BUY	670	493
9	KEC International	Accumulate	500	457
10	Larsen & Toubro	BUY	2,481	2,113
11	Praj Industries	BUY	495	364
12	Siemens	Accumulate	3,290	2,837
13	Thermax	Accumulate	2,556	1,956
14	Triveni Turbine	BUY	340	276
15	Voltamp Transformers	Hold	3,055	2,949

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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