August 4, 2023 **Company Update**

THERMAX LIMITED

.....positioning itself towards energy transition

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Thermax (TMX) witnessed a decent Q1FY24 performance wherein the execution was inline while legacy FGD projects execution continue to weigh on industrial margins. TMX reported revenue/EBITDA/APAT of ₹19/1.3/1.1bn Order inflows sustained momentum in Q1FY24 at ₹25.7bn driven by multiple boiler orders from the steel & distillery sectors. Strong ordering pipeline commentary from management with good medium-sized projects seen across different sectors. Going ahead, we expect order inflow would continue to stay strong with major project announcements (during recent 12-15 months) by core industries while large orders would likely follow by Q4FY24. In exports, enquiry pipeline remains strong, driven by waste to energy, waste heat recovery, and biomass projects. After plateauing over the past two quarters, TMX's order book has risen from ₹97bn in Q4FY23 to ₹105bn. The Q1 order inflow stood at ₹25.7bn, with base orders forming 70-75% and growing in double digits.

The chemical segment is anticipated to grow above 20% with management indicating that it would continue to invest in capacities and building up capabilities in adjacency chemicals. Meanwhile, TMX continues to invest in new products such as closed-loop cooling towers (CLCT) technology, heat pumps, solar business under subsidiary FEPL, biomass-to-hydrogen under TOESL and developing adiabatic cooling towers. They are also launching solutions for Zero Liquid Discharge (ZLD) water treatment and have plans to incorporate desalination in their water capabilities. Going forward, TMX stands to benefit from the investment in clean energy, sustainability, decarbonisation, normalisation of the international market and impetus on cleaner air and water. Hence we recommend BUY with a price target of ₹2,825 (40x FY25E EPS).

Q1FY24 Result Summary: TMX's Q1FY24 revenue grew 17% YoY to ₹19.3bn, with the industrial products business up 26% to ₹8.4bn, industrial infrastructure up 13% to ₹9.2bn, green solutions up ~2x to ₹1.1bn and chemicals rising 7% to ₹1.6bn. EBITDA grew 38% YoY to ₹1.3bn but the margin was muted at 6.8% (+105bps) due to legacy infrastructure orders under execution.

Key Financials	FY22	FY23	FY24E	FY25E
Total Sales (Rs mn)	61,283	80,898	94,818	106,706
EBITDA Margins (%)	6.9	7.4	8.4	9.1
PAT Margins (%)	5.1	5.6	6.5	7.2
EPS (Rs)	27.7	40.0	50.4	68.2
P/E (x)	91.2	63.3	50.2	37.1
P/BV (x)	5.9	5.1	6.9	5.9
EV/EBITDA (x)	45.8	32.1	26.1	20.9
RoE (%)	7.8	10.0	17.3	17.2
RoCE (%)	12.7	17.2	21.2	20.6
Dividend Yield (%)	0.3	0.4	0.3	0.3

Rating	BUY
Current Market Price (₹)	2,530
12 M Price Target (₹)	2,825
Potential upside (%)	12

Stock Data	
Sector :	Heavy Electrical Equipment
FV (₹) :	2
Total Market Cap (₹ bn) :	303
Free Float Market Cap (₹ bn) :	96
52-Week High / Low (₹)	2,729 / 1,831
BSE Code / NSE Symbol	500411 / THERMAX
Bloomberg :	NTMX:IN

Shareholding Pattern

(%)	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	61.98	61.98	61.98	61.98
MFs	13.52	13.62	13.39	13.48
FPIs	12.35	12.29	12.27	12.35
Insurance	1.94	1.98	1.88	1.79
Others	10.21	10.13	10.48	10.40

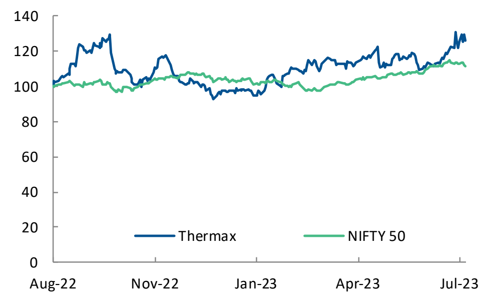
Source: BSE

Price Performance

(%)	1M	3M	6M	1Yr
Thermax	11.6%	8.7%	31.8%	22.0%
Nifty 50	0.3%	7.1%	8.6%	11.5%

** To date / current date : August 3, 2023*

Thermax vs Nifty 50



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Going forward, TMX will commence more lucrative projects, aiding full-year margins. Adj. PAT increased 88% YoY to ₹1bn in Q1, excluding one-time provisioning of ₹500mn for arbitration award that went against the company. On the international front Management indicated that international subsidiaries had fallen short of order intake and operating margin expectations in Q1, with cost run-ups in some projects. While the company expects both overseas subsidiaries, Danstoker and PTTI, to be profitable in 15-18 months as guided previously, the turnaround is likely to be faster for Danstoker than PTTI in FY24.

Healthy order inflows, pipeline commentary strong: During Q1FY24, TMX received orders worth ₹25.7bn (+11%/+14% YoY/QoQ) as a result the closing order book stands at ₹105bn (+10%/+8% YoY/QoQ). 20% of the total orders were from the international market. 70-75% of the orders were base orders with double-digit annual growth. During the quarter, TMX bagged multiple boiler orders from the steel and distillery segment. Enquiry inflow from food, chemical and distillery remains strong, with signs of improvement in the cement segment. The international order pipeline is strong with more than ₹20bn consisting of large boilers and EPC projects. After plateauing over the past two quarters, TMX's order book has risen from ₹97bn in Q4FY23 to ₹105bn During Q1FY24, industrial products/industrial infra/green solutions/ chemical divisions bagged ₹12/11/0.8/1.6bn worth of orders with the respective order books standing at ₹33/64/7/1bn totaling ₹105bn.

Outlook

TMX with 14 manufacturing locations is in our view well placed to be the leader in clean water, clean air and clean energy solutions. We believe capex growth should sustain, backed by infra, PLI linked capex, industrial capex and housing recovery. Directionally, as revenues mirror the macro trends, margin outlook should improve. Further the order inflow and pipeline remains strong and the order book at ₹105bn provides healthy visibility ahead. It continues to invest in new products to reap benefits ahead. Going forward, TMX's growth is expected to be driven by industrial growth and new capacity in various sectors, increasing demand for green solutions to address environmental concerns, and opportunities arising from urbanization and emerging applications. Hence, we recommend BUY with a price target of ₹2,825 (40x FY25E EPS).

Risks:

- Impact of commodity price increase
- Disruption in global supply chain
- Change in government policy
- Execution risk on large projects
- International markets with low price competition from local players

Quarterly Profit and Loss Statement

(₹ mn)	Q1FY24	Q1FY23	YoY%	Q4FY23	QoQ%
Net sales	19,330	16,545	*16.8%*	23,108	*-16%*
Net raw material	10,774	9,707	*11.0%*	12,767	*-16%*
Employee Expenses	2,558	2,149	*19.0%*	2,655	*-4%*
Other Expenses	4,676	3,729	*25.4%*	5,688	*-18%*
Operating profit	**1,322**	**960**	***37.7%***	**1,999**	***-34%***
Other Income	531	205	*158.3%*	575	*-8%*
Interest	133.7	65.7	*103.5%*	139.2	*-4%*
Depreciation	294	286	*3.0%*	294	*0%*
PBT	1,425	814	*74.9%*	2,140	*-33%*
Tax	315	224	*40.5%*	581	*-46%*
Adj.PAT	**1,103**	**589**	***87.1%***	**1,560**	***-29%***
Extraordinary items	(51)	-		-	
Rep PAT	**597**	**589**	***1.2%***	**1,560**	***-62%***
EPS (Rs)	5.3	5.2	*1.2%*	13.9	*-62%*
Margin			*bps*		*bps*
OPM	*6.8%*	*5.8%*	*104*	*8.7%*	*(181)*
PATM	*5.7%*	*3.6%*	*214*	*6.8%*	*(104)*
Tax rate	*22.1%*	*27.5%*		*27.2%*	

Source: Company, LKP Research

Conference call KTAs

- **Order inflows outlook:** The outlook for large opportunities in the next couple of quarters appears limited for TMX, particularly in the refining space. The company expects no significant projects in the range of ₹5bn to ₹10bn. However, there are a few opportunities in the sub ₹5bn range. Regarding larger projects, TMX is currently bidding on less than five such projects for the entire year.

- Despite the modest outlook for larger orders, the company remains optimistic about a steady pipeline of good medium-sized projects across different sectors. However, there are no noteworthy developments in the refining sector that merit attention, even in terms of bidding for projects.

- In Q1FY24, the company received a mix of orders, which included both base orders and some larger orders. Notably, there was a single order worth ₹2.5bn plus, along with a few other orders valued at ₹1bn plus.

- **Major growth drivers for TMX:** TMX's management identifies three major drivers for the company's growth:

  - **Industrial growth and new capacity:** As industrial growth remains positive, new capacity is being established in various industries. Regardless of the industry, new capacity requires utilities such as water and steam, which opens up opportunities for TMX to provide its solutions in this space. Many industries need support in terms of utilities, and this has resulted in an increased inquiry pipeline for TMX.

  - **Green portfolio and environmental concerns:** The focus on sustainability and environmental protection is driving the demand for green solutions. Industries that heavily rely on coal or produce effluents are seeking ways to reduce their environmental impact. Zero liquid discharge systems and water-saving solutions are becoming increasingly relevant. TMX is well-positioned to address these needs and provide products and services that aid in cutting down water usage and ensuring more sustainable operations

  - **Urbanization and emerging applications:** The trend of urbanization has given rise to the need for sewage and waste treatment solutions. Additionally, emerging applications in industries like ethanol production and desalination require newer products and capabilities. TMX aims to tap into these opportunities and provide innovative solutions to meet the evolving demands in these sectors.

- Furthermore, TMX is exploring growth opportunities in the cooling and heating sectors. The company is venturing into newer areas like heat pumps, closed-loop cooling towers (CLCTs), and adiabatic cooling towers. In the heating segment, TMX has launched electric boilers. Additionally, the company is actively involved in providing air pollution control solutions in India.

- **Update on FEPL and TOESL:** The combined borrowing for both businesses, FEPL and TOESL, amounts to approximately ₹5bn. On the equity side, FEPL has around ₹2.5bn of equity. For TOESL, the company has invested ₹0.65bn of equity

- **FEPL:** In Q1FY24, FEPL successfully completed a major project in Gujarat, a 45MW solar wind hybrid facility. Currently, FEPL has operational projects in Tamil Nadu, Maharashtra, and Gujarat, with a combined capacity of 70MW. Progress is ongoing for their 120MW wind and solar hybrid project in Tamil Nadu.

- Additionally, FEPL is actively exploring opportunities in ISTS, seeking to provide renewable energy solutions to customers across different states. They are also looking into energy storage and other initiatives to expand their renewable energy portfolio.

- **TOESL:** TOESL has a robust and ambitious pipeline, and they expect to achieve their highest order book in several years this year. The company's business has grown significantly from less than ₹0.8bn three and a half years ago to a current run rate of over ₹1bn per quarter. The goal is to further expand their revenue and reach an annual turnover of ₹8bn within the next couple of years. TOESL sees promising opportunities ahead and is considering taking their business model to the international market as well.

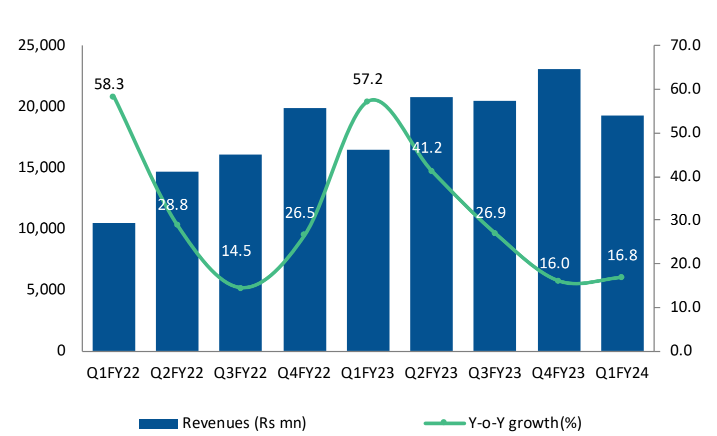
- **Focus on new products:** In the cooling sector, the company is focusing on closed-loop cooling towers (CLCT) technology, which requires less water and is relatively less competitive in India due to its complexity. They are also venturing into heat pumps, an area largely dominated by global players, but untapped in India. Additionally, the company has developed technology for adiabatic cooling towers and is launching solutions in the Zero Liquid Discharge (ZLD) space for treating difficult-to-treat water. Over time, they anticipate incorporating desalination as a significant part of their water capabilities

- **Industrial infra business:** In the industrial infrastructure sector, which involves long-cycle projects, the company follows a practice of booking and confirming costs immediately when orders are received. For instance, for steel, which is a significant component in their projects, they place orders right away upon confirmation of the project. And in projects, like the FGD (Flue Gas Desulfurization) ones, might have lower profitability, and this is expected to remain the case.

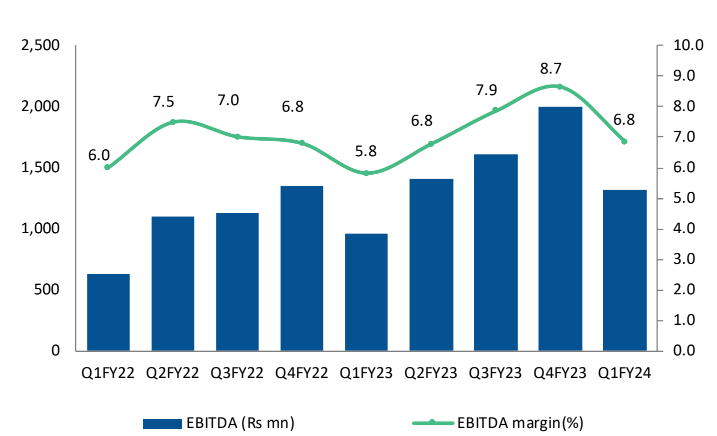
- During the quarter, the Company received an Arbitral Award for repair, Payment of damages, etc. for breakdown of third party GTGs for a customer project. As per the award, the company was directed to repair and reinstate the GTGs under the defect liability obligation. Further, among other matters, the Award also allowed the Customer's claim on additional expenditure along with interest which is currently estimated at ₹2.5bn. Pertinently, the company has made a provision of ₹506mn.

Financials in charts

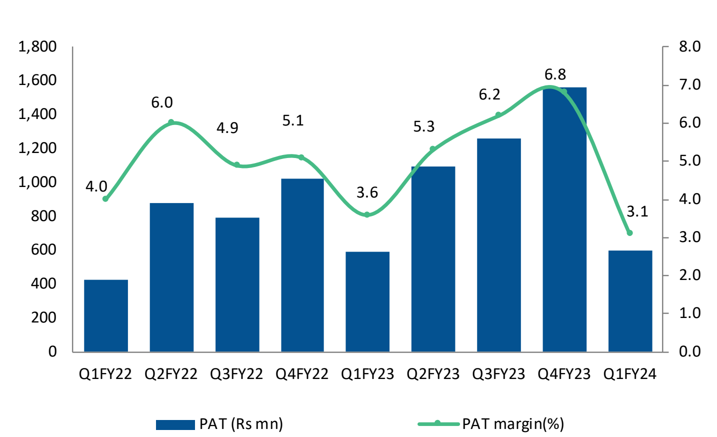
Revenue Trend



EBITDA & EBITDA Margin trend

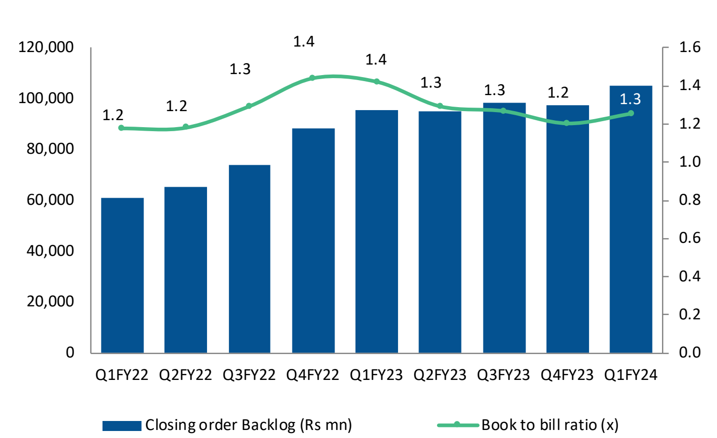


Adjusted Profit & Profit Margin trend

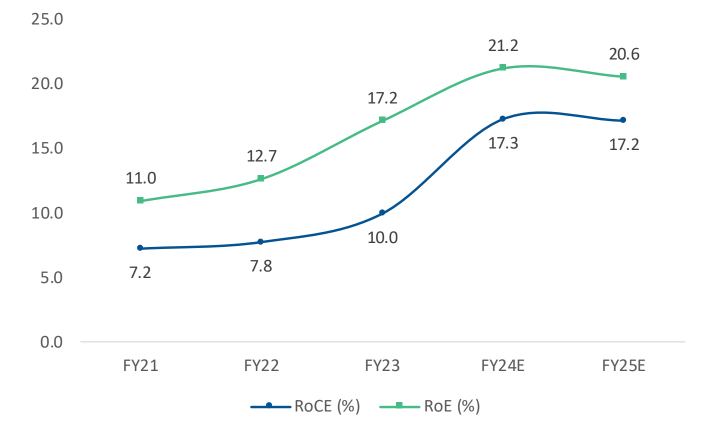


Order book and growth

Order inflow



RoE RoCE



Profit and Loss Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Total Income	47,913	61,283	80,898	94,818	106,706
Raw material Cost	25,386	34,850	46,247	54,331	61,143
Employee Cost	7,588	8,129	9,542	10,019	10,520
Other expenses	11,387	14,090	19,134	22,472	25,289
Total operating Expenses	**44,361**	**57,070**	**74,923**	**86,821**	**96,952**
EBITDA	**3,552**	**4,214**	**5,976**	**7,997**	**9,754**
EBITDA Margins(%)	*7.4*	*6.9*	*7.4*	*8.4*	*9.1*
Depreciation & Amortisation	1,146	1,132	1,169	1,302	1,408
EBIT	**2,406**	**3,081**	**4,807**	**6,695**	**8,346**
Interest	206	252	376	320	320
Other Income	1,077	1,270	1,602	1,896	2,241
Recurring PBT	**3,277**	**4,100**	**6,033**	**8,271**	**10,267**
Add: Extraordinaries	(53)	-	-	(506)	-
Add: Share in associates	-	-	-	-	-
PBT	3,225	4,100	6,033	7,765	10,267
Less: Taxes	686	978	1,524	2,089	2,584
Less: Minority Interest & Share in associates	-	-	-	-	-
Net Income (Reported)	**2,591**	**3,122**	**4,509**	**5,676**	**7,683**
Adjusted Net Income	**2,591**	**3,122**	**4,509**	**6,182**	**7,683**

Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Assets					
Total Current Assets	48,452	45,161	54,141	66,285	77,033
of which cash & cash eqv.	19,392	9,535	11,316	16,148	20,610
Total Current Liabilities & Provisions	29,434	36,101	41,549	48,525	54,187
Net Current Assets	19,018	9,059	12,591	17,760	22,846
Investments	2,345	14,765	16,261	17,494	18,751
Net Fixed Assets	12,390	11,917	12,451	11,649	10,991
Capital Work-in-Progress	211	443	4,338	600	650
Goodwill	61	30	30	30	30
Total Assets	**34,024**	**36,215**	**45,671**	**47,534**	**53,267**
Liabilities					
Borrowings	3,051	3,554	8,105	7,105	6,105
Deferred Tax Liability	(1,540)	(1,271)	(1,057)	(1,057)	(1,057)
Minority Interest	-	-	-	-	-
Equity Share Capital	225	225	225	225	225
Face Value per share (Rs)	2.0	2.0	2.0	2.0	2.0
Reserves & Surplus	32,289	34,700	38,456	41,260	47,994
Net Worth	32,514	34,925	38,681	41,485	48,219
Total Liabilities	**34,024**	**36,215**	**45,671**	**47,534**	**53,267**

Cash Flow

YE Mar	FY21	FY22	FY23	FY24E	FY25E
Cash flow from operations	7,596	1,161	2,327	8,288	7,410
Capital expenditures	-419	-4,467	-5,047	-3,428	-1,458
Change in investments	641	-1242	-150	-123	-126
Other investing cash flows	266	885	696	-1,307	-1,178
Cash flow from investing	-6,357	-4,216	-6,797	-2,908	-2,740
Equities issued/Others	-	-	-	-	-
Debt raised/repaid	935.2	503.6	4551.2	1000	1000
Interest expenses	-	-	-	-	-
Dividends paid	-	-	-	-	-
Other financing cash flows	-174	-968	-996	-1,690	-2,497
Cash flow from financing	772	-206	3,485	-4,848	-3,197
Chg in cash & cash eq.	2,110	-1,175	1,284	6,224	2,093
Closing cash & cash eq.	19,392	9,535	11,316	16,148	20,610

Key Ratios

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Per Share Data (in Rs.)					
AEPS	18.3	27.7	40.0	50.4	68.2
CEPS	28.5	37.8	50.4	62.0	80.7
BVPS	368.4	428.2	496.4	368.4	428.2
DPS	-	7.0	9.1	7.0	7.0
Growth Ratios (%)					
Total Revenues	(15.3)	27.9	32.0	17.2	12.5
EBITDA	(12.6)	18.6	41.8	33.8	22.0
PAT	22.0	20.5	44.4	37.1	24.3
AEPS	(2.8)	51.2	44.2	26.0	35.4
CEPS	(2.4)	32.5	33.5	22.9	30.3
Valuation Ratios					
P/E	137.9	91.2	63.3	50.2	37.1
P/CEPS	88.7	67.0	50.2	40.8	31.3
P/BV	6.9	5.9	5.1	6.9	5.9
EV / EBITDA	55.7	45.8	32.1	26.1	20.9
EV / Sales	5.4	4.1	3.0	2.7	2.4
Operating Ratio					
Raw Material/Sales (%)	53.0	56.9	57.2	57.3	57.3
SG&A/Sales (%)	23.8	23.0	23.7	23.7	23.7
Effective Tax Rate (%)	20.9	23.9	25.3	25.3	25.2
Inventory Turnover (days)	30.8	43.3	34.1	34.0	34.0
Receivables (days)	101.9	95.1	84.7	85.0	85.0
Payables (days)	224.0	215.6	190.6	191.0	191.0
D/E Ratio (x)	0.1	0.1	0.2	0.2	0.1
Return/Profitability Ratio (%)					
RoCE	11.0	12.7	17.2	21.2	20.6
RoNW	7.2	7.8	10.0	17.3	17.2
Dividend Payout Ratio	0.0	25.2	22.7	13.9	10.3
Dividend Yield	0.0	0.3	0.4	0.3	0.3
PAT Margins	5.4	5.1	5.6	6.5	7.2
EBITDA Margins	7.4	6.9	7.4	8.4	9.1

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