



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

Updated Aug 08, 2023

31.25

High Risk

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

Source: Morningstar

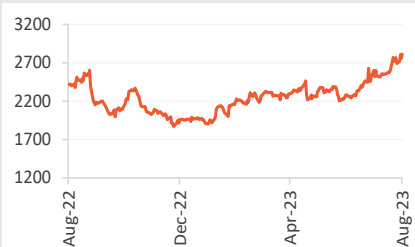
Company details

Market cap:	Rs. 33,469 cr
52-week high/low:	Rs. 2,848/1,831
NSE volume: (No of shares)	0.54 lakh
BSE code:	500411
NSE code:	THERMAX
Free float: (No of shares)	4.5 cr

Shareholding (%)

Promoters	62.0
FII	12.4
DII	15.5
Others	10.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.2	20.3	30.4	14.0
Relative to Sensex	10.7	16.8	20.5	4.7

Sharekhan Research, Bloomberg

Thermax Ltd

Ready for a green leap

Capital Goods

Sharekhan code: THERMAX

Reco/View: Buy



CMP: Rs. 2,809

Price Target: Rs. 3,235



Upgrade



Maintain



Downgrade

Summary

- The FY23 annual report focuses on tapping opportunities in green energy in both domestic and overseas markets by expanding the product portfolio and increasing scope of its services and solutions.
- The company has a pipeline of international orders worth Rs. 2,000 crore, while the mid to small order pipeline in the domestic market is also encouraging in the near term.
- Thermax has a well-diversified order book of Rs. 10,505 crore. Contribution of high margin and low capital intensive products and services business has also increased to ~49% (vs 38% in FY22) in order bookings.
- We maintain a Buy on Thermax with a revised PT of Rs. 3,235, as we believe that apart from traditional business, its new focus areas – BOO model for wind/solar projects and new products in chemicals business would yield results in the long term. We build in a ~15%/~29% revenue/PAT CAGR (FY23-FY26E) and roll forward our estimates to September FY25E EPS.

FY23 annual report reflects the company's focus on expanding its green offerings in all its key segments – industrial infra, industrial products and green solutions. Apart from a strong pipeline for small to mid-sized orders in domestic market, the company has a promising order pipeline in its international business as well. The company is focused on growing its products and services businesses, which command higher margins and cash flow generation is also faster. Moreover, its build own operate (BOO) model through First Energy Private Ltd. (FEPL) and Thermax Onsite Energy Solutions Limited (TOESL) is progressing well. In chemicals, it is widening market reach by expanding into Canada, Mexico, and Latin America. The largely fixed nature of its industrial infra business is a positive as commodity prices are cooling off and this would reflect in the margins going forward. Thermax is debt-free with high cash, low working capital cycle and overall healthy balance sheet.

Focus on green energy to drive long-term growth

Emphasis on clean energy is driving shift in the energy mix and there has been an increase in demand for renewable energy, waste-to-energy, waste heat recovery plants and biofuels with focus on sustainability and energy-efficient solutions. Thermax is also offering value-added service offerings, such as Industrial Internet of Things (IIoT) solutions, remote assistance technology and automation to strengthen presence in the overseas markets. The company constructs solar, wind and hybrid farms (and storage) based on the opex/BOO model, through its subsidiary FEPL. Currently, the company has approved projects for Tamil Nadu, Maharashtra and Gujarat and is also working on projects on ISTS (Inter State Transmission System) basis. The company targets a minimum IRR of 15% on these projects. The subsidiary currently has an equity of Rs. 250 crore. TOESL which provides biomass and other green fuels has now ventured into international geographies such as Indonesia and Sri Lanka. TOESL is expanding its portfolio to include cogeneration, recycled water, biomass gasification, and bio-CNG, and also spreading geographically. The company has a strong pipeline and aims to achieve highest order book for TOESL in FY24E. Currently, the turnover run rate for TOESL is Rs. 100 crore per quarter, which is expected to increase to Rs. 800 crore per year in the next couple of years.

Encouraging order pipeline of small to medium sized projects

The company has a sizeable pipeline of small to medium-sized projects in both industrial infra and industrial products. In refinery any greenfield mega project is unlikely to roll in the near future. Although some private players are looking at petrochemical and large-scale investments, the refining capex cycle is likely to begin after 3 years. The company has a big pipeline of larger projects on the international side which amounts to close to Rs. 2,000 crore and its a mix of waste heat recovery, waste to energy orders and biomass orders. Pipeline for the Danstoker business, which mainly caters to boilers is also strong.

Chemicals segment growth to be driven by new products

The company expects a ~20% growth in the chemicals segment as the management continues to invest in capacities and introducing new products. There has been an increase in demand for solvent-free and low total organic carbon (TOC) resins for ultrapure water applications in food, pharma and electronics industries. The company is widening the market reach of water treatment chemicals by focusing on digitalisation and remote monitoring of water treatment products and systems. It is also expanding into Canada, Mexico, and Latin America markets through its distribution channel with a focus on mix bed application in the North American market. The company is planning a collaboration with a technology partner for its catalyst product line and to develop lithium and perfluorooctane sulfonate (PFOS)/ Perfluorooctanoic acid (PFOA) removal applications.

Revision in estimates – We have marginally tweaked our estimates and introduced FY26E estimates.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 3,235: Thermax has a healthy order book and promising enquiry pipeline particularly for its green energy offerings. Although, near to medium outlook for big-ticket orders from steel, oil and gas, refinery, and petrochemicals continues to be cautiously optimistic. We believe in the long run, Thermax is expected to benefit from India's transition to green energy given its varied offerings in all its key segments. Further, its opex-based model through its two subsidiaries for wind and solar plants is gaining traction. As per annual report, international opportunities in biomass, waste heat recovery (WHR), and water desalination are increasing and has a robust order pipeline. Thermax focuses on launching innovative products in all its segments, which bodes well for long-term growth. Further, low debt, cash and investments of Rs. 2,524 crore and a lean working capital cycle give us comfort. Hence, despite the run up, we reiterate our Buy rating on the stock with a revised price target (PT) of Rs. 3,235, valuing the stock on its September FY25E EPS.

Key Risks

- Slowdown in private capex and absence of large orders may affect order bookings.
- Volatility in commodity prices and supply-side challenges may continue to impact sales in the near term.

Valuation (Consolidated)

Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Net Sales	8,090	9,539	10,876	12,319
OPM (%)	7.4	8.7	9.3	9.9
Adj. Net Profit	451	651	802	974
% Growth y-o-y	44.3	44.5	23.2	21.5
Adj. EPS (Rs.)	37.8	54.7	67.3	81.8
PER (x)	74.3	51.4	41.7	34.4
P/B (x)	8.7	7.8	6.8	5.9
EV/EBIDTA (x)	41.6	30.8	25.3	20.9
ROCE (%)	15.0	18.3	20.3	21.9
RONW (%)	12.3	16.0	17.5	18.6

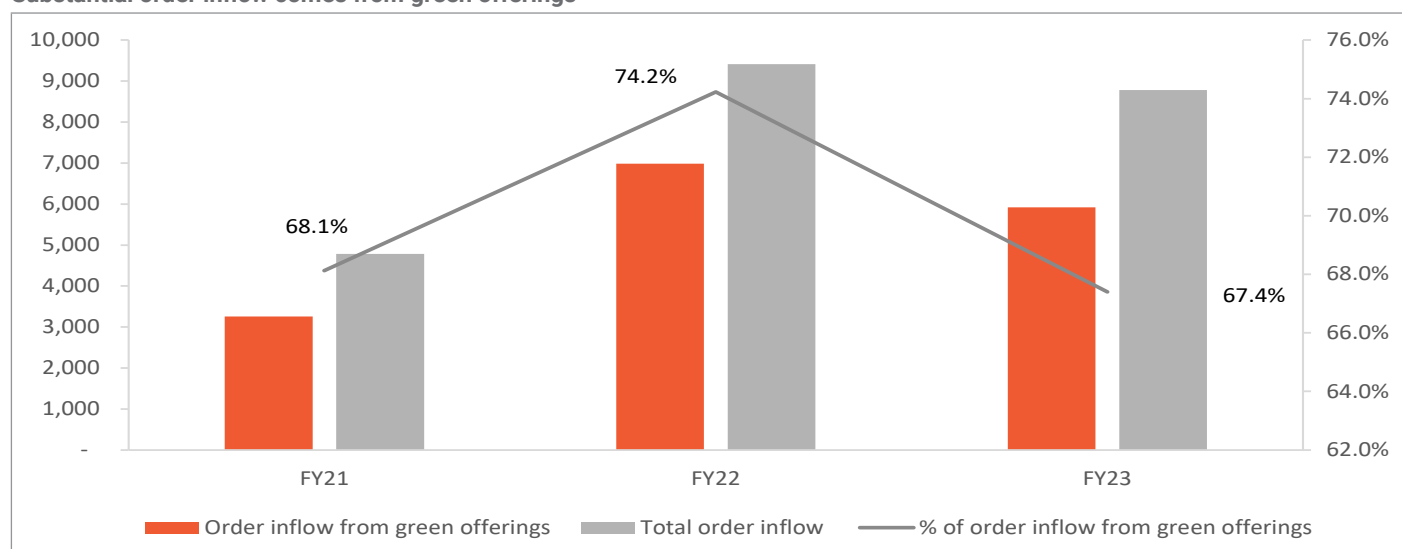
Source: Company; Sharekhan estimates

Annual Report Excerpts

Focus on green solutions would drive long-term growth in both domestic and international markets

Thermax's emphasis on clean energy is driving shift in the energy mix and there has been an increase in demand for renewable energy, waste-to-energy, waste heat recovery plants and biofuels with a focus on sustainability and energy-efficient solutions. The company is also strengthening its green portfolio with waste heat recovery and waste-to-energy solutions and also offering value-added service offerings, such as Industrial Internet of Things (IIoT) solutions, remote assistance technology and automation to strengthen presence in the overseas markets.

Substantial order inflow comes from green offerings

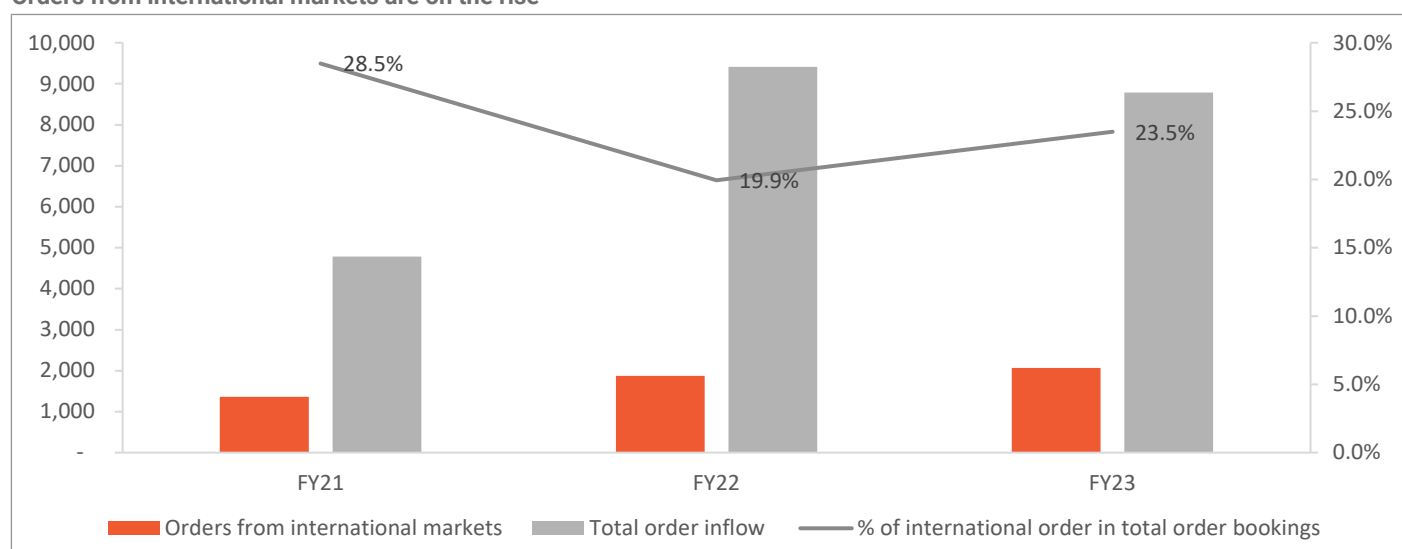


Source: Thermax Annual Report 2023, Sharekhan Research

Encouraging pipeline of small to medium sized orders

The company has a sizeable pipeline of small to medium-sized projects in both industrial infra and industrial products. In refinery any greenfield mega project is unlikely to roll in the near future. Although some private players are looking at petrochemical and large-scale investments, refining capex cycle is likely to begin after three years. The company has a big pipeline of larger projects on the international side which amounts to close to Rs. 2,000 crore and it is a mix of waste heat recovery, waste to energy and biomass orders. Pipeline for the Danstoker business which mainly caters to boilers is also strong.

Orders from international markets are on the rise



Source: Thermax Annual Report 2023, Sharekhan Research

Update on First Energy Private Ltd. (FEPL)

Thermax constructs solar, wind and hybrid farms (and storage) based on the opex/BOO model, through its subsidiary FEPL. The company has a 120 MW wind & solar hybrid project in Tamil Nadu which is in advanced stages of execution. The company has approved projects for Tamil Nadu, Maharashtra and Gujarat and is also working on projects on ISTS (Inter State Transmission System) basis. The company aims a minimum IRR of 15% on these projects. The subsidiary currently has an equity of Rs. 250 crore.

Update on Thermax Onsite Energy Solutions Limited (TOESL)

TOESL has now ventured into international geographies such as Indonesia and Sri Lanka. TOESL is expanding its portfolio to include cogeneration, recycled water, biomass gasification, and bio-CNG. The company has a strong pipeline and aims to achieve highest order book for TOESL in FY24E. Currently, the turnover rate is Rs. 100 crore per quarter and within a couple of years, it is expected to increase to Rs. 800 crore per year.

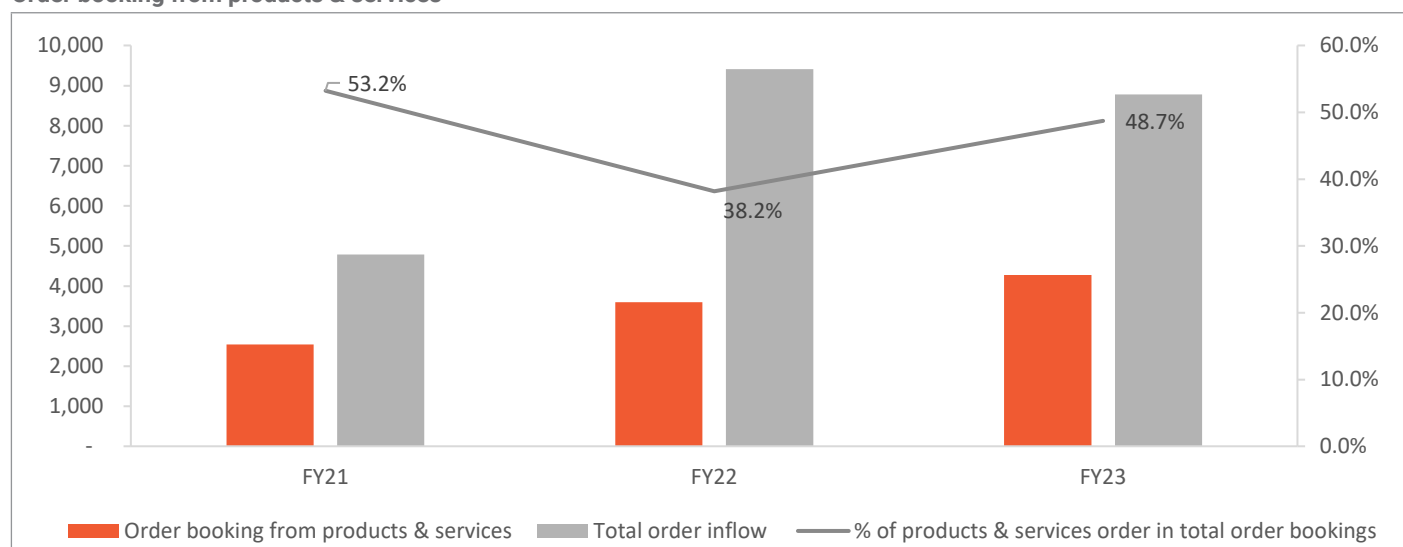
Chemicals segment has huge growth potential

The chemical segment is anticipated to grow above 20% as the company continues to invest in capacities and building up capabilities in adjacency chemicals. The company is into construction chemicals including water proofing-, ion exchange resins, oil field and performance chemicals. There has been an increase in demand for solvent-free and low total organic carbon (TOC) resins for ultrapure water applications in food, pharma and electronics industries. The company is widening the reach of water treatment chemicals by focusing on digitalization and remote monitoring of water treatment products and systems. It is also expanding into Canada, Mexico, and Latin America markets through its distribution channel with a focus on mix bed application in North America. The company is planning a collaboration with a technology partner for its catalyst product line and to develop lithium and PFOS/PFOA removal applications. The segment accounted for 8.1% (8.5% in FY 2021-22) of consolidated revenues in FY23.

Products and services portfolio growing at a swift pace

In FY23, the company's order bookings for products and services portfolio was Rs. 4,279 crore (up 19% y-o-y). The growth in order value can be attributed to offering comprehensive solutions for revamping and retrofitting, besides operations and maintenance services. The increase in contribution from products and services portfolio bodes well for the company as it entails higher margins and faster cash flow generation.

Order booking from products & services

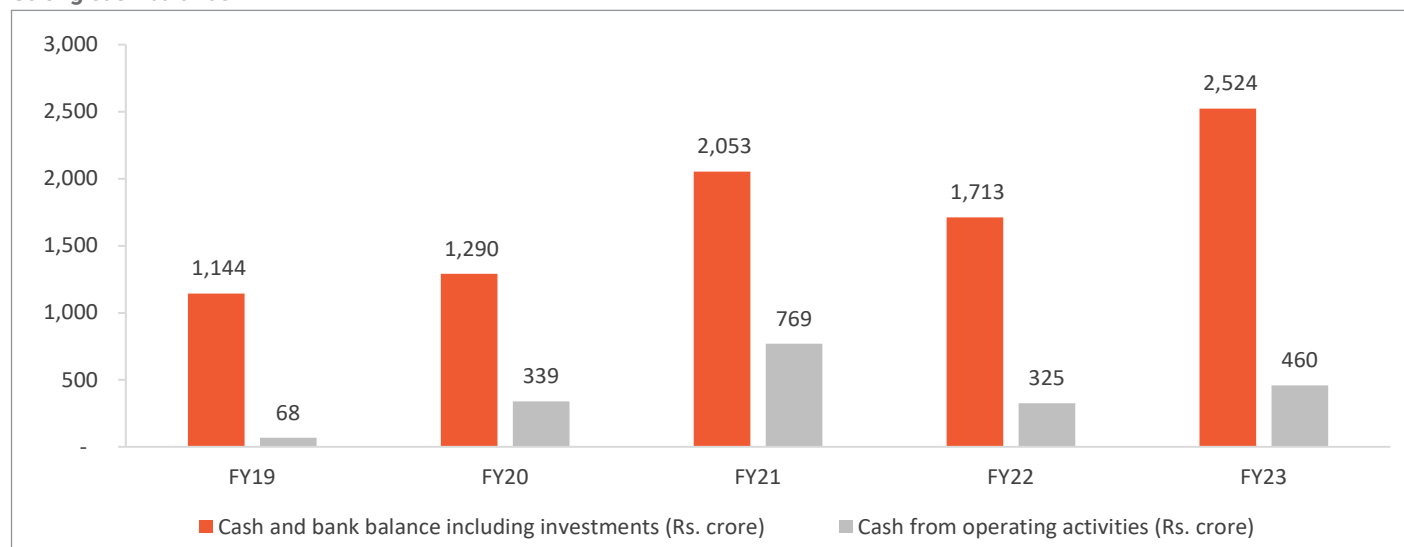


Source: Thermax Annual Report 2023, Sharekhan Research

Healthy balance sheet with strong cash and lean working capital cycle (WCC)

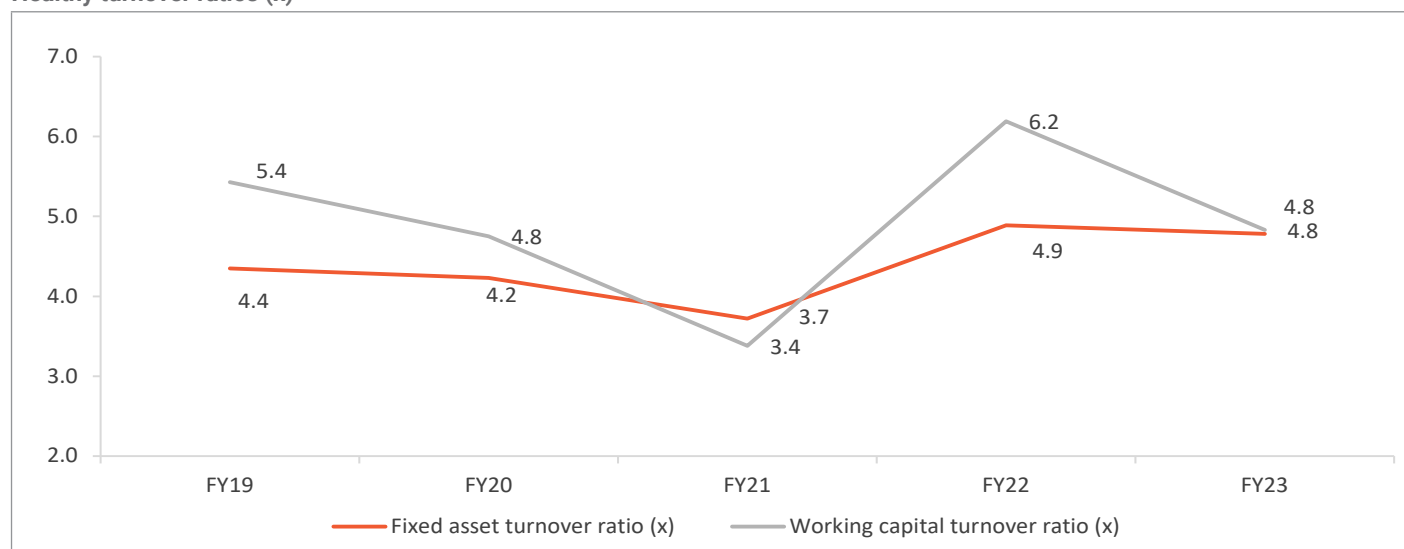
In FY23, cash flow from operating activities increased due to better collection, improvement in inventory consumption and better working capital management.

Strong cash balance



Source: Thermax Annual Report 2023, Sharekhan Research

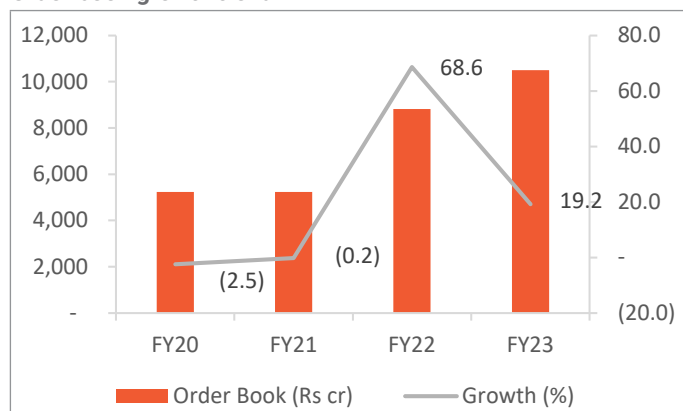
Healthy turnover ratios (x)



Source: Thermax Annual Report 2023, Sharekhan Research

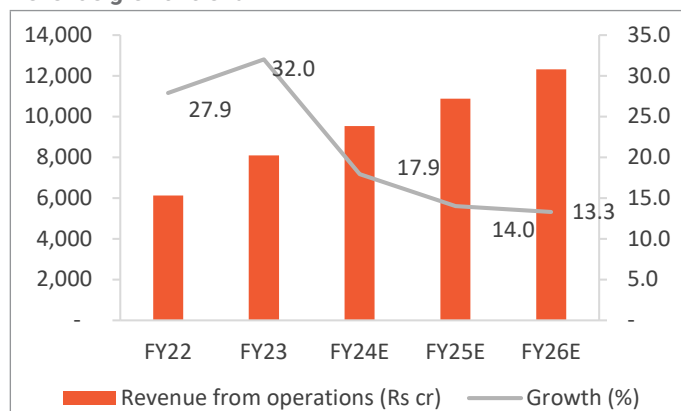
Financials in charts

Order book growth trend



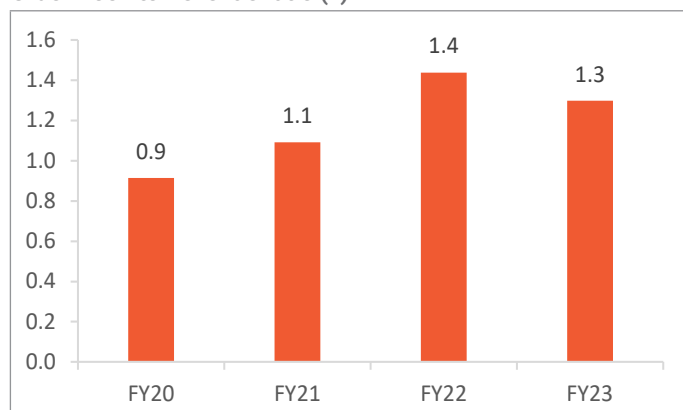
Source: Company, Sharekhan Research

Revenue growth trend



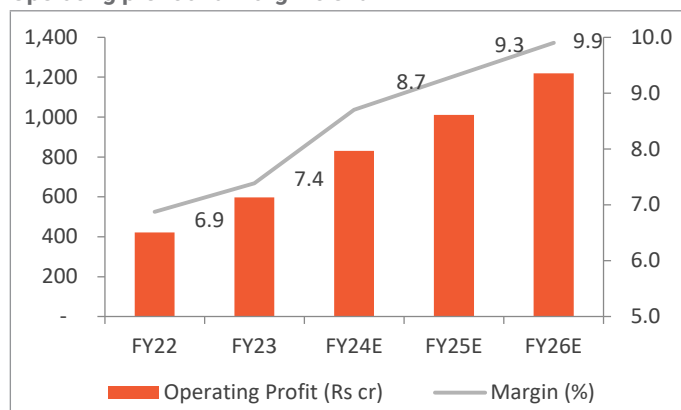
Source: Company, Sharekhan Research

Order Book to Revenue ratio (x)



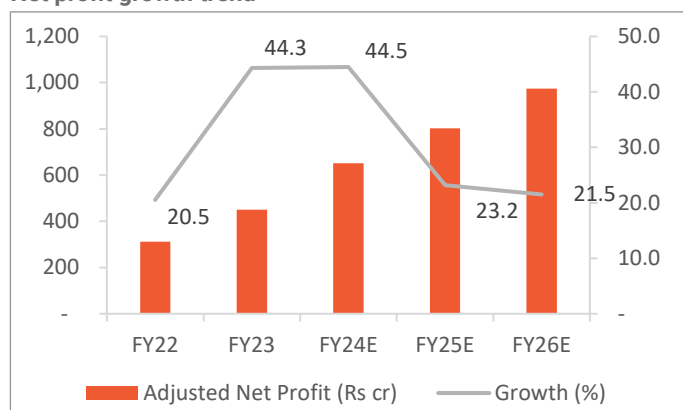
Source: Company, Sharekhan Research

Operating profit and margin trend



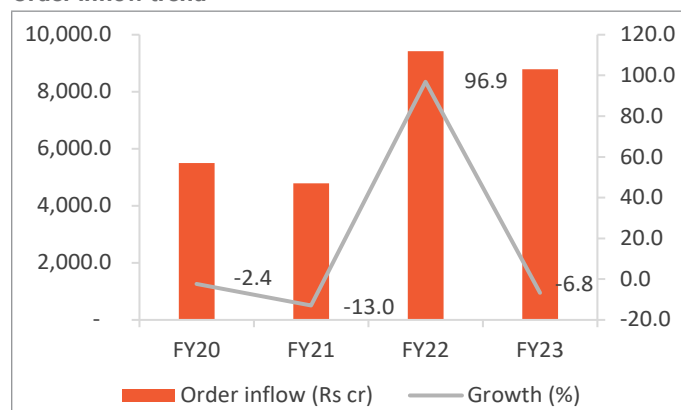
Source: Company, Sharekhan Research

Net profit growth trend



Source: Company, Sharekhan Research

Order inflow trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Ample growth opportunities

Industries such as steel and cement are undergoing capacity expansion, which bodes well for Thermax. Further, the government's Union Budget announcement for infrastructure and development and the PLI package will support demand in the coming quarters. The government's National Infrastructure Plan (NIP), where total capital expenditure is projected at ~Rs. 111 lakh crore during FY2020-2025, also augurs well for the growth of capital goods players. During the same period, sectors such as energy (24%), roads (18%), urban (17%), and Railways (12%) would amount to ~71% of projected infrastructure investments in India. The huge outlay towards infrastructure is expected to provide healthy growth opportunities for companies in the space.

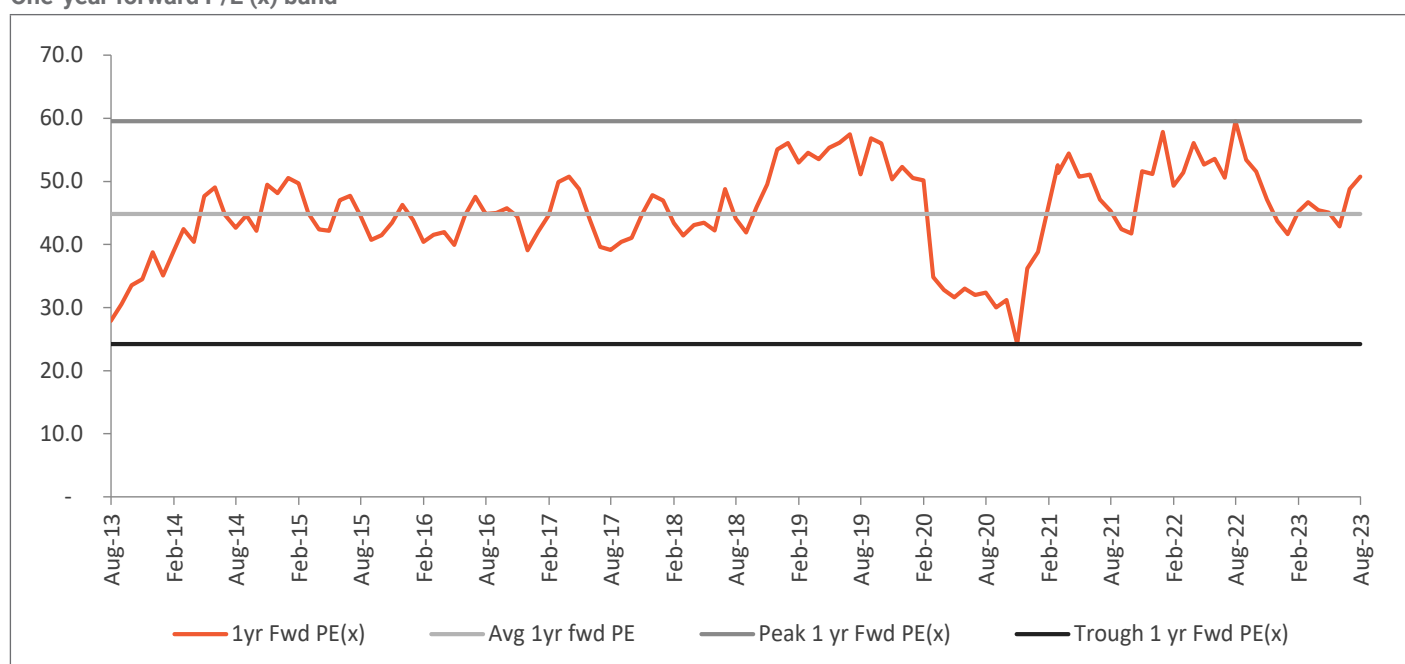
■ Company Outlook – Capitalising on opportunities

Management commentary on the inquiries pipeline remains positive for small ticket-size orders across food processing, chemicals, and pharmaceuticals in domestic markets, including large charges from oil and gas, FGD, and chemical. Management highlighted big-order opportunities in waste heat recovery in cement and steel sectors, both domestic and export markets. On the commodity front, the management highlighted challenges due to commodity headwinds. However, the company can hedge the price for more minor contracts as it buys the material around 30 days before signing the agreement. Thermax is also contemplating opportunities across newer and green technologies, which will provide the next leg of growth.

■ Valuation – Retain Buy with a revised PT of Rs. 3,235

Thermax has a healthy order book and promising enquiry pipeline particularly for its green energy offerings. Although, near to medium outlook for big-ticket orders from steel, oil & gas, refinery, and petrochemicals continues to be cautiously optimistic. We believe in the long run, Thermax is expected to benefit from India's transition to green energy given its varied offerings in all its key segments. Further, its opex based model through its two subsidiaries for wind and solar plants is gaining traction. As per annual report, international opportunities in biomass, waste heat recovery systems (WHRS), and water desalination are increasing and has a robust order pipeline. Thermax focuses on launching innovative products in all its segments, which bodes well for long-term growth. Further, low debt, cash and investments of Rs.2,524 crore and lean working capital cycle give us comfort. Hence, despite the run-up in the stock price, we reiterate our Buy rating on the stock with a revised price target (PT) of Rs. 3,235, valuing the stock on its September FY25E EPS.

One-year forward P/E (x) band



Source: Company Data; Sharekhan Research

About company

Thermax provides solutions in the energy and environment space. The energy business contributes 73% to the revenue, the environment business contributes 21%, and the chemical business contributes 9%. The company operates globally through 33 international offices and 13 manufacturing facilities, seven of which are in India and six overseas. Thermax is present in 86 countries across Asia Pacific, Africa, the Middle East, CIS countries, Europe, the U.S., 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

- ♦ Slowdown in private capex would lead to the muted order booking.
- ♦ Geopolitical tensions and supply-side challenges may impact the export business in the near term.

Additional Data

Key management personnel

Mrs. Meher Pudumjee	Chairman
Mr. Pheroze 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	Kotak Mahindra Asset Management Co	6.98
2	Kotak Infrastructure Fund	6.94
3	Nalanda India Equity Fund	6.86
4	SBI Funds Management	2.78
5	Tata AIA Life Insurance	1.32
6	Vanguard Group Inc.	1.21
7	Fund Rock Management Co SA	1.15
8	Tata Asset Management	0.91
9	Mirae Asset Global Investments	0.83
10	DSP Investment Managers	0.70

Source: Bloomberg

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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 deteriorating 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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