

November 6, 2023

Q2FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	2,771		2,613	
Sales (Rs.m)	89,832	98,655	89,333	97,661
% Chng.	0.6	1.0		
EBITDA (Rs.m)	7,940	9,213	7,860	9,218
% Chng.	1.0	(0.1)		
EPS (Rs.)	52.4	60.8	51.8	60.8
% Chng.	1.2	0.1		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	80,898	89,832	98,655	1,07,904
EBITDA (Rs. m)	5,976	7,940	9,213	10,346
Margin (%)	7.4	8.8	9.3	9.6
PAT (Rs. m)	4,507	5,897	6,848	7,665
EPS (Rs.)	40.0	52.4	60.8	68.1
Gr. (%)	44.3	30.8	16.1	11.9
DPS (Rs.)	10.0	17.3	18.9	21.1
Yield (%)	0.3	0.6	0.7	0.7
RoE (%)	12.2	14.5	15.2	15.3
RoCE (%)	11.2	13.2	13.6	13.5
EV/Sales (x)	3.8	3.5	3.2	2.9
EV/EBITDA (x)	51.7	39.2	33.9	30.2
PE (x)	72.3	55.3	47.6	42.5
P/BV (x)	8.4	7.6	6.9	6.2

Key Data

[TMMX.BO](https://tmmx.bo) | [TMX IN](https://tmx.in)

52-W High / Low	Rs.3,230 / Rs.1,830
Sensex / Nifty	64,959 / 19,412
Market Cap	Rs.345bn/ \$ 4,146m
Shares Outstanding	119m
3M Avg. Daily Value	Rs.190.39m

Shareholding Pattern (%)

Promoter's	61.98
Foreign	12.54
Domestic Institution	20.95
Public & Others	4.53
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.4)	23.6	24.6
Relative	(2.9)	16.2	16.9

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Thermax (TMX IN)

Rating: HOLD | CMP: Rs2,895 | TP: Rs2,771

Healthy Q2, confident on H2 order inflows

Quick Pointers:

- Order book stands strong at ~Rs103bn (1.2x TTM revenue), providing revenue visibility for next couple of quarters.
- Enquiry pipeline continues to remain healthy from food & beverages, steel, distillery, chemicals etc. sectors for base orders.

Thermax (TMX) reported healthy quarterly performance, with consolidated revenue growth of 10.9% YoY and EBITDA margin expanding 211bps YoY, driven by few projects reaching above average margin recognition level in Q2FY24. Order inflows were down by 2.1% YoY to Rs19.7bn in Q2FY24 due to absence of large orders, however management is bullish for H2FY24 on order inflows front with couple of large order under discussion stage. Domestic enquiry pipeline, continues to remain healthy for medium size order from food & Beverages, Chemicals, metals etc. Exports enquiry pipeline continues to remains strong. Large orders from Oil & Gas sectors is muted while it is gaining traction in Steel & Metals sector.

We believe TMX is well placed to gain from increasing thrust on energy transition & de-carbonization initiatives led by its 1) technical expertise, 2) strong balance sheet and 3) prudent working capital management. The stock is currently trading at PE of 55.3x/47.6x/42.5x FY24/25/26E. We roll forward to Sep'25E and maintain 'Hold' rating with revised TP of Rs2,771 (Rs2,613 earlier), valuing it at PE of 43x Sep'25E (43x FY25E earlier).

Strong operational performance drives PAT growth: Consol. sales grew 10.9% YoY to Rs23bn (PLe ~Rs24.2bn), driven by growth in Industrial Products and Industrial Infra. Industrial products grew 18% YoY to Rs9.9bn, Industrial Infra up 13.1% YoY to Rs10.9bn while it declined for Green Solutions down 7.5% YoY to Rs1.2bn and Chemicals down 1.9% YoY Rs1.9bn. Gross margin expanded 377bps YoY to 44.4%, on a low base in Q2FY23 (adverse impact of commodity inflation). EBITDA grew 45.6% YoY Rs2bn, (PLe ~Rs1.9bn) with EBITDA margins expanding by 211bps YoY to 8.9% (vs PL estimate ~8.0%) despite higher other expenses (up 14.5% YoY) and Employee cost (up 20.1% YoY). Adj. PAT grew 45.3% YoY to Rs1.6mn (PLe Rs1.5bn), mainly due to healthy operational performance.

Healthy order book of Rs102.6bn: Order inflows during the quarter came in at Rs19.7bn, down 2.1% YoY, impacted due to decline in Industrial Infra (down 19% YoY to Rs6.6bn) and Chemicals (down 5.8% YoY to Rs1.8bn). While it grew for Industrial products (up 11.5% YoY to Rs10.8bn) and Green Solutions (up 23.4% YoY to Rs580mn). Order book stands strong at ~Rs103bn (1.2x TTM revenue), comprising of Industrial Infra (~58%), Industrial Product (~34%) and Green Solution (~7%).

Exhibit 1: Strong operational performance drives PAT growth:

Y/e March	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY gr. (%)	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Revenue	20,753	20,493	23,108	19,330	23,025	10.9	19.1	42,354	37,297	13.6
Total Revenues	20,753	20,493	23,108	19,330	23,025	10.9	19.1	42,354	37,297	13.6
Expenditure	19,347	18,882	21,109	18,008	20,978	8.4	16.5	38,986	34,932	11.6
as % of sales	93.2	92.1	91.3	93.2	91.1			92.0	93.7	
Consumption of RM	12,323	11,451	12,767	10,774	12,805	3.9	18.9	23,579	22,030	7.0
as % of sales	59.4	55.9	55.2	55.7	55.6			55.7	59.1	
Employee Cost	2,367	2,371	2,655	2,558	2,843	20.1	11.1	5,401	4,516	19.6
as % of sales	11.4	11.6	11.5	13.2	12.3			12.8	12.1	
Other expenditure	4,657	5,060	5,688	4,676	5,330	14.5	14.0	10,006	8,386	19.3
as % of sales	22.4	24.7	24.6	24.2	23.2			23.6	22.5	
EBITDA	1,406	1,611	1,999	1,322	2,046	45.6	54.8	3,368	2,366	42.4
Depreciation	298	291	294	294	330	10.6	12.1	624	584	6.9
EBIT	1,108	1,320	1,705	1,028	1,717	55.0	67.0	2,745	1,782	54.0
Other Income	398	423	575	531	659	65.4	24.1	1,189	604	97.0
Interest	80	91	139	134	198	148.1	48.1	332	146	128.0
Extra ordinary items	-	-	-	(506)	-	-	-	(506)	-	-
PBT	1,426	1,652	2,140	919	2,177	52.7	137.0	3,602	2,241	60.8
Total Tax	332	386	581	315	589	77.1	86.8	904	557	62.4
Adjusted PAT	1,091	1,264	1,562	994	1,586	45.3	59.6	2,580	1,684	53.2
Reported PAT	1,091	1,264	1,562	600	1,586	45.3	164.6	2,186	1,685	29.7
Adjusted EPS	9.7	11.2	13.9	8.8	14.1	45.3	59.6	23	14.9	53.5
Margins (%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	bps	bps	H1FY24	H1FY23	bps
EBIDTA	6.8	7.9	8.7	6.8	8.9	211	205	8.0	6.3	161
EBIT	5.3	6.4	7.4	5.3	7.5	212	214	6.5	4.8	170
EBT	6.9	8.1	9.3	4.8	9.5	258	470	8.5	6.0	250
PAT	5.3	6.2	6.8	3.1	6.9	163	379	5.2	4.5	64
Effective Tax rate	23.3	23.3	27.2	22.1	27.0	373	492	25.1	24.8	25

Source: Company, PL

Conference Call Highlights

- **Order pipeline continues to remain healthy** for medium size order from distillery, food & Beverages, Chemicals, metals etc. while management remain pessimistic on large order in near term. Enquiry inflow continues to be positive from the waste to energy and biofuel segments.
- Management is cautiously optimistic on large order inflows front with few orders visible in steel sector. Visibility of large orders from refinery is muted.
- International pipeline has improved in Q2FY24.
- Order inflows were down in Q2FY24 due to absence of large orders, however management is bullish for H2FY24 on order inflows front.
- Margin improvement during quarter is attributable to cost efficiency and few one offs projects having better than average margin recognition during the quarter.
- **FGD orders:** Company will continue to report revenue for next 18 months for remaining three FGD plant with single digit margin.
- **TOESL and FEPL:** Continues to perform well and is ramping up business activity. **FEPL-** Infused Rs2bn in FEPL in Q2FY24 in combination of Equity and Debt.
- Competitive intensity has increased in recent time specially in Cement sector from Chinese players.
- Green solutions performance has improved due to improved operational performance
- In the Chemical segment, better margins were achieved through stabilization of both commodity and freight costs, which were previously impacting negatively.
- The Industrial Infra order balance has slightly decreased due to project executions, and this year's orders do not include any big order which existed in the previous year.
- **Chemical:** Volumes in Q2FY24 were stable and expects to pick-up in H2FY24.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	80,898	89,832	98,655	1,07,904
YoY gr. (%)	32.0	11.0	9.8	9.4
Cost of Goods Sold	46,247	49,193	53,334	58,065
Gross Profit	34,651	40,638	45,320	49,839
Margin (%)	42.8	45.2	45.9	46.2
Employee Cost	9,542	10,959	12,135	13,272
Other Expenses	6,762	8,893	9,865	10,790
EBITDA	5,976	7,940	9,213	10,346
YoY gr. (%)	41.8	32.9	16.0	12.3
Margin (%)	7.4	8.8	9.3	9.6
Depreciation and Amortization	1,169	1,303	1,380	1,468
EBIT	4,807	6,637	7,833	8,879
Margin (%)	5.9	7.4	7.9	8.2
Net Interest	376	531	672	813
Other Income	1,602	1,779	1,995	2,182
Profit Before Tax	6,033	7,884	9,155	10,247
Margin (%)	7.5	8.8	9.3	9.5
Total Tax	1,524	1,987	2,307	2,582
Effective tax rate (%)	25.3	25.2	25.2	25.2
Profit after tax	4,509	5,897	6,848	7,665
Minority interest	-	-	-	-
Share Profit from Associate	(2)	-	-	-
Adjusted PAT	4,507	5,897	6,848	7,665
YoY gr. (%)	44.3	30.8	16.1	11.9
Margin (%)	5.6	6.6	6.9	7.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,507	5,897	6,848	7,665
YoY gr. (%)	44.3	30.8	16.1	11.9
Margin (%)	5.6	6.6	6.9	7.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,507	5,897	6,848	7,665
Equity Shares O/s (m)	113	113	113	113
EPS (Rs)	40.0	52.4	60.8	68.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	21,192	22,392	23,592	24,792
Tangibles	21,192	22,392	23,592	24,792
Intangibles	-	-	-	-
Acc: Dep / Amortization	9,033	10,336	11,716	13,184
Tangibles	9,033	10,336	11,716	13,184
Intangibles	-	-	-	-
Net fixed assets	12,160	12,056	11,876	11,609
Tangibles	12,160	12,056	11,876	11,609
Intangibles	-	-	-	-
Capital Work In Progress	4,660	4,660	4,660	4,660
Goodwill	-	-	-	-
Non-Current Investments	4,212	5,469	7,811	10,562
Net Deferred tax assets	1,057	1,057	1,057	1,057
Other Non-Current Assets	4,322	5,210	5,426	5,935
Current Assets				
Investments	13,929	14,429	14,929	15,929
Inventories	7,556	9,106	10,001	10,938
Trade receivables	18,766	20,920	22,974	25,128
Cash & Bank Balance	11,316	11,852	13,434	15,160
Other Current Assets	4,851	5,300	5,623	5,827
Total Assets	87,300	94,599	1,02,683	1,12,254
Equity				
Equity Share Capital	225	225	225	225
Other Equity	38,456	42,407	47,132	52,420
Total Network	38,681	42,632	47,357	52,646
Non-Current Liabilities				
Long Term borrowings	4,373	4,591	4,821	5,062
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,933	6,714	9,485	12,243
Trade payables	15,286	18,705	20,542	22,468
Other current liabilities	26,063	23,014	21,536	20,892
Total Equity & Liabilities	87,300	94,599	1,02,683	1,12,254

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	6,033	7,884	9,155	10,247
Add. Depreciation	1,169	1,303	1,380	1,468
Add. Interest	260	531	672	813
Less Financial Other Income	1,602	1,779	1,995	2,182
Add. Other	(726)	(1,779)	(1,995)	(2,182)
Op. profit before WC changes	6,736	7,940	9,213	10,346
Net Changes-WC	(628)	(1,243)	(1,660)	(2,311)
Direct tax	1,512	1,987	2,307	2,582
Net cash from Op. activities	4,596	4,710	5,246	5,453
Capital expenditures	(7,392)	(1,200)	(1,200)	(1,200)
Interest / Dividend Income	696	1,779	1,995	2,182
Others	(100)	(1,706)	(2,751)	(3,561)
Net Cash from Invt. activities	(6,797)	(1,127)	(1,956)	(2,579)
Issue of share cap. / premium	-	-	-	-
Debt changes	4,481	3,000	3,000	3,000
Dividend paid	(1,021)	(1,946)	(2,123)	(2,376)
Interest paid	(256)	(531)	(672)	(813)
Others	281	(3,569)	(1,913)	(958)
Net cash from Fin. activities	3,485	(3,047)	(1,708)	(1,148)
Net change in cash	1,284	536	1,582	1,727
Free Cash Flow	(1,904)	3,510	4,046	4,253

Source: Company Data, PL Research

Key Financial Metrics

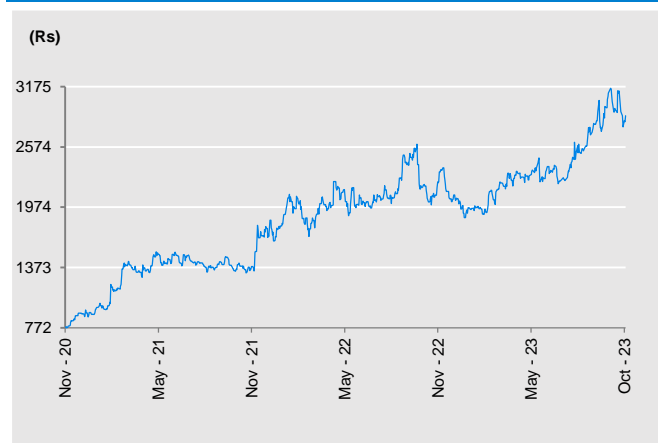
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	40.0	52.4	60.8	68.1
CEPS	50.4	63.9	73.1	81.1
BVPS	343.5	378.6	420.6	467.5
FCF	(16.9)	31.2	35.9	37.8
DPS	10.0	17.3	18.9	21.1
Return Ratio(%)				
RoCE	11.2	13.2	13.6	13.5
ROIC	20.5	20.5	19.9	19.1
RoE	12.2	14.5	15.2	15.3
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.3)	(0.3)
Net Working Capital (Days)	50	46	46	46
Valuation(x)				
PER	72.3	55.3	47.6	42.5
P/B	8.4	7.6	6.9	6.2
P/CEPS	57.4	45.3	39.6	35.7
EV/EBITDA	51.7	39.2	33.9	30.2
EV/Sales	3.8	3.5	3.2	2.9
Dividend Yield (%)	0.3	0.6	0.7	0.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	20,493	23,108	19,330	23,025
YoY gr. (%)	26.9	16.0	16.8	10.9
Raw Material Expenses	11,451	12,767	10,774	12,805
Gross Profit	9,042	10,342	8,556	10,219
Margin (%)	44.1	44.8	44.3	44.4
EBITDA	1,611	1,999	1,322	2,046
YoY gr. (%)	42.4	47.8	37.7	45.6
Margin (%)	7.9	8.7	6.8	8.9
Depreciation / Depletion	291	294	294	330
EBIT	1,320	1,705	1,028	1,717
Margin (%)	6.4	7.4	5.3	7.5
Net Interest	91	139	134	198
Other Income	423	575	531	659
Profit before Tax	1,652	2,140	919	2,177
Margin (%)	8.1	9.3	4.8	9.5
Total Tax	386	581	315	589
Effective tax rate (%)	23.3	27.2	34.3	27.0
Profit after Tax	1,267	1,559	603	1,589
Minority interest	-	-	-	-
Share Profit from Associates	(3)	3	(4)	(3)
Adjusted PAT	1,264	1,562	994	1,586
YoY gr. (%)	59.1	52.3	68.6	45.3
Margin (%)	6.2	6.8	5.1	6.9
Extra Ord. Income / (Exp)	-	-	(394)	-
Reported PAT	1,264	1,562	600	1,586
YoY gr. (%)	59.1	52.3	1.7	45.3
Margin (%)	6.2	6.8	3.1	6.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,264	1,562	600	1,586
Avg. Shares O/s (m)	113	113	113	113
EPS (Rs)	11.2	13.9	8.8	14.1

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-23	Hold	2,613	3,101
2	23-Aug-23	Hold	2,613	2,721
3	02-Aug-23	Hold	2,613	2,602
4	06-Jul-23	BUY	2,613	2,240
5	18-May-23	BUY	2,613	2,280
6	11-Apr-23	BUY	2,608	2,316
7	14-Feb-23	BUY	2,604	2,149
8	04-Jan-23	Accumulate	2,556	1,956
9	14-Nov-22	Accumulate	2,556	2,276

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	5,013	4,068
2	Apar Industries	Accumulate	5,630	5,165
3	Bharat Electronics	Accumulate	143	133
4	BHEL	Reduce	67	127
5	Carborundum Universal	BUY	1,408	1,076
6	Cummins India	Hold	1,788	1,691
7	Engineers India	Accumulate	165	143
8	GE T&D India	Hold	260	413
9	Grindwell Norton	BUY	2,604	2,092
10	Harsha Engineers International	Accumulate	474	415
11	Hindustan Aeronautics	BUY	2,266	1,889
12	Kalpataru Projects International	BUY	740	636
13	KEC International	Hold	645	615
14	Larsen & Toubro	BUY	3,437	2,929
15	Praj Industries	Accumulate	611	534
16	Siemens	Accumulate	4,241	3,559
17	Thermax	Hold	2,613	3,101
18	Triveni Turbine	Accumulate	450	392
19	Voltamp Transformers	Hold	5,079	4,989

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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