Thermax

Capital Goods

A strong quarter marred by one-off

Thermax reported unexciting Q1FY25 numbers as revenue grew 13% YoY to INR 21.8bn while EBITDA ascended 6% YoY to INR 1.4bn impacted by a one-off provision of INR 500m in the industrial infra segment. Order inflow (OI) and order book (OB) growth remained soft too; although, the outlook appears brighter with large orders expected from refining, petchem, steel and cement sectors. Thermax is contemplating participating in thermal power plant orders given that the tenders for the same are split to boiler supply levels. Thermal awarding shall remain strong over the next 2–3 years and could be a huge boost to OI in the medium term. Retain **HOLD**; TP revised to INR 4,774 (from INR 4,406).

Revenue growth of 13% YoY

Thermax reported revenue growth of 13% YoY to INR 21.8bn led by industrial products growing 15% YoY to INR 9.7bn and green solutions growing 54% YoY to INR 1.7bn. EBITDA grew at a lower rate of 7% YoY to INR 1.4bn as margins dropped 38bps YoY to 6.5% owing to one-time provisions for the industrial infra segment of INR 500m owing to increased projects costs. Other income grew 40% YoY to INR 830m while finance cost doubled to INR 275m. As a result, adj. PAT remained flat YoY at INR 1.1bn.

OI remain muted; outlook turns positive

OI was flat YoY at INR 26bn and OB grew 2% YoY to INR 107bn as of Jun'24. However, OI's outlook has grown healthy for the next 1–2 years with demand coming from refining, petchem, cement and steel.

To weigh thermal participation

Thermax is looking to participate in thermal power plant orders and has to decide on the same in next 3-4 months. Its participation will be limited to suppling boilers to the thermal projects and expects fragmented tenders instead of single EPC tenders for thermal orders going forward.

Maintain HOLD

We maintain our **HOLD** rating on Thermax with a SOTP-based revised TP of INR 4,774.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	80,898	93,235	107,247	123,391
EBITDA	5,976	7,974	9,117	9,762
EBITDA Margin (%)	7.4	8.6	8.5	7.9
Net Profit	4,504	5,706	7,252	8,446
EPS (INR)	37.8	47.9	60.9	70.9
EPS % Chg YoY	44.4	26.2	27.2	16.5
P/E (x)	131.8	104.5	82.1	70.5
EV/EBITDA (x)	96.2	72.6	63.7	59.4
RoCE (%)	11.2	12.2	13.8	14.4
RoE (%)	12.2	13.7	15.7	16.3

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Market Data

Market Cap (INR)	594bn
Market Cap (USD)	7,091mn
Bloomberg Code	TMX IN
Reuters Code	THMX.BO
52-week Range (INR)	5,840 /2,450
Free Float (%)	32.0
ADTV-3M (mn) (USD)	20.7

Price Performance (%)	3m	6m	12m
Absolute	6.1	61.1	91.5
Relative to Sensex	(3.5)	48.2	68.3

Previous Reports

14-05-2024: Q4FY24 results review
13-02-2024: Q3FY24 results review

Q1FY25 conference call highlights

Q1FY25 result highlights

- Thermax reported revenue growth of 13% YoY to INR 21.8bn
    - led by 15% YoY growth in Industrial products to INR 9.7bn;
    - and 54% YoY growth to INR 1.7bn in green solutions.
- EBITDA grew 7% YoY to INR 1.4bn as margins dropped 38bps YoY to 6.5%
    - owing to a one-time provision for the industrial infra segment of INR 500m because of increased projects costs.
- Other income grew 40% YoY to INR 830m while finance cost doubled to INR 275m.
- As a result, adj. PAT remained flat YoY at INR 1.1bn.

Order outlook

- Thermax reported muted OI for Q1FY25 at INR 25.8bn flat YoY.
- OB, as of Jun'24, stands at INR 106bn up 2% YoY.
- However, OI outlook has improved over the last 2–3 months and the company is likely to see higher OI in FY25E vs. FY24 led by sectors such as refining and petchem, steel and cements.
- Thermax will also deliberate on its participation in thermal power orders in coming quarters. However, the company states that it will participate only in boiler supply for thermal power plants and will not participate in any EPC orders.

Update on TOESL

- Management is primarily focused on making sure the availability of biomass in sufficient quantity.
- There is a strong inquiry pipeline of orders.

Exhibit 1: Consolidated financial highlights

INR m	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ(%)	FY24	FY23	YoY(%)
Total Revenue	21,844	19,330	13.0	27,637	(21.0)	93,235	80,898	15.2
EBITDA	1,412	1,322	6.8	2,732	(48.3)	7,974	5,976	33.4
Margin	6.5	6.8	-38bps	9.9	-342bps	8.6	7.4	120bps
Depreciation	360	294	22.6	499	(27.8)	1,481	1,169	26.7
Finance Cost	275	134	105.5	278	(1.2)	876	376	133.0
Other Income	841	531	58.5	553	52.2	2,326	1,599	45.5
Extraordinary income	(4)	(510)		2		747	-	
PBT	1,613	915	76.4	2,509	(35.7)	8,690	6,030	44.1
Tax	519	315	64.6	633	(18.0)	2,258	1,524	48.2
tax rate	32.2	34.5	-229bps	25.2	`	26.0	25.3	
Reported PAT	1,158	589	96.7	1,903	(39.2)	6,453	4,504	43.3
Adjusted PAT	1,161	971	19.5	1,902	(39.0)	5,893	4,504	30.8
Margin(%)	5.3	5.0	29bps	6.9	-157bps	6.3	5.6	80bps
EPS	10.3	5.2	96.7	16.9	(39.2)	57.3	40.0	43.3
Segmental	**Q1FY25**	**Q1FY24**	**YoY(%)**	**Q4FY24**	**QoQ(%)**	**FY24**	**FY23**	**YoY(%)**
Industrial Products	9,608	8,359	14.9	12,074	-20.4	40,552	33,375	21.5
Industrial Infra	9,251	9,162	1.0	13,565	-31.8	44,552	39,280	13.4
Green Solutions	1,737	1,132	53.5	1,458	19.1	5,071	3,627	39.8
Chemical	1,708	1,608	6.3	1,542	10.8	6,634	6,728	(1.4)
Total	**22,304**	**20,260**	**10.1**	**28,639**	**-22.1**	**96,809**	**83,011**	**16.6**
EBIT								
Industrial Products	867	560	54.8	1,407	(38.4)	3,970	2,739	(31.0)
Industrial Infra	(184)	303	(160.6)	825	(122.3)	2,089	2,168	3.8
Green Solutions	230	100	129.6	137	68.4	449	150	(66.7)
Chemical	304	265	14.5	296	2.5	1,238	865	(30.2)
Total	**1,217**	**963**	**26.4**	**2,368**	**(48.6)**	**6,509**	**5,057**	**(22.3)**
EBIT margins (%)								
Industrial Products	9.0	6.7	232bps	11.7	-496bps	9.8	8.2	-160bps
Industrial Infra	-2.0	3.3	-529bps	6.1	-277bps	4.7	5.5	80bps
Green Solutions	13.2	8.8	438bps	9.4	-51bps	8.9	4.1	-470bps
Chemical	17.8	16.5	127bps	19.2	-272bps	18.7	12.8	-580bps
Total	**5.5**	**4.8**	**70bps**	**8.3**	**-352bps**	**8.9**	**4.1**	**-470bps**

Source: I-Sec research

Exhibit 2: Consolidated order book highlights

Consolidated	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ(%)	FY24	FY23	YoY(%)
Order Intake (INR bn)	25.7	25.7	*0.1*	23.1	*11.3*	93.5	87.8	6.5
Order book (INR bn)	106.8	105.1	*1.7*	101.1	*5.6*	101.1	97.5	3.7
Order inflow								
Industrial Products	12.7	12.0	5.6	10.6	19.2	43.3	41.7	3.8
Industrial Infra	9.9	11.3	*(12.1)*	10.7	-7.6	41.0	37.7	8.8
Green Solutions	1.0	0.8	19.0	0.0	3,233.3	2.4	1.9	23.7
Chemical	2.1	1.6	34.8	1.7	23.1	6.8	6.4	6.2
Orderbook								
Industrial Products	38.7	33.4	15.6	35.0	10.5	35.0	28.4	23.2
Industrial Infra	57.3	63.8	*(10.2)*	56.8	0.9	56.8	63.1	(9.9)
Green Solutions	9.1	6.7	35.6	7.9	14.5	7.9	4.9	60.4
Chemical	1.8	1.1	59.8	1.4	29.7	1.4	1.1	26.6

Source: I-Sec research

Outlook and valuation

Given the increased margins and muted OI, we maintain **HOLD** with a SOTP-based revised TP of INR 4,774.

We value the company on the SoTP methodology given varied growth, margin and return trajectories of its three business segments. Based on its strong core competency in industrial products/industrial infra segments, we assign a multiple of 65x/65x for FY26E earnings. Given the company's market leadership with its energy-efficiency offerings, we assign 50x FY26E earnings to its green solutions business. As we see strong growth prospects, but a nascent business, we assign a relatively lower multiple of 40x FY26E core earnings to its chemicals segment.

Downside Risks: 1) Input costs increase beyond initially expected levels; and 2) Ethanol production remains low for the next few fiscals.

Upside Risks: 1) The company enjoys lower input costs long-term; and 2) increase in OI due to higher levels of finalisation of the inquiry pipeline.

Exhibit 3: SoTP-based target price of INR 4,774

(INR m)	PE multiple (x)	contribution (%)	FY26E PAT (INR mn)	Value (INR mn)	Per share (INR)
Industrial products	65	49	4,037	262,374	2,330
Industrial Infra	65	36	3,016	196,013	1,741
Green Solutions	50	6	465	23,263	207
Chemicals	40	9	768	30,708	273
Core PAT			**8,285**		
Total				512,359	4,550
Cash (FY26E)				25,192	224
Overall Total				**537,550**	**4,774**

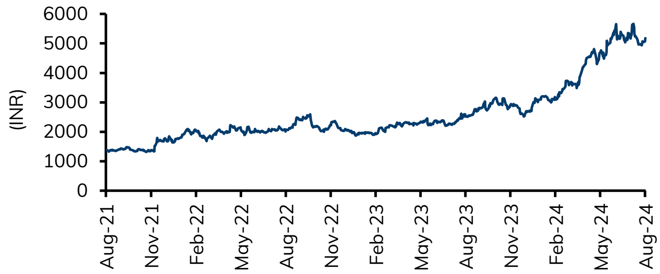
Source: I-Sec research

Exhibit 4: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	62.0	62.0	62.0
Institutional investors	27.9	28.1	28.0
MFs and other	13.6	13.6	12.1
FIs/ Banks	-	-	-
Insurance Cos.	2.2	2.1	0.8
FIIs	12.2	12.4	15.1
Others	10.1	9.9	10.0

Source: Bloomberg, I-Sec research

Exhibit 5: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 6: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	**80,898**	**93,235**	**107,247**	**123,391**
Operating Expenses	28,676	33,065	40,217	46,998
EBITDA	**5,976**	**7,974**	**9,117**	**9,762**
EBITDA Margin (%)	7.4	8.6	8.5	7.9
Depreciation & Amortization	1,169	1,481	1,293	1,353
EBIT	4,807	6,493	7,824	8,408
Interest expenditure	376	876	1,206	1,106
Other Non-operating Income	1,599	2,326	3,023	3,930
Recurring PBT	**6,030**	**7,943**	**9,641**	**11,233**
Profit / (Loss) from Associates	**(2)**	**21**	**21**	**21**
Less: Taxes	1,524	2,258	2,410	2,808
PAT	4,506	5,685	7,231	8,425
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	**4,504**	**5,706**	**7,252**	**8,446**
Net Income (Adjusted)	**4,504**	**5,706**	**7,252**	**8,446**

Source Company data, I-Sec research

Exhibit 7: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	46,873	50,846	75,204	85,389
of which cash & cash eqv.	11,316	9,753	10,552	11,006
Total Current Liabilities & Provisions	40,212	42,589	44,520	47,589
Net Current Assets	**6,661**	**8,257**	**30,684**	**37,800**
Investments	16,097	17,460	14,860	15,233
Net Fixed Assets	10,399	10,399	10,186	9,912
ROU Assets	-	-	-	-
Capital Work-in-Progress	4,338	5,194	5,453	5,726
Total Intangible Assets	322	371	352	381
Other assets	9,225	16,219	(116)	(301)
Deferred Tax Assets	1,086	1,086	1,194	1,313
Total Assets	**48,174**	**58,941**	**62,779**	**70,228**
Liabilities				
Borrowings	**8,105**	**12,560**	**12,560**	**12,560**
Deferred Tax Liability	**29**	**123**	**125**	**128**
provisions	384	424	488	562
other Liabilities	954	1,437	1,437	1,437
Equity Share Capital	225	225	225	225
Reserves & Surplus	38,456	44,173	47,927	55,300
Total Net Worth	**38,681**	**44,398**	**48,152**	**55,525**
Minority Interest	22	-	17	17
Total Liabilities	**48,174**	**58,941**	**62,779**	**70,228**

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	**4,858**	**2,652**	**(15,028)**	**176**
Working Capital Changes	137	(3,128)	(22,152)	(8,132)
Capital Commitments	(5,469)	(9,001)	5,294	(1,383)
Free Cashflow	**(1,543)**	**3,790**	**(4,065)**	**2,538**
Other investing cashflow	**(931)**	**10,139**	**5,668**	**3,745**
Cashflow from Investing Activities	(6,400)	1,138	10,963	2,362
Issue of Share Capital	-	-	-	-
Interest Cost	(376)	(876)	(1,206)	(1,106)
Inc (Dec) in Borrowings	4,551	4,454	-	-
Dividend paid	(1,072)	(1,072)	(1,072)	(1,072)
Others	6,484	(8,153)	7,414	373
Cash flow from Financing Activities	9,587	(5,647)	5,136	(1,805)
Chg. in Cash & Bank balance	**-9,857**	**1,781**	**-1,563**	**799**
Closing cash & balance	11,316	9,753	10,552	11,006

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	37.8	47.7	60.7	70.7
Adjusted EPS (Diluted)	37.8	47.9	60.9	70.9
Cash EPS	47.6	60.3	71.7	82.2
Dividend per share (DPS)	9.0	9.0	9.0	9.0
Book Value per share (BV)	324.6	372.6	404.1	466.0
Dividend Payout (%)	23.8	18.9	14.8	12.7
Growth (%)				
Net Sales	33.4	15.2	15.0	15.1
EBITDA	41.9	33.4	14.3	7.1
EPS (INR)	44.4	26.2	27.2	16.5
Valuation Ratios (x)				
P/E	131.8	104.5	82.1	70.5
P/CEPS	104.7	82.6	69.5	60.6
P/BV	15.4	13.4	12.3	10.7
EV / EBITDA	96.2	72.6	63.7	59.4
P / Sales	7.3	6.4	5.5	4.8
Dividend Yield (%)	0.2	0.2	0.2	0.2
Operating Ratios				
Gross Profit Margins (%)	42.8	44.0	46.0	46.0
EBITDA Margins (%)	7.4	8.6	8.5	7.9
Effective Tax Rate (%)	25.3	28.4	25.0	25.0
Net Profit Margins (%)	5.6	6.1	6.7	6.8
NWC / Total Assets (%)	(9.7)	(3.5)	32.1	38.2
Net Debt / Equity (x)	(0.5)	(0.3)	(0.3)	(0.2)
Net Debt / EBITDA (x)	(3.2)	(1.8)	(1.4)	(1.4)
Profitability Ratios				
RoCE (%)	11.2	12.2	13.8	14.4
RoE (%)	12.2	13.7	15.7	16.3
RoIC (%)	11.2	12.2	13.8	14.4
Fixed Asset Turnover (x)	8.0	9.0	10.4	12.3
Inventory Turnover Days	39	32	32	32
Receivables Days	90	89	96	96
Payables Days	77	65	64	64

Source Company data, I-Sec research

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