

THERMAX LIMITED

Muted results, Outlook promising

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Thermax (TMX) witnessed muted performance impacted by deferment of execution and impact of cost overruns in select projects. Thermax reported a 13%/16%/11% YoY growth in revenues/EBITDA/PAT. The EBITDA margin of 8.1% improved by 20bps YoY. TMX recorded ₹100 mn as a one-off cost revision in a refinery order, which impacted margins negatively by 43bps. Order inflows grew 14% YoY at ₹25.1 bn reflecting higher inflows from Bio-CNG taking the total order-book to ₹107.2 bn. Within this order pipeline, the power sector has gained relevance. Here, Thermax aims to selectively bid for captive and utility level power plants. TMX expects a baseline quarterly run-rate of INR 23-24bn in ordering and expects ordering to ramp up in H2CY24 on the back of converting a couple of large orders from the pipeline in power/steel, etc. TMX stands to benefit from the investment in clean energy, sustainability, decarbonisation, normalisation of the international market and impetus on cleaner air and water. We have recalibrated our estimate considering the 9MFY24 performance. We maintain BUY with a revised price target of 3722.

Q3FY24 Result Summary

Revenue: ₹23.2 bn (+13%/+1% YoY/QoQ,); industrial products/industrial infra/green solutions/chemical posted growth of 19/9/45/-2% YoY. EBITDA: ₹1.9 bn (+16%/-9% YoY/QoQ) and margin of 8.1% (+20/-82bps YoY/QoQ), an improvement on account of stable commodity prices and better execution. Segmental EBIT margin: industrial product: 9.9% (+51/-11bps YoY/QoQ); industrial infra: 3.6% (-181/-172bps YoY/QoQ); green solution: 10.6% (+436/+417bps YoY/QoQ); chemical: 20.5% (+641/+211bps YoY/QoQ. RPAT/APAT was ₹2.4/1.4 bn (+9%/-15% YoY/QoQ). There was an exceptional gain of ₹1.3 bn on sales of vacant land.

Order inflow stable; large order pipeline improving: In Q3FY24, TMX received orders worth ₹25.1 bn (+14%/+27% YoY/QoQ), as a result, the closing order book stands at ₹107.2 bn (+9%/+4% YoY/QoQ). TMX expects ₹23-24 bn as the baseline quarterly run rate for ordering. It expects better ordering in H2CY24, aided by large orders in the power sector and pick-up in steel and ethanol awards. TMX expects softer near term large orders due to delayed decision-making, but the backlog is getting bigger so that is positive. The company expects higher single-digit growth in FY24 order inflow over FY23. In Q3FY24, industrial products/industrial infra/green solutions/chemical divisions bagged ₹9.9/12.5/1/1.7 bn worth of orders with their respective order books at ₹35/62/8/1 bn.

Key Financials	FY22	FY23	FY24E	FY25E	FY26E
Total Sales (₹ mn)	61,283	80,898	91,070	108,021	121,315
EBITDA Margins (%)	6.9	7.4	8.5	9.5	10.3
PAT Margins	5.1	5.6	6.5	6.8	7.2
EPS (₹)	27.7	40.0	59.2	65.6	77.5
P/E (x)	119.7	83.0	56.1	50.6	42.8
P/BV (x)	7.6	6.6	8.8	7.6	6.6
EV/EBITDA (x)	65.4	47.7	35.5	28.1	23.7
RoE (%)	7.7	9.9	16.3	16.2	16.6
RoCE (%)	12.7	17.2	20.2	18.3	17.7
Dividend Yield (%)	0.2	0.3	0.2	0.2	0.2

Rating	BUY
Current Market Price (₹)	3,320
12 M Price Target (₹)	3,722
Potential upside (%)	12

Stock Data

Sector :	Heavy Electrical Equipment
FV (₹) :	2
Total Market Cap (₹ bn) :	396
Free Float Market Cap (₹ bn) :	127
52-Week High / Low (₹)	3,509 / 1,985
BSE Code / NSE Symbol	500411 / THERMAX
Bloomberg :	TMX:IN

Shareholding Pattern

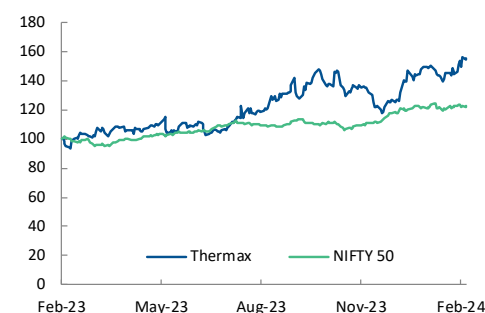
(%)	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	61.98	61.98	61.98	61.98
MFs	13.55	13.47	13.52	13.62
FPIs	12.01	12.54	12.35	12.29
Insurance	2.16	1.96	1.94	1.98
Others	10.30	10.05	10.21	10.13

Source: BSE

Price Performance

(%)	1M	3M	6M	1Yr
Thermax	3.3%	14.4%	30.5%	54.9%
Nifty 50	-0.7%	11.8%	11.9%	22.4%

* To date / current date : February 13, 2024

Thermax vs Nifty 50

Outlook

TMX remains well-placed to be a leader for India in terms of clean water, clear 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 ₹107 bn provides healthy visibility ahead. It continues to invest in new products to reap benefits ahead. 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. We have recalibrated our estimate considering the 9MFY24 performance. We maintain BUY with a revised price target of ₹3,722.

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)	Q3FY24	Q3FY23	YoY%	Q2FY24	QoQ%
Net sales	23,244	20,493	13.4%	23,025	1%
Net raw material	12,880	11,451	12.5%	12,805	1%
Employee Expenses	2,920	2,371	23.2%	2,843	3%
Other Expenses	5,569	5,060	10.1%	5,330	4%
Operating profit	1,874	1,611	16.4%	2,046	-8%
Other Income	584	423	38.0%	659	-11%
Interest	266.1	91.2	191.8%	198.0	34%
Depreciation	358	291	23.3%	330	9%
PBT	1,834	1,652	11.0%	2,177	-16%
Tax	721	386	87.0%	589	22%
Adj.PAT	1,122	1,262	-11.1%	1,577	-29%
Extraordinary items	126	-		-	
Rep PAT	2,383	1,262	88.9%	1,577	51%
EPS (₹)	21.2	11.2	88.9%	14.0	51%
Margin			<i>bps</i>		<i>bps</i>
<i>OPM</i>	8.1%	7.9%	20	8.9%	(82)
<i>PATM</i>	4.8%	6.2%	(133)	6.9%	(202)
<i>Tax rate</i>	39.3%	23.3%		27.0%	

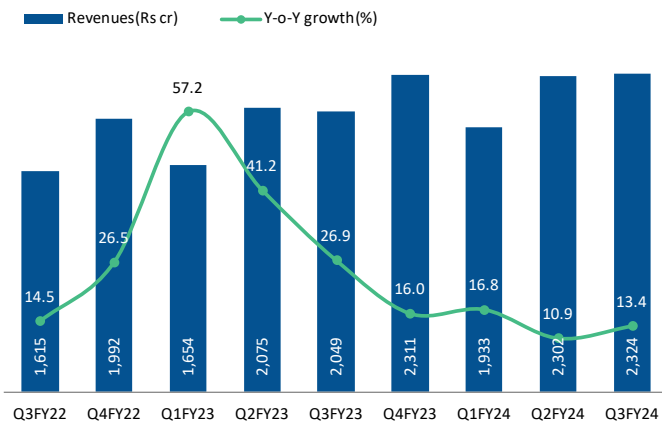
Source: Company, LKP Research

Concall Highlights

- The quarter has seen a lower margin in industrial infra, primarily arising from the higher cost on the Rs100 mn order pertaining to sulfur recovery, cutting into contingency reserves.
- While TMX has expected better order inflow in the quarter, Q4FY24 is expected to see slight pause owing to elections, with each sector having its own dynamics—ethanol slowing down owing to sugar supply limitation for ethanol blending purpose, better prospects in F&B, while other sectors looking for slight slowdowns, which are expected to be temporary.
- Improvement in profitability is expected in industrial infra as the mix of CBG plants increase in the order book, with a distinction in the offerings of TMX across players.
- The company speaks of seeing growth in thermal power for the past 3 months in power utilities and captive power users, where coal has become a discussion point in the conversations of power-deficient demand in the country.
- Thermax's recent foray into ultra-pure water solutions is expected to see good demand from the pharma and food & beverages sectors, and a significant traction from the emerging semi-conductor eco system in the country.

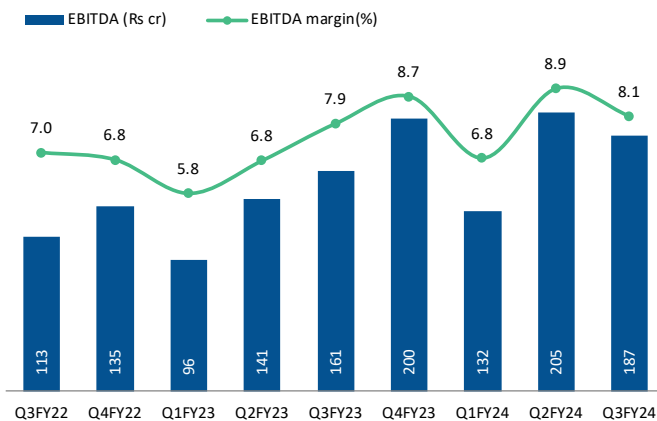
Financials in charts

Revenue Trend

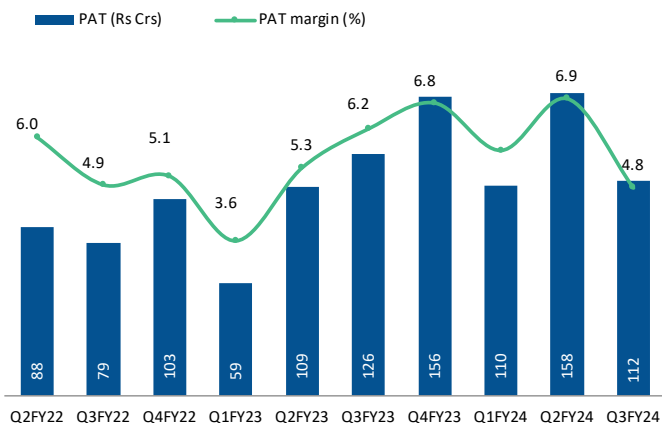


Source: Company, LKP Research

EBITDA & EBITDA Margin trend

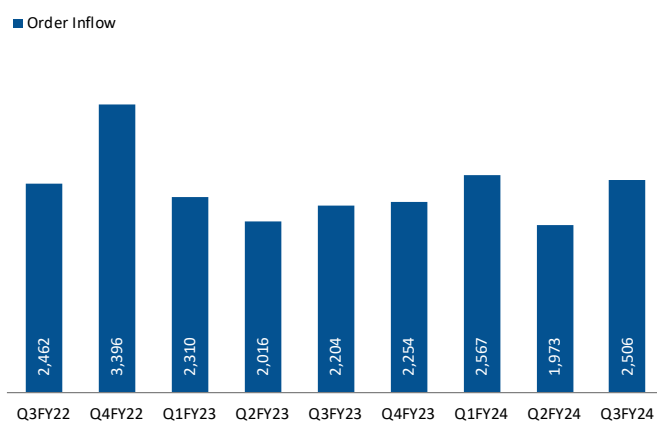


PAT & PAT Margin

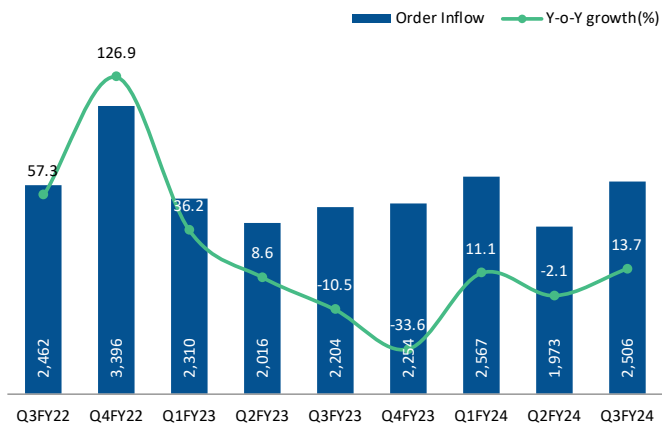


Source: Company, LKP Research

Order book

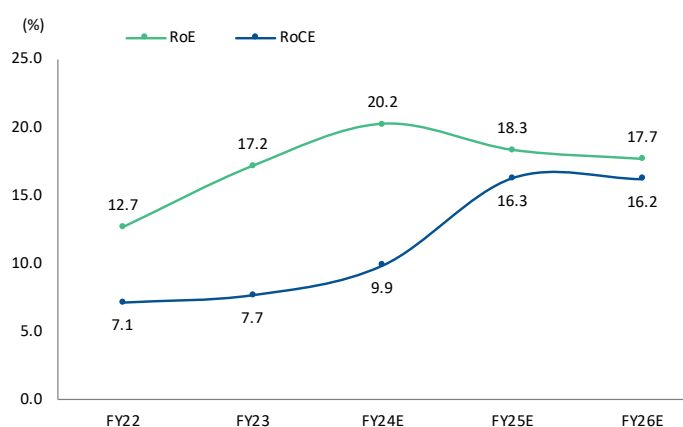


Order inflow and growth (%)



Source: Company, LKP Research

RoE RoCE



Profit and Loss Statement

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Raw material Cost	34,850	46,247	52,001	61,701	69,271
Employee Cost	8,129	9,542	9,923	10,420	10,941
Other expenses	14,090	19,134	21,401	25,601	28,630
Total operating Expenses	57,070	74,923	83,326	97,722	108,842
EBITDA	4,214	5,976	7,744	10,299	12,473
EBITDA Margins(%)	6.9	7.4	8.5	9.5	10.3
Depreciation & Amortisation	1,132	1,169	1,327	1,926	2,524
EBIT	3,081	4,807	6,417	8,373	9,949
Interest	252	376	922	1,102	1,204
Other Income	1,270	1,602	2,277	2,484	2,742
Recurring PBT	4,100	6,033	7,771	9,755	11,487
Add: Extraordinaries	-	-	755	-	-
PBT	4,100	6,033	8,526	9,755	11,487
Less: Taxes	978	1,524	1,865	2,370	2,757
Net Income (Reported)	3,122	4,509	6,661	7,385	8,730
Adjusted Net Income	3,122	4,509	5,906	7,385	8,730

Balance Sheet

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Assets					
Total Current Assets	45,161	54,141	59,485	69,245	80,986
of which cash & cash eqv.	9,535	11,316	11,830	12,423	14,512
Total Current Liabilities & Provisions	36,101	41,549	47,484	56,759	65,007
Net Current Assets	9,059	12,591	12,001	12,486	15,980
Investments	14,765	16,261	17,494	18,751	20,033
Net Fixed Assets	11,917	12,451	18,224	27,447	35,923
Capital Work-in-Progress	443	4,338	4,770	5,240	5,770
Goodwill	30	30	30	30	30
Total Assets	36,215	45,671	52,519	63,954	77,736
Liabilities					
Borrowings	3,554	8,105	11,105	16,105	22,105
Deferred Tax Liability	(1,271)	(1,057)	(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	34,700	38,456	42,245	48,681	56,462
Net Worth	34,925	38,681	42,471	48,906	56,687
Total Liabilities	36,215	45,671	52,519	63,954	77,736

Cash Flow

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Cash flow from operations	3,334	3,521	10,739	8,362	8,793
Capital expenditures	-9,600	-11,675	-7,623	-2,396	-3,054
Change in investments	-1242	-150	-123	-126	-128
Other investing cash flows	885	696	-1,307	-1,178	-1,178
Cash flow from investing	-4,216	-6,797	-2,908	-2,740	-4,360
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	503.6	4551.2	3000	5000	6000
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	-968	-996	-1,690	-2,497	-2,497
Cash flow from financing	-206	3,485	-4,848	-3,197	3,503
Chg in cash & cash eq.	-1,175	1,284	6,224	2,093	2,093
Closing cash & cash eq.	9,535	11,316	11,830	12,423	14,512

Key Ratios

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data (in Rs.)					
AEPS	27.7	40.0	59.2	65.6	77.5
CEPS	37.8	50.4	70.9	82.7	100.0
BVPS	434.3	503.4	377.2	434.3	503.4
DPS	7.0	9.1	7.0	7.0	7.0
Growth Ratios (%)					
Total Revenues	27.9	32.0	12.6	18.6	12.3
EBITDA	18.6	41.8	29.6	33.0	21.1
PAT	20.5	44.4	31.0	25.0	18.2
AEPS	51.2	44.2	47.9	10.9	18.2
CEPS	32.5	33.5	40.7	16.6	20.9
Valuation Ratios					
P/E	119.7	83.0	56.1	50.6	42.8
P/CEPS	87.8	65.8	46.8	40.1	33.2
P/BV	7.6	6.6	8.8	7.6	6.6
EV / EBITDA	65.4	47.7	35.5	28.1	23.7
EV / Sales	5.9	4.5	3.9	3.3	3.0
Operating Ratio					
Raw Material/Sales (%)	56.9	57.2	57.1	57.1	57.1
SG&A/Sales (%)	23.0	23.7	23.5	23.7	23.6
Effective Tax Rate (%)	23.9	25.3	24.0	24.3	24.0
Inventory Turnover (days)	43.3	34.1	33.0	32.0	35.0
Receivables (days)	95.1	84.7	84.0	90.0	95.0
Payables (days)	215.6	190.6	195.0	199.0	205.0
D/E Ratio (x)	0.1	0.2	0.3	0.3	0.4
Return/Profitability Ratio (%)					
RoCE	12.7	17.2	20.2	18.3	17.7
RoNW	7.7	9.9	16.3	16.2	16.6
Dividend Payout Ratio	25.2	22.7	11.8	10.7	9.0
Dividend Yield	0.2	0.3	0.2	0.2	0.2
PAT Margins	5.1	5.6	6.5	6.8	7.2
EBITDA Margins	6.9	7.4	8.5	9.5	10.3

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