

November 6, 2023

RESULT REPORT Q2 FY24 | Sector: Capital Goods

# Thermax Ltd

**Healthy quarter; Lack of incremental margin and order inflow triggers; downgrade to reduce**

## Our view

Thermax Ltd (TMX) reported a strong print in line with expectations of a low-double digit revenue growth and strong margin expansion. While revenue growth was driven by Industrial businesses, margin expanded across the board led by stable rm prices and execution of profitable projects. Order Inflow decline was a dampener where a 19% YoY drop in Industrial Infra segment drove the weakness. Order Pipeline grew in single digits compared to the base quarter with improvement in quality of pipeline orders. Chemicals, FEPL, Green Hydrogen, ZLD and digital remain key investment areas for the company.

## Looking Forward

Management expects H2FY24 to see improved order inflows (L1 in Rs3-4bn order) while margin could moderate a bit from Q2FY24 levels. The company is focused on the energy transition theme and is striving to create tech-enabled differentiation in the medium term. This is reflected in building up of employee capabilities in differentiated terms such as digital which has led to jump in employee costs. We believe TMX is well placed to capitalize on revival of private capex given its 1) strong balance sheet, 2) prudent working capital management, and 3) recent technological tie-ups. The stock is currently trading at 54.3x/43.3x FY24E/25E. With the recent run-up in the stock price, we downgrade it to REDUCE (NEUTRAL previously) with a revised target price of Rs2,760 valuing the company at 40x FY25E EPS.

## Result Highlights

- Consol sales came in at ~Rs23bn (up 11% YoY) (2% below estimates).
- Gross margins expanded by ~380bps YoY to 44.4%. Gross margin has remained stable in the range of 44-45% in the last four quarters.
- EBITDA grew by 46% YoY at ~Rs2.05bn (2% below estimates) with EBITDA margins expanding by ~210bps YoY/QoQ to 8.9%.
- Adj PBT grew by 53% YoY to Rs2.18bn (in line with estimates) supported by a 65% YoY increase in other income.
- Adj PAT grew 44% YoY to Rs1.58bn (11% above estimates) helped by a lower ETR of 27.1%
- Order inflow came in at Rs19.7bn (-2% YoY) and Order Book stood at Rs102.6bn (+8% YoY).

## Exhibit 1: Actual vs Estimate

Rs mn	Actual	Estimate		% variation		Comments
		YSec	Consensus	YSec	Consensus	
Sales	23,025	23,422	22,094	(1.7)	4.2	Stable in-line quarter with strong margin performance
EBITDA	2,046	2,079	1,975	(1.6)	3.6	
EBITDA margin %	8.9	8.9	8.9	1 bps	-5 bps	
Adj.Pat	1,586	1,420	1,473	11.7	7.7	

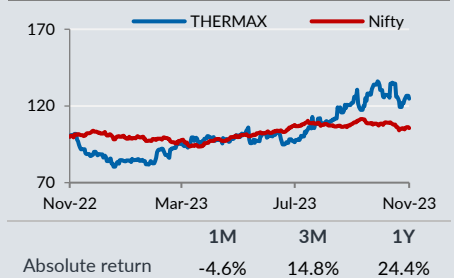
Source: Company, YES Sec

Reco	: <b>REDUCE</b>
CMP	: Rs 2,899
Target Price	: Rs 2,760
Potential Return	: -4.8%

## Stock data (as on Nov 6, 2023)

Nifty	19,416
52 Week h/l (Rs)	3230 / 1831
Market cap (Rs/USD mn)	331257 / 3982
Outstanding Shares (mn)	113
6m Avg t/o (Rs mn):	153
Div yield (%):	0.3
Bloomberg code:	TMX IN
NSE code:	THERMAX

## Stock performance



## Shareholding pattern (As of Sep'23 end)

Promoter	62.0%
FII+DII	28.0%
Others	4.5%

## Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	NEUTRAL
Target Price	2,760	2,630

## Δ in earnings estimates

	FY24E	FY25E
EPS (New)	53.7	69.0
EPS (Old)	52.3	65.8
% change	3.0	5.0

## Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenues	80,898	95,334	112,781
YoY growth (%)	32.0	17.8	18.3
OPM (%)	7.4	8.4	9.0
EPS (Rs)	40.0	53.7	69.0
EPS growth (%)	44.4	34.2	28.3
P/E (x)	72.4	53.9	42.0
EV/EBITDA (x)	54.1	40.6	31.9
Debt/Equity (x)	0.2	0.2	0.3
RoE (%)	9.3	11.2	13.0
RoCE (%)	7.9	9.3	10.4

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## Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	FY23	FY22	YoY (%)
Revenue	20,753	20,493	23,108	19,330	23,025	10.9	19.1	80,898	61,283	32.0
Total Revenues	20,753	20,493	23,108	19,330	23,025	10.9	19.1	80,898	61,283	32.0
Expenditure	19,347	18,882	21,109	18,008	20,978	8.4	16.5	74,923	57,070	31.3
as % of sales	93.2	92.1	91.3	93.2	91.1			92.6	93.1	
Consumption of RM	12,323	11,451	12,767	10,774	12,805	3.9	18.9	46,247	34,850	32.7
as % of sales	59.4	55.9	55.2	55.7	55.6			57.2	56.9	
Employee Cost	2,367	2,371	2,655	2,558	2,843	20.1	11.1	9,542	8,129	17.4
as % of sales	11.4	11.6	11.5	13.2	12.3			11.8	13.3	
Other expenditure	4,657	5,060	5,688	4,676	5,330	14.5	14.0	19,134	14,090	35.8
as % of sales	22.4	24.7	24.6	24.2	23.2			23.7	23.0	
EBITDA	1,406	1,611	1,999	1,322	2,046	45.6	54.8	5,976	4,214	41.8
Depreciation	298	291	294	294	330	10.6	12.1	1,169	1,132	3.2
EBIT	1,108	1,320	1,705	1,028	1,717	55.0	67.0	4,807	3,081	56.0
Other Income	398	423	575	531	659	65.4	24.1	1,602	1,270	26.1
Interest	80	91	139	134	198	148.1	48.1	376	252	49.3
PBT	1,426	1,652	2,140	1,425	2,177	52.7	52.8	6,033	4,100	47.2
Total Tax	332	386	409	315	589	77.1	86.8	1,352	978	38.2
Adjusted PAT	1,094	1,267	1,731	1,110	1,589	45.3	43.1	4,681	3,122	50.0
(Profit)/loss from JV's/Ass/MI	(2)	(3)	3	(4)	(3)	-	-	(2)	-	-
PAT after MI	1,091	1,264	1,734	1,106	1,586	45.3	43.4	4,679	3,122	49.9
Extra ordinary items	-	-	-	(506)	-	-	-	-	-	-
Reported PAT	1,091	1,264	1,734	600	1,586	45.3	164.6	4,679	3,122	49.9
Adjusted EPS	9.7	11.2	15.4	9.7	14.0	44.5	44.0	42	28	49.9
<b>Margins (%)</b>										
EBIDTA	6.8	7.9	8.7	6.8	8.9	211	205	7.4	6.9	51
EBIT	5.3	6.4	7.4	5.3	7.5	212	214	5.9	5.0	91
EBT	6.9	8.1	9.3	7.4	9.5	258	208	7.5	6.7	77
PAT	5.3	6.2	7.5	3.1	6.9	163	379	5.8	5.1	69
Effective Tax rate	23.3	23.3	19.1	22.1	27.0	373	492	22.4	23.9	(145)

Source: Company, YES Sec

## Exhibit 3: Segmental Revenue

Revenue	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)	FY23	FY22	YoY (%)
Industrial products	8,359	6,628	9,806	26.1	(14.8)	33,375	25,757	29.6
Industrial infra	9,162	8,083	11,602	13.4	(21.0)	39,280	29,879	31.5
Green solutions	1,132	584	850	93.8	33.1	3,627	2,168	67.3
Chemicals	1,608	1,501	1,679	7.1	(4.2)	6,728	5,385	24.9
Less: Intersegment	931	251	828	270.5	12.5	2,113	1,906	10.8
<b>Total</b>	<b>19,330</b>	<b>16,545</b>	<b>23,108</b>	<b>16.8</b>	<b>(16.4)</b>	<b>80,898</b>	<b>61,283</b>	<b>32.0</b>
<b>EBIT</b>								
Industrial products	560	241	1,040	132.2	(46.2)	2,739	1,815	50.9
EBIT margin (%)	6.7	3.6	10.6			8.2	7.0	
Industrial infra	303	503	719	(39.7)	(57.9)	2,168	1,310	65.4
EBIT margin (%)	3.3	6.2	6.2			5.5	4.4	
Green solutions	100	52	17	91.8	475.3	150	161	(7.2)
EBIT margin (%)	8.8	8.9	2.0			4.1	7.4	
Chemicals	265	56	323	374.4	(17.8)	865	624	38.6
EBIT margin (%)	16.5	3.7	19.2			12.8	11.6	

Source: Company, YES Sec

## CONFERENCE CALL HIGHLIGHTS:

### Margin Commentary

- Industrial Infra one large profitable project got executed in Q2FY24, 250bps margin expansion in Q2, half of this is sustainable, and half could be attributable to quarter specific tailwinds. All segments margins were positively impacted by favorable commodity movement. May come down slightly from this quarter.

### Order Inflow Commentary

- Q2FY24 saw absence of large orders. More bullish on large orders than last year. Do not know exactly when these will flow in. Bullish on H2FY24 ordering.
- L1 order of Rs3-4bn from refining and petchem.
- Order FY24 OI could be ~ Rs23-24bn
- Some of the larger past projects were less profitable. Conscious effort of being profitable. Working more towards tech differentiation for longer term. Q2 was down but the pipeline remains strong. H2 expect to be better. FY24 expect decent growth.
- **Order Pipeline:** Single digits growth YoY, Quality of pipeline has also improved.
- Captive power plants enquiry pipeline has improved. Focus on biomass, bioenergy, waste-to-energy etc.

### Other Highlights

- **Competitive Landscape:** Newer players coming in. Chinese competition coming in cement. Competitive intensity remains high. Some areas like biomass etc. Thermax's market share might have gone up.
- **International:** Better pipeline than 6 months back. Middle East hydrocarbon related projects and some orders from Africa.
- **Investments in Renewable Energy related business:** Invested in supply chain in biomass, control more than 30% of supply chain from 5% last year. **FEPL investment:** 200cr invested in Q2FY24.
- **Israel conflict** no impact so far. Impact would depend on global growth and interest rate trajectory being impacted by the conflict.
- **Employee Cost increase:** More people hired on ground. This trend could continue. Differentiated talent hiring – digital etc. This could continue for 1 more year. Shortage of talent has been seen. Attrition has started to come down.
- **Investments other than FEPL:** Chemicals, Green Hydrogen, Industrial Products M&A opportunities, energy management, water – ZLD, desalination, digital. Water and air pollution control has application in semi-conductors etc. These are structurally bigger than a couple of years ago.
- Capex of 460cr in H1FY24: FEPL + Chemical Plant (end of FY25 expected to commission)
- **FGD:** Continue to execute all 4 FGD projects, 1 will be close to commissioning by the end of next month.

## FINANCIALS

### Exhibit 4: Balance Sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Sources of Funds</b>						
Equity capital	225	225	225	225	225	225
Reserves	30,054	32,289	34,700	38,456	43,042	48,928
Non Minority Controlling Int.	0	0	0	22	0	0
Net worth	30,279	32,514	34,925	38,681	43,267	49,153
Debt	2,115	3,279	3,677	8,105	10,105	13,105
Deferred tax liab (net)	(1,510)	(1,540)	(1,271)	(1,057)	(1,057)	(1,057)
Total liabilities	30,885	34,253	37,331	45,751	52,316	61,202
<b>Application of Funds</b>						
Gross Block	19,215	19,878	20,067	21,192	25,192	26,692
Depreciation	6,967	7,777	8,525	9,033	10,544	12,146
Fixed Asset	12,830	12,451	11,947	12,482	14,970	14,869
CWIP	553	211	443	4,338	4,338	4,338
Investments	8,759	2,345	14,765	16,261	20,020	23,684
Net Working Capital	8,743	19,246	10,175	12,670	12,988	18,311
Inventories	4,546	4,047	7,270	7,556	8,619	9,888
Sundry debtors	14,785	13,380	15,972	18,766	23,507	27,809
Cash & equivalents	4,761	19,392	9,535	11,316	11,415	16,437
Loans & Advances	5,625	5,246	6,733	7,409	10,677	12,631
Other Current Asset	6,148	6,386	6,643	9,173	10,677	12,631
Sundry creditors	10,000	11,710	15,074	15,286	23,507	27,809
Provisions	1,903	2,210	2,392	2,421	3,813	4,511
Other current liabilities	15,218	15,286	18,512	23,842	24,588	28,765
Total Assets	30,885	34,253	37,331	45,751	52,316	61,202

Source: Company, YES Sec

## Exhibit 5: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	57,313	47,913	61,283	80,898	95,334	112,781
% Change YoY	(4.0)	(16.4)	27.9	32.0	17.8	18.3
Operating profit	4,062	3,552	4,214	5,976	7,999	10,139
EBITDA margins	7.1	7.4	6.9	7.4	8.4	9.0
% Change YoY	(11.2)	(12.6)	18.6	41.8	33.9	26.8
Depreciation	1,166	1,146	1,132	1,169	1,512	1,602
EBIT	2,896	2,406	3,081	4,807	6,487	8,537
EBIT margins	5.1	5.0	5.0	5.9	6.8	7.6
Interest expense	150	206	252	376	789	987
Other income	1,000	1,077	1,270	1,602	2,383	2,820
Profit before tax	3,745	3,277	4,100	6,033	8,081	10,370
Taxes	1,621	686	978	1,524	2,030	2,605
Effective tax rate (%)	43.3	20.9	23.9	25.3	25.1	25.1
Net profit	2,125	2,591	3,122	4,509	6,051	7,765
Minorities and other	0	0	0	0	0	0
Net profit after minorities	2,125	2,591	3,122	4,509	6,051	7,765
Exceptional items	0	(525)	1	(2)	0	0
Net profit	2,125	2,066	3,123	4,507	6,051	7,765
% Change YoY	(48.8)	(2.8)	20.5	44.4	34.2	28.3
EPS (Rs)	18.9	23.0	27.7	40.0	53.7	69.0

Source: Company, YES Sec

## Exhibit 6: Cash flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before Tax	3,745	2,752	4,100	6,033	8,081	10,370
Interest	86	118	135	260	789	987
Depreciation	1,036	1,017	995	1,169	1,512	1,602
Other Items	(517)	12	(947)	(726)	(2,383)	(2,820)
(Inc)/Dec in WC	218	4,734	(5)	(628)	(218)	(302)
Direct Taxes Paid	1,313	938	1,030	1,512	2,030	2,605
CF from Oper. Activity	3,256	7,695	3,247	4,596	5,751	7,232
Inc/(Dec) in FA	480	834	838	6,499	4,000	1,500
Free Cash Flow	2,776	6,861	2,409	(1,904)	1,751	5,732
(Pur)/Sale of Invest.	(2,165)	(7,191)	(5,054)	(13,296)	(9,376)	(3,844)
CF from Inv. Activity	(1,685)	(6,357)	(4,216)	(6,797)	(5,376)	(2,344)
Change in Networth	-	-	-	-	-	-
Inc/(Dec) in Debt	(310)	947	762	4,481	2,000	3,000
Interest Paid	(85)	(118)	(135)	(256)	(789)	(987)
Dividends Paid	(1,901)	-	(788)	(1,021)	(1,464)	(1,879)
Others	(28)	(56)	(45)	281	(21)	(0)
CF from Fin. Activity	(2,325)	772	(206)	3,485	(275)	134
Inc/(Dec) in Cash	(754)	2,110	(1,175)	1,284	99	5,022
Opening cash Balance	2,459	1,990	4,188	3,034	4,528	4,628
Others	285	88	21	159	-	-
Closing cash Balance	1,990	4,188	3,034	4,477	4,628	9,649

Source: Company, YES Sec

## Exhibit 7: Du-point analysis

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	1.0	2.8	2.4	2.4	2.4	2.5
Interest burden (x)	0.6	0.3	0.3	0.3	0.3	0.3
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	1.9	1.4	1.6	1.8	1.8	1.8
Financial leverage (x)	1.0	1.1	1.1	1.2	1.2	1.2
RoE (%)	5.4%	5.9%	6.7%	9.3%	11.2%	13.0%

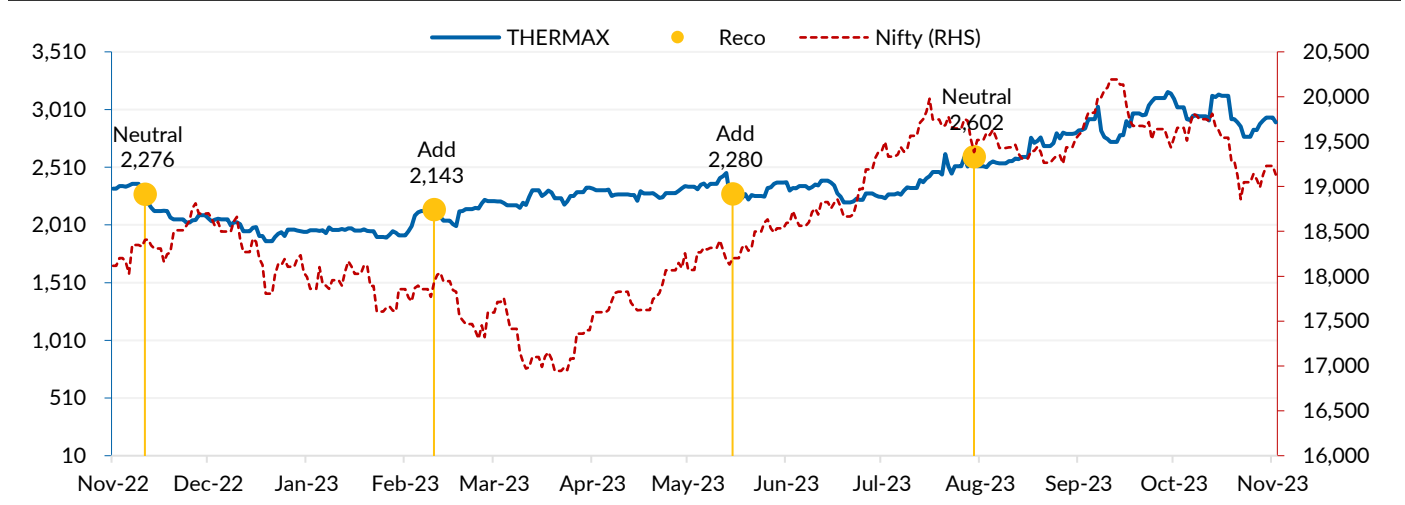
Source: Company, YES Sec

## Exhibit 8: Ratio Analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (Rs)</b>						
EPS	18.9	23.0	27.7	40.0	53.7	69.0
Dividend per share	5.5	5.6	9.0	10.0	13.0	16.7
Cash EPS	29.2	33.2	37.8	50.4	67.2	83.2
Book value per share	268.9	288.8	310.2	343.7	384.3	436.5
Div. payout (%)	24.2	30.4	32.4	25.0	24.2	24.2
<b>Valuation ratios (x)</b>						
P/E	153.4	125.8	104.4	72.3	53.9	42.0
P/CEPS	99.1	87.2	76.6	57.4	43.1	34.8
P/B	10.8	10.0	9.3	8.4	7.5	6.6
EV/EBIDTA	79.6	87.2	76.0	54.0	40.6	31.8
Dividend yield (%)	0.2	0.2	0.3	0.3	0.4	0.6
<b>Profitability Ratios (%)</b>						
RoIC	11.5	5.6	8.4	10.1	12.1	13.5
RoE	5.4	5.9	6.7	9.3	11.2	13.0
RoCE	5.3	5.6	6.3	7.9	9.3	10.4
<b>Liquidity ratios</b>						
Debtor (days)	94	102	95	85	90	90
Inventory (days)	29	31	43	34	33	32
Creditor (days)	64	89	90	69	90	90
Net working Capital (days)	25	(1)	4	6	6	6
Asset Turnover (x)	1.9	1.4	1.6	1.8	1.8	1.8

Source: Company, YES Sec

## Recommendation Tracker





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## DISCLOSURE OF INTEREST

Name of the Research Analyst : Abhijeet Singh

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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**ADD:** Upside between 10% to 20% over 12 months

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**REDUCE:** Downside between 0% to -10% over 12 months

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