

Retail Equity Research  
**Thermax Limited**  
Capital Goods

**Accumulate**

BSE CODE : 500411      NSE CODE: THERMAX  
BLOOMBERG CODE: TMX:IN      SENSEX : 66,988

12Months Investment Period      Rating as per Mid Cap  
**CMP Rs. 2,533 TARGET Rs. 2,913 RETURN 15%** ↑  
(Closing: 30-11-2023)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↑

**EARNINGS** ↑

**Strong operating performance...**

Thermax Ltd (TMX) is a leading energy and environment solutions provider. They offer integrated, innovative solutions in the areas of heating, cooling, power, water & waste management, air pollution control and chemicals.

- The operating performance in Q2FY24 was strong, with 211bps YoY improvement in EBITDA margin, aided by a better product mix and stabilising commodity prices.
- In Q2FY24, revenue grew by 11% YoY, led by the industrial (18% YoY) and infra segments (13% YoY), while the green solution and chemical segments witnessed de-growth.
- The order book grew by 8% YoY in H1FY24, owing to a 5% YoY increase in new orders. TMX expects large orders from refineries in H2FY24.
- On the international front, the company is receiving a number of inquiries from Africa and the Middle East for waste, energy, and hydrocarbon-related projects, which will aid the order book.
- We expect the govt's capex outlay to support clean energy projects to benefit the company's green energy portfolio. We assign an Accumulate rating with a TP of Rs2,913 and roll forward our valuation based on FY26 EPS at a P/E of 38x.

**Execution to pick-up in H2FY24...**

In H1FY24, TMX reported a revenue growth of 13.6% YoY to Rs. 4,235cr, aided by strong execution in the Industrial product segment (22% YoY), Green solutions (23% YoY) and Industrial infra (13% YoY). The Chemical segment witnessed a muted growth. The management expects execution to pick up in H2FY24, aided by strong orders and TMX's continued investments in solar and in biomass to hydrogen businesses. However, we largely maintain our FY24/FY25 revenue estimate.

**Stabilised commodity costs aid margins...**

Across the business segments, margins witnessed an improvement largely aided by stabilisation in commodity costs and a price hike in the industrial product segment, especially in the boiler business. The EBIT margins of the industrial segment, industrial, Infra, Green solutions and Chemical businesses improved by 215bps, 101bps, 435bps, 503bps YoY, respectively. The gross and EBITDA margins during the quarter expanded by 377bps YoY and 211bps YoY to 44.4/7.4%, respectively. The management highlighted that half of the operating margin expansion to sustain as the execution of one large project is almost complete. An increase in operational activity aided adj. PAT to grow by 45% YoY to Rs. 451cr in FY23.

**Strong order book provides visibility...**

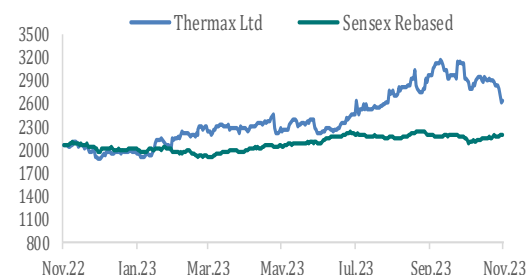
In H1FY24, total order inflow grew by 5% YoY to Rs4,540cr, largely on account of strong inflows in green solutions by 78% YoY, followed by industrial products by 8% YoY, while industrial infra and chemical segments registered muted growth. The order book grew by 8% YoY to Rs10,264cr, which is 1.2x TTM revenue, providing visibility for the coming quarters. TMX indicated that there is a good demand from international waste-to-energy and biomass projects and expects a pick-up in order inflows in H2FY24.

**Valuations**

We expect execution to pick up in the coming quarters due to a healthy order book and margins to stabilise in the coming quarters due to the softening of commodity prices. We assign an Accumulate rating with a TP of Rs2,913 and roll forward our valuation based on FY26 EPS at a P/E of 38x.

Company Data			
Market Cap (cr)	₹ 30,181		
Enterprise Value (cr)	₹ 30,991		
Outstanding Shares (cr)	₹ 12		
Free Float	38%		
Dividend Yield	0.4%		
52 week high	₹ 3,228		
52 week low	₹ 1,830		
6m average volume (cr)	0.01		
Beta	0.7		
Face value	₹ 2		
Shareholding (%)	Q4FY23	Q1FY24	Q2FY24
Promoters	62.0	62.0	62.0
FII's	12.3	12.4	12.5
MFs/Insti	15.6	15.5	15.5
Public	10.1	10.2	10.0
Total	100.0	100.0	100.0
Promoter pledge	Nil	Nil	Nil
Price Performance	3 Month	6 Month	1 Year
Absolute Return	-2%	16%	28%
Absolute Sensex	2%	6%	6%
Relative Return*	-4%	10%	22%

\*over or under performance to benchmark index



Consolidated (cr)	FY24E	FY25E	FY26E
Sales	9,331	10,626	12,186
Growth (%)	15.3	13.9	14.7
EBITDA	784	967	1,145
EBITDA Margin(%)	8.4	9.1	9.4
PAT Adj.	622	768	913
Growth (%)	38.0	23.6	18.9
Adj.EPS	52.2	64.5	76.7
Growth (%)	38.0	23.6	18.9
P/E	48.5	39.3	33.0
P/B	6.9	6.0	5.2
EV/EBITDA	39.6	31.9	26.8
ROE (%)	15.1	16.3	16.8
D/E	0.2	0.1	0.1

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## Quarterly Financials (Consolidated)

### Profit & Loss

(Rs cr)	Q2FY24	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)	H1FY24	H1FY23	YoY Growth (%)
<b>Sales</b>	<b>2,302</b>	<b>2,075</b>	10.9	<b>1,933</b>	19.1	<b>4,235</b>	<b>3,730</b>	13.6
<b>EBITDA</b>	<b>205</b>	<b>141</b>	45.6	<b>132</b>	54.8	<b>337</b>	<b>237</b>	42.4
EBITDA margins (%)	8.9	6.8	211bps	7	205bps	8.0	6.3	161bps
Depreciation	33	30	10.6	29	12.1	62	58	6.9
<b>EBIT</b>	<b>172</b>	<b>111</b>	55.0	<b>103</b>	67.0	<b>274</b>	<b>178</b>	54.0
Interest	20	8	148.1	13	48.1	33	15	128.0
Other Income	66	40	65.4	53	24.1	119	60	97.0
Exceptional Items	-	0	-	0	-	(51)	0	-
<b>PBT</b>	<b>218</b>	<b>143</b>	52.7	<b>92</b>	137.0	<b>310</b>	<b>224</b>	38.2
Tax	59	33	77.1	32	86.8	90	56	62.4
<b>Reported PAT</b>	<b>159</b>	<b>109</b>	45.3	<b>60</b>	164.6	<b>219</b>	<b>168</b>	30.0
Adjustments	-	-	-	0	-	51	-	-
<b>Adj PAT</b>	<b>159</b>	<b>109</b>	45.3	<b>111</b>	43.4	<b>269</b>	<b>168</b>	60.1
No. of Shares	12	12	-	12	-	12	12	-
<b>EPS (Rs)</b>	<b>13</b>	<b>9</b>	45.3	<b>9</b>	43.4	<b>23</b>	<b>14</b>	60.1

### Change in Estimates

Year / Rs cr	Old estimates		New estimates			Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY26E	FY24E	FY25E
Revenue	9,331	10,405	9,331	10,626	12,186	0.0	2
EBITDA	793	947	784	967	1,145	-1	2
Margins (%)	8.50	9.10	8.40	9.10	9.40	-10bps	0bps
Adj. PAT	595	719	622	768	913	4.5	6.9
EPS	50.0	60.4	52.2	64.5	76.7	4.4	6.8

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>6,128</b>	<b>8,090</b>	<b>9,331</b>	<b>10,626</b>	<b>12,186</b>
% change	27.9	32.0	15.3	13.9	14.7
<b>EBITDA</b>	<b>421</b>	<b>598</b>	<b>784</b>	<b>967</b>	<b>1,145</b>
% change	18.6	41.8	31.2	23.4	18.5
Depreciation	113	117	129	133	145
<b>EBIT</b>	<b>308</b>	<b>481</b>	<b>655</b>	<b>834</b>	<b>1001</b>
Interest	25	38	53	48	28
Other Income	127	160	250	260	270
<b>PBT</b>	<b>410</b>	<b>603</b>	<b>852</b>	<b>1,045</b>	<b>1,243</b>
% change	49.0	47.2	41.2	22.7	18.9
Tax	98	152	230	277	329
Tax Rate (%)	23.9	25.3	27.0	26.5	26.5
<b>Reported PAT</b>	<b>312</b>	<b>451</b>	<b>622</b>	<b>768</b>	<b>913</b>
Adj*	0	0	0	0	0
<b>Adj PAT</b>	<b>312</b>	<b>451</b>	<b>622</b>	<b>768</b>	<b>913</b>
% change	20.5	44.3	38.0	23.6	18.9
No. of shares (cr)	12	12	12	12	12
<b>Adj EPS (Rs.)</b>	<b>26</b>	<b>38</b>	<b>52</b>	<b>64</b>	<b>77</b>
% change	20.5	44.3	38.0	23.6	18.9
DPS (Rs.)	8.4	8.7	8.8	9.0	9.0

### CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Net inc. + Depn.</b>	<b>523</b>	<b>720</b>	<b>980</b>	<b>1,179</b>	<b>1,388</b>
Non-cash adj.	-46	-93	-175	-227	-300
Changes in W.C	95	-738	-655	-593	-536
<b>C.F. Operation</b>	<b>445</b>	<b>-272</b>	<b>-99</b>	<b>99</b>	<b>283</b>
Capital exp.	44	630	-4	230	230
Change in inv.	-591	477	-23	-51	-62
Other invest.CF	0	0	0	0	0
<b>C.F - Investment</b>	<b>-420</b>	<b>1269</b>	<b>220</b>	<b>439</b>	<b>439</b>
Issue of equity	0	0	0	0	0
Issue/repay debt	50	455	20	-130	-130
Dividends paid	-100	-104	-105	-107	-107
Other finance.CF	-101	-1169	167	-460	-461
<b>C.F - Finance</b>	<b>-176</b>	<b>-855</b>	<b>29</b>	<b>-746</b>	<b>-726</b>
Chg. in cash	-150	142	150	-208	-5
Closing cash	311	453	603	395	390

### BALANCE SHEET

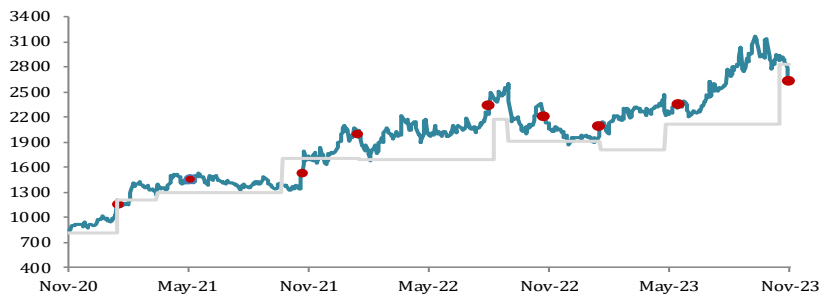
Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	311	453	603	395	390
Accounts Receivable	1,699	1,877	2,173	2,504	2,871
Inventories	727	756	851	968	1,102
Other Cur. Assets	2,638	3,715	4,218	4,803	5,509
Investments	710	233	257	308	369
Gross Fixed Assets	1,822	2,042	2,262	2,482	2,702
Net Fixed Assets	1,154	1,216	1,168	1,275	1,370
CWIP	44	434	200	200	200
Intangible Assets	41	32	22	12	2
Def. Tax (Net)	127	106	104	102	100
Other Assets	-	8	8	8	8
<b>Total Assets</b>	<b>7,458</b>	<b>8,836</b>	<b>9,611</b>	<b>10,582</b>	<b>11,931</b>
Current Liabilities	3,371	3,913	4,114	4,516	5,141
Provisions	239	242	281	320	367
Debt Funds	355	811	831	701	571
Other Liabilities	-	-	-	-	-
Equity Capital	23	23	23	23	23
Reserves & Surplus	3,470	3,848	4,362	5,023	5,829
Shareholder's Fund	3,492	3,870	4,385	5,046	5,852
<b>Total Liabilities</b>	<b>7,458</b>	<b>8,836</b>	<b>9,611</b>	<b>10,582</b>	<b>11,931</b>
<b>BVPS (Rs.)</b>	<b>293</b>	<b>325</b>	<b>368</b>	<b>423</b>	<b>491</b>

### RATIOS

Y.E March	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	6.9	7.4	8.4	9.1	9.4
EBIT margin (%)	5.0	5.9	7.0	7.8	8.2
Net profit mgn.(%)	5.1	5.6	6.7	7.2	7.5
ROE (%)	9.3	12.2	15.1	16.3	16.8
ROCE (%)	7.5	9.0	10.0	11.0	11.4
<b>W.C &amp; Liquidity</b>					
Receivables (days)	92.6	80.7	79.2	80.3	80.5
Inventory (days)	59.3	58.5	56.6	56.4	56.3
Payables (days)	136.0	119.0	103.1	88.9	87.4
Current ratio (x)	1.5	1.6	1.8	1.8	1.8
Quick ratio (x)	0.6	0.6	0.5	0.6	0.6
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	3.4	4.2	4.3	4.5	4.7
Total asset T.O (x)	0.9	1.0	1.0	1.1	1.1
Int. coverage ratio (x)	12.2	12.8	12.3	17.3	36.1
Adj. debt/equity (x)	0.1	0.2	0.2	0.1	0.1
<b>Valuation</b>					
EV/Sales (x)	5.0	3.8	3.3	2.9	2.5
EV/EBITDA (x)	72.5	51.9	39.6	31.9	26.8
P/E (x)	96.6	67.0	48.5	39.3	33.0
P/BV (x)	8.7	7.9	6.9	6.0	5.2



## Recommendation summary (last 3 Years)



Dates	Rating	Target
17-Aug-20	Accumulate	820
09-Feb-21	Hold	1,206
27-May-21	Reduce	1,299
15-Nov-21	Accumulate	1,695
11-Feb-22	Sell	1,700
01-Sep-22	Reduce	2,178
18-Nov-22	Reduce	1,911
15-Feb-23	Sell	1,806
21-Jun-23	Sell	2,113
01-Dec-23	Accumulate	2,913

Source: Bloomberg, Geojit Research.

## Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

### Not rated/Neutral

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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