

Thermax

BSE SENSEX
70,514

S&P CNX
21,183



Bloomberg	TMX IN
Equity Shares (m)	113
M.Cap.(INRb)/(USD\$)	322.3 / 3.9
52-Week Range (INR)	3230 / 1830
1, 6, 12 Rel. Per (%)	-16/2/19
12M Avg Val (INR M)	179
Free float (%)	38.0

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	80.9	93.5	105.4
EBITDA margin	7.4	8.3	9.1
Adj. PAT	4.5	5.8	6.9
EPS (INR)	40.0	51.8	61.0
EPS Gr. (%)	44.4	29.4	17.7
BV/Sh. (INR)	343.4	378.8	425.8

Ratios

RoE (%)	12.3	14.4	15.2
RoCE (%)	11.2	12.6	13.1
Payout (%)	25.0	23.2	23.0

Valuations

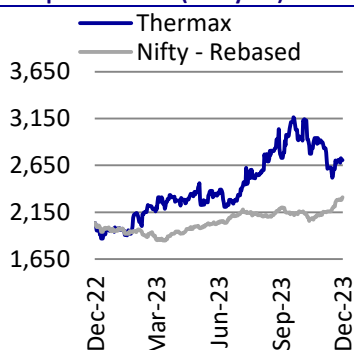
P/E (x)	67.5	52.1	44.3
P/BV (x)	7.9	7.1	6.3
EV/EBITDA (x)	47.6	37.0	29.9
EV/Sales (x)	3.5	3.1	2.7

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	62.0	62.0	62.0
DII	15.5	15.5	15.3
FII	18.0	17.8	17.8
Others	4.5	4.7	4.8

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR2,705

TP: INR2,740 (+1%)

Neutral

Range of offerings on energy transition

We attended Thermax's analyst meet where company demonstrated its innovative technologies and bespoke solutions for the green solutions segment to cater to energy transition needs of customers. Through its two subsidiaries TOESL and FEPL, company offers a range of products and services across bio energy and renewable. It also has lined up plans to enter into coal gasification and electrical energy solutions including electric pumps. We expect company to continue to invest in these initiatives over next few years. These new products, though higher in pricing than traditional products by 30-40% but will be RoI accretive based on energy cost savings.

Order inflows have started improving with one large order of INR5b announced for bio-CNG plants. Over FY23-26, we expect Thermax to post a 14% CAGR in revenue on the back of a strong order book (INR103b; OB/Rev: 1.1x). We estimate a 21% CAGR in earnings, aided by revenue growth and margin improvement. We continue to value Thermax at 38X December, 25 estimated earnings and add value from green solutions. We maintain Neutral rating on the stock with a TP of INR2,740 and would look for better entry points in the stock.

Key takeaways from the meeting

Innovating across a broad range of products

Company has introduced several new products over last few years to capture energy transition needs of customers. These include offerings from TOESL, FEPL, coal gasification and electric pumps along with range of boilers, bio CNG offerings and range of chemicals. It has created a differentiation across products with company either being the only one in these products or has limited competition. Thermax is the only player in flexi-fuel boilers, thermal HVAC, TOESL offering and has limited competition in bio-CNG, cooling solutions, coal gasification and chemicals.

Growth strategy has changed over years

Thermax's experience in international geographies in past wasn't as per company's expectations and it has over years changed its strategy to grow in domestic market by expanding across range of products, growing TOESL and FEPL, entering into hydrogen, growing chemicals and water related offerings.

Consciously shied away from competitive bids

Company's order book has not grown in line with other sector players who have grown faster in last two years. This is due to conscious bidding strategy of Thermax. Company is clearly not willing to participate in large thermal power projects and will take a call how this segment grows in future.

Taking step by step approach for international markets

Thermax is selectively approaching opportunities in international market and expect share of international projects to grow only gradually. Company's products in air pollution control, bio mass boilers, waste to energy, chillers are well accepted in international markets but offering from bio-CNG, TOESL etc are to be well tested in domestic markets before offering in international markets.

Segment wise approach

Offerings are continuously increasing in industrial products segment and profitability will settle at around 8.5-9% for this division as company is also increasing investments towards digital adoption. Company is selective for industrial infra projects and now is focusing on differentiated projects. Chemical division is a hedge for all bets in energy transition and with lower RM prices and improving share of speciality chemicals, it expects this business to perform well. Green solutions business (TOESL and FEPL) is witnessing good traction in order inflows and over a period of time company would look for infusing a partner in these projects.

Valuation and view

We value the company at 38X two year forward estimated earnings and add value of investments in green solutions at 1.5x P/BV and arrive at a TP of INR2,740. We maintain our Neutral rating on Thermax. Our TP bakes in 15%/14% CAGR in order inflows and revenues and 200 bps margin improvement over FY23-26.

Details of new product introductions over the past few years which are oriented towards achieving energy transition

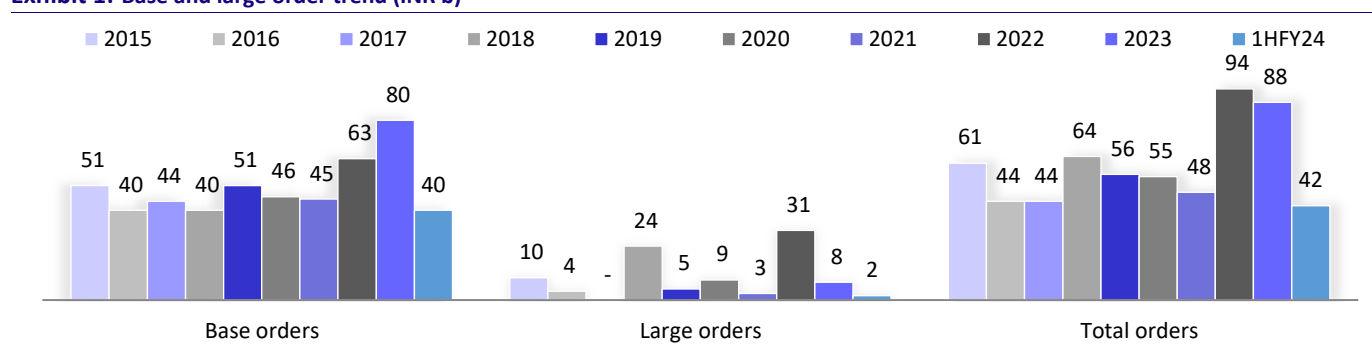
- **Fluidized bed gasifier:** Company has developed this technology in collaboration with IIT Delhi. This technology has a potential usage for power sector which uses high ash content coal, steel where dependence on imported coking coal is high, blue chemicals, process heating etc. In this coal gasification offering, BHEL is the only other player in the market. Thermax aims to develop gasification plants with carbon capture capabilities to process coal ranging from 100 to 500 TPD.
- **Thermal HVAC system for MHCV:** These THVAC solutions are provided for MHCVs and it uses waste heat from the bus itself. Company launched this product in Europe 2 years ago and is now working with major OEMS and fleet owners in domestic markets for test trials.
- **Thermotron:** An electric boiler from Thermax that helps meet sustainability goals by accelerating industrial decarbonisation. It has state of the art combusters which can handle 150 different types of fuel and generates steam using low voltage. It is used primarily in F&B, mineral water packaging industry, beverage and distilleries. Company currently has ranges available from 200kg to 6 tonne and can go upto maximum 50 tonne. This type of boiler reduces the ancillary costs which are associated with traditional boilers.
- **Flexi-source boilers:** Flexisource - a solution that can combust several types of waste fuels, providing higher fuel flexibility to customers.
- **Edge Live:** Thermax EDGE™ Live is a digital solution powered by advanced capabilities of artificial intelligence, machine learning and Thermax engineered algorithms. It can integrate all industrial assets across client and can perform data analytics and can offer customized solutions to clients.
- **TOESL:** It carries out projects in biomass gasification and bio-CNG solutions under the build-own-operate model for a concession period of 10 years. TOESL helps to facilitate circularity and reduce carbon footprint for its clients and uses all major field stocks, like rice straw, press mud and organic municipal waste to generate biogas. It has a minimum offtake arrangement with clients and cost inflation is pass through over project duration. TOESL now has 45 sites across 25 clients.
- **FEPL:** Through FEPL, company is targeting installation of 1 GW of hybrid renewable energy solutions by FY27. The captive users are leading organisations from tyre, auto comp, petrochemical and textile industries. The company currently manages an operational portfolio of 140 MWp, with an additional 145 MWp under construction, over 300 MW in development, and 400 MW in the pipeline.
- **Bio-CNG:** Thermax, through its subsidiary, has secured orders worth more than INR5b from a leading energy conglomerate for setting up five bio-CNG plants across India. These plants will be set up in the states of Rajasthan, Madhya Pradesh, Maharashtra (2) and Uttar Pradesh. These plants will utilise local feedstock exceeding 1,000 TPD, which includes rice straw, Napier grass, cane trash and soya trash. The bio-CNG generated from these plants will be employed for commercial and captive use by the customer.
- **Green hydrogen:** Thermax signed an MoU with FFI for a green hydrogen manufacturing facility and it also wants to get into electrolyser manufacturing. The company will also keenly eye EPC and BoP opportunities in hydrogen

projects or take up these projects on BOT basis or go via bio-hydrogen. Within bio-hydrogen, biomass is converted to hydrogen while in microbial process, microbes are used to generate methane and then hydrogen is extracted from that. Company is also still evaluating the technologies to be used – alkaline or PEM and is yet to decide on investment or capital allocation requirements in future.

- **Chemicals:** Company had launched Siesmograde and BS66MuCIS chemicals which are construction chemicals primarily used for providing strengthening qualities.
- **Mechanical vapour recompression (MVR):** In the mechanical vapor recompression, the vapors are compressed by an electrically operated compressor and used again to heat the evaporator.

These products are at initial stages of getting installed or sold and nearly 30-40% higher in costs. However, with the reduction in energy costs, these can turn out to be RoI accretive in a short span of time. We expect contribution from these projects to start getting reflected over next 2-3 years in financials.

Exhibit 1: Base and large order trend (INR b)



Source: Company, MOFSL

Exhibit 2: TOESL key financials

INR m	FY21	FY22	FY23
Revenue	1,274	2,180	3,482
Expenditure	1,040	1,974	3,213
EBITDA	235	206	269
EBITDA %	18.4	9.4	7.7
Depreciation	4.9	4.5	7.2
EBIT	230	201	262
Interest	18	22	52
PBT	212	179	210
Tax	40	48	50
Tax%	18.9	26.9	23.8
PAT	172	131	160
Balance sheet			
Share capital	423	723	723
Reserves	531	663	819
Networth	954	1,386	1,542
Debt	117	578	909
Total liabilities	1,071	1,964	2,451
Net block	17	68	68
Cash and inv in subsidiary	327	328	341
Net WC and other assets	727	1,568	2,043
Total assets	1,071	1,964	2,451
RoE	18.0	9.5	10.4
RoCE	17.4	7.5	8.1

Source: Company, MOFSL

Exhibit 3: FEPL consolidated financials

INR m	FY21	FY22	FY23
Revenue	28	266	193
Expenditure	17	252	347
EBITDA	10	13	-154
EBITDA %	36.6	5.0	-79.5
Depreciation	15	2	16
EBIT	-5	11	-170
Interest	17	1	35
PBT	-21	10	-205
Tax		-	4
Tax%	-	-	2.1
PAT	-21	10	-209
Balance sheet			
Share capital	135	395	1,534
Reserves	-340	-67	-336
Networth	-205	327	1,198
Debt	195	41	5,994
Total liabilities	-10	368	7,193
Net block	2	338	5,018
Cash	108	393	1,234
Net WC and other assets	-120	-362	940
Total assets	-10	368	7,193
RoE	10.4	3.0	-17.4
RoCE	48.2	2.9	-2.3

Source: Company, MOFSL

Financial outlook

We expect a CAGR of 14%/23%/21% in revenue/EBITDA/PAT over FY2023-26. Growth will be driven by 1) 15% growth in order inflows over the same period, 2) a gradual recovery EBIT margin of the industrial product/chemical divisions to 9.5%/18% by FY26, and 3) control over working capital and NWC at 6 days.

Exhibit 4: Order inflow is diversified across segments for Thermax for 2QFY24 (%)

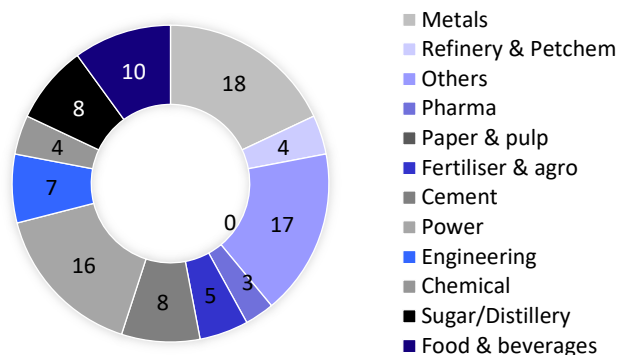


Exhibit 5: We expect order inflow to start growing from FY25 (INR b)

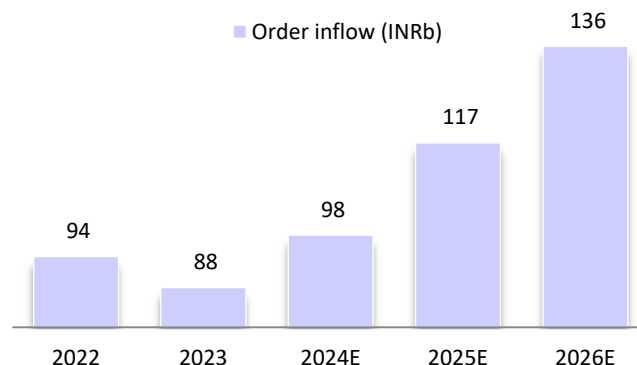


Exhibit 6: Revenue to grow at CAGR of 14% over FY23-26 (INR b)

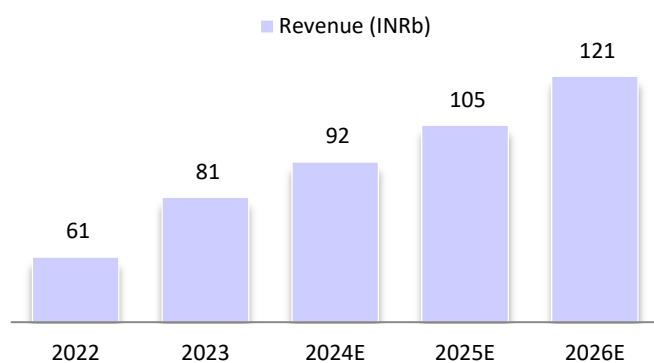


Exhibit 7: EBITDA margin to improve on better gross margins

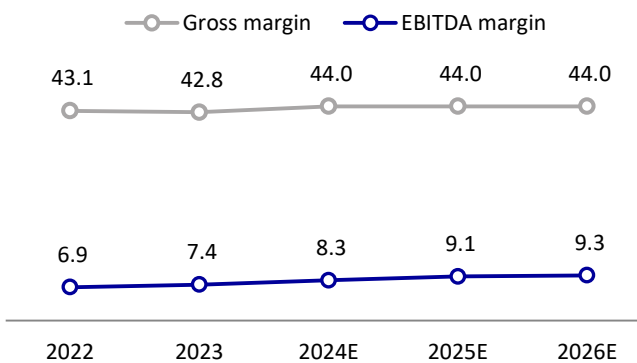


Exhibit 8: We expect PAT CAGR of 21% over FY23-26

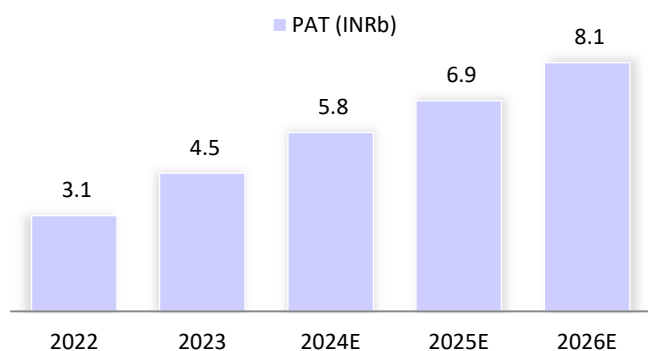


Exhibit 9: NWC days to remain comfortable

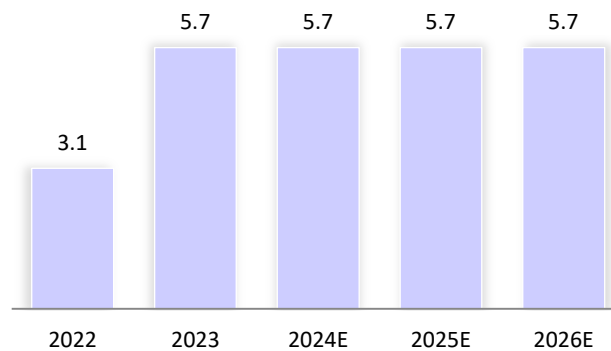
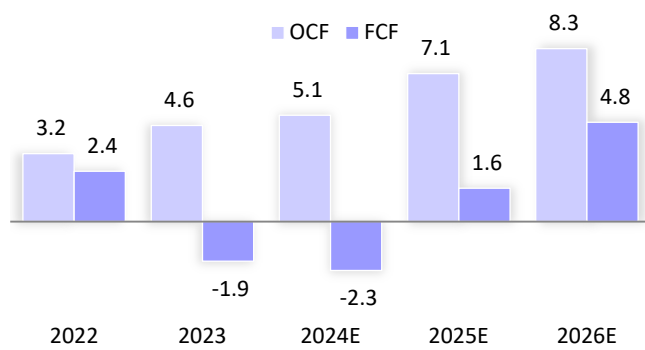
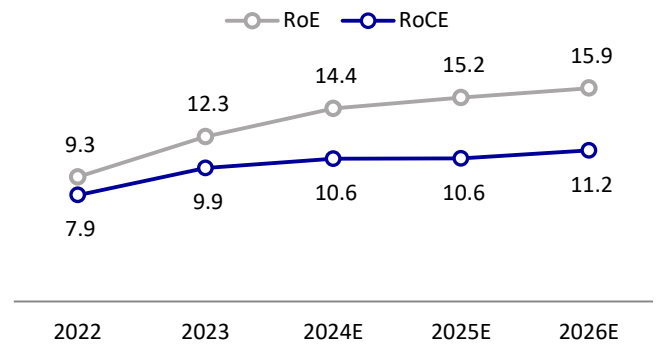


Exhibit 10: FCF to start improving from FY25 (INR b)



Source: Company, MOFSL

Exhibit 11: Return ratios



Source: Company, MOFSL

Valuation and recommendation

We value the company at 38X two year forward estimated earnings and add value of investments in green solutions at 1.5X P/BV and arrive at a TP of INR2,740. We maintain our Neutral rating on Thermax as our TP already bakes in 15%/14% CAGR in order inflows and revenues and 200 bps margin improvement over FY23-26.

Financials and valuation

Consolidated - Income Statement

(INR Million)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	57,313	47,913	61,283	80,898	93,477	1,05,431	1,20,782
Change (%)	-4.0	-16.4	27.9	32.0	15.5	12.8	14.6
Raw Materials	30,857	25,386	34,850	46,247	52,316	59,006	67,598
Gross Profit	26,456	22,526	26,433	34,651	41,161	46,425	53,184
Employee Cost	7,990	7,588	8,129	9,542	11,288	12,225	14,079
Other Expenses	14,404	11,387	14,090	19,134	22,109	24,620	27,843
Total Expenditure	53,251	44,361	57,070	74,923	85,713	95,851	1,09,519
% of Sales	92.9	92.6	93.1	92.6	91.7	90.9	90.7
EBITDA	4,062	3,552	4,214	5,976	7,764	9,580	11,263
Margin (%)	7.1	7.4	6.9	7.4	8.3	9.1	9.3
Depreciation	1,166	1,146	1,132	1,169	1,221	1,424	1,604
EBIT	2,896	2,406	3,081	4,807	6,543	8,156	9,659
Int. and Finance Charges	150	206	252	376	672	945	1,058
Other Income	1,000	1,077	1,270	1,602	1,938	1,976	2,260
PBT bef. EO Exp.	3,745	3,277	4,100	6,033	7,808	9,187	10,861
EO Items							
PBT after EO Exp.	3,745	3,277	4,100	6,033	7,808	9,187	10,861
Total Tax	1,621	686	978	1,524	1,972	2,320	2,743
Tax Rate (%)	43.3	20.9	23.9	25.3	25.3	25.3	25.3
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interest	0	0	0	0	0	0	0
Reported PAT	2,125	2,591	3,122	4,509	5,836	6,867	8,118
Adjusted PAT	2,125	2,591	3,122	4,509	5,836	6,867	8,118
Change (%)	-48.8	22.0	20.5	44.4	29.4	17.7	18.2
Margin (%)	3.7	5.4	5.1	5.6	6.2	6.5	6.7

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	225	225	225	225	225	225	225
Total Reserves	30,054	32,289	34,700	38,446	42,424	47,715	54,143
Net Worth	30,279	32,514	34,925	38,671	42,649	47,940	54,369
Minority Interest	0	0	0	22	0	0	0
Total Loans	2,115	3,051	3,554	8,105	11,105	14,105	14,105
Deferred Tax Liabilities	-1,504	-1,540	-1,271	-1,057	-1,057	-1,057	-1,057
Capital Employed	30,891	34,024	37,208	45,741	52,698	60,988	67,417
Gross Block	19,779	20,168	20,442	22,145	29,145	34,145	37,145
Less: Accum. Deprn.	7,073	7,777	8,525	9,694	10,915	12,339	13,943
Net Fixed Assets	12,706	12,390	11,917	12,451	18,230	21,806	23,202
Goodwill on Consolidation							
Capital WIP	553	242	474	4,338	4,771	5,249	5,773
Total Investments	9,105	2,375	14,765	16,370	16,370	16,370	16,370
Curr. Assets, Loans&Adv.	35,864	48,452	46,153	54,141	61,347	71,725	84,120
Inventory	4,546	4,047	7,270	7,556	8,731	9,848	11,282
Account Receivables	14,785	13,380	15,972	18,766	21,683	24,456	28,017
Cash and Bank Balance	4,761	19,392	9,535	11,316	11,863	15,914	20,181
Loans and Advances	923	943	1,087	1,476	1,705	1,923	2,204
Other Current Assets	10,849	10,690	12,288	15,027	17,364	19,584	22,436
Curr. Liability & Prov.	27,336	29,434	36,101	41,559	48,021	54,162	62,049
Account Payables							
Other Current Liabilities	25,433	27,224	33,709	39,128	45,212	50,994	58,419
Provisions	1,903	2,210	2,392	2,431	2,809	3,168	3,630
Net Current Assets	8,528	19,018	10,051	12,581	13,326	17,563	22,071
Misc Expenditure	0	0	0	0	0	0	0
Appl. of Funds	30,891	34,024	37,208	45,741	52,698	60,988	67,417

Financials and valuation

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
EPS	18.9	23.0	27.7	40.0	51.8	61.0	72.1
Cash EPS	29.2	33.2	37.8	50.4	62.7	73.6	86.3
BV/Share	268.9	288.8	310.2	343.4	378.8	425.8	482.8
DPS	7.0	7.0	9.0	10.0	12.0	14.0	15.0
Payout (%)	44.7	36.6	32.5	25.0	23.2	23.0	20.8
Valuation (x)							
P/E	143.2	117.4	97.5	67.5	52.1	44.3	37.5
Cash P/E	92.5	81.4	71.5	53.6	43.1	36.7	31.3
P/BV	10.0	9.4	8.7	7.9	7.1	6.3	5.6
EV/Sales	5.3	6.0	4.9	3.7	3.2	2.9	2.5
EV/EBITDA	74.3	81.1	70.8	50.4	39.1	31.6	26.5
Dividend Yield (%)	0.3	0.3	0.3	0.4	0.4	0.5	0.6
FCF per share	24.7	60.9	21.4	-16.9	-20.8	14.2	42.2
Return Ratios (%)							
RoE	7.0	8.3	9.3	12.3	14.4	15.2	15.9
RoCE	6.8	8.1	9.0	11.2	12.6	13.1	13.7
RoIC	9.6	13.4	19.2	27.5	29.3	28.3	29.7
Working Capital Ratios							
Fixed Asset Turnover (x)	2.9	2.4	3.0	3.7	3.2	3.1	3.3
Asset Turnover (x)	1.9	1.4	1.6	1.8	1.8	1.7	1.8
Inventory (Days)	29	31	43	34	34	34	34
Debtor (Days)	94	102	95	85	85	85	85
Creditor (Days)	162	207	201	177	177	177	177
Leverage Ratio (x)							
Current Ratio	1.3	1.6	1.3	1.3	1.3	1.3	1.4
Interest Cover Ratio	19.3	11.7	12.2	12.8	9.7	8.6	9.1
Net Debt/Equity	-0.4	-0.6	-0.6	-0.5	-0.4	-0.4	-0.4

Consolidated - Cash flow Statement

(INR Million)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	3,745	2,752	4,101	6,033	7,808	9,187	10,861
Depreciation	1,166	1,146	1,132	1,169	1,221	1,424	1,604
Interest & Finance Charges	86	118	135	260	672	945	1,058
Direct Taxes Paid	-1,313	-938	-1,030	-1,512	-1,972	-2,320	-2,743
(Inc)/Dec in WC	218	4,734	-5	-628	-197	-187	-240
CF from Operations	3,903	7,811	4,333	5,321	7,533	9,049	10,540
Others	-648	-117	-1,084	-726	-2,444	-1,976	-2,260
CF from Operating incl EO	3,256	7,695	3,248	4,596	5,089	7,073	8,280
(Inc)/Dec in FA	-480	-834	-838	-6,499	-7,434	-5,477	-3,525
Free Cash Flow	2,776	6,861	2,411	-1,904	-2,345	1,596	4,755
(Pur)/Sale of Investments	-1,443	-5,789	-4,263	-993	0	0	0
Others	238	266	885	696	1,938	1,976	2,260
CF from Investments	-1,685	-6,357	-4,216	-6,797	-5,496	-3,501	-1,265
Issue of Shares	0	0	0	379	0	0	0
Inc/(Dec) in Debt	-339	891	762	4,481	3,000	3,000	0
Interest Paid	-85	-118	-135	-256	-672	-945	-1,058
Dividend Paid	-1,901	0	-788	-1,021	-1,351	-1,576	-1,689
Others	0	0	-45	-98	0	0	0
CF from Fin. Activity	-2,325	772	-206	3,485	976	478	-2,747
Inc/Dec of Cash	-754	2,110	-1,173	1,284	569	4,050	4,268
Opening Balance	3,691	4,761	19,392	9,535	11,316	11,863	15,914
Closing Balance	4,761	19,392	9,535	11,316	11,863	15,914	20,181

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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