Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

May 18, 2023

Q4FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	2,613		2,608	
Sales (Rs. m)	88,751	97,630	87,890	96,322
% Chng.	*1.0*	*1.4*		
EBITDA (Rs. m)	7,809	9,215	7,710	9,095
% Chng.	*1.3*	*1.3*		
EPS (Rs.)	51.4	60.8	50.7	60.6
% Chng.	*1.4*	*0.2*		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	61,283	80,898	88,751	97,630
EBITDA (Rs. m)	4,214	5,976	7,809	9,215
Margin (%)	*6.9*	*7.4*	*8.8*	*9.4*
PAT (Rs. m)	3,123	4,507	5,783	6,842
EPS (Rs.)	27.7	40.0	51.4	60.8
Gr. (%)	*26.9*	*44.3*	*28.3*	*18.3*
DPS (Rs.)	9.0	10.0	16.9	18.8
Yield (%)	*0.4*	*0.4*	*0.7*	*0.8*
RoE (%)	*9.3*	*12.2*	*14.2*	*15.2*
RoCE (%)	*8.3*	*11.2*	*12.9*	*13.6*
EV/Sales (x)	4.0	3.0	2.7	2.5
EV/EBITDA (x)	57.7	40.1	30.9	26.3
PE (x)	82.2	57.0	44.4	37.5
P/BV (x)	7.4	6.6	6.0	5.4

Key Data	**THMX.BO | TMX IN**
52-W High / Low	Rs.2,679 / Rs.1,830
Sensex / Nifty	61,432 / 18,130
Market Cap	Rs.272bn/ $ 3,289m
Shares Outstanding	119m
3M Avg. Daily Value	Rs.98.01m

Shareholding Pattern (%)

Promoter's	61.98
Foreign	12.29
Domestic Institution	21.13
Public & Others	4.60
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.5	7.0	5.2
Relative	(2.3)	7.4	(7.1)

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Thermax (TMX IN)

Rating: BUY | CMP: Rs2,280 | TP: Rs2,613

Healthy performance; order pipeline plateauing

Quick Pointers:

- Order inflows of Rs22.5bn driven by sustained momentum in base orders.
- Enquiry pipeline continues from sugar/distillery, food & beverages, metal etc. sectors for base orders, while it is plateauing for large orders.

Thermax (TMX) reported healthy performance, with consolidated revenue up 16% YoY and EBITDA margin expanding 186bps YoY, owing to stabilizing commodity prices and supply chain. Domestic enquiry pipeline is plateauing from previous two quarters amid no major large orders in pipeline, which may affect medium term order inflows. Exports enquiry pipeline is witnessing improvement from segments such as Waste Heat Recovery, Waste to Energy and Biomass. Within Chemical segment TMX has re-negotiated old contracts with clients on commodity and freight cost front, resulting in EBIT margins expanding to 19.2% in Q4FY23 vs 2.8% in Q4FY22 (14.1% in Q3FY23). Further the company has also reclassified its segments into - Industrial products (~41% of FY23 revenue), Industrial Infrastructure (~49%), Green solutions (~4%) and Chemicals (~8%).

We believe, TMX is well placed to gain from increasing thrust on clean energy & de-carbonization initiatives led by its 1) technical expertise, 2) strong balance sheet and 3) prudent working capital management. Stock is currently trading at PE of 44.4x/37.5x FY24/25E. We largely maintain our FY24/25E estimates and maintain 'Buy' rating on stock with revised TP of Rs2,613 (Rs2,608 earlier), valuing it at PE of 43x FY25E.

Higher sales and margins drive PAT growth of 52.5% YoY: Consol. sales grew 16% YoY to Rs23.1bn (PL estimate ~Rs22.6bn). Industrial products grew 12.4% YoY to Rs9.8bn, Industrial Infra grew 17.7% YoY to Rs11.6bn, Green Solutions grew 24% YoY to Rs850mn and Chemicals grew 27.4% YoY to Rs1.7bn. Gross margin expanded 692bps YoY to 44.8% (vs. PL estimate 44.4%) on a low base in Q4FY22 owing to adverse impact of commodity inflation. EBITDA grew 47.8% YoY to Rs2bn, (PL estimate ~Rs2.2bn), with EBITDA margins expanding by 186bps YoY to 8.7% (vs PL estimate ~9.6%) despite higher other expenses (up 42.7% YoY). PAT grew 52.5% YoY to Rs1.6bn (PL estimate of Rs1.7bn), due to higher other income (up 61% YoY to Rs575mn).

Strong order book at Rs97.bn provides revenue visibility: Order inflows came in at Rs22.5bn (down ~34% YoY on high base). Q4FY22 had large order for Sulphur recovery block (Rs11.8bn) and FGD (Rs5.5bn) order. Order book stands at Rs97.5bn as on FY23, up 10.7% (1.2x TTM revenue), comprising of Industrial Products (29%), Industrial Infra (65%), Green Solutions (5%) and Chemicals (1%). Exports pipeline has improved in the recent past from segments such as Waste heat recovery, Waste to Energy and Biomass.

Exhibit 1: Higher sales (up 16%) and higher margins drive PAT growth of 52.5% YoY

Y/e March (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY gr. (%)	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Revenue	**19,919**	**16,545**	**20,753**	**20,493**	**23,108**	***16.0***	***12.8***	**80,898**	**61,283**	***32.0***
Total Revenues	**19,919**	**16,545**	**20,753**	**20,493**	**23,108**	***16.0***	***12.8***	**80,898**	**61,283**	***32.0***
Expenditure	**18,567**	**15,585**	**19,347**	**18,882**	**21,109**	***13.7***	***11.8***	**74,923**	**57,070**	***31.3***
as % of sales	*93.2*	*94.2*	*93.2*	*92.1*	*91.3*			*92.6*	*93.1*	
Consumption of RM	12,385	9,707	12,323	11,451	12,767	*3.1*	*11.5*	46,247	34,850	*32.7*
as % of sales	*62.2*	*58.7*	*59.4*	*55.9*	*55.2*			*57.2*	*56.9*	
Employee Cost	2,195	2,149	2,367	2,371	2,655	*20.9*	*12.0*	9,542	8,129	*17.4*
as % of sales	*11.0*	*13.0*	*11.4*	*11.6*	*11.5*			*11.8*	*13.3*	
Other expenditure	3,987	3,729	4,657	5,060	5,688	*42.7*	*12.4*	19,134	14,090	*35.8*
as % of sales	*20.0*	*22.5*	*22.4*	*24.7*	*24.6*			*23.7*	*23.0*	
EBITDA	**1,352**	**960**	**1,406**	**1,611**	**1,999**	***47.8***	***24.1***	**5,976**	**4,214**	***41.8***
Depreciation	295	286	298	291	294	*(0.1)*	*1.3*	1,169	1,132	*3.2*
EBIT	**1,058**	**675**	**1,108**	**1,320**	**1,705**	***61.2***	***29.1***	**4,807**	**3,081**	***56.0***
Other Income	357	205	398	423	575	*61.0*	*35.8*	1,602	1,270	*26.1*
Interest	101	66	80	91	139	*38.1*	*52.6*	376	252	*49.3*
PBT	**1,314**	**815**	**1,426**	**1,652**	**2,140**	***62.9***	***29.6***	**6,033**	**4,100**	***47.2***
Total Tax	290	224	332	386	581	*100.7*	*50.8*	1,524	978	*55.8*
Adjusted PAT	**1,024**	**590**	**1,094**	**1,267**	**1,559**	***52.2***	***23.1***	**4,509**	**3,122**	***44.5***
(Profit)/loss from JV's/Ass/MI		(1)	(2)	(3)	3			(2)	1	-
PAT after MI	**1,024**	**590**	**1,091**	**1,264**	**1,562**	***52.5***	***23.6***	**4,507**	**3,123**	***44.3***
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	**1,024**	**590**	**1,091**	**1,264**	**1,562**	***52.5***	***23.6***	**4,507**	**3,123**	***44.3***
Adjusted EPS	**9.1**	**5.2**	**9.7**	**11.2**	**13.9**	***52.3***	***23.6***	**40.0**	**27.7**	***44.3***
Margins (%)	**Q4FY22**	**Q1FY23**	**Q2FY23**	**Q3FY23**	**Q4FY23**	***bps***	***bps***	**FY23**	**FY22**	***bps***
EBIDTA	6.8	5.8	6.8	7.9	8.7	*186*	*79*	7.4	6.9	*51*
EBIT	5.3	4.1	5.3	6.4	7.4	*207*	*93*	5.9	5.0	*91*
EBT	6.6	4.9	6.9	8.1	9.3	*267*	*120*	7.5	6.7	*77*
PAT	5.1	3.6	5.3	6.2	6.8	*162*	*59*	5.6	5.1	*48*
Effective Tax rate	22.1	27.5	23.3	23.3	27.2	*511*	*383*	25.3	23.9	*140*

Source: Company, PL

Conference Call Highlights

- Enquiry pipeline from sugar/distillery, food & beverages, metal etc. continues to be strong.
- Traction from steel & cement sector continues, including green field expansion and large scale brown field expansion.
  - There are a few ongoing discussions within the steel sector for large orders, but there lies an uncertainty on order finalization.
- Order pipeline is plateauing from last couple of quarters.
- Exports market had been bit soft in the recent past. However, pipeline has improved from segments such as Waste to Energy, Waste Heat Recovery and Biomass.
- **Competition intensity:** For two large cement order, there has been entry from Chinese players.
- **Orders from Refining and FGD for power** were key drivers for order inflows in last couple of years. However, in near future there is no much visibility from both sector on order inflows front.
- **Order intake from government has been low in past few quarters,** but still have a few large tickets orders from PSUs in the order book related to FGD and NRL orders which are getting executed.
- **FGD order:** Expect to book revenue of Rs6bn in FY24. Current order book stands at Rs14bn.
- **Chemical Segment:** There has been re-negotiation in commodity and freight prices for old contracts. Going forward, margins are now expected to be 15-20% in long run. Management is confident to grow this segment for next 3-5 years and is planning for capex.
- **Hydrogen:** The opportunity is at a very nascent stage. TMX will be looking into three areas in this 1) manufacturing of electrolyser 2) providing solution for Biomass to Hydrogen and 3) end to end EPC contracts for Hydrogen projects.
- **TOESL:** Currently executing 4 projects and has installed base of 32 units in India. Order inflows came in at R1.5bn in FY23, translating to effective order book of Rs15bn considering lifecycle of projects. Expects order inflows of Rs1.5bn in FY24. TOESL has lifecycle of 10 years. Expects equity infusion of Rs5-6bn and debt addition of Rs15-20bn at SPV level in next 12-24 months.
- **FEPL:** It has portfolio of 25MW up and running. Additionally, 50MW hybrid project in Gujarat, is likely to be completed in June and another 100MW project is TN is likely to come in-line between Q2FY24 and Q1FY25. FEPL has lifecycle of 25 years.
- In India TMX has +500 channel partners and is working with them to introduce new products.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	**61,283**	**80,898**	**88,751**	**97,630**
YoY gr. (%)	*27.9*	*32.0*	*9.7*	*10.0*
Cost of Goods Sold	34,850	46,247	48,637	52,683
Gross Profit	26,433	34,651	40,114	44,947
Margin (%)	*43.1*	*42.8*	*45.2*	*46.0*
Employee Cost	8,129	9,542	10,828	12,008
Other Expenses	5,199	7,849	8,786	9,763
EBITDA	**4,214**	**5,976**	**7,809**	**9,215**
YoY gr. (%)	*18.6*	*41.8*	*30.7*	*18.0*
Margin (%)	*6.9*	*7.4*	*8.8*	*9.4*
Depreciation and Amortization	1,132	1,169	1,303	1,373
EBIT	**3,081**	**4,807**	**6,506**	**7,842**
Margin (%)	*5.0*	*5.9*	*7.3*	*8.0*
Net Interest	252	376	531	672
Other Income	1,270	1,602	1,757	1,977
Profit Before Tax	**4,100**	**6,033**	**7,732**	**9,147**
Margin (%)	*6.7*	*7.5*	*8.7*	*9.4*
Total Tax	978	1,524	1,948	2,305
Effective tax rate (%)	*23.9*	*25.3*	*25.2*	*25.2*
Profit after tax	**3,122**	**4,509**	**5,783**	**6,842**
Minority interest	-	-	-	-
Share Profit from Associate	1	(2)	-	-
Adjusted PAT	**3,123**	**4,507**	**5,783**	**6,842**
YoY gr. (%)	*26.9*	*44.3*	*28.3*	*18.3*
Margin (%)	*5.1*	*5.6*	*6.5*	*7.0*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**3,123**	**4,507**	**5,783**	**6,842**
YoY gr. (%)	*51.2*	*44.3*	*28.3*	*18.3*
Margin (%)	*5.1*	*5.6*	*6.5*	*7.0*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,123	4,507	5,783	6,842
Equity Shares O/s (m)	**113**	**113**	**113**	**113**
EPS (Rs)	**27.7**	**40.0**	**51.4**	**60.8**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	**20,067**	**21,853**	**23,053**	**24,253**
Tangibles	20,067	21,853	23,053	24,253
Intangibles	-	-	-	-
Acc: Dep / Amortization	**8,525**	**9,694**	**10,997**	**12,370**
Tangibles	8,525	9,694	10,997	12,370
Intangibles	-	-	-	-
Net fixed assets	**11,542**	**12,160**	**12,056**	**11,884**
Tangibles	11,542	12,160	12,056	11,884
Intangibles	-	-	-	-
Capital Work In Progress	849	4,660	4,660	4,660
Goodwill	-	-	-	-
Non-Current Investments	8,951	4,212	5,230	7,575
Net Deferred tax assets	1,271	1,057	1,057	1,057
Other Non-Current Assets	2,854	4,322	5,148	5,370
Current Assets				
Investments	7,665	13,929	14,429	14,929
Inventories	7,270	7,556	8,997	9,897
Trade receivables	15,972	18,766	20,668	22,736
Cash & Bank Balance	9,535	11,316	12,280	13,828
Other Current Assets	3,789	4,851	5,236	5,565
Total Assets	**73,309**	**87,300**	**94,233**	**1,02,330**
Equity				
Equity Share Capital	225	225	225	225
Other Equity	34,700	38,456	42,330	47,051
Total Networth	**34,925**	**38,681**	**42,555**	**47,276**
Non-Current Liabilities				
Long Term borrowings	696	4,373	4,591	4,821
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,982	3,933	6,714	9,485
Trade payables	15,074	15,286	18,480	20,328
Other current liabilities	20,904	26,063	22,950	21,477
Total Equity & Liabilities	**73,309**	**87,300**	**94,233**	**1,02,330**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	4,100	6,033	7,732	9,147
Add. Depreciation	995	1,169	1,303	1,373
Add. Interest	135	260	531	672
Less Financial Other Income	1,270	1,602	1,757	1,977
Add. Other	(947)	(726)	(1,757)	(1,977)
Op. profit before WC changes	4,283	6,736	7,809	9,215
Net Changes-WC	(5)	(628)	(925)	(1,686)
Direct tax	1,030	1,512	1,948	2,305
Net cash from Op. activities	**3,247**	**4,596**	**4,935**	**5,224**
Capital expenditures	(5,036)	(7,392)	(1,200)	(1,200)
Interest / Dividend Income	885	696	1,757	1,977
Others	(65)	(100)	(1,489)	(2,752)
Net Cash from Invt. activities	**(4,216)**	**(6,797)**	**(932)**	**(1,975)**
Issue of share cap. / premium	-	-	-	-
Debt changes	762	4,481	3,000	3,000
Dividend paid	(788)	(1,021)	(1,908)	(2,121)
Interest paid	(135)	(256)	(531)	(672)
Others	(45)	281	(22)	-
Net cash from Fin. activities	**(206)**	**3,485**	**539**	**207**
Net change in cash	**(1,175)**	**1,284**	**4,542**	**3,456**
Free Cash Flow	2,409	(1,904)	3,735	4,024

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	**16,545**	**20,753**	**20,493**	**23,108**
YoY gr. (%)	*57.2*	*41.2*	*26.9*	*16.0*
Raw Material Expenses	9,707	12,323	11,451	12,767
Gross Profit	6,838	8,430	9,042	10,342
Margin (%)	*41.3*	*40.6*	*44.1*	*44.8*
EBITDA	**960**	**1,406**	**1,611**	**1,999**
YoY gr. (%)	*52.3*	*27.8*	*42.4*	*47.8*
Margin (%)	*5.8*	*6.8*	*7.9*	*8.7*
Depreciation / Depletion	286	298	291	294
EBIT	**675**	**1,108**	**1,320**	**1,705**
Margin (%)	*4.1*	*5.3*	*6.4*	*7.4*
Net Interest	66	80	91	139
Other Income	205	398	423	575
Profit before Tax	**814**	**1,426**	**1,652**	**2,140**
Margin (%)	*4.9*	*6.9*	*8.1*	*9.3*
Total Tax	224	332	386	581
Effective tax rate (%)	*27.5*	*23.3*	*23.3*	*27.2*
Profit after Tax	**590**	**1,094**	**1,267**	**1,559**
Minority interest	-	-	-	-
Share Profit from Associates	(1)	(2)	(3)	3
Adjusted PAT	**589**	**1,091**	**1,264**	**1,562**
YoY gr. (%)	*39.0*	*24.1*	*59.1*	*52.3*
Margin (%)	*3.6*	*5.3*	*6.2*	*6.8*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**589**	**1,091**	**1,264**	**1,562**
YoY gr. (%)	*39.0*	*24.1*	*59.1*	*52.3*
Margin (%)	*3.6*	*5.3*	*6.2*	*6.8*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**589**	**1,091**	**1,264**	**1,562**
Avg. Shares O/s (m)	113	113	113	113
EPS (Rs)	**5.2**	**9.7**	**11.2**	**13.9**

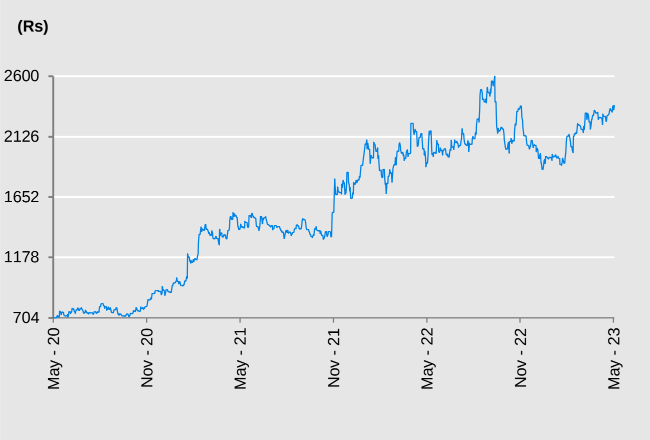
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	27.7	40.0	51.4	60.8
CEPS	37.8	50.4	62.9	73.0
BVPS	310.2	343.5	377.9	419.9
FCF	21.4	(16.9)	33.2	35.7
DPS	9.0	10.0	16.9	18.8
Return Ratio(%)				
RoCE	8.3	11.2	12.9	13.6
ROIC	11.8	20.5	20.5	20.3
RoE	9.3	12.2	14.2	15.2
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.4)	(0.3)
Net Working Capital (Days)	49	50	46	46
Valuation(x)				
PER	82.2	57.0	44.4	37.5
P/B	7.4	6.6	6.0	5.4
P/CEPS	60.3	45.2	36.2	31.3
EV/EBITDA	57.7	40.1	30.9	26.3
EV/Sales	4.0	3.0	2.7	2.5
Dividend Yield (%)	0.4	0.4	0.7	0.8

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	BUY	2,608	2,316
2	14-Feb-23	BUY	2,604	2,149
3	04-Jan-23	Accumulate	2,556	1,956
4	14-Nov-22	Accumulate	2,556	2,276
5	04-Oct-22	Accumulate	2,190	2,199
6	03-Aug-22	Accumulate	2,190	2,019
7	05-Jul-22	Accumulate	2,181	2,049
8	23-May-22	Accumulate	2,181	2,025

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	4,119	3,719
2	Apar Industries	BUY	3,832	3,056
3	Bharat Electronics	BUY	125	100
4	BHEL	Sell	36	71
5	Cummins India	Accumulate	1,708	1,587
6	Engineers India	BUY	85	74
7	GE T&D India	UR	-	128
8	Harsha Engineers International	BUY	440	414
9	Kalpataru Power Transmission	BUY	625	527
10	KEC International	Accumulate	559	514
11	Larsen & Toubro	BUY	2,615	2,364
12	Praj Industries	BUY	495	343
13	Siemens	Accumulate	4,254	3,898
14	Thermax	BUY	2,608	2,316
15	Triveni Turbine	Accumulate	416	398
16	Voltamp Transformers	Hold	3,056	2,905

PL's Recommendation Nomenclature (Absolute Performance)

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Amit Anwani- MBA (Finance), Mr. Nilesh Soni- BCom, MBA (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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