

Strong order inflows cushion weak margins...

About the stock: Thermax Ltd (Thermax) offers integrated solutions in the areas of energy and environment – heating, cooling, power, water & waste management, air pollution control and chemicals.

- It operates in three key segments energy (~70.7% of FY22 revenue), environment segment (~20.6%) and chemicals segment (~8.7%)
- Focus to increase product & services share (~50% in FY22) vs. projects

Q1FY23 Results: Thermax reported mixed Q1FY23 results.

- Consolidated revenue at ₹ 1654.5 crore, up 57.2% YoY, on better execution
- EBITDA came in at ₹ 96 crore, up 52.2% YoY, with margins at 5.8% impacted by higher commodity prices and freight cost.
- Adjusted PAT came in at ₹ 58.9 crore, up 39% YoY
- Order inflows for Q1FY23 were strong at ₹ 2310 crore, up ~36% YoY

What should investors do? Strong balance sheet, prudent working capital management, recent technological tie-ups, are expected to support growth.

- We remain long term positive and retain our **BUY** rating on the stock.

Target Price and Valuation: We value Thermax at ₹ 2405 i.e. 45x on FY24E EPS

Key triggers for future price performance:

- We expect revenue, EBITDA to grow at CAGR of ~29%, 42%, respectively, in FY22-24E amid margins gradually returning to normal levels
- Recent broad based recovery in order inflows, strong order enquiry pipeline across industrial sectors likely to ensure decent order inflows, going forward
- Controlled net working capital (NWC), strong balance sheet

Alternate Stock Idea: We also like Larsen & Toubro in our coverage.

- Focus on asset monetisation to further strengthen the balance sheet and improve return ratios. Strong b/s, controlled working capital and strong cash generation
- BUY with a target price of ₹ 2175



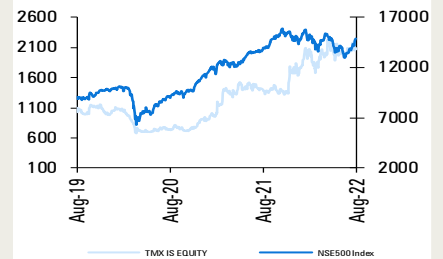
Particulars

Particular	Amount
Market Capitalization	₹ 23830 Crore
Total Debt (FY22)	₹ 355.4 Crore
Cash and Inv. (FY22)	₹ 377 Crore
EV	₹ 23808.5 Crore
52 week H/L	₹ 2347 / 1287
Equity capital	₹ 23.8 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	62.0	62.0	62.0	62.0
FII	12.4	12.3	11.8	11.9
DII	15.0	15.0	15.7	15.8
Others	10.7	10.7	10.5	10.3

Price Performance



Recent Events & Key Risks

- Any significant decline in expected capex to affect order inflows.
- Higher commodity prices to impact profitability

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Ameya Mahurkar
ameya.mahurkar@icicisecurities.com

Key Financial Summary

Particulars (₹ crore)	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	2 Year CAGR (FY22-FY24E)
Net Sales	5,731.3	4,791.3	6,128.3	9.8%	7,950.8	10,204.5	29.0%
EBITDA	406.2	355.2	421.4	2.4%	628.6	849.5	42.0%
EBITDA Margin (%)	7.1	7.4	6.9		7.9	8.3	
Net Profit	212.5	206.6	312.3	7.8%	461.0	636.6	42.8%
EPS (₹)	17.8	17.3	26.2		38.7	53.4	
P/E (x)	112.2	115.4	76.3		51.7	37.4	
RoNW (%)	7.0	7.6	8.9		12.0	14.6	
RoCE (%)	12.0	9.8	11.3		15.4	18.7	

Source: Company, ICICI Direct Research

* Numbers till FY18 includes standalone business with boiler & heater business of Thermax, which is now classified as discontinued operations from standalone and transferred to its subsidiary TBWES with effect from October 1, 2019. Hence, they will not be reflected in standalone numbers. Instead, they will be reflected in consolidated numbers. Therefore, they will not be comparable.

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Strong order inflows cushions weak margins

- Energy segment revenue (which contributes ~74.2% to revenue) grew 60.9% to ₹ 1227 crore, YoY. Environment segment revenue grew 47.5% YoY to ₹ 427 crore and chemical segment revenue came in at ₹ 150.11 crore, up 22.3% YoY
- EBITDA came in at ₹ 96 crore, up 52.2% YoY. Consequently, EBITDA margin came in at 5.8% (vs. our estimate of 7%). Gross margins declined 801 bps to 41.3% on a YoY basis
- Consolidated order inflow for the quarter came in decent at ₹ 2310 crore (vs. ₹ 1696 crore in Q1FY22). The performance was driven by strong order inflow from diverse sectors, including refineries, steel, power, and chemicals. Consolidated order book as on Q1FY23 was at ₹ 9554 crore, up 56% YoY

Q1FY23 Earnings Conference Call highlights

- For Q1FY23, consolidated order inflow for the quarter came in at ₹ 2310 crore (vs. ₹ 1696 crore in Q1FY22) with healthy mix of orders from diverse industry sectors. Major sectors in Q1FY23 order inflows includes refinery & petrochemicals (24%), metal & steel (18%), sugar/distillery (10%), Power (10%), food/beverages & packaging (9%), chemical (7%), cement (5%), fertiliser & agro (4%), pharma (3%) and others (9%). Consolidated order inflows comprise energy segment (₹ 1758 crore), environment (₹ 404 crore) & chemicals segment contributed ₹ 147 crore. Domestic order inflows contributed 80.4% to ₹ 1859 crore while export orders were at 19.6% (₹ 451 crore)
- Order pipeline was strong across domestic and export markets. In the export markets there is a strong inquiry pipeline (Danstoker) given EU countries plan to disconnect (bio mass, electric boilers) from Russian energy dependency for bio mass and electric boilers products. Order pipeline way higher than capacity. In domestic markets, opportunities in refinery and petrochemical segment will be strong given lower input costs will lead to opening of tenders in this segments, FGD ordering will be moderate (Thermax will be very careful in this segment, waste heat and multi fuel segment (₹100-200 crore ticket order will witness very strong ordering
- Consolidated order book as on Q1FY23 was at ₹ 9554 crore, up 56.4% YoY. It consists of ~68.09% from energy sector followed by environment (30.5%) and chemicals (1.41%). Also the current backlog break-up in projects and products are 50-50% in share. During the quarter, Thermax bagged ₹ 522 crore order for utility boilers and associated systems for a petrochemical complex in Rajasthan
- Strong enquiry inflow from refinery, steel, power and chemical segments. Export duty on steel may slowdown the capex plans in the coming quarters but at the same time there is an upward trend in enquiry inflow from sugar/distilleries, paper and pulp industries for the green offerings
- Due to unprecedented commodity inflation in March, April and May 2022 Thermax' profitability was impacted across segments but as commodity prices soften lately and expect to remain stable, the management is confident that in Q2FY23 and Q3FY23 will be better quarters with EBITDA margins expected at 8-9%
- The management expects a gradual recovery in the margin profile given a) favourable mix in chemical segment and correction in key input like styrene, b) run down in the low margin FGD orders

- Two FGD projects on a fixed priced basis were impacting profitability. They are on their last legs as they are completed almost ~90%
- Under the new energy business portfolio, Thermax expanded its solar business under FEPL, transitioning from the rooftop-based capex model to the solution-based opex model, projected to grow to a GW scale, based on its predominant opex strategy. The three projects in Tamil Nadu, Maharashtra and Gujarat will contribute over H2YF23-FY24E

Exhibit 1: Variance Analysis (Consolidated)

	Q1FY23	Q1FY23E	Q1FY22	YoY (Chg %)	Q4FY22	QoQ (Chg %)	Comments
Total Operating Income	1,654.5	1,564.8	1,052.4	57.2	1,991.9	-16.9	Revenue growth came on the back of better execution led by energy segment
Other Income	20.5	35.0	25.4	-19.1	35.7	-42.5	
Raw Material Expenses	970.7	876.3	532.8	82.2	1,238.5	-21.6	
Employee Expenses	214.9	234.7	191.2	12.4	219.5	-2.1	
Other Expenses	372.9	344.3	265.4	40.5	398.7	-6.5	
Total Expenditure	1,558.5	1,455.3	989.3	57.5	1,856.7	-16.1	
EBITDA	96.0	109.5	63.0	52.3	135.2	-29.0	
EBITDA Margin (%)	5.8	7.0	6.0	-19 bps	6.8	-98 bps	Margins impacted by higher commodity prices and freight cost
Depreciation	28.6	29.5	27.4	4.2	29.5	-3.1	
Interest	6.6	4.4	4.8	37.4	10.1	-34.8	
Exceptional Item	0.0	0.0	0.0	-	27.9		
PBT	81.4	110.6	56.3	44.8	131.4	-38.0	
Total Tax	22.4	28.8	13.9	61.8	29.0	-22.6	
PAT	59.0	81.9	42.4	39.2	102.6	-42.4	
Adjusted PAT	58.9	81.9	42.4	39.0	102.6	-42.5	
Key Metrics							
Energy segment revenues	1,227	1,142	763	60.9	1,451	-15.4	
Environment segment revenues	427	423	290	47.5	541	-21.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY23E			FY24E			Comments
	Old*	New	% Change	Old*	New	% Change	
(₹ Crore)							
Revenue	7,443.1	7,905.6	6.2	8,379.0	10,002.4	19.4	
EBITDA	668.5	618.9	-7.4	775.4	865.7	11.6	
EBITDA Margin (%)	9.0	7.8	-117 bps	9.3	8.7	-65 bps	
PAT	506.3	468.4	-7.5	582.8	648.5	11.3	
EPS (₹)	42.5	39.3	-7.5	48.9	54.4	11.3	

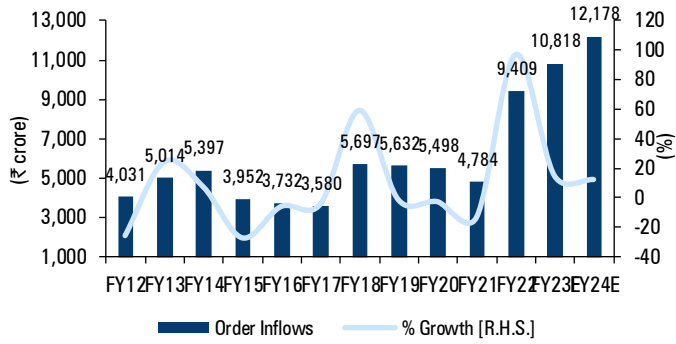
Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Order inflow growth (%)	-13.0	96.7	15.0	12.6	9.4	13.0	Order inflows expected to continue the momentum in medium term.
Order backlog growth (%)	-0.1	65.5	34.6	17.7	28.8	15.2	
Revenue growth (%)	-16.4	27.9	29.7	28.3	29.0	26.5	
EBITDA margin (%)	7.4	6.9	7.9	8.3	7.8	8.7	

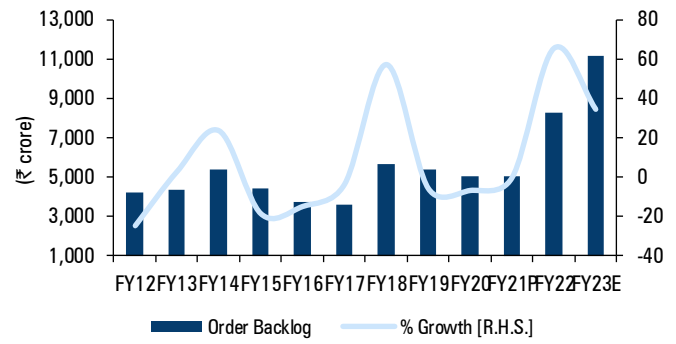
Source: Company, ICICI Direct Research

Exhibit 4: Order inflow trend...



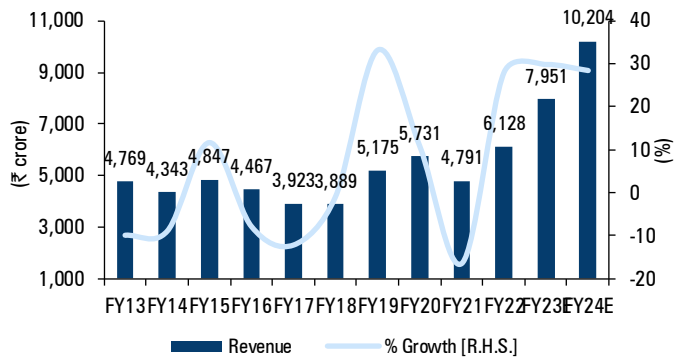
Source: ICICI Direct Research, Company

Exhibit 5: Trend in order backlog...



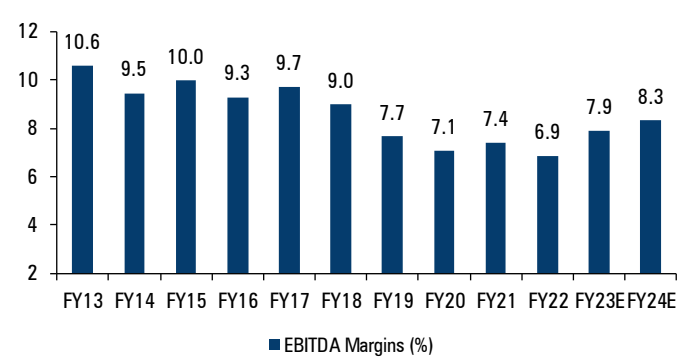
Source: ICICI Direct Research, Company

Exhibit 6: Trend in revenues...



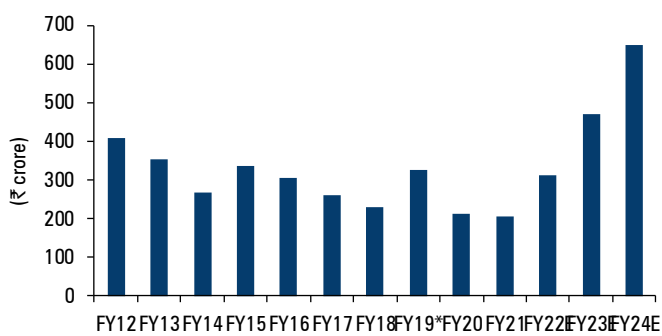
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margins trend...



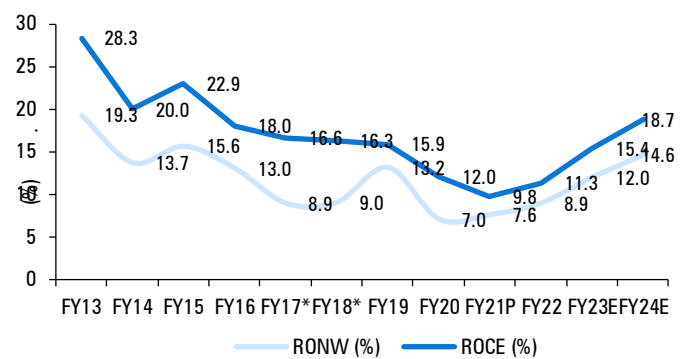
Source: Company, ICICI Direct Research

Exhibit 8: Trend in PAT...



Source: Company, ICICI Direct Research

Exhibit 9: Return ratios to recover in FY20-24E...



Source: Company, ICICI Direct Research

* Numbers till FY18 includes standalone business with boiler & heater business of Thermax, which is now classified as discontinued operations from standalone and transferred to its subsidiary TBWES with effect from October 1, 2019. Hence, we have changed our presentation of historical numbers (FY19, FY20) and forward numbers to consolidated and valued accordingly.

Financial summary (Consolidated)

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total op. Income	4,791.3	6,128.3	7,950.8	10,204.5
Growth (%)	-16.4	27.9	29.7	28.3
Raw Material Expenses	2,538.6	3,485.0	4,632.9	5,686.6
Employee Expenses	758.8	812.9	925.0	1,302.5
Other Op. Expenses	1,138.7	1,409.0	1,764.2	2,365.9
Admin. Expenses	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0
Total Op. Expenditure	4,419.6	5,734.9	7,351.9	9,383.3
EBITDA	355.2	421.4	628.6	849.5
Growth (%)	-12.5	18.6	49.2	35.1
Depreciation	114.6	113.2	123.6	127.1
Interest	20.6	25.2	20.8	17.1
Other Income	107.7	127.0	140.5	155.0
PBT	275.2	410.0	624.8	860.3
Others	0.0	0.0	0.0	0.0
Total Tax	68.6	97.8	163.7	223.7
PAT	206.6	312.3	461.0	636.6
Growth (%)	-2.8	51.2	47.6	38.1
EPS (₹)	17.3	27.7	38.7	53.4

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	206.6	312.3	461.0	636.6
Add: Depreciation	114.6	113.2	123.6	127.1
(Inc)/dec in Current Assets	-281.9	-425.1	-596.9	-1,596.5
Inc/(dec) in CL and Provisions	179.1	672.2	372.8	1,104.3
Others	3.3	3.0	5.0	5.0
CF from operating activities	218.3	672.7	360.5	271.5
(Inc)/dec in Investments	-60.1	-584.2	-20.0	-20.0
(Inc)/dec in Fixed Assets	-42.5	-86.2	-80.0	8.5
Others	0.0	0.0	0.0	0.0
CF from investing activities	-122.2	-736.8	-157.9	-77.9
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	93.5	50.4	0.0	-30.0
Dividend paid & dividend tax	-83.4	-84.4	-107.2	-131.1
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	110.5	-20.3	-107.2	-161.1
Net Cash flow	206.6	-84.4	95.5	32.5
Opening Cash	254.8	461.4	377.0	472.4
Closing Cash	461.4	377.0	472.4	504.9

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	22.5	22.5	22.5	22.5
Reserve and Surplus	3,228.9	3,470.5	3,824.4	4,329.9
Total Shareholders funds	3,251.5	3,493.1	3,846.9	4,352.5
Total Debt	305.1	355.4	355.4	325.4
Deferred Tax Liability	7.0	3.1	3.1	3.1
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	3,719.2	3,997.6	4,376.4	4,877.0
Assets				
Gross Block	1,987.8	2,006.7	2,056.0	2,136.0
Less: Acc Depreciation	777.7	852.4	962.5	1,076.0
Net Block	1,210.1	1,154.3	1,093.6	1,060.0
Capital WIP	21.1	44.3	75.0	0.0
Total Fixed Assets	1,231.2	1,198.6	1,168.6	1,060.0
Investments	119.2	703.4	723.4	743.4
Inventory	404.7	727.0	667.1	786.7
Debtors	1,237.1	1,423.7	1,851.5	2,404.3
Loans and Advances	4.5	5.2	12.3	10.1
Other Current Assets	765.7	865.0	1,043.1	1,405.9
Cash	461.4	377.0	472.4	504.9
Total Current Assets	2,873.4	3,397.9	4,046.5	5,112.0
Creditors	1,138.0	1,459.8	1,742.6	2,096.8
Provisions	195.1	206.8	385.1	463.4
Total Current Liabilities	2,787.7	3,459.9	3,832.7	4,937.0
Net Current Assets	1,678.8	1,347.3	1,666.8	2,191.5
Others Assets	0.0	0.0	0.0	0.0
Application of funds	3,719.2	3,997.6	4,376.5	4,877.0

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	17.3	26.2	38.7	53.4
Cash EPS	27.0	35.7	49.1	64.1
BV	272.9	293.1	322.8	365.3
DPS	7.0	7.1	9.0	11.0
Cash Per Share	38.7	31.6	39.6	42.4
Operating Ratios (%)				
EBITDA Margin	7.4	6.9	7.9	8.3
PBT / Total Operating income	5.7	6.7	7.9	8.4
PAT Margin	5.1	5.1	5.8	6.2
Inventory days	30.8	43.3	30.6	28.1
Debtor days	94.2	84.8	85.0	86.0
Creditor days	86.7	86.9	80.0	75.0
Return Ratios (%)				
RoE	7.6	8.9	12.0	14.6
RoCE	9.8	11.3	15.4	18.7
RoIC	25.2	21.7	32.4	49.0
Valuation Ratios (x)				
P/E	115.4	76.3	51.7	37.4
EV / EBITDA	66.6	56.5	37.7	27.8
EV / Net Sales	4.9	3.9	3.0	2.3
Market Cap / Sales	5.0	3.9	3.0	2.3
Price to Book Value	7.3	6.8	6.2	5.5
Solvency Ratios				
Debt/EBITDA	0.9	0.8	0.6	0.4
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	0.9	0.9	0.9	0.9
Quick Ratio	0.7	0.7	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1,790	2,175	Buy	251103	56.8	65.0	76.7	31.5	27.5	23.3	8.9	10.2	11.6	12.1	12.7	13.6
Siemens Ltd	2,612	2,900	Buy	93019	29.5	36.6	48.2	88.6	71.3	54.2	13.9	15.7	18.4	10.1	11.6	13.7
AIA Engineering (AIAENG)	2,465	2,570	Buy	23250	64.6	79.6	85.7	38.2	31.0	28.8	16.5	17.8	17.0	13.2	14.2	13.6
Thermax (THERMA)	2,019	2,405	Buy	24057	26.2	38.7	53.4	77.0	52.2	37.8	11.3	15.4	18.7	8.9	12.0	14.6
KEC International (KECIN)	461	381	Hold	11852	12.7	13.0	25.4	36.3	35.6	18.1	12.3	12.0	17.2	10.7	9.2	15.8
Greaves Cotton (GREAVE)	166	179	Buy	3836	0.7	2.6	3.3	234.4	62.9	50.3	2.5	8.9	10.2	1.3	6.3	7.3
Elgi Equipment (ELGEQU)	436	390	Buy	13817	5.7	6.6	8.7	76.4	66.1	50.2	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	277	315	Buy	67494	9.6	11.3	12.6	28.7	24.5	22.0	26.2	28.5	28.6	19.6	21.3	21.4
Cochin Shipyard (COCSHI)	335	340	Hold	4407	42.9	38.6	42.3	7.8	8.7	7.9	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4,300	4,920	Buy	21258	77.0	104.8	122.9	55.8	41.0	35.0	26.0	29.8	30.1	20.6	22.7	22.4
Timken India (TIMIND)	2,971	2,810	Buy	22347	43.5	54.8	62.5	98.9	78.5	68.8	25.3	32.3	36.8	19.7	24.9	28.4
NRB Bearing (NRBBEA)	148	220	Buy	1431	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	223	230	Buy	2656	9.8	11.5	13.6	22.8	19.4	16.4	22.5	20.9	21.3	15.1	14.5	14.7
Data Patterns (DATPAT)	775	870	Buy	4021	18.1	21.7	27.2	42.8	35.7	28.5	23.8	24.4	25.8	16.4	18.1	19.1
HAL (HINAER)	2,025	2,200	Buy	67727	151.9	123.6	137.4	13.3	16.4	14.7	27.4	29.7	30.5	26.3	22.5	23.2

Source: Company, ICICI Direct Research

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Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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