

## Margins to stabilise...

**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

**Q3FY23 Results:** Thermax reported decent Q3FY23 results.

- Consolidated revenue at ₹ 2049.3 crore, up 27% YoY, on better execution
- EBITDA came in at ₹ 161.1 crore, up 42.4% YoY, with improved margins of 7.9% thanks to lower commodity inflation
- Adjusted PAT came in at ₹ 126.4 crore, up 59.1% YoY
- Order inflows for Q3FY23 were at ₹ 2204 crore, de-grew 10% YoY. The order inflow last year was higher due to an order worth ₹ 830 crore for FGD

**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 on the stock maintain our **HOLD** rating

**Target Price and Valuation:** We value Thermax at ₹ 2375 i.e. 40x on FY25E EPS.

**Key triggers for future price performance:**

- We expect revenue, EBITDA to grow at CAGR of ~17.4%, 25.1%, respectively, in FY22-25E 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

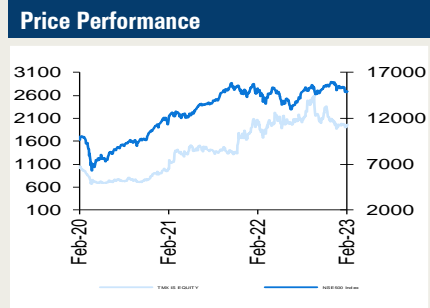
**Alternate Stock Idea:** We also like Larsen & Toubro in our coverage.

- 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 ₹ 2795



Particulars	
Particular	Amount
Market Capitalization	₹25379 Crore
Total Debt (FY22)	₹355.4 Crore
Cash and Inv. (FY22)	₹377 Crore
EV	25357.4 Crore
52 week H/L	₹2679 / 1651
Equity capital	₹23.8 Crore
Face value	₹2

Shareholding pattern				
(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promotr	62.0	62.0	62.0	62.0
FII	11.8	11.9	12.4	12.3
DII	15.7	15.8	15.3	15.4
Others	10.5	10.3	10.3	10.4



**Recent Events & Key Risks**

(i) Significant decline in expected capex to affect order inflows, (ii) Higher commodity prices to impact profitability. (iii) Significantly higher order inflows

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## Key Financial Summary

Particulars (₹crore)	FY21	FY22	FY23E	5 Year CAGR (FY18-FY23)	FY24E	FY25E	3 Year CAGR (FY22-FY25E)
Net Sales	4,791.3	6,128.3	8,205.3	12.9%	9,738.5	11,521.1	23.4%
EBITDA	355.2	421.4	591.8	8.1%	810.7	956.5	31.4%
EBITDA Margin (%)	7.4	6.9	7.2		8.3	8.3	
Net Profit	206.6	312.3	441.4	13.8%	605.5	706.6	31.3%
EPS (₹)	17.3	26.2	37.0		50.8	59.3	
P/E (x)	122.9	81.3	57.5		41.9	35.9	
RoNW (%)	7.6	8.9	11.5		14.1	14.1	
RoCE (%)	9.8	11.3	14.7		18.0	18.3	

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

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results: Decent performance

- Energy segment revenue (which contributes ~74.2% to revenue) grew 27.2% to ₹ 1480 crore, YoY. Environment segment revenue grew 29% YoY to ₹ 437.6 crore and chemical segment revenue came in at ₹ 164.4 crore, up 5.8% YoY
- EBITDA came in at ₹ 161.1 crore, up 42.4% YoY (above our estimate of ₹ 141.3 crore). Consequently, EBITDA margin came in at 7.9% (vs. our estimate of 7%). Gross margins expanded marginally by 20 bps to 44.1% on a YoY basis and expanded strongly in QoQ by 350 bps
- Consolidated order inflow for the quarter came in decent at ₹ 2204 crore (vs. ₹ 2462 crore in Q3FY22). The order book last year was higher due to an order worth ₹ 830 crore for flue gas desulphurisation (FGD) systems. Consolidated order book as on Q3FY23 was at ₹ 9859 crore, up 33% YoY

### Q3FY23 Earnings Conference Call highlights

- For Q3FY23, consolidated order inflow for the quarter came in at ₹ 2204 crore (vs. ₹ 2462 crore in Q3FY22). Major sectors in Q3FY23 order inflows include cement (19%), fertiliser (15%), sugar/distillery (12%), metal & steel (10%), refinery & petrochemicals (10%), transportation (8%), F&B (7%), paper & pulp (7%), automobile (5%), others (12%). Consolidated order inflows comprise energy segment (₹ 1558 crore), environment (₹ 501 crore) & chemicals segment contributed ₹ 145 crore. Domestic order inflows contributed 72.8% to ₹ 1605 crore while export orders were at 27.2% (₹ 599 crore). Consolidated order book as on Q3FY23 was at ₹ 9859 crore, up 33% YoY. It consists of ~69.8% from energy sector followed by environment (29%) and chemicals (1.1%)
- Thermax has become selective in terms of order picking and prefers high margins business. The company has stepped back from two major projects because it was quoted at very low prices, both of which was for major refineries. Thermax may not see a big project in the order book but may see a good traction in ticket size of ₹ 10-50 crore mix. Demand coming from energy transition, steel companies' capex, sugar & ethanol distillery, cement sector and from chemical segment is seeing robust momentum
- As things are, Thermax does not expect the FGD business to make or report losses. It will not be making a lot of profit either but it expects it to make consistent profitability, going forward. With revenue schedule that is or may be slightly delayed marginally relative to what it had guided earlier
- New energy division: In Bio-CNG orders are of ₹ 40 crore to ₹ 50 crore and the company has built up somewhat of a leadership position. In solar business, it is confident that, it will have an integrated storage installed capacity of 200 MW in a year with no M&A required. Thermax has been working on coal gasification for more than six to seven years and is targeting some ₹ 200-500 crore projects where it is willing to put capital at risk to showcase this. Also, it has been working on biomass to hydrogen which are relatively new area. The company is also looking at partnerships for hydrogen and get into some of the newer spaces like electrolyzers
- Cooling business used to be Thermax' most profitable business earlier, which is not the case right now. Its profitability has come down from high teens to mid-teens and now even lower than double digit. On the other hand, heating business, which is boilers business, has been doing incredibly well for the company and has been keeping its market share at ~40% and also improving profitability

- During the quarter, steel, chemical and other commodity prices were stable and that positively impacted on EBITDA margins. Thermax is aspiring for ~10% margin for long term basis and ~8-9% in the short to medium term, going forward

Exhibit 1: Variance Analysis (Consolidated)

	Q3FY23	Q3FY23E	Q3FY22	YoY (Chg	Q2FY23	QoQ (Chg %)	Comments
Total Operating Income	2,049.3	2,018.8	1,614.7	26.9	2,075.3	-1.3	
Other Income	42.3	40.0	29.2	45.1	39.8	6.3	
Raw Material Expenses	1,145.1	1,181.0	905.8	26.4	1,232.3	-7.1	
Employee Expenses	237.1	242.3	206.7	14.7	236.7	0.2	
Other Expenses	506.0	454.2	389.2	30.0	465.7	8.7	
Total Expenditure	1,888.2	1,877.5	1,501.6	25.7	1,934.7	-2.4	
EBITDA	161.1	141.3	113.1	42.4	140.6	14.6	
EBITDA Margin (%)	7.9	7.0	7.0	86 bps	6.8	109 bps	Steel, chemical and other commodity prices were stable in the quarter
Depreciation	29.1	29.5	29.0	0.3	29.8	-2.4	
Interest	9.1	5.3	5.3	73.4	8.0	14.3	
Exceptional Item	0.0	0.0	0.0	-	27.9		
PBT	165.2	146.5	108.0	52.9	142.6	15.9	
Total Tax	38.6	38.1	28.6	34.8	33.2	16.0	
PAT	126.7	108.4	79.4	59.4	109.1	16.1	
Adjusted PAT	126.4	108.4	79.4	59.1	109.1	15.8	
<b>Key Metrics</b>							
Energy segment revenues	1,480		1,163	27.2	1,465	1.0	
Environment segment revenue	569		452	26.1	610	-6.6	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY24E			FY25E			Comments
	Old*	New	% Change	Old*	New	% Change	
(₹C crore)							
Revenue	9,909.8	9,738.5	-1.7	9,909.8	11,521.1	16.3	
EBITDA	824.7	810.7	-1.7	824.7	956.5	16.0	
EBITDA Margin (%)	8.3	8.3	2 bps	8.3	8.3	0 bps	
PAT	615.9	605.5	-1.7	615.9	706.6	14.7	
EPS (₹)	51.7	50.8	-1.7	61.0	59.3	-2.8	

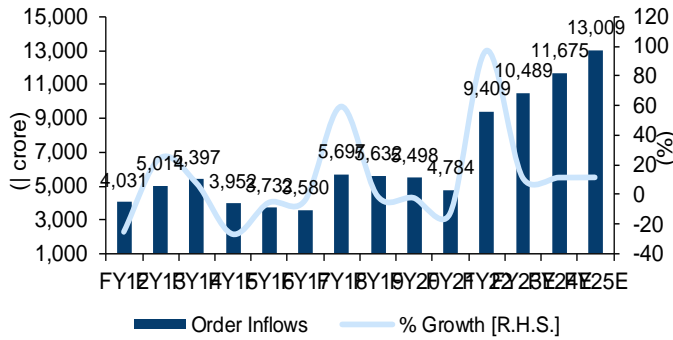
Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY22	FY23E	FY24E	FY25E	FY24E	FY25E	
Order inflow growth (%)	96.7	11.5	11.3	11.4	12.6	12.8	Order inflows expected to continue the momentum in medium term.
Order backlog growth (%)	65.5	27.6	18.3	11.9	20.1	13.6	
Revenue growth (%)	27.9	33.9	18.7	18.3	21.0	19.7	
EBITDA margin (%)	6.9	7.2	8.3	8.3	8.3	8.3	

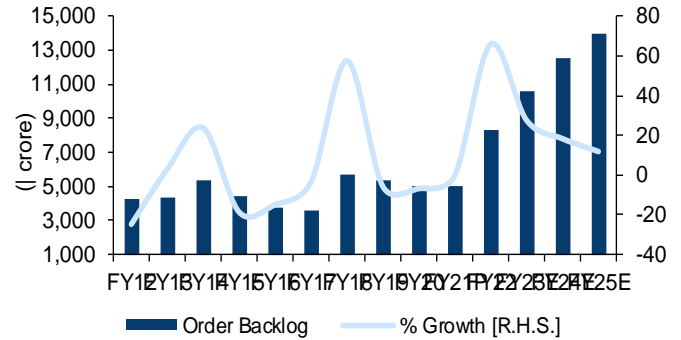
Source: Company, ICICI Direct Research

Exhibit 4: Order inflow trend...



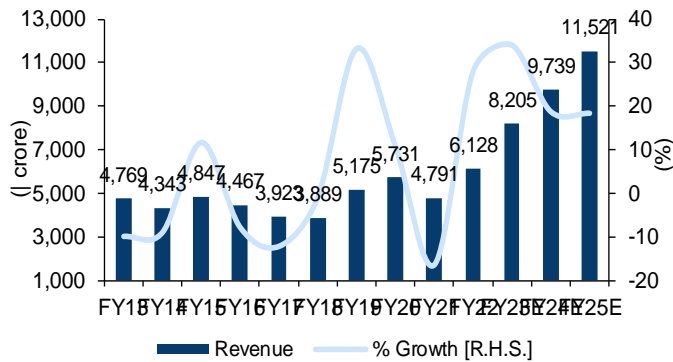
Source: ICICI Direct Research, Company

Exhibit 5: Trend in order backlog...



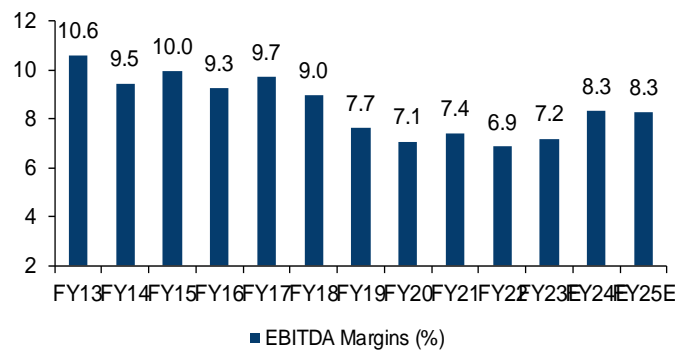
Source: ICICI Direct Research, Company

Exhibit 6: Trend in revenues...



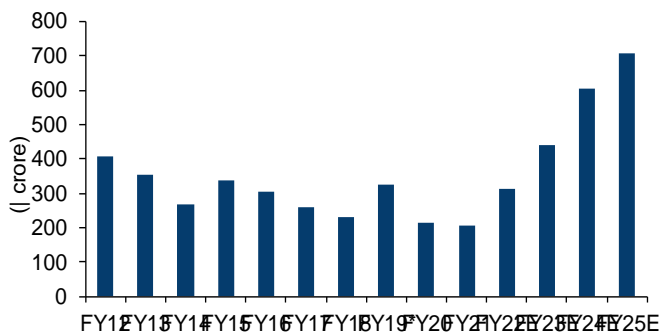
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margins trend...



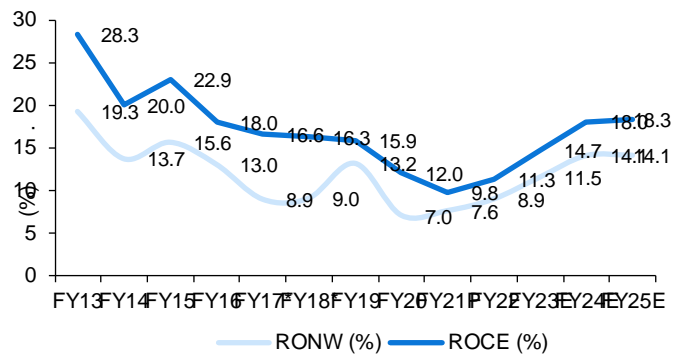
Source: Company, ICICI Direct Research

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)	FY22	FY23E	FY24E	FY25E
<b>Total op. Income</b>	<b>6,128.3</b>	<b>8,205.3</b>	<b>9,738.5</b>	<b>11,521.1</b>
Growth (%)	27.9	33.9	18.7	18.3
Raw Material Expenses	3,485.0	4,779.5	5,426.9	6,421.5
Employee Expenses	812.9	955.6	1,243.0	1,474.2
Other Op. Expenses	1,409.0	1,878.4	2,258.0	2,668.9
Admin. Expenses	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0
Total Op. Expenditure	5,734.9	7,647.4	8,946.5	10,582.9
<b>EBITDA</b>	<b>421.4</b>	<b>591.8</b>	<b>810.7</b>	<b>956.5</b>
Growth (%)	18.6	40.4	37.0	18.0
Depreciation	113.2	123.6	130.3	141.2
Interest	25.2	28.1	17.1	15.5
Other Income	127.0	147.7	155.0	155.0
PBT	410.0	587.8	818.3	954.8
Others	0.0	0.0	0.0	0.0
Total Tax	97.8	145.8	212.7	248.3
<b>PAT</b>	<b>312.3</b>	<b>441.4</b>	<b>605.5</b>	<b>706.6</b>
Growth (%)	51.2	41.3	37.2	16.7
<b>EPS (₹)</b>	<b>26.2</b>	<b>39.2</b>	<b>50.8</b>	<b>59.3</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	312.3	441.4	605.5	706.6
Add: Depreciation	113.2	123.6	130.3	141.2
(Inc)/dec in Current Assets	-425.1	-690.0	-846.1	-986.7
Inc/(dec) in C.L and Provisions	672.2	552.9	508.9	668.4
Others	3.3	3.0	5.0	5.0
<b>CF from operating activities</b>	<b>672.7</b>	<b>427.9</b>	<b>398.6</b>	<b>529.3</b>
(Inc)/dec in Investments	-584.2	-20.0	-20.0	-20.0
(Inc)/dec in Fixed Assets	-86.2	-80.0	-111.5	-213.5
Others	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-736.8</b>	<b>-160.1</b>	<b>-189.2</b>	<b>-295.9</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	50.4	0.0	-30.0	-30.0
Dividend paid & dividend tax	-84.4	-107.2	-131.1	0.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
<b>CF from financing activities</b>	<b>-20.3</b>	<b>-107.2</b>	<b>-161.1</b>	<b>-30.4</b>
Net Cash flow	-84.4	160.5	48.4	203.4
Opening Cash	461.4	377.0	537.5	585.9
<b>Closing Cash</b>	<b>377.0</b>	<b>537.5</b>	<b>585.9</b>	<b>789.3</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	22.5	22.5	22.5	22.5
Reserve and Surplus	3,470.5	3,804.7	4,279.1	4,985.7
Total Shareholders funds	3,493.1	3,827.2	4,301.7	5,008.2
Total Debt	355.4	355.4	325.4	295.4
Deferred Tax Liability	3.1	3.1	3.1	3.1
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>3,997.6</b>	<b>4,356.8</b>	<b>4,826.2</b>	<b>5,527.8</b>
<b>Assets</b>				
Gross Block	2,006.7	2,056.0	2,256.0	2,456.0
Less: Acc Depreciation	852.4	962.5	1,079.3	1,206.9
Net Block	1,154.3	1,093.6	1,176.8	1,249.1
Capital WIP	44.3	75.0	0.0	0.0
Total Fixed Assets	1,198.6	1,168.6	1,176.8	1,249.1
Investments	703.4	723.4	743.4	763.4
Inventory	727.0	711.7	889.1	1,004.7
Debtors	1,423.7	1,910.8	2,294.6	2,714.6
Loans and Advances	5.2	12.9	8.6	16.8
Other Current Assets	865.0	940.1	1,202.4	1,332.3
Cash	377.0	537.5	585.9	789.3
Total Current Assets	3,397.9	4,113.0	4,980.5	5,857.7
Creditors	1,459.8	1,798.4	2,001.1	2,367.3
Provisions	206.8	397.5	442.2	523.2
Total Current Liabilities	3,459.9	4,012.8	4,521.7	5,190.1
Net Current Assets	1,347.3	1,644.8	2,030.5	2,552.3
Others Assets	0.0	0.0	0.0	0.0
<b>Application of funds</b>	<b>3,997.6</b>	<b>4,356.8</b>	<b>4,826.2</b>	<b>5,527.8</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	26.2	37.0	50.8	59.3
Cash EPS	35.7	47.4	61.8	71.1
BV	293.1	321.2	361.0	420.3
DPS	7.1	9.0	11.0	0.0
Cash Per Share	31.6	45.1	49.2	66.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	6.9	7.2	8.3	8.3
PBT / Total Operating income	6.7	7.2	8.4	8.3
PAT Margin	5.1	5.4	6.2	6.1
Inventory days	43.3	31.7	33.3	31.8
Debtor days	84.8	85.0	86.0	86.0
Creditor days	86.9	80.0	75.0	75.0
<b>Return Ratios (%)</b>				
RoE	8.9	11.5	14.1	14.1
RoCE	11.3	14.7	18.0	18.3
RoIC	21.7	33.9	37.9	43.1
<b>Valuation Ratios (x)</b>				
P/E	81.3	57.5	41.9	35.9
EV / EBITDA	60.2	42.6	31.0	26.0
EV / Net Sales	4.1	3.1	2.6	2.2
Market Cap / Sales	4.1	3.1	2.6	2.2
Price to Book Value	7.3	6.6	5.9	5.1
<b>Solvency Ratios</b>				
Debt/EBITDA	0.8	0.6	0.4	0.3
Debt/Equity	0.1	0.1	0.1	0.1
Current Ratio	0.9	0.9	1.0	1.0
<b>Quick Ratio</b>	<b>0.7</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Capital Goods)

Company	CMP		Rating	M Cap (₹cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	₹	TP (₹)			FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	2,203	2,795	Buy	309167	59.8	74.5	90.1	36.8	29.6	24.4	8.7	10.7	12.1	11.8	13.4	14.6
Siemens Ltd	3,129	3,630	Buy	111444	35.4	46.4	53.8	88.3	67.5	58.2	15.6	18.2	19.1	11.3	13.4	14.0
AIA Engineering (AIAENG)	2,798	3,230	Buy	26387	107.3	97.9	107.0	26.1	28.6	26.1	23.5	18.6	18.2	18.5	14.9	14.3
Thermax (THERMA)	2,143	2,372	Hold	25533	37.0	50.8	59.3	57.8	42.2	36.1	14.7	18.0	18.3	11.5	14.1	14.1
KEC International (KECIN)	472	545	Buy	12144	6.6	24.4	36.3	71.5	19.4	13.0	9.6	18.4	21.8	4.9	15.6	19.4
Greaves Cotton (GREAVE)	137	194	Buy	3167	4.8	4.7	5.5	28.7	28.9	24.8	12.9	13.4	14.0	9.4	9.7	10.2
Elgi Equipment (ELGEQU)	441	500	Buy	13976	7.5	10.2	11.9	59.1	43.1	37.2	21.2	25.9	24.8	20.4	22.6	21.3
Bharat Electronics (BHAELE)	95	135	Buy	69187	3.2	3.8	4.5	29.6	24.9	21.0	26.1	28.4	30.0	19.5	21.2	22.4
Cochin Shipyard (COCSHI)	472	745	Buy	6213	42.9	38.6	42.8	11.0	12.2	11.0	10.9	10.5	10.6	12.7	11.0	11.3
SKF (SKFIND)	4,375	5,215	Buy	21630	77.0	108.7	130.3	56.8	40.2	33.6	26.0	30.7	31.3	20.6	23.3	23.4
Timken India (TIMIND)	3,000	3,560	Buy	22566	43.5	61.3	71.2	69.0	48.9	42.1	25.3	36.2	42.0	19.7	27.9	32.2
NRB Bearing (NRBBEA)	144	220	Buy	1394	7.8	9.2	12.1	18.4	15.6	11.9	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	373	385	Buy	4442	8.8	15.1	19.2	42.4	24.7	19.4	23.0	25.6	26.7	13.9	18.3	18.9
Data Patterns (DATPAT)	1402	1,555	Buy	7277	18.1	22.0	30.4	77.4	63.8	46.2	23.8	24.9	28.4	16.4	18.2	21.0
HAL (HINAER)	2,447	3,300	Buy	81822	151.9	132.7	145.0	16.1	18.4	16.9	27.4	30.5	30.1	26.3	23.1	22.8
ABB (ABB)	3,080	3,275	Buy	65260	25.5	40.5	37.2	120.9	76.0	82.7	45.0	49.2	57.3	11.2	12.9	15.1
Ador Welding (ADOWEL)	849	1,054	Buy	1154	33.2	34.2	49.3	25.6	24.8	17.2	19.9	21.6	26.7	13.6	15.8	19.6
Bharat Dynamics (BHADYN)	832	1,200	Buy	15242	27.3	33.0	42.7	30.5	25.2	19.5	24.6	24.7	27.9	17.3	17.7	20.0
Mazagon Dock (MAZDOC)	711	1,025	Hold	14337	30.3	39.8	46.6	23.5	17.9	15.3	20.0	22.9	23.5	16.1	18.2	18.5
Solar Industries India (SOLIN)	3,731	4,700	Buy	33757	48.8	76.6	99.7	76.5	48.7	37.4	22.5	32.5	34.6	23.9	29.0	28.8
Anup Engineering (THEANU)	1,119	1,080	Buy	1108	62.7	49.5	72.3	17.9	22.6	15.5	15.3	16.6	19.4	12.2	12.5	14.5
Control Prints (CONTROLPR)	476	555	Buy	777	24.7	28.7	34.6	19.3	16.6	13.7	17.9	21.4	23.4	13.8	15.4	16.3
KSB Ltd. (KSBPUM)	1,857	2,180	Buy	6462	43.7	50.0	62.2	42.5	37.1	29.9	15.7	16.0	18.3	14.7	14.9	15.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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