

Moderation ahead...

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 four key segments Industrial Infra (~48% of FY23 revenue), Industrial Products (~41%), Green Solutions (~3.8%) and chemicals segment (~7.2%)
- Focus to increase product & services share vs. projects

Q4FY23 Results: Thermax reported decent Q4FY23 results.

- Consolidated revenue at ₹ 2310.8 crore, up 16% YoY, on better execution
- EBITDA came in at ₹ 199.9 crore, up 47.8% YoY, with improved margins of 8.7% (vs. our estimates of 8%) as commodity inflation cooled off
- Adjusted PAT came in at ₹ 156.2 crore, up 52.3% YoY
- Order inflows for Q4FY23 were at ₹ 2254 crore, de-grew 34% YoY. The order inflow last year was higher due to two significant orders booked

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 & change our rating from HOLD to BUY

Target Price and Valuation: We value Thermax at ₹ 2635 i.e. 45x on FY25E EPS.

Key triggers for future price performance:

- We expect revenue, EBITDA to grow at CAGR of ~22%, 32% 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

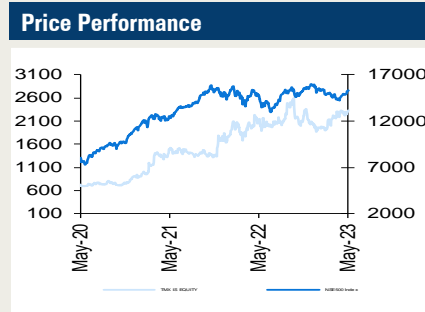
Alternate Stock Idea: We also like Larsen & Toubro in our coverage.

- 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 ₹ 2650



Particulars	Amount
Market Capitalization	₹27190 Crore
Total Debt (FY23)	₹810.5 Crore
Cash and Inv. (FY23)	₹1024.6 Crore
EV	₹26976 Crore
52 week H/L	₹2679 / 1831
Equity capital	₹23.8 Crore
Face value	₹2

Shareholding pattern				
(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promot	62.0	62.0	62.0	62.0
FII	11.9	12.4	12.3	12.3
DII	15.8	15.3	15.4	15.6
Others	10.3	10.3	10.4	10.1



Recent Events & Key Risks

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

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Key Financial Summary

Particulars (₹crore)	FY21	FY22	FY23	5 Year CAGR (FY18-FY23)	FY24E	FY25E	3 Year CAGR (FY22-FY25E)
Net Sales	4,791.3	6,128.3	8,089.8	12.6%	9,362.6	11,131.5	22.0%
EBITDA	355.2	421.4	597.6	8.3%	777.2	968.7	32.0%
EBITDA Margin (%)	7.4	6.9	7.4		8.3	8.7	
Net Profit	206.6	312.3	450.7	14.3%	563.1	698.0	30.7%
EPS (₹)	17.3	26.2	37.8		47.3	58.6	
P/E (x)	131.6	87.1	60.3		48.3	39.0	
RoNW (%)	7.6	8.9	11.6		13.1	14.0	
RoCE (%)	9.8	11.3	13.7		15.8	17.1	

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

Q4FY23 Results:

- Consolidated revenue came in at ₹ 2310.8 crore, up 16% on YoY (slightly below our estimate of ₹ 2426.3 crore) aided by better execution. In FY23 it came at ₹ 8089.8 crore which grew by 32% on YoY basis. Industrial Infra revenue (~50% to revenue) grew by 17.7% YoY to ₹ 1160.2 crore, Industrial Products segment revenue (~42% to revenue) grew by 12.4% to ₹ 980.6 crore on YoY, Chemicals segment revenue (~7.3% to revenue) came in at ₹ 168 crore, which grew by 27.4% on YoY and Green Solutions segment revenue (~3.7% to revenue) came in at ₹ 85 crore, which grew by 24% on YoY.
- EBITDA came in at ₹ 199.9 crore, grew by 47.8% on YoY (above our estimate of ₹ 194.1 crore). Consequently, EBITDA margin came in at 8.7% (Vs. our estimates of 8%). For FY23 EBITDA came at ₹ 597.6 crore grew by 41.8% on YoY basis with margin at 7.4% vs 6.9%. Gross margins expanded strongly by 699bps to 44.8% on YoY basis and expanded 60bps on QoQ.
- Adjusted PAT came in at ₹ 156.2 crore, grew by 52.3% YoY aided by strong growth of 61% YoY basis in other income. In FY23 adjusted PAT came at ₹ 450.7 crore grew by 44.3% on YoY basis.
- The consolidated order inflow for the quarter came at ₹ 2254 crore (vs. ₹ 3396 crore in Q4FY22) de-grew by 34% on YoY basis. In Q4FY22 the order inflow was higher due to a significant order of ₹1,176 crore was booked for a sulphur recovery block, and an order of ₹ 546 crore was received for a flue gas desulphurisation (FGD) system. In FY23 order inflow came at ₹ 8,788 crore vs ₹ 9410 crore, de-grew by 7% YoY. With order book at ₹9752 crore grew by 11% YoY basis.
- 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
- Thermax has revised its reporting segments under Ind AS 108, considering the way the CODM (Chief Operating Decision Maker) reviews the performance of the businesses and key decisions are taken. The Company will be disclosing them in four segments - Industrial Products, Industrial Infra, Green Solutions and Chemical.

Q4FY23 Earnings Conference Call highlights

- For Q4FY23, consolidated order inflow for the quarter came in at ₹ 2254 crore (vs. ₹ 3396 crore in Q4FY22). Major sectors in Q4FY23 order inflows include refinery & petrochemicals (16%), F&B (13%), power (11%), transportation (9%), metal & steel (9%), sugar/distillery (9%), chemicals (8%), engineering (5%), pharma (4%), paper & pulp (3%) and others (13%). Consolidated order inflows comprise Industrial Products segment (₹1190 crore), Industrial Infra (₹ 858 crore), Green Solutions segment contributed (₹45 crore) and Chemical (₹161 crore). Consolidated order book as on Q4FY23 was at ₹ 9752 crore, up 11% YoY. It consists of ~64.7% from industrial infra followed by industrial products (29.1%), green solutions (5.1%) and chemical consist (1.1%)
- Order Inflow:** The company sees overall order pipeline is slightly plateauing. Historically, Refining was predominant driver for some of the big orders and then two were FGD orders in power sector. Company don't see any major activity in the immediate future from these segments. Meanwhile company see strength in the steel, cement industry which are driven by either

Thermax - ESG Disclosure Score*

Score	FY20	FY21	FY22
Environmental	23.3	23.6	23.6
Social	18.7	23.3	22.6
Governance	81.1	81.1	81.1
Overall ESG Score	41.1	42.7	42.5

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

greenfield expansions or brownfield expansion which have the potential also they are getting inquiries from them but yet to finalise anything. The order pipeline is developing, but they're not super large projects, also the export pipeline is also getting better and a lot of it is driven by waste to energy, and waste heat recovery and biomass.

- **Green Hydrogen:** Currently, green hydrogen is in a nascent stage, Thermax want to be end-to-end EPC player of a hydrogen project. They have an interest in the electrolyser and biomass to hydrogen side. Thermax recently entered the green hydrogen market in partnership with Fortescue Future Industries (FFI), an Australia-based green energy and green technology company, have signed a MOU to explore green hydrogen projects including new manufacturing facilities in India.
- **First Energy Pvt Ltd (FEPL)** – Thermax is going to invest as much as ₹ 500-600 crore in equity side and ~1500-2000 crore of additional debt at the project level in those entities. This debt will be on SPV level which is the specific project-based SPV or the entity level and not like corporate guarantee based debt.
- **TOESL/FEPL** – Typically in TOESL, the projects that company takes have a 10-year life cycle and for FEPL it is a 25-year life cycle, currently company is executing 4 projects of TOESL right now. In FY23, order inflow in TOESL were at ₹150 crore, which corresponds to about 10x ~1,500 odd order book effectively from a life cycle perspective. In FY24, company expect to do even more than that ₹150 crore number. And each project then would be anywhere from ₹ 10-40 crore
- **New Products:** Company is working on low-emission air pollution control; they are developing a product that moving from 50 parts per million to less than 10 parts per million. Company is coming up with multiple new products in absorption chiller for a larger industrial cooling business. Company will also be getting into industrial heat pumps, not just absorption-based heat pumps, but electrical heat pumps as well because for multiple applications. Later in the year, they will also come out with a different RO product. This will be a vibrant space for Thermax where they want to continuously be investing, continuously be coming up with new things
- 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 perspective

Exhibit 1: Variance Analysis (Consolidated)

	Q4FY23	Q4FY23E	Q4FY22	YoY (Chg	Q3FY23	QoQ (Chg %)	Comments
Total Operating Income	2,310.8	2,426.3	1,991.9	16.0	2,049.3	12.8	
Other Income	57.5	45.0	35.7	61.0	42.3	35.8	
Raw Material Expenses	1,276.7	1,395.1	1,238.5	3.1	1,145.1	11.5	
Employee Expenses	265.5	279.0	219.5	20.9	237.1	12.0	
Other Expenses	568.8	558.0	398.7	42.7	506.0	12.4	
Total Expenditure	2,110.9	2,232.2	1,856.7	13.7	1,888.2	11.8	
EBITDA	199.9	194.1	135.2	47.8	161.1	24.1	
EBITDA Margin (%)	8.7	8.0	6.8	186 bps	7.9	79 bps	Commodity inflation cooled off
Depreciation	29.4	30.0	29.5	-0.1	29.1	1.3	
Interest	13.9	4.4	10.1	38.1	9.1	52.6	
Exceptional Item	0.0	0.0	0.0	-	27.9		
PBT	214.0	204.7	131.4	62.9	165.2	29.6	
Total Tax	58.1	53.2	29.0	100.7	38.6	50.8	
PAT	155.9	151.4	102.4	52.2	126.4	23.3	
Adjusted PAT	156.2	151.4	102.6	52.3	126.4	23.6	
Key Metrics							
Industrial Products - Revenue	981		872	12.4	856	14.6	
Industrial Infra - Revenue	1,160		986	17.7	1,001	15.9	
Green Solutions - Revenue	85		69	24.0	85	0.5	
Chemical rev - Revenue	168		132	27.4	164	2.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY24E			FY25E			Comments
	Old*	New	% Change	Old*	New	% Change	
(₹Crore)							
Revenue	9,738.5	9,362.6	-3.9	11,521.0	11,131.5	-3.4	
EBITDA	810.7	777.2	-4.1	956.5	968.7	1.3	
EBITDA Margin (%)	8.3	8.3	0 bps	8.3	8.7	40 bps	
PAT	605.5	563.1	-7.0	706.6	698.0	-1.2	
EPS (₹)	50.8	47.3	-7.0	59.3	58.6	-1.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY22	FY23E	FY24E	FY25E	FY24E	FY25E	
Order inflow growth (%)	96.7	-6.7	19.4	9.9	11.3	11.4	Order inflows expected to continue the momentum in medium term.
Order backlog growth (%)	65.5	17.7	20.0	3.4	18.3	11.9	
Revenue growth (%)	27.9	32.0	15.7	18.9	18.7	18.3	
EBITDA margin (%)	6.9	7.4	8.3	8.7	8.3	8.3	

Source: Company, ICICI Direct Research

Financial summary (Consolidated)

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Total op. Income	6,128.3	8,089.8	9,362.6	11,131.5
Growth (%)	27.9	32.0	15.7	18.9
Raw Material Expenses	3,485.0	4,624.7	5,232.0	6,164.5
Employee Expenses	812.9	954.2	1,185.5	1,423.2
Other Op. Expenses	1,409.0	1,913.4	2,167.9	2,575.1
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	7,524.3	8,601.1	10,181.6
EBITDA	421.4	597.6	777.2	968.7
Growth (%)	18.6	41.8	30.1	24.6
Depreciation	113.2	116.9	130.3	141.2
Interest	25.2	37.6	41.0	39.4
Other Income	127.0	160.2	155.0	155.0
PBT	410.0	603.3	760.9	943.2
Others	0.0	0.0	0.0	0.0
Total Tax	97.8	152.4	197.8	245.2
PAT	312.3	450.7	563.1	698.0
Growth (%)	51.2	44.3	24.9	24.0
EPS (₹)	26.2	40.0	47.3	58.6

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	312.3	450.7	563.1	698.0
Add: Depreciation	113.2	116.9	130.3	141.2
(Inc)/dec in Current Assets	-425.1	-1,191.4	659.7	-2,547.7
Inc/(dec) in C.L and Provisions	672.2	556.0	-236.2	1,812.3
Others	3.3	3.0	5.0	5.0
CF from operating activities	672.7	-67.9	1,116.9	103.8
(Inc)/dec in Investments	-584.2	486.5	-20.0	-20.0
(Inc)/dec in Fixed Assets	-86.2	-73.3	-111.5	-213.5
Others	0.0	0.0	0.0	0.0
CF from investing activities	-709.1	303.4	-258.4	-226.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	50.4	455.1	-30.0	-30.0
Dividend paid & dividend tax	-84.4	-85.4	-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
CF from financing activities	-20.3	384.4	-161.1	-30.0
Net Cash flow	-56.8	619.9	697.4	-152.7
Opening Cash	461.4	404.6	1,024.6	1,722.0
Closing Cash	404.6	1,024.6	1,722.0	1,569.3

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Liabilities				
Equity Capital	22.5	22.5	22.5	22.5
Reserve and Surplus	3,470.5	3,850.5	4,282.6	4,980.5
Total Shareholders funds	3,493.1	3,873.1	4,305.1	5,003.0
Total Debt	355.4	810.5	780.5	750.5
Deferred Tax Liability	3.1	2.9	2.9	2.9
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	3,997.6	4,820.3	5,247.3	5,940.3
Assets				
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	216.8	236.8	256.8
Inventory	727.0	755.6	783.4	1,046.4
Debtors	1,423.7	1,762.1	2,206.0	2,622.8
Loans and Advances	5.2	4.7	15.9	8.6
Other Current Assets	865.0	1,027.7	1,032.1	1,416.8
Cash	404.6	1,024.6	1,722.0	1,569.3
Total Current Assets	3,425.6	4,574.6	5,759.5	6,663.8
Creditors	1,459.8	1,497.9	1,923.8	2,287.3
Provisions	206.8	203.7	425.2	505.5
Total Current Liabilities	3,459.9	4,015.9	3,779.7	5,592.0
Net Current Assets	1,374.9	2,630.3	2,904.2	3,486.8
Others Assets	0.0	0.0	0.0	0.0
Application of funds	3,997.6	4,820.3	5,247.3	5,940.3

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	26.2	37.8	47.3	58.6
Cash EPS	35.7	47.6	58.2	70.4
BV	293.1	325.0	361.3	419.9
DPS	7.1	7.2	11.0	0.0
Cash Per Share	34.0	86.0	144.5	131.7
Operating Ratios (%)				
EBITDA Margin	6.9	7.4	8.3	8.7
PBT / Total Operating income	6.7	7.5	8.1	8.5
PAT Margin	5.1	5.6	6.0	6.3
Inventory days	43.3	34.1	30.5	34.3
Debtor days	84.8	79.5	86.0	86.0
Creditor days	86.9	67.6	75.0	75.0
Return Ratios (%)				
RoE	8.9	11.6	13.1	14.0
RoCE	11.3	13.7	15.8	17.1
RoIC	21.7	56.9	38.7	82.1
Valuation Ratios (x)				
P/E	87.1	60.3	48.3	39.0
EV / EBITDA	64.4	45.1	33.8	27.2
EV / Net Sales	4.4	3.3	2.8	2.4
Market Cap / Sales	4.4	3.4	2.9	2.4
Price to Book Value	7.8	7.0	6.3	5.4
Solvency Ratios				
Debt/EBITDA	0.8	1.4	1.0	0.8
Debt/Equity	0.1	0.2	0.2	0.2
Current Ratio	0.9	0.9	1.1	0.9
Quick Ratio	0.7	0.7	0.9	0.7

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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