

India

ADD (no change)

Consensus ratings*: Buy 10 Hold 9 Sell 6

Current price:	Rs3,312
Target price: ▲	Rs3,675
Previous target:	Rs3,275
Up/downside:	11.0%
InCred Research / Consensus:	23.2%
Reuters:	THMX.NS
Bloomberg:	TMX IN
Market cap:	US\$4,754m Rs394,592m
Average daily turnover:	US\$3.4m Rs285.7m
Current shares o/s:	112.6m
Free float:	38.0%

*Source: Bloomberg

Key changes in this note

- ▶ We raise sales estimates by 5-9% for FY25F-26F.
- ▶ We raise PAT estimates by 7-11% for FY25F-26F.

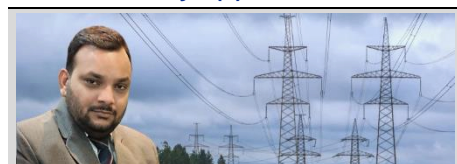


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.0	13.6	55.5
Relative (%)	5.2	3.8	32.2

Major shareholders	% held
Promoters	62.0
Kotak Mutual Fund	7.0
SBI Mutual Fund	2.5

Research Analyst(s)



Arafat SAIYED
T (91) 22 4161 1542
E arafat.saiyed@incredcapital.com

Anirvan DIVAKERA
T (91) 02241611548
E anirvan.divakera@incredresearch.com

Thermax Ltd

3Q margin expansion on track

- 3QFY24 EBITDA grew 16% YoY (-9% QoQ) to Rs1.9bn, 10.6% below our estimate & 7.4% below consensus. The EBITDA margin was up by 20bp YoY.
- We raise our PAT estimates by 7-11% for FY25F-26F, factoring in its healthy order inflow guidance coupled with strong execution.
- We retain our ADD rating on Thermax with a higher target price of Rs3,675 (Rs3,275 earlier), valuing the stock at 46x FY26F EPS.

Margin expansion on track

Thermax reported 3QFY24 revenue growth of 13.4% YoY (1% QoQ) to Rs23bn, 1.2% below our estimate and 2% below consensus estimate. The revenue of the industrial products segment grew by 19% YoY to Rs10.2bn while that of the industrial infrastructure segment grew by 10% YoY to Rs11bn. EBITDA grew 16% YoY (-9% QoQ) to Rs1.9bn, 10.6% below our estimate and 7.4% below the consensus estimate. The EBITDA margin improved by 20bp YoY (-82bp QoQ) to 8.1% vs. our estimate of 8.9% & consensus estimate of 8.5%. The higher margins across segments, except industrial infrastructure, were led by commodity and freight costs stabilizing. The EBIT margin of the chemical segment improved by 652bp to 20.6%, green solutions segment's margin grew 458bp to 10.8% while the industrial products segment's margin was up by 57bp at 9.9%. PAT was at Rs1.42bn, up 13% YoY (43% QoQ), 13% below our estimate and 7% below the consensus estimate.

Order inflow picks up

The order inflow in 3QFY24 grew 14% YoY to Rs25bn while the order book stood at Rs107bn (+9% YoY). The company has been most successful in green projects, zero liquid discharge, etc. Moreover, there was a delay in the closure of several projects. The energy and power sectors are showing healthy traction in the order pipeline, with coal being a big discussion point due to the shortage of power in India. The enquiry pipeline for Thermax is strong on the utility segment and captive side. On the international front, the Middle East pipeline is strong in the long term, but over the next two-to-three months it's muted.

Outlook and valuation

The capex momentum, especially in the water and environmental space, augurs well for Thermax. The company has been most successful in green projects, zero liquid discharge, etc. It is focusing on digital transformation and cross-sales across products with distributors and channel partners, which is likely to drive order inflow growth in the coming quarters. We raise PAT estimates by 7-11% for FY25F-26F, factoring in the healthy order inflow guidance coupled with strong execution. We retain our ADD rating on Thermax with a higher target price of Rs3,675 (Rs3,275 earlier), valuing the stock at 46x FY26F EPS. Downside risks: Lower-than-estimated order inflow and margins.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	60,640	80,898	93,499	109,796	126,356
Operating EBITDA (Rsm)	4,213	5,975	8,102	9,843	11,093
Net Profit (Rsm)	3,121	4,771	5,516	7,880	8,997
Core EPS (Rs)	27.7	42.4	52.2	70.0	79.9
Core EPS Growth	26.9%	52.9%	23.3%	34.0%	14.2%
FD Core P/E (x)	119.48	78.16	63.41	47.33	41.45
DPS (Rs)	7.0	9.1	9.6	10.0	10.0
Dividend Yield	0.21%	0.27%	0.29%	0.30%	0.30%
EV/EBITDA (x)	87.09	61.88	45.09	36.74	32.05
P/FCFE (x)	(548.59)	128.02	87.73	100.94	59.28
Net Gearing	(17.1%)	(8.3%)	(17.3%)	(22.0%)	(29.5%)
P/BV (x)	10.68	9.64	8.40	7.29	6.32
ROE	9.3%	13.0%	14.2%	16.5%	16.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY24 conference-call highlights

- **Business scenario:** The company reported a good set of numbers for the quarter, with a revenue growth of 13% while EBITDA and PAT were up 16% and 88% YoY, respectively. Some delays seen in Thermax Bioenergy Solutions, but it expects the upcoming projects to be on track and be more profitable. The power sector is also witnessing good traction with a strong enquiry pipeline. Chennai floods also affected the company as two of its installations are in Tamil Nadu.
- **Order inflow:** The order inflow grew 14% YoY to Rs25bn while the order book rose 9% YoY to Rs107bn. The company continues to get order enquiries from the sectors like steel, chemicals and food & beverages. The biogas sector has also witnessed growth, which led to increased enquiry inflow. Management stated that for EPC-based projects, profitability took a hit mainly due to lower execution.
- **Segments:**
 - **Industrial products:** Order inflow up 13% YoY at Rs9.9bn. The order book of the segment stood at Rs35.1bn. During the quarter, the company commissioned a 35t/hr (TPH) boiler for a paper mill in Dubai. It also recently commissioned a 220t refrigeration (TR) steam-fired vapour absorption chiller for a palm oil producer in Malaysia, a 2GW solar cell module and a desalination plant for a major Indian company.
 - **Industrial infrastructure:** Order inflow of the segment stood at Rs12.5bn, up 12% YoY, while the order book stood at Rs62.4bn. The segment faced challenges in terms of lower margins in several projects. Thermax Babcock & Wilcox Energy Solutions (TBWES) commissioned FlexiSource, which can handle multi-waste fuels. A major order was secured in the South-East Asia region for supplying 38TPH steam plant. Moreover, Thermax Bioenergy Solutions (TBSPL) has commenced commercial operations of biogas plants for a customer in Punjab.
 - **Green solutions:** The business secured orders worth Rs960m, up 37% YoY, with a backlog of ~Rs8.4bn. Thermax Onsite Energy Solutions (TOESL) commissioned a 6TPH green steam supply plant in Maharashtra and the company believes that CO2 emission will be reduced by 30,000t per year. It is also expanding the green power portfolio in Tamil Nadu with work on a solar and wind project already in progress. The company stated that the business suffered high interest costs and its performance will remain dampened until 2HFY25F.
 - **Chemicals:** The business reported order inflow growth of 20% YoY to Rs1.7bn while the order book was at Rs1.3bn. The segment improved its profitability due to better margins and stable commodity and freight costs which impacted its business last year. The segment has seen good traction in resins across markets. The order pipeline of the construction chemical business remains strong.

Figure 1: Quarterly results snapshot

Rs m	3QFY24	3QFY23	YoY	2QFY24	QoQ	9MFY24	9MFY23	YoY	InCred Est.	Diff (%)	Consensus	Diff (%)
Total Revenue	23,244	20,493	13.4%	23,025	1.0%	65,598	57,790	13.5%	23,526	-1.2%	23,720	-2.0%
Raw Material Cost	12,880	11,451	12.5%	12,805	0.6%	36,459	33,480	8.9%				
Employee Cost	2,920	2,371	23.2%	2,843	2.7%	8,321	6,887	20.8%				
Other Expenses	5,569	5,060	10.1%	5,330	4.5%	15,576	13,446	15.8%				
Total Expenditure	21,369	18,882	13.2%	20,978	1.9%	60,355	53,813	12.2%				
EBITDA	1,874	1,611	16.4%	2,046	-8.4%	5,242	3,977	31.8%	2,097	-10.6%	2,023	-7.4%
Depreciation	358	291	23.3%	330	8.7%	982	874	12.3%				
EBIT	1,516	1,320	14.8%	1,717	-11.7%	4,260	3,102	37.3%				
Interest	266	91	191.8%	198	34.4%	598	237	152.6%				
Other Income	584	423	38.0%	659	-11.3%	1,773	1,027	72.7%				
Extraordinary Income	1,261	0		0	#DIV/0!	1,261	0					
PBT	3,095	1,652	87.3%	2,177	42.2%	6,191	3,893	59.0%				
PBT excl. EO	1,834	1,652	11.0%	2,177	-15.8%	5,436	3,893	39.6%				
Total Tax	721	385	87.1%	589	22.5%	1,625	942	72.5%				
Profit After Tax	2,374	1,267	87.4%	1,589	49.4%	4,566	2,951	54.7%				
Share of Loss of JV/Ass.	-3	-3	26.9%	-3	32.0%	-6	-3	89.7%				
Reported PAT	2,371	1,264	87.5%	1,586	49.5%	4,560	2,948	54.7%				
Adj. PAT	1,425	1,267	12.5%	1,586	-10.2%	3,811	2,951	29.2%	1,644	-13.3%	1,530	-6.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin analysis

Margins (%)	3QFY24	3QFY23	bp chg	2QFY24	bp chg	9M FY24	9M FY23	bp chg
EBITDA Margin	8.1%	7.9%	20.3	8.9%	-82	8.0%	6.9%	111
EBIT Margin	6.5%	6.4%	7.9	7.5%	-93	6.5%	5.4%	113
PBT Margin (%)	7.9%	8.1%	(17.3)	9.5%	-157	8.3%	6.7%	155
NPM	10.2%	6.2%	403.0	6.9%	331	7.0%	5.1%	185
Effective Tax Rate (%)	23.3%	23.3%	(3.1)	27.0%	-374	26.2%	24.2%	205
Cost (% of Sales)								
Raw Material Costs	55.4%	55.9%	(46.4)	55.6%	-20	55.6%	57.9%	-235
Employee Costs	12.6%	11.6%	99.3	12.3%	22	12.7%	11.9%	77
Other Expenses	24.0%	24.7%	(73.2)	23.2%	81	23.7%	23.3%	48

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Order book and order inflow details

Orders (Rs m)	3QFY24	3QFY23	YoY	2QFY24	qoq % chg	9M FY24	9M FY23	YoY
Order inflow	25,060	22,040	13.7%	19,730	27.0%	70,460	65,290	7.9%
Order book	1,07,170	98,590	8.7%	1,02,640	4.4%	1,07,170	98,590	8.7%

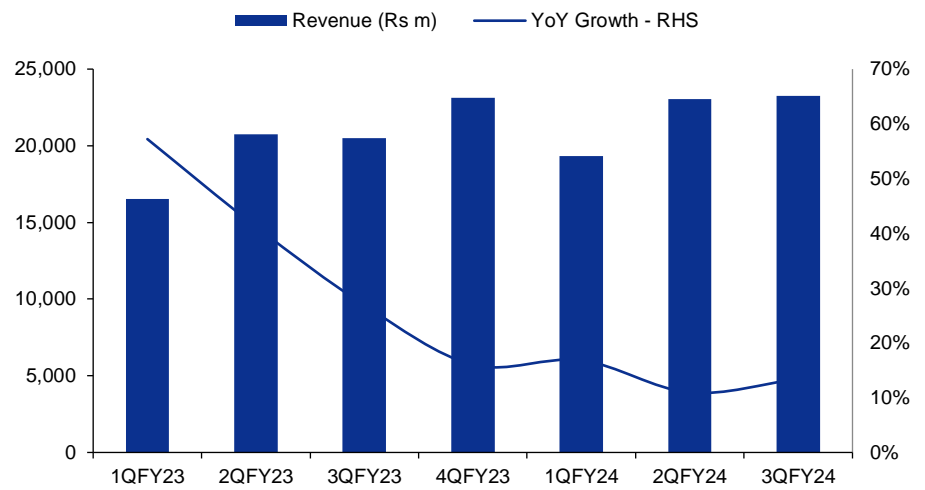
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Segment-wise revenue and EBIT

Segmental Revenue	3QFY24	3QFY23	YoY	2QFY24	QoQ	9MFY24	9MFY23	YoY
Industrial Products	10,226	8,559	19.5%	9,894	3.4%	28,478	23,570	20.8%
Industrial Infrastructure	10,974	10,006	9.7%	10,851	1.1%	30,987	27,679	12.0%
Green Solutions	1,235	846	45.9%	1,246	-0.9%	3,612	2,777	30.1%
Chemicals	1,606	1,645	-2.4%	1,879	-14.5%	5,092	5,050	0.8%
Total	24,041	21,056	14.2%	23,869	0.7%	68,170	59,075	15.4%
EBIT	3QFY24	3QFY23	YoY	2QFY24	QoQ	9MFY24	9MFY23	YoY
Industrial Products	1,015	801	26.7%	988	2.7%	2,563	1,699	50.8%
Industrial Infrastructure	389	537	-27.5%	573	-32.1%	1,264	1,449	-12.7%
Green Solutions	133	53	153.5%	80	67.0%	313	132	136.7%
Chemicals	331	232	42.9%	345	-4.2%	942	542	73.8%
Total	1,868	1,622	15.2%	1,640	13.9%	5,082	3,822	33.0%
EBIT Margin	3QFY24	3QFY23	bp chg	2QFY24	bp chg	9MFY24	9MFY23	bp chg
Industrial Products	9.9%	9.4%	57	10.0%	-6	9.0%	7.2%	179
Industrial Infrastructure	3.5%	5.4%	-182	5.3%	-173	4.1%	5.2%	-115
Green Solutions	10.8%	6.2%	458	6.4%	438	8.7%	4.8%	390
Chemicals	20.6%	14.1%	652	18.4%	222	18.5%	10.7%	776
Total	7.8%	7.7%	7	6.9%	90	7.5%	6.5%	98

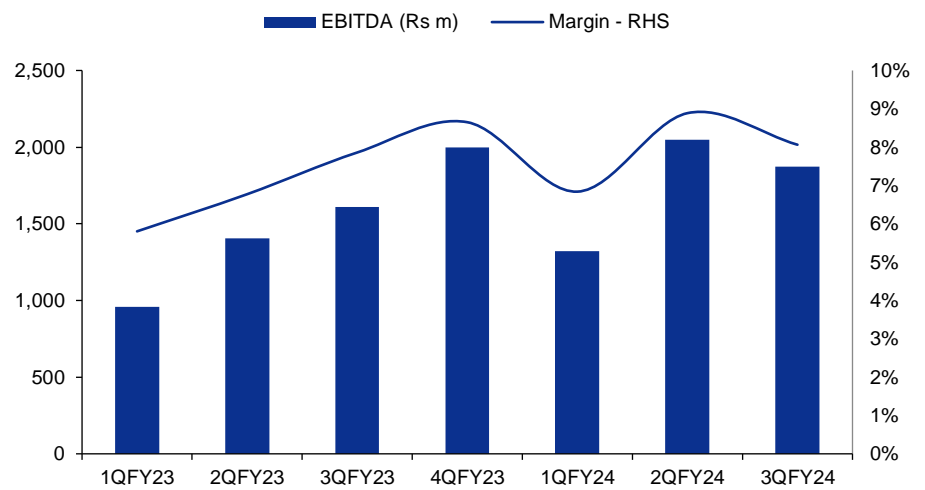
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Quarterly revenue trend



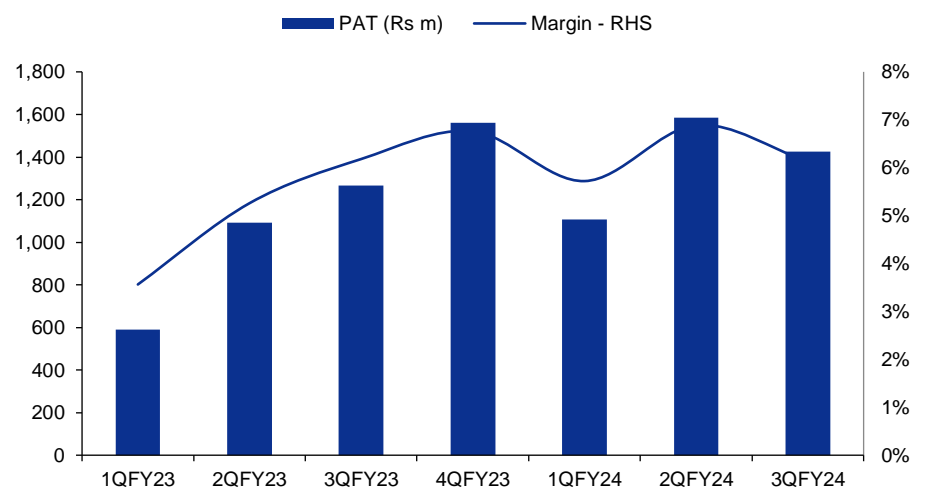
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Quarterly EBITDA trend



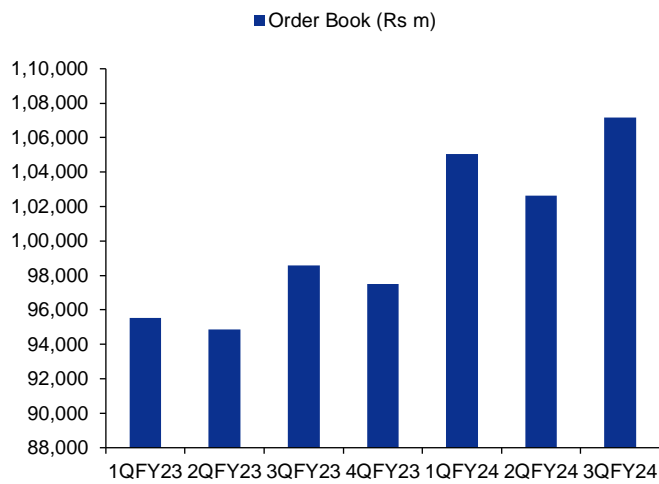
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Quarterly PAT trend



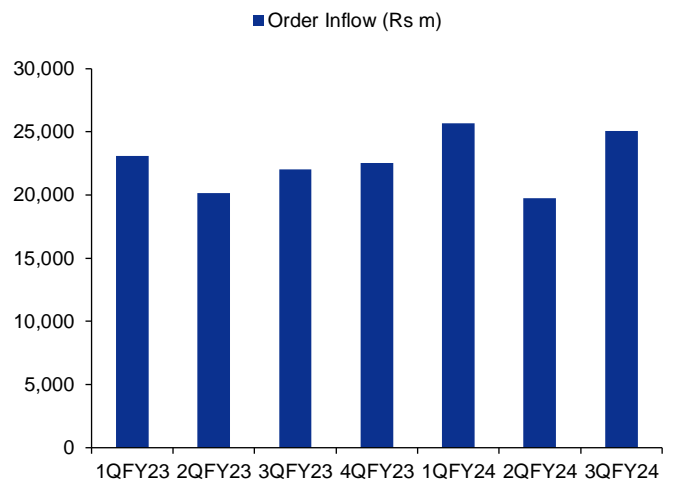
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Healthy order book



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Order inflow will pick up



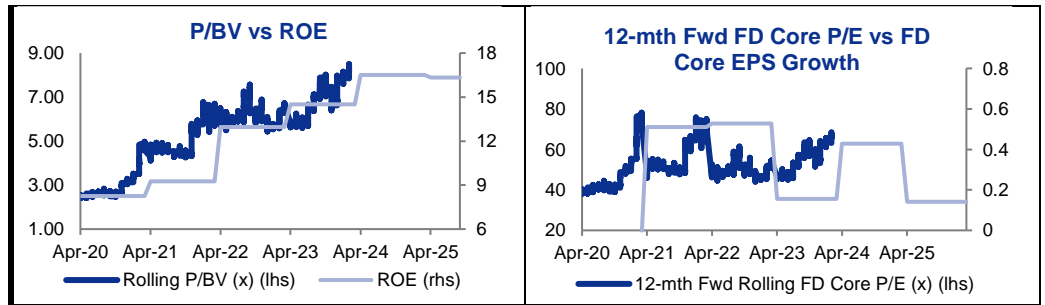
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Earnings revision summary

(Rs m)	New estimates			Old estimates			Change		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	93,499	1,09,796	1,26,356	92,084	1,05,082	1,16,457	1.5%	4.5%	8.5%
EBITDA	8,102	9,844	11,093	8,285	9,544	10,329	-2.2%	3.1%	7.4%
Core PAT	6,022	7,880	8,997	6,258	7,356	8,119	-3.8%	7.1%	10.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	61,283	80,898	93,499	109,796	126,356
Gross Profit	26,433	34,651	41,694	48,179	55,445
Operating EBITDA	4,213	5,975	8,102	9,843	11,093
Depreciation And Amortisation	(1,132)	(1,169)	(1,358)	(1,219)	(1,274)
Operating EBIT	3,081	4,807	6,743	8,624	9,819
Financial Income/(Expense)	(252)	(376)	(891)	(623)	(599)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,270	1,602	2,299	2,355	2,604
Profit Before Tax (pre-EI)	4,099	6,032	8,151	10,356	11,824
Exceptional Items			(506)		
Pre-tax Profit	4,099	6,032	7,645	10,356	11,824
Taxation	(978)	(1,259)	(2,130)	(2,476)	(2,827)
Exceptional Income - post-tax					
Profit After Tax	3,121	4,774	5,516	7,880	8,997
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax		(2)			
Other Adjustments - post-tax					
Net Profit	3,121	4,771	5,516	7,880	8,997
Recurring Net Profit	3,121	4,771	5,881	7,880	8,997
Fully Diluted Recurring Net Profit	3,121	4,771	5,881	7,880	8,997

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	4,213	5,975	8,102	9,843	11,093
Cash Flow from Invt. & Assoc.	(114)	58	805	513	732
Change In Working Capital	(5)	(1,006)	(1,194)	(2,278)	(753)
(Incr)/Decr in Total Provisions	50				
Other Non-Cash (Income)/Expense	1,132	1,169	1,358	1,219	1,274
Other Operating Cashflow	(1,151)	(1,226)	(1,408)	(1,732)	(2,005)
Net Interest (Paid)/Received	(252)	(376)	(891)	(623)	(599)
Tax Paid	(1,030)	(1,259)	(2,130)	(2,476)	(2,827)
Cashflow From Operations	2,844	3,335	4,643	4,466	6,914
Capex	(838)	(5,071)	(766)	(810)	(849)
Disposals Of FAs/subsidiaries	(11,961)				
Acq. Of Subsidiaries/investments		(1,128)	(629)	(1,309)	(1,413)
Other Investing Cashflow	8,648	1,602	2,299	2,355	2,604
Cash Flow From Investing	(4,151)	(4,597)	903	237	342
Debt Raised/(repaid)	627	4,175	(1,296)	(1,008)	(965)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(788)	(1,021)	(1,081)	(1,126)	(1,126)
Preferred Dividends					
Other Financing Cashflow	(45)				
Cash Flow From Financing	(206)	3,154	(2,377)	(2,134)	(2,091)
Total Cash Generated	(1,513)	1,892	3,170	2,568	5,165
Free Cashflow To Equity	(680)	2,913	4,251	3,694	6,291
Free Cashflow To Firm	(1,055)	(886)	6,437	5,326	7,855

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	9,536	11,316	15,371	18,563	24,327
Total Debtors	15,972	18,766	25,104	29,480	33,926
Inventories	7,270	7,556	9,478	11,431	13,155
Total Other Current Assets	13,375	14,745	21,774	25,569	29,425
Total Current Assets	46,153	52,382	71,726	85,042	100,833
Fixed Assets	12,391	17,019	16,427	16,018	15,593
Total Investments	14,765	15,893	16,522	17,831	19,244
Intangible Assets					
Total Other Non-Current Assets	1,271	1,057	1,057	1,057	1,057
Total Non-current Assets	28,427	33,969	34,006	34,906	35,894
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	15,074	15,286	21,774	24,065	27,695
Other Current Liabilities	21,027	24,258	31,866	37,420	43,064
Total Current Liabilities	36,101	39,544	53,639	61,485	70,759
Total Long-term Debt	3,554	8,105	7,700	7,315	6,949
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	3,554	8,105	7,700	7,315	6,949
Total Provisions					
Total Liabilities	39,655	47,650	61,339	68,800	77,708
Shareholders Equity	34,925	38,681	44,372	51,126	58,998
Minority Interests					
Total Equity	34,925	38,681	44,372	51,126	58,998

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	28.7%	33.4%	15.6%	17.4%	15.1%
Operating EBITDA Growth	18.6%	41.8%	35.6%	21.5%	12.7%
Operating EBITDA Margin	6.9%	7.4%	8.7%	9.0%	8.8%
Net Cash Per Share (Rs)	53.11	28.51	68.12	99.88	154.31
BVPS (Rs)	310.13	343.48	394.01	453.99	523.89
Gross Interest Cover	12.24	12.79	7.57	13.84	16.39
Effective Tax Rate	23.9%	20.9%	27.9%	23.9%	23.9%
Net Dividend Payout Ratio	25.3%	21.4%	18.0%	14.3%	12.5%
Accounts Receivables Days	87.41	78.37	85.63	90.73	91.58
Inventory Days	59.27	58.51	60.01	61.93	63.27
Accounts Payables Days	140.26	119.81	130.56	135.77	133.21
ROIC (%)	15.9%	17.9%	24.4%	28.5%	32.0%
ROCE (%)	8.3%	11.3%	13.6%	15.6%	15.8%
Return On Average Assets	4.7%	6.3%	6.9%	7.4%	7.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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