

05<sup>th</sup> September 2023

## Thermax Ltd. – BUY

**CMP** : Rs. 2,820.0  
**Target Price** : Rs. 3,389.0  
**Upside** : 19%  
**Stop Loss** : Rs. 2,510.0

### Investment Thesis

- Thermax is a leader in the absorption chiller segment in both the domestic as well as the international market. This competitive advantage translates into a higher margin for the industrial products segment that contributes ~43% to the overall revenue of the company.
- Thermax's industrial products segment further signals a high growth potential on the grounds of the overall growth story of India catering to the various industries that work towards the story. Since Thermax provides solutions to various industries, it is at an advantageous position to capitalize on the growth.
- The company has divided the segments into four major businesses – Industrial Infra (~47% Revenue), Industrial Products (~43% Revenue), Chemicals (~7% Revenue) and Green Solutions (~3% revenue). Of these, Industrial Products and industrial Infra segments are predominantly green. The company is highly focused towards providing green energy solutions that align well with the green story of India.
- Thermax's subsidiary, First Energy Private Limited (FEPL), in June 2023 had commissioned a 45.80 MW wind-solar hybrid (WSH) captive power plant in Gujarat with an installed capacity of 24.3 MW of wind energy and 21.50 MW of solar energy. This is a big step towards a renewable energy story and will help bring about efficiencies in distribution and generation of power.
- In April 2023, Thermax had won an order worth Rs.271.50cr from a leading oil refinery in the private sector for mechanical balance of Plants (MBoP) works for the captive power plant at their new oil-to-chemical facility in the western part of India.
- Thermax has reported all time high revenue, order backlogs and cash flow generation in FY23.

### Financials

- Total Revenue of the company rose to Rs.1,933cr in Q1FY24, up 17% YoY from Q1FY23 while the PAT/PBT stood at Rs.60cr/Rs.142cr, respectively, up 2%/75% YoY, respectively. The cash balance stood at Rs.2,617cr, up 7% YoY.

Particulars	FY20	FY21	FY22	FY23	FY24E
Revenue* (Rs. in cr)	5,854	4,899	6,272.39	8,249.99	11,384.99
EBITDA*(Rs. in cr)	506.18	462.93	548.38	757.74	1,066.77
Adj. PAT * (Rs. in cr)	326.50	212.45	206.58	312.31	450.70
Adj. EPS (Rs.) *	212.45	206.58	312.31	450.7	672.07
PE Multiple (x)	3.7	4.31	5.1	5.57	6
RoE (%)	18.87	18.35	27.74	39.99	56.48

### Stock Data

Market Cap (Rs. Crs)	33,606
Market Cap (\$ Mn)	4,063.14
Shares O/S (in Mn)	119
Avg. Volume (3 month)	67,654
52-Week Range (Rs.)	2,848/1,830

### Shareholding Pattern

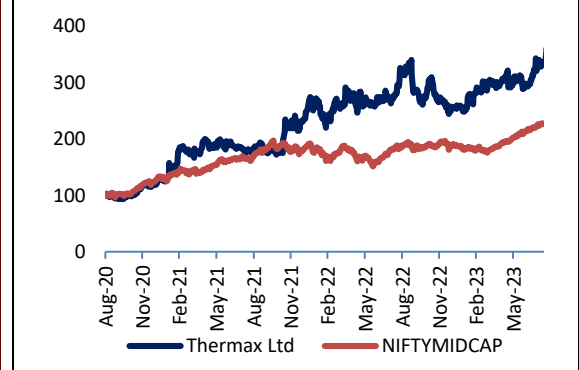
Promoters	61.99
FII's	12.35
Institutions	15.50
Others (incl. body corporate)	10.16

### Key Ratios

Div Yield	0.36%
TTM PE	69.6x
ROE	12.3%
TTM EPS (Rs.)	37.8

### Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	3.2	27.8	13.7
NIFTYMIDCAP	2.8	0.9	(12.1)



- The PAT has been impacted due to an exceptional item of provision related to litigation worth Rs.51 cr.
- The order book is standing at Rs.2,567cr in Q1FY24, up 11% YoY from Q1FY23. Furthermore, breaking up the order book as per segments – **Green Solutions is up 152% YoY, Industrial Products is up 5% YoY, Industrial infra is up 14% YoY and Chemical is up 7% YoY.**

## Key Business Highlights

- Thermax provides solutions for the energy, environmental, and chemical industries. Its product portfolio consist of Boilers and heaters, absorption chillers/heat pumps, power plants, solar equipment, air pollution control equipment/system, water and waste recycling plant, ion exchange resins and performance chemicals as well as related services.
- Thermax has an extensive reach with 14 manufacturing locations, 10 of which is located in India and 4 abroad.
- So far, the company has done installations in 90+ countries and have generated \$1 bn in revenue.
- Through its 4 segments, Thermax contributes to a wider industry base both in India and outside which has helped the company garner immense trust amongst its clientele and that has helped Thermax win robust orders.
- Thermax has launched new products in the market like the integral crystalline waterproofing system called Maxshield CW that helps protect concrete from water penetration under hydrostatic pressure.
- The company is a trusted partner in energy transition and it will continue to make investments in the areas that include waste to energy, waste heat utilization, refrigeration and industrial cooling.
- Company has showcased a robust order book coming from a variety of industries including the consumer sector like the Food & Beverages and other industrial sectors like the cement sector, engineering. Its major order book is derived from the Refinery and Petrochemical sector with ~20% came from the sector during Q1FY24.

## Valuation

Thermax, post the Q1FY24 results, is trading at Rs. 2,820 which is a ~2% discount from the 52-week of Rs. 2,870, valuing it at a PE / EBITDA Multiple of 69.1x / 40.6x against the 5-year median of 62.3x / 28.7x, which is reasonable. Additionally, the industry PE is trading at 35.4x and Thermax is trading above the industry standards owing to the company enjoying a robust leadership position in major segments and is poised to capitalize on the green energy growth story of India.

Therefore, in light of above, we are ascribe a **BUY** rating for **Thermax** with a **target price** of **Rs. 3,389**, translating to an **upside** of **~22%**.

## Risk & Concern

- An arbitral judgement was made against the company, resulting in a provision of Rs.50.63cr in Q1FY24.

## Graphs & Charts

Figure 1: Net Sales Trend (Rs. in Crs)

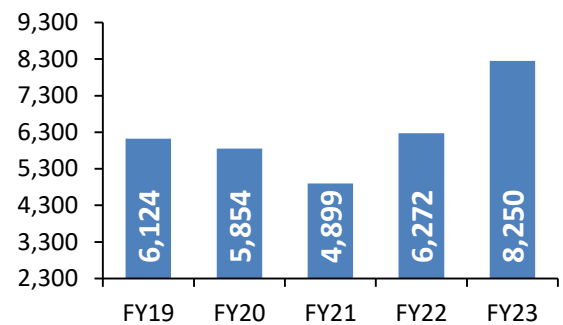


Figure 2: EBITDA & EBITDA Margin Trend

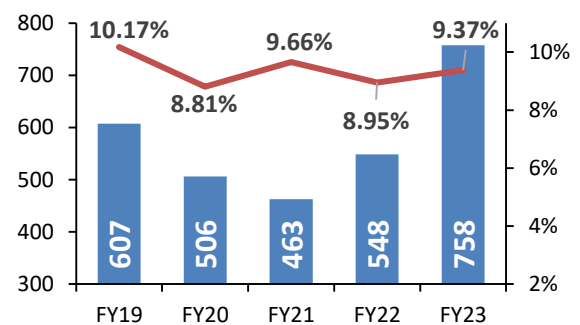
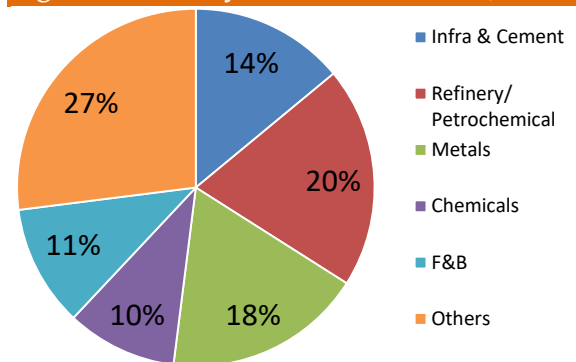


Figure 3: Industry-wise order book (Q1FY24)



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