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India | Equity Research | Q2FY25 results review

## Thermax

Capital Goods

### Strong order inflow; profit uplifted by one-off income

Thermax reported average financial performance in Q2FY25. Consolidated revenue stood at INR 25.5bn (+11% YoY), while EBITDA was INR 2.1bn (+4% YoY) as EBITDA margin contracted 56bps YoY. PAT was INR 2bn (+25% YoY) mainly due to one-off incentive of INR 660mn booked in Q2; adj. PAT was almost flat (+1.3% YoY). Order inflow was strong at INR 33.5bn (+70% YoY) led by industrial infra and industrial product segments wherein order inflow grew 167% and 25%, respectively. Order book is healthy at INR 116bn (+13% YoY). The outlook appears brighter with large orders likely from refining, petchem and steel. Upgrade to **ADD** from *Hold*, as we roll forward TP to FY27E, at **INR 5,426**.

### Healthy revenue growth; lower margins

Thermax reported revenue growth of 11% YoY to INR 25.5bn led by 8% YoY growth in industrial infra to INR 11.8bn and 41% YoY growth in green solutions to INR 1.8bn. EBITDA grew 4% YoY to INR 2.1bn as margin contracted 56bps YoY to 8.3% mainly due to margin pressure in industrial infra segment. PAT grew 25% YoY to INR 2bn despite increase in depreciation and interest expenses mainly due to one-off incentive of INR 660mn. Adj. PAT was almost flat at INR 1.6bn (+1.3% YoY).

### Strong order inflow

Order inflow was strong during Q2FY25 at INR 33.5bn and orderbook grew 13% YoY to INR 116bn as of Sep'24. Two major export orders (cumulatively worth INR 10.3bn) were secured in industrial infra segment during Q2FY25. Order inflow in industrial products stood at INR 13.5bn in the quarter.

### Positive demand outlook

Demand outlook remains positive for the next 1-2 years with demand coming from refining, petchem and steel. With several projects in pipeline from leading players in these industries, order inflow is likely to remain healthy.

### Upgrade to ADD from Hold; TP revised to INR 5,426

We upgrade the stock to **ADD** from *Hold*, as we roll forward our TP to FY27E, at **INR 5,426** (from INR 4,774).

### Financial Summary

Y/E Mar-31 (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	93,235	1,08,261	1,23,418	1,38,940
EBITDA	7,974	9,124	10,331	11,735
EBITDA Margin (%)	8.6	8.4	8.4	8.4
Net Profit	5,706	7,164	8,795	10,760
EPS (INR)	47.9	60.1	73.8	90.3
EPS % Chg YoY	26.2	25.6	22.8	22.4
P/E (x)	104.9	83.5	68.0	55.5
EV/EBITDA (x)	72.9	64.1	56.4	49.4
RoCE (%)	12.2	13.7	14.9	15.7
RoE (%)	13.7	15.5	16.9	17.7

#### Mohit Kumar

kumar.mohit@icicisecurities.com  
+91 22 6807 7419

#### Abhijeet Singh

abhijeet.singh@icicisecurities.com

#### Mahesh Patil

mahesh.patil@icicisecurities.com

#### Abhinav Nalawade

abhinav.nalawade@icicisecurities.com

#### Nidhi Shah

nidhi.shah@icicisecurities.com

#### Market Data

Market Cap (INR)	596bn
Market Cap (USD)	7,058mn
Bloomberg Code	TMX IN
Reuters Code	THMX.BO
52-week Range (INR)	5,840 /2,500
Free Float (%)	32.0
ADTV-3M (mn) (USD)	6.1

Price Performance (%)	3m	6m	12m
Absolute	16.3	6.6	72.5
Relative to Sensex	18.3	0.4	53.0

ESG Score	2022	2023	Change
ESG score	51.6	67.1	15.5
Environment	27.7	49.5	21.8
Social	38.6	67.6	29.0
Governance	74.8	78.2	3.4

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

#### Previous Reports

04-08-2024: [Q1FY25 results review](#)

14-05-2024: [Q4FY24 results review](#)

## Q2FY25 conference call highlights

- Thermax reported revenue growth of 11% YoY to INR 25.5bn.
- Revenue growth in Q2 was led by 8% YoY growth in industrial infra to INR 11.8bn, and 41% YoY growth in green solutions to INR 1.8bn. 7% YoY growth was seen in industrial products to INR 10.6bn in Q2.
- EBITDA grew 4% YoY to INR 2.1bn as margin dropped 56bps YoY to 8.3% mainly due to margin pressure in industrial infra segment.
- YoY increase in interest and finance costs.
- One-off incentive of INR 660mn booked during the quarter.
- As a result, PAT grew 25% YoY to INR 2bn, while adjusted PAT was almost flat at INR 1.6bn (+1.3% YoY).

### Order outlook

- Order inflow was strong at INR 33.5bn (+70% YoY).
- Orderbook as of Sep'24 stood at INR 116bn (+13% YoY).
- Two major export orders were received in industrial infra segment during the quarter. The projects are worth INR 10.3bn cumulatively.
- Moreover, order inflow outlook remains positive for next 1-2 years and the company is likely to convert the strong inquiry pipeline into order inflow.
- Thermax, post internal deliberation, has decided to avoid thermal power tenders in its current form given the large cost and execution timelines for the orders.

### Others

- In FEPL, execution was impacted severely due to floods; impact is expected to moderate in next 2 quarters.
- Renewable energy – Thermax delivered ~200MW, while ~100MW is under construction and will come into deployment in next 1-4 months. It plans to setup about 600MW in first phase with investment of ~INR 7bn.
- Margins in industrial infra segment are under pressure; however, margins are expected to improve from H2 as projects with low margins are nearing completion.

**Exhibit 1: Consolidated financial highlights**

INR mn	Q2FY25	Q2FY24	YoY(%)	Q1FY25	QoQ(%)	FY24	FY23	YoY(%)
Total Revenue	25,456	23,025	10.6	21,844	16.5	93,235	80,898	15.2
EBITDA	2,120	2,046	3.6	1,412	50.2	7,974	5,976	33.4
Margin	8.3	8.9	-56bps	6.5	187bps	8.6	7.4	120bps
Depreciation	421	330	27.6	360	16.8	1,481	1,169	26.7
Finance Cost	294	198	48.4	275	7.0	876	376	133.0
Other Income	598	659	(9.2)	841	(28.9)	2,326	1,599	45.5
Extraordinary income	495	(3)		(4)		747	-	
PBT	2,498	2,175	14.8	1,613	54.8	8,690	6,030	44.1
Tax	518	589	(12.1)	519	(0.3)	2,258	1,524	48.2
tax rate	20.7	27.1	-635bps	32.2		26.0	25.3	
Reported PAT	1,970	1,577	24.9	1,158	70.1	6,453	4,504	43.3
Adjusted PAT	1,599	1,579	1.3	1,161	37.7	5,893	4,504	30.8
Margin(%)	6.3	6.9	-58bps	5.3	97bps	6.3	5.6	80bps
EPS	17.5	14.0	24.9	10.3	70.1	57.3	40.0	43.3
<b>Segmental</b>	<b>Q2FY25</b>	<b>Q2FY24</b>	<b>YoY(%)</b>	<b>Q1FY25</b>	<b>QoQ(%)</b>	<b>FY24</b>	<b>FY23</b>	<b>YoY(%)</b>
Industrial Products	10,576	9,894	6.9	9,608	10.1	40,552	33,375	21.5
Industrial Infra	11,766	10,851	8.4	9,251	27.2	44,552	39,280	13.4
Green Solutions	1,751	1,246	40.5	1,737	0.8	5,071	3,627	39.8
Chemical	1,903	1,879	1.3	1,708	11.4	6,634	6,728	(1.4)
<b>Total</b>	<b>25,997</b>	<b>23,869</b>	<b>8.9</b>	<b>22,304</b>	<b>16.6</b>	<b>96,809</b>	<b>83,011</b>	<b>16.6</b>
<b>EBIT</b>								
Industrial Products	1,145	988	15.9	867	32.1	3,970	2,739	(31.0)
Industrial Infra	222	573	(61.3)	(184)	(220.8)	2,089	2,168	3.8
Green Solutions	216	80	171.1	230	(6.0)	449	150	(66.7)
Chemical	306	345	(11.4)	304	0.8	1,238	865	(30.2)
<b>Total</b>	<b>1,889</b>	<b>1,640</b>	<b>15.2</b>	<b>913</b>	<b>106.9</b>	<b>6,509</b>	<b>5,057</b>	<b>(22.3)</b>
<b>EBIT margins (%)</b>								
Industrial Products	10.8	10.0	84bps	9.0	96bps	9.8	8.2	-160bps
Industrial Infra	1.9	5.3	-339bps	-2.0	726bps	4.7	5.5	80bps
Green Solutions	12.3	6.4	595bps	13.2	-683bps	8.9	4.1	-470bps
Chemical	16.1	18.4	-231bps	17.8	61bps	18.7	12.8	-580bps
<b>Total</b>	<b>7.3</b>	<b>6.9</b>	<b>39bps</b>	<b>4.1</b>	<b>278bps</b>	<b>8.9</b>	<b>4.1</b>	<b>-470bps</b>

Source: I-Sec research, Company data

**Exhibit 2: Consolidated orderbook highlights**

Consolidated (INR bn)	Q2FY25	Q2FY24	YoY(%)	Q1FY25	QoQ(%)	FY24	FY23	YoY(%)
Order Intake	33.5	19.7	70.1	25.7	30.6	93.5	87.8	6.5
Order book	115.9	102.6	12.9	106.8	8.5	101.1	97.5	3.7
<b>Order inflow</b>								
Industrial Products	13.5	10.8	25.0	12.7	6.7	43.3	41.7	3.8
Industrial Infra	17.5	6.6	166.9	9.9	76.4	41.0	37.7	8.8
Green Solutions	0.6	0.6	(1.7)	1.0	-43.0	2.4	1.9	23.7
Chemical	2.0	1.8	11.2	2.1	-6.6	6.8	6.4	6.2
<b>Orderbook</b>								
Industrial Products	42.1	35.0	20.2	38.7	8.8	35.0	28.4	23.2
Industrial Infra	63.1	59.4	6.3	57.3	10.1	56.8	63.1	(9.9)
Green Solutions	8.9	7.1	25.4	9.1	-1.3	7.9	4.9	60.4
Chemical	1.8	1.1	61.1	1.8	1.7	1.4	1.1	26.6

Source: I-Sec research, Company data

## Outlook and valuation

We value the company as per SoTP methodology given varied growth, margin and return trajectories of its three business segments. Based on its strong core competency in industrial products/industrial infra segments, we assign a multiple of 60x/55x for FY27E earnings. Given the company's market leadership with its energy-efficiency offerings, we assign 50x FY27E earnings to green solutions business. As we see strong growth prospects, but nascent business, we assign a relatively lower multiple of 40x FY27E earnings to the chemical segment.

We upgrade the stock to **ADD** from *Hold*, as we roll forward our TP to FY27E, at **INR 5,426** (from INR 4,774).

**Risks:** a) Rise in input cost beyond initially expected levels; and b) increase in order inflow due to higher levels of finalisation of inquiry pipeline.

### Exhibit 3: SoTP-based target price of INR 5,426

	PE multiple (x)	contribution (%)	FY27E PAT (INR mn)	Value (INR mn)	Per share (INR)
Industrial products	60	46	4,868	2,92,055	2,594
Industrial Infra	55	37	3,873	2,13,003	1,892
Green Solutions	50	8	813	40,647	361
Chemicals	40	9	933	37,328	332
<b>Core PAT</b>			<b>10,487</b>		
Total				5,83,033	5,178
Cash (FY27E)				27,879	248
<b>Overall Total</b>				<b>6,10,912</b>	<b>5,426</b>

Source: I-Sec research

### Exhibit 4: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	62.0	62.0	62.0
Institutional investors	28.1	28.0	28.1
MFs and other	13.6	12.1	12.1
FIs/ Banks	-	-	-
Insurance Cos.	2.1	0.8	0.7
FII	12.4	15.1	15.4
Others	9.9	10.0	9.9

Source: Bloomberg, I-Sec research

### Exhibit 5: Price chart



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 6: Profit & Loss

(INR mn, year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>93,235</b>	<b>1,08,261</b>	<b>1,23,418</b>	<b>1,38,940</b>
Operating Expenses	33,065	37,212	46,441	52,178
<b>EBITDA</b>	<b>7,974</b>	<b>9,124</b>	<b>10,331</b>	<b>11,735</b>
EBITDA Margin (%)	8.6	8.4	8.4	8.4
Depreciation & Amortization	1,481	1,417	1,458	1,520
EBIT	6,493	7,707	8,874	10,215
Interest expenditure	876	1,206	1,106	1,006
Other Non-operating Income	2,326	3,023	3,930	5,110
<b>Recurring PBT</b>	<b>7,943</b>	<b>9,524</b>	<b>11,698</b>	<b>14,319</b>
<b>Profit / (Loss) from Associates</b>	<b>21</b>	<b>21</b>	<b>21</b>	<b>21</b>
Less: Taxes	2,258	2,381	2,925	3,580
PAT	5,685	7,143	8,774	10,739
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>5,706</b>	<b>7,164</b>	<b>8,795</b>	<b>10,760</b>
<b>Net Income (Adjusted)</b>	<b>5,706</b>	<b>7,164</b>	<b>8,795</b>	<b>10,760</b>

Source Company data, I-Sec research

### Exhibit 7: Balance sheet

(INR mn, year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	54,846	74,443	84,783	97,166
of which cash & cash eqv.	9,753	9,180	10,383	13,410
Total Current Liabilities & Provisions	42,589	44,719	47,493	50,305
<b>Net Current Assets</b>	<b>12,257</b>	<b>29,725</b>	<b>37,289</b>	<b>46,861</b>
Investments	17,460	14,860	15,233	15,621
Net Fixed Assets	10,399	11,062	10,684	10,244
ROU Assets	-	-	-	-
Capital Work-in-Progress	5,194	5,453	5,726	6,012
Total Intangible Assets	371	352	381	410
Other assets	12,132	(116)	(301)	(504)
Deferred Tax Assets	1,086	1,194	1,313	1,445
<b>Total Assets</b>	<b>58,941</b>	<b>62,696</b>	<b>70,489</b>	<b>80,250</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>12,560</b>	<b>12,560</b>	<b>12,560</b>	<b>12,560</b>
<b>Deferred Tax Liability</b>	<b>123</b>	<b>125</b>	<b>128</b>	<b>130</b>
provisions	424	493	562	632
other Liabilities	1,437	1,437	1,437	1,437
Equity Share Capital	225	225	225	225
Reserves & Surplus	44,173	47,839	55,561	65,249
<b>Total Net Worth</b>	<b>44,398</b>	<b>48,064</b>	<b>55,787</b>	<b>65,474</b>
Minority Interest	-	17	17	17
<b>Total Liabilities</b>	<b>58,941</b>	<b>62,696</b>	<b>70,489</b>	<b>80,250</b>

Source Company data, I-Sec research

### Exhibit 8: Cashflow statement

(INR mn, year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
<b>Operating Cashflow</b>	<b>2,652</b>	<b>(15,404)</b>	<b>928</b>	<b>1,482</b>
Working Capital Changes	(3,128)	(22,441)	(7,728)	(9,128)
Capital Commitments	(1,001)	(3,706)	(1,383)	(1,396)
<b>Free Cashflow</b>	<b>3,790</b>	<b>(5,441)</b>	<b>3,291</b>	<b>5,013</b>
<b>Other investing cashflow</b>	<b>2,139</b>	<b>13,668</b>	<b>3,745</b>	<b>4,927</b>
Cashflow from Investing Activities	1,138	9,963	2,362	3,531
Issue of Share Capital	-	-	-	-
Interest Cost	(876)	(1,206)	(1,106)	(1,006)
Inc (Dec) in Borrowings	4,454	-	-	-
Dividend paid	(1,072)	(1,072)	(1,072)	(1,072)
Others	(8,153)	7,419	369	376
Cash flow from Financing Activities	(5,647)	5,141	(1,810)	(1,702)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(1,563)</b>	<b>(573)</b>	<b>1,203</b>	<b>3,027</b>
Closing cash & balance	9,753	9,180	10,383	13,410

Source Company data, I-Sec research

### Exhibit 9: Key ratios

(Year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
<b>Per Share Data (INR)</b>				
Reported EPS	47.7	60.0	73.6	90.1
Adjusted EPS (Diluted)	47.9	60.1	73.8	90.3
Cash EPS	60.3	72.0	86.0	103.1
Dividend per share (DPS)	9.0	9.0	9.0	9.0
Book Value per share (BV)	372.6	403.4	468.2	549.5
Dividend Payout (%)	18.9	15.0	12.2	10.0
<b>Growth (%)</b>				
Net Sales	15.2	16.1	14.0	12.6
EBITDA	33.4	14.4	13.2	13.6
EPS (INR)	26.2	25.6	22.8	22.4
<b>Valuation Ratios (x)</b>				
P/E	104.9	83.5	68.0	55.5
P/CEPS	83.0	69.5	58.2	48.6
P/BV	13.4	12.4	10.7	9.1
EV / EBITDA	72.9	64.1	56.4	49.4
P / Sales	6.4	5.5	4.8	4.3
Dividend Yield (%)	0.2	0.2	0.2	0.2
<b>Operating Ratios</b>				
Gross Profit Margins (%)	44.0	42.8	46.0	46.0
EBITDA Margins (%)	8.6	8.4	8.4	8.4
Effective Tax Rate (%)	28.4	25.0	25.0	25.0
Net Profit Margins (%)	6.1	6.6	7.1	7.7
NWC / Total Assets (%)	4.2	32.8	38.2	41.7
Net Debt / Equity (x)	(0.3)	(0.2)	(0.2)	(0.3)
Net Debt / EBITDA (x)	(1.8)	(1.3)	(1.3)	(1.4)
<b>Profitability Ratios</b>				
RoCE (%)	12.2	13.7	14.9	15.7
RoE (%)	13.7	15.5	16.9	17.7
RoC (%)	12.2	13.7	14.9	15.7
Fixed Asset Turnover (x)	9.0	10.1	11.4	13.3
Inventory Turnover Days	49	32	32	32
Receivables Days	89	97	96	95
Payables Days	65	64	64	63

Source Company data, I-Sec research

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#### ANALYST CERTIFICATION

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: [Mr. Bhavesh Soni](mailto:Mr. Bhavesh Soni) Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

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