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Rating	Accumulate
Price	Rs1,154
Target Price	Rs1,247
Implied Upside	8.1%
Sensex	35,463
Nifty	10,768

(Prices as on June 07, 2018)

Trading data

Market Cap. (Rs bn)	137.3
Shares o/s (m)	119.0
3M Avg. Daily value (Rs m)	70

Major shareholders

Promoters	67.47%
Foreign	14.79%
Domestic Inst.	11.49%
Public & Other	6.25%

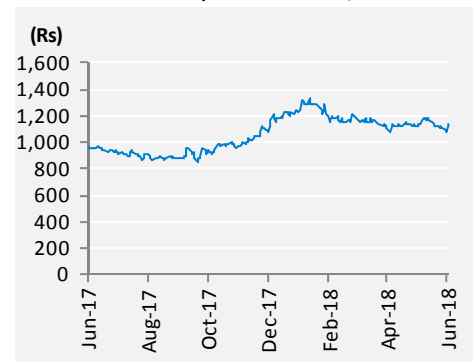
Stock Performance

(%)	1M	6M	12M
Absolute	2.9	3.5	20.8
Relative	2.2	(4.2)	7.4

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	29.5	30.2	-2.3
2020	37.8	38.5	-1.8

Price Performance (RIC: THMX.BO, BB: TMX IN)



Source: Bloomberg

Our recent meeting with the management of Thermax (TMX) reiterates our thoughts on the positive long term prospects. TMX aspires to achieve revenues worth Rs160bn and an Order mix of 50:50 between Domestic and International by FY2028. TMX highlighted their plans to enter new area/product to mitigate business risks and volatility related to single market.

TMX continue to see positive traction in core sectors like Fertilizer, Steel, O&G and Cement. Strong crude prices are also expected to lead to improved outlook in international markets.

TMX's increasing market share, strong product profile, increasing traction in export market and strong management pedigree gives us confidence that the company will be able to participate in the cycle upturn and continue to surprise positively in terms of order flow. We continue to recommend 'Accumulate' at lower levels from a medium/long-term investment perspective as was highlighted in our 4Q update (Click here for detailed report).

- **Strategy to reduce business volatility:** TMX management seems to have learned from the previous cycle and have highlighted certain steps they are undertaking to de-risk their Revenues by entering new geographies, expanding the product portfolio, entering new business lines through organic/inorganic expansion. To achieve this, the management highlighted certain steps like **1)** Entry into the Process Cooling business (market size is 2x absorption chillers market) **2)** targeting commercial customers for heating and cooling (current share <1%, targeting a double digit market share) **3)** Entry in Rooftop Solar segment (Market could be 4x current size) **4)** Expanding its footprint in the Water business **5)** Expansion of projects business in the South East Asian markets.

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Key financials (Y/e March)

	2017	2018	2019E	2020E
Revenues (Rs m)	44,831	44,649	54,015	66,465
Growth (%)	(12.9)	(0.4)	21.0	23.0
EBITDA (Rs m)	4,330	4,009	5,095	6,449
PAT (Rs m)	2,340	2,311	3,515	4,501
EPS (Rs)	19.6	19.4	29.5	37.8
Growth (%)	(17.1)	(1.2)	52.1	28.1
Net DPS (Rs)	6.0	6.0	8.3	11.3

Profitability & Valuation

	2017	2018	2019E	2020E
EBITDA margin (%)	9.7	9.0	9.4	9.7
RoE (%)	9.3	8.8	12.8	15.4
RoCE (%)	8.8	8.6	12.2	14.6
EV / sales (x)	3.0	3.1	2.5	2.0
EV / EBITDA (x)	31.5	34.1	26.6	21.1
PE (x)	58.8	59.5	39.1	30.5
P / BV (x)	5.4	5.1	4.9	4.5
Net dividend yield (%)	0.5	0.5	0.7	1.0

Source: Company Data; PL Research

- **Pursuit for growth/diversification can lead to occasional failures; not afraid to pursue more opportunities:** In the last 4-5 years, Thermax has taken impairments across few new subsidiaries/JV led by change in business dynamics. **a) TBW JV** investment was impaired as demand in power generation equipment market collapsed and price competition made JV unviable. **b) Thermax Zheijang** – this subsidiary has been operational for 10 years in China and was close to break even, however recent political developments have made operation for Indian companies difficult. TMX now is looking to use the manufacturing facility to export from China to other global markets **c) Omnical** – The facility was bought with Danstroker, tried to turn around as efforts did not pay off. **d) First Energy** – Sharp fall in oil prices post this acquisition prompted the impairments. TMX believe all this forays were required part of expanding company both in terms of product basket and adding new geography. They believe that some risks are part of pursuit of growth.

- **Order inflow- Standard Products looking strong:** While FY18 was a good year for order inflow due to some large wins in international markets, TMX highlighted that there is no major pipeline of enquiry for large projects at present, however enquiries for mid-size project continue from sector likes steel, cement, fertilizer, refinery etc.

FY18 was weak for standard products in the international markets, this year is looking better with a strong enquiry pipeline (Rs4-6bn) from the Automotive and Chemical segment. TMX expects to get one order in the Fertilizer segment in FY19. In the Steel sector, JSW and TATA Steel have announced fresh capex and TMX is looking at winning some orders from both. In International markets, improving crude prices is likely to improve outlook on ordering on Oil&Gas and fertilizer side.

- **TMX to buy “Babcock & Wilcox India Holdings Inc” stake in JV:** TMX Management reiterated its logic on buying out *Babcock & Wilcox India Holdings Inc (B&W)* stake in the JV - *Thermax Babcock & Wilcox Energy Solutions (TBWES)*. The transaction will provide access to the manufacturing facility, wider range of B&W technologies, accumulated losses, access to NOx technologies and the factory could be used as a feeder plant for international project business.
- **Outlook and Valuation:** The stock is trading at 29.9x FY20E earnings. TMX has the ability to bag base orders of ~Rs7-8bn per quarter. Increasing market share, strong product profile, increasing traction in export market and strong management pedigree gives us confidence that they will be able to participate in the cycle upturn meaningfully and continue to surprise positively in terms of order flow. We continue to recommend ‘*Accumulate*’ at lower levels from a medium/long-term perspective.

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Net Revenue	44,831	44,649	54,015	66,465
Raw Material Expenses	22,642	23,493	32,396	40,740
Gross Profit	22,189	21,155	21,618	25,725
Employee Cost	6,864	6,966	7,909	8,700
Other Expenses	10,995	10,180	8,615	10,576
EBITDA	4,330	4,009	5,095	6,449
Depr. & Amortization	819	824	903	948
Net Interest	97	129	147	152
Other Income	1,141	1,164	1,399	1,521
Profit before Tax	4,554	4,220	5,444	6,871
Total Tax	1,560	1,658	1,849	2,319
Profit after Tax	2,994	2,563	3,595	4,551
Ex-Od items / Min. Int.	(655)	(252)	(80)	(50)
Adj. PAT	2,340	2,311	3,515	4,501
Avg. Shares O/S (m)	119.2	119.2	119.2	119.2
EPS (Rs.)	19.6	19.4	29.5	37.8

Cash Flow Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
C/F from Operations	2,297	5,047	2,802	818
C/F from Investing	(4,807)	(4,788)	(601)	(479)
C/F from Financing	(1,349)	475	(538)	(742)
Inc. / Dec. in Cash	(3,859)	734	1,664	(403)
Opening Cash	5,589	1,730	2,464	4,127
Closing Cash	1,730	2,464	4,127	3,724
FCFF	3,073	3,884	3,966	1,231
FCFE	2,650	4,743	3,966	1,231

Key Financial Metrics

Y/e March	2017	2018	2019E	2020E
Growth				
Revenue (%)	(12.9)	(0.4)	21.0	23.0
EBITDA (%)	0.9	(7.4)	27.1	26.6
PAT (%)	(17.1)	(1.2)	52.1	28.1
EPS (%)	(17.1)	(1.2)	52.1	28.1
Profitability				
EBITDA Margin (%)	9.7	9.0	9.4	9.7
PAT Margin (%)	5.2	5.2	6.5	6.8
RoCE (%)	8.8	8.6	12.2	14.6
RoE (%)	9.3	8.8	12.8	15.4
Balance Sheet				
Net Debt : Equity	—	—	(0.1)	(0.1)
Net Wrkng Cap. (days)	(58)	(33)	(89)	(38)
Valuation				
PER (x)	58.8	59.5	39.1	30.5
P / B (x)	5.4	5.1	4.9	4.5
EV / EBITDA (x)	31.5	34.1	26.6	21.1
EV / Sales (x)	3.0	3.1	2.5	2.0
Earnings Quality				
Eff. Tax Rate	34.3	39.3	34.0	33.8
Other Inc / PBT	25.0	27.6	25.7	22.1
Eff. Depr. Rate (%)	5.2	4.5	4.5	4.3
FCFE / PAT	113.2	205.3	112.8	27.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
Shareholder's Funds	25,376	27,147	27,883	30,751
Total Debt	1,313	2,173	2,173	2,173
Other Liabilities	174	165	165	165
Total Liabilities	26,863	29,485	30,221	33,088
Net Fixed Assets	9,520	10,761	11,858	12,909
Goodwill	—	—	—	—
Investments	10,830	14,717	14,717	14,717
Net Current Assets	5,359	2,925	2,564	4,380
<i>Cash & Equivalents</i>	<i>2,210</i>	<i>2,940</i>	<i>4,127</i>	<i>3,724</i>
<i>Other Current Assets</i>	<i>26,719</i>	<i>29,821</i>	<i>39,513</i>	<i>46,168</i>
<i>Current Liabilities</i>	<i>23,570</i>	<i>29,836</i>	<i>41,076</i>	<i>45,513</i>
Other Assets	1,153	1,082	1,082	1,082
Total Assets	26,863	29,485	30,221	33,088

Quarterly Financials (Rs m)

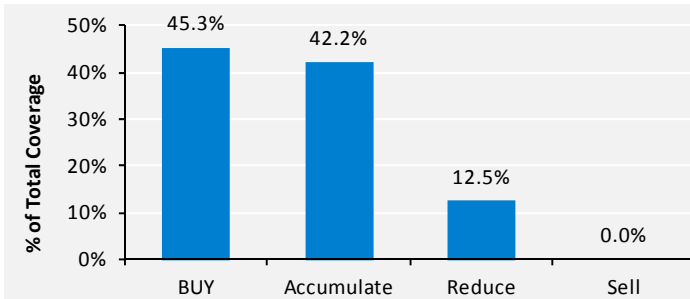
Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Net Revenue	8,718	10,331	11,170	14,430
EBITDA	721	952	955	1,382
<i>% of revenue</i>	<i>8.3</i>	<i>9.2</i>	<i>8.5</i>	<i>9.6</i>
Depr. & Amortization	189	189	208	239
Net Interest	16	51	25	37
Other Income	241	236	238	450
Profit before Tax	757	947	961	1,555
Total Tax	284	370	378	626
Profit after Tax	406	572	586	757
Adj. PAT	406	572	586	757

Source: Company Data, PL Research.

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BUY	: Over 15% Outperformance to Sensex over 12-months
Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month
Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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