

November 09, 2010

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	Accumulate
Rating	
Price	Rs879
Target Price	Rs952
Implied Upside	8.3%
Sensex	20,932

(Prices as on November 8, 2010)

Trading data

Market Cap. (Rs bn)	104.6
Shares o/s (m)	119.0
3M Avg. Daily value (Rs m)	81

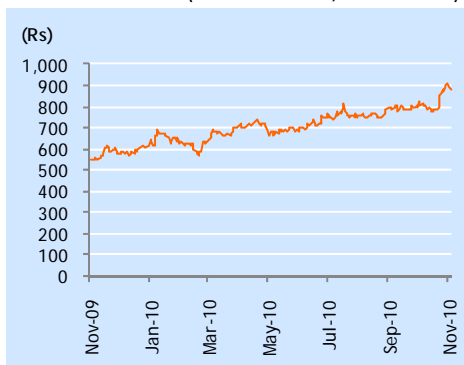
Major shareholders

Promoters	61.98%
Foreign	9.09%
Domestic Inst.	15.20%
Public & Other	13.73%

Stock Performance

(%)	1M	6M	12M
Absolute	9.3	32.5	59.6
Relative	6.0	7.7	32.7

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



Source: Bloomberg

Thermax

Enhancing the green product portfolio

- The acquisition:** Thermax has acquired 100% stake in *Danstoker A/S*, a leading European boiler manufacturer and its German subsidiary, *Omnical Kessel* at a price of Euro29.5m (8.9x EV/EBITDA). It is into manufacturing biomass-based boilers and waste heat recovery systems for a wide range of industries. Thermax will put in equity worth Euro19m and rope in debt of Euro10m to fund the acquisition. For the year ended September 2010, the company reported a sales of Euro40m and EBITDA and PAT of Euro3.7m & 3.2m, respectively. The company has debt of Euro3.5m and no major pension liability. *Danstoker* has 50% market share in Denmark, 20% in Germany and 20-25% in Sweden in industrial boilers. Germany, Denmark and Sweden contribute 34%, 24% and 14%, respectively, to *Danstoker's* revenues.
- The strategy:** The acquisition offers a strategic fit for Thermax's packaged boiler business. It provides Thermax with access to superior technology and process know-how for industrial boilers, mainly renewable space. It will also enable the company to enhance its product portfolio and extend it to new untapped markets like Russia, Middle East and Eastern Europe. This acquisition will enable Thermax to leverage Europe's thrust on renewable energy. The market size of industrial boilers in Europe is ~Euro370m. The company expects the heating division to reach sales of Rs10bn in two years and Rs20bn in five years from Rs3.8bn in FY10.
- Our view:** Though the acquisition is small, the acquisition will help Thermax enhance its green energy portfolio. It will also help it increase its access to technology and explore newer markets with *Danstoker's* brand.

Key financials (Y/e March)	2009	2010	2011E	2012E
Revenues (Rs m)	34,603	33,705	47,045	60,733
Growth (%)	(0.6)	(2.6)	39.6	29.1
EBITDA (Rs m)	5,108	3,973	5,377	6,911
PAT (Rs m)	3,796	2,690	3,847	5,043
EPS (Rs)	31.9	12.9	32.3	42.3
Growth (%)	31.2	(7.4)	43.0	31.1
Net DPS (Rs)	8.0	7.9	11.3	14.8

Source: Company Data; PL Research

Profitability & Valuation	2009	2010	2011E	2012E
EBITDA margin (%)	14.8	11.8	11.4	11.4
RoE (%)	43.7	14.8	29.7	30.0
RoCE (%)	43.1	14.6	29.3	29.6
EV / sales (x)	2.9	2.8	2.0	1.5
EV / EBITDA (x)	19.5	23.8	17.2	12.9
PE (x)	27.6	68.0	27.2	20.8
P / BV (x)	10.7	9.4	7.1	5.6
Net dividend yield (%)	0.9	0.9	1.3	1.7

Source: Company Data; PL Research

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Income Statement (Rs m)

Y/e March	2009	2010	2011E	2012E
Net Revenue	34,603	33,705	47,045	60,733
Raw Material Expenses	20,802	20,271	29,168	37,958
Gross Profit	13,801	13,434	17,877	22,775
Employee Cost	2,882	3,300	3,796	4,507
Other Expenses	5,811	6,161	8,703	11,357
EBITDA	5,108	3,973	5,377	6,911
Depr. & Amortization	321	350	385	425
Net Interest	38	20	20	20
Other Income	404	519	728	1,006
Profit before Tax	5,153	4,122	5,699	7,471
Total Tax	1,357	1,432	1,852	2,428
Profit after Tax	3,796	1,541	3,847	5,043
Ex-Od items / Min. Int.	—	1,149	—	—
Adj. PAT	3,796	2,690	3,847	5,043
Avg. Shares O/S (m)	119.2	119.2	119.2	119.2
EPS (Rs.)	31.9	12.9	32.3	42.3

Cash Flow Abstract (Rs m)

Y/e March	2009	2010	2011E	2012E
C/F from Operations	6,102	10,788	7,911	11,068
C/F from Investing	2,628	(2,629)	(660)	206
C/F from Financing	(1,118)	(678)	(314)	(1,038)
Inc. / Dec. in Cash	7,612	7,481	6,936	10,236
Opening Cash	581	3,687	6,745	8,324
Closing Cash	3,687	6,745	8,324	11,668
FCFF	(163)	5,758	2,989	4,381
FCFE	(144)	5,797	2,989	4,381

Key Financial Metrics

Y/e March	2009	2010	2011E	2012E
Growth				
Revenue (%)	(0.6)	(2.6)	39.6	29.1
EBITDA (%)	19.7	(22.2)	35.3	28.5
PAT (%)	31.2	(7.4)	43.0	31.1
EPS (%)	31.2	(7.4)	43.0	31.1
Profitability				
EBITDA Margin (%)	14.8	11.8	11.4	11.4
PAT Margin (%)	11.0	4.6	8.2	8.3
RoCE (%)	43.1	14.6	29.3	29.6
RoE (%)	43.7	14.8	29.7	30.0
Balance Sheet				
Net Debt : Equity	(0.5)	(0.9)	(0.8)	(0.8)
Net Wrkng Cap. (days)	(72)	(204)	(111)	(96)
Valuation				
PER (x)	27.6	68.0	27.2	20.8
P / B (x)	10.7	9.4	7.1	5.6
EV / EBITDA (x)	19.5	23.8	17.2	12.9
EV / Sales (x)	2.9	2.8	2.0	1.5
Earnings Quality				
Eff. Tax Rate	26.3	34.7	32.5	32.5
Other Inc / PBT	7.8	12.6	12.8	13.5
Eff. Depr. Rate (%)	4.9	4.7	5.0	5.0
FCFE / PAT	(3.8)	376.3	77.7	86.9

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2009	2010	2011E	2012E
Shareholders Funds	9,759	11,085	14,831	18,836
Total Debt	41	80	80	80
Other Liabilities	532	534	606	606
Total Liabilities	10,332	11,699	15,516	19,521
Net Fixed Assets	5,088	5,484	5,315	5,689
Goodwill	—	—	—	—
Investments	215	101	1,311	1,311
Net Current Assets	4,822	5,530	8,305	11,937
<i>Cash & Equivalents</i>	<i>4,924</i>	<i>10,302</i>	<i>12,127</i>	<i>15,471</i>
<i>Other Current Assets</i>	<i>13,621</i>	<i>16,793</i>	<i>17,730</i>	<i>22,935</i>
<i>Current Liabilities</i>	<i>13,723</i>	<i>21,565</i>	<i>21,551</i>	<i>26,469</i>
Other Assets	207	584	584	584
Total Assets	10,332	11,699	15,516	19,521

Quarterly Financials (Rs m)

Y/e March	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Net Revenue	7,263	12,193	7,788	10,916
EBITDA	674	1,466	850	1,286
<i>% of revenue</i>	<i>9.3</i>	<i>12.0</i>	<i>10.9</i>	<i>11.8</i>
Depr. & Amortization	104	101	106	105
Net Interest	6	3	6	5
Other Income	294	179	250	134
Profit before Tax	858	1,541	988	1,310
Total Tax	292	549	326	414
Profit after Tax	566	992	662	896
Adj. PAT	566	992	662	896

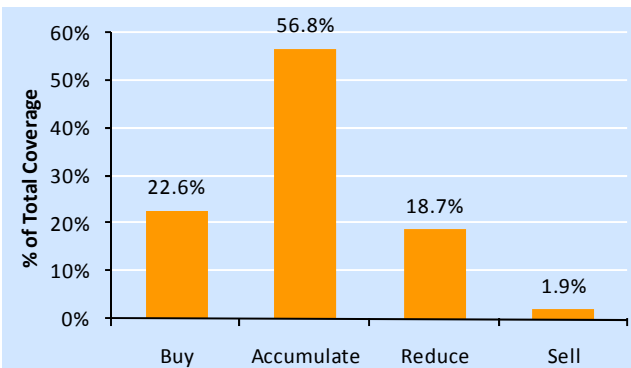
Source: Company Data, PL Research.

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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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