

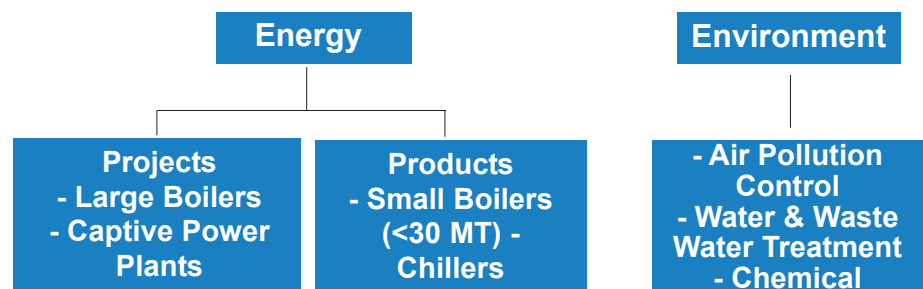
Umesh Karne

Thermax Limited

(Rs. 611, FY09E - P/E 22x, BUY with a Target Price of Rs. 740)

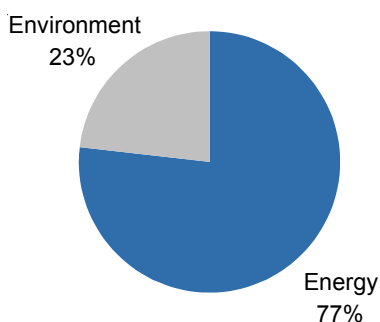
Business Background

Thermax Ltd which is a global solution provider in energy and environment engineering was promoted by late Mr. Rohinton Aga. It offers products and services in heating, cooling, waste heat recovery, captive power, water treatment and recycling, waste management and performance chemicals. Thermax earns 77% of its revenue from energy segment and 23% from environment segment. Thermax has strategic alliances for its business operations with world technology majors, like Babcock & Wilcox USA, Kawasaki Thermal Engineering Company, Japan; Eco Tech, Canada; Honeywell, USA; Bloom Engineering, Germany; Struthers Wells and Ozone Systems, USA.



Source: Company

FY2007 Revenue Break-up



Source: Reliance Money Research

Segments	User Industries	Key Drivers
Energy Projects	Power, Oil & Gas Petrochemical & Refineries Cement, Steel, Sugar	New Fuels, Waste Heat Recovery, Biomass Firing, Captive Power, Growth of Primary Industries
Energy Products	Textiles, Pharma, Food Processing, Chemical, Edible oil, Paper, Hotels/ Hospitals	Fuel Shift from Oil, Biomass Firing, New Capacities in Process Industry, Efficiency
Environment Scarcity of	Ferrous/Non-Ferrous, Cement, Textiles, Chemical, Pharma, Municipal, Real Estate	Improvements Stringent Norms, CPP Natural Resources, Recycle/ Reuse, Growth of Primary Industry

Source: Company

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Q1FY08 Standalone Performance

Net sales grew by 107% YoY in Q1FY08

EBITDA margins declined by 37bps YoY in Q1FY08

Net profit increased by 103% YoY in Q1FY08

(Rs Mn)	Q1FY08	Q1FY07	YoY %	FY07	FY06	YoY %
Net Sales	6,665.3	3,226.4	106.6	21,730.3	14,834.0	46.5
Other Income	97.7	65.3	49.6	370.0	146.0	153.4
Total Income	6,763.0	3,291.7	105.5	22,100.3	14,980.0	47.5
Total Expenditure	5,900.1	2,843.9	107.5	18,939.5	12,893.2	46.9
EBITDA	765.2	382.5	100.1	2,790.8	1,940.8	43.8
EBITDA (%)	11.5	11.9	(3.2)	12.8	13.1	(1.8)
Interest	3.7	0.1	3,600.0	13.0	9.4	38.3
Depreciation	50.2	37.6	33.5	187.6	152.1	23.3
PBT	809.0	410.1	97.3	2,960.2	1,925.3	53.8
Provision for Tax	248.9	134.7	84.8	1,027.4	692.8	48.3
PAT	560.1	275.4	103.4	1,932.8	1,232.5	56.8
Extraordinary Items	-	-	-	(54.8)	-	-
Adj PAT	560.1	275.4	103.4	1,878.0	1,232.5	52.4
Equity Capital	238.3	238.3	-	238.3	238.3	-
EPS (Rs)	4.70	2.31	103.4	15.76	10.34	52.4

Source: Company

Thermax witnessed good demand growth for boilers and heaters from oil & gas, power, steel, pharma, chemicals and sugar sectors

Thermax's order balance stands at Rs.27bn

Change in product mix and appreciation of rupee impacted margins

Both Energy & Environment segments report robust growth

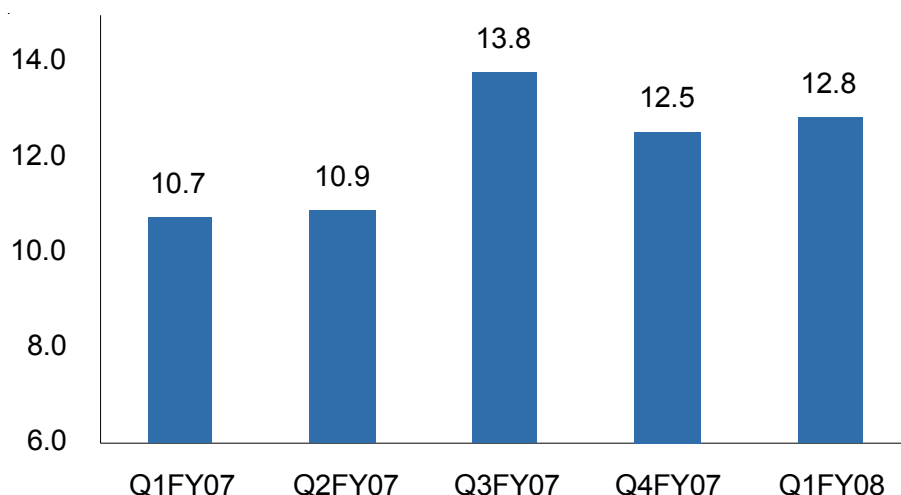
Thermax Ltd. reported impressive results for Q1FY08. Thermax's net sales for the quarter grew robustly by 107% YoY on a standalone basis to Rs.6665mn. Top line for Q1FY08 was mainly driven by robust performance of both the divisions. It's energy segment grew by 125% YoY to Rs.5,701mn while environment division grew by 55% YoY to Rs.1,159mn. Thermax's export revenue contribution to top line went up to 27% in Q1FY08 compared to 18% in Q1FY07. Thermax witnessed good demand growth for boilers and heaters from oil & gas, power, steel, pharma, chemicals and sugar sectors.

For Q1FY08, Thermax's consolidated revenue grew by 101% YoY to Rs.7,136mn on the back of growth of energy division by 116% YoY and environment division by 56% YoY. Considering the robust order booking which was mainly driven by cement, ferrous metal, captive power, petrochemicals and steel industry, the company has re-iterated its growth guidance of 40% for FY08. Thermax's order balance as on 30th June 2007 remained at Rs.27.26bn compared to Rs.24.49bn for the corresponding period last year. The order balance during the last quarter compared to Q4FY07 (Rs.27.68bn) has not improved significantly mainly because of rise in interest rates in the economy which has impacted to almost all the engineering companies including Thermax.

Change in product mix and appreciation of rupee impacted margins

Thermax's standalone EBITDA for Q1FY08 grew by 100% YoY to Rs.765mn, however EBITDA margins declined marginally by 37bps YoY to 11.5%. We believe EBITDA margins for the quarter were impacted mainly because of sudden rise in raw material costs by 675bps YoY, change in product mix and appreciation of rupee during the quarter. For Q1FY08, Thermax's consolidated EBITDA went up by 107% YoY to Rs.764mn which was mainly driven by strong growth in profitability of energy division. Although for the first quarter of FY08, the company has reported the decline in margins, the management has said that it would maintain margins at FY07 level during the current year.

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EBITDA Margins movement over last five quarters


Source: Company, Reliance Money Research

Q1FY08 Consolidated Performance

Net sales went up by 101% YoY

EBITDA margins improved by 155bps YoY

Net profit jumped by 115% YoY

(Rs Mn)	Q1FY08	Q1FY07	YoY %	FY07	FY06	YoY %
Net Sales	7,136.3	3,551.9	100.9	23,266.5	16,261.0	43.1
Other Income	102.5	66.1	55.1	359.9	136.7	163.3
Total Income	7,238.8	3,618.0	100.1	23,626.4	16,397.7	44.1
Total Expenditure	6,371.8	3,182.2	100.2	20,377.7	14,493.5	40.6
EBIDTA	764.5	369.7	106.8	2,888.8	1,767.5	63.4
EBIDTA (%)	10.7	10.4	2.9	12.4	10.9	14.2
Interest	4.1	0.9	355.6	15.4	16.1	(4.3)
Depreciation	52.6	39.2	34.2	195.0	159.8	22.0
PBT	810.3	395.7	104.8	3,038.3	1,728.3	75.8
Provision for Tax	254.0	136.4	86.2	1,046.3	703.0	48.8
PAT	556.3	259.3	114.5	1,992.0	1,025.3	94.3
Extraordinary Items	-	-	-	(54.8)	-	-
Adj PAT	556.3	259.3	114.5	1,937.2	1,025.3	88.9
Equity Capital	238.3	238.3	-	238.3	238.3	-
EPS (Rs)	4.7	2.2	114.5	16.3	8.6	88.9

Source: Company

Net profit grows by 103% YoY in Q1FY08

Thermax's standalone net profit for Q1FY08, increased by 103% YoY to Rs560mn and reported an EPS of Rs4.7 for the period. The interest cost for the quarter went up to Rs3.7mn from Rs0.1mn, mainly on account of additional finance charges and interest cost on borrowings. On a Consolidated basis for Q1FY08, Thermax reported a net profit jump of 115% YoY to Rs556mn and reported EPS of Rs4.67 for the period.

Expansion plans

Expansion plans on track

Thermax's plant in China is likely to become operational by June 2008 and the company expects this plant to report turnover of \$10mn in the third year of operation. Thermax also plans to export from its China plant to overseas markets. Its Baroda plant is expected to become operational by March 2008 and plant has potential to deliver turnover of Rs15-20bn going ahead. Thermax has planned total capex of Rs.1.75bn for these expansions. Thermax has planned to invest Rs.4.25bn in FY08E for capex. It will invest Rs.1.75bn in Baroda facility and Rs.340mn in China facility. We estimate Thermax to use its cash and cash equivalents to fund capex of Rs.4.75bn. Thermax management has said that after implementing new projects/expansions, the turnover of the company is expected to double from the current levels.

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Thermax Ltd which is a global solution provider in energy and environment engineering

Business Outlook and Valuation –

Thermax Ltd which is a global solution provider in energy and environment engineering. It is a leader in small and medium size boiler market in India and commands 20% market share in this segment. Thermax has reported robust results in Q1FY08, on both standalone and consolidated basis. It also reported impressive order booking during the quarter. We estimate Thermax would report remarkable growth in FY08E and FY09E primarily driven by huge investments to be made by its user industries such as cement, steel, chemicals, textiles and oil and gas. Thermax also intends to increase its exports aggressively in near future.

Thermax has leading player in captive power segment and currently has unexecuted order book of 280MW. Lack of adequate power supply in the domestic market is expected to drive the demand for captive power plans and Thermax being a leading player in captive power segment would be the key beneficiary. The company till date has installed projects worth more than Rs.10bn and currently sitting on an estimated order backlog of around 280MW. We remain positive on the captive power segment of Thermax.

Financial Estimates -

Year Ended	Mar08E	Mar09E
Net Sales (Rs Mn)	30,372	38,820
EBITDA (Rs Mn)	3,862	5,127
EBITDA (%)	12.9	13.3
PAT (Rs Mn)	2,589	3,364
EPS (Rs)	21.7	28.2
P/E (x) At Rs.611	28.1	21.6

Source: Reliance Money Research

Thermax's order balance as on 30th June 2007 remained at Rs.27.26bn compared to Rs.24.49bn for the corresponding period last year. We believe the strong capex announcement made by its user industries such as cement, steel, chemicals, textiles and oil and gas would continue to drive the order book of Thermax.

We recommend a BUY with a target price of Rs.740

At current market price of Rs. 611 the stock trades at a P/E multiple of 28x and 22x on our FY08E and FY09E earnings respectively. Although the stock is trading at high PE multiple, we remain positive on the stock mainly because of the growth prospects and growth in its user segments. We estimate Thermax to report net sales and net profit growth at a CAGR of 33% and 34% respectively over FY07-09E. Thermax's ROE is also expected to go up from 28% in FY06 to 38% in FY09E. We recommend investors a BUY on the stock with a price target of Rs.740.

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Profit & loss statement (Rs mn)

Year to Mar	FY06A	FY07A	FY08E	FY09E
Net Sales	14,881.6	21,730.7	30,371.9	38,820.0
% Growth	62.3	46.0	38.2	28.1
EBIDTA	1,797.4	2,791.2	3,863.6	5,127.3
% Growth	153.8	55.3	38.4	32.7
Other Income	331.4	370.0	330.0	350.0
Interest	51.4	13.0	21.2	32.4
Depreciation	152.1	187.6	265.9	387.5
PBT	1,925.3	2,960.6	3,906.5	5,057.4
% Growth	131.9	53.8	31.9	29.5
Tax	669.2	1,016.4	1,317.6	1,693.2
Deferred Tax	23.6	11.0	-	-
Adj PAT	1,232.5	1,933.2	2,588.9	3,364.2
% Growth	122.9	56.9	33.9	30.0
Extra-ordinary	28.2	(54.8)	-	-
Reported PAT	1,204.3	1,878.4	2,588.9	3,364.2
% Growth	104.5	49.0	37.8	30.0
Dividend (%)	170.0	300.0	300.0	300.0
EPS (Rs)	9.2	15.8	21.7	28.2
BVPS (Rs)	40.2	48.6	63.5	84.9

Balance sheet (Rs mn)

Year to Mar	FY06A	FY07A	FY08E	FY09E
Equity Capital	238.3	238.3	238.3	238.3
Reserves	4,547.6	5,553.6	7,327.5	9,876.8
Networth	4,785.9	5,791.9	7,565.8	10,115.1
Secured loans	-	-	-	-
Unsecured loans	-	-	-	-
Total loans	-	-	-	-
Total Liability	4,785.9	5,791.9	7,565.8	10,115.1
Net Block	1,376.2	1,695.5	5,759.6	5,972.1
Investments	4,174.9	5,776.1	2,176.1	2,176.1
Deffered Tax Assets	(92.9)	(103.9)	(103.9)	(103.9)
Inventory	1,622.8	2,755.6	3,410.4	4,306.0
Debtors	2,263.0	3,825.1	4,840.1	5,877.4
Cash balance	361.1	624.7	221.9	2,659.8
Other CA	3,915.9	6,004.0	8,300.3	10,628.9
Current Liabilities	5,441.5	10,305.0	14,907.1	18,894.2
Provisions	3,395.6	4,481.2	2,132.6	2,508.1
NCA	(674.3)	(1,576.8)	(267.0)	2,069.8
Misc Exp	2.0	1.0	1.0	1.0
Total Assets	4,785.9	5,791.9	7,565.8	10,115.1

Ratio Analysis

Year to Mar	FY06E	FY07A	FY08E	FY09E
OPM %	12.1	12.8	12.9	13.3
NPM %	8.5	8.6	8.6	8.7
ROE %	28.4	35.5	38.8	38.1
ROCE %	44.5	56.2	58.8	57.6
Int. Cover (x)	40.4	242.2	196.8	168.1
D/E (x)	-	-	-	-
Asset Turnover (x)	6.1	7.8	4.2	5.0
Debtors Days	54.7	63.4	58.0	55.0
Inventory Days	60.1	69.2	62.0	61.0
Valuation ratios				
P/E (x)	66.3	38.8	28.1	21.6
P/CEPS (x)	50.7	35.1	25.5	19.4
EV/EBIDTA (x)	38.0	23.8	18.2	13.3
EV/Sales (x)	4.6	3.1	2.3	1.8
Mkt Cap/Sales(x)	4.9	3.4	2.4	1.9
CEPS (Rs)	12.1	17.4	24.0	31.5
P/ BV (x)	15.2	12.6	9.6	7.2

Cash Flow Statement (Rs mn)

Year to Mar	FY06E	FY07A	FY08E	FY09E
PAT	1,260.7	1,878.4	2,588.9	3,364.2
Depreciation	152.1	187.6	265.9	387.5
Change in WC	921.9	1,166.1	(1,712.6)	101.1
Operating CF	2,334.7	3,232.1	1,142.2	3,852.8
Capex	(619.3)	(434.5)	(4,330.0)	(600.0)
Misc Exp	(47.4)	(217.9)	(100.1)	(100.1)
Investing CF	(666.7)	(652.4)	(4,430.1)	(700.1)
Dividends	(405.1)	(714.9)	(714.9)	(714.9)
Equity				
Debt	-	-	-	-
Investments	(1,013.3)	(1,601.2)	3,600.0	-
Financing CF	(1,418.4)	(2,316.1)	2,885.1	(714.9)
Net Change	249.6	263.6	(402.8)	2,437.9
Opening Cash	111.5	361.1	624.7	221.9
Closing Cash	361.1	624.7	221.9	2,659.8

Source: Reliance Money Research



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Equities: Trading through Reliance Securities Limited | NSE SEBI Registration Number Capital Market :- INB 231234833 |
BSE SEBI Registration Number Capital Market :- INB 011234839 | NSE SEBI Registration Number Derivatives :- INF 231234833
Commodities : Trading through Reliance Commodities Limited | MCX member code: 29030 | NCDEX member code: NCDEX-CO-05-00647 |
NMCE member code: CL0120 Mutual Funds : Reliance Securities Limited | AMFI ARN No.29889

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