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Rating	Accumulate
Price	Rs595
Target Price	Rs648
Implied Upside	8.9%
Sensex	20,213
Nifty	6,147

(Prices as on May 15, 2013)
Trading data

Market Cap. (Rs bn)	70.8
Shares o/s (m)	119.0
3M Avg. Daily value (Rs m)	38.3

Major shareholders

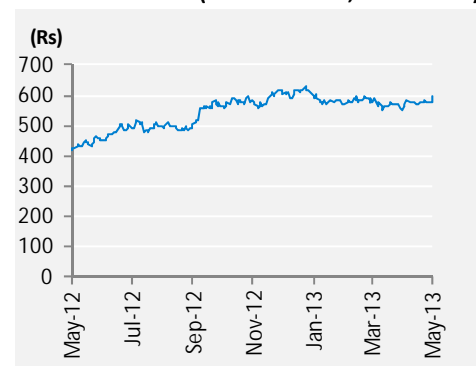
Promoters	61.98%
Foreign	13.60%
Domestic Inst.	10.50%
Public & Other	13.92%

Stock Performance

(%)	1M	6M	12M
Absolute	5.6	3.7	39.9
Relative	(4.5)	(5.7)	16.1

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2014	32.5	30.6	6.2
2015	38.2	36.1	6.0

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


Source: Bloomberg

■ **Interaction with ISGEC:** We interacted with ISGEC (formerly *John Thompson*), the key competitor to Thermax (TMX) in the captive power market. Key highlights are: **1)** Good enquiry levels in plants upto 30-50MW from domestic markets; however, enquiries for large plants are limited **2)** Demand largely coming from small industries like Food processing, Textiles, Pharma, Healthcare etc. **3)** Market for small power plants are likely to pick up significantly, given the power shortage scene (highlighted enquiries coming from unconventional segments like huge housing complexes) **4)** Enquiry levels in export markets are quite healthy due to a weak rupee (especially Africa) **5)** *Cethar* vessels bidding for very few projects in markets (augurs well for margins once the market improves).

■ **TMX expects a growth in order inflow in FY14 and maintain margins in double-digits:** TMX has been maintaining its order inflow run-rate of ~Rs12bn per quarter for the last 3-4 quarters in this environment. Even in the current quarter, the company is confident of maintaining a healthy order inflow run-rate. The company is quite confident of growing order inflow in FY14 by 8-10% even on a higher base. The key sectors which the company is looking at for order inflow includes Steel, Cement, Oil&Gas. The optimism is largely coming from visible pipeline of orders, good enquiry levels and expectation of recovery in the second half of FY14. The company is also looking at improved traction in export markets like Middle East, Africa and South East Asia. While the company acknowledges the fact that margins are under pressure due to high competition in the market, it believes double-digit margins could be maintained due to tight cost controls by the management and increased contribution from export markets.

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Key financials (Y/e March)	2012	2013	2014E	2015E
Revenues (Rs m)	60,912	53,200	58,013	65,604
Growth (%)	15.0	(12.7)	9.0	13.1
EBITDA (Rs m)	5,919	5,025	5,911	6,814
PAT (Rs m)	3,921	3,092	3,868	4,554
EPS (Rs)	32.9	26.0	32.5	38.2
Growth (%)	4.0	(21.1)	25.1	17.8
Net DPS (Rs)	7.0	9.1	11.1	13.5

Profitability & Valuation	2012	2013	2014E	2015E
EBITDA margin (%)	9.7	9.4	10.2	10.4
RoE (%)	26.6	17.6	19.0	20.5
RoCE (%)	22.0	14.9	16.8	18.6
EV / sales (x)	1.1	1.2	1.0	0.9
EV / EBITDA (x)	10.8	12.2	10.0	8.2
PE (x)	18.1	22.9	18.3	15.6
P / BV (x)	4.4	3.7	3.3	3.1
Net dividend yield (%)	1.2	1.5	1.9	2.3

Source: Company Data; PL Research

- **Working towards being a US\$2bn in sales over the next 4-5 years:** TMX aspires to become a US\$2bn company over the next 4-5 years from US\$1bn currently. The journey will largely be driven by increasing application of the current product portfolio and increasing export foot prints (plans to add US\$100m from each of the geographies like Africa, South East Asia, Middle East and Rest of world). The current export base is ~US\$200m; it aspires to reach US\$600m in exports. Apart from growing its current portfolio, TMX is working on new product lines in areas of Air pollution, Water, Energy and Defence which will also add significantly to growth in the next few years. The company has set a target for itself that one-third of the revenues should come from new business areas, going forward.
- **Outlook and Valuation:** TMX's ability to bag base orders of ~Rs7-8bn per quarter, increasing market share and strong management pedigree gives us confidence that it will be able to tide the slowdown and participate in the upturn of the cycle meaningfully and continues to surprise positively in terms of order flow. We believe TMX will continue to benefit from continued power shortage and strong product portfolio. The stock is trading at 18x FY14E earnings. We continue to maintain '**Accumulate**' on the stock.

Income Statement (Rs m)

Y/e March	2012	2013	2014E	2015E
Net Revenue	60,912	53,200	58,013	65,604
Raw Material Expenses	38,435	32,877	35,422	40,189
Gross Profit	22,477	20,323	22,591	25,416
Employee Cost	5,578	5,970	6,733	7,315
Other Expenses	10,980	9,329	9,947	11,287
EBITDA	5,919	5,025	5,911	6,814
Depr. & Amortization	663	620	627	641
Net Interest	122	89	89	89
Other Income	830	866	997	1,137
Profit before Tax	5,964	5,181	6,192	7,221
Total Tax	2,043	1,739	2,074	2,417
Profit after Tax	3,921	3,442	4,118	4,804
Ex-Od items / Min. Int.	(228)	(350)	(250)	(250)
Adj. PAT	3,921	3,092	3,868	4,554
Avg. Shares O/S (m)	119.2	119.2	119.2	119.2
EPS (Rs.)	32.9	26.0	32.5	38.2

Cash Flow Abstract (Rs m)

Y/e March	2012	2013	2014E	2015E
C/F from Operations	2,614	3,619	3,834	4,556
C/F from Investing	(2,336)	(235)	(503)	(363)
C/F from Financing	(176)	(1,186)	(1,363)	(1,550)
Inc. / Dec. in Cash	102	2,198	1,969	2,643
Opening Cash	6,880	6,982	9,181	11,149
Closing Cash	6,982	9,181	11,149	13,793
FCFF	450	3,511	3,500	4,391
FCFE	1,695	2,989	3,000	3,891

Key Financial Metrics

Y/e March	2012	2013	2014E	2015E
Growth				
Revenue (%)	15.0	(12.7)	9.0	13.1
EBITDA (%)	10.1	(15.1)	17.6	15.3
PAT (%)	4.0	(21.1)	25.1	17.8
EPS (%)	4.0	(21.1)	25.1	17.8
Profitability				
EBITDA Margin (%)	9.7	9.4	10.2	10.4
PAT Margin (%)	6.4	5.8	6.7	6.9
RoCE (%)	22.0	14.9	16.8	18.6
RoE (%)	26.6	17.6	19.0	20.5
Balance Sheet				
Net Debt : Equity	(0.4)	(0.5)	(0.5)	(0.7)
Net Wrkng Cap. (days)	(56)	(73)	(81)	(86)
Valuation				
PER (x)	18.1	22.9	18.3	15.6
P / B (x)	4.4	3.7	3.3	3.1
EV / EBITDA (x)	10.8	12.2	10.0	8.2
EV / Sales (x)	1.1	1.2	1.0	0.9
Earnings Quality				
Eff. Tax Rate	34.3	33.6	33.5	33.5
Other Inc / PBT	13.9	16.7	16.1	15.7
Eff. Depr. Rate (%)	5.6	4.8	4.3	4.0
FCFE / PAT	43.2	96.7	77.6	85.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

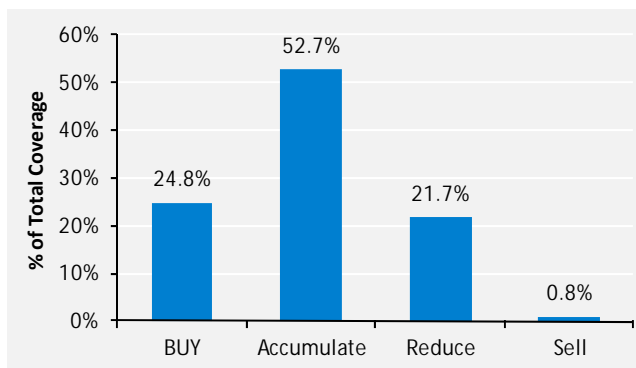
Y/e March	2012	2013	2014E	2015E
Shareholder's Funds	16,293	18,924	21,809	22,655
Total Debt	2,726	2,204	1,704	1,204
Other Liabilities	1,849	1,849	1,849	1,849
Total Liabilities	20,868	22,977	25,362	25,708
Net Fixed Assets	10,907	11,537	12,460	10,857
Goodwill	—	—	—	—
Investments	—	100	100	100
Net Current Assets	9,607	10,985	12,448	14,396
<i>Cash & Equivalents</i>	<i>9,397</i>	<i>11,576</i>	<i>13,544</i>	<i>16,188</i>
<i>Other Current Assets</i>	<i>26,425</i>	<i>23,520</i>	<i>25,769</i>	<i>29,220</i>
<i>Current Liabilities</i>	<i>26,216</i>	<i>24,110</i>	<i>26,865</i>	<i>31,011</i>
Other Assets	355	355	355	355
Total Assets	20,868	22,977	25,363	25,708

Quarterly Financials (Rs m)

Y/e March	Q1FY13	Q2FY13	Q3FY13	Q4FY13E
Net Revenue	9,835	11,924	10,468	12,708
EBITDA	964	1,218	1,119	1,316
<i>% of revenue</i>	<i>9.8</i>	<i>10.2</i>	<i>10.7</i>	<i>10.4</i>
Depr. & Amortization	132	139	133	135
Net Interest	37	34	20	25
Other Income	187	274	124	250
Profit before Tax	982	1,318	1,090	1,406
Total Tax	309	407	326	464
Profit after Tax	673	911	764	942
Adj. PAT	673	911	764	942

Source: Company Data, PL Research.

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

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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