

## Execution pick-up drives strong growth...

Thermax reported standalone revenues at ₹ 1889.6 crore registering robust growth of 44.2% YoY (on a proforma basis) while consolidated revenues grew 43.7% to ₹ 2073.7 crore on a YoY basis. EBITDA came in at ₹ 175.7 crore, up 17.2% YoY (vs. our estimate of ₹ 176.1 crore) while EBITDA margins declined 215 bps to 9.3% on a YoY basis owing to more than expected increase in total operating expenses. PAT came in at ₹ 112.9 crore, which grew 31.7% YoY while adjusted PAT grew 55.7% to ₹ 133.5 crore. The consolidated order inflow for the quarter was at ₹ 1157 crore (₹ 1599 crore in Q4FY18) on a YoY basis due to ongoing sluggishness in new investments in several sectors while standalone order inflow was at ₹ 717 crore. Consolidated order book was at ₹ 5370 crore, down 6.0% YoY.

## Strong order book, order inflows; key to revenue growth

For Q4FY19, consolidated order inflows were at ₹ 1157 crore, down 28% YoY owing to muted capex in several sectors. For FY19, order inflows comprise energy segment (₹ 4476 crore), environment segment (₹ 741 crore) & chemicals segment (₹ 415 crore). For FY19, order inflows were dragged by a decline of 28% in international inflows while domestic order intake was up 1% YoY. Order book was at ₹ 5370 crore, down 6.0% YoY. We estimate order inflows of ₹ 5850 crore, ₹ 6480 crore for FY20E, FY21E, respectively. Going ahead, Thermax expects enquiries and order intakes in cement (waste heat recovery), food processing, Textiles, chemicals, paper, auto component OEMs, water treatment and FGD segments.

## Subsidiary performance expected to gradually turn around

The subsidiary performance of the Indonesian facility has been able to maintain capacity utilisation while Danstoker A/S registering losses due to cost overrun in legacy orders but likely to break even FY20. The company is shifting facilities to Poland to gain cost efficiencies is picking up momentum while manufacturing cost being significantly lower will provide support for Germany re-entry in H1FY20. Chinese investment is virtually discontinued and will lead to progressive closure.

## Valuation & Outlook

With expected uptick in domestic order inflows and recovery in international order inflows through geographic diversification, order backlog is expected to improve further. Thermax may continue growth momentum on revenue front with expected CAGR of 10.3% in FY19-21E. Consequently, with expected margin recovery in medium term and normalization of tax rate, PAT is expected to grow at a CAGR of 21.6% over FY19-21E. We continue to maintain our **BUY** rating with a revised target price of ₹ 1170/share.



### Particulars

Particular	Amount
Market Capitalization	₹ 11795.9 Crore
Total Debt (FY18)	₹ 116.5 crore
Cash and Investments (FY18)	₹ 757.8 crore
EV	₹ 11155.4 crore
52 week H/L	₹1200/878
Equity capital	₹ 23.8 Crore
Face value	₹ 2

### Key Highlights

- The consolidated order inflow for the quarter stood at ₹ 1157 crore.
- For FY19, consolidated order inflow stood at ₹ 5633 crore, down 12% YoY.
- Consolidated order book stood at ₹ 5370 crore down 6.0%, YoY.
- We continue to maintain our BUY rating with a revised target price of ₹ 1170/share.

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### Key Financial Summary

Particulars (₹ crore)	FY17	FY18	FY19P	FY20E	FY21E	CAGR (FY19-FY21E)
Net Sales	3,841.7	3,867.9	5,175.4	5,618.3	6,291.5	10.3%
EBITDA	373.8	371.4	418.9	472.1	563.4	16.0%
EBITDA Margin (%)	9.7	9.9	9.8	10.2	10.2	
Net Profit	144.8	238.3	275.4	349.4	407.5	21.6%
EPS (₹)	12.2	20.0	23.1	29.3	34.2	
P/ E (x)	81.5	49.5	42.8	33.8	28.9	
RoNW (%)	8.9	9.9	11.1	11.5	12.2	
RoCE (%)	16.6	15.3	17.3	17.1	18.0	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY19	Q4FY19E	Q4FY18	YoY (Chg %)	Q3FY19	QoQ (Chg %)	Comments
Total Operating Income	1,889.6	1,572.2	1,310.1	44.2	1,248.2	51.4	Revenues posted strong growth owing to strong execution
Other Income	42.3	32.0	38.0	11.3	25.0	69.1	
Raw Material Expenses	1,403.9	965.4	748.5	87.6	883.2	59.0	
Employee Expenses	103.3	136.8	119.6	-13.6	99.6	3.7	
Other Expenses	206.7	294.0	292.0	-29.2	164.4	25.7	
Total Expenditure	1,713.9	1,396.1	1,160.2	47.7	1,147.2	49.4	
EBITDA	175.7	176.1	149.9	17.2	100.9	74.0	
EBITDA Margin (%)	9.3	11.2	11.4	-215 bps	8.1	121 bps	
Depreciation	12.4	20.0	17.5	-29.1	11.9	4.4	
Interest	2.0	1.9	2.1	-2.9	0.9	111.7	
Exceptional Item	20.6		25.0		27.2		
PBT	183.0	186.2	143.4	27.6	85.9	113.0	
Total Tax	70.1	65.2	57.7	21.5	37.7	85.8	
PAT	112.9	121.0	85.8	31.7	48.2	134.2	Lower effective tax rate and higher other income also contributed to strong PAT growth

**Key Metrics**

Energy segment revenues	1,549	1,327	1,048	47.8	986	57.1
Environment segment revenues	340	245	262	29.8	262	29.8

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY20E			FY21E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	6,357.8	5,618.3	-11.6	-	6,291.5	-	We expect FY20E to moderate owing to order inflow concerns
EBITDA	615.7	472.1	-23.3	-	563.4	-	
EBITDA Margin (%)	9.7	8.4	-128 bps	-	9.0	-	We expect margins to revive in FY20E on account of better performance energy segment
PAT	444.4	349.4	-21.4	-	407.5	-	
EPS (₹)	37.3	29.3	-21.4	-	34.2	-	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

Exhibit 01 - Assumptions							
	Current		Earlier		Comments		
	FY18	FY19E	FY20E	FY21E	FY20E	FY21E	
Order inflow growth (%)	59.1	-1.1	3.9	10.7	13.6	-	Growth in international orders is expected to drive order inflows in FY20E
Order backlog growth (%)	57.3	-5.6	5.6	4.6	4.4	-	
Revenue growth (%)	-0.9	33.1	7.3	12.0	25.4	-	
EBITDA margin (%)	9.6	8.1	8.4	9.0	9.7	-	

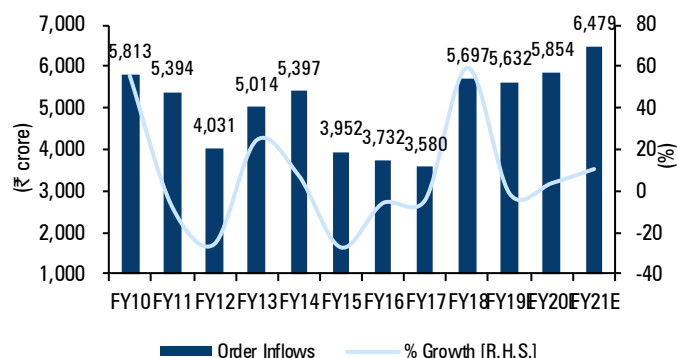
Source: Company, ICICI Direct Research

## Conference call highlights:

- For FY20, Thermax has guided for high single digit revenue growth, flat to marginal order inflow growth and margin to sustain at current level
- Margins shrunk due to delay in two orders, which is expected to normalise in H2FY20. However, no substantial impact expected in FY20 due to owing to offset of margin by cooling and boiler business
- For Q4FY19, consolidated order inflows came at ₹ 1157 crore, down 28% YoY owing to muted capex in several sectors. For FY19, order inflows comprise energy segment (₹ 4476 crore), environment segment (₹ 741 crore) and chemicals segment (₹ 415 crore). For FY19, order inflows were dragged by a decline of 28% in international inflows while domestic order intake was up 1% YoY. The order book was at ₹ 5370 crore, down 6.0% YoY
- Margins on energy segment were impacted by consolidation of TBWS, Danstoker and power division
- The company acquired the entire stake held by the joint venture partners, namely MUT ARES HOLDING-24 AG, Germany and BALCKE-DUERR GmbH, Germany in Thermax SPX Energy Technologies Limited (TSPX). Subsequent to the acquisition, TSPX has now become a wholly owned subsidiary of Thermax Ltd
- Danstoker A/S is receiving good orders in services and standard products, boiler work continues to deliver services, expected to recover on margin front and could record profitable year in FY20. The company is shifting facilities to Poland to gain cost efficiencies is picking up momentum while manufacturing cost being significantly lower will provide support for Germany re-entry in H1FY20
- Chinese investment is virtually discontinued and will lead to progressive closure
- Withdrawn from power industry, but expect to win couple of order in FGD worth ₹ 1000 crore
- Good order inquiries expected in Indonesia, Bangkok, Thailand, Egypt, Kenya, Turkey and few African markets. Also, opportunities exists in South East Asian markets for air cooling, air pollution control, water orders
- Thermax holds 80% market share in cooling segment in India
- Effective tax rate is expected to normalise at around 35% for FY20
- Exceptional item of ₹ 90 crore, principally related to the impairment of the goodwill in Danstoker and after a credit of ₹ 94 crore deferred tax adjustment in Thermax Babcock & Wilcox Energy Solutions Private Limited (TBWES)

## Financial Story in Charts

Exhibit 4: Order inflow trend..



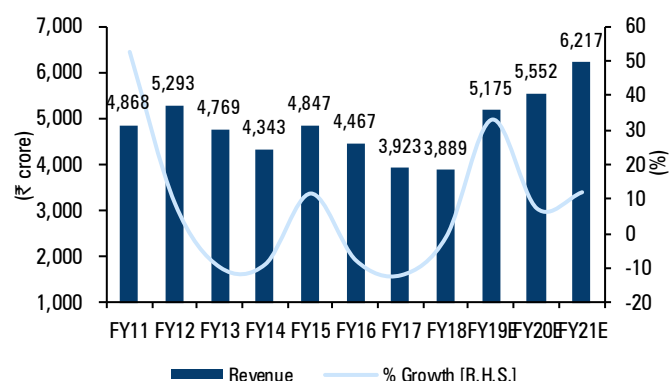
Source: ICICI Direct Research, Company

Exhibit 5: Trend in order backlog..



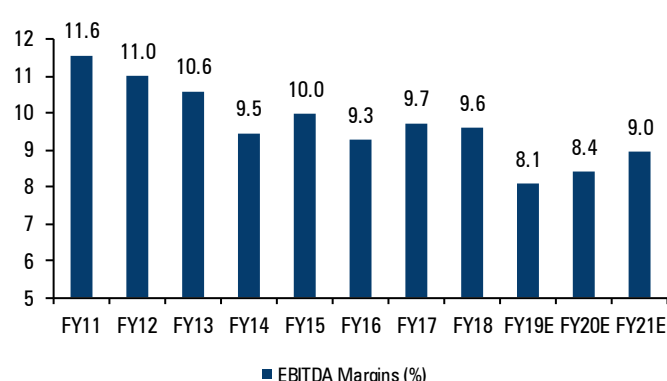
Source: ICICI Direct Research, Company

Exhibit 6: Trend in revenues...



Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margins likely to recover in FY20E...



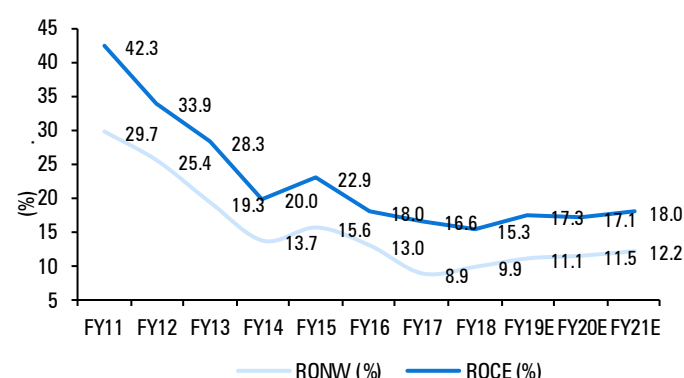
Source: Company, ICICI Direct Research

Exhibit 8: Trend in PAT...



Source: Company, ICICI Direct Research

Exhibit 9: Return ratios to recover over FY19-21E

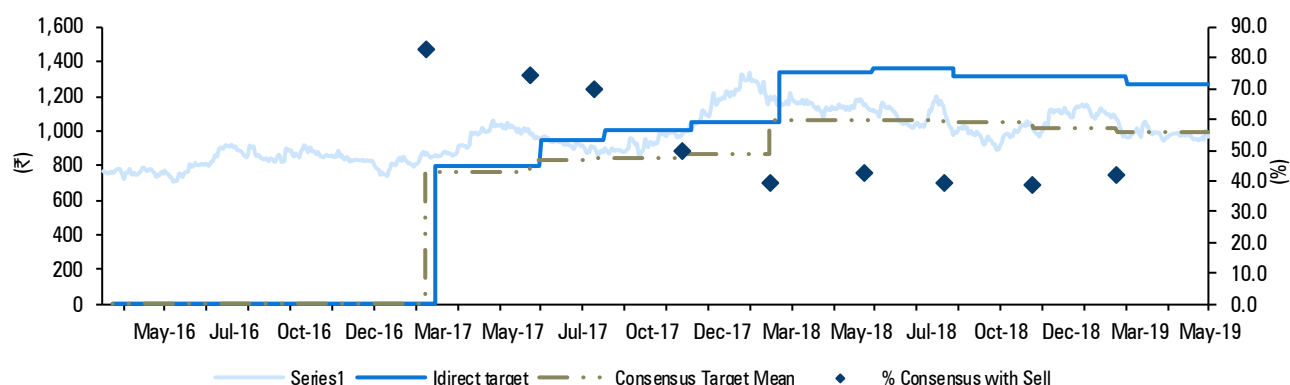


Source: Company, ICICI Direct Research

Exhibit 10: SoTP valuation of Thermax

	Parameter	Value	₹ Per share
Standalone	30x FY20E EPS	12,260.7	1,026.0
Equity Invested in Subsidiaries	1.5x Equity	1,151.0	144.5
<b>Total</b>	<b>Rounded off</b>	<b>13,411.7</b>	<b>1,170.0</b>

Source: Company, ICICI Direct Research

**Exhibit 11: Recommendation History vs. Consensus**


Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 12: Top 10 Shareholders**

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	RDA Holding & Trading Pvt. Ltd.	31-Mar-19	57.1	64.3	0.0
2	ARA Trusteeship Company Pvt. Ltd.	31-Mar-19	8.5	9.5	0.0
3	Matthews International Capital Management,	31-Dec-18	5.0	5.7	0.0
4	SBI Funds Management Pvt. Ltd.	31-Mar-19	2.2	2.4	0.2
5	Goldman Sachs Asset Management Internati	31-Mar-19	2.1	2.4	0.4
6	Kotak Mahindra Asset Management Compan	31-Mar-19	2.1	2.4	0.2
7	Life Insurance Corporation of India	31-Mar-19	1.6	1.8	0.0
8	Sundaram Asset Management Company Lim	30-Apr-19	1.5	1.6	0.0
9	Reliance Nippon Life Asset Management Lim	31-Mar-19	1.4	1.5	1.5
10	Franklin Templeton Asset Management (India	31-Mar-19	1.4	1.5	0.0

Source: Reuters, ICICI Direct Research

**Exhibit 13: Recent Activity**

Buys			Sells		
Investor Name	Value	Shares	Investor Name	Value	Shares
Reliance Nippon Life Asset Management Limited	+21.65M	+1.54M	Tata Asset Management Limited	-7.31M	-0.52M
Goldman Sachs Asset Management International	+5.84M	+0.42M	Mirae Asset Global Investments (India) Pvt. Ltd.	-2.85M	-0.19M
Norges Bank Investment Management (NBIM)	+5.73M	+0.36M	HDFC Asset Management Co., Ltd.	-2.28M	-0.16M
ICICI Prudential Asset Management Co. Ltd.	+4.39M	+0.31M	UTI Asset Management Co. Ltd.	-1.43M	-0.10M
Kotak Mahindra Asset Management Company Ltd.	+2.58M	+0.18M	Stanley-Laman Group, Ltd.	-0.89M	-0.06M

Source: Reuters, ICICI Direct Research

**Exhibit 14: Shareholding Pattern**

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	62.0	62.0	62.0	62.0	62.0
FII	14.8	14.6	14.0	14.2	11.9
DII	11.5	12.2	12.7	12.0	13.9
Others	11.7	11.3	11.3	11.8	12.2

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 15: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Total op. Income</b>	<b>3,867.9</b>	<b>5,175.4</b>	<b>5,618.3</b>	<b>6,291.5</b>
Growth (%)	0.7	33.8	8.6	12.0
Raw Material Expenses	2,142.3	3,453.4	3,573.0	3,916.0
Employee Expenses	459.1	456.4	505.6	569.9
Other Op. Expenses	895.1	846.7	1,067.5	1,242.3
Admin. Expenses	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0
Total Op. Expenditure	3,497.2	4,790.4	5,154.7	5,740.1
<b>EBITDA</b>	<b>371.4</b>	<b>418.9</b>	<b>472.1</b>	<b>563.4</b>
Growth (%)	-0.6	12.8	12.7	19.3
Depreciation	64.2	57.0	64.0	69.5
Interest	8.0	7.0	7.9	6.3
Other Income	104.0	136.6	135.0	136.0
PBT	378.1	443.6	535.3	623.6
Others	0.0	0.0	0.0	0.0
Total Tax	139.9	168.3	185.8	216.1
<b>PAT</b>	<b>238.3</b>	<b>275.4</b>	<b>349.4</b>	<b>407.5</b>
Growth (%)	64.5	15.6	26.9	16.6
<b>EPS (₹)</b>	<b>20.0</b>	<b>23.1</b>	<b>29.3</b>	<b>34.2</b>

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	238.3	275.4	349.4	407.5
Add: Depreciation	64.2	57.0	64.0	69.5
(Inc)/dec in Current Assets	-662.8	-41.1	-821.1	-555.3
Inc/(dec) in CL and Provisions	572.4	-36.0	634.5	388.7
Others	3.3	3.0	5.0	5.0
<b>CF from operating activities</b>	<b>212.1</b>	<b>255.2</b>	<b>226.9</b>	<b>310.4</b>
(Inc)/dec in Investments	0.4	-142.9	-40.0	-90.0
(Inc)/dec in Fixed Assets	-144.3	-20.4	-108.9	-83.1
Others	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-129.6</b>	<b>-198.9</b>	<b>-168.8</b>	<b>-203.8</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	50.3	20.0	10.0	10.0
Dividend paid & dividend tax	-86.0	-86.1	-93.3	-100.4
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
<b>CF from financing activities</b>	<b>-32.2</b>	<b>-81.2</b>	<b>-45.3</b>	<b>-90.4</b>
Net Cash flow	50.3	-25.0	12.9	16.2
Opening Cash	68.2	118.5	93.5	106.4
<b>Closing Cash</b>	<b>118.5</b>	<b>93.5</b>	<b>106.4</b>	<b>122.6</b>

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Liabilities</b>				
Equity Capital	23.8	23.8	23.8	23.8
Reserve and Surplus	2,541.7	2,715.9	3,010.0	3,317.1
Total Shareholders funds	2,565.5	2,739.7	3,033.9	3,341.0
Total Debt	116.5	136.5	146.5	156.5
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>2,752.3</b>	<b>2,947.9</b>	<b>3,253.5</b>	<b>3,572.0</b>
<b>Assets</b>				
Gross Block	1,125.6	1,236.6	1,301.6	1,376.6
Less: Acc Depreciation	480.0	538.5	594.4	655.8
Net Block	645.5	698.1	707.1	720.8
Capital WIP	92.3	29.2	65.0	65.0
Total Fixed Assets	737.9	727.2	772.1	785.8
Investments	639.3	782.2	822.2	912.2
Inventory	298.3	230.6	408.2	307.1
Debtors	1,139.3	836.6	1,368.9	1,703.3
Loans and Advances	5.3	36.1	41.6	70.3
Other Current Assets	852.7	1,010.5	1,099.2	1,263.3
Cash	118.5	93.5	106.4	122.6
Total Current Assets	2,414.1	2,207.3	3,024.3	3,466.6
Creditors	943.1	836.6	1,064.7	1,277.4
Provisions	148.2	150.6	181.0	229.9
Total Current Liabilities	2,622.8	2,586.8	3,221.3	3,610.0
Net Current Assets	947.8	999.9	1,199.3	1,382.1
Others Assets	0.0	0.0	0.0	0.0
<b>Application of funds</b>	<b>2,752.3</b>	<b>2,948.0</b>	<b>3,253.5</b>	<b>3,572.0</b>

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Per share data (₹)</b>				
EPS	20.0	23.1	29.3	34.2
Cash EPS	25.4	27.9	34.7	40.0
BV	215.3	229.9	254.6	280.4
DPS	6.0	6.0	6.5	7.0
Cash Per Share	9.9	7.8	8.9	10.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	9.6	8.1	8.4	9.0
PBT / Total Operating income	9.8	8.6	9.6	10.0
PAT Margin	6.6	5.9	6.2	6.5
Inventory days	28.1	16.3	26.5	17.8
Debtor days	107.5	59.0	88.9	98.8
Creditor days	89.0	59.0	69.2	74.1
<b>Return Ratios (%)</b>				
RoE	9.9	11.1	11.5	12.2
RoCE	15.3	17.3	17.1	18.0
RoIC	32.1	35.9	33.3	36.1
<b>Valuation Ratios (x)</b>				
P/E	49.5	42.8	33.8	28.9
EV / EBITDA	31.8	28.3	25.1	21.0
EV / Net Sales	3.0	2.3	2.1	1.9
Market Cap / Sales	3.0	2.3	2.1	1.9
Price to Book Value	4.6	4.3	3.9	3.5
<b>Solvency Ratios</b>				
Debt/EBITDA	0.3	0.3	0.3	0.3
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	0.8	0.9	0.9
<b>Quick Ratio</b>	<b>0.8</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>

Source: Company, ICICI Direct Research

**Exhibit 19: ICICI Direct coverage universe (Capital Goods)**

Company	CMP			M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		(₹ Cr)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E
L&T (LARTOU)	1477	1,680	Buy	204912	48.1	53.4	61.2	27.5	24.8	21.7	11.7	12.6	13.2	12.6	12.9	13.6
Bhel (BHEL)	67	60	Hold	23330	2.7	3.7	4.5	21.9	16.2	13.2	5.0	6.1	7.1	2.9	3.9	4.7
AIA Engineering (AIAENG)	1722	1,890	Buy	16242	52.2	63.9	74.6	31.9	26.0	22.3	19.4	21.5	22.5	14.4	15.8	16.5
Thermax (THERMA)	990	1,170	Buy	11796	23.1	29.3	34.2	42.8	33.8	28.9	17.3	17.1	18.0	11.1	11.5	12.2
KEC International (KECIN)	290	315	Hold	7456	19.2	23.4	27.3	14.9	12.2	10.5	25.7	25.6	25.6	20.6	20.7	20.2
Kalpataru Power(KALPOW)	511	550	Buy	7842	26.1	31.5	37.0	17.8	14.8	12.6	18.3	19.0	19.9	12.6	13.0	13.4
Greaves Cotton (GREAVE)	142	150	Hold	3468	6.9	8.4	9.3	21.2	17.5	15.8	26.2	28.2	30.1	18.2	19.7	21.1
Bharat Electronics (BHAELE)	102	110	Buy	26803	6.6	7.0	7.8	11.4	10.6	9.6	25.6	25.0	25.3	18.2	17.4	17.3
Engineers India (ENGIND)	116	120	Hold	7141	5.9	6.6	7.8	19.3	17.0	14.5	21.3	23.3	24.2	16.3	18.0	20.1
VaTech Wabag (VATWAB)	300	270	Reduce	1629	19.2	18.8	24.3	15.6	15.9	12.4	14.6	17.7	20.3	9.5	9.2	11.0
SKF (SKFIND)	1867	1,845	Hold	9729	65.4	69.4	76.8	27.6	26.0	23.5	29.4	27.1	26.3	19.8	18.1	17.3
Timken India (TIMIND)	678	640	Buy	4351	15.7	17.9	21.7	32.6	28.5	23.5	12.8	14.2	15.5	9.4	9.8	10.7
NRB Bearing (NRBBEA)	171	215	Buy	2084	9.5	11.9	13.7	19.6	15.6	13.6	23.0	24.4	24.3	21.1	22.6	22.3
Grindwell Norton (GRINOR)	595	625	Buy	6699	16.1	17.6	19.7	37.5	34.3	30.7	24.4	24.4	25.0	16.4	16.4	16.7

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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