

Thermax (TMX IN)

Rating: ACCUMULATE | CMP: Rs752 | TP: Rs798

June 19, 2020

Q4FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	798		855	
Sales (Rs. m)	52,019	60,670	69,091	75,400
% Chng.	(24.7)	(19.5)		
EBITDA (Rs. m)	3,618	5,129	5,649	6,165
% Chng.	(36.0)	(16.8)		
EPS (Rs.)	22.6	33.3	38.1	42.1
% Chng.	(40.6)	(21.1)		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	59,732	57,313	52,019	60,670
EBITDA (Rs. m)	4,574	4,062	3,618	5,129
Margin (%)	7.7	7.1	7.0	8.5
PAT (Rs. m)	3,254	2,125	2,547	3,745
EPS (Rs.)	28.9	18.9	22.6	33.3
Gr. (%)	40.8	(34.7)	19.9	47.1
DPS (Rs.)	7.0	4.6	5.5	8.0
Yield (%)	0.9	0.6	0.7	1.1
RoE (%)	11.4	7.0	8.2	11.1
RoCE (%)	11.9	8.9	7.1	10.6
EV/Sales (x)	1.3	1.3	1.4	1.2
EV/EBITDA (x)	16.5	18.2	20.1	14.0
PE (x)	26.0	39.9	33.2	22.6
P/BV (x)	2.8	2.8	2.6	2.4

Key Data

THMX.BO | TMX IN

52-W High / Low	Rs.1,181 / Rs.570
Sensex / Nifty	34,732 / 10,244
Market Cap	Rs.90bn/ \$ 1,176m
Shares Outstanding	119m
3M Avg. Daily Value	Rs.209.06m

Shareholding Pattern (%)

Promoter's	61.98
Foreign	7.77
Domestic Institution	17.58
Public & Others	12.67
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.8	(28.1)	(28.7)
Relative	(8.0)	(13.7)	(19.7)

Viral Shah

viralshah@plindia.com | 91-22-66322250

Khushboo Parekh

khushbooparekh@plindia.com | 91-22-66322257

Comfortable balance sheet; healthy cash flows

Quick Pointers:

- For 4QFY20, order inflows decline by 19% YoY to ~Rs9.5bn primarily due to subdued ordering activity in the energy segment (down 24% YoY).
- Despite current economic situation, the company showed improvement in working capital by reducing it to Rs1.3bn in FY20 vs Rs2bn in FY19.

Thermax Ltd (TMX) reported weak set of numbers with revenue's de-growing across segments- Energy (39% decline), Environment (26% decline) and Chemicals divisions (6% decline) respectively. Profitability impacted due to lower operating performance, decline in other income and higher depreciation expense. Order inflows (OI) came in at Rs9.5bn for 4Q, down 19% YoY with chemical segment growing at 31% YoY while energy segment reported of 24% YoY. The weak order inflows due to deferment of projects and delay in order finalization owing to Covid-19 led to a 2% YoY decline in order book to Rs52.4bn.

Management indicated that the order inflows may be impacted for at least a year as industrial/private capex would be on hold mode. Though the real magnitude of outbreak and economy lockdown is difficult to assess, we believe near to medium term business outlook to remain challenging for the company. Thermax's strong balance sheet and strict working capital management style would be key for revival in the long term. The stock is currently trading at 33.2x/22.6x FY21E/22E. We maintain our Accumulate rating on the stock with TP of Rs798.

Weak performance on all fronts: Consol sales came in at ~Rs13bn (down 36% YoY) vs (PLe ~Rs15bn) led by de-growth across segments. EBITDA declined by 63% YoY to Rs636mn (PLe ~Rs1.3bn) with EBITDA margins coming at 4.8% in 4QFY20 vs 8.2% in 4QFY19 owing to weak sales and higher other expense. PBT declined by 70% YoY to Rs586mn on back of rise in depreciation expense (up 25% YoY) and higher interest cost (up 40% YoY). Other income decreased by 41% YoY at Rs307mn. PAT came in at Rs390mn (PLe Rs1.1bn).

Order Inflow down 19% YoY in 4Q: OI for the quarter was down 19% YoY at Rs9.5bn where Chemical segment grew 31% YoY, Energy segment de-grew by 25% YoY and Environment division remained flat YoY. Due to deferment of some orders on account of Covid-19, order intake declined 2.8% YoY for FY20. For FY20, OI was highest from Power sector due to FGD (Rs9bn+) followed by Food Processing and then Oil & Gas sector. Currently international markets enquire for boilers and heaters. OB stands at Rs52.4bn, down 2% YoY which management had expected to be similar to FY19 but got impacted due to overall weak environment and Covid-19. Going ahead management expects OI to get impacted for at least a year as industrial/private capex is on hold mode.

Exhibit 1: Higher depreciation cost and lower other income impacted profitability further (Rs mn)

Y/e March	Q4FY19	Q3FY19	Q4FY19	Q3FY20	Q4FY20	YoY gr. (%)	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Revenue	20,737	59,732	13,925	14,101	13,230	(36.2)	(6.2)	57,313	59,732	(4.0)
Total Revenues	20,737	59,732	13,925	14,101	13,230	(36.2)	(6.2)	57,313	59,732	(4.0)
Expenditure	19,029	55,157	12,934	12,969	12,594	(33.8)	(2.9)	53,251	55,157	(3.5)
as % of sales	91.8	92.3	92.9	92.0	95.2			92.9	92.3	
Consumption of RM	12,553	33,367	7,530	7,847	6,733	(46.4)	(14.2)	30,857	33,367	(7.5)
as % of sales	60.5	55.9	54.1	55.6	50.9			53.8	55.9	
Employee Cost	2,051	7,938	1,947	1,999	1,972	(3.8)	(1.4)	7,990	7,675	4.1
as % of sales	9.9	13.3	14.0	14.2	14.9			13.9	12.8	
Other expenditure	4,425	13,853	3,457	3,123	3,889	(12.1)	24.5	14,404	14,116	2.0
as % of sales	21.3	23.2	24.8	22.1	29.4			25.1	23.6	
EBITDA	1,708	4,574	991	1,132	636	(62.8)	(43.8)	4,062	4,574	(11.2)
Depreciation	247	920	262	316	308	24.8	(2.5)	1,166	920	26.7
EBIT	1,461	3,654	729	816	328	(77.6)	(59.8)	2,896	3,654	(20.8)
Other Income	520	1,499	216	258	307	(40.9)	19.2	1,000	1,499	(33.3)
Interest	35	143	44	19	49	39.6	153.9	150	143	4.9
PBT	1,946	5,010	901	1,054	586	(69.9)	(44.4)	3,745	5,010	(25.2)
Total Tax	653	849	273	205	196	(70.0)	(4.4)	1,621	849	90.8
Adjusted PAT	1,293	4,160	628	850	390	(69.8)	(54.1)	2,125	4,160	(48.9)
(Profit)/loss from JV's/Ass/MI	(4)	(14)	-	-	-	-	-	-	(11)	-
PAT after MI	1,289	4,147	628	850	390	(69.7)	(54.1)	2,125	4,150	(48.8)
Extra ordinary items	-	(875)	-	-	-	-	-	-	(895)	-
Reported PAT	1,289	3,272	628	850	390	(69.7)	(54.1)	2,125	3,254	(34.7)
Adjusted EPS	11.5	29.1	5.6	7.5	3.5	(69.7)	(54.1)	18.9	28.9	(34.7)
Margins (%)	Q4FY19	Q3FY19	Q4FY19	Q3FY20	Q4FY20	bps	bps	FY20	FY19	bps
EBIDTA	8.2	7.7	7.1	8.0	4.8	(343)	(322)	7.1	7.7	(57)
EBIT	7.0	6.1	5.2	5.8	2.5	(457)	(331)	5.1	6.1	(107)
EBT	9.4	8.4	6.5	7.5	4.4	(495)	(305)	6.5	8.4	(185)
PAT	6.2	5.5	4.5	6.0	3.0	(327)	(308)	3.7	5.4	(174)
Effective Tax rate	33.6	17.0	30.3	19.4	33.4	(16)	1,397	43.3	17.0	2,632

Source: Company, PL

Conference Call Highlights:

- During 4Q, the revenue target (Rs17.5-18bn) was missed owing to nationwide lockdown, stock of finish/partial goods lying at factory sites and dispatched material lying on truck at various locations. This has resulted into revenue loss to the tune of Rs4-5bn.
- Currently, post partial up liftment of lockdown in India, capacity utilisation stands at 25-50% range. Globally factories worldwide such as Poland, Denmark, Indonesia and Germany have been operating during April-June month as impact of lockdown was limited in this regions.
- The Dahej facility- a key contributor for its chemical business had a major fire outbreak, which resulted in some casualties. Currently, the facility is closed and is expected to resumed operation after ~45days.
- In terms of cost, the company is evaluating cost control majors such as salary cut (3-20%), lower expenses, etc. which could result into saving of 3-5%.
- From supply side, the company has some issues with its vendors as utilisation at their facilities has been low due to migrant labour issues and cash crunch. With respect to recent development of India-China, the company iterated that its exposure to China is meagre ~Rs1.5bn of total Rs35bn and has also started exploring other alternative for the same.
- Due to deferment of some orders on account of Covid-19, order booking decline 2.8% YoY for FY20.
- **Order book** as on FY20 stands at Rs52.4bn vs Rs53.70bn in FY19 down 2% YoY. It consists of orders which are live and active and are carried forward.
- Other expenses were higher for the quarter due to bad debts written down and one-time increase in warranty expenses of Rs150mn. Forex related impact for FY20 was Rs150mn compared to forex gain of Rs60mn in FY19.
- Working capital of the company has come down to Rs1.3bn in FY20 vs Rs2bn in FY19.
- **Subsidiaries-** Danstoker continues to be loss making, but order intake has been decent for now. 1QFY21E would be break-even as factories were running and cost reduction measures were taken. Currently, enquiries have been healthy. South east Asian subsidiary (Indonesia) is expected to be negative where losses have come down.
- In Chemical division company expects double digit growth for FY21E. They are receiving major orders from North America. Management indicated that in FY22E chemical exports would be substantial. Company is working towards break-even of Chemical division.
- API should benefit thermax's business division being boilers, waste to heat recovery and water treatment. In 2HFY21E, each API plant could offer Rs20-70mn opportunity to the company.
- Additional cost of Rs200-250mn have been incurred for safety of employees. This cost would be included in fresh order bookings.

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	59,732	57,313	52,019	60,670
YoY gr. (%)	33.8	(4.0)	(9.2)	16.6
Cost of Goods Sold	33,367	30,857	27,958	32,607
Gross Profit	26,365	26,456	24,061	28,062
Margin (%)	44.1	46.2	46.3	46.3
Employee Cost	7,675	7,990	7,543	8,312
Other Expenses	5,324	6,094	5,722	6,674
EBITDA	4,574	4,062	3,618	5,129
YoY gr. (%)	14.1	(11.2)	(10.9)	41.8
Margin (%)	7.7	7.1	7.0	8.5
Depreciation and Amortization	920	1,166	1,255	1,358
EBIT	3,654	2,896	2,362	3,771
Margin (%)	6.1	5.1	4.5	6.2
Net Interest	143	150	158	166
Other Income	1,499	1,000	1,196	1,395
Profit Before Tax	4,114	3,745	3,401	5,001
Margin (%)	6.9	6.5	6.5	8.2
Total Tax	849	1,621	854	1,256
Effective tax rate (%)	20.6	43.3	25.1	25.1
Profit after tax	3,265	2,125	2,547	3,745
Minority interest	-	-	-	-
Share Profit from Associate	(11)	-	-	-
Adjusted PAT	3,254	2,125	2,547	3,745
YoY gr. (%)	40.8	(34.7)	19.9	47.1
Margin (%)	5.4	3.7	4.9	6.2
Extra Ord. Income / (Exp)	(895)	-	-	-
Reported PAT	2,359	2,125	2,547	3,745
YoY gr. (%)	2.1	(9.9)	19.9	47.1
Margin (%)	3.9	3.7	4.9	6.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,359	2,125	2,547	3,745
Equity Shares O/s (m)	113	113	113	113
EPS (Rs)	28.9	18.9	22.6	33.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	19,362	20,226	22,026	23,826
Tangibles	19,362	20,226	22,026	23,826
Intangibles	-	-	-	-
Acc: Dep / Amortization	6,812	7,978	9,234	10,592
Tangibles	6,812	7,978	9,234	10,592
Intangibles	-	-	-	-
Net fixed assets	12,550	12,248	12,792	13,234
Tangibles	12,550	12,248	12,792	13,234
Intangibles	-	-	-	-
Capital Work In Progress	970	1,135	1,135	1,135
Goodwill	-	-	-	-
Non-Current Investments	1,281	1,759	891	2,396
Net Deferred tax assets	2,120	1,510	1,510	1,510
Other Non-Current Assets	3,609	2,170	2,081	2,427
Current Assets				
Investments	7,751	8,161	8,161	8,161
Inventories	5,086	4,546	5,701	5,818
Trade receivables	13,781	14,785	14,252	14,960
Cash & Bank Balance	3,691	4,761	5,968	6,687
Other Current Assets	4,772	3,978	4,682	5,460
Total Assets	65,780	58,005	61,020	66,526
Equity				
Equity Share Capital	225	225	225	225
Other Equity	29,918	30,054	31,984	34,823
Total Network	30,143	30,279	32,209	35,048
Non-Current Liabilities				
Long Term borrowings	1,850	1,782	1,871	1,964
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	351	334	245	151
Trade payables	13,707	10,000	9,976	11,635
Other current liabilities	21,851	17,121	18,228	19,237
Total Equity & Liabilities	65,780	58,005	61,020	66,526

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	4,114	3,745	3,401	5,001
Add. Depreciation	783	1,166	1,255	1,358
Add. Interest	97	150	158	166
Less Financial Other Income	1,499	1,000	1,196	1,395
Add. Other	206	(1,000)	(1,196)	(1,395)
Op. profit before WC changes	5,201	4,062	3,618	5,129
Net Changes-WC	(4,485)	(875)	(1,135)	(380)
Direct tax	1,870	1,621	854	1,256
Net cash from Op. activities	(1,154)	1,566	1,628	3,493
Capital expenditures	(1,980)	(1,029)	(1,800)	(1,800)
Interest / Dividend Income	200	1,000	1,196	1,395
Others	4,435	(466)	957	(1,298)
Net Cash from Invst. activities	2,655	(495)	353	(1,702)
Issue of share cap. / premium	-	-	-	-
Debt changes	256	(85)	-	-
Dividend paid	(813)	(624)	(616)	(906)
Interest paid	(97)	(150)	(158)	(166)
Others	-	(754)	-	-
Net cash from Fin. activities	(654)	(1,613)	(774)	(1,072)
Net change in cash	847	(542)	1,207	719
Free Cash Flow	(2,701)	537	(172)	1,693

Source: Company Data, PL Research

Key Financial Metrics

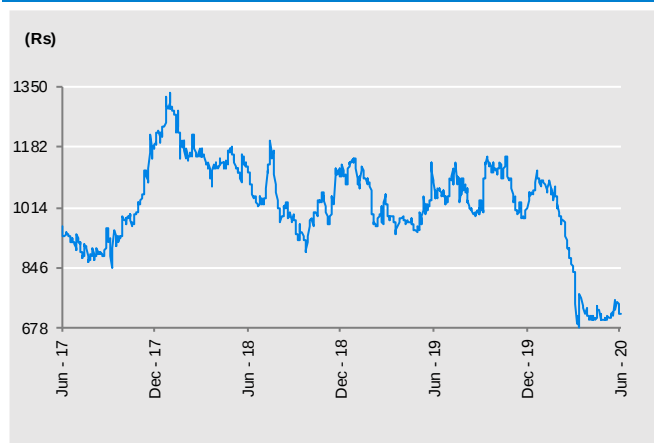
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	28.9	18.9	22.6	33.3
CEPS	37.1	29.2	33.8	45.3
BVPS	267.7	268.9	286.1	311.3
FCF	(24.0)	4.8	(1.5)	15.0
DPS	7.0	4.6	5.5	8.0
Return Ratio(%)				
RoCE	11.9	8.9	7.1	10.6
ROIC	15.0	8.4	9.2	13.5
RoE	11.4	7.0	8.2	11.1
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	32	59	70	55
Valuation(x)				
PER	26.0	39.9	33.2	22.6
P/B	2.8	2.8	2.6	2.4
P/CEPS	20.3	25.7	22.3	16.6
EV/EBITDA	16.5	18.2	20.1	14.0
EV/Sales	1.3	1.3	1.4	1.2
Dividend Yield (%)	0.9	0.6	0.7	1.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	13,925	16,059	14,101	13,230
YoY gr. (%)	34.5	12.5	(1.8)	(36.2)
Raw Material Expenses	7,530	8,747	7,847	6,733
Gross Profit	6,395	7,312	6,254	6,496
Margin (%)	45.9	45.5	44.4	49.1
EBITDA	991	1,303	1,132	636
YoY gr. (%)	42.9	18.4	5.5	(62.8)
Margin (%)	7.1	8.1	8.0	4.8
Depreciation / Depletion	262	281	316	308
EBIT	729	1,023	816	328
Margin (%)	5.2	6.4	5.8	2.5
Net Interest	44	38	19	49
Other Income	216	220	258	307
Profit before Tax	901	1,204	1,054	586
Margin (%)	6.5	7.5	7.5	4.4
Total Tax	273	947	205	196
Effective tax rate (%)	30.3	78.7	19.4	33.4
Profit after Tax	628	257	850	390
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	628	257	850	390
YoY gr. (%)	29.0	(65.5)	13.2	(69.7)
Margin (%)	4.5	1.6	6.0	3.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	628	257	850	390
YoY gr. (%)	29.0	(65.5)	13.2	(69.7)
Margin (%)	4.5	1.6	6.0	3.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	628	257	850	390
Avg. Shares O/s (m)	113	113	113	113
EPS (Rs)	5.6	2.3	7.5	3.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-Apr-20	Accumulate	855	705
2	05-Feb-20	Accumulate	1,143	1,073
3	03-Jan-20	Accumulate	1,143	1,106
4	14-Nov-19	Accumulate	1,143	1,069
5	03-Oct-19	Accumulate	1,300	1,153
6	12-Aug-19	Accumulate	1,147	1,091
7	04-Jul-19	Accumulate	1,147	1,058

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	836
2	Ahluwalia Contracts (India)	Accumulate	264	142
3	Apar Industries	BUY	587	368
4	Ashoka Buildcon	BUY	147	56
5	Bharat Electronics	Hold	89	70
6	BHEL	Hold	34	31
7	Capacite's Infraprojects	BUY	168	75
8	Container Corporation of India	Accumulate	595	572
9	Cummins India	BUY	472	370
10	Engineers India	BUY	83	67
11	GE T&D India	Hold	91	86
12	H.G. Infra Engineering	BUY	259	164
13	IRB Infrastructure Developers	BUY	127	53
14	ITD Cementation India	BUY	67	33
15	J.Kumar Infraprojects	BUY	340	185
16	Kalpataru Power Transmission	BUY	261	193
17	KEC International	BUY	295	197
18	KNR Constructions	BUY	305	197
19	Larsen & Toubro	BUY	1,192	955
20	NCC	BUY	83	23
21	PNC Infratech	BUY	205	94
22	Power Grid Corporation of India	BUY	205	160
23	Sadbhav Engineering	BUY	128	25
24	Siemens	BUY	1,402	1,049
25	Thermax	Accumulate	855	705
26	Triveni Turbine	BUY	83	68
27	Voltamp Transformers	BUY	1,244	1,020

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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