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Q4FY20 result review and earnings revision

Capital Goods

Target price: Rs772

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 10.2	↓ 6.2
EBITDA	↓ 21.1	↓ 9.6
EPS	↓ 23.7	↓ 11.7

Target price revision

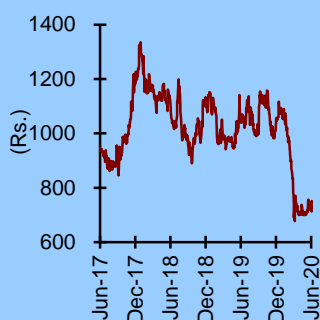
Rs772 from Rs675

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	62.0	62.0	62.0
Institutional investors	25.3	25.3	25.4
MFs and Other	14.9	15.9	15.7
FIs / Banks	1.8	1.8	1.9
FII	8.6	7.6	7.8
Others	12.7	12.7	12.6

Source: NSE

Price chart



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INDIA

Thermax

Healthy cashflow, challenging outlook

ICICI Securities

HOLD

Maintained

Rs748

Thermax reported weak execution in Q4FYFY20 in line with our expectations while margins were impacted by higher warranty provision and forex loss. Cashflow was healthy due to reduction in other current assets post completion of the large Dangote order. European subsidiary Danstoker continued to be in loss though there are certain green shoots of revival. Indonesian facility losses reduced during FY20. Overall, the near-term growth environment is challenging, but food processing, pharma, cement and refineries are certain segments in which outlook is healthy. Factoring-in the muted order intake in Q4FY20 and challenging outlook, we cut our earnings by 23.7% and 11.7% for FY21E and FY22E. Maintain HOLD with a revised target price of Rs772 (previously Rs675).

- **Muted execution, challenging near-term outlook:** Energy segment revenues declined 39% YoY to Rs10.5bn while environmental segment fell 25.6% YoY to Rs2bn. Chemical segment also shrunk 6% YoY to Rs963mn resulting in overall revenue decline of 36% YoY. Despite medium-sized FGD orders, overall order intake was down 2.4% YoY at Rs55bn in FY20. Current orderbook at Rs52.4bn (0.9x TTM sales) implies growth headwinds given higher execution cycle of ~Rs9bn worth of FGD orders.
- **Subsidiary stress continues:** Indonesia losses have reduced while Danstoker performance was hit due to the pandemic. Europe has witnessed relatively better revival in terms of order intake vs the other geographies. Given the overall environment, we believe the timeline for breakeven in Indonesia operations is likely to be prolonged.
- **Expect traction from small and medium sized orders in FY21E:** Large orders from sectors like steel, cement and fertilisers will be scarce in the near to medium term. However, some green shoots are visible in the FGD segment from the private sector and Lot-6 FGD orders from NTPC. Oil&Gas outlook is healthy with orders from HPCL Barmer refinery likely to be finalised by subcontractors including L&T and Tata Projects. Other opportunities include food processing and pharma API related opportunities.
- **Maintain HOLD:** The challenging macro-environment is likely to impact near-term prospects for the company. Its larger dependence on private sector capex puts it on the backfoot vs peers. Hence, we maintain **HOLD** on the stock with a revised target price of Rs772 (previously Rs675). Given the depressed earnings of FY21E due to Covid-19, we roll forward our valuation to FY22E earnings.

Market Cap	Rs90bn/US\$1.2bn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	THMX.BO/ TMX IN	Revenue (Rs bn)	59,732	57,313	45,850	53,645
Shares Outstanding (mn)	119.2	Rec. Net Income (Rs bn)	3,209	2,125	2,047	3,065
52-week Range (Rs)	1158/678	EPS (Rs)	26.9	17.8	17.2	25.7
Free Float (%)	38.0	% Chg YoY	39.5	(33.8)	(3.7)	49.7
FII (%)	7.8	P/E (x)	27.8	42.0	43.6	29.1
Daily Volume (US\$/000)	1,302	CEPS (Rs)	34.7	27.6	25.7	34.9
Absolute Return 3m (%)	10.0	EV/E (x)	17.5	19.3	26.7	18.1
Absolute Return 12m (%)	(27.5)	Dividend Yield (%)	0.9	0.9	1.2	1.2
Sensex Return 3m (%)	23.1	RoCE (%)	14.3	6.8	6.6	9.3
Sensex Return 12m (%)	(10.2)	RoE (%)	11.2	7.0	6.7	9.6

Please refer to important disclosures at the end of this report

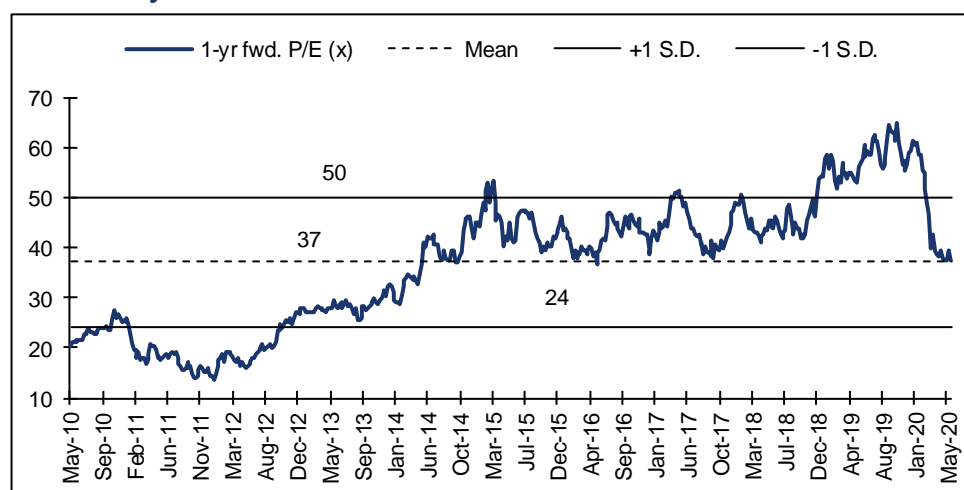
Outlook and valuation

Challenging macro-environment is likely to impact near-term prospects for Thermax. Company's larger dependence on private sector capex puts it on a backfoot vs peers. Company is focused on cashflow and control over working capital, hence it will be able to sail through these turbulent times with no major increase in debt or dilution. Given the depressed earnings of FY21E, we roll forward our valuation to FY22E.

The stock is trading at 29.1x FY22E earnings and given the near to medium term growth challenges, we maintain **HOLD** on the stock with a revised target price of Rs772 (previously Rs675).

Improvement in gross margins, turnaround in overseas subsidiaries and large order finalisations will be the key rerating catalysts for the stock.

Chart 1: 1-year forward P/E band



Source: I-Sec research

Table 1: Earnings revision (consolidated)

(Rs mn)

Rs mn	FY21E			FY22E		
	Earlier	Revised	YoY (%)	Earlier	Revised	YoY (%)
Revenue	51,071	45,850	(10.2)	57,199	53,645	(6.2)
EBIDTA	3,683	2,905	(21.1)	4,692	4,244	(9.6)
PAT	2,682	2,047	(23.7)	3,469	3,065	(11.7)

Source: Company data, I-Sec research

Table 2: Quarterly financial trend (consolidated)

(Rs mn)

	Q4FY19	Q4FY20	YoY(%)	Q3FY20	QoQ(%)	I-Sec Est	Var(%)	FY19	FY20	YoY(%)
Total Revenue	20,737	13,230	(36.2)	14,101	(6.2)	15,659	(15.5)	59,732	57,313	(4.0)
EBITDA	1,708	636	(62.8)	1,132	(43.8)	981	(35.2)	4,574	4,062	(11.2)
Margin	8.2	4.8	-343bps	8.0	-322bps	6.3	-146bps	7.7	7.1	-60bps
Depreciation	247	308	24.8	316	(2.5)	225	36.9	920	1,166	26.7
Finance Cost	35	49	39.6	19	153.9	25	96.0	143	150	4.9
Other Income	520	307	(40.9)	258	19.2	506	(39.3)	1,499	1,000	(33.3)
Extraordinary income	-	-		-		-		-	-	
PBT	1,946	586	(69.9)	1,054	(44.4)	1,237	(52.6)	5,010	3,745	(25.2)
Tax	653	196	(70.0)	205	(4.4)	100	96.6	849	1,621	90.8
tax rate	33.6	33.4	-16bps	19	1397bps	8.0		17.0	43.3	
PAT	1,293	391	(69.8)	850	(54.0)	1,138	(65.6)	3,219	2,125	(34.0)
Share of profit JV and associates	(4)							(10)		
Reported PAT	1,289	391	(69.7)	850	(54.0)	1,138	(65.6)	3,209	2,125	(33.8)
Adjusted PAT	1,289	391	(69.7)	850	(54.0)	1,138	(65.6)	3,209	2,125	(33.8)
Margin(%)	6.2	3.0	-326bps	6.0	-307bps	7.3	-431bps	5.4	3.7	-170bps
EPS	11.5	3.5		7.5		10.1		28.5	18.9	
Segmental										
Revenue										
Energy	17,184	10,512	(38.8)	11,208	(6.2)	12,716	(17.3)	47,995	46,770	(2.6)
Environment	2,677	1,991	(25.6)	1,974	0.9	2,169	(8.2)	8,283	7,220	(12.8)
Chemical	1,025	963	(6.1)	1,168	(17.6)	974	(1.2)	4,151	4,213	1.5
Less: Intersegment	150	236	57.8	249	(5.3)	200	18.1	697	889	27.5
Total	20,737	13,230	(36.2)	14,101	(6.2)	15,659	(15.5)	59,732	57,313	(4.0)
EBIT										
Energy	1,368	323	(76.4)	647	(50.1)	788	(59.0)	3,217.7	2,492.5	(22.5)
Environment	311	162	(47.7)	103	58.2	130	24.7	567.2	380.7	(32.9)
Chemical	170	179	4.9	289	(38.1)	234	(23.5)	617.3	780.4	26.4
Total	1,849	664	(64.1)	1,039	(36.0)	1,152	(42.3)	4,402.2	3,653.6	(17.0)
EBIT margins (%)										
Energy	8.0	3.1	-488bps	5.8	-270bps	6.2	-313bps	6.7	5.3	-140bps
Environment	11.6	8.2	-345bps	5.2	295bps	6.0	215bps	6.8	5.3	-160bps
Chemical	16.6	18.6	195bps	24.7	-615bps	24.0	-543bps	14.9	18.5	370bps

Source: Company data, I-Sec research

Table 3: Quarterly financial trend (standalone)

(Rs mn)

	Q4FY19	Q4FY20	YoY(%)	Q3FY20	QoQ(%)	FY19	FY20	YoY(%)
Total Revenue	13,276	7,394	(44.3)	8,496	(13.0)	35,411	32,151	(9.2)
EBITDA	1,124	473	(57.9)	698	(32.2)	2,507	2,135	(14.8)
Margin	8.5	6.4	-207bps	8.2	-182bps	7.1	6.6	-40bps
Depreciation	124	166	34.2	161	3.1	501	626	24.9
Finance Cost	20	20	2.0	17	22.3	53	52	(0.6)
Other Income	324	376	16.0	246	53.0	1,228	1,044	(15.0)
Extraordinary income	206	-		-		479	-	
PBT	1,098	513	(53.3)	766	(33.0)	2,702	2,352	(13.0)
Tax	452	102	(77.6)	185	(45.2)	1,092	738	(32.5)
tax rate	41.2	19.8	-2141bps	24.2	-441bps	40.4	31.4	-910bps
Reported PAT	1,334	412	(69.2)	580	(29.1)	3,231	2,140	(33.8)
Adjusted PAT	1,128	412	(63.5)	580	(29.1)	2,753	2,140	(22.3)
Margin (%)	8.5	5.6	-293bps	6.8	-127bps	7.8	6.7	-110bps
EPS	9.5	3.5		4.9		23.1	18.0	

Source: Company data, I-Sec research

Table 4: Orderbook and order intake trend (consolidated)

(Rs bn)

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY Change (%)
Orderbook	59.9	64.2	64.1	64.8	53.7	52.5	53.3	54.4	52.4	-2.5
Order inflow	16.0	16.5	13.4	14.8	11.6	12.2	17.2	16.1	9.5	-18.0
Order Inflow										
Energy	13.5	13.9	10.2	11.5	9.1	8.2	9.8	8.0	6.9	-24.5
Environment	1.6	1.6	2.0	2.1	1.7	2.1	6.3	6.9	2.5	48.5
Chemical	0.9	1.1	1.2	1.1	0.8	1.9	1.1	1.2	0.2	-74.1
Orderbook										
Energy	50.4	57.5	57.3	57.6	47.9	45.0	41.3	37.3	35.6	-25.8
Environment	6.1	6.3	6.2	6.4	5.3	6.8	11.3	16.4	16.0	205.0
Chemical	3.4	0.5	0.6	0.7	0.5	0.7	0.7	0.7	0.8	53.8

Source: Company data, I-Sec research

Table 5: Key assumptions

(Rs mn)

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Consolidated							
Order Intake	43,520	43,940	63,800	56,330	54,980	41,235	49,482
Growth (%)	-0.5	1.0	45.2	-11.7	-2.4	-25.0	20.0
Orderbook	46,600	43,746	56,890	53,700	52,380	47,765	43,601
Growth (%)	-17.8	-6.1	30.0	-5.6	-2.5	-8.8	-8.7
Net Sales	50,689	44,831	44,649	59,732	57,313	45,850	53,645
Growth (%)	-6.1	-11.6	-0.4	33.8	-4.0	-20.0	17.0

Source: Company data, I-Sec research

Table 6: Order intake breakup (by segment)

Rs bn	Q4FY20	FY20
Energy	6.9	32.8
Environment	2.5	17.8
Chemical	0.2	4.4
Total	9.5	55.0

Source: Company data, I-Sec research

Table 7: Orderbook breakup (by segment)

Rs bn	FY20
Energy	35.6
Environment	16.0
Chemical	0.8
Total	52.4

Source: Company data, I-Sec research

Table 8: Orderbook breakup (by geography)

Rs bn	FY20
Domestic	38.0
International	14.4
Total	52.4

Source: Company data, I-Sec research

Concall highlights

- 'Other expenditure' was sequentially higher by Rs750mn in Q4FY20 on account of Rs150mn increase in warranty provisions and forex impact (Rs150mn loss in FY20 vs gain of Rs60mn in FY19). Higher freight expenses for certain large export orders and higher site expenses for certain power projects also contributed.
- Currently, 90-95% of construction sites are active and the company has been able to retain 50-60% labour. Unlike areas like construction, the return of migrant labour will likely be easier in MSME where labour laws are followed.
- 46% of the company's vendors don't have any balance sheet or labour issues; for the remaining 44%, labour issues will arise once their utilisation increases to 80-90%.
- On cost savings, voluntary reduction in salary has been agreed upon for white collar employees and payroll increments are not expected in FY21.
- Company has Rs1.58bn worth of procurement of the total Rs35bn from China and is looking for alternate sources for the imports. Barring a few sectors like cement (WHRG), there is not much competition from the Chinese in India as they don't compete in water treatment and air pollution anymore. However, Chinese competition is witnessed in other geographies like Africa, Indonesia, Malaysia, Thailand and the Philippines
- Danstoker and Indonesian subsidiary booked loss in FY20. Thermax is focusing on the small boiler market for the Indonesian subsidiary
- Dahej factory was impacted due to fire (the company has insurance support). Forty days of lost production will impact the chemical segment growth in FY21E. Company expects double-digit growth in chemicals in FY21E where majority of orders are in resins specialty chemical.
- Pharma API opportunity will be beneficial to the company (enquiries are coming in). Cost of boiler and water & waste water treatment work for a typical API plant ranges between Rs70bn-80mn.
- Order intake for FY20 was led by power (FGD), food & processing, and Oil&Gas. Large-sized orders are usually from industries like steel, cement, fertiliser, etc. While ordering from refineries is expected to continue, cement plant orders may start from H2FY21. Ordering has started in F&B segment where order cycle is short, ranging from 1-1.5 years. Oil&Gas orders are medium-sized in the range of Rs400mn-600mn. In Oil&Gas, the company is bidding for heaters for expected orders, etc. from Barmer.

FGD

- Execution on projects from initial lots continued even during lockdown in terms of engineering approval, etc. However, ground level activities are expected to start in H2FY20. No substantial delay in execution is expected.
- In addition to NTPC, the private sector is also moving forward in terms of FGD tenders. However, tendering from SEBs may get extended due to their cash constraints.
- 35% retention requirement in initial lots is causing cashflow troubles for players executing those projects. Rebidding is possible in cases where gap between budgeted and actual bid is too high.
- Pricing in FGD is expected to remain competitive. However, only few large companies are expected to compete for the next FGD lot-6, where Thermax will be participating. There are increased enquiries in the market for smaller-sized FGD projects for steel and cement sectors.

Financial summary (consolidated)

Table 9: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Total Income	59,732	61,374	61,374	64,443
Operating Expenses	55,157	56,633	56,012	58,523
EBITDA	4,574	4,741	5,362	5,921
% margins	7.7	7.7	8.7	9.2
Depreciation & Amortisation	920	1,038	1,227	1,305
EBIT	3,654	3,703	4,135	4,616
Gross Interest	143	126	126	126
Other Income	1,499	1,199	1,295	1,424
PBT before exceptionals	5,010	4,776	5,304	5,914
Add:				
Extraordinaries/Exceptionals	(896)	-	-	-
Add: Share in associates	(11)	(11)	(11)	(11)
PBT	4,104	4,765	5,293	5,903
Less: Taxes	849	1,672	1,337	1,490
Less: Minority Interests	(10)	-	-	-
Net Income (Reported)	5,045	3,094	3,957	4,413
Adjusted Net Income	3,209	3,094	3,957	4,413

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	47,371	46,726	48,383	52,204
of which cash & cash eqv.	11,441	12,095	13,755	15,850
Total Current Liabilities & Provisions	35,557	35,393	35,433	37,161
Net Current Assets	373	(763)	(805)	(807)
Investments	543	597	657	722
Other Non-Current Assets	6,566	7,201	7,898	8,665
Net Fixed Assets	13,189	14,950	15,433	15,838
Goodwill	331	324	318	311
Total Assets	32,443	34,405	37,255	40,580
Liabilities				
Borrowings	2,201	2,201	2,201	2,201
Deferred Tax Liability	99	75	77	78
Minority Interest	-	17	17	17
Equity Share Capital	225	225	225	225
Face Value per share (Rs)	2.00	2.00	2.00	2.00
Reserves & Surplus	29,918	31,887	34,736	38,059
Net Worth	30,143	32,112	34,961	38,284
Total Liabilities	32,443	34,405	37,255	40,580

Source: Company data, I-Sec research

Table 11: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	3,417	2,824	3,783	4,163
Working Capital Changes	(4,482)	1,094	5	(46)
Capital Commitments	(4,570)	(2,799)	(1,710)	(1,710)
Free Cashflow	(5,635)	1,119	2,079	2,407
Cashflow from Investing Activities	7,226	1,506	643	718
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	28	-	-	-
Interest paid	(143)	(126)	(126)	(126)
Dividend paid	(834)	(1,072)	(1,072)	(1,072)
Extraordinary Items/Others	(4,311)	(772)	137	168
Chg. in Cash & Bank balance	(3,670)	654	1,660	2,095

Source: Company data, I-Sec research

Table 12: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (in Rs.)				
Diluted adjusted EPS	26.9	26.0	33.2	37.0
Recurring Cash EPS	34.7	34.7	43.5	48.0
Dividend per share (DPS)	7.0	9.0	9.0	9.0
Book Value per share (BV)	253.0	269.5	293.4	321.3
Growth Ratios (%)				
Operating Income	33.2	2.8	-	5.0
EBITDA	14.1	3.6	13.1	10.4
Recurring Net Income	39.5	(3.6)	27.9	11.5
Diluted adjusted EPS	39.5	(3.6)	27.9	11.5
Diluted Recurring CEPS	32.1	0.1	25.5	10.3
Valuation Ratios				
P/E	39.9	41.4	32.3	29.0
P/CEPS	31.0	31.0	24.7	22.4
P/BV	4.2	4.0	3.7	3.3
EV / EBITDA	26.0	24.9	21.7	19.3
EV / Operating Income	2.0	1.9	1.9	1.8
EV / Op FCF (pre -Capex)	(102.9)	30.1	30.7	27.8
Operating Ratios				
Raw Material/Sales (%)	55.9	54.6	52.9	52.5
SG&A/Sales (%)	23.6	23.9	23.9	23.9
Other Income / PBT (%)	29.9	25.1	24.4	24.1
Effective Tax Rate (%)	14.4	35.0	25.2	25.2
NWC / Total Assets (%)	0.0	0.0	0.0	0.0
Inventory Turnover (days)	31.1	31.5	31.5	31.5
Receivables (days)	84.2	84.0	84.0	84.0
Payables (days)	90.7	90.7	90.7	90.7
Net D/E Ratio (x)	(0.3)	(0.3)	(0.3)	(0.4)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	5.4	5.0	6.4	6.8
RoCE	14.3	9.6	11.4	11.6
RoNW	11.2	9.9	11.8	12.0
Dividend Payout Ratio	0.3	0.3	0.3	0.2
Dividend Yield (%)	0.7	0.8	0.8	0.8
EBITDA Margins	7.7	7.7	8.7	9.2

Source: Company data, I-Sec research

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