

Sector: Capital Goods

Result Update

	Change
Reco: Hold	↔
CMP: Rs. 751	
Price Target: Rs. 815	↔
↑ Upgrade ↔ No change ↓ Downgrade	

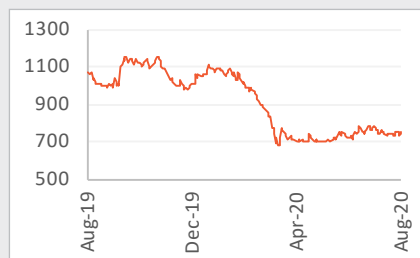
Company details

Market cap:	Rs. 8,945 cr
52-week high/low:	Rs. 1,180/644
NSE volume: (No of shares)	1.0 lakh
BSE code:	500411
NSE code:	THERMAX
Sharekhan code:	THERMAX
Free float: (No of shares)	4.5 cr

Shareholding (%)

Promoters	62.0
FII	11.0
DII	14.4
Others	12.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4	7	-25	-30
Relative to Sensex	-9	-13	-17	-33

Sharekhan Research, Bloomberg

The consolidated net revenues of Thermax reported a sharp decline of 52.3% y-o-y for Q1FY2021 (lower than our estimates) at Rs. 665 crore due to impact of lockdown wherein the decline in revenue was seen across segments. A steep decline in execution led to operating loss of Rs. 11 crore as against operating profit of Rs 99 crore in Q1FY20. However, operating loss stood lower than our expectation. Poor operational performance led to net loss of Rs 15 crore vs. net profit of Rs 63 crore in Q1FY20 (lower than our net loss expectation). Order inflow declined by 50% y-o-y with Q1 order intake at Rs. 608 crore (-50% y-o-y, -36 % q-o-q). Lower execution during the same period helped in lower depletion of the exit order backlog wherein order backlog remained almost flat y-o-y at Rs. 5,212 crore (-0.7% y-o-y; 1x TTM consolidated revenues). Weak international order inflows and limited visibility for big-ticket size domestic orders provides lower order inflows visibility in FY2021 compared to FY2020, given the current uncertainties. However, the management expects better ordering in its chemical business; and enquiries pipeline remains positive in food processing, chemical and pharma in domestic markets. In projects, enquiries were witnessed from core sectors, primarily metals, cement and power generation. The management stated that all factories have started operating, which is currently at 75% utilisation levels and availability of labors getting better compared to last quarter. The fire at the adjoining facility of Dahej chemical factory affected its factory leading to 30-40 days of production loss impacting the chemical division's revenue which has now stabilised and production has resumed. We have tweaked our estimates for FY2021-FY2022, factoring in lower order booking and challenges pertaining to the uncertainties related to execution and production. We retain our Hold rating with an unchanged price target (PT) of Rs. 815.

Key positives

- ♦ Better ordering expected in the chemical segment, while enquiries pipeline remains positive in food processing, and pharma in domestic markets.
- ♦ Cash position remains strong.

Key negatives

- ♦ Order booking declined by 50% y-o-y.
- ♦ Revenues declined sharply due to COVID-19 led lockdown.

Our Call

Valuation – Maintain Hold with an unchanged PT of Rs. 815: Lower carry-forward order book along with lower capacity utilisation in most core user industries is likely to impact order inflows for FY2021. Additionally, weak order intake outlook during FY2021 may lead to further depletion of order book by the end of FY2021. Hence, order inflow during the current fiscal year would be the key monitorable for the company. The company is expected to return to normalcy by Q3FY2021. On a positive note, the company cash flow position remains strong and capacity utilization has improved q-o-q with improved labour availability. We have tweaked our estimates for FY2021-FY2022, factoring lower order booking and challenges pertaining to uncertainties related to execution and production. We retain our Hold rating with an unchanged PT of Rs. 815.

Key Risks

Slower-than-expected revival in private capex resulting in muted order picking.

Valuation (Consolidated)

	Rs cr			
Particulars	FY19	FY20	FY21E	FY22E
Revenue	5,973	5,731	5,188	5,848
OPM (%)	7.7	7.1	7.0	8.4
Adjusted PAT	325	212	250	352
% YoY growth	40.8	(34.7)	17.7	40.6
Adjusted EPS (Rs.)	28.9	18.9	22.2	31.2
P/E (x)	26.0	39.8	33.8	24.0
P/B (x)	2.8	2.8	3.2	2.8
EV/EBITDA (x)	12.3	14.4	15.8	11.1
RoNW (%)	14.6	7.1	8.9	12.9
RoCE (%)	18.7	13.2	11.6	16.5

Source: Company; Sharekhan estimates

Muted performance for the quarter: Thermax's consolidated net revenue reported a sharp decline of 52.3% y-o-y in revenue for Q1FY2021 (lower than our estimates) at Rs. 665 crore due to the impact of lockdown wherein the decline in revenue was seen across segments. Energy segment revenues declined 57% y-o-y, environment segment declined 42.7% y-o-y and chemical declined by 13.8% y-o-y. Steep decline in execution led to operating loss of Rs. 11 crore as against operating profit of Rs 99 crore in Q1FY20. However, operating loss stood lower than our expectation. Poor operational performance led to net loss of Rs 15 crore vs. net profit of Rs 63 crore in Q1FY20 (lower than our net loss expectation). Order inflow declined by 50% y-o-y with Q1 order intake at Rs. 608 crore (-50% y-o-y, -36 % q-o-q).

Order inflow remains weak: Order inflow declined by 50% y-o-y with Q1 order intake at Rs. 608 crore (-50% y-o-y, -36 % q-o-q). Order booking declined by 54%/40% in the energy and environment segment in Q1FY21, while it improved by 12% in the chemical segment. Lower execution during the same period helped in lower depletion of the exit order backlog where in order backlog remained almost flat y-o-y at Rs. 5,212 crore (-0.7% y-o-y; 1x TTM consolidated revenues). Weak international order inflows and limited visibility for big-ticket size domestic orders provides lower order inflows visibility in FY2021 compared to FY2020, given the current uncertainties. However, the management expects better ordering in its chemical business; and enquiries pipeline remains positive in food processing, chemical and pharma in domestic markets The company expects better exports from the chemical division due to opportunities arising from pharma API factories (for boilers, water treatment etc.) and orders from international markets.

Key conference call highlights

- ♦ **Order inflow guidance:** Weak international order inflows and limited visibility for big-ticket size domestic orders provides lower order inflows visibility in FY2021 compared to FY2020, given the current uncertainties
- ♦ **Procurement from China:** Management highlighted that procurement from China compared to overall procurement from other countries remains miniscule (currently at ~Rs. 100 crore).
- ♦ **Domestic market order intake scenario:** In the domestic market, the company expects better ordering in its chemical business; and enquiries pipeline remains positive in food processing, chemical and pharma in domestic markets. Fresh project enquiries also witnessed from the core sectors , primarily metals, cement and power generation.
- ♦ **Current factory status after lockdown:** The management stated that all factories have started operating, which is currently at 75-utilisation levels, and expects to return to normalcy by Q3FY2021. Further, project sites are operating at 90-95% levels with better availability of labor.
- ♦ **International business update:** The company's factories in Denmark, Germany, Poland, and Indonesia were operational. Further, Danstoker Group maintains profit in Q1FY21. Further, Indonesia plant is loss making at present and break expected to take some time.
- ♦ **Operations at Dahej resumed:** The fire at the adjoining facility of Dahej chemical factory affected its factory leading to 30-40 days of production loss impacting the chemical division's revenue which has now stabilised now and production has resumed . However, the company expects better exports from the chemical division due to opportunities arising from pharma API factories (for boilers, water treatment etc.) and orders from international markets (North America).

Results (Consolidated)

					Rs cr
Particulars	Q1FY21	Q1FY20	YoY%	Q4FY20	QoQ%
Net sales	664.9	1,393	-52.3%	1,323	-50%
Net raw material	334	753	-55.6%	673	-50%
Employee Expenses	182	195	-6.3%	197	-7%
Other Expenses	160	346	-53.8%	389	-59%
Operating profit	(11.4)	99	PTL	64	PTL
Other Income	21	22	-3.0%	31	-32%
Interest	4.0	4.4	-8.3%	4.9	-18%
Depreciation	28	26	6.8%	31	-9%
PBT	(22)	90	PTL	59	PTL
Tax	(7)	27	-	20	-
Adj.PAT	(15.3)	63.1	PTL	39	PTL
Rep PAT	(15.3)	63	PTL	39	PTL
EPS	(1.4)	5.6	-	3.5	-
Margin			bps		bps
OPM	-1.7%	7.1%	-	4.8%	-
PATM	-2.3%	4.5%	-	3.0%	-
Tax rate	32.1%	30.2%	-	33.4%	-

Source: Company; Sharekhan Research, PTL-Profit to Loss

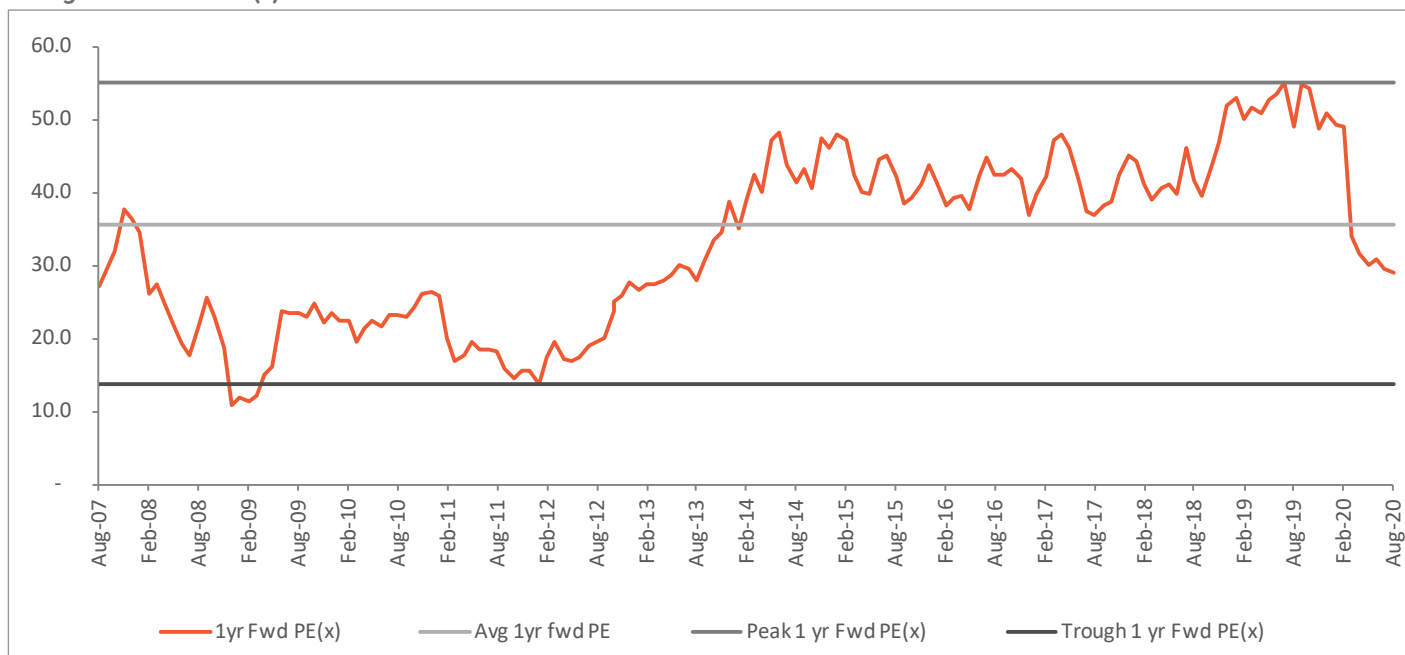
Outlook

Cautious on near-term recovery in order tendering: Management sounded cautious on a short-term recovery in order tendering. Weak international order inflows and limited visibility for big ticket-size domestic is expected to see lower order inflows in FY2021 compared to FY2020. Management expects better ordering in its chemical business. Further enquiries pipeline remains positive in food processing, chemical and pharma in domestic markets. Fresh project enquiries also witnessed from core sectors primarily metals, cement and power generation. The company expects better exports from the chemical division due to opportunities arising from pharma API factories (for boilers, water treatment etc.) and orders from international markets

Valuation

Maintain Hold with an unchanged PT of Rs. 815: Lower carry-forward order book along with lower capacity utilisation in most core user industries is likely to impact order inflows for FY2021. Additionally, weak order intake outlook during FY2021 may lead to further depletion of order book by the end of FY2021. Hence, order inflow during the current fiscal year would be the key monitorable for the company. The company is expected to return to normalcy by Q3FY2021. On a positive note, the company cash flow position remains strong and capacity utilization has improved q-o-q with improved labour availability. We have tweaked our estimates for FY2021-FY2022, factoring lower order booking and challenges pertaining to uncertainties related to execution and production. We retain our Hold rating with an unchanged PT of Rs. 815.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Thermax provides solutions in the energy and environment space. The energy business contributes 75-78% to revenue, whereas the environment business contributes 15-16% and chemical business contributes 7-8%. The company operates globally through 33 international offices and 13 manufacturing facilities, seven of which are in India and six are overseas. Thermax is present in 86 countries across Asia Pacific, Africa, Middle East, CIS countries, Europe, US, and South America.

Investment theme

Green shoots of a revival in private capex are visible in a few segments (metals and cement), with most other companies resorting to brownfield expansions. However, a broad-based recovery is key for Thermax. While historically, Thermax's growth has been led by the domestic market, incremental growth from international markets exposes Thermax to the risk of rising commodity prices, given fixed-price contracts.

Key Risks

- ♦ Slower-than-expected revival in private capex resulting in muted order picking
- ♦ Slowdown in tendering activities, and slower pick-up in its subsidiary companies.

Additional Data

Key management personnel

Meher Pudumjee	Chairman
Nawshir Mirza	Additional Independent Director
M S Unnikrishnan Managing Director	Managing Director
Pheroze Pudumjee	Non Executive Promoter
Anu Aga	Non Executive Promoter

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	RDA Holdings Pvt Ltd	53.99
2	ARA TRUSTEESHIP COMPANY PVT LTD	7.99
3	SBI Funds Management Pvt Ltd	3.36
4	PineBridge Investments LP	3.17
5	Kotak Mahindra Asset Management Co	2.27
6	Goldman Sachs Group Inc/The	1.64
7	Franklin Resources Inc	1.63
8	L&T Mutual Fund Trustee Ltd/India	1.53
9	Life Insurance Corp of India	1.48
10	Reliance Capital Trustee Co Ltd	1.22

Source: Bloomberg

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