

Decent growth, margins impacted amid challenges...

About the stock: Thermax Ltd (Thermax) offers integrated solutions in the areas of energy and environment – heating, cooling, power, water & waste management, air pollution control and chemicals.

- It operates three in key segments energy (~76% of FY21 revenue), environment segment (~17%) and chemicals segment (~9%)
- Focus to increase the product & services share (~50% in FY21) vs. projects

Q1FY22 Results: Thermax reported reasonable Q1FY22 results amid disruptions.

- Consolidated revenue was up 58.3% YoY, amid low base
- EBITDA came in at ₹ 63 crore (vs. EBITDA loss of ₹ 11.4 crore in Q1FY21) impacted by higher commodity prices and pandemic disruptions
- PAT came in at ₹ 42.4 crore (vs. net loss of ₹ 15.3 crore in Q1FY21)
- Order inflows for Q1FY22 came in at ₹ 1696 crore, up ~179% YoY

What should investors do? Strong balance sheet, prudent working capital management, recent technological tie-ups, are expected to support growth.

- We remain long term positive and retain our BUY rating on the stock

Target Price and Valuation: We value Thermax at ₹ 1680 i.e. 42x on FY23E EPS.

Key triggers for future price performance:

- We expect revenue, EBITDA to grow at CAGR of ~18.8%, 33.1%, respectively, over FY21-23E amid margin improvement and low base
- Recent broad based recovery in order inflows, strong order enquiry pipeline across industrial sectors likely to ensure decent order inflows for FY22E
- Controlled net working capital (NWC), strong balance sheet

Alternate Stock Idea: Besides Thermax, in our coverage we also like Elgi.

- Among the leaders in domestic compressor market with strong b/s and return ratios, gaining traction in international markets to drive growth
- BUY with a target price of ₹ 260



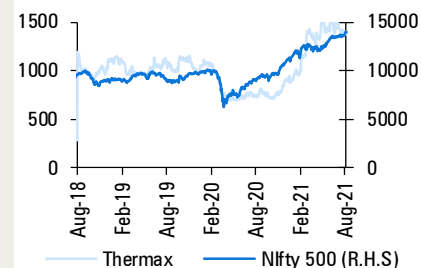
Particulars

Particular	Amount
Market Capitalization	₹ 16204.4 Crore
Total Debt (FY21)	₹ 305.1 Crore
Cash and Inv. (FY21)	₹ 461.4 Crore
EV	₹ 16048.1 Crore
52 week H/L	₹ 1570 / 706
Equity capital	₹ 23.8 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	62.0	62.0	62.0	62.0
FII	10.9	12.2	12.5	12.7
DII	13.3	14.5	14.6	14.5
Others	13.8	11.3	10.9	10.8

Price Performance



Recent Events & Key Risks

- (i) Any significant decline in expected capex to affect order inflows. (ii) Higher commodity prices to impact profitability

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Key Financial Summary

Particulars (₹ crore)	FY19	FY20	FY21	5 Year CAGR (FY16-FY21)	FY22E	FY23E	2 Year CAGR (FY21-FY23E)
Net Sales	5,973.2	5,731.3	4,791.3	1.8%	5,934.1	6,761.2	18.8%
EBITDA	457.5	406.2	355.2	-2.7%	435.6	629.2	33.1%
EBITDA Margin (%)	7.7	7.1	7.4		7.3	9.3	
Net Profit	325.5	212.5	206.6	-4.2%	319.5	476.1	51.8%
EPS (₹)	27.3	17.8	17.3		26.8	40.0	
P/E (x)	49.8	76.3	78.4		50.7	34.0	
RoNW (%)	13.2	7.0	7.6		9.3	12.7	
RoCE (%)	15.9	12.0	9.8		11.9	16.3	

Source: Company, ICICI Direct Research

* Numbers till FY18 includes standalone business with boiler & heater business of Thermax, which is now classified as discontinued operations from standalone and transferred to its subsidiary TBWES with effect from October 1, 2019. Hence, they will not be reflected in standalone numbers. Instead, they will be reflected in consolidated numbers. Therefore, they will not be comparable. Hence, we have changed our presentation of historical numbers (FY19, FY20) and forward numbers to consolidated and valued accordingly.

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Decent growth on low base, margins impacted...

- Energy segment revenue (that contributes ~72% to revenue) grew 52.4% to ₹ 762.7 crore, YoY. Environment segment revenue grew 115.1% to ₹ 180.4 crore while chemical segment revenue came in at ₹ 122.7 crore, up 45.6% YoY
- EBITDA came in at ₹ 63 crore (vs. EBITDA loss of ₹ 11.4 crore in Q1FY21) impacted by higher commodity prices, higher freight cost, lack of labour availability that impacted productivity. Consequently, EBITDA margin came in at 6.0% (vs. our estimate of 7.0%). Gross margins declined 900 bps YoY to 49.4%
- The consolidated order inflow for the quarter came in decent at ₹ 1696 crore (vs. ₹ 608 crore in Q1FY21). Consolidated order book as on Q1FY22 was at ₹ 6109 crore, up 17% YoY

Q1FY22 Earnings Conference Call highlights

- For Q1FY22, consolidated order inflow for the quarter came in decent at ₹ 1696 crore (vs. ₹ 608 crore in Q1FY21). Major sectors in Q1FY22 order inflows includes refinery & petrochemicals (26%), cement (16%), metal & steel (14%), chemical (7%), food & beverages (6%), fertiliser & agro (6%), power (5%), pharma (4%) and other (16%). Consolidated order inflows comprise energy segment (₹ 1256 crore), environment (₹ 300 crore) & chemicals segment contributed ₹ 139 crore. Domestic order inflows contributed 68% to ₹ 1149 crore while export orders 32% (₹ 547 crore)
- Consolidated order book as on Q1FY22 was at ₹ 6109 crore, up 17% YoY. It consists of ~73% from energy sector followed by environment (26%) and chemicals (2%)
- Technology Tie-ups: The company is progressing on a technology collaboration for waste to heat energy technology, flexible solar films and hydrogen based fuel cell technology with an aim of green and sustainable solutions in the energy and environment segment. These technologies will take at least 18-24 months to get commercialised, start manufacturing and is likely to lead to significant business opportunity for Thermax in long term
- Overseas subsidiaries: - Danstoker reported marginal profits in Q1FY22 and is expected to turn around in coming quarters while the Indonesia subsidiary is still in the red, impacted by a delay in execution. The company is focused on reducing cost of production and improving order book to gradually break even amid current challenges and travel restrictions
- FY22 order inflow outlook – Decent order inquiry pipeline, long term order opportunities expected in sectors/segments like cement, steel, pharma, refinery, petrochemicals, food processing, chemicals, textiles, heavy metals, FMCG, smaller boilers for captive plants, waste heat recovery plants, air pollution control equipment, spent wash boiler, biomass, fertilisers, etc
- In environment segment, FGD execution is having a better run rate. Overall ~ ₹ 100 crore revenue was booked from FGD in FY21 out of ~₹ 900 crore order book with remaining to be contributed equally over FY22E and FY23E
- Cautious on impact of commodity prices and its long term outlook. Renegotiating with customers as far as possible. Adverse movement in commodity prices and higher contribution from FGD could have some impact on profitability
- Currently, projects and product & service business contribution are at 50% each. The company aims to grow product & services business faster than projects business in the longer term

Exhibit 1: Variance Analysis (Consolidated)

	Q1FY22	Q1FY22E	Q1FY21	YoY (Chg %)	Q4FY21	QoQ (Chg %)	Comments
Total Operating Income	1,052.4	951.0	665.0	58.3	1,574.5	-33.2	Revenue growth came on the back of better execution led by environment segment amid low base
Other Income	25.4	26.0	20.9	21.5	35.8	-29.1	
Raw Material Expenses	532.8	498.3	334.3	59.4	821.5	-35.1	
Employee Expenses	191.2	186.4	182.4	4.8	197.3	-3.1	
Other Expenses	265.4	199.7	159.7	66.2	416.0	-36.2	
Total Expenditure	989.3	884.4	676.3	46.3	1,434.9	-31.1	
EBITDA	63.0	66.6	-11.4	-654.9	139.6	-54.9	
EBITDA Margin (%)	6.0	7.0	-1.7	770 bps	8.9	-288 bps	Margins saw some impact due to high commodity price and lockdowns affecting onsite labour availability
Depreciation	27.4	29.0	28.0	-2.2	28.8	-4.9	
Interest	4.8	3.8	4.0	19.5	6.3	-24.1	
Exceptional Item	0.0	0.0	0.0	-	27.9		
PBT	56.3	59.8	-22.5	-350.3	140.3	-59.9	
Total Tax	13.9	15.5	-7.2	-292.0	33.0	-58.0	
PAT	42.4	44.2	-15.3	-377.9	107.3	-60.5	
Adjusted PAT	42.4	44.2	-15.3	-377.9	107.3	-60.5	Adjusted PAT partly aided by lower effective tax rate YoY
Key Metrics							
Energy segment revenues	763	497	500	52.4	1,175	-35.1	
Environment segment revenues	290	454	165	75.9	399	-27.5	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old*	New	% Change	Old*	New	% Change	
Revenue	5,933.2	5,934.1	0.0	6,761.3	6,761.2	0.0	
EBITDA	453.4	435.6	-3.9	632.4	629.2	-0.5	
EBITDA Margin (%)	7.6	7.3	-26 bps	9.4	9.3	-5 bps	Revised in line with expected commodity price impact in FY22E
PAT	335.5	319.5	-4.8	477.8	476.1	-0.4	
EPS (₹)	28.2	26.8	-4.9	40.1	40.0	-0.4	

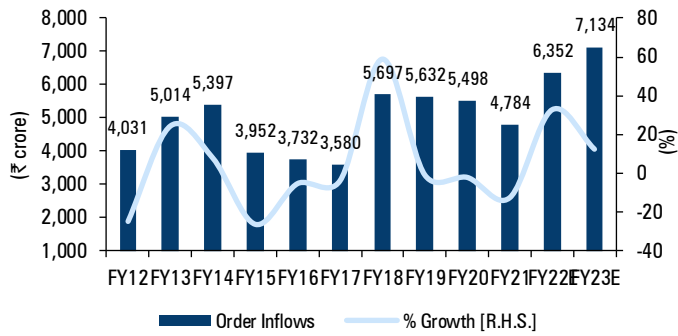
Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current		Earlier		Comments		
	FY20	FY21	FY22E	FY23E			
Order inflow growth (%)	-2.4	-13.0	32.8	12.3	31.5	12.2	Order inflows expected to gradually pick up in medium term.
Order backlog growth (%)	-6.6	-0.1	8.4	6.9	7.1	5.5	
Revenue growth (%)	10.7	-16.4	23.9	13.9	23.8	14.0	
EBITDA margin (%)	7.1	7.4	7.3	9.3	7.6	9.4	

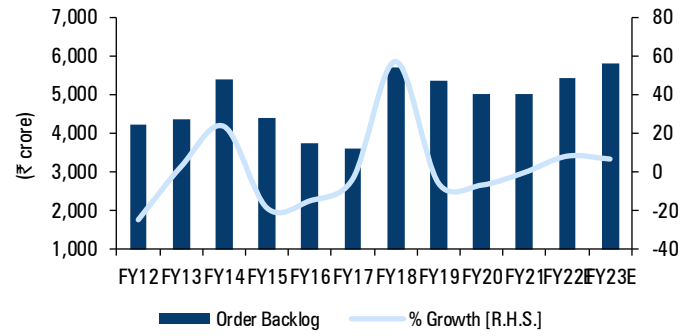
Source: Company, ICICI Direct Research

Exhibit 4: Order inflow trend...



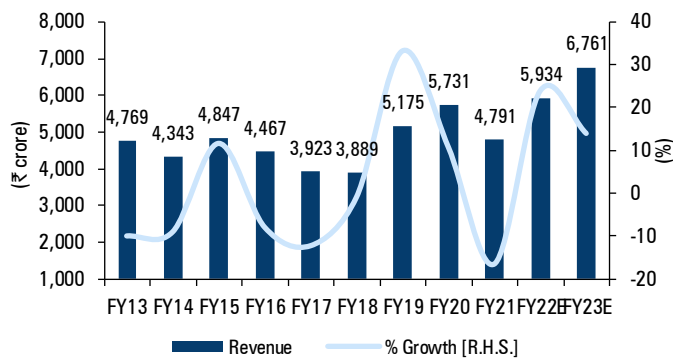
Source: ICICI Direct Research, Company

Exhibit 5: Trend in order backlog...



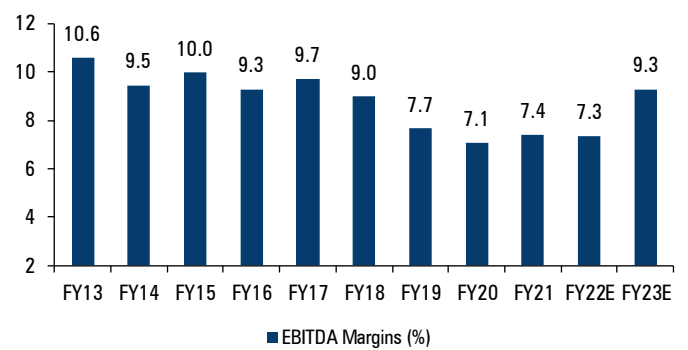
Source: ICICI Direct Research, Company

Exhibit 6: Trend in revenues...



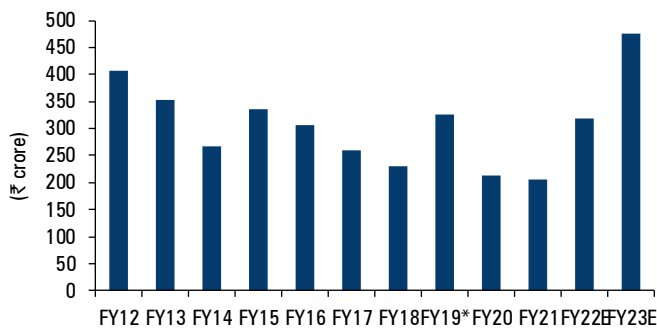
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margins trend...



Source: Company, ICICI Direct Research

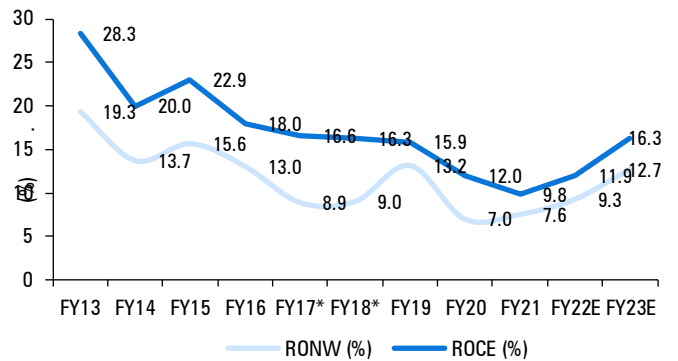
Exhibit 8: Trend in PAT...



Source: Company, ICICI Direct Research

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Exhibit 9: Return ratios to recover in FY20-23E...



Source: Company, ICICI Direct Research

Financial summary (Consolidated)

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total op. Income	5,731.3	4,791.3	5,934.1	6,761.2
Growth (%)	-4.0	-16.4	23.9	13.9
Raw Material Expenses	3,085.7	2,538.6	3,217.5	3,689.9
Employee Expenses	799.0	758.8	861.4	935.8
Other Op. Expenses	1,440.4	1,138.7	1,419.6	1,506.3
Admin. Expenses	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0
Total Op. Expenditure	5,321.1	4,419.6	5,522.4	6,145.9
EBITDA	406.2	355.2	435.6	629.2
Growth (%)	-11.2	-12.5	22.6	44.5
Depreciation	116.6	114.6	121.4	126.5
Interest	15.0	20.6	17.0	14.4
Other Income	100.0	107.7	134.4	155.0
PBT	374.5	275.2	431.6	643.3
Others	0.0	0.0	0.0	0.0
Total Tax	162.1	68.6	112.1	167.3
PAT	212.5	206.6	319.5	476.1
Growth (%)	-34.7	-2.8	54.6	49.0
EPS (₹)	17.8	18.3	26.8	40.0

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	212.5	206.6	319.5	476.1
Add: Depreciation	116.6	114.6	121.4	126.5
(Inc)/dec in Current Assets	644.8	-281.9	-205.8	-341.0
Inc/(dec) in CL and Provisions	-860.1	179.1	76.8	129.5
Others	3.3	3.0	5.0	5.0
CF from operating activities	113.8	218.3	311.9	391.1
(Inc)/dec in Investments	56.0	-60.1	-40.0	-20.0
(Inc)/dec in Fixed Assets	-102.9	-42.5	-55.0	-100.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	40.2	-122.2	-158.9	-170.3
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-8.5	93.5	0.0	-30.0
Dividend paid & dividend tax	-190.1	-83.4	-129.1	-172.2
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	-207.4	110.5	-129.1	-202.2
Net Cash flow	-53.4	206.6	23.9	18.6
Opening Cash	308.2	254.8	461.4	485.3
Closing Cash	254.8	461.4	485.3	503.9

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	22.5	22.5	22.5	22.5
Reserve and Surplus	3,005.4	3,228.9	3,419.3	3,723.2
Total Shareholders funds	3,027.9	3,251.5	3,441.8	3,745.7
Total Debt	211.5	305.1	305.1	275.1
Deferred Tax Liability	4.4	7.0	7.0	7.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	3,347.2	3,719.2	3,924.5	4,223.4
Assets				
Gross Block	1,932.0	1,987.8	1,993.9	2,083.9
Less: Acc Depreciation	707.3	777.7	883.1	993.5
Net Block	1,224.7	1,210.1	1,110.8	1,090.4
Capital WIP	55.3	21.1	65.0	75.0
Total Fixed Assets	1,280.0	1,231.2	1,175.8	1,165.4
Investments	59.1	119.2	159.2	179.2
Inventory	454.6	404.7	473.2	490.1
Debtors	1,386.3	1,237.1	1,365.7	1,537.5
Loans and Advances	5.9	4.5	7.4	7.5
Other Current Assets	838.3	765.7	872.1	994.0
Cash	254.8	461.4	485.3	503.9
Total Current Assets	2,939.9	2,873.4	3,203.7	3,532.9
Creditors	960.2	1,138.0	1,121.8	1,148.5
Provisions	169.4	195.1	224.4	253.8
Total Current Liabilities	2,608.7	2,787.7	2,864.6	2,994.1
Net Current Assets	1,369.4	1,678.8	1,831.7	2,061.7
Others Assets	0.0	0.0	0.0	0.0
Application of funds	3,347.2	3,719.2	3,924.6	4,223.5

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	17.8	17.3	26.8	40.0
Cash EPS	27.6	27.0	37.0	50.6
BV	254.1	272.9	288.8	314.4
DPS	13.2	7.0	9.0	12.0
Cash Per Share	21.4	38.7	40.7	42.3
Operating Ratios (%)				
EBITDA Margin	7.1	7.4	7.3	9.3
PBT / Total Operating income	6.5	5.7	7.3	9.5
PAT Margin	3.7	5.1	5.4	7.0
Inventory days	28.9	30.8	29.1	26.5
Debtor days	88.3	94.2	84.0	83.0
Creditor days	61.2	86.7	69.0	62.0
Return Ratios (%)				
RoE	7.0	7.6	9.3	12.7
RoCE	12.0	9.8	11.9	16.3
RoIC	21.3	25.2	28.0	38.5
Valuation Ratios (x)				
P/E	76.3	78.4	50.7	34.0
EV / EBITDA	39.8	45.2	36.8	25.4
EV / Net Sales	2.8	3.3	2.7	2.4
Market Cap / Sales	2.8	3.4	2.7	2.4
Price to Book Value	5.4	5.0	4.7	4.3
Solvency Ratios				
Debt/EBITDA	0.5	0.9	0.7	0.4
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.0	0.9	0.9	1.0
Quick Ratio	0.9	0.7	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1595	1,870	Buy	223810	81.9	46.7	52.9	19.5	34.2	30.1	7.4	8.0	8.8	18.8	10.2	11.0
AIA Engineering (AIAENG)	1963	2,275	Buy	18515	60.0	58.7	71.0	32.7	33.4	27.7	16.5	15.1	16.7	13.3	12.2	13.3
Thermax (THERMA)	1360	1,680	Buy	16205	17.3	26.8	40.0	78.4	50.7	34.0	9.8	11.9	16.3	7.6	9.3	12.7
Kalpataru Power(KALPOW)	452	550	Buy	6993	41.3	33.9	42.0	10.9	13.3	10.8	15.9	16.6	17.6	12.7	11.5	12.7
KEC International (KECIN)	414	485	Buy	10644	21.5	23.3	32.2	19.3	17.7	12.8	19.4	18.3	20.9	16.5	15.9	18.3
Greaves Cotton (GREAVE)	160	210	Buy	3699	0.4	4.7	6.5	357.1	33.7	24.4	6.5	16.5	21.9	3.3	12.0	16.0
Elgi Equipment (ELGEQU)	204	260	Buy	6465	3.2	3.9	6.2	63.1	52.0	33.1	11.7	12.8	18.1	11.8	13.9	18.7
Bharat Electronics (BHAELE)	171	205	Buy	41666	8.5	9.5	10.8	20.2	17.9	15.8	27.1	26.7	27.7	19.1	19.7	20.5
Cochin Shipyard (COCSHI)	372	500	Buy	5089	46.4	44.0	55.6	8.0	8.5	6.7	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	2885	3,300	Buy	14100	60.2	72.0	94.0	47.9	40.1	30.7	24.8	25.0	28.0	19.0	19.0	21.0
Timken India (TIMIND)	1500	1,235	Hold	11729	19.0	31.2	35.3	78.8	48.1	42.5	15.4	19.4	21.9	11.9	14.8	16.8
NRB Bearing (NRBBEA)	132	175	Buy	1466	5.6	8.0	9.8	23.6	16.5	13.5	11.8	15.8	17.2	10.4	13.1	14.1
Action Construction (ACTCON)	237	300	Buy	2894	7.1	9.4	13.7	33.4	25.2	17.3	26.9	25.8	30.7	15.3	17.1	20.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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