Thermax (THERMA)

ICICI direct Research

CMP: ₹ 2040 | Target: ₹ 2445 (20%) | Target Period: 12- 15 months | BUY

February 7, 2022

Result Update

Decent revenue growth on better execution in environment segment

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

Q3FY22 Results: Thermax reported decent Q3FY22 results amid disruptions.

- Consolidated revenue at ₹ 1614.7 crore, up 14.5% YoY, owing to better execution
- EBITDA came in at ₹ 113.1 crore, down 23.4% YoY, impacted by higher commodity prices and freight cost
- Adjusted PAT came in at ₹ 79.4 crore, down 23.4% YoY
- Order inflows for Q3FY22 came in at ₹ 2462 crore, up ~57% 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 ₹ 2445 i.e. 50x on FY24E EPS

Key triggers for future price performance:

- We expect revenue, EBITDA to grow at CAGR of ~18.5%, 32.2%, respectively, in FY22-24E amid margins gradually returning to normal levels
- 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: We also like Larsen & Toubro in our coverage.

- Focus on monetisation of non-core assets, improving RoEs and reducing debt makes it an attractive bet to ride the infrastructure revival theme
- BUY with a target price of ₹ 2270

THERMAX

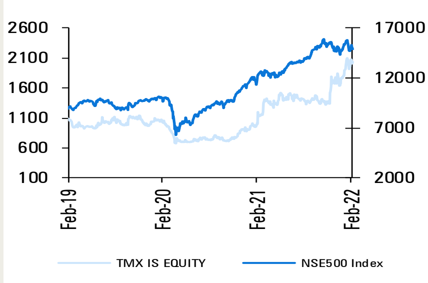
Particulars

Particular	Amount
Market Capitalization	₹ 24294.7 Crore
Total Debt (FY21)	₹ 305.1 Crore
Cash and Inv. (FY21)	₹ 461.4 Crore
EV	₹ 24138.3 Crore
52 week H/L	₹ 2175 / 1024
Equity capital	₹ 23.8 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	62.0	62.0	62.0	62.0
FII	12.5	12.7	12.4	12.3
DII	14.6	14.5	15.0	15.0
Others	11.0	10.9	10.7	10.7

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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ICICI Securities – Retail Equity Research

Key Financial Summary

Particulars (₹ crore)	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	2 Year CAGR (FY22-FY24E)
Net Sales	5,731.3	4,791.3	5,967.1	9.2%	7,443.1	8,379.0	18.5%
EBITDA	406.2	355.2	443.6	3.5%	668.5	775.4	32.2%
EBITDA Margin (%)	7.1	7.4	7.4		9.0	9.3	
Net Profit	212.5	206.6	326.4	8.7%	506.3	582.8	33.6%
EPS (₹)	17.8	17.3	27.4		42.5	48.9	
P/ E (x)	114.4	117.6	74.4		48.0	41.7	
RoNW (%)	7.0	7.6	9.5		13.4	13.9	
RoCE (%)	12.0	9.8	12.1		17.2	18.1	

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

Q3FY22 Results: Decent revenue growth owing to better execution in environment segment

- Energy segment revenue (that contributes ~72% to revenue) grew 9.1% to ₹ 1163 crore YoY. Environment segment revenue grew 33.8% to ₹ 339.27 crore, chemical segment revenue came in at ₹ 155.4 crore, up 39.6% YoY
- EBITDA came in at ₹ 113.1 crore, down 23.4% YoY impacted by higher commodity prices and higher freight cost. Consequently, EBITDA margin came in at 7% (vs. our estimate of 8%). Gross margins declined 280 bps to 43.9% on a YoY basis
- The consolidated order inflow for the quarter came in decent at ₹ 2462 crore (vs. ₹ 1565 crore in Q3FY21). Consolidated order book as on Q3FY22 was at ₹ 7389 crore, up 42% YoY

Q3FY22 Earnings Conference Call highlights

- For Q3FY22, consolidated order inflow for the quarter came in decent at ₹ 2462 crore (vs. ₹ 1565 crore in Q3FY21). Major sectors in Q3FY22 order inflows includes power (40%), cement (11%), sugar/distillery (9%), chemical (7%), petrochemicals (7%), metal & steel (6%), food & beverages (4%), pharma (2%) and others (13%). Consolidated order inflows comprise energy segment (₹ 1163 crore), environment (₹ 1135 crore) & chemicals segment contributed ₹ 163 crore. Domestic order inflows contributed 81% to ₹ 1989 crore while export orders were at 19% (₹ 472 crore)
- Consolidated order book as on Q3FY22 was at ₹ 7389 crore, up 42% YoY. It consists of ~67% from energy sector followed by environment (32%) and chemicals (1%).Out of top five orders, four are from private players
- In terms of order inflow prospects, Thermax is seeing traction in the refinery and petrochemical space amid competitive intensity. The ticket size of orders would ₹ 100 crore plus. Sectors such as metal are also expected to see order inflow but the fructification of the same is three to four quarters away
- EBIDTA margins are expected to see a gradual improvement over the next two years. Most of the order backlog barring few orders, are based on fixed price contacts
- Current capacity utilisation is more than 80%. In certain parts of the business the company is planning to outsource, lockup third party supplies
- Thermax is increasing its capability in the solar business, doing solar opex as well for industrials that are looking to provide storage solutions based on it
- In environment segment, this year the company will book ~₹ 350 crore of FGD revenue. Next year, it may do ₹ 450-500 crore of FGD revenue with thin margins amid higher costs
- Currently, projects are at 50%, product are at 30% while the rest is service business contribution. In the service segment, the company is expecting good growth and may see its contribution double from present levels

Exhibit 1: Variance Analysis (Consolidated)

	Q3FY22	Q3FY22E	Q3FY21	YoY (Chg %)	Q2FY22	QoQ (Chg %)	Comments
Total Operating Income	1,614.7	1,574.2	1,410.6	14.5	1,469.3	9.9	Revenue growth came on the back of better execution led by environment segment amid low base
Other Income	29.2	38.0	28.2	3.3	36.8	-20.6	
Raw Material Expenses	905.8	868.9	751.9	20.5	808.0	12.1	
Employee Expenses	206.7	203.1	190.1	8.7	195.6	5.7	
Other Expenses	389.2	376.2	321.0	21.2	355.8	9.4	
Total Expenditure	1,501.6	1,448.2	1,263.0	18.9	1,359.3	10.5	
EBITDA	113.1	125.9	147.6	-23.4	110.0	2.8	
EBITDA Margin (%)	7.0	8.0	10.5	-346 bps	7.5	-48 bps	Margins impacted by higher commodity prices and fright cost
Depreciation	29.0	28.5	29.1	-0.3	27.4	5.7	
Interest	5.3	4.6	5.7	-6.9	5.1	4.2	
Exceptional Item	0.0	0.0	0.0	-	27.9		
PBT	108.0	130.9	141.1	-23.4	114.3	-5.5	
Total Tax	28.6	34.0	30.0	-4.5	26.4	8.4	
PAT	79.4	96.8	111.2	-28.5	87.9	-9.6	
Adjusted PAT	79.4	96.8	103.8	-23.4	87.9	-9.6	
Key Metrics							
Energy segment revenues	1,163	1,149	1,066	9.1	1,057	10.0	
Environment segment revenues	452	425	345	31.0	412	9.6	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY23E			FY24E			Comments
(₹ Crore)	Old*	New	% Change	Old*	New	% Change	
Revenue	6,762.2	7,443.1	10.1	-	8,379.0	-	
EBITDA	628.3	668.5	6.4	-	775.4	-	
EBITDA Margin (%)	9.3	9.0	-32 bps	-	9.3	-	
PAT	476.6	506.3	6.2	-	582.8	-	
EPS (₹)	40.0	42.5	6.2	-	48.9	-	

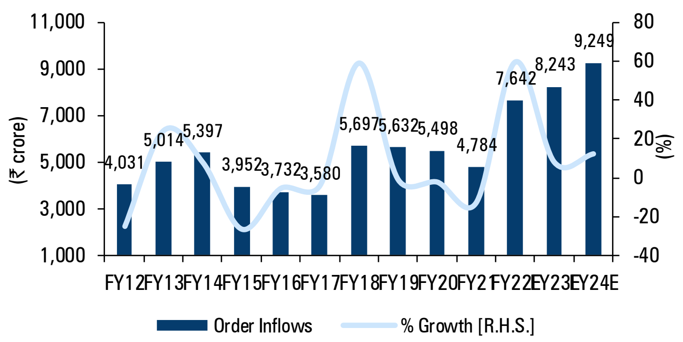
Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

		Current			Earlier		Comments
	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	
Order inflow growth (%)	-13.0	59.7	7.9	12.2	44.3	11.6	Order inflows expected to continue the momentum in medium term.
Order backlog growth (%)	-0.1	33.5	12.0	11.6	18.9	15.8	
Revenue growth (%)	-16.4	24.5	24.7	12.6	24.3	13.6	
EBITDA margin (%)	7.4	7.4	9.0	9.3	7.1	9.3	

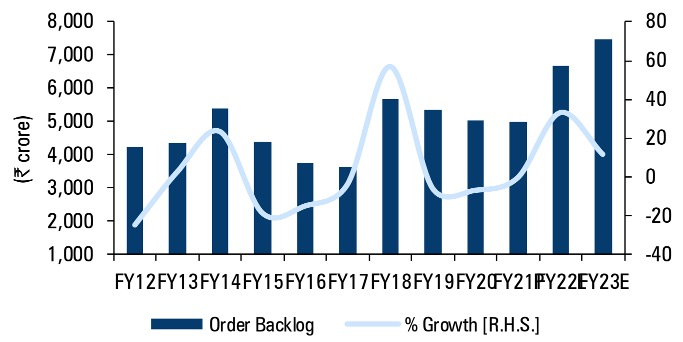
Source: Company, ICICI Direct Research

Exhibit 4: Order inflow trend...



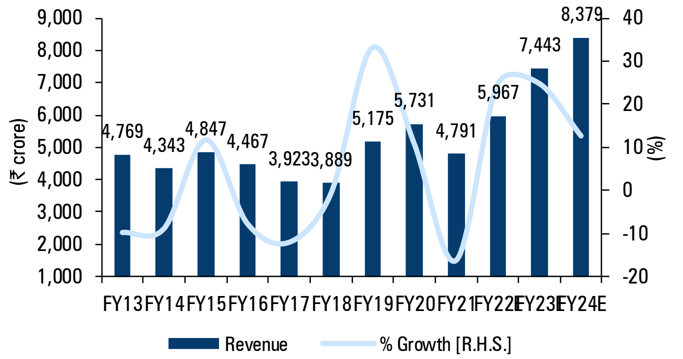
Source: ICICI Direct Research, Company

Exhibit 5: Trend in order backlog...



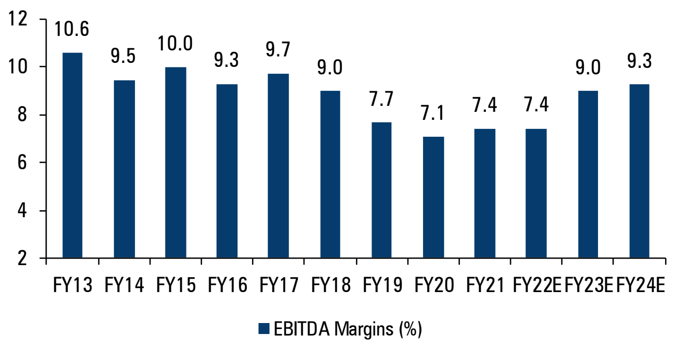
Source: ICICI Direct Research, Company

Exhibit 6: Trend in revenues...



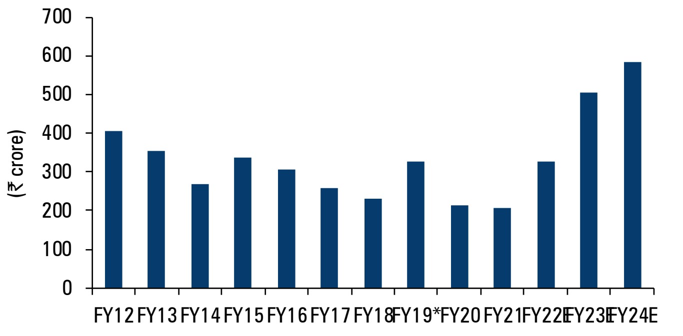
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margins trend...



Source: Company, ICICI Direct Research

Exhibit 8: Trend in PAT...



Source: Company, ICICI Direct Research

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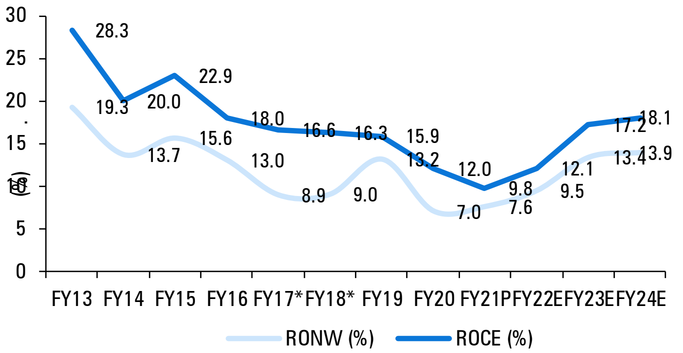
Exhibit 9: Return ratios to recover in FY20-24E...



Source: Company, ICICI Direct Research

Financial summary (Consolidated)

Exhibit 10: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Total op. Income	**4,791.3**	**5,967.1**	**7,443.1**	**8,379.0**
Growth (%)	-16.4	24.5	24.7	12.6
Raw Material Expenses	2,538.6	3,246.1	4,091.1	4,583.8
Employee Expenses	758.8	827.8	1,029.0	1,157.6
Other Op. Expenses	1,138.7	1,449.7	1,654.5	1,862.3
Admin. Expenses	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0
Total Op. Expenditure	4,419.6	5,548.1	6,799.3	7,616.2
EBITDA	**355.2**	**443.6**	**668.5**	**775.4**
Growth (%)	-12.5	24.9	50.7	16.0
Depreciation	114.6	119.8	124.9	129.9
Interest	20.6	18.9	14.4	12.9
Other Income	107.7	131.3	155.0	155.0
PBT	275.2	436.2	684.2	787.6
Others	0.0	0.0	0.0	0.0
Total Tax	68.6	109.8	177.9	204.8
PAT	**206.6**	**326.4**	**506.3**	**582.8**
Growth (%)	-2.8	58.0	55.1	15.1
EPS (₹)	**17.3**	**29.0**	**42.5**	**48.9**

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	206.6	326.4	506.3	582.8
Add: Depreciation	114.6	119.8	124.9	129.9
(Inc)/dec in Current Assets	-281.9	-244.6	-1,017.0	-326.3
Inc/(dec) in CL and Provisions	179.1	100.8	544.0	270.7
Others	3.3	3.0	5.0	5.0
CF from operating activities	**218.3**	**302.4**	**158.3**	**657.1**
(Inc)/dec in Investments	-60.1	-40.0	-20.0	-20.0
(Inc)/dec in Fixed Assets	-42.5	-55.0	-100.0	-33.2
Others	0.0	0.0	0.0	0.0
CF from investing activities	**-122.2**	**-159.1**	**-175.9**	**-109.7**
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	93.5	0.0	-30.0	-30.0
Dividend paid & dividend tax	-83.4	-129.1	-172.2	-186.5
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	**110.5**	**-129.1**	**-202.2**	**-216.5**
Net Cash flow	206.6	14.2	-219.8	331.0
Opening Cash	254.8	461.4	475.6	255.8
Closing Cash	**461.4**	**475.6**	**255.8**	**586.7**

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	22.5	22.5	22.5	22.5
Reserve and Surplus	3,228.9	3,426.2	3,760.4	4,156.7
Total Shareholders funds	3,251.5	3,448.7	3,782.9	4,179.2
Total Debt	305.1	305.1	275.1	245.1
Deferred Tax Liability	7.0	7.0	7.0	7.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	**3,719.2**	**3,931.5**	**4,260.6**	**4,651.9**
Assets				
Gross Block	1,987.8	1,993.9	2,083.9	2,183.9
Less: Acc Depreciation	777.7	881.6	990.3	1,104.1
Net Block	1,210.1	1,112.3	1,093.6	1,079.8
Capital WIP	21.1	65.0	75.0	0.0
Total Fixed Assets	1,231.2	1,177.3	1,168.6	1,079.8
Investments	119.2	159.2	179.2	199.2
Inventory	404.7	478.1	582.3	611.4
Debtors	1,237.1	1,373.3	1,692.5	1,905.4
Loans and Advances	4.5	7.5	8.9	9.5
Other Current Assets	765.7	881.2	1,173.1	1,139.5
Cash	461.4	475.6	255.8	586.7
Total Current Assets	2,873.4	3,215.6	3,712.6	4,252.5
Creditors	1,138.0	1,128.0	1,264.3	1,423.3
Provisions	195.1	225.6	279.4	314.5
Total Current Liabilities	2,787.7	2,888.6	3,432.6	3,703.3
Net Current Assets	1,678.8	1,836.8	2,089.9	2,476.4
Others Assets	0.0	0.0	0.0	0.0
Application of funds	**3,719.2**	**3,931.5**	**4,260.7**	**4,652.0**

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	17.3	27.4	42.5	48.9
Cash EPS	27.0	37.4	53.0	59.8
BV	272.9	289.4	317.5	350.7
DPS	7.0	9.0	12.0	13.0
Cash Per Share	38.7	39.9	21.5	49.2
Operating Ratios (%)				
EBITDA Margin	7.4	7.4	9.0	9.3
PBT / Total Operating income	5.7	7.3	9.2	0.0
PAT Margin	5.1	5.5	6.8	7.0
Inventory days	30.8	29.2	28.6	26.6
Debtor days	94.2	84.0	83.0	83.0
Creditor days	86.7	69.0	62.0	62.0
Return Ratios (%)				
RoE	7.6	9.5	13.4	13.9
RoCE	9.8	12.1	17.2	18.1
RoIC	25.2	28.8	41.9	52.0
Valuation Ratios (x)				
P/E	117.6	74.4	48.0	41.7
EV / EBITDA	68.0	54.4	36.4	30.9
EV / Net Sales	5.0	4.0	3.3	2.9
Market Cap / Sales	5.1	4.1	3.3	2.9
Price to Book Value	7.5	7.0	6.4	5.8
Solvency Ratios				
Debt/EBITDA	0.9	0.7	0.4	0.0
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	0.9	0.9	1.0	1.0
Quick Ratio	**0.7**	**0.8**	**0.8**	**0.8**

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1878	2,270	Buy	263521	81.9	54.7	55.7	22.9	34.3	33.7	7.4	8.0	9.3	18.8	12.0	11.7
Siemens Ltd	2427	2,856	Buy	86430	21.6	29.5	37.8	112.3	82.3	64.3	11.2	13.9	16.1	8.1	10.1	11.9
AIA Engineering (AIAENG)	1878	1,895	Hold	17713	59.7	56.8	59.9	31.4	33.1	31.3	16.4	14.4	14.2	13.3	11.8	11.3
Thermax (THERMA)	2039	2,445	Buy	24296	17.3	27.4	42.5	117.6	74.4	48.0	9.8	12.1	17.2	7.6	9.5	13.4
Kalpataru Power(KALPOW)	408	455	Hold	6312	41.3	25.8	37.8	9.9	15.8	10.8	15.9	15.2	16.7	12.7	9.7	11.8
KEC International (KECIN)	518	535	Hold	13318	21.5	17.2	25.5	24.1	30.2	20.3	19.4	15.9	18.3	16.5	13.1	15.6
Greaves Cotton (GREAVE)	210	150	Hold	4849	0.4	2.4	5.4	468.1	85.8	38.9	6.5	7.2	18.6	3.3	5.1	13.6
Elgi Equipment (ELGEQU)	416	260	Buy	13183	3.2	3.9	6.2	128.6	107.0	67.6	11.7	12.7	18.1	11.8	13.8	18.7
Bharat Electronics (BHAELE)	202	250	Buy	49097	8.5	9.4	11.2	23.8	21.5	17.9	27.2	26.2	28.7	19.1	19.4	21.4
Cochin Shipyard (COCSHI)	339	500	Buy	4459	46.4	44.0	55.6	7.3	7.7	6.1	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	3650	3,960	Buy	18045	67.6	78.1	98.9	54.0	46.7	36.9	27.0	26.5	27.9	21.4	20.6	21.6
Timken India (TIMIND)	1930	2,405	Buy	14517	19.0	37.8	43.3	101.4	59.5	46.2	13.7	21.1	27.1	10.7	16.4	21.1
NRB Bearing (NRBBEA)	161	220	Buy	1560	5.6	8.2	9.8	30.2	20.6	17.3	11.8	15.8	16.8	10.4	13.4	13.9
Action Construction (ACTCON)	221	290	Buy	2632	7.1	9.8	12.7	31.1	22.6	17.4	26.9	22.5	24.4	15.3	15.1	16.6

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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