

Muted execution amid industrial disruption...

Consolidated revenue was at ₹ 1141.2 crore, down 28.9% YoY (below our estimate of ₹ 1191.9 crore) on slower execution. Energy segment revenue (contributing ~77.5% to revenue) fell 33.9% to ₹ 885.8 crore YoY while environment segment revenue fell 13.5% to ₹ 155.9 crore, chemical segment revenue was at ₹ 114.5 crore, marginally up 3.6% YoY. However, EBITDA margin was better-than-expected at 7.0% (vs. our estimate of 3.6%) posting a decline of mere 120 bps YoY. Reported PAT came in at ₹ 31.2 crore, up 21.5% due to tax adjustments in base quarter and impacted by exception items. Consolidated adjusted PAT (excluding exceptional items) comes to ₹ 48.7 crore, up 89.4% YoY due to tax adjustments in base quarter.

Muted order inflows pose concerns on revenue visibility

For Q2FY21, consolidated order inflows were at ₹ 1114 crore, down 35% YoY owing to slowdown in capacity additions across industrial sectors globally due to Covid-19. Majority orders came in from cement, refinery & petrochemical, food & beverages and chemicals. Consolidated order inflows comprise energy segment (₹ 848 crore) while environment & chemicals segment contributed ₹ 166 crore for Q2FY21. Domestic order inflows contributed 73% to ₹ 816 crore and export orders 27% (₹ 299 crore) for the quarter. Consolidated order book was at ₹ 5190 crore, down 3.0% YoY, a bit of a concern. We estimate order inflows of ₹ 4300 crore, ₹ 5950 crore for FY21E, FY22E, respectively, amid economic challenges.

Subsidiary performance expected to gradually turn around...

Performance of the Indonesian subsidiary facility though currently running at lower capacity will be expected to gradually break even in the long term as ordering pace is yet to improve. At Danstoker A/S, cost restriction is in progress with focus on order book as Covid impact is yet to normalise in certain sectors including oil & gas in European region, with topline expected to turn around by FY21E. South East Asia subsidiaries continued to gradually turn around. It continues to see reasonable momentum on international order book front as situation expected to normalise in coming quarters.

Valuation & Outlook

Thermax' weak execution performance was a reflection of subdued order inflows, order backlog, muted capacity expansion in majority industrial sectors while margins improved QoQ due to better mix and favourable margins in chemicals segment amid disrupted business activities. Expected orders in pharma, chemicals, food processing, cement and refinery sectors orders would aid order inflows and order backlog. However, strong balance sheet, prudent working capital management provide a competitive advantage despite challenging environment. We expect adjusted revenue, EBITDA CAGR of -1.3%, 3.1%, respectively, in FY20-22E. We revise our target price to ₹ 810 (30x on FY22E EPS) and maintain **HOLD**.



Particulars

| Particular | Amount |
|-----------------------|---------------|
| Market Capitalization | ₹9234.1 Crore |
| Total Debt (FY 20) | ₹211.5 crore |
| Cash and Inv. (FY 20) | ₹536 crore |
| EV | ₹8909.6 crore |
| 52 week H/L | ₹ 138 / 644 |
| Equity capital | ₹23.8 Crore |
| Face value | ₹2 |

Key Highlights

- Consolidated order inflow for quarter at ₹ 1114 crore, down 35% YoY
- As on Q2FY21, consolidated order book at ₹ 5190 crore, down 3.0% YoY
- Q2FY21 order inflows impacted by muted industrial activities amid economic challenges
- Revise target price to ₹ 810/share. Maintain HOLD

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Amit Anwani
amit.anwani@icicisecurities.com

Key Financial Summary

| Particulars (₹ crore) | FY18* | FY19 | FY20 | FY21E | FY22E | CAGR (FY20-FY22E) |
|-----------------------|---------|---------|---------|---------|---------|-------------------|
| Net Sales | 4,464.9 | 5,973.2 | 5,731.3 | 4,539.9 | 5,580.4 | -1.3% |
| EBITDA | 400.9 | 457.5 | 406.2 | 252.6 | 431.8 | 3.1% |
| EBITDA Margin (%) | 9.0 | 7.7 | 7.1 | 5.6 | 7.7 | |
| Net Profit | 231.1 | 325.5 | 212.5 | 148.5 | 321.8 | 23.1% |
| EPS (₹) | 19.4 | 27.3 | 17.8 | 12.5 | 27.0 | |
| P/E (x) | 40.0 | 28.4 | 43.5 | 62.2 | 28.7 | |
| RoNW (%) | 9.0 | 13.2 | 7.0 | 5.5 | 10.0 | |
| RoCE (%) | 16.3 | 15.9 | 12.0 | 7.6 | 13.1 | |

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.

Exhibit 1: Variance Analysis (Consolidated)

| | Q2FY21 | Q2FY21E | Q2FY20 | YoY (Chg %) | Q1FY21 | QoQ (Chg %) | Comments |
|---------------------------|---------|---------|---------|-------------|--------|-------------|---|
| Total Operating Income | 1,141.2 | 1,191.9 | 1,605.9 | -28.9 | 665.0 | 71.6 | Revenue de-growth owing to disruptions in execution & dispatches and slow pace of industrial activities |
| Other Income | 22.8 | 23.0 | 22.0 | 3.5 | 20.9 | 8.9 | |
| Raw Material Expenses | 630.9 | 635.3 | 874.7 | -27.9 | 334.3 | 88.8 | |
| Employee Expenses | 189.0 | 211.0 | 207.2 | -8.8 | 182.4 | 3.6 | |
| Other Expenses | 242.0 | 302.7 | 393.7 | -38.5 | 159.7 | 51.5 | |
| Total Expenditure | 1,061.9 | 1,149.0 | 1,475.5 | -28.0 | 676.3 | 57.0 | |
| EBITDA | 79.3 | 42.9 | 130.3 | -39.1 | -11.4 | -798.4 | |
| EBITDA Margin (%) | 7.0 | 3.6 | 8.1 | -116 bps | -1.7 | 866 bps | Margins impacted by reduced revenue and higher employee expenses |
| Depreciation | 28.7 | 29.9 | 28.1 | 2.2 | 28.0 | 2.4 | |
| Interest | 4.7 | 4.4 | 3.8 | 22.5 | 4.0 | 17.3 | |
| Exceptional Item | 24.7 | 0.0 | 0.0 | - | 0.0 | | |
| PBT | 44.1 | 31.5 | 120.5 | -63.4 | -22.5 | -296.1 | |
| Total Tax | 12.9 | 8.5 | 94.7 | -86.4 | -7.2 | -278.0 | |
| PAT | 31.2 | 23.0 | 25.7 | 21.5 | -15.3 | -304.7 | |
| Adjusted PAT | 48.7 | 23.0 | 25.7 | 89.4 | -15.3 | -419.2 | |
| Key Metrics | | | | | | | |
| Energy segment revenues | 886 | 918 | 1,341 | -33.9 | 500 | 77.0 | |
| Environment segment reven | 255 | 274 | 265 | -3.6 | 165 | 55.2 | |

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

| | FY21E | | | FY22E | | | Comments |
|-------------------|---------|---------|----------|---------|---------|----------|---|
| | Old* | New | % Change | Old* | New | % Change | |
| (₹ Crore) | | | | | | | |
| Revenue | 4,508.0 | 4,539.9 | 0.7 | 5,559.1 | 5,580.4 | 0.4 | |
| EBITDA | 173.7 | 252.6 | 45.5 | 428.4 | 431.8 | 0.8 | |
| EBITDA Margin (%) | 3.9 | 5.6 | 171 bps | 7.7 | 7.7 | 3 bps | Revised in line with revival in margins in Q2FY21 |
| PAT | 116.6 | 148.5 | 27.3 | 317.0 | 321.8 | 1.5 | |
| EPS (₹) | 9.8 | 12.5 | 27.2 | 26.6 | 27.0 | 1.5 | |

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

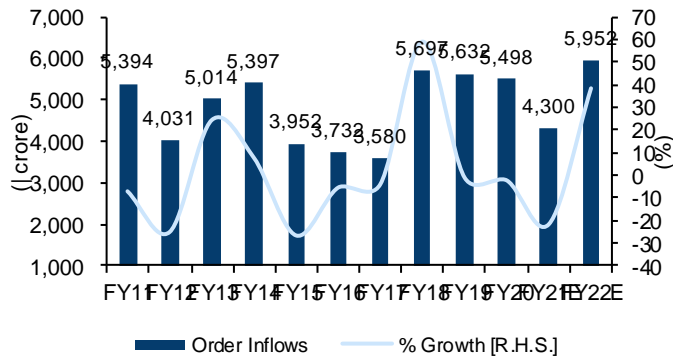
| | Current | | | | Earlier | | Comments |
|--------------------------|---------|------|-------|-------|---------|-------|--|
| | FY19 | FY20 | FY21E | FY22E | FY21E | FY22E | |
| Order inflow growth (%) | -1.1 | -2.4 | -21.8 | 38.4 | -24.5 | 43.3 | Order inflows expected to remain muted for FY21E |
| Order backlog growth (%) | -5.6 | -6.6 | -4.8 | 7.8 | -7.1 | 8.4 | |
| Revenue growth (%) | 33.1 | 10.7 | -20.8 | 22.9 | -21.3 | 23.3 | |
| EBITDA margin (%) | 7.7 | 7.1 | 5.6 | 7.7 | 3.9 | 7.7 | |

Source: Company, ICICI Direct Research

Conference call highlights:

- Consolidated order inflows comprise energy segment (₹ 848 crore) while environment & chemicals segment contributed ₹ 266 crore for Q2FY21. Domestic order inflows contributed 73% to ₹ 816 crore and export orders 27% (₹ 299 crore) for the quarter. Consolidated order book came in at ₹ 5190 crore, down 3.0% YoY, a bit of a concern. Major sectors in Q2FY21 order inflows includes cement (21%), refinery & petrochemicals (17%), food & food processing (10%), chemical (7%), metal & steel (6%), power (5%) and textiles (5%)
- Margins for Q2FY21 were better-than-expected due to better mix amid disrupted business activities. Chemical business reported an improvement in EBIT margins to 30.5% owing to raw material cost benefit and product mix vs. 18% in Q2FY20
- **FY21E outlook:** The management refrained from providing any sort of guidance. We expect product part of the business to grow faster than the projects business to de-risk the balance sheet and put less strain on cash flows
- **Business operations:** - Operations are currently taking place at 80% to 100% of pre-Covid levels on demand and supply side capabilities and are expected to further normalise. All manufacturing facilities are operating with 100% manpower
- Thermax has shifted to cash based management system without taking away any money from its treasury and very strongly focusing on cash management. Balance sheet position is strong while focus on prudent working capital continues
- **Overseas subsidiaries:** - Performance of the Indonesian subsidiary facility though currently running at lower capacity will be expected to gradually break even in the long term as ordering pace is yet to improve. At Danstoker A/S, cost restriction is in progress with focus on order book as Covid impact is yet to normalise in certain sectors including oil & gas in European region, topline expected to turn around by FY21E. South East Asia subsidiaries continued to gradually turn around. It continues to see reasonable momentum on international order book front as situation expected to normalise in coming quarters
- **FY21 order inflow outlook** - No formal guidance but is expected to remain muted due to slowdown in industrial activities. It expects to have order opportunities in sectors/ segments like pharma, refinery, petrochemicals, food processing, chemicals, textiles, heavy metals, fmcg, smaller boilers for captive plants, waste heat recovery plants, air pollution control equipment, fertilisers, power generation, etc, though major ordering to take place in H2FY21
- FY21-cost reduction initiatives expect reasonable reduction in other expenses, employee salaries, digitisation efforts and contract manpower rationalisation

Exhibit 4: Order inflow trend...



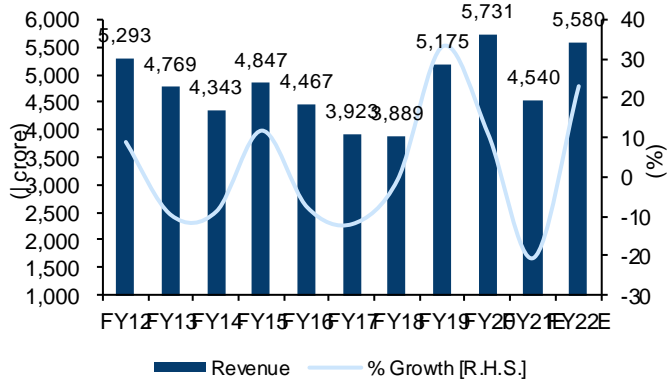
Source: ICICI Direct Research, Company

Exhibit 5: Trend in order backlog...



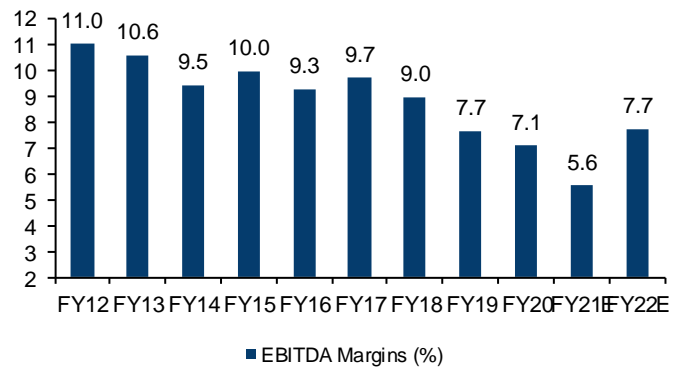
Source: ICICI Direct Research, Company

Exhibit 6: Trend in revenues...



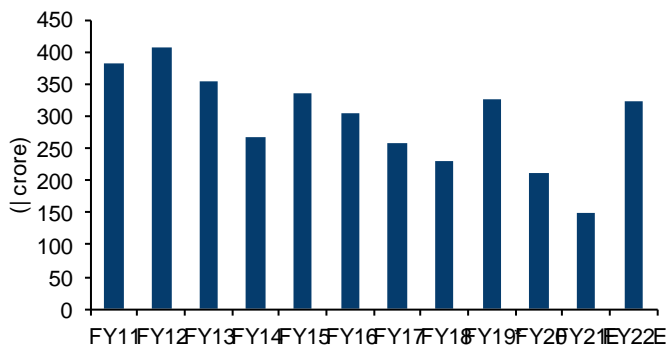
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margins trend...



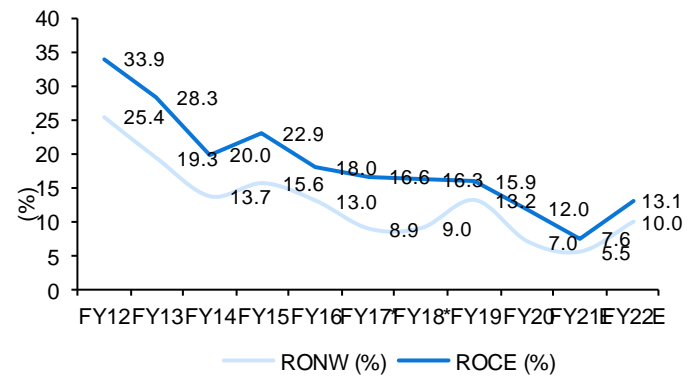
Source: Company, ICICI Direct Research

Exhibit 8: Trend in PAT...



Source: Company, ICICI Direct Research

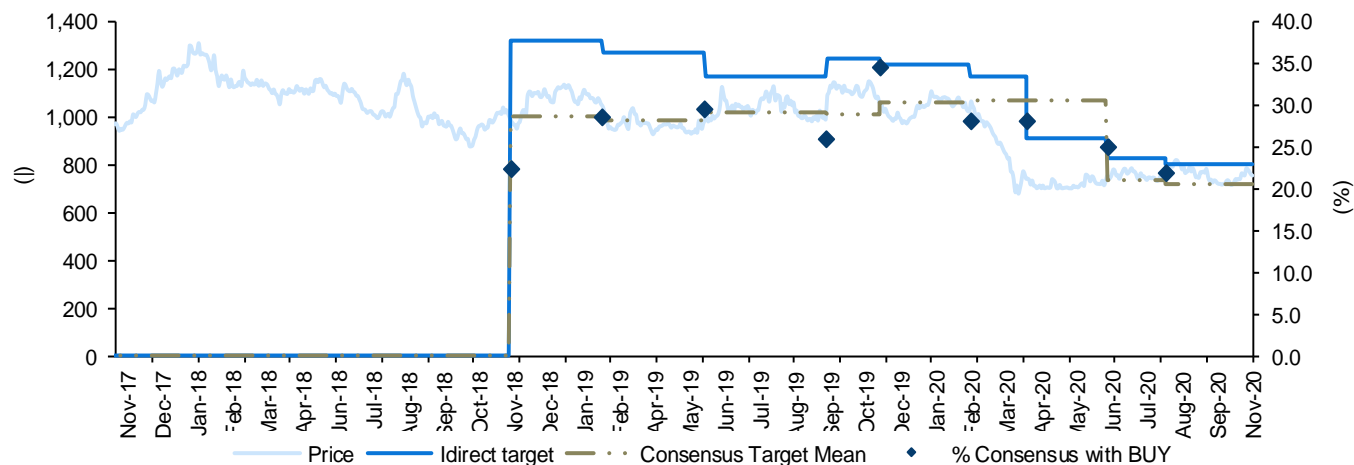
Exhibit 9: Return ratios to recover in FY20-22E...



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, we have changed our presentation of historical numbers (FY19, FY20) and forward numbers to consolidated and valued accordingly.

Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

| Rank | Investor Name | Filing Date | % O/S | osition (%) | Change |
|------|----------------------|-------------|-------|-------------|---------|
| 1 | Rda Holdings Pvt Ltd | 30-Jun-20 | 54.0 | 64.33m | 0.00m |
| 2 | Ara Trusteeship Comp | 30-Jun-20 | 8.0 | 9.52m | 0.00m |
| 3 | Nalanda India Equity | 30-Jun-20 | 6.3 | 7.46m | 4.10m |
| 4 | Kotak Mahindra Asset | 30-Sep-20 | 6.1 | 7.28m | 0.06m |
| 5 | Sbi Funds Management | 30-Sep-20 | 2.2 | 2.60m | (0.01)m |
| 6 | Life Insurance Corp | 30-Jun-20 | 1.7 | 2.06m | 0.00m |
| 7 | Pinebridge Investmen | 30-Jun-19 | 1.1 | 1.30m | 0.00m |
| 8 | L&T Mutual Fund | 30-Sep-20 | 0.9 | 1.07m | 0.00m |
| 9 | Aditya Birla Sun Lif | 30-Sep-20 | 0.9 | 1.02m | 0.00m |
| 10 | Vanguard Group | 30-Sep-20 | 0.7 | 0.88m | (0.02)m |

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

| (in %) | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 |
|----------|--------|--------|--------|--------|--------|
| Promoter | 62.0 | 62.0 | 62.0 | 62.0 | 62.0 |
| FII | 8.6 | 7.6 | 7.8 | 11.0 | 10.9 |
| DII | 16.7 | 17.7 | 17.6 | 14.4 | 13.3 |
| Others | 12.8 | 12.7 | 12.6 | 12.6 | 13.8 |

Source: Company, ICICI Direct Research

Financial summary (Consolidated)

| Exhibit 13: Profit and loss statement | | | | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | ₹ crore | | | |
| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
| Total op. Income | 5,973.2 | 5,731.3 | 4,539.9 | 5,580.4 |
| Growth (%) | 33.8 | -4.0 | -20.8 | 22.9 |
| Raw Material Expense | 3,336.7 | 3,085.7 | 2,465.8 | 3,108.5 |
| Employee Expenses | 767.5 | 799.0 | 760.3 | 784.9 |
| Other Op. Expenses | 1,411.6 | 1,440.4 | 1,061.1 | 1,255.2 |
| Admin. Expenses | 0.0 | 0.0 | 0.0 | 0.0 |
| Other expenses | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Op. Expenditure | 5,549.5 | 5,321.1 | 4,266.4 | 5,171.5 |
| EBITDA | 457.5 | 406.2 | 252.6 | 431.8 |
| Growth (%) | 14.1 | -11.2 | -37.8 | 70.9 |
| Depreciation | 92.0 | 116.6 | 112.2 | 116.5 |
| Interest | 14.3 | 15.0 | 17.6 | 15.1 |
| Other Income | 149.9 | 100.0 | 104.7 | 139.0 |
| PBT | 411.5 | 374.5 | 202.9 | 439.3 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Tax | 84.9 | 162.1 | 54.4 | 117.5 |
| PAT | 325.5 | 212.5 | 148.5 | 321.8 |
| Growth (%) | 40.8 | -34.7 | -30.1 | 116.7 |
| EPS (₹) | 27.3 | 18.9 | 12.5 | 27.0 |

Source: Company, ICICI Direct Research

| Exhibit 14: Cash flow statement | | | | |
|-----------------------------------|---------------|---------------|---------------|---------------|
| | ₹ crore | | | |
| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
| Profit after Tax | 325.5 | 212.5 | 148.5 | 321.8 |
| Add: Depreciation | 92.0 | 116.6 | 112.2 | 116.5 |
| (Inc)/dec in Current Assets | -916.0 | 866.9 | -48.4 | -161.7 |
| Inc/(dec) in CL and Provision | 845.9 | -860.1 | -17.2 | 60.8 |
| Others | 3.3 | 3.0 | 5.0 | 5.0 |
| CF from operating activiti | 347.4 | 335.9 | 195.1 | 337.3 |
| (Inc)/dec in Investments | 524.2 | -166.1 | -10.0 | -25.0 |
| (Inc)/dec in Fixed Assets | -680.2 | -102.9 | -15.0 | -55.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 |
| CF from investing activiti | -384.7 | -181.9 | -45.5 | -109.9 |
| Issue/(Buy back) of Equity | -1.3 | 0.0 | 0.0 | 0.0 |
| Inc/(dec) in loan funds | 103.6 | -8.5 | 10.0 | 10.0 |
| Dividend paid & dividend tax | -81.5 | -190.1 | -71.7 | -100.4 |
| Inc/(dec) in Sec. premium | -3.8 | 0.0 | 0.0 | 0.0 |
| Others | 0.0 | 7.6 | 0.0 | 0.0 |
| CF from financing activiti | 234.1 | -207.4 | -157.8 | -90.4 |
| Net Cash flow | 196.8 | -53.4 | -8.2 | 137.0 |
| Opening Cash | 111.4 | 308.2 | 254.8 | 246.6 |
| Closing Cash | 308.2 | 254.8 | 246.6 | 383.6 |

Source: Company, ICICI Direct Research

| Exhibit 15: Balance sheet | | | | |
|-----------------------------|----------------|----------------|----------------|----------------|
| | ₹ crore | | | |
| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
| Liabilities | | | | |
| Equity Capital | 22.5 | 22.5 | 22.5 | 22.5 |
| Reserve and Surplus | 2,991.8 | 3,005.4 | 2,986.0 | 3,207.4 |
| Total Shareholders fur | 3,014.3 | 3,027.9 | 3,008.5 | 3,229.9 |
| Total Debt | 220.1 | 211.5 | 221.5 | 231.5 |
| Deferred Tax Liability | 9.9 | 4.4 | 4.4 | 4.4 |
| Minority Interest / O the | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Liabilities | 3,331.2 | 3,347.2 | 3,347.8 | 3,586.2 |
| Assets | | | | |
| Gross Block | 1,936.2 | 1,932.0 | 1,947.3 | 1,987.3 |
| Less: Acc Depreciatio | 681.2 | 707.3 | 807.2 | 914.7 |
| Net Block | 1,255.0 | 1,224.7 | 1,140.1 | 1,072.6 |
| Capital WIP | 40.1 | 55.3 | 50.0 | 60.0 |
| Total Fixed Assets | 1,295.1 | 1,280.0 | 1,190.1 | 1,132.6 |
| Investments | 115.1 | 281.2 | 291.2 | 316.2 |
| Inventory | 508.6 | 454.6 | 465.9 | 537.1 |
| Debtors | 1,378.1 | 1,386.3 | 1,411.7 | 1,414.2 |
| Loans and Advances | 7.1 | 5.9 | 7.7 | 9.1 |
| Other Current Assets | 1,699.1 | 838.3 | 846.0 | 895.1 |
| Cash | 308.2 | 254.8 | 246.6 | 383.6 |
| Total Current Assets | 3,901.2 | 2,939.9 | 2,977.9 | 3,239.0 |
| Creditors | 1,370.6 | 960.2 | 820.9 | 851.6 |
| Provisions | 143.3 | 169.4 | 180.6 | 187.3 |
| Total Current Liabilities | 3,468.7 | 2,608.7 | 2,591.4 | 2,652.2 |
| Net Current Assets | 1,207.5 | 1,147.3 | 1,204.7 | 1,442.7 |
| Others Assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Application of funds | 3,331.2 | 3,347.2 | 3,347.9 | 3,586.2 |

Source: Company, ICICI Direct Research

| Exhibit 16: Key ratios | | | | |
|------------------------------|------------|------------|------------|------------|
| | ₹ crore | | | |
| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
| Per share data (₹) | | | | |
| EPS | 27.3 | 17.8 | 12.5 | 27.0 |
| Cash EPS | 35.0 | 27.6 | 21.9 | 36.8 |
| BV | 253.0 | 254.1 | 252.5 | 271.1 |
| DPS | 5.7 | 13.2 | 5.0 | 7.0 |
| Cash Per Share | 25.9 | 21.4 | 20.7 | 32.2 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 7.7 | 7.1 | 5.6 | 7.7 |
| PBT / Total Operating income | 6.9 | 6.5 | 4.5 | 7.9 |
| PAT Margin | 6.6 | 3.7 | 3.7 | 5.8 |
| Inventory days | 31.1 | 28.9 | 37.5 | 35.1 |
| Debtor days | 84.2 | 88.3 | 113.5 | 92.5 |
| Creditor days | 83.7 | 61.2 | 66.0 | 55.7 |
| Return Ratios (%) | | | | |
| RoE | 13.2 | 7.0 | 5.5 | 10.0 |
| RoCE | 15.9 | 12.0 | 7.6 | 13.1 |
| RoIC | 24.5 | 18.3 | 8.9 | 19.8 |
| Valuation Ratios (x) | | | | |
| P/E | 28.4 | 43.5 | 62.2 | 28.7 |
| EV / EBITDA | 20.0 | 22.6 | 36.5 | 21.0 |
| EV / Net Sales | 1.5 | 1.6 | 2.0 | 1.6 |
| Market Cap / Sales | 1.5 | 1.6 | 2.0 | 1.7 |
| Price to Book Value | 3.1 | 3.0 | 3.1 | 2.9 |
| Solvency Ratios | | | | |
| Debt/EBITDA | 0.5 | 0.5 | 0.9 | 0.5 |
| Debt / Equity | 0.1 | 0.1 | 0.1 | 0.1 |
| Current Ratio | 1.0 | 1.0 | 1.1 | 1.1 |
| Quick Ratio | 0.9 | 0.9 | 0.9 | 0.9 |

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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