

## Steady execution aided by environment segment...

Consolidated revenue came in at ₹ 1410.6 crore, which came in flat YoY (above our estimate of ₹ 1319 crore) aided by better execution in environment segment. Energy segment revenue (that contributes ~76% to revenue) fell 4.9% to ₹ 1065.8 crore YoY while environment segment revenue grew 28.4% to ₹ 253.4 crore and chemical segment revenue came in at ₹ 111.3 crore, marginally down 4.7%, YoY. EBITDA came in at ₹ 147.6 crore, up 30.4% YoY aided by cost control measures and favourable mix. Also, EBITDA margin came in at 10.5% registering an improvement of over 240 bps YoY. Reported PAT came in at ₹ 83.3 crore, down marginally by 2.0% on account of tax adjustments in base quarter and exceptional items. Consolidated adjusted PAT (after adjusting for exceptional items) comes to ₹ 103.8 crore, up 22.2% YoY.

## Broad based recovery in order inflows key to revenue visibility

For Q3FY21, consolidated order inflows were at ₹ 1565 crore, marginally down 2.6% YoY owing to one large bio-refinery order. Majority orders came in from cement, refinery & petrochemical, food & beverages and chemicals. Consolidated order inflows comprise energy segment (₹ 1291 crore) while environment & chemicals segment contributed ₹ 274 crore for Q3FY21. Domestic order inflows contributed 71% to ₹ 1116 crore while export orders 29% (₹ 450 crore) for the quarter. Consolidated order book came in at ₹ 5208 crore, down 2.6% YoY, a bit of a concern. We estimate order inflows of ₹ 4887 crore and ₹ 6584 crore for FY21E and FY22E, respectively.

## Subsidiary performance expected to gradually turn around...

It reported exceptional items of ₹ 27.9 crore towards diminishing investment provision towards Danstoker and Indonesia subsidiaries. Though Danstoker A/S has reported losses in Q3FY21, cost restriction is in progress with focus on order book to normalise in certain sectors including oil & gas in European region, topline expected to turn around and break even in FY22E. South East Asia subsidiaries including Indonesia underperformed in Q3FY21, though it sees decent order pipeline in coming quarter to gradually turn around and break even next year. It continues to see reasonable momentum in other international order book and expects to do better in coming quarters.

## Valuation & Outlook

Thermax's execution performance was a reflection of normalcy in operations across business segments. While order inflows witnessing broad based recovery in sectors ranging from cement, steel, food & beverages, refinery. Better operating margins were result of favourable execution mix and cost control measures. Strong balance sheet, prudent working capital management to provide a competitive advantage despite challenging environment. We expect adjusted revenue, EBITDA CAGR of 18.4%, 28.6%, respectively, over FY21-23E. We revise our target price to ₹ 1310 (earlier TP at ₹ 810), which is at 34x on FY23E EPS and maintain our **HOLD** rating.

### Key Financial Summary

Particulars (₹ crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-FY23E)
Net Sales	5,973.2	5,731.3	4,828.1	5,930.3	6,174.4	28.6%
EBITDA	457.5	406.2	373.5	492.9	617.4	28.6%
EBITDA Margin (%)	7.7	7.1	7.7	8.3	8.3	
Net Profit	325.5	212.5	212.5	364.2	459.3	47.0%
EPS (₹)	27.3	17.8	17.8	30.6	38.5	
P/E (x)	42.1	64.5	64.5	37.6	29.9	
RoNW (%)	13.2	7.0	8.2	10.9	12.6	
RoCE (%)	15.9	12.0	10.9	14.4	16.6	

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.



### Particulars

Particular	Amount
Market Capitalization	13702.3 Crore
Total Debt (FY 20)	₹211.5 crore
Cash and Inv. (FY 20)	₹536 crore
EV	13377.5 crore
52 week H/L	₹ 218 / 644
Equity capital	₹23.8 Crore
Face value	₹2

### Key Highlights

- Consolidated order inflow for quarter came in at ₹ 1565 crore, down 2.6% YoY
- As on Q3FY21, consolidated order book was at ₹ 5208 crore, down 4.2% YoY, dragged by muted industrial activities amid economic challenges

### Key risk to our call

- Any significant improvement in subsidiary performance to aid the overall revenue growth and profitability in long term
- Muted private capex in coming years could impact order book further. Also, higher commodity prices for sustained period of time to impact profitability.

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Exhibit 1: Variance Analysis (Consolidated)

	Q3FY21	Q3FY21E	Q3FY20	YoY (Chg %)	Q2FY21	QoQ (Chg %)	Comments
Total Operating Income	1,410.6	1,318.5	1,410.1	0.0	1,141.2	23.6	Revenues came in flat aided by better execution in environment segment.
Other Income	28.2	29.0	25.8	9.6	22.8	24.0	
Raw Material Expenses	751.9	723.8	784.7	-4.2	630.9	19.2	
Employee Expenses	190.1	196.5	199.9	-4.9	189.0	0.6	
Other Expenses	321.0	296.7	312.3	2.8	242.0	32.7	
Total Expenditure	1,263.0	1,217.0	1,296.9	-2.6	1,061.9	18.9	
EBITDA	147.6	101.5	113.2	30.4	79.3	86.0	
EBITDA Margin (%)	10.5	7.7	8.0	244 bps	7.0	351 bps	Margins improved due to favourable execution mix, controlled operating cost and gross margin improvement.
Depreciation	29.1	31.6	31.6	-7.9	28.7	1.4	
Interest	5.7	4.4	1.9	192.7	4.7	20.5	
Exceptional Item	27.9	0.0	0.0	-	24.7		
PBT	113.2	94.5	105.4	7.4	44.1	156.8	
Total Tax	30.0	27.3	20.5	46.2	12.9	133.1	
PAT	83.3	67.2	85.0	-2.0	31.2	166.6	
Adjusted PAT	103.8	67.2	85.0	22.2	48.7	113.1	Adj. PAT after adjusting for exceptional items
<b>Key Metrics</b>							
Energy segment revenues	1,066	1,002	1,121	-4.9	886	20.3	
Environment segment rever	345	316	289	19.2	255	35.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E			FY23E	Comments
	Old*	New	% Change	Old*	New	% Change	Introduced	
Revenue	4,539.9	4,828.1	6.3	5,580.5	5,930.3	6.3	6,764.2	
EBITDA	252.6	373.5	47.9	431.8	492.9	14.1	617.4	
EBITDA Margin (%)	5.6	7.7	217 bps	7.7	8.3	57 bps	9.1	Revised in line with revival in margins in Q3FY 21 and introduced FY 23E
PAT	148.5	212.5	43.1	321.8	364.2	13.2	459.3	
EPS (₹)	12.5	17.8	42.7	27.0	30.6	13.2	38.5	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

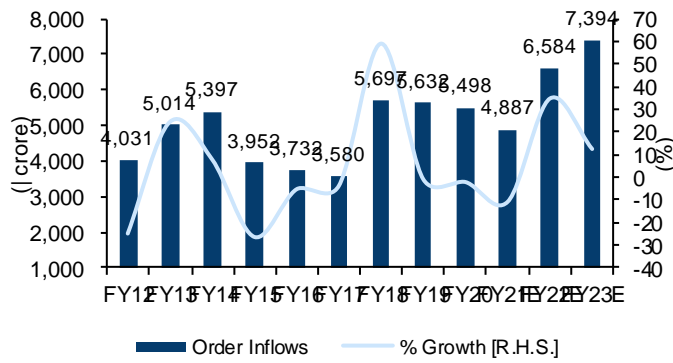
	Current				Earlier		Comments
	FY 19	FY 20	FY 21E	FY 22E	FY 21E	FY 22E	
Order inflow growth (%)	-1.1	-2.4	-11.1	34.7	-21.8	38.4	Order inflows expected to remain muted for FY 21E
Order backlog growth (%)	-5.6	-6.6	1.2	12.9	-4.8	7.8	
Revenue growth (%)	33.1	10.7	-15.8	22.8	-20.8	22.9	
EBITDA margin (%)	7.1	7.7	8.3	9.1	5.6	7.7	

Source: Company, ICICI Direct Research

## Conference call highlights:

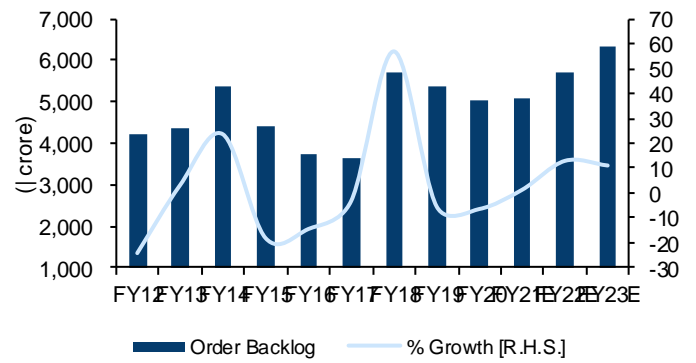
- Consolidated order inflows came in at ₹ 1565 crore, marginally down 2.6% YoY owing to one large bio-refinery order. Majority orders came in from cement, refinery & petrochemical, food & beverages and chemicals. Consolidated order inflows comprise energy segment (₹ 1291 crore) while environment & chemicals segment contributed ₹ 274 crore for Q3FY21. Domestic order inflows contributed 71% to ₹ 1116 crore while export orders 29% (₹ 450 crore) for the quarter.
- Consolidated order book came in at ₹ 5208 crore, down 2.6% YoY, a bit of a concern. Major sectors in Q3FY21 order inflows includes refinery & petrochemicals (31%), metal & steel (12%), food and food processing (10%), cement (8%), power (5%), chemical (4%), fertiliser & agro (4%), sugar/ distillery (3%), rubber products (3%) and other (20%)
- Margins for Q3FY21 were better than expected due to better mix amid execution of few high margin international assignments with margin improvement across segments owing to operating cost control and improved gross margins.
- Business operations: Thermax's execution performance was a reflection of normalcy in operations across business segments. All manufacturing facilities are operating with 100% manpower
- Overseas subsidiaries: - It reported exceptional items of ₹ 27.9 crore towards diminishing investment provision towards Danstoker and Indonesia subsidiaries. Though Danstoker A/S has reported losses in Q3FY21, cost restriction is in progress with focus on order book to normalise in certain sectors including oil & gas in European region, topline expected to turn around and break even in FY22E. South East Asia subsidiaries including Indonesia underperformed in Q3FY21, though it sees decent order pipeline in coming quarter to gradually turn around and break even next year. It continues to see reasonable momentum in other international order book and expects to do better in coming quarters.
- FY21 order inflow outlook - Expects to have order opportunities slightly better in sectors/ segments like cement, 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, fertilizers, power generation etc., though major ordering to take place in over next one year
- For FGD execution has delayed by six months and revenue cycle to mix of FY22E and FY23E
- Cautious on impact of commodity prices and its long term outlook. Renegotiating with customers as far as possible. Fixed price contracts contributes ~90% to current order book. Adverse movement in commodity prices could have some impact on profitability
- FY21-cost reduction initiatives expect reasonable reduction in other expenses, employee salaries, digitisation efforts and contract manpower rationalisation

Exhibit 4: Order inflow trend...



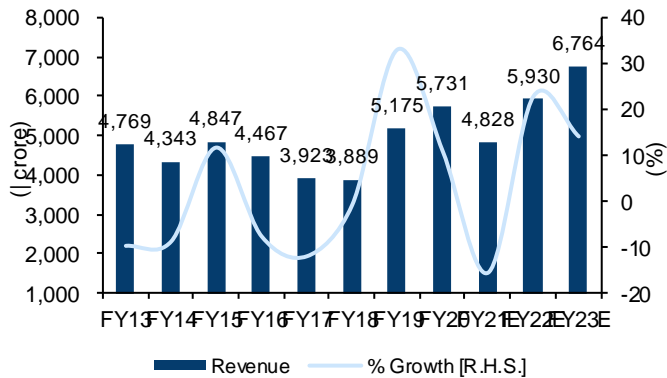
Source: ICICI Direct Research, Company

Exhibit 5: Trend in order backlog...



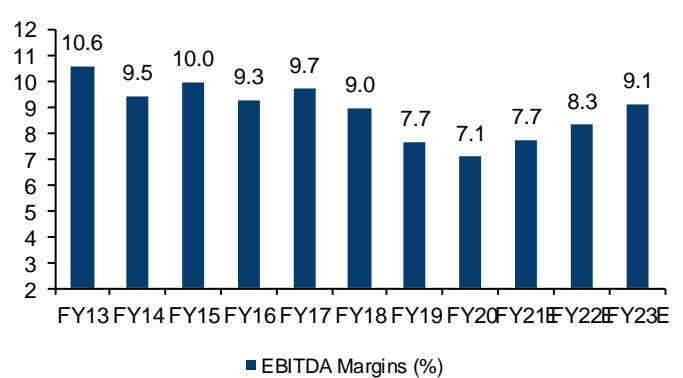
Source: ICICI Direct Research, Company

Exhibit 6: Trend in revenues...



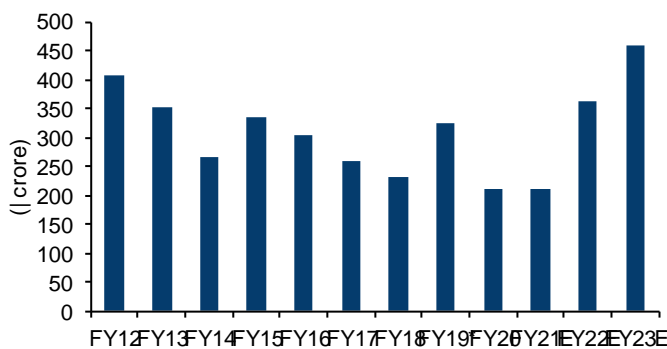
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margins trend...



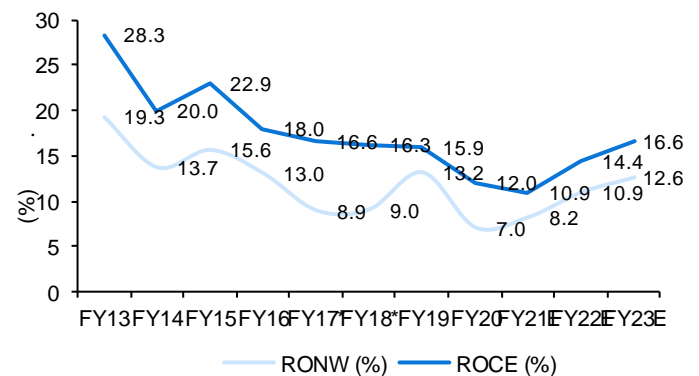
Source: Company, ICICI Direct Research

Exhibit 8: Trend in PAT...



Source: Company, ICICI Direct Research

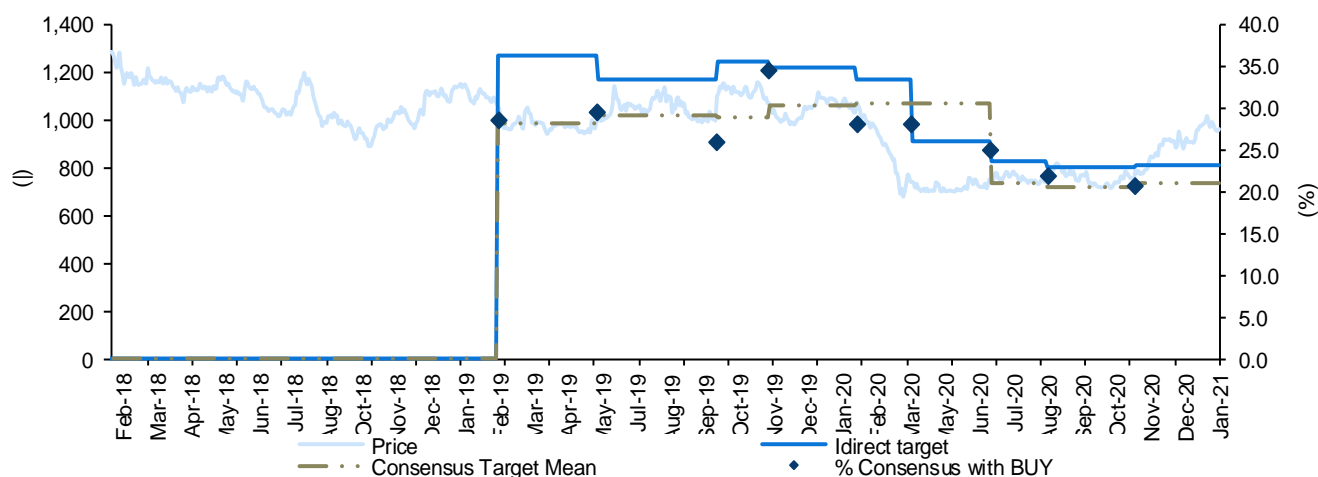
Exhibit 9: Return ratios to recover in FY20-22E...



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	Position (%)	Change
1	Rda Holdings Pvt Ltd	30-Sep-20	54.0	64.33m	0.00m
2	Ara Trusteeship Comp	30-Sep-20	8.0	9.52m	0.00m
3	Nalanda India Equity	30-Sep-20	6.3	7.46m	0.00m
4	Kotak Pioneer Fund	30-Sep-20	6.2	7.39m	0.00m
5	Kotak Mahindra Asset	31-Dec-20	6.1	7.30m	(0.01)m
6	Sbi Funds Management	31-Dec-20	2.2	2.60m	(0.01)m
7	Life Insurance Corp	30-Sep-20	1.7	2.06m	0.00m
8	Tata Aia Life Insura	30-Sep-20	1.3	1.55m	0.00m
9	L&T Mutual Fund	31-Dec-20	0.9	1.03m	(0.02)m
10	Vanguard Group	31-Dec-20	0.8	0.92m	0.01m

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	62.0	62.0	62.0	62.0	62.0
FII	7.6	7.8	11.0	10.9	12.2
DII	17.7	17.6	14.4	13.3	14.5
Others	12.7	12.6	12.6	13.8	11.3

Source: Company, ICICI Direct Research

## Financial summary (Consolidated)

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total op. Income</b>	<b>5,731.3</b>	<b>4,828.1</b>	<b>5,930.3</b>	<b>6,764.2</b>
Growth (%)	-4.0	-15.8	22.8	14.1
Raw Material Expense	3,085.7	2,590.5	3,251.5	3,708.5
Employee Expenses	799.0	762.9	844.9	936.2
Other Op. Expenses	1,440.4	1,101.3	1,341.0	1,502.1
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	4,438.9	5,460.3	6,160.8
<b>EBITDA</b>	<b>406.2</b>	<b>373.5</b>	<b>492.9</b>	<b>617.4</b>
Growth (%)	-11.2	-8.0	32.0	25.3
Depreciation	116.6	115.4	118.7	123.5
Interest	15.0	18.8	15.1	13.1
Other Income	100.0	102.9	138.0	145.0
PBT	374.5	289.7	497.1	625.8
Others	0.0	0.0	0.0	0.0
Total Tax	162.1	77.2	132.9	166.4
<b>PAT</b>	<b>212.5</b>	<b>212.5</b>	<b>364.2</b>	<b>459.3</b>
Growth (%)	-34.7	0.0	71.4	26.1
<b>EPS (₹)</b>	<b>17.8</b>	<b>18.9</b>	<b>30.6</b>	<b>38.5</b>

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	212.5	212.5	364.2	459.3
Add: Depreciation	116.6	115.4	118.7	123.5
(Inc)/dec in Current Assets	866.9	-396.6	-115.7	-429.0
Inc/(dec) in CL and Provision	-860.1	265.5	-32.3	228.5
Others	3.3	3.0	5.0	5.0
<b>CF from operating activiti</b>	<b>335.9</b>	<b>196.7</b>	<b>334.8</b>	<b>382.4</b>
(Inc)/dec in Investments	-166.1	-10.0	-30.0	-20.0
(Inc)/dec in Fixed Assets	-102.9	-15.0	-55.0	-100.0
Others	0.0	0.0	0.0	0.0
<b>CF from investing activiti</b>	<b>-181.9</b>	<b>-48.1</b>	<b>-131.9</b>	<b>-169.6</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-8.5	10.0	10.0	-30.0
Dividend paid & dividend tax	-190.1	-71.7	-104.7	-143.5
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
<b>CF from financing activiti</b>	<b>-207.4</b>	<b>-157.8</b>	<b>-94.7</b>	<b>-173.5</b>
Net Cash flow	-53.4	-9.1	108.2	39.3
Opening Cash	308.2	254.8	245.6	353.9
<b>Closing Cash</b>	<b>254.8</b>	<b>245.6</b>	<b>353.9</b>	<b>393.2</b>

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	22.5	22.5	22.5	22.5
Reserve and Surplus	3,005.4	3,050.0	3,309.5	3,625.3
Total Shareholders fur	3,027.9	3,072.5	3,332.0	3,647.8
Total Debt	211.5	221.5	231.5	201.5
Deferred Tax Liability	4.4	4.4	4.4	4.4
Minority Interest / Othe	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>3,347.2</b>	<b>3,411.8</b>	<b>3,684.3</b>	<b>3,977.1</b>
<b>Assets</b>				
Gross Block	1,932.0	1,947.3	1,982.3	2,072.3
Less: Acc Depreciatio	707.3	810.4	920.1	1,034.6
Net Block	1,224.7	1,136.9	1,062.2	1,037.7
Capital WIP	55.3	50.0	65.0	75.0
Total Fixed Assets	1,280.0	1,186.9	1,127.2	1,112.7
Investments	281.2	291.2	321.2	341.2
Inventory	454.6	524.3	548.0	600.9
Debtors	1,386.3	1,494.7	1,519.1	1,640.1
Loans and Advances	5.9	8.5	9.2	12.4
Other Current Assets	838.3	948.1	1,008.9	1,155.7
Cash	254.8	245.6	353.9	393.2
Total Current Assets	2,939.9	3,221.4	3,439.2	3,802.3
Creditors	960.2	912.7	926.1	995.2
Provisions	169.4	200.8	213.0	219.9
Total Current Liabilities	2,608.7	2,874.1	2,841.8	3,070.4
Net Current Assets	1,147.3	1,269.3	1,525.6	1,765.3
Others Assets	0.0	0.0	0.0	0.0
<b>Application of funds</b>	<b>3,347.2</b>	<b>3,411.9</b>	<b>3,684.3</b>	<b>3,977.2</b>

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	17.8	17.8	30.6	38.5
Cash EPS	27.6	27.5	40.5	48.9
BV	254.1	257.9	279.6	306.1
DPS	13.2	5.0	7.3	10.0
Cash Per Share	21.4	20.6	29.7	33.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	7.1	7.7	8.3	9.1
PBT / Total Operating income	6.5	6.0	8.4	9.3
PAT Margin	3.7	5.2	6.1	6.8
Inventory days	28.9	39.6	33.7	32.4
Debtor days	88.3	113.0	93.5	88.5
Creditor days	61.2	69.0	57.0	53.7
<b>Return Ratios (%)</b>				
RoE	7.0	8.2	10.9	12.6
RoCE	12.0	10.9	14.4	16.6
RoIC	18.3	16.9	23.0	28.8
<b>Valuation Ratios (x)</b>				
P/E	64.5	64.5	37.6	29.8
EV / EBITDA	33.6	36.6	27.6	21.9
EV / Net Sales	2.4	2.8	2.3	2.0
Market Cap / Sales	2.4	2.8	2.3	2.0
Price to Book Value	4.5	4.5	4.1	3.8
<b>Solvency Ratios</b>				
Debt/EBITDA	0.5	0.6	0.5	0.3
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.0	1.0	1.1	1.1
<b>Quick Ratio</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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