Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Thermax

Healthy Q4, upgraded to Buy

Capital Goods	Sharekhan code: THERMAX	Result Update

Stock Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	=	↔	+
RQ	+	↔	+
RV	=	↔	=

Reco/View	Change
Reco: **Buy**	↑
CMP: **Rs. 1,461**	
Price Target: **Rs. 1,720**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

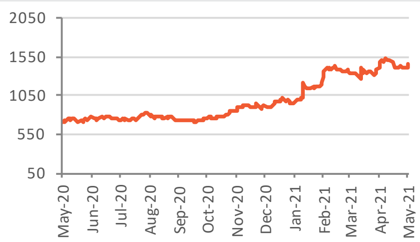
Company details

Market cap:	Rs. 17,405 cr
52-week high/low:	Rs. 1,550 / 703
NSE volume: (No of shares)	1.0 lakh
BSE code:	500411
NSE code:	THERMAX
Free float: (No of shares)	4.5 cr

Shareholding (%)

Promoters	62.0
FII	12.5
DII	14.6
Others	11.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4	8	60	106
Relative to Sensex	-2	4	53	39

Sharekhan Research, Bloomberg

Summary

- We upgrade Thermax to Buy with a revised PT of Rs. 1720 led by improving visibility for new orders due to positive business environment
- Thermax reported healthy Q4FY21 performance led by strong execution across segments and improvement in margins leading to beat on net profit
- Order inflow remains strong despite absence of large size orders while order book healthy well spread across sectors. Enquiry pipeline strong across food processing, chemical and pharma including large size orders from Oil & Gas, FGD, refinery and chemicals.
- A strong balance sheet and net cash position provide comfort in the present environment. The company's focus on newer technologies is expected to provide next leg of growth in the near-future.

Thermax reported healthy Q4FY21 performance led by strong execution across segments and an improvement in margins leading to beat on net profit. The consolidated net revenues were 19% higher y-o-y to Rs. 1575 crore (marginally above estimates) led by a higher revenue from energy (up 11.8% y-o-y) and chemical (up 24% y-o-y), while environment reported 51.6% y-o-y rise. However, OPM improved 406bps y-o-y (declined 159 bps q-o-q) to 8.9% led by cost reduction measures and better margins in the energy segment. Accordingly, EBITDA came at Rs 140 crore vs Rs 64 crore. Better operational performance led to inline PBT. However, lower tax rate (23.5% vs 33.4% in Q4FY20) led to higher net profit to Rs 107 crore (above estimates) vs Rs 39 crore (impacted due to COVID 19 outbreak). Order intake stood at Rs 1497 crore (up 57.2% y-o-y, down 4% q-o-q) aided by higher order booking in energy segment while order backlog stood at Rs 5227 crore (flat y-o-y) providing 1.1x FY21 consolidates revenues. The company saw a recovery from cement, steel and refinery in terms of order booking. Management commentary on the enquiries pipeline remains positive for small ticket size orders across food processing, chemical and pharma in domestic markets including large orders from Oil & Gas, FGD and chemical. Further, it expects the finalization of 2-3 big orders during H2FY2021 where it would be bidding for the same.

The management highlighted that big order opportunities in waste heat recovery in cement and steel sectors both in the domestic as well as the export markets. On the commodity front, the management highlighted that there are challenges due to commodity headwinds, but the company is able to hedge the price for smaller contracts as it buys the material in around 30 days before signing the agreement. Thermax is also contemplating opportunities across newer technologies like phosphoric acid fuel cell technology is close to commercialization, but it would not be ready over next 12 to 24 months which will provide the next leg of growth for the company. It is undertaking dozens of other things but many will be done through partnerships. It is also working on solar thin films technology. Overall, the management remains optimistic on the demand outlook barring covid led near term concerns and witnessing large industries starting to invest again which remains positive in regards to large order inflows. The management remains hopeful of a broad based recovery with further demand pick up across Tier2-3 cities as witnessed after the first wave. The company's strong balance sheet and healthy cash position which stands at Rs 1939 crore at FY21 end (Rs 476 at FY20 end) provide comfort in the present environment. We have fine-tuned our earnings estimate for FY2022-23E earnings. The stock is currently trading at a PE of 41x and 36x FY23-24E EPS and we expect Thermax to clock a 14%/22% CAGR in Revenue/PAT over FY2021-FY2024E. With improving tailwind in the sector and consistent strong performance from the company along with improving visibility for new orders due to positive business environment provides healthy outlook ahead. Hence we upgrade Thermax to Buy with a revised PT of Rs 1720.

Key positives

- Order inflow remained strong (up 57% y-o-y) despite absence of large size orders while it has visibility on large size orders in Oil & Gas, FGD, Refineries and chemicals
- OPM increased by 406 bps on cost control measures.

Key negatives

- Margins remained lower by 159 bps y-o-y in the environment segment.

Our Call

Valuation – Upgrade to Buy with revised PT of Rs. 1720: The company order book remains strong providing healthy revenue visibility. Further the management commentary on the enquiries pipeline remains positive for small ticket size orders across food processing, chemical and pharma in domestic markets including large orders from Oil & Gas, FGD and chemical along with big order opportunities in waste heat recovery in cement and steel sectors both in the domestic as well as the export markets providing healthy order inflow visibility ahead. The company has a strong balance sheet with healthy cash position with provides comfort in present environment. The company's focus on newer technologies is expected to provide next leg of growth in near future. We have fine-tuned our earnings estimate for FY2022-23E earnings. The stock is currently trading at a PE of 41x and 36x FY23-24E EPS and we expect Thermax to clock a 14%/22% CAGR in Revenue/PAT over FY2021-FY2024E. With improving tailwind in the sector and consistent strong performance from the company along with improving visibility for new orders due to positive business environment provides healthy outlook ahead. Hence we upgrade Thermax to Buy with a revised PT of Rs 1720.

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.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	4,791	5,620	6,328	7,041
OPM (%)	7.4	8.7	8.8	9.0
Adjusted PAT	207	342	397	456
% YoY growth	*(2.8)*	*65.4*	*16.3*	*14.7*
Adjusted EPS (Rs.)	18.3	30.4	35.3	40.5
P/E (x)	79.6	48.1	41.4	36.1
P/B (x)	5.1	4.3	4.0	3.7
EV/EBITDA (x)	31.5	23.1	19.9	17.2
RoNW (%)	8.3	9.7	10.0	10.6
RoCE (%)	11.0	12.6	13.2	14.1

Source: Company; Sharekhan estimates

Healthy performance: Healthy performance for Q4FY2021 led by healthy execution along with improvement in margins leading to higher net profit, that was better than estimated. The consolidated net revenues were 19% higher y-o-y to Rs. 1575 crore (marginally above estimates) led by a higher revenue from energy (up 11.8% y-o-y) and chemical (up 24% y-o-y), while environment reported 51.6% y-o-y rise. However, the OPM improved 406bps y-o-y (declined 159 bps q-o-q) to 8.9% led by cost reduction measures and better margins in the energy segment. Accordingly, EBITDA came at Rs 140 crore vs Rs 64 crore. Better operational performance led to inline PBT, however lower tax rate (23.5% vs 33.4% in Q4FY20) led to higher net profit to Rs 107 crore vs Rs 39 crore (impacted due to COVID 19 outbreak). Order Intake stood at Rs 1497 crore crore (up 57.2% y-o-y, down 4% q-o-q) aided by higher order booking in energy segment while order backlog stood at Rs 5227 crore (flat y-o-y) providing 1.1x FY21 consolidates revenues. The company saw a recovery from cement, steel and refinery in terms of order booking.

Order inflow remains healthy with strong enquiry pipeline: Order Intake stood at Rs 1497 crore crore (up 57.2% y-o-y, down 4% q-o-q) aided by higher order booking in energy segment while order backlog stood at Rs 5227 crore (flat y-o-y) providing 1.1x FY21 consolidates revenues. The company saw a recovery from cement, steel and refinery in terms of order booking. Management commentary on the enquiries pipeline remains positive for small ticket size orders across food processing, chemical and pharma in domestic markets including large orders from Oil & Gas, FGD and chemical. Further, it expects the finalization of 2-3 big orders during H2FY2021 where it would be bidding for the same. Management highlighted that big order opportunities in waste heat recovery in cement and steel sectors both in the domestic as well as the export markets. On the commodity front, the management highlighted that there are challenges due to commodity headwinds, however, the company is able to hedge the price for smaller contracts as it buys the material in around 30 days before signing the agreement. Thermax is also contemplating opportunities across newer technologies like phosphoric acid fuel cell technology is close to commercialization but it would not be ready over next 12 to 24 months. It is undertaking dozen other things but many will be done through partnerships. It is also working on solar thin films technology. Overall management remains optimistic on the demand outlook barring COVID-led near term concerns and witnessing large industries starting to invest again which remains positive in regards to large order inflows. The management remains hopeful of a broad-based recovery with further demand pick up across Tier2-3 cities as witnessed after the first wave. Thermax balance sheet remains strong during the Q4FY21 and it saw improvement in working capital performance and improved upon cash surplus y-o-y which stands at Rs 1939 crore at FY21 end (Rs 476 at FY20 end) which provides comfort in the current environment.

Key conference call highlights

- **Outlook:** The company saw recovery from cement, steel and refinery in terms of order booking. The orders from Oil & Gas, FGD and chemical are coming to discussion table. During H2FY2022, it expects 2-3 finalisation of big orders. Currently, the order book is less driven by big projects. There are big opportunities in waste heat recovery in cement and steel sectors.
- **Commodity price impact:** In Q4FY2021, there is Rs. 10 crore impact on account of rise in prices of steel, cement and styrene. Styrene prices have gone up significantly affecting chemical division margins. There is also be impact of increase in commodity prices especially styrene in Q1FY2022. The company is able to hedge the price for smaller contracts as it buys the material in around 30 days before signing the agreement. For large contracts, the commodity rise is open for 2-3 months.
- **Order book/order booking:** Order book remains well spread across many segment and stands at Rs 5227 crore. Despite challenges order booking remained healthy across small size orders across food, pharma, chemical, textiles and steel and continue to come. Large size orders from Oil & Gas, FGD, Refinary and chemicals are coming which was absent in last 5-6 months
- **New technologies:** Phosphoric acid fuel cell technology is close to commercialization but it would not be ready over next 12 to 24 months. It is undertaking dozen other things but many will be done through partnerships. It is also working on solar thin films technology.
- **Chemical division:** Over next 2-3 years, specialty chemicals is expected to grow at fast rate within chemicals.

- **FGD revenues:** The company booked Rs. 100 crore revenue from FGD in FY2021 out of Rs. 900 crore orders. Expect 3-4 large orders soon and expect it to finalise by Q2-Q3FY22 and company will be bidding for the same.
- **Balance sheet:** It saw improvement in working capital performance and improved upon cash surplus y-o-y.

Results (Consolidated) Rs cr

Particulars	Q4FY21	Q4FY20	Y-o-Y %	Q3FY21	Q-o-Q %
Net sales	**1,574.5**	**1,323**	**19.0**	**1,411**	**12**
Net raw material	822	673	22.0	752	9
Employee Expenses	197	197	0.1	190	4
Other Expenses	416	389	7.0	321	30
Operating profit	**139.7**	**64**	**-**	**148**	**-5**
Other Income	36	31	16.7	28	27
Interest	6.3	4.9	28.6	5.7	12
Depreciation	29	31	-6.4	29	-1
PBT	140	59	-	141	-1
Tax	33	20	-	30	10
Adj.PAT	**107.4**	**39**	**-**	**111**	**-3**
Rep PAT	**107.4**	**39**	**-**	**83**	**29**
EPS	9.5	3.5	-	7.4	29
Margin			**bps**		**bps**
OPM (%)	8.9	4.8	406	10.5%	(159)
PATM (%)	6.8	3.0	387	7.9%	(106)
Tax rate (%)	23.5	33.4	-	21.2%	230

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view – Ample opportunities for growth

With the improving tailwind in the sector and select industrial sectors such as steel cement that continue to perform, despite recurrence of COVID-19. Further Indian Government Union Budget announcement for infrastructure & development and PLI package will support demand in coming quarters. Government NIP plan where the total capital expenditure in infrastructure sectors in India during FY2020-FY2025 is projected at ~Rs. 111 lakh crore also augurs well. During the same period, sectors such as energy (24%), roads (18%), urban (17%) and railways (12%) amount to ~71% of the projected infrastructure investments in India. The huge outlay towards infrastructure is expected to provide healthy growth opportunities for companies in this space.

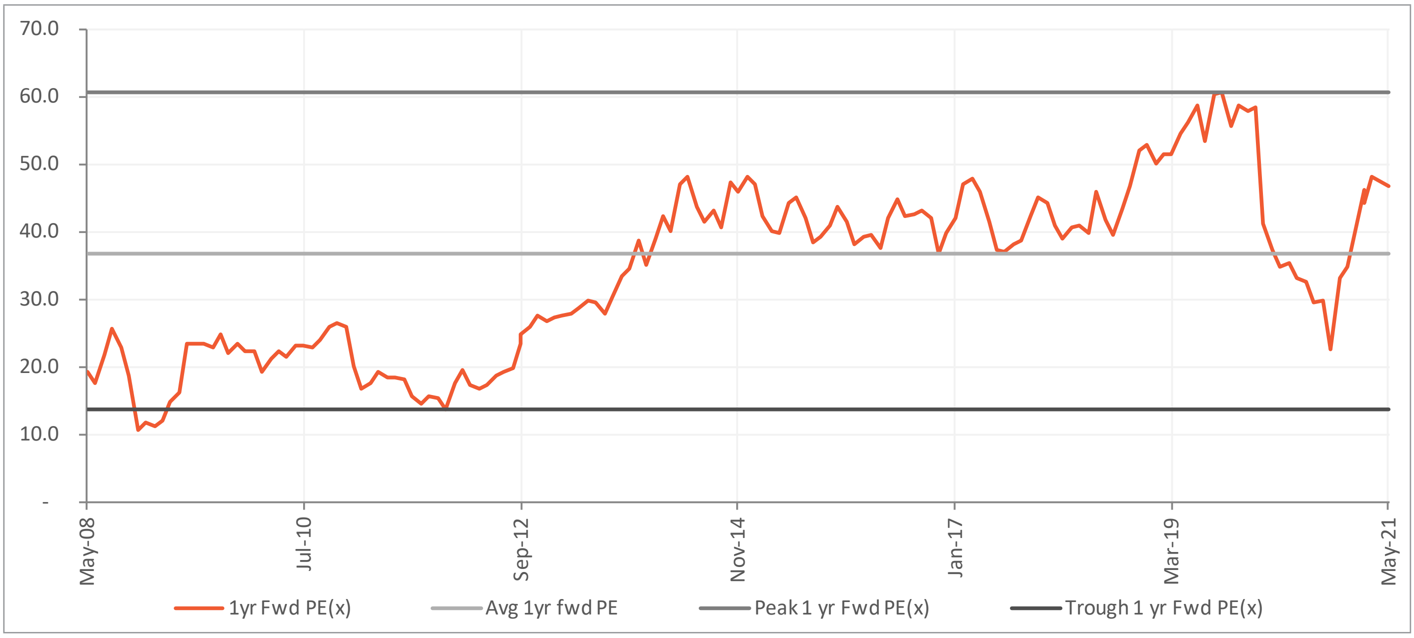
■ Company outlook – Capitalizing on opportunities

Management commentary on the enquiries pipeline remains positive for small ticket size orders across food processing, chemical and pharma in domestic markets including large orders from Oil & Gas, FGD and chemical. Further, it expects the finalization of 2-3 big orders during H2FY2021 where it would be bidding for the same. Management highlighted that big order opportunities in waste heat recovery in cement and steel sectors both in the domestic as well as the export markets. On the commodity front, the management highlighted that there are challenges due to commodity headwinds, however, the company is able to hedge the price for smaller contracts as it buys the material in around 30 days before signing the agreement. Thermax is also contemplating opportunities across newer technologies which will provide next leg of growth.

■ Valuation – Upgrade to Buy with revised PT of Rs. 1720

The company order book remains strong providing healthy revenue visibility. Further the management commentary on the enquiries pipeline remains positive for small ticket size orders across food processing, chemical and pharma in domestic markets including large orders from Oil & Gas, FGD and chemical along with big order opportunities in waste heat recovery in cement and steel sectors both in the domestic as well as the export markets providing healthy order inflow visibility ahead. The company has a strong balance sheet with healthy cash position with provides comfort in present environment. The company's focus on newer technologies is expected to provide next leg of growth in near future. We have fine-tuned our earnings estimate for FY2022-23E earnings. The stock is currently trading at a PE of 41x and 36x FY23-24E EPS and we expect Thermax to clock a 14%/22% CAGR in Revenue/PAT over FY2021-FY2024E. With improving tailwind in the sector and consistent strong performance from the company along with improving visibility for new orders due to positive business environment provides healthy outlook ahead. Hence we upgrade Thermax to Buy with a revised PT of Rs 1720.

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

Mrs. Meher Pudumjee	Chairman
Mr. Pheroz Pudumjee	Non Independent Director
Mr. Ashish Bhandari	Executive Director-CEO-MD
Mr. Rajendran Arunachalam	Group Chief Financial Officer

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	Nalanda India Equity Fund Ltd	6.26
4	Kotak Mahindra Asset Management Co	6.11
5	SBI Funds Management Pvt Ltd	2.18
6	Life Insurance Corp of India	1.73
7	PineBridge Investments LP	1.09
8	L&T Mutual Fund Tustee Ltd/India	0.9
9	Aditya Birla Sun Life Asset Manage	0.85
10	Vanguard Group Inc	0.74

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.