

Thermax (TMX IN)

Rating: ACCUMULATE | CMP: Rs1,360 | TP: Rs1,559

August 9, 2021

Q1FY22 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

Rating	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Target Price	ACCUMULATE	ACCUMULATE	1,559	1,559
Sales (Rs. m)	59,567	73,293	59,567	73,293
% Chng.	-	-	-	-
EBITDA (Rs. m)	5,072	6,240	5,072	6,240
% Chng.	-	-	-	-
EPS (Rs.)	32.1	41.0	32.1	41.0
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	57,313	47,913	59,567	73,293
EBITDA (Rs. m)	4,062	3,552	5,072	6,240
Margin (%)	7.1	7.4	8.5	8.5
PAT (Rs. m)	2,125	2,591	3,617	4,619
EPS (Rs.)	18.9	23.0	32.1	41.0
Gr. (%)	(48.8)	22.0	39.6	27.7
DPS (Rs.)	4.6	5.6	7.8	9.9
Yield (%)	0.3	0.4	0.6	0.7
RoE (%)	7.0	8.3	10.7	12.5
RoCE (%)	8.9	7.1	10.3	12.2
EV/Sales (x)	2.5	2.8	2.3	1.8
EV/EBITDA (x)	35.0	38.2	26.9	21.6
PE (x)	72.1	59.1	42.3	33.2
P/BV (x)	5.1	4.7	4.3	4.0

Key Data	THMX.BO TMX IN
52-W High / Low	Rs.1,578 / Rs.704
Sensex / Nifty	54,403 / 16,258
Market Cap	Rs.162bn / \$ 2,182m
Shares Outstanding	119m
3M Avg. Daily Value	Rs.210.43m

Shareholding Pattern (%)

Promoter's	67.47
Foreign	12.45
Domestic Institution	14.60
Public & Others	5.48
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.4)	17.7	81.0
Relative	(8.9)	11.1	26.6

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Highest OI in last seven quarters

Quick Pointers:

- One of the best order inflows at Rs17bn is mainly led by order wins in sectors like refinery, cement and steel.
- Management indicated enquiry pipeline remains strong from sectors like Food and Beverages, Chemicals, Pharma, Cement, Refinery etc.

Thermax Ltd (TMX) reported healthy quarterly performance with continuity in execution momentum, across business segment. Revenue across Energy/Environment/Chemical segment grew by 52.4%/115.1%/45.6% YoY. Order inflows continued the traction with TMX securing orders worth Rs17bn in Q1FY22, highest in last seven quarters, mainly led by orders win in sector like refinery, cement and steel. Order book stands strong at Rs61bn (1.2x TTM revenue) as on Q1FY22, providing revenue visibility for next few quarters. Management indicated good traction in order inflow from sectors like F&B, Chemicals, Pharma, Refinery, Power, Cement etc. anticipated to be key growth drivers going ahead.

We believe TMX is well placed to capitalize on reviving economic activities in the long run given its 1) strong balance sheet, 2) prudent working capital management and 3) continuity in order inflow with strong tender pipeline. The stock is currently trading at 42.3x/33.2x FY22/FY23E. We maintain 'Accumulate' rating on stock with TP of Rs1,559 (same as earlier).

Execution momentum continues across verticals: Cons sales came in at Rs10.5bn (up 58% YoY on low base) (PLe ~Rs11.3bn) led by growth across all the segment. Energy/Environment/Chemical grew by 52.4%/115.1%/45.6% YoY. Other expenses were higher (up 66% YoY) due to increase in onsite labour charge, higher site expenses, higher travel and office expenses compared to Q1FY21. EBITDA came in at Rs630mn, (PLe ~Rs670mn) with EBITDA margins coming in at 6.0% in Q1FY22 v/s -1.7% in Q1FY21 mainly led by better absorption of fixed overheads. PBT came in at Rs563mn on account of higher other income (up 21.4% YoY). Adj.PAT came in at Rs424mn broadly in line with PLe of ~Rs405mn, mainly on account of lower than expected depreciation.

Strong OI in 1QFY22: OI came in at Rs17bn (up 179% YoY on low base) in Q1FY22, highest in last seven quarters. Order wins were mainly from sectors like Refinery, Cement and Steel. While exports OI grew 107% YoY to Rs5.5bn in Q1FY22. OB stands strong at Rs61bn (1.2x TTM revenue) providing revenue visibility for next few quarters. Off the total order book Energy comprises 73%, Environment 26% and Chemical 2%. Management indicated tender pipeline remains strong from sectors like F&B, Chemicals, Pharma, Refinery, Power etc.

Exhibit 1: Execution momentum continues

Y/e March (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY gr. (%)	QoQ gr. (%)	FY21	FY20	YoY gr. (%)
Revenue	6,649	11,412	14,106	15,745	10,524	58.3	(33.2)	47,913	57,313	(16.4)
Total Revenues	6,649	11,412	14,106	15,745	10,524	58.3	(33.2)	47,913	57,313	(16.4)
Expenditure	6,763	10,619	12,630	14,349	9,893	46.3	(31.1)	44,361	53,251	(16.7)
as % of sales	101.7	93.0	89.5	91.1	94.0			92.6	92.9	
Consumption of RM	3,343	6,309	7,519	8,215	5,328	59.4	(35.1)	25,386	30,857	(17.7)
as % of sales	50.3	55.3	53.3	52.2	50.6			53.0	53.8	
Employee Cost	1,824	1,890	1,901	1,973	1,912	4.8	(3.1)	7,588	7,990	(5.0)
as % of sales	27.4	16.6	13.5	12.5	18.2			15.8	13.9	
Other expenditure	1,597	2,420	3,210	4,160	2,654	66.2	(36.2)	11,387	14,404	(20.9)
as % of sales	24.0	21.2	22.8	26.4	25.2			23.8	25.1	
EBITDA	(114)	793	1,476	1,397	630	NA	(54.9)	3,552	4,062	(12.6)
Depreciation	280	287	291	288	274	(2.2)	(4.9)	1,146	1,166	(1.8)
EBIT	(394)	507	1,185	1,109	357	NA	(67.8)	2,406	2,896	(16.9)
Other Income	209	228	282	358	254	21.4	(29.1)	1,077	1,000	7.7
Interest	40	47	57	63	48	19.5	(24.1)	206	150	37.4
PBT	(225)	687	1,411	1,404	563	NA	(59.9)	3,277	3,745	(12.5)
Total Tax	(72)	129	300	330	139	NA	(58.0)	686	1,621	(57.7)
Adjusted PAT	(153)	559	1,111	1,074	424	NA	(60.5)	2,591	2,125	22.0
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	(153)	559	1,111	1,074	424	NA	(60.5)	2,591	2,125	22.0
Extra ordinary items	-	(247)	(279)	-	-	-	-	(525)	-	-
Reported PAT	(153)	312	833	1,074	424	NA	(60.5)	2,066	2,125	(2.8)
Adjusted EPS	(1.4)	5.0	9.9	9.5	3.8	NA	(60.5)	23.0	18.9	22.0
Margins (%)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	bps	bps	FY21	FY20	bps
EBIDTA	-1.7	7.0	10.5	8.9	6.0	NA	(288)	7.4	7.1	33
EBIT	-5.9	4.4	8.4	7.0	3.4	NA	(365)	5.0	5.1	(3)
EBT	-3.4	6.0	10.0	8.9	5.3	NA	(357)	6.8	6.5	31
PAT	-2.3	2.7	5.9	6.8	4.0	NA	(279)	4.3	3.7	60
Effective Tax rate	32.1	18.7	21.2	23.5	24.6	(747)	111	20.9	43.3	(2,234)

Source: Company, PL

Exhibit 2: Segmental Performance

Rs mn	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY gr. (%)	QoQ gr. (%)	FY21	FY20	YoY gr. (%)
Revenue										
Energy	5,004	8,858	10,658	11,753	7,627	52.4	(35.1)	36,273	46,770	(22.4)
Environment	839	1,550	2,534	3,019	1,804	115.1	(40.2)	7,941	7,220	10.0
Chemicals	843	1,145	1,113	1,194	1,227	45.6	2.8	4,295	4,213	1.9
Less:Intersegment	(35)	(141)	(199)	(221)	(134)	279.6	(39.3)	(596)	(889)	(32.9)
Total	6,649	11,412	14,106	15,745	10,524	58.3	(33.2)	47,913	57,313	(16.4)
EBIT										YoY (%)
Energy	(264)	388	966	1,088	279	(205.4)	(74.4)	2,177	2,493	(12.7)
EBIT margin (%)	(5.3)	4.4	9.1	9.3	3.7			6.0	5.3	
Environment	(105)	103	180	198	28	(126.1)	(86.1)	376	381	(1.3)
EBIT margin (%)	(12.6)	6.7	7.1	6.6	1.5			4.7	5.3	
Chemicals	173	350	291	221	216	25.1	(2.1)	1,034	780	32.5
EBIT margin (%)	20.5	30.5	26.1	18.5	17.6			24.1	18.5	

Source: Company, PL

Conference call highlights

- Management indicated Q1FY22 was impacted on account of 1) slowdown due to second wave of Covid 2) increase in commodity price 3) higher freight cost and 4) shortage of containers.
 - International orders worth Rs200mn were unable to be shipped due to shortage of container during the quarter.
- Other expenses were higher due to 1) increase in onsite labour charge, higher site expenses and 2) higher travel and office expenses compared to last year.
- **OI:** OI came in at Rs17bn, highest in last 7 quarters, mainly on account of order wins in sectors like Refinery, Cement and Steel.
 - Exports order inflow grew 107% YoY.
 - Enquiry pipeline remains strong from sectors like F&B, Chemicals, Pharma, Refinery, Power etc.
- Management indicated it won't compromise with margin while bidding for orders.

Segment wise:

- **Energy:** OI for heating segment crossed Rs2bn for 1st time in heating product and has also won first ever order for electrical boiler from Bhutan. Management indicated order pipeline for large boiler is strong from international as well as domestic market.
- **Environment:** Bagged its first order from new geography like Turkey and Germany in Q1FY22. Water treatment business has received major order for 7MLD desalination plant in Gujarat. Margins in the segment were impacted due to slower execution of ongoing FGD orders. Management stated for two ongoing FGD projects that has completed ~10% of work and will be completing 50% of remaining work in FY22 and rest in FY23.
- **Chemical:** Order inflow was highest at Rs1.4bn, mainly from international business for ion exchange resins and channel business of water treatment chemicals. Additionally, it has bagged major orders for pour point depressant from oil and gas client in Russia. Going ahead focus will be to increase volume and productivity. Resin capacity utilisation stands at ~75%.
- **Overseas Subsidiaries:** Management indicated performance in Danstoker has improved and reported a marginal profit during quarter. Indonesia subsidiary witnessed delay in order inflow and execution due to Covid and is expected to ramp up in coming quarters.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	57,313	47,913	59,567	73,293
YoY gr. (%)	(4.0)	(16.4)	24.3	23.0
Cost of Goods Sold	30,857	25,386	31,264	38,469
Gross Profit	26,456	22,526	28,303	34,824
Margin (%)	46.2	47.0	47.5	47.5
Employee Cost	7,990	7,588	8,339	10,261
Other Expenses	5,736	4,481	6,672	8,209
EBITDA	4,062	3,552	5,072	6,240
YoY gr. (%)	(11.2)	(12.6)	42.8	23.0
Margin (%)	7.1	7.4	8.5	8.5
Depreciation and Amortization	1,166	1,146	1,257	1,362
EBIT	2,896	2,406	3,814	4,878
Margin (%)	5.1	5.0	6.4	6.7
Net Interest	150	206	217	228
Other Income	1,000	1,077	1,233	1,517
Profit Before Tax	3,745	2,752	4,830	6,168
Margin (%)	6.5	5.7	8.1	8.4
Total Tax	1,621	686	1,213	1,549
Effective tax rate (%)	43.3	24.9	25.1	25.1
Profit after tax	2,125	2,066	3,617	4,619
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,125	2,591	3,617	4,619
YoY gr. (%)	(48.8)	22.0	39.6	27.7
Margin (%)	3.7	5.4	6.1	6.3
Extra Ord. Income / (Exp)	-	(525)	-	-
Reported PAT	2,125	2,066	3,617	4,619
YoY gr. (%)	(34.7)	(2.8)	75.1	27.7
Margin (%)	3.7	4.3	6.1	6.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,125	2,066	3,617	4,619
Equity Shares O/s (m)	113	113	113	113
EPS (Rs)	18.9	23.0	32.1	41.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	19,215	19,878	21,678	23,478
Tangibles	19,215	19,878	21,678	23,478
Intangibles	-	-	-	-
Acc: Dep / Amortization	6,967	7,777	9,035	10,396
Tangibles	6,967	7,777	9,035	10,396
Intangibles	-	-	-	-
Net fixed assets	12,248	12,101	12,644	13,082
Tangibles	12,248	12,101	12,644	13,082
Intangibles	-	-	-	-
Capital Work In Progress	1,135	530	530	530
Goodwill	-	-	-	-
Non-Current Investments	1,759	2,598	3,255	4,271
Net Deferred tax assets	1,510	1,540	1,540	1,540
Other Non-Current Assets	2,170	2,556	3,157	3,665
Current Assets				
Investments	8,161	1,153	1,153	1,153
Inventories	4,546	4,047	4,896	6,024
Trade receivables	14,785	13,380	13,056	16,064
Cash & Bank Balance	4,761	19,392	18,787	20,142
Other Current Assets	3,978	3,830	4,765	5,131
Total Assets	58,005	63,458	67,187	75,411
Equity				
Equity Share Capital	225	225	225	225
Other Equity	30,054	32,289	35,030	38,531
Total Networth	30,279	32,514	35,256	38,757
Non-Current Liabilities				
Long Term borrowings	1,782	222	233	244
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	334	2,829	2,818	2,806
Trade payables	10,000	11,710	11,424	14,056
Other current liabilities	17,121	17,725	18,997	21,088
Total Equity & Liabilities	58,005	63,458	67,187	75,411

Source: Company Data, PL Research

Cash Flow (Rs m)					Key Financial Metrics				
Y/e Mar	FY20	FY21	FY22E	FY23E	Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	3,745	2,752	4,830	6,168	EPS	18.9	23.0	32.1	41.0
Add. Depreciation	1,036	1,017	1,257	1,362	CEPS	29.2	33.2	43.3	53.1
Add. Interest	86	118	217	228	BVPS	268.9	288.8	313.1	344.2
Less Financial Other Income	1,000	1,077	1,233	1,517	FCF	24.7	60.9	(1.3)	16.6
Add. Other	(517)	12	(1,233)	(1,517)	DPS	4.6	5.6	7.8	9.9
Op. profit before WC changes	4,350	3,899	5,072	6,240	Return Ratio(%)				
Net Changes-WC	218	4,734	(2,201)	(1,022)	RoCE	8.9	7.1	10.3	12.2
Direct tax	1,313	938	1,213	1,549	ROIC	8.4	13.4	16.8	19.5
Net cash from Op. activities	3,256	7,695	1,657	3,669	RoE	7.0	8.3	10.7	12.5
Capital expenditures	(1,937)	(13,130)	(1,800)	(1,800)	Balance Sheet				
Interest / Dividend Income	238	266	1,233	1,517	Net Debt : Equity (x)	(0.4)	(0.5)	(0.5)	(0.5)
Others	14	6,507	(603)	(686)	Net Working Capital (Days)	59	44	40	40
Net Cash from Invt. activities	(1,685)	(6,357)	(1,170)	(969)	Valuation(x)				
Issue of share cap. / premium	-	-	-	-	PER	72.1	59.1	42.3	33.2
Debt changes	(310)	947	-	-	P/B	5.1	4.7	4.3	4.0
Dividend paid	(1,901)	-	(875)	(1,118)	P/CEPS	46.5	41.0	31.4	25.6
Interest paid	(85)	(118)	(217)	(228)	EV/EBITDA	35.0	38.2	26.9	21.6
Others	(28)	(56)	-	-	EV/Sales	2.5	2.8	2.3	1.8
Net cash from Fin. activities	(2,325)	772	(1,092)	(1,345)	Dividend Yield (%)	0.3	0.4	0.6	0.7
Net change in cash	(754)	2,110	(605)	1,354					
Free Cash Flow	2,776	6,861	(143)	1,869					

Source: Company Data, PL Research

Quarterly Financials (Rs m)				
Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	11,412	14,106	15,745	10,524
YoY gr. (%)	(28.9)	-	19.0	58.3
Raw Material Expenses	6,309	7,519	8,215	5,328
Gross Profit	5,103	6,587	7,530	5,196
Margin (%)	44.7	46.7	47.8	49.4
EBITDA	793	1,476	1,397	630
YoY gr. (%)	(39.1)	30.4	119.7	(653.5)
Margin (%)	7.0	10.5	8.9	6.0
Depreciation / Depletion	287	291	288	274
EBIT	507	1,185	1,109	357
Margin (%)	4.4	8.4	7.0	3.4
Net Interest	47	57	63	48
Other Income	228	282	358	254
Profit before Tax	441	1,132	1,404	563
Margin (%)	3.9	8.0	8.9	5.3
Total Tax	129	300	330	139
Effective tax rate (%)	29.1	26.5	23.5	24.6
Profit after Tax	312	833	1,074	424
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	559	1,111	1,074	424
YoY gr. (%)	117.5	30.8	175.0	(377.7)
Margin (%)	4.9	7.9	6.8	4.0
Extra Ord. Income / (Exp)	(247)	(279)	-	-
Reported PAT	312	833	1,074	424
YoY gr. (%)	21.6	(2.0)	175.0	(377.7)
Margin (%)	2.7	5.9	6.8	4.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	312	833	1,074	424
Avg. Shares O/s (m)	113	113	113	113
EPS (Rs)	5.0	9.9	9.5	3.8

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-21	Accumulate	1,559	1,484
2	26-May-21	Accumulate	1,559	1,455
3	07-Apr-21	Accumulate	1,008	1,275
4	04-Feb-21	Accumulate	1,008	1,207
5	08-Jan-21	Accumulate	798	980
6	05-Nov-20	Accumulate	798	790
7	08-Oct-20	Accumulate	798	719
8	13-Aug-20	Accumulate	798	751

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Hold	1,687	1,684
2	Ahluwalia Contracts (India)	Accumulate	410	392
3	Apar Industries	BUY	790	680
4	Ashoka Buildcon	BUY	160	115
5	Bharat Electronics	BUY	208	181
6	BHEL	Sell	34	59
7	Capacite's Infraprojects	BUY	270	213
8	Container Corporation of India	Hold	607	644
9	Cummins India	UR	-	869
10	Engineers India	BUY	129	79
11	GE T&D India	Hold	141	140
12	H.G. Infra Engineering	BUY	696	571
13	IRB Infrastructure Developers	BUY	179	158
14	ITD Cementation India	BUY	97	83
15	J.Kumar Infraprojects	BUY	272	190
16	Kalpataru Power Transmission	BUY	576	472
17	KEC International	Accumulate	445	419
18	KNR Constructions	Accumulate	253	245
19	Larsen & Toubro	BUY	1,855	1,598
20	NCC	BUY	111	89
21	PNC Infratech	UR	-	306
22	Power Grid Corporation of India	BUY	205	170
23	Sadbhav Engineering	Accumulate	97	82
24	Siemens	Accumulate	2,101	2,029
25	Thermax	Accumulate	1,559	1,484
26	Triveni Turbine	BUY	156	125
27	Voltamp Transformers	Accumulate	1,565	1,462

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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