Equity Research

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BSE Sensex: 54278

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Q1FY22 result review and earnings revision

Capital Goods

Target price: Rs1,431

Earnings revision

(%)	FY22E	FY23E
Sales	↓ 1.9	↓ 1.9
EBITDA	↓ 22.9	↓ 11.7
EPS	↓ 14.2	↓ 2.1

Target price revision

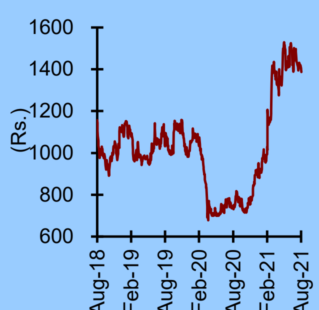
Rs1,431 from Rs1,506

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	62.0	62.0	62.0
Institutional investors	26.6	27.1	27.2
MFs and Other	10.6	11.0	11.2
FIs / Banks	1.8	1.8	1.6
FIIs	14.2	14.3	14.4
Others	11.4	10.9	10.8

Source: NSE

Price chart



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INDIA

Thermax

HOLD
Maintain

Cost pressures impact margins

Rs1,379

Thermax margins were lower than expectations at 6% in Q1FY22 vs our estimate of 8.7%, impacted by normalisation of fixed cost and employee expenses. Despite headwinds, consolidated order intake was healthy at Rs16.9bn with order book of Rs61.1 (1.2x TTM sales). The company has taken various strategic technology collaborations in waste-to-energy, fuel cell and solar film segments. Factoring in the margin stress, we cut our FY22E and FY23E earnings by 14% and 2%, respectively. We have adopted SoTP-based valuation given different growth, margin and return outlook of the segments. We maintain HOLD rating on the stock with revised target price of Rs1,431 (previously: Rs1,506).

- **Steady execution, lower than estimate:** Environment segment registered strong revenue growth of 115% YoY to Rs1.8bn (Isec:Rs2.5bn), energy segment grew 52% YoY to Rs7.6bn (Isec:Rs8bn) and chemical segment grew 45% YoY to Rs1.2bn (Isec: Rs1.2bn) resulting in 58% YoY revenue growth to Rs10.5bn. Order intake grew 178% YoY to Rs16.9bn in Q1FY22. Current orderbook at Rs61.1bn (1.2x TTM sales) provides visibility. We believe the logistical bottlenecks in terms of container availability would have impacted the overall execution.
- **We believe margins have been impacted due to cost pressures:** Overall EBIDTA margin stood at 6% in Q1FY22 vs our estimate of 8.7% and Q4FY21 margin of 8.9%. Normalisation of other expense and employee cost has impacted the overall margins. The major impact is from environment with 1.5% (Isec: 6%), energy 3.7% (Isec: 8.5%) and chemicals at 17.6% (Isec: 19%).
- **Demand from core sectors and short cycle orders will support growth:** Demand from core sectors like cement, steel and refinery is likely to be healthy. The company is also focusing on short cycle low-ticket sized orders and services which will enable it tackle any near-term lull in demand efficiently. Drive towards improvement in collections and margins may continue supporting the cashflow.
- **Maintain HOLD, rich valuation and cost pressures:** The company is currently trading at a rich valuation of 52.8x FY22E and 37.8x FY23E earnings. Strategic growth initiatives in new growth segments will open up new long-term opportunities. Given varied growth, margin and return trajectory of the three segments, we have used SoTP valuation methodology. Due to strong growth prospects, high returns and margins under chemicals, which is at lower utilisation currently, we assign 60x FY23E core multiple, environment at 45x and energy at 30x multiple. We maintain HOLD rating on the stock with revised SoTP-based target price of Rs1,431 implying 39x FY23E earnings.

Market Cap	Rs164bn/US$2.2bn
Reuters/Bloomberg	THMX.BO/ TMX IN
Shares Outstanding (mn)	119.2
52-week Range (Rs)	1530/715
Free Float (%)	38.0
FII (%)	14.4
Daily Volume (US$/'000)	1,589
Absolute Return 3m (%)	(8.8)
Absolute Return 12m (%)	87.3
Sensex Return 3m (%)	11.6
Sensex Return 12m (%)	44.3

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs bn)	57,313	47,913	57,904	64,896
Rec. Net Income (Rs bn)	2,145	2,722	3,113	4,343
EPS (Rs)	18.0	22.8	26.1	36.5
% Chg YoY	(23.8)	26.9	14.3	39.5
P/E (x)	76.6	60.4	52.8	37.8
CEPS (Rs)	27.8	32.5	35.5	46.4
EV/E (x)	37.6	41.3	37.4	26.4
Dividend Yield (%)	0.5	0.5	0.7	0.9
RoCE (%)	6.9	8.4	8.8	11.4
RoE (%)	7.1	8.7	9.3	12.0

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Outlook and valuation

There has been a positive shift in the domestic demand landscape recently, which may slow down due to the second wave of covid. However, the environment is likely to normalise H2FY22 onwards. Given the strong growth prospects under chemicals which is under-utilised currently and focus towards high margin specialty segment, we assign 60x FY23E core earnings multiple to this segment. Environment segment growth and returns are also poised to improve with focus on water and air pollution solutions, hence, we assign 45x multiple. Energy segment growth outlook is healthy and recovery from overseas subsidiaries will enable overall improvement in margins and returns of this segment, hence, we assign 30x FY23E core multiple to this segment.

Improvement in gross margins, turnaround in overseas subsidiaries and large order finalisations will be key re-rating catalysts for the stock.

Key risks: (i) Delay in normalisation of the lockdown, (ii) continuation of loss from overseas subsidiaries and (iii) reduction in order intake impacting the overall growth.

Table 1: Segmental RoE to improve going forward

Segmental ROE	FY21 Equity (Rs mn)	FY21 ROE (%)	FY23E Equity (Rs mn)	FY23E ROE (%)
Energy	19,908	10.9	24,654	15.3
Environment	3,916	9.6	7,586	10.2
Chemicals	8,690	11.9	5,689	21.4
Total	**32,514**	**11.0**	**37,930**	**15.2**

Note: we assume 65% contribution of Equity in energy and 20% in environment and rest Chemicals during FY23E
Source: I-Sec research

Table 2: Earnings revision (consolidated)

(Rs mn)

	FY22E			FY23E		
	Earlier	**Revised**	**YoY (%)**	**Earlier**	**Revised**	**YoY (%)**
Revenue	59,019	57,904	(1.9)	66,152	64,896	(1.9)
EBIDTA	4,958	3,821	(22.9)	6,020	5,313	(11.7)
PAT	3,627	3,113	(14.2)	4,436	4,343	(2.1)

Source: Company data, I-Sec research

Table 3: Valuation summary

	PE multiple (x)	contribution (%)	FY23E PAT (Rs mn)	Value (Rs mn)	Per share (Rs)
Energy	30	65	2,285	68,561	609
Environment	45	13	469	21,108	187
Chemicals	60	21	738	44,260	393
Core PAT			**3,492**		
Total				1,33,929	1,189
Cash (FY23E)				27,226	242
Overall Total				**1,61,156**	**1,431**

Note: We assume the Core PAT contribution of different segment to be similar to the EBIT contribution
Source: Company data, I-Sec research

Table 4: Quarterly financial trend (consolidated)

(Rs mn)

	Q1FY21	Q1FY22	YoY(%)	Q4FY21	QoQ(%)	Isec Est	Var(%)
Total Revenue	6,649	10,524	58.3	15,745	(33.2)	11,665	(9.8)
EBITDA	(114)	630	653.5	1,397	(54.9)	1,018	(38.1)
Margin	-1.7	6.0	770bps	8.9	-288bps	8.7	-274bps
Depreciation	280	274	(2.2)	288	(4.9)	280	(2.2)
Finance Cost	40	48	19.5	63	(24.1)	40	19.5
Other Income	209	254	21.4	358	(29.1)	300	(15.4)
Extraordinary income	-	-		-		-	
PBT	(225)	563	350.2	1,404	(59.9)	998	(43.6)
Tax	(72)	139	292.0	330	(58.0)	250	(44.4)
tax rate	32.1	24.6	-747bps	24	111bps	25.0	
Reported PAT	(153)	424	377.7	1,074	(60.5)	749	(43.4)
Adjusted PAT	-	-	#DIV/0!	-	#DIV/0!	-	#DIV/0!
Margin(%)	(153)	424	377.7	1,074	(60.5)	749	(43.4)
EPS	(153)	424	377.7	1,074	(60.5)	749	(43.4)
Segmental							
Revenue							
Energy	5,004	7,627	52.4	11,753	(35.1)	8,000	(4.7)
Environment	839	1,804	115.1	3,019	(40.2)	2,500	(27.8)
Chemical	843	1,227	45.6	1,194	2.8	1,200	2.3
Less: Intersegment	35	134	279.6	221	(39.3)	35	279.6
Total	**6,649**	**10,524**	**58.3**	**15,745**	**(33.2)**	**11,665**	(9.8)
EBIT							
Energy	(264)	279	(205.4)	1,088	(74.4)	680	(59.0)
Environment	(105)	28	(126.1)	198	(86.1)	150	(81.7)
Chemical	173	216	25.1	221	(2.1)	228	(5.2)
Total	(197)	522	(365.3)	1,507	(65.3)	1,058	(50.6)
EBIT margins (%)							
Energy	-5.3	3.7	894bps	9.3	-560bps	8.5	-485bps
Environment	(12.6)	1.5	1408bps	6.6	-504bps	6.0	-448bps
Chemical	20.5	17.6	-289bps	18.5	-87bps	19.0	-138bps

Source: Company data, I-Sec research

Table 5: Orderbook and order intake trend (consolidated)

(Rs bn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)
Orderbook	52.5	53.3	54.4	52.4	52.1	51.9	52.1	52.2	61.1	17.3
Order inflow	12.2	17.2	16.1	9.5	6.1	11.1	15.7	15.0	16.9	178.0

Source: Company data, I-Sec research

Table 6: Key assumptions (Consolidated)

(Rs mn)

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Order Intake	43,940	63,800	56,330	54,980	47,830	55,005	66,005
Growth (%)	1.0	45.2	-11.7	-2.4	-13.0	15.0	20.0
Orderbook	43,746	56,890	53,700	52,380	52,270	49,370	52,260
Growth (%)	-6.1	30.0	-5.6	-2.5	-0.2	-5.5	5.9
Net Sales	44,831	44,649	59,732	57,313	47,913	57,904	63,115
Growth (%)	-11.6	-0.4	33.8	-4.0	-16.4	20.9	9.0

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 7: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Total Income	**57,313**	**47,913**	**57,904**	**64,896**
Operating Expenses	53,231	44,361	54,083	59,584
EBITDA	**4,082**	**3,552**	**3,821**	**5,313**
% margins	*7.1*	*7.4*	*6.6*	*8.2*
Depreciation & Amortisation	1,166	1,146	1,122	1,182
EBIT	**2,916**	**2,406**	**2,699**	**4,131**
Gross Interest	150	207	163	163
Other Income	1,000	1,077	1,454	1,600
PBT before exceptionals	**3,765**	**3,277**	**3,991**	**5,568**
Add: Extraordinaries/Exceptionals	-	525	-	-
Add: Share in associates	-	-	-	-
PBT	**3,765**	**3,802**	**3,991**	**5,568**
Less: Taxes	1,621	686	878	1,225
Less: Minority Interests	-	-	-	-
Net Income (Reported)	**2,145**	**3,116**	**3,113**	**4,343**
Adjusted Net Income	**2,145**	**2,722**	**3,113**	**4,343**

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	39,773	44,665	52,736	59,077
of which cash & cash eqv.	12,922	20,545	24,309	27,226
Total Current Liabilities & Provisions	27,120	29,434	35,380	39,099
Net Current Assets	**(269)**	**(5,314)**	**(6,954)**	**(7,248)**
Investments	591	1,192	715	787
Other Non-Current Assets	7,502	8,224	8,864	9,562
Net Fixed Assets	**11,340**	**10,958**	**10,869**	**10,697**
Goodwill	353	30	30	29
Total Assets	**32,439**	**35,635**	**37,834**	**41,053**
Liabilities				
Borrowings	**2,115**	**3,051**	**3,051**	**3,051**
Deferred Tax Liability	**44**	**70**	**72**	**73**
Minority Interest	-	-	-	-
Equity Share Capital	**225**	**225**	**225**	**225**
Face Value per share (Rs)	2.00	2.00	2.00	2.00
Reserves & Surplus	30,054	32,288	34,487	37,704
Net Worth	**30,279**	**32,514**	**34,712**	**37,930**
Total Liabilities	**32,439**	**35,634**	**37,834**	**41,053**

Source: Company data, I-Sec research

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	**3,072**	**3,360**	**2,784**	**3,912**
Working Capital Changes	477	4,522	1,521	188
Capital Commitments	683	(763)	(1,034)	(1,010)
Free Cashflow	**4,232**	**7,118**	**3,271**	**3,090**
Cashflow from Investing Activities	**(2,368)**	**6,819**	**1,429**	**984**
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(85)	935	-	-
Interest paid	(150)	(207)	(163)	(163)
Dividend paid	(834)	(834)	(1,192)	(1,430)
Extraordinary Items/Others	**686**	**(6,210)**	**419**	**434**
Chg. in Cash & Bank balance	**1,481**	**7,623**	**3,765**	**2,917**

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs.)				
Diluted adjusted EPS	18.0	22.8	26.1	36.5
Recurring Cash EPS	27.8	32.5	35.5	46.4
Dividend per share (DPS)	7.0	7.0	10.0	12.0
Book Value per share (BV)	254.1	272.9	291.3	318.3
Growth Ratios (%)				
Operating Income	(4.0)	(16.4)	20.9	12.1
EBITDA	(2.3)	(13.0)	7.6	39.0
Recurring Net Income	(23.8)	26.9	14.3	39.5
Diluted adjusted EPS	(23.8)	26.9	14.3	39.5
Diluted Recurring CEPS	(11.3)	16.8	9.5	30.5
Valuation Ratios				
P/E	76.6	60.4	52.8	37.8
P/CEPS	49.6	42.5	38.8	29.7
P/BV	5.4	5.1	4.7	4.3
EV / EBITDA	37.6	41.3	37.4	26.4
EV / Operating Income	2.7	3.1	2.5	2.2
EV / Op FCF (pre -Capex)	47.1	18.6	33.2	34.2
Operating Ratios				
Raw Material/Sales (%)	53.8	53.0	52.7	53.0
SG&A/Sales (%)	25.1	23.8	26.3	24.7
Other Income / PBT (%)	26.6	32.9	36.4	28.7
Effective Tax Rate (%)	43.0	18.0	22.0	22.0
NWC / Total Assets (%)	1.3	(0.1)	(0.1)	(0.1)
Inventory Turnover (days)	28.9	30.8	30.8	30.8
Receivables (days)	88.3	94.2	90.0	90.0
Payables (days)	66.3	97.2	92.6	92.6
Net D/E Ratio (x)	(0.4)	(0.5)	(0.6)	(0.6)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	3.7	5.7	5.4	6.7
RoCE	6.9	8.4	8.8	11.4
RoNW	7.1	8.7	9.3	12.0
Dividend Payout Ratio	0.4	0.3	0.4	0.3
Dividend Yield (%)	0.5	0.5	0.7	0.9
EBITDA Margins	7.1	7.4	6.6	8.2

Source: Company data, I-Sec research

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