

Thermax Ltd

ADD

CMP Rs1,462

Target Rs1,550

Upside 6%

Result Highlights

- ✓ Revenue grew 19% yoy to Rs15.7 bn led by Energy segment which grew by 51% yoy while Environmental sales and Chemical segmental revenues grew by 13% and 24% respectively.
- ✓ EBITDA more than doubled to Rs1.4 bn and EBITDA margin expanded to 8.9%. The Company has passed through some cost in FY22 to offset the rising commodity prices. May see cost pressure in Q1 FY22.
- ✓ EBIT margin for Energy/Environment/Chemical came in at 9.3%/6.6%/18.5% for the quarter. The chemical segment reported the EBIT margin of 24% in FY21 which looks like sustained level going ahead due to its rising demand.
- ✓ The company had an order balance of Rs52.27 bn flat YoY. Order inflows for the quarter stood at Rs14.9 bn of which Energy stood at Rs11.7 bn, Environment at Rs2.04 bn, and Chemical at Rs1.2 bn. Most of the orders came from cement, steel refining and petrochemicals segment in Q4 FY21. For FY21 overall the order book is very well spread across segments.
- ✓ Both overseas subsidiaries Danstoker & Plant in Indonesia are on track to recovery and well placed for growth.

Our view: Company delivered robust performance during the quarter driven by strong performance across verticals. While the orderbook stood flat for the year new big orders are expected to kick in as COVID situation improves. The margins which have been under pressure due to rising commodity price are expected to stabilize as Company passes through the cost to end users in coming quarters. Demand outlook stays positive in segments like cement, oil and gas and specialty chemicals. The EBIT margins of chemicals likely to sustain at ~25% levels due to its rising demand. We have marginally increased our estimates for FY22/23 to factor in strong Q4 performance and improved outlook. We retain our ADD rating on the stock for target price of Rs. 1,550 (40x FY23e EPS).

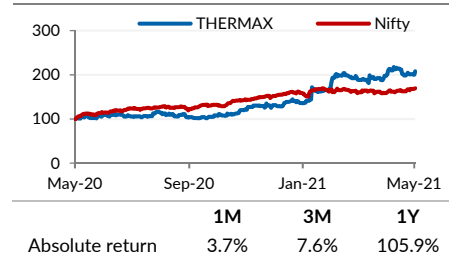
Exhibit 1: Result table (Cons)

Particulars (Rs mn)	Q4 FY21	Q4 FY20	% yoy	Q3 FY21	% qoq
Total sales	15,745	13,230	19.0	14,106	11.6
EBITDA	1,397	636	119.7	1,476	(5.4)
EBITDAM (%)	8.9	4.8	406 bps	10.5	-159 bps
Depreciation	288	308	(6.4)	291	(0.9)
Interest	63	49	28.6	57	11.5
Other income	358	307	16.7	282	26.9
PBT	1,404	586	139.6	1,411	(0.5)
Tax	330	196	68.8	300	10.3
Adjusted PAT	1,074	390	175.0	1,111	(3.4)
Exceptional item	-	-	NA	279	NM
Reported PAT	1,074	390	175.0	833	28.9
PATM (%)	6.8	3.0	387 bps	5.9	92 bps
EPS (Rs)	9.0	3.3	175.0	9.3	(3.4)

Stock data (as on May 26, 2021)

Nifty	15,301
52 Week h/l (Rs)	1578 / 702
Market cap (Rs/USD mn)	174254 / 2394
Outstanding Shares (mn)	119
6m Avg t/o (Rs mn):	92
Div yield (%):	0.5
Bloomberg code:	TMX IN
NSE code:	THERMAX

Stock performance



Shareholding pattern (As of Mar'21 end)

Promoter	61.98%
FII+DII	27.05%
Others	10.97%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1550	1,245

Financial Summary (Cons)

(Rs mn)	FY21	FY22e	FY23e
Revenue	47,913	57,335	72,201
YoY	(16.4)	19.7	25.9
EBIDTA	3,552	4,152	5,790
Margin	7.4	7.2	8.0
PAT	2,591	3,153	4,617
YoY	22.0	21.7	46.4
ROE	8.3	9.4	12.9
EPS	21.7	26.5	38.7
P/E	67.2	55.3	37.7

Δ in earnings estimates

	FY21	FY22e	FY23e
EPS (New)	21.7	26.5	38.7
EPS (Old)	21.7	24.3	35.6
% change	-	8.9	8.8

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CON-CALL HIGHLIGHTS

- ✓ **Orders:** (1) Most of the orders in Q4 FY21 came from cement, steel refining and petrochemicals segment. For FY21 overall the order book is very well spread across segments. (2) If the demand bounces back after this second wave of COVID the company will continue to book orders of Rs. 15bn (3) In last 6 months no major project has come up for bidding in O&G and Chemicals space. There are some projects which now are been talked about, but nothing has firmed on them yet.
- ✓ **Segmental Orders:** Thermax's order book witnessed traction aided by broad based industrial recovery. In the Energy segment, the company secured a) First boiler order from Turkey b) Order for a 31 MW energy plant from a MDF manufacturer. In the environment segment, the company secured a) First-of-a-kind order from a leading refinery in India for a specialized resin-based unit for improving the performance of existing cycle-water treatment units in mono-ethylene glycol (MEG) plant b) Received first order for Flue Gas Desulphurisation system from a leading sugar refinery in Saudi Arabia c) First-of-its-kind air pollution control equipment orders for fuels such as lignin and biofuel from oil & gas sector in India. In the chemical segment, the company received new and repeat orders from Indian metal, steel and refinery majors for performance chemicals
- ✓ **FGDs:** Started to have some minimum activity and the company expects 3-4 FGDs will be finalized in Q2-Q3, but it is not able to guide that will it win any order. In Q&G and refining the government companies are again talking about some major capex.
- ✓ **FY22 performance:** The company could make good progress after lockdown in FY21 and if it gets 5-6 months in current year would be able to make up for the fall expected in Q1 FY22. The company expects there is no demand constrain, the constrain is only on supply side. The company doesn't see any major red flag as of now.
- ✓ **Impact of commodity price increase:** The sharp increase in commodity prices have impacted Q4 FY21 and the impact would be upwards of Rs.100 mn. The impact is because of steel, aluminum and styrene prices. Q1 FY22 will also be impacted. When the company gets an order within the first 30 days it retires major part of the commodity risk. So, the commodity risk for the company is open from the quote to the point it receives the order. For large businesses, the open impact is of 2-3 months that is the time lag in receiving order. In all other cases, the company goes back and re-negotiate the prices.
- ✓ **Margins:** The company has made reasonable operating margins in Q4 FY21, working capital cycle has improved and was able to generate surplus cash. (2) The company has worked on various efficiency enhancement measures which have shown some impact in Q4 FY21 and will help in improving the operating margins going forward
- ✓ **Energy Segment:** Energy margins have come down, partly due to the impact of higher depreciation because of new plant acquired. Company is focused on improving its margins. Margins are also dependent on change in commodity prices
- ✓ **Cement:** In cement plants, the waste heat recovery plants are now been planned along with the new plants. In steel, the waste heat recovery plant implementation will still have some time as most steel plants are of smaller sizes.
- ✓ **Chemical:** (1) In the chemical side the company has Resin (consisting of specialty and non-specialty chemicals) Water Chemicals, Construction chemicals and Oil field chemicals. Of these, 2 major segments are resins and water chemicals. The single most profitable segment is specialty chemicals and water chemicals recently is catching up. Focused on both these segments. The company expects specialty chemicals to grow faster (2) The margins in the chemical segment have been higher than the historical means. But some of the investment done in specialty chemical side give some higher margins. The styrene prices have hit hard also there were restrictions on logistics. The company can't really say how styrene prices would move but largely expect chemical margins are sustainable.

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- ✓ **Oil & Gas:** In general, the company expects the overall capex in O&G and refining will not happen as it used to happen earlier. But they expect the demand for fuel to continue to increase and will be replaced by means which are with lower carbon footprints and the company is well aligned with these new requirements to benefit from the same.
- ✓ The company business has 50% share from projects that includes EPC & boilers and 50% from Products and services which has chemicals as its part. Projects business is very cyclical. Within the product and services segment, services have grown at the faster rate. The product and services segment is the focus area for the company.
- ✓ **International subsidiaries:** The Q4 has not been a great quarter for them but was not as bad as earlier quarters. In Danstroker the company started to see recovery in March and April but too early to say the trend has reversed. The company has faced some delay in moving the head of the Indonesian plant from India to Indonesia but is now done. In Indonesia the demand is expected to come back and the company is working towards becoming a truly local company and is focused on delivering good quality products.
- ✓ **Other highlights:** (1) The company has moved towards supply of oxygen to government which impacted its fabrication business. But the company moved quickly to Plasma, natural gas etc based cutters. (2) The company is looking in many such technological areas in partnership. One such area is on the solar front. The thin film is currently expensive. There are many new technologies coming up. The company is working on technologies but still 18 months to commercializing (3) The waste to energy projects is not viable currently because of the pricing. The pricing for energy from these projects has to be higher as the social impact is much higher. The company will work with developers but don't intent to become a developer in this segment (4) In FY21 the company has added more than 100 new chillers in remote monitoring. (5) The company is not looking towards any major M&A. The company will look towards M&A in chemicals where it adds to the product stream, but nothing as of now

FINANCIALS

Exhibit 2: Balance sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E
Share capital	225	225	225	225
Reserve & Surplus	30,054	32,289	34,246	37,113
Total shareholder's funds	30,279	32,514	34,472	37,338
Minority Interest	0	0	0	0
Debt	2,115	3,051	2,801	2,551
Deferred tax liabilities/(assets)	1,078	1,627	1,885	2,374
TOTAL	33,472	37,191	39,157	42,263
Net block	12,830	12,420	11,929	11,490
Capital WIP	553	211	236	297
Long term investments	599	1,223	1,257	1,286
Other long-term assets	5,805	6,550	7,069	8,902
Inventories	4,546	4,047	4,712	5,934
Debtors	13,863	12,371	13,823	17,407
Cash & cash equivalents	12,976	20,545	22,123	24,641
Loans & advances	8,388	7,702	8,640	10,880
Total current liabilities	26,087	27,878	30,631	38,573
Net current assets	13,686	16,787	18,667	20,289
TOTAL	33,472	37,191	39,157	42,263

Exhibit 3: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E
Revenue	57,313	47,913	57,335	72,201
Operating profit	4,062	3,552	4,152	5,790
Depreciation & Amortization	1,166	1,146	1,192	1,239
PBIT	2,896	2,406	2,961	4,551
Interest expense	150	206	190	170
Other income	1,000	1,077	1,271	1,500
Exceptional items	-	525	-	-
Profit before tax	3,745	3,277	4,042	5,881
Taxes	1,621	686	889	1,264
Minorities	-	-	-	-
Adj. Net profit	2,125	2,591	3,153	4,617

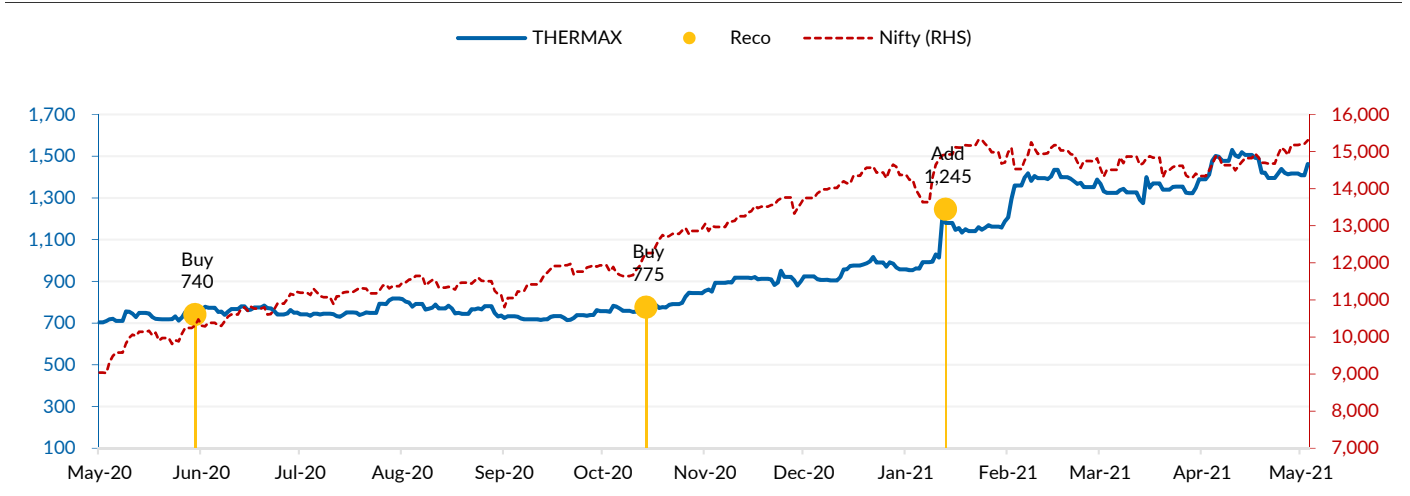
Exhibit 4: Cash flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E
PBT	3,745	3,277	4,042	5,881
Depreciation	1,036	1,146	1,192	1,239
Others	(431)	(525)	0	0
Tax Paid	(1,313)	(686)	(889)	(1,264)
Changes in Working Capital	218	4,468	(302)	896
Net Cash from Operations	3,256	7,679	4,043	6,752
Capex	(480)	(736)	(700)	(800)
Change in Investment	(1,443)	(624)	(34)	(29)
Others	238	0	0	0
Net Cash from Investing	(1,685)	(1,361)	(734)	(829)
Change in debt	(310)	935	(250)	(250)
Change in Equity	0	0	0	0
Others	(2,014)	(1,312)	(1,481)	(3,155)
Net Cash from Financing	(2,325)	(377)	(1,731)	(3,405)
Net Change in Cash	(754)	5,941	1,579	2,518

Exhibit 5: Ratio analysis (Consolidated)

Y/e 31 Mar	FY20	FY21	FY22E	FY23E
PROFITABILITY RATIOS				
EBITDA Margin (%)	7.1	7.4	7.2	8.0
Adjusted net margin (%)	3.7	5.4	5.5	6.4
Return on equity (%)	7.0	8.3	9.4	12.9
EFFICIENCY RATIOS				
Asset Turnover	4.3	3.8	4.7	6.1
Debt to equity	0.1	0.1	0.1	0.1
Net debt to equity	(0.4)	(0.5)	(0.6)	(0.6)
Debtor days	88.3	94.2	88.0	88.0
Inventory days	28.9	30.8	30.0	30.0
Payable days	61.2	86.7	85.0	85.0
PER SHARE DATA				
Diluted EPS (Rs)	17.8	21.7	26.5	38.7
Book value per share (Rs)	254.1	272.9	289.3	313.4
DPS (Rs)	7.0	7.0	8.5	12.5
VALUATION RATIOS				
P/E	82.0	67.2	55.3	37.7
P/BV	5.8	5.4	5.1	4.7
EV/EBITDA	40.2	44.1	37.3	26.3
Dividend Yield (%)	0.5	0.5	0.6	0.9

Recommendation Tracker



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