

Covid-19 impacts execution, dispatches...

Consolidated revenue came in at ₹ 1323 crore, down 36.2% YoY (vs. our estimate of ₹ 1300 crore) on the back of slower execution owing to Covid-19 lockdowns. Energy segment revenue declined 38.2% to ₹ 1051 crore YoY while environment segment revenue declined 25.6% to ₹ 199.1 crore and chemical segment revenue came in at ₹ 96.3 crore, down 6.1% YoY. Consolidated EBITDA came in at ₹ 63.6 crore, down 62.8% YoY, owing to higher employee expenses and other operating expenses. Consequently, EBITDA margin declined 340 bps to 4.8% YoY. Consolidated PAT came in at ₹ 39 crore, declining 69.2% YoY, impacted by 24.7% YoY increase in depreciation and higher effective tax rate.

Muted order inflows a concern for revenue visibility

For Q4FY20, consolidated order inflows came in at ₹ 952 crore, down 18% YoY owing to muted capex and order deferral in several sectors impacted order inflows in energy and environment segment. Consolidated order inflows comprise energy segment (₹ 686 crore) while environment & chemicals segment contributed ₹ 266 crore for Q4FY20. Domestic order inflows declined 15% to ₹ 594 crore while export orders declined 27% YoY to ₹ 358 crore for the quarter. The consolidated order book was at ₹ 5238 crore, down 2.5% YoY, a bit of a concern. Order inflows for FY20 declined 2.4% YoY to ₹ 5498 crore. We estimate order inflows of ₹ 3800 crore and ₹ 5350 crore for FY21E and FY22E, respectively, amid economic challenges.

Subsidiary performance expected to gradually turn around....

The performance of the Indonesian subsidiary facility continues to be negative while losses have declined and are expected to gradually break even in the medium term. Danstoker A/S performance was operationally weak for FY20 with losses for FY20 while order book position, enquiries are fairly positive and expected to turn around in the medium term. South East Asia subsidiaries continued to see losses. However, international operations continued despite Covid-19 and may provide some respite in H2FY21E.

Valuation & Outlook

Thermax' weak execution performance was a reflection of subdued order inflows, order backlog while margins further deteriorated due to some one-time higher operating expenses, Covid-19 that disrupted business activities. Expected orders in cement, pharma, food processing, refinery sectors orders would aid order inflows and order backlog. However, strong b/s, efficient working capital management provide a competitive advantage despite challenging environment. We expect adjusted revenue, EBITDA CAGR of 1.6%, 2.5%, respectively, in FY20-22E. Consequently, margins are expected to improve in long term on the back of easing commodity pressure and product innovations in medium term. We revise our target price to ₹ 830 (30x on FY22E EPS) and revise our rating from BUY to **HOLD**.

Key Financial Summary

Particulars (₹ crore)	FY18*	FY19*	FY20P	FY21E	FY22E	CAGR (FY20-FY22E)
Net Sales	3,867.9	5,175.4	5,731.3	4,504.8	5,553.8	-1.6%
EBITDA	371.4	418.9	406.2	171.5	426.9	2.5%
EBITDA Margin (%)	9.6	8.1	7.1	3.8	7.7	
Net Profit	238.3	275.4	212.5	126.5	328.5	24.3%
EPS (₹)	20.0	23.1	17.8	10.6	27.6	
P/ E (x)	37.4	32.4	41.9	70.5	27.1	
RoNW (%)	9.9	11.2	7.7	4.5	10.9	
RoCE (%)	15.3	18.0	13.7	6.3	14.7	

Source: Company, ICICI Direct Research

* Numbers till FY19 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 forward numbers to consolidated and valued accordingly.



Particulars	
Particular	Amount
Market Capitalization	₹8936.3 Crore
Total Debt (FY 20)	₹72.4 crore
Cash and Inv. (FY 20)	₹1062.9 crore
EV	₹7912.9 crore
52 week H/L	₹ 180 / 644
Equity capital	₹23.8 Crore
Face value	₹2

Key Highlights

- Consolidated order inflow for quarter came in at ₹ 952 crore, down 18% YoY
- As on Q4FY20, consolidated order book was at ₹ 5498 crore, down 2.5% YoY
- Q4FY20, order inflows dragged by muted private capex amid economic challenges
- Revise our target price to ₹ 830/share and change our rating from BUY to HOLD

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Exhibit 1: Variance Analysis (Consolidated)

	Q4FY20	Q4FY20E	Q4FY19	YoY (Chg %)	Q3FY20	QoQ (Chg %)	Comments
Total Operating Income	1,323.0	1,300.1	2,073.7	-36.2	1,410.1	-6.2	Revenue de-growth owing to dispatches held amid Covid-19
Other Income	30.7	32.0	52.0	-40.9	25.8	19.2	
Raw Material Expenses	673.3	780.1	1,255.3	-46.4	784.7	-14.2	
Employee Expenses	197.2	150.8	205.1	-3.8	199.9	-1.4	
Other Expenses	388.9	276.9	442.5	-12.1	312.3	24.5	
Total Expenditure	1,259.4	1,207.8	1,902.9	-33.8	1,296.9	-2.9	
EBITDA	63.6	92.3	170.8	-62.8	113.2	-43.8	
EBITDA Margin (%)	4.8	7.1	8.2	-343 bps	8.0	-322 bps	Margins impacted by reduced revenue and few one-time other expenses
Depreciation	30.8	27.5	24.7	24.8	31.6	-2.5	
Interest	4.9	2.3	3.5	39.6	1.9	153.9	
Exceptional Item	0.0	0.0	2.4	-	0.0		
PBT	58.6	94.6	192.2	-69.5	105.4	-44.4	
Total Tax	19.6	16.3	65.3	-70.0	20.5	-4.4	
PAT	39.0	78.3	126.9	-69.2	85.0	-54.1	

Key Metrics

Energy segment revenues	1,051	1,005	1,700	-38.2	1,121	-6.2
Environment segment revenue	272	295	373	-27.2	289	-6.0

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			Comments
	Old*	New	% Change	Old*	New	% Change	
(₹ Crore)							
Revenue	4,449.7	4,504.8	1.2	5,527.5	5,553.8	0.5	
EBITDA	307.1	171.5	-44.2	457.8	426.9	-6.7	
EBITDA Margin (%)	6.9	3.8	-310 bps	8.3	7.7	-60 bps	Revise in line with challenging economic environment
PAT	325.7	126.5	-61.2	351.9	328.5	-6.6	
EPS (₹)	19.3	10.6	-45.0	29.5	27.6	-6.5	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19*	FY20P	FY21E	FY22E	FY21E	FY22E	
Order inflow growth (%)	-1.1	-2.4	-30.8	40.7	-28.0	38.0	Order inflows expected to remain muted in FY21E
Order backlog growth (%)	-5.6	-6.7	-14.0	-4.7	-12.0	-5.0	
Revenue growth (%)	33.1	10.7	-21.4	23.3	-22.0	24.0	
EBITDA margin (%)	8.1	7.1	3.8	7.7	6.9	8.3	

Source: Company, ICICI Direct Research

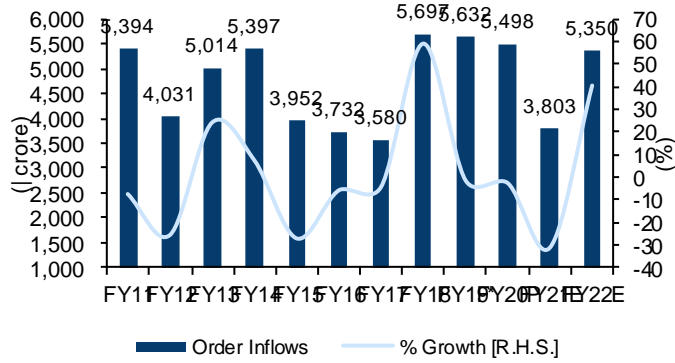
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Conference call highlights:

- Order inflow for Q4FY20 declined 19%, in which domestic orders declined 15% to ₹ 594 crore and export orders declined 27% to ₹ 358 crore. As on FY20, order backlog came in at ₹ 5238 crore, marginally down by 2.4% considering the impact of removal of some slowing moving orders. Major sectors in FY20 order inflows include power (FGD), food and food processing, oil & gas industry, etc. For FY20, domestic contributed 72% while exports contributed 28% to order inflows. In terms of segments, energy segment contributed 60% to order inflows while environment & chemicals contributed remaining
- For Q4FY20, around ₹ 400-500 crore revenue was not recognised due to supply chain disruptions and dispatches held back amid Covid-19
- Margins: Cost competitiveness is likely to continue in this challenging environment and may have some margin stress in medium term. There could be a loss of productivity due to various SOPs for Covid-19
- Margins for Q4FY20 and FY20 were hit by a few one-off items including cooling division, which had a swing of ₹ 14 crore, additional depreciation hit of ₹ 25 crore on account of merger of boiler and turbine division with TBWES and one-time expense of ₹ 14 crore. Total onetime items for FY20 was ~₹ 80-85 crore
- FY21E outlook: Q1 is expected to be a complete washout. Q2 is expected to see some pick-up while operations are expected to normalise in the middle of Q3. The management refrained from providing any sort of guidance. Expect the product part of the business to grow faster than the projects business to de-risk the balance sheet and have less strain on cash flows
- Business operations: - Indian operations were shut down while Denmark, Poland and Germany were running normally. All three chemical factories, at present, are running at ~40% capacity. The Dahej factory had a major fire accident, which led to major damages and is likely to have a production loss of 30-45 days due to factory shutdown. All factories in India are running in the range of 20-50% of capacity
- There are no issues due to labour migration. However, the company's supply chain partners and MSME vendors have faced major problems due to labour migration. The company will continue to support supply chain partners in the near future
- Thermax is not facing any shortage of raw materials. The company has around ₹ 150 crore of orders from China and procures around ₹ 3500 crore worth of raw material from China
- The company has shifted to a cash based management system without taking away any money from the treasury. Strong balance sheet position is expected to continue. Working capital for FY20 was at ₹ 128 crore, down from ₹ 200 crore. The DSO has also come down
- Overseas subsidiaries: - Denstoker continues to be loss making while the order book position and enquiries are fairly positive. It is expected to turnaround in the medium term. South East Asia subsidiary continues to contribute negatively while losses for the Indonesian subsidiary have reduced for FY20

- FY21 order inflow outlook - No formal guidance has been given but it is expected to remain lower than FY20. Total 85% of its customers are going ahead with projects while 15% are re-thinking. There are opportunities in cement, fertiliser, oil & gas, refinery expansion, food & food processing though major ordering is to take place in H2FY21. The private sector is moving slowly with some opportunities in boilers for small captive power plants ranging between 150 MW and 210 MW in the heavy metals sector. Bidding for boilers and heater is happening in the Barmer refinery with tenders set to conclude in H2FY21E
- FY21 – In cost reduction initiatives, expect 5% to double digit cost reduction in other expenses, employee salaries and contract manpower rationalisation

Exhibit 4: Order inflow trend...



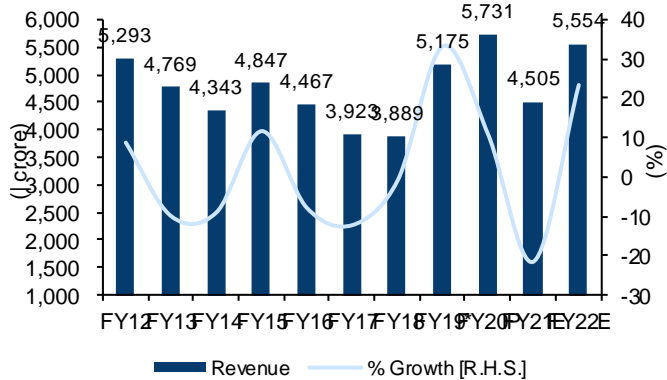
Source: ICICI Direct Research, Company

Exhibit 5: Trend in order backlog...



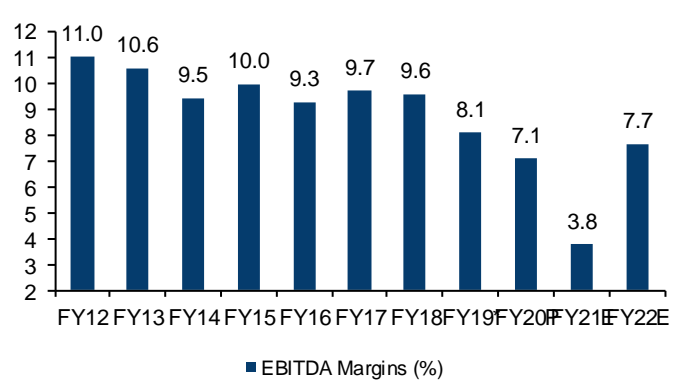
Source: ICICI Direct Research, Company

Exhibit 6: Trend in revenues...



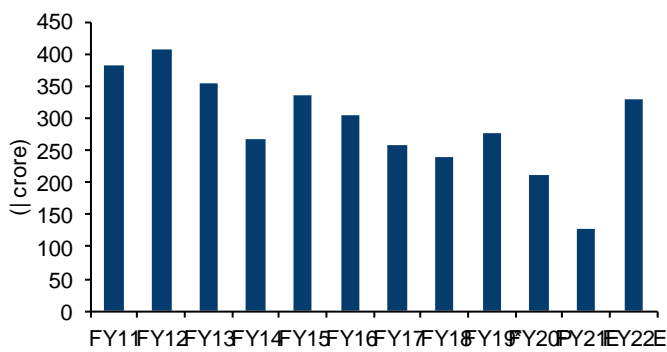
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margins trend...



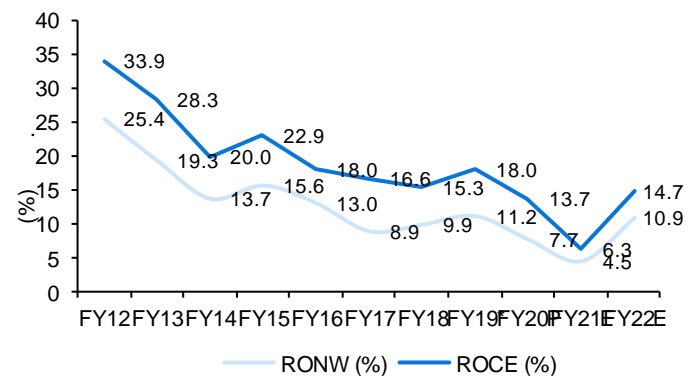
Source: Company, ICICI Direct Research

Exhibit 8: Trend in PAT...



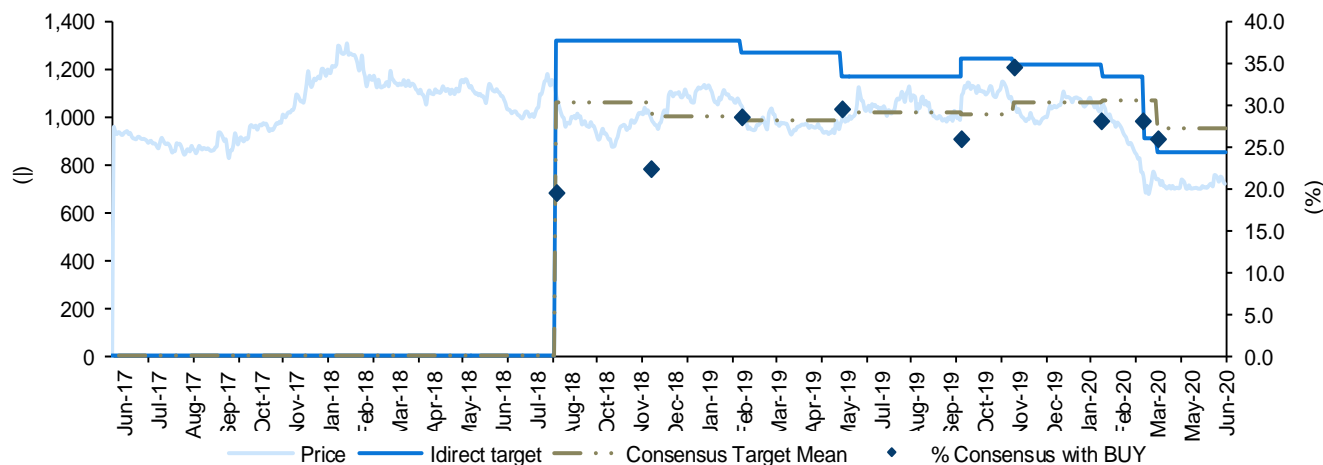
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	osition (%)	Change
1	Rda Holdings Pvt Ltd	31-Mar-20	54.0	64.33m	0.00m
2	Ara Trusteeship Comp	31-Mar-20	8.0	9.52m	0.00m
3	Kotak Mahindra Asset	31-May-20	5.9	7.07m	0.05m
4	Sbi Funds Management	31-May-20	3.1	3.69m	0.00m
5	Nalanda India Equity	31-Mar-20	2.8	3.36m	3.36m
6	Life Insurance Corp	31-Mar-20	1.7	2.06m	0.00m
7	Pinebridge Investmen	30-Jun-19	1.1	1.30m	0.00m
8	L&T Mutual Fund	31-May-20	1.0	1.22m	0.03m
9	Aditya Birla Sun Lif	31-May-20	0.9	1.11m	(0.01)m
10	Fundrock Management	31-Dec-17	0.7	0.85m	(0.02)m

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	62.0	62.0	62.0	62.0	62.0
FII	11.9	9.0	8.6	7.6	7.8
DII	13.9	16.5	16.7	17.7	17.6
Others	12.2	12.5	12.8	12.7	12.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19*	FY20P	FY21E	FY22E
Total op. Income	5,175.4	5,731.3	4,504.8	5,553.8
Growth (%)	33.8	10.7	-21.4	23.3
Raw Material Expenses	3,453.4	3,085.7	2,477.6	3,102.0
Employee Expenses	456.4	799.0	701.6	781.8
Other Op. Expenses	846.7	1,440.4	1,154.1	1,243.1
Admin. Expenses	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0
Total Op. Expenditure	4,790.4	5,335.9	4,311.9	5,150.2
EBITDA	418.9	406.2	171.5	426.9
Growth (%)	12.8	-3.0	-57.8	149.0
Depreciation	57.0	116.6	111.0	101.6
Interest	7.0	15.0	7.4	8.3
Other Income	136.6	100.0	120.0	133.0
PBT	443.6	374.6	173.1	450.0
Others	0.0	0.0	0.0	0.0
Total Tax	168.3	162.1	46.6	121.5
PAT	275.4	212.5	126.5	328.5
Growth (%)	15.6	-22.8	-40.5	159.7
EPS (₹)	23.1	17.8	10.6	27.6

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY19*	FY20P	FY21E	FY22E
Profit after Tax	275.4	212.5	126.5	328.5
Add: Depreciation	57.0	116.6	111.0	101.6
(Inc)/dec in Current Assets	952.5	405.0	-119.9	-262.9
Inc/(dec) in CL and Provision	-896.4	-199.0	5.0	191.1
Others	3.3	3.0	5.0	5.0
CF from operating activities	388.4	535.1	122.6	358.3
(Inc)/dec in Investments	-128.2	-4.9	-15.0	-25.0
(Inc)/dec in Fixed Assets	-35.2	-122.8	-15.0	5.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-232.5	-191.8	142.6	-70.2
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-76.5	32.4	10.0	10.0
Dividend paid & dividend tax	-84.1	-200.9	-103.3	-103.3
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	-181.6	-145.8	-93.3	-93.3
Net Cash flow	-25.6	197.6	171.9	194.8
Opening Cash	118.5	92.9	290.5	462.4
Closing Cash	92.9	290.5	462.4	657.2

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY19*	FY20P	FY21E	FY22E
Liabilities				
Equity Capital	23.8	23.8	23.8	23.8
Reserve and Surplus	2,712.0	2,746.4	2,769.6	2,994.8
Total Shareholders fund	2,735.8	2,770.2	2,793.4	3,018.6
Total Debt	40.0	72.4	82.4	92.4
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Other:	0.0	0.0	0.0	0.0
Total Liabilities	4,412.4	2,914.9	2,938.1	3,163.3
Assets				
Gross Block	1,050.0	1,134.8	1,150.2	1,190.2
Less: Acc Depreciation	352.1	457.1	557.8	652.2
Net Block	698.0	677.7	592.4	538.0
Capital WIP	29.2	55.4	50.0	0.0
Total Fixed Assets	727.1	733.1	642.4	538.0
Investments	767.5	772.4	787.4	812.4
Inventory	230.4	255.0	270.8	292.2
Debtors	836.9	753.4	777.5	852.1
Loans and Advances	12.5	84.3	23.8	20.6
Other Current Assets	762.8	364.8	428.1	493.9
Cash	92.9	290.5	462.4	657.2
Total Current Assets	1,935.6	1,748.0	1,962.5	2,316.1
Creditors	798.9	602.5	565.3	699.9
Provisions	71.1	88.6	118.7	128.1
Total Current Liabilities	1,726.4	1,527.4	1,532.4	1,723.5
Net Current Assets	866.1	857.7	1,144.5	1,411.1
Others Assets	0.0	0.0	0.0	0.0
Application of funds	4,412.5	2,914.9	2,938.1	3,163.4

Source: Company, ICICI Direct Research

* Numbers till FY19 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 1st October 2019 and hence will not be reflected in standalone numbers, instead will be reflected in consolidated numbers and therefore will not be comparable. Hence, we have changed our presentation of forward numbers to consolidated and valued accordingly.

Exhibit 16: Key ratios				
	₹ crore			
(Year-end March)	FY19*	FY20P	FY21E	FY22E
Per share data (₹)				
EPS	23.1	17.8	10.6	27.6
Cash EPS	27.9	27.6	19.9	36.1
BV	229.6	232.5	234.4	253.3
DPS	6.0	14.0	7.2	7.2
Cash Per Share	7.8	24.4	38.8	55.2
Operating Ratios (%)				
EBITDA Margin	8.1	7.1	3.8	7.7
PBT / Total Operating income	8.6	6.5	3.8	8.1
PAT Margin	5.9	3.7	2.8	5.9
Inventory days	16.3	16.2	21.9	19.2
Debtor days	59.0	48.0	63.0	56.0
Supplier days	56.3	38.4	45.8	46.0
Return Ratios (%)				
RoE	11.2	7.7	4.5	10.9
RoCE	18.0	13.7	6.3	14.7
RoIC	22.9	21.0	4.5	25.3
Valuation Ratios (x)				
P/E	32.5	42.1	70.6	27.2
EV / EBITDA	21.1	21.4	49.8	19.5
EV / Net Sales	1.7	1.5	1.9	1.5
Market Cap / Sales	1.7	1.6	2.0	1.6
Price to Book Value	3.3	3.2	3.2	3.0
Solvency Ratios				
Debt/EBITDA	0.1	0.2	0.5	0.2
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.1	1.0	1.0	1.0
Quick Ratio	0.9	0.8	0.8	0.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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