

Steady execution across key segments....

Consolidated revenue came in at ₹ 1574.5 crore, up 19% YoY, 11.6% QoQ (above our estimate of ₹ 1552.9 crore) aided by better execution across segments. Energy segment revenue (~74% of revenue) grew 11.8% to ₹ 1175.3 crore YoY while it was up 10.3% QoQ. Environment segment revenue grew 51.6% to ₹ 301.8 crore and chemical segment revenue came in at ₹ 119 crore, up 23.6%, YoY. EBITDA came in at ₹ 139.6 crore, up 120% YoY and down 5.4% QoQ, aided by cost control measures and better execution amid higher raw material cost. Consequently, EBITDA margin came in at 8.9% (vs. our estimate of 9.9%). Adjusted PAT came in at ₹ 107.3 crore, up 3.4% QoQ partly aided by higher other income and lower effective tax rate.

Order inflows to pick up aided by industrial capex

For Q4FY21, consolidated order inflows were at ₹ 1497 crore (vs. ₹ 1565 crore in Q3FY21). Consolidated order book as on FY21 was at ₹ 5227 crore, almost flat YoY. Majority orders came in from cement, refinery & petrochemical, chemicals and metals space. Consolidated order inflows comprise energy segment (₹ 1173 crore) while environment & chemicals segment contributed ₹ 324 crore for Q4FY21. Domestic order inflows contributed 76% to ₹ 1145 crore while export orders were 24% (₹ 352 crore) for the quarter. We estimate order inflows of ₹ 6289 crore, ₹ 7057 crore for FY22E, FY23E, respectively.

Technology tie-ups, subsidiary turnaround to enhance value...

The company is progressing on technology collaboration for waste to heat energy technology, flexible solar films and hydrogen based fuel cell technology with the aim of green and sustainable solutions in energy and environment segment. These technologies will take at least 18-24 months to commercialise and start manufacturing and are likely to enhance significant business opportunity for Thermax in the long term. Also, Danstoker and Indonesia subsidiaries are focused on reducing cost of production and improving order book to gradually break even.

Valuation & Outlook

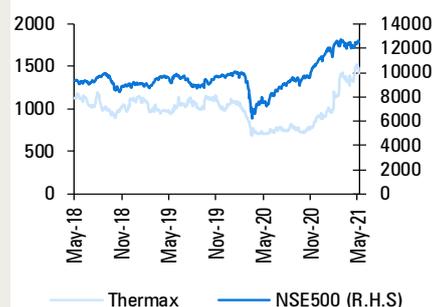
Thermax's execution performance was a reflection of better execution in environment and energy segments. Order inflows are witnessing a recovery in sectors ranging from cement, steel, refinery, chemicals, etc, amid short-term challenges. Better operating margins are expected with favourable execution mix and cost control measures. Strong balance sheet, prudent working capital management, recent technological tie-up are expected to provide a competitive advantage in the long term. We expect revenue, EBITDA CAGR of 18.8%, 33.4%, respectively, in FY21-23E, amid low base. We revise our target price to ₹ 1685 (earlier ₹ 1310), 42x FY23E EPS and revise our rating from HOLD to **BUY**.



Particulars

Particular	Amount
Market Capitalization	₹ 17336.3 Crore
Total Debt (FY21)	₹ 305 Crore
Cash and Inv. (FY21)	₹ 448.2 Crore
EV	₹ 17193.1 Crore
52 week H/L	₹ 1550 / 703
Equity capital	₹ 23.8 Crore
Face value	₹ 2

Price Performance



Key risk to our call

- Any significant decline in expected capex to affect order inflows and revenue visibility in coming years
- Higher commodity prices for sustained period of time to impact profitability

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Key Financial Summary

Particulars (₹ crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21E-FY23E)
Net Sales	5,973.2	5,731.3	4,791.3	5,933.2	6,761.3	18.8%
EBITDA	457.5	406.2	355.2	453.4	632.4	33.4%
EBITDA Margin (%)	7.7	7.1	7.4	7.6	9.4	
Net Profit	325.5	212.5	206.5	335.5	477.8	52.1%
EPS (₹)	27.3	17.8	17.3	28.2	40.1	
P/E (x)	53.3	81.6	84.0	51.7	36.3	
RoNW (%)	13.2	7.0	7.6	10.3	13.2	
RoCE (%)	15.9	12.0	9.8	13.1	17.0	

Source: Company, ICICI Direct Research

* Numbers till FY18 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 historical numbers (FY19, FY20) and forward numbers to consolidated and valued accordingly.

Exhibit 1: Variance Analysis (Consolidated)

	Q4FY21	Q4FY21E	Q4FY20	YoY (Chg %)	Q3FY21	QoQ (Chg %)	Comments
Total Operating Income	1,574.5	1,552.9	1,323.0	19.0	1,410.6	11.6	Revenue growth came on the back of better execution led by environment segment
Other Income	35.8	31.0	30.7	16.6	28.2	26.8	
Raw Material Expenses	821.5	843.2	673.3	22.0	751.9	9.3	
Employee Expenses	197.3	194.1	197.2	0.1	190.1	3.8	
Other Expenses	416.0	361.8	388.9	7.0	321.0	29.6	
Total Expenditure	1,434.9	1,399.1	1,259.4	13.9	1,263.0	13.6	
EBITDA	139.6	153.7	63.6	119.7	147.6	-5.4	
EBITDA Margin (%)	8.9	9.9	4.8	406 bps	10.5	-159 bps	Margins saw some impact due to high commodity price amid overall controlled operating costs
Depreciation	28.8	31.2	30.8	-6.4	29.1	-0.9	
Interest	6.3	4.7	4.9	28.6	5.7	11.5	
Exceptional Item	0.0	0.0	0.0	-	27.9		
PBT	140.3	148.8	58.6	139.5	113.2	23.9	
Total Tax	33.0	39.7	19.6	68.8	30.0	10.3	
PAT	107.3	109.1	39.0	174.9	83.3	28.9	
Adjusted PAT	107.3	109.1	39.0	174.9	103.8	3.4	Adjusted PAT partly aided by lower effective tax rate YoY
Key Metrics							
Energy segment revenues	1,175	1,116	1,051	11.8	1,066	10.3	
Environment segment revenues	399	437	272	46.9	345	15.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old*	New	% Change	Old*	New	% Change	
Revenue	5,930.3	5,933.2	0.0	6,764.2	6,761.3	0.0	
EBITDA	492.9	453.4	-8.0	617.4	632.4	2.4	
EBITDA Margin (%)	8.3	7.6	-67 bps	9.1	9.4	23 bps	Revised in line with expected commodity price impact in FY22E
PAT	364.2	335.5	-7.9	459.3	477.8	4.0	
EPS (₹)	30.6	28.2	-8.0	38.5	40.1	4.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

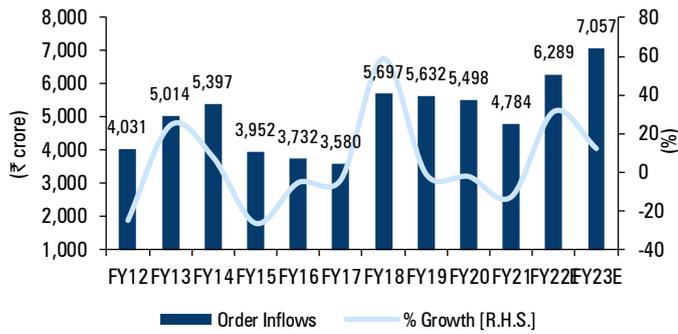
	Current				Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Order inflow growth (%)	-2.4	-13.0	31.5	12.2	34.7	-	Order inflows expected to gradually pick up in medium term.
Order backlog growth (%)	-6.6	-0.1	7.1	5.5	12.9	-	
Revenue growth (%)	10.7	-16.4	23.8	14.0	22.8	-	
EBITDA margin (%)	7.1	7.4	7.6	9.4	5.6	-	

Source: Company, ICICI Direct Research

Conference call highlights:

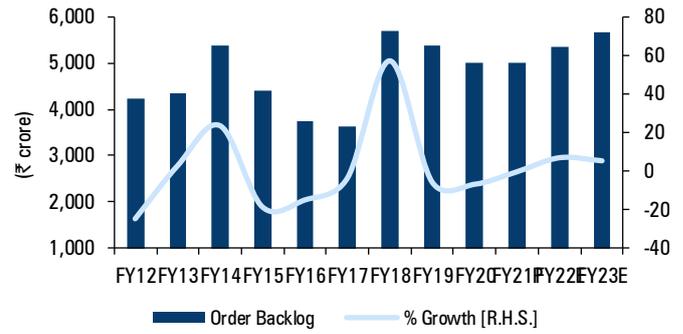
- For Q4FY21, consolidated order inflows were at ₹ 1497 crore (vs. ₹ 1565 crore in Q3FY21). Majority orders came in from cement, refinery & petrochemical, chemicals and metals space. Consolidated order inflows comprise energy segment (₹ 1173 crore) while environment & chemicals segment contributed ₹ 324 crore for Q4FY21. Domestic order inflows contributed 76% to ₹ 1145 crore with export orders at 24% (₹ 352 crore) for the quarter. Order inflows for FY21 came in at ₹ 4784 crore, down 12.8% YoY
- Consolidated order book as on FY21 was at ₹ 5227 crore, almost flat YoY, a bit of a concern. Major sectors in Q4FY21 order inflows include chemical (20%), metal & steel (10%), refinery & petrochemicals (11%), cement (19%), food & beverages (8%), fertiliser & agro (4%), sugar/ distillery (5%), rubber products (3%), pharma (3%) and other (7%)
- Technology tie-ups: The company is progressing on technology collaboration for waste to heat energy technology, flexible solar films and hydrogen based fuel cell technology with the aim of green and sustainable solutions in energy and environment segment. These technologies will take at least 18-24 months to get commercialised, start manufacturing and are likely to create significant business opportunity for Thermax in the long term. Also, Danstoker and Indonesia subsidiaries are focused on reducing cost of production and improving order book to gradually break even
- Overseas subsidiaries: - Danstoker and Indonesia subsidiaries are focused on reducing cost of production and improving order book to gradually break even amid current challenges and travel restrictions
- FY22 order inflow outlook – Though the short-term environment is uncertain, medium term order opportunities expected in sectors/ segments like cement, steel, pharma, refinery, petrochemicals, food processing, chemicals, textiles, heavy metals, FMCG, smaller boilers for captive plants, waste heat recovery plants, air pollution control equipment, spent wash boiler, biomass, fertilisers, power generation, etc, though major ordering to take place in over next one to two years
- In environment segment, FGD execution is having better rub rate. Overall ~ ₹ 100 crore revenue was booked from FGD in FY21 out of ~₹ 900 crore order book
- Thermax is cautious on the impact of commodity prices and its long term outlook. It is renegotiating with customers as far as possible. Adverse movement in commodity prices could have some impact on profitability
- FY22-Continue to have cost reduction initiatives and expect reasonable reduction in other expenses, employee salaries, digitisation efforts and contract manpower rationalisation
- Currently, projects and product & service business contribution are at 50% from each. Product & services business are expected to continuously grow irrespective of economic environment. The company aims to grow product & services business faster than projects business in the longer term

Exhibit 4: Order inflow trend...



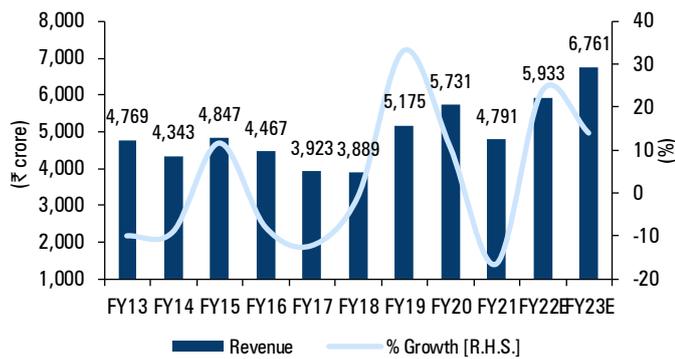
Source: ICICI Direct Research, Company

Exhibit 5: Trend in order backlog...



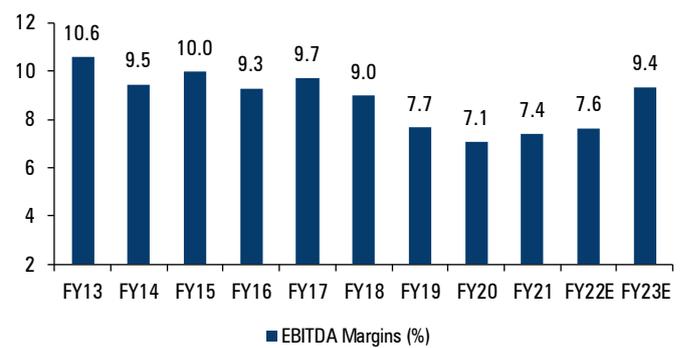
Source: ICICI Direct Research, Company

Exhibit 6: Trend in revenues...



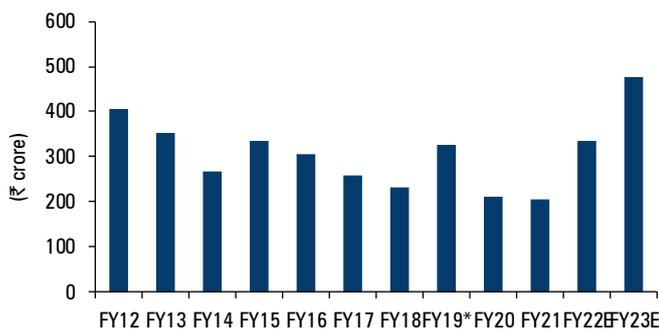
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margins trend...



Source: Company, ICICI Direct Research

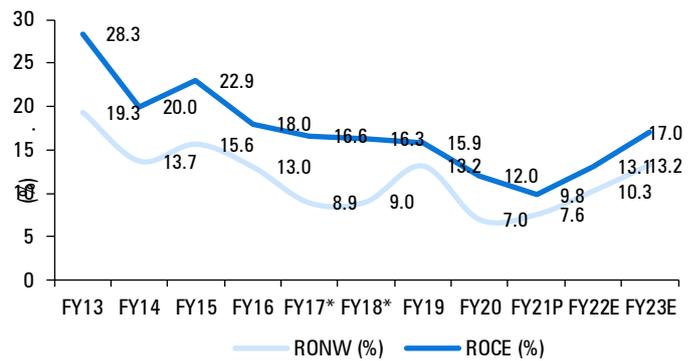
Exhibit 8: Trend in PAT...



Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

Financial summary (Consolidated)

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total op. Income	5,731.3	4,791.3	5,933.2	6,761.3
Growth (%)	-4.0	-16.4	23.8	14.0
Raw Material Expenses	3,085.7	2,538.6	3,286.7	3,688.8
Employee Expenses	799.0	758.8	822.5	936.0
Other Op. Expenses	1,440.4	1,138.7	1,370.5	1,504.2
Admin. Expenses	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0
Total Op. Expenditure	5,321.1	4,419.6	5,503.6	6,142.9
EBITDA	406.2	355.2	453.4	632.4
Growth (%)	-11.2	-12.5	27.6	39.5
Depreciation	116.6	114.6	121.2	127.2
Interest	15.0	20.6	16.0	14.4
Other Income	100.0	107.7	138.0	155.0
PBT	374.5	275.1	454.3	645.7
Others	0.0	0.0	0.0	0.0
Total Tax	162.1	68.6	118.8	167.9
PAT	212.5	206.5	335.5	477.8
Growth (%)	-34.7	-2.8	62.5	42.4
EPS (₹)	17.8	18.3	28.2	40.1

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Profit after Tax	212.5	206.5	335.5	477.8
Add: Depreciation	116.6	114.6	121.2	127.2
(Inc)/dec in Current Assets	866.9	973.8	-634.0	-304.5
Inc/(dec) in CL and Provisions	-860.1	179.0	507.9	86.5
Others	3.3	3.0	5.0	5.0
CF from operating activities	335.9	1,474.0	330.5	386.9
(Inc)/dec in Investments	-166.1	-1,315.9	-30.0	-20.0
(Inc)/dec in Fixed Assets	-102.9	-55.5	-55.0	-100.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-181.9	-1,391.0	-118.8	-140.4
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-8.5	93.5	0.0	-30.0
Dividend paid & dividend tax	-190.1	-86.1	-114.8	-143.5
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	-207.4	110.5	-314.0	-173.5
Net Cash flow	-53.4	193.5	-102.3	73.0
Opening Cash	308.2	254.8	448.2	346.0
Closing Cash	254.8	448.2	346.0	419.0

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Liabilities				
Equity Capital	22.5	22.5	22.5	22.5
Reserve and Surplus	3,005.4	3,228.9	3,250.4	3,584.8
Total Shareholders funds	3,027.9	3,251.4	3,272.9	3,607.3
Total Debt	211.5	305.0	305.0	275.0
Deferred Tax Liability	4.4	7.0	7.0	7.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	3,347.2	3,719.0	3,765.5	4,094.9
Assets				
Gross Block	1,932.0	2,021.7	2,027.8	2,117.8
Less: Acc Depreciation	707.3	798.8	905.4	1,017.8
Net Block	1,224.7	1,222.9	1,122.4	1,100.0
Capital WIP	55.3	21.1	65.0	75.0
Total Fixed Assets	1,280.0	1,244.0	1,187.4	1,175.0
Investments	281.2	1,597.1	1,627.1	1,647.1
Inventory	454.6	404.7	473.1	527.2
Debtors	1,386.3	1,237.1	1,414.2	1,574.6
Loans and Advances	5.9	4.5	7.4	7.5
Other Current Assets	838.3	765.7	848.1	923.4
Cash	254.8	448.2	346.0	419.0
Total Current Assets	2,939.9	2,860.3	3,088.7	3,451.7
Creditors	960.2	1,138.0	1,072.9	1,074.4
Provisions	169.4	195.1	236.0	237.4
Total Current Liabilities	2,608.7	2,787.7	3,295.5	3,382.0
Net Current Assets	1,147.3	187.9	211.8	502.9
Others Assets	0.0	0.0	0.0	0.0
Application of funds	3,347.2	3,719.1	3,765.6	4,094.9

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Per share data (₹)				
EPS	17.8	17.3	28.2	40.1
Cash EPS	27.6	27.0	38.3	50.8
BV	254.1	272.9	274.7	302.7
DPS	13.2	6.0	8.0	10.0
Cash Per Share	21.4	37.6	29.0	35.2
Operating Ratios (%)				
EBITDA Margin	7.1	7.4	7.6	9.4
PBT / Total Operating income	6.5	5.7	7.7	9.6
PAT Margin	3.7	5.1	5.7	7.1
Inventory days	28.9	30.8	29.1	28.5
Debtor days	88.3	94.2	87.0	85.0
Creditor days	61.2	86.7	66.0	58.0
Return Ratios (%)				
RoE	7.0	7.6	10.3	13.2
RoCE	12.0	9.8	13.1	17.0
RoIC	18.3	9.8	15.1	21.1
Valuation Ratios (x)				
P/E	81.6	84.0	51.7	36.3
EV / EBITDA	42.6	48.4	38.1	27.2
EV / Net Sales	3.0	3.6	2.9	2.5
Market Cap / Sales	3.0	3.6	2.9	2.6
Price to Book Value	5.7	5.3	5.3	4.8
Solvency Ratios				
Debt/EBITDA	0.5	0.9	0.7	0.4
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.0	0.9	0.8	0.9
Quick Ratio	0.9	0.7	0.7	0.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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