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#### Q4FY21 result review and earnings revision

## Capital Goods

Target price: Rs1,506

### Earnings revision

(%)	FY22E	FY23E
Sales	↓ 4.5	↓ 3.9
EBITDA	↓ 8.9	↓ 8.3
EPS	↑ 0.8	↑ 1.6

### Target price revision

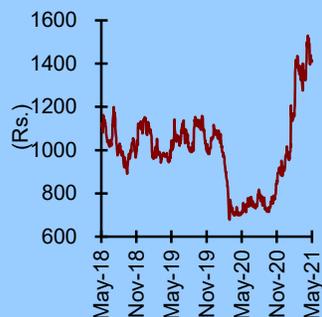
Rs1,506 from Rs1,184

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	62.0	62.0	62.0
Institutional investors	24.2	26.6	27.1
MFs and Other	11.5	10.6	11.0
FIs / Banks	1.8	1.8	1.8
FII	10.9	14.2	14.3
Others	13.8	11.4	10.9

Source: NSE

### Price chart



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## INDIA



# Thermax

**HOLD**

**Maintain**

**Strong cashflow, strategic growth initiatives**

**Rs1,462**

Thermax has reported better-than-expected execution and margins supporting strong earnings growth in Q4FY21. Despite headwinds, order intake was healthy at Rs15bn led by cement, steel and refinery segments. Cashflow continues to remain strong resulting in healthy net cash of Rs17bn. The company has taken various strategic technology collaborations in waste-to-energy, fuel cell and solar film segments. Factoring in healthy cashflow offsetting margin stress, we marginally raise our FY22E and FY23E earnings by 1% 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 a target price of Rs1,506 (previously: Rs1,184).

- ▶ **Stable execution, healthy growth outlook:** Environment segment registered strong revenue growth of 51% YoY to Rs3bn, energy segment grew 12% YoY to Rs12bn and chemical segment grew 24% YoY to Rs1.2bn resulting in 19% YoY revenue growth to Rs15.7bn. Order intake grew 57% YoY to Rs15bn in Q4FY21. Current orderbook at Rs52.2bn (1.1x TTM sales) implies improved visibility. Due to the second wave of covid, near-term outlook is uncertain; however, investment outlook is healthy in medium to long term.
- ▶ **Overseas subsidiaries' performance stress continues:** Order intake is gradually recovering from the overseas market; however, performance had been below par during Q4FY21.
- ▶ **Demand from core sectors and short cycle orders will support growth:** Demand from core sectors like cement, steel and refinery has been healthy in Q4FY21. 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 despite high valuation:** The company is currently trading at a rich valuation of 47x FY22E and 38x FY23E earnings. We believe strong cashflow from operations, due to reduction in working capital, has given further fillip to re-rating. 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 shifted our valuation approach to SoTP. 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 a revised SoTP-based target of Rs1,506 implying 40x FY23E earnings.

Market Cap	Rs174bn/US\$2.4bn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	THMX.BO/ TMX IN	Revenue (Rs bn)	57,313	47,913	56,340	63,543
Shares Outstanding (mn)	119.2	Rec. Net Income (Rs bn)	2,145	2,722	3,657	4,506
52-week Range (Rs)	1530/710	EPS (Rs)	18.0	22.8	30.7	37.8
Free Float (%)	38.0	% Chg YoY	(23.8)	26.9	34.3	23.2
FII (%)	14.3	P/E (x)	81.2	63.9	47.6	38.6
Daily Volume (US\$/000)	1,348	CEPS (Rs)	27.8	32.5	40.1	47.7
Absolute Return 3m (%)	7.6	EV/E (x)	40.0	44.1	33.8	27.0
Absolute Return 12m (%)	105.9	Dividend Yield (%)	0.5	0.5	0.7	0.8
Sensex Return 3m (%)	4.0	RoCE (%)	6.9	8.4	10.2	11.6
Sensex Return 12m (%)	68.5	RoE (%)	7.1	8.7	10.8	12.2

Please refer to important disclosures at the end of this report

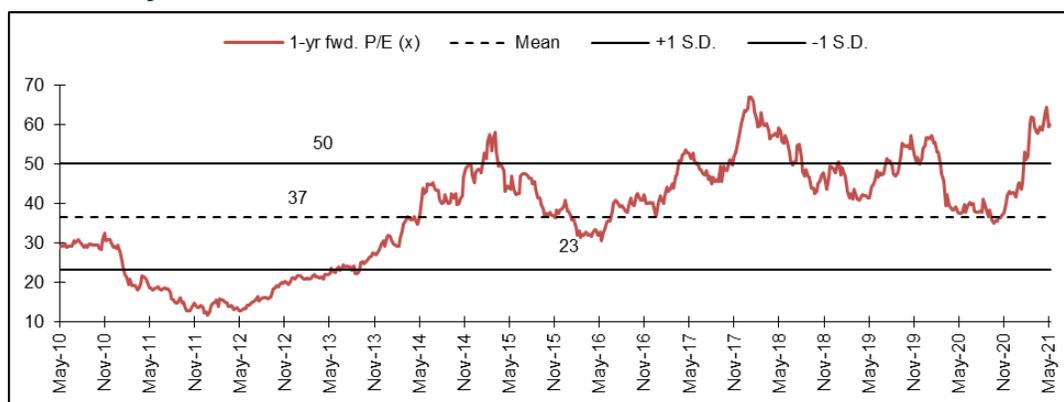
## Outlook and valuation

There has been a positive shift in the domestic demand landscape during H2FY21, this 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 underutilised 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, 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.

**Chart 1: 1-year forward P/E band**



Source: I-Sec research

**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	25,114	15.3
Environment	3,916	9.6	7,727	11.2
Chemicals	8,690	11.9	5,795	21.9
<b>Total</b>	<b>32,514</b>	<b>11.0</b>	<b>38,636</b>	<b>15.5</b>

**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	56,340	(4.5)	66,152	63,543	(3.9)
EBIDTA	4,958	4,519	(8.9)	6,020	5,521	(8.3)
PAT	3,627	3,657	0.8	4,436	4,506	1.6

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	64	2,360	70,796	629
Environment	45	15	534	24,029	213
Chemicals	60	21	782	46,914	417
<b>Core PAT</b>			<b>3,676</b>		
Total				1,41,738	1,259
Cash (FY23E)				27,805	247
<b>Overall Total</b>				<b>1,69,544</b>	<b>1,506</b>

Note: We assume the Core PAT contribution of different segment to be similar to the EBIT contribution

Source: Company data, I-Sec research

## Key concall takeaways

- The pent-up demand in Q3 continued in Q4, demand in steel and cement sectors witnessed healthy recovery.
- Company witnessed healthy recovery from tier II/III towns in Q4FY21 which has currently slowed down due to the second wave of covid. It expects recovery in demand post normalisation of the environment.
- The company has identified three major segments to fuel future growth: (i) Waste to energy, (ii) agreement with power roll to manufacture flexible, lightweight and low cost solar film and (iii) fuel cells.
- Thermax Babcock & Wilcox Energy Solutions (TBWES), a wholly-owned subsidiary of Thermax, signed a know-how transfer and license agreement with German-based Steinmüller Babcock Environment GmbH (SBE) for waste-to-energy technology. As a part of the agreement, TBWES will design, engineer, manufacture and sell municipal solid waste (MSW) fired waste-to-energy solutions by incorporating SBE's well-established grate and boiler technology.
- The company will supply these waste-to-energy solutions to the developer with no exposure to municipalities.
- The performance of the overseas subsidiaries continues to be under stress; however, the orderbook has recently improved which implies healthy growth in FY22E.
- The company generally books back-to-back ordering of equipment post the receipt of orders, hence, the impact of commodity prices is expected to be relatively less. The margins under chemical segment will be impacted in the near term due to higher prices of styrene, which is a key raw material.
- The company is continuously focusing to ramp up products and services segments, which are relatively less impacted due to the economic headwinds.
- Cement, steel and oil & gas sectors were the major order intake drivers during Q4FY21.

**Table 4: Quarterly financial trend (consolidated)**

(Rs mn)	Q4FY20	Q4FY21	YoY(%)	Q3FY21	QoQ(%)	Isec Est	Var(%)
Total Revenue	13,230	15,745	19.0	14,106	11.6	14,852	6.0
EBITDA	636	1,397	119.7	1,476	(5.4)	1,223	14.2
Margin	4.8	8.9	407bps	10.5	-159bps	8.2	64bps
Depreciation	308	288	(6.4)	291	(0.9)	292	(1.3)
Finance Cost	49	63	28.6	57	11.5	57	10.9
Other Income	307	358	16.7	282	26.9	281	27.6
Extraordinary income	-	-		(279)		-	
PBT	586	1,404	139.6	1,132	24.0	1,155	21.5
Tax	196	330	68.8	300	10.3	200	64.9
tax rate	33.4	23.5	-987bps	26	-293bps	17.3	
Reported PAT	391	1,074	174.6	833	28.9	955	12.4
Adjusted PAT	391	1,074	174.6	1,042	3.1	955	12.4
Margin(%)	3.0	6.8	386bps	7.4	-57bps	6.4	39bps
EPS	3.5	9.5		7.4		8.5	
<b>Segmental</b>							
<b>Revenue</b>							
Energy	10,512	11,753	11.8	10,658	10.3	11,563	1.6
Environment	1,991	3,019	51.6	2,534	19.1	2,290	31.8
Chemical	963	1,194	24.0	1,113	7.3	1,252	(4.6)
Less: Intersegment	236	221	(6.5)	199	10.8	253	(12.6)
<b>Total</b>	<b>13,230</b>	<b>15,745</b>	<b>19.0</b>	<b>14,106</b>	<b>11.6</b>	<b>14,852</b>	<b>6.0</b>
<b>EBIT</b>							
Energy	323	1,088	236.5	966	12.6	809	34.4
Environment	162	198	22.1	180	10.2	183	8.1
Chemical	179	221	23.5	291	(24.0)	275	(19.8)
<b>Total</b>	<b>664</b>	<b>1,507</b>	<b>126.8</b>	<b>1,436</b>	<b>4.9</b>	<b>1,268</b>	<b>18.8</b>
<b>EBIT margins (%)</b>							
Energy	3.1	9.3	618bps	9.1	19bps	7.0	225bps
Environment	8.2	6.6	-159bps	7.1	-53bps	8.0	-144bps
Chemical	18.6	18.5	-8bps	26.1	-761bps	22.0	-351bps

Source: Company data, I-Sec research

**Table 5: Orderbook and order intake trend (consolidated)**

(Rs bn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)
Orderbook	53.7	52.5	53.3	54.4	52.4	52.1	51.9	52.1	52.2	-0.3
Order inflow	11.6	12.2	17.2	16.1	9.5	6.1	11.1	15.7	15.0	57.2
<b>Order Inflow</b>										
Energy	9.1	8.2	9.8	8.0	6.9	4.1	8.5	12.9	11.7	70.6
Environment	1.7	2.1	6.3	6.9	2.5	1.0	1.6	1.7	2.0	-16.7
Chemical	0.8	1.9	1.1	1.2	0.2	0.9	1.1	1.0	1.2	471.4
<b>Orderbook</b>										
Energy	47.9	45.0	41.3	37.3	35.6	35.2	34.9	36.0	37.2	4.5
Environment	5.3	6.8	11.3	16.4	16.0	16.1	16.1	15.3	14.3	-10.7
Chemical	0.5	0.7	0.7	0.7	0.8	0.9	0.9	0.8	0.2	-78.8

Source: Company data, I-Sec research

**Table 6: Key assumptions**

(Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Consolidated</b>							
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	50,935	55,530
Growth (%)	-6.1	30.0	-5.6	-2.5	-0.2	-2.6	9.0
Net Sales	44,831	44,649	59,732	57,313	47,913	56,340	61,410
Growth (%)	-11.6	-0.4	33.8	-4.0	-16.4	17.6	9.0

Source: Company data, I-Sec research

## Financial summary (consolidated)

Table 7: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Total Income</b>	<b>57,313</b>	<b>47,913</b>	<b>56,340</b>	<b>63,543</b>
<b>Operating Expenses</b>	53,231	44,361	51,821	58,022
<b>EBITDA</b>	<b>4,082</b>	<b>3,552</b>	<b>4,519</b>	<b>5,521</b>
% margins	7.1	7.4	8.0	8.7
Depreciation & Amortisation	1,166	1,146	1,122	1,182
<b>EBIT</b>	<b>2,916</b>	<b>2,406</b>	<b>3,396</b>	<b>4,339</b>
Gross Interest	150	207	163	163
Other Income	1,000	1,077	1,454	1,600
<b>PBT before exceptionals</b>	<b>3,765</b>	<b>3,277</b>	<b>4,688</b>	<b>5,777</b>
Add:				
Extraordinaries/Exceptionals	-	525	-	-
Add: Share in associates	-	-	-	-
<b>PBT</b>	<b>3,765</b>	<b>3,802</b>	<b>4,688</b>	<b>5,777</b>
Less: Taxes	1,621	686	1,031	1,271
Less: Minority Interests	-	-	-	-
<b>Net Income (Reported)</b>	<b>2,145</b>	<b>3,116</b>	<b>3,657</b>	<b>4,506</b>
<b>Adjusted Net Income</b>	<b>2,145</b>	<b>2,722</b>	<b>3,657</b>	<b>4,506</b>

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	39,773	44,665	52,251	58,993
of which cash & cash eqv.	12,922	20,545	24,591	27,805
Total Current Liabilities & Provisions	27,120	29,434	34,352	38,309
<b>Net Current Assets</b>	<b>(269)</b>	<b>(5,314)</b>	<b>(6,692)</b>	<b>(7,121)</b>
Investments	591	1,192	715	787
Other Non-Current Assets	7,502	8,224	8,864	9,562
<b>Net Fixed Assets</b>	<b>11,340</b>	<b>10,958</b>	<b>10,869</b>	<b>10,697</b>
Goodwill	353	30	30	29
<b>Total Assets</b>	<b>32,439</b>	<b>35,635</b>	<b>38,378</b>	<b>41,760</b>
<b>Liabilities</b>				
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	35,030	38,411
<b>Net Worth</b>	<b>30,279</b>	<b>32,514</b>	<b>35,256</b>	<b>38,636</b>
<b>Total Liabilities</b>	<b>32,439</b>	<b>35,634</b>	<b>38,378</b>	<b>41,760</b>

Source: Company data, I-Sec research

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Operating Cashflow</b>	<b>3,072</b>	<b>3,360</b>	<b>3,328</b>	<b>4,075</b>
Working Capital Changes	477	4,522	1,268	322
Capital Commitments	683	(763)	(1,034)	(1,010)
<b>Free Cashflow</b>	<b>4,232</b>	<b>7,118</b>	<b>3,561</b>	<b>3,387</b>
<b>Cashflow from Investing Activities</b>	<b>(2,368)</b>	<b>6,819</b>	<b>1,429</b>	<b>984</b>
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)
<b>Extraordinary Items/Others</b>	<b>686</b>	<b>(6,210)</b>	<b>411</b>	<b>436</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>1,481</b>	<b>7,623</b>	<b>4,047</b>	<b>3,214</b>

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (in Rs.)</b>				
Diluted adjusted EPS	18.0	22.8	30.7	37.8
Recurring Cash EPS	27.8	32.5	40.1	47.7
Dividend per share (DPS)	7.0	7.0	10.0	12.0
Book Value per share (BV)	254.1	272.9	295.9	324.3
<b>Growth Ratios (%)</b>				
Operating Income	(4.0)	(16.4)	17.6	12.8
EBITDA	(2.3)	(13.0)	27.2	22.2
Recurring Net Income	(23.8)	26.9	34.3	23.2
Diluted adjusted EPS	(23.8)	26.9	34.3	23.2
Diluted Recurring CEPS	(11.3)	16.8	23.6	19.0
<b>Valuation Ratios</b>				
P/E	81.2	63.9	47.6	38.6
P/CEPS	52.6	45.0	36.4	30.6
P/BV	5.7	5.4	4.9	4.5
EV / EBITDA	40.0	44.1	33.8	27.0
EV / Operating Income	2.9	3.3	2.7	2.3
EV / Op FCF (pre -Capex)	50.1	19.9	33.2	34.0
<b>Operating Ratios</b>				
Raw Material/Sales (%)	53.8	53.0	52.7	53.0
SG&A/Sales (%)	25.1	23.8	24.5	23.9
Other Income / PBT (%)	26.6	32.9	31.0	27.7
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)
<b>Return/Profitability Ratios (%)</b>				
Recurring Net Income Margins	3.7	5.7	6.5	7.1
RoCE	6.9	8.4	10.2	11.6
RoNW	7.1	8.7	10.8	12.2
Dividend Payout Ratio	0.4	0.3	0.3	0.3
Dividend Yield (%)	0.5	0.5	0.7	0.8
EBITDA Margins	7.1	7.4	8.0	8.7

Source: Company data, I-Sec research

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