

Estimate change

TP change

Rating change



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Bloomberg	TMX IN
Equity Shares (m)	113
M.Cap.(INRb)/(USDb)	89.5 / 1.1
52-Week Range (INR)	1180 / 644
1, 6, 12 Rel. Per (%)	-9/-11/-18
12M Avg Val (INR M)	90

#### Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	57.3	54.6	64.1
EBITDA	4.1	3.4	5.4
PAT	2.1	2.3	3.9
EBITDA (%)	7.1	6.2	8.4
EPS (INR)	18.9	20.9	34.4
EPS Gr. (%)	-30.6	10.6	64.8
BV/Sh. (INR)	268.9	280.4	304.6
<b>Ratios</b>			
Net D/E	-0.1	-0.1	-0.2
RoE (%)	7.0	7.4	11.3
RoCE (%)	7.2	7.6	11.4
Payout (%)	38.5	38.3	25.5
<b>Valuations</b>			
P/E (x)	39.9	36.0	21.9
P/BV (x)	2.8	2.7	2.5
EV/EBITDA (x)	20.2	23.9	14.5
Div Yield (%)	1.0	1.1	1.2
FCF Yield (%)	5.6	3.0	4.4

#### Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	62.0	62.0	62.0
DII	17.6	17.7	13.9
FII	13.3	13.1	17.4
Others	7.2	7.3	6.8

FII Includes depository receipts

**CMP: INR751**
**TP: INR757 (+1%)**
**Neutral**

### Superior working capital management; Outlook remains weak

- Thermax's (TMX) 4QFY20 operating performance was severely impacted by COVID-19 with revenue decline of 36% and corresponding EBITDA decline of 63%. In such tough times, TMX's superior working capital management stood out, resulting in FCF generation of INR4.8b (v/s -INR4.5b in FY19).
- Superior execution over the past 6-7 quarters led to depletion of the order book, especially in the current weak ordering environment. Thus, even without COVID-19, revenue growth momentum would have slowed down in FY21. Despite some green shoots from pharma and chemical industries, the overall order environment is likely to remain weak in FY21.
- We cut our FY21/FY22E EPS estimates by 28%/12% due to lower order inflow assumption. Maintain **Neutral** with TP of INR757 (prior: INR865) based on 22x Mar'22E EPS.

### Operating performance weak, FCF generation surprises

- 4QFY20 revenues declined 36% to INR13.2b and were 23% below our expectation. On account of lower absorption of fixed costs like employee costs, EBITDA declined 63% to INR636m and missed our expectation by 53%. Adj. PAT declined 69% to INR390m and was 63% below our expectation.
- For FY20, revenue/EBITDA/adj. PAT declined 4%/11%/30%.
- Segment performance: (a) Energy revenue** (78% of overall revenue) declined 39% YoY to INR10.5b. PBIT margin declined 490bp YoY to 3.1%. **(b) Environmental revenue** (15% of overall revenue) was down 26% YoY to INR2.0b. PBIT margin shrank 340bp YoY to 8.2%. **(c) Chemical revenue** (7% of overall revenue) declined 6% YoY to INR1.0b. PBIT margin expanded to 18.6% from 16.6% in the year-ago period. Margins in this segment have been expanding on account of greater proportion of specialty chemicals.
- Order inflow declined 18% YoY to INR9.5b for the quarter. Order book stood at INR52.4b (-2% YoY).

### Management commentary highlights

- TMX is witnessing inquiries and order conversions in end markets like pharma, chemicals, refineries, food and food processing. However, large ticket-sized orders have been missing from cement or metal industries. Overall, FY21 will see decline in orders while FY22 may see some recovery.
- Labor availability is not an issue as reverse migration is already taking place. Also, TMX is considerate of laborers' requirements in terms of safety and early payments.
- Management expects Danstoker to achieve break-even in 1QFY21 itself. Europe has not witnessed as strict a lockdown as India.

### Valuation and view

- We cut our FY21/FY22E EPS estimates by 28%/12% on account of lower order inflow assumption. We estimate revenue/EBITDA/adj. PAT CAGR of 6%/15%/35% over FY20-22E, factoring in lower losses from Danstoker as well as the low base of FY20 as TMX saw disproportionate impact of COVID-19. Maintain **Neutral** with TP of INR757 (prior: INR865) (22x Mar'22E EPS).

## Thermax Consolidated

(INR M)

Y/E March	FY19				FY20				FY19	FY20	MOSL	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Vs Est
<b>Sales</b>	<b>10,353</b>	<b>14,276</b>	<b>14,366</b>	<b>20,737</b>	<b>13,925</b>	<b>16,059</b>	<b>14,101</b>	<b>13,230</b>	<b>59,732</b>	<b>57,313</b>	<b>17,117</b>	<b>-22.7%</b>
Change (%)	18.7	38.2	28.6	43.7	34.5	12.5	-1.8	-36.2	33.8	-4.0	-17.5	
<b>EBITDA</b>	<b>693</b>	<b>1,100</b>	<b>1,073</b>	<b>1,708</b>	<b>991</b>	<b>1,303</b>	<b>1,132</b>	<b>636</b>	<b>4,574</b>	<b>4,062</b>	<b>1,347</b>	<b>-52.8%</b>
Change (%)	-3.9	15.6	12.4	23.6	42.9	18.4	5.5	-62.8	14.1	-11.2	-21.1	
As of % Sales	6.7	7.7	7.5	8.2	7.1	8.1	8.0	4.8	7.7	7.1	7.9	
Depreciation	210	235	230	247	262	281	316	308	920	1,166	319	
Interest	33	39	36	35	44	38	19	49	143	150	53	
Other Income	310	356	313	520	216	220	258	307	1,499	1,000	328	
Extra-ordinary Items	6	64	99	26	0	0	0	0	195	0	0	
<b>PBT</b>	<b>761</b>	<b>1,183</b>	<b>1,121</b>	<b>1,946</b>	<b>901</b>	<b>1,204</b>	<b>1,054</b>	<b>586</b>	<b>5,010</b>	<b>3,745</b>	<b>1,304</b>	<b>-55.1%</b>
Tax	280	498	463	699	273	947	205	196	1,940	1,621	226	
Effective Tax Rate (%)	36.8	42.1	41.3	35.9	30.3	78.7	19.4	33.4	38.7	43.3	17.4	
Share of Profit /Loss from JV/Minority	3	-3	-7	-4	0	0	0	0	(11)	-	-11	
<b>Reported PAT</b>	<b>490</b>	<b>745</b>	<b>750</b>	<b>1,269</b>	<b>628</b>	<b>257</b>	<b>850</b>	<b>390</b>	<b>3,254</b>	<b>2,125</b>	<b>1,067</b>	<b>-63.4%</b>
Change (%)	20.6	31.1	28.1	67.7	28.2	(65.5)	13.2	(69.2)	40.8	(34.7)	(15.9)	
<b>Adj PAT</b>	<b>483</b>	<b>682</b>	<b>651</b>	<b>1,243</b>	<b>628</b>	<b>257</b>	<b>850</b>	<b>390</b>	<b>3,059</b>	<b>2,125</b>	<b>1,067</b>	<b>-63.4%</b>
Change (%)	19.0	19.9	11.2	64.2	29.8	(62.3)	30.4	(68.6)	32.4	(30.6)	(14.2)	

## Exhibit 1: Segmental performance matrix

Revenues (INR m)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Energy	11,158	8,014	11,448	11,349	17,184	11,640	13,410	11,208	10,512
Environment	2,720	1,465	2,007	2,134	2,677	1,464	1,792	1,974	1,991
Chemicals	801	968	1,040	1,117	1,025	977	1,105	1,168	963
<b>Total</b>	<b>14,430</b>	<b>10,353</b>	<b>14,276</b>	<b>14,366</b>	<b>20,737</b>	<b>13,925</b>	<b>16,059</b>	<b>14,101</b>	<b>13,230</b>
YoY Growth (%)									
Energy	-8%	11%	46%	30%	54%	45%	17%	-1%	-39%
Environment	7%	52%	32%	23%	-2%	0%	-11%	-8%	-26%
Chemicals	-5%	18%	-4%	23%	28%	1%	6%	5%	-6%
EBIT (INR m)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Energy	1,119	412	826	613	1,368	695	827	647	323
Environment	216	46	56	155	311	31	85	103	162
Chemicals	26	118	156	173	170	115	198	289	179
<b>Total</b>	<b>1,592</b>	<b>794</b>	<b>1,222</b>	<b>1,157</b>	<b>1,981</b>	<b>944</b>	<b>1,243</b>	<b>1,074</b>	<b>635</b>
EBIT Margin (%)									
Energy	10.0	5.1	7.2	5.4	8.0	6.0	6.2	5.8	3.1
Environment	7.9	3.1	2.8	7.2	11.6	2.1	4.7	5.2	8.2
Chemicals	3.2	12.2	15.0	15.4	16.6	11.7	17.9	24.7	18.6
<b>Total</b>	<b>11.0</b>	<b>7.7</b>	<b>8.6</b>	<b>8.1</b>	<b>9.6</b>	<b>6.8</b>	<b>7.7</b>	<b>7.6</b>	<b>4.8</b>

Source: MOFSL, Company

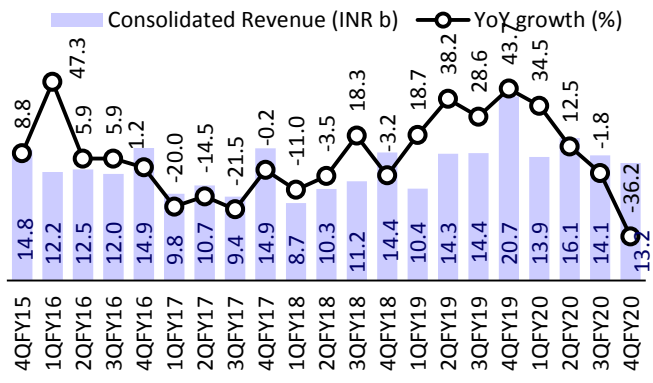
### Consolidated order intake and order book down 2% YoY

- Order inflow during the quarter was lower at INR9.5b (-18% YoY). For the full year, order inflow stood at INR55b (-2% YoY). In FY20, largest orders were from the Power sector (FGD orders) followed by Food and food processing, and Oil and Gas.
- **Segment-wise FY20 order inflow:** Energy – INR32.8b, Environment – INR17.8b, Chemical – INR4.4b.
- Order book ending FY20 stood at INR52.4b (-2% YoY). Book to bill stood lower at 0.9x (v/s 1.3x in FY19).
- **Segment-wise FY20 order book:** Energy – INR35.6b, Environment – INR16b, Chemical – INR800m.
- There have been no order cancellations as yet. 84% customers have informed their intention to go ahead with the projects awarded.
- Order book in FY21 will be lower YoY as orders from Steel, Cement and Fertilizer sectors is expected to remain muted.
- Food and food processing sector have started concluding orders. Since the projects are short cycle, TMX can book the order and execute in FY21.
- Orders inflows in FY21 are expected to be at similar levels of FY20. Apr-May'20 saw conclusions in orders though it was lower than expectations. Inquiries in Pharma, FMCG and Dairy sectors were converted into orders.

### Other key highlights

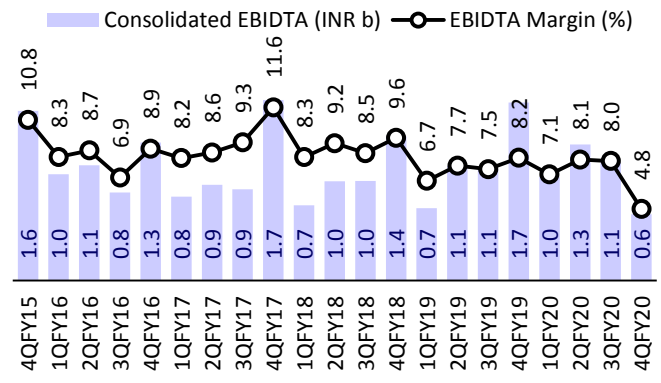
- **Subsidiary: (a)** Danstoker was loss-making in FY20, against expectation of a turnaround. TMX has brought in a new management team. The company is closer to a break-even in 1QFY21, and will turn around fully in FY21. **(b)** South East Asia subsidiary losses have declined indicating that the company is moving in the right direction.
  - **Supply chain:** Out of total INR35b procurement, INR1.6b is procured from China. 56% of vendors do not have difficulty with Working Capital or manpower. The company will support vendors by making advance payments.
  - **Chemical segment:** With orders in hand, this segment is expected to grow in double-digit in FY21. Majority of the orders are from North America (specialty resin). FY22 will see a higher share of exports from the Dahej plant.
  - API is a good opportunity for TMX with many players expanding plant capacity. Opportunities exist for Heating, Boiler and Waste-water treatment. TMX has already received inquiries with some orders in the closure stage. A normal API plant is a ~INR20-70m opportunity for TMX.
  - The company will be incurring ~INR200-250m additional costs owing to additional safety norms, which are already in place. These costs will be accounted for in the future order bidding.
- Investment: (a) Chemical plant:** This plant is contributing higher to the business and paying back. Phase 2 expansion is on course (from 12,000MT to 22,000MT capacity). **(b) Sri City plant:** Despite closure of the Pune factory for chilling products, TMX's Sri City plant has completed supported the Chilling business. The company had a minor setback on profitability last year as shifting of suppliers took time. **(c) Indonesia:** Received some major orders in the last few months. These 3 investments have been done to ensure faster growth in the Product business and to de-risk the EPC and Boiler business.

**Exhibit 2: Consol. revenue declined 36% YoY due to high base and lower execution**



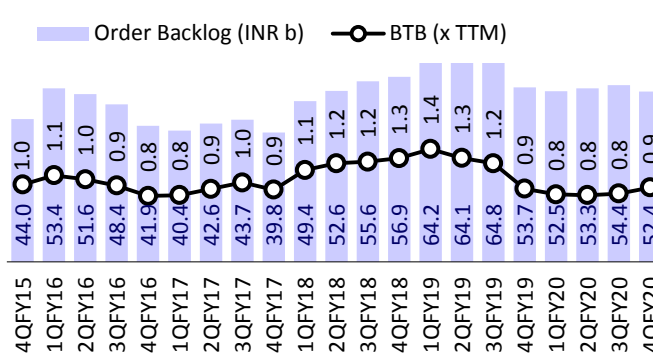
Source: MOFSL, Company

**Exhibit 3: EBITDA margin declined to 4.8% due to lower operating leverage and higher fixed costs**



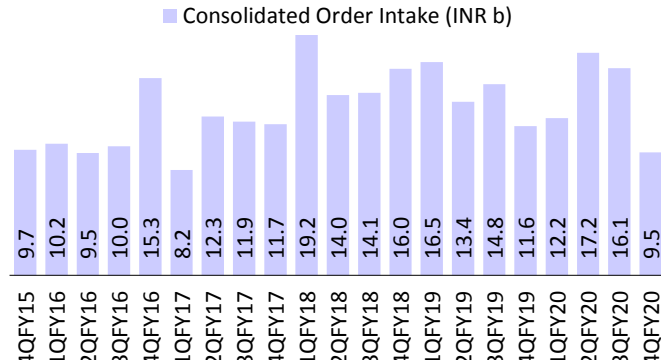
Source: MOFSL, Company

**Exhibit 4: Consol. BTB ratio at 0.9x – remained below 1x since last 5 consecutive quarters**



Source: MOFSL, Company

**Exhibit 5: Order inflows declined 18% YoY in 4QFY20 and decreased 2% YoY in FY20**



Source: MOFSL, Company

## Valuation and view

- **Depleting order book to weigh on revenue growth:** Over the past few quarters, TMX has demonstrated strong execution capability with robust revenue growth. However, the ordering environment may remain weak and the depleting order book may lead to a slowdown in revenue growth momentum. Current order backlog stands at INR52.4b (-2% YoY), providing revenue visibility of 0.9x its TTM revenue. We estimate revenue CAGR of 6% over FY20-22E.
- **Higher competitive intensity:** Higher competitive intensity limits the scope for margin expansion. Even for large FGD orders where technical expertise and execution capabilities required are high, competition is greater.
- **Maintain Neutral:** We cut our FY21/FY22E EPS estimates by 28%/12% on account of lower order inflow assumption. We estimate revenue/EBITDA/adj. PAT CAGR of 6%/15%/35% over FY20-22E, factoring in lower losses from Danstoker as well as low base of FY20 as TMX saw disproportionate impact of COVID-19. Maintain **Neutral** with TP of INR757 (prior: INR865) (22x Mar'22E EPS).

### Exhibit 6: We cut FY21/FY22E EPS estimates by 28%/12% on account of lower order inflow assumption

Earnings Change	Old		New		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	61,200	73,440	54,611	64,111	-11%	-13%
EBITDA	4,712	6,242	3,377	5,375	-28%	-14%
EBITDA margin	7.7%	8.5%	6.2%	8.4%	-2%	0%
Adj. PAT	3,276	4,419	2,350	3,873	-28%	-12%

Source: MOSL, Company

## Financials and valuations

Income Statement						(INR M)
Y/E March	2017	2018	2019	2020	2021E	2022E
<b>Total Revenues</b>	<b>44,831</b>	<b>44,649</b>	<b>59,732</b>	<b>57,313</b>	<b>54,611</b>	<b>64,111</b>
Change (%)	-12.9	-0.4	33.8	-4.0	-4.7	17.4
Raw Materials	22,642	23,493	33,367	30,857	30,373	35,657
Staff Cost	6,864	6,966	7,675	7,990	7,755	8,014
Other Expenses	10,995	10,180	14,116	14,404	13,107	15,066
<b>EBITDA</b>	<b>4,330</b>	<b>4,009</b>	<b>4,574</b>	<b>4,062</b>	<b>3,377</b>	<b>5,375</b>
% of Total Revenues	9.7	9.0	7.7	7.1	6.2	8.4
Depreciation	819	824	920	1,166	1,248	1,306
Other income	1,141	1,164	1,499	1,000	1,159	1,255
Interest	97	129	143	150	148	148
<b>PBT</b>	<b>4,554</b>	<b>4,220</b>	<b>5,010</b>	<b>3,745</b>	<b>3,140</b>	<b>5,175</b>
Tax	1,560	1,658	1,940	1,621	790	1,303
Rate (%)	34.3	39.3	38.7	43.3	25.2	25.2
<b>Adjusted PAT</b>	<b>2,340</b>	<b>2,311</b>	<b>3,059</b>	<b>2,125</b>	<b>2,350</b>	<b>3,873</b>
EO Income (net)	-178	0	195	0	0	0
<b>Reported PAT</b>	<b>2,161</b>	<b>2,311</b>	<b>3,254</b>	<b>2,125</b>	<b>2,350</b>	<b>3,873</b>
Change (%)	-23.4	6.9	40.8	-34.7	10.6	64.8

Balance Sheet						(INR M)
Y/E March	2017	2018	2019	2020	2021E	2022E
Share Capital	225	225	225	225	225	225
Reserves	25,151	26,922	29,918	30,054	31,352	34,067
<b>Net Worth</b>	<b>25,376</b>	<b>27,147</b>	<b>30,143</b>	<b>30,279</b>	<b>31,577</b>	<b>34,292</b>
Loans	1,313	2,173	2,201	2,115	2,115	2,115
Deferred Tax Liability	-993	-917	-2,120	-1,510	-1,510	-1,510
<b>Capital Employed</b>	<b>25,710</b>	<b>28,403</b>	<b>30,223</b>	<b>30,885</b>	<b>32,183</b>	<b>34,898</b>
Gross Fixed Assets	15,183	17,413	21,725	20,913	21,913	22,913
Less: Depreciation	7,047	7,686	8,606	9,772	11,020	12,326
<b>Net Fixed Assets</b>	<b>8,136</b>	<b>9,727</b>	<b>13,119</b>	<b>11,141</b>	<b>10,893</b>	<b>10,587</b>
Capital WIP	1,385	1,034	401	553	553	553
Investments	10,830	14,717	8,293	8,752	8,752	8,752
<b>Curr. Assets</b>	<b>29,101</b>	<b>32,891</b>	<b>43,967</b>	<b>37,560</b>	<b>39,100</b>	<b>46,507</b>
Inventory	2,833	3,666	5,086	4,546	4,331	5,085
Debtors	11,178	12,992	14,385	14,785	15,710	17,565
Cash & Bank Balance	2,210	2,940	3,691	4,761	6,225	8,791
Loans & Advances	265	226	265	241	230	270
Other Assets	12,615	13,066	20,540	13,228	12,604	14,797
<b>Current Liab. &amp; Prov.</b>	<b>23,742</b>	<b>29,966</b>	<b>35,557</b>	<b>27,120</b>	<b>27,115</b>	<b>31,500</b>
Current Liabilities	10,516	10,605	13,994	10,000	9,528	11,186
Other Liabilities	11,629	17,516	19,969	15,218	15,683	18,411
Provisions	1,596	1,845	1,593	1,903	1,903	1,903
<b>Net Current Assets</b>	<b>5,359</b>	<b>2,925</b>	<b>8,410</b>	<b>10,440</b>	<b>11,985</b>	<b>15,007</b>
<b>Application of Funds</b>	<b>25,710</b>	<b>28,403</b>	<b>30,223</b>	<b>30,885</b>	<b>32,183</b>	<b>34,898</b>

## Financials and valuations

### Ratios

Y/E March	2017	2018	2019	2020	2021E	2022E
<b>Basic (INR)</b>						
Adj EPS	20.8	20.5	27.2	18.9	20.9	34.4
Cash EPS	28.1	27.8	35.3	29.2	32.0	46.0
Book Value	225.4	241.1	267.7	268.9	280.4	304.6
DPS	6.0	6.0	6.6	7.3	8.0	8.8
Payout (incl. Div. Tax.)	31.3	29.2	22.8	38.5	38.3	25.5
<b>Valuation (x)</b>						
P/E	36.2	36.6	27.7	39.9	36.0	21.9
Cash P/E	26.8	27.0	21.3	25.7	23.5	16.4
EV/EBITDA	19.3	20.9	18.2	20.2	23.9	14.5
EV/Sales	1.9	1.9	1.4	1.4	1.5	1.2
Price/Book Value	3.3	3.1	2.8	2.8	2.7	2.5
Dividend Yield (%)	0.8	0.8	0.9	1.0	1.1	1.2
<b>Profitability Ratios (%)</b>						
RoE	9.2	8.5	10.1	7.0	7.4	11.3
RoCE	11.9	9.3	10.4	7.2	7.6	11.4
RoIC	20.5	19.9	12.6	9.8	9.6	18.1
<b>Turnover Ratios</b>						
Debtors (Days)	91	106	88	94	105	100
Inventory (Days)	23	30	31	29	29	29
Creditors (Days)	86	87	86	64	64	64
Asset Turnover (x)	1.7	1.6	2.0	1.9	1.7	1.8
<b>Leverage Ratio</b>						
Net Debt/Equity (x)	0.0	0.0	0.0	-0.1	-0.1	-0.2

### Cash Flow Statement

Y/E March	2017	2018	2019	2020	2020E	2020E
<b>(INR M)</b>						
<b>PBT before EO Items</b>	<b>4,554</b>	<b>4,220</b>	<b>5,010</b>	<b>3,745</b>	<b>3,140</b>	<b>5,175</b>
Depreciation	819	824	920	1,166	1,248	1,306
Interest & other	0	0	0	0	0	0
Direct Taxes Paid	1,560	1,658	1,940	1,621	790	1,303
(Inc)/Dec in WC	-663	3,164	-4,735	-959	-82	-455
<b>CF from Operations</b>	<b>3,207</b>	<b>6,628</b>	<b>-1,752</b>	<b>2,942</b>	<b>3,516</b>	<b>4,723</b>
(Inc)/Dec in FA	-1,000	-1,000	-2,759	1,827	-1,000	-1,000
<b>Free Cash Flow</b>	<b>2,207</b>	<b>5,628</b>	<b>-4,512</b>	<b>4,769</b>	<b>2,516</b>	<b>3,723</b>
(Pur)/Sale of Investments	-332	-3,887	6,424	-459	0	0
<b>CF from Investments</b>	<b>-1,987</b>	<b>-5,139</b>	<b>3,654</b>	<b>1,368</b>	<b>-1,000</b>	<b>-1,000</b>
(Inc)/Dec in Networth	0	0	0	0	0	0
(Inc)/Dec in Debt	-409	860	28	-85	0	0
Interest Paid	0	0	0	1,166	0	0
Dividend Paid	790	790	869	956	1,052	1,157
<b>CF from Fin. Activity</b>	<b>-1,356</b>	<b>320</b>	<b>-1,151</b>	<b>-3,240</b>	<b>-1,052</b>	<b>-1,157</b>
<b>Inc/Dec of Cash</b>	<b>-136</b>	<b>1,809</b>	<b>751</b>	<b>1,070</b>	<b>1,464</b>	<b>2,566</b>
Add: Beginning Balance	2,976	2,210	2,940	3,691	4,761	6,225
<b>Closing Balance</b>	<b>2,210</b>	<b>2,940</b>	<b>3,691</b>	<b>4,761</b>	<b>6,225</b>	<b>8,791</b>

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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