

Retail Equity Research  
**Thermax Ltd**  
Capital Goods

**Accumulate**

12M Investment Period

Rating as per Mid Cap

**CMP Rs. 740 TARGET Rs. 840 RETURN 14%** ↑  
(Closing: 01-07-20)

BSE CODE : 500411

NSE CODE: THERMAX

BLOOMBERG CODE: TMX:IN

SENSEX : 35,414

**KEY CHANGES:**

**TARGET** ↓

**RATING** ↔

**EARNINGS** ↓

**Weak order inflows may impact near term execution...**

Thermax Ltd (TMX) is a leading energy and environment solutions provider. They offer integrated innovative solutions in the areas of heating, cooling, power, water & waste management, air pollution control and chemicals.

- Q4FY20 revenue de-grew by 36% YoY due to disruptions in execution owing to Covid led lock down.
- EBITDA margin declined by 343bps YoY to 4.8% due to higher employee cost & other operating expenses.
- Order inflow declined by 18% YoY due to subdued inflows in energy (-25% YoY) & environment segment (-24%) while order book de-grew by 2.5%.
- PAT declined by 67% YoY due to lower operating performance, higher interest cost & depreciation.
- We lower FY21/FY22 revenue by 22%/23% in expectation of muted order inflow owing to tepid industrial capex.
- We expect most of the negatives are factored in price. While pick up in international enquiry may provide some respite in H2FY20. We therefore maintain Accumulate rating and value TMX at a P/E of 29x (3yr Avg) on FY22E EPS.

**Covid led disruptions impacted revenue...**

TMX consolidated revenue in Q4FY20 registered a de-growth of 36% YoY to Rs1,323cr due to slower execution on account of Covid led lock down. De-growth was witnessed in across segments, revenue from energy fell by 39% YoY, environment fell by 26% YoY and chemical declined by 6% YoY. In Q4FY20, the net impact on revenue due to covid led lockdown was to the tune of Rs 400 to Rs500cr. Currently, all factories in India are working in the range of 25% - 50% capacity utilization. Factories in overseas such as Poland, Denmark, Indonesia and Germany are running with 50% capacity as lockdown impact was limited in this region. While TMX's chemical factory in Dahej will witness a production loss of 30-45 days as it has been shut after a fire accident. We expect FY21 execution will be impacted due to subdued order inflows and muted industrial capex. We therefore, reduce FY21/FY22 revenue estimate by 22%/23% respectively.

**Subdued order inflow...**

Q4FY20 order inflow declined by 18% YoY to Rs952cr due to subdued ordering activity in energy segment (-25% YoY) to Rs686cr and environment segment (-24% YoY) to Rs167cr. While chemical orders improved by 22% YoY to Rs99cr. Domestic orders declined by 13% YoY to Rs594cr while international orders witnessed a de-growth of 24% YoY to Rs358cr. Consolidated order book declined by 2.5% YoY at Rs5,238cr (0.9x FY20 revenue) primarily driven by weakness in energy segment. Management indicated that 84% of TMX customers are ready to go ahead with their orders while 90% of the constructions sites started operation. Going forward company expects double digit growth in chemical business as they are receiving major orders from North America.

**Margins declined.**

EBITDA margin declined by 343bps YoY to 4.8% due to higher other expenses (29% as a percentage to sales) and employee cost. Lower operating margin, higher depreciation (25% YoY) and interest cost (40% YoY) impacted profitability by -69% YoY.

**Valuations**

TMX strong balance sheet and efficient working capital management will give potential to weather the storm. We expect most of the negatives are factored in price. While pick up in international enquiry may provide some respite in H2FY20. We therefore maintain Accumulate and value TMX at a P/E of 29x (3yr Avg) on FY22E EPS with a TP of Rs840.

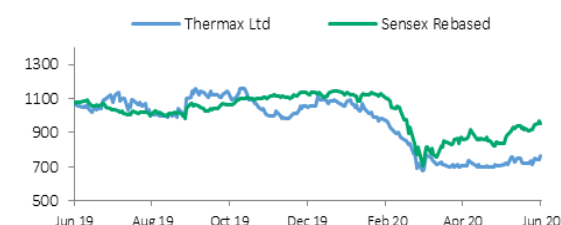
**Company Data**

Market Cap (cr)	Rs.9,067
Enterprise Value (cr)	Rs.9,279
Outstanding Shares (cr)	12
Free Float	38%
Dividend Yield	0.92%
52 week high	Rs.1,180
52 week low	Rs.644
6m average volume (cr)	0.006
Beta	0.7
Face value	Rs2

Shareholding (%)	Q2FY20	Q3FY20	Q4FY20
Promoters	61.98	61.98	61.98
FII's	8.55	7.63	7.77
MFs/Insti	16.72	17.66	17.48
Public	12.73	12.73	12.77
Total	100.0	100.0	100.0
Promoter pledge	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	-1%	-28%	-29%
Absolute Sensex	16%	-15%	-11%
Relative Return*	-18%	-13%	-18%

over or under performance to benchmark index



Consolidated (cr)	FY20E	FY21E	FY22E
Sales	5,731	5,297	5,847
Growth (%)	-4.0	-7.6	10.4
EBITDA	406	360	468
EBITDA Margin(%)	7.1	6.8	8.0
PAT Adj.	212	248	345
Growth (%)	-33.1	16.8	39.1
Adj.EPS	17.8	20.8	29.0
Growth (%)	-33.1	16.8	39.1
P/E	43.5	37.3	26.8
P/B	3.1	3.0	2.7
EV/EBITDA	23.3	26.3	20.3
ROE (%)	7.0	8.0	10.4
D/E	0.1	0.1	0.1

Antu Eapen Thomas  
Research Analyst

## Quarterly Financials (Consolidated)

### Profit & Loss

Rs (cr)	Q4FY20	Q4FY19	YoY Growth %	FY20	FY19	YoY Growth %
<b>Sales</b>	1,323	2,074	-36.2	5,731	5,973	-4.0
<b>EBITDA</b>	64	171	-62.8	406	457	-11.2
EBITDA margins %	4.8	8.2	-343bps	7.1	7.7	-57bps
Depreciation	31	25	24.8	117	92	26.7
<b>EBIT</b>	33	146	-77.6	290	365	-20.8
Interest	5	4	39.6	15	14	4.9
Other Income	31	52	-40.9	100	150	-33.3
Exceptional Items						
<b>PBT</b>	59	193	-69.6	375	411	-9.0
Tax	20	65	-70.0	162	85	90.8
Share of profit from Associate						
<b>Minority Interest</b>	0	0		0	-1	
<b>Reported PAT</b>	39	127	-69.2	212	325	-34.7
Adjustments	0	0		0	0	
<b>Adj PAT</b>	39	127	-69.2	212	325	-34.7
No. of Shares	12	12		12	12	
<b>EPS (Rs)</b>	3	11	-69.2	18	27	-34.7

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	Change %
	FY21E	FY22E	FY21E	FY22E	FY20E	FY21E
Revenue	6,820	7,534	5,297	5,847	-22.3	-23.0
EBITDA	587	648	360	468	-38.6	-27.8
Margins (%)	8.6	8.6	6.8	8.0	-181bps	-60bps
Adj. PAT	444	497	248	354	-44.1	-30.6
EPS	37.3	41.7	20.8	29.7	-44.1	-30.6

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Sales</b>	4,486	5,973	5,731	5,297	5,847
% change	-2	33	-4	-8	10
<b>EBITDA</b>	401	457	406	360	468
% change	-7	14	-11	-11	30
Depreciation	82	92	117	125	132
EBIT	319	365	290	235	336
Interest	13	14	15	16	17
Other Income	116	150	100	110	145
<b>PBT</b>	422	411	375	329	464
% change	-4	-3	-9	-12	44
Tax	166	85	162	81	119
Tax Rate (%)	39	21	43	25	26
<b>Reported PAT</b>	231	325	212	248	345
Adj.*	0	-8	0	0	0
<b>Adj. PAT</b>	231	318	212	248	345
% change	-1	37	-33	17	39
No. of shares (cr)	12	12	12	12	12
<b>Adj EPS (Rs)</b>	19	27	18	21	29
% change	-1	37	-33	17	39
DPS (Rs)	7	8	8	8	8

### BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	246	308	254	257	360
Accounts Receivable	1,345	1,492	1,547	1,669	1,762
Inventories	367	509	455	440	475
Other Cur. Assets	2,525	2,837	2,123	2,322	2,643
Investments	255	54	59	65	72
Gross Fixed Assets	1,443	1,936	2,036	2,136	2,236
Net Fixed Assets	821	1,255	1,225	1,253	1,246
CWIP	103	40	55	40	40
Intangible Assets	152	57	59	60	59
Def. Tax (Net)	92	212	151	146	141
Other Assets	-	0	0	0	0
<b>Total Assets</b>	<b>5,929</b>	<b>6,790</b>	<b>5,951</b>	<b>6,276</b>	<b>6,823</b>
Current Liabilities	2,812	3,396	2,522	2,702	2,971
Provisions	184	159	190	160	176
Debt Funds	218	220	212	231	247
Other Liabilities	-	0	0	0	0
Equity Capital	23	23	23	23	23
Reserves & Surplus	2,692	2,992	3,005	3,161	3,406
Shareholder's Fund	2,715	3,014	3,028	3,184	3,429
<b>Total Liabilities</b>	<b>5,929</b>	<b>6,790</b>	<b>5,951</b>	<b>6,276</b>	<b>6,823</b>
BVPS	215	230	254	267	288

### CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Net inc. + Depn.	504	503	491	454	596
Non-cash adj.	-170	-177	-86	-60	-97
Changes in W.C	275	-449	-128	-157	-163
<b>C.F. Operation</b>	<b>534</b>	<b>-115</b>	<b>177</b>	<b>127</b>	<b>190</b>
Capital exp.	-200	-155	132	111	124
Change in inv.	-344	547	-5	-6	-7
Other invest.CF	0	0	0	0	0
<b>C.F - Investment</b>	<b>-531</b>	<b>266</b>	<b>227</b>	<b>215</b>	<b>263</b>
Issue of equity	0	0	0	0	0
Issue/repay debt	69	26	-9	20	16
Dividends paid	-82	-81	-100	-92	-100
Other finance.CF	0	0	-333	-251	-249
<b>C.F - Finance</b>	<b>-20</b>	<b>-65</b>	<b>-457</b>	<b>-339</b>	<b>-350</b>
Chg. in cash	-18	85	-53	2	104
Closing cash	246	308	255	257	360

### RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	8.9	7.7	7.1	6.8	8.0
EBIT margin (%)	7.1	6.1	5.1	4.4	5.7
Net profit mgn.(%)	5.2	5.3	3.7	4.7	5.9
ROE (%)	10.6	10.6	7.0	8.0	10.4
ROCE (%)	5.4	5.7	5.2	5.9	7.6
<b>W.C &amp; Liquidity</b>					
Receivables (days)	101.9	86.7	96.7	110.8	107.1
Inventory (days)	50.5	47.9	57.0	57.9	53.9
Payables (days)	158.7	131.8	130.3	120.4	127.0
Current ratio (x)	1.5	1.5	1.6	1.6	1.7
Quick ratio (x)	0.6	0.5	0.7	0.6	0.6
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	3.4	3.5	2.9	2.5	2.7
Total asset T.O (x)	0.8	0.9	0.9	0.9	0.9
Int. covge. ratio (x)	24.8	25.5	19.3	14.8	20.1
Adj. debt/equity (x)	0.1	0.08	0.08	0.07	0.07
<b>Valuation</b>					
EV/Sales (x)	2.1	1.6	1.6	1.8	1.6
EV/EBITDA (x)	23.2	20.3	22.8	25.8	20.3
P/E (x)	39.2	28.6	42.7	36.5	26.8
P/BV (x)	3.5	3.1	3.1	2.9	2.7

## Recommendation summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
2-Feb-14*	Sell	552
29-May-14	Sell	584
7-July-14	Sell	560
4-Feb-15	Sell	958
05-Jan-16	Sell	849
09-Feb-16	Hold	813
01-Jun-16	Sell	691
17-Aug-16	Sell	784
16-Nov-16	Sell	794
13-Feb-17	Sell	829
11-Aug-17	Sell	817
13-Nov-17	Accumulate	1,104
16-Feb-18	Sell	1113
28-May-18	Hold	1,212
19-Feb-19	Hold	1,018
16-Aug-19	Reduce	1,027
24-Feb-20	Accumulate	1,084
02-Jul-20	Accumulate	840

## Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
<b>Buy</b>	<b>Upside is above 10%</b>	<b>Upside is above 15%</b>	<b>Upside is above 20%</b>
<b>Accumulate</b>	-	<b>Upside is between 10%-15%</b>	<b>Upside is between 10%-20%</b>
<b>Hold</b>	<b>Upside is between 0% - 10%</b>	<b>Upside is between 0%-10%</b>	<b>Upside is between 0%-10%</b>
<b>Reduce/sell</b>	<b>Downside is more than 0%</b>	<b>Downside is more than 0%</b>	<b>Downside is more than 0%</b>

### Not rated

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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