

Thermax

Performance Highlights

Quarterly highlights (Consolidated)

(₹ cr)	1QFY13	1QFY12	% chg (yoy)	4QFY12	% chg (qoq)
Revenue	983	1,044	(5.8)	1,687	(41.7)
EBITDA	96.4	113.7	(15.2)	185.3	(48.0)
EBITDA margin (%)	9.8	10.9	(108)	11.0	(118.4)
PAT	67.2	79.9	(15.9)	129.8	(48.2)

Source: Company, Angel Research

Thermax 1QFY2013 number were below our estimates with revenue coming in at ₹983cr (down 5.8% yoy), EBITDA of ₹96cr (down 15.2%) and PAT of ₹67.2cr (down 15.9%). EBITDA margins compressed by 108bps yoy to 9.8% for the quarter. Subsidiaries revenue declined by 5% yoy and posted a loss of ₹15cr against a profit of ₹6cr in 1QFY2012. However, the management expects positive reversal in its subsidiaries by the end of the year. Order inflow for the quarter was better than expected at ₹1,412cr (-16% yoy, 54% qoq) taking the total order backlog to ₹5,042cr (-26% yoy, 4% qoq) on a consolidated basis. Management expects more EPC order inflow to come from South East Asia and Africa. **We maintain our Neutral rating on the stock.**

Revenues decline, Subsidiaries surprise negatively: Revenue declined by 5.8% yoy during the quarter. Decline in revenue was due to environment segment, which saw fall in revenue of 8.1% yoy to ₹243cr. Energy segment de-grew by 4.6% yoy to ₹243cr with EBIT margins expanding to 10.7% from 10.1% yoy. Subsidiaries revenue declined by 5% yoy and posted a loss of ₹15cr against a profit of ₹6cr in 1QFY2012. Management expects EBITDA margins to range between +/- 150bps from current levels for the year.

Outlook and valuation: Thermax remains one of the most expensive stocks in our coverage universe trading at 17.9x and 16.9x on our FY2013E and FY2014E EPS estimates. Amid a weakening order inflow and working capital outlook, we expect Thermax's return ratios to continue to deteriorate. We also expect Thermax- BW JV to weigh in on consolidated profits going forward as its utilization remains muted.

Key financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net Sales	5,336	6,091	5,514	5,559
% chg	58.5	14.1	(9.5)	0.8
Net Profit	382	404	320	338
% chg	47.3	5.7	(20.7)	5.6
EBITDA (%)	10.8	9.7	8.9	9.6
EPS (₹)	32.0	33.9	26.9	28.4
P/E (x)	15.0	14.2	17.9	16.9
P/BV (x)	4.4	3.5	3.1	2.7
RoE (%)	31.9	27.4	18.4	17.1
RoCE (%)	39.2	30.8	20.6	20.1
EV/Sales (x)	0.9	0.8	0.9	0.8
EV/EBITDA (x)	8.5	8.2	10.7	9.4

Source: Company, Angel Research

NEUTRAL

CMP ₹481
 Target Price -

Investment Period -

Stock Info

Sector	Capital Goods
Market Cap (₹ cr)	5,733
Net Debt (₹ cr)	(611)
Beta	1.0
52 Week High / Low	584/381
Avg. Daily Volume	101,817
Face Value (₹)	2
BSE Sensex	16,839
Nifty	5,100
Reuters Code	THMX.BO
Bloomberg Code	TMX@IN

Shareholding Pattern (%)

Promoters	62.0
MF / Banks / Indian FIs	10.7
FII / NRIs / OCBs	12.4
Indian Public / Others	15.0

Abs. (%)	3m	1yr	3yr
Sensex	(2.8)	(7.5)	11.0
TMX	8.1	(15.9)	9.8

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Exhibit 1: Quarterly performance (Standalone)

(₹ cr)	1QFY13	1QFY12	% chg (yoy)	4QFY12	% chg (qoq)	FY2012	FY2011	% chg (qoq)
Net Sales	973	1,033	(5.8)	1,661	(41.4)	5,244	4,788	9.5
Other operating income	10.4	11.5		25.6	-	60.2	101.1	
Total income	983	1,044	(5.8)	1,687	(41.7)	5,304	4,889	8.5
Stock adjustments	(9.3)	(19.7)		21.5		(3.4)	0.7	
Raw Material	666.5	747.9	(10.9)	1,149.2	(42.0)	3,684	3,415	
(% of total income)	66.8	69.7		69.4		69.4	69.9	
Employee Cost	90.0	90.5	(0.5)	94.2	(4.4)	387.4	368.6	5.1
(% of total income)	0.9	0.9		0.6		8.6	9.0	
Other Expenses	139.8	112.1	24.8	236.6	(40.9)	651.9	546.7	19.2
(% of total income)	1.4	1.1		1.4		17.7	16.0	
Total Expenditure	887	931	(4.7)	1,502	(40.9)	4,720	4,331	9.0
EBITDA	96.4	113.7	(15.2)	185.3	(48.0)	583.9	558.1	4.6
(EBITDA %)	9.8	10.9		11.0		11.0	11.4	
Interest	3.7	0.4	892.4	3.4	10.6	6.6	2.2	199.9
Depreciation	13.2	11.1	19.1	12.1	9.5	47.0	43.2	8.6
Other Income	18.7	14.7	26.9	27.2	(31.2)	70.5	60.0	17.4
PBT	98.1	117.0	(16.1)	197.1	(50.2)	600.9	572.7	4.9
(% of total income)	10.0	11.2		11.7		11.3	11.7	
Total Tax	31	37	(16.6)	67.3	(54.0)	194.0	190.3	2.0
(% of PBT)	31.5	31.7		34.1		32.3	33.2	
Reported PAT	67.2	79.9	(15.9)	129.8	(48.2)	406.9	382.4	6.4
(PAT %)	6.8	7.6		7.7		7.7	7.8	-
EPS (₹)	5.6	6.7	(15.9)	10.9	(48.2)	34.1	32.1	

Source: Company, Angel Research

Exhibit 2: Actual vs. estimates

(₹ cr)	Actual	Estimates	Var (%)
Revenue	983	1,055	(6.8)
EBITDA	96.4	105.5	(8.6)
Interest	3.7	0.6	523.9
Tax	30.9	34.8	(11.2)
PAT	67.2	72.4	(7.1)

Source: Company, Angel Research

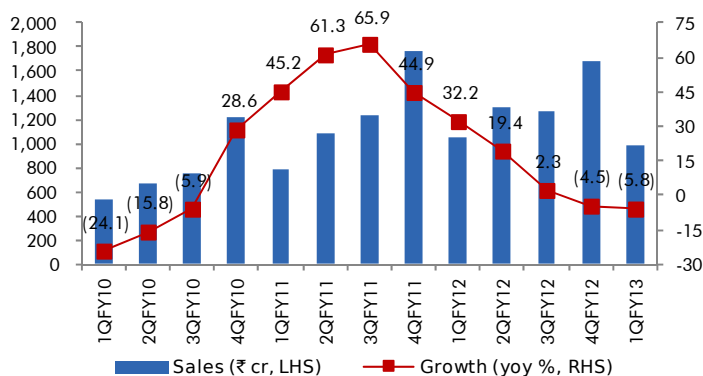
Exhibit 3: Segmental performance

Y/E March (₹ cr)	1QFY13	1QFY12	% chg (yoy)	4QFY12	% chg (qoq)	FY2012	FY2011	% chg (yoy)
Revenue								
Energy	765	802	(4.6)	1,321	(42.0)	4,151	3,918	5.9
Environment	243	265	(8.1)	421	(42.2)	1,285	1,147	12.0
Total Revenue*	1,009	1,067	(5.5)	1,742	(42.1)	5,436	5,065	7.3
EBIT								
Energy	82	81	(1.6)	135	(39.2)	421	416	1.3
Environment	25	31	27.3	59	(58)	162	148	9.5
Total EBIT	107	112	5.1	194	(45)	583	564	3.4
Revenues mix (%)								
Energy	75.9	75.2		75.8		76.4	77.4	
Environment	24.1	24.8		24.2		23.6	22.6	
EBIT Margin (%)								
Energy	10.7	10.1		10.2		10.1	10.6	
Environment	10.1	11.8		14.0		12.6	12.9	
Total	10.6	10.5		11.2		10.7	11.1	

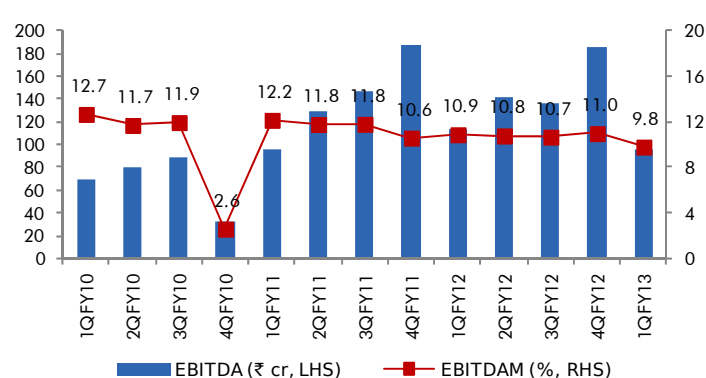
Source: Company, Angel Research *before intersegment revenue

Revenues decline, Subsidiaries surprise negatively: Revenue declined by 5.8% yoy during the quarter. Decline in revenue was due to environment segment, which saw fall in revenue of 8.1% yoy to ₹243cr. Environment segment EBIT margins declined to 10.1% from 11.8% yoy, which according to the management is due to challenges in air pollution business which has seen some margin pressure due to increase in steel prices. Energy segment de-grew by 4.6% yoy to ₹765cr with EBIT margins expanding to 10.7% from 10.1% yoy. Management expects EBITDA margins to range between +/-150bps from current levels for the year.

Subsidiaries revenue declined by 5% yoy and posted a loss of ₹15cr against a profit of ₹6cr in 1QFY2012. According to the management the loss was owing to Thermax B&W (Babcock & Wilcox) JV- booking of revenue expenses, Danstoker- lower margin orders and cost overruns (though management expects a turnaround), Thermax Instrumentation (EPC arm of Thermax)- owing to Meenakshi project (management expects a turnaround in 2HFY2013).

Exhibit 4: Sales and Sales growth


Source: Company, Angel Research

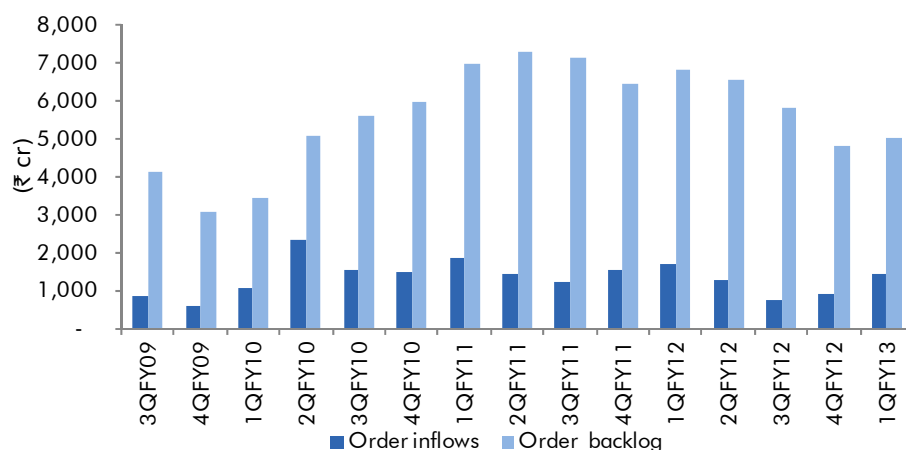
Exhibit 5: EBITDAMs have declined slightly


Source: Company, Angel Research

Better than expected inflow for the quarter:

Order inflow for the quarter was better than expected at ₹1,412cr (-16% yoy, 54% qoq) taking the total order backlog to ₹5,042cr (-26% yoy, 4% qoq) on a consolidated basis. Energy segment backlog stood at ₹3,970cr (79% of total) and environment segment constituted ₹1,072cr (21% of total). Major order wins during the quarter were - Tata steel, Kalainagar (₹285cr), Reliance Industries (₹180cr), EPC order from Zambia (US\$26.5mn). Management expects more EPC order inflow to come from South East Asia and Africa. According to management, enquiries from steel and cement companies, which have been a key source of orders, remains muted, however there are some enquiries from paper and chemical sector. We remain cautious with downward bias and estimate an order inflow of ₹5,041cr and ₹5,868cr for FY2013E and FY2014E, respectively.

Exhibit 6: Order book detail (Consolidated)



Source: Company, Angel Research

Change in estimates: We maintain our order inflow and revenue projections for the next two years; however slightly reduce our EBITDA margins estimates for FY2013E resulting in a lower EPS estimate.

Exhibit 7: Change in estimates

(₹ cr)	FY2013E			FY2014E		
	Earlier estimates	Revised estimates	Var. (%)	Earlier estimates	Revised estimates	Var. (%)
Revenue	5,514	5,514	-	5,559	5,559	0.0
EBITDA	540	491	(9.2)	534	534	0.0
EBITDA (%)	9.8	8.9	(90.0)	9.6	9.6	0.0
Adj. PAT	354	320	(9.5)	338	338	0.0
EPS (₹)	29.7	26.9	(9.5)	28.4	28.4	0.0
Order Inflows	5,041	5,041	-	5,867.5	5,868	0.0

Source: Company, Angel Research

Outlook

Subsidiaries profitability a concern

Over the years, Thermax has commanded premium over its peers in capital goods space due to its excellent return ratios and strong balance sheet – owing to excellent working capital and stable operating margins. However, due to current persistent slowdown we expect both these levers to be under pressure, leading to pressure on return ratios (from ~30% in FY2011 to ~17% in FY2014 along with stretched working capital requirements. Moreover we were negatively surprised by the loss incurred by Thermax's subsidiaries. We expect Thermax- BW JV to weigh in on consolidated profitability of the group going forward as utilization remains muted.

Valuation

The stock remains one of the most expensive in capital goods space trading at 17.9x and 16.9x PE on our FY2013E and FY2014E EPS estimates. On account of relatively expensive valuations and deteriorating fundamentals we maintain our Neutral rating on the stock.

Exhibit 8: One-year forward P/E band



Source: Company, Angel Research

Exhibit 9: Peer comparison

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	P/BV(x)		P/E(x)		FY2011-13E EPS CAGR	RoCE (%)		RoE (%)	
					FY13E	FY14E	FY13E	FY14E		FY13E	FY14E	FY13E	FY14E
ABB*	Sell	776	498	(35.8)	5.7	5.1	42.5	37.4	54.3	21.0	21.1	14.4	14.6
BHEL	Neutral	208	-	-	1.7	1.5	8.1	8.7	(9.1)	28.8	23.1	22.7	18.3
BGR Energy	Neutral	269	-	-	1.6	1.4	8.9	8.3	(3.4)	11.8	10.6	18.3	17.6
Crompton Greaves	Accum.	118	128	8.3	1.9	1.8	18.1	12.9	17.6	13.7	17.5	11.1	14.2
Jyoti Structures	Buy	37	67	83.6	0.4	0.4	3.4	2.7	5.9	18.9	20.3	13.7	14.9
KEC International	Buy	57	74	30.0	1.1	0.9	5.3	4.6	36.8	19.0	20.3	25.9	24.0
Thermax	Neutral	481	-	-	3.1	2.7	17.9	16.9	(8.5)	20.6	20.1	18.4	17.1

Source: Company, Angel Research; Note: *December year ending.

Company description

Thermax provides a range of engineering solutions to the energy and environment sectors, aided through a combination of technology and strategic alliances. The company offers industrial boilers (small/medium-sized) and integrated solutions in the areas of heating, cooling, power, waste management, air pollution controls and chemicals. After attaining a leadership position in the mid-size industrial boilers market, the company (through a JV with Babcock and Wilcox) has forayed into supercritical boilers to reap the opportunities outlined in the Indian power sector.

Profit & loss statement (consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net Sales	3,460	3,368	5,336	6,091	5,514	5,559
Other Opr. income	-	-	-	-	-	-
Total Income	3,460	3,368	5,336	6,091	5,514	5,559
% chg	(0.6)	(2.7)	58.5	14.1	(9.5)	0.8
Total Expenditure	3,038	2,973	4,763	5,499	5,023	5,025
Net Raw Materials	2,080	2,027	3,625	3,844	3,782	3,813
Other Mfg costs	670	616	678	1,098	717	711
Personnel	288	330	460	558	524	500
Other	-	-	-	-	-	-
EBITDA	422	395	574	592	491	534
% chg	(1.1)	(6.4)	45.4	3.1	(17.1)	8.7
(% of Net Sales)	12.2	11.7	10.8	9.7	8.9	9.6
Depn & Amort.	35.1	44.2	54.1	66.3	84.4	90.3
EBIT	387	351	520	526	406	443
% chg	(4.2)	(9.4)	48.3	1.1	(22.7)	9.1
(% of Net Sales)	11.2	10.4	9.7	8.6	7.4	8.0
Interest & other Charges	4	2	4	12	3	3
Other Income	40	52	58	83	70	60
(% of PBT)	9.5	13.0	10.1	13.9	14.8	12.0
Others	-	-	-	-	-	-
Recurring PBT	423	400	574	596	474	501
% chg	(5.0)	(5.4)	43.3	4.0	(20.6)	5.7
Extraord. Exp/(Inc.)	(1.4)	114.9	-	-	-	-
PBT (reported)	425	286	574	596	474	501
Tax	136	142	197	204	154	163
(% of PBT)	32.0	49.6	34.3	34.3	32.5	32.5
PAT (reported)	289	144	377	392	320	338
Add: earnings of associate	-	-	-	-	-	-
Less: Minority interest (MI)	-	(0.4)	(4.7)	-	-	-
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	289	144	382	392	320	338
ADJ. PAT	288	259	382	404	320	338
% chg	(0.4)	(9.9)	47.3	5.7	(20.7)	5.6
(% of Net Sales)	8.3	7.7	7.2	6.6	5.8	6.1
Basic EPS (₹)	24.1	21.8	32.0	33.9	26.9	28.4
Fully Diluted EPS (₹)	24.1	21.8	32.0	33.9	26.9	28.4
% chg	(0.4)	(9.9)	47.3	5.7	(20.7)	5.6

Balance Sheet (consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity Share Capital	24	24	24	24	24	24
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	968	1,054	1,291	1,606	1,828	2,068
Shareholders' Funds	991	1,078	1,315	1,629	1,852	2,092
Minority Interest	-	9	52	112	112	112
Total Loans	4	8	148	88	80	80
Deferred Tax Liability	16	14	30	38	38	38
Total Liabilities	1,011	1,110	1,545	1,866	2,081	2,322
APPLICATION OF FUNDS						
Gross Block	661	742	1,068	1,193	1,438	1,572
Less: Acc. Depreciation	170	205	282	349	437	528
Net Block	491	537	785	844	1,001	1,045
Capital Work-in-Progress	18	11	35	247	15	21
Goodwill	-	-	-	-	-	-
Investments	143	370	241	415	485	535
Current Assets	1,732	2,431	2,997	3,167	2,707	3,043
Cash	370	670	750	698	318	516
Loans & Advances	222	328	360	180	358	306
Other	41	59	73	160	110	111
Current liabilities	1,372	2,239	2,514	2,807	2,127	2,323
Net Current Assets	359	191	482	360	580	721
Mis. Exp. not written off	0	0	0	-	-	-
Total Assets	1,011	1,110	1,545	1,866	2,081	2,322

Cash flow statement (consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	425	286	574	596	474	501
Depreciation	35	44	54	66	84	90
(Inc)/Dec in WC	(187)	469	(212)	71	(600)	57
Less: Other income	40	52	58	83	70	60
Direct taxes paid	133	142	195	198	154	163
Cash Flow from Operations	99	604	163	452	(265)	425
(Inc.)/Dec.in Fixed Assets	(186)	(74)	(350)	(336)	(14)	(140)
(Inc.)/Dec. in Investments	417	(227)	129	(174)	(70)	(50)
Other income	40	52	58	83	70	60
Cash Flow from Investing	272	(249)	(163)	(427)	(14)	(130)
Issue of Equity	(0)	-	-	(61)	-	-
Inc./{Dec.) in loans	4	4	140	(60)	(8)	-
Dividend Paid (Incl. Tax)	70	69	125	98	98	98
Others	7	11	42	131	4	-
Cash Flow from Financing	(66)	(66)	15	(219)	(105)	(98)
Inc./{Dec.) in Cash	312	300	57	(63)	(380)	197
Opening Cash balances	58	370	670	750	698	318
Closing Cash balances	370	670	750	687	318	516

Key Ratios

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	19.9	22.1	15.0	14.2	17.9	16.9
P/CEPS	17.7	18.9	13.1	12.2	14.2	13.4
P/BV	5.8	5.3	4.4	3.5	3.1	2.7
Dividend yield (%)	1.0	1.0	1.9	1.5	1.5	1.5
EV/Sales	1.5	1.4	0.9	0.8	0.9	0.8
EV/EBITDA	12.4	11.9	8.5	8.2	10.7	9.4
EV/Total Assets	5.2	4.2	3.2	2.6	2.5	2.2
OB/Sales	0.9	1.8	1.2	0.8	0.8	0.8
Per Share Data (₹)						
EPS (Basic)	24.1	21.8	32.0	33.9	26.9	28.4
EPS (fully diluted)	24.1	21.8	32.0	33.9	26.9	28.4
Cash EPS	27.1	25.5	36.6	39.4	33.9	35.9
DPS	5.0	5.0	9.0	7.0	7.0	7.0
Book Value	83.2	90.5	110.4	136.7	155.4	175.6
DuPont Analysis						
EBIT margin (%)	11.2	10.4	9.7	8.6	7.4	8.0
Tax retention ratio	0.7	0.5	0.7	0.7	0.7	0.7
Asset turnover (x)	3.9	3.2	4.0	3.6	2.8	2.5
ROIC (Post-tax) (%)	29.5	16.7	25.7	20.3	13.9	13.6
Cost of Debt (Post Tax) (%)	127.1	17.0	3.5	7.0	2.0	2.1
Leverage (x)	-	-	-	-	-	-
Operating RoE (%)	29.5	16.7	25.7	20.3	13.9	13.6
Returns (%)						
RoCE (Pre-tax)	43.3	33.0	39.2	30.8	20.6	20.1
Angel RoIC (Pre-tax)	127.6	118.1	123.0	172.9	86.5	37.1
RoE	32.9	25.0	31.9	27.4	18.4	17.1
Turnover ratios (x)						
Asset Turnover (Gross Block)	6.3	4.8	5.9	5.4	4.2	3.7
Inventory / Sales (days)	26	29	21	22	24	24
Receivables (days)	58	74	64	65	70	72
Payables (days)	46	64	56	56	57	55
WC cycle (ex-cash) (days)	(11)	(27)	(26)	(18)	(3)	15
Solvency ratios (x)						
Net debt to equity	(0.5)	(0.9)	(0.6)	(0.5)	(0.3)	(0.3)
Net debt to EBITDA	(1.2)	(2.6)	(1.4)	(1.4)	(1.0)	(1.4)
Int. coverage (EBIT / Int.)	101.5	172.7	126.8	43.2	159.9	174.4

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Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement	Thermax
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)