

Thermax

31 October 2012

Reuters: THMX.BO; Bloomberg: TMX IN

Earnings Visibility Remains Poor

Affected by lower order backlog to execute, 2QFY13 revenue of Thermax fell 8.5% YoY to Rs11.9bn as both energy and environment segments registered revenue decline. Top-line was in line with Bloomberg consensus estimate, but above our estimate by 3.6% as we expected revenue to fall 11.7% YoY. EBITDA fell 13.3% YoY to Rs1.2bn, 4.8%/1.8% above our/Bloomberg consensus estimates, respectively, although operating margin at 10.2% witnessed a decline of 60bps YoY, in line with our estimate. However, PAT was 11.1%/8.7% above our/Bloomberg consensus estimates, respectively, at Rs911mn, a decline of 10.4% YoY, but aided by higher other income. The company posted better-than expected order intake at Rs13.2bn as a result of which we have increased our order inflow assumption for FY13E by 8.8% to Rs53bn. Consequently, our earnings estimates for FY13E/FY14E have been upgraded by 2.3%/7.5%, respectively. We have valued Thermax at 13x FY14E EPS (up from 12x earlier) with a target price of Rs421 (Rs378 earlier), but retained our Sell rating on it.

Rise in our order inflow assumption: Boosted by a turnkey order worth Rs2.8bn for a 49MW power plant, Thermax reported order intake of Rs13.2bn for 2QFY13, higher than our estimate. Order inflow for 1HFY13 stood at Rs27.3bn. Consequently, we have raised our order inflow assumption for FY13E by 8.8% to Rs53bn from Rs49.7bn earlier. However, it would still be considerably lower than FY10/FY11 order inflows of Rs63.7bn/Rs60.1bn, respectively.

Order backlog remains weak, execution slowdown likely: A key area of concern for Thermax continues to be its sharply declining revenue visibility, as its consolidated order backlog fell 23.7% YoY to Rs49.8bn. The order book of energy segment (77% of total order book) fell 27.7% YoY, while the environment segment (23% of total order book) declined 4.9% YoY. With lower orders to execute, we expect Thermax to post a 9% YoY decline in revenue for FY13E.

Working capital cycle elongates: Delay in collection from debtors and lack of advances from new customers owing to subdued order wins over the past six months led to elongated working capital cycle. Net working capital as a percentage of sales increased from 25.7% as of end 1HFY12 to 30.6% as of end 1HFY13, with debtors rising 18.4% YoY to Rs11.8bn despite a 7.3% YoY fall in revenue in 1HFY13. (debtor days increased from 76 in 1HFY12 to 98 in 1HFY13).

Outlook: We have retained our negative view on Thermax due to: (a) Slowdown in base business owing to a delay in corporate capex revival, (b) Entry into utility boiler space by committing a capex of Rs8.2bn for the B&W joint venture, leading to a steep fall in return ratios over FY12-FY14E, and (c) Offering lowest earnings visibility with order backlog to sales ratio of 0.8x FY12 revenue versus over 2.5x in case of peers.

SELL

Sector: Capital Goods

CMP: Rs585

Target Price: Rs421

Downside: 28%

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Key Data

Current Shares O/S (mn)	119.2
Mkt Cap (Rsbn/US\$bn)	69.7/1.3
52 Wk H / L (Rs)	603/381
Daily Vol. (3M NSE Avg.)	54,966

Price Performance (%)

	1 M	6 M	1 Yr
Thermax	4.2	31.4	25.9
Nifty Index	(1.5)	7.1	5.5

Source: Bloomberg

Y/E March (Rsmn) (standalone)	2QFY12	1QFY13	2QFY13	YoY (%)	QoQ (%)	1HFY12	1HFY13	YoY (%)
Net revenue	13,036	9,835	11,924	(8.5)	21.2	23,479	21,759	(7.3)
Raw material costs	9,131	6,572	8,156	(10.7)	24.1	16,412	14,728	(10.3)
Staff costs	985	900	1,056	7.2	17.3	1,890	1,957	3.5
Other expenses	1,515	1,398	1,494	(1.4)	6.8	2,635	2,892	9.8
EBITDA	1,405	964	1,218	(13.3)	26.3	2,542	2,181	(14.2)
EBITDAM (%)	10.8	9.8	10.2	-	-	10.8	10.0	-
Depreciation	117	132	139	18.4	5.0	228	271	18.8
Interest costs	11	37	34	212.5	(7.8)	15	72	385.6
Other income	208	187	274	31.6	46.3	355	461	29.6
PBT	1,485	981	1,318	(11.2)	34.3	2,655	2,299	(13.4)
Tax	468	309	407	(12.9)	31.7	839	717	(14.6)
Net profit	1,017	672	911	(10.4)	35.5	1,816	1,583	(12.8)
NPM (%)	7.8	6.8	7.6	-	-	7.7	7.3	-
EPS (Rs)	8.5	5.6	7.6	(10.4)	35.5	15.2	13.3	(12.8)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Net sales	33,678	52,990	60,912	55,402	58,917
EBITDA	3,947	5,375	5,919	5,263	5,833
Net profit	1,699	3,816	4,035	3,422	3,860
EPS (Rs)	14.3	32.0	33.9	28.7	32.4
EPS growth (%)	(41.2)	124.6	5.7	(15.2)	12.8
EBITDA margin (%)	11.7	10.1	9.7	9.5	9.9
PER (x)	41.0	18.3	17.3	20.4	18.1
P/BV (x)	6.5	5.3	4.3	3.7	3.2
EV/EBITDA (x)	16.0	12.0	11.1	13.2	12.3
Dividend yield (%)	0.9	1.6	1.2	1.2	1.2
RoCE (%)	33.5	37.0	29.8	20.2	18.6
RoE (%)	27.5	31.5	26.6	19.5	19.1

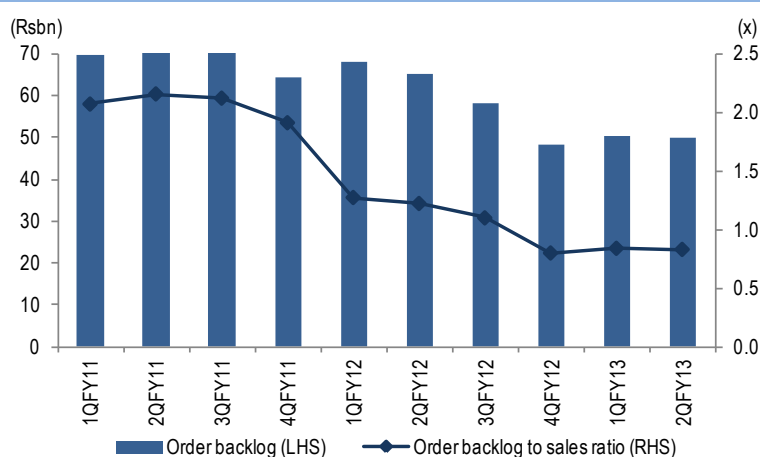
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise snapshot (standalone)

Y/E March	2QFY12	1QFY13	2QFY13	YoY (%)	QoQ (%)	1HFY12	1HFY13	YoY (%)
Revenue (Rsmn)								
Energy	10,356	7,654	9,345	(9.8)	22.1	18,372	16,999	(7.5)
Environment	2,962	2,432	2,751	(7.1)	13.1	5,616	5,183	(7.7)
Revenue mix (%)								
Energy	77.8	75.9	77.3	-	-	76.6	76.6	-
Environment	22.2	24.1	22.7	-	-	23.4	23.4	-
EBIT (Rsmn)								
Energy	1,191	822	923	(22.5)	12.2	1,986	1,745	(12.1)
Environment	303	246	265	(12.7)	7.7	626	511	(18.4)
EBIT margin (%)								
Energy	11.5	10.7	9.9	-	-	10.8	10.3	-
Environment	10.2	10.1	9.6	-	-	11.1	9.9	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Consolidated order book, earnings visibility – On a declining trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Actuals versus our estimates, Bloomberg consensus estimates

2QFY13 - (Rsmn)	Actuals	Our estimates	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenue	11,924	11,505	3.6	11,884	0.3
EBITDA	1,218	1,162	4.8	1,196	1.8
PAT	911	820	11.1	838	8.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Change in our earnings estimates

Description (Rsmn)	Old		New		Variation (%)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Revenue	54,225	54,485	55,402	58,917	2.2	8.1
EBITDA	5,162	5,471	5,263	5,833	2.0	6.6
PAT	3,345	3,591	3,422	3,860	2.3	7.5

Source: Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
27 January 2012	Sell	495	383
3 February 2012	Sell	522	375
13 April 2012	Sell	445	375
14 May 2012	Sell	421	378
27 July 2012	Sell	480	378
4 October 2012	Sell	561	378

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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