

Product Order Revives; Maintain BUY

October 28, 2010

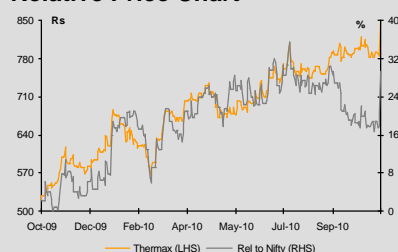
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 796	Rs 943
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,988
Sensex	19,941

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	12	19	62
Rel. to Nifty	9	1	4	31

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Engineering & Capital Goods
Bloomberg	TMX@IN
Equity Capital (Rs mn)	238
Face Value(Rs)	2
No of shares o/s (mn)	119
52 Week H/L	857/465
Market Cap (Rs bn/USD mn)	101/2,269
Daily Avg Volume (No of sh)	71785
Daily Avg Turnover (US\$m)	1.3

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	62.0	62.0	62.0
FII/NRI	9.2	9.1	9.1
Institutions	15.2	15.3	15.3
Private Corp	1.1	1.0	1.0
Public	12.5	12.6	12.7

Source: Capitaline

Pritesh Chheda, CFA

pritesh.chheda@emkayglobal.com
+91 22 6612 1273

Prerna Jhavar

prerna.jhavar@emkayglobal.com
+91 22 6612 1337

- **Stellar performance – (1) Revenues up 60% yoy to Rs10.9 bn, (2) EBITDA up 62% yoy to Rs1.3 bn with stable margins at 11.8% (3) PAT up 65% yoy to Rs895 mn**
- **Strong performance in both segments - Energy up 71% yoy and Environment up 51% yoy - driven by execution on orders received in last 6 quarters**
- **Continued order inflow momentum, driven by product orders which is encouraging sign- order inflows of Rs14.1 bn orders backlog of Rs72.8 bn**
- **Maintain earnings estimates and 'BUY' rating with target price of Rs943/Share – do not rule our upgrades in inflows and earnings**

Stellar performance yet again – Revenues up 60%, Net profits up 65% yoy

Thermax, best proxy to private sector capex in India, reported good performance yet again in Q2FY11 (both revenues & net profit grew by +60%) – driven by execution on orders received in last 6 quarters. Standalone revenue growth was robust at 60.4% yoy to Rs10.9 bn - led by both Energy (+70.9% yoy) and Environment (+50.6% yoy). Operating profits grew by 62.3% yoy to Rs1286 mn with stable operating margins at 11.8%. Led by strong operational performance, net profit growth was robust at 65.4% yoy to Rs895 mn – highest growth in past 14 quarters.

Strong performance in both Energy (+71%) and Environment (+51%)

Considering order inflows for last 6 quarters, execution picked-up in the current quarter. (1) Energy segment - revenues grew by 70.9% yoy to Rs8.9 bn and EBIT grew by 47.3% yoy to Rs0.9 bn (2) Environment segment - revenues grew by 50.6% yoy to Rs2.5 bn and EBIT grew by 46% yoy to Rs0.3 bn. Energy reported 160 bps yoy decline in EBIT margins to 10.2% - attributed to higher proportion of EPC orders.

Pick-up in short cycle products order – very encouraging sign

Thermax continued its order inflow momentum, infact driven by product orders – which is an encouraging sign. Thermax secured orders worth Rs14.1 bn –Energy at Rs11.3 bn or 80% and Environment at Rs2.8 bn or 20%. Key feature in Q2FY11 – is pick-up in short-cycle product orders from power cogen, cement, steel, etc- which could influence near term earnings. Thermax has bagged 59% of FY11E target order inflows in H1FY11. Its consolidated order book stood at Rs72.8 bn, equivalent to 1.8X revenues.

Retain 'BUY' rating – reiterate as one of preferred companies

Pick-up in short cycle product orders for Thermax reaffirms our view mentioned in "ECI Strategy – Changing Gears" – that Capital Good companies would benefit from uptick in industrial capex over next 3-5 quarters. Concrete movement in industrial capex beginning H2FY11E could drive upgrades in order inflows and earnings. We maintain earnings estimates and retain BUY rating with target price of Rs943/Share.

Consolidated Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS %Chg	ROE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY09	43,259	2,909	6.7	2,217	6.6	23.9	32.0	35.8	18.5	10.2
FY10	48,059	4,727	9.8	3,442	10.3	55.8	36.3	39.4	24.6	9.4
FY11E	55,613	5,270	9.5	3,769	11.3	9.6	30.3	26.7	16.7	7.4
FY12E	65,717	6,270	9.5	4,433	13.3	17.8	28.4	21.5	13.1	5.9

Standalone Quarterly Results

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	Gr (%)
Revenue	6,804	7,483	12,193	7,898	10,916	60.4	38.2	18,814	12,155	54.8
Expenditure	6,011	6,589	10,727	6,938	9,630	60.2	38.8	16,569	10,763	53.9
Consumption of RM	4,268	4,860	8,121	5,249	7,432	74.1	41.6	12,682	7,604	66.8
as % of sales	62.7	64.9	66.6	66.5	68.1			67.4	62.6	
Employee Cost	736	720	928	753	990	34.4	31.4	1,742	1,344	29.7
as % of sales	10.8	9.6	7.6	9.5	9.1			9.3	11.1	
Other expenditure	1,007	1,009	1,678	936	1,208	20.0	29.1	2,144	1,815	18.1
as % of sales	14.8	13.5	13.8	11.9	11.1			11.4	14.5	
EBITDA	792	894	1,466	960	1,286	62.3	34.0	2,245	1,391	61.4
Depreciation	104	104	101	106	105	1.2	-0.8	211	199	5.8
EBIT	688	790	1,365	854	1,181	71.5	38.3	2,035	1,192	70.6
Other Income	142	74	179	140	133	-6.2	-4.7	273	335	-18.5
Interest	1	6	3	6	5			10	6	67.8
PBT	829	858	1,541	988	1,309	57.9	32.5	2,298	1,521	51.0
Total Tax	288	292	549	326	414	43.7	26.9	741	515	43.8
Adjusted PAT	541	565	992	662	895	65.4	35.3	1,557	1,006	54.8
Extra ordinary items	0	0	-1149	0	0	#DIV/0!	#DIV/0!	0	0	#DIV/0!
Reported PAT	541	565	-157	662	895	65.4	35.3	1,557	1,006	54.8
Adjusted EPS	4.5	4.7	8.3	5.6	7.5	65.4	35.3	13.1	8.4	54.8

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	11.6	11.9	12.0	12.2	11.8	10	-40	11.9	11.4	360	
EBIT	10.1	10.6	11.2	10.8	10.8	70	0	10.8	9.8	420	
EBT	12.2	11.5	12.6	12.5	12.0	-20	-50	12.2	12.5	340	
PAT	8.0	7.6	8.1	8.4	8.2	20	-20	8.3	8.3	180	
Effective Tax rate	34.7	34.1	35.6	33.0	31.6	-310	-140	32.2	33.9	610	

Segmental Performance

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	Gr (%)
Segment Revenues										
Energy	5,213	5,603	9,072	6,066	8,910	70.9	46.9	14,975	9,456	58.4
Environment	1,649	2,031	3,478	2,221	2,482	50.6	11.8	4,703	2,917	61.2
Less: Intersegment	58	151	357	388	475	-	-	864	129	-
Total	6,804	7,483	12,193	7,898	10,916	60.4	38.2	18,814	12,245	53.7
Segment Results										
Energy	620	606	1,176	680	913	47.3	34.2	1,593	1,140	39.7
Environment	211	304	510	269	308	46.0	14.7	577	375	54.0
Total	831	910	1,687	949	1,221	47.0	28.7	2,170	1,515	43.3
Add- Unall Income / (Exp)	0	-46	-143	45	93	-	-	137	12	-
Less- Interest Exp	1	6	3	6	5	245.9	-18.7	10	6	67.8
PBT	829	858	1,541	988	1,309	57.9	32.5	2,298	1,521	51.0
Segment Cap. Employed										
Energy	1,250	1,045	1,792	1,915	1,143	-8.5	-40.3	-	-	-
Environment	929	1,067	1,013	1,384	1,395	50.1	0.8	-	-	-
Unallocated	8,464	9,139	7,703	7,681	9,397	11.0	22.3	-	-	-
Total	10,644	11,250	10,508	10,979	11,935	12.1	8.7	-	-	-
Segment Margins (%)										
Energy	11.9	10.8	13.0	11.2	10.2	-160	-100	10.6	12.1	-140
Environment	12.8	15.0	14.7	12.1	12.4	-40	30	12.3	12.9	-60
Average	12.1	11.9	13.4	11.5	10.7	-140	-70	11.0	12.2	-120

Key Consolidated Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Net Sales	34,545	33,703	44,934	53,924
<i>Growth (%)</i>	-0.7	-2.4	33.3	20.0
Expenditure	29,335	29,800	39,218	46,798
Materials Consumed	21,022	21,149	28,202	33,844
Employee Cost	2,882	3,191	4,288	5,186
Manufacturing Exp	2,643	2,596	3,462	4,154
Other Exp	2,788	2,864	3,267	3,614
EBITDA	5,210	3,903	5,716	7,126
<i>Growth (%)</i>	1.6	-2.5	4.6	2.5
EBITDA margin (%)	15.1	11.6	12.7	13.2
Depreciation	351	428	505	531
EBIT	4,859	3,475	5,210	6,595
EBIT margin (%)	14.1	10.3	11.6	12.2
Other Income	-633	569	568	568
Interest expenses	38	38	38	38
PBT	4,188	4,006	5,741	7,125
Tax	1,357	1,439	1,947	2,416
<i>Effective tax rate (%)</i>	32.4	35.9	33.9	33.9
Adjusted PAT	2,830	2,567	3,794	4,708
<i>Growth (%)</i>	-0.9	-9.3	47.8	24.1
Net Margin (%)	8.2	7.6	8.4	8.7
(Profit)/loss from JVs/Ass/MI	0	0	0	0
Adj. PAT After JVs/Ass/MI	2,830	2,567	3,794	4,708
E/O items	59	-1,149	0	0
Reported PAT	2,889	1,418	3,794	4,708
<i>Growth (%)</i>	-0.6	-50.9	167.5	24.1

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
PBT	4,247	4,006	5,741	7,125
Depreciation	351	428	505	531
Interest Provided	38	38	38	38
Other Non-Cash items	201	-1,149	0	0
Chg in working cap	-1,404	438	-1,310	-1,168
Tax paid	-1,506	-1,439	-1,947	-2,416
Operating Cashflow	1,928	2,322	3,027	4,110
Capital expenditure	-1,915	-1,500	-1,500	-500
Free Cash Flow	13	822	1,527	3,610
Other income	0	0	0	0
Investments	4,214	0	0	0
Investing Cashflow	4,214	0	0	0
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	41	0	0	0
Interest Paid	-38	-38	-38	-38
Dividend paid (incl tax)	-1,114	-596	-880	-1,093
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-1,111	-634	-919	-1,131
Net change in cash	3,116	188	609	2,479
Opening cash position	580	3,696	3,884	4,493
Closing cash position	3,696	3,884	4,493	6,972

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Equity share capital	238	238	238	238
Reserves & surplus	9,686	10,508	13,422	17,037
Net worth	9,924	10,747	13,660	17,276
Minority Interest	-	-	-	-
Secured Loans	-	-	-	-
Unsecured Loans	41	41	41	41
Loan Funds	41	41	41	41
Net deferred tax liability	160	160	160	160
Total Liabilities	10,125	10,947	13,860	17,476
Gross Block	6,615	8,291	9,791	10,291
Less: Depreciation	1,704	2,132	2,637	3,168
Net block	4,911	6,160	7,154	7,123
Capital work in progress	177	-	-	-
Investment	1,443	1,443	1,443	1,443
Current Assets	17,316	15,666	20,102	25,150
Inventories	5,267	3,901	5,201	6,242
Sundry debtors	5,719	5,335	7,114	8,537
Cash & bank balance	3,696	3,884	4,493	6,972
Loans & advances	2,224	2,136	2,883	2,988
Other current assets	410	410	410	410
Current lia & Prov	13,723	12,322	14,839	16,240
Current liabilities	12,766	11,365	13,882	15,283
Provisions	957	957	957	957
Net current assets	3,593	3,344	5,262	8,909
Misc. exp	1	1	1	1
Total Assets	10,125	10,947	13,860	17,476

Key Ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
Profitability (%)				
EBITDA Margin	15.1	11.6	12.7	13.2
Net Margin	8.2	7.6	8.4	8.7
ROCE	47.3	38.4	46.6	45.7
ROE	31.7	24.4	30.6	30.1
RoIC	169.0	66.6	76.9	77.7
Per Share Data (Rs)				
EPS	23.8	21.5	31.8	39.5
CEPS	26.7	25.1	36.1	44.0
BVPS	83.3	90.2	114.6	145.0
DPS	5.0	5.0	7.4	9.2
Valuations (x)				
PER	35.8	39.4	26.7	21.5
P/CEPS	31.8	33.8	23.5	19.3
P/BV	10.2	9.4	7.4	5.9
EV / Sales	2.8	2.9	2.1	1.7
EV / EBITDA	18.5	24.6	16.7	13.1
Dividend Yield (%)	0.6	0.6	0.9	1.1
Gearing Ratio (x)				
Net Debt/ Equity	-0.5	-0.5	-0.4	-0.5
Net Debt/EBITDA	-0.9	-1.3	-1.0	-1.1
Working Cap Cycle (days)	11.6	37.6	35.0	48.0

Recommendation History: Thermax – TMX IN

Date	Reports	Reco	CMP	Target
22/07/2010	Thermax Q1FY11 Result Update	Hold	792	790
14/05/2010	Thermax Q4FY10 Result Update	Hold	674	657
03/02/2010	Thermax Q3FY10 Result Update	Hold	633	657
05/11/2009	Thermax Q2FY10 Result Update	Reduce	538	417

Recent Research Reports

Date	Reports	Reco	CMP	Target
27/10/2010	Voltas Q2FY11 Result Update	Buy	246	275
19/10/2010	Larsen & Toubro Q2FY11 Result Update	Accumulate	2,013	2,129
04/08/2010	Punj Lloyd Q1FY11 Result Update	Hold	121	132
29/07/2010	Blue Star Q1FY11 Result Update	Buy	446	464

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.