

# Thermax

**Rs663**  
**NEUTRAL**

## RESULT NOTE

**Mkt Cap: Rs79bn; US\$1.7bn**

**Analyst:** Bhoomika Nair (91-22-6622 2561; bhoomika.nair@idfc.com)  
**Result:** Q3FY11  
**Comment:** Marginally above estimates led by higher revs and lower tax; FY11E earnings upgraded 4%  
**Last report:** 28 October 2010 (Price Rs855; Recommendation: Neutral)

### Key consolidated valuation metrics

Year to March (Rs mn)	Sales	yoy chg (%)	Net Profit	EPS (Rs)	yoy chg (%)	PER (x)
2007	23,267	43.1	1,992	16.7	94.3	39.7
2008	34,792	49.5	2,886	24.2	44.9	27.4
2009	34,579	(0.6)	3,499	29.4	21.2	22.6
2010P	33,422	(3.3)	2,412	20.2	(31.0)	32.8
2011E	48,667	45.6	3,864	32.4	60.2	20.5
2012E	62,515	28.5	4,942	41.5	27.9	16.0

### Key result highlights

- Thermax's 3QFY11 standalone profit increased 77.4%yoy to Rs1bn, and marginally above estimated Rs954mn, led by better than expected execution of orders.
- Standalone revenues grew by 66% yoy to Rs12.4bn during the quarter, driven by pick up in execution in both energy and environment business. Energy segment revenues grew 76.8% yoy during the quarter to Rs9.9bn, while revenues in environment division grew 44.9% yoy to Rs2.94bn. Although execution has improved over the past four quarters, the sharp growth needs to be viewed in the context of low base effect of 3QFY10 as well.
- Operating margins decreased 10bps to 11.8%, compared to our estimates of 12%, due to execution of low margin orders. However, in spite of rising trend of commodity prices, margins have so far been relatively unaffected as the company has entered into long term contracts to hedge itself against rising raw material prices.
- EBITDA grew 63.8% yoy to Rs1.46bn led by strong revenue growth.
- EBIT margins of the energy division improved by 27bps yoy to 10.8% in the quarter, while EBIT margins of environment division fell 143bps during the quarter to 13.6%.
- Other income increased 58.7%yoy to Rs117mn during Q3FY11, lower than our estimate of Rs180mn as cash is being utilized towards investments in new projects.
- Depreciation increased marginally by 1.6% yoy to Rs106mn during the quarter, and was lower than our estimate of Rs110mn.
- Thermax paid tax at rate of 32% during Q3FY11, lower than 34.1% in Q3FY10.
- Consequently, standalone net profit grew by 65.4% yoy to Rs895mn during the quarter.
- Consolidated revenues increased 73%yoy to Rs13.7bn, while consolidated PAT grew 76%yoy to Rs1.06bn. Consolidated financials include financials of Danstoker A/S, which Thermax acquired during Q3FY11.

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## Standalone segmental trends

(Rs mn)	1Q10	2Q10	3Q10	4Q10	FY10P	1Q11	2Q11	3Q11
Energy	4,194	5,213	5,603	9,072	24,082	6,066	8,910	9,904
Environment	1,252	1,649	2,031	3,478	8,410	2,221	2,482	2,943
Less: Inter Segment Revenue	71	58	151	357	637	388	475	436
<b>Segment Revenue</b>	<b>5,376</b>	<b>6,804</b>	<b>7,483</b>	<b>12,193</b>	<b>31,855</b>	<b>7,898</b>	<b>10,916</b>	<b>12,412</b>
<b>yoy % change</b>								
Energy	(23.3)	(9.9)	(10.8)	18.9	(2.5)	44.6	70.9	76.8
Environment	(29.9)	(32.7)	9.6	71.9	13.7	77.4	50.6	44.9
<b>Segment Revenue</b>	<b>(25.0)</b>	<b>(15.4)</b>	<b>(5.9)</b>	<b>28.6</b>	<b>(0.7)</b>	<b>46.9</b>	<b>60.4</b>	<b>65.9</b>
<b>Segmental EBIT</b>								
Energy	522	593	606	1,176	2,897	680	913	1,073
Environment	149	205	305	510	1,169	269	308	399
<b>EBIT</b>	<b>670</b>	<b>798</b>	<b>910</b>	<b>1,687</b>	<b>4,065</b>	<b>949</b>	<b>1,221</b>	<b>1,472</b>
<b>% EBIT Margins</b>								
Energy	12.4	11.4	10.8	13.0	12.0	11.2	10.2	10.8
Environment	11.9	12.4	15.0	14.7	13.9	12.1	12.4	13.6
<b>EBIT</b>	<b>12.5</b>	<b>11.7</b>	<b>12.2</b>	<b>13.8</b>	<b>12.8</b>	<b>12.0</b>	<b>11.2</b>	<b>11.9</b>

### Consolidated order backlog grew 27.5%yoy to Rs71.5bn during the quarter

Consolidated order backlog grew 27.5%yoy to Rs71.5bn as Q3FY11 end. However, order booking during the quarter fell by 20%yoy to Rs12.34bn. Thermax is currently witnessing slowdown in order booking due to delays in finalization of orders, both from government entities as well as private companies. The rising interest scenario is expected to have affected decision making related to capital expenditure and consequently finalization of projects, especially for small and medium sized independent power plants.

However, order backlog has grown for both energy (+26%yoy to Rs60.9bn) and environment segment (+34%yoy to Rs10.62bn), on back of low base effect. Order backlog includes Rs27.4bn orders for power EPC projects. The company is witnessing orders from cement and steel industries (e.g. boilers for Ultratech, Vicat, Bhushan), as well as food processing industry. Orders have been slowing down from the hospitality industry (for heating/cooling solutions) and also from government bodies (for projects under JNNURM).

### Consolidated Order backlog and booking trends

(Rs mn)	1Q10	2Q10	3Q10	4Q10	FY10	1Q11	2Q11	3Q11
Order backlog	34,260	50,590	56,130	59,660	59,660	69,840	72,760	71,540
Order booked	10,570	23,450	15,480	14,640	64,100	18,400	14,080	12,340
<b>% yoy growth</b>								
Order backlog	22.2	19.0	36.8	93.8	93.8	103.9	43.8	27.5
Order booked	9.5	4.5	79.4	152.4	69.6	74.1	(40.0)	(20.3)

### Thermax selected by Maharashtra Government to setup geothermal power plant

Thermax has been allotted a geothermal block in Konkan region (Maharashtra) to develop a geothermal power plant. This is a first ever project in India being allotted to any private entity. Thermax plans to undertake the various activities related to the plant in mainly three stages

- Conduct non-invasive study for preliminary verification of geothermal potential
- Undertake trial drilling for confirmation of claimed geothermal potential
- Setup a pilot capacity (3-5MW) over the five year term

## □ Acquisition of Danstoker boiler company during Q3FY11

Thermax has acquired Danstoker A/S, a boiler manufacturer based in Denmark, and its German subsidiary Omnical Kessel, for EUR 29.5mn, during Q3FY11. Thermax has funded the acquisition by EUR 20mn from internal accruals and EUR 10mn by way of debt. Danstoker reported sales of EUR 40mn and EBITDA of EUR 3.7mn for the year ending September 2010. Both European companies have strong legacy of several decades of operations in Europe. They also have strong presence in Europe, Middle East, South Asian, South American and Russian markets in the boiler segment, which will enable Thermax to enter these markets. Thermax will look to utilize the technological know-how of Danstoker and low cost manufacturing base of India to offer products and services in boiler segment at competitive price levels. The financials of Danstoker, although not separately available for Oct-Dec 2010 quarter, have been included in consolidated results of Q3FY11.

## □ Maintain Neutral

We have upgraded our FY11E estimates by 3.6% to an EPS of Rs32.4 on back of a strong execution during the quarter. However, we have downgraded our FY12E estimates by 2.3% to an EPS of Rs41.5 as the order intake has slowed down in the quarter. Overall, we believe Thermax will maintain its strong position in the boiler and captive power segment, achieved by tailor-made solutions offered in both power and environment segments. Thermax's diversification into the utility power segment and other growth initiatives will diversify its service offering, thereby reducing its dependence on corporate capex, which is driving its pick up in order intake and hence visibility for FY11E and FY12E earnings (43% CAGR over FY10-12E). Thermax is currently trading at 20.4x FY11E and 16x FY12E consolidated earnings. We believe the current valuations adequately factor in the pick up in the business momentum for Thermax as also strong balance sheet and various growth initiatives. Hence we maintain our Neutral rating on the stock.

### Standalone quarterly results

(Rs mn)	1Q10	2Q10	3Q10	4Q10	FY10P	1Q11	2Q11	3Q11	FY11E
<b>Net Sales</b>	<b>5,441</b>	<b>6,804</b>	<b>7,483</b>	<b>12,193</b>	<b>31,572</b>	<b>7,898</b>	<b>10,916</b>	<b>12,412</b>	<b>46,475</b>
Total Expenses	4,752	6,011	6,589	10,727	27,989	6,938	9,630	10,948	40,947
<b>EBITDA</b>	<b>689</b>	<b>792</b>	<b>894</b>	<b>1,466</b>	<b>3,583</b>	<b>960</b>	<b>1,286</b>	<b>1,464</b>	<b>5,528</b>
Other Income	103	142	74	179	498	140	133	117	548
Interest	5	1	6	3	15	6	5	2	15
Depreciation	95	104	104	101	404	106	105	106	427
<b>PBT</b>	<b>692</b>	<b>829</b>	<b>858</b>	<b>1,541</b>	<b>3,661</b>	<b>988</b>	<b>1,309</b>	<b>1,473</b>	<b>5,633</b>
Current Tax	227	288	292	549	1,279	326	414	471	1,870
Tax Rate (%)	32.8	34.7	34.1	35.6	34.9	33.0	31.6	32.0	33.2
<b>PAT</b>	<b>465</b>	<b>541</b>	<b>565</b>	<b>992</b>	<b>2,382</b>	<b>662</b>	<b>895</b>	<b>1,002</b>	<b>3,763</b>
Extraordinary items	0	0	0	(1,149)	(968)	0	0	0	0
<b>Reported PAT</b>	<b>465</b>	<b>541</b>	<b>565</b>	<b>(157)</b>	<b>1,414</b>	<b>662</b>	<b>895</b>	<b>1,002</b>	<b>3,763</b>
<b>% chg yoy</b>									
Sales	(24.1)	(15.4)	(5.9)	28.6	(3.2)	45.2	60.4	65.9	47.2
EBITDA	(35.4)	(39.4)	(16.8)	(7.9)	(28.9)	39.2	62.3	63.8	54.3
Other Income	1.0	78.5	(16.1)	50.5	28.2	35.9	(6.2)	58.7	10.0
Interest	36.4	54.5	24.1	0.8	25.9	10.8	1.2	1.6	5.7
Depreciation	80.5	(83.0)	5.8	(81.3)	(53.5)	18.3	245.9	(66.1)	(1.3)
PBT	(36.9)	(36.7)	(20.0)	(3.3)	(27.8)	42.8	57.9	71.8	53.8
PAT	(37.7)	(34.9)	(29.1)	(10.7)	(31.7)	42.3	65.4	77.4	57.9
Reported PAT	(27.0)	(5.0)	(21.8)	(116.6)	(50.8)	42.3	65.4	77.4	166.1
OPM (%)	12.7	11.6	11.9	12.0	11.3	12.2	11.8	11.8	11.9
NPM (%)	8.5	8.0	7.6	8.1	7.5	8.4	8.2	8.1	8.1
Equity (m)	119.2	119.2	119.2	119.2	119.2	119.2	119.2	119.2	119.2
EPS (Rs)	3.9	4.5	4.7	8.3	20.0	5.6	7.5	8.4	31.6
PER (x)	44.8	38.5	36.9	21.0	35.0	31.5	23.3	20.8	22.2

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