Business Standard, Delhi
Fri, 15 Sep 2017, Page 21
Width: 21.59 cms, Height: 16.88 cms, a4r, Ref: 36.2017-09-15.109

Some green shoots emerging for Thermax

Improving order flow lifts confidence; recovery in domestic private capex key

UJJVAL JAUHARI

An otherwise subdued Street sentiment got a boost after energy and environment engineering company Thermax secured a large export order.

The company's first EPC (engineering, procurement and construction) order from the Gulf region, worth $43 million (₹275 crore) to set up a turnkey captive power plant for a UAE-based cement firm, saw the stock surge over seven per cent. "We intend to expand our footprint in this region where we have been providing solutions," M S Unnikrishnan, managing director and CEO of Thermax, said.

Compiled by BS Research Bureau

The new order and management's comments lifted the confidence. However, it may not be enough for a significant rise in the Street's sentiment, as the domestic environment remains subdued, with the capital goods sector coming under pressure after a soft June quarter, impacted by the implementation of the goods and services tax (GST).

In the June quarter, Thermax's top line, both at standalone and consolidated levels, fell 10-11 per cent year-on-year (y-o-y) due to GST (impact estimated at ₹80 crore) and malware attack on the logistics and shipping company (estimated ₹35 crore). Gross margins (which reflect the cost of goods sold) came under increased pressure due to rising input cost and higher pricing intensity.

Standalone margins were down 200 basis points (bps). However, overall margins fell just six bps, thanks to a better international performance.

While the standalone net profit declined 28 per cent y-o-y, consolidated profit fell 11 per cent, due to reduction in losses at subsidiary level.

The only highlight in the June quarter was the order inflow of ₹1,750 crore, mainly due to a large $157-million export order. Thermax's order inflows witnessed a declining trend during FY15-17. Order inflows in FY17 dipped 3.4 per cent y-o-y, despite a low base. However, inflows during the June quarter saw order backlog increase 24 per cent y-o-y to ₹4,530 crore. Export orders are ticking and providing a cushion. The firm's Indonesian and Dahej capacities will commission in Q2 of FY18, and should add to the export revenue.

Though the management sounded positive on the outlook of ordering after the June quarter results, with sectors such as food processing, textiles, refineries light or commodity chemicals, metals (sponge iron), fertiliser and cement expected to drive order flows, the benefits may accrue over time.

Analysts at Sharekhan highlight a leaner balance sheet, free cash flow generation and ability to generate decent return ratios as key positives. But, for a sustained momentum, recovery in domestic capital expenditure (capex) holds key. So far, recovery of private capex is missing. Similar views were expressed by the analysts at Karvy Stock Broking. The brokerage had said, "Though there are pockets of recovery in B2C (business to consumer) sectors, core sectors in the domestic market are yet to recover from the stress and prolonged sluggishness in the international markets, which could impact order booking."