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Page No.	11

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THE biggest brunt of the slowdown in the Indian economy over the last couple of years was borne by the manufacturing and infrastructure sectors, and in turn, capital goods firms that supply critical equipment to these industries. But one relatively small capital goods company that has managed to survive the storm is Thermax Ltd, which offers environment and energy products and services. Its management and analysts tracking the sector are confident that Thermax will be well-positioned for growth when the economic tide eventually turns.

S. Unnikrishnan, managing director, Thermax, says that his company managed to stay afloat at a time when many of its peers had to either downsize or shut shop, thanks to a well-diversified business portfolio, which included quality international orders.

Thermax reported a 13% year-on-year rise in net profit and revenues to ₹76.20 crore and ₹1,146.56 crore respectively for the third quarter of FY15.

Unnikrishnan admits that the Indian economy has to get back on its feet before Thermax can pursue faster growth, but points out the company's international business had a significant role to play in helping tide over the crisis period over the last two years.

Thermax's international business has grown 100% during the third quarter of FY15 while its domestic order intake were down by 42% during the same time. Order intake dropped 10% over the year earlier to ₹1,228 crore for the quarter ended December 31 and this drop was largely due to domestic companies deferring capital expenditure decisions that would need the kind of equipment Thermax makes. The total order backlog at the end of the fiscal-third quarter was at ₹6,218 crore, around 4% less than what it was during the same period last fiscal.

A Kotak Securities report notes that while it is positive on a recovery in the Indian economy, it is cautious over the timing of such a rebound, and in the interim, Thermax's overseas business will support its overall earnings.

Thermax has no large debt in its books. The debt-equity ratio for 2013-14 was 0.25. Over the last three financial years, exports

CAUTIOUS APPROACH

Keeping the faith

Thermax is waiting for domestic demand to revive. Meanwhile, it is scouting for big orders from the overseas market



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S UNNIKRISHNAN, managing director, Thermax

have ranged between ₹1,400 crore to ₹1,700 crore. In the second and third quarters of FY15, around 40% of the orders booked by it came from outside India.

While the international business is growing, Unnikrishnan does not see this as a way to compensate for the decline in business from India, and he cautions that the year ahead may not be much different. "All of us have to be prepared for a tough year again", he cautions. Major economies around the world like in China, Europe and Japan are not in the pink of health and India may not stay insulated from these global headwinds, he reasons.

Unnikrishnan expects the domestic market to recover in another 12 to 18 months. "Consumption has not picked up so far and most of the installed production capacity in consumer durables and base commodities is running at 65-70% utilisation levels," he said. "Companies will not start placing orders for new equipment till they reach a capacity utilisation of 85-90% and that is when orders will start coming in."

In the meantime, companies like Thermax need to be patient and do what it can to utilise idle capacity. Its joint venture to manufacture supercritical boilers, Thermax Babcock and Wilcox Energy, is suffering due to lack of orders from India and its recently commissioned ₹800 crore plant at Shirwal, near Pune, doesn't have a single order from India to execute. To put the new plant to some use, Thermax's JV partner, Babcock and Wilcox, has passed on an order for two coal-fired boilers for a power plant in the Dominican Republic of South America to this facility. But Unnikrishnan is confident that once the power sector regains its health on the back of reforms being implemented by the new government, orders will start flowing in.

Both Unnikrishnan and analysts Kotak Securities point out to a potential threat to Thermax's global business from a depreciating euro. With the currency losing value, exports from European capital goods makers, who have a lot of spare capacity in wake of the slowdown in the Eurozone, could take away some of the Indian company's business.

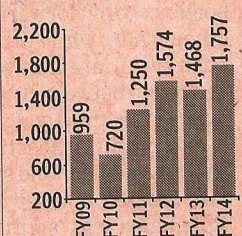
But a revival in the Indian economy is what it really need for meaningful growth.

STEADY PROGRESS

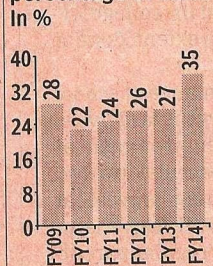
	FY14	FY15* (₹ cr)
Total sales	4,240	3,176
PAT	253	203
Order book	5,389	2,979

*9 months

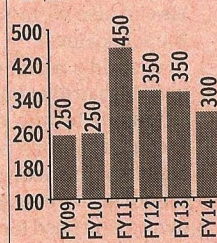
International business of Thermax group
₹ crore



Export as a percentage of sales
In %



Dividend
In %



ORDER BALANCE
₹ crore

