



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✓	✓
Right Quality (RQ)	✓	✓	✓
Right Valuation (RV)	✓	✓	✓

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

Company details

Market cap:	Rs. 61,245 cr
52-week high/low:	Rs. 5,698/2,193
NSE volume: (No of shares)	2.2 lakh
BSE code:	500411
NSE code:	THERMAX
Free float: (No of shares)	4.5 cr

Shareholding (%)

Promoters	62.0
FII	12.0
DII	15.9
Others	10.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.0	33.2	72.2	118.3
Relative to Sensex	-0.8	25.7	62.4	95.9

Sharekhan Research, Bloomberg

Thermax Ltd

Decent Q4, soft orderbook visibility

Capital Goods

Sharekhan code: THERMAX

Reco/View: Hold



CMP: Rs. 5,140

Price Target: Rs. 5,200



Upgrade



Maintain



Downgrade

Summary

- Company reported Revenue/operating profit/Adj. PAT of Rs. 2,764/273/190 crore, a growth of 19.6%/36.6%/22% y-o-y respectively
- Industrial products/Industrial infrastructure/Green Solutions segments posted a good growth of 23%/17%/72% y-o-y, while the chemicals segment had a de-growth of 8% y-o-y. PBIT margins improved in Industrial products and Green solutions and remained stable in Industrial Infra and Green solutions.
- Order inflow for the quarter was weak at Rs. 2,309 crore (+2% y-o-y). There was an absence of large order inflow. Company hopes to see it pickup in 1H FY25. The outstanding orderbook is also soft currently at Rs. 10,111 crore (+4% y-o-y).
- With weak orderbook visibility and premium multiples, we maintain our Hold rating on the stock. The future growth prospects related to company's investments in green energy are already factored in the stock price. The stock is currently trading at ~76x/63x its FY2025E and FY2026E EPS.

Thermax's consolidated sales grew 19.6% y-o-y to Rs. 2,764 crore, led by good growth in Industrial products, Industrial infrastructure and green solutions business. Operating profit grew 36.6% y-o-y to Rs. 273 crore. OPM came in at 9.9% (up 123 bps y-o-y) as higher raw-material was more than offset by lower other expenses. Margins of Industrial products/green solutions improved to 11.7%/9.4%, up 105/731 bps respectively. Adjusted profit increased 22% y-o-y to Rs. 190 crore, as higher interest and depreciation were partially offset by a lower tax rate. Order book grew 4% y-o-y to Rs. 10,111 crore and order intake for the quarter was Rs. 2,309 crore, 2% y-o-y growth.

Key positives

- OPM at 9.9% in the quarter was up 123 bps y-o-y.

Key negatives

- Order inflow of only Rs. 2,309 crore (+2% y-o-y).

Management Commentary

- Management hopes to close large large orders in 1H FY25 as the pipeline is good.
- Industrial infrastructure margins will decrease in FY25 as Rs. 600 crore of low margin FGD business will be executed. In green solutions, breakeven is expected in FEPL in FY26.
- New products: There have been some setbacks in Bio-CNG. THVAC for trucks has witnessed leaks in the cabin. Thermotron and FlexiSource are progressing well.
- Water is an important segment for the company. Acquired a company supplying ultrapure water last year.
- Majority of future capex will be directed towards green energy areas like Hydrogen, Bio-CNG, etc.

Revision in estimates – We have increased our estimates for FY2025-FY2026 to reflect the higher operating margins.

Our Call

Valuation – Maintain HOLD with a revised Rs. 5,200: Thermax is expected to benefit from India's transition to green energy as it has many offerings in the space and also continues making investments. Future prospects in biomass, waste heat recovery (WHR), and water desalination also remain strong. But the current orderbook of Rs. 10,111 crore (1.1x TTM revenue) is soft and company trades at premium multiples of 76x/63x its FY25/26 EPS. Hence, we maintain our Hold rating on the stock and believe that long term growth prospects are factored in the stock price.

Key Risks

- Slowdown in private capex and absence of large orders may affect the revenue growth
- Volatility in commodity prices and supply-side challenges may impact sales

Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E
Net Sales	8,090	9,323	10,519	12,357
% yoy Growth	32.0	15.2	12.8	17.5
Operating profit	598	797	1,062	1,310
OPM (%)	7.4	8.6	10.1	10.6
Adj Net Profit	450	589	757	921
Adj EPS	40.0	52.3	67.3	81.8
% yoy Growth	44.2	30.9	28.5	21.6
PER	128.5	98.2	76.4	62.9
P/B	14.8	12.9	11.6	10.3
EV/EBIDTA	92.9	70.2	51.6	41.5
ROCE (%)	15.0	18.4	18.6	19.2
RONW (%)	12.3	15.5	16.2	17.5

Source: Company; Sharekhan estimates

Key investor updates and conference call highlights

Orderbook and pipeline: Company had an order inflow of Rs. 2,309 crore (+ 2% y-o-y) in the quarter and an outstanding orderbook of Rs. 10,111 crore (+ 4% y-o-y). The orderbook is soft due to absence of large orders. Company hopes to see some large order inflow in 1HFY25. Some sectors witnessed a slowdown in orderbook activity due to elections.

Segment Outlook: In the industrial infra segment, FGD revenues of Rs. 600 crore will be recognized in the coming year which will be margin dilutive. The project had a commodity price impact. Chemical segment revenue was impacted by Rs. 10-20 crore in the quarter as inventory was stuck up due to slow shipping.

Green solutions segment: FEPL is expected to report losses in FY25 as well but less than this year. Breakeven is expected in FY26. It has IRR in the range of 15-16%. TOESL, the biomass-based solution business has an IRR of 19-20%.

New products: In Bio-CNG, company has used rice-straw based feedstock. There have been more setbacks in the plant than expected 3 months ago; so there is slowness in accepting new orders. Thermotron and FlexiSource are doing well. THVAC for trucks has not had success as there have been leaks in the cabin.

Water segment: Ultrapure water is one segment where technology plays a crucial role. Earlier, the company did not have technology to cater to this segment. However, after recent acquisition of TSA, company now has platform to provide ultrapure water to pharma, food, semiconductor industries, etc. Company can generate 2x revenue in the segment with current capacity.

Capex: In the coming years, most of the capex will be directed towards green energy areas like Hydrogen, Bio-CNG, etc. There will be some capex in chemicals and new water plant in industrial products.

Results (Consolidated)

Particulars	Q4FY24	Q4FY23	YoY %	Q3FY24	QoQ %
Revenue	2,764	2,311	19.6	2,324	18.9
Total Expenditure	2,491	2,111	18.0	2,137	16.5
Operating Profit	273	200	36.6	187	45.7
Other Income	55	57	(3.9)	58	(5.4)
Interest	28	14	99.8	27	4.5
Depreciation	50	29	69.4	36	39.2
PBT	251	214	17.0	309	(18.9)
Tax	63	58	8.8	72	(12.2)
Adjusted PAT	190	156	22.0	142	34.4
Reported PAT	190	156	22.0	238	(20.1)
EPS (Rs.)	16.9	13.9	22.0	21.2	(20.1)
Margins			BPS		BPS
OPM(%)	9.9	8.7	123	8.1	182
NPM (%)	6.9	6.8	14	6.1	79
Tax Rate (%)	25.2	27.1	(190)	23.3	190

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Ample growth opportunities

Industries such as steel and cement are undergoing capacity expansion, which bodes well for Thermax. Further, the government's Union Budget announcement for infrastructure and development and the PLI package will support demand in the coming quarters. The government's National Infrastructure Plan (NIP), where total capital expenditure is projected at ~Rs. 111 lakh crore during FY2020-FY2025, also augurs well for the growth of capital goods players. During the same period, sectors such as energy (24%), roads (18%), urban (17%), and railways (12%) would amount to ~71% of projected infrastructure investments in India. The huge outlay towards infrastructure is expected to provide healthy growth opportunities for companies in the space.

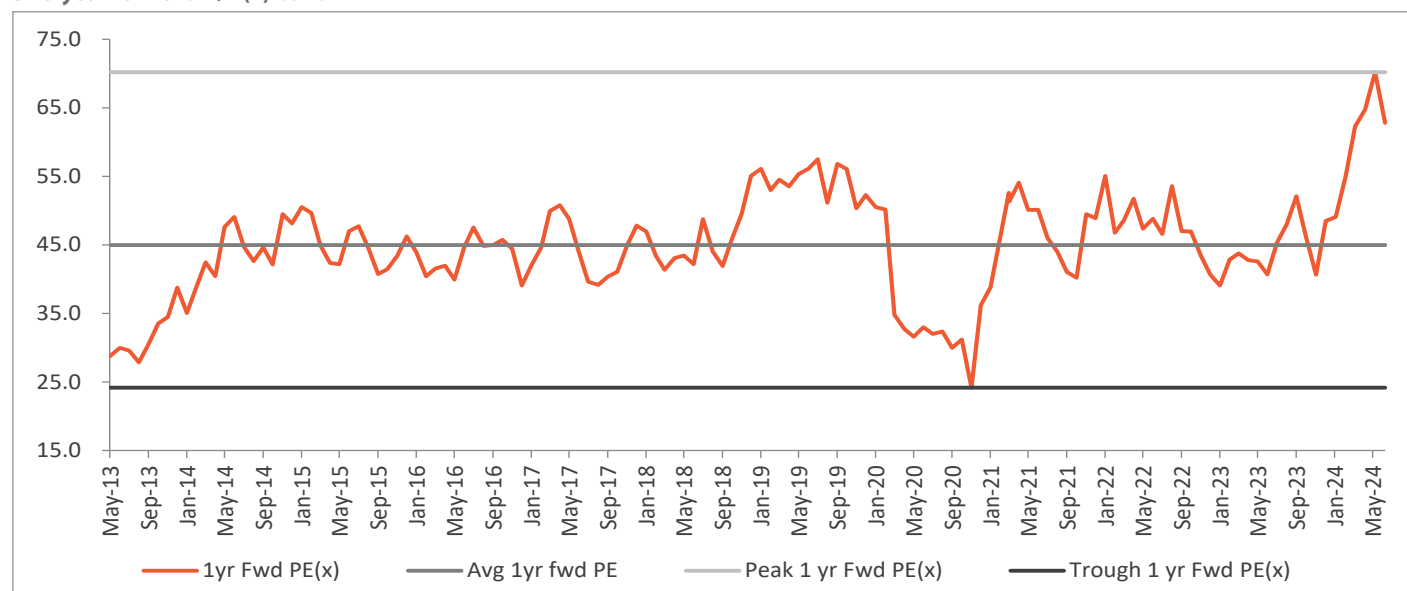
■ Company outlook - Capitalising on opportunities

Management commentary on the inquiry pipeline remains positive for smaller orders across food processing, chemicals, and pharmaceuticals in domestic markets, including large charges from oil and gas, FGD, and chemical. Management highlighted big-order opportunities in power, waste heat recovery in cement and steel sectors, both domestic and export markets. Thermax is also contemplating opportunities across newer and green technologies, which will provide the next leg of growth.

■ Valuation - Maintain HOLD with a revised Rs. 5,200

Thermax is expected to benefit from India's transition to green energy as it has many offerings in the space and also continues making investments. Future prospects in biomass, waste heat recovery (WHR), and water desalination also remain strong. But the current orderbook of Rs. 10,111 crore (1.1x TTM revenue) is soft and company trades at premium multiples of 76x/63x its FY25/26 EPS. Hence, we maintain our Hold rating on the stock and believe that long term growth prospects are factored in the stock price.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Thermax provides solutions in the energy and environment space. The energy business contributes 89% to the revenue, the environment business contributes 5%, and the chemical business contributes 5%. The company operates globally through 30+ international offices and 14 manufacturing facilities, ten of which are in India and four are overseas. Thermax is present in 90+ countries across Asia Pacific, Africa, the Middle East, CIS countries, Europe, the U.S., and South America.

Investment theme

Green shoots of revival in private capex are visible in a few segments (metals and cement), with most other companies resorting to brownfield expansions. However, a broad-based recovery is key for Thermax. Historically, Thermax's growth has been led by the domestic market. Incremental growth from international markets exposes Thermax to the risk of rising commodity prices, given fixed-price contracts.

Key Risks

- ♦ Slowdown in private capex and absence of large orders may affect the revenue growth
- ♦ Volatility in commodity prices and supply-side challenges may impact sales

Additional Data

Key management personnel

Meher Pudumjee	Chairman
Pheroze Pudumjee	Non-Independent Director
Ashish Bhandari	Executive Director-CEO-MD
Rajendran Arunachalam	Group Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nalanda India Equity Fund Ltd	6.86
2	Kotak Mahindra Asset Management Co	5.01
3	SBI Funds Management Ltd	3.09
4	Kotak Funds	1.36
5	Tata AIA Life Insurance Co Ltd	1.28
6	Vanguard Group Inc/The	1.2
7	BlackRock Inc	1.19
8	FundRock Management Co SA	1.15
9	Tata Asset Management Pvt Ltd	0.65
10	Aditya Birla Sun Life Asset Manage	0.47

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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