Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Thermax Ltd

Strong order inflows expected in H2

Capital Goods	Sharekhan code: THERMAX
Reco/View: Hold ↔	CMP: Rs. 5,009 / Price Target: Rs. 5,481 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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. 59,685 cr
52-week high/low:	Rs. 5,835/ 2,500
NSE volume: (No of shares)	1.25 lakh
BSE code:	500411
NSE code:	THERMAX
Free float: (No of shares)	4.5 cr

Shareholding (%)

Promoters	62.0
FII	15.4
DII	12.7
Others	9.9

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	(5.0)	14.2	4.4	69.0
Relative to Sensex	(0.8)	15.6	(2.9)	49.0

Sharekhan Research, Bloomberg

Summary

- For Q2FY2025, Thermax reported 13% y-o-y revenue growth. The revenue growth was led by growth across segments. The current quarter's revenue and profit were favourably impacted by an accrual of Rs. 66 crore as income towards the incentive receivable under the Maharashtra government's Packaged Incentive Scheme.
- Operating profit grew 36% y-o-y to Rs. 278 crore. OPM improved by 176 bps. In line with revenue and operating profit growth adjusted PAT grew 24% y-o-y to Rs. 197 crore against expectation of Rs. 180 crore.
- Order booking is significantly higher by 70% y-o-y due to two orders worth Rs. 1,029 crore received for setting up an energy project from industrial conglomerate in Botswana, South Africa.
- 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 ~63x/55x its FY2026E and FY2027E EPS.

Thermax's consolidated sales grew 13% y-o-y to Rs. 2,184 crore, led by growth across all the segments – Industrial Infra (14.5%), Industrial Products (6.95%), Green Solutions (40.5%), and Chemical (1.3%). Revenue and PBT include a package incentive income of Rs. 66 crore from the Government of Maharashtra. Management expects such incentive incomes to be received periodically over 2-3 years. Operating profit grew only 36% y-o-y to Rs. 205 crore. Margin improvement should be broadly seen as an effect of incentive received, directly hitting the bottom line. OPM came in at 10.6%, up 176 bps y-o-y. Margins of all the segments improved, except for the chemical segment, wherein margins dropped by 231 bps to 16.1%. Adjusted profit increased 24% y-o-y to Rs. 197 crore. Order book grew 13% y-o-y to Rs. 11,593 crore and order intake for the quarter stood at Rs. 3,353 crore, up 70% y-o-y.

Key positives

- Order booking has grown 70% y-o-y to Rs. 3,353 crore. TBW received two orders worth Rs. 1,069 crore for setting up an energy project in Botswana, South Africa.
- Enquiry pipeline from refining, petrochemical, steel, chemical, biofuel, and F&B continues to remain strong.

Key negatives

- Order inflow of only Rs. 2,569 crore, no growth y-o-y.

Management Commentary

- Thermax is foreseeing a robust inquiry pipeline. It expects to close orders in refining, steel, cement, and power sectors in the next few quarters, as the pipeline is good.
- The company expects double-digit growth in the industrial products segment for the year. There is good traction in sectors like air pollution control, wastewater, and zero-liquid discharge. Margins of the segment are likely to improve through the year.
- Thermax has decided not to bid for large super-critical power plant projects worth Rs. 4,000-5,000 crore involving civil and construction works.
- FEPL has already delivered 100 MW to the solar power plant and wants to take it to 1GW by FY2027-2028.

Revision in estimates – We retain our estimates for FY2025-2026 and roll out FY2027 estimates.

Our Call

Valuation – Maintain HOLD with a revised PT Rs. 5,481: Thermax is expected to benefit from India's transition to green energy as it has many offerings in the space and continues to make investments. Future prospects in biomass, waste heat recovery (WHR), and water desalination also remain strong. However, the current order book of Rs. 11,593 crore (1.1x TTM revenue) is soft and the company trades at premium multiples of 63x/55x its FY2026/FY2027 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 revenue growth.
- Volatility in commodity prices and supply-side challenges may impact sales.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	8,090	9,323	10,519	12,119	14,004
Growth (y-o-y, %)	32.0	15.2	12.8	15.2	15.6
Operating profit	598	797	968	1,285	1,484
OPM (%)	7.4	8.6	9.2	10.6	10.6
Adj. Net Profit	450	589	686	898	1,020
Adj. EPS (Rs.)	40.0	52.3	61.0	79.7	90.6
Growth (y-o-y, %)	44.2	30.9	16.5	30.8	13.6
P/E	125.2	95.7	82.1	62.8	55.3
P/B	14.8	12.9	11.8	10.4	9.2
EV/EBIDTA	92.9	70.2	56.7	42.4	36.3
ROCE (%)	15.0	18.4	17.1	19.0	18.7
RONW (%)	12.3	15.5	14.8	17.3	17.4

Source: Company; Sharekhan estimates

Key investor updates and conference call highlights

- **Order book and pipeline:** The company had an order inflow of Rs. 3,353 crore, up 70% y-o-y in the quarter and an outstanding order book of Rs. 11,593 crore (+13% y-o-y). The pipeline is good and management expects to close orders in refining, petrochemical, cement, and steel in the coming few quarters.
- **Industrial products:** The segment's margins will improve through the year as it happens typically. The company is seeing good traction in sectors like air pollution control, wastewater, and zero-liquid discharge. Order intake has grown by 25% this quarter. The company expects double-digit growth in the segment for the year. Margins improved by 182 bps to 7.1%.
- **Industrial infra:** Order inflow has grown by 167% y-o-y to Rs. 1,748 crore, led by two strong order wins by TBW for a total value of Rs. 1,069 crore energy project in Botswana. The segment's margins improved by 82 bps to 10.8%. Margins improved due to PSI income. YTD H1 margins are lower on account of cost overruns in project business.
- **Green Solutions:** FEPL will report higher-than-expected losses in the year, but TOESL is doing extremely well.
- **Chemical:** Last quarter, the segment's revenue was impacted as inventory was stuck due to slow shipping. This quarter also revenue has not grown much. However, that issue has stabilised now. The company's traditional chemical business was around resins and water treatment chemicals, and a small portion of oil field chemicals. Construction chemicals is a new segment that is doing well and the company will reach a run-rate of Rs. 100 crore a year. Management expects the chemical business to start reporting Rs. 200-250 crore of quarterly revenue this year (from Rs. 170 crore currently).

Results (Consolidated) Rs cr

Particulars	Q2FY25	Q2FY24	YoY%	Q1FY25	QoQ%
Revenue	**2,612**	**2,302**	**13.4**	**2,184**	**19.6**
Total Expenditure	2,334	2,098	11.2	2,043	14.2
Operating Profit	**278**	**205**	**35.8**	**141**	**96.9**
Other Income	60	66	(9.2)	84	(28.9)
Interest	29	20	48.4	27	7.0
Depreciation	42	33	27.6	36	16.8
PBT	266	218	22.3	161	65.1
Tax	68	59	15.9	52	31.5
Adjusted PAT	**197**	**159**	**24.0**	**116**	**70.1**
Reported PAT	197	159	24.0	116	70.1
EPS (Rs.)	17.5	14.1	24.0	10.3	70.1
Margins			**BPS**		**BPS**
OPM(%)	10.6	8.9	176	6.5	418
NPM (%)	7.5	6.9	65	5.3	224
Tax Rate (%)	25.6	27.0	(141)	32.2	(653)

Source: Company, Sharekhan Research

Segmental break-up Rs cr

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Revenues					
Industrial Infra	1,243	1,085	14.5%	925	34.3%
Industrial Products	1,058	989	6.9%	961	10.1%
Green solutions	175	125	40.5%	174	0.8%
Chemical	190	188	1.3%	171	11.4%
PBIT					
Industrial Infra	88	57	54.0%	(18)	-580.4%
Industrial Products	115	99	15.7%	87	32.1%
Green solutions	22	8	171.1%	23	-6.0%
Chemical	31	35	-11.4%	30	0.8%
PBIT Margins (%)					
Industrial Infra	7.1%	5.3%	182	-2.0%	908
Industrial Products	10.8%	10.0%	82	9.0%	181
Green Solutions	12.3%	6.4%	595	13.2%	-88
Chemical	16.1%	18.4%	-231	17.8%	-170

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Ample growth opportunities

Industries such as steel and power 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. 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.

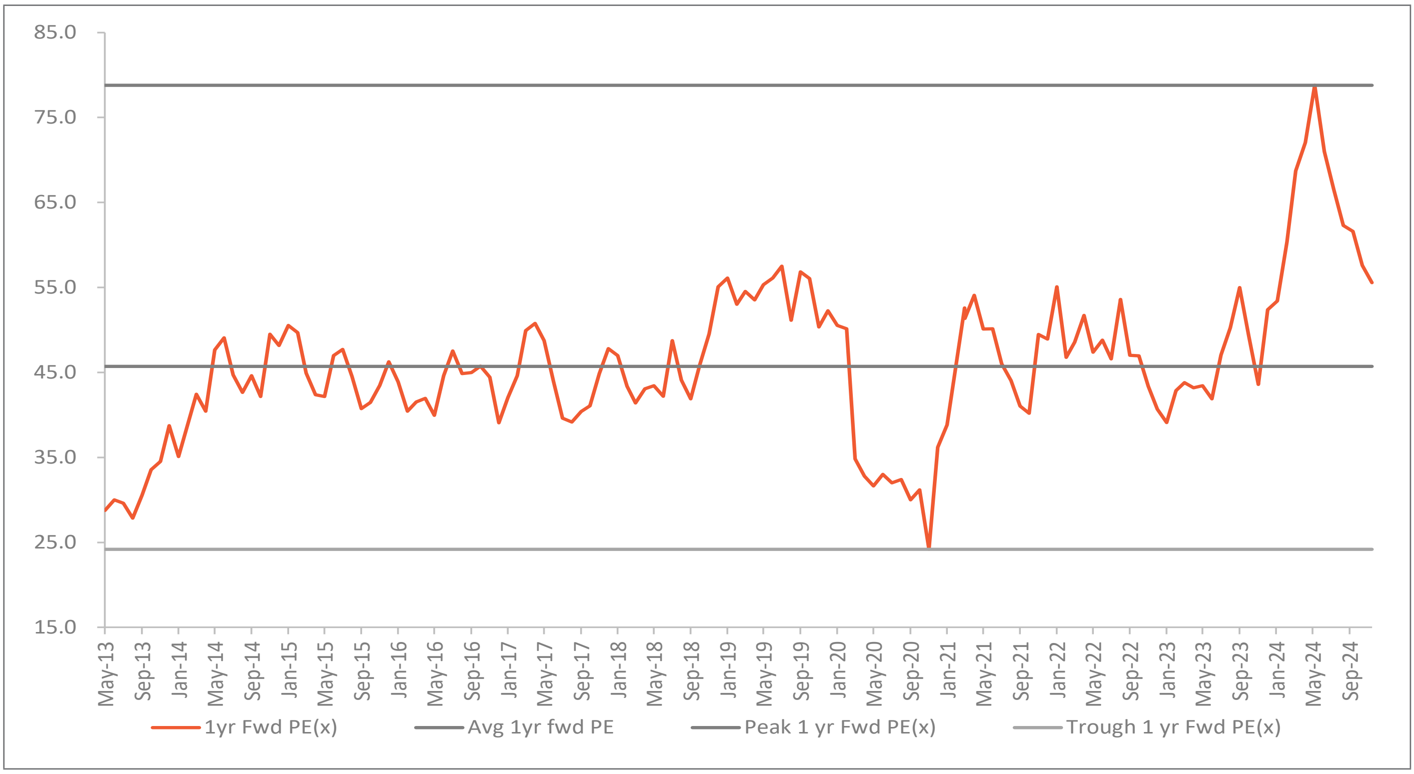
■ Company Outlook – Good order pipeline, but not translating into orders

Management commentary on the inquiry pipeline remains positive for orders across power, chemicals, in domestic markets, including large charges from oil and gas, FGD, and chemical. Management has highlighted 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. However, order inflow has been soft for the last few quarters. An uptick in that will translate into good earnings growth for the company.

■ Valuation – Maintain HOLD with a revised PT Rs. 5,481

Thermax is expected to benefit from India's transition to green energy as it has many offerings in the space and continues to make investments. Future prospects in biomass, waste heat recovery (WHR), and water desalination also remain strong. However, the current order book of Rs. 11,593 crore (1.1x TTM revenue) is soft and the company trades at premium multiples of 63x/55x its FY2026/FY2027 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 the 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, 10 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 power), 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 company's revenue growth.
- Volatility in commodity prices and supply-side challenges may impact sales.

Additional Data

Key management personnel

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

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd.	5.81
2	Nalanda India Equity Fund Ltd.	5.13
3	Kotak Mahindra Asset Management Co.	4.14
4	FundRock Management Co. SA	3.20
5	Blackrock Inc.	1.39
6	Kotak Funds	1.36
7	The Vanguard Group Inc.	1.11
8	FIL Ltd.	0.71
9	Tata Asset Management Pvt. Ltd.	0.60
10	Aditya Birla Sun Life Asset Management	0.50

Source: Bloomberg

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 detoriating 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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