

## Unexpected hit but opportunity intact...

**About the stock:** Thermax Ltd (Therma) offers integrated solutions in the areas of energy and environment – heating, cooling, power, water & waste management, air pollution control and chemicals.

- It operates in four key segments Industrial Infra (~48% of revenue), Industrial Products (~38%), Green Solutions (~7%) and Chemicals segment (~7%)

**Q2FY26 performance:** Thermax reported a muted set on impact from legacy orders in Industrial Infra. Revenue EBITDA and PBT declined 3%, 19% and 13% YoY to ₹2473 crore, ₹172 crore and ₹174 crore respectively. EBITDA and PBT Margins at 7% and 4.7% down of 137 bps and 293 bps YoY. The company received ₹66 crore as Package incentive scheme in Industrial Infra business last year. Thus, Revenue, EBITDA and PBT have been adjusted for the same. Segmentally, Industrial Products (48% of revenue mix), green solutions (7%) and Chemicals business (7%) grew 12.5%, 9.5% and 0.4% YoY whereas Industrial Infra (38%) declined 24% YoY. EBIT margins for Industrial Infra at 10% (-100 bps YoY), green solutions 6.1% (+420 bps YoY) and chemicals at 9.8% (-630 bps YoY) respectively. The company received orders worth ₹3354 crore. The order backlog stands at ₹12300 crore up 8% sequentially at 1.2x FY25 revenue.

### Investment Rationale

- Revival in Industrial Infra:** The company is at its last leg of low profit legacy orders. Thermax expects relief from this pain entirely by FY27E as company moves on to orders with improved margins. Further it expects to secure robust growth in order booking over last year from power, steel, waste to energy, international business, cement and refining and petrochemicals thus leading to improvement in growth in the segment and thus growth in overall profitability. Over all we expect revenues and PAT to grow at a CAGR of 12.5% and 13.8% over FY25-FY27E.
- Margin trajectory to improve to double digit:** The company expects industrial products to continue its growth momentum along with good double-digit margins. It also aims to revive the industrial infra business segment. The overall revenue of the company will grow at 12.5% CAGR as a result of revival in industrial infra and exhaustion of low margin legacy projects (FGD and Oil & Gas order), we expect margins to improve from 8.7% in FY25 to 10.2% in FY27E. This will result into a PAT CAGR of 13.8% CAGR over FY25-27E.

### Rating and Target Price

- We like Thermax for its discipline in picking profitable orders, close tab on working capital management, cash flow generation. We believe the worst is over in terms of margins which will result in an improved growth trajectory and can command premium multiples at the same time. Thus, we assign **Hold** rating at 45x FY27E EPS to ₹3250 per share.



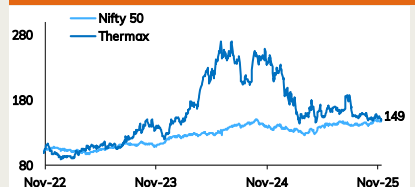
### Particulars

Particular	Rs. (in crore)
Market Capitalization	36,342.0
Total Debt (H1FY26)	1,758.0
Cash and Inv (H1FY26)	1,293.9
Enterprise Value	36,806.1
52 week H/L (Rs.)	5354/2930
Equity capital	22.5
Face value (Rs.)	2.0

### Shareholding pattern

%	Dec-24	Mar-25	Jun-25	Sep-25
Promoter	62.0	62.0	62.0	62.0
FII	15.5	15.9	16.0	13.4
DII	12.7	12.3	11.7	14.0
Others	9.9	9.9	10.2	10.6

### Price Chart



### Key risks

- Lower than expected order inflows
- More negative surprises/setbacks

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### Key Financial Summary

Particulars (Rs. in crore)	FY23	FY24	FY25	5 Year CAGR (FY20-FY25)	FY26E	FY27E	2 Year CAGR (FY25-FY27E)
Net Sales	8,089.8	9,323.5	10,388.7	12.6%	11,161.2	13,146.4	12.5%
EBITDA	597.6	797.4	907.8	17.4%	972.1	1,336.3	21.3%
EBITDA Margin (%)	7.4	8.6	8.7		8.7	10.2	
Net Profit	440.1	638.7	627.6	24.2%	587.9	813.2	13.8%
EPS (Rs.)	39.1	56.7	55.7		52.2	72.2	
P/ E (x)	78.2	53.9	54.8		58.5	42.3	
RoNW (%)	11.4	13.1	12.7		10.9	13.4	
RoCE (%)	13.7	15.4	15.0		13.2	15.5	

Source: Company, ICICI Direct Research

## Key results and earnings call highlights:

- Consolidated revenue declined 2.8% YoY in Q2FY26 to ₹2474 crore, slow execution of Industrial Infra. On a segmental basis Revenue from Industrial Products (48% of revenue mix), green solutions (7%) and Chemicals business (7%) grew at 12.5%, 9.5% and 0.4% YoY whereas Industrial Infra (38%) declined 24% YoY.
- EBITDA for Q2FY26 came in at ₹172 crore, decline of 19% YoY, EBITDA margin came in at 7% (-137 bps YoY). EBIT margins for Industrial products at 10% (-100 bps YoY), green solutions 6.1% (+420 bps YoY) and chemicals at 9.8% (-630 bps YoY) respectively. Industrial Infra reported loss during the quarter on cost over run of ₹42 crore during the quarter.
- PAT for Q2FY26 came in at ₹119 crore, a decline of 21% YoY. Profitability was mainly impacted by cost overruns in the industrial infra segment (₹42 crore provision for one project) and a package incentive received last year.
- The consolidated order inflow was flat YoY at ₹3354 crore. Industrial Products and green solutions order inflow grew 18% and 71% respectively, offset by Industrial infra declined 16% YoY and chemicals business which was flat YoY.
- Thermax took a hit in industrial infra of ~₹42 crore at the last execution stage of a legacy project. This arose on account of inadequate work done by outsourced vendor.
- Thermax order book increased by ₹197 crore in the green energy business on more appropriate presentation of FS. This will align orderbook to reflect revenue growth in the segment. This change doesn't affect revenue growth and profitability. This is only for order book presentation.
- The Industrial Products business delivered steady performance with ~10% blended margins, driven by strength in heating, water, and air pollution control solutions. The cooling segment lagged due to market softness but is expected to recover in H2FY26.
- For new industrial infrastructure projects, the company targets margins of 5-8% for domestic orders and around 10%+ for international orders, with an overall blended target of around ~10% at PBT level when including services.
- TBWES reported strong growth, backed by a major international boiler order from a Middle Eastern client. Management highlighted rising demand for coal-based subcritical and gas-based HRSG systems, reflecting a revival in the global utility boiler market.
- With monsoon behind, Thermax expects to climb back on the growth path in H2FY26. Thermax is confident of performing at FY25 levels in terms of both topline and profitability despite poor performance in H1FY26.
- With strong ordering opportunities in sight, Management has guided for +20% YoY growth in order inflows for FY26E.

## Financial Summary

### Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
<b>Total op. Income</b>	<b>9,323.5</b>	<b>10,388.7</b>	<b>11,161.2</b>	<b>13,146.4</b>
Growth (%)		11.4	7.4	17.8
Raw Material Expenses	5,219.6	5,813.5	5,982.9	7,261.9
Employee Expenses	1,148.3	954.2	1,148.3	1,268.9
Other Op. Expenses	2,158.2	1,913.4	2,158.2	2,398.5
Admin. Expenses	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0
Total Op. Expenditure	8,526.1	8,681.1	9,289.4	10,929.3
<b>EBITDA</b>	<b>797.4</b>	<b>907.8</b>	<b>972.1</b>	<b>1,336.3</b>
Growth (%)		13.8	7.1	37.5
Depreciation	148.1	158.5	270.6	304.4
Interest	87.6	116.8	112.3	98.0
Other Income	232.6	252.2	236.0	165.0
PBT	869.8	884.7	825.3	1,098.9
Others	0.0	0.0	0.0	0.0
Total Tax	225.8	257.8	237.7	285.7
<b>PAT</b>	<b>638.7</b>	<b>627.6</b>	<b>587.9</b>	<b>813.2</b>
Growth (%)		-1.7	-6.3	38.3
<b>EPS (Rs.)</b>	<b>56.7</b>	<b>55.7</b>	<b>52.2</b>	<b>72.2</b>

Source: Company, ICICI Direct Research

### Exhibit 2: Cash flows statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Profit after Tax	638.7	627.6	587.9	813.2
Add: Depreciation	148.1	158.5	270.6	304.4
(Inc)/dec in Current Assets	-334.2	-942.8	1,373.4	-3,434.0
Inc/(dec) in CL and Provisions	237.7	844.4	-1,355.7	2,897.9
<b>CF from operating activities</b>	<b>690.3</b>	<b>687.7</b>	<b>876.2</b>	<b>581.4</b>
(Inc)/dec in Investments	-165.7	261.6	-20.0	-20.0
(Inc)/dec in Fixed Assets	-897.1	-1,096.1	-110.0	-520.0
Others	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-1,035.0</b>	<b>-1,063.5</b>	<b>-274.0</b>	<b>-518.5</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	445.4	437.4	-30.0	-30.0
Dividend paid & dividend tax	-112.7	-135.2	-135.1	-135.1
Inc/(dec) in Sec. premium	1.4	5.8	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>378.5</b>	<b>306.9</b>	<b>-165.1</b>	<b>-165.1</b>
Net Cash flow	33.8	-68.9	437.0	-102.2
Opening Cash	453.4	487.1	418.2	855.3
<b>Closing Cash</b>	<b>487.1</b>	<b>418.2</b>	<b>855.3</b>	<b>753.1</b>

Source: Company, ICICI Direct Research

### Exhibit 3: Balance sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
<b>Liabilities</b>				
Equity Capital	22.5	22.5	22.5	22.5
Reserve and Surplus	4,417.8	4,914.9	5,367.7	6,045.8
Total Shareholders funds	4,440.3	4,937.4	5,390.2	6,068.3
Total Debt	1,256.0	1,693.3	1,663.3	1,633.3
Deferred Tax Liability	12.3	30.0	30.0	30.0
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>5,894.7</b>	<b>6,935.2</b>	<b>7,382.5</b>	<b>8,055.6</b>
<b>Assets</b>				
Gross Block	2,888.5	3,748.0	4,333.9	4,833.9
Less: Acc Depreciation	1,014.0	1,132.8	1,379.6	1,659.5
Net Block	1,874.5	2,615.2	2,954.3	3,174.4
Capital WIP	519.4	560.8	75.0	75.0
Total Fixed Assets	2,393.8	3,176.0	3,029.3	3,249.4
Investments	382.6	121.0	141.0	161.0
Inventory	764.9	720.3	808.6	992.2
Debtors	2,116.4	2,417.5	2,660.3	3,169.5
Loans and Advances	1.1	1.3	23.3	5.6
Other Current Assets	1,226.8	1,460.5	995.0	1,897.2
Cash	487.1	418.2	855.3	753.1
Total Current Assets	4,596.4	5,017.7	5,342.5	6,817.7
Creditors	1,532.9	1,696.6	2,079.3	2,341.1
Provisions	305.3	374.1	459.5	517.4
Total Current Liabilities	4,258.9	5,103.3	3,747.6	6,645.5
Net Current Assets	2,189.7	2,219.2	2,638.6	3,072.5
Others Assets	0.0	0.0	0.0	0.0
<b>Application of funds</b>	<b>5,894.7</b>	<b>6,935.2</b>	<b>7,382.5</b>	<b>8,055.6</b>

Source: Company, ICICI Direct Research

### Exhibit 4: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
<b>Per share data (Rs.)</b>				
EPS	56.7	55.7	52.2	72.2
Cash EPS	69.9	69.8	76.2	99.2
BV	394.3	438.5	478.7	538.9
DPS	10.0	12.0	12.0	12.0
Cash Per Share	43.3	37.1	76.0	66.9
<b>Operating Ratios (%)</b>				
EBITDA Margin	8.6	8.7	8.7	10.2
PBT / Total Operating income	9.3	8.5	7.4	8.4
PAT Margin	6.3	6.0	5.3	6.2
Inventory days	29.9	25.3	26.4	27.5
Debtor days	82.9	84.9	87.0	88.0
Creditor days	60.0	59.6	68.0	65.0
<b>Return Ratios (%)</b>				
RoE	13.1	12.7	10.9	13.4
RoCE	15.4	15.0	13.2	15.5
RoIC	30.8	33.6	18.3	37.5
<b>Valuation Ratios (x)</b>				
P/E	53.6	54.5	58.2	42.1
EV / EBITDA	43.9	39.1	36.0	26.3
EV / Net Sales	3.8	3.4	3.1	2.7
Market Cap / Sales	3.7	3.3	3.1	2.6
Price to Book Value	7.7	6.9	6.4	5.6
<b>Solvency Ratios</b>				
Debt/EBITDA	1.6	1.9	1.7	1.2
Debt / Equity	0.3	0.3	0.3	0.3
Current Ratio	1.0	0.9	1.2	0.9
<b>Quick Ratio</b>	<b>0.8</b>	<b>0.8</b>	<b>1.0</b>	<b>0.8</b>

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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