

May 12, 2025

Greens shoots in prospects and margin recovery...

About the stock: Thermax Ltd (Thermax) 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 (~%45 of FY25 revenue), Industrial Products (~44%), Green Solutions (~6.6%) and Chemicals segment (~7.3%)

Q4FY25 performance: Thermax reported decent Q4FY25 results. Order inflow for Q4FY25 at ₹2119 crore down 8% YoY, order backlog grew by 6% YoY to ₹10693 crore. Revenues grew by 11% YoY to ₹3085 crore EBITDA grew 9.7% YoY to ₹299.67 crore, Margins came in at 9.7% for the quarter, down 20 bps YoY due to the rise in cost of goods sold and employee costs. Consequently, PAT came in at ₹206 crore vs. ₹188 crore in Q4FY24. On a segmental basis, Industrial products and chemicals business grew 19% and 36% YoY, other segments were flat at 4% growth. The segmental EBIT margins expanded for Industrial products business by 280 bps, contracted for the rest by more than 240 bps.

Investment Rationale

- Revival in Industrial Infra:** The company has struggled in the industrial infra segment (46% of revenue mix) in FY25 specially in the FGD, Bio CNG projects with revenue growth of 6% YoY for FY25 and EBIT margins at 2.3%. The orderbook declined by 4% on a YoY basis. It expects to close the chapter of losses in FY26 from FGD and to breakeven in Bio CNG business. Further it expects to grab orders 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 profitability. Over all we expect revenues and PAT to grow at a CAGR of 12.4% and 17.5% over FY25-FY27E.
- Margin trajectory to improve to double digit:** The company expects industrial products and chemicals business to continue their 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 12.4% CAGR however 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% in FY27E. This will result into a PAT CAGR of 17.5% CAGR over FY25-27E.

Rating and Target Price

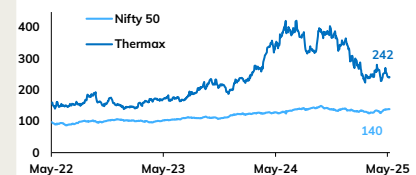
- We like Thermax for its discipline in picking profitable orders, close tab on working capital management, cash flow generation. We believe the worst is over in terms of margins which will result in an improved growth trajectory and can command premium multiples at the same time. Thus, we assign **BUY** rating at 50x FY27E EPS to ₹3890 per share.

**Particulars**

Particular	Rs. in crore
Market Cap	39,307.0
FY25 Gross Debt	1,693.3
F25 Cash	1,154.5
Enterprise Value	39,845.8
52 Week H/L (Rs./share)	5835/2930
Equity Capital	22.5
Face Value (Rs./share)	2.0

Shareholding pattern

	Jun-24	Sep-24	Dec-24	Mar-25
Promoter	62.0	62.0	62.0	62.0
FII	15.2	15.4	15.5	15.9
DII	12.9	12.7	12.7	12.3
Others	10.0	9.9	9.9	9.9

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%	11,585.0	13,115.0	12.4%
EBITDA	597.6	797.4	907.8	17.4%	1,117.8	1,308.5	20.1%
EBITDA Margin (%)	7.4	8.6	8.7		9.6	10.0	
Net Profit	450.7	645.3	634.5	24.5%	734.2	876.7	17.5%
EPS (Rs.)	40.0	57.3	56.3		65.2	77.9	
P/E (x)	82.4	57.6	58.6		50.6	42.4	
RoNW (%)	11.6	13.4	12.6		12.7	13.2	
RoCE (%)	13.7	15.6	14.8		14.6	15.4	

Source: Company, ICICI Direct Research

Key results and earnings call highlights:

- Consolidated revenue for Q4FY25 came in at ₹3085 crore, up 11% on YoY (slightly below our estimate of ₹ 3264 crore) aided by industrial products and chemicals business segment during the quarter. In FY25 it came at ₹10,389 crore which grew by 11.4% on YoY basis. Industrial Infra revenue (~46% to revenue) grew by 6% YoY to ₹4715 crore, Industrial Products segment revenue (~44% to revenue) grew by 11.7% to ₹4529 crore YoY, Chemicals segment revenue (~7.3% to revenue) came in at ₹762 crore, which grew by 15% on YoY and Green Solutions segment revenue (~6.6% to revenue) came in at ₹690 crore, which grew by 36% YoY.
- EBITDA for Q4FY25 came in at ₹300 crore, grew by 9.7% YoY (marginally lower than our estimate of ₹310 crore). Consequently, EBITDA margin came in at 9.7%. For FY25 EBITDA came at ₹908 crore grew by 13.8% YoY with margin at 8.7% up 20bps YoY.
- Adjusted PAT for Q4FY25 came in at ₹206 crore, grew by 9.6% YoY. In FY25 adjusted PAT came at ₹626.7 crore down from ₹643.19 crore in FY24 YoY basis.
- The consolidated order inflow for the quarter came at ₹2119 crore (vs. ₹2309 crore in Q4FY24) de-grew by 8% on YoY basis. In FY25 order inflow came at ₹10,337 crore vs ₹9,355 crore, grew by 10% YoY. The order book for FY25 at ₹10693 crore grew by 6% YoY basis.
- Industrial infra
 - The segment has revenue growth of 6% YoY for FY25 and EBIT margins at 2.3%. Performance is largely impacted due to FGD projects and Bio CNG projects in which company is facing issues. Because of which the company has stayed away and not taken any orders in FY25.
 - The company believes it has learnt Bio CNG business, with losses a thing of the past and expects to breakeven or close FY26E with low single digit margins. It may win 2 orders in Q1FY26E, these orders will be carefully designed to ensure profitability.
 - FGD projects forms ~₹450 crore out of ₹5434 crore orderbook which it expects to be executed majorly in FY26E however there exists possibility of slippage to the tune of ₹100 crore in FY27E.
 - TBWES is doing really well. It received a break through order for two supplementary fired two-pressure-level heat recovery steam generators for a greenfield thermal power plant coming up in West Africa.
 - The company expects a better FY26E than FY25 with decent order pipeline from power, steel, waste to energy and international business. From the cement and refining & petrochemicals it expects to receive orders in H2FY26E.
- Industrial products
 - The industrial product segment has had a fantastic quarter and year with 19% and 12% growth YoY in revenues which is complemented by margins of 12% for the year. This is faster than the company has estimated internally. The segment has also witnessed a 19% YoY growth in order book at ₹4154 crore.
 - Water and enviro (clean air-based solutions) are the fastest growing solutions with lowest profitability; small boilers and heating is the most profitable portion and the biggest here the growth is relatively slower and cooling which is the smallest portion and relatively profitable have historically been slow to grow however will now be the fastest growing on the back of innovation and new products being offered.

- The industrial products has a decent order pipeline, with even the international prospects doing better. Thermax expects to continue the momentum in the segment however big change in macro could see a small slowdown.
- Chemicals:
 - The chemicals segment grew 36% YoY in Q4FY25 and 15% YoY in FY25 and EBIT margins at 16% for FY25.
 - The company expects to see a bigger topline from the chemicals segments and also convert the topline to a higher bottom line with margins targeted in the high teens
 - Although margins may in the near-term face pressures from costs incurred to nurture the business segment such as marketing costs and higher depreciation from a new plant that will also come up shortly.
 - The product mix in chemicals is changing to newer construction chemicals, floorings and other new segments that the company has entered and looks to increase the growth.
 - The company faced a slowdown in cyclical speciality chemicals in FY25 and expects a better year ahead.
- Green Solutions:
 - The company faced big loss in FEPL in FY25, which is expected to come down significantly in FY26E. TOFEL is expected to continue on its path of stability.
 - The company will continue to invest in green solutions like green hydrogen, carbon capture, sustainable aviation fuel.
- Over all the company expects a better year in FY26E than FY25. It expects to receive orders in Industrial Infra, continue growth momentum in industrial products and chemicals along with good margins in both the segments and lastly continue to invest in green solutions offering of the company.

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Total op. Income	9,323.5	10,388.7	11,585.0	13,115.0
Growth (%)	15.2	11.4	11.5	13.2
Raw Material Expenses	5,219.6	5,813.5	6,443.0	7,271.0
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	9,749.5	10,938.4
EBITDA	797.4	907.8	1,117.8	1,308.5
Growth (%)	33.4	13.8	23.1	17.1
Depreciation	148.1	158.5	190.8	190.8
Interest	87.6	116.8	99.8	98.0
Other Income	232.6	252.2	165.0	165.0
PBT	869.8	884.7	992.2	1,184.7
Others	0.0	0.0	0.0	0.0
Total Tax	225.8	257.8	258.0	308.0
PAT	645.3	634.5	734.2	876.7
Growth (%)	43.2	-1.7	15.7	19.4
EPS (₹)	57.3	56.3	65.2	77.9

Source: Company, ICICI Direct Research

Exhibit 2: Cash flows statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Profit after Tax	645.3	634.5	734.2	876.7
Add: Depreciation	148.1	158.5	190.8	190.8
(Inc)/dec in Current Assets	-342.1	-933.7	-723.4	412.9
Inc/(dec) in CL and Provisions	237.7	844.4	678.5	-383.0
CF from operating activities	689.0	703.7	880.2	1,097.4
(Inc)/dec in Investments	-165.7	261.6	-20.0	-20.0
(Inc)/dec in Fixed Assets	-730.1	-152.5	-10.5	-10.5
Others	0.0	0.0	0.0	0.0
CF from investing activities	-928.9	-129.3	-177.7	-1.1
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	-119.2	0.0	0.0	0.0
Inc/(dec) in Sec. premium	1.4	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	327.7	437.4	-30.0	-30.0
Net Cash flow	87.8	1,011.8	672.5	1,066.3
Opening Cash	935.1	1,022.9	2,034.7	2,707.2
Closing Cash	1,022.9	2,034.7	2,707.2	3,773.5

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Liabilities				
Equity Capital	22.5	22.5	22.5	22.5
Reserve and Surplus	4,378.1	5,012.6	5,746.8	6,623.5
Total Shareholders funds	4,400.6	5,035.1	5,769.3	6,646.0
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
Total Liabilities	5,855.0	7,032.9	7,762.2	8,633.9
Assets				
Gross Block	2,888.5	3,057.8	3,057.8	3,057.8
Less: Acc Depreciation	1,014.0	1,189.3	1,369.6	1,549.9
Net Block	1,874.5	1,868.5	1,688.2	1,507.9
Capital WIP	0.0	0.0	0.0	0.0
Total Fixed Assets	1,874.5	1,868.5	1,688.2	1,507.9
Investments	382.6	121.0	141.0	161.0
Inventory	764.9	720.3	1,184.1	971.8
Debtors	2,116.4	2,417.5	2,729.6	3,090.1
Loans and Advances	1.1	1.3	3.8	25.1
Other Current Assets	1,226.8	1,451.4	1,490.0	1,395.3
Cash	1,022.9	2,034.7	2,707.2	3,773.5
Total Current Assets	5,132.2	6,625.1	8,114.7	9,255.7
Creditors	1,532.9	1,696.6	2,380.5	2,694.9
Provisions	305.3	374.1	526.1	595.6
Total Current Liabilities	4,258.9	5,103.3	5,781.8	5,398.8
Net Current Assets	2,725.5	3,826.6	4,543.9	5,580.3
Others Assets	0.0	0.0	0.0	0.0
Application of funds	5,855.0	7,032.9	7,762.2	8,633.9

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Per share data (₹)				
EPS	57.3	56.3	65.2	77.9
Cash EPS	70.5	70.4	82.1	94.8
BV	390.8	447.1	512.3	590.2
DPS	10.6	0.0	0.0	0.0
Cash Per Share	90.8	180.7	240.4	335.1
Operating Ratios (%)				
EBITDA Margin	8.6	8.7	9.6	10.0
PBT / Total Operating income	9.3	8.5	8.6	9.0
PAT Margin	6.3	6.1	6.3	6.7
Inventory days	29.9	25.3	37.3	27.0
Debtor days	82.9	84.9	86.0	86.0
Creditor days	60.0	59.6	75.0	75.0
Return Ratios (%)				
RoE	13.4	12.6	12.7	13.2
RoCE	15.6	14.8	14.6	15.4
RoIC	30.8	50.7	63.7	63.8
Valuation Ratios (x)				
P/E	57.6	58.6	50.6	42.4
EV / EBITDA	46.9	40.6	32.3	26.8
EV / Net Sales	4.0	3.5	3.1	2.7
Market Cap / Sales	4.0	3.6	3.2	2.8
Price to Book Value	8.4	7.4	6.4	5.6
Solvency Ratios				
Debt/EBITDA	1.6	1.9	1.5	1.2
Debt / Equity	0.3	0.3	0.3	0.2
Current Ratio	1.0	0.9	0.9	1.0
Quick Ratio	0.8	0.8	0.7	0.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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