

India

ADD (no change)

Consensus ratings*:	Buy 9	Hold 9	Sell 7
Current price:	Rs2,822		
Target price:	Rs3,275		
Previous target:	Rs3,275		
Up/downside:	16.1%		
InCred Research / Consensus:	14.7%		
Reuters:	THMX.NS		
Bloomberg:	TMX IN		
Market cap:	US\$4,051m		
	Rs336,223m		
Average daily turnover:	US\$3.0m		
	Rs245.2m		
Current shares o/s:	112.6m		
Free float:	38.0%		

*Source: Bloomberg



Price performance	1M	3M	12M
Absolute (%)	(1.5)	3.4	44.4
Relative (%)	(9.4)	(2.2)	23.9

Major shareholders	% held
Promoters	62.0
Kotak Mutual Fund	7.0
SBI Mutual Fund	2.5

Thermax Ltd

Investor Day - Highlights

- Thermax held an Investor Day to showcase its tech capabilities in the green solutions space to meet the energy transition needs of its clients.
- Good order inflow drove the revenue in industrial products with a higher margin of 8.5-9%. Investment in digital adoption is key for growth.
- Retain ADD rating on Thermax with a target price of Rs3,275, valuing it at 46x Sep 2025F EPS, factoring in a healthy pipeline & capex recovery.

Meeting the energy transition needs of its clients

Thermax held an Investor Day event recently to showcase its technological capabilities in the green solutions segment to meet the energy transition needs of its customers. Besides core industrial products and the infrastructure, Thermax also has subsidiaries, TOESL and FEPL, in the bioenergy and renewable energy sub-segments. The company has a big plan to foray into coal gasification and electrical energy solutions, including electric pumps, in the near term. Investments are likely to continue in these initiatives over the next few years, as per the company. While these new products will have higher pricing compared to traditional products, they will be earnings-accretive based on savings in energy costs. Order inflow has started improving, with one large order worth Rs5bn for bio-CNG plants being announced by the company.

Industrial products to drive growth with higher margins

Higher order inflow is driving the revenue from industrial products while the margins are likely to be higher at 8.5-9%. Increased investments in digital adoption in this segment are key for growth. Thermax is selective in the case of industrial infrastructure projects and is focusing on differentiated projects. Management stated that the chemical segment is a hedge for all bets in energy transition along with lower raw material prices and improving share of specialty chemicals. The green solutions business of TOESL and FEPL is witnessing good traction in order inflow and over a period, Thermax would look at inducting a partner for these projects. Thermax's products in air pollution control, bio-mass boilers, waste-to-energy equipment and chillers are well accepted globally, but products in the bio-CNG space and others from the TOESL's stable to be tested well in the domestic market.

Outlook & valuation

The capex momentum, especially in the water and environmental space, augurs well for Thermax. The company has been most successful in green projects, zero liquid discharge, etc. It is focusing on digital transformation and cross-sales across products with distributors and channel partners, which is likely to drive order inflow growth in the coming quarters. We expect Thermax to report a 15% revenue CAGR on the back of a strong order book worth Rs103bn (1.1x) and a 21% earnings CAGR led by margin improvement. We retain our ADD rating on Thermax with a target price of Rs3,275, valuing the stock at 46x Sep 2025F EPS, factoring in a healthy order pipeline and capex recovery. Downside risks: Lower-than-estimated order inflow and margins.

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Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	60,640	80,898	94,209	108,450	121,581
Operating EBITDA (Rsm)	4,213	5,975	8,579	9,730	10,671
Net Profit (Rsm)	3,121	4,771	6,248	7,590	8,437
Core EPS (Rs)	27.7	42.4	58.8	67.4	74.9
Core EPS Growth	26.9%	52.9%	38.8%	14.6%	11.2%
FD Core P/E (x)	101.80	66.60	47.96	41.87	37.66
DPS (Rs)	7.0	9.1	9.6	10.0	10.0
Dividend Yield	0.25%	0.32%	0.34%	0.35%	0.35%
EV/EBITDA (x)	74.00	52.64	36.21	31.58	28.26
P/FCFE (x)	(467.44)	109.08	84.12	91.15	53.97
Net Gearing	(17.1%)	(8.3%)	(16.2%)	(20.8%)	(28.1%)
P/BV (x)	9.10	8.22	7.25	6.32	5.51
ROE	9.3%	13.0%	16.1%	16.1%	15.6%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Investor Day - Key highlights

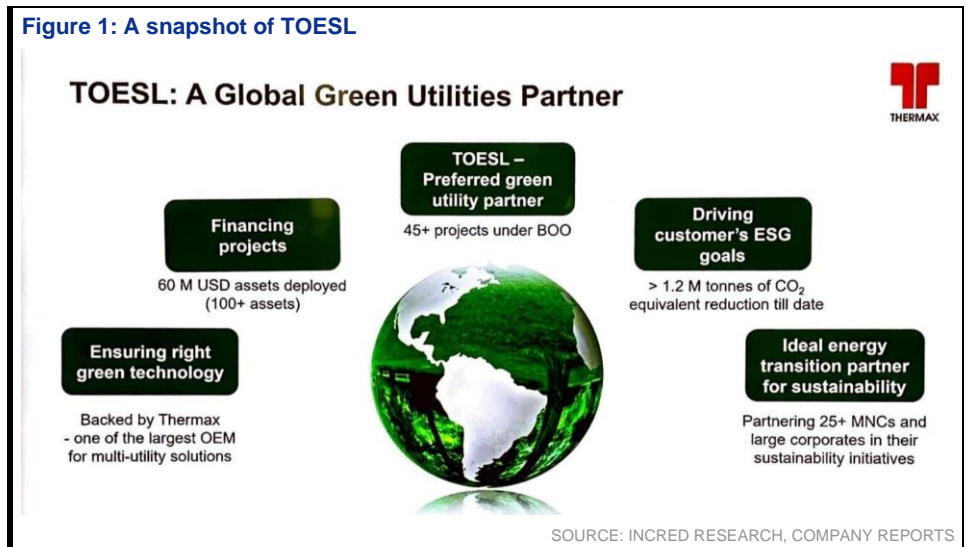
- Thermax continues to focus on climate change and long-term solutions to aid energy transition. Management highlighted that Thermax leverages its capabilities to service its customers across multiple segments with a diverse range of products and services. With India being at the cusp of a manufacturing revolution and with initiatives like 'Atmanirbhar Bharat' and China+1 strategy, the company focuses on local or indigenous innovations like coal gasification, bio-CNG, digital solutions, etc.
- Management stated that eight years ago Thermax set up plants in China and Indonesia and its experience wasn't that great in terms of international manufacturing. The Chinese market is extremely competitive, and this did not bode well for the company. However, currently, India is still doing better compared to global markets while the opportunities in the Middle East, Asia and Africa are good. Management sees a strengthening competitive advantage while there has been a shift in EPC capabilities.
- The coal gasification plant in Thermax's learning academy intakes 6t of coal per day. A commercial plant will take 2,000t of coal per day. While coal gasification is still in a relatively nascent stage, the company is looking to scale up this process.
- Management stated that while green products are 30-40% more expensive due to the higher upfront costs of setting them up, they are still viable and can pay back the customers. In the long run, they will lead to cost optimization. However, the usage of green hydrogen is not yet in a mature phase and much work remains to be done.
- Thermax has not done a good job in terms of cashing in on its R&D, despite a lot of research being done at its facilities. Management stated that over the next three years it will represent Thermax's R&D budget more effectively and accurately.
- Thermax has largely differentiated itself in the market as no other player has cooling solutions. There are about two-to-three players in the chemicals and water segments and no player in the coal gasification space. The water segment used to be a Rs3-3-5bn business, but now it has turned into a Rs10bn business in just over three years with a 7.5% net margin.
- Thermax will avoid taking debt and its debt:equity ratio is at 30:70 while subsidiary TOESL has a 50:50 debt-equity ratio.
- As regards heat pumps, the biggest market is the residential use market in the US and Europe. No other player is in the electric chiller business. Management stated that large-scale boilers are not under active consideration. Moreover, the overall profitability is rising but for businesses like bio-CNG, it will take time to get established.

Innovating a broad range of products

Thermax has introduced various new products over the last few years to meet energy transition needs (including the products from its subsidiaries) like coal gasification and electric pumps along with a range of boilers, bio-CNG offerings and a range of chemicals. Thermal HVAC, a TOESL product, has limited competition in the bio-CNG, cooling solutions, coal gasification and chemicals space. Some key product highlights from the Investor Day are given below:

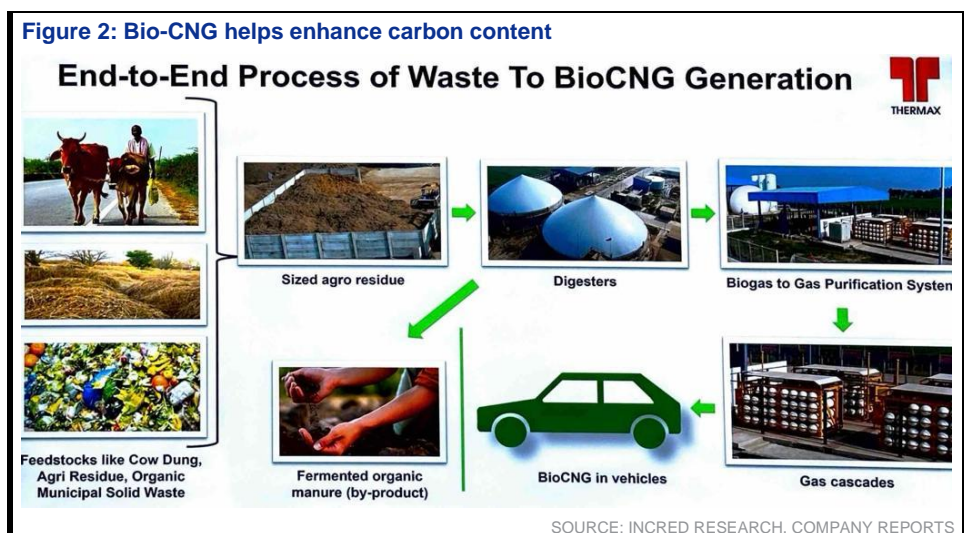
- TOESL** – The company is involved in delivering green utility solutions to its customers. It undertakes offtake-based billing and delivers steam & heat, chilled water, treated water, co-generation solutions, etc. It has developed an end-to-end fuel supply chain for responsible sourcing of agro-waste biomass fuel. It has sourcing capability of 2,500tpd (tonnes per day) of biomass fuel. The company has a ready base of 150+ vendors across India and has 10+ dedicated briquetting facilities in India and Sri Lanka.

Figure 1: A snapshot of TOESL



- Bio-CNG** – Thermax Bioenergy Solutions Pvt. Ltd. (TBSPL) is a joint venture or JV between Thermax & Everenviro Resource Management and is backed by Green Growth Equity Fund. The JV aims to solve critical climate challenges by offering solutions with the advantage of biomass anaerobic digestion technology that converts lignocellulosic agri residue into compressed natural gas or bio-CNG. It uses agri residue, municipal solid waste, press-mud etc. and the fermented organic manure generated as a by-product helps to enhance the depleting carbon content. This can be used as a replacement for chemical fertilizers.

Figure 2: Bio-CNG helps enhance carbon content



- Green hydrogen** – It is still in a very nascent stage of development and commercial use. However, the National Green Hydrogen Mission bodes well for the company. By 2030F, India aims at 5mmtpa GH2 production capacity aided by Rs8tr in total investments. The 60-100GW electrolyzer capacity and 800,000+ job opportunities will play a major role in Thermax’s GH2 capabilities.

Figure 3: Integrated solution provider across GH2 value chain



- Coal gasification** – Coal gasification is done mainly in steel-making. It reduces dependency on imported coal and utilizes Indian non-coking coal to produce syngas (carbon monoxide and hydrogen), which then reduces the iron from its ore form.

Figure 4: Steel-making process using coal gasification

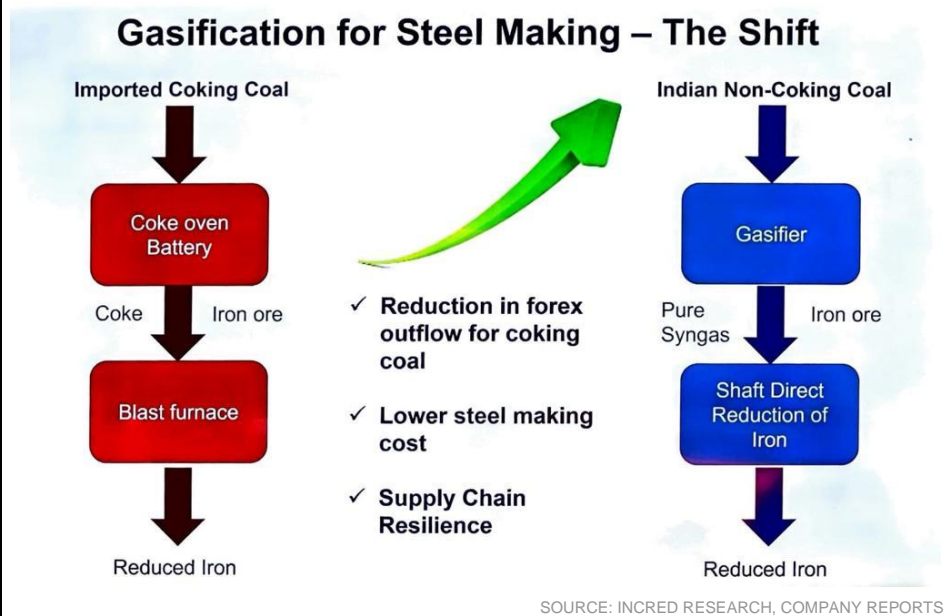
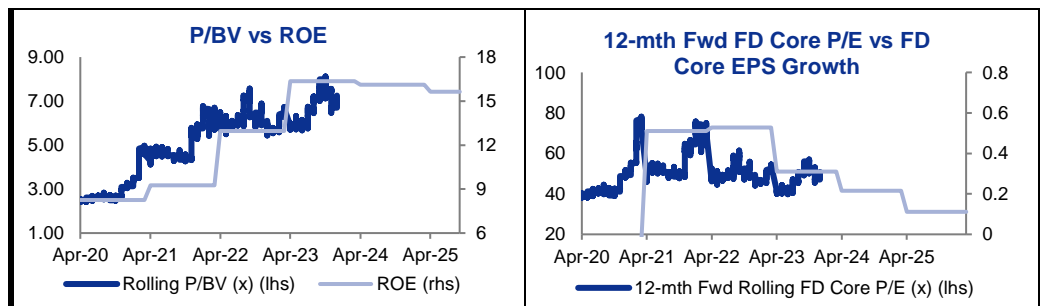


Figure 5: Coal gasification equipment is a major innovation by Thermax



- **Chemical solutions** – Thermax has multiple products and services in its chemicals business. The company introduced 'Seismocrete UHP' which has brass-coated steel fibre to strengthen the beams without alternating the size. It also introduced 'BS66 MuCis', which is used to strengthen buildings, making them durable for the next 20-25 years.
- **Other products** – Thermax also showcased its mechanical vapour recompression (MVR) technology used in water treatment and EDGE Live, which is a digital solution used to enhance asset performance and integrates the energy transition expertise with cutting-edge artificial intelligence/machine learning or AI/ML technology. EDGE Live focuses on the transition to green fuels, energy usage optimization, improved asset reliability and helps in making data-driven decision-making. It helps reduce CO2 emission by 10%, reduction in unplanned downtime by 30% and reduction in lead time by 90%.

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	61,283	80,898	94,209	108,450	121,581
Gross Profit	26,433	34,651	42,110	47,588	53,350
Operating EBITDA	4,213	5,975	8,579	9,730	10,671
Depreciation And Amortisation	(1,132)	(1,169)	(1,333)	(1,219)	(1,274)
Operating EBIT	3,081	4,807	7,246	8,512	9,397
Financial Income/(Expense)	(252)	(376)	(789)	(623)	(599)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,270	1,602	2,441	2,304	2,533
Profit Before Tax (pre-EI)	4,099	6,032	8,897	10,192	11,331
Exceptional Items			(506)		
Pre-tax Profit	4,099	6,032	8,391	10,192	11,331
Taxation	(978)	(1,259)	(2,143)	(2,603)	(2,893)
Exceptional Income - post-tax					
Profit After Tax	3,121	4,774	6,248	7,590	8,437
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax		(2)			
Other Adjustments - post-tax					
Net Profit	3,121	4,771	6,248	7,590	8,437
Recurring Net Profit	3,121	4,771	6,625	7,590	8,437
Fully Diluted Recurring Net Profit	3,121	4,771	6,625	7,590	8,437

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	4,213	5,975	8,579	9,730	10,671
Cash Flow from Invt. & Assoc.	(114)	58	(187)	463	661
Change In Working Capital	(5)	(1,006)	(1,214)	(2,196)	(597)
(Incr)/Decr in Total Provisions	50				
Other Non-Cash (Income)/Expense	1,132	1,169	1,333	1,219	1,274
Other Operating Cashflow	(1,151)	(1,226)	(1,651)	(1,681)	(1,934)
Net Interest (Paid)/Received	(252)	(376)	(789)	(623)	(599)
Tax Paid	(1,030)	(1,259)	(2,143)	(2,603)	(2,893)
Cashflow From Operations	2,844	3,335	3,927	4,308	6,581
Capex	(838)	(5,071)	(766)	(810)	(849)
Disposals Of FAs/subsidiaries	(11,961)				
Acq. Of Subsidiaries/investments		(1,128)	(629)	(1,309)	(1,413)
Other Investing Cashflow	8,648	1,602	2,441	2,304	2,533
Cash Flow From Investing	(4,151)	(4,597)	1,045	186	271
Debt Raised/(repaid)	627	4,175	(1,194)	(1,008)	(965)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(788)	(1,021)	(1,081)	(1,126)	(1,126)
Preferred Dividends					
Other Financing Cashflow	(45)				
Cash Flow From Financing	(206)	3,154	(2,275)	(2,134)	(2,091)
Total Cash Generated	(1,513)	1,892	2,697	2,360	4,762
Free Cashflow To Equity	(680)	2,913	3,778	3,486	5,888
Free Cashflow To Firm	(1,055)	(886)	5,761	5,117	7,452

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	9,536	11,316	14,796	17,779	23,140
Total Debtors	15,972	18,766	25,295	29,118	32,644
Inventories	7,270	7,556	9,550	11,291	12,658
Total Other Current Assets	13,375	14,745	21,939	25,256	28,313
Total Current Assets	46,153	52,382	71,580	83,444	96,755
Fixed Assets	12,391	17,019	16,453	16,043	15,618
Total Investments	14,765	15,893	16,522	17,831	19,244
Intangible Assets					
Total Other Non-Current Assets	1,271	1,057	1,057	1,057	1,057
Total Non-current Assets	28,427	33,969	34,032	34,931	35,919
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	15,074	15,286	21,939	23,770	26,648
Other Current Liabilities	21,027	24,258	32,108	36,961	41,437
Total Current Liabilities	36,101	39,544	54,047	60,731	68,084
Total Long-term Debt	3,554	8,105	7,700	7,315	6,949
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	3,554	8,105	7,700	7,315	6,949
Total Provisions					
Total Liabilities	39,655	47,650	61,747	68,046	75,034
Shareholders Equity	34,925	38,681	43,843	50,307	57,619
Minority Interests					
Total Equity	34,925	38,681	43,843	50,307	57,619

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	28.7%	33.4%	16.5%	15.1%	12.1%
Operating EBITDA Growth	18.6%	41.8%	43.6%	13.4%	9.7%
Operating EBITDA Margin	6.9%	7.4%	9.1%	9.0%	8.8%
Net Cash Per Share (Rs)	53.11	28.51	63.01	92.92	143.77
BVPS (Rs)	310.13	343.48	389.32	446.72	511.65
Gross Interest Cover	12.24	12.79	9.18	13.66	15.68
Effective Tax Rate	23.9%	20.9%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	25.3%	21.4%	16.0%	14.8%	13.3%
Accounts Receivables Days	87.41	78.37	85.35	91.57	92.71
Inventory Days	59.27	58.51	59.92	62.49	64.06
Accounts Payables Days	140.26	119.81	130.40	137.06	134.85
ROIC (%)	15.9%	17.9%	26.1%	28.2%	30.9%
ROCE (%)	8.3%	11.3%	14.7%	15.6%	15.4%
Return On Average Assets	4.7%	6.3%	7.6%	7.2%	7.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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