

India

HOLD (no change)

Consensus ratings*: Buy 4 Hold 10 Sell 9

Current price: Rs4,984
 Target price: ▲ Rs5,175
 Previous target: Rs4,770
 Up/downside: 3.8%
 InCred Research / Consensus: 25.6%

Reuters:
 Bloomberg: TMX IN
 Market cap: US\$8,179m
 Rs593,911m
 Average daily turnover: US\$16.5m
 Rs1198.2m
 Current shares o/s: 112.6m
 Free float: 38.0%

*Source: Bloomberg

Key changes in this note

- For FY25F/26F, we cut PAT by ~10%/4%.
- For FY25F/26F, we cut sales by ~5%.
- Introduce FY26F EPS of Rs115.

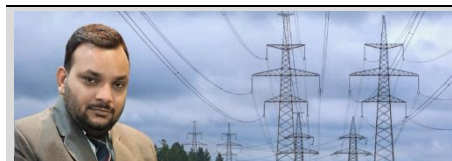


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.6)	6.1	91.5
Relative (%)	(4.7)	(3.2)	55.5

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

Research Analyst(s)



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Thermax Ltd

Industrial infra segment impacts profitability

- 1Q EBITDA stood at Rs1.4bn, up 7% YoY (-48% QoQ), 23% below our estimate & 28% below consensus. The EBITDA margin fell 38bp YoY to 6.5%.
- The industrial infrastructure segment faced significant challenges in the BioCNG projects and FGD, which suffered Rs450m losses in 1QFY25.
- For FY25F/26F, we cut our PAT estimates by 9%/3%. Retain HOLD rating with a higher TP of Rs5,175, as we roll forward our valuation to Sep 2026F.

Weak 1QFY25 performance

Thermax reported 1QFY25 revenue of Rs21.8bn, up 13% YoY (-21% QoQ), 1.8% below our estimate and 2.9% below Bloomberg or BB consensus estimate. EBITDA came in at Rs1.4bn, up 7% YoY (-48% QoQ), 23% below our estimate and 28% below BB consensus estimate. The EBITDA margin fell by 38bp YoY to 6.5%, mainly due to EBIT loss in the industrial infrastructure segment. Adjusted PAT stood at Rs1.09bn, down 1% YoY and down 42% QoQ, 25% below our estimate and 19% below BB consensus estimate.

Challenges in industrial infrastructure segment are largely over

The industrial infrastructure segment faced significant challenges, particularly in the BioCNG projects and Flue Gas Desulfurization (FGD), which suffered substantial losses. Order booking fell by 12% YoY, with the order book down 10%. The supply chain has now stabilized and is likely to improve in the coming quarters. 1Q is a tough quarter for this segment. There were execution surprises and a hit of Rs450m as well during 1QFY25. Management gave guidance that there is no major loss expected from this in the coming quarters and forecast ~5.5% margin in this segment.

Healthy order prospects

During 1QFY25, the order inflow was flat YoY at Rs25.7bn, while the order book stood at Rs107bn, up 2% YoY. Management is positive over the next two-to-three years, particularly in the sectors like refining, petrochemicals, and power. The company expects a resurgence in large project orders, with specific refinery projects likely to contribute significantly in the near term. In Jul 2024, it received a single large order worth Rs5bn. The company had indicated earlier that the pipeline of large projects is rising.

Retain HOLD rating on the stock because of stretched valuation

The capex momentum, especially in the water and environmental segments, augurs well for Thermax. For FY25F/26F, we cut our PAT estimates by ~10%/4%, respectively, factoring in weak 1Q performance and guidance. The stock has gained 100% in the last 12 months and trades at ~2+SD currently. We retain our HOLD rating on Thermax with a higher target price of Rs5,175 (from Rs4,770 earlier), as we roll forward our valuation to Sep 2026F (from FY26F), valuing it at 50x. Upside risk: Healthy execution with a significant margin expansion. Downside risks: Delay in order execution & lower margins.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	80,898	93,235	110,206	136,178	165,746
Operating EBITDA (Rsm)	5,976	7,974	9,926	13,295	16,182
Net Profit (Rsm)	4,507	6,430	7,627	10,297	12,768
Core EPS (Rs)	40.0	50.4	64.5	91.9	115.0
Core EPS Growth	44.3%	25.9%	27.9%	42.6%	25.2%
FD Core P/E (x)	124.52	98.89	77.32	54.23	43.33
DPS (Rs)	9.1	10.0	12.2	17.5	21.9
Dividend Yield	0.18%	0.19%	0.20%	0.20%	0.20%
EV/EBITDA (x)	93.40	70.74	56.82	42.43	34.82
P/FCFE (x)	246.18	332.69	225.05	255.80	207.79
Net Gearing	(8.3%)	6.3%	5.3%	4.8%	3.1%
P/BV (x)	14.51	12.64	11.16	9.57	8.12
ROE	12.2%	14.1%	16.1%	18.9%	20.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY25 conference-call highlights

- **Overview:** Thermax reported 1QFY25 revenue growth of 13% YoY. Management noted that there was a delay in translating orders into revenue, particularly in the chemicals segment. However, the order book in the chemicals segment witnessed a notable increase, indicating a positive trajectory going ahead. Management stated that while the revenue increased only slightly, the order backlog is expected to stabilize in the coming quarters. Management emphasized a cautious, yet optimistic approach, towards upcoming projects and market conditions.
- **Orders:** In 1QFY25, the order inflow was flat YoY at Rs25.7bn, while the order book stood at Rs107bn, up 2% YoY. Management is positive over the next two-to-three years, particularly in the sectors like refining, petrochemicals, and power. The company expects a resurgence in large project orders, with specific refinery projects expected to contribute significantly in the near term. In Jul 2024, it received a single large order worth Rs5bn. The company had indicated earlier that the pipeline of large projects is rising. Management expects large orders to come in the refinery and chemical sectors. Chennai Petroleum's refinery is likely to come up at the end of FY25F, while Paradip and Bina refineries are expected over the next two years. It also expects big orders in the steel sector. Nayara on the petchem side is also expanding, with a potential to come up in the near term. In the power sector, the thermal power project is back on track. Thermax is likely to get some orders from this space in the coming quarters.
- **Segments:**
 - **Industrial products:** Order inflow for the segment was up 6% while the order book increased 15% YoY. The segment witnessed stable demand, but revenue growth was marginal due to the delay in project execution. While the order book remained robust, translating these orders into revenue has been a challenge. The segment is expected to see improved performance in the coming quarters.
 - **Industrial infrastructure:** The industrial infrastructure segment faced significant challenges, particularly in the BioCNG projects and Flue Gas Desulfurization (FGD), which suffered substantial losses. Order booking fell 12% YoY, with the order book down 10%. The company will focus on securing more profitable orders and reducing its exposure to high civil and construction costs. It witnessed a small increase in inventory build-up in the chemical space in the last few quarters. The supply chain has now stabilized and is likely to improve in the coming quarters. 1Q is a tough quarter for this segment. There were execution surprises and a hit of Rs450m in 1QFY25. Management gave guidance that there is no major loss likely from this in the coming quarters and forecast ~5.5% margin in this segment.
 - **Green solutions:** In this segment, order booking was up 19% YoY while the order backlog improved 36% YoY. Management emphasized the long-term potential of this segment. FEPL is likely to have challenging times in FY25F. TOSEL is doing good as it has a steady model. Via FEPL, it secured a single largest order in Tamil Nadu, but due to floods it had an impact on the solar panel business.
 - **Chemicals:** This business faced challenges due to inventory build-up and supply chain disruption. However, management indicated that the situation is stabilizing, and it expects to see improved revenue translation from 2QFY25F. The company is focusing on expanding into adjacent markets, particularly construction chemicals, which is projected to contribute significantly to growth. The order inflow rose 35% YoY while the order book improved 60%.
- **Strategic initiatives:** Thermax is actively pursuing strategic initiatives to enhance its chemicals business, including a joint venture with Vebro, to expand

its capabilities. Management is optimistic about achieving a run rate of Rs2-2.5bn in the chemicals segment.

- Management is confident about improving the performance in the coming quarters, particularly as project execution stabilizes. It aims to normalize operations and enhance profitability by addressing the challenges faced in 1Q. The focus will be on executing existing projects before taking on new orders.
- Overall market conditions have been challenging, particularly in the civil construction sector, due to labour shortage worsened by factors such as general elections in India and extreme weather conditions. This impacted project timelines and the execution speed.

Figure 1: Quarterly results snapshot

Rs m	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
Total Revenue	21,844	19,330	13.0%	27,637	-21.0%
Raw Material Costs	12,288	10,774	14.1%	15,736	-21.9%
Employee Costs	2,913	2,558	13.9%	3,162	-7.9%
Other Expenses	5,231	4,676	11.9%	6,007	-12.9%
Total Expenditure	20,433	18,008	13.5%	24,905	-18.0%
EBITDA	1,412	1,322	6.8%	2,732	-48.3%
Depreciation	360	294	22.6%	499	-27.8%
EBIT	1,051	1,028	2.3%	2,233	-52.9%
Interest	275	134	105.5%	278	-1.2%
Other Income	841	531	58.5%	553	52.2%
Extraordinary Income	-	-	-	-	-
PBT	1,617	919	76.1%	2,507	-35.5%
Total Tax	519	315	64.6%	633	-18.0%
Reported PAT	1,094	600	82.5%	1,874	-41.6%
Adj. PAT	1,094	1,106	-1.0%	1,874	-41.6%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 2: Margin and cost analysis

Margin Analysis	1QFY25	1QFY24	YoY (bp)	4QFY24	QoQ (bp)
EBITDA Margin	6.5%	6.8%	-38	9.9%	-342
EBIT Margin	4.8%	5.3%	-51	8.1%	-327
NPM	5.0%	3.1%	191	6.8%	-177
Effective Tax Rate (%)	32.1%	34.3%	-223	25.2%	684
Gross Margin	43.7%	44.3%	-51	43.1%	69
Cost Analysis (% of Sales)					
Raw Material Costs	56.3%	55.7%	51	56.9%	-69
Employee Costs	13.3%	13.2%	11	11.4%	189
Other Expenses	23.9%	24.2%	(24)	21.7%	221

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Order inflow and order book

Order details (Rs m)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
Order Inflow	25,690	25,670	0.1%	23,090	11.3%
Order Book	1,06,820	1,05,050	1.7%	1,01,110	5.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Order inflow and order book mix

(Rs m)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
Order Inflow (Rs m)	25,690	25,670	0.1%	23,090	11.3%
Industrial Products	12,650	11,980	5.6%	10,610	19.2%
Industrial Infrastructure	9,910	11,270	-12.1%	10,720	-7.6%
Green Solutions	1,000	840	19.0%	30	3233.3%
Chemicals	2,130	1,580	34.8%	1,730	23.1%
Order Book (Rs m)	1,06,820	1,05,050	1.7%	1,01,110	5.6%
Industrial Products	38,660	33,430	15.6%	35,000	10.5%
Industrial Infra	57,310	63,820	-10.2%	56,820	0.9%
Green Solution	9,060	6,680	35.6%	7,910	14.5%
Chemicals	1,790	1,120	59.8%	1,380	29.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Segment-wise revenue and EBIT performance

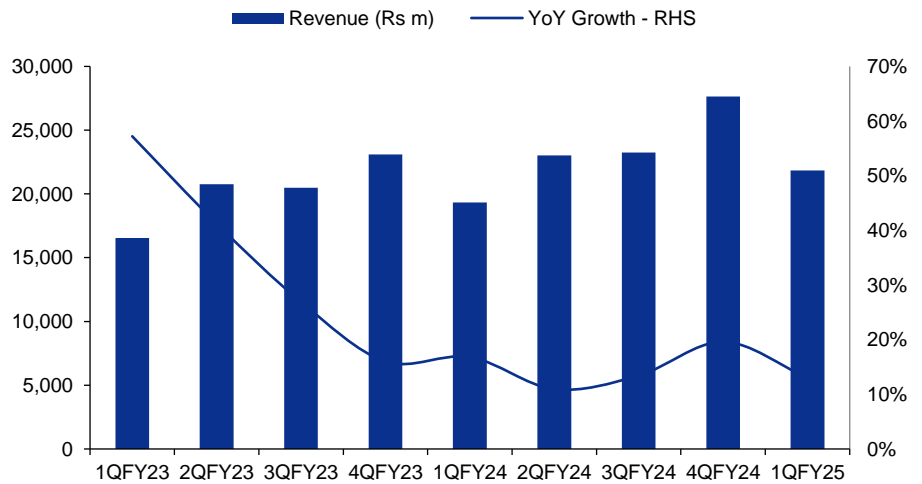
Segmental Revenue	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
Industrial Products	9,608	8,359	14.9%	12,074	-20.4%
Industrial Infrastructure	9,251	9,162	1.0%	13,565	-31.8%
Green Solutions	1,737	1,132	53.5%	1,458	19.1%
Chemicals	1,708	1,608	6.3%	1,541	10.8%
Total	22,304	20,260	10.1%	28,638	-22.1%

EBIT	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
Industrial Products	867	560	54.8%	1,407	-38.4%
Industrial Infrastructure	-184	303	-160.6%	825	-122.3%
Green Solutions	230	100	129.6%	137	68.4%
Chemicals	304	265	14.5%	296	2.5%
Total	1,217	1,228	-0.9%	2,368	-48.6%

EBIT Margin	1QFY25	1QFY24	YoY (bp)	4QFY24	QoQ (bp)
Industrial Products	9.0%	6.7%	232	11.7%	-263
Industrial Infrastructure	-2.0%	3.3%	-529	6.1%	-806
Green Solutions	13.2%	8.8%	438	9.4%	387
Chemicals	17.8%	16.5%	127	19.2%	-145
Total	5.5%	6.1%	-61	8.3%	-281

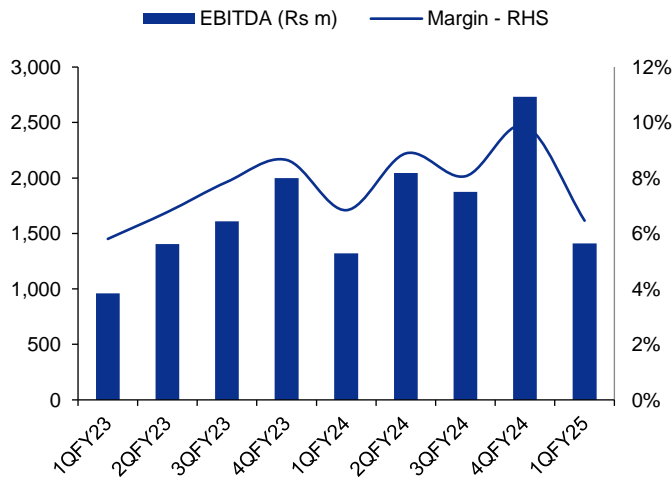
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Quarterly revenue trend



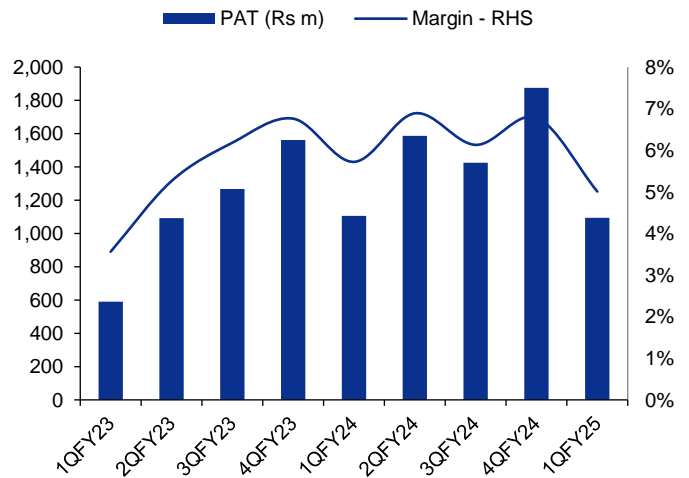
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Quarterly EBITDA trend



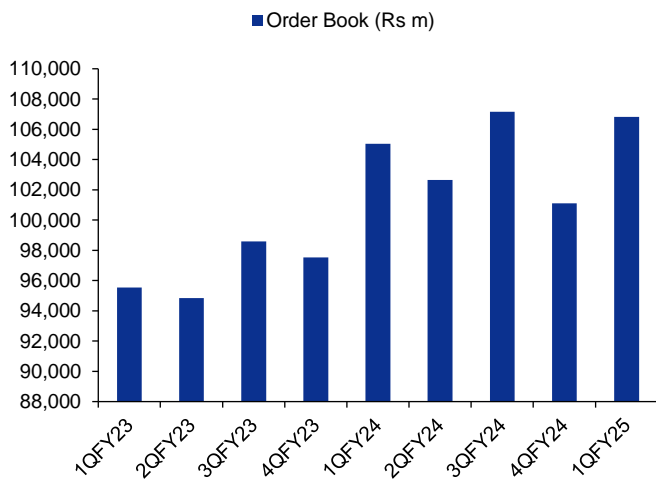
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Quarterly PAT trend



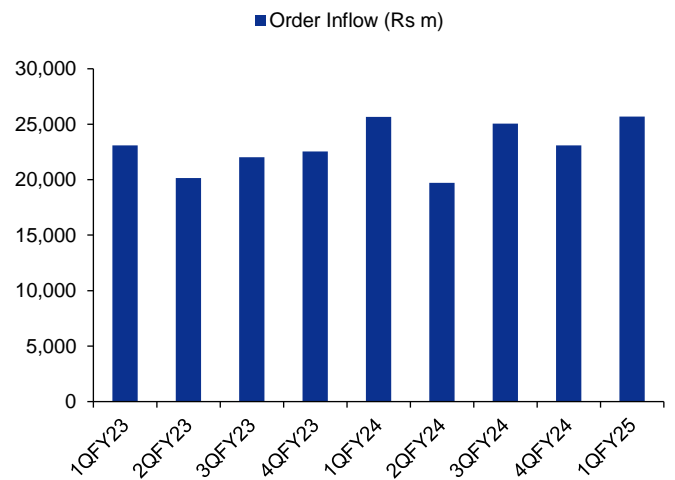
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Healthy order book



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Order inflow seen on track for the coming quarters



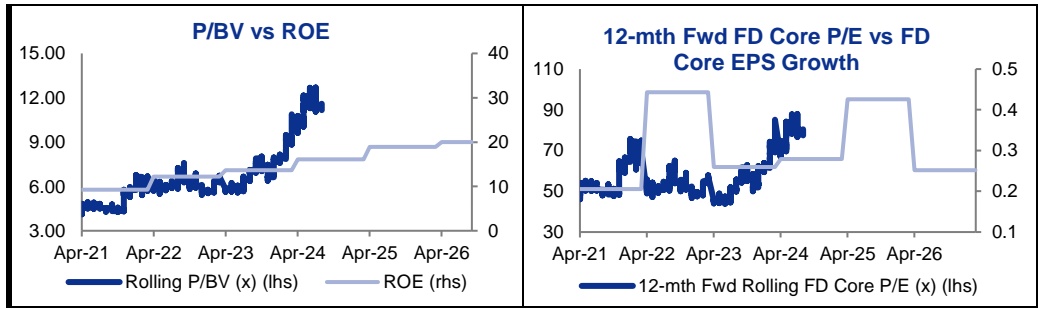
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Earnings revision summary

(Rs m)	New Estimates		Old Estimates		Change	Introduced
	FY25F	FY26F	2025F	2026F		
Revenue	1,10,206	1,36,178	1,15,736	1,42,823	-4.8%	-4.7%
EBITDA	9,558	13,346	10,424	13,944	-8.3%	-4.3%
Core PAT	7,258	10,348	8,033	10,742	-9.6%	-3.7%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	80,898	93,235	110,206	136,178	165,746
Gross Profit	34,651	41,039	48,711	60,685	73,861
Operating EBITDA	5,976	7,974	9,926	13,295	16,182
Depreciation And Amortisation	(1,169)	(1,481)	(1,577)	(1,802)	(1,927)
Operating EBIT	4,807	6,493	8,349	11,493	14,255
Financial Income/(Expense)	(376)	(876)	(857)	(872)	(977)
Pretax Income/(Loss) from Assoc.	(2)	(10)			
Non-Operating Income/(Expense)	1,602	2,326	2,554	3,125	3,808
Profit Before Tax (pre-EI)	6,031	7,933	10,046	13,746	17,086
Exceptional Items		755			
Pre-tax Profit	6,031	8,688	10,046	13,746	17,086
Taxation	(1,524)	(2,258)	(2,419)	(3,449)	(4,318)
Exceptional Income - post-tax					
Profit After Tax	4,507	6,430	7,627	10,297	12,768
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,507	6,430	7,627	10,297	12,768
Recurring Net Profit	4,507	5,872	7,627	10,297	12,768
Fully Diluted Recurring Net Profit	4,507	5,872	7,627	10,297	12,768

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	5,976	7,974	9,926	13,295	16,182
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,893)	(4,760)	(4,977)	(2,264)	(3,226)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	3,025	1,122	1,653	2,043	2,486
Net Interest (Paid)/Received					
Tax Paid	(1,512)	(1,863)	(2,419)	(3,449)	(4,318)
Cashflow From Operations	4,596	2,473	4,183	9,624	11,124
Capex	(6,499)	(7,185)	(608)	(2,750)	(2,750)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(297)	2,093	(1,709)	(5,339)	(6,365)
Cash Flow From Investing	(6,797)	(5,092)	(2,316)	(8,089)	(9,115)
Debt Raised/(repaid)	4,481	4,306	628	659	692
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,021)	(1,128)	(1,379)	(1,966)	(2,461)
Preferred Dividends					
Other Financing Cashflow	235	(171)	(747)	(279)	(425)
Cash Flow From Financing	3,695	3,008	(1,498)	(1,586)	(2,194)
Total Cash Generated	1,494	389	369	(51)	(185)
Free Cashflow To Equity	2,280	1,687	2,494	2,194	2,701
Free Cashflow To Firm	(2,201)	(2,619)	1,866	1,535	2,009

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	11,316	9,753	10,517	11,022	12,367
Total Debtors	17,621	21,164	25,664	31,713	38,598
Inventories	7,556	7,649	10,568	13,058	15,893
Total Other Current Assets	10,380	12,280	14,795	18,281	22,251
Total Current Assets	46,873	50,846	61,544	74,074	89,110
Fixed Assets	16,789	24,279	23,310	24,258	25,081
Total Investments	16,261	17,651	17,633	21,788	26,519
Intangible Assets	30	30	30	30	30
Total Other Non-Current Assets	8,433	8,724	11,351	13,618	16,575
Total Non-current Assets	41,513	50,684	52,324	59,694	68,205
Short-term Debt	3,880	4,665	4,898	5,143	5,400
Current Portion of Long-Term Debt					
Total Creditors	14,979	15,329	18,116	20,520	24,975
Other Current Liabilities	23,196	24,207	27,174	33,578	40,869
Total Current Liabilities	42,055	44,200	50,188	59,241	71,244
Total Long-term Debt	4,225	7,895	8,290	8,704	9,139
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,367	1,984	2,094	2,687	3,239
Total Non-current Liabilities	5,592	9,879	10,384	11,391	12,378
Total Provisions	2,037	3,053	3,019	4,477	4,541
Total Liabilities	49,684	57,132	63,591	75,109	88,163
Shareholders Equity	38,681	44,398	50,277	58,659	69,151
Minority Interests	22				
Total Equity	38,702	44,398	50,277	58,659	69,151

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	32.0%	15.2%	18.2%	23.6%	21.7%
Operating EBITDA Growth	41.8%	33.4%	24.5%	33.9%	21.7%
Operating EBITDA Margin	7.4%	8.6%	9.0%	9.8%	9.8%
Net Cash Per Share (Rs)	28.51	(24.92)	(23.71)	(25.09)	(19.29)
BVPS (Rs)	343.48	394.25	446.45	520.88	614.05
Gross Interest Cover	12.79	7.41	9.74	13.18	14.59
Effective Tax Rate	25.3%	26.0%	24.1%	25.1%	25.3%
Net Dividend Payout Ratio	22.7%	19.0%	14.8%	10.9%	8.8%
Accounts Receivables Days	71.87	75.92	77.55	76.89	77.42
Inventory Days	58.51	53.16	54.06	57.11	57.50
Accounts Payables Days	116.71	105.97	99.26	93.40	90.36
ROIC (%)	15.5%	13.7%	15.1%	17.9%	19.8%
ROCE (%)	11.3%	12.5%	13.9%	16.9%	18.3%
Return On Average Assets	5.9%	6.7%	7.7%	8.8%	9.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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