Thermax (THERMA)

ICICI Direct

CMP: ₹4308 | Target ₹ 5140 (19%) | Target Period: 12 months | **BUY**

July 31, 2026

Result Update

Legacy issues near end; growth drivers intact…

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 (~%47 of revenue), Industrial Products (~40%), Green Solutions (~6%) and Chemicals segment (~7%)

Q1FY27 performance: Thermax reported a weak Q1FY27 performance, with consolidated revenue rising 6.7% YoY to ₹2,303 crore. However, EBITDA declined 69.5% YoY to ₹68.6 crore, with EBITDA margin contracting 745 bps YoY to 3.0%. Consequently, PAT declined 85.6% YoY to ₹21.8 crore. During the quarter, order inflow increased 2% YoY to ₹2,809 crore, while the order book grew 23% YoY to ₹14,045 crore, providing healthy revenue visibility.

Investment Rationale:

- **Near-term challenges largely legacy-driven; execution and profitability expected to improve from H2FY27:** Thermax reported a weak Q1FY27 due to a ₹91 crore provision on a legacy government EPC project, around ₹300 crore of shipment delays (mainly exports), commodity cost inflation, and losses in FEPL and Bio-CNG. However, management reiterated that these are legacy issues rather than structural business weaknesses. The problematic ₹1,200 crore government project is in its final phase with only ~26% execution pending, while the remaining government/PSU exposure in the order book has reduced to below 5% (₹300–400 crore). The company has exited bidding for low-margin, high-risk government EPC projects and expects the current fiscal year to mark the end of these legacy issues. With a strong and profitable backlog, management expects two to three quarters with revenue above ₹3,000 crore, driving operating leverage and better margins from Q2/Q3 onwards.
- **Healthy order pipeline and data centre opportunities support medium-term growth:** Despite a weak Q1FY27, management remains confident of exceeding order inflows of ~₹14000 crore in FY27, supported by a robust domestic and international pipeline across TBWES, industrial products, chemicals, water and clean energy businesses. The data centre business is emerging as a key long-term growth driver, with ~₹400 crore US data-centre order backlog expected to be executed over the next few quarters. Management expects two additional US cooling order wins in Q3/Q4FY27. Thermax's differentiated cooling technology, along with its capabilities in boilers, water treatment and specialty chemicals, positions it well to benefit from rising global data-centre investments. However, timely execution of the large order backlog, conversion of the strong order pipeline into revenues, and sustained margin improvement remain key monitorable over the coming quarters.

Rating and Target Price: We expect revenues and PAT to grow at CAGR of 20.7% and 17.3% over FY26-FY28E. We recommend **BUY** on THERMAX with a target price of **₹5140** per share (**based on 55x FY28E EPS).**

THERMAX

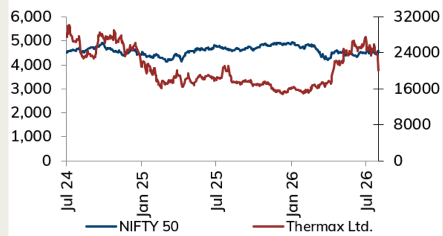
Particulars

Particulars	Rs. (in crore)
Market Capitalization	45,047
Total Debt (FY26)	2,288.0
Cash and Inv. (FY26)	1,191
Enterprise Value	46,144
52-week H/L (Rs.)	5278/2743
Equity capital	22.5
Face value (Rs.)	2.0

Shareholding pattern

%	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	62.0	62.0	62.0	62.0
FII	13.4	12.4	11.3	11.5
DII	14.0	14.8	15.5	15.2
Others	10.6	10.6	11.3	11.3

Price Chart



Key risks

(i) Lower than expected order inflows

(ii) Commodity price volatility/ delay in execution

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ICICI Securities – Retail Equity Research

Key Financial Summary

Particulars (Rs. in crore)	FY24	FY25	FY26	2 Year CAGR (FY24-FY26)	FY27E	FY28E	2 Year CAGR (FY26-FY28E)
Net Sales	9,323.5	10,388.7	10,686.8	7.1%	12,113.8	15,571.6	20.7%
EBITDA	797.4	907.8	1,026.2	13.4%	964.6	1,635.3	26.2%
EBITDA Margin (%)	8.6	8.7	9.6		8.0	10.5	
Net Profit	638.7	627.6	764.1	9.4%	599.0	1,052.3	17.3%
EPS (Rs.)	56.7	55.7	64.0		53.2	93.4	
P/ E (x)	76.0	77.3	67.3		81.0	46.1	
RoNW (%)	13.1	12.7	13.8		10.0	15.2	
RoCE (%)	15.4	15.0	13.7		11.6	17.2	

Source: Company, ICICI Direct Research

Q1FY27 Earnings call highlights

- **Financial Performance**:
  - Thermax reported a weak Q1FY27 performance, with consolidated revenue rising 6.7% YoY to ₹2,303 crore. However, EBITDA declined 69.5% YoY to ₹68.6 crore, with EBITDA margin contracting 745 bps YoY to 3.0%. Consequently, PAT declined 85.6% YoY to ₹21.8 crore.
  - Management attributed the sharp decline in profitability to a ₹91 crore increase in the estimated cost-to-complete for a single Industrial Infra project, lower export sales in Industrial Products and the absence of ₹56 crore PSI income recognised in Q1FY26.
- **Order Inflow & Order Book:**
  - Order inflow increased 2% YoY to ₹2,809 crore, while the order book expanded 23% YoY to ₹14,045 crore, providing healthy medium-term revenue visibility.
  - During the quarter, the company secured a ₹400+ crore order for the supply of boiler pressure parts for a data centre project in the US, strengthening its presence in the fast-growing data centre segment.
- **Segmental Highlights:**
  - **Industrial Products:** Revenue increased 11.4% YoY to ₹1,058 crore, supported by healthy domestic demand despite weaker exports. EBIT declined 19.0% YoY to ₹64.2 crore, with EBIT margin contracting 227 bps YoY to 6.1% (vs. 8.3% in Q1FY26), impacted by higher input costs and lower export sales. Management highlighted a healthy enquiry pipeline across pharma, chemicals, FMCG, steel, cement, oil & gas, along with increasing opportunities in global data centres.
  - **Industrial Infrastructure:** Revenue declined 2.8% YoY to ₹814 crore. The segment reported an EBIT loss of ₹70.7 crore against an EBIT profit of ₹83.3 crore in Q1FY26, with EBIT margin deteriorating to -8.7% from 9.9%, primarily due to the ₹91 crore project cost overrun. Management indicated that legacy lower-margin projects are nearing completion, while newly booked projects carry better internal margin targets, supporting future profitability.
  - **Green Solutions:** Revenue increased 3.0% YoY to ₹245 crore, while the segment remained loss-making. EBIT loss widened to ₹16.9 crore from ₹5.3 crore in Q1FY26, with EBIT margin at -6.9%. Order inflow increased sharply, supported by improved order booking at TOESL and a change in order-book reporting methodology, which increased the reported order book by ₹139 crore without affecting contracts, revenue recognition or financial performance. Management expects performance to improve as large renewable projects are commissioned over the coming quarters.
  - **Chemicals:** Revenue increased 32.5% YoY to ₹230 crore. EBIT increased 59.5% YoY to ₹25.6 crore, while EBIT margin improved 119 bps YoY to 10.5% from 9.3%, driven by higher volumes and an improved product mix. Management highlighted continued raw material volatility, particularly in styrene and water treatment chemicals, but expects margins to remain resilient through pricing actions and product mix improvements.
- **Management commentary & outlook:**
  - **Legacy Government Project:** The ₹91 crore cost overrun pertains to a legacy ~₹1,200 crore government project, where the

engineering partner introduced major design changes during the final execution phase. Around 74% of the project has already been executed, with the balance expected to be completed over the next four quarters

- Around ₹300 crore of finished goods could not be shipped during the quarter, primarily due to elevated freight costs and shipment delays arising from the Middle East conflict, impacting both revenue and margins.
- Management expects Industrial Infrastructure profitability to recover meaningfully as legacy loss-making government projects are completed. The company highlighted that all new project orders are being booked with significantly better margin profiles, while execution risks are being mitigated through detailed engineering before bidding.
- **Data Centre Opportunity:** Management identified data centres as a major structural growth driver across four businesses—cooling solutions, TBWES boiler systems, water treatment and speciality chemicals. Thermax has differentiated cooling technology for AI data centres, with only a limited number of global competitors. The company expects two additional US data-centre cooling orders during Q3-Q4FY27. The existing US data-centre order pipeline already runs into several hundred crore rupees and carries superior profitability.
- **Hydrogen & Green Fuels:** Company expects to announce its first hydrogen project during the next quarter through its partnership with HydrogenPro. A commercial SOEC demonstration plant is expected to be commissioned by year-end, while policy support for Bio-CNG and green methanol could create sizeable future opportunities.
- **Outlook:** Management remains optimistic on FY27, supported by a high-quality ₹14,045 crore order book and expects to surpass last year's order inflows. The company expects 2–3 quarters with revenue exceeding ₹3,000 crore, significant improvement in profitability from Q2FY27 onwards, Industrial Infrastructure margins returning towards 10%+, and the remaining legacy government project exposure reducing to a negligible level by FY27-end.

Financial summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Total op. Income	**10,389**	**10,687**	**12,114**	**15,572**
Growth (%)	11	3	13	29
Raw Material Expenses	5,814	5,552	6,413	8,255
Employee Expenses	954	1,148	1,269	1,421
Other Op. Expenses	1,913	2,158	2,398	2,687
Admin. Expenses	0	0	0	0
Other expenses	0	0	0	0
Total Op. Expenditure	8,681	8,859	10,081	12,363
EBITDA	**908**	**1,026**	**965**	**1,635**
Growth (%)	14	13	-6	70
Depreciation	159	208	209	242
Interest	117	139	130	124
Other Income	252	267	193	165
PBT	885	1,008	820	1,434
Others	0	0	0	0
Total Tax	258	288	221	382
PAT	**628**	**720**	**599**	**1,052**
Growth (%)	-2	15	-17	76
EPS (Rs.)	**55.7**	**64.0**	**53.2**	**93.5**

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Profit after Tax	628	720	599	1,052
Add: Depreciation	159	208	209	242
(Inc)/dec in Current Assets	-943	470	442	-4,331
Inc/(dec) in CL and Provisions	844	45	-488	2,617
CF from operating activities	**688**	**1,443**	**761**	**-419**
(Inc)/dec in Investments	262	-376	618	-20
(Inc)/dec in Fixed Assets	-1,096	-1,329	-270	-170
Others	0	0	0	0
CF from investing activities	**-1,064**	**-1,674**	**-70**	**-173**
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	437	595	-187	-30
Dividend paid & dividend tax	-135	-158	-135	-135
Inc/(dec) in Sec. premium	6	3	0	0
Others	0	0	0	0
CF from financing activities	**307**	**487**	**-322**	**-165**
Net Cash flow	-69	256	368	-758
Opening Cash	487	418	674	1,043
Closing Cash	**418**	**674**	**1,043**	**285**

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Liabilities				
Equity Capital	22.5	22.5	22.5	22.5
Reserve and Surplus	4,915	5,527	5,991	6,908
Total Shareholders funds	4,937	5,550	6,014	6,931
Total Debt	1,693	2,288	2,101	2,071
Deferred Tax Liability	30	40	48	48
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	**6,935**	**8,134**	**8,544**	**9,457**
Assets				
Gross Block	3,748	4,172	5,739	5,889
Less: Acc Depreciation	1,133	1,304	1,494	1,717
Net Block	2,615	2,868	4,245	4,172
Capital WIP	561	1,392	75	75
Total Fixed Assets	3,176	4,260	4,320	4,247
Investments	121	497	-121	-101
Inventory	720	910	750	1,383
Debtors	2,418	2,324	2,921	3,754
Loans and Advances	1	1	25	9
Other Current Assets	1,460	1,407	1,361	2,065
Cash	418	674	1,043	285
Total Current Assets	5,018	5,315	6,100	7,496
Creditors	1,697	2,057	2,157	2,773
Provisions	374	325	477	613
Total Current Liabilities	5,103	5,148	4,660	7,277
Net Current Assets	2,219	1,960	2,375	3,332
Others Assets	0	0	0	0
Application of funds	**6,935**	**8,134**	**8,544**	**9,457**

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Per share data (Rs.)				
EPS	55.7	64.0	53.2	93.4
Cash EPS	69.8	82.4	71.7	115.0
BV	438.5	492.9	534.1	615.5
DPS	12.0	14.0	12.0	12.0
Cash Per Share	37.1	59.9	92.6	25.3
Operating Ratios (%)				
EBITDA Margin	8.7	9.6	8.0	10.5
PBT / Total Operating income	8.5	9.4	6.8	9.2
PAT Margin	6.0	7.2	4.9	6.8
Inventory days	25.3	31.1	22.6	32.4
Debtor days	84.9	79.4	88.0	88.0
Creditor days	59.6	70.3	65.0	65.0
Return Ratios (%)				
RoE	12.7	13.8	10.0	15.2
RoCE	15.0	13.7	11.6	17.2
RoIC	33.6	28.6	16.7	34.8
Valuation Ratios (x)				
P/E	77.3	67.3	81.0	46.1
EV / EBITDA	54.8	48.8	51.4	30.8
EV / Net Sales	4.8	4.7	4.1	3.2
Market Cap / Sales	4.7	4.5	4.0	3.1
Price to Book Value	9.8	8.7	8.1	7.0
Solvency Ratios				
Debt/EBITDA	1.9	2.2	2.2	1.3
Debt / Equity	0.3	0.4	0.3	0.3
Current Ratio	0.9	0.9	1.1	1.0
Quick Ratio	**0.8**	**0.7**	**0.9**	**0.8**

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%

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