Thermax (Therma)

CMP: ₹2740 | Target ₹ 2960(8%) | Target Period: 12 months | HOLD

November 6, 2026

Execution headwinds persist: Recovery hinges on margin improvement …

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%)

Q2FY27 performance: Thermax reported consolidated revenue growth of 11.4% YoY to ₹2,755.9 crore in Q2FY27. Operating EBITDA increased 12.9% YoY to ₹194.1 crore, with margin improving marginally by 9 bps to 7.0%. However, consolidated PAT declined 5.3% YoY to ₹113.11 crore from ₹119.40 crore, impacted by adverse product mix and higher input costs, particularly in Industrial Products, On the order front, order booking declined 8.2% YoY to ₹3,259 crore, while order balance increased 15.9% YoY to ₹14,250 crore.

Investment Rationale:

- **Weak operating performance with margin recovery still awaited:** Thermax reported subdued operating performance in Q2FY27, with consolidated revenue growing 11.4% YoY to ₹2,755.9 crore, while operating EBITDA increased 12.9% YoY to ₹194.1 crore, translating into a modest 7.0% margin expansion of just 9 bps. Industrial Products profitability remained weak at around 6% during H1FY27, impacted by elevated commodity costs, delayed high-margin export shipments and lower fixed-cost absorption. Although management expects a sharp recovery in H2FY27, with an aspiration of 9–10% FY27 profitability in Industrial Products, execution and margin recovery remain key monitorable.
- **Order inflow challenges and continued losses in Green Solutions:** Order inflows declined 8% YoY in Q2FY27, reflecting a high base of large international utility boiler orders and deferment of major Industrial Products orders. While management expects the deferred ₹300 crore order gap to be recovered in Q3FY27, sustained double-digit order growth remains dependent on conversion of large projects. Additionally, Green Solutions continues to face profitability challenges, with FEPL expected to report similar or higher losses in H2FY27 compared with H1FY27. Bio-CNG also remains loss-making, with fresh order inflows expected only from Q4FY27. The proposed external growth partner for FEPL provides a potential strategic resolution, but execution remains monitorable.
- **Rating and Target Price:** We expect revenues and PAT to grow at CAGR of 18% and 4.4% over FY26-FY28E. We **Downgrade** rating **BUY** to **HOLD** rating on **THERMAX** with a target price of **₹2960** per share (**based on 40x FY28E EPS)**, given subdued operating profitability, uncertain order inflow momentum and continued losses in Green Solutions, we await tangible improvement in execution, margins and order inflows before turning constructive.

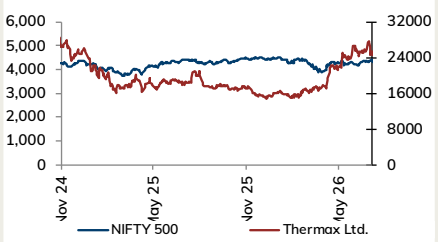
Particulars

	Rs. (in crore)
Market Capitalization	32530
Total Debt (FY26)	2,288.0
Cash and Inv. (FY26)	1,191
Enterprise Value	40,208
52-week H/L (Rs.)	5278/2666
Equity capital	22.5
Face value (Rs.)	2.0

Shareholding pattern

%	Dec-25	Mar-26	Jun-26	Sep-26
Promoter	62.0	62.0	62.0	62.0
FII	12.4	11.3	11.5	11.3
DII	14.8	15.5	15.2	14.9
Others	10.6	11.3	11.3	11.8

Price Chart



Key risks

(i) Lower than expected order inflows

(ii) Commodity price volatility/ delay in execution

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Result Update

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%	12,146.0	14,902.6	18.1%
EBITDA	797.4	907.8	1,026.2	13.4%	853.1	1,338.1	14.2%
EBITDA Margin (%)	8.6	8.7	9.6		7.0	9.0	
Net Profit	638.7	627.6	764.1	9.4%	536.2	832.4	4.4%
EPS (Rs.)	56.7	55.7	64.0		47.6	73.9	
P/ E (x)	48.3	49.2	42.8		57.5	37.1	
RoNW (%)	13.1	12.7	13.8		9.0	12.5	
RoCE (%)	15.4	15.0	13.7		10.9	14.4	

Source: Company, ICICI Direct Research

Q2FY27 Earnings call highlights

- **Financial Performance**:
  - Thermax reported consolidated revenue growth of 11.4% YoY to ₹2,755.9 crore in Q2FY27. Operating EBITDA increased 12.9% YoY to ₹194.1 crore, with margin improving marginally by 9 bps to 7.0%. However, consolidated PAT declined 5.3% YoY to ₹113.11 crore from ₹119.40 crore, impacted by adverse product mix and higher input costs, particularly in Industrial Products.
- **Order Inflow & Order Book:**
  - On the order front, order booking declined 8.2% YoY to ₹3,259 crore, while order balance increased 15.9% YoY to ₹14,250, providing healthy medium-term revenue visibility.
  - Industrial Products witnessed approximately ₹300 crore of deferred orders, which management expects to recover during Q3FY27. A significant portion was already received in October.
- **Segmental Highlights:**
  - **Industrial Products:** Industrial Products profitability remained weak around 6% in H1FY27, impacted by commodity inflation, lower fixed-cost absorption and deferred high-margin export shipments. Management aspires to achieve higher single digit (~9%) Industrial Products profitability for FY27, supported by higher volumes and execution of profitable international orders in H2. Management expects the impact to moderate progressively in Q3 and Q4, assuming commodity prices stabilize.
  - **Industrial Infrastructure:** Revenue grew 13.6% YoY to ₹1006.23 crore. The segment reported an EBIT of ₹56 crore against an EBIT loss of ₹0.8 crore in Q2FY26, with EBIT margin improved to 5.56% from -0.9%. Thermax Babcock & Wilcox Energy Solutions (TBWES) added over ₹2,000 crore to its order backlog over the past year. Management is investing approximately ₹100 crore in capacity expansion, alongside debottlenecking and vendor outsourcing.
  - **Renewable energy business (FEPL) – Losses to continue:** FEPL continues to face losses due to project delays, including a capital-intensive project in Tamil Nadu awaiting government approvals. Management expects H2FY27 losses to be similar to or slightly higher than H1FY27, indicating continued pressure on consolidated profitability. Thermax is seeking an external growth partner for FEPL. It expects at least one binding offer before FY27-end and aims to complete the transaction by Q1FY28.
  - **Chemicals:** Revenue increased 18% YoY to ₹225.5 crore. EBIT decline 22% YoY to ₹14.66 crore, while EBIT margin contracted to 6.5% from 9.8%, The Chemicals business experienced a gross commodity-cost impact of approximately ₹20–25 crore in H1FY27.

- **5. Data centre opportunity – Strong pipeline, but US orders delayed:**
  - Thermax continues to gain traction in cooling and boiler solutions for data centres across India and the US.
  - Domestic data centre cooling orders typically range between ₹40 crore and ₹100 crore. The company secured one order in Q2FY27 and another in Q3FY27.
  - The first US data centre order was valued at slightly over US$20 million, while larger opportunities could be several times this size.
  - US data centre projects have experienced delays of approximately 1–3 months due to environmental clearances and regulatory approvals.
  - Management now expects to secure one additional US data centre order during FY27, compared with its earlier expectation of two.

- **Management commentary & outlook:**
  - Management expects H2FY27 revenue of ₹7,000 crore+, implying healthy double-digit YoY growth. Approximately ₹200–300 crore of revenue shifted from Q2FY27 to Q3FY27 due to delays in international shipments and customer project schedules.
  - Management expects at least one additional supercritical boiler order in FY27, with potential for multiple orders.

Financial summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Total op. Income	**10,389**	**10,687**	**12,146**	**14,903**
Growth (%)	11	3	14	23
Raw Material Expenses	5,814	5,552	6,481	7,932
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	10,148	12,040
EBITDA	**908**	**1,026**	**853**	**1,338**
Growth (%)	14	13	-17	57
Depreciation	159	208	209	242
Interest	117	139	135	124
Other Income	252	267	235	165
PBT	885	1,008	744	1,137
Others	0	0	0	0
Total Tax	258	288	208	304
PAT	**628**	**720**	**536**	**832**
Growth (%)	-2	15	-26	55
EPS (Rs.)	**55.7**	**64.0**	**47.6**	**73.9**

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Profit after Tax	628	720	536	832
Add: Depreciation	159	208	209	242
(Inc)/dec in Current Assets	-943	470	414	-1,772
Inc/(dec) in CL and Provisions	844	45	-469	993
CF from operating activities	**688**	**1,443**	**690**	**297**
(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**	**-195**	**-292**
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	173	-160
Opening Cash	487	418	674	847
Closing Cash	**418**	**674**	**847**	**686**

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	5,929	6,626
Total Shareholders funds	4,937	5,550	5,951	6,648
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**	**8,482**	**9,174**
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	754	1,287
Debtors	2,418	2,324	2,928	3,593
Loans and Advances	1	1	26	7
Other Current Assets	1,460	1,407	1,368	1,463
Cash	418	674	847	686
Total Current Assets	5,018	5,315	5,923	7,037
Creditors	1,697	2,057	2,163	2,654
Provisions	374	325	478	587
Total Current Liabilities	5,103	5,148	4,679	5,673
Net Current Assets	2,219	1,960	2,187	2,805
Others Assets	0	0	0	0
Application of funds	**6,935**	**8,134**	**8,482**	**9,174**

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	47.6	73.9
Cash EPS	69.8	82.4	66.1	95.4
BV	438.5	492.9	528.5	590.4
DPS	12.0	14.0	12.0	12.0
Cash Per Share	37.1	59.9	75.2	61.0
Operating Ratios (%)				
EBITDA Margin	8.7	9.6	7.0	9.0
PBT / Total Operating income	8.5	9.4	6.1	7.6
PAT Margin	6.0	7.2	4.4	5.6
Inventory days	25.3	31.1	22.7	31.5
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	9.0	12.5
RoCE	15.0	13.7	10.9	14.4
RoIC	33.6	28.6	14.3	23.1
Valuation Ratios (x)				
P/E	49.2	42.8	57.5	37.1
EV / EBITDA	35.4	31.6	37.6	24.1
EV / Net Sales	3.1	3.0	2.6	2.2
Market Cap / Sales	3.0	2.9	2.5	2.1
Price to Book Value	6.2	5.6	5.2	4.6
Solvency Ratios				
Debt/EBITDA	1.9	2.2	2.5	1.5
Debt / Equity	0.3	0.4	0.4	0.3
Current Ratio	0.9	0.9	1.1	1.1
Quick Ratio	**0.8**	**0.7**	**0.9**	**0.9**

Source: Company, ICICI Direct Research

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