



**THERMAX**

**Thermax Limited**

## Powering Progress with Energy Solutions



**Air Pollution Control**

**Renewable Energy**



**Water and Waste Solutions**

## Accumulate



### Key Data

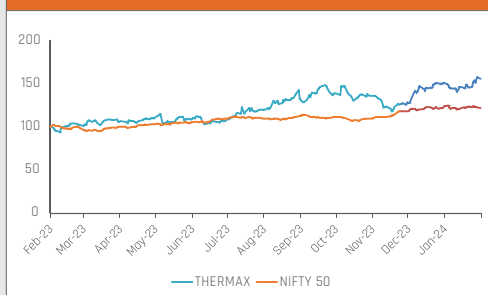
DATE	09.02.2024
Reco Price (Rs.)	3,260-3,280
Target Price (Rs.)	4,096
Sector	Engineering - Industrial Equipment
BSE Code	500411
NSE Code	THERMAX
EPS (FY23)	37.81
Face Value (Rs.)	2.00
Market Cap (Mn)	3,99,215.30
52-week High/Low (Rs)	3,456.15 / 1,985.05

Source : NSE, BSE

Shareholding pattern (Dec-2023)	%
Promoters	61.99
DII's	15.86
FII's	12.01
Public	4.66
Others	5.48
<b>Total</b>	<b>100.00</b>

Source : NSE, BSE

### Price Performance



Rebase to 100

Retail Research Desk

Email: retailresearch@acm.co.in

## Thermax Limited

### Company Background

**Thermax Limited (THERMAX)** is a multinational engineering conglomerate that is involved in clean air, clean energy, and clean water solutions. Headquartered in Pune, it has emerged as a leading conglomerate in the energy and environment sector. The company has strategically spread its operations to markets worldwide and catering to a gamut of industries. The Company's portfolio includes boilers and heaters, absorption chillers/ heat pumps, power plants, solar equipment, air pollution control equipment/ system, water and waste recycle plants, ion exchange resins and performance chemicals, and related services. THERMAX operates globally through 34 international offices, 22 domestic offices, and 14 manufacturing facilities of which 10 are in India and one each in Denmark, Indonesia, Poland, and Germany.

The company's presence spans in terms of installation in 90+ countries and it supports customers through an extensive sales and service network spread over Asia, South East Asia, the Middle East, Africa, Europe, and America. The group consists of 17 wholly-owned domestic subsidiaries and 20 wholly-owned overseas subsidiaries.

### Outlook and Valuation

Thermax Limited provides equipment and services solutions in the areas of energy and environment which comprises heating, cooling, power, water & waste management, air pollution control, and chemicals. The company's focus on energy and environment-friendly solutions and products led to growth which is supported by changing emission norms and growing demand for green-energy solutions. The future of Thermax is closely aligned with the needs of a cleaner, greener, and healthier world. The Company is committed to its philosophy of 'Conserving Resources, Preserving the Future' with more sustainable projects in clean air, clean energy, and clean water. We believe Thermax Limited is well-placed to capitalize on these opportunities. Going ahead, **we expect the company's revenue to grow at a CAGR of ~10.74% over FY23-FY26E.** Hence, we recommend Thermax Limited with a target price of Rs 4096 based on FY26E EPS of Rs 60.24 with a forward PE valuation multiple of 68x. **It looks like a value buy with growth potential for medium to long-term investment. Hence, we recommend ACCUMULATE rating for the long term.**

### Financial Snapshot

Particulars (in Mn.)	FY23	FY24E	FY25E	FY26E	CAGR % (FY23 - FY26E)
Sales	80,898.10	88,987.91	97,886.70	1,09,877.82	10.74%
EBITDA	5,973.30	7,030.04	7,830.94	9,229.74	15.61%
EBITDA Margin %	7.38%	7.90%	8.00%	8.40%	
PAT	4,507.00	5,240.88	5,987.28	7,181.13	16.80%
PAT Margin %	5.57%	5.89%	6.12%	6.54%	
Diluted EPS (Rs.)	37.81	43.97	50.23	60.24	

Source: Company, ACMIL Retail Research

## Company at a Glance

- Five decades of deep domain expertise in understanding the energy matrix and a team of dedicated engineers.
- Sales and Service Presence in 30+ Countries
- The company has benefitted from clients' increasing focus on energy efficiency and carbon footprint reduction.
- Thermax is investing in green and clean technology and expanding its product portfolio.
- The company is setting up its first heat recovery waste to energy boiler in the UK.

## Company Business and Products

Thermax Limited is an India-based company, which offers solutions to the energy, environment, and chemical sectors. It operates through four segments as below. The Company designs, builds, and commissions boilers for steam and power generation, turnkey power plants, industrial and municipal wastewater treatment plants, waste heat recovery systems, and air pollution control projects.

Segment	Businesses Covered
Industrial Products	Boilers & Heating equipment (small capacity), Absorption Chillers / Heat Pumps, Air Pollution Control Equipment/Systems, Water & Waste recycling. Including Associated Services and Engineering, Procurement and Construction (EPC).
Industrial Infra	EPC of Power Plants, Boiler & Heater (high capacity) Plants, Infra Projects, and Flue Gas Desulphurisation Projects (Includes Associated Services).
Green Solutions	Build, Own, and Operate (BOO) model of Green Solutions for Energy and Environment Utilities.
Chemical	Ion Exchange Resins, Performance Chemicals, Construction Chemicals, Water Treatment Chemicals, Oil Field Chemicals, Paper Chemicals, Construction Chemicals, and Related Services.

Source: Company, ACMIIL Retail Research

The product portfolio of different segments include:

### 1. Industrial Products:

The Company's Industrial Products segment comprises its largest portfolio. Under Clean Energy, this segment supplies packaged boilers and fired heaters, in addition to offering turnkey solutions for process heating using various heating media such as steam, thermic fluid, hot water, and hot air. Moreover, it provides biomass-fired equipment for the combustion of green fuels, including agricultural waste and industrial process waste. The segment also offers heat recovery solutions for clean energy production and is supported by steam engineering products and accessories. Furthermore, it specializes in providing air pollution control systems for both particulate and gaseous exhaust. The Company's expertise extends to offering comprehensive solutions for environmental protection, covering products and systems for air pollution control (APC) as well as retrofit and rebuild services.

### 2. Industrial Infra:

Industrial Infra covers Projects and Energy Solutions (P&ES) and Thermax Babcock & Wilcox Energy Solutions (TBWES) businesses. P&ES offers captive power plants, cogeneration systems, waste heat recovery power plants, and independent power plants in the utility space on an EPC basis. The business provides captive and independent power plants operating on a variety of renewable fuels. It also offers equipment and solutions based on conventional fuels (solid, liquid, and gaseous). Cogeneration is a system that produces heat and electricity in a single plant powered by a single energy source.

### 3. Green Solutions:

The Green Solutions segment includes Thermax Onsite Energy Solutions Limited (TOESL) which provides green utilities such as steam, heat, treated water, chilled water, and cogeneration power, along with other utilities on a long-term basis (build-own-operate model). The Company has recently entered into a partnership for green hydrogen projects for commercial and industrial customers in India. The production of green hydrogen at an industrial scale would be a major step forward in decarbonizing hard-to-abate industries such as refineries, fertilizers, and steel.

# Investment Idea

## 4. Chemical:

The Chemical segment manufactures and markets a wide range of specialty chemicals to help improve processes and water use efficiency across a spectrum of industries. Thermax is recognized as Asia's leading manufacturer and exporter of ion exchange resins and is a pioneer in water and wastewater treatment chemicals. It also manufactures construction and oil-field chemicals. With these specialty chemicals and its strong dealer network, it serves several industrial sectors and customers globally. The company has equipped with modern research, state-of-the-art manufacturing facilities, and qualified professionals to offer customized solutions. The USA is an important market for this business.

### Subsidiaries:

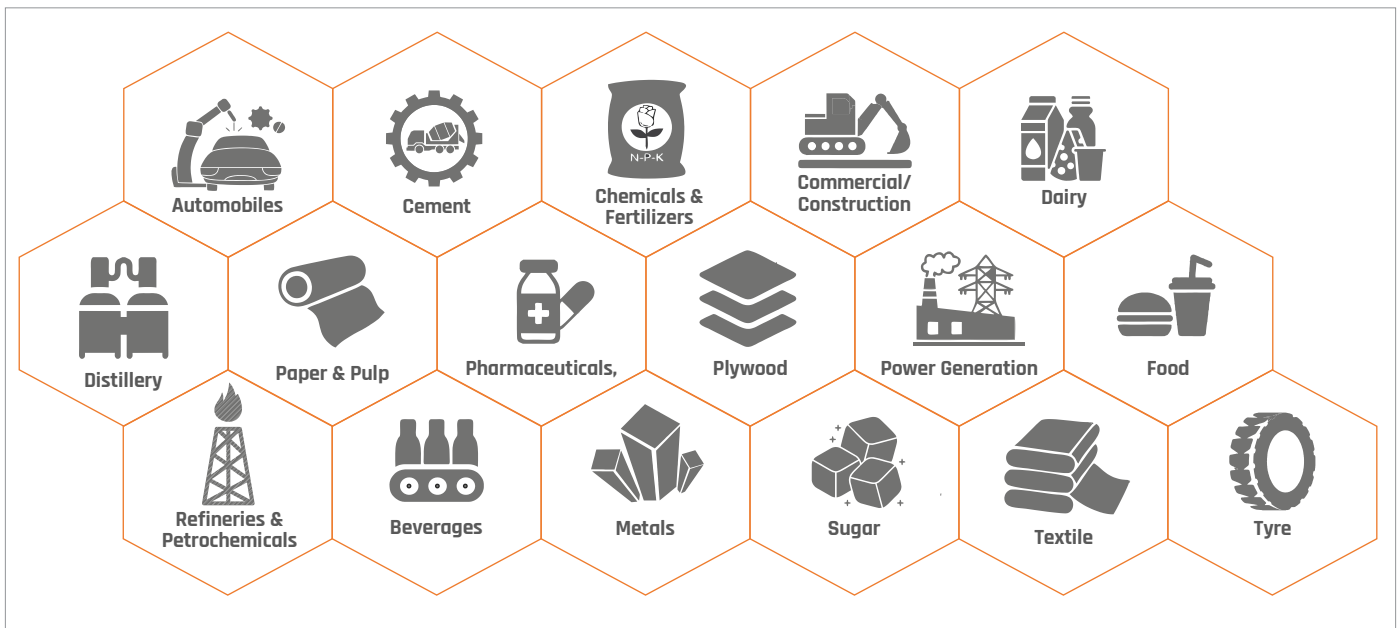
- Thermax Babcock & Wilcox Energy Solutions Limited (TBWES)**  
 TBWES, a 100% subsidiary of Thermax, provides steam generation solutions for process and power needs, using fuel as well as waste heat. Additionally, it offers renovation and modernization along with upgrades for old boilers and furnaces. To expand its green portfolio in conjunction with the trend toward clean energy, TBWES has developed newer technologies and formed strategic partnerships focused on waste to energy, municipal solid waste (MSW) incineration, and waste heat recovery, all of which are gaining traction. One of the most recent additions is the newly-launched FlexiSource multifuel boiler.
- Thermax Onsite Energy Solutions Limited (TOESL)**  
 TOESL is a sustainable utility provider that uses the build-own-operate (BOO) business model to deliver utilities such as steam, heat, treated water, and cogeneration power.
- First Energy Private Limited (FEPL)**  
 First Energy Private Limited (FEPL), is commissioned as solar and solar-wind hybrid farms to fulfil Company's customers' captive renewable power requirements.

### Other Key Overseas Subsidiaries:

1. PT Thermax International, Indonesia (PT TII).
2. Thermax Europe
3. Danstoker Group
4. Thermax Inc., USA

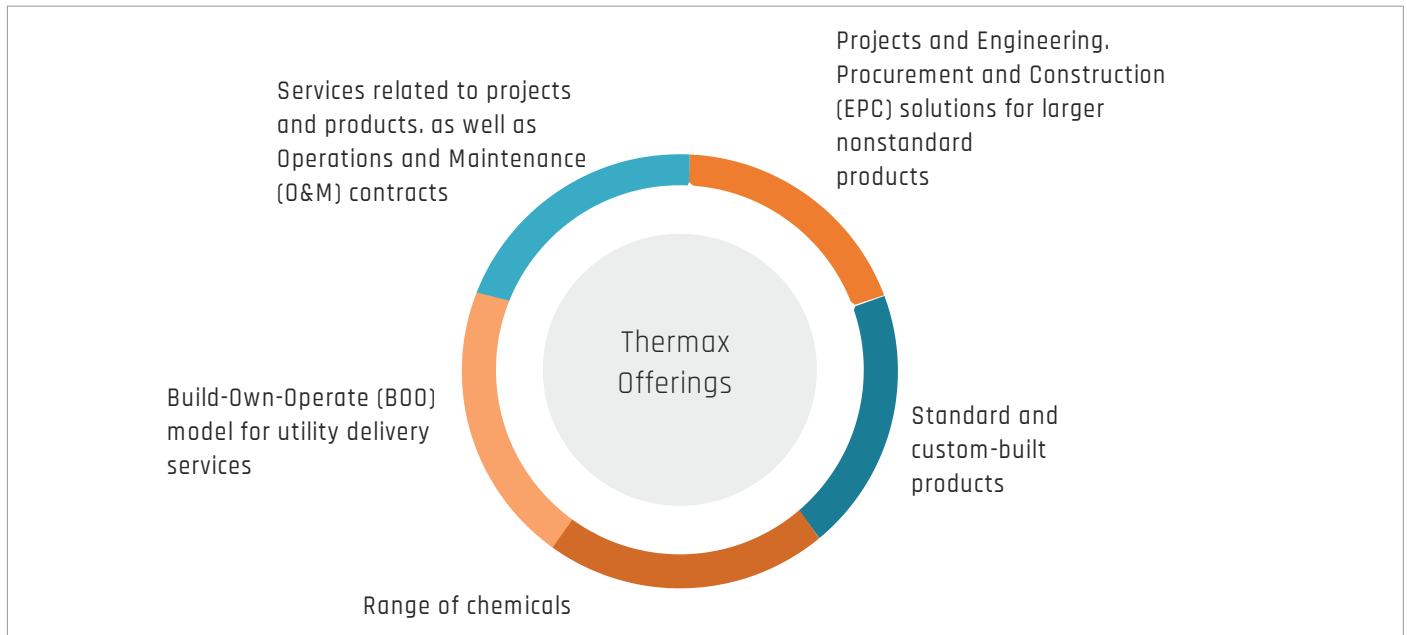
## Industries Catered

Thermax has a rich experience of working across industries -



Source: Company, ACMIL Retail Research

## Thermax Offerings



Source: Company, ACMIIL Retail Research

## Investment Rationale

### Embracing the Green Revolution: Leading the charge towards sustainable energy solutions

We believe the company is well-positioned to benefit from the increasing emphasis on energy transition and de-carbonization initiatives led by the government to promote reliable, cleaner, greener, and sustainable energy. This signifies a strategic shift towards resource-efficient economic growth. These initiatives mark a significant milestone in India's green energy journey, representing a progressive step towards future growth, especially considering the company's sustainable green industrial solutions in bioenergy, heating & cooling, chemicals, and wastewater treatment.

### Adoption of Environmental Solution technologies

Private Capex revival with increased new investments by industries towards improving their sustainability performance with the adoption of environmental solution technologies. They are focused on minimizing carbon and water footprints and optimizing resource consumption with efficiency improvement solutions, renovation and modernization projects, and adopting energy-efficient technologies. Thermax with its heating, cooling, power, and diverse environmental solutions is well-positioned to address this need.

### Capturing new opportunities

The company remains to capture opportunities in waste heat recovery, CFBC boilers, and biomass in both domestic and export markets. The Company is also contemplating opportunities across newer and green technologies such as solar, biomass, and green hydrogen which will provide the next leg of growth. It has wide offerings and technological capabilities in desalination. The company has also solutions & Expertise in coal gasification, gas segregation and gas cleaning.

### Ample growth opportunities

Industries such as steel and cement are undergoing capacity expansion, which bodes well for Thermax. The Indian Government's Union Budget announcement for infrastructure development and the PLI package will support demand in the coming years. The government's National Infrastructure Plan (NIP), which projects a total capital expenditure of ~Rs. 111 lakh crore during FY2020-2025, also augurs well for the growth of capital goods players. The significant allocation towards infrastructure is expected to provide healthy growth opportunities for the company.

### Diverse product portfolio and geographical presence leading to the stable revenue stream

Thermax is a leading player in several product segments, including vapor absorption chillers, low- and medium-capacity boilers, and electrostatic precipitators. Additionally, the company has been steadily expanding its global footprint, with approximately 25% of its revenue derived from overseas markets across various geographies.

### Scope of margin improvement

The better product mix, revenue growth, and the softening of commodity prices, in general, are expected to lead to a high possibility of improving overall margins moving forward. The management anticipates a profit after tax (PAT) margin in the range of 6% to 8% in the coming years.

## Bio-CNG Plant as another growth opportunity

Proposal by the Indian Government to establish 5,000 bio-CNG plants within five years, creating a potential market worth Rs. 25,000 crores. Moreover, the Ministry of New and Renewable Energy (MNRE) has also introduced a supportive Sustainable Alternative towards Affordable Transportation (SATAT) policy, which guarantees market-linked pricing and financial assistance. This presents a promising opportunity with a favorable environment for Thermax.

## Green Hydrogen to give an edge

Currently, green hydrogen is in a nascent stage, Thermax wants to be an end-to-end EPC player in a hydrogen project. They have an interest in the electrolyzer and biomass to hydrogen side. Thermax recently entered the green hydrogen market in partnership with Fortescue Future Industries (FFI), an Australia-based green energy and green technology company, have signed an MOU to explore green hydrogen projects including new manufacturing facilities in India.

## Additional Key Growth Drivers

- Thermax has a robust outstanding order book of around 10,717 cr as of 31.12.2023 indicating Revenue visibility for coming Quarters.
- It has benefitted from clients' increasing focus on energy efficiency and carbon footprint reduction. The Company is investing in green and clean technology and expanding its product portfolio.
- Thermax Limited has recently acquired 51% stake in TSA Process Equipments, with plans to acquire the remaining 49% over two years. The acquisition will enhance Thermax's water division's capabilities, providing end-to-end solutions for highly purified water in various industries.
- The global and domestic shift towards renewable energy aligns well with the company's solutions in waste-to-energy, waste heat recovery, and renewables. These offerings cater to the needs of both local and international enterprises.
- The Company's technological know-how, customized solutions, and well-trained field engineering staff have aided the expansion of the Green Solution segment. It has a full-fledged in-house R&D setup, including testing equipment, prototypes, pilot plants, and shop floor plant installation to validate product performance.
- THERMAX is going to focus on urban and commercial segments to offer sewage recycling solutions with newer compact products based on membrane bioreactor (MBR) and sequential batch reactor (SBR) technologies.
- The Company's strong emphasis on zero liquid discharge (ZLD) systems with advanced multi-effect evaporators gives new avenues for future growth.
- THERMAX is having a continuous increase in demand for solvent-free and low total organic carbon (TOC) resins for ultrapure water applications in industries such as food, pharma, and electronics.
- THERMAX is in line with new business development collaborations and industrial associations, OEMs, process licensors, and consultants in important markets.
- With India's commitment to COP26, aiming to reduce carbon intensity to less than 45% by the end of the decade and achieve net-zero carbon emissions by 2070, the company is well-positioned to seize opportunities in the emerging areas related to clean and sustainable energy.
- Tightened ESG standards, decarbonization, and energy transition would create opportunities for Thermax, with its expertise in heating, cooling, power, and diverse environmental solutions, putting it in a good position to capitalize.
- The company's state-of-the-art facilities in India, equipped with modularized equipment and offering significant value addition, are receiving positive responses from overseas customers.

## Industry Overview

India's Capital Goods manufacturing industry serves as a strong base for its engagement across sectors such as Engineering, Construction, Infrastructure, and Consumer goods, amongst others. The engineering sector is the largest among the industrial sectors in India and holds immense strategic importance to the country's economy due to its close association with the manufacturing and infrastructure sectors. India exports transport equipment, capital goods, other machinery/equipment, and light engineering products such as castings, forgings, and fasteners to various countries of the world. The demand for services in the engineering sector is being driven by capacity expansion in various industries such as cement, automotive and auto ancillaries, electricity, mining, oil and gas, refinery, steel, chemicals, sugar, and consumer durables.

India holds a competitive advantage in terms of manufacturing costs, market knowledge, technology, and innovation in various engineering sub-sectors. The engineering sector in India has experienced remarkable growth in recent years. India is the third-largest consumer of energy in the world. Supported by industrial growth, urbanization, government policies, and favourable geopolitics over the past decade, India has achieved an installed capacity exceeding 400 GW. The Indian power sector employs a wide range of fuel sources, including traditional sources such as coal, oil, and gas, alongside environmentally sustainable sources such as solar, wind, biomass, industrial waste, and both large and small hydro plants. With a population of approximately 1.4 Bn and the world's fastest major growing economy, India's energy demand is growing rapidly.

A catalyst for power industry growth, infrastructure development initiatives focus on expanding and modernizing power generation, transmission, and distribution networks. These efforts aim to meet rising energy demands, integrate renewable sources, and enhance overall efficiency. Investment in smart grids and digital technologies contributes to improved grid management, reducing losses. Beyond advancing the power sector, these initiatives create ancillary opportunities, stimulate economic growth, and generate employment. In summary, infrastructure development serves as a cornerstone for building a resilient, efficient, and sustainable power ecosystem.

Furthermore, the Indian government's policies and reforms aimed at boosting manufacturing, such as the Make in India initiative and the Production-Linked Incentive (PLI) schemes, are beginning to show positive outcomes. These initiatives are expected to contribute to the overall sustainable GDP growth of the country throughout this decade, as noted by many experts.

In January 2024, India's Manufacturing Purchasing Managers' Index (PMI) recorded a robust figure of 56.50, the strongest growth in the factory sector since last September, as both output and new orders expanded the most in four months while new export orders increased further. This indicates strong manufacturing activities supported by overall demand and order inflow across various sectors. The government's budget for the current period included a capital expenditure (capex) outlay of 11.11 lakh crore, providing a significant impetus for the country's infrastructure and construction development. Such public capex initiatives and government policies are expected to stimulate private capex revival across industries and contribute to the overall GDP growth of the country.

Carbon Capture, Utilization, and Storage (CCUS) policies incentivize companies to adopt technologies that capture and store carbon emissions, ensuring compliance with regulations, mitigating carbon costs, enhancing CSR, accessing funding and investment, managing climate-related risks, driving technological innovation, and contributing to long-term sustainability goals, thus fostering a transition to a low-carbon economy and enhancing business competitiveness in a carbon-constrained world. These incentives are anticipated to unlock significant opportunities for the industry, particularly in developing new product lines like green ammonia, green urea, and green hydrogen. CCUS is recognized as a crucial strategy in the global fight against climate change, offering a way to reduce emissions and enable oil and gas companies to utilize captured CO<sub>2</sub> for enhanced oil recovery (EOR) or chemical production.

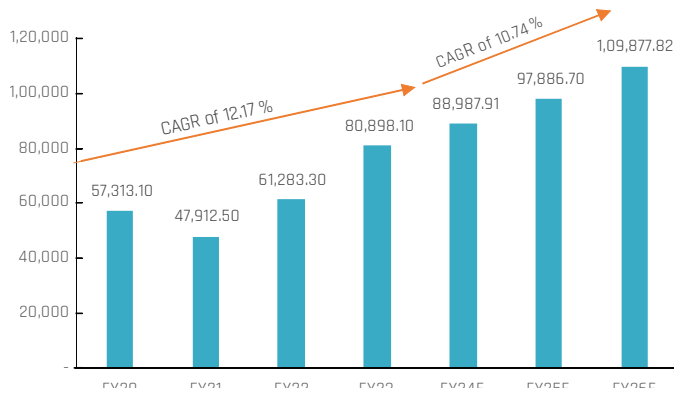
The government has also introduced several policies aimed at promoting the adoption of environmental solution technologies in new capex projects across industries. In addition, incentives and schemes have been implemented to encourage the use of renewables and alternative energy sources in industries.

## Industry Growth Drivers

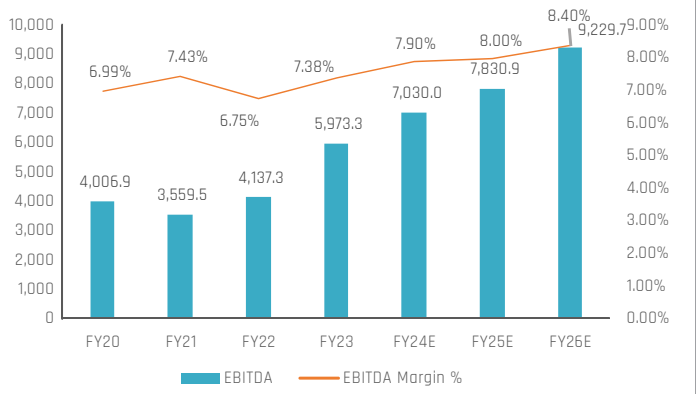
- Emphasis on clean energy driving a shift in the energy mix, creating opportunities for Greenfield projects and brownfield replacements.
- Increasing demand for EPC, renewable energy, waste to energy, waste heat recovery plants, and biofuels due to focus on sustainability and energy-efficient solutions.
- Increase in demand for dry cooling solutions and adiabatic cooling towers on account of sustainability and water consumption regulations.
- Development of new air pollution control technologies to manage diverse versions of gaseous pollutants and enable agro-based fuel combustion.
- The Government commitment towards 20% ethanol blending by 2025 will also push for future growth.
- Energy transition and action on climate change are major priorities of governments globally.
- The government's ambitious target of achieving 500 GW of renewable energy capacity by 2030 is creating a surge in demand for specialized equipment for solar, wind, and other renewable energy projects.
- Government's mandate to power companies on installation of FGD systems within a stipulated timeframe to mitigate SO<sub>x</sub> emissions.

## Story in Charts (Values in Mn.)

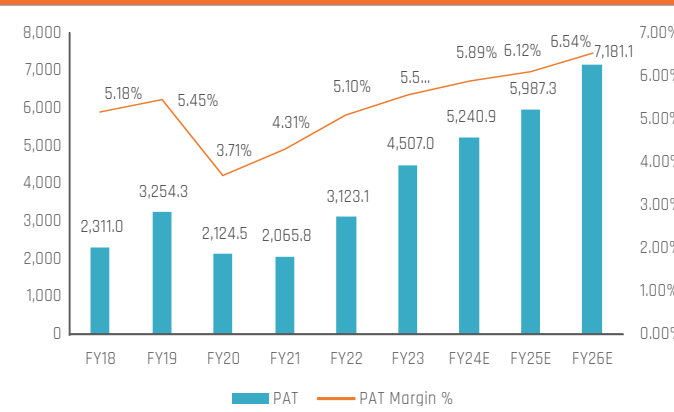
**Exhibit 1: Sales Growth**



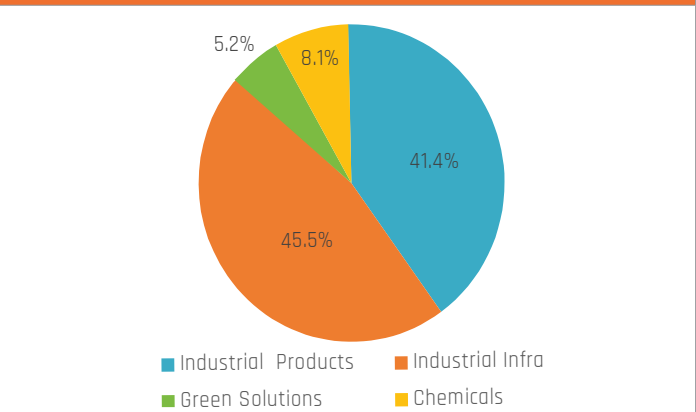
**Exhibit 2: EBITDA & EBITDA Margin (%)**



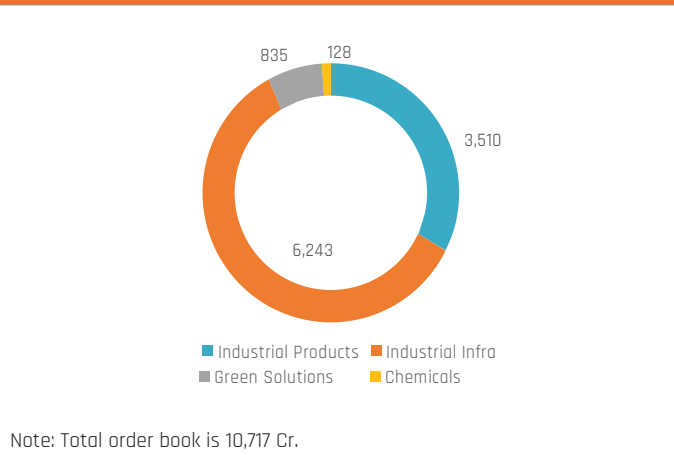
**Exhibit 3: PAT & PAT Margin (%)**



**Exhibit 4: Segment Wise breakup as on December, 2023**

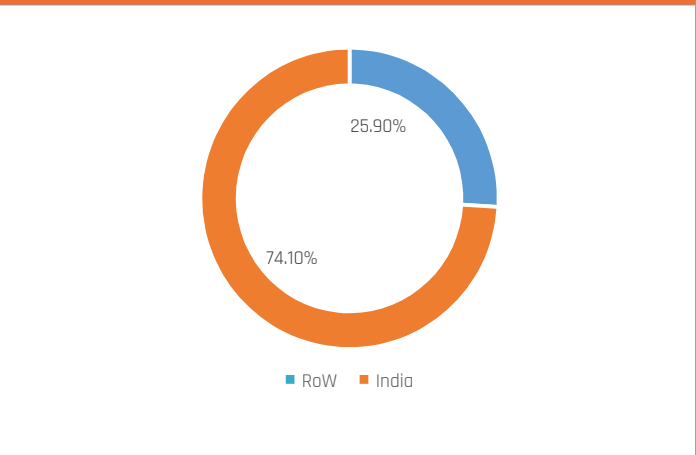


**Exhibit 5: Order Book as on December 2023**



Note: Total order book is 10,717 Cr.

**Exhibit 6: Location wise breakup**



Source: Company, ACMIIL Retail Research



## Financial Statements

### Consolidated Profit & Loss Statement:

Particulars (in Mn.)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales	57,313.10	47,912.50	61,283.30	80,898.10	88,987.91	97,886.70	1,09,877.82
Expenses	53,306.20	44,353.00	57,146.00	74,924.80	81,957.87	90,055.76	1,00,648.08
<b>EBITDA</b>	<b>4,006.90</b>	<b>3,559.50</b>	<b>4,137.30</b>	<b>5,973.30</b>	<b>7,030.04</b>	<b>7,830.94</b>	<b>9,229.74</b>
<b>EBITDA Margin %</b>	<b>6.99%</b>	<b>7.43%</b>	<b>6.75%</b>	<b>7.38%</b>	<b>7.90%</b>	<b>8.00%</b>	<b>8.40%</b>
Other Income	1,054.90	544.50	1,347.80	1,601.80	1,936.00	2,024.00	2,129.60
Depreciation	1,166.30	1,145.70	1,132.40	1,168.60	1,303.20	1,275.90	1,228.50
Interest	150.20	206.40	251.70	375.90	675.00	596.00	556.00
<b>PBT</b>	<b>3,745.30</b>	<b>2,751.90</b>	<b>4,101.00</b>	<b>6,030.60</b>	<b>6,987.84</b>	<b>7,983.04</b>	<b>9,574.84</b>
Tax	1,620.80	686.10	977.90	1,523.60	1,746.96	1,995.76	2,393.71
<b>PAT</b>	<b>2,124.50</b>	<b>2,065.80</b>	<b>3,123.10</b>	<b>4,507.00</b>	<b>5,240.88</b>	<b>5,987.28</b>	<b>7,181.13</b>
<b>PAT Margin %</b>	<b>3.71%</b>	<b>4.31%</b>	<b>5.10%</b>	<b>5.57%</b>	<b>5.89%</b>	<b>6.12%</b>	<b>6.54%</b>
Diluted EPS (Rs.)	17.82	17.33	26.20	37.81	43.97	50.23	60.24

Source: Company, ACMIIL Retail Research

## Risks and Concerns

- Economic slowdown due to external and internal factors can affect the overall GDP growth of the Country.
- Any kind of unexpected change in government policies and Regulations.
- The slowdown in private capex would lead to the muted order booking.
- Geopolitical tensions and supply chain disruptions leading to volatility in commodity prices and higher logistics costs. Such fluctuations in key raw material prices impact may impact the overall business & profitability of the company.

## ACMIIL Retail Research Products

Informational Products	Recommendation Products
Morning Notes	Momentum Calls
Market Watch	Positional Calls
Investor First Magazine	Smart Delivery Calls
IPO/NCD/ETF/OFS/BOND	Investment Ideas
Market Pulse	Master Trades High Risk
RBI Monetary Policy	Master Trades Medium Risk
Union Budget Report	Techno-Funda
Weekly Derivative Synopsis	Top Mutual Fund Schemes
Rollover Snapshot	Portfolio Review
Rollover Analysis	Stock Basket

For More Information on Retail Research Products please visit  
<https://www.investmentz.com/research-services>

## Asit C. Mehta

**INVESTMENT INTERMEDIATES LTD.**

### Retail Research Desk

Email: [retailresearch@acm.co.in](mailto:retailresearch@acm.co.in)

### Research Analyst Registration Number:

**INH000002483**

**CIN: U65990MH1993PLC075388**

ACMIIL is a SEBI registered Stock Broker, Merchant Banker, Portfolio Manager, Research Analyst and Depository Participant. It is also a AMFI registered Mutual Fund Distributor. Its associate/group companies are Asit C. Mehta Advisors Limited, Asit C. Mehta Financial Services Limited, and Edgytal Fintech Investment Services Private Limited (all providing services other than stock broking, merchant banking and portfolio management services.).

#### Disclosures

ACMIIL/its associates and its Research analysts have no financial interest in the companies covered on the report. ACMIIL/its associates and Research analysts did not have actual/beneficial ownership of one per cent or more in the companies being covered at the end of month immediately preceding the date of publication of the research report. ACMIIL/its associates or Research analysts have no material conflict of interest, have not received any compensation/benefits for any reason (including investment banking/merchant banking or brokerage services) from either the companies concerned/third parties with respect to the companies covered in the past 12 months. ACMIIL/its associates and the Research analyst covering the companies mentioned herein do not have any material conflict of interest as regards the said company. ACMIIL/its associates and research analysts have neither managed or co-managed any public offering of securities of the companies covered nor engaged in market making activity for the companies being covered. Further, the companies covered neither are/nor were a client during the 12 months preceding the date of the research report. Further, the Research analyst/s covering the companies covered herein have neither served as an officer/director or employee of the companies being covered nor have they received any compensation from the companies being covered during the 12 months preceding the date of the research report.

#### Disclaimer:

This report is based on information that we consider reliable, but we do not represent that it is accurate or complete and it should not be relied upon such. ACMIIL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in the report. To enhance transparency we have incorporated a Disclosure of Interest Statement in this document. This should however not be treated as endorsement of the views expressed in the report.

Download Investmentz App



Follow us on:

