Thermax Ltd. – Investment BUY Call Thesis

Dear Bajaj Capital Investors,
New Stock Recommendations for BUY on 7 Oct 2026

CMP -> 3250
Buying Range -> up to 3315
Upside Potential-> 16%
Investment Horizon -> 9 to 12 Months
Target price -> 3770

1. BUSINESS MODEL, COMPETITIVE POSITIONING AND INVESTMENT FRAMEWORK

Integrated energy and environmental solutions platform: Thermax has evolved from a packaged-boiler manufacturer into an integrated industrial energy and environment company covering heating, cooling, power, water, air-pollution control and specialty chemicals. Its business model combines equipment sales, EPC/project execution, build-own-operate contracts and recurring aftermarket/O&M services. This creates multiple revenue pools across different stages of maturity, with the installed base providing opportunities for service, digital monitoring and long-duration utility contracts. The company's long-term strategy is effectively to use the engineering capabilities and cash generation of established businesses to build newer platforms such as outsourced green utilities and green hydrogen.

Higher-margin Industrial Products as the core earnings engine: Industrial Products supplies standard and customised heating, cooling, water-treatment and air-pollution-control equipment to more than 30 industries. The business is strategically important because it combines product revenues with a large installed base that can subsequently generate aftermarket, O&M and digital-service opportunities. Water has more than 27,000 standard installations and 600 large-scale industrial plants, while around 337 sites are under O&M contracts with a reported 95% renewal rate, providing recurring revenue characteristics. EDGE Live further strengthens customer stickiness by connecting assets, monitoring performance and enabling predictive-maintenance opportunities.

Diversification is increasingly improving the quality of the earnings mix: Industrial Infra provides large-order EPC opportunities but is being reshaped away from long-duration, lower-margin government projects; Green Solutions provides 10–25 year BOO contracts; and Chemicals adds global specialty-material exposure. This means the long-term Thermax opportunity is not simply volume growth in conventional boilers, but a gradual mix shift toward differentiated cooling, industrial utilities, renewable power, digital services, specialty chemicals and eventually hydrogen. For a 9–12 months investment horizon, this diversification is important because it creates several independent potential catalysts rather than dependence on one end market.

2. PRODUCTS, SERVICES, GEOGRAPHIES AND END-MARKET EXPOSURE

Broad product portfolio across industrial applications: Thermax's products include thermal-oil heaters, boilers, steam generators, vapour-absorption chillers, high-temperature heat pumps, water-treatment systems, air-pollution-control equipment, bio-CNG plants, renewable-energy solutions, ion-exchange resins, construction chemicals and oil-field chemicals. Recent product development includes pellet-fired steam generators, 100% syngas/biomass-ready boilers, heat pumps capable of temperatures up to 140°C and specialised boilers and chillers for emerging applications such as data centres.

End-user industries provide multiple structural demand drivers: The company serves energy-intensive and environmentally regulated industries including refining, petrochemicals, pharmaceuticals, water-intensive manufacturing, infrastructure, power generation, steel, fertilisers, data centres and commercial and industrial renewable-energy users. The data-centre opportunity is particularly attractive because Thermax's vapour-absorption cooling technology can use waste heat rather than relying entirely on electricity, addressing the high and continuous cooling requirements of data-centre infrastructure.

Internationalisation is becoming an increasingly important growth lever: Thermax operates through 51 subsidiaries, including 29 domestic and 22 international entities, with manufacturing and operating presence spanning Europe, Indonesia and the Middle East. FY26 international revenue reached approximately INR 3,084 crore, up 33.4% and representing around 29% of sales. The company is also establishing local legal entities and service capabilities in markets such as Saudi Arabia and Dubai, while a European chemical subsidiary and Indonesia chemical operations provide a platform for greater regional penetration.

3. FY26 & Q1FY27 FINANCIAL PERFORMANCE— TEMPORARY SETBACK WITH RECOVERY POTENTIAL

FY26 delivered strong order-book growth and higher earnings: FY26 revenue increased 3.1% to INR 10,694 crore from INR 10,389 crore, while PAT increased 14.9% to INR 720 crore from INR 627 crore. The more important leading indicator was order booking, which rose 34.2% to INR 13,871 crore, while the closing order backlog increased 27.2% to INR 13,604 crore. Thus, order growth substantially outpaced revenue growth, indicating improving medium-term revenue visibility. International revenue also grew strongly, supporting the strategic shift toward higher-value international opportunities.

Q4FY26 demonstrated the earnings acceleration that management had guided for: Q4FY26 revenue reached INR 3,428 crore, up 12.5% YoY from INR 3,046 crore, while PBT was INR 334 crore, equivalent to a 9.7% PBT margin. Quarterly order booking was even stronger at INR 4,490 crore, up 112% YoY and the highest quarter of FY26. The delivery against the earlier management guidance for stronger Q4 revenue and orders provides evidence that the company can convert improving order momentum into higher quarterly revenue when project execution is supportive.

Q1FY27 was weak on reported profitability, but the underlying issue appears concentrated rather than broad-based: Q1FY27 included an approximately INR 90–91 crore provision/cost-to-completion impact from one government project following late-stage design changes by an engineering partner. Industrial Products generated INR 1,058 crore of revenue and INR 1,394 crore of order booking, up 8% YoY, although its PBIT margin dropped to 6.1%. Chemicals revenue increased 33% YoY to INR 230 crore with an 11.2% PBIT margin, while Green Solutions order booking increased 149% YoY to INR 382 crore. Management nevertheless remained as bullish as in Q4 and expects two to three quarters above INR 3,000 crore of revenue during FY27.

4. CASH-FLOW CONVERSION, BALANCE-SHEET QUALITY AND CAPITAL ALLOCATION

Cash-flow conversion is a major investment strength: As supplied in the investment data, CFO-to-PAT conversion stood at 104%, 102%, 38.5%, 172% and 75% across the last five FYs, while CFO-to-operating-profit conversion was 103%, 102%, 54%, 139% and 86%. Importantly, three of the last five years recorded CFO/PAT conversion above 100%, while three years also recorded CFO/operating-profit conversion above 100%. The data indicate generally healthy earnings-to-cash conversion, although the year-to-year variability shows that working capital and project timing can materially influence cash generation.

Negative working capital provides an important structural advantage in EPC: The Industrial Infra business receives customer advances before corresponding supplier payments, resulting in negative working capital. Consequently,

growth in project activity does not necessarily require proportional incremental operating cash. This is particularly useful as the order backlog expands because a portion of the growth can effectively be funded through project advances rather than balance-sheet borrowing. Green Solutions, by contrast, is more capital intensive during the initial BOO investment phase but can generate relatively predictable contractual cash flows after commissioning.

Debt and return-ratio discipline remains an area requiring continued monitoring: The uploaded source does not provide exact gross debt, net debt, net-debt/EBITDA, ROE or ROCE figures and therefore no unsupported numerical claim is made here. From the available evidence, the balance-sheet investment case is supported more clearly by cash-flow conversion and the working-capital characteristics of EPC than by disclosed leverage statistics. Capital allocation also appears increasingly selective: FEPL is expected to bring in an external investor taking a substantial majority stake, while the company is reducing exposure to lower-quality government projects and redeploying resources toward international, data-centre, specialty-chemical and green-utility opportunities.

5. GROWTH CATALYST 1st — DATA-CENTRE COOLING AND U.S. INDUSTRIAL OPPORTUNITY

Data-centre cooling could become the most differentiated near-term growth engine: Thermax has already secured marquee U.S. data-centre cooling orders, including a large multi-unit absorption-chiller order and data centres accounted for approximately 17% of the order book according to the source material. Management describes the cooling technology as differentiated, with only one to two global competitors, particularly because the solution can utilise waste heat and reduce dependence on grid electricity for continuous cooling loads. The combination of technology differentiation, high customer criticality and limited competition provides the potential for attractive incremental margins.

Two additional U.S. cooling opportunities could materialise during the investment period: Management stated in the Q1FY27 call that two further U.S. data-centre cooling wins were expected between Q3 and Q4 FY27, with handshakes targeted in the intervening quarters. Two major U.S. data-centre solution providers have already signed MOUs to incorporate Thermax cooling technology into their broader project execution approach, creating a route from individual orders to a potentially repeatable partner-led channel.

The U.S. boiler pressure-parts opportunity adds a second data-centre revenue stream: Industrial Products secured an order exceeding INR 400 crore for boiler pressure parts for a U.S. data-centre project during Q1FY27. The first shipment was delayed by customer site issues, with revenue and margin recognition expected from Q3 when the customer takes possession. This means part of the near-term opportunity is delayed rather than lost, creating a potential Q3 revenue and margin tailwind while demonstrating Thermax's ability to participate in specialised U.S. industrial applications beyond domestic markets.

6. GROWTH CATALYST 2nd — POWER, TBWES AND INTERNATIONAL ORDER INFLOW

The INR 1,600 crore ultra-supercritical order materially strengthens order visibility: TBWES secured an approximately INR 1,600 crore boiler package for a 1 x 800 MW ultra-supercritical thermal power plant in Central India during March 2026. The order helped underpin FY26 order-book growth of 37.9% for the relevant business and demonstrates Thermax's continued technical relevance in large boiler applications. Management indicated that the power pipeline was the strongest in two to three years and expected at least one additional supercritical project during FY27.

FY27 order inflow guidance remains constructive despite a soft Q1 headline: Q1FY27 consolidated order booking was INR 2,809 crore, up 2% YoY, against FY26 booking of INR 13,871 crore. Management expects FY27 order inflow to exceed the previous year, with PSU orders no longer a growth requirement, supercritical opportunities at least broadly equal to the prior year and additional Middle East/Africa opportunities. The quality of order inflow is therefore

expected to improve as the company shifts away from long-gestation, low-margin government contracts toward more selective private, export and technically differentiated projects.

Internationalisation provides both volume and margin opportunity: International revenue reached INR 3,084 crore in FY26, representing 29% of sales, while the Middle East and Africa refining/petrochemical pipeline was described as equal to or larger than the previous year. The company also booked large international orders, including the INR 580+ crore Dangote order and management has highlighted international Industrial Infra orders at 10%+ margins versus approximately 5–8% for domestic orders. Saudi Arabia and Dubai subsidiaries should improve local presence, customer access and execution capability over time.

7. GROWTH CATALYST 3rd — TOESL, GREEN SOLUTIONS, RENEWABLES AND BIO-CNG

TOESL has emerged as a high-visibility growth platform: Green Solutions order booking increased from INR 317 crore in Q4FY26, up 1,398% YoY, to INR 382 crore in Q1FY27, up 149% YoY. TOESL also secured its largest-ever order in Q1FY27 at more than INR 120 crore, carrying a stated 10-year revenue outlook of approximately INR 2,000 crore. Management sees the business reaching an INR 800–1,000 crore scale over the next two years. The combination of long-duration utility contracts, recurring revenues and customer land-and-expand opportunities gives this segment potentially higher-quality revenue visibility than conventional equipment sales.

Renewable-energy capacity expansion provides a longer-duration growth runway: FEPL had developed 235.5 MWp of renewable capacity under open-access frameworks for commercial and industrial customers. The FY26 annual-report plan envisaged approximately 250 MW of additional capacity during the year, around 700 MW next year and approximately 1.1 GW by FY28. The 139 MW Gujarat wind-solar hybrid project was progressing toward Q2FY27 commissioning, while the 101.5 MW Tamil Nadu wind project was targeted for Q1FY28. These projects expand Thermax's ability to offer customers integrated energy-transition solutions rather than standalone equipment.

Bio-CNG provides an asymmetric policy-driven opportunity: Thermax commissioned all 14 bio-CNG plants in FY26, generating approximately 19,400 tonnes and crossing 100 tonnes per day of production. The company has experience with more than ten feedstock types and aggregates more than 3,500 tonnes of biomass daily across over 47 plants. Management expects policy developments around bio-CNG pricing and blending to improve project economics; the source material highlights a blending trajectory from 1% in FY26 toward 5% by FY28–29. Any improvement in economics could restart the project pipeline and increase utilisation of Thermax's existing bioenergy capabilities.

8. GROWTH CATALYST 4th — CHEMICALS RECOVERY, PRODUCT MIX AND HYDROGEN

Chemicals present a recovery opportunity after a weak phase: Q1FY27 Chemicals revenue increased 33% YoY to INR 230 crore and PBIT margin recovered to 11.2% as volumes improved. Management expects Chemicals to grow at least 20% in FY27 and maintain double-digit profitability. The new Jhagadia capacity, Fortmax/OCQ advanced-resin partnership and Vebro flooring platform are now operational, providing a wider product portfolio and new customer applications.

Margin expansion is a meaningful earnings lever: Management's FY27 ambition is to move Chemicals EBITDA toward approximately 13–14%, versus sub-10% levels referenced for the current period. The segment has been carrying roughly INR 15 crore of incremental costs, including approximately INR 4.5 crore of depreciation from the new, more efficient plant and slightly more than INR 10 crore of investments in construction chemicals and international expansion. As volumes recover and these investments mature, incremental revenue could carry better operating contribution.

Hydrogen provides a structural option value beyond FY27: Thermax has exclusive India rights for HydrogenPro alkaline electrolysers and a Ceres Power solid-oxide electrolyser licensing arrangement. Management expects a hydrogen project handshake/order announcement and revenue commencement next year, while a SOEC demonstration plant is targeted for year-end with large partners. Although hydrogen is not yet a material earnings contributor, the opportunity can potentially extend Thermax's industrial decarbonisation offering into steel, refining and fertilisers and create a new technology-led business over the longer term.

9. GROWTH CATALYST 5th — OPERATING LEVERAGE, CAPACITY EXPANSION, EXECUTION AND STRATEGIC INITIATIVES

Operating leverage can emerge as revenue converts from the enlarged backlog: FY26 order booking increased 34% while revenue increased only 3%, creating a significant gap between order growth and revenue recognition. Q4FY26 showed the ability to accelerate execution, with revenue increasing 12.5% YoY. Management expects two to three FY27 quarters above INR 3,000 crore revenue and expects the profitable Industrial Projects backlog to begin converting from Q2. If execution remains controlled, fixed engineering, manufacturing and site costs can be spread over a larger revenue base, supporting operating-margin recovery.

Capacity expansion has been focused on future growth rather than only current demand: The Chemicals business has added new efficient Jhagadia capacity, while FEPL is scaling renewable generation and the Gujarat hybrid project is approaching commissioning. The FY26 Annual Report also outlines expansion of TOESL's BOO biomass utilities, renewable hybrids plus BESS, multi-MW hydrogen systems and international chemical manufacturing. The source material does not disclose aggregate capex expenditure for the past 12–18 months, so the investment case should focus on the physical capacity being commissioned and its expected earnings contribution rather than unsupported capex-return calculations.

Execution track record is improving in selected areas, while portfolio clean-up is becoming a strategic catalyst: Buildtech Products acquisition was completed for approximately INR 72 crore; Thermax Vebro Polymers holds a 50.1% stake and the OCQ partnership has 51%, enabling access to complementary construction and specialty-resin technologies. The company is also simplifying the structure through mergers and divestments, while the FEPL exit/partnering process should reduce capital intensity and management distraction. Most importantly, management has committed to largely eliminate the legacy impact from problem businesses by 2027, with future government bidding restricted to appropriately priced projects where Thermax has differentiated capability.

10. SHORT-TERM OPERATING, EXECUTION AND INDUSTRY HEADWINDS

The Q1FY27 execution setback is the principal near-term risk: One government project caused an approximately INR 90–91 crore provision after an engineering partner introduced late-stage design changes, including site extension, expediting costs, liquidated-damages reserve and contingency for the remaining execution period. Industrial Infra consequently reported a Q1FY27 PBIT margin of -8.7%, versus 5.0% for FY26. Although management considers the problem project an isolated mistake and states that execution outside PSU projects remains healthy, the episode raises execution-credibility risk and requires proof through Q2/Q3 margin recovery.

Industrial Products also faces a temporary margin squeeze: Q1FY27 Industrial Products order booking was INR 1,394 crore, up 8% YoY and revenue was INR 1,058 crore, but PBIT margin declined to 6.1% from 10.6% in FY26. The company absorbed approximately INR 10 crore of commodity-price impact from earlier increases and management expects another quarter of volatility before the effect washes through. Consequently, the investment thesis requires the guided Q3/Q4 improvement in Industrial Products profitability to materialise rather than relying solely on order-book growth.

Some legacy businesses continue to dilute consolidated profitability: FEPL recorded an unexpected INR 20 crore Q1FY27 loss because of project approval delays and management explicitly characterised the business as not being the right business for Thermax. Bio-CNG continued to incur approximately INR 8 crore of loss while the team is retained without adequate new-project activity. Chemicals also faces commodity-price, tariff and Chinese competition risks, while capacity utilisation at the new resin facility had fallen materially before recovery began. These factors can delay consolidated margin normalisation even if the core Industrial Products and international businesses remain healthy.

11. GLOBAL VOLATILITY, GEOPOLITICAL/REGULATORY RISKS AND FINAL INVESTMENT CONCLUSION

Middle-East conflict, freight and supply-chain volatility are immediate external risks: The Q1FY27 quarter demonstrated that geopolitical disruption is capable of directly affecting revenue recognition: approximately INR 300 crore of finished goods could not be shipped because Middle East customers delayed pickup amid elevated Gulf War shipping costs. Continued conflict in the Middle East could increase freight costs, extend logistics lead times, disrupt project schedules and defer revenue recognition for international orders. Thermax's growing Middle East exposure is strategically attractive, but it simultaneously increases sensitivity to regional instability and energy-market volatility.

Tariffs, forex, commodity prices and policy changes could create earnings volatility: The FY26 Annual Report identifies geopolitical uncertainty, Middle East conflicts, energy and freight disruption, US tariff/trade volatility and weak fossil-fuel prices as material headwinds. Chemicals is particularly exposed to raw-material price movements, Chinese competitive pricing and tariff uncertainty. Regulatory and government-policy changes can also materially influence emerging businesses such as bio-CNG, renewable power and hydrogen, while government project execution itself has historically generated disproportionate risk.

Final BUY conclusion — favourable 9 to 12 months risk/reward, provided execution recovery is delivered: Thermax's medium-term investment case rests on a combination of a 34% FY26 order-book increase, INR 13,604 crore closing backlog, strong Q4FY26 order inflow, improving international contribution, differentiated U.S. data-centre cooling, the rapidly scaling TOESL platform, Chemicals recovery and potential Industrial Infra margin normalisation. The most important near-term triggers are Q2/Q3 conversion of the profitable backlog, recovery in Industrial Products margins, further U.S. data-centre wins, continued international order inflows and evidence that legacy PSU/project losses are genuinely nearing completion. Management has explicitly maintained FY27 revenue optimism and expects the legacy problem-business impact to end by 2027. Combined with generally strong five-year cash-flow conversion and a business model capable of generating recurring contractual revenues, albeit with close monitoring of execution, geopolitical disruption and margin recovery.

Recommendation Timeline & Performance Summary: -

1. 11 March 2026 – Initial BUY Recommendation: The BUY call was initiated at a price of 3142 with a target price of 3747, implying an upside potential of 19% over a 6 months investment horizon.

2. 13 April 2026 – Target Achieved: The stock achieved our target price of 3747 within one month and further strengthened to 3890 on same day, delivered a return of ~24% from the recommendation price, well ahead of schedule.

3. Furthermore, the stock price strengthened to a high of 5085 on 30 May 2026, translating into a return of 61.5% from our initial recommendation within 3 months.

4. 1 June 2026 – Sell Recommendation (Profit Booking): We advised investors to book profits and SELL their entire holdings in Thermax Ltd. stock at CMP of 4960, implying realized gains of ~ 58% within three months of our initial BUY recommendation.

5. 7 Oct 2026 – Re-Initiation of BUY Call: We have re-initiate the BUY call at the CMP of 3250 with a target price of 3770, indicating an envisaged upside potential of 16% over the next 9 to 12 months.

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team