



“Thermax Limited
Q1 FY2022 Earnings Conference Call”

August 09, 2021



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Thermax Limited
August 09, 2021

Moderator: Ladies and gentlemen, good day, and welcome to Thermax Limited Q1 FY2022 Earnings Call hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Limited. Thank you and over to you, Madam!

Bhoomika Nair: Thanks, Mallika. Good morning everyone, and welcome to the Q1 FY2022 Earnings Call of Thermax Limited. Today, the management is represented by Mr. Ashish Bhandari, Managing Director & CEO, and Mr. Rajendran Arunachalam, Group CFO & Executive Vice President. I will now hand over the call to Mr. Bhandari for his initial remarks post which we will open the floor for Q&A. Over to you, Sir!

Ashish Bhandari: Thank you very much, and a very warm welcome to everyone that is on the call. My remarks here will be very brief. I will discuss about the past quarter. Firstly, in terms of COVID and safety, though today we look at the second wave in the rearview mirror, a good portion of Q1 was taken away by COVID. During that time, it was not about numbers rather it was more about the health and safety of loved ones. Taking care of our employees, contractors, subcontractors and their families is a priority at Thermax. From an individual perspective, getting to where we are today took a long time over the past entire quarter. So I would like to bring that whole effort to attention because beyond numbers, beyond everything else, that alone was to me the biggest highlight for the quarter that went by. The second thing you will notice is that our margins and revenues were impacted due to the lockdown and around more or less four weeks of slowdown. So, one-third of the quarter affected our operations as we did not have enough people on site, at many of our execution locations and remote locations, etc. Where we need 600 to 700 people on-site, we were getting only 150 and so the overall productivity for the quarter was quite low. Also, in terms of commodity prices, we had quite a bit of an impact due to the increase in the price. As I said previously, we do not mind if the prices are high. As long as they are steady, we can pass the price increase on to customers, we can account for them, and we can bid accordingly. When prices go up during a quarter, as they did last quarter, it impacts our numbers and that significantly impacts the quarter.



Thermax Limited
August 09, 2021

The third was in terms of international shipments; overall freight prices were high, including containers pricing. But more importantly, container availability was very low. We had orders worth over 20 Crores in two of our businesses, which were very high margin, that we could not ship out due to lack of containers and then we have smaller expenses related to COVID and doing testing for various people, doing camps for vaccinations for us, for our employees, sub-vendors. Now we have vaccinated more than nearly 5000 people through the Thermax vaccination effort, all of that was the second bucket. The third bucket was just the order inflow which was reasonably good. Even if I take the 250 Crores single order out, what remains gave a good sense of how we are recovering overall and give confidence for the team as such that the recovery is broad-based, and we can talk a little bit about these going forward. Within the company our focus continues to be on making us a greener business focusing more on products and services, new technology coming in, pushing new creative business models like our build-own-operate models and then finally, getting our international business to become not a lag but a strength for us. We will talk about how we are progressing on each one of these three items during the discussions. So, with that we will open it up to Q&A and I think you would have seen the analyst presentation that was shared by the team.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sandeep Tulsian from JM Financial Services. Please go ahead.

Sandeep Tulsian: Firstly, if you can give us some perspective on order inflows from various sectors because you commented that the recovery is more broad-based. We see our orders are being more consistent with some sectors like cement and petrochemical, but the highlight in the past is that cement order will be restricted to WHR while oil and gas CAPEX tends to be lumpy, so which are the sectors that you are getting on which can be more consistent in order inflows?

Ashish Bhandari: In our analyst presentation, we had shared a page where you would see the breakdown of the order inflows sector-wise. I think looking at it just in a quarter may not be the best judge. Adding up our numbers for the last three quarters will give you more clarity on the order book. You will see that even now we have got orders from food and beverages - 6%, pharma - 5%, agro - 6%, chemical - 7%, metals and steel - 14%, and refinery and petrochemicals has shown up as a big number this quarter, but it was not as big as every year and every quarter for the last two quarters. This quarter we have a 250 Crores international order which was for a refining customer but I would look at this and say it was very broad-based. There is no single entity which has jumped up and taken over the base business. Specific to refining and petrochemical, we have been saying that we had bid quite a few projects and some of these are in petrochemical and power. In projects where we have been declared L1, especially where government is the end customer, the bids that have gone



*Thermax Limited
August 09, 2021*

in are 30% plus above the budget that the customer has set aside. In those cases where the budgets are so low and the budgets have all been determined when steel prices were very low, also there were no COVID challenges related to productivity, etc. So, now with all of those projects, if we are able to renegotiate suitably with the customer which is the government, then they can come sooner but more likely, they will all go through retendering and complications, and all that in this case may drag on which is a huge disappointment. We see some risk of the bigger projects continue to push out, but we see continued strength in the base business as well. In cement, waste heat recovery was the big reason, but in metals and steel so far, we have had orders coming in from Brownfield projects. Additionally, we see new plants going in, but before these new plants start showing up in orders, it will take few quarters but at least you are seeing now expansions coming into play in metals and to a smaller extent, in cement as well on the big project side.

Sandeep Tulsian: Sir, second question is on the Enviro segment margins. We saw the revenue run rate had not dipped materially. However, margins have dipped significantly in that segment, so is it due to profitability of some orders in our FGD side, which are relatively lower in terms of margin, or it is more like a quarterly blip and are you facing any execution challenges in the two FGD orders that were booked in mid of FY2021? Can you update us on the percentage completion on both of those orders? Thank you.

Ashish Bhandari: I will start and later will ask Rajendran to share more details. Overall, I would say the FGD business is the reason why numbers and our margins in Q1 were lesser because overall, the business was impacted. Though the rest of the Enviro business also has had decent order inquiry and decent pipeline, but because we could not execute many of the projects in the COVID challenges the impact of the FGD portion is slightly disproportionate. In terms of specifically on the FGD margins how do we see the rest of the year and how that backlog will get cleared I will let Rajendran respond. Thank you.

Rajendran A: I think we clarified that the FGD revenues have started picking up in this particular segment and about the challenges that we had on the supply chain and the manufacturing facilities for the balance business. I think it has impacted a bit, and we have always clarified that the FGD business has been on competitive margins compared to the other part of the environment business but going ahead in the subsequent quarters, we see a reasonable mix of both the businesses coming up for recognition on the revenue side and on margin. Traditionally, I think Q1, with the lower revenue and then higher fixed expense base, has also caused some bit of challenge on the margins in the segment. Thank you.

Sandeep Tulsian: What is the percentage completion on both these projects if you can?



Thermax Limited
August 09, 2021

- Rajendran A:** Percentage completion would be still in the early numbers because I think last year, due to COVID we did lose a bit of time in the execution phase, so I think it is still smaller numbers of completion at the moment, not very high.
- Ashish Bhandari:** It is still single digit this year, and you might like to share with us how much we think we can close out next year.
- Rajendran A:** I can get that, and we will share it out.
- Sandeep Tulsian:** Thank you.
- Moderator:** Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.
- Bhavin Vithlani:** If you could share what was the working capital and operating cash for the first quarter, and as we are expecting to execute a significant part of the FGD, which has a larger proportion of retention, how should one expect the working capital to behave in the current financial year?
- Rajendran A:** In Q1, on the cash flow front, we have been positive. In our presentation, we have highlighted that our cash balances have increased. You would notice that in slide #4 of our presentation, it has increased by 47% compared to last year's Q1, and it is higher than the last quarter March 2021 numbers additionally about 100 plus Crores. So, on the cash and the surplus investments, we are good for the first quarter. Answering the second part of your question, the impact on working capital- I think yes, the FGD business has retention. Also, we have been able to manage the cash flows in that particular business. Though we do not expect a significant impact, current order inflows will also call for some investments on our working capital side, inventories, and others. So we may see a similar run rate of cash accrual in a subsequent quarter.
- Ashish Bhandari:** On FGDs, I think many in the industry have had challenges relating to working capital. The two FGD projects we had taken were taken with the expectation and intent that the overall payment terms would be favorable, unlike in the older projects. We expect a slight reduction in working capital but not dramatically different from where we are currently.
- Bhavin Vithlani:** The second question is on the Chemical's margins. You mentioned that last year there were some extraordinary elements, so would it be fair to assume that the margins we saw in the last couple of quarters are at a normalized level?



*Thermax Limited
August 09, 2021*

Ashish Bhandari: I would like to think so, but, as I said last time, some things are in control, some things are not in our control. What is not in our control is the styrene pricing and how much of that styrene pricing movement we are able to pass to our customers. Because customers, in many cases, have choices and alternate options, and this is a very competitive space where we can move pricing around to a fair extent. But if it continues to go up at this rate, how much can we increase? I would like to think these are the numbers where we are more systematic than where we have been historically. It is now about maximizing productivity, increasing volume, and ensuring that we can keep the volume in the specialty chemicals. So we are focusing on those areas where we have control and have very short contract terms with customers. In terms of openness to styrene pricing, it's not only about styrene pricing, as logistics is also a big driver because our Chemicals business is based on exports. So, logistics, transportation, all of that are significant drivers of cost in the Chemicals business right now.

Bhavin Vithlani: Thank you so much for taking my questions.

Moderator: Thank you. The next question is from the line of Ajinkya Bhat from Macquarie. Please go ahead.

Ajinkya Bhat: Sir, two questions from my side. Number one in cement - if my understanding is correct, the waste heat recovery potential is somewhere around 4 to 5 megawatt per million tonne of cement output, and so if I were to apply that to recently announced capacity additions of 60 - 65 million tonne by cement companies that is about 300 megawatt of adjustable market. Let us say over the next three years, how does it look for you compared to the year's past order inflows in the cement sector considering that the captive generation party is going away, but predominantly, it will be led by waste heat recovery? That is question one and the second related question is that do you have any similar benchmark for an opportunity in metal space in terms of how many megawatts of opportunity per million tonne of output? Thank you.

Ashish Bhandari: On the first one, your calculations and our calculations are correct. I think the number that you are looking at and my numbers were slightly on the lower end - around 150 to 300. So, you are on the slightly northern end but more or less in the same ballpark in terms of megawatt of cement plants that will come in. I do not know what the long-term history would be compared to recent past. There would be steady business because what we have had is the run up on waste heat recovery on existing plants. and so the new capacities coming in will make sure that as all the existing plants get upgraded, the revenue does not fall off. It is not like it is going to go up dramatically or go down. I think we see some amount of steadiness there. On metals, we do not have a number because the application set



Thermax Limited
August 09, 2021

differs a lot between what kind of steel plant it is. There are steel plants related to sponge iron, then you have steel itself, and then specialty steel, so the number varies. But let me see if I can ask the team to think about a mix by which we can provide some direction on what that would look like and also unlike in cement, where all customers are now doing waste heat recovery because the payback is very short. In steel, we do not see that as much of a slam dunk yet, even though we are getting quite a few numbers from steel, but I will go back and take this. It is a good point that you have made. Let me see if I can come back with some direction on what that market can look like.

Ajinkya Bhat: Thanks a lot sir, all the best.

Ashish Bhandari: To the question on FGD completion, I think the number for this year will be 50%. In the current year, we have completed around 18% as on 30th June; however, by the end of this year, 50% will be completed and the remaining 50% in the next.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: I have a couple of questions. So my first question is when we look at the order inflows of the export order broadly the 1300 - 1400 Crores plus of base orders. They were fairly strong so what would be the view in terms of broad sustainability of these base order flows? Do we think that 1200 Crores kind of execution run rate or the order flow run rate is broadly sustainable or it could be more because of the lumpiness of some orders getting postponed from the previous year, etc.? Could you please share your views on this?

Ashish Bhandari: Renu, I think this is not the third quarter where that kind of run rate we have been able to sustain. Initially, the recovery was from COVID and the pent-up demand, so that was Q2 and Q3 of last year, Q4 we thought it was the base business that was doing slightly better than pre-COVID times. In April, we got some of our best order numbers from base business across the board, even in our channels business. May was a slowdown. June, we thought, was pent-up demand again after the May slowdown. It also affected Tier-II and Tier-III cities quite a bit this May. July, we have been recovering. Now, it is entirely unclear what the rest of the time period holds. Overall, we see strength in inquiries which gives us confidence, but we do not know what the closure rate will be.

Renu Baid: In the order flows also you mentioned that there could be a bit of lumpiness in the domestic market given that customers might like to relook at the pricing side. How should we look at the international market with respect to order flows? You highlighted earlier that the oil and gas is one opportunity where one can expect a big inflow this year. What are your views on the international market including the recovery in European demand, especially when the



Thermax Limited
August 09, 2021

green energy transition seems to be swifter there? So, what are your views on the international market inflows?

Ashish Bhandari: Oil and gas internationally, when we have started the discussion, there were projects in Southeast Asia, there were projects in Africa and there were projects in Latin America. The Latin America one has given us not only the 250 Crores order but a smaller order as well in the quarter, which we had no reason to report, so we have had two orders. The Southeast Asia and Africa opportunities are running slow. Yes, but they are compensated in some ways in strength in India in oil & gas and petrochemical & refining and the overall reasonable strength in Europe and America from the rest of the business like our cooling products, our chemicals business. We are seeing some strength and that was also expected. We have said that we would increase capacity in Chemicals this year, we would want to see more growth in Europe and in America where we will invest in people and invest in capability and overall expansion.

Renu Baid: My last question for Rajendran Sir is in the other expenses apart from the inflationary impact on the logistics and other welfare expenses pertaining to COVID. Was there any one-off because that number seems to have jumped reasonably well. How should we look at the other expenses in the first quarter of the year?

Rajendran A: Renu, I think you have highlighted in Q1, so there are two things to this. One is in the last quarter we had COVID impact wherein the traditional certain fixed expenses on travel, office expenses, etc. were reasonably bit down. But in this year, we have been working to some extent in this quarter, unlike the lockdown scenario last year.

Ashish Bhandari: Your expenses relating to doing the COVID test for people and all the rest of it.

Rajendran A: Also, in the last year, if you would have noticed from our financial numbers, we had a very good focus on working on our receivables collection and our ECL provision that is expected credit loss provision that we make. We had reversal of that post the recovery of old receivables and hence I think that did contribute to our improvement in other expenses in the quarter comparatively. I think we have had that lower in this period.

Renu Baid: Sure. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Amish Kanani from JM Financial Services. Please go ahead.

Amish Kanani: Sir, we mentioned about the uncertainty in environment in last couple of slides and given the uncertainty on the export side with the availability of containers and stuff like that as



Thermax Limited
August 09, 2021

also uncertainty on the raw material steel side, we might have some hedging strategy there and also the execution challenges on wave three which is an overhang in Q2 and Q3. The question is what is the priority for us in this rest of the year? Will the focus be on order book or will the focus be more on building more buffers for margin stability, or will we be focusing more on derisking our business? How are you looking at all these three things? Thanks.

Ashish Bhandari:

Amish I think you have answered your question yourself in some ways. Yes, between having food, drinking water or wearing clothes, all three of them are important for life and so all three of these are important. There is no point in having orders if we do not have profitability, no point in having high prices if we do not win a single order, and through all of this with everything that is happening in terms of climate change, in terms of repositioning the business, if you forget that then you do not have a future. So, all three of them are very important. I would say it is tough that you talk about which are the uncertainties relating to COVID three as an example. My personal take is that it should be manageable because even if it happens as a country, we are much better prepared, and this is not just from the industry sense. Many companies including Thermax, our population from a vaccination rate is extremely high. We are well above 95% in terms of people that have been vaccinated or have had COVID so cannot get vaccinated, so between the two. Relative to eligibility, the numbers are extremely high, so I do think the ecosystem overall will be much better prepared. In terms of the global logistical challenges that you talk about the experts, most of them will say there is one more quarter of uncertainty. After that the availability of container should stabilize and things should look better. So, overall from an execution perspective, I would say that the remaining eight months of the year should have some stability in terms of execution. What we cannot control is the commodity pricing and we as a business have to figure out how to either pass it on and what we can do or have productivity mechanisms in place that you can manage that pricing - that is something that we need to manage as a business. I would not call it an unmanageable external risk, so that is on the execution side and making sure. On the order side, our focus will be on maintaining margins and if we have to let go of orders to make sure that our margins are protected. I gave examples that there were a couple of government orders where even though we were L1 and the customer which is the government PSUs would tell you to lower your price by 20% and take the order. We have refused to do that, as there is no waypoint picking orders just to fill up the factory. Seeing enough reasonable volume even without dropping our margin significantly, our focus is on growing and maintaining our margins. In terms of long-term, the focus is in our ability to invest in digital, our ability to invest in areas around green, increasing our capability given that those budgets are untouched through all scenarios.



Thermax Limited
August 09, 2021

- Amish Kanani:** Just in that context, we being leader in many of the areas where we operate, does it mean that the challenges we are facing anyway will be faced by our competition and peers as well? There is a reasonable buffer that is getting created in the sense that competition is less and we may book an order rather than compete and quote. Is that the way we can have a look at or competition is less?
- Ashish Bhandari:** Competition is always there. Some of these projects which I talked about where we had increased our prices significantly and we were still L1. There is some reason that the industry overall is looking at how do we manage these costs, but that is the past; how do we look at the future remains to be seen and overall, the capacity buildup in the industry. Over the last decade, it was quite high, and in the last five years, the overall capacity utilization was not what the industry would like to see. Even in this environment, somebody may choose to drop prices, and I would not be entirely surprised if that happens. We will not be doing that.
- Amish Kanani:** Thanks a lot Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Sriram Rajaram from Ratnatraya Capital. Please go ahead.
- Sriram Rajaram:** Sir, can you give the order breakup sector wise for the outstanding orders?
- Ashish Bhandari:** I think what you are asking for is the backlog broken up sector wise. Is that the question?
- Sriram Rajaram:** Yes, correct your order balance is 6,109 which you have reported in the slide. Can you give that break up because you have given it for Q1? So, cumulative report we do not have?
- Ashish Bhandari:** We can refer to the slide #14 where we have given the order balance broken up into segments of chemical, environment, and energy and that is the level of breakup that we are able to provide.
- Sriram Rajaram:** That is for Q1 Sir.
- Ashish Bhandari:** No, that is on the order balance. Order balance is also the balance figure as at that point of time, it is not for Q1 of this year.
- Sriram Rajaram:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead.



*Thermax Limited
August 09, 2021*

Renjith Sivaram: Sir, I do not know whether this question has been asked. How was your performance of your foreign subsidiaries, Danstoker and your Southeast Asian subsidiaries? Are there any losses out there? Could you give some idea on the growth outlook also from this geography?

Ashish Bhandari: Overall, yes, I think between the two - Danstoker and this, we have had losses in terms of a larger overview of our international businesses.

Rajendran A: At Danstoker, we had a marginal profit number. I think that operations have a turnaround in terms of putting break or a profitability marginal book. On the Indonesia one, we are still in the red zone. I think that follows the COVID impact that particular business is facing in terms of fresh order book as well as delay in execution of orders on account of customers delaying payments or lifting goods. I think we are hoping that the business in Indonesia on the order book front will improve given the inquiry inflows in this quarter, and we are hoping to see a better number in the coming quarters on the Indonesia side. On the Danstoker one, I think the number should improve post COVID with things returning back.

Renjith Sivaram: For another question, you had answered that there were some ECL related write-back during last quarter, which was absent this year, which increased the other expenditure this quarter. What will be the amount of that impact of this ECL provisioning that had impacted the other expenditure in Q1?

Ashish Bhandari: Thanks for that question. Renjith. Actually, it gives me an opportunity to get back to that as I had missed highlighting earlier when I was replying to Renu on the point about the other expenses. Please note, our other expenses also include site expenses and contract labor cost that we incur at our site during our project execution phase, and various of our project businesses go through different cycles of either supplies or execution phase where these expenses peak because of the site related expenses. In this quarter, we had site expenses and contract labor charges being slightly higher given that some of these projects were going through a phase of site related cost execution and hence that particular portion has been higher in some of the project business that we have had. I think those will have to be looked in conjunction with our material cost because both of these constitute our direct expenses for our business, both the manufacturing as well as the project business. Having clarified that now to your question Renjith, I think for the ECL annual impact, I do not have the quarterly breakup, but the annual impact is available in our annual results. The annual report that we have disclosed would be prior to assume a portion of it was booked in Q1 and hence that much impact we have not repeated in this quarter at least.



Thermax Limited
August 09, 2021

Renjith Sivaram: Does FGD has anything to do with this in rising this subcontracting and other expenditure because still you require a lot more because FGD will get 50% of the order which we are planning to complete this year?

Ashish Bhandari: Yes, you are right I think FGD is a larger project business for us and during the initial phase there will be quite a bit of site expenses that would be incurred and that is also the part of the project business that I was referring to which has a mix of higher site expenses than dispatch related material cost of that.

Renjith Sivaram: Last quarter we had shared the new strategic areas like waste to energy, fuel cells and solar. So what steps have we taken for that and when can we see some on ground actions from these new growth segments anything which you would like to highlight.

Ashish Bhandari: We talked about all three of these as examples here. It's not that these are the only three areas we are looking at, but all three of those are examples of the kinds of things we are looking at. Waste to energy has got multiple elements; one element that we talked about last time was municipal solid waste. Specifically, there we had talked about the partnership with Steinmiller. Now, we have localized that technology and capability. So, we are actively working with customers and project developers who are looking at municipal solid waste and working with them to establish our technology and bid with Indian capability. Most of these projects in the past were done with Chinese technology and relatively very low Indian local content. There are a few exceptions, of course. So, now to establish ourselves in this particular application, we have to convince a customer that we can do it at a price that is attractive, and then too, the projects need to come to us. Yes, some of these projects on municipal solid waste had slowed down slightly, and this is a long-term vision. It is not something that just because you do not see projects for three to six months, you will slow down, but we are happy with the rate at which we have localized the technology. Similarly, for solar, we had announced the partnership with Power Roll, but the testing and development of that will take another year-and-a-half, so it is not an immediate thing. On the execution side of solar EPC projects, we saw that a particular part of our business broke even last quarter, which was the first time in several years, which was a good sign. But how do you grow the solar business and our overall capability in it? You will have to wait, but I think there is quite a bit of work going on in that direction as well. Things like fuel cells- and it is not just fuel cells, there are multiple technologies in that dimension- all driven by a mix of Thermax's own capability and the partnerships we do. So, as we finish off some of these partnerships and when they are at the point that we can share publicly, we will definitely come back and share some of that capability from our side. But otherwise, even in terms of bio CNG, biomass, we are running one of India's largest test pilots on coal and gas to methanol. So, we will continue working in a variety of these new areas.



*Thermax Limited
August 09, 2021*

- Renjith Sivaram:** Yes, I will join the queue.
- Moderator:** Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.
- Bhavin Vithlani:** This question is on the EBITDA margins and excluding the other income and going back in the history 2003 to 2012 the average was about 11% and last three years we have seen that it was coming down and it was 7.4 in 2021 if you could give us a more directional picture as we are seeing the rebound in the short cycle orders which are typically more profitable could we head into a double digit margin trajectory and if yes then what could be a timeframe that we should look at?
- Rajendran A:** The EBITDA margins you will appreciate as an resurgent of the revenue mix that we have as the current mix where I think we have highlighted a bit on the FGD the margins being competitive that we have had and in the past I think we have also had certain large orders on the export front where we have had good margins so to some extent or rather the EBITDA margin trajectory is a resultant of all the revenue mix that we will have every quarter but I think the important point that you have highlighted on the lower EBITDA run in the last one or two quarters is a result of these points that I have highlighted. Going ahead with the good order book that we have on the product business side basically especially with our manufacturing on both chemicals as well as in our energy segment we should see an improvement to the margin's stability and an improvement to the margins coming through I think I can only provide you that level of an estimate at this time and not any specific numbers.
- Bhavin Vithlani:** Would a double digit expectation over the next couple of years be an optimistic assumption or a realistic assumption?
- Rajendran A:** That is a bit difficult to answer. Our efforts are obviously to move up the number as best as possible, so I will leave it at that level.
- Ashish Bhandari:** I will add that at least aspirationally trying to get there is definitely our effort, and in Q4, we got somewhere in that direction. This year, as we start to liquidate our volume, our aspiration is to get there. We understand that the number of 6-7% is not something that is a long-term healthy business for Thermax. The intent is clearly to get as close to 10% as we can.
- Bhavin Vithlani:** Thank you so much. Appreciate.
- Moderator:** Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.



*Thermax Limited
August 09, 2021*

- Renu Baid:** Two questions- first, can you share some initiatives which Thermax has taken to drive its market solutions portfolio? We have seen earlier last year that we had water, and then Revomax was recently launched from the heating side. We are seeing a lot of packet solutions across various offerings, so how should we look at the initiatives and growth in this business?
- Ashish Bhandari:** These are all part of our product businesses, base businesses and how do you modularize them, how do you make your products more standardized, how do you make it faster for your customers, for you to give customers' quotes, how do you make up to that capability? Then, show up in your supply chain, lower lead times- all of this is a big area of focus, and you will continue to see more and more products of this nature coming through this year. This is also part of the effort that we talked about, which is how do you cut cost overall within the system and then if you have shorter lead times, not only are you more competitive from a customer point of view, but you can manage your supply chain and your cost a bit better. Also, when commodity prices go up, you can increase your prices on your platforms much easier. Overall, thinking about our products; and not semi projects is an area where we are putting time and effort across the sets of businesses where we have these products viz. our standard heating business, our cooling business, our water business, our enviro business- all of those areas.
- Renu Baid:** How large would be the current portfolio of these modular products in our overall portfolio today?
- Ashish Bhandari:** I do not think we have called out specifically our modular products, but our products and services mix is part of the larger number that we are sharing, and it is part of our annual report as well.
- Renu Baid:** Secondly, on digitalization, how is Thermax working to ramp up its capabilities, and are we seeing any material traction in terms of order flows from the four sectors or the key lever industries and the base consumer-facing industry?
- Ashish Bhandari:** Sorry, could you repeat your question? Renu, I think the first five seconds I was speaking, and you were speaking as well, so I may have lost some important part.
- Renu Baid:** My question was on digitalization. Can you highlight how Thermax is ramping up its capabilities and have we started seeing any material traction from customers both in the core sectors like steel, cement as well as in the base consumer-facing industries where we operate?



*Thermax Limited
August 09, 2021*

- Ashish Bhandari:** We have not seen material impact yet because our two biggest initiatives are not formally launched as yet on the digital side; but within the next three months, they will launch, and as we get the data, we will share. We will not share for competitive reasons too much right now, but as they start to become successful or not, either way, before the end of this year, we will share a bigger update on digitalization for the team. Those are on the initiative side, but at the backend, in terms of getting digitalization to be part of the fabric of Thermax, we talked about delivering products, how do you quote faster, how do you build capability in your project side, how do you standardize your drawings, etc. by using digitalization. We have just finished a big SAP launch within our chemicals business and a rollout. So, digitalization across our portfolio will be a portion whereas a percentage of business will continue to go up, and we are quite comfortable with that and continue to invest in digitalization. There are certain places where we want to launch commercial solutions and new revenue streams based on digitalization. We are going to go through those launches in the coming months, so you will have to wait a little bit.
- Renu Baid:** If I can ask one follow-up to Mr. Rajendran- what will be the share of the projects' business in the backlog today? Thank you.
- Rajendran A:** I do not have a quick number to tell you on that front.
- Ashish Bhandari:** That we can share with you. We will find, and we will share that.
- Renu Baid:** I will take it later, no problem. Sure, thank you.
- Moderator:** Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.
- Pulkit Patni:** If we go back, say two to three years, we were doing anywhere between 105 to 110 Crores of quarterly revenue on the chemicals business. Then, we had a new factory where the capacity was getting expanded and what we clocked this quarter was 122 Crores, last two quarters was also 115, 120 Crores range. So, my question to you is- are we not seeing the benefit of this new factory in terms of our revenue or have prices been softer that volumes have grown? I just want to understand how we should look at the chemical business from the next two year perspective and the ramp up of your factories?
- Ashish Bhandari:** I think it is a very reasonable question. Compared to a year ago and now, you will see that our margins are lower but overall you will start to see that the revenue is starting to trend in the right direction. It is not to the higher expectations that we had, and I will share why it



*Thermax Limited
August 09, 2021*

was not to the higher expectations; but it is starting to trend in the right direction.
Rajendran, what we clock in terms of orders?

Rajendran A: For Chemical business, we had 139 Crores.

Ashish Bhandari: 139 Crores is much more than the numbers that you were speaking about, and 139 Crores on the order side is in the right direction. In this next quarter, we will continue to do equal or better, so the trend on the order side is also consistent. But regarding the capacity utilization of the plant, we still have quite a bit of capacity to go to. The 1600 weighted capacity on the present side can be expanded to 2000. We are still at the 1200 utilization of capacity, and therein, we have been a little slow in getting orders because we were not 100% sure whether our delivery would be available or not because the plant has taken longer to stabilize. We had originally said that it will take March to June to stabilize and the stabilization period will be long as specialty chemicals is a very unique formulation and requires many things to be perfectly right. In our case, we are limited by our effluent water treatment capacity. Our water treatment plant has not entirely stabilized, which means the number of amount of streams we can run through the plant is still limited, but it is getting better with each week and each month. On the sales side, because of all the challenges that have been there with logistics, the worst thing you can do in the chemicals business is commit to delivery and then not come through. We have been very reticent in committing that we will deliver in this particular period and then not falling through. So, we have only been taking orders that we have been very sure of that we can deliver. Because of both of these things, we are not seeing that 100% of our utilization is happening immediately, but the trend is clearly in the right direction.

Pulkit Patni: Thank you, that is very useful Ashish.

Moderator: Thank you. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: I have two questions from my side. The first one on this fairly good share of products and services that are coming inside. The order inflows, if I recall correctly, as per your annual report is 50% or more of your business is now coming from this bucket. I wanted to get a sense from you whether this number can further go up from an ordering perspective and as revenue stabilizes around this number, would there be a margin uptick?

Ashish Bhandari: I think we talked about the whole margin's intent, we also talked about our focus areas, and at least a couple of them are in line on the products and services side. What we cannot guarantee is that the products and services, as a percentage will go up because we will



*Thermax Limited
August 09, 2021*

accept projects, if they are good and profitable. We will not only accept them, but how to grow our projects business is also something that we take very seriously and in many, many ways and you can see our projects business runs on a negative working capital. It is a hugely important part of Thermax, so the question that we ask internally is not the percentage between projects and products and services, is the absolute number of products and services and whether that continues to increase or not and whether that is increasing at a rate that we think it should. So, there we would have high expectations internally and also, externally. Also, we can say that in the whole products and services area, there is a lot of focus within Thermax, and it is an area where we would like to grow faster than GDP. So, clearly if Thermax overall has been steady and from an industrial perspective growing the products and services portion faster, then that is definitely an intent.

Aditya Mongia:

Thanks for clarifying it from a strategic perspective. The second question which I had was related to subsidiary, and maybe it is an out of the year question because it relates to FY2021; but I do see that on your subsidiary, Thermax, you have taken an impairment of thought this year. Does this relate to Indonesia in any manner, and I want to get more clarity as to if it does, why would a brief investment two years old be taken down? Is there a demand issue or something else?

Rajendran A:

Yes, you are right. The impairment last year has been clarified in the financials pertain to two of our investments- one is the closure of our subsidiaries in part of the Danstoker group in Europe which is boiler work services business, the other part is the Indonesia one where we had taken provision. This is post COVID. The business, as we had explained last year as well as just now in this call is the impact on the South East Asia region and in Indonesia particularly, on the demand side, it has been reasonably high. We have not seen and considering that impact that has come in this business where we were actually expecting stabilization and improvement to the financial performance of that unit post two years of its investment caused us to taken provision vis-à-vis the PAT losses that we have incurred. So, the PAT losses which has been provided for is keeping in a conservative view but I think that is what I would like to add here.

Aditya Mongia:

Thank you that clarifies. Those are my questions.

Ashish Bhandari:

Okay I think it is fair to say it is very clear in our numbers as well that in our international businesses that are factory related our investments our businesses overall in US and Europe and even other places are very stable, very healthy, very profitable as well. The two places where we have major plans in Indonesia and in Danstoker, Denmark and Poland there we have not done well, yes the reason is change. We continue to be bullish that they can and the fundamentals are there that the businesses can get turned around, but so far we have



Thermax Limited
August 09, 2021

been able to translate that bullishness that we feel into our numbers I think that is a very fair criticism of our performance over the last year.

Aditya Mongia: Thank you.

Moderator: Thank you. The next question is from the line of Jonas Bhutta from Phillip Capital. Please go ahead.

Jonas Bhutta: Two questions; firstly sir you started to give out and call out the green order that you get every quarter or every year and particularly last two quarters of FY2021 had a 100% freight rate of green orders, now going into 2022 and 2023 where you did highlight that oil and gas may play important role in terms of order inflows these order inflows including the one that you won in Q1 are these part of the same green initiative or those are still the traditional parcel fuel based product and if you can talk about on the refinery side what are the green initiatives been taken by a client and where is Thermax positioned in terms of technology of product to offer as and when the transition were to happen and this question particularly is over and above the WHR so WHR if at all is used in the hydrocarbon space is well understood and this question is more from ex-WHR?

Ashish Bhandari: So, most of the applications that are even in refining are in some ways around waste heat recovery. The stream through which you recover this waste heat and then this particular case it was downstream of sulfur recovery unit which is a Claus process that you see that is where we were, and this particular order was entirely green because it is not the input fuel is not coal or gas or anything but the application of course was in refining so these kinds of applications we will continue to see in other places as well. For our large boiler business which in Q3 and Q4 was 100% green in this particular quarter it is 97% green yes so still a very, very high number most of the applications continue to be waste heat recovery based. There are only now very preliminary discussion starting around using biomass as a fuel or looking at electric boilers that are because at these sizes the applications are very different and we have won this last quarter our first order for electric boilers and that is something but it is just because it is a start it is not a fully big production line but we have won our first order for an electric boiler low voltage and it was done by using technology that we have at Danstoker mixed with pressure parts in the overall cost basis that we have in India so it is also a very good example of bringing best of capabilities that exist within Thermax to be able to do something unique and different and you will continue to see in future quarters more and more such stories. I hope I at least answered your question about refining. In our mix for this year, we have India itself is going through multiple locations that IOCL, HPCL, BPCL have, have got multiple expansion plans where Thermax has bid which are not green as such. Many of these projects as I had said previously are going through some amount of



Thermax Limited
August 09, 2021

delay because of COVID and worryingly so because of price increases where the governments coming back and saying my budget is so much lower either you reduce your price or we go through retender and we have no option but to say no because we do not want to drop our prices at all there is no point picking projects just for the volume alone we need margin as well.

Jonas Bhutta: My second question is more bookkeeping in nature and Mr. Rajendran can sort of sorted out, Sir the calculated order book versus the one that you have reported for Q1, there seems to be a gap of about 230, 240 Crores and particularly that gap is in the energy vertical, so is there an order which was earlier taken out of the order book and was reinstated in Q1? I know it is a relatively smaller number but that is driving bulk of the growth in the order book if you see the 17% growth other than if I knock that 200 Crores off the growth in the order book is relatively less?

Rajendran A: I cannot make that out from what you have said I think we will connect separately with you to see where this gap is arising in your understanding and clarify that. We do not see that, but I think if you have that number calculation, we will connect with you and understand and can I get your number to have it clarified with you.

Jonas Bhutta: The opening order book was 5227 and the one order was 1700 Crores but executed 1050 so then the math does not add up to 6109 it adds up a slightly lower that is the only calculation that I have.

Rajendran A: I think we will clarify that to you.

Jonas Bhutta: Sure, thank you.

Moderator: Thank you. The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: My question is pertaining to the service business. Sir, if you can help us understand what is the share of service business currently and the initiatives, we have been taking around scaling up this business because our annual report also talks about reorganization of some of the service businesses for increased focus there?

Ashish Bhandari: We have the number for the services business, for the current time we would like to preferably not share it. This will be an area of focus, the run rate for a couple more quarters, get it to some points on where we can share what are our initiatives, what are we doing on the digital side and then maybe we can come back and relook at this. So just give us some time because it is an area of big focus we do think we can do lot better on services and we



Thermax Limited
August 09, 2021

have the breakdown internally of course across the entire business but we would like some time to share it and to grow it before we share the details of our services business but before the end of the year maybe we can, as the March review we can come and share a lot more detail of our services business for the entire team.

Kunal Sheth: Sure, Sir not a problem. Thank you so much Sir and that was my only question.

Moderator: Thank you. The next question is from the line of Amit Mahawar from Edelweiss. Please go ahead.

Amit Mahawar: Mr. Bhandari congratulations on decent set of numbers. Sir I have two quick questions first is the recent contract that we have won on exports from the sulfur recovery unit that basically will be done by the reconfigured unit that we have from KBW, what are your plans for this unit I know it is very well part of our full entity but generally do you think the differentiation that we have there is going to help us scale up revenues particularly on that capability any number that you can share what we can have?

Ashish Bhandari: There is no number to share, I think because the export projects come and go, and it is not entirely in our hand whether the project itself happens or not but what we are seeing is whenever a project happens it is more and more on applications ground globally. Thermax is considered to be a capable bidder and gets qualified for these projects, which is a good sign. The other thing is the modularization capability that we have that allows us to shift entire units reconfigured from India itself so they become plug and play at the other end and makes us less dependent on local resources and local execution capability, so makes us lot more confident in our ability to say yes can we do this in this price or not and so how far we can continue to push this we do not know but in this particular business we have seen strength in the last three quarters both domestically and internationally. Our large boilers business has been crossing 400 Crores on a consistent basis for the last three quarters and has a very healthy pipeline looking forward as well, the only downside is that some of that healthy pipeline is driven by inquiries from India itself where for many of the government projects, the project owners want to renegotiate which is pushing those projects to the right so that is the disappointing thing but there is no shortage right now in terms of projects for the large boilers business.

Amit Mahawar: My last question is on exports now, you have seen a fair amount of how internally things at Thermax have been working and the way Thermax operates on international contracts also is fairly conservative and from your previous experience, do you think you have done a fair bit of change internally to integrate with the kind of contracts and with the terms that you have for the global opportunity especially on the energy side which is the large basket or



Thermax Limited
August 09, 2021

you think there is a fair bit of work that is pending and my question is particularly with respect to the dilution that one has to see if you go for large value of jobs in the export market which is not something that Thermax is always comfortable going aggressive on so it is more of a qualitative question if you can answer? Thank you.

Ashish Bhandari:

No, I think in terms of the large project side especially as it relates to international we have not diluted our standards by any means. In terms of that we accept the LC requirement, the overall profitability expectations, nothing at all and from what I have seen so far at least on some of the bigger projects there is not really an issue of price as much or of terms. We are invariably able to come to some sort of an agreement, the question is always been about qualifying Thermax and whether some of the global players accepting Thermax as a bid of repute essentially which is where we continue to get better and better on and with each project that we execute successfully internationally our reputation grows and our capability and acceptance grows. So here sometimes you end up with local government requirement like companies in South East Asia coming and saying bidders from India not qualified or we would only want this project from Chinese funding and we will only have Chinese bidders approve. So stuff like that is disappointing to see but beyond that if it is an open playing field, more and more we are being successful and getting approved and then it is not a question of pricing on terms, I have not diluted that by any means and even for India this is not an area where we will be diluting. We have seen an FGDs is a great example where so many companies have had massive working capital challenges all of that because of diluting terms on FGDs we have not done that and that was before my time. From somebody looking at Thermax from the outside I admire Thermax with a resilience of saying no to big orders because the terms did make sense and I thought that Thermax stand was proven out, the entire industry has lost so much money chasing FGD projects and many of them are not bidders in current projects anymore the industry has to grow up, has to learn and chasing volume without chasing profitability is absolutely the wrong way to go.

Moderator:

Thank you. I would now like to hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Limited for closing comments.

Bhoomika Nair:

Thank you so much for giving us an opportunity to host the call and all the participants for being there. Wishing you all the very best Sir.

Ashish Bhandari:

Thank you very much and thank you for your patience and for listening to whatever we may have to say. Sometimes we have not answered your questions in the entirety and having given you absolute numbers, but I hope directionally given you a good sense of how we are looking at our business. Thank you so much for your time. Wish you a very good rest of the week.



Thermax Limited
August 09, 2021

Moderator: Thank you. On behalf of DAM Capital Advisors Limited that concludes this conference.
Thank you for joining us and you may now disconnect your lines.