"Thermax Limited
Q1 FY '24 Earnings Conference Call"
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MODERATOR: **MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Thermax Q1 FY '24 Earnings Conference 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 star and then zero 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. Thank you, and over to you, ma'am.

Bhoomika Nair: Thanks, Zico. Good morning, everyone, and welcome to the Q1 FY '24 Earnings Call of Thermax Limited. We have the management today being represented by Mr. Ashish Bhandari, Managing Director and CEO; Mr. Rajendran Arunachalam, Group CFO and Executive Vice President. At this point, I'll hand over the floor to Mr. Ashish Bandari for his opening remarks, post which we'll open up the floor for Q&A. Over to you, sir.

Ashish Bhandari: All right. Very good morning to everyone on the call. Welcome to the Q1 earnings results for Thermax. So, my first few reflections. First, I think just on what were our numbers like, I would say from a profitability perspective, we did okay in a couple of our segments, but I thought we should have done better on profitability in Industrial Infra. And I do expect that the rest of the year will go better than what we have done.

From orders perspective, decent performance in most cases. We did not do as much as I would have liked in Chemicals because if we're looking to make that as a long-term growth driver, the volume growth has to come as well. And that we did not see to the extent that I would like, and we'll talk a bit more about it during the discussion.

Otherwise, a fairly stable quarter from an operating environment perspective, I've been saying that our overall inquiry pipeline is decent. That's reflected in some of the larger orders, larger orders that were multi-segmented which also I shared previously. Commodity prices were stable, not too up, not too down, which meant our capability to deliver was also somewhat predictable.

And overall, from an execution perspective also, quite a manageable quarter. Some areas where there are ups and downs, but they were most relative to what we go through, or we went through even a year ago, a much more benign operating environment, yes. So that’s also good.

In terms of -- I know one of the big questions will be on the reserves that we have taken and the exceptional item. I will actually repeat the words that we put out in the press release, and I will not be sharing anything beyond the words that we have already shared. And the words that we put in the press release go something like, during the quarter, the company received an arbitral award against the company for repair, payment of damages, etcetera, for breakdown of third-party gas turbo generators (GTGs) for a customer project.As per the award, the company was directed to repair and reinstate the GTGs under the defect liability obligation. Further, among other matters, the award also allowed the customer's claim on additional expenditure, along with interest, which is currently estimated at INR 245 crores. Pursuant to independent legal opinion,

(a) for the quarter ended June 30, 2023, the company has made a provision of INR 50.63 crores, and for the balance amount, no provision has been considered necessary.

(b) the company is in the process of filing an application before the Bombay High Court for setting aside the entire said award and is reasonably confident of the issue being ultimately decided in its favour.

With that as the background, given most of you follow Thermax quite closely. I'll just open it up for questions and not spend any more time giving commentary, which you guys are already fairly familiar with.

Moderator: Thank you, sir. We will now begin the question-and-answer session. Our first question is from the line of Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: Good morning, and thanks for the opportunity. My first question is, how do you think about the large trending opportunities coming up in the second half, especially from the refinery on the ignited methanol? How is that opportunity looking at this point of time?

Ashish Bhandari: Okay. So, the question is specifically on large opportunities and the outlook. Let's say for large opportunities, as I look at the next couple of quarters also, not too much in play in the refining space. At least nothing that is of the order of INR 5,000 crores to INR 1,000 crores. Yes, up INR 500 crores, we do have a few opportunities. sub-INR 500 crores, even beyond refining in steel in particular, but also in some other areas, including a couple of international projects, there is a reasonable pipeline.

Of the sub of the greater than 500 projects, I would say, for the whole year itself, there would be maybe less than five projects that we are bidding on. And many of those projects may not get decided in the year. Some of them may not even go through based on customer funding, etcetera, because they are somewhat complicated and then vulnerability.

So overall, continue to be less sanguine on the larger orders. But there is enough of a pipeline of good medium-sized projects across the Board. Certainly, nothing big on the refining side that would be worth talking about, even on the bidding side.

Mohit Kumar: Understood. My second question is how do you think about the Industrial Products portfolio, where do you think there could be larger traction over the next 12 to 24 months, something like Emotron if you can just comment on the same?

Ashish Bhandari: I would say every portion of Industrial Products has got some tailwinds, which are relevant. And these tailwinds are driven by all the megatrends that India itself is going through.

So first is just the strength of the overall Indian economy where multiple industries are coming into India. And so many of those industries require the solutions that Industrial Products provide, whether it be heating, water, wastewater, pollution control, environmental pollution control and cooling solutions as well.

Second, where we have been somewhat more successful is where there is a connect with green as well. So multifuel firing in the water side, ZLD (zero liquid discharge), which is base MEE, MVR technology, a variety of tough-to-treat solutions and applications in pollution control. As the application gets complicated and environmental norms get more and more stringent, some of the connect back into being able to provide these solutions -- all of it is very important and relevant and interesting.

Third, I would say, organisation by itself is also for our water business in particular and as there is more requirement that industries do not pollute the water back. Similarly, as cities have cleaner air. So, some of the equipment and the capabilities that we have developed that they all work to. On top of this, we are focusing a lot on digital solutions, services.

So, to create a very strong backbone in Industrial Products, make sure that we're doing cross-sell across our products, working well with our distributors, our channel partners. So, a lot of incremental stuff. But I think on the Industrial Products, we can continue to find some of these newer things that make us better and better for at least a few quarters more.

Moderator: Thank you. Our next question is from the line of Ms. Bhoomika Nair from DAM Capital.

Bhoomika Nair: Sir, off late in the news, there's been a lot of talk about the OMCs starting to invest and raising funds into capex and investing a lot in terms of capex. Now while there might not be some near-term visibility of these kinds of projects as yet, when do you think that this will start coming into ordering activities where we could start participating? Does it happen within this year? Or do you think it's more like a 2-3-year kind of an opportunity?

Ashish Bhandari: I think refining in particular, goes in cycles. I think every OMC, as you know, has got a very robust capex plan. So right now, there are no new plants coming because HRRL just went through -- Numaligarh just finished and CPCL has got some pipeline, but it's more brownfield activity and no greenfield mega project. But I'm confident that in coming years, there will be those projects. And some of the private players also are looking at petrochemical, large-scale investments, etcetera. No particular timing to offer. But if you're looking at a 3-year cycle or for sure, the refining cycle will come back well before the 3-year period. Yes.

Bhoomika Nair: Sure. Sir, my other question is on the Green Solutions. If you could just give an update on a couple of the projects that we're working on in FEPL as also in terms of total. And if I look at the quarter numbers, there's been some uptick in revenues as also margins. So how should we see the sustaining as we move ahead in the rest of the year, as also for the next 1 or 2 years?

Ashish Bhandari: I think see, Green Solutions should be relatively speaking, one of our most predictable parts of Thermax, because once you have the asset in play, then at least the cash profile is relatively well understood.

For the most part, there are some moving parts, especially relating to execution. For TOESL, the execution is primarily around making sure that biomass is available in sufficient quantity. And our plant is running with the uptime that we have committed to the customer.

In FEPL, it is driven completely by uptime and making sure that the panels and the wind turbines all operate to the performance that we have committed as part of our commitment to the customer. And as part of the overall equity plan. So let me take the two businesses first. FEPL, we just finished in this quarter itself, a 45-megawatt plus, which was our largest project till date in Gujarat, solar wind hybrid. And I think we did a good job in executing this, and compared to the industry, we executed this faster on time and reasonably happy with how the team went about it.

Now we have one project in Tamil Nadu, one project in Maharashtra, and the biggest project so far, which is in Gujarat up and running. So, with these three, we have 70 megawatts plus in play. And our next project, which is 120 megawatts for Tamil Nadu, that is in advanced stages of execution, going through a lot of work on the ground, mostly on schedule. I don't see any major red flags in executing this. And this is also wind and solar hybrid.

After that, we have approved next-stage projects for Tamil Nadu, Maharashtra and Gujarat again, and we are now also actively looking at ISTS (Inter State Transmission System), which is interstate plays as well, working with customers in other states to whom we can provide this renewable energy on an ISTS basis, which means wind could be any part of India, solar could be any part of India and the customer could be in a third part of India, and we can still pull it together. And then looking at storage and some of the other things as well.

TOESL -- we are continuing to be on the growth track, adding capabilities, adding more projects, and it's a continuous flow in pipeline. And we have a reasonably aggressive pipeline and hope to do our biggest order book for TOESL over the last few years this year. So TOESL 3.5 years ago was less than INR 100 crores, INR 80 crores business. Today, we are at a more than INR 100 crores run rate per quarter. And within a couple of years, we would like to take this to INR 800 crores per year and beyond from a number perspective.

We continue to see good opportunities, and we are now looking to take the model international as well.

Moderator: Our next question is from the line of Renu Baid from IIFL Securities.

Renu Baid: Thank you for the opportunity. Ashish, my first question is, I heard through your commentary for the last couple of quarters, you were a bit more cautious on the order flow pipeline, especially mid and large-size projects coming through. But if you look at the current quarter on the infra business or EPC has seen quite a bit of traction in terms of order flows, probably large orders from the core sectors.

So have you seen a material change in terms of the pace of order finalisation across standard products as well as large projects in pipeline? Or these were broadly expected lines and probably second half could be a much more softer period with respect to large order flows?

Ashish Bhandari: No, I think, Renu, I would say I was never pessimistic. I always said we see a decent pipeline; the recovery is broad-based. I just said, we don't see too many. See, a year before last and even Q1 of last year where we had 500 crore plus projects. The year before, we had two projects that were INR 1,000 crores or beyond. I just don't see those size of projects.

But overall, I've always been bullish that we will have a decent year even in the last quarter when you guys asked what is the order outlook for this year. I came back saying that, look, we are bullish for this year. And I continue to be reasonably optimistic that the year itself will also hold out okay. And it's not like I expect the second half to be softer or anything like that.

Renu Baid: Got it. Then any presentation highlights the introduction of new waterproofing solution and some initial orders in the building and factory segment. If you can throw us some light in terms of what kind of opportunity will this mean for Thermax and which other kind of target markets you're looking at? And any increase in capacity, manufacturing capacity required for these types of special application chemicals?

Ashish Bhandari: So chemicals, I can answer based in multiple ways. First in chemicals, we want chemicals to be a long-term growth engine for Thermax. And in that sense, as I said at the beginning, I don't think we did as good a job in Q1 of growing volume. That said, we remain committed and we see enough opportunity to continue to do new things in chemicals, and we will continue to invest.

We put up a new plant in Dahej, which is now stable, performing well, took a while to get there, but it's performing well now, and we are happy actually compared to some of the global plans. We have managed to stabilise it reasonably well, maybe not as aggressively as we would have liked to, but definitely much better than the mean.

And we will continue to invest here. We're going to add more capacity, put up a new plant in Jhagadia and then also look at other adjacent chemicals and all, which for just for competitive reasons, I cannot share, but chemicals will be an area where we will continue to invest, continue to grow and continue to have aspirations that we can build this to be a much bigger, more profitable business. That is it.

In terms of newer products that we have released, I think not just for chemicals, which is more of a new application. But across, what we are looking to do in cooling, what we are looking to do in water, is to continuously introduce new products, continue to focus on technology-led innovation and not rest just in the areas that we are in, but look to connect to adjacencies here. Like in cooling, we are now getting into and getting quite good at technology relating to CLCT, which is closed loop cooling towers, very extensive, but require much less water.

And relatively less competitive in India because it's a technology-intensive space. Heat pumps, again, most of the players on heat pumps are global. Nobody does it in India. We're looking to do adiabatic, sorry, CLCT is closed loop cooling towers. Adiabatic cooling towers is the low water-based cooling towers. That is also something that we have developed. We are launching in water, as I said, the whole ZLD space, tough-to-treat water.

Over time I do expect desalination to become a big part of our water capability also. We announced a partnership with Paques, which also for the ethanol market, provides solution for condensate polishing, which is very novel higher-end technology. So, a lot of new things that we are looking and connecting on.

Renu Baid: My second question is, if you look at the operating margins this quarter in particular, was a bit soft both for Products and the Infra segments. And if you see on a broad basis, as you also acknowledge that the commodities have been quite benign now. So by when do we start seeing the impact of these benign input prices reflecting in our margins? Or is there still a bit of baggage from the older projects, which would be on a lower margin basis, which are getting executed currently?

Ashish Bhandari: So I think on the Industrial Infra businesses, you will see a bit of an overhang. And in Industrial Infra, which are long-cycle projects, we tend to book our costs and confirm our costs practically right when the orders come in. So we at least like steel, which is the single biggest buy, we order all the steel right then and there when we know the project is there. And projects such as the FGD ones, which are lower profitability, will stay lower profitability.

That said, I think Q1 was particularly difficult, and I do expect in coming quarters for some of our good guys where we have some projects at higher profitability. They also will start to show up and the mix should help us give better results.

Industrial Products. There the benign commodity prices is showing up already. And so I don't think we should expect too much more from commodity prices themselves to help. What we need to do is that in international businesses, which continue to show up as losses and become drags on our India business, the pull-through that we get from additional volume into profitability, we continue to do that.

And in heating, which is the biggest driver of profitability in Industrial Products, we tend to typically release some of our reserves through the year. So that trend, we will continue to see.

In Q2, though, I do think that our employee expenses will go up, because this last cycle, we have taken a much bigger swing at fixing our compensation. And especially in the lower and medium ranks of the company, where we had attrition, where I think in recent years, this would be the highest compensation cycle that we have gone through, and the impact of that will also start to show up in Q2.

So we have a few moving parts. Overall, I think we can improve our profitability. But it may not be to the overall extent that I too would like it to be. But we will improve our profitability for sure. And we will improve our profitability relative to last year as well for the year as a whole as well.

Moderator: Thank you. Our next question is from the line of Amit Anwani from Prabhudas Lilladher Private Limited.

Amit Anwani: Thanks for taking my question. I particularly want to know about distillery being, I can say, 10%, 11% contributor. And in our presentation, we have highlighted distillery to be a good growth driver, particularly about this FCI order for not supplying crane to distillery, a lot of ethanol companies have mentioned some subdued or overhang on ordering coming in for distillery. Just wanted to understand your view on that?

Ashish Bhandari: We are seeing some cases of order slowdowns and people that were very, very bullishly wanting to place orders now wanting to be a little slower. So compared to the very aggressive nature that we have seen for six months now, some amount of business. I do think it does not -- some of the better well-capitalised players will continue to move forward. But what you're talking about is some amount of cautiousness is true.

Amit Anwani: All right. My second question, sir, in your presentation, you have mentioned about the energy transition play and you've highlighted quite a few areas. So I just wanted to, for example, gasification and hydrogen. Just wanted to understand your perspective at Thermax, are we actually dissecting any addressable market? Is it still some time away to get orders in this basis?

And second thing, for the remaining nine months, considering that Q1 has been pretty decent with respect to intake, are we expecting to cross decently on the last year's order intake numbers?

Ashish Bhandari: I think, the simple answer to the second part is do we expect to cross last year's order intake? Absolutely, yes. Of course, we expect to. And if we could do Q1 without getting a single big order, we would like to continue to keep that single really big, large order. We would like to continue to keep that momentum.

In terms of some of the newer energy stuff, bio-CNG is already contributing orders, not just this year, last year as well where we took in a few hundred crores worth of orders on the bio-CNG side. Coal gasification is a technology that we have developed. The government policies are imminent in terms of BGF, so we do expect that to produce some amount of orders this year. Waste to energy, waste heat utilisation already driving a fair bit of our orders.

The last bit is on hydrogen. Hydrogen is much tougher to predict. I've already always said that -- don't look at hydrogen as a quarter-by-quarter play. Look at it as a 3- to 5-year play, which is in that period, it will become meaningful.

The sector continues to have a load of announcements and the big announcements that came about were on the SECI scheme on the PLI for hydrogen is out. I do expect some time this calendar year that those bids will go in. And this financial year, I do think these results will get announced as well. So which will create the rates effectively where multiple companies would be off the blocks.

We also have seen many state governments starting to come out with their policies on banking, on subsidies that they would provide. The Hydrogen Valley projects are also starting to get announced where the government is providing some amount of funding, and also the larger projects, some of the private players have announced financial closures.

So activity is starting to pick up. I don't think it will result in direct orders for us, possibly maybe at the end of this financial year, but most likely big, more action will happen next financial year. And certainly, we don't know how the whole PLI, how competitive it will be. It's too early to opine on any of that.

Moderator: Our next question is from the line of Dhananjai Bagrodia from ASK.

Dhananjai Bagrodia: Just a couple of questions. You have written about a new product launch, which has got to do with waterproofing, could you just give us some details around that? And how do we plan to work on this product?

Ashish Bhandari: So waterproofing is part of our Construction Chemicals line. We have a good product now, but you do drive scale, you need geographic presence through the country. You need to work with more and more distributors with more and more applicators. And today, it's a small part of our business. But these are all examples where tremendous growth is possible.

It's our own home-grown technology capability, fantastic products in the small geography that we have launched in, the launch has been fantastic. But it's part of a larger chemical story on how do you take some of these to a much bigger denouement, so to say, because we have very limited geographic presence. We are very limited work in presence with distributors, etcetera -- which to me is all opportunities for growth. I don't look at it from a defensive point at all.

Dhananjai Bagrodia: Sure, sure. So this would come under your B2C and this will be something which we would...

Ashish Bhandari: No. It will not be B2C at all. We are completely B2B. Industrial applications, industrial sales through distributors, going to applicators, going into all industrial applications, no B2C at all.

Dhananjai Bagrodia: Okay, sure. And sir, secondly, now with so much spoken about around round-the-clock electricity needs, we have capabilities. We also have been speaking about how your capabilities in renewable capabilities, including solar, wind, solid battery and hybrid solutions. Are we seeing that much traction in some of the other players, which are showing great order inflows? Are we seeing something along the same lines in this?

Ashish Bhandari: So on RTC, we are not seeing order inflows currently. And I would say all the order inflows that are being talked about are primarily on pumped hydro, we are not putting up any pumped hydro projects nor do we have any plans to put any in the future.

Yes. We are looking at RTC for many applications based on batteries. In my view, the commercial viability is getting better and better, but it is not entirely there yet. That said, there are multiple projects where we are quoting our RTC and working on RTC or semi RTC, it may not be round-the-clock power, but it may be much by use of storage, a much more stable renewable power, which means today with wind and solar, with solar, you can only do eight hours with wind, depending on the season, you can only provide a few more hours.

Adding wind and solar, you could get to a certain number, can you increase that number? What is the lowest cost storage that you can bring in that fits very perfectly with the hybrid solution that you have put in, clipping solutions and on that, where you are clipping, can you cut down your clipping by using storage and using that storage to work?

So, we are playing around with storage quite a bit. RTC in full 24x7, is a little further away. Yes, pumped hydro is the only case where it's been very actively talked about and we are not in hydro.

Dhananjai Bagrodia: So is there RTC or any of these projects, would we look at first putting the capex on our balance sheet and then servicing clients? Or what would be our strategy along those lines?

Ashish Bhandari: So anything that goes through FEPL will be booked on our own balance sheet. And as I've said previously, maybe it's a good segway. On FEPL, we had said also, yes, there's a certain amount of funding that our Board has approved, which was along the lines of the numbers that we had spoken last time as well. If the platform wants to grow faster than that, then we will look to bring an external partner in as well.

Dhananjai Bagrodia: Okay. And sir, roughly, what would RTC in your estimate make?

Ashish Bhandari: So, in my view, it should be a minimum of 15% and beyond. We shouldn't be looking at any business which is sub-15%. Though for a project-by-project basis, some exceptions may happen because you estimated a project at a particular profitability ends up being lower, etcetera. But from an equity IRR perspective, most of what we are looking to would be 15% would be the flow.

Dhananjai Bagrodia: And 70

Ashish Bhandari: What?

Dhananjai Bagrodia: Debt to equity ratio?

Ashish Bhandari: Okay. Sorry, I couldn't get all of your last bit, but anything else? Or could we get into the next question?.

Dhananjai Bagrodia: No and thank you.

Ashish Bhandari: Thank you.

Moderator: Thank you**.** Our next question is from the line of Lavina Quadros from Jefferies. Please go ahead with the question.

Lavina Quadros: Hi, Ashish. Two questions. One is on this; I remember you're discussing a Japanese boiler order in the China Plus One aspect. Are there any further updates over there or something you'd like to share and discuss?

Secondly, you might have mentioned this earlier, I would have missed it. This 11% year-on-year order flow growth, is it entirely based orders? Thanks.

Ashish Bhandari: So first part, I think do we see the China Ones, especially in the cement industry, we are seeing China and even other customers also in this space, looking at the Chinese. It's unfortunate, but that's reality. That's the first part.

Second part, these are not all base orders because we have had like a single order of INR 250 crores plus. We've also had a few orders that are INR 100 crores plus. So, it's not entirely base orders, but I would expect in the business that we are in this kind of activity, we should be able to see on a more regular basis, any which way. Maybe not a INR 250 crores order but overall, I think you could say 70% of this is, 72%, 75% would be base order.

Lavina Quadros: And base order growth is in double digits? It's continuing well?

Ashish Bhandari: Yes, this last quarter at least the base order growth was double digits. And as I said, yes, a lot on the Industrial Products side, we have had a reasonably good quarter, and variety and driven entirely by India's overall economic strength, fair interest in energy transition-based solutions around fuel shift. Water and ZLD and many of our products have also done well.

Lavina Quadros: Okay. Ashish, lastly, just on the China Plus One. What I meant was - I think in the second half of last year, Thermax had won orders from a Japanese company. And you mentioned that China Plus One might become, I mean, it could be an opportunity. So, I just wanted some...

Ashish Bhandari: On a similar line last quarter and -- which is now actually into Taiwan, and we are seeing a couple more projects being quoted for international. So that part is a good part, and that we are continuing to see traction on. We have the customer that we worked in, take the first one that went into a European country. Then we got a second order this last quarter for Taiwan. Now there are a couple more inquiries in play as well.

Lavina Quadros: Thank you.

Moderator: Thank you. Our next question is from the line of Manish Goyal from ThinQwise Wealth, please go ahead.

Manish Goyal: Yes. Thank you so much. Sir, if you can share the breakup of domestic and international revenues, revenue growth and order book order intake after we shifted to a new format, we seem to have discontinued these data points? And maybe if you can provide some more commentary on the international scenario?

Ashish Bhandari: We don't share this anymore in the financial summary that we gave out. I have the numbers in front of me. I'm just first trying to check. It is not there. In terms of the order booking, the international numbers were down compared to the last time. And overall, our international businesses have underperformed relative to our own expectations. Actually, I would say, underperformed relative to last year as well.

The good part is that on the larger projects, which is relevant to what Lavina was speaking about, our pipeline on international is one of the best I have seen in recent years. Yes. So, we have a big pipeline now of larger projects on international, which should be hopefully decent.

In terms of mix right now, I would say international relative to this 30% plus number for this last quarter was more like 20% from an orders point of view, and maybe 25% from a revenue point of view, approximately.

Manish Goyal: Okay. So on a larger project side, maybe would it be possible to quantify the quantum and in which areas, particularly?

Ashish Bhandari: It's not one single project here, and that would be a good thing. What we call as Industrial Infra, there, the pipeline on international is now a couple of thousand crores plus. When those projects will move, the availability, all of that remains to be seen, and it's not one single large project again. But it's this couple of thousand crores plus. It's a mix of waste heat recovery, waste to energy. Some of what I was speaking on the previous person's question on just pressure parts for global waste-to-energy projects, strength from our Danstoker business, where we are seeing our pipeline continuing to be strong.

So it's a mix of lot of different things. But on the larger project side, now our pipeline is both on EPC and on large boilers is now a couple of thousand crores plus.

Manish Goyal: Sir, on our Indonesian subsidiary, if you can give us an update on how is it doing?

Ashish Bhandari: On Indonesia and Danstoker, both of them underperformed in Q1. I know last year, I had shared that this year, I would expect both businesses to be doing much better. In Indonesia, especially, I think Q1 was a disappointing quarter on both order intake and also on profitability.

And on profitability, as we are executing, we are finding that to meet what we said was building a product as we had sold it. We are not able to manufacture it as we have sold it to the customer. So as delivered, as manufactured, there are costs run up which is disappointing. So, I would say PTTI may continue to underperform relative to when we finished the year, what my expectation was.

Danstoker will come back based on -- it has a good backlog, and some of the backlog is profitable. Even though Q1 was tougher, I expect it to deliver the overall year at plan or better because we know the backlog is profitable. PTTI, I don't know, Rajendran, will it be equal to or better than last year at least, even if it's not equal to and starting to get into a full profitable year?

Rajendran Arunachalam: Minimum, I guess, it should be as well last year. But if we are able to catch up, I think, in the next quarter, hopefully, it should be a better.

Ashish Bhandari: Yes. So that would be a summary.

Manish Goyal: And sir, last question on the CBG compressed biogas, you did mention that last year, you got good orders, but are we seeing pipeline improving and probably we read that a couple of large corporates are also interested in setting up these large-size CBG plants. So if you can give us some perspective?

Ashish Bhandari: We are working with all of the large projects and the projects that we took last year are for those customers. I think now, if anything, we are slowing down. Yes, the pipeline and the interest level is massive. We want to execute and finish a couple of these projects before we take more on.

I hope that these customers will also be patient because as an industry, we are entering new ground and new ground on everything. What is the quality of the input feed, what is the frequency of the input feed, the technology, who are the buyers, what specification do our buyers need, and what is the role of government? It's all a lot of moving parts.

So our focus is on retiring the technology risk and focussing completely on making sure that before we take in new orders, we are able to address some of the concerns on the projects that we have already taken. And these are not concerns from the point of view of, it's more like the chemical story where we said, yes, we have to work through these things. We just need to resolve it step by step by step. And get to a place where we have a full amount of confidence.

Manish Goyal: So because the challenges both on the sourcing of the biomass on one side and then on the evacuation of the gas itself. So the ecosystem, do you think that it's been developing and probably...

Ashish Bhandari: Yes, it is being developed, but it's not easy. It is being developed. And for example, I'll come back and say, you take something like rice straw. Yes, you can come back and say, "I'm setting a plant for 100 tonnes of rice straw per day. On paper, it sounds good. Yes. But then you actually go on the ground, and you see what 100 tonnes of rice straw looks like, and you need that on a daily basis, then you realise the mind-boggling focus on what is it that we need to do. Then you figure out that monsoons will happen.

We have been having a load of infrequent rain. Then those bales get wet so how do you process those wet bales, then you see something else showing up. So, the supply chain is all work in progress. But given that some of the biggest names are now in this space, I do think their structure will come in and evolve, and this whole space will become more-and-more formal going forward.

But right now, it's completely work in progress. And it should be. What we are looking to do is unique. And it's not like a refinery where every refinery in the world will have the same building blocks. The crude gets moved around the world. In some things like bio-CNG, the problems are very unique. The solutions are also unique. These are very much domestic things that we will have to figure out.

Moderator: Sorry to interrupt, one...

Ashish Bhandari: Rajendran has a point to say...

Rajendran Arunachalam: Yes. So on this domestic international, since we did a segment change last quarter, we had not updated it. I think going ahead in the next presentation onwards, we will present the domestic international split as well. Thank you.

Moderator: Thank you, sir. Sorry to interrupt Mr. Manish Goyal, may we request you to join the question queue for follow-up questions? Thank you.

Manish Goyal: Sure.

Moderator: Our next question is from the line of Ashwani Sharma from ICICI Securities. Please go ahead.

Ashwani Sharma: Thanks for the opportunity. Sir, my first question is a clarification. I wanted to know, are we bidding on the SECI hydrogen project?

Ashish Bhandari: It's early to say. Ask me in a couple of months from now, and we'll see. We're definitely looking at it very, very closely.

Ashwani Sharma: Okay. So my second question is, are we exploring opportunities in the district cooling? If yes, then what kind of opportunity do you see in this space?

Ashish Bhandari: District cooling -- if it is industrial cooling-base, which is electrical-based cooling, we are not in that space. If it is absorption chiller-based and has got other technology capabilities that are needed, we are by far the leaders in that space. So, I suspect that we will not be having the lead in district cooling. We will work with companies and create optimal solutions where our solution will be part of the overall fit that they would have. Are you seeing a lot of district cooling coming about?

Ashwani Sharma: Yes, there are a few corporates which are talking about district cooling nowadays. So I thought…

Ashish Bhandari: I'm aware of only one, but if you see more details, do share. I wouldn't mind going deeper into this, because there are globally in part of district cooling like, for example, in Nordic countries and even in the US, we are a big part of the overall district cooling solution, even though we don't take the lead. We provide, as part of an overall cooling solution, some of our technologies fit in very well.

I know India has been talking about it, but most people I spoke with said economics don't work out. But as more-and-more complexes come up, especially industrial ones, I do think this thing will become more prevalent. I wasn't aware that there were multiple people who have started to look at executable projects. I was aware of just one.

Ashwani Sharma: Yes, understood, sir. Lastly, we know, in one of your strategic objectives, you mentioned about growing products and services portfolio. When you say growing products, where do you see the gap in terms of products and which segment? And also, what is your strategy in terms of growing services portfolio? That was my last question, sir.

Ashish Bhandari: I think I answered that question partly. See, the three big drivers for whatever we want to do in are the megatrends for India, which is we are in a place where industrial growth is good. New capacity is coming up. Any new capacity irrespective of which industry it comes up in, needs a utility, needs water, needs some steam -- that is not for all industries, but many industries. So that whole space is driving a new inquiry pipeline for us.

Here, we are working very closely with our distributors, clearing up channel conflicts, working channel penetration. It's like a block and tackle but very, very important. We are training our channel partners - doing all of that.

Second is the entire green portfolio, which is industries that have got coal as the usage driver or today have got effluent, which they put out into the sea or into whichever form and tomorrow are being looked at for zero liquid discharge -- how do I cut down my water usage?

Third is the trend on urbanisation, where sewage treatment becomes important, waste treatment becomes important. Newer applications like, in ethanol, desalination require newer products, newer capabilities. So multiple drivers that we can see of growth.

On cooling, as I've spoken about getting into heat pump, CLCTs, adiabatic cooling towers. These are all newer areas and newer product capabilities that will continue to drive capability. And even on the heating side, we launched electric boilers. We are providing air pollution control and scrubbers for solar, and solar plants that are coming up, solar manufacturing is coming up in India – so, a lot of things.

On services -- a lot of focus has to go in services because when your products are doing well, we tend to not focus on services. Services is the most profitable part of our business. And we have to make sure that as our products grow, we continue to grow services. And in services, we need to focus on penetration, making sure that our spare parts availability and branding of spare parts, we do well. We have to make sure that a lot of value-added services that we can provide to our customers in terms of fuel shift, energy efficiency, uptime, we start to do.

We have a big programme on the digital front, which is Edge Live and Edge, where we are starting to monitor assets on a continuous basis, some fantastic stories on new insights -- we have been able to drift to our customers in terms of asset held, asset optimisation. And this is not for the biggest of the biggest. Our solutions, what we want to launch is for every run-of-the-mill, textile plant, rubber plant, plywood plant, ethanol plant, anyone and everyone. We want to be able to provide meaningful cost-effective solutions for our everyday customer for the small business owner out there and certainly increase our penetration.

We had a big issue where a lot of our products that got sold through our channel partners, we didn't even know who was the end user, how was the end user using these products. So, a lot of focus is on just services, services, services.

Ashwani Sharma: Understood, sir. I'll come back for more questions. Thank you.

Ashish Bhandari: That's the last set of questions, yes?

Moderator: Yes. Our next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead, sir.

Parikshit Kandpal: Hi Ashish. My first question is for clarification. Regarding this provisioning of the INR 50 crores -- this is for the repair or this is a part of the INR 245 crores?

Ashish Bhandari: No, this is part of the INR 245 crores.

Parikshit Kandpal: Okay. In this repair will come in this second quarter that is already done in the first quarter?

Ashish Bhandari: It is already done. Whatever we had to do and spend, we have spent. It still needs to finish in terms of installation, etcetera, but whatever spending, etcetera, we had to do, we've already finished and closed all of that.

Parikshit Kandpal: And what was the impact on margin? Or what could be that number to get a real sense on what to expect in the margins for this quarter?

Ashish Bhandari: It's already done and in fact, last year and the year before we had taken some of that as costs that we had taken as part of our business here. So the repair and all that is already -- whatever cost impact was there is already done.

Parikshit Kandpal: Okay. And just my second question is on the pricing environment now. So one side that you have been technology advancing your product portfolio, the many new technologies. So are you able to attract the pricing for it because it's still not reflecting in numbers. So do you think that like other capital good companies we have seen, there has been strong pricing and margin uptick and the benefit of operating leverage playing out? In our case, the margins have been pretty volatile. So how do you see the demand and the pricing environment for our product portfolio?

Ashish Bhandari: I would start to take a look at our segments also in the four segments that we are starting to report. In at least a couple of our segments that leverage has been showing up and will continue to show up. So if you take a look at Industrial Products, compared to last year and this year, that is starting to show up. Our Environment business used to be low single digits, now it is starting to move into higher single digits.

Similarly, our Water, Heating businesses are now double-digit profitability as we look at them on an annual basis. So across the Board, we are seeing leverage at least on the product side, continue to go. And as that volume also starts to come in, you can see what our backlog looks like by our segment. There is a nice story on the Industrial Products side, which is developing. Chemicals also, which is reasonably profitable, we want to continue to grow and build on. The challenge that we have is primarily on Industrial Infra -- we have, I would say, even on Industrial Products, we can do better, and I do expect the team to do better.

On Industrial Infra, some of what happens is the projects that we have taken, we took a lot of projects 1.5 years ago, which were almost bid two years ago here, which are all going through execution. Some of those projects were not as profitable even when we took them as we would like. But that said, also Q1 was particularly worse where we had one project with significant negative profitability that also went through. I do expect the rest of the year to be better -- how better we will see quarter-over-quarter. But I expect the rest of the year to be better even on the Industrial Infra side.

Parikshit Kandpal: Thank you. Okay. Last question from me. This SEL and this TOESL so what will be the total equity and total debt in the first quarter? And what will be the balance capex for the year?

Ashish Bhandari: Sorry, I think that you would repeat that question because you were breaking out completely. We couldn’t hear the question. TOESL and FEPL and something relating to debt on that is all that I could...

Parikshit Kandpal: Sir, TOESL and FEPL -- what is the total capital allocation in terms of equity and debt as of the Q1 FY '24? And what is the total capex to balance for the year?

Rajendran Arunachalam: I think the borrowing at this time is something close to INR 500 crores in both the businesses put together. And I think on the equity side, we have close to INR 250 crores of equity, which is there at this time in the FEPL business. And in the TOESL business, we have committed, I think last quarter, we had mentioned that we would be putting in about INR 65 crores of equity for over and above that profitability for the new projects that they would be investing in. So that's the sort of numbers that I have at this time on the listing. Was there anything more that you wanted to understand?

Parikshit Kandpal: So for the rest of the nine months FY '24, how much is the incremental capital allocation for these two?

Rajendran Arunachalam: For TOESL, I told you already about that, about INR 65 crores of equity would be there, but they would also borrow for financing some of that project. The FEPL one -- I think basis the projects that would come up, we would be further investing in that entity. I think we'll be able to give you an update in the subsequent quarters as the projects do come up.

Moderator: Thank you. Ladies and gentlemen, that was the last question of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Ashish Bhandari: No closing comments. Thank you very much to everyone who attends these calls and follows Thermax. We appreciate your time and your insightful questions. If there's any feedback from you on things where you would like to see more details from Thermax, etcetera, do write to us, we'll consider that as like the international point that came out, if there were other points also, we look to include them in what we shared with you. Thank you very much.

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.