"Thermax Limited
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Moderator: Good morning, ladies and gentlemen, good day, and welcome to the Thermax Limited 3QFY2021 Post Results Analyst Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Varun Ginodia from Ambit Capital. Thank you and over to you Sir!

Varun Ginodia: Thank you so much Lizann and good morning everyone and welcome to Thermax Limited's 3QFY2021 Earnings Call. We are pleased to welcome from the management, Mr. Ashish Bhandari - Managing Director and CEO and Mr. Rajendran Arunachalam, Group CFO. In terms of flow of the call Mr. Rajendran will go through the presentation briefly and then we will open the floor to Q&A. Thank you so much. Sir over to you!

Rajendran A: Good morning to all of you on the call and thanks Varun. I will briefly take you through the investor presentation that we had shared on our website I hope you have access to it.

So, talking about our 3Q consolidated results, our revenue is exactly the same as what we achieved in last year 3Q, signaling resumption of our regular operations. Profitability is much better - we are 34% above profit before exceptional items, this is on back of the cost control measures that we have initiated during this period both on our material cost as well as our employee cost and other expenses. However, there are a few exceptional items that we have taken during this quarter pertaining to provisions for our investment in Indonesia as well as for our Danstoker group in Europe, these were required on the back of the performance of these entities, their outlook for the next couple of years and the accumulated losses that we had in these entities. So, basis review of them, we have taken diminishing provision. For the consolidated results the impact is about 27.5 Crores net which is the impact that we have disclosed in detail in the financials that have been shared with the stock exchange.

Talking about order booking, our numbers are more or less the same as what we achieved in last year Q3. Order balance remains at a similar level as last year Q3. Our cash and bank balance has improved. Our focus on cash continues, evident from the last two quarters as well. Our cash balance is currently at 1686 Crores, so those are the key numbers.

which I wanted to share with you. Coming to the order book status, we continue to have good amount of order flows from refinery, food & beverage, metals and other related sectors. The broad-based demand recovery has been seen across other industrial sectors as well and that is leading to positive flow on the order book front. We have highlighted a few key orders that we have won, and some important happenings in our energy, environment and chemical segments. I am sure you would be able to go through that and if you have any queries, we would be happy to address them. We have won a few awards for our businesses; we have shared them in the presentation. From the order book perspective, we had one large order, which we had informed in the last quarter results as well, we have won 320 Crores bio refinery order from Assam Bio Refinery that helped us improve on the order book front in energy segment.

By and large these are the key highlights that I would like to share with regards to results. On the last slide of the presentation, we have shared with you our current outlook. From an input cost perspective, we are currently facing challenge on the commodity cost as you are well aware of the steel price increase that is affecting us in terms of input cost increase. We are taking measures to control the impact of the same to our bottom line. On the demand front, we definitely see that many of the sectors are now coming back with inquiries and I think that is a positive movement for us. We are of course aware of the union budget, which has definitely boosted the market sentiment in terms of the infrastructure build that is anticipated to happen. From a global perspective we do of course see a bit of challenge still in some of the geographies where we operate, we do see that the pandemic effect has not gone completely, we are just hoping that in this coming quarter this should be under control and we will see a better demand in the global geographical locations where we are present as well. So that is all that I wanted to cover on the presentation. Over to you Varun!

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer sessions. The first question is from the line of Ranjit Shivram from ICICI Securities. Please go ahead.

Ranjit Shivram: Congrats on good set of numbers given the environment. Sir if you can just give us some outlook and what is the status of the performance of our overseas subsidiaries Danstoker and the other subsidiaries how are they placed what sort of outlook there?

Ashish Bhandari: I will start with Danstoker first and then we will talk about some of our other subsidiaries. From the hit that we took on our numbers this quarter, you can see that Danstoker has not performed to our expectations. We had previously indicated that the losses in the business was somewhat manageable, but that was done with an expectation that the economy in Europe was slightly getting better. But the next wave of lockdowns have happened or perhaps that we have not potentially executed as well as we would like. Travel has been quite challenged; it has been not the easiest. Looking at all of that Danstoker had an overall loss again this quarter and looking at the loss we took an accounting review of the entire asset and then whatever was the goodwill on the books all of that has been written down in this quarter. If I go a little deeper on Danstoker specifically, as you know it has a plant in Denmark and Poland. There are couple of changes that are happening. One is that the whole business used to do a fair bit of work on district heating in Europe. With the whole change in the energy environment in Europe the district heating market has changed slightly. Some portions of that market which is in the future renewables will continue to be strong, biomass will continue to be strong, which is a strength for us. We are also adding capability for doing electric boilers out of Danstoker in a lot more meaningful way going forward. That said though the overall environment is not like we are losing orders out there, our packages through whom we work normally are not seeing the volume too. The expectation is by end of this quarter in March there has to be an uptick in demand because there have been quite a few projects that have been announced, have been under discussion that are expected to continue, but until that happens and they hits our books we do not know what the future looks like so we decided to be conservative and take the hit. Our plan for Danstoker going forward is for it to be a better than a breakeven business. Yes, so that is the challenge in front of the operating team in India and locally in Denmark as well, so that is Danstoker. If we look at South East Asia, we have a plant in Indonesia and we have a larger South East Asia business as well, even that has underperformed to our expectations but the challenge and the opportunity there is of a slightly different kind than Danstoker. Within South East Asia the overall pipeline of opportunities that we have continues to be decent, there is a big move to biomass and fuel flexibility out there, both of which are our strength, and we will get stronger and stronger with each passing quarter and that is the expectation. So just like Danstoker the expectation also for our PT TII, which is our Indonesia subsidiary is not to be a drain on the business next year and to be breakeven. Of course, it depends on how well we execute and whether we are able to do this or not, but that is the internal plan that we have. Outside of these two markets in most other parts especially in the US for chemicals, we are seeing fair amount of strength, we continue to grow, and the growth is quite profitable as well. Some of our other businesses like cooling which used to do quite a bit in US at one point of time is seeing some amount of slowdown, but we expect that to pick up in the near future. If you take a look at our overall numbers our international mix has not changed here, we continue to be in that same 30% to 40% range for this quarter, including international as well as exports, which is not a bad number, but we do think that number can be much, much more in the future.

Ranjit Shivram: Thanks for that elaborate explanation. Certainly, energy segment margins have been very healthy this quarter so was there any advantage of a mix or something exceptional there or do we see this trend to continue, overall outlook on the energy segment margins?

Ashish Bhandari: I think the mix was slightly better than previous quarters because we had one international order that came through partly this year, but the more important driving factor ultimately was that our volume came up and some of our base costs were still manageable and under control that affected all portions of our business correspondingly, so in that sense I think it was a mix of two effects. Rajendran I do not know if you would have anything else to add.

Rajendran A: No Ashish, you have provided the clarification.

Ranjit Shivram: Thank you Sir. I will join for further questions. Thanks.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.

Susmit Patodia: My first question is on the chemical business, is there a capacity constraint with respect to business because the topline is kind of stagnating at this level so is there a capacity constraint or is it just outreach to more customers that is my first question?

Ashish Bhandari: I think you made a very pertinent observation. There is a capacity constraint, we had talked about how phase I of our plant was getting close to full and for phase II of our Dahej plant the capacity expansion had come into place, but we expected the stabilization to continue until Q1 of the New Year. Here we are working backwards to see if we can accelerate that schedule, but right now we are limited more by supply than by demand. And in this business where quite a bit of it is driven by exports, we have to be absolutely sure that we can deliver before we take an order, so your observation is very, very pertinent and correct. During the quarter, we also had some amount of styrene price fluctuation, styrene went up quite a bit and during that time some of our price negotiations, etc., were also affected slightly, but we were more limited by our ability to supply.

Susmit Patodia: So, this 450 Crores of the expansion can reach what revenues?

Ashish Bhandari: I think that is for all of us to work on, see it is not an easy question because as we start to increase the capacity and then once we are assured that the capacity is available only then we can promise it to customers and grow. So, we have a very strong demand pipeline, this is a very important area of growth for us, it will be very premature for us to say how much more it can grow, but our first focus has to be to increase the capacity and then very quickly start to fill that capacity. So, the first challenge which would be between now and the next time we come to talk to you is to make sure that our new capacity is up and running truly.

Susmit Patodia: My second question is this related to the budget, which is where they announced the national hydrogen mission and Thermax is probably the first company in India who have done something towards this effect, so if you can just explain this whole thing, if you can just explain what this means and how does it play into Thermax's already global installments and the future?

Ashish Bhandari: We are all starting in that journey so it is not like Thermax has any particular advantage. We have lot of products that fit in that larger scheme of hydrogen. But the hydrogen mission announcement is a very positive development. How that hydrogen mission works is yet to be seen because it is just announced, how will it get spent, what projects will it do, what does it mean, will it only be green hydrogen, which is renewables based, will it include blue hydrogen, will it include carbon capture based hydrogen, so there are lot of open questions which are still there so it is too premature to say the direct impact on Thermax for the country and for energy transition. Overall, it is a positive development and one that we strongly support.

Susmit Patodia: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Ankur from HDFC Life. Please go ahead.

Ankur Sharma: Sir first question is on the order pipeline so while in your presentation you spoken about some kind of a recovery and momentum in orders if you could talk about a little bit more detail in terms of larger segments, steel, cement, refining, FGD, your broader outlook over the next couple of quarters how do you see orders kind of playing out here in the domestic market and possible if any specific projects also you could highlight?

Ashish Bhandari: Unfortunately I would not be able to highlight any projects, I will be upfront clear about that. In terms of overall recovery, I would say decent, I would not say it is spectacular in the sense that it is not like our order pipeline is 2x over what it was last year. It is slightly more than last year which is a good thing, good place to be and the recovery is broad based here. We are seeing good amount of projects in cement, steel, distilleries, refining, on top of good strength in food and pharma all of that. One good thing which we tried to indicate through our presentation - if you take a look at our large boilers business, nearly 400 Crores worth of orders that were won, in there all of them were for applications that were green from a variety of customers, actually nearly 15 of them were all green, yes so waste heat recovery in cement application which multiple customers are deploying right now and even for many of the new cement plants that are being announced this will continue to be in play. Then we had a lot of success in spent wash and distilleries, the Assam Bio Refinery, which is a bamboo refinery converting bamboo into bio-ethanol. Even in Pemex in Mexico the win we had in the last quarter was for waste heat recovery. So waste heat recovery, spent wash, agro based products are seeing continued strength and that strength is in multiple segments as well. We had a very big win for our build own operate model as well as for a major mining company in India where we will be converting what would have been done using fuel oil and natural gas to a plant which will use biomass and convert that biomass into power and steel and we are doing that on the build own operate model so that is like a 10-year long contract of which we only announced the first year worth of orders, but all of these are long-term contracts that are very interesting and very different from what we would do even a year ago I would say. So that is all positive as well, but that said the overall pipeline is not like dramatically bigger than last year, it is somewhat bigger than last year and in that sense, the expectation would be that the budget will kick start a new round of infrastructure spending and we will gain from that infrastructure spending as those projects trickle down to the Thermax level.

Ankur Sharma: Actually what I also would love to hear is your outlook on the larger size orders for typical 400, 500 odd Crores and higher because we really need to win some of those larger ones to start growing our order book again and therefore grow our topline and so on right so is that something also you are seeing a recovery or is it more of your base orders, which is leading to this higher pipeline for you?

Ashish Bhandari: There are some reasonable big orders also that are under opportunities and discussion. As an example I would say that lot of refinery projects that got budgeted in last September, August, or even before are coming for finalization now. But we would be completely clear which I had mentioned last time, especially with the rate at which steel prices everything have gone up and you can see we have been a very conservative company from a cash flow perspective from focusing on our fundamentals and that will not change. We will not do anything to just bring topline and if we have to pass on orders to do that we are perfectly find doing small, small, small orders. Our 1500 plus order book does not have a single 500 Crores order or a 400 Crores order, it is something that I think is testament to our capability to play and win across multiple segments. Specific to FGDs there is a pipeline of FGD projects, which are now coming to there, the competitiveness on those remains to be seen, all our players in the industry talk about how we need to improve our habits but does not seem like we are doing that but Thermax is very clear we will not play if the profitability or the cash flows are not right.

Ankur Sharma: Just a follow up on the FGD the orders we got last year I think in Q2 on these FGDs and there was some delay I remember you mentioned on the last call in terms of execution so do we now start seeing that kind of coming to topline maybe in the second half?

Ashish Bhandari: In the last call we mentioned - both of these have now started getting executed again and they are in full execution now, but it does mean that the revenue cycle on those will shift from FY2021 and FY2022 to a mix of 2022 and 2023. Yes so there is a shift in those projects of about six months based on all the delays because of COVID and also because they had an element of China sourcing in which we needed clarity on both the projects. Now we are in full execution again with several 100 people mobilized on site but we will not be able to catch up on the project delay that happened.

Ankur Sharma: Thank you so much that is it.

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

Renu Baid: Sir my first question is on the water segment we have seen a lot of activities in government significantly increasing the thrust on clean water both in urban as well as the drinking water space and Thermax also has come up with new product launches in water treatment segment, so for our water portfolio are we now looking to expand the end market opportunities away from this industrial segment to even government sector customers or how would be our strategy to expand and grow the water and leverage the opportunities coming up in the domestic market?

Ashish Bhandari: We have high expectations from our water business and continued growth, but our primary focus will continue to be business to business. We will not do municipality or government projects, of course I cannot say anything with finality; lot will depend on the quality of projects that come up. But our historic trend of these projects in terms of profitability in terms of how they get executed has not been the best, so we will not get into some of these segments, but I cannot say that for sure. It is not a big focus area, big focus area continues to be B2B where we see enough of a pipeline and enough strength with our current set of products, the whole urban move, the norms getting tougher all of that will drive way. Municipality and government project specifically we will look on a case-by- case basis only.

Renu Baid: In this context how has been the response for package products like atoM that we have worked up in the last quarter or two?

Ashish Bhandari: So I think in next year we will be able to share more potential details but so far, we are happy with the launch of atoM and the inquiry. Though in many of these cases of sewage treatment plants and all, it is the consultants who define the specifications, based on these specifications the product goes into the designs of a particular project so the cycle is not immediate, they are not like you build in today and tomorrow everybody starts to buy them. But we are very encouraged by the overall pipeline development and the way many of our consultants have picked up and quoting volume on atoM is something that we like as well, but you will have to wait a little bit before we can come back and provide specifics if we have ever will be able to here. Because of the competitive nature we will not be able to share specific numbers but we will share a general trend next time.

Renu Baid: Sir secondly on these Onsite Energy Solutions portfolio last quarter we did receive a good order from the FMCG space so how are we think this business scale up and internally what will be the plan to ramp up this portfolio for both domestic as well as the international markets and do we see the margins in energy segment also improving because of growing contribution from this business?

Ashish Bhandari: So two separate questions. First on this Onsite Energy, I think it is a growth area for us, the mining example that I had shared is also in this particular segment and we see opportunities for growth. We have ambitious targets I would not venture to share those targets but this is an area of growth for us. The profitability of the energy segment while this is a very profitable or a reasonably profitable area for us is not the primary driver, yes, the improvement in profitability is first and foremost driven by the volume that we had and also a positive mix in this quarter.

Renu Baid: As in the energy segment last 12, 18 months we were executing certain order on the captive power and large projects the margins had significantly thinned out, probably completion of those orders or near completion has also help to improve the overall mix for us could that be the reason?

Ashish Bhandari: The mix is overall better as I said I did not think it was one specific project on the negative side that got closed in the previous quarters that is helping overall, but I think the mix in this particular quarter was slightly on the positive side where one international order where we had slightly higher margins had a bigger portion, but overall as I said it was driven by a combination of two factors and the overall improvement in base volume was the single biggest driver.

Renu Baid: Got it, thanks Ashish for your inputs. Thank you.

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

Kunal Sheth: I would love to hear your comments on what would be the key growth new areas of growth in the next five years that you would be most excited about and which could be meaningful contributors to the revenue over the next five years that was my first question?

Ashish Bhandari: I think good question. I think I have tried to shed some light into this already. The nature of energy is changing dramatically outside of India and even reasonably within India, a trend that will continue to accelerate and gain momentum in future quarters. I think this whole change carried some threats to Thermax. While the share is reducing continuously, we do have exposure to coal based captive power plants and alike while we have zero exposure to any large scale utility side coal, I do think over the coming decade even the refinery and oil and gas projects will change in their nature and in their overall volumes. On the flip side the opportunity that Thermax has as a company which is a clean water, clean air, clean energy company is unprecedented, there is tremendous capability that we have in all three of these areas that are themes not just for now but for the coming decades and those are themes that Thermax can leverage effectively if we do our job well, so in that sense we have a whole variety of products, solutions, capabilities, all of which that have to come to bear and create new sources of revenue for us, couple of those we talked about here like the build own operate model, Onsite Energy is a fully renewable green based model and Thermax is one of the biggest players; though it is not the biggest players in biomass and associated spaces on bio CNG and all that. Our capability in managing fuels of various different kinds in our heating business, fuel flexibility of all scale and sizes gives us lot of capability as well. That said in some of the more emerging areas especially in terms of water, in terms of clean air we need significant product enhancements, even on our heating business the whole electrification will drive changes so how do we introduce new products to take advantage of all of those. There was a discussion on hydrogen - how do we bring that in to win so that is part of what the team and I need to work on and deliver, a lot of it is competitive in nature so we cannot really share, lot of applications that we are bringing to the market even now where we are having success is for all of us to see. So I would say look it is an environment where there will be risk and an environment where there will be lot of opportunity so it will come down to execution, but clearly there is tremendous amount of opportunity both in India and abroad.

Kunal Sheth: Sure even that was really detailed and helpful, but do you think that all of these opportunities would basically turnout to be a meaningful revenue source in the next five years to compensate for those who are in traditional businesses?

Ashish Bhandari: I think the possibility exists really. Take a look also at our chemicals business as an example on the strength that we have, the strength that we can double and continue to grow. Even on the energy side there is no shortage of new things that can be done and those if done well can compensate for any loss of revenue you may have where traditional businesses will change, yes it will come down to execution.

Kunal Sheth: My second question is pertaining to the margins in the current quarter so the gross margin improvement that we saw basically do we think it is sustainable and can we assume this as a steady state margin or there was an impact of mix and therefore this cannot be taken as a long-term?

Ashish Bhandari: There are three parts to the answer. The one that we cannot control is the movement in commodity prices, which can make quite a bit of difference to our numbers so we will continue to be cautious on the long-term outlook because commodity prices are going up. Even on our chemicals business this quarter we had a major spike when it came down on styrene, so for about a month we were scrambling to see how do we continue to be profitable, but the impact of steel prices will be lot more severe on our business and we are looking to manage it, but lot of it will depend on the renegotiations with customers, our ability to increase prices, all of that. The second part of the puzzle is volume because if our volumes are reasonably high the productivity impact comes with those volumes. I that with the nature of volume that we have right now we can continue to sustain but again the volume also depends on the step one whether the pricing continues to be something we can manage. Yes if the market continues to be very competitive which means if we do not reduce prices we do not win projects, that will have a secondary impact on volume as well. The third impact is on our base cost and our cost structure. I do think we have cut down to the bone there and in the coming quarters we will have to spend as well because there are lot of areas of growth where if we want to participate in those growth areas in the future we will have to spend. As you know we went through salary cuts, etc., which we have now restored. I do not think on the base cost side we would be cutting any further, it will only go up going forward with a very, very careful look, but it will go up going forward. Rajendran anything you want to add.

Rajendran A: No Ashish, you have provided a clear direction. We do see things moving up in essentially employee cost and some of the G&A expenses, given that in extraordinary times, a lot of focus on control has been done is what we have to remember.

Moderator: Thank you. The next question is from the line of Himanshu Upadhyay from PGIM. Please go ahead.

Himanshu Upadhyay: My first question was we are seeing more traction in terms of capex from chemical, pharma and all these sectors should not it lead to higher growth in our chemical business eventually over a longer period of time and one more thing we have even equipment for clean water and all those things can we have a business model where we get more extended warranty or validity to customers if they use our own customers is there the business model which can evolve over a period of time, some of your thoughts on this question?

Ashish Bhandari: Let me answer your first question the second question I could not understand entirely, but specifically to the chemicals industry I would say the overall chemicals industry in India is going through a very positive cycle, which is expected based on the reports that you read to for some period of time. So in that sense we will gain as we provide energy and environment solutions to those industry, so when they setup a new chemical plant they need power, they need to clean the air that the plant emits out from the flue gas and other emissions that happened then you need water treatment plants input and output all of those, those are all areas which from a secondary demand perspective we will gain. Our chemical business is not one that serves the chemical industry specifically, only a small portion comes from the chemical industry. But our chemical business manufactures are performance chemicals and specialty resins, which have applicability in a variety of different industries, including a fair bit of exports. So that is the first question or the first part of the question that you asked. I could not understand the second part of your question entirely on long-term warranties in the water segment if you could please explain that slightly.

Himanshu Upadhyay: Yes so my question was we provide capital goods also for clean water systems and all those things zero liquid discharge and all those things where again a lot of chemicals get used, so can we have an extended warranty for our systems if the customer uses our own product so a type of binding with the customer which we see in many other I would say capital goods companies if you use their own AMC the warranties are extended or life of the product would be higher so something of that sort which, gives more sales for our chemical businesses is that a business model which can evolve for us on the chemical side also?

Ashish Bhandari: I think it is a very good question. Without sharing too much competitive information again, what you are talking about is not exactly the way you speak but in a slightly indirect way. The projects get setup separately typically the warranty of a project when a new equipment is bought is basis standard equipment warranty, and the customer decides because it is a competitive offer, often through an EPC or a consultant in-between. It is a like-to-like comparison, but there is a strong affinity between a boiler needing boiler chemicals, and it is a big part of our performance chemicals business already. But can we do more on that front? I would say the answer would be yes, and it is an area where we are investing more. It is also an area where digital technologies and variety of different things also come into play, so it is a good question in that sense and an area of focus. The numbers are small right now, but it is one that we think we can do better as agreed.

Himanshu Upadhyay: Second question can you give an idea of as to what percentage of revenue would be from spares and services for us in both energy and environment and in the pie chart where you show the order book so is the after markets orders are also included in that segment and related to it we were working with IoT and remote monitoring of our system and field whereas we reached in those initiatives and had it helped us in getting bigger the size of our stable revenue stream in after market how big is the scope for us and what are the challenges in that business means over a longer period of time?

Ashish Bhandari: To answer your first question, I think the numbers are included in the overall numbers, but for competitive reasons, we will not share details. For your second question on remote monitoring, please give us another six months, let us make substantial progress on some of the key things that we are working internally and then I can come back and share. It is something that we are working on quite actively, but it is too early to share like details on revenue mechanisms and how deep is our penetration and some of those things. I do hope at some point, should we be comfortable, we can come back and share, but quite a bit of work happening in that area.

Himanshu Upadhyay: Related to first can you give some idea of how much the spare services or recurring business would have grown in last three to five years just not the absolute numbers but let us say in terms of growth how is it doing or growing just some idea?

Ashish Bhandari: So I would again say that I will not share specific numbers. It has grown faster than our average business, and it has had positive growth.

Himanshu Upadhyay: Thank you from my side.

Moderator: Thank you. The next question is from the line of Anuj Sharma from M3 Investments. Please go ahead.

Anuj Sharma: My question is relating to the order book in the small businesses. We have made some references to it, but some more color just how big would be the contribution from let us say it is less than 5 Crores orders in either our revenue or in the order book?

Ashish Bhandari: Rajendran would you have that number in specific?

Rajendran A: No, that I think is a very minute detail we would not have that number upfront with us now.

Ashish Bhandari: I think what I can share though is that we have a wide distributor network Pan India, having somewhere close to 100 distributors and channel partners, which shows a good sentiment of how across industries and across markets demand is looking. A lot of talk around how some of the rural sectors have done well, but I think across segments, and across India, the demand has been good in FMCG, pharma, distillery, sugar, agro, variety of different sectors that are not concentrated in any part of India. We are above numbers that we were at, a year ago and some of those numbers are the highest we have had in our recent journey and history as well.

Anuj Sharma: Alright in the same light could you also talk about the non-consumer base business so manufacturing and related excluding chemicals how do you see the buoyancy in those segments especially if the impetus by the government and all that have you started seeing some traction?

Ashish Bhandari: We have not seen any impetus right now from the government infrastructure spend, but we are seeing strength from sectors like steel, cement, these industries are doing well. In Q1, we had almost nothing from sponge iron, cement was slow, we were getting no orders from tyres, as all of them were practically working at very, very low capacities. All of that now is back to where it was a year ago, and in many of those cases, the customers are looking at capital expansion. However, those capital expansions are still not funded into capital projects that will show up for us.
By the way, we have our numbers that 30% of our orders are less than 5 Crores.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.

Susmit Patodia: Just a little bit more on the data center solution when you develop such solutions what is the competition landscape like and who are you replacing and what was the proposition?

Ashish Bhandari: Specific for data centers?

Susmit Patodia: Yes, assuming that this is going to grow leaps and bounds.

Ashish Bhandari: So look data centers should be a growth area for us, but it is not that big an area today. Yes, data centers, in many cases, work on the power that comes from grid with backup from gensets, etc., so it is not such a big area for us. In cases of water treatment and all, we do provide solutions to data centers. Going forward that space can change, which means what is provided through gensets can be provided through fuel cells or batter technologies, integrated solar and micro grid solutions. A lot of water solutions, which again are driven by the nature of power because good chunk of water that is used goes for the nature of power that is there in a data center, so the future can be different. Still, currently, data centers are not a big part of Thermax's scheme of things at all.

Susmit Patodia: Ashish actually I was referring to the atoM when you develop this.

Ashish Bhandari: Yes, so atoM from water treatment perspective is suitable for data centers. I do not have a specific number or what percentage of atoM goes into data centers, but I do know that one of the first wins we have had in atoM has been for a data center application for a global major in cloud services.

Susmit Patodia: What is the typical competition there Ashish, who are you replacing if this is your first win?

Ashish Bhandari: Many of these applications, specifically in water, the market is very, very fragmented. There are a couple of big names that you would know, are our competitors and there are two big players that are of a similar size as Thermax. Still, a disproportionate portion of the market I would say well over 50% comprises of mom & pop players, and solution setup put together organically by local markets. I think with mandates getting tougher, if we are able to improve our designs and provide a significant capability that the market provides in consolidation, there will be an opportunity for growth in the market, at least that is our expectation whether we can deliver that or not is something to be seen.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: The question is historically we have seen the Thermax being very stringent on the terms of trade especially the advances and the LCs and to certain extent it has constrained the growth are you seeing some part of relaxation needs to be done especially on the percentage of the advances that we get and a tradeoff between growth let us see overall cash flows are not impacted?

Ashish Bhandari: Rajendran would you want to take this question?

Rajendran A: Yes, so did I hear your question right Bhavin on the focus on our cash flow and working capital and impact of that on our business?

Bhavin Vithlani: Yes so, the stringent advance criteria that we have to certain extent curtail our growth is that a case that we do a slight moderation in those terms and keep the pedal on the accelerator for growth?

Rajendran A: Bhavin, I think you heard Ashish earlier speaking about our focus on our profitability as well as our cash flows. I do not think we are going to dial that down. These are two numbers and two areas that we will continue to focus on and therefore we are not thinking of anything on the lines that you are mentioning.

Bhavin Vithlani: The second question is on our captive power business so if you could give us how large is that business on an annual revenue basis what is the current order book of the business and how are you seeing the outlook on the captive power segment in specific?

Rajendran A: Ashish Sir you are taking that?

Ashish Bhandari: I will take that. I think our captive power business is a reasonably big portion of our portfolio. I do not know the number specifically. But if you look, our entire energy business in some sort is the power business where the products/solutions either goes into generating power or steam, and all are part of central utilities complex or central power complex. Like I mentioned, it is a portion of the business which in the long-term will get affected by energy transition, and as it does, there are a lot of trends out there that are good for us. As I said, even in this quarter, all the successes that we had were related to waste heat recovery, biomass, spent wash. It’s about how do you recycle, how do you get energy out of this, how do you bring it back into creating power and energy and all of that and even going forward as hydrogen comes into play and other things come into play, we should have an opportunity as well. There will be risks, but there will be opportunities as well. So yes, I think our entire energy business in some sort depends on captive power business. I would not say entirely, as we have a fair business in the O&M and utility space, which is beyond just the captive power plant. I do not know the number, but it will be a substantial portion of our energy business today.

Bhavin Vithlani: Yes, sure thank you so much for taking my questions.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Congrats on good set of numbers. Sir just one question on your order book broadly what proportion of your order book will be fixed price contracts and what proportion would allow some kind of commodity cost pass through?

Ashish Bhandari: Good question. I believe the majority of it is fixed price contract. There are two major contracts where they have some price flexibility, but the majority of our contracts are fixed price. The fixed price component has a couple of things. In the product and services portions of our business, we have a window to increase our prices as well as if we see commodity prices are going up. For the project side of our business, when we pick up a project, what we typically try to do is finish off all major ordering in a small window so that we are not exposed to the commodity price increase in that window. And then, whatever we could not order, or whatever we could not fix, subsequently we are exposed to that number, and that number is a reasonable number for us, and we are continuously looking how do we mitigate it, how do we manage it with the steel price increase that has happened and on the chemical side of our business we have a similar look with styrene as a primary input. There are two or three other inputs also that are driven by larger petrochemical, the input chemical that comes in, is based on their pricing. So as I said a majority of them are fixed price, majority of that fixed price we have mitigation for, but there is a reasonable amount that we do not have mitigation for, and in some cases, we actually go back to the customers asking for price increases, so we do a lot of stuff, we cannot say if whether those things will succeed or not but there is an attempt internally to try and minimize the impact.

Atul Tiwari: So, majority of order book being fixed price, so how should we interpret majority is it like 90% or more like 60%, 70% broadly.

Ashish Bhandari: I think Rajendran you can share something.

Rajendran A: Broadly yes, I will try to give the broad number - 90% is better.

Atul Tiwari: Rajendran any difference of opinion I do not have the exact number?

Rajendran A: I think you should look at our power business, environment business as well as TBWES, which is our boilers and heaters business. These are primarily project businesses, and I think these are the ones which Ashish was referring to. Still, it would mainly fall under our products and services part of it.

Atul Tiwari: Within that again majority risk has been mitigated for the majority part so again that majority will be like fairly high 80% or on the lower side for the risk has been mitigated?

Rajendran A: Yes on the point of risk mitigation, I think we will clarify that we have opportunities and actions that we can take to reduce the gap on this front. It is not that these are sort of back-to-back and there would not be any impact that would be seen clearly, but things where we can definitely act upon quickly. So only the projects part of it is where I think on the fixed price contracts, we will have a bit of a challenge, which we are working on.

Ashish Bhandari: In summary, I would like to add to what Rajendran has said. We do have an exposure, we know what that exposure is, how much are we looking to work through, and the teams have a very clear action plan also trying to mitigate, but we do have exposure on our books with the steel price increase that has happened.

Atul Tiwari: Okay thanks a lot.

Moderator: Thank you. The next question is from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: First question is pertaining to the Enviro segment margins just want to understand we have seen a sharp growth sequentially in our Enviro segment revenues how much of that is coming primarily from FGD revenue we think and how much is it from non-FGD, second related question pertaining to that is we have not seen any operating leverage coming in this business sequentially our margins are largely similar in that 6.5%, 7% range despite a 60% plus kind of revenue growth so how should we look at the deviation in margins?

Ashish Bhandari: So, this is specific to the environment business because, in the rest, we do have leverage that is showing up. And as I said, in this quarter especially, it is the impact of that volume coming through that has been the primary driver of improved profitability. Is your question specific to environmental business?

Sandeep Tulsiyan: Especially to Enviro segment margins yes.

Ashish Bhandari: So, Enviro is both our water business and our clean air business, which is the environment portion of our company. I think you have two portions here - in the FGD business, the impact has been relatively low so far, but you will soon begin to see the impact, and I do think that the overall profitability of those FGD projects is below the average profitability of the overall environmental business at least what we plan and what we target, so that it is clear. Also, as you know these projects are very competitive and the size of the projects is bigger. Yes, so I do think as the projects show up next year, the profitability on the environmental side will get impacted. It has not been impacted as much yet, but we also have operating leverage which as the overall volume grows, we will have some improvement. We see strength in our water business and the rest of the environment business, which has good possibilities, the end result will be driven in large parts backed by our execution capability. Rajendran anything you can add please that will help.

Rajendran A: No, I think you have clarified all of that.

Sandeep Tulsiyan: The breakup over there between FGD and non-FGD how much was in the quarter and another question that I had was if you can also share the tentative capex numbers that we are going to spend in the current financial year and what are we planned for the next financial year please?

Ashish Bhandari: Rajendran, please thank you.

Rajendran A: Yes. On the FGD, non-FGD, I regret that I would not be able to share that upfront at this time. On the capex, I think this year would be a lower number than our regular average of 40, 50 Crores that we would have spent, given the situation. In the next year, we anticipate that this would move up to somewhere around the 70 Crores or so.

Sandeep Tulsiyan: Got it thank you so much.

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

Ashish Bhandari: We have done time yes, because maybe could we have this as the last question then.

Moderator: Sure Sir.

Renu Baid: Sir I just have one follow up question in terms of the company's strategy to use inorganic route to expand its portfolio offering especially in the technology side given the global energy transitions that we are hoping over the next decade so what are the thought processes on this side?

Ashish Bhandari: I think it is an area of development both through technology partnerships, technology licenses, as well as potential M&A. So, all of those are under constant evaluation and it is something that is very important and has been in the past as well, as you know we cannot share any details but the question you are asking is very pertinent to Thermax.

Renu Baid: Could it be expected sooner than expected or it will still take some, still some time away?

Ashish Bhandari: Depends here, so we cannot share anything specific. Of course, if something has happened, we would be more than happy to share but cannot share anything at all, unfortunately.

Renu Baid: Got it. Thank you so much, Ashish and all the best. Thank you.

Ashish Bhandari: Thank you very much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Varun Ginodia for his closing comments.

Varun Ginodia: Thank you Lizaan and thank you so much, Sir, for patiently answering all the questions from the participants and I wish Happy New Year to everyone on the call and have a great and prosperous 2021. Sir in case you have any final comments I will hand over the call to you. Thank you so much.

Ashish Bhandari: Thank you very much, everyone, for patiently listening to us and I am sorry in some cases we could not answer all your questions and appreciate your patience. I think you will see we are sharing more and more information in future quarters, as we seek more inputs, more clarity and are comfortable sharing. So, thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference call. Thank you for joining us and you may now disconnect your lines.