"Thermax Limited
Q4 FY '23 Earnings Conference Call"
May 18, 2023

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MODERATOR: **MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Thermax Limited Q4 FY '23 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 the operator by pressing star 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 Advisors Limited. Thank you, and over to you.

Bhoomika Nair: Thanks, Ryan. A warm welcome to everyone for the 4Q FY '23 Earnings Call of Thermax Limited. We have the management today being represented by Mr. Ashish Bhandari, Managing Director, and CEO; and Mr. Rajendran Arunachalam, Group CFO and Executive Vice President.

At this point, I'd like to hand over the call to Mr. Ashish Bhandari for his opening remarks, post which we'll open up the floor for Q&A. Over to you, sir.

Ashish Bhandari: Thank you. Thanks, Bhoomika. A very warm welcome to everyone that's on the call. As usual, I'll keep my remarks very, very brief and give you all time to answer questions -- today's questions and for me to answer questions. I think three things for the quarter then. First, overall stable in terms of just commodity prices, demand stability, supply chain stabilities, and in that sense, the ability to have a good say for this quarter.

Second, I think I would want to just talk about, we've been speaking for a little bit about our new segment look. So as the questions come in, we'll talk about why this segment look is important. This is how we are operating the business internally, and what trends do some of these internal segment breakdowns show, and I think I'll come through the question-and-answer bit.

Third, in terms of just how do I look at the business overall. Reasonably bullish on what the future holds, but to grow again this year on the orders front will not be easy. We can see that our overall pipeline is slightly plateauing. The INR 2,400 crores – INR 2,300 crores order book -- orders that we got were much lesser than what we got previously.

To me, more importantly, I think the last couple of quarters, we are reaching the point where our backlog is flattening because previously, our backlog was constantly increasing. So how does this backlog change, where does this backlog change, what do we see as ins and outs, I think we can have a good discussion on that portion as well.

So with those three as the opening points, two of which are left open, but good points for us to discuss through this session. I'll open it up for questions. Rajendran, anything else from your side?

Rajendran Arunachalam: Nothing.

Ashish Bhandari: Okay. So let's jump into the questions straight away, Bhoomika. Thanks.

Moderator: Our first question comes from Mohit Kumar with ICICI Securities. Please go ahead.

Mohit Kumar: Congratulations on a good set of numbers for fiscal year '23, especially the margin expansion in Q4. First question is, how do see the order inflow outlook, especially on the Industrial Infra side? And if you can detail out subsegment-wise or industry-wise, it will be very helpful.

Ashish Bhandari: A big thank you to you to already start using our nomenclature and the new segment names, good. Industrial Infra had our larger ticket orders. There's some amount of background noise, if I may ask people to be on mute. So historically, these big orders come -- tend to come primarily from segments that relate to refining and petrochemical, power, steel, cement, those are the primary segments where we get orders from.

Of this, in the last two years, refining was the one that was the predominant driver of some of the orders that we got. At least four of the bigger orders we got were from refining, and then two were FGD orders in power. So both of these segments, we don't see too much activity in the immediate future. There is activity, but it's not of the kind that we would come and report out.

Meanwhile, we see strength in the steel industry, especially, and there are some new energy projects run by, I guess, energy majors, which have the potential to be somewhat big, but we don't know how they will come by. So in steel, as an example, we have quite a few discussions going on, a lot of inquiries that we are bidding on. The two questions that come about are, one, when will they come for final conclusion? And more importantly, will they come for final conclusion?

Just because the capex cycle is not as 100% sure as it is for the refining and petrochemical cycle, where when a PSU comes out with a tender, 99% that tender goes through. It may take a lot of time, but it goes through. For steel, we are not 100% sure how some of those projects may evolve. But quite a bit of activity there for projects that may show up in Q3, Q4.

Mohit Kumar: Sir, on the Industrial products side, can you give us any outlook?

Ashish Bhandari: Industrial product side, we continue to do well. We have a wide base of products that we have in the various segments that we touch. We continue to see decent inquiries and decent conversion as well. This is also though a place where a slowdown can come like the inquiry to order cycle is much shorter. So right now, we see strength, but I can't really predict what it will look like three quarters from now, maybe not even two quarters from now. But right now, we see good strength out there.

Mohit Kumar: Understood, sir. Lastly, on the hydrogen side, you signed MOU with Fortescue for green hydrogen manufacturing facility, and you also want to participate with them in green hydrogen projects. Can you just detail some development and the expectation you have on this front over the next couple of years?

Ashish Bhandari: On the hydrogen cycle, before I can even say what that future looks like, you'll have to give us time. And time I'm asking is maybe as much as a year. Maybe a year from now is when I could say, this is what the future looks like. Right now, I can share what is it that we are looking to work towards. Eventually, we want to get into electrolyser from a capability and a manufacturing capability perspective. We also want to be active on the biomass to hydrogen side because we think that also has applications by itself.

Both of these are on the technology side where we expect to be -- where we want to play. How many projects come about, what is the nature -- all of that is unknown. Both of these are also our interests, whether we are able to deliver on both of these remains to be seen.

The second bit is to be able to do EPC of these kinds of projects, which is to be able to do an end-to-end EPC of hydrogen project, which is not just the electrolyser, it may be even the new energy portion, the renewable power portion of these projects -- putting together the water, the gas, the electrical portions, the balance of plant as it is called, for these kinds of projects, that is our interest.

The challenge there is we don't know how these projects will evolve. Will the customers look to buy individual components and choose to do their own EPC? Will they continue to work and look for an EPC partner? The ecosystem development is also not clear.

Third, we want to be able to do -- build-own-operate of hydrogen projects but for industrial customers, not for large ammonia projects for exports, not large refinery related and kind of mega scale projects. But for industrial customers, we do want to be able to play in build-own-operate. We don't know how many customers will need that capability.

So there are three prongs that we are working on with very little clarity on how any of these three prongs will mature. We are coming in from the idea that at least a couple of these will be relevant to the future, but too early to say.

Moderator: Our next question comes from Deepak Krishnan with Macquarie. Please go ahead.

Deepak Krishnan: Maybe just a follow-up on the previous question. What does Fortescue really get on to the table because they're largely a mining company whereas we've largely seen other players tie up with people who have technology expertise? So maybe if you could just elaborate as to why this particular firm and how do they really help you in terms of being on the head of the value chain?

Ashish Bhandari: The partnership we have done is actually with an Australian company, Fortescue Future Industries, which is FFI.

Why did we work with them as opposed to anybody else? The first and foremost reason was that in this environment where technology is changing very, very rapidly, you want to partner with someone that has not only the capability to fight the battle for today but also stay and invest in the technology curve for the future. And there, we found FFI to be extremely committed, very, very deep-pocketed, and technically quite advanced. Instead of me blowing their horn, you can read up on some of the things that they've been working on as FFI. So we like what they are working on and how aggressive they want to be.

Second was that they are open to and want to develop projects and much, much larger projects, and they, as they go down that road, will need a good EPC partner, a good engineering partner, which Thermax hopes it can be. So those are the first two.

Then third in any of these cases is a big cultural fit in making sure there is a meeting of minds. And there was a big meeting of minds and an understanding of how we approach these spaces, what happens. So we are confident that we have made the right choice, and that was done after a long amount of background work and preparation. Practically, I mean, we created our new Energy division more than two years ago, and it took us more than a year to even narrow down on how we want to approach and go about.

I would say, look, it is still also an MOU with a lot of good partnership intent at the back end, but a lot of it will depend on how the Indian environment evolves. We've been talking about projects in India, projects in India, the requirement that fertilisers, steel, refining -- some of these segments will get mandated to use hydrogen. Some of those are not really moving at the pace that we would like it to move. We're still hopeful and we continue to be very, very close to the space and continue to be bullish, but in the space, we are not moving as fast as the U.S. and Europe is moving right now and also China.

Deepak Krishnan: Maybe just a follow-up question on the Green Solutions business. I see that from a capital employed basis, it's closer to about 8.5% of total capital employed versus, say, about 6.5% a year ago. So incrementally 50% of new capital deployment is largely in Green Solutions. And our debt is also close to INR 811 crores now versus INR 355 crores a year ago, short, and long term. So how are we looking at the overall capital deployment to Green Solutions, say, two to three years down the line? And what level of absolute debt number are we comfortable in terms of working in this segment as such?

Ashish Bhandari: That was a good reason why we wanted to show these segments. I'll share what is it that we are looking to do over the next year, and I'll let Rajendran talk about specific debt levels, etcetera. We like the space, which is why and over this last year, whatever we have seen from the FEPL portion in terms of their ability to execute projects and customer receptiveness to our offering -- both of those are good.

On the TOESL side, where historically, we have been able to fund a good chunk of the equity portion of its growth from its own cash reserves and its earnings, there too we are seeing sufficient activity that says that we may have to infuse equity, and perhaps for it to continue to raise debt from the external environment as well. So both of these two things we expect that at least for the next 12 to 24 months will continue to go up.

Between the two, we would be open, over the next two years, to invest as much as INR 500 crores to INR 600 crores of equity more, and on the debt side, maybe anywhere from INR 1,500 crores to INR 2,000 crores of additional debt at the project level in those entities.

The thing to note about debt is that none of that debt is corporate -- like Thermax corporate guarantee-based debt. This is debt at the SPV level, which is the specific project based SPV or the entity level. So from a Thermax point of view, our corporate debt and our corporate balance sheet will continue to keep it extremely clean, and we will be very hesitant of getting any debt at the corporate level.

Rajendran, would you want to share some specifics thereabouts? And then I would like to make a turn and a comment on how to look at these spaces. Rajendran?

Rajendran Arunachalam: I think, Ashish, you covered most of it. I think the debt in FEPL is about at 70% of the project cost, and that's how I think that those are the two to get financed. In our TOESL, the other business on the utility side, we currently are having a 50-50 debt equity model on that particular business. Those are the two debt numbers that you will see in that particular segment going on.

Ashish Bhandari: Okay. Then the only other thing that I would say is how long can we continue to do this and invest? TOESL will continue to invest because the numbers are not very big, and I think that much we can fund. FEPL, we are now -- I think previously, you guys had asked how long will Thermax continue to work this. Right now, we are seeing more demand than what we expected going into this space 18 months ago -- 12 to 18 months ago. We are committed to the space, but we know that after this next round of the equity cycle, we would most likely look to bring an external partner in, which means we won't continue to fund it with our equity. We look to bring in a very good partner.

Once we have established the platform and stabilized it, we'll look to bring in an external partner. We'll also look at other monetisation paths that may be available in terms of building a devco and holdco and looking at suitable monetisation possibilities. We'll look at it, but the time to have that discussion is a year from now, not right now.

Moderator: Our next question comes from Charanjit Singh with DSP Mutual Funds. Please go ahead.

Charanjit Singh: Sir, just to circle back on the same question in terms of this opportunity pipeline. You are saying that things will start catching up more from Q3, Q4 onwards. Is it that the prospect pipeline which you are seeing is not firm, that's why you are kind of cautious, and you see that the announcements are there, but they may take some more time to convert?

If you can just break it down further into maybe steel, cement, pharma, chemicals, also those segments you cater to, and water also as a segment is now growing big where we have a good competency. So just more granular details on this thing and can this change in the next six months or next one year’s time frame?

Ashish Bhandari: I'll specifically actually call out steel and cement. Because I'm, again, just referring to the large ticket orders here. This year in Q1 FY '23, it was the last time where we booked something that was very large, which is several hundred crores. We are now booking a couple that are in the INR 200-odd crores range, which to me is no longer at the size that Thermax is in. To me, they should be run-off-the-mill kind of business -- I'm talking about several hundred crores.

The year before, which was FY '22, we had multiple. We had three very large projects and two FGD projects. So that came down quite a bit in FY '23. We had only one big project, and we still did a decent bit. And of the base that we have established last year, can we continue to grow that, that is the focus. So it is not that it's all gloom and doom. If it was all gloom and doom, we wouldn't have done INR 2,300 crores worth of orders this quarter. That is my first point.

In terms of sectors, I think exactly like you said. You have a pipeline, but you're not confident. You're bidding on things, but you don't know how they will evolve, mature, all of that. That's absolutely the case. Specifically, the two sectors that I'll call out is the steel and the cement sector, both of which are driven by either greenfield expansions or large brownfield expansions.

And both of them, unlike PSU-driven projects which may move around in timing, typically, once they start, we know they close, which is not the case out here. So cautiously optimistic is the way I would term it.

Charanjit Singh: Okay, sir. Lastly, from my side, in terms of the export markets, is there a kind of traction which you can see? Or is it slowing down? How we should look at the export market exposure?

Ashish Bhandari: The overall export piece has been soft for a little bit of time. For whatever reason, even on the large projects in the past -- we've had big projects like Dangote, a couple of years ago, 1.5 years ago, we had Pemex, which wasn't very big but was a large project -- we have seen a bit of a slowdown. But there, I would say the pipeline is better than it has been at any time in the last couple of years.

So the pipeline is developing, but they're not super large projects. Overall, the export pipeline is getting better. And a lot of it is driven by waste to energy and waste heat recovery and biomass, these kinds of projects, where we are also getting better and better at establishing ourselves.

Moderator: Our next question comes from Bhavin Vithlani with SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Ashish and team, I'd like to compliment you all for the new reporting structure, really simplifies and clears the way for one to look at the company. My first question is actually on the products business. If you could give us a little bit more understanding of the subcategories of these and the kind of profitability mix, we have on this? Because historically, if my memory serves right, this segment in the upcycle, we have seen even 14%, 15% margins back in 2007, 2008.

Ashish Bhandari: The subcomponents -- we have listed out and detailed out the various categories of products that go into industrial products. They are our heating and boiler range of -- small boiler range of products. We have our water and wastewater-based solutions. Our clean air solutions, which are on air pollution control, which goes into various industries and related applications, of course, our chillers, which are absorption-based waste heat recovery-based chillers and our steam products. This is where we also capture a couple of our international entities, which are PT TII and our Danstoker entities, both of which are largely on the boiler side, which would come in the heating range of products that we talk about and provide.

We like the strength that we are seeing in most of these segments. Cooling has gone -- cooling was traditionally our most profitable business. There, we had two moves that happened; one kind of the factory move to Sri City. So there is a much higher depreciation hit that the business takes; two, the base of that particular product -- basically the material that does the absorption and heat transfer is lithium bromide, where there have been continued price rises because we know lithium is used in various different new applications now and is in great demand.

There we have had some amount of moves, where the business has done a lot to work through. So it is not at historical profitability, which this business at one point used to be 18% to 20% kind of profitability. It's not there now. Overall, as a mix, our Water, our Enviro businesses are the most profitable they have been in their history, and we expect to continue to keep them at those levels. In Industrial Products, we see good strength, even Danstoker, PT TII, they are going through a continued improvement in performance.

While there is still a big drag on the overall profitability of Industrial Products, relatively, they are getting better -- the pipeline is decent. We see our ability to execute relatively good, so we expect the performance to get better. Danstoker did not have a great Q4, but the backlog is good, and we are optimistic that this continues overall. Three years ago, there used to be a drag; two years ago, there used to be a drag; a year ago, they started to continue to be a drag, but at least starting to get to the zero line and better. I hope that that trend of improvement continues to keep them on.

Overall, in all of these segments, we've had good success with services, good progress with digital, some of those newer capabilities that we are looking to infuse increase cross-sell, increase channel penetration -- all of those kinds of things we are doing well with.

Moderator: Our next question comes from the line of Rushabh Shah with O3 Securities. Please go ahead.

Rushabh Shah: Congratulations on a great set of numbers. I had a couple of questions. What percentage of your revenues would be from spares, services, and consumer goods? And how dependent are we on the new large orders to grow?

Ashish Bhandari: So two very different questions that you've asked on two extreme senses of the scale. How dependent are you on large orders to grow? I think first, we have to define large orders. And then I guess the question is -- can you do better than what we did last year in terms of growth? We are coming into this year with the expectation and the plan to want to grow from an order book relative to where we finished last year. I think we can grow, and we can grow independent of getting large orders of the kind that we got in FY '22. That's the first part.

The second part is what percentage of our numbers is spare parts and related. I don't think we should share. We track that number quite closely, but it is not something that we should share. Overall, depending on the line of business on the product side, the services portion overall of our business ranges from 15% to 30%.

It's typically almost twice the profitability of the product business. Behind the scenes, that is the portion of the business that we have been able to grow in these last two years, which is the reason why some of the margin upliftment is also what we have been able to sustain while we have been getting the top line growth, which has been driven by the product side.

Rushabh Shah: Okay. My second question is, can you give some insights on what are you doing to improve the coverage of the products which are below the INR 5 crores value in terms of distribution reach and penetration of the products? Also, are these products focus of growth in exports also?

Ashish Bhandari: So the first part of your question is -- we today work with more than 100 distributors across channel that are called as channel partners across India. There is a lot of focus that goes constantly in optimising this channel network, working a balanced scorecard with these, working specific initiatives with this channel team, and also starting to work on new products, penetration, and also, what are areas where there are geographies and products that they're not able to penetrate, looking at refreshing the channel network in that sense.

Internationally, we don't work with as many channel partners as we work within India. So there is a conscious effort to grow our channel partner network internationally as well and to work with them closely, especially for these kinds of products, which are good at selling through channels. So the answer is yes. And to your first question, I answered it in a fair amount of detail as well.

Rushabh Shah: And the last one, what is the revenue from products introduced in the last five years?

Ashish Bhandari: From product introductions?

Rushabh Shah: Products introduced in the last five years. What is the revenue that we have generated in the last five years from the new products that we have introduced in the market?

Ashish Bhandari: New products. We don't track new products on a five-year basis. We track new products on a one-year basis -- what was released last year that is giving us revenue. I don't have that number at the top of my mind here. Rajendran, any concerns in sharing this?

Rajendran Arunachalam: I don't have it at this time. So we will share it later.

Rushabh Shah: Can I squeeze in one more?

Ashish Bhandari: I think we have more 100 people listening in, so I would rather...

Moderator: Our next question comes from Renu Baid with IIFL Securities. Please go ahead.

Renu Baid: My first question is on the Green Solutions business. Is it possible for you to share a broad split between the solar portfolio and TOESL? Within TOESL, can you add some colour on how many mandates or good projects -- BOO projects are we executing and what type of clients or end markets? Because every 3 - 6 months, we see new types of customers getting added. Can you share some inputs in terms of the type of end customer applications and the number of projects on which TOESL is working currently?

Ashish Bhandari: I think in this new Green Solutions portion, we should continue to get all of you comfortable with what we are working, how we are working. In terms of top line, both of these are reported out as segments, and individual legal entities are reported out. So you can see the individual mix of orders, revenue, etcetera, etcetera. Typically, what you can take is that on the TOESL side, the projects that we take have a 10-year life cycle, and on FEPL, a 25-year life cycle. So the life cycles are different.

In TOESL, the customers that we are working with and today, right now, I would imagine we are executing four projects. Typically, overall, our installed base is 32 in India, somewhere thereabout, low 30s. So last year, we did about INR 150 crores worth of TOESL new orders, which corresponds to about 10x, so about INR 1,500 crores order book effectively from a life cycle perspective.

This year, we expect to do even more than that INR 150 crores. And each project then would be anywhere from INR 10 crores to the biggest being INR 40 - 45 crores, I think, our single biggest order, which also, by the way, went into execution last year.

In terms of our capital mix, predominantly the capital investment is going towards FEPL. At FEPL, we have executed about 24 megawatts which is up and running already, another big hybrid project, which is effectively more than 50 megawatts in Gujarat which will be up and running within the next month, i.e. within June.

We're getting, we have announced, and we have funded a 100-megawatt project in Tamil Nadu, which is also going through construction, ordering is complete and will come online starting September until the end of this financial year to even Q1. We have just announced we are getting ready for the next round of investment in FEPL, which will be another few hundred crores of equity investment.

Renu Baid: The second question is on the product portfolio. In the last 24 months, you've highlighted various initiatives to upgrade and operate products, which are digital compliant and more flexible for various new applications. So any insight in terms of new product lines or similar activities that you've planned for any specific product segments for the next 12 - 15 months?

Ashish Bhandari: Constantly we'll have a few things in each part of our segment. I mean, if you go even into our deck or otherwise, we have launched an electric boiler, very proud of this. At the scale, size, etcetera, we are doing first in India in terms of a proper IBR-backed, high-efficiency boiler that has been released. And the analog is just like, if you think about the automobile industry, the whole industry is moving electric, this is the industrial analog, so to say. There have been several other products. In the case of biomass, our capability to manage rice straw -- we have enhanced that quite significantly and started to do more work on rice straw-based boilers.

In terms of air pollution control, we have now been doing a lot of work on low-emission air pollution control -- moving from 50 parts per million to less than 10 parts per million. Other new products that we have come up with in our absorption chiller business, where we have multiple new products coming up to take this from an absorption chiller to a larger industrial cooling business.

We will be getting into industrial refrigeration. We will also be getting into industrial heat pumps, not just absorption-based heat pumps, but electrical heat pumps as well because for multiple applications, we need that.

We would be in Water. MEE, MVR -- both of these are specific technologies where we are doing work. Later in the year, we'll also come out with a different version of our RO product. Across the portfolio, our investments in digital and increasing penetration of digital continues. We are making good progress on that. So within the industry -- within product space, internally, we may not always need to come out and announce. This will be a vibrant space for us where we want to continuously be investing, and continuously be coming up with new things.

Renu Baid: So will it be right to assume that given that there is a continuous pipeline of new product introductions and cyclical growth supporting the space, other segments should sustain growth in the 20% to 30% range the way we have seen in fiscal '23?

Ashish Bhandari: I think 20% to 30% is a big ask because at least in a couple of these segments, we have a very high share. So there is some amount of cyclicality that perhaps would also come into play. Can this portion continuously sustain growth? I feel yes. That looks like is it 30%? Is it what number it is? I don't think I'm too focussed on that. We are focussed on continuously innovating, being relevant, staying ahead of the game, all of those things. I don't think how much growth we will achieve has been something that I am at least targeting specifically.

Renu Baid: Sure. And last question, if I can add on. If I look at the...

Ashish Bhandari: Let's just give chance to others. Let's just come back to the queue and ask a question after that. Thank you.

Moderator: Our next question comes from Atul Tiwari with Citi. Please go ahead.

Atul Tiwari: Sir, just one question. Could you comment on the margins embedded in the order book? I mean the past couple of years have been quite good in terms of order inflows. So broadly, should we expect healthier margins to come through from the current order book over the next 2 to 3 years?

Ashish Bhandari: I would say there's nothing. We like the order backlog that we have. It's not dramatically better. It's not worse, by any means. I think the portion that will be interesting as we go through this year is we have got -- from an execution point of view, our order intake from government orders. The last few quarters have been relatively low. But our backlog has got quite a few PSU orders, which were those large ticket orders that we got previously -- both the FGD projects, all of the large HRRL, NRL projects -- they're all government projects and they're all going through execution right now.

Government projects are interesting because even though you may think you are doing everything right, in certain cases, the projects may slip, and so you can't commission the project in time. And if you're not able to commission in time, some of the costs can increase. So we don't know how some of that will finish off. Right now, we are quite comfortable with how we are executing, what are we working on, in aggregate. In individual cases, of course, there are ups and downs. But in aggregate, we are quite comfortable with how that is progressing and how we are working on those.

Moderator: Our next question comes from Prolin with GMO. Please go ahead.

Prolin: First, just one clarity that I'm requiring on the order book side. So, what you're saying is that reaching that FY '22 level will be difficult, but you will try your best to reach there, right, by the end of FY '24. Is that a fair summarisation of what you think the order book would be this year?

Ashish Bhandari: I don't know. We would at least plan to do better than what we did even in FY '22. What happens in the second half is not something that I can say with a great deal of confidence. But we are coming at it from the position of strength. And the trend that I would -- that we are focused on is -- if you take last year also, without those large projects, there were a lot of areas where we were able to grow and show our ability to -- a little bit to innovate, take advantage from the broad-based strength of the market.

If we can somehow continue and then layer on the top load of these new things that we have in the works and things that we have been working on, I don't think it's a guarantee by any means, but we would like to do better than what we did last year, the year before last as well -- FY '22 as well.

Prolin: The second question would be on this whole energy transition and the green part that we are focussing on. Historically, if we see coal was a singular technology and it was easy to tackle in terms of how to become the cost partner for each and every of our clients. Now that energy transition is getting multiple routes, one of it is biomass, another is solar, third is hydrogen. In each of these segments, which we are focussing, where are we in terms of competition in terms of having that mindset with the client to ensure that whenever some of these projects fructify, we are the first person to get a call from the client. What are we doing on those aspects, if you can just highlight that?

Ashish Bhandari: Okay. I would say most things relating to biomass and waste to energy, municipal solid waste -- all of that. I think we would come at it from being a leader or getting to a leadership position. And I think because the projects are not very big, we typically don't talk about them as much but a lot of new good, interesting things where I would say, we don't see ourselves behind anybody, maybe that's a better way to put that.

That would hold also then for a business like TOESL, where based on a mix of biomass sourcing, supply understanding, ability to operate the asset at the highest efficiency, ability to put together a project in time and in place -- we are by far the market leaders.

If I take something like solar and hybrid and solar-wind overall, I would say we are one of many players – it is nothing that would be a surprise to any of you. The good part to me is that we have been able to establish ourselves relatively quickly because we are the new kid on the block. And I think the reason we have been able to establish ourselves very quickly is that in many of the projects that we are doing, while we are putting in 75% of the money, 25% of the money is actually coming from our customers.

Those customers like having Thermax as a lead. Given a choice between two or three that may be private equity driven and run, perhaps they like the solidity of the Thermax behind, which is why they may not give us too much of a premium, but at least we have been able to establish ourselves with our customers in the time space that we have been able to, which is something that we like. How that translates in terms of market share and all remains to be seen.

We are very, very clear that we will home-grow this portfolio. We will not be doing silly M&As. We are not going to be chasing. We want to build a 5-gigawatt portfolio in three years or anything. We will go asset by asset, build it ourselves, and we will work with a top-notch customer base, very, very clearly. I think if we can do that, that asset will be very valuable because that's also a skill that we will need tomorrow with hydrogen, with a variety of different projects. This particular skill is something that is useful in making.

That brings me to the third part of your question, which was how would we look at hydrogen and hydrogen is just too early, very, very early. A couple of aspects we would want to be leaders in and are coming in with that idea, but it's way too early for anyone to claim that they are leaders or anyone to claim that they've solved all the problems because that's a space we're not even 0.001% of where we need to be. Everyone is at the starting block.

Prolin: Sure. That's very clear. I don't have any questions. Just one thing that we haven't covered Chemical at all, in our call. So if you can touch upon the segment, what is the outlook there, that would be great.

Ashish Bhandari: I'm surprised it didn't come up for discussion so far. So we're seeing stability in Chemical. We had to take two steps back on our chemicals portion to clean up some portions, renegotiate contracts some of those with commodity price fluctuations, remove freight as part of our mix, all of that's done now. And now that business is back to where it was and back to where we expect it to be.

Now the question is, can we deliver growth? We are coming in with the idea that we will grow this business and grow this business not just now, but for the next 3 to 5 years fairly, regularly, and we want to continue to invest. And in Chemical, the new plant that we put, we now have a plan to fill that plant up, all those ATP challenges, capacity challenges we have overcome.

Now we have to go focus on the top line and growth portion. But we have to plan that. In 18 months or so, we would have filled up our new plant as well. So we need to plan for the next level of investments and growth. And we are in -- we have already started execution of our next new chemical plant as well.

Moderator: Our next question comes from the line of Sandeep Tulsiyan with JM Financial. Please go ahead.

Sandeep Tulsiyan: Just two questions, bookkeeping. One is on the FGD side -- if you could highlight what is the amount of projects that we executed in FY '23? And where does our FGD order backlog stand at the end of the year?

Rajendran Arunachalam: So Sandeep, I think largely, we expect to book about INR 600 crores of revenue on the FGD or the balance in the coming years. And the number would be very close to that of what we did in the last year, but slightly lower than the INR 600 crores in the current year that we did.

Sandeep Tulsiyan: And where is the order backlog for this at the end of FY '23?

Rajendran Arunachalam: Give me a few minutes to get back to you on the order backlog.

Sandeep Tulsiyan: Sure. And secondly, on the Chemical segment margins, you did highlight, of course, all the past issues are behind us regarding freight and volatile RM prices. So how should we look at the stable state margins going forward in the segment?

Ashish Bhandari: I think every time I talk about a stable state in Chemical, something changes and goes around. So I don't know what that stable state looks like. I think you can talk about maybe what does that mean look like? And I think mean across a longer period in that 15% to 20% range is what is a reasonable expectation.

Rajendran Arunachalam: The backlog would be about INR 1,400 crores.

Moderator: Our next question comes from Aditya Mongia with Kotak Securities. Please go ahead.

Aditya Mongia: My first question was more on the Industrial Products margin side. I couldn't fully fathom the remarks wherein you said absorption cooling is 18% to 20%, services is again high margins, and so you end up doing 10% in this segment. Just wanted to get a sense of where are we not making money and the case for the said 12% less margin is happening in the segment?

Ashish Bhandari: No, no. I was responding to a question earlier that in 2016, 2017 or somewhere thereabouts, the overall product business margins as collated, we didn't track it like that, could have been 14% or somewhere. I would have to go back to that history. I was saying things have changed since then. The one big change that I talked about was the absorption chiller business, which used to be by far, our most profitable business 6 – 7 years ago, which had very high margins. Over the last few years it has been much, much lower. So in that sense, there's been a shift.

But overall, as a segment, most individual elements of this wherever we had them last year, we expect that margin improvement to continue. So cooling where it was last year, can we do better this year? Yes. Heating where it was in aggregate, can we do better this year? Yes. Water and Enviro, can we do better than what we did last year? Yes. Steam, can we do better than what we did last year? Yes. Danstoker and PT TII both of which are big drags on this particular portion, can we do better than what we did last year? Yes.

Aditya Mongia: Understood. The second question that I had was on the margin front only but on the Industrial Products business. This is a business that you have talked about as a negative working capital business. In that context, going much beyond, let's say, the 6% to 7% margin range, is it asking for too much? Is that actually possible?

Ashish Bhandari: Let's see. Interesting period. The backlog that we have immediately has got FGD and some of our government projects, which are a slight drag. But they are no worse now than what they were last year and perhaps the year before. Meanwhile, some of the newer things we are looking to bring in, which have been filling the pipeline, have been at a slightly higher margin than what we have done traditionally. So we will see how the space evolves. We will see.

I think, the problem right now where we are is that as some of these projects come into bidding, we don't know how competitive they will be. So that is the other reason why I hesitate to give you an outright answer. I'll say one worrying trend that I have seen and I'd like to call that out. In two recent projects, both in the cement -- in the cement industry, with two of the big majors, both of them, the Chinese are entering. It is very, very sad that in a world where they can't dump steel into India, they're taking steel derivative products and dumping that in India, which is just not done in my opinion.

The part that customers will actually look at that equipment to buy is also just not done, but that is life and that is reality. So on the pricing side also, there are some moving targets. Overall, I'm comfortable that we can increase margins. But that whole trade-off between margins and volume, I think in the next half could be an interesting set of dynamics.

Aditya Mongia: Just one last question from my side. You talked about waste heat recovery in the past has been a driver?

Ashish Bhandari: Just because so that we can get other people to ask questions, I understand there's still quite a bit of a queue. We started this by saying one question. For most people I'm allowing two questions, but I'll keep it at that.

Moderator: Our next question comes from Sanjay Kumar with ithoughtPMS. Please go ahead.

Sanjay Kumar: First set of questions on Chemical. I know you're looking at a capacity once from now, but can you explain which segment of chemicals is driving this growth? I think almost 27%. And is it more domestic or exports? If you could talk about the growth outlook for chemicals for the next few years, please?

Ashish Bhandari: So chemicals, the answer would be all of it. I think we are looking at chemicals as a place where the adjacencies have strength, the exports have strength, our base products have got newer applications from an R&D perspective -- more from a D perspective, not the R perspective. And application development perspective has strength, so I like this piece overall. That's why I'm saying here, I think we should look at a much longer cycle of independent growth. And that is what we need to work towards.

The simple answer is everything that you said, yes, I think all of that can grow. The question is how much margin we trade off in terms of putting in the capabilities to drive that growth. All of those are open questions, but I'm bullish on chemicals.

Sanjay Kumar: Okay. The order balance seems to be very low in chemicals. I know it's a short cycle, but can you explain the typical purchase behaviour -- is it the annual supply contract that we have with clients, and do we have to find new clients every time. Any sense on how to model this growth?

Ashish Bhandari: Very, very short cycle. Even the customers that have got frame contracts, only gave orders one month before they need delivery or two weeks before they need deliveries. So it's a very short cycle business. And the frame contract will give you an agreement on price and assurance ofvolume, but even then, the actual pickup is -- and that is when we recognise -- the orders are almost immediate. So you look at this barely anywhere from 15 days to 3 months. That's the look on chemicals, which is why orders are equal to revenue in a fairly tight band.

Sanjay Kumar: Second question, same on chemicals. Any new technology or application that can drive growth say, 3 - 5 years from now, let's say, battery, need to extract lithium, semicon fabrication, even hydrogen will need clean water, right?

Ashish Bhandari: So that goes more on the water side. And there, the chemicals that you need are relatively well understood, which is to your direct question on clean water for semiconductors, desalination -- which is all of those here, which is the RO portion and the pre-treatment portion of water as they go into some of these newer industries. That is well understood, where we want to get into is some of the adjacent chemistries and some of the newer chemistries, which as we go make progress, we will come back and share.

But that is very much part of the plan of being able to say this is how we want to grow long term. So we have a very robust growth plan for chemicals, which is well developed. Now we need to take action step by step.

Moderator: Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. I would now like to hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors. Please go ahead.

Bhoomika Nair: Yes, I would like to thank everyone and the management for giving us the opportunity to host your call. Wishing you all the very best for the next financial year.

Ashish Bhandari: Maybe Bhoomika, if I may just open it up and get some feedback from the analyst network. I have five more minutes. Is there something that you would like to see more from Thermax? Would you like to see more orders? Would you like to see some of the green utilities portion, think about it differently? Any feedback that people are comfortable sharing, if at all?

Bhoomika Nair: Sure. You know, if anybody is having any feedback and wants to help, so can you just press star one and we'll take that up.

Ashish Bhandari: All right. It was I think -- that's more of a one-on-one set of...

Bhoomika Nair: I think, yes, we will definitely do that. But I think the overall segmentation that you've done really does provide a lot of clarity on the way we are thinking. And obviously, as we move ahead, these conversations will really help us.

Ashish Bhandari: Sounds good.

Bhoomika Nair: Great sir, thank you so much.

Ashish Bhandari: Thank you.

Rajendran Arunachalam: Thank you.

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