“Thermax Limited
Q4 FY ‘24 Earnings Conference Call”
May 13, 2024

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

Moderator: Ladies and gentlemen, good day, and welcome to Q4 FY '24 Earnings Conference Call of Thermax Limited hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors. Thank you, and over to you, ma'am.

Bhoomika Nair: Thanks. Good morning, everyone, and a warm welcome to the Q4 FY '24 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'll hand over the floor to Mr. Bhandari for his initial remarks, post which we'll open up the floor for Q&A. Thank you, and over to you, sir.

Ashish Bhandari: Thank you very much, and a very warm welcome to everyone on the call. Given the history with so many of you, I would say, we jump straight to Q&A because I understand there are more than 100 people on the call and would love to answer any opening remarks I may have or even otherwise through the questions that may come in. So if that's all right, let's just jump straight into the questions.

Moderator: Thank you very much. First question is from the line of Ankur Sharma from HDFC Life. Please go ahead.

Ankur Sharma: So first question was on the orders. Clearly, what we're seeing this quarter and maybe also in the last quarter was a slight slowdown on the trade-off business? I think you mentioned some delays, some deferments of ordering happening. So is this more of an election-driven phenomena and therefore, maybe post-election, we see a pickup happening? Or is there something else to read into that? And similarly, I think you are a lot more positive on larger orders, right? So if you could help us, where do you see those coming? And are we also looking to participate in some of these utility scale orders, given there's been a dilution on the PQs?

Ashish Bhandari: Okay. Good. And if I had to do a summary of the quarter, all three of these points would have hit that summary. So it's a very good question. Thank you for this. First, on the order book, I do think that the order book is a little soft than I would like. And relative to our internal plans, we -- for the year as a whole, we missed our numbers. There's quite a bit of background noise. I don't know if people can be on mute, sorry. On the orders front, we missed it, and we missed it entirely on the large orders side where we would have expected more to happen in the year as a whole.

Initially, we knew we were soft, but we expected that pipeline to build up through the year, which it built up, which means last quarter when I said that the pipeline for visibility to larger orders is better, that is indeed the case. And I think to the point that even Q1 and Q2, I expect some amount of traction and connected with that improvement. So how much of that improvement actually comes through because these are all competitive and we don't know our win, loss, etcetera. I'm bullish but remains to be seen as we go through these next two quarters, but the pipeline is better.

In a couple of sectors, there is an election-related slowdown. In elements of elections and I would say, a little bit also related with rains, the whole sugar sector which is related to the ethanol industry where we have had quite a few orders, slow down are there because, a, governments -- I mean people are waiting on policy continuity and also on whether these projects will come through based on feed availability, which then depends on rains. Also in steel, I would say some amount of reticence in people going ahead with finalisation of orders, which I also expect to improve in the coming weeks and months.

Last question on utility side, supercritical and ultra-supercritical projects. Yes, the norms have been diluted. We would like to participate, but it is still not completely clear. And certainly, our ability to take risks on a project of INR 10,000 crores, etcetera, is not there, nor is there an interest to do projects at that level. It's not drive by Thermax and historically, also large projects have not been the place where we have often made reliable earnings.

So we are okay to be conservative. If we can figure scoping the project in a way that areas that we play in are clearly spelled out, then we would love to play. From a manufacturing capacity point of view, from an overall capability point of view, we will be able to do everything needed. From how the contractual terms come about, that is work in progress.

Ankur Sharma: Got it. And just the last one would be, given our order book is up about 4% this year, fair to assume that our top line growth next year would also be maybe in the mid to basically high single digits? Is that the right way to look at it?

Ashish Bhandari: I would say, look, there are scenarios, and we are certainly playing for more bullish scenarios than that because some amount of green utilities where we don't take repeated orders, where we take only the first years' worth of orders, you will see a bit of an upside. And then, if we start off fast enough, then I do think our convertibility through the year will also be better. So there are scenarios that we are playing in, but a lot of that depends on how we start in Q1 and Q2.

Moderator: The next question is from the line of Mohit Kumar from ICICI Securities.

Mohit Kumar: My first question is again on thermal power. Has it not been diluted or is it only a recommendation as of now? And has the main tender, which we floated where the package has been split? And the last bit on this is, is there any plan to form a consortium and bid for the large thermal utility?

Ashish Bhandari: So first, I think CEA can only make recommendations on the basis of which tenders can come out. So far, no tenders have come out with the qualification that would allow Thermax to be qualified, that is the case. So we don't -- but the recommendations of CEA are normally followed. We will see how that works out.

Second, consortium is an option. The problem with consortium is twofold: one, you need consortium partners that are equally stable and capable because no consortium will come without joint and several liabilities. And also consortium partners should be capable of being competitive on their individual scopes. So having a meeting of minds on consortium partners is important. I think my personal view is going that way will again dilute the scope, breaking the contracts will make sure that the government gets the cheapest price and the best players who can supply this playing in their area of expertise.

Mohit Kumar: Understood, sir. My second question is on the bio-CNG, sir. Last year, I think we had a clear amount of success. How to see the opportunity from bio-CNG in this fiscal? And how is the initial progress on the projects picture which were allotted last year?

Ashish Bhandari: So it has – bio-CNG has three parts. And last quarter, I had spoken with you, I had said we are getting closer and closer to the end goal in terms of stabilising our plans. That is not the case at least the for first couple of projects that we did, which are all rice-straw based. With rice straw as a feedstock, we have had more setbacks than I had expected three months ago, which is one big reason why we have taken quite a bit of hit in this last quarter.

Moderator: Sorry to interrupt, sir. Your voice is breaking.

Ashish Bhandari: My voice is breaking. Is this better now?

Moderator: Yes, now it's better.

Ashish Bhandari: And I'm hearing quite a bit of background noise also. I don't know if it's just me or whether they are hearing this as well. If I may repeat then, bio-CNG is one area where we have had to take losses in this last quarter to rectify things that we were not expecting, and I cannot share more details for competitive reason.

So we have invested quite heavily in improving the plants because we encountered problems that were not anticipated even 90 days ago. And this is particularly for rice-straw-based plants. And so we have been a little slower in taking new orders, expecting hitting for our current plants to stabilise. I think this is an industry-wide phenomena. We think we are confident we should resolve this, but that is a matter of delivering it and only then I would have come back and say that is the case. If you are able to solve it, then even with the base here, the project pipeline and the order numbers can improve actually in the full year.

But whether we take more orders or not, specifically on rice-straw-based feeds and on our ability to work through these challenges and not -- working through these challenges to successfully compete and commission these plants. Otherwise, there are lines and municipal side [inaudible 0:12:16], and we will take orders in those lines. But just for those if you were then what we have taken in last year.

Moderator: The next question is from the line of Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: Congratulations on a decent quarter, sir. My first question is on the new products, which we have introduced and showcased in our last analyst meet. So if you can help us, give some more colour on the successes post that, especially some of the products like Thermotron, FlexiSource, MVR, heat pumps, so if you can -- even on the THVAC, so how has been the progress there? How is the order book shaping up because we have done those investments, I think over the last 2 - 3 years on these products.

Ashish Bhandari: Okay. Let me take one by one by one. Thermotron and FlexiSource. FlexiSource and waste to energy continues to do reasonably well. And even in Q4, we had some successes. And in Q4, a couple of customer -- initial customers that we had have also been successfully converted with good feedback where we have got good rating performance. This last quarter, we also delivered 100% rice-straw firing and 90% multi stock firing, so our small and medium boiler applications as well.

Some of this was part of newer technology sector, I've seen, that was done well. Thermotron also, the pipeline continues to develop. In this last quarter, we also introduced electric heaters for industrial applications. So Thermotron now has a brother, so to say, also in this space. The numbers are still small, but growing and are growing back from a very strong base, but a good pipeline overall.

Moderator: Again your voice is breaking. Should I disconnect you and reconnect you, sir?

Ashish Bhandari: Hello. Is it better?

Moderator: Yes. Now it's better, sir.

Ashish Bhandari: Okay. So I'll go back to sharing things about Thermotron and FlexiSource and some of the difficult fuels. We have done well, and pipeline continues to be decent. On the MVR and everything relating to water, the pipeline has been very good and continues to build and grow. I think on the technology side, we want to continue to make more improvements out there. There is enough [inaudible 0:15:34] on my expectation on differentiating our capability competitively. That is where I continue to ask more and more from our team.

And many of the bio-CNG, we spoke about, about the challenges and the opportunities, and we continue to make progress. Even on the digital side, we have had considerable amount of progress with our Edge Live platform continuing to gain traction, and we are now expanding that platform to many of our other products, including water where we will have big releases in this first quarter coming on the Edge Live side, so we continue to make progress.

THVAC has not done as well as I would have liked. We are getting good responses. But when we had developed the truck application, which we thought could be a big breakthrough, the truck application has not had as big success because the truck cabinets with cabins, we have had leaks, it has had some issues because the truck cabin is not meant for air conditioning. So putting our systems out there in the tool fitting has not given us the kind of jump that theoretically we thought we would get.

So we are continuing to work on this from an engineering point of view. But in that sense, it's like a setback on the THVAC front. On hydrogen, some case we made progress. And over couple of quarters, you will hear more from us on the hydrogen front. I think any other products specifically -- we also talked about gas upgradation. Gas upgradation continues to make good progress. I would say overall on the Industrial Products side, whatever we have been trying and looking on, those things have been holding in and getting traction in the market and gaining strength.

Parikshit Kandpal: Okay. And just the second question, sir, in the order book, so what is the carrying value of the old FGD and sulphur recovery orders, which were at low margins that were impacted by the commodity prices and may continue to impact margins. If you can help us what has been the share still and how much has been brought down?

Ashish Bhandari: I think Rajendran, can we share those numbers specifically?

Rajendran Arunachalam: Well, Ashish, we don't specifically share, I think segment wise. The segment wise order balances are definitely available and shared.

Ashish Bhandari: But we can give a general trend on those because a good chunk of the FGD order will go into revenue this year, so giving some sense will help.

Rajendran Arunachalam: This year, we should be estimating about INR 600 crores of FGD revenues.

Parikshit Kandpal: And sulphur recoveries, that large order we have.

Rajendran Arunachalam: Sorry.

Ashish Bhandari: NRL, NRL.

Rajendran Arunachalam: NRL, I don't have a number here. I will check on that.

Ashish Bhandari: But even NRL we'll have a fair bit of revenue pull-through this year.

Parikshit Kandpal: Okay. And just last question on this. In the last analyst meet, we had said that we are very conservative while we have been expensing our R&D investments, and that's been impacting the margins. And we were thinking of taking a review on that and see what can be expensed and what can be carried forward. So if you can give some more colour on our R&D expenses.

Ashish Bhandari: There has been no change on that. In areas like bio-CNG and all, so far, we have continued to take expenses. We have not looked to capitalise anything out there. So I don't think there's any change in approach. I think this year, should we make any big investments on the hydrogen side, then we can recover and relook at this question, but so far, there is no change.

Parikshit Kandpal: And any number on the R&D investments or expense in FY '24 and FY '23?

Ashish Bhandari: I don't think we have looked to differentiate. I haven't looked to differentiate on.

Moderator: The next question is from the line of Amit Anwani.

Ashish Bhandari: Sorry, before one last thing, on heat pumps also and the ADCT and CLCT, both on the cooling side, again, the numbers are slow, but the uptick has been good, especially on heat pumps. We had numerous customers with some very, very interesting studies, and we want to push that very, very hard further in the coming years and quarters. Sorry, go back to the questions.

Moderator: The next question is from the line of Amit Anwani from Prabhudas Lilladher Capital.

Amit Anwani: So my first question is on the order inquiry pipeline, sir. I can see in the PPT also, you have been highlighting multiple times that there's uptrend in biofuel-related orders. So just wanted to understand how and which areas in biofuel, are we expecting the inquiry building up? And second, I wanted to understand some sense on the Q-o-Q, Y-o-Y inquiry growth in the key sectors, which you have highlighted that the inquiry still is gaining momentum, including steel, cement, distillery, etcetera?

Ashish Bhandari: Okay. So let me take first on the biofuel side. I thought I addressed that question already in a previous loop. The inquiry pipeline is very large and quite big. The question is the risk that is involved in some of these projects and making sure that technically, we have retired all the risks as we look to expand. So the current focus is on commissioning, especially on rice straw, which is the most challenging fuel plan that we deliver. And once we deliver, then we can look at future growth. There are other aspects of ethanol and 1G, 2G ethanol related projects, 1G in particular, where a lot of Thermax's products go relating to heating, relating to water, etcetera, even small projects that we do in this space.

There, the pipeline is good, and many handshakes have happened. But once the elections and kind of there's a good sense that the monsoons will be reasonable as is expected. I do think many of those customers will go forward with advances and then we can book those orders. So that's on the first part of your questions.

On order inquiry and pipeline, see, we don't share those because it is not the magnitude of the order inquiry, which is important. It is the quality of the order inquiry. So sharing an absolute number, which we track internally doesn't always give the best picture. That said, what I would say is Q3 and Q4, the uptick in large orders, inquiries that are good and reasonable, these are things that we have been working on for some time but are now getting to what feels like is conclusion stage, I would say is good and reasonable.

Our ability to win these projects now that remains to be seen. But overall, I would say I'm looking forward to at least getting some big orders back showing up for Q1 and Q2 because it's been quite some time that we really haven't had large product -- large orders coming in from large projects. And even on the international side, our pipeline, as we enter this year, is better than what it has been the last couple of years.

Amit Anwani: Sure, sir. Second, I wanted to understand on the margin profile, you alluded that we'll be bidding for the utility scale since the norms are diluted. And we have seen in the past FGD orders dragging down the margins. So just wanted to understand whatever is ahead of us, what is the sense of the margins overall?

Ashish Bhandari: So one, the kinds of things you're talking about on the utility side, they are long cycles. They're not going to affect our margins for this year. They will affect our margins -- should those opportunities become available and should Thermax win those, they'll affect our margins for the next 5 years, 10 years maybe. They won't affect this year because this is the year that some of the ordering will happen. I suspect most of the ordering will push into next year. And that depends on whether we win something or more than something. That is the first part.

Second, I would say, on FGDs, there was again a question. We had shared an approximate number of what revenues we expect. And FGD revenue and margins, margins are dilutive to Thermax overall, and they were dilutive this year as well. And we expect FGD margins next year to be better than what they were this year. But given the quantum that will come in, it will drag Thermax margins to that extent.

Overall, I would say, from a margin perspective, I expect at least as we come into Q1 and Q2, some of that stability that we have seen in recent quarters to continue on most fronts, if there are any big commodity price shocks notwithstanding those, but there have been some movement in prices. Those we are able to manage. So I see stability in that sense, I don't see anything particularly that should move things down.

On projects, I think we have -- our profitability has been lower. I do expect this year to be at least an improvement in the trend direction on how we have been managing projects in this year. The focus, I think, on the project side is on making sure that we get new orders and big orders, and that some of these actually win with better margins than what we have done in the past.

Amit Anwani: So lastly, on the chemicals business…

Ashish Bhandari: Please, if I may pass because you've asked two questions already, and you can come back into the queue, please. And I'm sure somebody will ask questions on chemicals.

Moderator: The next question is from the line of Arafat Sayyed from InCred.

Arafat Sayyed: Sir, can you please throw some light on kind of opportunity and growth, especially in the water treatment and chemical business. And I believe that you are looking to double the revenue from INR 800 crores base currently. And so where have we reached in that journey, sir, if you can throw some light on that?

Ashish Bhandari: Okay. I think could you just repeat your question? I think I got 70% of it, but the beginning and portions of the end were blurred. So if you can just speak a little slower and louder, please?

Arafat Sayyed: Sure. So I was looking for some opportunity and growth we're looking in the water treatment and chemical business, I believe we're looking to double the revenue from current level. So your growth plans there and where the...

Ashish Bhandari: Okay. Thank you for the question. I had said that the plant that we have is capable of handling double the revenue than where we are. That was my point. I had not said that our water business is going to double this year, if this is the reference to when we had a new plant opening in water. But overall, water is an area where we have done reasonably well, and we continue to see opportunities for growth.

And the momentum is driven by everything that we spoke about. Projects where water is an important parameter, desalination plants, etcetera, effluent water treatment with all the questions around MVR, ZLD, tough to treat water applications, everywhere we see demand for the kinds of products and areas that Thermax play in continuing to go up.

This last year, we finished the majority acquisition of TSA as well, which will give us entry into ultrapure water for pharma sector and also then for food and some of the semiconductor industries, etcetera. So water is an area where we continue to expect growth. We have had very good growth in the last three years, and we continue to drive this growth.

I think you had briefly touched on chemicals. Our water business is part of our Industrial Products business, our Chemicals business is run separately as a separate vertical, the areas where we do things commonly, but we run them separately. But I'll use this to share a bit about our chemicals business as well.

Chemicals, we have been talking about growing chemicals for some time, and we haven't really been delivering that growth. Even in Q4, where I expected to see growth, we had challenges where a lot of our inventory was -- not a lot, but a decent amount was tied in longer shipping and because it sells to our legal entity in the US and then our legal entity when it sells do we recognise the revenue on a consolidated basis. We had a lot of inventory, which was on the water, so to say, because shipping times have gone up. And so in some cases, they could not recognise revenue of the order of INR 10 crores to INR 20 crores.

And then there was a couple of levers on growth which took longer to establish. But starting Q1, I think you will start to see the growth coming into the chemicals business, and we are also going to show expansion into some new segments, which also you will start to see in the coming months for our chemicals business. So quite optimistic of growing our chemicals business and making it a bigger and bigger part of Thermax in the coming quarters and years.

Arafat Sayyed: And my second question is on capex, just looking at opportunity and the growth plan, so any kind of capex you're looking for the next 2 to 3 years?

Ashish Bhandari: We do not share capex numbers specifically and outlook. And you can see that is also challenged because a good portion of our capex is also going in our green utilities business where we are doing businesses on a build-own-operate basis. And especially right now where especially again on the green energy side in areas like hydrogen and bio-CNG, etcetera, where there are so many open levers, giving a capex plan is not the best idea.

But I think you will see that in chemicals, we are putting in a new plant, and we will continue to add more and more capabilities and adjacent plants in those areas, and you will see capex going in on chemicals. You will also see some amount of capex is going in on our Industrial Products side, where we have just put in a new water plant, Cooling had a plant that came in some time ago. But again, there also, you will see some amount of investment and capex going on. The biggest portion of our capex will be on our green energy portion though.

Moderator: The next question is from the line of Johanas Bhutta from Birla Mutual Fund.

Johanas Bhutta: Two questions, sir. Firstly, sir, at the analyst meet, you had highlighted that while there were levers for the Industrial Products business margins to go up, but at some point, in time, you will have to look at whether we can claw back some of those margins to fund future growth opportunities. Is that number of margins cast in stone or that's a fluid number beyond which you will probably strategically look at investments and whether the Q4 exit margin of about 12% is a number closer to which you are -- beyond which you are okay to sort of invest incrementally?

And the second question was so from a cash flow perspective both on an operational cash flow and hence free cash flow also this was one of the weakest years for Thermax in terms of EBITDA conversion to cash flow. While I appreciate that on an FCF level the green energy investment sort of took away a lot of that. But at least for the next three years as we build that portfolio out is the OCF or FCF conversion factor that we see today as a function of EBITDA should we use FY '24 as the base for the next 2 - 3 years?

Ashish Bhandari: Okay. Two questions and I'll take each one. The second question I may not be able to answer to the entirety. And even the first question I may not answer to your entirety. There's no specific number that we're chasing. And it would be wrong to chase a particular profitability number at which we would do investments. So the 12% that we hit in Q4 was a function of stability in the market and continuing to say that where products are concerned, we want to continue to work our way higher and higher and some of our businesses with scale coming in -- water is a good example. And as that business has grown and has developed scale it has become more profitable as well.

I think that the whole business is already one which is generating a fair amount of cash and is hugely accretive to Thermax overall. What we need is continued product innovation and things that have worked well continuing to improve and invest in those. So that will continue. In water, we want to invest in technology. You have seen some of our cash has also gone towards M&A in setting up a new plant for water. We're expanding our facility for our boiler product. So some amount of money went into expansion of that. More money will go in this year in cooling -- all the new products that we are working on. We'll continue to invest and do what is necessary on this. I don't think there's a specific number that we are targeting.

And profitability also is to be relooked at in the lens of maintaining market share and all that. So there is no particular number that we are targeting. In free cash flow, I think very clearly Thermax's overall free cash flow has come down. To me, that's a good thing. It means we are starting to invest again. We're starting to see opportunities to invest again. And without doing those, we would not be able to build our story for the next round of growth which we have to get ready for as a company. I'm comfortable with that number. What that projection looks like and how do I look at FY '25 relative to FY '24 on the free cash flow and even beyond, I don't have a number.

But I would say that number -- whatever number we may give also may not be right because especially with M&A, especially with some of the growth opportunities that you have even in green energy whether you do a project or not depends on the profitability expectation from that project. So then to come and tell you today whether we will invest in that or not is not the right -- may not be the best answer. But I think the question you have is a good question. Rajendran, would you have an answer that you would want to share? I'll maybe look into it and then come back in a future call on if this is something we want to give any direction on.

Rajendran Arunachalam: I think that is fair to add that free cash flow addition from operations perspective will stay robust except for possibly some cash on our PSU projects that is the FGD and some bit on NRL kind of projects are a bit of a lag. And otherwise I think on the deployment front, I think you already talked about the large capex and investments in green energy and LNG will be some of the priorities for us.

Johanas Bhutta: Sure sir. Thank you for the detailed answers.

Moderator: Thank you. The next question is Atul from Citigroup. Please go ahead.

Atul: Sir, my question was on this Green Solutions business on the BOO basis that you're doing. So I mean could you share what is the kind of intended IRR because I mean our experience is that some of these projects could be like at very low margins and at very low PAT for quite a few years in the initial part, so that could kind of pull down your console ROEs for quite some time?

Ashish Bhandari: There are two parts of our business currently today and more may come into play. We have got our build-own-operate for TOESL which is a biomass-based solution where Thermax is the market leader. And TOESL actually is a business that we absolutely love. We have done a lot of work to set up that business. We have an offering which is unique, and we have been investing quite a bit into setting up, going deeper into the back end of sourcing biomass and working in that direction.

So TOESL the IRRs are 19% to 20% and for the most part we have been there or thereabouts, maybe even slightly better, and you will see some of that as you piece through the TOESL balance sheet and financials which we share. FEPL, what you're saying is right, and we are going through that on FEPL. FEPL took significant losses last year, had quite a few losses this year as well. And even next year will be a loss-making unit -- less than this year, but again next year also will be a loss-making unit. It is the year after that we expect breakeven numbers and better numbers to start showing up.

We like the business, though. We like what we are doing out there. We are putting together a portfolio completely from ground up, no M&A nothing, top-notch customers. And in some cases, we actually see profitability improving because the market is now becoming a bit more sensible. And in general, there is a window where customer expectations are reasonable, commodity prices are reasonable; comes down to execution and managing that execution cycle well which, to me, is the strength for Thermax. And with many customers there is a small, but a distinct preference for Thermax which is also something that we like. The IRRs currently are in the 15% to 16% range, but I do think they can improve from this level as well.

Atul: And sir just kind of get some more colour on this on FEPL. So what transpired when you bid for them so that you have like losses this year and next year. So what went wrong and what are the learnings from the same and how are we course correcting? Could you kind of share your view?

Ashish Bhandari: So the losses are actually just losses because you have a platform that you are setting up. So there's a fixed cost of that platform that you're managing and operating. So you have losses that come about. There are also effects around interest rates going up, so you have to take the impact of that interest rates across the portfolio and what it does.

So if there's a negative impact of that you've got to go take that. In cases where an asset comes up and you missed the win season for one period and you are having the depreciation hit on that asset, you end up showing losses until you get that -- the reverse part of that win cycle back again and all.

And especially when the initial part of the project where the project has not stabilised completely, but you're taking the depreciation on the asset, but the revenue is still not complete, you will get losses. So I think we understand these losses reasonably well. We are comfortable with the direction and why these losses are happening.

There are some aspects on operations that we need to improve on, clearly. And there's a very strict timeline internally that we are driving to improving those operational aspects. Most of those operational aspects relating to stabilising a plant and we just need to bring that window of stabilisation shorter and shorter and work that.

So the asset management of the platform also is something that we're investing in. Fundamentally is the asset at the levels that we worked on when we bid on the project, and we worked on it. Other than our first set of really small projects we don't see that as a risk.

Atul Tiwari: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Aditya from Kotak.

Ashish Bhandari: Sorry. May I say one thing to the team? See, one thing I'll say which is part on why we wanted to get into renewables and this part of the business and I had always said that where new energy is going having -- and so much of it will be driven by electricity, having some access to and understanding and being able to deliver those projects will be an asset.

And a lot of what is needed to win out here is capability that Thermax has. I think there was a lot of debate even within Thermax on what is the right way, how do we enter. One ratification, I would say, besides the fact that I believe that we are executing these projects well, is also if you see a lot of the hydrogen projects that are coming in now and especially the PSU ones.

They are all coming in on a build-own-operate basis which means whoever is bidding on these projects is responsible for everything, including sourcing the electricity and delivering the electricity for those. And working some of these combinations becomes relatively easier if you know how the electricity gets delivered, what is available, what is not, what pricing is possible, so the optionality that you get becomes much, much higher. I'll leave this as a point. It may not be relevant for the next couple of quarters. But in the next couple of years, I do believe this point will become relevant. Thanks. Next question please.

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

Aditya: I have a couple of questions. I'll start with the first one. So this is -- again, this is our assessment of the extent of savings that can come in from, let's say, heat efficiencies. It seems to be a mammoth number if you take, let's say, a 10% lower kind of heat outlook for the industry over a 10-year period and describe some amount of that savings to Thermax as the driver. I just wanted to get a sense whether like not to match one aspect to it, but how to really think about it if, let's say, a 10% reduction in the heat output for the entire industry happen? And if it were to happen, how much of it could be attributable to companies such as Thermax? Maybe few sectors wherein this is -- your near-term perspective would also help. That's my first question.

Ashish Bhandari: So I don't know if 10% is a number, but it's definitely, I think, aspirationally, you're asking the right question, which means -- and which is what Thermax has been talking about, which is a story around energy transition, which means improving where we are to where we want to go. And you are only talking about efficiency, though.

There is also an aspect of can this energy become based on fuels that are greener, which means biomass-based and all the adjacencies of agro fuels and all that, that comes with biomass waste, so to say. Efficiency improvement is possible. Many of our digital products are good examples that can drive efficiency. I do think even solutions like heat pumps and all power applications can be driven through efficiency. In some ways, a supercritical power plant is also at the heart of it and efficiency push, which means can I use less energy to drive the same amount of heat?

Using less heat, that becomes the job of the process itself, which is slightly tougher, which means how do I cut the amount of energy needed for steel or cement or many of these industries itself, which requires big process changes and especially in industries like cement, it may require a very different technology basket as well.

Mining, oil, and gas, which is a second order question, where also there is a lot of work happening. But the first part, which means how do I create this heat more efficiently, that is certainly a part that Thermax and companies like Thermax have a big role to play and are putting a lot of work to become better and better. And to me, the last couple of years, I mean you take a look at our small boilers business, where nearly 70% of that business is driven by biomass, agrofuels and waste-to-energy and the like, whereas waste-to-energy and these buckets are not even 20% of the overall energy bucket, so to say. So you can see that this -- what is less than 20% of the overall driving 70% of our orders shows that, that transition is already something that is happening.

Aditya: And just to clarify, is it 70% of incremental orders or 70% of kind of previous orders that were...

Ashish Bhandari: Total new unit orders is in these areas for heating, like which is our small boilers business. 65% to 70%.

Aditya: So just to kind of take it forward as...

Ashish Bhandari: You can come back because we've just 10 minutes so actually we have exceeded time. Just so that if there are more questions. If there are none, then you can come back.

Moderator: Thank you. The next question is from the line of Nidhi Shah from ICICI Securities.

Nidhi Shah: Hi, thank you for taking my question. So we've largely addressed why the revenue for this year -- the growth is slightly lesser compared to the last two years, which was nearly 30%. So, going forward, do we see this picking up, and by how much?

Ashish Bhandari: I don't know by how much. Internally, we are working to pick for this to be -- and planning for this to pick up. I think the first -- actually all through the year, there is enough to work with. In the second half, depending on how the whole utility space plays out, that could be a driver. We are also seeing in refining, in petrochemical certain big movements that are showing up where in areas where Thermax can possibly play, which will help in the second half.

For the first half, we have a pipeline based on what we carried forward as projects in -- that we were building and working on from last year. If they come through, then the start can be good as well. But on the revenue side, if we have to deliver good growth this year, then we do need to have a good start in Q1 and Q2. I think I can't go and commit to something because the venerability is still work in progress. But even in the next 60 days -- 50 to 60 days, which is within this quarter, I do expect a couple of decisions to happen.

Nidhi Shah: All right. So would it be fair to say that the traction that we found in quarter 4 is something that could continue for the rest of the year?

Ashish Bhandari: I don't think we saw traction in Q4, no. I think we saw traction in an improved pipeline. But in terms of delivering orders, large orders, especially, I don't think we showed that in Q4. So I do hope we can show some of that in Q1 and Q2.

Moderator: Thank you. The next question is from the line of Mythili Balakrishnan from Alchemy Capital Management. Please go ahead.

Mythili Balakrishnan: Hi, thanks for taking my question. I had a question on the UMPP business. Is there any interest on the company to go into that direction? Or do we want to stay focused on our green energy aspect that we have taken up?

Ashish Bhandari: I think I've answered this question already. See, we have always called Thermax as the partner for energy transition, which means we will work on green solutions, green footprint, cutting-down-the-energy footprint. But we are very much part of the Indian fabric, which means if coal is a big part of India's energy story, things around coal gasification, improving efficiency of coal -- are always part of our product basket. So working on supercritical power projects in the utility side is something that we think we are capable of, and in fact, from a manufacturing point of view, beautifully set up, possibly with some of the best manufacturing capability in India in this area. But we will be very conservative in terms of how we approach it.

We will not take the risk of an overall EPC and get into projects which can be hugely detracting at the macro level for Thermax. We will look to compartmentalise it. And certainly, anything we do on this side will not be at all at the expense of slowing down investment focus or growth of any of the other segments, especially the ones that are relating to green and like waste-to-energy, biomass, and the side. So that won't happen at all.

Mythili Balakrishnan: Thank you. That's all from my side.

Moderator: Sir, do you want to take a question or?

Ashish Bhandari: I think I am fine. We have, I guess, three more minutes. So there's one last question, we can take that.

Moderator: So the next question is from the line of Rohit Pramod from ICICI Securities. Please go ahead. Yes, Mr. Rohit, you can go with the question. So there is no response from the participants, we will take the next question is from the line of Aditya. Please go ahead.

Aditya: Thank you for the opportunity again. The question that I had was more linked to kind of taking it forward from the heat efficiency argument as and somewhere you have quantified that in 2030 to the curve of Thermax will be driven by factors that are not visible today. My question is very, very specific. A, what are these technologies that you're taking six years, not near term? And B, even at the end of six years, what will be the proportion of work that's getting from these drivers that you will not be dependent on any kind of subsidy?

Ashish Bhandari: Sorry, I thought there was a lot of background noise. I got one part of the question, which is the future. And if I take a Thermax 2030 or something, what portion of Thermax would be driven by things that are relatively new? And then what's the second question on what is the role of subsidy in these sectors? Is that the...

Aditya: What I'm essentially trying to get a sense of that through the journey, as you scale up these businesses, because this eventually become self-funding for the customers that you serve? Or will they still understand to get a sense of how much should we be giving weightage to the statement that you make from a business continuity perspective.

You may get the opportunities, and that's one part of what I want to understand where we are coming from. And B, will they be kind of yielding the desired kind of return for your customers? Like for instance if you see bio-CNG I don't think makes great returns even with subsidies, in fact. So just to get the sense of viability also for the customer.

Ashish Bhandari: See, I think if I take some of these sectors, from a viability perspective, I think, is not a very easy question to answer because it depends on related factors in play and those related factors and the reason I'm using bio-CNG is an example is because some of these factors will be driven in many of the newer bits also. So the entire biofuels piece, this would be the factor.

The first is technology. Stabilisation of this technology and the wide applicability of these technologies, this will apply to many. If you're talking about sustainable aviation fuels, you're talking about syngas to chemicals, green chemicals, you talk about 1G, 2G, 3G ethanol, you talk about bio-CNG, you talk about biomass to hydrogen, waste to hydrogen, all of these, this technology portion will come into play.

Also, the question that will come into play is policy because many of these will depend on -- say, take biomass, what price can you source biomass at? How structured and how uniform is the market from a market basis, like bid-ask and from an ability to negotiate prices with farmers, long term for certain things that we need to do.

There is also a policy relating to import of like biofuel ingredients, where some of this is not entirely clear today, but an expectation that things will come into control. The last bit is not clear is how carbon pricing will come into place and how that will take off. So depending on what assumptions you make on all three of these factors, the viability may be already there, or the viability may get questioned.

I am clearly of the belief that these are sectors that are must because that is the future, and stability will come sooner or later, and the market will get formalised because it has to. There is no other way without cleaning up fossil fuel significantly can you make certain parts of the value chain green.

Similar argument can be made for hydrogen, which also has very similar questions. And you can see all the work that the government is doing at the back end to starting to formalise that and technology will drive prices down, uniform applicability, a lot of things will happen.

They're not visible today, but they will come about for sure. Both of those are very good examples of the kinds of things that can happen.

Then there are areas that are a lot more easy to understand, like in water -- the future of water in terms of water recyclability, making sure that if today 75% of the water from commercial and consumer is not recycled, making sure that all of that comes back into useful supply, what technologies will come into play.

There is a better understanding of those. Understanding of advanced cooling technologies, industrial cooling, all of that, there is better understanding. But for fuel cells, grid storage, hydrogen, biofuels, biomass to X, so to say sustainable aviation fuels, all of these areas there the three questions that I talked about, depending on what calls you make on those it could be very viable and or it could be less viable. So not a clear answer to your question because these are not spaces, we can make clear judgments about. That will be my response. Thank you to everyone.

Moderator: Thank you. As that was the last question for today, I now hand the conference over to Ms. Bhoomika for closing comments.

Bhoomika Nair: I would just like to thank everyone and particularly the management for giving us an opportunity in answering all the queries. Thank you very much, sir, and wish you all the very best.

Ashish Bhandari: Thank you. Thanks everyone.

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