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Corporate Finance

THERMAX

November 18, 2022

To

The Secretary
BSE Limited
PJ Towers, Dalal Street
Mumbai: 400 001
Company Scrip Code: 500411

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E)
Mumbai – 400 051
Company Scrip Code: THERMAX EQ

Sub: Transcript of Analysts / Investors conference call for Q2 2022-23

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015

Dear Sir,

Enclosed herewith transcript of the Analysts / Investors conference call for Q2 2022-23 held on Monday, November 14, 2022. The same is also available on the Company's website i.e. www.thermaxglobal.com.

You are requested to kindly take note of the same.

Thanking you,

Yours faithfully,

For **THERMAX LIMITED,**

KHELE JANHAVI KISHOR

Digitally signed by KHELE JANHAVI KISHOR
Date: 2022.11.18 16:20:05 +05'30'

Janhavi Khele
Company Secretary
Membership No: A20601

Encl: as above

"Thermax Limited
Q2 FY 23 Earnings Conference Call"

November 14, 2022

MANAGEMENT: MR. ASHISH BHANDARI - MANAGING DIRECTOR & CEO
MR. RAJENDRAN ARUNACHALAM - GROUP CFO & EXECUTIVE VICE PRESIDENT

MODERATOR: MS. BHOOMIKA NAIR - DAM CAPITAL ADVISORS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY23 Earnings Conference Call of Thermax Limited hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal by pressing "*" then "0" on your touch tone phone. Please note, that this conference is being recorded.

I now turn the conference over to Ms. Bhoomika Nair from DAM Capital Advisors. Thank you, and over to you.

Bhoomika Nair: Thanks, Yashashi. Good morning to everyone and welcome you to the Q2 FY23 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.

I will now hand over the call to Mr. Bhandari for his opening remarks, post which will open up the floor for Q&A. Over to you, sir.

Ashish Bhandari: Hello and very good morning to everyone that's on the call. Thank you for being with us today and I think most of you know Thermax well now. So, I will keep my opening remarks very, very brief. As part of the Board, I do have management presentation, as you may expect. And in this last week when I was doing that presentation, I call the quarter that went by as a Goldilocks quarter. On one hand, you see commodity prices stabilising which will increasingly start to reflect in our margins as well. On the other side, we see some of the growth drivers also moderating. Yes. So, our inquiry pipeline, which was growing continuously quarter-over-quarter, while it is still very healthy, it is now plateauing.

On the large project side, the big wave that we had in oil and gas is over. We still see a lot of momentum in much of our base business categories. But even there, there is industry shifts. Edible oils, cement, some of these sectors, even pharma is seeing reduced inquiries, whereas others including, beverages and steel and couple of other sectors are continuing to show increased momentum. Overall, I would say moderating on the inquiry pipelines, still extremely healthy and good. Very good on the overall environment and on the execution front.

So, across the Board, we think, we see supply challenges moderating, logistics situation improving, which is also maybe somewhat reflective of logistics increasing capacity in the overall demand situation globally, which means we're seeing even global freight prices starting to moderate and become more amenable overall. And so, in this environment, I think our ability to work our backlog and even our customers for the most part are picking equipment. So, we don't see too many red flags that way. So overall, I think on the execution side, we see reasonable momentum across the board.

From a focus perspective, I think the focus is now clearly on continuing to make sure that we win good orders. And this last quarter was a good example. In the Q&A, I'll talk about kind of what's working and where is the focus. And now also, continuing to work on some of the cost aspects, investing in digital, investing in improving our processes. So, a lot of work, heavy lifting in the plumbing of the organisation as such. So, that's the focus right now. And the rest of the numbers you have seen from the analyst reports, I mean from the management presentation that we have shared with all of you.

With that, I'll open the floor for questions. Rajendran, anything else to add from your point of view?

Rajendran Arunachalam: None, Ashish.

Ashish Bhandari: Okay. All right. I think we're ready for questions here.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Ankur Sharma from HDFC Life. Please go ahead.

Ankur Sharma: Yes. Hi, sir. Good morning. Thanks for your time. Just going back to your comment on inquiry levels plateauing off and that kind of tying it to the fact you also said about large orders in oil and gas also kind of, maybe kind of also peaking out. So, just trying to understand, when I look at the second half of this fiscal and I remember from your last call also you said that steel and cement would be more of a FY24, I mean the larger orders there would be more of FY24 kind of scenario and even FGDs, which were the other big contributor for us, with timelines, we moved out. My guess is, ordering there may see some deferment. So, just if you could help us over the next two, three, four quarters broad based segments, which are the segments you think could help us get to that growth in the orders more importantly, given that 22 was at a high base of about INR 9,400 crore – INR 9,500 crore.

Ashish Bhandari: Good question and one that I'll try and answer to the best of my ability. And I think we have shared this previously as well that that couple of these big industries will go through waves and that wave especially on the refining and petrochemical side, especially the government owned refineries here. So, HRRL which was the new refinery that is coming up in Rajasthan, that being the single biggest one and where there were lot of inquiries that were in place. So, if you take a look at our current quarter, which was about INR 2,000 crore plus in orders, we delivered that with very little from big orders at such and the entire refining and petrochemical sector was a very, very small portion of this order book and we had nothing to report.

To be fair, we actually had a couple of losses out in the refining and petrochemical space, where we were not willing to compromise our margins. And we chose to keep our prices high and eventually, the projects went at pricing that we wouldn't have touched it any which way. It was not a regrettable loss but we have had losses in the last quarter and those were managed controlled losses.

Similarly, on the FGD side, even previously, when we've spoken, we really haven't focused too much on the FGD side and are even going forward, at least in the next 12 months we've got nothing on the orders front from any of this. So even with some of these constraints, to put out INR 2,000 crore plus in orders was actually fantastic.

So, what does that mean for the second half as an outlook? I'll say how I'm looking at it. Yes. I'm looking for consistency in getting some of these base orders and continuing to be at these kinds of numbers and it could be 10% below this or somewhere there about as. And then we have a few big orders that we are going for. Nothing that is INR1,000 crore or bigger than that but we have got a few in the INR500 crore to INR1,000 crore range or the INR300 crore to INR1,000 crore range. And if we win one or two of those, fantastic, but we will not drop our prices to win anything like that.

So, there is still a pipeline of big projects and we will see what happens. But on the base business, which is as I said, we have been trying to get to, aspire to higher levels. There we would like to sustain where we are now. We may be at 10% here or there but that's the range we would like to be in

Ankur Sharma: Okay. And on steel, cement, sir? Anything? Because I remember, last quarter you said still not even a big pick up there. So, you are still sticking with that? Is it more of a '24 kind of phenomenon?

Ashish Bhandari: Yes. We stick with '24 but even last quarter, we have had decent orders from cement and the wave is not growing but we still, and even now the inquiry pipeline for cement and steel is lower than what it was a year ago clearly, but it's still there. Yes. So, we continue to work through this. Many of our customers though, when we speak with them, they are very, very bullish on their Capex plans going forward across the Board.

Ankur Sharma: And just a last one if I may. On the margins in energy, which again saw a drop this quarter as well on the energy segment, that is over 5.5% EBIT margin. So, fair to assume we've hit bottom and now with RM prices kind of either stabilizing or going down, it only gets better from here?

Ashish Bhandari: Yes, I think that's a fair expectation or at least that's the expectation that I have from the team to deliver as I think we have in some ways, of course we may always have some surprises that may come about. And as I see surprises, I'll be open and transparent in sharing any of these. But where we see right now, I think we have gone through a fair bit and on the energy margin side, there are few, even within the numbers, there was some moves for our FEPL which is our solar business. We continue to invest in home growing that. We are investing INR 3 crore to INR 4 crore almost in terms of losses each quarter in building that platform and any future question, I'm happy to answer where that is going.

In addition, both our international businesses took some sort of losses. In our large projects' business, we had a particular customer where, again, a government customer and these were all kind of, in some ways, I think the government projects have been, while they give you a good top line, the bottom line always suffers because it's just difficult working through that entire environment and which is also something that we have kind of worked through and cleared off of our books.

So, as we look forward, I think what you say in terms of the margins improving on the energy side, that would be definitely my expectation also.

Moderator: Thank you. We have a next question from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Good morning, gentlemen. Couple of questions from my side. The first question is actually coming from one of the order wins that you've highlighted in the Slide 6. So, which is the ZLD and the effluent recycling plant for a pharma company. So, if you could help us understand maybe the size of the order that was there? How large is this industry? Thermax's market share here. And now given that the ESG reporting will get more stringent in the next coming years where companies have to propose specifics about the water and the effluents, how large can this business be for Thermax?

Ashish Bhandari: See, these were all orders that are INR 50 crore and less. Yes. But when we talk about business of Thermax, this is exactly the kind of segment that we would like to be to get better and better at. Market share specifically for ZLD, it's the market itself, is also so fragmented, and that ZLD itself has got intermittent in technologies, in intermediate technologies and in final solutions. So, what you define is, ZLD can also change a little bit depending on how the calculations are done. I don't think I have a ZLD specific market share number to share, but overall, ZLD and associated with ZLD, the technologies of MEV, MVR, they are all in a space where we see a pipeline and then a pipeline that continues to grow. It's also very competitive. Yes. And it has got some amount of technology differentiation, which we think we have, but it's a very, very competitive space, because ZLD ultimately is a cost category for our customers.

But overall, I think water as a space is one that we all think is a multi-decade bet and an investment and more and more water in India has to be cleaned up, other ones have to get cleaner, the enforcement will continue to grow and some of these spaces will continue to grow them. They will never be a single project, at least for us because we don't do municipality and government. There will not be something that we report out individually, but underneath, the entire environment sector which is anchored by our water business continues to grow in pipeline.

Bhavin Vithlani: Sure. Just a follow up on this. Ex of municipal water segment, what would be our addressable market and rough market share?

Ashish Bhandari: Our market share is less than 10%. The overall market on an annual basis will be easily INR 7,000 crore to INR 10,000 crore I would say.

Bhavin Vithlani: Okay. The second question I had was on the chemical segment. We have seen a very strong growth coming back and in your presentation, you have highlighted about exponential growth that we have seen in oilfield chemicals and construction chemicals. If you could give us an outlook, how do we see this segment as a whole? I mean, what are these different constituents as a percentage of our chemicals and when do we see margins revert back to the 20% odd that we have seen historically?

Ashish Bhandari: So, I don't think we have a number specifically on when it will get there. We've always shared that good place, while at 20% EBITDA margin maybe but a 15% to 20% PBT was what we thought we wanted to target with our Chemicals business and increasing top line as well. I think we went through as you guys know, nearly three quarters plus of pain, three quarters worth of pain were the commodity prices, the logistics increases, our inability to deliver, reworking contracts with our customers, all that pain we went through. I think we are now coming out of that. And this last quarter was a good example, where even our execution was getting better and we were able to deliver on some of what we had committed.

I do see stability in the coming quarters as well. We did have a bit of good guy on the mix in this last quarter that went. So, while some portions are continuing to get better on the Chemical side, the mix situation at least for one quarter may revert back to kind of what it was before. So overall, I think not 20% but at the place we are, at least for the next quarter and beyond, I would expect us to hold on to that and maybe improve slightly as well.

Moderator: Thank you. We have our next question from line of Ravi Swaminathan from Spark Capital Advisors. Please go ahead.

Ravi Swaminathan: Hi, sir. Thanks for taking my question. My question is in continuation with the question that Ankur had asked. So basically, in terms of the large order potential, how many orders which are more than around INR 250 crore in size, are there, in pipeline? Which sectors are there both, domestically and internationally? So, if you can give the broad thought process over the next 12 to 18 months, it will be great, sir.

Ashish Bhandari: So, I can't share all of it because some of it is competitive information. I would say there are large opportunities still both, internationally and domestically in the INR 250 crore to INR 1,000 crore range. Some of that is in Refining and Petrochemical. Steel, we have a decent look. International, we have a decent look. Engineering, we've got a couple of projects that are in that space. But that overall pipeline is not as big as what it was maybe a year ago of large projects. Even though our total pipeline continues to be as good, the large projects are not as good. The FGD wave is kind of over, the oil and gas refining wave in India where a lot of projects during COVID were not going through, so a lot of that has now worked its way through the system.

Ravi Swaminathan: Got it, sir. And with respect to the ethanol blending related opportunity, if you can talk. Is there a big opportunity for Thermax? Can we see multiple small orders?

Ashish Bhandari: Yes. I think that is definitely possible and a big pipeline there is building up to the point that the pipeline is a lot more than what we want to sign up because the technology is still emerging out here. We want to be a little careful before we fill ourselves with orders out here, because we want to be sure of whatwe have been working through and we are able to deliver them those projects that we have already taken exactly as we have planned. Here the sector I think has got a lot of potential and everything from Bio-CNG, bio-gasification, tomorrow, biomass to hydrogen, many of these cases have a lot of potential. Bio-CNG is commercially viable even now with some of what the government has put in in terms of subsidy and support and overall, the strong pricing that CNG has. The technology bit, I think, still needs to be. Technology and supply chain both. Both have to get proven in the ground. High degree of confidence if that can happen. But we need to see that. And that is the space where pipeline can develop exactly like you said of lot of small projects that can come in and can contribute.

Ravi Swaminathan: And my final question is with respect to the Chemical business. The kind of growth that we can expect over the next three to four years. 10% to 15% CAGR is something that we can kind of expect for Chemicals.

Ashish Bhandari: That's our expectation and investments accordingly as well and we'll continue to invest on the Chemical side. There are just too many geopolitical moves on the chemical side, as a fair bit of our business comes from exports. And we are investing as you know, we've spoken before also in investing in the front end in some of these geographies and we have continuing to move the ball forward. Long-term, this is a growth area for us. We want to invest into it but there will be ups and downs and we've seen it in the last three quarters also, how the Chemicals business can go up and down. I can't predict that such behavior won't happen in the future. But I do think, overall, this is a growth segment for Thermax.

Moderator: Thank you. We have our next question from the line of Deepak Krishnan from Macquarie. Please go ahead.

Deepak Krishnan: Thanks for the opportunity, sir. I just wanted to delve more on the Solar Opex model. Out of that total committed investment of INR 1,000 crore, where are we currently and in terms of return, how do we kind of look at the profile? And beyond this, have we kind of made any incremental investments in any of the newer areas that we were focusing on?

Ashish Bhandari: So right now, on the solar side, we started the year with an expectation to do about 50 megawatts in Opex and maybe a similar amount on the Capex side. The Capex business we haven't been able to win anything of note and which is why we are running a loss in that unit which is higher than what we had projected internally when we started the year, and we are carrying through that loss.

Through that the positive bit which says we are on something at least, right, is on the Opex side. Where on the Opex side, we have about 70 megawatts which is committed, 100% sold and we have three projects under execution right now in Tamil Nadu, Maharashtra and Gujarat. So, the first one of which should start to produce within the end of this month and the last one of what is already committed, should happen in Q1 of next year. So, the next six months we have lot of activity out here. But I think even next year should overall be at best a breakeven year for the Solar business. The year after would be when good profitable numbers will start to show up, and after that point, I think, the business should actually start to become accretive to Thermax.

After this 70-megawatt, our next number we want to go for is somewhere between 150 megawatts and 200 megawatts and the plans for that are being finalised. The capital so far what we have invested in, I'll let Rajendran share on how much we are comfortable sharing about that, but there has been a discussion at the Board level that sometime next year, we need to start reporting our Solutions business which is FEPL and TOESL, both of them separately to our investors in terms of what is the profile, how do we see those businesses and calling them out as our solutions business.

In terms of IRRs Solar, we are seeing numbers of the order of 16% to 19%. TOESL is couple of percentage points higher, 18% to 21% on Equity IRRs. Solar is slightly lower. But I think, these are all homegrown projects. We don't expect to buy anything, do any silly moves in terms of trying to create a big number. We want to incrementally grow this working with customers that we know, we have good relationships with, that trust Thermax and will continue to build and work towards this commitment of 1 gigawatt over five years. And even from a capital commitment perspective, we have a number in mind. We won't go beyond that. And I've shared that number at least, some parameters of that number. If we think we see growth opportunity beyond that, then we will look to bring an external partner in it at the right time. Yes. Right now, our focus is on developing these projects, starting to gain revenue and show the world we can do this consistently across geographies, and that we have a good scalable model. Once we do that, then we will figure out how much we want to scale it up and what mechanism we want to scale it up.

Deepak Krishnan: Yes. Maybe just one follow up if I may. Just wanted to check on the Enviro side, the two legacy FGD projects and the margin that we reported this quarter, does it have any right backup provision or any one-offs that we specifically want to call out for?

Ashish Bhandari: No. So, on the FGD side specifically, our two projects are in, all projects now are in full execution mode. The two that are relatively lot more stable, both practically through all of their buys. Majority and by that, I mean, over whelming majority of the buys are done, well above 90%. They are all going through commissioning and site work with full progress on location. And in terms of where are we on the book side, there were no unforeseen write offs or anything on the FGD side. If anything, all the results that we had booked, we were able to release a little bit of those results based on the project progress that we were seeing. So, whatever was our mechanism in terms of how do you release that contingency, based on the accounting treatment, we were able to release a little bit of contingency onto the two projects.

The higher revenue from these projects will start to come in, in the coming quarters. And along with that, that revenue, some amount of margin released will also start to increase in these projects in the forthcoming quarters.

Moderator: Thank you. We have our next question from the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: Good morning, and thank you for the opportunity. Sir, firstly, can you give more update on the green energy side? While we have spoken of some initiative on technology tie-ups of the solutions of the company, so any update on that side of the business?

Ashish Bhandari: So, we talked about on the green energy side a few different things. I don't know which one specifically you are referring to. One is, the JV that we have done with EverEnviro for executing Bio-CNG projects. I've given an update on that already, Renu, in one of the previous questions that came by. We see an extremely strong pipeline, but we need to be careful and cognizant and not jump in so deep before we know what is our execution capability, because we see this as a multi-year play and there is no point being silly upfront. But the potential in the market is definitely there and we think we have good technology and now pretty quickly, very good sense of what the execution takes where we think we are ahead of the curve compared to the rest of the market.

Here we have got a couple of projects which we should finish in the next three months and that should give us a very good idea about what is the execution capability. Based on that we will see how fast and how much to expand the funnel by.

Renu Baid: Sure. Certainly, if you look on the margin side now, it has been a bit of a mix where energy margins have been soft and on account of certain projects, Enviro hasn't seen some relief and Chemicals too, as you have guided, are now in double-digit margins since then. So, are you trying to say now that the commodity related implications from the various segments have been visible in the last few quarters. When we look at these commodity costs headwinds easing out, do you perceive that there could be certain pockets or projects where still some of the impacts could continue in the second half or broadly, they are behind in terms of the headwinds that we have seen?

And also, on FGD, for the residual value which is there is a backlog, from your perspective, what should be the broad profitability on those projects? Earlier you had indicated breakeven to low-single digit. Do we think the residual orders now have better margins with even commodity cost structures or they would still be at near breakeven levels?

Ashish Bhandari: They would be maybe, Renu, whatever I would have shared previously on the FGD side, maybe 1% to 2% better, not that much. So, if it was 2% or 3%, maybe now 4% to 5%. But that's it. It is a business which is and also, because when the commodity prices just started to somewhat moderate and when we had to lock in, because projects have got very strict delivery timelines and to stay with those delivery timelines, we had to make calls and we moved forward. And so, wherever commodity prices are today, we could not benefit entirely. We had to make our moves. But we've had some improvement. I don't think anything beyond 1% to 2% in the numbers that I've seen on the on the FGD side.

On energy segment, overall, as I have said before, that I think we have now an opportunity to improve margins. Here's some what we have gone through in terms of commodity prices, taking those hits, increasing our pricing or leveling our pricing to somewhat, there is still an impact. While lot of commodities have leveled off, certain kinds of steels, especially certain exotic steels, which we depend on Europe, anything that is Europe's supply or dependent on higher grades of steel is still extremely high. Not only is it high, the availability is also very low because many of these European clients, because of their energy movements have had to increase their prices substantially, which means the overall prices for those across the ecosystem have gone up tremendously. So, while a lot of the base steel prices have come down in tubes, which is something that we buy quite a bit of, the prices haven't come down to the same extent that they've come down for plates and flat steel. And certain exotic steels, which we need for many of our FGD projects and many of our other projects, there the pricing has actually gone up. Overall, though, prices have clearly stabilised and moderated, and we are able to manage this little bit of change up and down within our system.

Renu Baid: Sure. And just two more things. First, on the international subsidiaries, can you share any update in terms of both, in terms of demand outlook and in terms of margins profitability for Danstoker and the Indonesian business? And lastly, you did also mention about, as in your comments that order size were bit mixed in terms of large orders slowing and base orders moderating but still remaining healthy. So, you think the overall value shrinkage or the moderation that you are seeing is largely, this is also linked with the commodity price moderation or the absolute volume, or the number of projects itself has now started to reduce?

Ashish Bhandari: I think I'll answer both your questions. I do think the volume of orders is also starting to plateau at least, if not shrink. And a good example of that is in our channels business, we went through five quarters of doing better than the quarter before. This next coming quarter, I don't think we will be able to sustain it, which means there will be some gap. And then, the focus is on market share etc., and how do you win more, but all of that ultimately speak for, expect some pricing to start coming down. It will get a little bit more competitive. We see a very strong overall inquiry flow. So, our numbers - inquiry flow is well beyond pre-Covid time and in this time period, we've also built up decent services portfolio. Lot of our TOESL, Chemicals business are proof in the sense, they are continuous kind of base business in a way. But on our Channel side, we see now, finally, we have reached a number, and we're not able to grow beyond that number which we were for five quarters. So clearly, there is a bit of plateauing and slowdown.

On the international businesses between Danstoker and PTTI, which is our Indonesia business, we had a loss in the last quarter. The good part is, both of them are doing extremely well on the orders side, which means for the remainder of the year and for the next 12 months, I would say, we should have some of our, I wouldn't say best numbers, maybe our best numbers as well for both of these businesses as we look beyond and with different drivers.

In Indonesia, as we have said previously also, we were starting from zero. So, everything was competitive, difficult. As we are starting to make a name out there, we are starting to do better and better. We have a better inquiry flow. We have slightly better win rates and as that win rates and all start to get better, our backlog is also improving. We have had challenges in execution which is why we took a hit even last quarter on that business. But as we get better and better, the expectation is, some of this will eventually become a strength for us. So, still very committed. We see the pipeline in Indonesia, and our ability to execute continues to improve. I do expect at least that the business will not have losses for the next two to three quarters.

Similar end result in Denmark and Poland in our Danstoker business, but a very different driver. There, we have a massive inquiry flow because what has happened is that the decoupling of Russia and Europe has resulted in a big requirement for biomass and biomass-based boilers and all the kinds of things that we are good at. We have two very different challenges out there, which is, mind-bogglingly horrible in a way that when inquiries were low, we were not profitable for one reason. Now, the inquiries are so many, that we are not taking orders, and we're not taking orders beyond a particular point because we don't have an ability to supply, and not only do we not have the ability to supply because our plants are full but also, overall energy prices have just shot through the roof.

So, the order book that we had, the profitability that went down because energy prices in both Denmark and Poland went up like five times. And they are now starting to moderate. But we will not increase worker strength in those plants because we've gone through that difficult cycle once before and so, we will not take orders beyond a point. We will outsource work wherever we can. But as we look forward, I think that business should also make money at least for the next one year.

Moderator: Thank you. We have our next question from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: Yes. Very good morning. My question is pertaining to the Environment segment. You did mention that inquiry pipeline for FGD has slowed down. And when we look at that quarterly order inflow run rate, although there was some improvement in the past couple of quarters, it has come back to that INR 250 crore, INR 300 crore run rate. So, do you foresee these numbers being in this range, kind of plateau at these levels? Or do we see a further softening from the levels that we are currently at the domestic part of it?

Ashish Bhandari: Look, on the Enviro side, if you take the FGD out, we only have our water and our clean water and clean air portions of the business. Both of them are also at their highest ever kind of run rates in all ways. So both those businesses are doing, at least on the order side, fantastically well. Different drivers, the clean air portion is more related to kind of capital investments and the like. I think, no, I wouldn't say entirely capital, I'm just saying that the Water business and the Clean Air business that together make our environment business have got different drivers. I guess that's a better way to say.

Both of them have got tailwinds right now. So, we don't expect anything beyond FGDs and FGDs have not slowed down. I think, even when we started the year, we have said at least internally we don't expect to get any wins in FGD, and the first two quarters have been a testament to that. I think, as we look forward, whatever remains should grow, and we are very, very bullish on long term potential of both of these businesses. And where we are is, I think that's the base you can look to grow from.

Sandeep Tulsiyan: Got it. The second question is on the Chemical segment. I mean just delving a little bit deeper in terms of the different sub segments within this. Historically, of course, (inaudible 43:54) used to be around 50%, 55%, and balance was the specialty in performance chemicals, including oilfield chemicals that we are doing. This quarter, of course, seems that there was a large order win in the international space. But can you give it some more colour in terms of how it is segmented between these major sub-segments, between domestic, international and also, in terms of capacity where we were expanding our capacity in Dahej, in terms of total capacity utilisation there? That would be the final question.

Ashish Bhandari: Sure. On chemicals, I think our mix changes a little bit based on what kind of orders we see. But on an annual basis, our mix is pretty consistent, in the sense that about 40% of our businesses, resins of which depend, but around one-fourth to one-third can be specialty resins or resins going for specialty applications. Then another 40% is basically our water treatment business, which is India heavy, and the last 20% is construction chemicals and oilfield chemicals and the like. We used to also do Pulp & Paper and all that, which we have stepped back from. But these segments, all four of these, the water treatment, the resins, the construction chemicals and oilfield chemicals, in all four of those, we see decent momentum. So, we like where we are.

Overall capacity utilisation at Dahej now starts to go up. Some of those water treatment and ETP issues we have worked through. Of course, meanwhile, while we were renegotiating contracts etc., with customers, even our demand number had softened. We are now effectively beyond 50% capacity utilisation of the plant. But we still have quite a bit to go from a top-line perspective in terms of how we can grow our chemicals, resins top-line at Dahej here. So, at least, for another year and a half, we think we can continue to grow out of Dahej. After that, we will need a new plant, and we are planning for additional capacity investments in that business.

Moderator: Thank you. We have our next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Good afternoon everyone, and thanks for the opportunity. My first question was on margins at an overall level. And the question was that as you see iron prices stabilising, if not moderating, as you see some improvement in our EBIT margins given that you have a backlog. As you hit the benefits of leverage, both operating and financial coming about, do you envisage 10% EBITDA margin as a reality that can happen over the next two years for you?

Ashish Bhandari: Look, I think at some point we need to as I said start to show our business a little differently. On the project side, I don't think 10% is; I wouldn't say it's impossible. It's definitely possible, but it is not something that we should bet on. And that's because I think I've already shared here, a big portion of our backlog will be FGDs. I've shared with you the profitability that we expect. On the rest, there is definitely opportunity for improvement over where we are and we will show that, and that will start to show up in the energy segment over the next 12 months as we continue to execute and work through.

Just understanding the competitive nature of these businesses, 10% EBITDA maybe at the, I think at the higher end of what can be reasonably expected. But the business will always be maintained as a healthy cash business. We have very good cash flows, profitability translating cleanly into cash and relatively low investments in capital equipment and kind of managing the depreciation line very, very well, effectively. That's how I would look at the project's business.

Beyond the project's business, which is our products and services business, to expect a double-digit EBITDA, of course, we should do that and that's our focus. And even when I said, what are we going to be working on right now - a big chunk of our focus will be to invest in the guts of Thermax, which is invest in process improvement, invest in digital, a lot of other places so that we don't go back to poorer profitability when markets change here. We really want to use this time period of relative stability and health to make us a better business for the long term. So, in that sense, we will be investing internally and take some additional cost to ultimately become better.

And so, these are not easy decisions in terms of really digitising portions of our business, investing in digital for our services capability. A lot of these things, in doing process improvements, doing shared services in a much bigger way, all of this will take some time and a significant amount of effort, potentially, some amount of money as well, which is not very significant, but significant, which otherwise may have been given back as EBITDA. But it's very, very important for Thermax to improve the guts of our business, to make us a very competitive business for the long term and we want to take the time to do that. So overall, in that Products and Services business, so to expect double-digit EBITDA is, of course, has to be done and delivered.

And then the third part of our business is our Solutions business, where more than EBITDA and profit, I think Equity IRR is the right metric to look at, and I have shared kind of what those numbers are for that part of the business.

Aditya Mongia: Sure. And the second question that I had and thanks for the colour for the first question and extremely valid points taken. The second question that I had was more on sustainability linked businesses. You've said in the past that some of these businesses are obviously are the cost to the customer and then profitability for us becomes an issue. Do you see businesses, like say, base to energy kind of businesses which actually aren't a cost, wherein the company can make a decent profitability? And can they be a driver of your base ordering, base orders in any meaningful manner in next two, three years?

Ashish Bhandari: Look, it already is. Yes. So that's the place where our investments are going in. That's the place where our effort is going in, to differentiate ourselves build capability. Lot of things that we have done on our own, some of which we've even talked and announced about, but that's exactly what's driving our business. Yes, completely. And even on, when I talked about ZLD specifically as a cost to the customer, there are still investments that you can do in technology to make your technology be more efficient than an alternate technology. Like your ZLD takes less energy than somebody else's ZLD. But then you need to convince your customer that that is actually something that happens and that they should be okay paying a little bit more on the CapEx side to recover a lot more money over time. So, none of these are easy sells, but technology differentiation on multiple of these places is absolutely possible.

That said, industrial products in general, unlike software or consumer products, differentiation and technology improvements mean small, small bits of leverage which ultimately result in small improvements on the margin side. Possibly, a bigger number on the top line, but small improvements on the margin lines. Here, the Indian customer is very, very adapted, very effective negotiation. But you are seeing that margin play come out, and you are seeing in some of our active decisions also, where some of our biggest projects in our history for the government business, we turned our backs on to say we will not take those projects at a low profitability, even though they would have given us a massive top line. And that was a very active decision on our front in terms of how we want to work our backlog.

Moderator: Thank you. We have our next question from the line of Jonas Bhutta from the Birla Mutual Fund. Please go ahead.

Jonas Bhutta: Good afternoon, gentlemen and thanks for the opportunity. So, Ashish, I just want to circle back to this comment where you have said that you're going to spend some time over the next year or so in trying to even out the cyclicality that our Product and Services business have, while that endeavour may have some sort of front-loaded costs. But can you just sort of elaborate on what we're actually trying to do? Because as far as we understand it, on the product side, particularly on the BB boiler side, you're already at market leadership. And we would already have top quartile margins there. So, if you can just give us an example because digital by that way is a very vast area. So, what are we trying to do here? Some colour on that will be really helpful. Thank you.

Ashish Bhandari: See, Thermax, through its history, we have been a very people intensive business, which means in previous times when we have grown, we have grown that by adding people, which also shows up as our employee cost as a percentage of revenue. What that means is overall, at the back end, we were running more as a company, which was not leveraging best in class processes.

And I'll explain what I mean by that. What it means is that we were, in terms of orders, how standard are you? How quickly does an order flow to engineering get into manufacturing? As you go into all of this, every time there is a change, how much does that design change reflect in engineering time that you need versus how quickly can you take some of that complexity in customer inquiry and translate it into a product that you can deliver?

Ultimately, what it means is to be able to take the chaos that is outside and build processes and systems so that chaos on the outside doesn't really result in chaos inside. That ultimately means having a digital backbone through the company, which is not just digital, but your processes that are lean, lot of your capabilities that are modern. It also then reflects in your ability to get good people who come not because they have to do mundane tasks again and again, but I really focussed on differentiated work. So, it ultimately connects to be able to attract and retain people. It goes to the ethos of who we are as a company, because I think the world around us is changing very quickly, especially in the energy space with what the demands of green energy, waste to energy. All of this requires complexity in the system.

On water, the number of technologies that are coming in are so quick. The customers demand shorter lead times, better products, all of that. And so, if Thermax has to be at the front end of some of these spaces, we need to be able to respond really, really fast to our customers. And to do that, we need to take the time that now, if we grow, we don't really need to grow with people additions. And not only that, eventually to make digital as a driver of our business where we are able to give customers deeper insights into how their products are being used, what efficiency, what uptime are those assets working at, give them valuable insights which will ultimately help them come back to Thermax again and again for their needs.

Jonas Bhutta: Understood. Great and probably, we will want to hear more of it as you progress in time. Thank you.

Moderator: Thank you. We have our next question from the line of Mihir Manohar from Carnelian Asset Management LLP. Please go ahead.

Mihir Manohar: Yes. Hi. Thanks for giving the opportunity. Sir, firstly, I wanted to understand the comment that you made around the enquiry pipeline. We are seeing moderation in the enquiry pipeline front, steel, cement, as well as oil and gas. I mean just wanted to get an understanding, we are seeing good CapEx happening across all the three sectors. Why are we seeing a moderation on that front? And could the moderation continue even in FY24 or it is only there for the balance part of the year? That was my first question.

Second question was largely on the fundamental side. I mean I wanted to understand the fundamentals of the process boilers. I mean the process boilers largely solve the purpose of steam, high pressure steam. Are there challenges with renewable energy going up? I wanted to understand that part on the fundamental angle. Thanks. That would be the questions.

Ashish Bhandari: Look, on our overall inquiry pipeline, if I take a look at maybe where we were a year and a half ago, or even a year ago, your inquiry pipeline right now would be 20% plus relative to, in absolute terms relative to where it was. Relative to where our inquiry pipeline was four months ago, maybe we would be 5% to 10% lower. So, that is why I'm saying we've reached a plateau and especially in some of the larger projects, even in large projects, I would say we have a much lesser pipeline than in previous quarters, which is not to say that we don't like our pipeline. We actually, absolutely like our pipeline because a lot of it is good profitable base orders that you need to win through competitive workings with the customer but they're not really government-based orders as much. These are things where Thermax's differentiation, etc., may play slightly more of a role than otherwise. That's all I think I can share. I think I've shared as much colour as through some of the answers to some of the previous questions as well.

And what the outlook may be for the second half of the year also, in one of the previous questions, I've given as much colour as I possibly can. And to be fair, that is exactly how I am looking as well. We don't run by a number or specific number to it. We have got a lot of individual actions that add up and some of the bigger orders, you can't say whether you will win them for sure or not. What we are clear is, we don't want orders just to fill up a plant or otherwise. We're not at that point at all. So that was the first question.

Your second question on what does this mean? I think we can all have a debate on what the world will be 10 years plus from now. But for the next 10 years, you will need lot of process boilers for every application that you can think of. And even the whole move towards green energy, if anything, the process will need to change. It will need to change from coal to multifuel. Somebody is looking at biomass, somebody will look at electric boilers. All of those are actually opportunities. I don't think of them at all as something to be scared of. Anything complexity going up will typically help a company like Thermax which invests in technology and wants to stay on the front end.

So at least in the short or medium-term, I don't see any risk. There will be an economic cycle of course, but I don't see a risk on technology or technology obsolescence of any sort affecting our business on the heating side at least.

Moderator: Thank you. Sir, we have a few questions on the line. Would you like to take them?

Ashish Bhandari: Rajendran, what do you think? Should we take one more question and call it a close after that?

Rajendran Arunachalam: Yes. Fine with that, Ashish.

Moderator: All right, sir. We'll take the last question from the line of Rahul Modi from ICICI Securities. Please go ahead.

Rahul Modi: Thank you for the opportunity, Sir. Just a couple of quick questions that I have. Sir, firstly on coal gasification, the pilot project that you developed. How is that progressing and the opportunity size going forward in that segment and some views on concept of community boilers coming up in the MSME space? What is your view on that, and how do you see that market going up? Whether that will enable our business in the boiler market or it sort of restricts the bit in terms of sizing? Your views on both will be helpful. Thank you very much.

Ashish Bhandari: Sorry, I lost you a little bit. Maybe the problem was at our end. Could you repeat your question? First the community boilers, could you repeat that one and then I'll come to your first question as well

Rahul Modi: Yes. Sir, I had two questions. One was your thoughts on the concept of community boilers being prevalent in the MSME space and going forward, whether that is a way of going or what is our opportunity there? Whether it enables our opportunity or you think it restricts us?

Secondly, on the opportunity of the coal gasification which we had developed very successfully. So how do you see both the things panning out from here?

Ashish Bhandari: So, community boilers, I think is a good option and a good opportunity overall. But it will ultimately, from an overall market perspective, be less than 5% of the overall space. If it was zero sometime or very small a few years ago, I think especially, in places like industrial parks and all, it is a good option. The challenge is just that to drive steam over long distances is quite expensive as well. So only in certain industrial parks, it makes sense and where it makes sense, I do think this will take on.

Our interest has been that these boilers should not be coal driven. They should be driven on different technologies and that's what we have been pushing and talking to the people setting up these community projects and providing steam through that. That's the answer to your first question.

To coal gasification, we are far from like a big market from a Thermax point of view. And there are two intermediate steps between where we are today and what can be like a massive business for Thermax. The first part is, we have a technology which is unique. We think for coal gasification, we have possibly, not possibly, at least with confidence we can say India's best technology and especially for working on high-ash Indian coal.

But what we have done and demonstrated is a small pilot plant. Between our pilot plant and a large scale plant that somebody can use is a 1000x kind of expansion, and that 1000x expansion is not something that somebody can overnight sign up for. So, Thermax will not sign up for INR 4,000 crore project where our technology will be put in and we will have to make a big investment that says, your technology, you are the one who is underwriting that entire project. That's not who Thermax is and that's not right either.

The intermediate project is more likely something that is of 50x scale up of our current technology, where also, we are willing to put some of our own money as risk capital. But we are not a developer of a project. So, we need to find the right developer of the project, then we are working. Ultimately, our hope was that the government itself, after making such a big set of announcements, will look to push technology like what Thermax has developed across coal gasification, and we continue to work with the government to look at us as a partner. But it hasn't been easy by any means because the government has its own procurement rules and tendering process and all that. And none of that is easy.

So, I would say I'm still bullish on coal gasification, but don't expect that this will become home run. But it has very much the potential to become a massive home run, and we're also working on carbon capture technologies and other parts that are important to making coal gasification a success. But the first part is, we need to go from a pilot scale to some sort of a commercial scale project and that will be the first thing. After we do a commercial scale project, a couple of years after that you can talk about doing big, big projects on coal gasification. So, we are at least four or five years away from anything really, really big, I would say.

Not at least, I would say we are four to five years ago. But of course, if you're not able to scale up our technology and don't figure out the intermediate project, then we don't know what the future itself is, which would be really sad because we keep talking as a country about coal gasification so much.

Okay. So, that was the end of the story from our side. Thank you for listening in. Rajendran, any closing comments or anything that I have incorrectly indicated or otherwise?

Rajendran Arunachalam: No, I think there was one question on our investment (inaudible 1:09:41) which I can clarify at this time. We have invested close to about INR 92 crore in the business, including of last year. This year, the investment is about INR 52 crore. So, that I think is the valid data point that has been solved. I think, there have been many questions which have been already answered by you, Ashish.

Ashish Bhandari: Okay. Thank you.

Bhoomika Nair: Thank you, Sir. Thanking all the participants for being on the call and thanking you Sir, for giving us an opportunity to host you yet again and wishing you all the very best.

Ashish Bhandari: Thank you. Thanks everyone.

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