“Thermax Limited
Q2 FY ‘24 Earnings Conference Call”
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MODERATOR: **MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Thermax Q2 FY '24 Earnings Conference Call, hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Bhoomika Nair: Thanks, Sagar. Good afternoon, everyone, and a warm welcome to the Q2 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.

I'll now hand over the floor to Mr. Bhandari for his initial remarks, post which we'll open up the floor for Q&A. Over to you, sir.

Ashish Bhandari: Good afternoon, Bhoomika, and a very good afternoon to everyone on the call. Overall, quite happy with how the quarter turned out. And I think you'll see consistent themes in pretty much all segments. Continued strength in Industrial Products, stability in terms of delivery. Overall, good strength in execution. Lack of visibility on larger projects. I would say that overall pipeline on what's in play has improved. But otherwise, I think we could have -- I did not expect such a slow quarter on converting large projects.

We had a couple in play, one in particular, which was quite large, where we were declared as L1, but some of what is happening with the project itself is a little bit up in the air. So overall, looking forward to the second half on Industrial Infra.

Chemicals, happy with the profitability. Expect more top line growth and a load of actions underway to ensure that top line growth also continues. Green Solutions, we are making rapid progress on the solar-wind hybrid business, which is FEPL, TOESL is steady. Both of these businesses, I think, will continue to ramp up and will continue to be invested in.

Overall, I think, just a good quarter execution-wise across the board. A very, very busy quarter in many, many ways internally. There was just a lot that was going on. And on the order side, I think expecting the second half to pickup. I think INR 1,900 odd crores is lower than what we have done in any of the last five - six quarters. And we need to improve this trend again. So, with that, I think I'll open it up for questions and jump right there. Thanks.

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

Ankur Sharma: Just three questions. One was on the overall order pipeline and/or the inquiry pipeline. More soon as we head into elections over the next few quarters, expectedly Q4, government orderings are slowing down. So, if you could just help us understand across segments, how is the order pipeline looking, also on the large order side, I understand this quarter was a little weak, but I think in your initial comments, you spoke about some pickup there. So, if you could also talk about -- both the base orders, also the larger orders. And to put it in context, a lot of other companies in this sector have been reporting moderation, even order inflows. So just wanted to get a sense of what are you seeing?

Ashish Bhandari: I've shared. And I think my messaging will be consistent with what I've been saying previously as well. For Thermax, specifically, there's a significant shift in refining and petrochemicals, which drove a good portion of the last two years going through a cycle where there really not too many new projects out there. There's one which is finishing up, but after that, a bit of a lull. We'll pickup again in a year or so. Meanwhile, the expectation was that the cycle would shift to steel. And you can see when steel is there, we are getting a lot of smaller orders. There are a few big ones that are also in play.

International also the pipeline has improved, cement by a few. These are the four areas where there is possibility of larger projects if we look at the second half. Will they close and kind of timing, etcetera, I'm hopeful, but you just have to wait and watch. All of these sectors are notorious for orders and timelines moving around. Beyond this, I would say, so far, we haven't seen as much of a slowdown. And you can see Industrial Products delivered a decent double-digit 12% plus growth on orders. Green solutions will continue to grow. Chemicals, I think, pricing we have had to moderate as commodity prices came down.

But overall, volumes have held steady. They haven't grown as much as I would like, and I would like to see a pickup in volumes in the second half. So that is the expectation. I think, overall, I'm still bullish on the second half that Q2 was a bit of a lull on the overall order side, driven particularly by complete absence of larger projects. I expect that to increase in Q3 and Q4 going forward.

Ankur Sharma: Sure. And would you -- I don't know if you can quantify in terms of the order pipeline, would that be substantially higher versus same time last year? Will it be flattish? Would it be higher than single digits? Any quantitative numbers you can provide?

Ashish Bhandari: I believe, it would be higher in single digits compared to last year. For a company like Thermax, it's not the quantum that counts. It's the quality of the pipeline overall. And I would say it is the pipeline and is slightly better than what it was at the same time last year.

Ankur Sharma: Understand. And just one last question on the margins in the Industrial Products business, which seems to have touch double digit again this quarter. So, any one-offs there? Or how are you seeing margins kind of behaving? I understand RM prices have pulled off, so that would have had. But how would you kind of see that in the coming quarters?

Ashish Bhandari: Some amount is in this particular quarter, actually, not in Industrial Products as much, even Industrial Products overall had an advantage as well, but more in Industrial Infra, where there was one particularly large project -- large profitable project, which got executed and commissioned and we retired all our risk. So, we were able to release that back amount.

In my count it's the 2.5-odd percent improvement that we have had in margins. You could say half and half. About half would be sustainable as we look forward as well; about half was driven by one-time items in the quarter. Even though those one-time items were relating more to projects where profitability was better than average. Overall, I think I'm happy with where our backlog is. There are no particular red flags in the backlog.

Ankur Sharma: And on the Industrial Products, is there double-digit margins, do you think the 9% - 10% range is doable?

Ashish Bhandari: I think where we are on Industrial Products, our heating business, which is our boilers business, had a particularly good quarter, which was, in some ways, relating to -- we were increasing prices and expectation that commodity prices were going up. When commodity prices stabilised, our pricing also stabilised, but we got that little bit of a window where profitability was slightly better. So that said, across our business, the water business, our pollution control business, our cooling business, all four of them, margins, I would expect them to be very reasonably good and stable. So, it will come down maybe a little bit from this quarter. But overall, I think, stable.

Moderator: Thank you so much. The next question is from the line of Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: Congratulations on a very good set of numbers. My first question is -- you just mentioned that there has been improvement in opportunity for the large segment orders, especially for Industrial Infra. Is it right to say that you have become more bullish compared to your commentary in the initial part of the fiscal?

Ashish Bhandari: Mohit, I would say, it's slightly more bullish here. On larger orders, I was muted, and I've been that way for three quarters now. And saying that a couple of these new sectors, we expect them to start coming in, but we don't know what the timing is like. So, this last quarter where we did, we had practically nothing at all, which was the weakest that we have had for quite some time.

What has happened as a result is that while our inquiries were coming in, some of them have now bunched in, and I expect something to happen. With four or five in play, we would expect that at least a couple will close. So overall, I would say, bullish on the second half of this year. And that is driven in some part by this particular quarter, which was particularly muted.

I wouldn't say that I feel like where we were two years ago, where we were going from INR 1,200 crores to INR 1,400 crores to INR 1,600 crores. Practically, we were adding 5% to 10% per quarter. I don't think I'm that kind of bullish at all.

Mohit Kumar: Understood, sir. My second question is, you just mentioned that your L1 is one of the large orders. Is it possible to mention the order size and some details of the particular L1 order?

Ashish Bhandari: It's not very large, it's INR 300 crores to INR 400 crores. It's in refining and petrochemicals. But that is just one that I thought would have come in last year, which would have again taken us to that INR 2,300 crores, INR 2,400 crores number, which is where I expect the business to be at least as a baseline for this year. So, coming below that run rate increases the ask for Q3 and Q4. There is a possibility that we can bridge this gap from Q2 and continue to deliver good growth for the year as a whole on the order side. That is a possibility for sure.

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

Bhavin Vithlani: So, my question is on the orders. And when I look at the numbers by some of the other capital goods companies, like L&T was up 75%, and when I look at Triveni Turbine, which is slightly more comparable, that was up 30% for them. But for us, a flattish order floor and a 20-plus percent decline sequentially. It seems a little disappointing. If you could just help us understand about the base impact of the large orders, and we understand that these large orders can be lumpy, but we have seen this run rate kind of stagnating to declining, and that is actually worrisome.

Ashish Bhandari: I'm not too worried. We see a lot of areas of optimism and strength. So overall, not worried. Two things in the play. I can't comment on L&T and Triveni Turbine, but I'll talk about Thermax. So, there are – first is, some of our larger projects in the past were less profitable, and in some cases, significantly less profitable than the rest of Thermax. I understand that large projects are important.

But my conscious effort is to move towards areas where we can be profitable along with doing work, which is good. So doing less of what I would term as anti-calories, where you work extremely hard and don't have a lot to show for at the end. So, working more towards technology areas where we can do long-term differentiation. I think that is the idea. So, in that sense, some of the work that we are doing now, as they bring into orders, I hope some of those trends would also be sustainable. That's one.

Two, I think, Q2 was particularly bad. I think overall, pipeline of opportunities has only improved, and that includes larger projects. As the second half comes along, I do expect the closure rate to improve as well. And at least in going, the expectation is that on orders we should be able to deliver. At the Thermax group level, there is a reasonable growth on orders as a whole.

Bhavin Vithlani: Sure. Second, could you talk about the competitive landscape? Because what we have seen in many other related capital goods sector is the companies which were -- had been on back foot and almost on the verge of bankruptcy, have suddenly become strong, and we are seeing new multinationals and domestic companies come and set up facilities. And that is adding to the competition, some of these lesser or the unorganised ones are becoming larger. So, your comment on the competitive landscape, especially on how is that supply that we are seeing in the various parts of the boiler market, would be very helpful.

Ashish Bhandari: See across the board, very competitive everywhere. In every one of our segments, we have seen newer players coming in, in some cases, on the larger boiler side. Especially in the cement industry, we have seen the Chinese come in as well, which they tend to do from time to time, but I said that last quarter as well. And we see in the cement industry, the Chinese come in as well.

Overall competitiveness -- these were always very, very competitive areas. I haven't seen any particular reason that our market share has gone down. And if anything, in many areas where the applications have gotten complicated, our share in being more complicated portions where customers want peace of mind and like biomass shift, where customers want equipment and a partner that is reliable, there our share has gone up, maybe in some of the spaces, which were anyway competitive, there possibly our share may have gone down. But overall, I don't see, while we see new players coming in, especially regionally, we see some shifts where, in certain areas, new players will start to show up.

And this is not just in our boilers, even in our air pollution control equipment, due to new players in water always was a lot segmented. If anything, water maybe is getting slightly less fragmented, which means the larger players are able to be more and more established as the applications have gotten more complicated as well. So, a lot of moving parts. Nothing particularly so far that says this is a big red flag. To me, the only red flag would be having Chinese equipment come into India, which, to my mind, is a potential there, and it's not bad because while the Chinese can't dump steel, they shouldn't be dumping boiler.

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

Renu Baid: Congratulations for a strong performance. My first question is, if you can share some insights in terms of how is the order pipeline looking for international projects? We have seen quite a bit of traction on the hydrocarbon segment and some activities picking up on the process side. So, for Thermax addressable market, how are we looking at export potential over the next 12 - 18 months?

Ashish Bhandari: Overall, a bigger pipeline than what it was six months ago on international. These are typically though longer cycle because many of these projects, besides the point of qualification, putting a financially competitive bid, etcetera, goes back to the commercial closure of the projects themselves. So, there are for Thermax waste to energy projects, mix of multi-industry projects in Africa, Middle East hydrocarbon-related projects. So overall, the inquiry pipeline on international is much better today than what it was six months to nine months ago.

Renu Baid: And what could be the targeted inflow levels that can be expected over the next two years? Can we expect a couple of large projects like you had Dangote a few years back? [inaudible] So I was just trying to ask that given the pipeline projects across sectors, the last large project that we won from the international region was Dangote. And do we see similar kinds of opportunities now opening up a few years coming through?

Ashish Bhandari: Nothing of the size of Dangote. Dangote was -- I mean, no such size refinery or anything like that is coming up either. So, it's not like Thermax doesn't, but otherwise also, there are no projects of that scale in size. Overall, though, multi-location, smaller than Dangote, but lots more in quantity. I think our international pipeline overall is good. We're quite happy with the international pipeline, the current strength, and as it continues to improve.

Renu Baid: Sure. And lastly, can you share some update on the Green energy portfolio in terms of the commissioning of projects and the projects in pipeline on the quantum of equity investments so far?

Ashish Bhandari: I think continued confidence and continued strength. What has not worked well is that every one of our projects on the hybrid side, solar-wind hybrid, has taken slightly longer to commission, which means one project in particular, Gujarat. We missed the wind season by two months, which resulted at a few crores worth of miss on revenue and practically the same on profitability, given how the walk from revenue to profitability is so high. So that would be the bad part.

The good part is that the team is continuously executing projects, continuing to see strong interest in our offerings from the marketplace. And we are limited by our ability to execute projects in terms of how big we can grow this. So, we are increasing our capacity, and we'll continue to make sure that we execute the projects on the FEPL side continuously. So, we're now INR 200 crores but we have already a line of sight to get into INR 400 crores.

And I think continuing to invest exact numbers on how much we have invested, I'll let Rajendran share. There is some clarity also as we continue to grow that we should bring in an external partner to come into the business because if we continue to -- if the demand continues to be as strong as it possibly is on active limit, which I had said previously of around $100 million, INR 700 crores to INR 800 crores, that continues to hold, where we will not want to invest beyond that particular amount, because we see lot other areas to invest in as well.

Renu Baid: And how early can we bring in a partner?

Ashish Bhandari: Sorry. On the -- sorry, let me finish. On the TOESL side also, we see good pipeline and TOESL too, depending on how the rest of the year goes, may require some amount of money, but that will be of the order of INR 40 crores to INR 50 crores, somewhere in that range. And I think decent opportunity pipeline, good market share, good execution and a business which is reasonably healthy.

We have invested significantly in supply chain called biomass, where previously, maybe two years ago, we would control or manage 5% of our supply chain. Today, that number is more than 30%. We are controlling ourselves of our supply chain. So, strengthening our back end in TOESL continues.

In terms of the timeline to bring an external partner into FEPL, some of this would depend on the growth of FEPL. But I would say six months to 12 months of the period that I would have in my mind depend on external partners. I hope I answered your question.

Moderator: Well, I believe the questioner has dropped from the queue. So, we will take the next question from the line of Lavina Quadros from Jefferies.

Lavina Quadros: Hi Ashish, congrats on a good set of numbers. Just two questions. One is the Israel conflict right now, right? Is there any impact on overseas ordering? And you mentioned that the overseas pipeline is good. Is there any particular country driving it? Or is it the China plus one continuing to drive it? Just wanted to understand that.

Ashish Bhandari: First on the Israel conflict. So far, nothing, and you could make a case for both sides here in the sense that oil prices shooting up, which results in a big commodity shock, increases interest rates more everywhere else, slows down the economy, so that is -- and affects margins across the board. So that is one scenario.

The other scenario is that the conflict spread drives down global growth, drives down commodity prices even further, but drives down demand even further, which then results in a whole different set of moves. Both scenarios are possible.

I think India, in both cases, is somewhat slightly insulated, and that is what we are seeing right now, no major impact at all.

Long term, where is the growth coming from on the international side? From multiple geographies. And multiple different -- previously, it was primarily refining and petrochemical. Today, we see a lot more from waste to energy, biomass and then a reasonably healthy pipeline on refining and petrochemical as well. And this pipeline is built a year ago. Our international pipeline was weaker. It is now continuing to get stronger and stronger.

Lavina Quadros: Okay. And lastly, thermal ordering, I mean the BTG arm, which -- I mean are you all seeing a pickup on the thermal ordering front in India?

Ashish Bhandari: Some amount of inquiries. These are large thermal power plants. As I said previously also, less interest in bidding on large thermal power plants. The answer may change. But power engineering, we have moved completely towards waste to energy and more differentiated offerings. Large thermal power plants is not our interest. Again, I think depending on how the specifics happen, the answer may change. But right now, I haven't seen any reason to get back into that kind of a business immediately.

Yes. I think in captive power plant, the inquiry pipeline has improved. But again, kind of I don't see this as a big trend shift. These are maybe an order here or two, but I don't see a big shift. Our own focus is towards more differentiated offerings, as I said, biofuels, biomass, chemicals, waste to energy, waste heat recovery. These are the areas that we want to build in the strength.

Moderator: The next question...

Ashish Bhandari: Sorry, one, there was a separate question on which I didn't answer, which I said Rajendran would answer, which is around kind of how much have we invested in FEPL so far. I think, Rajendran, would you want to share specifics? Rajendran? Am I audible?

Moderator: Rajendran sir, your line is unmuted. Rajendran sir, can you hear us? So, we would take the next question from the line of Mr. Vinod from BOB Cap.

Vinod: I just wanted to ask you, in your annual report, you mentioned about overhauling your HR processes and employee benefits, and I think that's getting reflected in employee cost as well, from INR 230-odd crores last year is close to INR 285 crores. Any more overhaul yet to come? Or do you think this should be a stable run rate as far as employee costs are concerned? So that's my first question.

On a related thing, are you -- have you started seeing shortage of good quality engineers and resources, something that was there in the previous cycle? Do you think that that phase has started for the cycle also? Or is yet to start?

Ashish Bhandari: So, to your first question, do we see -- on the people expense, I think that trend is not still completely over. In the sense that overall salaries at Thermax, we would, see, what we want to get to is a place where when we grow, say, 20%, we don't have to add people at all. Yes, maybe 3%, 4%, 5%. But we don't have to add people, which has been the trend that we have had in the past. So right now, we are continuing to invest in technology, continuing to invest in processes, operations, management, etcetera.

People are being added more in services, more in areas where we need feet on the ground, but our central, our core teams that sit in headquarters or certain offices, we want to keep that completely as flat as possible and close to zero. But that said, we want to pay our people better. And then also use that as a way to get more and more differentiated talent hidden from that. The lot of...

Moderator: Ladies and gentlemen, we have lost the line from the management. Please stay connected while we connect the management again. Sorry for that. We have the management line connected again.

Ashish Bhandari: Okay. When did I get disconnected, if someone could -- did I speak at all in the response to the question?

Vinod: We're talking about employee cost and shortage of resources. Has it started or happening...

Ashish Bhandari: Okay. But did you hear anything of what I said or it got disconnected right after your question?

Vinod: No, we got to that point where you said that it's an ongoing process and I think more probably can be expected...

Ashish Bhandari: It's an ongoing process. We're continuing to wanting to add a lot of improved capability because where the industry is overall, we need lot of differentiated balance, whether it's digital, many of the new research areas, better offerings for our customers, all of that. So, this is the period where we are improving salaries, not adding too much people. I think that will continue for at least one more year in my opinion. Do I see shortage of talent? I don't see shortage of talent. We went through a period where attrition was high. Attrition has now started to creep downward, but our hunger for good, differentiated talent is very, very high.

And I would say, overall, I think in many engineering spaces, especially Pune and around, demand for talent continues to be high. There are a lot of global companies that are setting up their engineering offices in and around areas that big population centres provide, and Thermax is always a place that it looked up for good engineering talents. So, both of those things, I would say, yes.

Vinod: The second question I had was more macro. So, if you look at some of the commentaries of the large players in steel, cement, everybody is talking of decarbonisation and process improvement. And as part of their process improvement, they are talking of a reduction in waste heat. So, if waste heat reduction itself is going to happen in the process, what kind of a long-term trend do you see in terms of waste heat recovery? Do you think the whole industry is going to reduce waste heat, and then there could be a demand decline for waste heat recovery equipment?

Ashish Bhandari: See, overall, this shift that we see of how heat is being generated, how it is used is something that we are seeing already. And I've been saying this, that as Thermax, we need to be prepared for this shift. What happens, though, is that in this, the shift itself drives a lot of change, which if managed well, is a huge positive for Thermax. We provide energy efficiency services, process improvement capability. We help understand where can you cut heat, and for that also, Thermax's capabilities are hugely needed.

In many cases, we ourselves are okay to cannibalise our own products. If you see on the cooling side of our portfolio, we have released several very differentiated products around chillers that can run on various different kinds of heat. We have released a hybrid chiller, which can run on waste heat as well as electricity.

Electricity, we have now improved the capability to come up with heat pumps. We have heat pumps that are hybrid as well. And we are saying, look, if you don't need steam, you just need hot water, very, very hot water, think about using a heat pump and don't go for a boiler at all, generate less heat and use an equipment which is smarter in that sense.

But we ourselves are driving that change. Here, we are talking about closed loop cooling towers and our ability to get those cooling towers to work in a way that an air conditioning of a particular complex, you can cut 20% to 25% of the air conditioning by using closed loop cooling towers in smart engineering.

The last example I would give, which is one of our best examples, is going to the food and beverage industry and saying, take the -- when you make potato fries and the like, you release a lot of heat, whatever it is, which is hot. It's like boiling potatoes that when we do it at our kitchen, using that recovery is -- recovering the heat out of that water vapour that comes out, and recovering that water as well.

Recycling the water so that the plant uses it for all of its purposes -- is perfectly good drinking water quality and taking the heat out of it and using it to whatever the plant may need from a heat perspective. So the application set are abounding, and the more the world looks at change going from A to B, even if that base scenario has less heat overall than the A scenario, the transition itself will drive so many new technologies that if we do a good job of working with our customers, creating new products, I think we can deliver a long-term growth and which I think we deliver at this point, which is a very important point.

Because it's okay for Thermax to not have very large projects, which are -- if you take a look at our FGD projects in the past, you could get INR 1,000 – INR 2,000 crores worth of projects, but a 2% - 3% profitability.

I think in the world where we are able to get good profitable orders, where we do things that are repeatable and more meaningful for our customers, in my view, that's a much better way to build a long-term business. In that also, there will be, especially in the area of biofuels, we will get a lot of larger projects systems. Yes, we will do a lot of interesting things as we get deeper and deeper into those spaces. And connecting those two technologies, which is a very important transitional shift for Thermax as a company.

Last thing I would say in this regard is we are doing an analyst event one day where we would love to host all of you in Pune. Our communications team can share. We would show you some of our products, take you to whatever we can as a factory tour, or maybe a customer side also, if you could get an approval. But if nothing else, show you many of our products, almost like a mini roadshow where we could show you many stations of the kind of new things we are doing in December, the date is finalised. Our communication team can share the details. We would love to have as many of you as possible joining us in December in Pune.

Vinod Chari: Sure. Thanks, Ashish. We look forward to the meet.

Ashish Bhandari: Rajendran, if you would just want to answer the question on FEPL and to some maybe on how much has been put in this quarter, and that will be great thing.

Rajendran A.: Sure, Ashish. I think -- so the First Energy, I think we've invested close to additional INR 200 crores, both debt and equity. That's the increase that's seen in that business at this time.

Moderator: The next question is from the line of Mr. Aditya Mongia from Kotak Securities.

Aditya Mongia: The first question kind of takes off from your assessment of how much money you will put inside FEPL and how much you want to have for other areas. I guess the limit that you set to reach is INR 800 crores, I'm assuming equity. In other areas, is there an opportunity to invest on an aggregate basis more than this quantum? And if so, what will be the large moving pieces over here?

Ashish Bhandari: The large moving pieces as we look forward will be, the one will be Chemicals. I think the growth in it's long term, we will have to continue to invest in the business, and we would want them to do that. I think as we get into some of our newer spaces around green hydrogen and some of the adjacencies in our newer and new energy area, there could be areas of investment that will come about from the business.

Last, I would say, in Industrial Products, in a couple of the segments that we are already playing in, there could be M&A opportunities in adjacencies where we see particular growth. I would like to say that we are not interested in M&A, which is like international or other ones, where we see -- and going back to the team around what capabilities that we think we will need for the future.

The good thing, partnerships and M&A is a great way to get to those capabilities and competencies. But we would want to limit these closer to our home base, which is India. Yes, so our differentiated capability in India and then take it from India globally wherever we think we want to. That is the impact we feel. Nothing of the order of INR 700 crores - INR 800 crores, but a lot of smaller bets investments, that is where our money would go.

Aditya Mongia: Sure. Just a related question over here. You did talk about energy efficiency and energy management. Obviously, you've not highlighted that in the last response of yours, but could that be an area wherein probably Thermax has to invest? And if so, what are the kind of bets you would want to take in that space?

Ashish Bhandari: The energy management overall is something that is under way. So, a lot of work you see as our growth in Industrial Products, I would say a good chunk of it is actually driven by some of this capability and some of what we are -- what we are looking to do. And I'll take them -- I mean, you take something like water.

Water has got good growth. I mean, our water business used to be INR 300 crores three years ago, we will, on an order booking side, I'm quite confident that this year, they'll finish more than INR 1,000 crores. And it is driven by a lot of new things that are happening in the water space systems, things like zero liquid discharge. Zero liquid discharge, as it core, is actually how do I manage heat wave, because you're talking about evaporation, heat recovery, recycling things.

These are all capabilities that will go back into how do you make this energy efficient, how do you manage this in newer and smarter ways, some of what is being asked. At the beginning it's something like I would say, desalination. At the beginning of desalination, past three quarters, they are all technology areas that are already in this ramp of energy management, so to say.

Therefore, multiple of our products, even something like air pollution control, how do you manage air pollution control that your input fuel is constantly changing and still deliver the highest environmental norms. That also, in some ways, is energy management. While the fuel shift is happening at the beginning, the entire system changes. So, we are very well maintained. The last thing I would say is our investment in digital and ExactSpace, the partnership that we had done -- minority investment that we had done a year ago.

That ExactSpace partnership is something that we are continuing to expand and releasing a whole set of newer and newer capabilities on our Edge Live platform, where we are able to offer customers insights into their assets, which is, in my view, in some ways, better than what anybody in the world have. And I am really, really happy with some of the capabilities that we have developed.

Aditya Mongia: Understood. Just one question from my side to end it off. And this is on a separate context of margins. As in, I think, two - three quarters back, your confidence of doing a 10% -- 10% EBITDA margin rate at an overall level was quite low in terms of your own confidence. Are things changing? Are you believing that one can cross that barrier at an overall EBITDA margin level over the next two - three years?

Ashish Bhandari: What we've gone through versus year where everything was changing constantly. We have logistic prices, commodity prices. So, as we came into this year, I thought something or the other would continue to change. And what we got was a period of relative stability, which meant that we could execute on many fronts reasonably well. And really, we don't want commodity prices going down for us to make money. All we want is for the commodity prices to be stable. So, the stable environment, for my bullishness on our ability to come up with better margins that also holds.

Yes, we had some one-time items this last quarter, but more than 1% improvement in margins is something that I thought that we can sustain going forward as well.

Moderator: The next question is from the line of Teena Virmani from Motilal Oswal Financial Services.

Teena Virmani: My question is related to the two new opportunities where Thermax is already working upon. So, can you share an update on any further development on the hydrogen MOU side that you are already working upon? And my second question is related to the expected addressable market that can open up for your offerings on the water side, maybe ultra-pure water side from this entire expansion of semiconductor manufacturing.

So where do you see Thermax getting benefitted out of it? And where do you actually see this water business because this is already improving for the company. So, how do you see the addressable market if it is possible for you to quantify that?

Ashish Bhandari: Okay. So, on the first one, on the hydrogen side, wait and watch, I think we have shared this time that we have created being completely dedicated to hydrogen. And that is one place where we have added a single number of people. We have a reasonable amount of having Indian technology investments, which is also ramping up in hydrogen. Very early to share successes, and don't expect anything for the next year also, I would say.

And then there is something major to share, we will come back. In terms of our partnerships that we had done, we are interested in all of that was that we wanted to be able to bring differentiated technology into India. And for that to happen, we needed to see a clear line of site into that technology and then making sure that the partnership also can evolve in a way that both sides can get meaningful advantage from that.

So that, I think, is a constant discussion. I've got nothing to report. I can just say that we are evaluating the partnership very, very closely. And we will see how that unfolds. And if this is specific to the one MOU we have done on the hydrogen side, we are evaluating it. On the water side, I would say, it is not just water, even our, like, a lot of the semiconductor industry, you need rubber, you need a lot of things which come from our air pollution control equipment as well.

Both water and air pollution control have a much bigger pipeline because of some of these newer industries, semiconductor being one, solar being another -- very competitive spaces, but the pipeline is different. This I stated also that some of these businesses are structurally now much bigger than what they were even a couple of years ago.

Teena Virmani: Got it. Got it, sir. And my last question is related to the pending FGD projects, which are there in your current order book as of now and your capex amount was on the higher side in H1 of around INR 452 crores or so. So, can you specify where exactly what this amount is paying?

Ashish Bhandari: So, capex is largely going towards FEPL. There are some minor capexes we have put in a new plant for our water business and all. So, some amount there, but largely beyond regular run rate, business in this new plant for water and primarily for FEPL. Rajendran, would you want to add anything?

Rajendran A.: Yes. And also, the new chemical plant -- that is in capex as well.

Ashish Bhandari: Of course. Okay. Yes, which is the plant under construction on the chemical business, expected to come online one year from now, in the end of financial year 2024, financial year, '24 - '25. So, 1.5 years from now, but under construction as we speak.

And on FGD, I think we continue to execute all our four FGD projects now are getting into advanced rates of execution. The first one will go through mechanical completion in the coming months and then overall commissioning right afterwards. So, we are now starting to see some light towards closing these projects as well.

Teena Virmani: Okay, and the remaining three will be under construction?

Ashish Bhandari: Remaining three are under construction. I think they'll all continue to go through execution. I think on FGD now we -- over from now to the next 18 months, we'll see continuous revenue coming in. And with that continuous revenue, hopefully, some margins also, because we have taken three - four quarters, where we are shown losses on FGD, because we had a base cost, we had not enough revenue. Now, in this coming period, we should have decent revenue as well and so some amount of, no single digit, but profitability as well.

Moderator: Mr. Bhandari, can we take one or two more questions?

Ashish Bhandari: One last question. Yes. That's it.

Moderator: Sure. So, the next question is from the line of Arafat from InCred Capital.

Arafat Saiyed: My question is more about the biogas and green energy. So, what kind of opportunity are you looking in this business over the next, let's say, two years to four years?

Ashish Bhandari: Potentially very good. And you can see that all the majors have announced big, big plants, totalling through hundreds of projects, and Thermax could potentially be one of the beneficiaries of this. Right now also we are executing multiple projects, of which a couple are close to commissioning. As they get commissioned, and as we have success in finishing those projects, it can potentially open up the pipeline to many more such projects.

Arafat Saiyed: Okay. Fine, sir. So, any…

Moderator: Sorry to interrupt Arafat, your line was not clear. Can you please repeat your question?

Arafat Saiyed: Sir, my question is more about, let's say, biogas. What kind of revenue are you looking as of '25?

Ashish Bhandari: We're not looking at any revenue projections right now. We know if we do a good job and we execute well, the potential is almost limitless. So, it is one of our biggest growth areas, but to get there, we need to execute and commission the plant that we have currently in the mix, do that well. And if we do that well, the potential is unlimited.

Moderator: Thank you so much. We would take that as a last question. I would now like to hand the conference over to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair: We'd just like to thank all the participants and particularly the management for giving us an opportunity to host the call and answering all the questions, sir, despite your bad throat. Thank you very much, and wish you all the very best, sir.

Ashish Bhandari: Thank you very much, everyone, who was on the call and for listening to us today, and thank you for the time that you spent with us. Much appreciated.

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