"Thermax Limited
Q1 FY '25 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 Limited Q1 FY '25 Earnings Conference Call, hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors. Please go ahead.

Bhoomika Nair: Thanks. Good morning, everyone, and a warm welcome to the Q1 FY '25 Earnings Call of Thermax Limited. We have the management being represented by Mr. Ashish Bhandari, Managing Director and CEO; and Mr. Rajendran Arunachalam, Group CFO and Execute Vice President.

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

Ashish Bhandari: Good morning, everyone, and thank you so much for being part of Thermax's briefing today. It's been a busy quarter. There are a lot of subthemes, and if I open with a monologue, it will be very long before I would be able to cover everything. And knowing some of the names and the understanding of the business, why don't we just jump straight into the questions? We're a few minutes late. And I'm -- at the end, if I don't think I've covered a particular point, I'll come back and share details. So Bhoomika -- let's just get started with the questions straightaway.

Bhoomika Nair: Sure, sir. Siddhant, can we begin the Q&A, please?

Moderator: Sure. Thank you very much we will now begin the question-and-answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: My first question is with respect to the outlook in terms of ordering for some of the large and key sectors like metals and steel, chemical and refinery. Over the next 2 to 3 years, what kind of order impact we can expect? This is on the context that major orders we haven't received this quarter. And the ordering run rate has been in the band of around INR 2,000 crores to INR 2,500 crores for past many quarters, so can these sectors provide a delta in terms of order inflows?

Ashish Bhandari: Okay, I would say the simple answer is yes. And you will see that even in July we showed that after a fair bit of time, there was a single order that we had to report which was INR 500 crores-plus. And last time when we had spoken, I had indicated that our pipeline of bigger projects has developed again. And I expect more in the future as well, where after a reasonably lull period, there would be some more sequencing of these large orders coming in. The sectors that they will come in from - refining and petrochemicals. In the short run, 1 to 2 quarters, no, but as I start to look at next year, there are 3 refinery projects.

There is CPCL going on right now. There will be Paradip that will come; and then the Bina refinery, which will be a bigger expansion, that will come. That is over the next two years. It won't really affect this year, except CPCL coming in, in the second half of this year. Because that's a project that is well defined, that will come. And steel, we all keep waiting for some of these bigger steel projects which are still under discussion, but we haven't seen big movements from things coming to the ordering cycle.

Meanwhile, new cement plants and some amount of -- actually even Nayara, on the refining and petrochemical side, will potentially go for an expansion. If I think across these segments, there is reasonable amount of activity and reasonable traction, I would say.

The place which is potentially developing the fastest is the power sector, where thermal projects have come back much faster than anyone of us expected. And I suspect that, if Thermax chooses to do so, even in the second half of this financial year, there could be ordering activity that will happen. So overall, as I look at the next 2 to 3 years, reasonably bullish that we are entering a phase where bigger projects will be back in play.

Ravi Swaminathan: Okay. Is it possible to put a number to these orders? For example, if we start with the refinery capex?

Ashish Bhandari: So for the range, we can talk about, in any of these sectors, a, the win rate is not known. And also, the way a project develops in terms of how the customer scopes up what is included, what is not included, the numbers can vary about a reasonable amount. So I can come back and tell you, maybe like for a power project, if there is a 60-megawatt power project, for example, happening, what kind of size that may entail for Thermax, but for me to tell you what would the revenue expectations be from some of these larger projects is very difficult, especially when winnability is not known.

And especially, when I share some more details, our ability to take some of these bigger projects and convert them into good profitability, especially government projects, historically has not been that good. So we'll get into some of that from a discussion point of view again, but you will see that -- Q2 onwards itself, you will see some of those bigger projects starting to come in.

Ravi Swaminathan: Understood.

Ashish Bhandari: There a lot of people with questions. So we'll typically take one question and then we'll let this rotate out. At the end, if there are no more questions, you can ask a question again, okay? Thank you.

Ravi Swaminathan: Sure, sir.

Moderator: The next question is from the line of Prathmesh Salunkhe from PL Capital.

Prathmesh Salunkhe: Sir, last quarter, we discussed that in the Chemical business we had some delays due to inventory being stuck in transition -- in transit to U.S.A. Is that situation any better? And if not, what could be the repercussions on the same?

Ashish Bhandari: You are seeing the repercussions already. We have got small increases in buildup of inventory. More than anything, you can see that we have not been able to translate orders into revenue to the extent that we would have liked, but I think that the supply chain has now stabilised, which means whatever that had to happen will happen. And now at least that connect between revenue and orders should stabilise, starting Q2.

So Q1, you will notice that our revenues increased only marginally, but our order book on chemicals jumped up more. And I have been talking about that we're working hard to enter newer segments, do different things and positioning our chemicals business for a long-term sustained growth. That has taken a little bit of time, but we have been hard at work at the background. Some of that, you will now start to see.

I'll use these five minutes to share a little bit more about our chemicals business. As you know, our traditional chemicals business was around resins and water treatment chemicals, small portion of oil field chemicals. In the last couple of years, we had -- three years ago, we had a new plant at Dahej that came on. And at that point, we had talked about growing our business and getting to a different level.

Subsequently, we had moderation in prices. We went through some movements up and down. Some of our international business, certain accounts, we walked away for profitability reasons. And then we started to grow the business again. That is now starting to happen, to the point that our Dahej plant is filling up reasonably well. And we are confident about the outlook of that business. And that portion of the business is now back on a growth track, which is starting to show.

Simultaneously -- if I may just continue on. Simultaneously, we've started to put seeds for adjacent businesses, especially around construction chemicals and one other business which we will come and share in the near future, which we expect to become long-term engines of growth. So, our construction business and chemicals business which was incubated relatively recently is now already starting to get to a run rate of INR 100 crores-plus a year, and we want to invest and continue to grow that business. You will see we announced a JV with Vebro, which will add one more very important capability for our chemicals business.

And now going forward, I think, from that INR 175 crores kind of a number that we were at in our chemicals business, this year already, we would expect to reach that INR 200 crores - INR 250 crores kind of a run rate; and starting to show that ramp-up on our chemicals business overall.

Thanks. I'll take a break here, pause and at the right time, once our other building blocks are all in place for our chemicals business, maybe I'll do just a separate session just on what is the future of Thermax Chemicals; and how do we plan to fund this, grow this, build this out.

Moderator: The next question is from the line of Jonas Bhutta from Birla Mutual Funds.

Jonas Bhutta: A couple of questions. So Ashish, if you can elaborate on the negative or the loss in Industrial Infra particularly? And then I have a follow-up on that.

Ashish Bhandari: Sure. So from an operations perspective, this was a – very tough quarter, yes, very tough. And I am actually happy with how the numbers eventually turned out to be. They were -- we always have movements in the project side, something or the other, which we don't. And sometimes, they are good. Sometimes, they are bad.

This time, there were two things which were -- which are relevant for noticing. And both of these, I'll give you some colour for, but the first one is the bigger one. And the first one is actually a theme because this is something relating to our bio-CNG business, a business that we started 1.5 years ago with an expectation and with a core technology understanding that we thought could be very important and beneficial.

So just to give you a two minutes recap. As you know, India has put out a plan that we want to set up thousands of these bio-CNG plants; and at the core, use some of the parali grass, which causes pollution in the North of India during the winter months, take that parali grass and many other biomass and municipal solid waste and convert that into CNG.

This CNG would be indistinguishable from the traditional CNG. And hence, it's called bio-CNG, which in some ways is different from biogas which is -- which, while has got methane, is not CNG grade. So this is CNG-grade gas that we are talking about. Thermax has the core technology, on the basis of which we took on a few projects with some of the bigger names in the industry.

As we went to execute these projects, there were surprises. And we have taken hits in smaller quantities in previous quarters as well. In fact, as we add up the total number of hits that we have taken against these projects, the number is north of INR ~100 crores from the tallying that the finance team has put together, but this particular project, we took the highest hit, which was INR ~45 crores. This INR ~45 crores is INR ~30 crores in TBSPL and INR ~15 crores in Thermax Limited. And this INR ~45 crores has been taken into account not just for correcting some of the things we are doing in this quarter but for future quarters as well, understanding the engineering changes that we need to do to stabilise the plants.

And now that we have -- we think at least, a good understanding of what it will take, we are taking into account a conservative view and taking a hit for what we think we will have to take for the rest of the year as well. So that number is a big number of INR ~45 crores.

On top of that, for FGD plants, we have taken an INR ~8 crores hit in the quarter; and another INR ~20 crores hit effectively for one large project, which was the sulphur recovery unit which was an order that we had announced two years ago. As it went through its final bits of engineering, there were again surprises that we saw. And so the prudent requirement was to take that, to take the costs of that additional engineering, and we took it.

I would now like to share kind of -- why is this such a big surprise. And what are we doing about it? First bit, this is a surprise in the true sense of the word. And at Thermax, we should have done better, clearly. I don't think there is any messaging different from that. Let me take the FGD bit, first. This has been part of constant pain for us. And we constantly keep trying to manage costs very tightly, knowing that these are very low-profitability projects.

We went through an extended audit of those businesses, those projects; and came to an understanding that, while we have a lot of asks from which are change orders and all that, because of the delay in some of these projects, we will encounter additional site costs. And we will have to pay our vendors more than what we had originally envisioned, so with that in mind, we took the INR 8 crores hit.

We do have subsequent asks from our customers as well because a lot of these hits were driven by Covid-related delays. And also there was this whole no sourcing from China which had created significant delays, which we are going back and claiming that we need support from. And while we have some possibility that we will get that relief, we are not 100% sure we will get that relief, so we have taken that hit on the FGD business.

On the FGD business, you will be happy to note that our first plant for DVC is now commissioned, which means we are delivering to the commitments that we had on one of the two units that we had supplied. We need to finish the second unit, at which case, we hand over the plant, but the first unit is now commissioned and delivering to the extent that we had committed. We are all very proud that this was something that we achieved first time itself, which most others in the industry were not able to work on and deliver.

Let me take bio-CNG as the next one because this is different from our traditional CNG, from our traditional project businesses. And in some ways, we should look at this business differently also because we have got core technology that we are bringing to the table. And this has got a lot of connect with the long-term greening of the business and our first strategy which is around entering newer spaces with long-term business potential.

We have taken these hits. In the ideal world, we should have worked these as R&D expenses as we look to enter some of these newer segments, but because these are to rectify projects that we have taken at customer sites, the prudent thing is to write it off against existing projects and take the loss, which is what we are doing. In my view, these are hard-knocks but these are hard-knocks to establish a long-term capability, which we continue to be confident of, while we have learned a lot.

We have learned to fix what we have done incorrectly, but until we deliver one plant which is working to the commitments we have made to our customer, I would not come and claim success. It is important for us to do so. We are confident of doing so, but until we deliver the first plant, I don't think I will come and say this is perfect. But what we have taken, so far, is a reasonably conservative look at the numbers. This should account for current and future losses we will have to take in the business.

The third is our Projects business, which is overall an area where you will see we haven't been taking orders for some time. Even bio-CNG, we have stopped taking orders in the last three quarters. We have only taken one order and nothing because we just want to deliver plants and then take in more orders. And similarly, on the projects side, we want to take into account more profitable orders and not take orders which have got high amount of civil and construction.

In general, wherever there is high amount of civil and construction, I am seeing challenges because civil, right now in the overall India context -- and it became tougher because of elections and then rains and everything. Just getting people in large numbers at sites is a theme that has been happening for the last 12 months now, and it's not getting better. We are finding trouble to complete projects at the speed that we would like because finding people is becoming difficult.

So in that sense, overall a very tough quarter on the projects side, a big hit. But if this is the wish we had to eat, I think we have consumed our poison and we are looking at sunnier times ahead of us. That's my simple summary. If there are more questions, I'll answer those. Thanks.

Jonas Bhutta: Sure. So just sort of 3-part question...

Ashish Bhandari: Rajendran, is there anything to add from your side from a finance point of view?

Rajendran Arunachalam: No, I think you covered it. Just in terms of the losses in the three parts of that Infra segment, I don't have anything much to add. Thanks.

Jonas Bhutta: So effectively, if I add this back of roughly INR 40 crores, INR 45 crores, this could have been INR 60 crores EBIT positive quarter. And you believe that in the ensuing quarters -- given that you have front-loaded a lot of these pain points, you think the next, ensuing quarters in the year will sort of normalise. Is that how one should...?

Ashish Bhandari: I expect that. The Q1 was a particularly tough one. If I take that sulphur recovery unit as an example: bunch of our losses happened on, in not estimating our engineering correctly, but that project is now practically finished all its engineering. And by practically, I mean more than 95% of the engineering got completed between Q3 of last year and Q1 of this year, so there is an expectation that we won't have any significant future hits.

There could be small numbers here and there coming from if the site gets even further delayed, which we haven't estimated, but we have got enough good guys in the mix as well that, that much of hit, we can counter with many of the good guys we have on the projects side as well. I think, with that caveat, I agree with the statement you've made.

Jonas Bhutta: Sure, sir. And lastly, on the annual report. So given that we've got the subsidiary financials, what I noticed, sir, is there is this one new subsidiary, just a two-year-old subsidiary called Thermax Bioenergy Solutions, which despite seeing further sharp increase in -- a sharp increase in top line to almost INR 265 crores from INR 50 crores, it reported a INR 17 crores loss. Is that the same thing that you are referring to?

Ashish Bhandari: Yes, that's the same one.

Jonas Bhutta: And Babcock & Wilcox saw very sharp improvement in PBT margins, 55% growth in PBT versus a 6% growth in top line. Given that this INR 30 crores loss in this quarter is going to hit that particular entity -- so if '25 numbers would be subdued for...

Ashish Bhandari: No, no, no. TBWES, it did not it. TBWES will have a good year, yes, will have a good year. It is TBSPL where the hits are coming in.

Jonas Bhutta: So TBSPL, got it.

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

Amit Mahawar: Ashish, I just have one question on again TBWES. As a strategy, do you think they will more go towards bagging some of these supercritical sets? Is that you've been thinking of? Or do you think Thermax as a company is better off doing pressure parts maybe through TBWES? And is that possible for us? So I just wanted to understand. Can we go either-or, or do you think that's a wrong question?

Ashish Bhandari: No, no, it's a very good question. And I wouldn't say just pressure parts. I think -- and by the way, the question is a big part of what is being discussed at Thermax even at the Board level. And we will have even interim Board meetings as we go through answering this question. And as an analyst group, I would love your inputs also on how Thermax should approach this entire space.

As you know, the central government is asking very rapidly for India to expand its play on the thermal energy side, to the extent that 80 gigawatts is being requested to get ordered out within the next 24 months itself. Even if you take 1 to 2 years-plus of extension, this is a massive amount. It's like, what we do in 15 years, 20 years, we are looking to do in 3 - 3.5 years kind of a look.

So that number now, the traditional ask was that players should be able to do full end-to-end projects and do complete EPC around it; and then take on projects which are of the order of INR 10,000 crores – INR 20,000 crores and do that either directly or through consortiums and the like. I think, that, we have said completely no to. Not only us, the entire industry has come back and said, we don't want to.

Also there were a lot of risks on these projects relating to bank guarantees, payment terms that had no sunset clauses, had no ends, ye because if the project went on in execution for several years, you couldn't get your money back. And we have seen that. We are seeing that in many cases where, government projects, we really haven't made money, yes. And the FGD projects are a great example, where nobody wants to bid on FGD projects and with the terms that were set because we've all kind of worked very, very hard to deliver something but to make no money at all for the company.

So the CEA has been working actively to break the bigger projects into packages that are smaller and meaningful. So for example, there is an expectation that the package for just a boiler will get broken out. So not even boiler, turbine, generator separately. Just the boiler package, along with the core components that go around it, will get broken out. If that happens, that makes it a lot more palatable for Thermax. Even then, there was a subsequent question around could we do it in a way that even civil and construction is not in our scope.

And we would -- we are still pushing for that. Because I don't think we are best positioned to do civil and construction. And it adds a lot of risks to our project because sites get elongated. We are very good at supplying material, making sure it's executed well and it works the way we want it to. That is an additional ask, but we don't know how that will happen. And also then there's the question on capacity. Can we increase our capacity enough? Should we increase our capacity enough to take into account where each one of these projects -- and there would be dozens of these projects, where a single project could be INR 2,000 crores to INR 4,000 crores worth?

So those are all very important questions that the company needs to answer, and we need to answer within the next 3 to 4 months. Currently, we have a whole team which is working on it, including engineering, technically the whole solution that we are getting ready. Commercially, whether we will bid or not, that is still an open question, okay? So I gave you a lot of clarity into our approach.

Amit Mahawar: Yes. We will wait for your clarification, but I can maybe conclude saying you will need inputs from Babcock U.S. You cannot do it unless you pay any royalties through again tech fees to Babcock.

Ashish Bhandari: On that, we are working already. And we are getting support from Babcock & Wilcox to technically work the solution. That, we are.

Moderator: The next question is from the line of Nikhil Abhyankar from ICICI Securities.

Nikhil Abhyankar: Just a follow-up on the previous question. You mentioned that you are expecting the tenders to be broken up into smaller parts. A similar thing was done by a private player, Adani Power, recently, so did we look to participate in those tenders?

Ashish Bhandari: No, those were not split out, yes. Adani went centrally and they were managed in a complete single party for a much larger package. The boiler package wasn't split out separately.

Nikhil Abhyankar: Okay, understood. So, going forward even the private players are looking to expand their thermal capacities, so are we in touch with them on a similar range?

Ashish Bhandari: Yes.

Nikhil Abhyankar: Okay sir. Thank you. That's all from my side.

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

Parikshit Kandpal: So my first question is on Industrial Products. So, if you can help us understand the competitive intensity, pricing power given that our peers in capital goods segment, they are enjoying huge operating leverage, but our margins have been sticky around high single-digit. They've been volatile in that range, but any colour on pricing and even if you can cover some of the new products which you were planning to introduce like THVAC, ZLDs and all, so any updates there in terms of deepening of the markets or adding new orders there and even on coal gasification if you can talk about that?

Ashish Bhandari: Okay, so three separate questions that you ask and I'll answer all three of them. First, Industrial Products overall. I will say many industrial products have relatively stable margins. And these margins have been improving over the past 3 years -- more like 2.5 years ever since that big commodity price movement stabilised. You can see the trajectory of margin improvement in Industrial Products is reasonably steady.

Typically in Q1, because we are slightly more conservative in the way we release our profitability, invariably Industrial Products in Q1 show slightly more conservative numbers, but they'll pick up as the year goes by. On the ordering side, there was some amount of slowdown here, particularly from the ethanol sector where in Q1 last year we had seen good activity.

This year, the ethanol sector was slightly weaker, but overall I think it will be a good year for Industrial Products. We'll increase top line, bottom line as a percentage as well. And even orders growth will be reasonably good in multiple sectors like air pollution control, water, wastewater. We are seeing very good consistent growth that is happening.

In terms of our newer products, a lot of newer products that are happening. On the Heating side as an example, in addition to an electric boiler that we had launched, we launched an electric heater as well. And there will be more launches that will happen through the year on the electric front which will be quite exciting for Thermax. Our bio solutions, especially our UPRG, which is universal biograde-based products are getting very good traction and we are doing quite well.

On the Cooling side, we have a whole platform of new products. We are possibly leaders, not just for India but for the world in terms of hybrid heat pumps where we can deliver electric and absorption chillers-based hybrid heat pumps and even for electric heat pumps taking our capability to higher and higher temperatures and then for CLCTs, ADCTs which are like industrial cooling but for efficient solutions.

So going in and saying I can deliver something which will use less water or less power and do the kind of cooling. They all have trade-offs, respect to capex. So they require higher capex, but have got paybacks over 2 to 3 years based on the application and have got good connect with larger story on sustainability and energy transition. All of these products now we are pushing in the market very hard.

On the water side, as you know, we have launched zero liquid discharge solutions also which are getting good traction. And finally on clean air related solutions the products that we have released around scrubbing of gases has had traction even in semiconductor plants and all. And then the new is on gas upgradation which is also needed for hydrogen for bio-CNG plants and carbon capture, many new segments. That will take some time to take off in a big way, but that is also -- those are also products that we are very happy and proud about. So, a lot of activity on Industrial Products.

We have had to make a couple of tough decisions also in this last year. One of those tough decisions was to take a step back from THVAC which if you came to Thermax was the bus that we had worked which took waste heat from the bus to drive cooling for the bus.

And in that look our realisation was that automotive is not our area of play and automotive platforms take long periods to establish and we are better off focussing on industrial customers and industrial segments and taking our money and spending it towards hydrogen, fuel cells and bio-CNG and all of these other sectors which are closer to the areas that we are really interested in. So, we have mothballed the THVAC product for right now.

And finally, coal gasification – we haven't struck anything big and we have been clear we'll not take the risk of a big project. We continue to look for something that can scale up our gasifier to 100 tonnes per day or slightly more than that 100 tonnes, 150 tonnes per day. I am hopeful that we will strike one deal at least on that front, but can't give -- I can't guarantee.

But we continue to be enthused by how our technology is evolving. And we have received a grant from the government to actually add a carbon capture element to that and then convert that carbon -- captured CO_2 into methanol as well. So we are setting up a demo plant which will take coal and principally convert that coal into methanol with a very low carbon footprint.

Parikshit Kandpal: Okay, Ashish. And if I can take one last question, if you allow me to...

Ashish Bhandari: You take a break so that I can answer more questions and then at the end come back to you.

Parikshit Kandpal: Sure. Thanks Ashish.

Moderator: Thank you. The next question is from the line of Amit Anwani from PL Capital. Please go ahead.

Amit Anwani: My question is again on the power pipeline, which you highlighted that there could be split orders in the boiler we might be bidding for. I just wanted to understand in more detail. Is that understanding correct, that we will not be looking directly at all, and this will be all end of product orders? And since we have seen in the past related to FGD, when four years back we were reluctant to take FGD because of payment terms, we took FGD orders and there was a hit which we booked, and the power sector again would be -- the receivables largely would be maybe the government sector and stuff like that, so how are we going to manage the risk?

And in the next 24 months, as you highlighted the pipeline for the next five years, just understanding -- in the next 24 months, any expectation on this kind of split orders because we saw BHEL winning the whole packages throughout past 15, 18 months. So some understanding on this aspect?

Ashish Bhandari: I think I'll share as much as I can. There are some portions which even I am not completely convinced and sure of. And I'll share that in all openness. I'll take FGD as a space. Multiple people came in, everybody lost money, everybody cleared out, and now practically very few people want to do FGD and certainly, if the tenders come out with the older kind of terms, no big name will even touch the space because there is enough business to be had. This is not business that we want.

But what that is meant as a result is that a serious portion of negotiation and discussions are going on where our customers are also willing to listen and understand that the same way cannot work and if I draw the analogy on what is happening on thermal power projects, you can see there are no bids happening, and one single player which is a government player can take those projects because they can, but they will have no capacity left and so the way the country wants to build these projects, there'll be no suppliers left.

Meanwhile, some of the best manufacturing capability which companies like Thermax have, we are proud. The manufacturing capability that we have for a supercritical boiler is, in our opinion, the best in the country. And we kind of -- some of you that may have visited our plants and all will see we have got all the machinery, all the engineering, understanding, all the precision capability that is needed, everything.

And if the projects are done in a way that our payment terms are well secured -- we understand the risks that we are taking, the margins are decent, cash flow -- understanding. It's okay if the cash flows are negative for a bit, but there should be clarity that at this point our project is done irrespective of what happens at site.

We are not dependent on ten other people, to finish up their work, and then only our payments come through. So if all of that is addressed -- which the government has shown the first step by saying, "Okay, I'll break the packages," which is a big, big first step. And if all the other things happen -- for each one of these individual packages, there are only very, very few people left.

And the number of projects that need to get executed are more than enough that everyone can work this sensibly, deliver sensibly, make some amount of money and do it the right way. Whether that will happen or not, I can't promise you. And the projects will start to happen. I mean the first couple of RFQs are in the market. They'll take maybe three months, 3 to 4 months to get bid out. And within six months, the results will start to come in, so we will see.

Amit Anwani: Sure, sir. And second, on Green Solutions, if you could share the update on FEPL, TOESL with respect to debt and equity and how much.

Ashish Bhandari: I've said, only one question per person, but because this is an important one, I will share. And I am glad. FEPL will have a tough year, and tougher year than what we had originally expected. And in some parts, it is the strength in TOESL which is masking the weakness in FEPL. TOESL is doing extremely well and -- from a profitability perspective. And the business is also steadily growing, maybe not as fast as I would like it to be, but it's steady. It's a model that we understand well.

FEPL, a couple of things have happened. First is a short-term hit, which is our project in Tamil Nadu, which was our single biggest project that we had undertaken; because of the floods of last year, we went through a major issue, which meant that the solar panels that we had put got flooded in. And the discussions with the insurance companies haven't concluded to the extent that the panels are back at full capacity. We are confident it's a short-term issue that will resolve itself, but it has resulted in a couple of more quarters of pain and bringing those online that we expected.

Simultaneously, the big wind project that we wanted to do, the entire site ordering and the choosing of the sites, etcetera, that also got moved a little bit, so that the whole project has given us more pain than what we expected, but we are working through that. So the year as a whole, where we thought, by the end of this year, the quarters will start to look profitable, I think FEPL will be loss making, this year as a whole.

The part along with it which has been a little bit of a surprise as well, which you would have seen from articles and all, is that the production from both wind and solar this year has been below what was our expectation, which is perhaps a second-order impact from larger climate change issues and all that, which is also something that we are working to rectify by adding additional capacity.

And more importantly rectifying by increasing our hurdle rates and going to higher levels of confidence, and moving to P90-plus on wind. As an example, for all future projects that we will do, that is the work that is going on, on the FEPL side, I'll say the pipeline continues to be strong, very high demand. We have to be choosing in terms of geographies and customers that we take on, but the pipeline for FEPL continues to be very strong.

Moderator: Thank you. The next question is from the line of Hetvee Marviya from Catamaran. Please go ahead.

Hetvee Marviya: I actually wanted to clarify on the bio-CNG piece. So we know that we have a subsidiary previous year which carries on these projects. Can you help us understand how the contracts were entered and to better help us understand where the challenges are which is resulting in losses?

Ashish Bhandari: Yes. So the way the contracts are structured is that we have to give output guarantee to a customer. And the output guarantee is for a particular input of raw material. And the output guarantee is typically for a mixed set of fuels. And these mix set of fuels include biowaste, which is rice straw primarily; or could get added into corn, maize, a variety of different other kinds of straws as well but primarily rice straw; then press mud, which is an output from sugar and ethanol plants. And then you could also have cow dung and other ancillary additions. There is one more completely separate line of technologies and capabilities around municipal solid waste where the input technology is slightly different.

The rest of the value chain is the same. And you have to give to the customer a guaranteed minimal throughput based on an input that the customer specifies. There are a lot of moving parts because when the customer specifies an input, the customer gives a particular amount of digestibility, which means the organic content which can get converted into bio-CNG and manure, so to say. The customer guarantees that. And we have seen movements that whatever was guaranteed as an input coming in is not being added to, but on our front, the output that we were committing to the customer also wasn't being delivered, for a variety of different reasons. And that may change from technology provider to technology provider.

I can only give some insights to what Thermax is working on. And what happened was that over the past six months, we have been -- when the first set of plants came up, certain elements failed, so then we were taking hits not just for the plant that failed but to fix that particular problem in all the other plants also, we took the hit on.

Then once we came to understand that, okay, certain things are not failing, when the plants were starting to deliver, they were not delivering to the extent that we had committed. So then we understood what problems were there in the process because of which the clients were not delivering to the extent. And those changes then, we had to go implement not just for the plants where we understood what this -- failed, what was not working, but for all the other plants where we had made similar commitments, doing that as well.

I think we are confident that we understand all, both now, what causes certain parts to fail and what causes certain parts to not deliver to the commitment that we have provided to our customers, but until we deliver a fully functional plant, we will not be sure. So that is more of a challenge to me and my team, but we think we understand now everything that we need to set right and the hits that we have taken.

By the way, you are seeing some of the hits. TBSPL is where some numbers show up, but there are some engineering and other numbers that show up in Thermax Limited also. And even in this quarter, we took an INR ~30 crores hit in TBSPL and, on top of it, an INR ~14 crores hit in Thermax Limited. There are some other moving parts in TBSPL where we have a reversal, etcetera, which don't worry about it, but more or less in this quarter, we have taken a INR ~44 crores hit on TBSPL.

Hetvee Marviya: Got it. Noted, sir. That helps get a good understanding. And if I just may ask on another piece of Thermax bid for green -- for electrolysers also recently. So can you speak about if you fixed the technology now or how we progress in that?

Ashish Bhandari: We are close to fixing the technology, which is what gave us the confidence to make a bid, but I think, once we are formally ready to announce something, we will come back and share. But we have a whole team which is working on the hydrogen angle. And we would like to come with a line of thinking and capability that we think is unique and one that results in long-term capability and long-term advantage, but we'll come and share that at the right moment.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from DAM Capital Advisors. Please go ahead.

Ashish Bhandari: I think we are almost set at time because we started late. Maybe we'll take another 5 - 7 minutes more of questions, okay, last three questions, I would say.

Moderator: Yes.

Bhoomika Nair: Sure, sir. Sir, my question is on the base ordering activity. If you can -- it's been fairly healthy over the last couple of quarters. This quarter as well, we've kind of held on. Can you just give some colour on where you're seeing this trending, where these orders are really coming from? And are we seeing continued uptick out here?

Ashish Bhandari: So, a very good question. And I'm glad. If that question wouldn't have come, in my summary, I would have shared that. I like some elements of this portion in the sense that, certain parts, I saw a slowdown, which is especially the ethanol portion, which resulted in a fair bit of orders for our Industrial Products range as well because every time an ethanol plant gets set up, you need water, wastewater capability.

You need boiler capabilities and the like which goes from Thermax. There we saw some elements of slowdown. And in other parts also, we saw some elements of slowdown. My suspicion is they were relating to elections and aftereffects of the elections. We have seen improvement in that in July. I think that will continue but I am not 100% confident.

Meanwhile, our international pipeline, which for a couple of years was muted, has started to recover. So actually in Q1, more than the domestic portion, relatively speaking, the international business came back in. And our international pipeline is also healthy, so I would say I expect a good year from Industrial Products and double-digit growth, for sure.

Whether it becomes a very good year depends on if India's business continues to come back strongly and especially this talk about private capex coming in, in a bigger way, starts to show its head. Because when private sector capex comes in on -- from small and medium companies, Thermax is an early gainer from that because getting heat, steam, power, water is one of the first set of investments that customers have to make.

Moderator: Thank you. The next question is from the line of Teena Virmani from Motilal Oswal Financial Services. Please go ahead.

Teena Virmani: My question is related to competitive intensity in the Industrial Products-related products for Thermax. So where does Thermax stand in comparison with players in terms of overall market share for different types of -- or the main products of Industrial Products division?

Ashish Bhandari: I would say moderate to high intensity as a whole. If I take segment by segment, the highest market shares that we have are in heating and air pollution control, where for about 70% of our product portfolio the competition is intense, with a lot of local players as well. There is about 30% of our portfolio which are some of the tougher applications and capability where competition is relatively low.

And typically customers will ask for Thermax by name. And while they may have other players in the discussions, they are more with the idea of bringing Thermax's price down. In water, the industry was very, very competitive, but I would say now some elements of competitive differentiation are starting to come in.

And especially in areas like zero liquid discharge, desalination, tough-to-treat water, all of those are places where some amount of differentiation, product expectations -- all of that is starting to bring some amount of differentiation. Cooling, we play in a relatively small part of the market. And we are more playing in the market where we come and say the traditional solution, which is 80% of the market, is not efficient and not capable of addressing customers' long-term needs. We are pushing to expand the plays that we live in and to expect -- establish that application. Once we establish that application, then our probability of winning goes very high, where typically it's only 1 to 2 players that are playing for that space.

Teena Virmani: So, is there any scope for further margin expansion given that the competitive intensity for a larger portion is higher? So only to understand that -- if demand starts reviving across these projects, how will the pricing pan out, taking into account competition and even utilisation level?

Ashish Bhandari: I would say utilisation levels are going up, which is why we put up a new water plant, which is getting filled up very quickly. We're expanding the capacity of our Heating plant. Cooling, the entire plant itself is less than -- it's barely 5 to 6 years old, so that is stabilising. So everywhere, capacity utilisation is high.

And we are looking at ways to increase capacity across these segments. Margin expansion, I think, will also be a continued trend. I'm in no hurry to bring it to -- like, last year, we had three quarters of 10% - plus profitability in Industrial Products, 12% in Q4 and 10% in Q3 and Q4, I think, which showed that -- and even this year, I would say, compared to last year, we will continue to improve our profitability percentage.

Expect it to be year-on-year improvements, as opposed to suddenly night-and-day kind of improvements, because we want to continue to be on this path of establishing new products, getting into tougher applications, growing our market share, getting into that space. And the Industrial Products is like that. It's a very long kind of boxing match. You don't want to give a knockout punch in round one. You have to get better and better and better with each round. And that's the journey that we are on. Improve, bring services, profitability into it, grow international, establish those products internationally, continue to grow those. So that's the track we will be on.

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

Ashish Bhandari: Last question, if I may.

Moderator: Sure, sir. The last question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: I have one question and one clarification. The question links more to the one-offs that you're suggesting on the margin front, if I add up all, about INR 70 crores or so hit in the Industrial Infra segment. And that implies about a 5.5% margin in the first quarter versus the sub-5% for the full year last year. Should we be assuming no positive on of inside and that scenario, probably higher margins than 5.5% for the segment for the full year? And that's the question. The clarification I wanted was whether the large order booked in July was inside the 1Q ordering footprint or not.

Ashish Bhandari: Okay. So yes, to the first question, that I do expect us to do better than the 5.5%, for the remaining of the year for Industrial Infra. The first quarter's surprises were surprises, so -- and I've shared why I think they will not repeat, but barring that, I do expect the rest of the year to be better and overall, I would say, even with the hits that we have taken in Q1, to recover enough that we are able to improve the year-on-year number.

But I think give us time to show that in what we deliver. And to your second point, the answer is no. We did not book that because that came in practically on the second day of the new quarter. So, while we had received the PO before, the advance came in, in the new year -- in the new quarter, so we are going to book it in the Q2 numbers.

Okay, thank you very much, everyone. I think I've covered almost everything that I have to share. We covered all four lines of business. We covered a range of profitabilities. We covered new products. We covered Thermal. We covered larger view of Industrial Infra, Bio-CNG, Chemicals, so I think I am -- I've shared everything I wanted to.

Okay, thank you very much. I think we can call this call to a close.

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.