"Thermax Limited
Q3 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 Q3 FY '25 Earnings Conference Call of Thermax, 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.

Bhoomika Nair: Thanks, Alrick. Good morning, everyone, and a warm welcome to the Q3 FY '25 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.

Without any further delay, I 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: Thank you so much, Bhoomika, and welcome, everyone, to the Q3 review of our numbers. You can see the numbers. It was a difficult quarter, and the results were below our expectations. There were times in the quarter where we knew it was going to be tough. But the end result was -- had some things that were surprising to me as well from a miss point of view.

That said, I expect a strong quarter 4, potentially even a very strong quarter 4 and request that you look at our performance and you evaluate it as the second half of the year overall. My confidence stems from three parts. One, we had a miss on revenues that was to the tune of INR 500-odd crores, with INR 60-plus crores of profitability sitting out there. And this backlog, we could not clear out in the last couple of weeks, little bit of it, this always exists, but this particular quarter was more than usual.

And the good part is in the beginning of January, we were able to clear that not only that a repeat of this does not happen in this quarter. We are putting additional safeguards. In a simple tone, I would say that we have seen, which is I think last time also I talked about a pattern where customers would shake hands, but the orders wouldn't come.

The flip of that was, goods that were manufactured but the customers didn't pick it up. And our backlog is good. We could have managed this better, and we will manage this better. If this customer is not picking up, there are others that we can put earlier in the list and make sure we continue to deliver on our revenue number. That's the first thing.

Second, on project execution, this has been a challenge for us on two fronts. One, FGD and specifically within FGD, Maithon, which was our first project -- one of the first projects that Thermax had taken is now going towards conclusion. And as part of that finishing the last bid, we had more costs that we anticipated.

That said, in this quarter and hopefully, beyond, some of our change orders, claims, retention money, etcetera. that should start to get released. Some of that has happened -- started in January itself. So we should see a much better performance in Q4, and I'll share what the next year looks like as well.

Second, bio-CNG. Bio-CNG has been a growth area for us, at least called out as a growth area. We have invested now more than INR 100 crores in this space. And we have taken hits in the past -- even in the last quarter, I had said that by this time around, we should get to some conclusion, some understanding. And I'll share, I think we have had some understanding. We have taken a further hit. We now see some light at the end of the tunnel, and we'll talk about that as well. So all of that happened in this particular quarter.

I would say despite all of this, we were able to put out the numbers that we did, which to me has showed strength, it's the backlog and they're good portions of Thermax that are quite profitable right now, which is why despite a couple -- and the third thing, I mean, part of the second only, but first two only, I'll talk about the orders next.

Earlier in the year, we had an INR 21 crores cash that came from as interest payment from the income tax department. In this quarter, the income tax department has said they've given us that money in error. And so, while we are looking to discuss this and have state our case and do all that, as prudence, we have reversed this INR 21 crores also -- that also happened in this particular quarter.

Third, on the order side. It was -- and we have been soft on the project side for quite some time. And you can see in the EPC portion so far, where we take our large projects, which are greater than INR 100 crores, we have had absolutely zero now for several quarters. And a lot of it was desired by going into spaces which were more profitable and certainly not doing government projects. We have shared with you, our view on supercritical last quarter.

Also not taking state government, FGD projects and the like or supercritical projects, et cetera. Now finally, and which I shared last time also, a bigger pipeline of projects is forming. And some of these projects are as in aggregate, represent the highest number that we have seen in the last three years, maybe even longer. And that gives us confidence as we look at Q4 and then the next year, that is coming, that this one big portion where we have done practically nothing will start to become a much bigger portion of Thermax going forward.

Meanwhile, Industrial Products, which is where we have shown good profitability, good consistency, there you would see that our order book has grown by ~40%, our backlog has grown by nearly 30%. And that alone kind of continues to bode somewhat well for Q4 and beyond as well. So with that in mind, I'll pause and take a step back and answer any questions that you may have. And I'm assuming many of you would have a lot of questions and we'll do our best to answer them.

Given there are 120 people on the call, if I may request that people would ask just one question, a small follow-up or a clarification, I'll decide if that is reasonable or not. But then take a step back and after we have answered everyone's questions, which I hope will answer a big portion overall as well, we'll come back and take follow-ons. Thank you.

Moderator: Thank you so much sir. The first question comes from the line of Amit Anwani from PL Capital. Please go ahead.

Amit Anwani: For Industrial Infra, you highlighted that FGD again took an impact on Maithon, so what was the kind of impact this quarter? And is there any portion remaining for upcoming quarters where we can see the impacts from this? And what should be the kind of value which is responding?

Ashish Bhandari: We are reasonably conservative, which means we go through the projects and based on how we see the future look, we take whatever is reasonable in the quarter itself. With FGDs, especially as we get to the last portion, and we were closing out kind of the end, there were many cases where our contractors had claims on us. We also have claims on our customers. Based on whatever was the final judgment from our auditors, our accounting, all of that, the conservative view was to take an impact. This quarter, Rajendran, what was the FGD impact?

Rajendran Arunachalam: INR 16 crores.

Ashish Bhandari: So, INR 16 crores was the impact on FGDs, for that particular project. And this was the worst project that we had. So this is -- and this is now of the two units. One unit is going for commissioning and testing right now. The second unit will go immediately afterwards in the next quarter.

But both of these now are at its end. I think this and there is a second order at Tatas, where we had significant hits that we had taken previously for a very specific aspect of the project, for which also now we have a claim on the customer. The customer is reasonably understanding of our claim but the process is slightly complicated because, ultimately, because FGDs are cost pass-throughs, the ultimate authority which approves those costs as a pass-through has to approve them.

So it's taking some period of time. But at least on Maithon, the portion is over now, and there should be no further hits on Maithon. If anything, some of the good parts should start to come through.

So overall, in projects where we took a loss this quarter, net on everything in Q4, we expect to turn a reasonable profit in the business. So also to share kind of my look into the quarter Q4 at least. I would expect us to do north of INR 3,000 crores on revenue and orders and north of 10% profitability. There would be -- there could always be some portions that move here and there, but at least that is the estimate that's a reasonable expectation. I'll answer what are the moving parts on this in any of the future questions that come.

Amit Anwani: If I can ask one more question on bio-CNG?

Ashish Bhandari: I think bio-CNG will come in as a question from somebody for sure. If it doesn't, I'll extend the call beyond the hour and I'll take this head on.

Moderator: The next question comes from the line of Himanshu Upadhyay from BugleRock PMS.

Himanshu Upadhyay: My question was how has the exports done for us? Because for last 2 - 3 years, we have not seen much traction on exports when we look at the annual reports. And whereas for many of the people in the power side, exports have done pretty well. What is the progress you are seeing on boilers and...

Ashish Bhandari: I think from the order side, our numbers have picked up also. You saw Q2, we had announced INR 1,000 crores for an export project. This quarter also -- on the export side, we have done reasonably well on standard products, which is the Industrial Products portion.

Q3 was one of our highest products -- highest portions ever from an export perspective. And even from a balance perspective in the numbers that we share with the analysts those numbers across the portfolio we have shared. And you will see in Industrial Products and in Industrial Infra of our orders balance, exports is a higher share than it has ever been in the past, I mean, in the recent history.

Himanshu Upadhyay: So, can we expect the INR 2,000 crores range what we have been showing for the last 4 - 5 years, we can materially cross that figure of international revenue, including exports?

Ashish Bhandari: INR 2,000 crores, which is about 25% to 30%. I think that's about the range that you can expect. So INR 2,000 crores to INR 3,500 crores, that's the range you can expect.

Himanshu Upadhyay: For revenues, you are saying?

Ashish Bhandari: For next year for revenues, I think I'll have to look at the backlog, how much will get driven. Rajendran, would you have an estimate? No, what will get developed as revenue next year? It'll be -- above INR 3,000 crores.

Moderator: The next question comes from the line of Ankur Sharma from HDFC Life.

Ankur Sharma: Just one question on the order pipeline. Both the base orders as also the large project pipeline and specifically in the context of you saying that you're actually seeing a fairly large pipeline of projects, which probably is the highest, as you said in the last couple of years. So, if you could just highlight both on base orders, how are they shaping up, plus your optimism on the large projects with segments and which markets are kind of driving it domestic or overseas?

Ashish Bhandari: On base orders, I think it has been an okay performance relative to the growth that we were seeing for couple of years, which means in the first two quarters of the year and even on the third, we're growing, but it wasn't growing mid-teens and high teens. We were growing single digits.

And even getting into Q4, we are going to get into the double-digit number, but it is light, it is still not the way we had seen in the past. We have a lot of products, et cetera, that we have released, which are accounting for some of the double-digit growth that we are expecting and we are so far working on.

January has been better. But private capex, which I have said for a couple of years was decent. In my view, it is still short. And especially one more area that I'll call out is the whole ethanol sector, which has been a source of very good numbers for Thermax for 18 months, for last year and slightly before that as well. That has been slow, yes?

And many people want to put projects, governments want to award those contracts. The ask, that 20% ethanol blending happens. All of those things are there. What I hear is that the financing on some of these projects is not able to complete in time. And some of that is now starting to improve. In January, we did close few orders that were hanging around for quite some time. And then let's see if some of this interest rate moves, et cetera, provides a shot in the arm that is needed. So that's the first part.

Second, on the large projects side, all of this year, we have been calling out that in the steel industry, we have a pipeline that is forming but that pipeline was just not converting into orders because customers kept changing the design of the project, kept pushing things out, kept reworking it.

So now between power, steel, cement also coming back and refining and petrochemical and a portion of international. All five of them have a revival in pipeline. And the net-net of that is each quarter now, I see enough that is closing. That says that the zeros that we have been doing on the project side for three quarters, that should start to reverse. Even in January, we closed one order, which was INR 200 crores plus in this segment where we've been doing zero. One more is going to close. So, this is why I'm saying this quarter, I expect us to do better than INR 3,000 crores in orders as well.

Moderator: The next question comes from the line of Bhavin Vithlani from SBI Mutual Funds Management.

Bhavin Vithlani: A couple of questions. One is on the Industrial Infra side, while you highlighted the losses that were there in some of the projects but there is a larger piece, which is TBWES. If you could just help us understand...

Ashish Bhandari: TBWES has been doing extremely well. Yes, TBWES has been turning out. And you can see that here, it's got 8% profitability, a reasonable backlog. TBWES also had its biggest project, where we also took a big loss again for a government customer, HRRL, which was also to the tune of INR 14 crores and a negative that was on top of a negative INR 12 crores that TBWES had taken last quarter. Despite all that, TBWES is turning profits and its backlog is very nice. So TBWES should have a good few quarters coming up. Sorry, your next question.

Bhavin Vithlani: So what I was actually trying to understand if you split the Industrial Infra into TBWES, the clean revenue and margins ex of these one-off losses and ex of TBWES, what is the clean revenue and margins ex of these one-offs in the Industrial Infra. So I want to understand the underlying profitability on a sustainable basis.

Ashish Bhandari: So there are four parts into Industrial Infra. One is TBWES, which is where we do these bespoke boilers. Then we do what is called as large projects, which is FGD and large kind of projects, et cetera. Then we do small projects, which is where we do ethanol, small kind of sponge iron and variety of different power plants, which are typically EPC, but INR 50 crores and less.

And the fourth part is bio-CNG and the fifth part, I guess, is services. So TBWES, you can see the number. TBWES services also part of it you can see. We do about -- beyond the services that we do in TBWES -- we do O&M services, which is where we operate the plants that we have done EPC on, which is about INR 125 crores – INR 125 crores to INR 150 crores a quarter, which is low double-digit profitability, which is also consistent. Then we do the small projects, which is of the order of INR 100 crores to INR 150 crores a quarter, which is 5% to 7% profitability which is also in place -- steady business growing reasonably well.

Now we come to the problem child. The problems are large projects, which right now, primarily, basically government projects and FGD. This has been negative profitability. And then this last quarter was negative profitability to the tune of INR 30-plus crores -- Rajendran, if you can -- one second, I'll give you that number.

So, of that number, I would say, what do you call one-off and whatnot. I think the way we have performed, what I can say is -- yes. Anyway, I'll pull that out. But together between -- so on these, the two worst projects that we had, which was Maithon, NRL, both together basically are giving about negative INR 20-plus crores of profitability and of which Maithon, hopefully is out of the books now from a loss making.

Now the claims that we have on the customer, the positives from that should start to show up and the money released from the customer, which because of withheld amounts show up as losses for us, that also is starting to reverse in January itself. So overall, within these particular portions, I expect a reasonable amount of profit.

Finally, if I may take the last block is CBG, which was negative INR 12 crores this quarter. We have reached a point where our plants are starting to stabilise. They are starting to stabilise at a level which is below our commitments, across the board.

Moderator: Does that answer your question, Bhavin?

Ashish Bhandari: I may continue? They are starting to stabilise below our commitments. And starting to stabilise at a level where we are in -- and I'll choose my words carefully. We are at least according to two of the biggest names in the industry, we are the best performing of their clients.

And from a capability perspective, customers that are deeply appreciative of the pain that Thermax has gone in getting to this particular point. So bio-CNG over the last year plus has seen an INR 100 crores plus investment from Thermax, beyond what was expected in those projects. But the fact that we still haven't reached what our target was, leave something open. And we haven't reached this. Nobody in the industry has reached, where the economics are on the industry, in my firm belief, it is not sustainable. Yes, something has got to change. I believe strongly that something will change because the industry makes a lot of sense for the country.

But in the last six months, you would have seen, nobody has made moves on any of their bigger projects because nobody can see how the economics will work, given where things are. So I don't know if any more -- we are now getting to the point that multiple of our projects are going to hand over to the customer, which means the running of the plants, the people that we have at those plants.

So currently, if you imagine, there are six plants that we are – seven plants that we are operating, which have got 80, 90 people at each plant, 60 to 90 people, where we are paying for those people on a continuous basis. All of these 6,7 plants are some level of maturity now -- actually six, not all seven. Six out of these seven plants, I mean some level of maturity. And at least three of them have got discussions of handing them over to the customer imminently, like one should start the final set of testing within the next week itself, that level.

So that is what I would share. In our estimate for the next year, we have taken that in the second half of next year. We will start to take orders again, yes, in this, because in the whole bio-CNG, we have taken just one order this year, which was again at the beginning of the year, and we have taken nothing else. And we just want the plants to stabilise, our risk profile to be understood, technology limitations to be understood before we do anything else.

So I've shared, I think a fair amount of detail on what else is going on within these projects.

Bhavin Vithlani: This is very helpful. I just had one more question. In the product piece, we have seen very...

Ashish Bhandari: I think -- we'll come back on the product's piece then because just there are a lot of people, Bhavin, and I'll stay a little longer if needed. Beyond the call, if you guys have questions, I'll come back and answer those.

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

Jonas Bhutta: Ashish, if you can speak about two other sort of products or technologies that we were looking at beyond the bio-CNG piece, which is coal gasification and heat pumps. While in our probably previous interactions, you mentioned that both these projects or products would need some bit of government support, without which commercial sense is not yet prevalent, given that what we've seen with the budget and the government stance, particularly the central government stance towards capex.

Where in the overall picture now, you see these technologies sort of picking up for you, particularly, is it -- has the timeline moved away from one year, two years to maybe five years from now? You can speak a bit on that? And that's my only question.

Ashish Bhandari: Okay. Thank you. And I'll take a couple of these. Coal gasification is dependent on government. Heat pumps, absolutely not. Yes, heat pump is a product. The first one is a project and a capability there off as well.

On coal gasification, the government has part of its kind of incentives to the industry. Last year had floated projects in Category A, Category B, Category C. Some of those winners of those incentives have also been announced. There is one partner out there, who in Section C has won a project based on Thermax's technology and capability. And even in Project Section 2, there is someone who is looking at Thermax as a partner for what is being looked at.

I'm still not sure on the commercial viability, though, which is why we are not talking about it anymore and whenever things clear -- and any of these projects achieve commercial closures, then we will come and share success.

There are also discussions with the fertiliser ministry and others that are continuing. But I would say, overall less than 50% probability. Heat pumps are starting to take off. This was just a baby. And it's completely product-driven. We see tremendous potential for this. We want to make this business, I think last quarter, what we call as SustainX portfolio, we crossed INR 50 crores on the product side, which was zero previously. We want to make this business much, much bigger in the future.

This has got fair amount of application-based selling but the applications are across multiple industries. The savings to the customers are also quite substantial. And our capability from a product side are differentiating. So it's a reasonably profitable product set, which we look to grow. What can it be in a couple of years?

It could be I think INR 200 crores, INR 300 crores worth from zero now, but products take some time to establish. You don't go from zero to INR 1,000 crores or INR 500 crores instantly. Every year, more people get used et cetera, et cetera. So that's the roadmap. But we are very happy with what the product is doing for our customers. Some really good success stories.

Moderator: The next question comes from the line of Bharat Sheth from Quest Investment.

Bharat Sheth: You have dwelled, a little more on this bio-CNG. So that one is on the operating -- I mean, there the business economics, so do we think the way I mean, government intervening the ethanol side? Any kind of action are we looking for, I mean, to take it off this bio-CNG in a bigger way?

Ashish Bhandari: Yes, the simple answer is, yes. If you take a look -- on the CNG, bio-CNG pipeline -- I'm talking about the value chain on bio-CNG. And I'll take you through all the other parts. There was an expectation that from a portion of rice straw, you would get a conversion. And say the conversion rate is that you expected, was X. In reality, the conversion rate that you are getting is somewhere between on a consistent basis is somewhere between 0.5 and 0.75 of X. And for a variety of different reasons because the whole system is extremely complicated.

And the smallest changes like rains happen, moisture changes, the digestibility of the solids change, you mix things. And so there are a lot of things that are preventing it from reaching what could be its theoretical maximum. So the question is, does the business case exist at this lower throughput that you would get from the plants?

The answer is, yes, in my view. But it will require support because first, the price at which CNG can be sold, bio-CNG can be sold is set by the government. And the government needs to change that plain and simple. Just the way ethanol has been looked at, this also needs to get looked at.

And unlike in LNG, where you practically pay somebody outside of India and accounts for fair bit of imports to the country, bio-CNG cuts down pollution, provides income to farmers to an entire ecosystem of logistics players in between, creates significant amount of jobs.

Each 20 TPD bio-CNG plant will create 200 to 300 jobs for the ecosystem. If you're doing hundreds of these plants, you can imagine the jobs that it creates -- an overall system that makes the country self-reliant, cuts pollution, all of that. So that portion comes into play.

The last portion, which is also very, very important is that while a portion gets converted into bio-CNG, there is an even bigger portion that comes out as digestate, which is actually organic fertiliser, which today gets no subsidy at all, whereas fertiliser in the form of urea, which is an organic fertiliser gets a huge amount of subsidy. So the industry is lobbying that at least some amount of subsidy should get provided because this has the opportunity to replace inorganic fertiliser and provide a very important need back to the soil.

Then you have got this whole issue of carbon credits, the ability to put this bio-CNG into the national pipeline, which is the framework of pipelines that are converted, the ability to put green gas in one place and to be able to take our green gas at the other side. So there is a whole process framework that also needs to come in.

Finally, there's the state subject, which is the price at which the feedstock is provided to this industry because if that fluctuates, then again, the industry becomes unviable. So there are so many moving parts. And every portion of this moving part is being worked upon by the government because there's an understanding that the economics don't work as it is, yet it is very important to make this industry happen. So I've given a big lecture in a way, but hopefully, I've shown you everything, the good, bad and the ugly of how things are right now.

Bharat Sheth: Yes, sir. Sir, second thing, just in addition to this, we are working only on rice base or we have multiple...

Ashish Bhandari: We are working on rice straw. We are working on napier. We are working on press mud and we are working on MSW. So we are working on all feedstocks that are relevant. Rice straw is the toughest of the lot, but potentially has the biggest upside.

Moderator: The next question comes from the line of Harish Bihani from Kotak AMC.

Harish Bihani: Given the pulls and pushes going on right now, should one think about FY '26 in terms of revenue, profitability and order inflows?

Ashish Bhandari: We won't provide outlook for that long. Q4, I have done just because I needed to give a very clear understanding that Q4 -- Q3 was a bit of an aberration and would like to see Q3 and Q4 looked at as a conjunction and fair amount of confidence for Q4.

As we go into next year, I will share some directions, and I will share some amount of portions around it. Internally, especially on the projects, we can see on the product side, we have shown that we have increased our backlog. We have continued to show strength out there. Chemicals also while on the revenue side, we had a bad story, which also will reverse in Q4. Yes, we expect Chemicals to be a very good story for Q4.

Overall, good growth for next year as well. TOESL continues to be decent. FEPL, where we have had quite a few losses this year. We expect those losses to come down substantially next year, though even next year would be a loss-making unit for FEPL with breakeven the year after.

So that then leaves on what can you expect on the project side? And there, we are working with some amount of puts and takes. Overall, my net-net expectation is a good year next year based on the overall pipeline that we have. Lot will depend on whether we are able to bring some projects in Q4 back into the mix, which will set something.

And I'll share with you one part, which is important, which is in these large projects, we have close to INR 80 crores to INR 100 crores of base cost setting, which means we need INR 1,000 crores worth of projects to take that base cost and get divided and some of it is corporate overhead and everything.

So I'm including all of that. We need about INR 1,000 crores worth of projects out here, which means we need about in a year, INR 250 crores to INR 300 crores, which are basically, continuously coming in that we are able to execute through this portion so that the base cost portion gets taken care of.

So while the project itself, what remains, may have reasonable amount of profitability, I need this base cost to get covered and which means I need project inflow. And for the last three quarters, we have had no projects inflow here.

So if the project inflow reverses, which means I can get a base cost that is taken care of, then I'm reasonably okay with my profitability for next year. But if I can't get new projects and I have to go work this base cost in addition to everything else, then I potentially have a challenge. So I've shared with very, very openness kind of everything that we are working through.

Overall, the pipeline looks decent. For the first time, we have a reasonable amount of bigger projects. And we want to start seeing that work this quarter itself, and start to show success this quarter. As I've said, this quarter, I expect what we are planning for is revenues and orders north of INR 3,000 crores and profitability north of 10%.

Harish Bihani: And follow-up, a quick follow-up is on the project business. You are seeing orders coming through in January, INR 200 crores, what you mentioned.

Ashish Bhandari: Yes. This is just on -- this portion of projects, TBWES will also have a decent Q4. I'm starting to see movement. The reason I don't want to put a number is because some of this is competitive. I know in the last 24 hours, we have lost one big project as well. So there are things that are moving for sure.

Moderator: The next question comes from the line of Subhadip Mitra from Nuvama.

Subhadip Mitra: Sir, in your opening comments, you mentioned that you've had to rethink on the thermal side of the business where you're seeing larger supercritical orders coming up. So if you could help us with a little bit more colour in terms of what is the size of this market that you're seeing over the next couple of years, spread between, let's say, government and private? And whether the tie-ups on your side for the turbine generator also in place?

Ashish Bhandari: So very clear. We won't do any tie-ups. We won't do any EPC that gives us long exposure to civil, construction all that, which is why we -- the government projects in their previous avatar they did not bid. There are some private players with whom we are in discussion. Some of it could be moderately advanced as well. We don't know how those projects will go.

We are comfortable with our capability to execute and work on these projects. We are not comfortable with taking like what happened in FGD, 4 – 5 year projects, high civil construction, where the space is changing, something happens and you're working one more year. All that we don't want. If a bigger portion is driven around our manufacturing capability, our delivery of goods and equipment and all of that, we are open to some discussions on those fronts. We are into, let's just see where they go.

Subhadip Mitra: So just as a follow-up, how large is this opportunity turning out to be?

Ashish Bhandari: So look, each project, even just the turbine itself for say, it's 2 x 660 portion, just the boiler -- sorry, not the turbine. Just the boilers. This is without the FGD, the pollution control equipment, everything else, just the boiler itself is a couple of thousand crores.

Subhadip Mitra: Understood. And is there any TAM that you're looking at for yourself, let's say, in FY '26 and FY '27?

Ashish Bhandari: No, no. We are not looking at a TAM because all of it depends on the scope of these projects. If they come in as integrated large projects, then our TAM is, our SAM is zero. TAM you can do whatever you feel like. If they come structured correctly, then the SAM can be very big. It just depends.

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

Parikshit Kandpal: My question is that this year, we have been impacted by losses in CNG, FGD -- minor losses in TBWES and FEPL. And now in Q4, you expect gross double digit. So for -- and also you commented on that new orders in fourth quarter looks to be very strong and pipeline is also strong, which means that our volumes will also effectively increase next year. From next year onwards, do we expect high single-digit margins, like 9% to 10% coming back? Or do you think still there are challenges which will impact the margins reverting to double digits?

Ashish Bhandari: See, I think look at our mix as a mix of four companies. So, I will not give you direction on combined Thermax because if we get big orders on Industrial Infra that are on lower profitability, we will take those. We won't say no. In Industrial Products, we are working towards getting to that 10% number.

But do realise that -- and crossing that as well. We've been at the boundary of that a couple of times. I think in this particular quarter, as we cross a reasonable revenue threshold, we'll cross 10% as well. Chemicals is also reasonably profitable. I've shared my look on FEPL, TOESL overall is reasonably strong as well. On projects, if we get good projects, we will not say no to that. Projects are negative working capital, managed well. They are -- the return on investment, return on equity is very high. And projects give rise to future services, future -- lot of good things.

So we will never say no to a good project. And even if it's at lower profitability, we will do those and lower profitability from a mix perspective. So if I take a look at what is my expectation next year for profitability on the project side. This year was -- so far, we are at the 1% to 2% kind of number. I expect us to cross 5% next year. That would be my expectation.

And I don't want to give a bigger number or a different number immediately is because I'm still working on this base cost challenge that I talked about. And so for me, the order intake in these next six months, next five months and assuming the first month went okay, in this next five months is very, very important. And so that is what we will look at.

Parikshit Kandpal: Just on the cost again, Ashish, this INR 100 crores, which you have invested in CBG. So, shall it be classified as R&D or how does one look at it? Because you keep on investing in developing these technologies. So, whether it should be classified as -- should be capitalised or should be expensed? So how do you take a call because it impacts our margins.

Ashish Bhandari: So very, very good point, and I've been really asking that question as well. The reason it is expensed and the reason it should be expensed, is that -- and this -- you can blame me as a leader is that we chose to take these in as orders, and we are executing them through as orders. The reverse was to invest it as R&D, do the INR 100 crores as a hit, set up your plant as a demonstration plant waste -- I mean not waste, spend three years stabilising the technology and then kind of going out. That would be R&D.

The reason because we have taken customer orders, and we built something that did not work, we took it down, build something different times. So if we have -- this is against a customer order, then it's fair that it should get expensed because we took our revenue against this as well -- revenue -- that we will look to portions of it that we have already recognised portions that we will continue to recognise. So that's the difference, plain and simple.

Parikshit Kandpal: So in nine months, what will be the quantum of investments or R&D nature kind of investments which you have done and taken ahead?

Ashish Bhandari: Between this, we have, I think, more than INR 100 crores is spent and another INR 20 crores, INR 30 crores that we think we will be spending, we have already recognised as part of our numbers already so far. Yes, some of those against profits that were expected in this business. So, not everything shows up as a loss, but a good chunk shows up as a loss.

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

Amit Mahawar: Ashish, great to see Industrial Products doing very, very well on growth and profitability. I just have one simple question, Ashish. If I compare the trajectory of Industrial Products vis-a-vis Industrial Infra, I just want to understand and ask you maybe when you appraise your sub leaders, it's on orders, margins, cash recovery?

Are we more proactive or reactive when we decide the contract like FGD, the nature is very well understood. So how will you -- how will you navigate going ahead to see that lot of good work has not gone wasted with sort of large projects, which are beyond our control because these are outside our factories also, right, when we do vis-a-vis...

Ashish Bhandari: Amit, you can see, the push that we have had and take supercritical as an example. The order -- the project that we were qualified for which ultimately went to the state PSU and I don't know if it has -- the price bids opened, that was north of INR 6,000 crores, and we were very much in our costing in that range.

To say no to something like that when you are working with a INR 100 crores cost challenge on the project side, the amount that it took for the company to say no to something like that. So if you're asking for, are we taking some of those as tough calls? We are taking those as very, very tough calls and taking it on the chin.

Saying that what is the point of working so hard if you're not making money at the end of the day. And on the project side, some of what -- and our portion of government has come down substantially as a result, we are still working through a backlog, which we will continue to. But government, we have cut down.

We'll reach a point pretty soon and refining and petrochemical in particular, where government projects will come back, and we will bid but we will bid with a clear understanding that we have to make money with a much deeper understanding of our cost of civil and construction, where costs have gone up quite substantially in the country post COVID.

And we all have to realise that. And I think the new baseline is set post-COVID in terms of these costs. So that part is there. In Industrial Products, the exposure to government projects is 0. Where we even do projects, it's like we are setting up a desalination plant for semiconductor industry or something where the project may get executed over 13 months, 14 months, but the core building block, we know very well the stuff around it is also very well understood.

The government exposure is not there. And pretty much all of our business is LC-based. So the -- which is why you would see in general Thermax does reasonably well on converting revenue to cash is because majority of our business is LC-based. We don't do anything on payment terms where the risk of payment is there.

Amit Mahawar: Sure. And quick one on strategy, you are trying to improve the visibility...

Ashish Bhandari: Try to limit, please. One question.

Amit Mahawar: Sure. Sure.

Moderator: The next question comes from the line of Anupam Goswami from me from SUD Life.

Anupam Goswami: Sir, if you could just highlight how the growth you're looking -- you mentioned about some large orders are on the pipeline. But if you are becoming a little choosy on the order side, how do we see the growth rate from here onwards versus the last two quarters, where you have mentioned the last past two orders, the growth has been quite on the higher side, and you're not expecting any more. So if you can just throw some light on that?

Ashish Bhandari: So -- but the growth last two quarters doesn't mean on the higher side. We've been working with 0 on these projects. So anything that we do starts to get some amount of growth here. I've been saying we were at that INR 2,000 crores, INR 2,300 crores number, which is our base business.

And that is all that we did. Even TBWES, on the product side, I mean, on the TBWES on services and boilers, on the boiler side, barely did INR 300 crores last quarter where the norm for that business is INR 500 crores to INR 600 crores and INR 200 crores on services. So the services portion did very well but the product -- I mean, the equipment portion we had a very bad quarter last year, I mean, last quarter.

And even in January, that has started to reverse, like at least on TBWES, what we did in the whole quarter -- last quarter. In January alone, we have had three orders, one of which is part of the INR 200 crores plus that I talked about. So we are reversing that. And the overall pipeline is of the order of a few thousand crores. Our win rates are typically like you can assume a reasonable win rate and then of that number how many actually close remains to be seen. But overall, I expect things to be much better than what we have had the last two quarters.

Anupam Goswami: And sir, a significant improvement in the Industrial Infra segment will be more on next year?

Ashish Bhandari: Yes, that is where I'm talking about, Industrial Infra, the backlog of domestic Industrial Infra is down to the lowest we have had in a very long period of time. So that needs to grow up because that was also the portion where we were doing government projects, which we said we want to do less of going forward or be choosy on in terms of what we want to do.

Moderator: The next question comes from the line of Aashish Shah from Asian Broking Private Limited.

Aashish Shah: My question is regarding bio-CNG. In your Q3 presentation, you have mentioned that the gas output achieved in June '24 is repeated in Jan '25. Can you give us some insight onto yield recovery? Would it be possible to quantify? We believe that the industry average is about 6% or 7%.

Ashish Bhandari: No, no, I did not get the question at all. And I'm trying to open up my presentation to understand what is this specifically that is being talked about. Could you be a little clearer in terms of -- in terms of what the question that you asked, please?

Aashish Shah: The gas output.

Ashish Bhandari: Gas output?

Aashish Shah: Yes. From the plants in June '24 was repeated in Jan '25.

Ashish Bhandari: June '24. Okay. So this is our flagship which is the first installation - which is in Dhuri, where on a digester, we had reached a particular production -- which we were very happy with. But then there were lot of mechanical failures on the agitator designs and all that. So we had to shut the entire process down. We had to redo the whole bit in terms of how the mixing happens in the digester and literally start from 0 again, which took us a long time.

And initially, when we started, we could not even repeat the performance from a year ago for a very long time. But in the last couple of months now, we are consistently reaching that production and hoping to go beyond that as well. But now it is not just at one plant. We are starting to show success at multiple plants.

And there is one plant which started after Dhuri, which is producing very well across the whole plant, where we have started to feed 100 tonnes of feed on a regular basis and getting a reasonable amount of production as well, where the customer has indicated they would take over -- basically the O&M, will go from the project portion into the services and O&M portion.

Aashish Shah: Sir, would it be possible to quatify the yield recovery because the industry standard is not below that 6% or 7%?

Ashish Bhandari: We cannot do that because they are strategic competitive numbers. And there is still lot of basically R&D and improvement going on here. So that we will share only and also that belongs information to our customers. So I will not share. I will say there is a lot of noise in this space for sure. Nobody, not -- and including Thermax, nobody is meeting the numbers that were committed originally. Of the set that is getting better now. I would say we are in the top quartile easily.

Moderator: The next question comes from the line of Mahesh Patil from ICICI Securities.

Mahesh Patil: Sir, my question is on the Chemicals segment. You said that Q4 is expected to be substantially better for this segment. So can you give some details on why do you think that? And my follow-up question on this segment is that the profitability seems to be a bit lower in the nine months. So if you can explain that.

Ashish Bhandari: Yes, yes on both points. Chemicals, I was -- we were very unhappy in the way chemicals finished because part of when I said INR 500 crores that we were not able to recognise as revenue, a portion of it was the most profitable portion of Chemicals. And it had a slight mix impact, which also affected Chemicals.

And so Chemicals profitability was low. January for Chemicals has been it's, by far, its best month for more than three quarters. And everything that the business committed in December at the end of December, which got missed was delivered in January, on top of January's original commitment. So we have bridged the gap and thereabouts.

We will have a reasonable year-end Chemicals by the time we finish on profitability overall. There is some portions of Chemicals, which may look like is dilutive, but is actually not. It is dilutive, but it is important because we are looking to grow chemicals substantially. We are investing heavily in construction chemicals.

We are also getting into flooring, which is also the Vebro partnership that we had announced. And very soon, we will announce one more partnership, which also will take our Chemicals business into one more segment that we are very, very excited about.

And then we did the Buildtech acquisition as well, which also got announced as well. So overall, through all of these new things that we are doing in Chemicals, we have some costs that we are taking on, but that is part of a larger strategic shift in Chemicals, where, as I said, we want to grow Chemicals substantially.

Some portions of it, you will start to see already, as you have seen as announcements, couple more announcements you will see. The improved top line and a consistently decent bottom line, you will also see starting Q4. But I think if we did not do the growth things that we want to do, Chemicals profitability could be even better.

But right now, we are investing in portions of Chemicals also, which is why some numbers like adding sales people, integration expenses, some consultants that we are hiring -- all of those expenses are also showing up on the Chemical side.

Mahesh Patil: Okay, sir. And sir, if I may...

Ashish Bhandari: That you saw is PBIT. That was an aberration, the 16% to 18% number, you will start to see, even on an aggregate basis in Q4 itself.

Mahesh Patil: Okay, sir. If I may have one more question on the Industrial Infra side, the export orders that we had received last quarter, right?

Ashish Bhandari: There are still a lot of questions, if I may, please, because there are many who had second questions. So if there was a follow-on question on Chemicals, I would have taken it, but I'll let it go -- I'll go on for another 10 minutes. I understand there're still quite a few questions. I'll go on for another 10 minutes, please. Thanks.

Moderator: The next question comes from the line of Teena from Motilal Oswal Finance Service Limited.

Teena Virmani: Sir, if you can please highlight how are you expecting the scale up in TOESL and FEPL from the current levels in terms of new order inflows and in terms of revenue? And what kind of investments now are being targeted in these two entities? Because earlier you had indicated that you would intend to invest somewhere closer to around INR 1,000 crores or INR 1,500 crores over a period of time. So is there any change in that thesis? And also on the margins in the current quarter, for this business, they were also impacted. So any specific reason for that?

Ashish Bhandari: Yes. So both of those I'll take on. TOESL, we love the business. We would like to see more orders. And so far this year has been below our expectations for orders. Profitability, everything else we like a lot.

Q4, we have got a much bigger order expectation on TOESL, which is basically, the expectation is that we get INR 75 crores, kind of INR 50 crores to INR 100 crores worth of orders just in Q4, which actually means a pipeline of INR 1,000 crores, because TOESL, you can use a rule of thumb of 10:1, some cases, it's even more than 10:1. But that's a reasonable -- you can expect that.

FEPL was a very disappointing quarter, not that the team could have helped anything. We had floods in Chennai and our site got affected again. So our site was in 40 years -- once in 40-year kind of event, that should happen. We have two in two years. And that has been -- so that affected execution of the next phase, affected current generation and affected some of our commitments to our customers.

And so we are working with insurance, we are doing everything, but we have now decided that we will move that site and do the installation, not at this current site, but at a slightly different site that is close by. But that is not in -- even in a 40-year flood zone. It is beyond the 40-year flood zone. That is the decision. And some of the costs related with these moves, all of it, came into this particular quarter.

Overall next year, we are still expecting a loss in FEPL, but a loss which is much, much lesser than the loss that we have taken this year. I suspect that with the quarter by point reduction in interest rates, there would be a further improvement in what we had planned even until the close of last week, so that bit.

In terms of our expectations on how much we want to invest in FEPL, the number of getting this business to 1 gigawatt and investing another INR 500 crores approximately, that still holds. But we have stretched the key timeline. If we were previously looking to accelerate the timeline, we'll now invest it over a two-year period and slow it down to more profitable expectations and higher IRR expectations.

So there are some fundamental changes that we are putting in the FEPL business. The team has showed that they can execute to these higher expectations. There's a big pipeline that is possible even at the expectations that, that we have set. But the investment now will have in one additional year of investment, not across the 12 to 18 months that we had originally talked about.

Teena Virmani: Sure, sir. And any idea, nine-month FY '25 investments in these two entities put together, TOESL and FEPL?

Ashish Bhandari: You can see that. Both of those are legal entities. We share a fair amount of detail on them.

Rajendran Arunachalam: In the full year it's not available.

Ashish Bhandari: Okay.

Rajendran Arunachalam: So roughly, the investment in FEPL this period, I'm talking YTD, year-to-date. On the equity side, has not been very high, INR 20 crores plus. But we also advanced. I'm sticking to -- loans to them and for the build of those projects. And that has increased at this time. And that's gone up by -- the overall loan debt in FEPL has gone up by close to about INR 300-odd crores. That's on the FEPL side. TOESL, I think -- it's still sustaining situation. And there, I think our loans haven't gone up that high because of the self accruals that are there.

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

Amit Mahawar: In your strategic intent and direction to expand the visibility of Thermax, it is broadly under represented globally and in India also. Do you think FY ’26 – FY ‘27 growth for the first segment where we are doing very well, can still be in high double digits with even upside on the profitability side? Some colour on this segment, Ashish.

Ashish Bhandari: So interestingly, this portion of our business has been driven by a couple of macro shifts and at the back of some product innovation from within the business as well.

So both things, things like water, wastewater have benefitted tremendously from a larger push towards zero liquid discharge, desalination plants, variety of new industrial plants coming in, requiring capacity additions, et cetera. We have also had norms through ethanol industries or otherwise, semiconductor plants coming in, where the need for basically cleaner air, air pollution control equipment, scrubbers, gas management, et cetera, have also gone up.

Internationally, also, the shift towards biomass and waste to energy has helped the business quite a bit. I think all three themes will continue into next year. Also, at the innovation that we are doing through heat pumps, gas upgradation, zero liquid discharge, we are coming up with new products that will use much lesser energy that -- than anybody else would have. Variety of different things, we are also pushing on the services side, some new models and looking to grow profitable services out here significantly.

We've got one of the top consulting firms engaged on just services and industrial products and making sure that services grow to double what they are in a very short period as part of Industrial Products. And services are the most profitable part of Industrial Products as well, international growth, so it is possible. And being planned for as well that the growth that we have delivered, we are continuing on that treadmill and we continue to push the boundaries of what is possible out here.

The only question which got discussed quite a bit in our Board retreat, was what will the macroeconomic environment be like? And if there's a general significant slowdown in the macroeconomic environment because of global trade wars and currency fluctuations, et cetera, that is the one concern that we have. Going in, we are bullish.

Moderator: The next question comes from the line of Bhavin Vithlani from...

Ashish Bhandari: Last question, if that's okay?

Moderator: Sir, this question is from Bhavin Vithlani from SBI Funds Management Limited.

Bhavin Vithlani: The second question that I had was on the products business. We have seen double-digit margins now. And they are slowly being inching up. Do you see a possibility of the margins getting into early to mid-teens on a three-year basis? I'm not asking for a quarter?

Ashish Bhandari: I think I just answered that question. This Industrial Products with multiyear outlook. Is that -- was that the question, Bhavin?

Bhavin Vithlani: The question is on the margins front?

Ashish Bhandari: Yes. So I shared. I think I've shared fundamentally what is the outlook. Maybe the one additional colour that I can provide is, within the Industrial Products, we've got four sets of products, which is we provide cooling solutions, heating solutions, air pollution control solutions and water.

Of this mix, the heating solutions is the most profitable one. Right now, of the four, it is below the pack of the growth that is happening. All four are growing, but heating is relatively growing less fast than the two of the other parts that we have got going. So there is a small mix change. But overall, there's nothing that should slow us down in terms of the path that we are on, of continuing to make this business stronger.

If you are able to grow services, services adds one more engine of profitability out here. And if we are continuing to innovate and grow in places where we can command a slight amount of premium as well like in international markets, then further is possible. I will caution though that everything that we do has fair amount of competitiveness, while we are increasing profitability in a good portion of our business that is me-too. There is a lot of competitiveness and customers will switch for small, small movements in price.

Moderator: Ladies and gentlemen, that brings us to the end of the question-and-answer session. I would now like to hand the conference over to Ms. Bhoomika Nair for the closing comments.

Bhoomika Nair: Really appreciate the time and the detailed answer and taking all the questions. Thank you again for giving us an opportunity to host you. Thank you very much and wishing you all the best.

Ashish Bhandari: All right. Thank you very much. Thanks, everyone. Thank you for listening in, and I know there were a lot of questions and we will provide -- continue to share as much as we possibly can. Thank you.

Moderator: Thank you, ladies and gentlemen, on behalf of DAM Capital Advisors Limited, that concludes this conference. You may now disconnect your lines.