



**“Thermax Limited
Q2 FY‘26 Earnings Conference Call”
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**MANAGEMENT: MR. ASHISH BHANDARI – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER – THERMAX LIMITED
MR. RAJENDRAN ARUNACHALAM – EXECUTIVE VICE
PRESIDENT AND GROUP CHIEF FINANCIAL OFFICER –
THERMAX LIMITED**

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

Moderator:

Ladies and gentlemen, good day, and welcome to Thermax Q2 FY '26 Earnings Conference Call hosted by DAM Capital. 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 the 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. Thank you, and over to you, ma'am.

Bhoomika Nair:

Yes, thank you. Good morning, everyone. A warm welcome to the Q2 FY '26 Earnings Call of Thermax Limited. We have the management today being represented by Mr. Ashish Bhandari, Managing Director and CEO; and Mr. Rajendran Arunachalam, Group CFO and Executive Vice President.

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

Ashish Bhandari:

Hi. Good morning to everyone who's on the call. This is Ashish. I'll keep my remarks very brief so that we can take questions. If the questions continue, I'm okay to go beyond the scheduled hour as well, to make sure we are addressing everything -- with all the clarity that we can. I'll make only a couple of very brief remarks.

In the quarterly deck this time, we have shared a couple of very specific pages regarding the backlog that we have, especially as it relates to these low-margin projects. So you can take a look at those slides, and I'm sure there will be questions about that.

The second comment that I have is that we have a change in accounting policy, which has resulted in about INR 197 crores in order book change, and that is specific to TOESL because as the TOESL business was growing, we were reaching a point where the revenues were much higher than orders. Because of these 10-year contracts, we were only recognising the first year of order book and the other nine, we were not showing at all.

So starting this quarter, we will start to show what our new orders are, plus the recurring revenue that you get from the customer. This should align orders and revenue a lot closer now. Yes, previously, it was -- revenue was a lot bigger than orders. So there was a mismatch. This change does not affect revenues, doesn't affect profitability.

So with that, I'll take your questions. We have a lot to discuss on every part of the business. And I would love to answer those questions and share everything. At the end, if there is something that I want to share that hasn't come out in the Q&A, I'll take that head on and address that as well. Why don't we jump straight into the questions then, please?

Moderator:

Thank you. The first question is from the line of Jonas Bhutta from Birla Mutual Fund. Please go ahead.

Jonas Bhutta:

Two questions. Firstly, on margins and particularly on the three segments. On the Industrial Infra, while you've elaborated on how the low-margin contracts are likely to play out in terms

of revenue, I wanted to get some more clarity on the surprises that we keep getting on these projects. Was this sort of a kitchen sink quarter? Or you think that as we still execute the INR 450 crores, INR 600 crores – INR 500 crores to INR 600 crores of pending revenue, you still expect these kinds of surprises. Even if I were to adjust this INR 40 crores number, the implied margins still look low, completely negating what TBWES is doing in terms of contribution there. So if you can clarify on the Industrial Infra. And then I have two follow-ups on the other two segments.

Ashish Bhandari:

Okay. Sure. I think let me take this question in some amount of detail and the rest I can address through your questions or through subsequent questions as well. This should be the kitchen sink. Yes, plain and simple. What is left now is getting really, really small. And of what is left, a good chunk is getting delivered through Q3 and Q4. And the rest will get delivered next year.

It is not that what will get delivered in Q3 and Q4. If I compare it to last year, last year also, we took quite a few hits relating to project execution. And I'll outline what these areas are and what is it that is different than in terms of how we are performing as well and how we are running things.

What is the quality of the rest of the backlog is reasonably good, because in addition to the project impact on one particular project, which is the large refinery-related project that we had taken 2.5 years - 3 years ago.

We also have the FGD projects, which we are working through, and that is also at very low profitability, 0%, 1%, 1% to 2%. And all of that is getting -- going through our system quarter-by-quarter and going through. So in this quarter also, a good chunk of that backlog got worked upon. And what is left is getting closer and closer to finishing. Our second FGD project is -- half of that is already done.

The second half will get done this quarter. We will have two more left. One of which is of reasonable profitability and even kind of, I would say, almost slightly accretive profitability to the projects business. The third one also will clear through the early part of next year.

What will get remaining in - for the second half of the next year is just this very large refinery project, which is NRL. Of the vestiges of which will remain in maybe until a year from now, though we are working to make sure that by early next year, we clear it off our books.

In this hit that we have taken, we have taken a particular contingency for executing these projects and taking a reserve against some of the future costs that are possible as well. The only part that remains now is that bio-CNG -- in this last quarter, we have got -- last year, if you remember, we took a big hit on the basis of which we put in a lot of cost into these projects to enhance capacity, capability, all of that.

Now that the monsoons are over, all of these projects will one after the other, in a month, start to go through PGTR, which means they will get handed over to the customers. So until we hand these projects to the customers, the operating costs of these projects and the manpower there, we are continuing to almost semi-fund them.

In half the projects, the customers are sharing costs, but this is also a slight burden of a few crores that we are managing through on a quarter-by-quarter basis, which is also reflected in the Industrial Infra number. You will see our backlog is going up in TBWES. And I would say for the second half of the year, you will see -- I've been calling out for some time that I expect large projects to start to show up again. And in TBWES in particular, I expect a very, very strong second half of the year.

And even in Q3, it was just below our reporting threshold, but we had a large international order from a Middle East customer for boilers for an upstream oil and gas customer, which is a very prestigious account, and it's a big breakthrough for us to enter one of the marquee names in the Middle East, and we are the only qualified Indian company in a sense. That too creates a much longer repeatable area of business for us. So I hope I answered your questions on Industrial Infra to your satisfaction.

Jonas Bhutta: Yes. So effectively, just paraphrasing, worst is largely behind in terms of the hit. Obviously, there'll be some tail impact with the NRL project, but that's more like FY '27, but the impact of that may not be as louder.

Ashish Bhandari: Even this size, this quarter was unexpected. And I take blame, but I'm very unhappy -- to see, in my period at Thermax, I haven't seen an engineering surprise show up when we finish 92% of a project. And in this particular quarter, we had an engineering surprise, which is -- which now basically all of that is complete, and we actually had a third-party come in to verify that this is complete, and it is on the basis of this that we are coming in saying we have confidence that this was the kitchen sink.

And the engineering surprise stems from us doing a project of this for the first time, and we had an engineering partner who was responsible for the detailed engineering on the project. And there was plain and simple miss at that end. But ultimately, we are responsible, and this was a late surprise. But now the engineering, as signed off by the partner and by a third-party is 100% complete, except for a change order we have received from a customer, which is very minor.

Now it is entirely to site execution and finishing that. And the relevant reserve for that also, what we think is reasonable, we have taken as part of the hit we have taken in this quarter. So the number that you see is substantial from that point, and it was very, very painful internally. I would also want to call out the second page that we have shared in our backlog, where for now, two years practically, we haven't taken anything.

And government orders with a long tail, longer execution for three plus years, we haven't touched. So, we are clearing all of these in our backlog. And we really wanted to start building what we consider as profitable orders that we can do. And as I share the rest of the commentary on Thermax, I'm actually very enthused by where we are adding orders and the quality of orders we are adding. Okay. Thanks.

Jonas Bhutta: Sure. So the other two segments that I wanted clarity was on Chemicals. What seems to...

Ashish Bhandari: Can we let everybody else have questions because this was...

- Jonas Bhutta:** So that was -- that's my first question, Ashish. So it was just a subpart. If you can just allow me clarity on these two things and then probably I'll fall back in the queue.
- Ashish Bhandari:** Okay. I'll take one of those two because you can just -- and I'm saying I'll stay back longer if needed. If it doesn't get answered, I'll -- to the queue.
- Jonas Bhutta:** So how should one think of the Chemicals segment margins, A, there seems to be headwinds today and given that the company seems to be progressing more greater focus on the construction chemical side, which is probably higher volume, but lower margins. So how should we think of the segment margins maybe one or two years out?
- Ashish Bhandari:** So, the business actually in the areas that we are working, we don't expect that the margins would be significantly dilutive. We are not playing in generic construction chemicals. In the areas that we are looking to go into, there is a path to reasonable profitability. Currently, we are carrying about INR 15 crores of costs, about INR 4.5 crores on additional depreciation, about slightly more than INR 10 crores relating to all these investments that we are doing for future growth.
- And I'm disappointed in Q1 and Q2 on two counts. One, even the base business that we had, especially in Q4 of last year and Q1 of last year got impacted by our international business coming into a little bit of a kind of a stormy period with Chinese competitors really dropping price, some of our customers being uncertain on how this whole tariff thing was going to get looked at. And in a period where we actually added capacity, we lost a bit of volume.
- The good part is in September, and as we see in October and November, that volume is coming back in a very good manner, which means the plant utilisation, which in addition to the newer capacity had fallen down to 40%, imminently in Q3 itself will start to go up. And some of the investments that we had made in, like Vebro, for starting our flooring business in portions in construction chemicals, et cetera. Also, we see now that the rains are over, the volumes are starting to pick up, and the numbers are starting to go up.
- My expectation of the Chemicals business is that we cross the INR 250 crores a quarter order book, and we are right now at INR 200 crores. So, between what I expect the business to do and what it is actually delivering, there is a big gap. I have enough confidence that we should reach a number of INR 230 crores to INR 240 crores imminently, starting Q3 itself.
- INR 250 crores is my expectation where we get to back into the teen's kind of profitability, which may be a quarter away, but I have a lot of confidence in where that business can go and also new partnerships that we are doing with OCQ and all that. Again, a lot of confidence in what the future of that business holds. An improvement in the numbers for Chemicals will show in a reasonably relevant way in Q3 itself.
- Moderator:** Thank you. The next question is from the line of Mohit Kumar from ICICI Securities. Please go ahead.
- Mohit Kumar:** My first question is on the large order segment. The large orders in Industrial Infra have been below an INR 10 billion run rate in the last couple of quarters. We have been talking about that

there's a healthy inquiry pipeline. Can you talk about the reason for the delay in the conversion of this inquiry into orders?

And how do you see the conversion in the balance of the year? And the related question is what is the kind of margin one should bake in as you start executing the new order, so let's say, a fresh order where the legacy order has no contribution?

Ashish Bhandari:

So, if you take a look at -- which is why there is some amount of detail that we are starting to share, which should start to give you some insights into the mix that is -- that we are looking at. You can see that -- and especially if you take a look at a two year period and even in this last one year, TBWES numbers are starting to grow. And even in the second half of this year, the TBWES numbers will continue to grow significantly, driven by domestic and international projects.

In this particular year, there were a lot of large government-related projects, including at one-point, large NTPC and other super critical projects as well. We said no to all of those. In the first half of the year, probably there are INR 5,000 crores worth of projects that we passed on. Last year, another INR 5,000 crores. So, in a year's period, probably INR 10,000 crores worth of projects that we said no to or bid at a price that we think we can make money, and it did not happen.

That said, we know what we are good at. And the reason I can share some amount of confidence that our order book will improve is that in many cases, we have shaken hands on projects on pricing, and we are now waiting for basically the money to come in and the LCs to get opened.

So that's what gives confidence that we have for the second half of the year. The margin profile on these projects is, I would say, in the range -- that we look at about 5% to 8% for domestic orders, 10% plus for international; and with services lumped in, overall, the mix should be 10%-ish. And we are now getting -- sticking to that number and living up to those expectations.

In terms of how the profile itself will change, you can take a look. I can share that Thermax overall will grow more than 20% this year on the order book. Revenue and profitability -- we will grow both of those numbers, profits, profitability.

Profitability with the hit that we have taken in Q2 will get slightly tougher, but I think we should still be able to do better than what we did last year. Profits overall and revenue, we would do better. But orders, I have enough confidence that I can commit to a 20% plus orders growth on the total Thermax portfolio for the year.

Mohit Kumar:

My second question is on the sulphur recovery unit. Of course, we had a bad experience in executing those. But as we go forward, is it fair to believe that expect that as we look at the new orders, we will have the appetite to take the sulphur recovery units -- be in India or Middle East? Is that a fair assumption?

Ashish Bhandari:

With the caveat that it has to be at the right margins and the right profitability. And for example, in Q1, we picked up an INR 200 crores, essentially a very small sulphur recovery unit for the Middle East, very reasonably profitable, reasonably modular, no site execution risk, nothing,

everything that we engineer and build to print, that kind of a model. And now having gone through this experience, we learn what is good about a project and what is not very, very well.

If it is not profitable and especially if it is a long-duration government-related project, then we have to make sure that we price the longer duration of the project into the contract costing itself. With that as the basis, and this has been extremely painful. All of last year, when -- we did not grow as much as we would have liked last year. And it was painful to come both internally and externally to share that our orders were not improving.

But we were very clear that we wanted to get orders in that were profitable and that were meaningful. And that we are now beginning to show. Year-to-date, our domestic order book is 25% plus up year-on-year, and this is year-to-date. And going into Q3 and Q4, where Q3 and Q4 last year were very weak, relatively speaking. And this year, with confidence, I can say they'll be very good.

Moderator: Thank you. The next question is from the line of Bhavin from SBI Mutual Fund. Please go ahead.

Bhavin: A couple of questions. One is, globally, we are seeing very strong growth in the gas power generation business, and HRSG is a product that Thermax excels in. Could you talk about the opportunity in the global landscape for HRSG?

The second is, if you could give us a flavour within the products segment to understand the mix change on the boilers and heaters, water treatment and air pollution and the chillers, why we saw a dip in the margins to get more on the mix flavour, the growth within the subsegments?

Ashish Bhandari: Sure. Two both good questions. The first is indeed true, which is what is giving confidence on some of the international projects. Right now, we have a pipeline -- an international pipeline, which is good. And I wouldn't, for competitive reasons, not share anything else, but you are thinking that's the right way to think about it.

Second is on the mix. I had alluded to this last year itself that we had a scenario where our Heating business, which was the most profitable part of Thermax, was growing relatively slower than Water and Enviro, which are also profitable, but were in a mixed perspective, less profitable.

That trend on the revenue side has reflected both in Q1 and Q2. And especially last year Q2, Heating had -- because of a very strong 2024, Heating had a very high profitable quarter Q2 last year, which in this quarter was relatively not the case. The good part is Heating had a very good Q2.

And on the order side, you can see when we grew high teens this quarter-over-quarter last year to this year, that increase was across the board, except in Cooling, all three businesses grew very well. And going - in fact, our Channels business had their highest ever quarter for Heating products and finished September with the highest ever booking on Heating in a single month.

And that strength is continuing in Q3 also. So that we take strength from Cooling also, especially with data centres and many of these newer applications coming in, the pipeline is very strong.

So I'll stick with the call that I had made last year that we should expect top line growth and bottom line growth. If we can keep profitability as a percentage flat, I would be happy with that, and that's the line we will stick to.

Moderator: Thank you. The next question is from the line of Anup Goswami from SUD Life. Please go ahead.

Anupam Goswami: Sir, this is slightly on the previous statement. So you mentioned that some of the legacy orders are getting -- a chunk of it is getting executed. How do we take this second half of those order execution of roughly a scale and next year of the NRL, how much of that should be executed?

Ashish Bhandari: I think I'll let Rajendran share the specific numbers. We have shared in fair amount of detail -- kind of what our current backlog is. I think it is Page 14 on the summary that we have shared. The breakdown of that between what will get cleared in the second half and what gets remaining for the next year. I'll let Rajendran speak to that.

Rajendran Arunachalam: Yes, I think as Ashish mentioned, we have clarified that in the slide that you will see that we have two sets of orders there. One is the public sector unit orders with a low margin for us and the bio-CNG jobs that we have explained in fair bit of detail in the past.

Both of this, I think the current H1 as on 30th September, the order balance is roughly about INR 570 crores, of which 62% would get executed in the H2 and a small portion -- the balance portion, the 38% will get executed in the next financial year. That's the balance that we carry. I hope that answers the question.

Anupam Goswami: Sir, does this include the NRL project as well?

Rajendran Arunachalam: Yes, it includes the PSU jobs as well as the bio-CNG jobs that we are currently...

Ashish Bhandari: Yes. But NRL, you can specifically share. What is the backlog on NRL -- what is remaining is INR 180 crores. That is what is remaining on NRL.

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

Amit Anwani: First question is on the clarity on the order book. I think are you talking about order inflow or order book when you say 20% growth? Second, was on the -- you alluded that we are expecting exports to be better, inflow from export is robust. I wanted to have more colour on the domestic side.

How is the inquiry pipeline in domestic market? Any large orders, which you're eyeing for next six to 12 months? And if you could highlight any sector industries where the pipeline is strong and any sector industries, which has negatively surprised us in terms of order inflows?

Ashish Bhandari: And this is just for Industrial Infra or overall?

Amit Anwani: Overall, sir.

Ashish Bhandari:

So, overall, see, domestic first half of the year, as I said, our order book growth is 25%. And when I say our what we call as order. So, that is what I'm saying year-on-year should be at least 20% up. And that is given first half, we are roughly flat. And I'm not counting the total reclassification in the numbers that I'm sharing.

I'm saying apples-to-apples, growing 20% plus on orders, which means Q3 and Q4, we should be up significantly, well above 30% quarter-on-quarter to hit the numbers that we are talking about. Did I clarify and did I share that with abundant clarity?

Amit Anwani:

Yes, sir.

Ashish Bhandari:

That part. Okay. And then in terms of do we have a pipeline of good projects? We have a reasonable pipeline of good projects across segments. But if I had to say, power, metals, and general, basically refining and petrochemical and fertilisers, that is the space that we typically see these, and that is the space that we are in.

Internationally, it is in a mix of multiple applications, including some newer applications that are related to power for data centres, which is also emerging as an application in addition to the traditional ones that relate to refineries and petrochemical plants.

Pipeline is strong, which is what gives me the confidence to make the commitment that I'm making. Yes, in the sectors that are relatively weak, I think the whole ethanol space, which was weak for all of last year, continues to be moderate this year as well.

I think we are not able to -- until we clear some of it and start to show it in our numbers, we won't be able to address it, and this entirely comes down to performance in that sense, and that is completely with me in that sense.

You take a look at our Industrial Products portfolio, it is just sector after sector, we are able to work through. We are providing water and dedusting and scrubbing solutions for many of the upcoming industries, semiconductors, electronics, solar plants. On the other hand, food and beverage that is growing. We are doing some many innovative services-related ideas that are also growing that business.

So a single sector being up or down like textiles that has been affected by the tariffs or the whole kind of ethanol sector, which has been down for some time, relatively speaking, even -- so some of those ups and downs, we were able to work through. So, I think I'm, overall as a pipeline, happy with the pipeline and happy that the pipeline is in areas that we are saying we want more business.

Amit Anwani:

Yes. So, just one more thing on the order inflow for Industrial Products business. You did highlight a better performance from water desalination and Enviro. Can this be the scalable opportunity? What was the contribution current quarter and maybe in the revenue? And is it scalable? Do you feel that water desalination can have better contribution in your Industrial Products business? And is it more domestic or exports?

Ashish Bhandari: Both. So, -- and not just water desalination, even applications like zero liquid discharge, even on the innovative ideas around tough-to-treat water, variety of application technology-based solutions have got good growth opportunities. Similarly, in our Clean Air solutions, which are around pollution control and generally scrubbing and dedusting solutions, both domestically and internationally, there is strength. And also on the services side, there is strength.

I mean, we've grown the business high teens year-on-year. And even on Heating, we are selling more electric boilers than we anticipated. Many of our newer products are catching steam too. So across the board, I really like our portfolio and what we are doing with it.

Amit Anwani: Thank you, sir, and all the best. Thanks.

Ashish Bhandari: And just in terms of execution, like in Water, as an example, our second half, we need to execute probably INR 700 crores worth of projects. And three years - four years ago, what it used to do in a year, it now has to liquidate that in a quarter, and for multiple quarters going ahead. So the focus is very much on execution. You will see our overall inventory, our backlog of -- our working capital is also starting to go up with the idea that we really need to execute our order backlog in the second half of the year. Thanks.

Amit Anwani: Sir, what would be the contribution currently in Industrial Products from water?

Ashish Bhandari: Just go through because I've taken several of your questions. I'll come back if, in the end, the questions are not answered, I'll come back to that. Next question, please.

Moderator: Thank you. The next question is from the line of Mahesh Patil from ICICI Securities. Please go ahead.

Mahesh Patil: Sir, my first question is on the data centre. So, just wanted to understand how is the opportunity here? If you can talk about the inquiry pipeline in the domestic and international market? And how is the competitive landscape here? And if you can also guide in terms of broad order value for us in this segment?

Ashish Bhandari: I think if you give us another quarter, we will come and share this. And even for competitive reasons, some portions we, right now, may not be [inaudible 0:39:07]. For our -- I'll say, which portions this is applicable to. International is applicable to our cooling solutions and even our boilers.

So international, the pipeline is both from cooling and from boilers, including our large boilers business and the TBWES range of boilers as well. Domestically, the pipeline is driven by Water and Cooling, not by Heating as much or by anything else. Of this, the water portion will be competitive -- the cooling portion, where our product fits will be less competitive.

The idea is to convince customers that you have a unique energy solution saving methodology for -- based on our cooling capability. So it is more around spec selling and getting your product specified. Once you do that, then it is less competitive. Okay.

Pipeline is decent. I think we have shared some examples in -- as part of our Industrial Products like what all we have done in the quarter, that particular page has some examples also. Numbers, I would hesitate to share. But in a quarter, we will share. And a lot of it has got to do for competitive reasons as well.

Mahesh Patil: Okay. And sir, can you share something on Danstoker? How is the pipeline? What's the opportunity?

Ashish Bhandari: I think -- profitability, but not growing on top line or bottom line. I think that's the window in which it should -- you should expect it to be. The next jump for it could come potentially should the Russia-Ukraine war get over.

Mahesh Patil: Okay. And sir, one thing on Industrial Products...

Ashish Bhandari: Can you please go back to the queue as well. If some questions are not answered, I'll take it later once again.

Moderator: Thank you. The next question is from the line of Aditya Mongia from Kotak Institutional Equities. Please go ahead.

Aditya Mongia: Two questions from my side. The first is, Ashish, how do you see the revenue line kind of developing for this year and maybe a sneak peek into next year? And given your assessment of when the orders are going to come in, this first half has been like a 4% decline. So just trying to get a better sense of how the revenue line is going to flow in for fiscal '26 and '27?

Ashish Bhandari: So, you will see a big catch-up on the revenue line in Q3. We have a lot going on right now. And the kind of Q4 we delivered last year, I expect us to do Q3 and Q4 both. That is roughly the expectation as I look at the second half of the year.

And as we go into next year, expecting to go into next year with a very good backlog and the backlog, which is comprised of more and more things of the kind that we like, a much bigger Industrial Products portion, a much bigger TBWES portion, a bigger Chemicals portion, a bigger TOESL portion, and even FEPL kind of getting to a year next year where a couple of the projects that we have would be revenue generating and looking forward to a breakeven year. So that's as much detail, and this is way more detail than we have ever shared in the past, but that's the expectation.

Aditya Mongia: Not a question, but just a clarification before I get to the second question. You said 10% blended margins in the Projects segment. This was at an EBIT level that you were referring to, including domestic, international and services all put together?

Ashish Bhandari: At the PBT level. That is the...

Aditya Mongia: In the Projects segment?

Ashish Bhandari: In the Projects -- at the Industrial Infra level. If we net out some of these underperforming projects and all that, that's the quality that we are aspiring for and working towards.

- Aditya Mongia:** I'll probably make this my second question. See, the expectations that you've shared in the past are more the mid-single-digit kind of quantum, maybe slightly higher. I mean the emphasis has always been cash flows will be better and margins would accordingly be okay, not great. Is there a change in stance that you are trying to highlight with the kind of opportunities that are opening up, maybe niche areas like data centres? I'm just trying to get a sense of what is trying to -- how to assess this change?
- Ashish Bhandari:** Fair question. A slight change in stance. Yes, because for a period, we thought we were in the mix of getting these large projects that were potentially unprofitable subsequently. I think we are reaching the point that we don't need those.
- And if we say we don't need those, the question is, can we take businesses like TBWES and make them fundamentally slightly more profitable, and can we create a big enough services line that together can improve the base profitability? There's a third impact that our depreciation burden in TBWES is coming down.
- So that is giving us the gap between EBITDA and PBT is getting further and further reduced. Net-net, I would say relative to what I may have said a year ago, I would say a percentage or even a slightly more than a percentage move towards a positive direction is something that I'm stating.
- Aditya Mongia:** Maybe one last question, if you allow me. This is more on the order that you have won.
- Ashish Bhandari:** I have been tough on everybody else. So I will stay. I'll stay on. Yes, I'll stay on for longer. So, if you are patient enough to stay till the end, I'll be patient enough.
- Moderator:** Thank you. The next question is from the line of Aniket Mittal from SBI Mutual Fund. Please go ahead.
- Aniket Mittal:** I had a specific question on the margins in the Industrial Products segment. Just wanted to understand, one, if you could throw some light on the margin profile between the subsegments of Heating, Water, Air Pollution and Cooling. How does it vary among these four? And going forward as well, if you could provide some colour, particularly as the Water and Cooling segments start to ramp up, what are your margin expectations going forward?
- Ashish Bhandari:** And the profile of profitability of Industrial Products has also changed. Water and Enviro, both as they have scaled up, their profitability has also gone up substantially relative to where these businesses were historically.
- So that said, I think we have reached a point where -- see, in Q1 and Q2, and Q2 in particular, water's revenues were down for a variety of reasons, especially driven by some of the execution of projects where it wasn't entirely in our hands, in many cases, site delays and all that.
- So, as some of those projects release revenue and the profitability associated with that revenue, we will see profitability in that business come back. So, no particular change from my base expectation on these businesses.

I'll now give you a more direct answer, which I have stated in the past also, but our Water and Enviro business are typically low double-digit. And only in the last year, have they crossed into double-digit. So they're barely double-digit. Our Cooling and Heating businesses are high teens -- mid to high teens. And it is that blend then that takes it into this 12%, 13% kind of a number.

Right now, we are seeing an impact on Water and Enviro growing faster. But now I think with this last quarter, Heating and pretty soon expected that Cooling will also be able to keep pace. And then the second impact of that, Water and Enviro, as they are growing, their profitability percentage is also improving slightly.

So the net impact is, I think, a wash from a profitability percentage point of view. Small moves quarter-to-quarter here based on the mix, but not much. Do I expect this profile to change substantially? I think not, and we are okay to keep this profile and continue to grow the top line.

What I would love to see is services to grow all across and services to become a bigger and bigger portion of Thermax. Today, it is -- within Industrial Products, it is low double digits. I would like to see it become into the teens and thereabout.

Aniket Mittal:

And just a follow-up. So let's say, if I think about this segment three years out, how would the overall margin profile look like at the segment level?

Ashish Bhandari:

I would say, you should take the current percentage profile. You should expect a much bigger top line and hence, a much bigger bottom line. The business, we see a load of new products, the affinity and stickiness of those new products. We see our capability to compete internationally as well.

Until a short while ago, like our Water and Enviro businesses were largely domestic. Now they are starting to grow internationally as well, get established in Middle East and other markets also. So, I think expect a similar margin profile, expect a much bigger top line and, hence, a much bigger bottom line as well.

Moderator:

Thank you. The next question is from the line of Renu Baid from IIFL Capital. Please go ahead.

Renu Baid:

Good morning, team. My first question is, can you elaborate while you spoke quite a bit on the Water segment. In some of the emerging spaces like electronics value chain where we have investments coming up for OSAT, Fab. How do you see our water pie of the business being able to cater to this segment of the space? Do we have opportunities of products for the segment?

Ashish Bhandari:

Yes, we do. And you will see, some of the largest plants that have happened in India, we have had a reasonable role to play on all three parts of our business. Water for sure, because many of these plants are water intensive, both on the input side and the output side.

Second, for our Cooling solutions, where, again, kind of having innovative cooling solutions. And third, for our Enviro solutions, where we are providing scrubbers and dedusting technologies, where, again, we have a reasonable market share amongst a new set of players. These are not traditional air pollution control players. And I would say we are leaders in almost every one of these spaces that I mentioned.

And in one particular case where steam was needed, we have provided boilers as well, which was a relatively larger opportunity. But in other places, steam is not needed. In this particular case, based on the design or whatever, they needed steam, and so we provided boilers as well.

Renu Baid:

Right. So just a bit on this side, from an academic perspective, what would be Thermax TAM in the electronics value chain? Whether it would be OSAT, PCB and related facilities through our offerings, whether it could be Water, Enviro, and so...

Ashish Bhandari:

Looking to put that together. That's a question that's coming up. We haven't done the homework to put it. And the other problem is that between TAM and SAM, which is total available and total serviceable, there is a gap, and that gap relates especially around cooling solutions and the approach to cooling that is taken by the facility.

And we ourselves can influence what is actually available as a market versus what is actually serviceable. So, we are taking cuts. It's not the best answer as yet. I mean, the pipeline exists that gives me confidence. From a numbers perspective, I can't commit, but maybe next quarter, we will share some more detail.

Renu Baid:

Sure. Secondly, on the TBWES or the boiler part of the business, what would be -- you did mention order accretion could come in that space also. So as a portfolio, what is our strategy for conventional coal-based projects? We are seeing L&T, BHEL talking of capacity expansion. So what would be Thermax game plan for this space, at least for the next three to five years until coal is coming back into the limelight?

Ashish Bhandari:

I would say reasonably bullish. Yes, we are seeing opportunities on coal even in the subcritical portion. We are seeing opportunities like the question that got asked previously for HRSGs and utility boilers internationally. TBWES, overall is an area, where we have shown good numbers in the first half of the year.

You can take a look at how we have done in Q1 and Q2. And that is without reporting anything that is north of INR 500 crores. So -- and I expect that in the second half of the year, we will report something that is north of INR 500 crores.

Renu Baid:

Sure. And last one small, if I can ask. While broad comments and you're speaking of large project finalisation of private sector, one of the reasons for delays were tariff uncertainties in global market.

With China settling in and probably US -- with India in the next couple of months with US, do you think that could change the investment sentiment with your private sector customers on bringing back the large ticket size projects? Or do you think there could be other elements or factors that customers may look at before kickstarting the investment cycle again?

Ashish Bhandari:

Renu, not 100% sure on this answer. I think, I would say, in general, the sentiment is improving. I think right around elections last year and for a period after elections, things were slow. That showed up in some of our order book last year for Q3 and Q4 as well. This year, we are a lot more bullish on orders. Yes, does this translate into a multiyear run on general private capex overall?

I hope so, but I don't know if that is something that we can say with surety right now. Do I see enough of a pipeline of large projects right now? I would say, yes, both domestic and international, I can. Does that mean you see a three year bull cycle? Your guess is as good as mine.

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

Mohit Kumar: My question is, sir, can you help us with the current capacity of FEPL, and the expected capacity by end of year '27?

Ashish Bhandari: By end of year '27. Right now, just getting to 300 megawatts. By next year, crossing 500 megawatts. 650. So, crossing 500, 650. Ultimately, I think for FEPL, the current set of projects that -- the new projects, which are two very big projects is an ISDS project. The second is an expansion in Gujarat.

These are our, in some ways, a blueprint of how we want to run this business. And I really expect the team and me, hence by extension, to do a great job of executing these projects, delivering good profitability on those. And that then becomes the template of what we would like to do in the future in terms of how we look at that business.

Mohit Kumar: Understood. My second question, how does the inquiry pipeline opportunity from domestic large boiler orders from utility scale and our appetite, given the private company, a lot of private companies are entering into the space now, in a sense, a lot of private IPPs are entering in the space.

Ashish Bhandari: Reasonably high, which is what gives me some of the bullishness in the statements I've made in the past. We want to be sure the orders have a certain profile, which means we don't want significant open multiyear risk relating to civil construction, where it relates to things that are not always in our control. Yes, which means rains come in, site gets delayed, the customer doesn't give us the site on time yet expects us to perform everything the way we want to.

And those kinds of projects, if they really take our overall profitability profile down, then we are okay to say no to. But if it is building boilers, doing those -- some execution risk that is relating to things that we know we do well. And even -- I mean, it's not like we don't do construction or erection well. We can do that very, very well.

There are numerous projects that we are tracking, and we track them to a very narrow range of as bid versus as delivered. We just want the areas that we know and we don't know to be crystal clear right from the beginning. And that's the rigour that we have been on for the last several quarters now. That's where I am.

Mohit Kumar: Understood, sir. Thank you and all the best. Thank you.

Ashish Bhandari: And I'll say, I think there's been no discussion on bio-CNG or anything else. I'll share that. It's been now two years that we haven't taken a single bio-CNG order. The one order we took last year was a commitment that we had made much earlier, and this is relating to -- relating in that

sense just to a previous commitment. But where we are going through right now in Q4, we expect to execute everything.

And if we execute relative to what we plan and we deliver, we do expect to set a benchmark for projects in the future. Currently, in the country, we, at least in our opinion, are producing the highest amount of CBG of any player out there from the plants that are in existence. We need to take these plants to some portion where we finish the PGT test and hand it to our customers.

And at that point, I think based on what the baseline that we develop, based on how the policy changes are happening, there could be a big, big pipeline of new projects that could come by, and we would be in a good position to take advantage.

So, in some senses, the order profile that you're seeing right now has got zero from any of these areas, has got zero from hydrogen, zero from bio-CNG, zero from, of course, anything relating to balance of plant or sulphur recovery or anything of that sort. Yes. Okay. Next question, please.

Moderator: Thank you. The next question is from the line of Bhavin from SBI Mutual Fund. Please go ahead.

Bhavin: The question is on bio-CNG. Could you give us a flavour on the issues that faced in terms of not getting the appropriate yield. There were issues related to the pricing of it. Where are these currently? And what's the kind of pipeline that you see, and whether the technology has now been stabilised, and we should be able to show strong growth and scalability in this segment?

Ashish Bhandari: So, technology is stabilising. And it is stabilising at numbers below what the whole industry had committed. But at those numbers, it is stabilising. And many players now know what to do and what not to do. At these numbers, the projects are now getting to, in my view, single-digit profitability, and they are still not commercially viable.

There are -- and I think I've done -- along with our Head of Regulatory Affairs, I've done a small white paper that we have shared through some forums on what all is still needed for the sector to become really meaningful. I continue to believe that the sector should be a big priority sector and can become like what ethanol did for -- can do for natural gas. And it has tremendous potential.

It is easily the most widespread use for Parali grass and for fallow ground, and for creating a green biofuels industry in India. It is the best methodology. Tomorrow, if you want to do even many other sub products that come from this green effective mechanism, this is a good way.

So what all is needed right now? One technology intervention, which is still being looked at is what do you do with the digestate, and can you improve the quality of the digestate that comes out? Which means you take all of this rice straw and you convert this rice straw into biogas water, which comes back. And then the remaining thing, which is called the digestate.

The digestate is actually fertiliser. And it is very good. But as you know, in India, fertiliser runs only on subsidy, whereas this is high organic manure and fertiliser, which is of a lot of use, but how do you price it? How do you create value-additive components? And there is some element of technology here as well.

So this is one piece of the puzzle, which is still remaining. Second is the government giving this green credits and allowing green gas to get traded overall, which is imminent. Third is the industry is asking for give us power, not at the industrial rates, but at agriculture or even at rates that are being given to hydrogen and many other segments, which is also expected, at least in many states, that is expected, I understand. And that will also then help.

And all of these, along with some operating rigour that can improve on the plants, et cetera, then the plants can reach 14%, 15% IRR. Once it reaches that kind of a number, I expect many, many more players to look at because then over time, you can continue to improve this and continue to drive it.

Today, there's still policy intervention needed on -- sorry, the fourth element is how does rice straw get priced itself, without some sort of government oversight. And if rice straw pricing can just fluctuate today, you burn it and you get zero. Tomorrow, if the farmer comes and says even INR 2 is not good enough, then it changes economics quite a bit.

So with each quarter, many of the policy decisions are being addressed and being talked about. There is -- this is a PMO-driven topic. I'm optimistic. Any other questions?

Moderator: Thank you. The next question is from the line of Saif from ICICI Prudential AMC. Please go ahead.

Saif: My first question is on the Green Solutions. So, if we look at overall investments towards this, the segmental assets have increased by around INR 500 crores on a year-on-year basis. Just because this is the only capital-intensive segment for you, what sort of cap you have on the investments, which you're okay to do towards this division? And in overall Thermax pie, how big you are okay to take this division to and where will you transfer?

Ashish Bhandari: We have shared this previously also. We'll stay consistent with those numbers. We want to grow it to a gigawatt and invest -- what was the number that we have shared, Rajendran? INR 750 crores-ish numbers is what we have committed to putting it.

At that particular point, we will most likely bring an external partner in and then work on this. But that's the limit to -- unless something dramatically changes that -- and we've been consistent with that for the last more than a year.

Saif: Sure. And the second part, on the -- like you mentioned on the subcritical part, you see enough pipeline into it, right? But specifically on super critical, what's your current stance, the nature of contracts you are looking at? Is BTG now you're open or purely boilers again you're sticking to?

Ashish Bhandari: No, BTG, we are not open. Only boilers, we are open. Any other question?

Moderator: Thank you. The next question is from the line of Aditya Mongia from Kotak Institutional Equities. Please go ahead.

Aditya Mongia: Just to get bio-CNG out of the way, can this be INR 1,000 crores business from a Thermax perspective over the next couple of years?

Ashish Bhandari: It can be. Yes. It has -- this is of all of Thermax, I think, the industrial -- kind of Industrial Products, even Chemicals, Industrial Infra, that we have at least some ranges that I can provide. bio-CNG, hydrogen, these are two businesses with very wide ranges that are possible. It can easily be INR 1,000 crores.

If nothing happens and the thing dies, it could be INR 100 crores, INR 200 crores as well. I don't think it will be less than that. There is enough that gives confidence that it will be meaningful. How meaningful, I think, remains to be seen.

Aditya Mongia: Understood. The second question that I had was on the comment you made about the Middle Eastern customer, the modularised solution. But more importantly, focusing on the relationship that has started. Maybe you can clarify whether it is ADNOC or someone else.

But do you see through this as a good, protected way of growing your overseas business, both from a top line and from a margin perspective? Some sense of the opportunities that open up and the protection on margins, basis whatever is the relationship with the customer?

Ashish Bhandari: See, I would say, yes, but I don't think any of this we could take for granted at all. Yes, competition will come by. Today, we are fighting European players. There's nothing to say that Chinese or other Indian players will not look to replicate what we are doing.

What we have to do is do such a good job of execution, working with the customer and continuing to be on this path and continuing to add more and more such customers into the mix. So -- which is the journey that we are on. And some of this is not now.

Some of these things started several years ago and are now starting to show some fruit. And they're also reflective of saying no to things that we are doing and then coming back and saying, what is it that we want to do and then putting efforts and resources around what is it that we want to do.

Moderator: Thank you. The next question is from the line of Rajakumar from RK Invest. Please go ahead.

Rajakumar: Good afternoon, Ashish. Ashish, just a couple of questions. The first one is on the solar business of FEPL. Any reason we have not scaled up that business at the levels of other players, given the experience that we have, any reason -- are we kind of conservative on that business? Or is there any other reason?

Ashish Bhandari: I think it's completely driven by -- I think, Thermax, just as a company and almost as an animal, we have -- we do things where we learn from what we do and we get better. So FEPL also, what we did initially, we realised we were doing a few things wrong. So we scaled back. We said this is what we do. Let's execute what we want to do really, really well.

And then we think about how do we scale this. So we are in that second part right now, which is saying this is what we can do very well. Let's show we can do that very, very well and then, hopefully, setting the stage for many other interesting and better things.

Rajakumar: Okay. So you are bullish on this solar as a segment. You don't think the market is overcrowded?

- Ashish Bhandari:** I don't think the market is overcrowded. There's still more demand than supply. I am not as bullish on supply. Getting land, getting many other things is not that simple. So I would say not demand bullish on supply and overall being conservative in designing your project really, really well. And if you do that well, customers will come.
- Rajakumar:** Okay. Got it. And the second question is on the data centre. This is on the liquid cooling as a technology that's being explored by the players like ExxonMobil and Castrol of the world. So, the question is, do you think that will be a headwind for Thermax or you will be working or collaborating with those players and providing a hybrid solution?
- Ashish Bhandari:** No, I think it's neither a headwind nor a tailwind. It is liquid cooling specifically as an area is not something that is a space that we play in. We don't have specific technology for that space and not. But the cooling needs overall at a data centre are not going down. It is exploding, if anything. And even with these innovative cooling solutions that are at the chip level cooling solutions, the overall cooling market in data centres is massive.
- Rajakumar:** Yes. But do you think that the hyperscalers, would they not go to the liquid cooling model because they need the kind of quality required? I was told that the conventional cooling systems will not be able to support the hyperscalers. So what is your comment on that?
- Ashish Bhandari:** Conventional cooling technologies may not be needed, but you still need chillers and coolers of different kinds. And for companies like Thermax, we even have solutions around basically almost pseudo heat exchangers and the likes. So there is a lot of heat flow that is still going on in the systems.
- So that is where I was also coming on a previous question that there is a big gap between SAM and TAM. How do you position your product and your capabilities? And how do you get qualified? For example, a closed-loop cooling tower, you will need cooling towers.
- An open cooling tower may be fine. But if the customer has got issues with water, has got issues around energy saving, doesn't want certain very specific requirements, then a different solution is a better fit.
- In many cases, if there is waste heat coming and -- which will be for every plant, which is fired with gas turbines, as a case in the US as an example, a lot of waste heat comes out. And this is not on the cooling side. It is actually how the data centre is powered.
- So you can take the heat that comes out of those gas turbines and generators and you can drive chilling solutions of the kind that Thermax has for many of these plants. So there's a lot of innovation, a lot of very differentiated capability that comes into play. And so the answer is more complex than just a standard chiller, which is a traditional way of looking at it.
- Rajakumar:** Okay. And sorry to labour on the same point. So with reference to the hyperscalers, so the opportunity is more on the capex side or even on the servicing side, do you see opportunities for Thermax?

Ashish Bhandari: Services is more on the water side, a little bit on the cooling side, but more on the water side. Okay. Thanks. One last question, and then we can -- if there is anybody, if there's not, we can call it to a close. Yes, I have a very hard stop in four minutes.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for the closing comments.

Ashish Bhandari: No closing comments. Thank you very much. We understand we have to deliver on some of the statements that we have made. But I look in the second half of the year with a great deal of confidence. And even this particular quarter, there are many areas that show the strength and gives us confidence towards what we are claiming for the second half.

Thank you for your interest in Thermax. Thank you for asking all the questions that you have, which are getting, I would say, more and more nuanced. And I hope we are doing our best to explain our business to you as well. Thanks.

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