"Thermax Limited
1QFY2021 Earnings Conference Call"

August 13, 2020

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Moderator: Ladies and gentlemen, good day and welcome to the Thermax Limited 1QFY2021 earnings Conference Call hosted by Ambit Capital Private 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 call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Varun Ginodia from Ambit Capital. Thank you and over to you Sir!

Varun Ginodia: Thank you so much, Rayo, and good morning, everyone. I hope everyone is keeping in good health. On behalf of Ambit Capital, we are very pleased to welcome you all to 1QFY2021 Earnings Call of Thermax Limited. Today, we have from management with us, Mr. M.S. Unnikrishnan, Managing Director and CEO; Mr. Ashish Bhandari, Joint Managing Director and soon-to-become new CEO; and Mr. Rajendran Arunachalam, Group CFO. I will hand over the call to Mr. Unnikrishnan for his initial remarks, post which we will open the floor to Q&A. Sir, over to you.

M. S. Unnikrishnan: Thanks a lot, Varun. Welcome, my dear friends, for the last concall that I will be conducting on behalf of Thermax, and then the mantle will go to Ashish. He has already taken over charge. He has managed a good part of the current quarter.

The numbers are already available with you, but as a regular practice, let me repeat that our order intake for the current quarter is almost half in comparison to the previous year same quarter of Rs.1,216 Crores coming down to Rs.608 Crores, but the order balance at this point of time is almost at the same level as last year at Rs.5,212 Crores, just about 1% lower than the previous year's Rs.5,250 Crores.

Revenue from operation has also come down by 52%, Rs.1,392 Crores coming down to Rs.665 Crores. But with a lot of efforts taken by the team across the company in every area of activity, even in the lockdown condition, we have been able to bring down the losses to Rs.22.5 Crores, though we ourselves expected it to be a little more. Full credit goes to all the employees of the company. This is at the PBT level, whereas operational EBITDA was at Rs.7.7 Crores negative only as against a positive of Rs.104.5 Crores.

These are the numbers. With regards to what we have done during this time and what we are expecting going forward and specific questions, I would like Ashish to answer, and I will support him in case there is anything specific that you would want to hear from me. So I hand it over to Ashish to take on now. I will come back to you at the end of the call

Ashish Bhandari: Unny, thank you very much for sharing your thoughts and helping us with the opening. First, thank you so much to everyone that is listening in. This is my first interaction with all of you. While we are all remote in our own different places, I do hope that in future quarters, I will get an opportunity to see and meet as many of you as possible. And I greatly appreciate the time that you are all spending here listening to Unny, Rajendran and I, and thank you for that.

I joined Thermax on the April 7, 2020, and I actually joined earlier than I had anticipated, and the reason for that was that Thermax, during the COVID lockdown, started to think about what does the future hold, how do you go about the rest of the year and planning for that year. And so the decision was that if I am going to be the one delivering the numbers for the rest of the year, I should be part of the exercise on understanding what we do through this year. With that in mind, I was there for practically all of Q1, started to learn and had an accelerated crash course on Thermax in every which way.

The way we worked, as a team was that Q1, in particular, was a quarter where numbers were secondary. Our primary objective, even beyond revenues, orders and profits, was, first, the safety of our employees. And in that sense, we were, as a team, connected on a daily basis. We were having EC meetings on a regular basis, formal meeting on every second day. There was a core group that included the promoters that was meeting every second day as well. And we were reviewing procedures; we were reviewing all critical things relating to the company, managing safety, all of those things. We launched an app, which is Thermax-specific on how you manage. We put in social distancing rules. We worked very closely with governments to make sure that that all of those safety procedures were incorporated. We worked with other companies in the industry and best practices that we could get from other local bodies, etc. So a massive amount of time, all of April, went in just managing all of that.

The second bit for us was to make sure that our employees were taken care of. And in that sense, while our revenues went down and our profits went down and we were all sitting at home and a reasonable population was idle, we did not take any drastic action that would hurt the company long term or the employees long term. And that was not just for us, but even for our contractors and for employees that were working on Thermax projects through our contractors. We continued to pay them through April and May while the situation was extremely difficult. So there were some costs that were incurred as part of that, but that the company took because that was the right thing to do. And we do expect that some of the benefits for that will start to show up in future quarters, but the benefit for this is beyond just the numbers, as I mentioned.

The third thing that we did was we worked to make sure that from a cash perspective, we were protected, which means we were extremely tough on projects that we wanted to undertake. We were very particular about making sure even with customers that had extended credits and late payments that we were doing what we thought was right from a cash perspective. And that showed up in some of our revenue numbers in Q1 as well, where we were okay to slow down in certain cases, but we made sure that our cash was collected and we were completely protected from a company point of view, working very, very closely with customers, yes, making sure that we worked with them on all those aspects that I talked about previously. So our cash story in Q1 is perhaps the most positive one from a numbers point of view.

The next thing I would say, which is part of the last bucket, is that as we worked with our customers, we also worked with our vendors. We made sure all our MSME vendors were paid on time, that there was nobody from our vendors' side that was particularly affected because of our lack of payment. And that does not mean that we were overextending terms or doing anything beyond the contract, but anywhere, where MSME vendors were concerned, we continued to pay them on time and making sure that our supply chain was not unduly affected because of us.

For me, somebody who was new to the company, I was amazed by how much we were able to get done in this particular quarter because, in my experience, it is in the toughest of times that the culture and the personality of the company comes through. And to me, in this particular quarter, the Thermax culture and the Thermax people and Thermax values shone brighter than almost perhaps any other previous experience I would have had. And I share a few examples, and I shared that in my message to the employees as well. Right from when the lockdown happened, there were many of our employees who had PCs that were at their workplaces, but they could not go access those PCs anymore. So we had a whole IT and our support staff that was going around while everything was in lockdown, going out and delivering PCs, additional important hardware for all our remote teams to get logged on and work.

As we went into May and June, we had some amazing stories on services for customers managing essential services because many of our equipment is in food, pharma industries, which needed to be on 24/7, we worked, in many cases, providing remote support through remote monitoring, etc. In other cases, we managed to reach the site in person, but in almost all of those cases, we managed to support our customers through all the challenges that we had. Our HR teams, our admin teams were working day and night in just managing procedures for COVID. Over these five months, we have had nearly 80 cases of COVID and more than 60 of those have recovered. None of those have resulted in a larger community spread across our plants. And in one case, which is in Chinchwad, where we were worried about a potential community spread, in July, we shut our plant down for a week just because we did not want anything untoward to happen, and again, going back to my message of making sure that the safety of the employees was what we put first.

Our commercial teams were working with customers, making sure cash was collected. Our supply chain teams, onsite teams, our chemicals plants getting started were all part of essential services. So they got started. We had an accident in our Dahej plant for chemicals, which has nothing to do with us. It was a massive blast in an adjacent plant and so despite us having all our safety procedures, our plant was shut down for a good period of two months. So while all safety lockdowns were in place, the team worked to restart the plant, and we are really, really happy to say that the plant is back up and getting closer to full capacity, all of this managed with all the safety and everything else that we did.

So the numbers will show that we were down 50% on orders and revenue, but I will finish with my opening message that this particular quarter was not a quarter of numbers, this was a quarter of the mettle of the company, and there, I think, we have shown that we are as good as it gets.

With that, thank you very much, again, and I look forward to getting your questions and answering them to the best of my ability.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Good morning Sir. Sir, I have a couple. Sir, my first question is just to understand a bit more, while we were discussing with customers on the status of contracts and projects, in your view, what percentage of the order backlog have we seen significant postponement and reschedulement of these projects, which might be delayed by more than three to five months and which could potentially have an impact on the execution and revenue booking in the subsequent quarters?

Ashish Bhandari: In terms of orders that have been canceled, the number is extremely small and actually, there is just one customer with two plants, we do O&M services to the tune of Rs.6 Crores per year, and that particular contract has been canceled. There are one or two bigger ones that are on limited hold but if you are asking for how many of those in my mind will get pushed beyond five months, I think our number and our estimate internally would be less than 1%, I would say. So there are a couple of projects on hold, but in all of those cases, there are advances that we have, and in some cases, the project is more than 80% through execution. So we are fairly confident that those projects will eventually go ahead. I think the number here is slightly or more than slightly better than our expectations.

Renu Baid: Right which is good to hear but when we look in terms of the market back and I understand this is not the market where we should expect order inflows to come back anytime soon but few pockets on PSU capex or other sectors like FGDs, oil and gas refineries, are we seeing some activities on order discussion finalization proceeding and moving forward or the scaling it broadly continues across most of the segments?

Ashish Bhandari: No, we are seeing activity, and exactly like you pointed out. All PSU projects that were already in progress in oil and gas and refining, they slowed down, but they slowed down not because the project was canceled or had any other issue, they slowed down just because there were no teams available at many of those headquarters to go through that final technical analysis, etc., do the clarifications and all of those things. So there were projects that were pushed, and all of those projects are active again. So there are two major projects on the oil and gas side, both with PSUs. And even on the FGD side, we do expect that the FGD PSU discussions will happen in the next 90 days as the window. Beyond that also, there are a few projects where discussions have started on the larger side where the projects have been held through the execution portion, both in India and outside, but it is unclear whether those are going to go to conclusion or not. I can say that the PSU-driven projects will continue to go through conclusion once the teams and respective valuation committees, etc., are all in place fully. And in that sense, in August, the discussions have started again in all of those cases.

Renu Baid: Correct. And last two questions. One will be on Chemical side, despite operations getting impacted for nearly two months, performance was modest, decline was lowest among the segments and margins are fairly strong at 20%. So how should we read in terms of the operation stabilizing and the growth numbers coming back with higher margins. So can 18% to 20% margins be brought sustainable or it is more like a mixed impact here, which is more short-term oriented?

Ashish Bhandari: I think you are extremely vigilant to our numbers. There is a mixed impact. And so when our capacity went down, which shows up in our revenue numbers, the team focused on exports and making sure some of our critical customers that depend on some of our specialty chemicals were put first in line as opposed to competitive orders that are for more flow-based volumes that we do otherwise. We also had a benefit of lower raw material costs on the Chemical side because oil prices had gone down significantly. So we do expect that Chemicals, from a volume perspective, will come back strongly in Q2. In fact, we are limited completely by our ability to deliver and with our Dahej plant slowly coming back to operations, we expect an overall strong volume in Q2. But our margins will fall from this 20%-odd number that you saw in Q1, but they will still be very healthy.

Renu Baid: Thank you so much. I have few more questions. I will get back in the queue and come back again. Thank you and all the best.

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

Renjith Sivaram: Good morning and good to see improvement at least compared to what we were expecting. So one thing which I wanted to understand was, how has been the overseas operations? Especially because you mentioned in your PPT that Danstoker has been profitable. So apart from Danstoker, were the others also profitable or you had some challenges there?

Ashish Bhandari: Overall, international was slightly less affected than our domestic operations on the orders side. On revenue, because of the complexities, the whole world went through and our sub-supplier chains, etc. and, in many cases, while our deliveries could have been made, there is revenue to be recognized based on actual commissioning of the equipment onsite or providing services. So because of all of those complexities, we were not able to do as much on the revenue side even in international. So on the revenue side, both domestic and international was equally affected.

Danstoker, in particular, there were the challenges that we have had in previous years, where we were optimizing our cost structure. There were also some one-time costs that we had to encounter as part of that larger restructuring effort, all of that is work in progress. And the good news is, Danstoker was profitable in Q1 because of those cost actions, but ultimately on Danstoker, what we are looking for is to continue to improve the order book and the topline that continues to be work in progress. As we look at Q2, with all the holidays and, in many, many cases, the circumspection of our customers continues.

Also, while Europe has come out of the COVID-related lockdowns faster than most of the Rest of the World, in some cases, there is a fear of a second wave. So many of the projects are still in that back-and-forth side. So we don't expect a significant improvement on the order side for Danstoker even in Q2. That is our ultimate outlook.

Outside of Danstoker, our more significant operations are in Southeast Asia, from our factory and our establishment point of view. There, I would say, our order book is getting better. But because that particular plant is still well below capacity utilization, it will be some time before it will break even, and we are committed to making that work. Yes. So it is not that the plant is significantly different from our expectations. So I think, overall, from an orders point of view, we continue to see a reasonable momentum on international. On the revenue side, I have shared with you that U.S. driven by Chemical was very strong; Europe, I shared my outlook; and on Southeast Asia, I shared my outlook.

Renjith Sivaram: Thank you Sir and just wanted to understand gross margins had been better, is that largely to do with higher mix of services in the portfolio given the lockdown scenario or is it largely to do with the reduced material prices as the commodity prices have some benefit?

Ashish Bhandari: I would say the latter more than the former because services were also affected in Q1 because, as you can imagine, good chunk of our services come from O&M and onsite services, and many of those were shut. Many of our customers have delayed and pushed out purchasing spare parts and things of that nature. So services in Q1 was relatively slower. The improved margin that you see is the impact of Chemicals and, overall, the very slight deflation that we could capture. More than anything, from an overall cost basis, we were very, very tight. So discretionary spending, both below the line and above the line, was extremely tight and we benefited from some of that.

Renjith Sivaram: Was there any salary-related or any employee expenditure-related actions which you have taken?

Ashish Bhandari: There were no employee reduction-related expenses that we have taken. And as I said, even for our contractors, we were managing salaries for anybody that was working on our sites for April and May. On the salary side, we have taken an action, the impact of which will show in Q2. It showed a little bit in Q1 as well, but it will predominantly show in Q2 and subsequent quarters. Though, to be fair, I think Q2 is a barometer. If things get better, as we expect they will, we will revisit some of those salary actions at the appropriate time as well.

Renjith Sivaram: Okay, Sir. And thank you for putting the PPTs. Will that be a regular practice now?

Ashish Bhandari: The PPT, I think that is our attempt to share and to give all of you slightly more insight into our business. So if you l all like it, then based on your feedback, we will do more of this in the future.

Renjith Sivaram: Okay Sir, thank you and all the best. I will join for further questions.

Moderator: Thank you. The next question is from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: Thanks a lot for the opportunity. My first question is just to understand the progress in terms of activity levels. Now last quarter, I remember you had mentioned that there was Rs.500 Crores worth of revenues you could not book even though everything was ready because of the lockdown. Now looking at this quarter's numbers, it looks like a lot of that has actually come from last quarter's revenues, which we could not book. So does it mean that physical progress in activity in this quarter was low or you probably did not reach a threshold where you could actually recognize revenues? And how is that shaping up now? Are we in a more normal environment from a delivery point of view?

Ashish Bhandari: So slightly complicated answers. If we had said that a particular number from Q4 of last year slipped into this year. In a good chunk of those cases, even though we were at one point two weeks from delivery, we were not able to finish those even in this particular quarter. And that was driven by a couple of things. One, many of these were site execution driven, and so the sites continued to not come to full activity and, in many cases, right up till end of June also. And that was driven not just by our ability to provide people, but also, in many cases, the customers themselves had locked the sites down, not giving access to anybody.

In a couple of cases, more than a couple of cases, we wanted to be sure that the payment side of the equation was in balance as well. So we chose to delay. And then there was a third bucket, where the equipment was ready, especially for our plant in Sri City, where our equipment was ready, but the timeline between our plants starting up and our ability to get to the port and actually ship the equipment out, because we would recognize revenue once it was on the ship, that could not get completed because there were massive logistical challenges where Chennai was in shutdown, there was lack of movement of goods between the borders and so there were numerous challenges that came about. So it is not that everything that we said slipped from Q4 into Q1. We were able to ship in Q1 as well.

Venugopal Garre: Got it. Thanks for this. Got it. Second question is slightly more from a long-term perspective. As you look at your portfolio in India as well as globally, especially things like Danstoker, given that you have been running that for a fairly long period of time, profitability has been volatile or, if at all, very low. How important do you think these sorts of businesses, especially Danstoker is structurally for you in the long term. And do you think these businesses can actually be scaled up to contribute meaningfully to profits because we have not seen that in the last several years. So what is going to change now in terms of the profit?

Ashish Bhandari: I think before we talk about kind of volatility of a business like Danstoker or that you have not seen profitability for a long time, I will actually let Rajendran or Unny speak as they may know the history a lot, lot better than I do. My understanding, and Unny and Rajendran, please, if you can share more details, is that until not that long ago, I would say, two years, Danstoker was a relatively profitable business. It is only in the recent past that we went through this particular cycle. And our first focus is on rectifying that cycle and bringing it back to profitability. So Unny or Rajendran, can you please share a little bit of the history on Danstoker?

M.S. Unnikrishnan: Certainly. Danstoker was a profitable company even at the time when we purchased it and continued to make profit. And it also had a loss-making entity, which was Omnikel, which we closed down later, still remained profitable, though the topline came down. Then we purchased Boilerworks, a service company, and from nothing, it was driven up to profitability. So it continued, as a group, they were making profits. But Boilerworks has taken some project orders, which was not what their mandate was supposed to be. And there, they have incurred heavy losses, and we shut down those businesses. It is now merged with Danstoker only for the service business, but by the time we were on a recovery path, Europe went into a negative cycle, and we have not been able to recover totally.

Then we realized that continuing in Denmark for manufacturing is not the right thing to do, it is much cheaper for us to produce in Poland. So we bought Weiss and that is gearing up now. And we already see positive signs with the manufacturing shifting to Poland. That is why we are very confident that it should become profitable in the current year and will continue to improve. There is hardly anybody in the European market to manufacture and create technologies of the kind that we are capable of doing. So we have not shifted anything beyond boiler making to Danstoker, whereas in the recent past, we have also taken certain decisions related to other product baskets to be shifted once they become stable. I mean of course, Ashish will have to take the final call on that. Once we are out of the difficulty, it will certainly be one of our heating and boiler business centers is what we are looking forward.

Venugopal Garre: Thanks Unny. Thanks Ashish. Very helpful.

Moderator: Thank you. The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: Thank you so much for the opportunity. My first question is to Ashish. As he sets out to drive Thermax for the next leg of growth, if you can take us through three key priorities you have set out for yourself for taking Thermax to the next leg of growth?

Ashish Bhandari: Kunal, thank you very much for coming on the call also and also for this question. I am now four months into the company. I am completely abreast and working closely with the team on day-to-day operations. We have also kick-started a very visceral, grounds-up look of who we are, what are we good at, what do we want to be in the future, etc. At this point, though, I am not completely comfortable sharing because it is not completely set in my mind that these would be the three priorities that we would have for our business immediately or going forward. So it would be improper for me to share something that I will change in a few months. But if this is a question you could keep for another three months during the next call, I would be happy to take this question much further on.

Let me though talk about a few kernels of growth stories that we shared with our Board even in this quarter. So while things were going through a fair bit of difficulty, there are a few things that have happened in the last few months that are interesting. The first is our Chemicals business, which has a disproportionate share which comes from specialty chemicals. And this is a portion of the business where we have shown our capability to execute, also a capability to command a reasonable price, fair amount of exports. And all the signs indicate that that the global chemicals industry is looking at India as a particular bright spot, both because of macroeconomic factors and some of these industry-specific competitive dynamics that are happening. So we are seeing strength out there, and we can continue to see strength out there.

Then we have a business called TOSEL, which is part of our heating and cooling business, but it is a business where we are doing build-own-operate model, where we provide utility as a service for Tier 1 customers, completely renewable, completely green. That is an agenda, which is getting stronger and stronger for many of our customers. And in this particular environment also, our TOSEL business has been able to go international and is seeing strength both in India and outside, where more and more customers are coming and saying, you can execute plans better than we can, you understand some of these complex feedstocks better than we can, you understand energy efficiency better than we can. And this whole green agenda is something that we are working very, very closely with customers in India and outside as well. So that is something that even in tough times, the team is continuing to work on and continue to make progress with.

And then there are a whole host of unique applications. There is a customer in Northern India, which is a paper mill, where we are working with that particular customer to use their solid waste, which is plastics and wet paper and a variety of different kind of combinations of this two that the paper industry traditionally just gives away, and then it gets lost and gets burnt in an environmentally insensitive way. We are working with that particular customer to develop a unique, completely Thermax-partnered solution on being able to generate a good amount of heat from that particular paper and then providing an environmentally sound solution with very limited emissions that are meeting the highest norms of the industry. So a completely clean solution to an application which would have previously been wasted literally and figuratively.

So as a company, the ability of the company to do some things that others cannot, the ability of the company to be relevant irrespective of where the capital markets are and the ability of the company to be relevant as the world goes green is incredible. So how do you find these streams and these parameters and these threads and create what the future growth story of Thermax would be, I think that is the challenge that all of us are working with. And this is what makes it very, very exciting, so Kunal, just some examples today. But hopefully, in time, I can come back to you and answer that question that you have in more detail.

Kunal Sheth: Thank you so much for such an elaborate reply. My second question is, in your investor presentation, you have made one comment that fresh project inquiries are there from core sectors, like metal, cement and power generation. So if you can talk us through in terms of which part of the business or products are we seeing these inquiries for?

Ashish Bhandari: So actually, the number of inquiries is maximum from food, pharma, and chemicals. It is the rupee size of a single project that makes some of these other industries seem higher. But the maximum numbers of inquiries we are seeing are from food, pharma and chemicals. In terms of the kinds of opportunities we are seeing from cement and metals, we are seeing a couple of different kinds of opportunities. The single biggest opportunity we are seeing is around waste heat recovery, where plants are looking to implement projects that have relatively short paybacks, but will help improve the efficiency of the plant and will make the plant more competitive as the market improves. So there are some projects of that nature.

On the smaller projects side, we are seeing all kinds of things. Pharma plants looking to start new manufacturing locations, where they are looking for everything from water, enviro, new heating solutions. On the cooling side, both domestic and internationally, we are seeing many of our customers come back asking again for absorption chillers, but in many cases, again, waste heat recovery-based solutions, continuing on the trend that any time you can marry a technology and a need, but with the environment, you will see continued acceptance from customers even in this market.

Kunal Sheth: Thank you so much and best of luck for the future quarters. Thank you.

Moderator: Thank you. The next question is from the line of Raja Kumar. V. who is an Individual Investor. Please go ahead.

Raja Kumar. V: Sir, I have two questions. The first one is, with all these new initiatives the Indian government is taking in terms of curbing the Chinese imports, I just want to know where does Thermax stand from that standpoint? In what way it will help Thermax, both from short term as well as from the long term? And the second question is, I would like to know whether, like, the way the Alfa Laval is doing the scrubbers for the SO2 emission norms that is applicable for all the ships, just wanted to know whether Thermax is looking at those areas as well.

Ashish Bhandari: I will answer your question partly and for part II, I will ask Unny to answer. The first part of your question in terms of the China impact, the China impact is both on potential new opportunities and also on our potential supply. On the potential supply side, our overall exposure to China is between Rs.50 Crores and Rs.100 Crores, relatively small in the larger scheme of things. And other than a small portion of FGDs, most of it is manageable, and we are actively looking at alternate supply sources and working with our customers also. And our customers also are being reasonable and proactive as is possible.

In terms of the market opportunity and the potential for the future, I would say, in the short term, we are not seeing immediate, like, we have four opportunities immediately that we can close in this quarter because of the Chinese impact. But the long-term story is important and relevant. And I will request Unny to answer this question because Unny has been working very, very closely, not just on understanding Thermax Limited potential, but also with the government and can provide a perspective on Chinese impact on the capital goods sector, not just for Thermax, but for the larger sector as a whole as well. Unni, may I request your support on this?

M.S. Unnikrishnan: Certainly, Ashish. Yes, there is a set of actions being planned and taken by the Government of India to ensure that we bring down the imbalance in trade with China. Initially, in public, it is a knee-jerk reaction that we should ban, but we have recognized that it is impractical to ban imports from China. There are many areas where we need a transition period. which can take 1 to 4 years to transit from importing from China versus making in India.

Coming to capital goods, boilers are going to be certainly banned, not exactly banned, but there will be a fairly high-ticket size import duty levied and even electrical equipment are included in that. There is a list of 300-odd items, which is already with the government where import duties will be fairly high, and they would not be able to compete with Indian companies in India. So that is very sure. When is it going to be implemented? As early as possible, I would expect it to be done in the next maybe three months period, maximum. But one will be allowed to import from China still on a special license basis, which has to be applied for.

So with that, there is certainly domestic capacity available for possibly every capital equipment including supercritical boilers. I think we will not get directly benefited on account of supercritical boilers, which will only be for two other large heavy engineering companies, but Thermax will be a beneficiary when it comes to smaller boilers and waste heat recovery-oriented power plants.. In air pollution control, the Chinese were making inroads into the private industry, but not for NTPC tenders. There again, they will not be able to come in and Thermax will certainly benefit.

But I would look at something totally different at this juncture that a lot more of investment is expected to come to India. Currently, people are talking about the electronics-oriented items, but it will also be process equipment in the future. China is incidentally one of the largest process equipment manufacturers in the world. In fact, the credit has gone up by almost 4x in the last maybe 10-year period of time across the globe. So, a part of that will come to India because there are capabilities available.

And whenever anybody is going to set up capacities in India, most of them will need either a baby boiler or a larger boiler. They will certainly need a water treatment plant, chemicals and, of course, when you have got any combustion equipment, air pollution control. So these are the areas where Thermax will get benefited, directly and indirectly. Now don't ask this question to Ashish next quarter that how much did you get from this. He will also need time as it picks up. That is it. Thank you, Ashish. Please continue.

Ashish Bhandari: Unny would you also like to respond on the Alfa Laval example specific to the environment segment as I am not aware of this specific product.

M.S. Unnikrishnan: Alfa Laval has bought over Aalborg. It is a boiler company, which specializes in marine boilers. So in marine boilers, where you use heavy oil, which has got sulfur content, desulfurisation is a product specifically needed. And that solution is already available with them. That is why they supply it but that is not needed, especially for India. In fact, furnace utility is totally banned in India for boiler application or maybe genset application equivalent of that at this point of time, unless it is inside a refinery. So I do not think that is going to make any difference. It is a very expensive technology in comparison to what we provide when it comes to industrial level boilers. And please remember, in India, the predominant part of the small or large capacity boilers are solid fuel combustion either coal or biomass, very less oil. And going forward also, we want to discourage the utility of heavy oil. So it may not have any substantial impact in India.

Raja Kumar. V: Thank you.

Moderator: Thank you. The next question is from the line of Kashyap Karthik from Table Tree Capital. Please go ahead.

Kashyap Karthik: Thank you, Sir. Sir, from a food, pharma and chemicals, especially in the pharma and chemicals, given the craziness in the market, are you seeing large I mean what is the usual ticket size? And what do we supply to the food, pharma and chemicals and if you could just focus on pharma and chemicals. And where do you see which region do you see? Do you see the West ordering more? Do you see the South ordering more? So if you could just give some color on the pharma and chemical sector, please?

Ashish Bhandari: Could you repeat it the last part, the colour on the food and pharma sector from what point of view, which geographies projects are happening?

Kashyap Karthik: Yes. So from a Thermax perspective, you said previously in the call that there are a lot of inquiries and you are going on in the food, pharma and chemical sector. So if you could just elaborate, what kind of products do we usually supply to the food, pharma and chemicals, and more for pharma and chemicals? And two, from which regions are you seeing a lot of pharma and chemical exposure? Is it via the South or is it West? If you could just throw some colour on that from a Thermax perspective?

Ashish Bhandari: We see this across the country. And in terms of the kinds of products we supply to these industries, it is actually across our portfolio. So let me start with boilers here. Almost anything that you need to do whether you are producing steam or heat or some sort of, again, heat recovery-based solutions, etc., you will need something from our portfolio; not the very large boilers, but our medium and small sized boilers in many of these cases.

Our absorption chillers are very good, and there is an application that we have talked about previously, which continues to be extremely strong, which is around vapour recovery and using the heat from the vapour recovery and for a couple of customers even the moisture from that vapour recovery, driving both water and chilling-based solutions from that. All of these industries also require water solutions, both from upstream water treatment point of view and then effluent treatment at the other end when you discharge the water.

Increasingly, in the chemical industry, zero-liquid discharge is an area of interest. Many of our customers are also interested in rooftop solar on the industrial side and continuing to look at blending different kinds of energy sources to come up with more efficient and cleaner energy overall. So I would say, it is across the industryand across the board, we have projects. And of course, every time you have heating solution going in, invariably there is an environment-related byproduct and a solution on the environment side also that gets bought either along with the boiler or separately as well.

M.S. Unnikrishnan: Unfortunately, Ashish does not have access to that data. Those guys are sitting in Pune. I will just help him out just to give you colour on this. Of the orders registered in the first quarter, approximately from the domestic market, Rs.130-plus Crores has come from these sectors which he mentioned about for our products. In that, the largest is heating, which is around, Rs.55 Crores; followed by air pollution control and cooling with Rs.28 Crores, Rs.21 Crores, the equivalent of that. And taking into account onlyRs.130-odd Crores orders sector wise, the largest is going to be, drugs and pharma; followed by food and beverages at number two; and chemicals at number three. That is the way it is seen that way.

So he answered in details about what all is needed. You may want to know ticket sizes because I heard that word. So the smallest ticket size for an order could be a small water treatment plant worth maybe Rs.20 lakhs or Rs.25 lakhs; the largest could be, , say for a pharma company, a boiler could be as high as maybe a few Crores of rupees. And it is spread across the country, as he mentioned about.

Kashyap Karthik: Sir, just a follow-up question to both of you. In terms of, when you are seeing Rs.130 Crores per quarter, has this been the run rate over the past two years as well? Or has it suddenly increased? And what do you see over the next couple of years as well? If you could just give us that timeline view, that will really help us kind of see if this is giving a delta or is it just BAU that goes on every year?

M.S. Unnikrishnan: Frankly speaking, this is something I am answering because you asked for the past years. We had, for the standard products of the company on a quarterly basis, baseline orders, the lowest being around, say, Rs. 200 crores and the highest being around Rs. 550 crores. That is a range in whichwe have moved around. So this Rs. 130 is not an example at all for that purpose because we have given the value only for the three sectors (food, pharma and chemicals). . Standard products will go into a number of maybe 22 different sectors. In these three sectors, I may not have the number ready, but I am sure , it is almost equivalent to pre-COVID days. It is not a surge that we are seeing in the number. A surge will happen only once all of them start investing.

Frankly speaking, we were expecting no orders to happen in the month of April when the lockdown happened. People were not even aware if all of us going to survive, including you and me., equivalent and then we navigated through April, May, and June. So April had a lower number that doubled in the month of May, and I think it went up by another 70% or so in the month of June. And in July there is further improvement. So what he mentioned about in the beginning is that despite the COVID fear. See, in the month of August, when we are talking on August 13, versus if you were to look at what was in the minds of all of us, including all investors, CEOs of companies in the first week of April is, will we survive? Some of us also spoke in public forums and webinars, that countries will fail, companies will fail. That was the perception all of us had. Today, none of us are talking the same language. So in that kind of a negative scenario also, these industries were investing is what Ashish meant in his opening remarks.

We are aware of the programs that were announced. I am not naming anybody. At least three to four of them have already announced their investment plan, not small numbers. One group has already talked about almost Rs.1,500 Crores worth of investment. In pharma, it is quite large a size, which will mean Rs.1,500 Crores kind of a sizeable investment, Thermax can have an order intake of not less than maybe Rs.50 Crores, sometimes, if they were to go for a captive power plant, it can even be more than that, I would think. So those kinds of things are going to happen as we move. So he was giving you an indicator, which are the sectors, which still gave orders in the most difficult and unexpected time.

Moderator: Thank you. The next question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

Sujit Jain: Actually, there is no question. This is just to thank Unny. We have benefited from the interactions with you. We are going to miss you and as well as good luck to Ashish. Thank you.

Ashish Bhandari: Thanks a lot.

Moderator: Thank you. The next question is from the line of Rushabh Sheth from Karma Capitals. Please go ahead.

Rushabh Sheth: As an outsider, if you kind of want to sort of reimagine Thermax, considering that there has been a high level of technological obsolescence in terms of the capital goods industry in the last 5 to 10 years, and it is evolving very rapidly in terms of what the kind of technology the world needs, how would you reshape Thermax? So clearly, there was a Thermax, which was much more energy-focused, large boilers and all that. If you kind of look into the future and see the evolution of technology, how would you imagine...? Okay. I am sorry. So maybe you can take your next question. Maybe I can come at because I don't know if there is an issue with the line. But I just wanted to ask Ashish about how you can kind how do you reimagine Thermax in the new world?

Ashish Bhandari: Okay. I think, it is the same question and the answer will be same in some sense what I had answered previously as well. I appreciate the question, and I appreciate the importance of the question as well. My first few months with Thermax have amazed me to know how many technologies Thermax has that are relevant to where the world is going in the future. And if you look at our R&D portfolio and some of the public news clippings and other stuff the team has worked on from a technology point of view, it is quite impressive. That said, what does it mean for us in the future, is there a change in path, or is there a small shift, etc., I would please request if you would give me some time to come back to you, not for any other reason but because I am going through that exercise and would need to share something based on deeper analysis and discussions . Yes, but suffice to say that even in the examples that I shared, and you take a look at the businesses that Thermax is in, clean water, clean air, need for energy, need for green, Thermax touches almost every one with these long-term and very, very important themes and that are relevant not just to India, but to the world at large.

In the example that I gave you on the paper industry, the idea is not that you redo your entire manufacturing plant or something, it is ultimately a challenge on application and to be able to modify and learn new applications. So you modify your equipment. Heating will be needed in every which way. If you are not doing it of coal, you will be doing it of a different raw material, a different type of fuel source. So modifying, learning, working, applying, bringing technology to be able to do that is a fascinating exercise that Thermax can do better than anybody, in many cases.

How do we continue to walk that technology capability? How do we continue to enter new spaces on adjacent technology? How do we enter new spaces completely that are continuing and are relevant to the vision that the company has of conserving our resources, preserving our future, which gives us a very wide spectrum of businesses and technologies that we can work with? Please give me some time, I would say.

Rushabh Sheth: All right. Thanks a lot. Appreciate it and we look forward to hearing from you. Thank you.

Moderator: Thank you. The next question is from Mohit Pandey from Citi Group. Please go ahead.

Mohit Pandey: Thanks for the opportunity. Sir, my question is more to do with the activity levels that we are seeing in July and the first 10-12 days of August. So Sir, both on the domestic supply chain and execution at project sites, fair to say that they are back to, say, 85%, 90% of pre-March levels now? Or how are you seeing things?

Ashish Bhandari: I would say not 90% yet. Our number would be closer to 75%, both on the demand and on the supply capability side overall. There is potential that before we end the quarter, we may be better. But with all the uncertainty, it maybe be worse as well. So it is too tough to predict anything even for a month. We can just say where we are in the trend that we are going on.

Mohit Pandey: Okay. So Sir, on the supply side, if you could give more color as to where are the bottlenecks coming up?

Ashish Bhandari: The bottlenecks are of three different kinds. One is related to where our plants are located. So for example, our plant in Pune, where Pune still has a significantly high amount of cases that are coming in and that is true for many of our sites as well. We have not been able to ramp up to full capacity. We are well below capacity. But that is because we are being extremely careful because you do not want to be in a case where 20 people working in a particular small subunit are all affected with COVID and then they go back home and affect a larger population. So we have been very deliberate in terms of how we are operating and how we are bringing things into place, both here and many of our operating sites as well.

The second is the availability of labour. And migrant labour, as Unny mentioned, is coming back as well. But it is not there entirely where we want it to be, but that is getting better and better with each passing week, I would say.

The third impact is the impact that has happened on our sub-vendors. So in many cases, our sub-vendors have been limited in the ability to supply to us, etc. In a couple of cases, we have actually done a very deep-dive of all our sub-vendors, understanding if they have any critical issues, such as issues relating to manpower or financing, etc. So we are working very, very closely with our sub-vendors.

In general, across the board, I would say, numbers are getting better, which is what I said here, where we finished Q1 at an average number that was in the 20% of capacity utilization and the 20% to 30% was also driven largely by our chemicals plants. Now currently, we are closer to 75%. And maybe by the time we get to September, the number may be even better. But very difficult to say where things would be even a month from now.

Mohit Pandey: Okay. Thanks a lot for the elaborate response. The second question, is it possible to share the revenue and EBITDA number for Danstoker for the first quarter?

Ashish Bhandari: Would you repeat the question, what specifically for Danstoker?

Mohit Pandey: For revenue and EBITDA numbers.

Ashish Bhandari: Rajendran would you, I have the numbers in front, but I think will be best coming from you, if you do not mind sharing.

M. S. Unnikrishnan: We normally give up to the segment level not individual small entity level, we have not been giving that.

Mohit Pandey: Okay Sir, no worries. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Shiva Sindhur from Zen Securities Limited. Please go ahead.

Shiva Sindhur: Sir thanks for giving me an opportunity. What I understand is about 60% orders are from other segments. While I understand the pharma, FMCG and the chemical sector orders going up, but can you briefly describe about others? And my second question is, sir, what are the key monitorables that you would monitor from here on for the sake of noticing any order pickup sometime in the future. That is all from my side, Sir.

Ashish Bhandari: Look, on the first part, I would say and I think that was a question that had come from Renu right at the beginning as well. If we look at our existing orders or the orders that we booked for Q1, some of them were even outside of these three industries where we have been reasonably consistent and closer to pre-COVID demand. Even in other sectors, there were some projects which were very close to finalization even at the end of Q4 of last year that has been through. We do get fair amount of services revenue and O&M revenue, which is of a continuous nature, so you will see those orders also continuing to show.

As I had mentioned previously also, there are applications around waste heat recovery, around a variety of such projects that are continuing to happen even in this environment. And finally, even for large projects that are PSU-driven, as an example, we are seeing activity, and we are continuing to move forward. We do think in the next 90 days, decisions will start to happen because the interaction with the customer has also started in earnest, but it will take time because some of these are very, very detailed and complex discussions that are going on.

In terms of your question around what metrics do we monitor, we monitor a host of metrics. First, I think, from the overall health point of view, we monitor even outside of the orders and when business will come back on track. We monitor cash very, very strongly and very diligently on a weekly level because that is a good barometer of the overall health of the sector and is also, ultimately, the single barometer of measuring things that are making sure that our business continuity is not compromised in anyway.

So that is the first metric that we look at even when we look at the sectors and other things overall, and then we monitor our CRM platform, which is our entire opportunity universe, but specifically, what projects are moving to what we call as our working and buying platform, which are getting to final negotiation and where we see customers ready to take decisions. So I would say, all three of our numbers in each of these months are starting to trend and improve. As Unni said, they are not where things were last year, but the numbers are definitely getting better and better. The question now is both on how much of what is in the working platform goes to final negotiation in the remaining portion of this quarter? And even if it slips into next quarter, perfectly fine, but we would love to see those projects going to final conclusion and then the second bit, which is open, is in cases where we have some amount of competition, what kind of pricing pressure we will see on some of the bigger projects and what our competition does. Both of these are open questions in my mind right now.

Shiva Sindhur: Okay. Sir, just one last question so somewhere in the middle I lost connection due to poor network, so if you have commented anything on you are or if you have not commented previously, do you have any comments on your capital expenditure sometime in near future or sometime maybe in next one year?

Ashish Bhandari: So capital expenditure will be tight. We will be extremely tough with cash, and we will be extremely tough with capex. The places where we will spend capex are in places where our long-term business is of importance and relevance. So in areas, especially around digital, where we think we, as a company, have to continue to move, become more and more digital and where investments are relevant and needed, we will do investments in technology. We will continue to do small investments in making us greener and staying continued on our long-term plan of reducing our carbon footprint as a company. Those we will continue to invest in. Everything else, which is discretionary in any form or fashion, which is not absolutely mandatory from a safety perspective and continuity point of view, those we will be tougher on. I do not anticipate that we will be increasing our investment in opening new plants or anything of that sort. At least, that is not the plan that we have currently.

Moderator: Thank you. The next question is from the Renu Baid from IIFL. Please go ahead.

Renu Baid: Sir, just a small follow-up question. I do just have a small follow-up question. I think most of them have been already done, but just wanted if possible, can you share what is the update on the Dangote order or project? Has it been fully completed? What is pending on the project? And update on the FGD orders, which have been under execution. That is it.

Ashish Bhandari: So on Dangote, the project is still not completely finished. It is still going through execution and will continue to go through execution for portions of this year.

Renu Baid: Would it be possible to quantify as in what proportion of the billing is left? And have all the shipments been completed or only the supervision part of the order is left?

Ashish Bhandari: Both are continued, and the numbers are available. Rajendran, would you mind sharing on Dangote, specifically the remaining schedule and only your advice on whether we share this level of detail or not?

M.S. Unnikrishnan: See, what is pending now, Renu, is the last part of items, which are like instrumentation and some other items , which is unfair to send it right now because the boilers will be commissioned only as and when they are ready. So there could be damages to that. The overall amount is near to Rs.100 Crores is what is pending to be billed in the entire project. That is it. And otherwise, all the equipment, which is sent from here, is put on to the foundation. They can be commissioned as and when their site is getting ready. Then supervision is being done wherever there is work going on. We have a team of people over there. Financially, the project is very safe. We have sufficient advance available, but still they are continuing to pay.

Renu Baid: Right. So the port dispatches and other things, which were stuck in the last quarter, everything has been done in 1Q itself?

Ashish Bhandari: The FGD orders, the 2 big ones that we have, continued to go through execution. No particular red flag as such. We have not hit a couple of our next billing milestones on those either, but nothing to report at this particular point in time.

Renu Baid: Sure. Broadly the shipments and the site work for these projects should commence by the fourth quarter or next year?

Ashish Bhandari: I think fourth quarter and the shipments in the value revenue realization will go into early part of next year as well.

Renu Baid: Perfect Sir. Thank you so much and all the best.

Moderator: Thank you. We have one last question in queue. We take the last question from the line of Aditya Mongia from Kotak Securities. Please go ahead. We seem to have lost the line for Aditya. Well, that was the last question in queue. I would now like to hand the conference back to Mr. Varun Ginodia for closing comments.

Varun Ginodia: Thank you so much, Rayo, and thank you so much, Ashish, for patiently answering all the questions from the analysts and best of luck in your role ahead. Thank you so much, Unny Sir, for answering all the questions over all the years that you have been an integral part of the analyst community in Thermax, and we wish you luck in your new role. I will hand over the call to you to give closing remarks. Thank you.

M.S. Unnikrishnan: Thanks a lot, Varun. And I am so happy that when I am around, Ashish was able to take all the queries and questions, especially for somebody who spent just about four months in the company and that too not in Pune, from work-from-home equivalent. I am so happy that I am handing it over to an able hand who will take this company to the next level.

I have taken this special opportunity to thank each one of you. My learnings about the market, the market expectations, how to benchmark with other organizations have come from each one of you. And the challenges you shared through the questions that you asked me, though I would have answered spontaneously, it set me thinking there afterwards and which is what has directed me to do many things in the organization. It is not the query from the Board of a company or from a customer because after all, the sustenance of an organization depends upon how we are able to perform for our shareholders. We have got only one shareholder who holds 62% equity of the company, whom we meet, in any case, regularly on a daily basis. You represent the minority shareholders of the company. Apart from that, even otherwise, as an entity, I depended upon each one of you to give me the stakeholder feedback and which has certainly guided me for 13 long years to run the company. I am so happy and got enriched.

Some of you may want to know, what am I going to be doing next. So I thought it is only fair on my part to let you know that I have already joined the Boards of KEC International and Kirloskar Brothers. I may be on the Board of a couple of more companies, not too many, maybe one or two more. I am supporting ASCENT, Foundation of Mr. Mariwala, Mariwala Foundation to support and mentor medium and smart small-scale companies and help them scale up. Plus, I will be taking up teaching, which I will let you know a little later because it cannot be at this point of time and last part of conclusion, in one of the higher education institutions of repute in the country, and something to do with the research. I will be around for all of you to be like a good friend to each one of you and that indication I want to pass to each one of you to be my good friend going forward also. I will depend upon you for your opinions and ideas. Thanks a lot, once again. Thank you.

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