"Thermax Limited
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Moderator: Ladies and gentlemen, good day and welcome to the 2QFY2021 earnings Conference Call of Thermax Limited hosted by Ambit 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 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, Rutuja, and good morning, everyone. I hope everyone is keeping in good health. On behalf of Ambit Capital, we are incredibly pleased to welcome you all to 2QFY2021 Earnings Call of Thermax Limited. Today, we have from the management with us, Mr. Ashish Bhandari - Managing Director and CEO and Mr. Rajendran Arunachalam, Group CFO. I will hand over the call to Mr. Ashish for his initial remarks, post which we will open the floor to Q&A. Sir, over to you.

Ashish Bhandari: Thank you very much and good morning to everyone on the call. I think the analyst presentation has been shared through our multiple channels, so I will limit my talk to pages through the analyst presentation, keep it brief but give lot more time to everyone on the call for questions and answers.

We live in interesting times and with that in mind, I think all of our focus for the first six months of this financial year was first on making sure that the basics and the fundamentals were taken care of. Last quarter when we met, we talked about safety of our employees, the importance of cash and the importance of focusing on our customers and our employees, making sure that we are doing everything correct.

In Q1, Q2 we continued with that mentality, and you will see that in our metrics, all three of these things will come out. We witnessed that the business environment also started to improve.

I am happy to share that as we look into this particular quarter, most of our operations have come to some amount of normalcy and by normalcy I would mean 80% to 100% of its capacity, 80% to 100% of its run rate businesses, services O&M sites are all operational, all of our TOSEL sites operational, all of our factories up and running. So that bit is not just running, up and running with good capacity, capability, so all of that is addressed - the people, the labor issues in most cases is addressed.

From an economic environment point of view, I would say the answer is still somewhat cloudy; it is cloudy for couple of reasons. First, while COVID in India seems to be getting better and overall, I mean, looking at every sector, the numbers are starting to get better. But we do not know what the second wave will look like in the global scenario and even for India, what future waves would look like continues to be slightly mixed. Here there are many sectors like textiles in particular, they are starting to worry about exports and future sales etc., so I would not say it is 100% up and running.

The second bit is on the project side where last year we had 1,000 Crores worth of projects more or less based on two big FGD orders; it is not that we have lost anything on FGDs this year or that the projects have gone missing entirely. Many of those projects have had a redo because for government projects in many cases, the budgeting had to be redone because of the China angle and even on other fronts, people have been very, very cautious in executing major capital expansion plans.

So that bit of lack of clarity as we look into the second half is still there. The pipeline exists, but the win rates and whether customers will actually execute those projects or not is unclear, so we are actively bidding on many things, but the outlook would be unclear.

Overall, on the profit numbers, I will let Rajendran talk a little bit more in details. It was below what the expectations maybe, but there are some good reasons to that, we think the health of the business continues to be good, cash flow management continues to be exceptionally good. You will see that we have increased our capacity of chemicals plant; overall in terms of capacity we can talk a little bit more in our detailed Q&A but those were some of the highlights and our overall capability side. From an execution perspective, we have been happy with how we have performed.

With COVID, we had nearly 400+ cases across Thermax. None of these cases resulted in any sort of community spread. In two cases, one in Chinchwad and one in Paudh, we chose to cut down operations significantly to ensure that there was no community spread because of our actions, so in all cases we put safety first. It was also an opportunity for us to bring our digital tools and to play in terms of how we track people within the facility, how we manage social distancing etc.

You would see some of the order book status, nothing dramatic to talk about except that even in sectors like cement as an example, all the cement applications were primarily around waste heat recovery. So, sustainability continues to be high on the agenda for the customers. Customers are getting confident and opening up their cheque books for executing projects that have two years to three years payback or one year to three year payback, which is good to see because sustainability helps in larger ways as well in terms of environment and our larger commitments is part of 2021.

In terms of business highlights, I think I already talked about waste heat recovery. Our TOESL business which is our build own operate model is seeing good traction. We won our first international project in this regard; it is in the FMCG sector with top tier company which we cannot disclose but we are extremely proud of having achieved that. In India also the pipeline looks good and we have had some good successes out there.

We won a major order for a heater which is in the Oil & Gas sector. The largest heater that has ever been developed in India for India really, really proud of that. In September, we produced 30 chillers out of our cooling plant in Sri City which is the capacity that we were hoping to achieve later in the year. So, from an execution perspective, doing 30 chillers in that plant means the plant is stable, the supply chain is stable, it is a highlight for us, that we are very, very proud of.

One more interesting application is working with the paper mill and taking non-recyclable solid base, NRSW as it is called. We had a major breakthrough in terms of being able to manage that from an application perspective and as we succeed with this application, we think there are other opportunities that will open up for us on a similar model.

In general, I think waste to energy continues to be something that we as a company can do quite a bit in and that India as a country and many of our international markets also will continue to have some of the solutions in demand going forward as well.

In the environmental segment, the 'atoM' from a product perspective is the highlight. It is very, very compact, completely modularized sewage treatment plant or unit; you can see how efficient it looks from a form factor perspective, from a capability and specifications perspective. It is kind of a step for us on the product side and with an expectation that it is a template for our water business for the future as well. There are some other good opportunities as well as we look into the second half, not much action on the enviro sector from the FGD point of view but I shared early on in brief on the reasons for why it did not happen.

The chemicals business, last quarter we have talked about that our percentage of specialty chemicals was good. We had favorability in terms of input costing from a commodity pricing point of view. We were also able to manage our cost relatively well in terms of our G&A expenses not just in chemicals but our entire company, all those trends continue to hold in this quarter as well and we had higher capacity availability at our plants, so with the improved revenue, we had improved profitability and the percentage profitability also improved. So that was particularly good.

Unclear how commodity prices etc., will move in the future but the focus on making sure that we can continue to build specialty chemicals increases and improve the stability of the capacity addition that we have done. Our Dahej plant has doubled in capacity from a rated capacity perspective, practically here we have 800 tonne metric cube per month additional capacity now. But to stabilize the plant and make it capable for doing very specific specialty chemicals will take some time, we think as long as Q1 of next year, but the capacities are now available. Overall, I think, increasing volume from this new plant is something that we will look to do. Lot of new applications that the team is having success with fair bit of international growth for our chemical segment as well, so clearly a highlight for us across our entire business.

With this environment, I think the focus on digital continues to be strong. While we have cut down investments and expenditure across all categories, digital and technology will be two areas where we will increase our spending, not just now but through the rest of the year, there will be accelerated funding in both of these areas. Remote commissioning, remote management in particular is something that we had plenty of examples both in Q1 and in Q2. In Q2, our acceleration in terms of remote monitoring from an application perspective, driving solutions around digital and all of that will continue to accelerate and as we have major successes here in future quarters, we will continue to come back and report those.

Some good customer accolades overall in terms of safety, in terms of new projects that we have done; couple of our customers were really happy in terms of how quickly we executed during COVID times in getting their plants up and running. To be fair, I would say there are customers who are now looking to accelerate deliveries and where we are having challenges in making sure that our plants can keep up with this pace. You can see our backlog is quite a bit and during Q1, customers were pushing deliveries out, in some cases even in Q2 customers were pushing deliveries. In most cases now customers want delivery, so now we are limited more by how quickly we can clear our backlog which is a good problem to have but we are seeing quite a bit of that where some customers will come and say expedite, expedite as much as possible, so we look forward to that.

The individual consolidated performances by segment and the detailed financials, I will pass it to my colleague Rajendran to take you through some of the pages that we have shared in our analyst reports.

Rajendran A: Good morning to all of you. In the investor presentation slides on the financial performance, the order booking and order backlog numbers are there. The chemical segment performance as Ashish earlier mentioned continues to be robust, similar to our Q1 performance. For the Energy and environment segments, highlighted in last year Q2, we had a large FGD order of about 470 Crores that we had booked and hence the environment segment had seen an higher order book and that is the reason why you see large negative percentage drop on the environment segment. Energy segment has more of our project businesses, and traction on that is coming back at this time. Our order book position remains reasonably stable compared to a quarter and we have sufficient for execution in the coming quarters.

On the next slide, in terms of the profitability and the key performance indicators, while the PBT before exceptional items does show a dip vis-à-vis last year quarter, we have had some excellent expense control. On our other expenses, we have had some onetime expenses relating to our closure of certain oversees entities, some of the onetime items hitting as even the PBT before exceptional items and then of course there are an exceptional items of 25 Crores on the consolidated financial that we all have to take and we have disclosed the reasons for that. Excluding these onetime items and exceptional items, performance would have been quite comparable to the prior year Q2.

On the segment performance, the chemical segment continues to be the robust performing segment for us in terms of profitability given the improved manufacturing in our capacities as well as the specialty resin performance being better than the previous quarter and the expense control that we have been able to do has led us to report a good number in this particular segment.

Environment segment has delivered a better profitability, given the overall improvement in operational efficiencies and expense control. In the Energy segment, we have had challenges in terms of the topline drop specifically in this particular segment and with reasonably fixed nature of expenses on employee cost and depreciation and a few orders where we have not had the best of profitability compared to last year Q2 where we had executed the Dangote order. Given the challenges on these fronts on topline, drop in material cost and expenses being fixed nature, we have had some concerns on the profitability of this particular segment for the quarter.

We have shared quarterly trends on the various segments and the order backlog with you and in case you have queries we will be happy to answer that. Thank you.

Ashish Bhandari: Thank you very much Rajendran. Thank you very much again to everyone on the call. As I said we would keep the opening remarks relatively short because all the information is here with the team, spend more time asking questions you may have. So, with that we can open the floor to questions if that is alright?

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Thank you for the opportunity. The first question is on the energy segment where you mentioned that there was a big Dangote order so question here is what was the share of the revenue from that order in the FY2020 and are we seeing an opportunity equivalent or multiple of that which could replenish that order and we go back to the original level of profitability? That is my first question.

Ashish Bhandari: Bhavin, I think that was a large order as you were aware, it was 1000+ Crores in the last year and hence the execution of it was definitely helpful. However, this year we have multiple orders of varying sizes which fills up for that. I think our order balance figure is at a similar level as in the past that should give you comfort that we have sufficient orders for execution going ahead.

Bhavin Vithlani: Sure, second question is on the chemical segment we have seen significant improvement in profitability, so would be useful to understand what were key drivers and what is the sustainable level of profitability in chemical segment?

Ashish Bhandari: The key drivers as I said in my opening remark were three - an increased percentage of specialty chemicals, overall supportive commodity pricing and then finally our cost control which was on a G&A side across the entire company which helped all three segments but in chemicals also it has helped accelerate some of the numbers that you see. The trends looking forward is that the percentage of specialty chemicals may go down in the near future because we are adding new capacity but the overall volume numbers and the overall volumes of specialty chemicals should both hold at least that is our expectation. The G&A control at least for the next three months to six months should do well. Commodity pricing is not entirely in our control so we cannot talk much of about it. So, while the mix may change the overall volumes should continue to hold in terms of what we have talked about and increase because we have increased capacity in Dahej, on cost side not everything is in our control.

Bhavin Vithlani: Any guidance that you could give on because we have seen a 30% effect in this quarter historically, we have seen in the range of 18%-20%, what could be sustainable number to work with?

Ashish Bhandari: Very difficult to say because of commodity price movements but I think the increased specialty chemical portion of our business is what we are challenging our teams to hold and improve. So, in the near term, it is still okay but whether that will that hold for the next six months or even next three years is difficult to say. But overall expectations from our chemical business is high because as I said, we have increased capacity so how do we deploy that capacity now is something that the team is working actively.

Bhavin Vithlani: Sure and last question on order booking side we had a reasonable last year we had a 900 Crores from FGD but are we seeing opportunities in the other segment that we will be able to at least match that level of 5,500 Crores in the current financial year?

Ashish Bhandari: I think that will be a challenge to get to that level of order book clearly because in the first two quarters of the year we have lost so much ground that while those projects exist just from a decision making point of view, they may not come to the table fast enough. So, I will look at the next two quarters for our base business to get to the level set last year. And then the project ones are not entirely in our hand, we can be competitive, we will be very aggressive up to a point, but beyond a point we will not except unreasonable cash terms, we will not expect unreasonable pricing and we will be patient if need be working with our customers. Even the FGD pipeline exists, if you take a look at the number of projects in India and the number of plants that will need FGD, that number continues to be very, very large. NTPC itself has a huge volume of projects that are still pending but many of them will have slowed down slightly because of two reasons, many of them will need a re-budgeting because of the China angle and the association of that China angle with FGD and secondly many of these customers outside of the government companies were looking to see if they could delay their programs by getting extensions, so some of that work is also going on in the sidelines. Even in some of the other segments including Oil & Gas we have some big projects for which bids are outstanding, not sure how those movements will be also not sure what our win rates will be, so it is tough to come back and commit to a number.

Bhavin Vithlani: Sure, thank you so much and best wishes from our side.

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

Sujit Jain: Compliments on a decent set of numbers. A few quick questions and details the current FGD order book in the total order book the absolute amount, the schedule of that in terms of execution over next three years, is digitization efforts which you spoke about, what kind of savings you can lead to or that is directed to like you said getting more revenues in terms of remote monitoring etc., the FGD order 1 in Saudi what is the size of that, the chemical business as you mentioned in your annual report can be split in three-four segments but within that, what is the percentage of expected contributions from that, ion exchange, water chemical, specialty chemical, oil and gas and construction, what of that you call as specialty and in terms of execution, what kind of percentage all these four segments will be given. If, I look at the chemical companies in India in last 2 years-3 years especially the promoted driven even in commodity chemicals such as even in tolling or in custom chemical or in proprietary chemical look at the trajectory, so, how do you define your chemical business, we have never seen the divisional head come on con calls from Thermax, what questions you face, will they face will you bring them in and so even they are cognizant of what the questions are getting us and one last question is on this company's compounding that has generated over 3 years -5 years -9 years, so if I look at FY2011-FY2020 data the net revenues have grown at 8%-9% CAGR 5 years 1.4, 9 year less than a percent. PBT is -6%, CAGR 5 year is 3%, 9 year is -4%, so as you take charge, how do you define Thermax, all our nations but where is the scale coming from that you think it will come from? Thanks.

Ashish Bhandari: I think for the questions that you asked, we could spend a couple of hours at least trying to answer them. I hope I have noted down a few. I will take them one at a time and maybe I will take your last question first, which are Thermax and the growth aspect specifically. One thing I will say that I have said few different times and why I joined Thermax , it is as well run a company as any in India and I can say that with confidence because while you can have a debate on the growth whether it was right or should it have been higher, from an overall cash management, from what you see overall, what you get from the company and just in terms of how it goes about its business, has just been fantastic. You will see even in this particular quarter, you can look at our numbers one way or the other but our cash flow from operations has been exceptionally strong and we have continued to add to our trajectory in a very, very strong manner, so that bit will continue to hold not just for this year but through the life of Thermax in a sense. So, the focus on topline to bottom line has always been very, very good. Secondly, I think the fundamental processes that Thermax works in is clean water, clean air, clean energy company, a company which is very much in the midst of the energy transition that India and the world is going. Our company can take advantage of many of these strengths and you will see that even in a numbers for this particular quarter where waste heat recovery is very high, the last big order that we got from Assam Bio is for converting bamboo into fuel for 2G ethanol. Lot of our core capabilities etc., align very well with what the world needs and the question in terms of how do we bring growth back, I think I will request some more time from you and the community because that is something we need to deliver on and not speak. So that is how I would answer your last question. To the question before on the chemical business, not comfortable sharing details beyond this because it will start to get into some of the competitive bids that are going on because our business overall is not very big, the moment we disclose the next level of detail, I think some of the competitive insights will become visible. Suffice to say we have four parts; the construction chemicals and the oil fields chemical are still relatively small. The capacity that we have added in Dahej is all for resins and that is the part which has a fair bit of international exposure as well. Beyond that, water performance chemical which primarily goes into variety of water solutions from boilers, from cooling towers, from RO etc., that portion of our business is also doing very well and has continued opportunities for growth that we are very excited about. So, chemicals is one that we will continue to look to grow and continue to look to invest in now that we have added capacity. There will be lot of other things that we can do to continue to improve, focusing first and foremost on the safety aspect. But overall, in chemicals, you will see that we will continue doing best and continue to be bullish. That is the second bit. The third question that you had on FGDs. I cannot commit to a specific timeline, I would say the orders that we had picked up are now moving but that after going through some period of uncertainty because we had to get clearances I talked about, this is the only portion of our business where we have some slide dependency on China so getting visibility to those and all of that I think. All of these now are in execution and is back into normalcy and we are pushing all cylinders. So good chunk of this revenue will start to show up next year and most of it will be cleared out the year after, between these two years. I would hesitate to share the exact schedule while we have one because there are still parts that are moving overall, so those were your primary questions. The fourth one was on Rajendran what was the fourth question?

Sujit Jain: Before I move that what is the approved order book of FGD orders?

Ashish Bhandari: FGD orders are about two big orders that are particularly exceptional, for the Saudi one I would not share the exact number of that. For the other two, one was 470, the other was 430, so 900 Crores. These were publicly disclosed last year so we can share those numbers.

Sujit Jain: Did digitalization efforts would it lead to certain savings and then therefore increase in margins?

Ashish Bhandari: So the digital effort is on two fronts, I think one is continued focus on just making us automated for example, here we are going to go through a complete SAP implementation for our chemical business which is not like IoT but it is still investment in digital because as we get ready for growth, some additional capability was very, very important. We are also spending heavily on our overall project execution by bringing PLM tools, bringing capability in terms of automation etc., which is starting to help us save cost. I would not show a number right now but we have internal targets and some of it will show up even right now in our G&A numbers in terms of how we are doing, drawings automation, cutting down on our overall third party expenses, our engineering expenses so some of it is internal. A good amount of it is outside also in terms of bringing new models and our remote monitoring, asset management capability that will take time before we figure out the entire commercial path to it because one aspect is connecting all our devices and starting to get data which is the path that we are going through right now. The next one is how do you create value out of that data, what will the customer be willing to pay for, how much value can you derive, can that be taken to start an entire different line of service revenue etc., for you will take us some time to answer

Sujit Jain: Thanks, I will come back in the queue.

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

Ranjit Shivaram: Good morning. Congrats on good set of cash flows with this heartening to see and also the overseas subsidiaries have delivered profitable performance this quarter so can you throw some light on the overseas subsidiaries which are still kind of paying and what is your overall outlook on each of them?

Ashish Bhandari: I will share the outlook. We have multiple overseas subsidiaries. The US and Europe ones that have anything being done with chemicals, with some of our other businesses have all done reasonably well and, in some cases, very well. The facilities to talk about are Danstoker and then our plant in Indonesia. Both of these for different reasons are work in progress. Danstoker broke even this particular quarter but I do not think we can say it is on its path to recovery primarily because the order pipeline for that business is still not strong and many of the segments that it works in is affected by two things. We are still seeing the COVID impact in the sectors we play in Europe being very high and very few customers are willing to commit. The second thing that is happening in couple of cases, there is a move away from biomass that is also hurting us slightly so while we have done a good job overall and there is some amount of stability, I do not think we are round the corner because though the business is at breakeven, small movements in future quarters can go one way or the other to a small extent. I think the movement should not be very big but that concern still remains and we will watch it very closely. Indonesia did not have a great orders quarter, its backlog improved over last year but will continue to be one that we will look at very closely because the pipeline exists in South-East Asia and it is a market that we think we are there for the long run. So, we will want to continue to not look at one quarter or two quarters as one way or the other but we are there for the long run and will continue to put our focus in making sure that we build out. Q2 was not great from an orders perspective for our plant in Indonesia but the pipeline exists and overall, in the South-East Asia we do see an opportunity pipeline. The win rates are not clear though, but the opportunity pipeline exists.

Ranjit Shivaram: Thanks for that explanation. In terms of we have announced VRS in the Indian operations and also in the overseas group, what were the major reasons for that and instead any more kind of VRS or we done with our restructuring issues because we are not seeing much growth in the future, what was the idea behind that?

Ashish Bhandari: VRS was planned because of our cooling operations moving to a new facility in Sri City in the south which is a modern plant close to the port with many capabilities so in that sense the VRS was not capacity or otherwise related; it was just part of our long-term plan. I would not state anything on what the future can hold because lot will depend on many factors. but this is the only thing that was in our plan at the current moment. Rajendran, do you have anything else to add.

Rajendran A: We have disclosed already the impact of it. I think 46 employees opted for that and the gross impact is of approximately Rs. 11 Crores that is disclosed.

Ranjit Shivaram: Okay and also, we are seeing the other expenditure a bit higher this quarter, so is there any one off under our other expenditure?

Rajendran A: So, I did say that there have been one off though I do see that they are in line with our topline drop. We did have one off expenditures related to our closure of some of our foreign subsidiaries which we have disclosed but some of those expenditure did not classify as exceptional, so they have been taken as regular expenses.

Ranjit Shivaram: Okay, can you quantify if possible?

Moderator: Thank you. The next question is from the line of Ankur Sharma from HDFC Life Insurance. Please go ahead.

Ankur Sharma: Hi, Sir good afternoon and thanks for your time. First if you could just share your outlook in terms of large size orders across fixed steel, cements, oil & gas on the overseas markets if there are any large size orders which you would expect, that will be quite helpful to give a some sense on the kind of the pipeline that you have for the second half.

Ashish Bhandari: Look I would not have a guess here because the pipeline is there, there are projects that are in bidding. For some of these, we do not know at which pace they will move. Also, the win rate cannot be predicted in advance, here we announced the Assam Bio one, but we could not share that in advance either because you just do not know that until the last minute. So, both for India and outside India there is a decent pipeline that exists, and I have talked about cement, steel, the waste heat recovery applications that are all in that Rs. 100 Crores to Rs. 200 Crores that continues to exist. On the oil & gas side comprising the Rajasthan refinery and couple of the other two or three refinery projects, we do not know when those bids will open and whether we will win or not here. Internationally there are fair number of projects that we have bid on not sure what will happen. In FGD also, there are active projects for Q3 and Q4, but how fast the customers will move to decision making is something I cannot say.

At least the discussions have started in many cases that is something I can say, I cannot commit whether that will be all decided in Q3 or Q4 or some will push to the next year. I suspect the big ones from NTPC are likely to push out this financial year, but I do not know for sure. But even with all of that, the win rates are difficult to say on how competitive these would be. We have been very clear we will look at cash and payment terms and making sure that we will be very aggressive, we look at all other things but we will not take a project just for the sake of taking a project. One thing I will say to the team and which the team has done very well is our overall profitability. If you remove these onetime items, we as a business have shown a capability to scale up and down to get to a reasonable amount of profitability. I think that has to be for us a minimum expectation what we speak internally, and the projects are very good, but they cannot come at ease because of just growth with no profitability at all. We would not have a project which goes against our expectations and becomes challenging that is the nature of the business but looking at volume just for the volume sake would not be the expectation going ahead.

Ankur Sharma: No, thanks for us and just a second question I think in answer to the FGD execution placing of the two orders that we got last year Q2 and Q3 of last year at least I was expecting that a sizeable chunk of the revenues actually starts getting booked in second half FY2021 but from your remarks it seems it is probably one of the more of a FY2022-FY2023 kind of a sales booking. So, is there any some delays on the booking front or is this as per schedule that it takes up to almost if you count on FY2022 for an order which is booked in Q2 FY2020, Q3 FY2020 that is sizeable timeline between order booking and sales booking just wanted some clarity there?

Ashish Bhandari: On the FGD execution, there has been a bit of a delay on account of the COVID impact at the project sites at the start of the projects and that delay has probably contributed to about a three month and that is the reason I think you are not probably seeing much of traction on the revenue numbers in the environment segment. But going ahead in the balance two quarters, you should start seeing some number impact on account of the FGD execution, but large portion of the execution will be in the next financial year i.e. FY2021-FY2022.

Ankur Sharma: Okay, great thank you so much.

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

Renu Baid: Good afternoon Sir, and thanks for the opportunity. My first question is coming back to the chemical segment because at least for this quarter if you see chemicals contributed high share of the profits. If you can try and give us some indication in terms of what was the overall mix of specialty chemicals in the second quarter and from a medium-term perspective if you take a two year to three year view what is the likely or expected mix a specialty chemicals in our revenue profile and would that imply that of the sustainable basis margins can when head towards in 20% range to that extent from a medium-term to long-term perspective?

Ashish Bhandari: On the chemicals business we are still working through a phase of growth and some amount of internal capabilities etc. that we are continuing to add. So, for the percentage of specialty chemicals, give us some more time may be in future quarters we can come back and disclose. But for now what I would say is the percentage or the volume of specialty chemicals that we have, we would look to hold that volume as we go into the future and hopefully increase those volumes as well. The opportunities exist, the pipeline exists as I said. In the short-term, the mix may go down a little bit because when you add capacity the initial volumes that you add in that particular capacity may not be specialty chemicals because the plant will take time to stabilize, customers will want to see production first, we too would want to be comfortable that the plant can deliver certain specialty chemicals and also converting customers from a supplier perspective is not an easy task. So, the volumes of specialty chemicals we think we can hold for the near future, the mix will be likely to change but the bullishness that we have of growing volume and the numbers holds.

Renu Baid: Sir, my second question would be to understand bit more on the export incentive side as in we have had all this 25% of our exposure on the export portfolio and MEIS benefits about a reasonable share of our operating profitability so A) have we booked any provision in the current quarter on MEIS related export incentive and going ahead what could be the likely impact on our operating profitability if the benefits do not turn out to be of a similar quantum the way MEIS benefits are today

Ashish Bhandari: Let Rajendran answer first part of your question and I think we can talk about it.

Rajendran A: So, on the export incentive MEIS portion, our export revenue has been bit subdued compared to the last year H1. So, with the approval it has been to that extent lower in our financials for H1 and we have been a bit conservative on that front definitely. Yes, with regards to the outlook I will request Ashish to probably take it.

Ashish Bhandari: On the MEIS outlook, we would hope that the government will replace this with an equivalent or an improved scheme and I think as a community everybody should and all of you should also make a case for that. It is something from an Atmanirbhar, Make in India perspective, all of those perspective taking away these benefits hurts businesses and we will continue to make a case for it. The clarity from the government I think you are privy to as much information as we have in terms of whether that will happen or not but we would of course want to make a case that it should continue.

Renu Baid: If I may ask one more question, I think we have in the last few years added new capacities and the phase II of the plant was that once these capacities stabilizes we would consolidate some of the old facilities sitting in the heart of the Pune City, so what is the strategy of plan in terms of consolidating certain old facilities and monetizing those investments may be not in the near term but from our medium-term to long-term perspective?

Ashish Bhandari: As a company we constantly look at these terms and these things change depending on business outlooks, based on lot of other changes etc. For chemicals specifically there was not a plant in Pune at all, there is a plant in Maharashtra but not in Pune. But right now all three of these plants which is Jhagadia, Dahej and Paudh, all three are running at capacity and it would be tough for me to comment on what the case may be couple of years down the road.

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

Moderator: Thank you. The next question is from the line Abhishek Puri from Axis Capital. Please go ahead.

Abhishek Puri: Thank you and congratulations on good set of results in a tough environment. Sir, just wanted to check on receivables front, what led to this large reduction and where we have made these collections?

Ashish Bhandari: I think Abhishek we have been over the pandemic impact in Q1. I think our focus from cash flow collection has been one priority that I think we have pushed all our businesses to be on and I think the collections that you see is an outcome of our Q4 and Q1. Whatever we did related to the focus on collection has resulted in a large portion of collections coming through and that is how you see the working capital improvement as well as the cash balance still going up. So, they are not one specific order or one specific customer they are across all our businesses.

Abhishek Puri: Okay and the Dangote one is already cleared completely right, the payments are done?

Ashish Bhandari: Not really, the last portion of the shipments, are still in progress and the payments are flowing through.

Abhishek Puri: Secondly more on a medium-term and long-term basis last ten years we have made lot of investments in global entities and last three years we have been just writing them off, we are taking impairments and even the current quarter has been impacted due to the impairment and shut down or some of the services business so just wanted to understand how are we thinking about this business, are we going to continue given that the energy shift is happening in a big way towards renewables, are we going to add capacity and shift it to more on a sustainable products wastage or what is the thought process there?

Ashish Bhandari: See, you have asked two separate questions. Let me see if I can answer, give you at least directional guidance on both of these. In terms of sustainable portfolio, I do not think anybody needs too much cajolement of any sort to say you should work your portfolio in that area so that is clearly something we will do. We are as I said continuing to accelerate our technology investments in lot of ways. If you take segments like TOESL that I have talked about, it is one of the largest players for biomass in India in terms of the amount of the biomass we handle, in terms of our capabilities to understand from an application perspective what we can do. The whole space of bioenergy, bio-fuels is one that is of interest to us, will continue to be of interest to us. I think that is something that is clear. In terms of water, lot of our capabilities are around water filtration but doing that in the most efficient manner, managing tough to treat water, doing zero liquid discharge, having advanced capabilities in many of these segments that is technologically advanced as well, advanced project execution capability all of that is not straight forward and one that Thermax is good at we will continue to do and double down where needed on some of these areas. On the environmental front, I think the FGD is also just an example but that whole space of cleaning up the air from our plants whether it is FGD, back filters, ESPs all of those, that is the long-term play in our mind and one that we are very good at and how do we continue to do that in India and abroad. In many places, in south-east Asia as an example the environmental norms are actually weaker than India and as the environmental norms there improve there is a trend that equipment from India will be better placed in the long run to participate and take advantage. But all those are long runs, here they are not like quarter or two kind of, they are long-term things that we can continue to do. These are just three examples, even in the case of our chemicals lot of the work that we do ultimately goes in purification of water, making sure that water is more recyclable and in applications that have a long life. You will see from our investments as and when we can talk about even on a technology side, we have some potential investments that we will continue to do which is in this area of sustainability, green energy, clean air, clean water. So, that is your second part of your question. To the first part of your question on international subsidiary I think it is fair to say that our performance has not been perfect. I think all the write offs we have had in the past will clearly say that. We do not talk about the successes as much because we do not have to write them off but otherwise but if you take a look, rest of our business in Europe and in America has done very well, all our chemicals work are based on exports, our cooling technology does a fair bit of exports and some of those businesses are extremely important to us and very profitable, here we are just talking about Dangote as an example of stuff we have done internationally and we continue to do those very well

Abhishek Puri: Thank you. I will take the rest of questions later in the queue. All the very best.

Moderator: Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Thank you for taking my question. Sir, my first question is on the environment segment, while you spoke about sustainability and it is clearly a theme that is gaining lot of attraction, what we have seen is that it has sort of not grown for us for a long time and also when we speak to the people in the industry it seems the size of orders that come in are pretty tiny, the counterparty happens to be a government or the municipal corporation and that is why the profitability is also relatively limited for your clients, so I just want to understand how should we look at scalability of this environment business that would be my first question?

Ashish Bhandari: So, I would say think about it in two terms. One is run of the mill environmental solutions where every chemical, textiles, steels, small or big plant will need some sort of management of pollution at the exit point of whatever it is that they produce and that is something where norms continue to get tougher, new and newer technology will continue to be needed. These are relatively small orders and they are not from governments or municipalities and that is the business which has the trend for a reasonable amount of growth on a continuous basis which we serve through our product businesses and is relatively consistent. Where the focus for many tends to go is on these large orders which are FGDs and there is also another set of solutions which are around DeNox etc., because sooner or later many of the plants will need this technology ultimately to meet the emission norms that we are committing to as a nation . But we won't rush to win an order from a topline perspective, mess up the financial terms, take terms with counterparties that may not be viable for whatever reasons. I hope the market is sooner going forward but we have to be patient because many of these will go through their ups and downs, they will be delayed, people will go back to the government and say can I get the one year extension, two extension all of that but sooner or later this has to happen. So, that will be my answer to your question. So, there are two parts to it, yes there is whole another side which is possible which is something we need to show we can do as well for ultimately making our air cleaner. I think that space itself has Rs. 2000 Crores, Rs. 3000 Crores orders. I do not think Thermax ever did it, looking at that immediately and in the next quarter or the quarter after that may be jumping the gun, it may be better to be patient, better to have the capability and we are the one of the few players that has full local capability in this regard, capability to execute projects on scale, on demand with the technology that is available so we think we will be one of the winners in this segment but not in hurry at all.

Pulkit Patni: Ashish, my second question is if you could just talk about what is the capacity utilization across your chemical plants today?

Ashish Bhandari: So, chemical plants I will define is specialty resins as one plant which is in Dahej. Because of a safety related incident that had happened in a surrounding plant, it has gone through shutdown and start up overall. So, for that plant for the quarter itself, there would have been around 70% odd capacity utilization but right now pretty much all of our plants are at capacity and almost doubling of capacity which has been done at Dahej. As I said just because you have doubled the rated capacity does not mean all of it is immediately available because this specialty chemicals is a very complex business from a delivery perspective, it will take another six months to nine months to stabilize that plant overall but for other than those specialty reasons we have capacity that is available now on the resin side. Outside of resins for performance chemicals and for some of our other chemicals, capacity can be added at the relatively short notice as volume increases so we can drive volume overall on the chemical side.

Pulkit Patni: Understood. Thank you so much for those answers.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citi Group. Please go ahead.

Atul Tiwari: Thanks a lot. I just have one question on this specialty chemicals, could you throw some light on what is the end use of these applications and which industry or the customers are in and I am not asking the name of the customer but the end use and industry and the second related one is you did speak about in developing specialty chemicals for new application so again some kind of color on what would be the end use or the end industry or any kind of specific specialty in terms of chemicals skill set or anything else that you are looking at, any kind of color will be helpful on that?

Ashish Bhandari: If we look at chemical, first is specialty chemicals and its spread is very wide. We have had success in multiple segments and also because this is very strategic and very competitive, I cannot share beyond a particular level on what all we are working on. I think in the business highlight section you will see a couple of different examples here. So you have a very specific application for very key account in Saudi Arabia as an example, we have got multiple water customers that are in the water purification business in America that are our customers, we have also worked on a very unique application for a sugar de-colorification as an application so interesting set of customers, very diverse set of customers, very good mix between India and International. I guess that is all that I can say, other than that we are continuingly working on newer and newer applications on this front.

Atul Tiwari: Okay. Thank you.

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

Sujit Jain: Ashish, what is the capacity in the four segments in chemicals, ion exchange, water treatment, oil field and construction chemicals?

Ashish Bhandari: I think I have already shared. In Dahej, we have increased capacity, which is on the resin side, beyond that I said there is some flexibility.

Sujit Jain: To what level in terms of Dahej?

Ashish Bhandari: So, I had shared that number. It is 810-meter cube per month of additional capacity that we have added in Dahej.

Sujit Jain: With respect to final capacity of what?

Ashish Bhandari: It will be 60 previously so 60 plus 810 and I want to specify that does not mean that all of that capacity is instantly available, and a lot goes into this.

Sujit Jain: Thank you and the international subsidiaries. At what stage do we say that this needs to get consolidated?

Ashish Bhandari: I think we have consolidated all our entities.

Sujit Jain: By consolidation I mean fixing it up because if I look at five years data, seven years data, there is growth, there are regular write downs.

Ashish Bhandari: Can you repeat your question?

Sujit Jain: Sir, my question is basically when I take up a new business segment and it does not work for three years, five years, seven years at what point of time does Thermax say that this is not working let us sell this, close this or get something into it and improve this.

Ashish Bhandari: So, I think you will appreciate that this answer will have to be a bit generic because the circumstances would guide us. Particularly in the Boiler Works service business that we hived up is I think after a period of close to seven years or ten years that we have taken this decision. Whereas there could be a shorter scenario where we may not be getting orders in a particular geography and we do not see a better outlook. So, I think very difficult to quantify because it is case specific.

Sujit Jain: What is the Sri City chillers capacity and what is the capacity in Indonesia in boilers and chillers?

Rajendran A: The chiller capacity we have disclosed it at the time of Sri City commissioning is 400 chillers per annum which is the standard capacity but obviously customizable depending on the situation. The Indonesia capacity is fairly flexible, so we do not have an exact number for it.

Sujit Jain: That is majorly into boilers and chillers both?

Rajendran A: Boilers primarily at this time.

Sujit Jain: Okay one last question, VRS what kind of saving that will be there in sub cost on an annual run rate basis?

Rajendran A: So, the overall cash outflow over a period of time we have disclosed to the impact of 46 people who have taken it.

Sujit Jain: No, I am not asking for the impact I am asking for these savings that will happen because now there will be self employed?

Rajendran A: See, the number of employees who have opted for this is 46 in numbers, so it is not a very material number given our headcount.

Sujit Jain: Sure. Thank you.

Moderator: Thank you. The next question is from the line of P Rajakumar, an Individual investor. Please go ahead.

P Rajakumar: Good afternoon Mr. Ashish for the good set of numbers. Sir, I have two questions, so the first is on the anti-China sentiment I think I asked the question last quarter as well, just wanted to know do you see any of these converting into orders for Thermax, you could give some color to that and second is I saw there is one note on the excise order close to Rs. 1300 Crores, just wanted to know the reason why kind of we are disclosing it now given the this should be last year so could you give some more color to that?

Ashish Bhandari: The second question I will let Rajendran. Sorry, could you repeat the question again please.

P Rajakumar: Yes, the second question is on the various excise demands amounting to Rs. 1300 Crores something in the hindsight in the notes to the financial?

Rajendran A: Yes, we believe at this point of time cases being various tribunal judgments that we have seen of similar nature, we believe that we are in a strong position winning that particular matter. However, our particular tribunal judgment is awaited given the pandemic there has been some delay in the resultant order but yes, we are reasonably confident given the facts of the case.

Ashish Bhandari: On China, I would say maybe there are some sectors that have revived very well based on demand, steel would be very good example where the customers themselves are bullish. We are seeing specific orders, whether because of China I would say not yet. In certain cases, there are customers who continue to see if the lowest cost supply can come from China. So at least in the sectors that we touch, the change is not as prevalent as I would have liked that perhaps.

P Rajakumar: But what do you think would be the long-term impact of this in terms of this topline?

Ashish Bhandari: Long-term impact from what we can see would be minimal. either way we have very little dependency on China for our raw material. Very small portion on the FGD side and on the increased demand side, I do not see much of an impact right now. Yes, if importing boilers suddenly becomes impossible from China then that would be good but none of them have happened so far.

P Rajakumar: Okay. Thank you.

Ashish Bhandari: Thank you very much. Thank you for hosting as this well and I wish everyone a good day and Happy Diwali in advance.

Moderator: Thank you. I now hand the conference over to Mr. Varun Ginodia for closing comments.

Varun Ginodia: Thank you so much Rutuja and thank you so much Sir for patiently answering all the questions and we can close the call now. Thank you so much.

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