“Thermax Limited
Q4 FY2021 Earnings Conference Call”

May 26, 2021

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Moderator: Ladies and gentlemen, good day and welcome to the Thermax Limited Earnings Call, hosted by DAM Capital Advisors. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Limited. Thank you and over to you Madam!

Bhoomika Nair: Thank you, Mallika. Good morning everyone, and I would like to welcome you to the Q4FY2021 Earnings Call of Thermax Limited. We have the management today being represented by Mr. Ashish Bhandari, Managing Director and CEO and Mr. Rajendran Arunachalam, Group CFO. I would now like to hand over the call to Mr. Bhandari for his initial remarks post which we can open the floor for Q&A. Thank you very much, and over to you, Sir.

Ashish Bhandari: Thank you very much Bhoomika, and very good morning to everyone on the call. I hope you can hear me clearly. I am on a handset. I am told the line quality is quite good. It is a pleasure to host all of you, and I hope each one of you is safe and your loved ones are safe as well.

We have shared the management presentation in advance, so I hope you would all have had an opportunity to go through it. My plan is to just hit a few highlights and then open up the lines, spend most of the time on Q&A as that has been the norm for previous calls as well.

I will first talk a little bit about just COVID, what it means, as no discussion on businesses can be held without talking about the personal impact that the second wave has had on so many families. Here, across Thermax, across our vendor base, for many of our customers, May was exceptionally difficult and in many ways. I am extremely proud of how the team has continued to soldier through, and all our plants were operational though at reduced capacities even when people were going through so much on the personal front.

Just as an example, as you know, most of the oxygen ran out in the second week of May, and when the government said we need the oxygen, we turned over even the half empty bottles that we had at all our plants back to the local authorities. We found other ways to continue to weld plates, to do plate cutting, moved to plasma cutters and buy natural gas based and different set of electrodes, and all those kinds of things and the team did that almost overnight - like yesterday we were working with a different methodology, the next day we knew what we were working on previously was not available, so we had to invent, test out, find a new way to work, did all that. Then immediately came the requirement that everyone who works at the plant has to be tested, but there were not enough test kits available. So, how do you stagger, how do you isolate people, how do you figure out who is in contact with whom, figuring out micro zoning etc. Our lunch plans went from one slot to five slots to make sure that people could be isolated, but also know at each point who was where to be able to do contact tracing and help.

We also worked proactively to ensure that migrant labour, which was badly affected in the first wave, is taken care of. We made sure that food packets were available, created accommodation in places where accommodation was not available close to the factory, as well as within the factory in one of the cases. We also educated through training that vaccines are important and running away will make it worse. So, a lot of work went behind the scenes by so many people that makes me exceptionally proud of the team deliverance in these last few months.

You will also see some of the things that are easier to talk about, such as vaccination camps, and the good thing is that we are finally seeing vaccines being made available to industries. Over the next one to three weeks, we hope to vaccinate a good chunk of our population with one vaccine at least. So, we will be conducting vaccination camps across our offices in India to get at least one vaccine dose available to a majority of our employees. In terms of our numbers, I think they are all there for you to see and I am sure there will be questions about it. In terms of the order book, you can see there was more of a recovery from cement, steel, refining and petrochemical this particular quarter. But, if I look at our overall order book, it is very well spread across multiple segments. Q4 was also well spread; but some of these segments, like cement and steel, in particular, were weaker in Q2 and part of Q3, while many of the other segments, pharma, in particular, was strong at that period of time. So, you can see our order book is truly broad based, which is a good thing for the business, overall.

I think increasing thrust on sustainability in our large boilers business for two quarters in a row has resulted in 100% of our orders that we consider to be as green projects - which means, there are orders related to waste heat recovery, biomass, blast furnace gas recovery etc. So, all applications are either renewable or are taking waste and converting it into something of use which was interesting. The second thing I would say is that you will see that even in this quarter, we did not have a single order that we had to report to the street as an exceptional item. Yes, so we delivered close to Rs. 1,500 Crores orders without anything that was worth Rs. 200 Crores. There were many good single orders across the company that have really helped us deliver a decent quarter without a single bluebird of any sort, which I thought was particularly good. Also, it is symptomatic of the broad-based recovery statement that I made previously.

Some of the business specific highlights are all captured out there as well as some of the moves we have made on the technology side, and we will be happy to answer any questions. Most of these are in a nascent stage because they are all relatively new products or innovations that will take some time before they start to show up on the ground. Still, it is important for us, as a company, to start moving in terms of new energy in a much, much bigger way, so these are just some small steps in that direction.

I think beyond that all the indicators, all the segment performance; everything is out there for you to see. I know there will be a lot of questions around trends and how has commodity pricing been affecting the business etc., all that I think we can answer as part of the Q&A itself.

Rajendran, would you have anything to add.

R Arunachalam: Not specific, Ashish. I think you have covered all the business aspects of it.On the financial performance front, I think we continued to maintain a reasonably good margin in Q4 and our working capital performance has improved. This is clearly reflected in our numbers that were put out. The cash surplus consequent to the working capital improvement is also at an improved level compared to last year. Thank you.

Ashish Bhandari: Thank you, Rajendran. With that, we can open it up to questions and use that to share more information.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin a question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Bhalchandra Shinde from Max Life Insurance. Please go ahead.

Bhalchandra Shinde: Good morning, Sir. Sir, regarding the order book, overall, our order has stayed flattish and in this quarter, I think there will be a constraint on the fabrication side because of the supply of oxygen. So, what kind of sales growth do we expect in FY2022?

Ashish Bhandari: You have asked three questions. Let me first talk about FY2022 overall, and then I will come to the short-term plans. I think FY2022, from a sales number perspective, will depend quite a bit on our ability to deliver, which will be limited primarily by COVID and the future waves. We saw last year that the country opened up after the lockdown in Q4 in particular, but in Q3 and Q4, we could increase the capacity utilization and pump out quite a bit. Even in those months and quarters, I do not think we reached the complete potential of what we can deliver. So, I think the overall capacity and capability to deliver a lot more exists; and in places like chemicals, where we had capacity constraints, we have increased the capacity, as you are aware, which is now coming online. I definitely see Q1 as being challenged because of all the reasons that we have talked about and not because the demand is not there. It will be driven entirely by our ability to supply. But if we get good five-six months, we should be able to recover what we have lost in these few weeks of Q1 of the current financial year where productivity was lower than what we would have liked to see. So, that is to the sales number. Overall though, I still do not know how demand will come back. The demand after the first wave came back reasonably strongly. We finished Q4, where we thought every metric was trending above what it was before wave one, so that made us reasonably positive on our outlook. Now, we see some of the bigger projects coming up for decision making, which were not there earlier. If you take a look at the last six months, we have had no big projects come up. There are projects in oil and gas, FGDs, even in chemicals that are now coming to the discussion table, which gives us confidence that we will see some bigger projects getting decided over the next one to two quarters. But along with that, we would really like to see the kind of recovery that we have had in Q3 and Q4 of last year, which the broad-based. All of this is hope. I do not think you can build and drive the company on hope, so we are focusing primarily on flexibility, nimbleness, making sure that we have good visibility into the short orders and manage the company thereabouts. So, I do not see any major red flags, but it is too early or too difficult to commit to what 2022 will look like.

Bhalchandra Shinde: The second question is regarding commodity prices which have been spiked up in the last two quarters, and there might be some fixed contracts within our order book. How much it will be, and what kind of impact we can see over the next two-three quarters?

Ashish Bhandari: In Q4, we had quite a bit of an impact driven by commodity prices. The impact was upto Rs. 10 Crores based entirely on commodity pricing with a mix of steel, aluminium, and also in the chemicals business with styrene prices going up. Even in Q1, we will have an impact of this. We would not want to share a number, but definitely, there will be an impact and the reason I do not want to share a number is because we do not know what the overall number for Q1 will look like. It is not that we do not have plans, we have multiple plans, but the scenarios still have variants. If June is completely clean and there is good productivity, then we have one number; if June is completely challenged, then we have a different number. So, it is tough to say what it will look like, but commodity pricing has an impact. The way we run our business is - when we get an order within the first 30 days, we basically retire majority of the commodity risk. So, our commodity risk is typically open from the timeframe we receive an order, send a quote to a customer, to the point when we receive an order. I would say for our large businesses, we have an open impact of about two to three months because that is the period where for a government project, as an example, we would have submitted a quote, but we do not get the order until a little later. In all other cases, we go back and increase our prices, renegotiate, and manage our customers. Our prices in the market are also going up as they have to, in the current environment. Some of it is absorbed through productivity, improved utilization, digitization and a lot of other good habits that we have cultivated during COVID. Still, some of it has to be passed on to customers as a price increase.

Bhalchandra Shinde: Thanks. I will come back for more questions.

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

Ankur Sharma: Good morning, and thanks for your time. A couple of questions - one on the order inflows again, a very good number actually in the quarter given the lack of any big size orders. You did about Rs. 1,500 odd Crores, so I am trying to understand apart from Q1, with the assumption that Q2 onwards we see a normalization, do you think you can sustain this 15 billion kind of a quarterly run rate maybe starting Q2, Q3 onwards. More importantly, you did talk about some big projects in oil and gas, FGDs. Could you also talk about any specific projects in other sectors like cement and steel? If you talk about these core and large sectors as well, how do you see ordering over the year?

Ashish Bhandari: Let me answer your first question and the answer there would be difficult to say because as a team, we talk about this a lot and we read a lot - the more we read, the more we realize that we do not know everything that is possible and specifically, I will talk about the broad-based demand that we have had. In Q3, for example, while we have had a recovery, a good portion of it may have been pent up demand, but then that pent up demand continued in Q4, which was good to see. When we started the quarter, we were depending on and hoping that some of the bigger projects will come through for finalization and they did not. Meanwhile, the rest of them continued to be stronger than what we expected and then, steel and cement sectors started to add capacity. So, we had some Rs. 8,000 Crores projects, multiple of them, starting to show up, which was good to see. Now, with COVID spreading through the country, we are seeing our demand from our distributors have come down. After the first wave, the best part was that the recovery was broad based and especially in Tier 2, Tier 3 markets. We got great demand from food, agriculture based companies, textiles and a variety of other segments. Right now, we see that they have slowed down. May was halfway decent, but by the end of May, June and July, we expect a slowdown based on the pipeline and the opportunity sets that we are working on. What we cannot say whether that is the impact of COVID reaching rural areas and once COVID passes through them just like it has gone through the big cities, whether that demand will come back or not. So, I think if that demand comes back and it is strong, then of course, we can do those Rs. 1,500 Crores in the future as well; but I do not think, I have that confidence to commit to anything like that. Meanwhile, we do see some of the bigger projects coming up for finalization and FGDs, for example, where there was zero movement, is now, finally, starting to have some minimal activity. We do think that between Q2 and Q3, we will have three or four major finalizations. We will also see whether we win those or not, but at least we will start to see those being finalized. Similarly, in oil & gas and refining, all the government companies that were slow because of COVID are taking projects that they had put on hold because of lack of people availability. All of those have started moving again as well.

Ankur Sharma: Okay fair, very helpful Sir. Secondly, on the Energy business margin, again for the second quarter, close to about 9% EBITDA margins is what we have seen. Leave apart Q1, but if you had to look at it over a year or the next two years, what is the kind of margins that you are looking at in this business at the EBITDA level?

Ashish Bhandari: We understand the margins had come down in the Energy business - part of it, I think has also been the additional depreciation that we have had to accommodate for the one plant that we acquired in the recent past. There is nothing more to be said other than that. We are focused on improving the margins at our plant and overall in the Energy business. The margin is dependent not only on us but also on commodity pricing and competitive reaction in commodity pricing. Both of these two factors are not entirely in our control, but in terms of cost management, making tough decisions, cutting down our losses - all of that we will continue to do. Even in the last year, you saw we executed VRS. We have taken hits on a couple of our international businesses, where we thought a hit was merited. We also used that as an opportunity to cut costs in some cases. I think all of that is good but, we have this headwind of the commodity price increase, which I think is something that we are all battling through. I am sure you are looking for a clear answer. I do not have a clear answer to give you, but I have talked to you about the metrics that we are looking at and managing. Rajendran, would you want to add something?

R Arunachalam: Not much but I would just like to add that this year we have also had a good amount of expense control and with our factories working on full capacities in Q4, the output has also improved. The expense control has also been very helpful during the COVID times, and I think both of these have definitely helped in improving our margins.

Ankur Sharma: Thanks. Good to know. Just one last one, if I may, on the refining capex and slightly longer term, over the next four-five years, what we understand is HPCL is talking of no more new refinery post Rajasthan BP, with the divestment and with the new owners, there is not too much scope of refining capex there. IOCL probably is doing about three-four locations but that is, I am hoping, pretty much it. So, from a slightly longer term of four to five, six year perspective, do you think refining capex may be on a decline and may go the coal-fired plant way, where you may not see too much of refining capex or new capacities coming up?

Ashish Bhandari: In general, I would agree with you. I do think refining at least, if somebody would have asked the question three years ago, we would have said that India's oil needs will grow 8%, 9%. We will continue to need a new refinery every couple of years. I do not think I would be as bullish today. So, demand in refining for diesel, gasoline, jet fuel will continue to grow. I do think there are a couple of more projects that are planned but it will not be to the extent that it was performing. I certainly do not see some of the biggest names in India going forward with projects that previously, even a year and a half ago, they would have said that they will go forward with. But that does not worry me entirely because a) I think as a world, we all have to be clear that the energy and carbon footprint and energy efficiency - both of these are something that is very important for our planet and so things have to change. The question now is, how will things change? This means, if India now has to replace that demand for all of those fuels with something like hydrogen, then that whole hydrogen economy creates a whole different set of new projects because you will still need chemicals, end products, tyres, pharmaceuticals, petrochemicals - all of these has to come from something. So, whatever that something is, it has to be something that Thermax can align well with. Ultimately, in all of those processes, there are various technologies that are being looked at where the entire process itself changes but in most of the other ways, the look is in terms of what will that refining get replaced with. So, you still need heat, steel, and what Thermax has to do is to be ready for whatever that new world looks like. I think in general, I will agree with you and a six-seven year timeframe is a better timeframe to take because the next three years could still be surprising, or could be decently bullish, not just for India but there are some new projects even outside of India that are being planned. I think they will go ahead, but if you take a five to ten year period, I do think many of these segments and industries will change forever.

Ankur Sharma: Great. Thank you so much.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Sir, thank you so much for taking my question. One of the projects that you have mentioned in your presentation is about a green supply taken on a build-own-operate model. Just one clarification - have we taken this asset on our balance sheet?

Ashish Bhandari: Your question is about the build-own-operate project and whether the project has been taken on Thermax's balance sheet?

Nitin Arora: Yes.

Ashish Bhandari: It is taken on the balance sheet of our subsidiary TOESL, which is Thermax Onsite Energy Services Limited, and yes, last year, build-own-operate was one of our fastest-growing areas where we have executed our highest ever order book. All of these projects are long-term with an average 10 years contract, where we commit to the customer to provide utility as a service, whether it is steam, water, or both power and steam in many cases and yes, it is on Thermax's books overall through our wholly owned subsidiary.

Nitin Arora: Carrying on the momentum what you talked about on the orders - if one has to look at broad based recovery, the term which you used - if I look at cement, refinery and metal, it is still about 50% of that backlog and assuming that rest of the sectors make cash flow which generally come as recurring base orders every year in the three segments which are cement, metal and refining, where do you see more growth coming in because this question has been asked to the earlier management as well. Cement has tripled its capacity whereas our order intake in the last eight years has been at a similar range. Obviously, some sectors go down, some go up; in your view, when you talk about the large project if you leave aside cement, is there any other sector you think which can grow much faster and where you expect better recovery? I am asking you because you used a word called broad based, and when you say broad based then I thought that Thermax will be trying to grow more than what it has grown in the last eight-ten years of Rs. 6000 Crores authentic company eventually. Can you throw some light on what is your plan? That would be helpful.

Ashish Bhandari: Thank you. I would say if you take a look at Q4, you are right that cement, steel and refining are particularly strong, but that was not the case in Q2 and Q3. Q1 was practically nothing, but I would say that if I look at our backlog, it is less driven by big projects, one-off, than it has been in the past, which is clearly borne out by data. It is not a conjecture in that sense. As I look forward, I will say that there is uncertainty. I would like nothing more than the broad based recovery that we had seen previously in India to continue to hold, but we do not know whether that will happen or not. The other thing I will say is that you take a look at cement – cement, as an industry, also has changed quite a bit in India whereas previously, if people would have put up a cement plant, most of them would have put a captive power plant, which would be coal base, having its own boiler, auxiliary boiler and the paraphernalia that goes with it - that is not the case anymore. Majority of the projects that we have had are waste heat recovery projects, which is to improve the efficiency of the existing cement plant. Also, where people were looking to add capacities are not looking to add capacity the way they used to in the past because the entire power plant is changing in many cases. People are shifting to the grid, and even if the grid power is slightly more expensive in a way to reduce their carbon footprint or whatever the case may be, they are looking at alternate ways to manage this. So, I would say a) the nature of the industry itself is changing, b) the kind of projects we are getting is also changing. By the way, that does not worry me entirely because when things get more difficult, it means you have to provide higher efficiency, you have to do a complex application. Many a time, Thermax stands out because we have more capability to do difficult applications based on our history and the nature of the company than many others. So, that by itself does not worry us - many times the scale is multi-fuel complex requirement, you need to manage times with at least the complex set of inputs and outputs. Typically, Thermax has more of an ability to stand out. I think that is how I would answer the question. I don't know what the future will look like and whether the recovery will be as strong as it was after the first wave. I think all of you would based on your connect with the industry, based on the inputs you have, you will probably have a better look and a better idea than I would. Honestly, I would say that.

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

Bhavin Vithlani: Thank you for the opportunity and congratulations on good numbers in a difficult period. My first question is just a clarification - page 6 of the presentation on order book breakup - is that breakup of the order received or the order book which is at the end of the period?

Rajendra A: I would like to answer that. It is for the order book that is the order received.

Bhavin Vithlani: Would it be possible to share the similar breakup of the outstanding as you highlighted there is a wide variation quarter-over-quarter?

Rajendra A: The breakup of the order balance will be a large exercise for us, we will see whether we will be able to make the disclosure.

Bhavin Vithlani: The second question is continuing with the previous participant's question - as you highlighted, waste heat is a big opportunity for both steel and cement, would it be possible to share what is the current level of penetration in the existing plants where you would have done an exercise and what is the opportunity that you see for waste heat in both steel and cement?

Ashish Bhandari: I would say, we had those numbers internally, and some of that is competitive information; so, we would not want to share the exact numbers. The cement waste heat recovery overall in India is getting closer and closer to full penetration. Yes, the new plants that are coming up will all need cement waste heat recovery for sure. Since there is still some way to go, but in cement I think most of the major existing plants have waste heat recovery. While India has good penetration in waste heat recovery that is not the case throughout the world, especially in Southeast Asia and Africa. There are many plants which do not have waste heat recovery. So it is not like just because the India cycle goes away, the application does not have room to run in other places. As the focus on environment and efficiency increases, this is an application which will be demanded by more and more customers internationally as well. Steel has some way to go, but it also depends because you have a lot of smaller plants where the size of waste heat recovery is not to the extent that you would see in a chemical plant, where the application is relatively more standard. So, I think steel has some more room to expand both in India and outside, but it depends whether these plants will go forward and execute those projects or not.

Bhavin Vithlani: The other question is the margins front - we saw a dip in the margins sequentially quarter-on-quarter versus Q3 in the chemical segment. What should be the sustainable level of margins that you could expect in the chemical segment?

Ashish Bhandari: I think when the margins were very high and most of the analysts were asking us - can we sustain 25% and beyond? Even then we had said that overall the margins in this segment are still higher than what our historical margins have been and this is in an environment where styrene prices have gone up quite significantly. Some of the investments and capabilities that we have done on the specialty chemical side gave us slightly higher than the traditional margin seen during Q4, which was a tough quarter from a commodity price perspective. Not just that, in Q4, we also had logistical challenges where we could not ship containers etc. on the chemical side. So, when margins were very high, we were already telling that we do not know if that is sustainable because in Q1 and Q2, the styrene prices were at historical lows. Now, they are closer to all-time high, so I don't know what the future looks like, again. If it goes higher, our margins will come down slightly even more - some of it we will pass on to our customers. In cases where we have long-term contracts, it may be tougher, because in a competitive world, you are also dependent on how your competitors react and it is important to keep the plants operational. So, again, I am giving you an answer where I am hedging my best. I would say where you are right now, we would like to be able to sustain those levels for sure.

Bhavin Vithlani: Thank you.

Moderator: Thank you. The next question is from the line of Jonas Bhutta from Phillip Capital. Please go ahead.

Jonas Bhutta: Sir, congratulations on a great set of numbers. Two questions, sort of longish - On the Energy segment side, given that bulk of your order inflow quarter had been less than Rs. 100 Crores order volume average, I wanted to understand what portion of our revenues or order book or order inflow comes from the standard products business and this question is particularly to the Energy segment and. What was it about three years back and have we seen some marked improvement because of the lack of large orders being there in the market? What do you expect over the next two to three years, with the proportion of sales if the standard product continues in light of what it is mentioned there? You expect orders to pick up from oil and gas, FGD, maybe even food, pharma and what we see on ethanol blending, long trip short of it is, what could we see as standard product as a percentage of sales over the next few years? That is the first question.

Ashish Bhandari: I can tell and thank you, it is a very good question. One, it is an area of focus for us as well and the way I would answer your question without giving specifics is that we are roughly 50:50 between projects and products and services. Chemicals, we put as part of the second bucket. All of our large volume business and everything that we do in EPC comes as part of the first bucket, which is the project. Overall, in the last three years, the project business has been very cyclical. Any answers I give you is, averaging as per cyclicity. Typically, our services portion, which we put as part of products and services, has grown faster. Our products have not grown as much as we would like them to be. As we look forward, what we do not look at is how products do relative to projects because it is very difficult to look at that number. You may think you are doing well and then a single big project order may skew your number entirely. So, I do not think that is the right way to look at it. What we are looking at is monitoring ourselves very carefully on the sequential growth in both products and services, which means we would like more and more of our products and services to continuously grow irrespective of the economic environment and projects. We have the capabilities when it comes but otherwise, we continue to focus and make sure that the products and services, continue to build and grow. So, that is the better way to look at it. Have we delivered that continuously in the past? Maybe not as much as we would like, or is that a big area focus for us? Definitely. Do we see we are working on that and that improvement is showing? I think the broad base recovery is some sign, but I do not think we can rest at all. We have a long way to go and the recovery should not lull us into any point of confidence at all. Also, as we keep saying the world of the future will be driven by data, services, so we need to be able to do a lot more in many of those areas, going forward. I think at this particular point, this is as much as we would be able to share, and we will not give a breakdown of how much services are specifically within product and services. It is sufficient to say that is a portion that we want to grow the fastest.

Jonas Bhutta: Sure, that is helpful. My second question is on the new initiatives that you highlighted in the presentation while you clearly said that these are very nascent at this point. So, just wanted to pick your brain on three of these things, firstly the tie-up with SBE. We always believe that Thermax shies away from any direct business with municipal local bodies so while at the outset this business looks focussed towards that end market, can you just elaborate on what is the mode of business that you talk about? How are you going to approach that market or is there a change in strategy on dealing with the municipality? That is the first one. The second one is on the hydrogen base, which is where we developed that 5 kilowatts fuel cell for CSIR and also we worked with DRDO. I wanted to understand when you have to commercialize this to say megawatt-sized unit, what are the key milestones or challenges that you think we will have to watch out for and the timeline wherein to get to this level of having a product ready to offer to the market and then waiting for the markets to pickup? This is a grey area for us right now because we do not know what is happening on hydrogen, while globally, there is a lot of noise. If you can highlight your views on these two things and for the solar film business- its applicability in the Indian context?

Ashish Bhandari: Three questions and I will try and answer all of them. First, in terms of municipal business, there is no change. It is not that we do not work for the government; so much of business in some way or another depends on companies that are owned by the central government and even in the case of state government, but directly dealing with municipalities is something we have stayed away from. Even in waste to energy, the idea is not to deal with the municipality. There will be a project developer for whom we would be executing the project. We do expect that this would be true localization which means the partnership will help us in many ways. Energy projects in India, unfortunately, have been done by the Chinese through Chinese technology, which I think from an Atmanirbhar perspective, is something that the country needs to change. So, we do expect that through this initiative, we would be spending quite a bit of our effort on localization. The waste to energy market itself in India is also nascent because the policy also has to change, the current pricing that the government provides to the developers is not sufficient to make these projects viable, and because the entire social cost of these projects is not accounted for correctly. Very clearly, the power that comes from these projects has to be higher because power cannot only compete with a coal-based project. The idea of this trash hurting the environment, people, making our groundwater worse, the social cost of all of that is multifold of the cost that the industry is demanding for this technology to be successful. I do think that will happen but it does depend on our policy and keeping in touch with what is happening the world over. We expect to work with developers, not directly with the municipalities. We do not plan to be a developer ourselves. So, that is the first question that you had. To the second question on fuel cells – it is not just fuel cells, right now India, as it looks at hydrogen, we have about 15 new technologies that India will have to look at - everything from solar to batteries to fuel cells to methanol reformers to the coal gasification to thin gas to methanol blocks to new ways of converting chemicals to biofuels. You can name 15 different technologies and even within these technologies, for example, if you take fuel cells, you could have a solid oxide, you can have PEM that can be LT PEM which is lithium ion based, now there is sodium ion based, grid scale available in the market. There is just humongous change that is coming on the energy front. So, what we have commercialized or close to commercialized for the defence is a phosphorous acid-based fuel cell, which is good for the sizes that we are talking about. It is also a very stable technology, which is what the industry needs. Because it is defence, the technology itself has to be very stable and we have been testing it with the defence for quite some time. In that sense, this particular product is close to commercialization but this is not a product that will be used by mobility or will be used in other places. There, you will have to go for different technologies. You would have seen previously that we had talked about, and there was a press release alsowhere we got an award for our LT PEM technology. But, in that whole area of fuel cell, I do not think we will have anything ready for commercialization in the next 12 to 24 months. There is a lot of work that has to be done not just by Thermax, by many people in the industry to hit some of the price points that are needed. These are all ecosystem bets where you cannot be working in unison. In the case of the defence application, we were working with L&T and with the Indian Navy, similarly, we will have to work with the ecosystem bets. I would say it is a big area of focus for us. Cannot commit to what it will look like and as I said it is not just one; there are like a dozen plus new things for Thermax to look at. Many of these will be done through partnerships. One such area is on the solar front, where we think technology is changing very rapidly, both on PV side and also on the thin film side. On the central side, the challenge that you have is that thin film solar today is expensive solar, because the price point of some of these thin films and the efficiency that you get is not very good, which means thin films are limited to a very small set of applications. The technology exists and these are all new things, so there is a technology risk with every one of these things. You can come up with new spaces because solar is something India will need in a lot of different forms and once the technology starts to mature, it will have a lot of different sub segments which will start to open up. There are several very good sub segments opening up in solar where one of these segments which is sufficiently large is where we think the partnership that we have done will take us at least one year to indigenize the technology and it will come with its own risk. So, at least 18 months before we will have a commercial product ready for the market and we will be doing a lot of work in the interim period because we think the technology is very exciting. We will be going through testing the technology, then if the technology tests go well then we will be setting up a manufacturing plant. The manufacturing is also not trivial.That plant will take some amount of time to stabilize so it will be 18 months before we can say with confidence. But with every six months, we can come back and see are we moving on the tracks that we thought we would be moving. So, a long answer to your three questions.

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

Renjith Sivaram: Good morning and congrats on a good set of numbers. If we look at the overall performance of the subsidiary, last time we did have a concern regarding Danstoker, so how has the subsidiary’s performance come out and what is your outlook? Are these things normalizing as the impact of second wave is limited over there and what is your outlook there, and what do you expect from this?

Ashish Bhandari: I think one more good question. We have been very open that two of our international subsidiaries, specifically Danstoker and our plant in Indonesia - both for different reasons are continuing to be work-in-progress. In Q4, I do not think we saw anything that have brought both of these subsidiaries back on track and we cannot say that they are on any sort of a growth trajectory. The fact that we have not been able to travel, not only in places like Indonesia where the factory leader had to go from India, the person took nearly 10 months from the time we decided for him to move. When he could get in Indonesia, Southeast Asia was going through its second wave and there were problems, so, it is not that everything has been under our control. There are things that we want to put into action. But, it has been quite a challenge to execute those due to COVID challenges. I would say Q4 was not as bad as maybe a couple of other quarters in the year, but I do not think we have the confidence to say that we have internally turned the corner. At least, in Denmark, in March and in April, we started to see a recovery in the orders, which I think is a good early sign but it is too early to say if that is completely a trend that is now reversed. In Indonesia, we do expect demand will come back, then the question is what our run rates will be? I think we are putting a lot of time and energy into building suppliers, bringing our cost of production down, becoming a truly local company and focus is more on making sure that whatever we deliver is of the highest quality. So, for the short term, our focus is on making sure that customers become fans of Thermax, which means even if we are slightly delayed, our cost is higher, we want to be sure that our quality is really good because we are there for the long run. So, I think my answer to both of these are still work-in-progress, both of them are something that we know and we realize we have to improve. There are some challenges, some signs of recovery as well but too early to say if we have turned the corners. Rajendran would you have anything to add?

R Arunachalam: None beyond what you have said Ashish. Thank you.

Moderator: Thank you. The next question is from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: Very good afternoon. My first question is pertaining to the chemicals segment. A couple of years back, we had shared that the breakup between specialty chemicals and resin is 50:50. You have highlighted in the presentation that the specialty resins is growing at a much faster pace with 62% last year. If you can share what is the current breakup and how do you see the mix evolving between these two subsegments of chemicals? The second question is pertaining to the Enviro segment where pertcentage of the FGD orders that we had in the order book. The run rate on a quarterly basis used to vary between Rs. 180 Crores and Rs. 200 Crores, which has got stepped up in the past two quarters. Can you highlight how much of FGD order revenue is booked in FY2021 and has this run rate improved from that Rs. 180 Crores to Rs. 200 Crores band where we are operating? Thank you.

Ashish Bhandari: Two good questions again. On the chemicals side, I will give you again a slightly longer answer, and you asked a question on specialty chemicals. On our resin side, we have specialty and non-specialty and we have water chemicals business, construction chemicals and oilfield chemicals. So, our four major lines of business or the four special products that we have. In resins, a portion of it is specialty. We have water chemicals, construction chemicals and oilfield chemicals. The two biggest portions of this business are water chemicals and resin chemicals; one of which, the single most profitable portion is the specialty resin, but even water chemicals, overall, is decently profitable. Currently, our focus is on growing both of these, which are the water chemicals and the overall resin business. Given that we have added capacity in the short-term for our resin business,. we think that the absolute volume on specialty chemicals will continue to hold steady and grow slightly because initially, our focus has to be to select the plan. The overall resin number where the non-specialty resins grow faster will be seen in the short term. Over the long run, we continue to see that in specialty chemicals, if we do everything right, it should grow faster. If you can take a look at what is going on in the pharma industry right now - for example, I do think India will require more capability on the specialty chemical side and if we can connect the dots, then I think that Thermax can take advantage. What I mean by the long run is more two- three year period. We do think that specialty chemicals over that period will continue to be the fastest growing portion within Thermax. But in the short-term, as we fill the additional capacity that we have - the resins will grow and we expect it to grow faster. But all of this will depend on as we work with customers as their capacity stabilizes and what kind of orders we get, etc. Our focus right now is to grow all of these because they are ultimately accretive to Thermax as a whole and are profitable. So, that is the answer to your first question. Specific to FGD, I think with this broad based recovery that we have seen, our Enviro business has indeed had better than an average run rate of business. Overall, customers have looked at solution control in a positive frame in this current period. This has been across multiple segments and this a good example of broad based recovery. We have had no projects at all from FGDs in India, maybe one or two small ones, like changeovers etc. We had one international FGD order, which was less than Rs. 100 Crores, but nothing from India. So, in India, for the good FGD projects, we are still waiting, but we had seen some of them getting closer to finalization. Whether we win or not win, we will come back and share. On the overall Enviro business, outside of the FGD, whether the broad based recoveries will continue or not - I will come back to the same initial point that I made - I do not know after the second wave, will the recovery be as good as it was after the first wave and I'll leave it up to all of you to answer.

Sandeep Tulsiyan: Ashish, sorry to interrupt, my FGD query was pertaining to what two orders we already have in the book?

Moderator: Sorry to interrupt Sir, I would request you to rejoin the queue.

Sandeep Tulsiyan: Alright, thank you. The question is on the backlog. Whatever FGD was there, how much revenue has been booked on those two projects is what I am trying to understand?

Ashish Bhandari: Rajendran, can you answer that question?

R Arunachalam: Yes. Are you looking to understand how much of revenue has been booked in the FGD businesses in the past?

Sandeep Tulsiyan: Yes.

R Arunachalam: We would have booked roughly about Rs. 100 Crores during this financial year.

Sandeep Tulsiyan: Roughly more than Rs. 1,000 Crores or close to Rs. 1,000 Crores that we have?

R Arunachalam: Yes, Rs. 900 Crores plus of the order book on the two orders. We had booked about Rs. 100 Crores in this financial year.

Sandeep Tulsiyan: Thank you.

Moderator: Thank you. The next question is from the line of Himanshu Upadhyay from PGIM Mutual Fund. Please go ahead.

Himanshu Upadhyay: Good afternoon. I had a question. In our last annual report, we had mentioned that we have 547 chillers online or brought online for remote online system; how has this figure improved and what is the penetration level within our own manufactured chillers and how large can this figure be? Also, are we connecting third party manufactured chillers and providing AMC type of service or not, some idea and what progress we have achieved in the last one year?

Ashish Bhandari: I do not know the number exactly what is the total stand, but I do know that this year we have added more than 100 new chillers to what we call is part of our remote monitoring. The penetration overall of our operating installed base for this remote monitoring capability would be more than 80%. In the past year, there have been some really good stories from our international customers. This is because our absorption cooling/chiller business is one of the most international businesses that we have within Thermax. Our installed base outside India is actually more than what have installed in India, and we are able to support many of those customers only because of this remote monitoring capability. We are doing something that has been helpful, and we will continue to do it. Remote monitoring, gathering more data across will help our services and product offeringsand I think we can do better on. How Thermax connected data, I think to your question on connecting to third party manufactured chillers or not, within chillers we have no third party. It has been monitored and in the rest of the business is that something that we had the capability to of course, we had the capability to, is that something that we are doing a lot of not today, is that something that we would like to do in the future? Yes.

Himanshu Upadhyay: One question on the chemicals business - there are many small companies in the chemical domain and we had written in our annual report that we will be looking for M&A opportunities. The purpose of M&A would be to add new products or get more customers in various industries and geographies for us. Can you throw some light on this and how has it happened in the last year onwards?

Ashish Bhandari: Overall, we have been a lot more active. There are business development opportunities where we are very open to partnerships, alliances - in some cases around technology as well as M&A, but in all of those cases on technology, we would like to see clear enhancements to our existing portfolio set. However, we have not really seen many good candidates here. What many chemical companies in India expect is extremely high and we are frugal in that sense. Internationally, we had very narrow, two specific areas where we are looking for M&A activities. I would not want to share what those two areas are. They both relate to increasing our market access in a couple of very specific geographies and as those become available, we will not going to be choosy. We would not indiscriminate. As any of those become available, we would be more than happy to come and share that progress but do not expect a really big M&A that will add 10%, 20% to our chemicals business. They will be relatively small if they happen and we can then add incremental and continuous capability.

Himanshu Upadhyay: Thank you from my side.

Moderator: Thank you. The next question is from the line of Jeetu Panjabi EM Capital Advisors. Please go ahead.

Jeetu Panjabi: Thanks, Ashish for a great explanation. I have two very big picture questions. Here, it seems like at least for the whole capex driven businesses, this is the first time after many years of a long route that tailwinds are coming. What has happened so far has been a function of talented hard work, but there is no real tailwind that has come in. The question is – one, do you really expect this to play out and I am not looking at the next three or six months, I am talking about two to three years? Second, how do you think it would be different if it plays out the way true capex could play out? Three, do you think the competitive advantage you have or the weaknesses you have are going to have a role at this stage and do you think you have a fair chance to win relative competitors that could give you some fantastic numbers in profits?

Ashish Bhandari: A leading question, I would say but I will divide my answer on the first part. I think it would not be proper for me to say. What we have seen in this last one year is that with the best of analysts, whatever projections were made, many of them have come to not be true - like first, the doomsday projections, then how quick the recovery will be, once the recovery happens, how good the recovery will be, then the second wave, all of that. I said that previously in my discussion as well that we are thankful for the kind of recovery it was. We will not be looking too far ahead in terms of - is this cycle going to be three years, five years. I have been very clear that our focus is on making sure that the things we can control are the products and services, some of these new energy elements, all of these capabilities are making us very resilient in continuing to invest and getting better and better at those areas. The question that was answered previously was that in the five to ten year period, we do think the nature of energy will change quite dramatically for the world over and even in India. So, our focus is on making sure that we are ready to win and at least retire some of the risks that we have in the business for that particular period. I think that is how I would answer. On our competitive strengths and weaknesses, I think competitors are very good, so it is not like we have some dramatic capability that none of our competitors has or a cost basis which is particularly differentiated by means. What we do have is that when the application becomes more challenging, Thermax's ability to deliver that application in a better way and in a way that customers trust - something like waste heat recovery, which is a relatively a decent application to talk about but it is not cut and run. It is something that you retrofit, you have to go and the guarantee itself is not exactly that can be proven out because it is dependent on waste heat recovery and it is a by-product process effectively. In a lot of these kinds of cases where customers say, okay I am running coal, but tomorrow can I mix it with coal, or gas, or can I do spent wash- we do think customers trust Thermax more because of our ability to not let go and to continue to be with the customer for a very long period of time. I also think when customers look at services, customers look at build own operate models and they will trust much more. We also have the capability to bring financing into play in a much bigger way than some of our competitors. We have a strong treasury. We have got a lot of weapons to bear in some of those differentiating areas and we do think the market is changing somewhat and the customers are a lot more enabled to do utility as a service, going forward. Some of these are also green, they also require different technologies. We do not talk about it much but we are one of the largest biomass solution providers in India. As part of our build-own-operate offerings, a majority of our portfolio is based on biomass and so we touch biomass all across India in a way that few other companies in India do. All of that is a credit to the execution capability of Thermax. I do not know if that is by itself going to give us a great upside. I think it gives us confidence but it means we have got a lot more other things to do to be able to continue to deal with that.

Moderator: Thank you. The last question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Sorry, I think the question was left in between. You gave fair amount of opportunity in the waste heat recovery part in cement. So, the idea was that because of the kind of value you are getting from a captive power plant going to waste heat recovery, your value goes down, but I understood the point what you are trying to make was that overall opportunity goes up. But the question was when we look at the five top layers in cement which is 70% of the capacity, we already read a 50% WHRS. The question now is when you articulated about your new ventures and on a macro side, you articulated that if one has to boil out towards the R&D of that - I am not talking about the JV what you have done in the waste energy part, I am talking about more of hydrogen and fuel cells when we look at global companies who are now commercializing the product. If I just add up their R&Ds in the last four-five years what is the PAT of our company on an annualized basis? Can you throw some light on how we will do the R&D part, what sort of strength in R&D we will eventually put, what is the spend we are looking at in the next two-three years? If this commercialization happens, how the end market will react nobody knows but just at your end if you can throw some light on that? Thank you very much.

Ashish Bhandari: I think that is a good last question, because it brings forward some of the most important decisions in front of Thermax. In all of these cases whether to build our own, whether to take somebody's technology entirely and become the Indian manufacturer of that, become something in between - when you take a technology license and you are able to build on that - all of these are decisions in front of Thermax. Right now, I would say we have a critical team looking at all of these options. Our investment from a repeat portion is definitely much lesser than any of the global guys, completely. Here, we agree and in many cases, there are startups that have 100 million dollars of funding loan for just one of these application spaces, but I would counter that by these two things – first, in our case, in at least the fuel cells that we have been working on progressively for nine months, and in all of these cases, we have been working not just with Thermax's own capabilities but also we have had funding etc., available from the government. We have been working with some of the best Indian institutions in terms of getting our technology this fast which means our understanding and ability to provide an end product in that sense which is being tested for a really tough application like the media performance, shows that in some capability we can put the entire solution together. We understand all the building blocks very well and some of the technological challenges that comes with it. That said, it has been very clear that if we do everything on our own, we are far away from commercializing our product in the near future. So, we have some very difficult decisions in front of us, some very good decisions also because it is not like anybody else in India has ever done that. And for India, as a country, to figure this out will be very important. So, I do not know what the future looks like. Over the next year, I hope I can give you some more clarity and you will see these moves that we make in the industry as well, all options are on the table. There is no sacred cow out here and I do not know what the future looks like, honestly.

Nitin Arora: Thank you very much, Sir.

Moderator: Thank you. I would now like to hand the conference over to Mr. Bhoomika Nair from DAM Capital Advisors for closing comments.

Bhoomika Nair: Thank you very much for giving us an opportunity to host the call and giving your insights on how we are looking at Thermax. Wishing you and your entire team all the very best. Thank you everybody for being on the call.

Ashish Bhandari: Thank you very much everyone. I hope you continue to stay safe and wishing you a good health. Thank you so much for spending the time with us today.

Moderator: Thank you on behalf of DAM Capital Advisors Limited that concludes this conference. Thank you all for joining. You may now disconnect your lines.