"Thermax Limited Q2 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Thermax Limited Q2 FY22 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Ms. Bhoomika Nair from DAM Capital. Thank you and over to you, ma'am.

Bhoomika Nair: Thank you, Aman. Good morning everyone. Welcome to the Q2 FY22 earnings call of Thermax Limited. We have the management today being represented by Mr. Ashish Bhandari - Managing Director and CEO and Mr. Rajendran Arunachalam - Group CFO and Executive Vice President. At this point, I would like to hand over the call to Mr. Ashish Bhandari for his initial remarks post which we will open up the floor for Q&A. Over to you, sir.

Ashish Bhandari: Hi, Bhoomika, very good afternoon to you and to all the analysts and everyone else that is on the call. We started the call 5 to 8 minutes behind schedule, so we will stretch it to 10 more minutes in the end. I will be brief with my comments, so that we have more time for Q&A. You would have had time to go through our investor presentation, also go through the results that were released with a fair amount of detail.

If I have to share the highlights of the quarter, I would start by saying that it is not just Thermax, but as a country, we have moved to a higher gear and some of the COVID waves. Even the V-shaped recovery is behind us, we are now talking about recovery beyond just a V-shaped recovery which is something that we are seeing and I think that is to me a larger testament to the strength of the overall industry as well. We have seen broad-based recovery, continued strength across multiple segments and if I had to use a crystal ball, I would say at least the next 3 to 6 months also from an inquiry basis looks good, there are few things that can go wrong and as we go through the presentations we can talk about what those things could be, but I think that gives us some amount of confidence. I think what has also at least for Thermax been relevant is that our larger agenda of putting together a company which is leader for India at least in terms of clean water, clear air, clean energy, that agenda continues and our investment in improving our services capability, getting more and more new energy solutions, being able to get the dialogue with our customers to a different level, that work within the company continues and abated and that is something at least I am very excited about.

In terms of areas where we had challenges and things that we can continue to do better on, first has been the commodity price challenge which has been quite brutal and I don't think at least in the near future this particular quarter at least, we see no abatement infact most of the steel companies are talking about an increase in prices which are putting quite a bit of pressure on our financial model as well. Second bit, I think our chemicals business and to some extent our FGD business, but we will talk about both of these in more details. We did not deliver as per our own expectations, and we will talk about some of the moving paths when we discuss this. Third, I would say we see attrition starting to go up. In general, people are more in demand both in the field where we have got labor which is executing projects and in the offices where we have white-collar workers who have a lot more options, given a lot more robust Indian economy, but net-net, I would say we take strength in the backlog that we have, the ability to have a dialogue on a lot of new fronts with our customers and the fact that most customers are looking to have those dialogues and are open to investment. We take strengths from them. Everything else we have to manage because the other way round is a much tougher story than when having to manage costs, and as a business leader, that is a challenge that you would look forward to anytime given the alternative. So with that in mind, I think we will open it up for questions. Rajendran, anything else to add from your side?

Rajendran Arunachalam: Nothing.

Ashish Bhandari: So with that we will open it up for questions, and because we started a little late, we will go maybe 5-10 minutes further on, but definitely stop around 12:25.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: My first question is with respect to the order inflow, so you had mentioned in the presentation that enquiry pipeline from refinery, cement and metal sectors continue to remain strong, if you can give a broad overview on in terms of nature of orders which are coming in from the three categories and also the ticket size of the orders compared to say the earlier cycle if you can give a broad thought process, it will be really great?

Ashish Bhandari: So different set of enquires, I think it is absolutely right. These three right now are the strongest, which is not to say that the other segments are not doing well, I continued to say that this has been a broad-based recovery for the last couple of quarters and even in the other segments, the enquiry pipelines which I think reflects in our numbers, last quarter without single order above 300 crores, we clocked 1850 crores which was a good testament to bringing in a variety of what for us would be small and medium models. We continued to see reasonable strength on that front. Specifically, first let me take steel and cement, both of them, the single biggest application is on waste heat recovery which is an application for improving the overall energy situation for these plants and addressing their own commodity price increase by becoming more efficient. Yes, coal price increases have been affecting everyone, so they are all. I think waste heat recovery is the single biggest application. The application is very different, our waste heat recovery is very different in steel versus cement, but the idea of taking your brownfield project and making it better is the single biggest. The second biggest driver for both of them is capacity expansion which in the case of steel means new boilers as well, in the case of cement, it means more waste heat recovery boilers because the traditional what was the coal based CPP is not many people are looking at. Here, people are looking at more innovative solutions. The ticket size is the fact to say ranged from 50 crores to 250 crores, I would say that is the range of most of these, sweet spot would be 80 to 100 crores I would say, 80 to maybe 150 crores for many of these. On the other side, refining and petrochemicals, there is much higher variance, some of the bigger projects we are even doing and there are couple of FGD projects which are very much in the discussion as well where the range is much wider and you have some order enquiries which are upwards of 500 crores and 500 crores to 1000 crores even, so there the variance is much more, but there are plenty which are 5200 crores in refining and petrochemical as well.

Ravi Swaminathan: So basically, the absence of CPP projects this time, has it reduced the addressable pie for us or is it like for metric ton of say steel or cement CAPEX, the opportunity size is still the same?

Ashish Bhandari: No, it will definitely reduce the addressable pie, the pie itself in some of these expansions have shrunk. I would balance that out by saying that in many other cases the pie has expanded, the entire waste heat recovery application is higher which is the application we see not just here, you see in distilleries with spent wash, we are seeing it in the applications that we do in our TOESL business where Build-Own-Operate models based on biomass, so there the pie is expanded, in this particular case specifically for cement plants, the pie for a new cement plant has clearly shrunk.

Ravi Swaminathan: And any other new opportunity or sector which you are seeing which is upcoming which was not there in the past 10 years or something of that sort?

Ashish Bhandari: In terms of new segments that are opening up or new industries that are opening up, I think nothing new currently. Our current industry sector is set which is quite wide, continues to be consistent, but as we look to the future, there are possibilities that as new manufacturing of many new industries, semiconductor, solar, they come to India, they will have new power, new water, all of those applications where Thermax could have a role to play.

Ravi Swaminathan: And my final question is with respect to the chemical segment margins that come up this quarter also, so 15 to 18% the range is a band at which you would be looking at the chemical segment in terms of EBIT margin?

Ashish Bhandari: Last year, when the numbers had come in, we had said that 30% and the 25% which we did in couple of quarters was not sustainable. Similarly, I would say the 15%, I think is below our expectations. We would expect to stabilize at a number higher than that. Historically, we have moved, our margins have been under 18 to low 20s kind of a number. I think that is somewhere we would also target to be. In that sense, there were some things that happened in this particular quarter that we expect not to repeat, but you never know.

Moderator: Thank you. The next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

Charanjit Singh: Sir, my question is basically on apart from cement and steel, if you can highlight what is the kind of opportunity which is picking up on pharma, food and beverage, chemicals because those sectors had been consistently doing well for us and in the short cycle product side, how do you see the momentum going forward, can it further accelerate from here? That is my first question?

Ashish Bhandari: So I would say, first I think food, pharma, chemicals, food and pharma, in particular, I think we all saw that after the first wave of COVID, these were the plants that had maximum demand, had urgent supply requirements, so they started fastest and their demand picked up very fast to the point that many customers were asking for an acceleration of deliveries, etc. I think that is now, I wouldn't say plateaued but that acceleration has slowed down for sure and I think in many of the customers that we talk to at least on the food side, they are seeing slowness in demand as well. The enquiry pipeline is still healthy, it is not crazily growing, and I have said that already that our short cycle business, not just here, across multiple segments is something that is strong beyond just a V-shaped recovery. It is also that we have invested reasonable amount on our services business, even our chemicals business you will see while our bottom line is not something we are happy with, our topline is starting to trend in the right direction. We think it can do even better, but at least it is starting to trend in the right direction and many of our Water, our Enviro businesses, our Heating businesses, even in solar, which are somewhat shorter cycle, we see continued strength. These are also areas where we have introduced several new products, many of which have got green connotations and are significantly efficient from an energy perspective; we see a reasonable amount of strength.

Charanjit Singh: Sir, the other question is basically on our chiller plant which we had set up and we were also moving capacity from Pune to new chiller plant, how is the ramp up happening at that chiller plant, are we also seeing some export opportunities we can cater to from that plant and secondly also if you can give us update on the Indonesia facility, how is that ramping up?

Ashish Bhandari: On the chiller plant, we are happy with the stability of the performance. I think over the last few quarters, the plant has now stabilized in terms of capacity, in terms of production, in terms of visibility to deliver and in terms of quality as well. I would say a plant perhaps for the kinds of products that deliver is best in class, not just for India, but with its competitors from China and Korea and other places as well. We are really proud of the plant, it is coming out with newer products and it is competitive. We see the margins in our cooling business, over the last 3 quarters have continued to improve and the productivity of the plant improves. The demand is stable, I would not say the demand is extremely high or anything, but the demand is stable and with the help of newer products, we have reasonable incremental growth, which is I think we are happy with. In our Indonesia business, in Q2 we did not see improvement, which I had said previously as well that we do not see improvement in performance. The heartening bit about our Indonesia business is that as Indonesia and South East Asia has come out of COVID, we see an improvement in pipeline, so the pipeline that we have for Indonesia is our best ever. Now, are we able to win that opportunity pipeline or a portion of that, are we able to convert them into orders, those orders that we convert or we will be able to deliver them profitably, I think that will be the key act, but I take strength that for the first time we are seeing a good pipeline in Indonesia and I think our focus now which is something that within the next 3 months we should be able to come back and report whether the order book has improved and then subsequent quarters whether that order book if it has improved, is it starting to result an improvement in bottom line as well.

Moderator: Thank you. The next question is from the line of Kirti Jain from HSBC. Please go ahead.

Kirti Jain: Sir, the first question is with regard to our European businesses, how has been the turnaround or what are the things we are trying to do to improve the performance of our European businesses? And currently, how much are the loss-making subsidiaries and businesses which are creating the track? That is the second question? And third thing is, if you can give some perspective on how your transition to create products and solutions for hydrogen, if you can give some bit on that that would be great, sir?

Ashish Bhandari: On our international business, which is the Europe manufacturing businesses, Q2 was stable, it wasn’t loss making, but it wasn’t profit-making either and I would say it was in line within a meddling performance that we have had for the last couple of years where some quarters have been worse, but few quarters have been better than this in the sense that it is low profitability, but stable. I think that is our current outlook as well, in the order book that the orders we are seeing show that it may not lose money, but it is not making a lot of money either, which is not where we want to be. I would say our Indonesia business at least has a much bigger pipeline, a pipeline of opportunities which we need to convert and tend to win. In terms of loss-making units, I would say these two are our biggest concerns. In US which is where our chemicals business exports and our cooling business also has a fair amount of presence, we have seen fair amount of strengths to the point that if we have to compare to a historical average from 2 years ago, we are almost 50% higher in our business out there which is good. Rajendran, in terms of loss making units, is there anything else you would want to add? PTTI, so in the Indonesia business I think which we have already talked about that and Danstoker which is close to, it is not yet profitable, but close to the zero line, but profitable. In terms of your question around hydrogen, I think working towards hydrogen, new energy takes a big portion of our leadership's time and I would say that as Thermax, we have not invested for a bit now but if you take a look at our treasury, it has continued to add, but not subtract. I think over the next one year, we will have to make moves in investing this money in some ways, possibly many ways as well, and some of those ways will definitely be related to hydrogen. In what we are doing currently, I think our exposure would be on few of the areas like how we generate hydrogen, whether you generate hydrogen from biomass or from bio CNG, etc., we already have capabilities, historically, we have worked on some of India's best efforts on fuel cells etc., so we understand the technology. We also understand that where we are not good enough. We will have to do partnerships, we will have to look at these cases and then in terms of electricity, cheap electricity which becomes the basis of hydrogen, some of the moves that we are making in solar and other places also connects, so I think just hold onto that space, and as we have more to share over the next one year, we will come back and share. I think for now, I can share that we have quite a bit of focus on this whole space.

Kirti Jain: Sir, with regard to the chemicals business, how has been the volume growth, because the crude and styrene has seen a very significant escalation?

Ashish Bhandari: In some portions, we have exposure to styrene and crude, in other portions we do not as much because we provide 4 kinds of chemicals, two of which are our biggest, where we have quite a bit of exposure to styrene and our water treatment chemicals where we have lesser exposure to styrene and overall we have had volume growth in both of those, but I would say I think the volume growth may be closer to the low teens numbers, but I think what we are seeing as we start to expand our commercial presence is that the demand is there. We have limited right now by getting our new plant to be up and running to the expectations that we have, so our capacity of our new plant is somewhat limiting our ability to hit some of the hierarchies.

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

Bhavin Vithlani: Sir, I have two questions, the first one is, when we speak to the global industrial companies, there are 3 common threats, one, China's flowing; second, input inflation and third is the supply chain wherein freight cost have gone out of track and they are questioning the underlying business case of global sourcing or exports, how are these impacting Thermax?

Ashish Bhandari: The first one is the neutral to Thermax. I think the India story right now is strong. I particularly don't see too much impact of China-Plus-One either on businesses. It is possible there is a secondary and tertiary impact, but I am not seeing any primary impact for sure. On the second and third, both of those are affecting our business quite severely. In terms of commodity price increases, I think 15 to 20 crores is our impact on Q2 which is quite high and Q3 will also be impacted to a similar number, may be even higher very clearly because that freight has affected our chemicals business quite a bit, not only as the freight rates gone up, but we could not ship quite a few of our containers and many of those containers were high price containers. As an example, I think my team has shared with me, like in our production from Maharashtra where our warehouse is if it took us $6000 for our container to get to the US, the number now is more than 2 times that much. So we are passing some of those costs to our customers. I think we have not seen any slowness in demand which means to your point that customers are looking for supply chains locally. In some of the products that we have, it takes years to build that capability, so it is not like customers have alternate supplies and so we have to be able to find a way through, if anything, many of those customers are asking for faster deliveries, but of course they are not willing to pay for higher freight etc., which is something you are continuously pushing back on.

So I would say from an impact perspective quite high. I started my talk by saying that you would rather take this scenario where you have strong demand and you have to manage commodity price increases effectively as supposed to a situation where there is no demand and you are seeing inflation. So we have don’t have stagflation, we have inflation.

Bhavin Vithlani: The second question is, we have a large pool of cash of over 2000 crores and there are some niche businesses that we have developed and grown like the chiller's part and we also did price on the steam trap front, are you open to?

Ashish Bhandari: Could you repeat that, we have invested in some niche areas, which niche areas, I didn’t get those words?

Bhavin Vithlani: Chiller as an example, we did invest in steam trap company earlier, so are we looking at some of these niche areas and are you open to inorganic growth for use of cash or what is the capital allocation strategy for Thermax?

Ashish Bhandari: I think as a board that is the very question that we are going through right now, so that answer is something where we are getting from around what that will look like. I would suffice to say that there will be new areas where we will invest in and we look at some of these areas and we find value into the stories that we have to tell, and long term connect with what the world and what India needs to do around climate change, so that is the theme. I would say the investment in a new plant in for cooling was not an investment for growth specifically, it was an investment to manage our cost side effectively, it was an investment in productivity. To me that is more of a base business management which is something that we have done effectively. Beyond our base businesses, I do think there will be areas where we will be coming and investing in. One of those areas will be continued investment in energy solutions where we are doing OpEx models, so our biomass base solutions or solar and increasingly storage base solutions, this is an area where we think we will invest money. Then, some of these new energy areas, which we talked about quite a bit as we find the right partnerships, those are areas which Thermax will look to enter into. Beyond that if there are opportunities, inorganic deals play in specific areas we will go for, but we are not looking for the Danstoker or the kinds of acquisitions that we did in the past, the kinds of inorganic place we are looking for are very targeted and very specific.

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

Ankur Sharma: My first question was on the export markets, so you could talk about the opportunities in the Middle East, Africa, NATAM now that we have GRMs also kind of shooting up because oil price is also being fairly high, so are you seeing new refineries at least coming up in the pipeline over the next few quarters?

Ashish Bhandari: No, we are not seeing any major investments in new refineries. We have carried forward older projects that are continuing, but if you have to think about Dangote or those kinds of projects, nothing new on that. The overall pipeline on the international side for a lot of the kinds of applications that I talked about previously itself, biomass, waste heat recovery, continued water related desalination, variety of such applications which are not mega projects is reasonably good. I think it is better than what it was for the last couple of quarters, whereas a business I would say we have not done as well internationally as we are doing in India, but now the international pipeline is also improving, I would say.

Ankur Sharma: On the domestic side, you did talk about refining and metals doing well, so there were lot of announcement from a lot of these steel major in Q1 about expansion plans, but nothing much was seen after that so are you finally seeing some enquiries come out, some finalization happening or do you believe still more of our second half or may be FY23 kind of where things actually get finalized on the metal, steel side?

Ashish Bhandari: I would say second half is possible and next year is possible, just like you, we have seen those announcement. We have seen queries coming in. On the new plants, I don't see eminent finalizations in the next 90 days happening, but there are inquiries which is why I said even the inquiry pipeline overall is strong. Right now, we have quite a few orders which we have shared, they are coming primarily from brownfield opportunities relating to waste heat recovery in particular which is a strong bit, many of the customers that I talk to, do seems to be serious about their capital expansions as well and I do expect that at the end of this financial year and early part of next year, some of these will come to conclusion as well.

Ankur Sharma: And just a last question on the FGD side, margins of course on the Enviro business being a little softer this quarter, so specifically on FGD what is the current order book which we have here, the two large orders we had won sometime back, so what is the current order book, by when are you looking at completion and what kind of margins do you expect given the RM inflation?

Ashish Bhandari: In the second half of this year, we do expect FGD orders to close, some of them we had bid some time ago, and they are coming, though I think the delays have been in some part because of price increases needed on some of these projects, but I do think FGD projects will come in the second half of this year and they should be with better profitability. What we have had in the past was also in some parts, our improved understanding of the market, our improved capability and also I think that whole China risk relating to whether can we source from China or we can't, some of those questions are all addressed. I think we will do better, but not the commodity price increases of the recent past have reduced those expectation slightly, so previously we have set a bar which for FGD, anything we touch in FGD to be much higher. We quoted based on those much higher expectations, but as some of those orders are coming for conclusion and discussion because they are all relating to the government, those numbers have come down, but in some cases there is a price escalation clause which is available in the project itself, so the whole FGD pricing bid is slightly complicated, it is a longer discussion and if anyone on the analyst team on the future question wants to just talk about FGD, I am happy to explain the margins right now, what are the moving parts, what is in contingency, our closure times, I will be happy to share more details as we see it here because that was a big number that affected our numbers negatively this quarter.

Moderator: Thank you. The next question is from the line of Amit Mahawar from Edelweiss. Please go ahead.

Amit Mahawar: Two quick questions, first is, how wrong am I when I say that the bulk of H1 order reflect the strong pent up in industrial both in export market that we track and domestic, if you can assign a number to that roughly around 10%-20% might be pent up or maybe sustainable referring number?

Ashish Bhandari: I think it is more than just pent-up demand, which is why I started by saying that we have found another gear, whether this gear lasts or not remains to be seen, but we still see a healthy inquiry. If you take a look at last three quarters now because Q1 of last year was a complete wash, Q2 the recovery started to show up, Q3 of last year we started to say that okay, maybe we are seeing elements of V-shaped recovery on the base business because we have what our channel business where we work with 80 plus channels across the country, across segments is and the channel business is a good proxy for what kind of strength we see across markets. So the channel business recovered Q3 of last year itself. Q4, it got a little better, but by the end of Q4, the second wave impact was showing which is why last quarter I said, look, we have had a great start to the quarter, but I am a little concerned by how the next month will go, but in Q2 the second wave subsided and we saw strength. So now, we have three quarters in a row where our channel business has done better and better to the point that our last quarter's numbers on a channel business were our highest ever, on top of Q4 which was also a highest ever. So that tells me that we are better than just a pent-up demand. I do agree with you that some of these larger CAPEX projects which move any which way where there are a lot of price discussions here, lot of them are based on budgets which are completely unrealistic in today's time, so many of those customers are relooking at their budgets, many of them may choose to set back especially with all the credit, with the tapering affecting credit a little bit and inflation starting to potentially slow down demand, it is possible, but as I said, India is doing better than V-shaped recovery and it is more than pent-up demand.

Amit Mahawar: My second and last question is more internal to Thermax, you **have** spoken about a lot of new concept and strategies, modular approach to product, a whole host of products that you have launched, atoM, **(Inaudible) 41.28** it seems Thermax it is far more diversified, just good, might be bad, if you can help us understand because it increases number of variables that you have to manage, if you can give us clarity on how do you see this diversification going ahead, may be 4-5 years down the line because ultimately whatever, when you expand your span the whole market will be in sort of a situation, the translation will be critical for stakeholders, so how do you look at that, that is my question.

Ashish Bhandari: I don't see a concern at all on that part, diversification within the energy space is something Thermax has to embrace and not only embrace, but has to lead, Thermax's history has been on understanding our customer's energy needs well and it was the genesis of Thermax's growth for several decades. In the last few years, it slowed down partly because India's CAPEX cycle slowed down. Also, Thermax got to married to those big projects whereas our story is so much deeper, so much more relevant beyond that, yes, it is something that we embrace because it is completely relating to addressing customer's energy needs, especially energy transition related needs and that is our focus and I think if we continue to work this part, focus, invest significantly on services, invest significantly on products, invest on or build on operate models, chemicals, lot of these are also capital cycle proof. We have to go a long way and showing that we have moved our business in that direction and then to add lot of new energy elements which will be needed in the future. The easiest example I can give you is that the last 300 years of energy was driven by less than 10 primary elements, you had generators, you have turbines, you had pumps, you had very small set of products, boilers, etc., that drove pretty much all of energy transformation, energy usage. The next 10 to 20 years, we will see 2 to 3 times new sets of things that will start to come in, renewable from solar vent has already come in, lot more stuff will come in and Thermax has to get into some of these newer space aggressively. How we do that, whether we find right partnerships, opportunities, all of that remains to be seen. Do I worry about it from a diversification point of view, absolutely not, our focus is clean water, clean air, clean energy. Within that ambit there should be lot of areas of diversification.

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

Aditya Mongia: Ashish, the question was more related to the recent COP26 and how let us say the 2030 targets that appeared to you from a business perspective and I also wanted you to focus on this issue of emission reduction and emission monitoring and whether it creates opportunities because customers then have to start complain?

Ashish Bhandari: On the first part, the concern would be on actions on the ground, because stock is one part and actions are another. As actions happen, it should be a huge positive impact for Thermax. Whether actions will happen, especially in this environment where we are seeing inflation already, the world has to come to a place where this is not something that you look at as something that we are forced to do, but is something that we are wanting to do and in terms of wanting to do currently on the ground there is lot of talk, action is happening, I will look it as half full because you do expect many companies including Thermax, how we look at our own energy mix, we are going and executing projects that may have a longer payback, but if it is green you have to do that. My concern is that if everybody expects that energy will be cheaper and will be green and completely sustainable, that will not happen. You cannot have hydrogen coming in at the same price at which you produce coal today, coal based energy, I think we will have to look at saying we have to do this and not be forced into doing this, 10 years from now. So I think I will put this as one of the question marks on how India will evolve. From a Thermax point of view, we are getting and we have to get ready for a world where companies want to do this and want to do this now. So that is the question on COP26, I think India's targets of 2070 is a good one, more important and relevant is to cut down our energy intensity and cut down how much electricity comes from coal by 2030, but dramatically I think those are a lot bigger and more important targets in my mind which would help Thermax quite a bit. The portion that will not help Thermax is the second part of your discussion on monitoring itself, for example, monitoring in emissions, our entire FGD business is driven around emissions management. I do not think that business has a horizon beyond 5 to 7 years, I would not even go 10 years, I think for the next 3-5 years, clearly there will be projects, it will be quite active, but beyond that 5 to 7 years, there will not be projects because once you get down to a particular emission level, most of these plants will not look to invest any further and I don't expect too as not many new plants will come up on the coal side beyond this 5-year horizon. Emission monitoring is not as big a business for Thermax and I don't think monitoring by itself will be as a bigger business. The management and reducing emissions is a big business for Thermax and the FGD portion of that I think, has a shorter shelf life, but I think we are not worried about that. It is right for the world, it is absolutely something that we support, we just need to find newer areas of growth fast enough and FGD is not something we have made tremendous amount of money in the past, so it is not something that we will look back and say, wow! a big portion of Thermax is at risk.

Aditya Mongia: Let me just clarify the second part, so FGD is one part, but I would want to believe that probably if more that you would be offering as part of your environment and solutions business to curb emissions across power or beyond power?

Ashish Bhandari: Beyond power, yes.

Aditya Mongia: The question was that at least from the sense that I get the recognitions are in place to kind of monitor and curve emission and I understand that part of your business, but obviously, you do provide the solution that brings us now and I want to get a sense on you that if this low hanging fruit wherein regulations start getting complied to by your end customer beyond power and that sees an uptake in your environmental business?

Ashish Bhandari: It is not just environment, it actually affects our energy business as well, both of them, so you would have seen that we shared an example of NRSW, it is Non-Recyclable Solid Waste which is secondary waste at paper recycling plants where it is plastic, waste paper, binding material, all of which a paper plant does not use is disposed off to cement plants or to burn in very unhygienic waste which hurts the environment. So as these plants have to comply in how they dispose this off, how it is burnt, we are seeing opportunities to burn them better which is not burnt them in a very managed way, so that there is no emissions that go into environment, so it not only helps us on the emission side, more importantly it actually helps us on the energy side because we are able to do some of these complex applications better than others. Similar opportunities exist in Municipal Solid Waste, many other places as well, so it is not just environment, it is actually energy as well.

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

Sandeep Tulsiyan: Two questions from my side, firstly on the environment segment when we see the quarterly ordering run rate, it usually used to hover around the 200 crores level, say plus minus 10% and you see the significant step up between 250 to 300 levels for the past two quarters, so if you could highlight the key drivers of this major change that we have seen and also on the sustainability of the current run rate, if it can sustain which are the areas which are ordering, that is the first question? And second question is on the chemicals segment, of course we have seen margins have come off and you had highlighted why those margins are off, but if you could give us more color in terms of what is the breakup of sales between those 4 main areas, I remember it used to be 50-55% of sales, but some of the highlight there was significantly higher growth in construction chemicals and other segments, so if you could broadly give us a mix over there?

Ashish Bhandari: I will take your first question first and then go to the second, I think, the run rate has gone up, in part of what is called is our environment business is our water business and our environment solutions business around emissions management and controlling particulate in gaseous matters. From a base business perspective, both of these are extremely healthy connecting back to the original comment that I make that overall, I think our base business is doing better. These are also areas where some of our efforts are coming up with newer products on the water side focusing more on basic building capabilities around better services, all of that are starting to show efforts. So I would say there is an impact to that on the overall economic environment, there is an impact to that of Thermax's own internal efforts. I hope at least the Thermax's internal efforts are sustainable. Overall, I think that 200 crores number should be sustainable at least in the near term, I would say. On top of this number, of course, the FGD projects that come and go which also I think as I look at the year, we should look at closing at least one FGD order, may be more as well, but that is how I would look at it. The base business on Water and Enviro has improved and is also that base business has become better profitability than what it was previously as well, so which is also something that is good. It is hidden behind much bigger topline on FGD which is at close to 0% margin, but overall I think the base business even on that side has improved. On chemicals, there are multiple things that hurt us, some that were not in our control, some that we should have done better or not because of lack of effort, but these are just complex problems to solve. So if I take them in order, first there was a mix change which is our specialty chemicals, mix this quarter was less than our average and particularly lesser than same period last year where our specialty chemicals mix was higher than average, so that had a big impact on profitability overall. We had two secondary impacts, first was driven by our inability to ramp up production at our manufacturing plant because if we would have ramped up production, some of the variable portions because we have the same base plant would have been lot more profitable from an EBITDA and EBIT perspective, we will not able to, yes our plant is still at average the new capacity, we were barely able to get 20-25% of our capacity, whereas our expectation was that by last quarter we should have got into 50% plus that was available. So we are seeing demand, but we have not been able to improve our production from our new plant to the extent that we would like, so that has been disappointing. The third part which was not entirely in our control was that shipping of containers was a big issue to the point that we had quite a bit of inventory which was sitting at the ports that we, A, could not ship or B, some of it we chose not to ship because the freight rates were so high especially at the end of the quarter where if we waited even a week or 10 days and moved into the new quarter we could save crores of rupees on shipping itself, so we chose to delay recognizing the revenue and chose to move it to the next quarter as supposed to taking the hit in shipping, but even on the stuff that we shipped in the quarter we had to take overall weight of much bigger impact on shipping, so all three of these things together affected chemicals. For this quarter, what we should see is a little bit of positive impact from all of those containers that were not shipped starting to provide. Second thing, some of our price increases that we have done in chemicals and stepping back from taking any freight risks that should start to show impact. Third is that production from our chemical plants should start to get better, the October was better month, it wasn't where we want to be, but was a better month in our ability to deliver and fourth should be the specialty chemicals should also improve. So we should see the impact of all of these, but still crude prices continue to go and so you have got commodity pressures, but we have got four moves in the right direction and one in the negative direction. The net-net should be closer getting back to normalcy at least in our chemicals business with a higher topline. That is the expectation for our chemicals business at least internally, remains to be seen what the next month and a half actually delivers. So that is I think as much details. Finally I think we had big ERP implementation as well in our chemicals to get it to much better ERP, so that we are able to do lot more interesting things in the future, just from a capability to supply, give visibility to our customers, so that implementation happened successfully and has been closed in the quarter itself which was very good. I think so that, as much detail as I can share on the chemicals business. I don't think our specialty chemical mix is 50% and I don't think we have ever shared that number in complete detail and we would like to keep that to ourselves for the near future. As we grow that business significantly we can come back, but the two biggest portions of our business which is our business and our performance chemicals which is the water treatment and other treatment chemicals, those two continued to be the biggest share of our overall chemicals business.

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

Renu Baid: I have three questions, the first is, can you share some details in terms of how large is the water portfolio of Thermax today and with new and modular products being launched and clients focus on ESG, how do we expect this business portfolio to ramp up in the next 3 to 4 years, so if you can share some numbers that would be helpful? Second question is on the FGD side, any status update in terms of project execution and how are the margin sparing in this project given these are fixed price projects with steep inflationary impact on steel and construction cost, so are this still profitable or these are turning to be relatively loss making orders for us? And lastly, if you can also give some update in terms of recently developed MVR solutions that you highlighted in the presentation, what type of industries can the solutions be implemented and what is the kind of addressable opportunity here?

Ashish Bhandari: Renu, three questions and these will be the last questions then. First, I would say to you and to the larger analysts community as well that most of you have complimented and even our share price went up, I was actually surprised by how much it went up because if I go and compare this back to a 2 year ago number where we had revenues that were similar, our bottom line is also similar, so in some ways we have gone back to where we were 18 months ago better on the order side, but on the revenue and profitability side to where we were 18 months ago. I think what we need to now show is, can we continue to get better from this, I think that is the message, but thank you for compliments overall. First, I think in terms of what I have shared with you the general direction, yes, if you will wait another few quarters at some right time, we can come and share what are we going to and how are we looking at our entire business from a ESG climate change sustainability because part of it is what we can do with our existing portfolio, part of it is what new things we can do, also share with lot more details on how some of those new bids are going, like TOESL which is where we do Build-Own-Operate which are all 10-year contracts, completely green, biomass base solutions, where we manage entire plants for customers. Those are businesses where if we previously were at 100 crores in a year and a half that business backlog is now, business order run rate has crossed 200, getting to 250 crores and these are all 10-year contracts, so there are some good movements on some of those elements we are investing in services quite a bit, so we will come and share it later and not now because of competitive reasons and also because we need to be sure what we are delivering, what we are saying we are delivering, I guess more importantly. Give us some time and we can come back. That would be my first bit. On FGD, the answer is complex and I will share with you the complexity. The two big orders that we have right now are breakeven orders. They are not losing money, they are not making money, they are breakeven which is very low single digit numbers. We expect, not hope but expect that it will not get any worse because majority of the ordering on these projects is complete. Both of these projects have got some opportunity for price escalation, one project has price escalation, the other project has opportunity for invoking the force majeure clause very correctly because both of these projects were delayed because of matters which were not entirely in our control and in cases the government delayed them because of the China play and all that and the commodity price increases happened during that period. We also have contingencies on these projects which we have not yet recognized and Thermax does not recognize contingency on the projects until minimum two thirds of the project is completed because we see, we do not know what more risks may come up. Both of these projects are right now from an execution perspective far away from that 66% and in this financial year, we don't think they will reach 66%, so because we did not see an opportunity to show the good side of these projects we have bitten the bullet and taken the cost impact of what we are seeing on these projects in this particular quarter. I expect that our teams will not come back with more negative news, but that is an expectation, it is not a guarantee. There is upside that exists on both of these projects which will be a matter of intense working and negotiations with our customers because there is, most of it is stuff that was absolutely not in our control, so the areas where we were executing the projects for the first time where there were things that happened which we did not account for, we need to take the hit clearly, but there were many areas where we had absolutely nothing wrong to do where the customers have to support because this is not something and in at least one of those two projects, there is price in escalation clause, but that price escalation clause is associated with us getting a time escalation clause. The time escalation clause is relating to COVID, so first, the customer needs to approve the time escalation clause. When the time escalation clause gets approved, the price escalation clause gets approved. So they are all very complex, none of it will affect us this financial year, so we have just taken the cost impact and we are moving on, so that is the second question and all of this, I have completely forgotten your third question, Renu.

Renu Baid: It was on the MVR solutions which you highlighted in the presentation for pump, so what are the type of industries that we can cater to and how would be the addressable for these type of solutions?

Ashish Bhandari: Solutions, market should continue to increase because MVR is as more and more people look to discharge water effectively and zero liquid discharge becomes more and more relevant and as you do zero liquid discharge, you are looking for more energy-efficient solutions and may such things, people will look for more and more MVR related things, so the space will continue to improve. It will not become like 30% increase or any crazy numbers like that, it is not driven by one single change, it is driven by the continued need for higher efficiency and continued stringency of regulations being followed. So I would expect this to do better than GDP and better than average capital markets, but it will not be a crazy increase, but as an application set, we think it makes a lot of importance for India long term as well. These are not very big applications, they are not thousands of crores or big opportunities, but they are all very good incremental moves for Thermax and for the larger industry in the right direction.

Renu Baid: So this overall strengthens the water offerings that we have for the industrial space, JLDs and clean water solutions?

Ashish Bhandari: Completely and they are all in competitive spaces, but this improves our capability and our portfolio clearly, agreed.

Ashish Bhandari: Thank you very much, everyone. Any closing comments, Rajendran, anything that we did not talk about?

Rajendran Arunachalam: No.

Ashish Bhandari: That is it. Thank you very much for following Thermax and your best wishe, your inputs and your thoughts.

Moderator: We have Ms. Bhoomika Nair also would like to give a closing comment. Over to you, ma'am.

Bhoomika Nair: Thank you so much for giving us the opportunity to host the call and all the participants and wishing you all the very best for all the effort that the team is taking.

Ashish Bhandari: Thank you very much. Thanks everyone. Good day.

Moderator: Thank you. On behalf of DAM Capital Advisors Limited, we conclude today's conference. Thank you all for joining, you may now disconnect your lines.