Thermax Limited

Q3 FY2022 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY2022 Earnings Conference Call of Thermax Limited 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 phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from DAM Capital. Thank you, and over to you, Madam!

Bhoomika Nair: Thanks, Steven. Good afternoon everyone, I would like to welcome you to the Q3 FY2022 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 & Executive Vice President. I will now hand over the call to Mr. Bhandari for his initial remarks post which we will open up the floor for Q&A. Over to you, Sir!

Ashish Bhandari: Good afternoon to you Bhoomika and to everyone else that is on the call. Welcome back. I guess we have not spoken for a quarter now, and a lot has happened in these last three months. One part of the picture felt like déjà vu because it seems like it is happening now for the fourth quarter in a row, but this particular quarter we will talk about what were the things that we further did not anticipate on the commodity price side, which resulted in this margin drop, and we will talk quite a bit about it.

On the commercial front, we continue to see strength in terms of overall ordering. Even beyond a couple of these one or two big orders that we are showing, we see strength. Our base business has moved up a level as you can see from the numbers. The question now is whether it holds or continues to move ahead or potentially goes a little down as well. I think the trends are not entirely clear based on some slowdown that we have seen in December and January, but it is because of the Omicron wave working its way through, and then the strength will come back I think we will see as we finish off the remaining two months of the quarter.

Overall, I think most people that I speak with are continuing to be bullish on the capex scenario and the budget has definitely helped. I do expect that with this some of the more private expenditure will also start to make its move around. Internally, our focus continues to be on, in terms of the growth side, in terms of the green agenda becoming more and more capable out here, continuing to push our products and services. The international bit has not resulted in as much success as we would like yet, but continues to take quite a bit of time internally, making this a more digital company and then of course, right now, from an operations point of view across the company - making sure that we go through some of these cost challenges relating to commodity prices if we are able to manage those effectively.

We have shared with you the analyst pre-reads and the analyst presentation that covers the business, the trends, some of the highlights for the quarter itself. So I will skip all of that and open the floor for questions so that we have more time for Q&A.

Moderator: Thank you very much. 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: Sir, good afternoon. Thanks for taking my question. My first question is with respect to the large orders that are there in the pipeline. Last quarter you had mentioned about a couple of large orders which can potentially come from the steel sector, are you seeing them fructifying? Are you seeing any further large orders both domestically and internationally?

Ashish Bhandari: I had talked about large orders and I had said that many of these large orders are in the mix, relative to government projects, and the two that we have shown already - the FGD one from NTPC and this other one which is not exactly a government project, but one that has been under discussion and has been bid a long time ago, now going through its final bids and awards. Similarly, in the refining and petrochemical side, there are quite a few bids that we have made, on which we are waiting for results to come by. It's a very competitive space, so very tough to say whether we will win nothing, whether we will win one, two, three - we do not really know what can happen. So there is a better variance out there. In steel, we have had good success but the really big plants of steel for the two big players who have announced those big projects - they would not show us for maybe another three, maybe even four quarters.

Ravi Swaminathan: We need to wait for another three to four quarters for those orders to get fructified, you are saying?

Ashish Bhandari: Steel side, yes, on all the rest of it where I have talked about oil & gas refining which is the EIL, IOCL, HPCL, HRRL – of those related projects - they have been bided out and are work in progress. Internationally, we have one or two projects but nothing like the old Dangote kind of really mega deals in the mix. We have quite a few 100 Crores plus opportunities under discussion.

Ravi Swaminathan: Next comes in terms of the pricing and margins. Basically, with order seeing a fair bit of pickup, are you seeing the pricing power for you coming back given the fact that input costs have gone up and margins have been under pressure? Is there a scope for improvement in pricing over the next 12 months?

Ashish Bhandari: I would say yes. Others would have this question as well. Now, this hit was not just commodity pricing; it was the rate and pace at which it went. Specifically, if I take our chemicals business as an example, where we had our pricing for certain commodities, especially for some of the ethylene dichloride, methanol - not as much, but definitely ethylene dichloride, caustic soda lye, fuming acid, all of them - these are all domestic buys; and just in November the pricing practically doubled overnight within a period of two to three days. It felt like the pricing dramatically changed, and that was very difficult to pass on because we had already taken those orders. We did go through a big price increase in December on the chemical side. Interestingly, couple of the global chemical majors, also announced a big price increase. Some of it is public information. So, yes, we are very open to increasing prices. We have some pricing power; it is just that it went through so suddenly in a way that we could not really pass on.

Ravi Swaminathan: Got it. The last time we were close to double-digit margin was in FY2017. Do we expect such margins in next year or how much time would it take to reach such a kind of margin because this year I think we will be ending up with 7-7.5% margins if I am right?

Ashish Bhandari: I think where you are, I should not say the range is broad, but I think it is sufficient. I think that is something that we are internally, at least, seems like a given. There are only two months left in the year. Long term, you can think of our businesses as at least two parts - here one part is the products and services places, businesses that we need working capital for and especially right now we will have to make some technology investments on the green side, invest in certain product capability, R&D. So those are areas where some money will go as well. But there overall, you would expect the margins to be higher. On the other side, we have got certain of our project businesses where understanding the competitiveness of India; it will be tough to get the PBT at least to 10% margins, and tough meaning that is not something that we planned for as well. But these businesses, run on negative cash flow, are created from a value generation, cash generation perspective, and entitled to the overall Thermax story being able to help our customers on energy sustainability. We will look at our businesses accordingly and not have a hard rule that every business needs to be 10% PBT or otherwise, but overall should our margins be better than the 7-7.5% that we have? I also expect that is very much there.

Ravi Swaminathan: Thanks a lot, Sir. Thanks a lot for your answer.

Moderator: Thank you. Next question is from the line of Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.

Pankaj Tibrewal: My question was most likely on a medium to long-term basis. So, we all acknowledge the fact that the way energy will be produced and consumed going forward will be quite different. Can you lay down your thought process from a growth perspective of the company in the view of changing landscape in the energy sector and how do you see Thermax evolving as a key player in the entire value chain? I think that will be very, very important from our perspective. Second, from a capital allocation, now we have more than 2000 Crores cash on the balance sheet. As you transform into the greener side, you think more deployment of cash will go on in projects and in JVs, in acquiring technologies? So some sense on capital allocation also would be helpful. These are my two broad questions - nothing related to this quarter, but more on where the company is going through. Thank you.

Ashish Bhandari: Thank you. Very thoughtful two sets of questions. I would do my best to do justice to both of them. To the first one - what is it that we do well today? Thermax has been a player in India's energy story for a very long time - that much we all know. The unique capability that we have is understanding energy needs at an industry and a customer level which means we are not really a broad utility based player but very much an industrial player, understanding all aspects of energy usage across multiple industries. Today that energy usage in many ways is driven by coal, it is also driven by fossil fuels, but that picture is changing now. It is driven by the availability of newer models around - today you can do renewables based on bio-fuels, bio-energy, you can do solar, wind, increasing storage, variety of different things that will replace what was the captive power plant of the past. Also, the economic models are changing - all of them being capex driven; today many of them are O&M, and services driven, some of which are increasingly comprehensive - people are asking for build-own-operate model, solution as a service. Through all of this, I think the role that Thermax has is to be a partner to our customers, helping them through energy transition. It means the needs of the customer like how do I go about it, I want to cut energy usage – for that we will have energy efficiency solutions, you want to take your existing processes, make them greener, so we can do. As I talked about waste to energy, different kind of fuels can come into play as those customers graduate into wanting completely solar storage based solutions. Thermax has to pivot to be able to offer those as well. The whole capability around growing services in a much bigger way, adding solution capability where we have our TOESL model today which is build-own-operate is growing quite well, continuing to push adding solar opex, adding solar storage to some of those solution capabilities and then finally, green hydrogen world - where our capability has to come about - those are the broad areas, but all of them are targeted around helping our customers through energy transition. So that is the first part of your question. The second part is practically answered by the first, which is where our money will go in allocation? It will go towards these things. Here, we will add little bit for adding digital capability, we will add and continue to build our solution capability, offering utility as a service, and then finally as we find the right entry points into new energy around hydrogen, we will look to make those and make sure that we have enough on our balance sheet to be able to make some of those moves. I hope I answered your questions.

Pankaj Tibrewal: Yes, thanks Ashish, I think a large part of it has been addressed. Thank you. I wish you guys all the best.

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

Nitin Arora: Thanks for taking my question. The first question is when we look at the last three, four quarters, you have been saying that it is a very board based recovery that is happening in the economy and for you as what you get in the orders. But when we look at you going after FGD, I think it is a big order which came from the private player which has its own issues in the past of payment. You won a very high size big size order, and also, I think you are involved in one more FGD order, which is from the NTPC. Can you help us understand - it is very contradictory because if it is very broad base recovery, why would you go ahead and take optically a very low margin, very thin margin business orders? Obviously, there was a pent up because, like our sector cabinets, I saw very low recovery when consumption went up. Is it that the other sectors now are still coming back to the pre-COVID level which we right now are far better. So the orders coming are limited to orders of 100 Crores, 200 Crores, so eventually you have to get the orders from the FGD side. Can you help us understand that?

Ashish Bhandari: I think I will do my best to answer the pieces of the question that I did understand in between your voice is cutting in and out, but specifically if I rephrase your question is around FGD, the reason to take these L1 FGD orders when we were having margin pressure that we already had and why would we do that when there is a broad-based recovery. I will answer that question. The fact that there is a broad-based recovery is shown in the fact that even outside of the FGD order we are now north of 600 Crores and the next biggest order was much, much smaller, even below 200 Crores. So, that trend that we had talked about of the broad-based recovery very much holds. We have got a few more big orders not bigger orders, but big orders also in the mix that we will see as in when they show up depending on whether we are winning those or not. Now, let me take the FGD question specifically. The first two FGD orders that we got - we were brand new in the market and I think the overall industry in India is also relatively nascent. Here the pricing was set by the few NTPC rounds that happened before we entered, but because we had really good technology, we did want to enter into this at the right levels and in the first couple of orders that we have taken have been a learning opportunity. I will ask Rajendran to share a little bit more around how we look at our current set of FGDs and of course it has hurt us in two quarters. The question then is, why did we go bid for the next two? The first reason is that we expected the next two to be at much higher margins, to the point that when we had bid those projects, we had a margin threshold and we had said we will not take any order below this margin, and we have always been very good even on the FGD side - not working with customers that have bad payment terms. Even the FGD order that we have got in Q3 is one of the best names in private players in the Indian industry, and so in that sense it is top notch, and the other one we can share is with NTPC. So, those are the only two orders we have taken, and when we had bid we had expected the margins to be much better than our previous orders. That said, because both of these orders and little bit because of the nature of the FGD industry itself, they have this long backend approval process. We bid these orders nearly nine months before these projects actually came and were awarded. So the margins have actually come down on both of these orders as well relative to when we thought we had bid those. I will ask Rajendran to talk about it, but unfortunately once you put a bid in the market, you really cannot withdraw it in a name like Thermax. You wouldn't want to go back. One of the projects also has a price increase clause and so both of these we are comfortable bringing them in; we are not unhappy with them by any means and they are going to be corresponding to how we execute our projects. On neither one do we expect a significant cash outflow currently. The second bit I would say is that all these FGD projects - a) you have put an entire business around this FGD, so we need to be able to manage it and sustain it and find what is the long-term period with it. They also provide a big role into the Indian economy by cleaning up the air. So even that approach is important and relevant and for us, which is very much in this segment, it is an important place to play. Long-term FGDs have got potential for very good services revenue as well because all of these plants can be then be handed over for long-term services. For multiple reasons, we thought it was right to continue this. We do not expect to be very active on the State Electricity Board FGD orders, and we have been always clear - we wanted to work with tier one entities and not beyond that. Rajendran would you add anything on the FGD bit specifically on margins. Long answer, but I think we should answer this question.

Rajendran A : Yes Ashish. I think you have covered most of it. I may not have much to add except to state that in the first two orders, there has been an impact of COVID because of the delayed timeline of execution. So we would have our overheads coming out in this period or impacting us - number one. Commodity cost increased during this period which has been unprecedented, which has also hit us. The third is - the China embargo that I think the Power Ministry put in, ordering some of the equipment out. So we have had challenges on that - some cost increases and also a learning opportunity for certain FOAK kind of cost has also been there. So, there have been a couple of unfortunate items that have taken us by surprise, but we are working towards trying our best as it goes to full-fledged execution in the coming year to see whether there could still be some margins that we would be able to save on this front. So that is the effort that we are on currently.

Nitin Arora: Got it. This is helpful. My second question is more of a clarification. In chemical business, even in the last quarter, it is more of a price hike than the volume growth. Even in this quarter, has there been any volume growth or is it largely price hike? Because when I see the chemical companies, they are reporting almost the volume growth to be flat negative whereas it is showing more of a pricing growth - just one clarification on that.

Rajendran Arunachalam: You are talking about our chemical business right?

Nitin Arora: Yes.

Rajendran Arunachalam: We have had volume growth as well which you would have noticed on the back of our additional capacity at our Dahej plant, so I think the volume increase has clearly happened but I think Ashish explained to you earlier about the sudden price correction that we faced on domestic chemicals which we were sourcing and I think we have had orders to execute in hand and which were in the price corrections could not have been implemented and that is where I think we have faced this challenge.

Nitin Arora: Got it. Thank you very much. I will come back in the queue. Thank you.

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

Ankur Sharma: Good afternoon and thanks for your time. Three questions from my side. One, when I look at your energy segment sales for the quarter that has grown by about 9% of a fairly weak base of last year. At the same time the order book for this segment actually has grown fairly well in last two, three quarters and even this quarter's order book is I think upwards of 30%. So what is leading to this low growth here? Is there some customer driven deferral of orders? Are we facing some other challenges in any specific large order? If you could please talk about that.

Ashish Bhandari: I will answer and I will ask Rajendran to add also. If you remember Q3 last year was coming from a Q1 and Q2 kind of a complete shutdown and partial recovery in Q2 and in Q3 kind of there was a bit of a release of a lot of finished goods that were under production, so Q3 had shown a jump. When you take a look at what is happening now is that we have seen for the last two or three quarters good growth across the board. What that has meant is that some of our shorter turnaround businesses which is like our heating boilers and to some extent our chillers also, our services business - they are the only ones that are coming in and what has shown up in that 9%, those businesses have grown well beyond that 9%. Meanwhile, in the bigger orders where our backlog had come down quite substantially a year ago after four, five months of COVID, there the backlog is built up very, very nicely, but most of those will go through execution and come out in this Q4 and overall in the quarter. So we do not see any major concern out there. All the orders have been taken with some amount of thought and we think we still have capacity to take in more large orders as well. So, we do not see a concern and overall I think now we are finally in a place where execution is going smoothly across the board even on the FGD side. These last few months have been the best from an execution point of view - limited hiccups, the rains are behind, the China issue is behind, limited COVID shutdowns, so we are now executing quite well and across the board, I think we are happy with the speed of execution. Rajendran would you add anything on this?

Rajendran Arunachalam: No nothing. Everything is clarified.

Ankur Sharma: Okay, fair. Just on the margins as well in the energy business, I think fairly weak this quarter and you did allude to the fact that RM prices went up, specifically on the chemical side but I am assuming you would have seen similar impacts in energy. But more from a slightly longer-term what kind of internal targets do you have in mind on the energy business in terms of EBIT margins over the next couple of years?

Rajendran Arunachalam: Ankush, I think that would be difficult to answer; honestly because we have quite a mix of businesses within the energy segment and multiple projects in some of the larger businesses and I think to be able to give you an margin expectation on that front would be a bit difficult, so excuse us on that.

Ashish Bhandari: If I may answer – overall, the energy segment last quarter also started to show a bit of a trend that we were starting to show some consistency, and I think this quarter was a little bit of a step back. Overall direction, at least on the energy segment, should be consistent. We will look to continue to grow that and while our end goal - we may not be comfortable sharing, certainly we expect our margins to be better than what we delivered last quarter. On environmental, on the FGD side on the two orders that we have taken already, we will have bit of a pressure as we release those into next year as well. We hope we can do better than what we have done so far but until we show that on the ground and manage our remaining risks well, I do not think we can commit to anything. But on energy side, we do not see any particular worry that will prevent us from doing better. I think even the high commodity prices, we can manage. It is when something goes up disproportionately within a quarter that becomes a bit of a challenge, that is it.

Ankur Sharma: Alternatively, if you could help me understand what percentage of your order book is on fixed price contracts and how much has been passed through? I would assume since we have a majority on the private side - quite a bit would be without a price variation. Out of your current backlog, how much can be passed?

Ashish Bhandari: Across the board, I would say our services and our chemicals business - actually none of our business has got a price variation clause other than one or two very, very specific FGD orders. Other than that maybe there is one other contract where I have heard of internally where we have had a price variation clause. Overall, though the large projects that we take in, I think and we have talked enough about FGD and the first of its kind the unit. If I take all that out, most of our larger projects in fact our largest project business which is our large boiler's business is better than expectations - has done better than its standard margins, showing great ability in both these large long run range businesses. What we are doing is when we get an order, and with the private sector it is very much possible - you make sure that all your ordering happens within a very, very narrow window. So you base it exactly on the commodity pricing that you are seeing in that cycle. So most of the time we have managed it well. It is actually in our shortest cycle businesses like a small boilers business or a cooling business or our environmental business where you take in an order based on because many dealers sell it based on a fixed price list and then you execute that over three years based on continuous inventory that is coming from vendors and all there we have seen pressure entirely driven by increase within a quarter.

Ankur Sharma: Got that, great, very helpful. Thank you so much.

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

Charanjit Singh: Good afternoon. Thanks for the opportunity. My first question is if you can just give us the mix in terms of the short cycle product business versus projects right now and as the cyclical recovery picks up in the capital goods space, these short cycle product businesses - what is the kind of growth rate trajectory which you can see going forward? That is my first question.

Rajendran Arunachalam: Are you looking for the order balance mix or are you looking for the current quarter revenue mix on the short cycle in the project breakup?

Charanjit Singh: This is on the revenue front - if you can talk on the revenue front and as the cyclical recovery picks up from the revenue perspective itself what is the kind of growth rate expectation which you can see for the standard business of the short cycle product business?

Rajendran Arunachalam: Just give us a few minutes; we will have to give you the short cycle orders and the project business revenue breakup in this quarter. I will let you know in some time as the call progresses, will that be good?

Charanjit Singh: That will be fine. On the spares and services portion of the overall revenue mix right now - Ashish talked about services as a portion going in certain segments. So in terms of overall mix, how we can see services growing and the proportion of services increasing in the overall revenue mix?

Rajendran Arunachalam: Currently, I think as you will realize that our product and project businesses order book and the order book is at a good high in terms of the domestic scenario. So the services growth that we would see would obviously be a bit muted. It would not be in the levels of growth that we see in the product and the project businesses that is because of the current cycle of booking that we are seeing. But having said that, we continue to see positive growth on the services business across all our segments and that is doing fine.

Ashish Bhandari: Overall, I think services is one of our better stories, simply because in services each new platform that we reach increases the baseline for all future ones. Here, so services is not one like a big order that it will go up and go down and we are right now increasing services faster and reaching newer peaks than we have ever done before, to the point that right now if you are saying have you grown services 57% - the way we have grown our overall orders? No we have not, but if services are being very profitable, very accretive on a basis of continuous growth, very much. The focus that I would like to bring about which is something that we look at internally and are creating a culture of looking at that internally is - take the bigger orders out of what is happening to your base business. The base business which for Thermax pre-COVID would also have been of the order of 1100 Crores, 1200 Crores is now got to this point of 1500 Crores, 1600 Crores which is entirely driven by incremental, continuous growth in services, growing channels, growing products, growing capabilities, so it may not grow 57% like the big project that comes, but it does provide a lot of continuous improvement which we really, really like.

Charanjit Singh: Thanks Ashish. Just if I can squeeze in one last question from my side you talked about rising competition in oil and gas space and even other segments. If you can just highlight few larger competitors who are competing with us in this segment and in terms of when we look at the overall manufacturing capacity for some of these products, what is the kind of industry capacity utilization because a lot of capacities are already built up but the cycle was weak so we would be sitting on still higher manufacturing capacities for these products? My question was on the competition - you have talked about increasing competition in the oil and gas space and even in the other segments so if you can touch upon who are the key competitors which we are seeing here and in terms of the overall industry manufacturing capacity, what are the kind of utilization levels because there might be a lot of idle capacities which would be lying in the spaces of boilers or other industrial components?

Ashish Bhandari: To the first point, I do not think the competition is increased - here it is the same set of competitors that we have always had so it is not, but because the oil and gas projects tend to be government tendering based projects, it would not be right to speculate on what is the likely outcome of any of those big ones - which is why I said we do not know what it will come back as but we have bid on quite a few projects. The competitors are the same buoyancy - maybe here and there a little bit change, but no dramatic change as such. In terms of capacity utilization, we are reaching a point where in many cases, our own capacity for a certain slot or otherwise is starting to get to the point that we are getting filled up. In most of these cases, we understand which portion of that activity needs to be outsourced. We have a whole network of external partners, we never fabricate, we never get the entire boiler built out of course, but intermediate portions - things like fabrication of very specific items - all that we will go out to external vendors. I think, we can manage the capacity bit right now. It has not come down to the point that we would say no to an order because there is no capacity but that capacity availability is getting tighter and tighter. As we finish this year with more than 8000 Crores of orders, the run rate that gives us in certain areas and certain parts of our business depending on the slotting, capacity is getting tight for sure.

Charanjit Singh: Thanks Ashish for taking my questions. That is all from my side.

Rajendran Arunachalam: Charanjit, I think we just wanted to answer your question on those percentages. Projects would be about roughly 50% plus, product should be about 30%-35% plus, and the rest would be services.

Ashish Bhandari: Before that, could we just share at least what is the growth rate in the services - that there is on the orders here I know, if we do not become revenues even.

Services I think relative to where we were last year at least in this particular quarter from an order's perspective, the numbers are close to double almost. Some services are relating to TOESL kind of build-own-operate but even if you take those away we are seeing good growth on the services side and a lot of emphasis and focus is also going on the services front. Sorry, to the next question.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Ms. Baid you may please proceed with your question.

Renu Baid: Thanks for the opportunity. Sir, my first question is on solar - if Ashish and the team can elaborate on what exactly are we planning to do in the solar vertical now that a team is already built in that segment and what would be the value addition which Thermax would be offering to its customer or our competitive advantage or edge versus peers and what kind of business model are we looking at? Predominantly, would it be a EPC driven business model or similar to TOESL utility-based service to customers in the space? Any targets in terms of how do we plan to scale up this business over the next three to four years would be helpful.

Ashish Bhandari: Good question again. I think on the solar business we have not talked about much in the past. Historically, Thermax has been playing in solar for quite some time but our focus was on rooftop based solar and entirely on capex. So we were doing some 5 megawatt rooftop projects for our customers, doing them fairly well but entirely on a capex side. Over the last year or so, we are seeing a lot of our industrial customers coming back and saying they need more, which means they are asking for much higher mega wattage, they are asking for solutions like round-the-clock storage, lot more complexity in terms of need and most importantly, asking for opex kind of solutions. We think we understand the industrial customers quite well and the use of energy at these industrial customers quite well which means our overall capability to know how energy gets used at variety of industrial plants is quite nice. We also have fair bit of connect with these customers based on serving their energy needs for a long period of time. We understand project execution capability quite well, and we are not afraid of technology like integrating different elements on storage, multi-generation, biomass - integrating all of those is something that we actually think we have a strength for and that strength can tomorrow be taken to hydrogen as well. So with that in mind we have changed our track on the solar side with aggressive growth plants, putting in a whole team which is in addition to the old solar team that we have, several industry domain experts with who have spent a good chunk of their careers in solar coming to lead that forward. On the growth side, we have aggressive growth expectations but as we grow we will come back and share we are not going to go to utility solar, our focus is entirely industrial. So we'll be working decentralized, providing larger solar solutions for our industrial customers.

Renu Baid: Just a bit of clarification here - so while we would be dealing only with industrial customers as you also mentioned opex based solutions, so would that mean that TOESL kind of services that we are giving to customers on a build-own-operate basis, similar offerings could be looked within the solar umbrella? If so, how do we look in terms of protecting against these efficiency levels from the solar products because we have seen while customer on the utility side, the scale is different but people who have been operating it have had problems five years, seven years down the line, especially committing for the same level of efficiency levels. So how do we look at combating some of those challenges within this business?

Ashish Bhandari: The first part to your question is yes, we are going to be offering TOESL kind of solutions on the solar side as well. To the second bit, the technology risk is relatively low. There are other things to consider and this is also potentially competitive. So there would be other risks that come with it, but the technology risk is very much manageable - a) many of your at least on the efficiency side, the products themselves come with very well understood warranties, the people that are coming in have got good idea and we have been running solar plants for now well above five years where we do O&M and cases. So, we have a good idea of how the evolution happens on the O&M side, there now a lot of data that is available and overall it does come down to maintaining these, using the right kind of technology understanding the models what is the natural degradation curve, how do you balance that off with, how do you clean these panels, how do you maintain them; also what kind of projects you get into, where are these panels installed etc. I think we can manage the technical risk. It does not worry us.

Renu Baid: Lastly, on the chemical side while you mentioned that some of the peers have taken price hikes and we had a bit of issue last quarter, so where are we in terms of taking on the required price hikes even the oil prices have remained uniform in 4Q sequentially as well. So, when we look at chemicals margins where do we see the margins heading in the near-term and from medium-term perspective are we on track for the 20% kind of margins which we were expecting?

Rajendran Arunachalam: On the chemicals. we have done price rises. I think Ashish mentioned it in the start as well. Price corrections have been implemented in the business and I think we should start seeing that reflecting in the Q4. I think the commodity cost stability in this quarter is also something that we look forward to - that is something that we had to expect. However, I think on your other bit of question on margins – in chemicals we have always targeted better margins than what we have reported this quarter at around 11% PBIT. I think the business has an ability to do clearly 15% to 17% margins. Of course, the earlier year margins of 20% to 26% that we have reported are in the backdrop of lower commodity costs and those may not be very sustainable. I hope that should give you the required answer.

Ashish Bhandari: If I may just add to Rajendran - he said that what we performed last two quarters on the chemical side was definitely below our expectations and we thought we started Q3 by implementing one set of price increases but we got hit very badly by sets of chemicals which even in this price cycle had been relatively steady but suddenly went up in November. As I said certain commodities went up 2x in price, it was just not possible and freight also, while we managed to pass more and more, but because we were fighting in an international competitive market, we could not pass on all the freight increased charges. We are now at a place where we have incorporated a big price rise in Q3 already and if the commodity prices stay where they are, we hope it will stay. But I think expecting 20-25% PBTs would be excessive. I do not think that is our aim also, we want to do volume growth continuous and we would like to have a profitable business which is in the 15% to 20% range on a continuous repeatable basis - that is the goal for our chemicals business.

Renu Baid: Thanks much Sir and on bookkeeping what is the YTD completion on the FGD old projects which we have in our backlog?

Rajendran Arunachalam: I think we have done with close to 50% at the moment on one of the orders, the first one that we had. I think the next one would probably be somewhere around 35% or so.

Renu Baid: Thank you Sir, and all the best.

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

Sandeep Tulsiyan: Very good afternoon. Sir, first question is pertaining to again on the pricing front when we look at it from your order inflow perspective, if one were to segregate - I know it is not exactly possible - but what kind of price increases have we taken across the board? So if one were to dissect what kind of volume increase you would have seen in your new orders versus the pricing adjustment or increment that would have done for the new orders that you are bidding? How would this growth in order inflows look like, of course excluding that large FGD order that we have booked?

Ashish Bhandari: We are not comfortable sharing the actual difference because some of this is also quite competitive right now and especially even many of our standard products some of this is very, very competitive information on what kind of price increases we are going through. Suffice to say that the jump we have had is a mix of very good volume growth and price growth, so both of them have had a role to play. In coming quarters, we expect even more price growth, but the breakdown between the two, I would say they are both substantial but without giving exact numbers right now because they are very, very important in the current scheme of things what we, and how we want to run. I would prefer if we do not share that as I have stated that it is a significant volume growth as well in the numbers that you are seeing.

Sandeep Tulsiyan: Sir, the intention over here is not to understand the quantum of pricing, but more to understand the business volume growth that you are seeing on an ongoing basis. So say if I were to ask you what would be the volume growth you would be foreseeing in your orders in the next financial year?

Ashish Bhandari: Overall I think I will see if I can based on a backlog give you some sort of volume growth.

Sandeep Tulsiyan: Sir, on new orders is what I am trying to check on.

Ashish Bhandari: I did not get the question, you are saying looking forward what kind of volume growth would we expect - is that the question?

Sandeep Tulsiyan: In the new orders basically what you are bidding for? If I were to quantify your orders in terms of volumes, what is the kind of growth you are looking in volumes, not revenues?

Ashish Bhandari: I think in the chemicals plant where, for example, specifically we have got additional capacity which is available, we would say at least two-thirds of the increases that you will see in the immediate set of quarters should come from volume growth, which means we expect to continue to grow this volume and utilize more and more of our chemicals capacity. Outside of chemicals, there is nothing like a specific capacity to a plant but it is not like a continuous process here. These are the fleet manufacturing units where you can and also you have got external fabrication capability and all so it is tough to indicate what volume growth we expect in the future. I will repeat by saying that where we are currently at this kind of run rates in our businesses, we are somewhere between 80% and 90% plant capacity utilization which is higher than pre-COVID times as well right now.

Sandeep Tulsiyan: Well, understood. Second question was pertaining FGD you have given some quantum of completion of orders. If you can give a roadmap of how this will be ramped up over the next two years over - say a 100 Crores revenue booking - what we did in FGD last year? Where that number as a percentage of revenues would stand in the current as well as next financial year? Thank you.

Ashish Bhandari: I think of the orders that we have - the three orders we had at the beginning of the calendar year and now we have added a fourth one as well. But of the three that we have already taken in, I think this year we should finish somewhere north of 350 Crores worth of revenue that we will recognize this year and a number which is higher than this is what we will recognize next year it will all come down to execution but somewhere in the 450 Crores to 500 Crores is what we should expect to execute next year as well.

Sandeep Tulsiyan: Got it. Thank you so much for taking my question.

Moderator: Thank you. The next question is from the line of Aditi Bhattee from Niveshaay. Please go ahead.

Aditi Bhattee: Sir, I have two questions. One - I wanted to understand the capacity expansions that you are planning in any of the specific segment from the power or from the oil and gas segment that you are receiving the orders- any of the capacity expansions that you are planning? And my second question was pertaining to the heat exchanger segment - the environment process equipment segment. I wanted to understand the adoption of air cooled over water-cooled heat exchanger - the technology adoption - if you can throw some light upon that?

Ashish Bhandari: First, in terms of capacity, I think I have answered the question previously as well. We do not differentiate in our businesses between an oil and gas boiler versus a boiler for a different one. We do differentiate our supply chain between large boilers and small and medium sized boilers. I do not think the first question as such is an industry specific question, but in the oil and gas boilers as I said in portions where we have supply chain constraints with our internal capacity, we have got good external vendors for say a particular machine which is out of capacity we will reach out to external partners to get that done. So, overall we do not see a big concern right now on supply chain on the backlog that we have taken if the order inquiry continues to be as robust and goes even more robust. It is possible in the near future, we will have to think - but right now we think we have abundant capacity available. So that is the answer to the first question. On the cooling side, it is our biggest portion of the business which is the bread and butter is the absorption chillers, the air cooled condensers and the associated heat exchanges are relatively very, very small portions of our business and even there we are looking to become very analytically clear on what is our core capability and what is it that we will do and there are portions of those business that are actually not of interest to us going forward and at the right time we will make those announcements but overall that is such a small part of Thermax that it is not very relevant for an analyst discussion, I would say. Where we are big which is 90% plus of our business is the absorption chillers, and there we are market leaders and the new capacity the new plant that we added in Sri City - all of that is for absorption chillers. Thanks.

Moderator: Sir, would you like to move to the next question?

Ashish Bhandari: Yes, maybe we can do one last question.

Moderator: We have one last question in the queue Sir. The next question is from the line of Harsh from Jefferies. Please go ahead.

Harsh: Thank you for the opportunity. I just have one question. What percentage approximately would account of our order book and order booking from the private sector?

Ashish Bhandari: We do not have that number specifically. We should be able to go and get that number and we will share it separately. I can say of the top five customer orders that we have, four are from the private sector this time around. I think in the next coming quarters you will see - as I said the bigger orders on the refining side, petrochemical side - they are still not awarded one way or the other. As some of those projects come into play, I do expect the government bid to go up. Right now, I do not have the exact number we will get it, but of the top five orders, at least four are private sector and the single biggest order - the FGD order is also from the private sector.

Harsh: Sure, thank you and just on the part of order backlog approximately what would be that number like on the backlog?

Ashish Bhandari: I do not have the number. I think we will share it in whichever analyst call we come to next. We will collect that information and share it.

Harsh: Thanks so much.

Moderator: Thank you. I now hand the conference over to Ms. Bhoomika Nair for closing comments. Over to you Madam!

Bhoomika Nair: Thank you everyone for your time and for attending the call and especially to the management for giving us an opportunity to host the call and answering all the questions quite patiently. Thank you very much, Sir.

Ashish Bhandari: Thank you very much for speaking to us and much appreciated that you chose to spend the time with us. Have a great day. Thanks.

Moderator: Thank you. Ladies and gentlemen, on behalf of DAM Capital Advisors, that concludes this conference. We thank you all for joining us. You may now disconnect your lines.