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Corporate Finance



August 9, 2022

To  
**The Secretary**  
**BSE Limited**  
**PJ Towers, Dalal Street**  
**Mumbai: 400 001**

**National Stock Exchange of India Limited**  
**Exchange Plaza, C-1, Block G,**  
**Bandra Kurla Complex,**  
**Bandra (E)**  
**Mumbai – 400 051**

Company Scrip Code: 500411

Company Scrip Code: THERMAX EQ

**Sub: Transcript of Analysts / Investors conference call**

**Ref: Disclosure under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.**

Dear Sir,

Enclosed herewith transcript of the Analysts / Investors conference call held on Wednesday, August 3, 2022. The same is also available on the Company's website i.e. [www.thermaxglobal.com](http://www.thermaxglobal.com).

You are requested to kindly take note of the same.

Thanking you,

Yours faithfully,  
For **THERMAX LIMITED**

**Janhavi Khele**  
**Company Secretary**  
**Membership No. A20601**

Encl: As above



“Thermax Limited  
Q1 FY2023 Earnings Conference Call”

August 03, 2022



**ANALYST: MR. BHOOMIKA NAIR – DAM CAPITAL ADVISORS LIMITED**

**MANAGEMENT: MR. ASHISH BHANDARI - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – THERMAX LIMITED  
MR. RAJENDRAN ARUNACHALAM – GROUP CHIEF FINANCIAL OFFICER & EXECUTIVE VICE PRESIDENT – THERMAX LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Thermax Limited Q1 FY2023 Earnings Conference Call hosted by DAM Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the 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 morning everyone. On behalf of DAM Capital, I would like to welcome you to the Q1 FY2023 earnings call of Thermax Limited. We have the management today being represented by Mr. Ashish Bhandari - Managing Director, CEO, and Mr. Rajendran Arunachalam, Group CFO and Executive Vice President. I will now hand over the floor to Mr. Bhandari for his opening remarks post which we will open up the floor for Q&A. Over to you, Sir!

**Ashish Bhandari:** Thank you very much and a warm welcome to everyone that is on the call. I will keep my opening remarks very brief. You can see the numbers as we have reported them. No surprises, we expected going in a very difficult quarter in terms of margins and that is what shows up in our numbers. Particularly April and May was very, very difficult and June overall much better performance that gives us confidence for the rest of Q2 what is coming and the visibility that we have into portions of Q3. I think there is too much going on the macroeconomic environment to predict too far out, but overall happy with the orders intake that we have, happy with the broad based numbers strength and this is not just one large order everything the strength below that and some of the very specific information on international chemical services, some of the investments, etc. that we have made, the partnerships that we have started, happy to answer those questions as you ask them, so with that, let us just get into the questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

**Nitin Arora:** Sir, good morning. My first question is on the margins, I remember in the last two, three quarters when you asked you that the value growth is how much in your new orders, you said that value growth is pretty much covered up by the client and we assume that you partly or at least because the value growth of your intake was quite high 50%, 60%,



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120% and in that you are very confident that value growth is largely getting passed on, it is nothing that we are under cutting on the value side in order to get the orders, but when that corroborate to your margins it is like optically very low and I am assuming the commodity pressure is across the industries, but looking at your marginal is something really at a very low level, so one if you can throw some light is it more of aggressiveness in the orders which led to this as well, how much was the commodity impact in the margin and if we which you aspire to become a double digit margin company taking a margins from 6%, 7% to 12% doing already a top line of quarterly run rate of 1600 Crores to 1700 Crores, how would that margin go to that site that is my first question?

**Ashish Bhandari:**

Nitin, I will first start by indicating and sharing that on the statement that you have made the fact that we cutting down prices to when project I will say absolutely not, what happened on this last quarter and you can come back and say maybe we should have been doing better in looking around corners, we did not do as much of a good, but what happened in March and April was unprecedented, yes, the way the commodity prices went up and we have a chart which shows what happened between December to March and then April steel was just in days was going up 20%, 30%, nickel aluminium up 100%, stirring jumped up, so almost everywhere we looked everything had gone up massively and when you get those projects you bid them with the sense of margins that you have, you are constantly executing in the backlog that you have and the pressure that we have deliveries continues to be extremely high, so that particular portion that we executed during that period went through a bit of challenge you can say more than a bit of challenge because the impact of commodity prices was quite substantial to the tune of 6% to our bottom line, let us take this 6% and divide it into its individual categories a little bit, one big place, the single biggest place for the chemicals business, in our chemicals business which last year was easily the most profitable part of our business and a year before was stellar part of our business, Q4 we finished at zero and Q4 actually when we finished our March quarter we lost money and till on a run rate basis we lost money in our chemicals business, it was also business that we were doing lot of actions in the background, we are passing freight charges back to the customers many of our lower margin accounts we were getting out off, we were also redoing the analytics behind to be able to do a lot of work, we were going through cost out at the refinery, going through a new ARP, so it was just a business that went through hell and the result of all of that is now starting, it also was a time period was really bad on specialty chemicals both Q4 and Q1 make some specialty chemicals was at practically at an all time low, part of that is now behind us to the point that we can comfortably say that Q2 we will post a



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double digit profitability on chemicals, so I think that is one big part of the numbers that you had. The second part where we had a difference was on FGD, see FDG the backlog that we have there was nothing we could do, commodity prices went up, the delivery cycle on these projects was quite long and so there was nothing we could do, we have to take the hit, eat it and move forward and the FGD continue to be a drain on the environmental segment, the good part on the FGD is the backlog that we have now, which is what we were worried about even last time when we spoke that backlog now is back at a cost of that backlog is backwards, which is only slightly higher than when we bid those projects and not a lot higher because where commodity prices are there, they behind or they are somewhat lower than where prices were last December, and some of these projects we had bid where in the March to June frame, so that June to December price increase, we still have to absorb and take that out through productivity, but all the December onwards cost increases we hopefully should be manageable given how commodity prices have come down so that was on the environmental segment. On the energy segment, which is the heart of our business, there you can see we could absorb the commodity pressures and still turn out a decent margin and that should hold in Q2 and Q3, I think it would not go far to say that double digits is our you know it is something that you can expect immediately, but in terms of strength and margins Q2 and Q3 should definitely be better than where we showed Q1 and chemicals easily being the single biggest turnaround place. Okay, I hope I answered your question.

**Nitin Arora:** Yes, thank you so much, it was helpful. Second, on the big pipeline, can you throw some light in terms of the large orders and as well as the base orders any changes do you see with the glasses is being heavy part for us, so this year if he can throw some light on the big pipeline both in the base?

**Ashish Bhandari:** The base is reasonably good, so Q2 we have a decent visibility and it is happy with what we see, the large projects continue to be there, but on the large projects in some cases especially last quarter we were little conservative on our pricing and all that with what was happening on the commodity prices, so we will see how the larger ecosystem behaves and there are enough projects in the pipeline, the billing things let us wait and see what happens.

**Nitin Arora:** Thank you very much, Sir. I will come back in the queue, thanks.

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



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**Sujit Jain:** Thank you for the opportunity. What is gas FGD execution left in the order book currently and when does one assume that till then the environmental margins will remain low because as I recollect one of your commentaries or in one of the conference calls where you said the extent of the players in FGD was that low?

**Ashish Bhandari:** So I think the question is specific on FGD pricing, I will divide the FGD projects into two parts, they were two projects that we had taken previously which were all in the 19, 20 kind of a time frame, both of those projects are now going through their final bits of execution with one project having 95% of its material by complete and the other one I think if I remember right 80% plus of its buyout are complete, yes, both of them are I think we have taken hits on both of those projects, we have taken reserves all of that where they are I think it should not get any worse than what it is, so I think overall we are comfortable with both of these projects that the bad news is being sufficiently accounted for.

**R. Arunachalam:** On the order backlog that I think you were possibly asking as well, Sujit, the FGD order backlog in the current numbers is about 1800 Crores.

**Ashish Bhandari:** Then if could talk about the new projects that we have both of them they were both were at reasonable margins actually a creative to our overall project businesses where at one point our costs have gone up quite substantial and this particular project profitability had also come down where things right now stand in the last sixty days, the profitability has gone back up with the softening in commodity prices and we are looking to make sure that as much of our buy that we can finish off in this 30-day, 60-day period that we have, we want to be able to do so, so we are going forward and accelerating the ordering of many of our major items able to finish it off and we may not get the 8%, 9% kind of profitability at with some of these projects were bid, but the 4% to 5%, which was at one point potentially our worse case, I mean in this particular things potentially a worst case scenario that we want to protect by closing out all the bids, so that is how I would answer your question.

**Sujit Jain:** Right, so which means that the margins could look up 4% to 5% kind of levels are possible in FY2023 and Fy2024 in environmental segment?

**Ashish Bhandari:** Absolutely but in future quarters, I would say, yes.



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**Sujit Jain:** Sure and thank you and stirring impact what portion of sales in chemical segment. Is the understanding correct that it is mainly the raw material for resins business and resin would be 50% of your chemicals business?

**Ashish Bhandari:** Yes, I think resins is 40% of our chemicals business, the single biggest driver of resins is stirring, but there are a lot of other raw materials that are also part of this, not just stirring, both of those are also driver of our many others, the whole list of chemicals is quite long and in Q1 what also happened was when the war started many of these commodities which are actually not even imports and not even dependent on crude things like caustic lye their pricing for a 60-day period went up by more than 100% like completely everybody just suddenly increase the prices and these are complete consumables in a way that you order on a one week lead time kind of a basis and that costing went up quite a bit, the other thing that happened in our chemicals business was the availability of natural gas went down quite a bit, pricing of natural gas like right after the war went up substantially which you guys know L&G supply went down all of that, so that last quarter April and May were just held overall.

**Sujit Jain:** So, safe to assume we can climb back to the margins in FY2022 based on your initial commentary about chemical segment now really mix will improve?

**Ashish Bhandari:** I cannot say too far out, but definitely Q2 and Q3 we can project double digits profitability of what we can see.

**Sujit Jain:** One last question solution what kind of money has been spent this you mentioned in your presentation, so it is a IOT solution so what kind of capabilities you are building in-house and what kind of spends you are doing to build those capabilities in terms of opex?

**Ashish Bhandari:** Hedge is our way and this is the realization came during the COVID times where customers would reach out to us for interest services, counting spare parts and the whole supply chain because of all the COVID challenges was a little broken to say, that got us thinking in our way we relate and we connect with our installed base and of the tens of thousands of units that Thermax has supplied over the years almost two thirds of those we had lost actually, which means we did not know where they were, how the customers were using it, they were sold through distributors so who that the distributors sell it to, when were the spare parts provided, who was even providing spare parts so lot of that information we did not have, we were getting information from customers that we are having a problem, so it was our response to start connecting with these customers, is not



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just a one thing, for us it is like our I-phone one in a way, there will be a lot of different improvements that will come and H1 effectively was followed very quickly by H live which H1 was connecting our customers for them to know what is the asset for them to say okay I have a problem or I need a service request or I need a spare part whatever the case may be, H live gives the customer the ability for a portion of our portfolio which is the heating and the relative set of products to take that asset online, which means to be able to monitor that asset continuously and have a variety of different efficiency and up time related models running in the background giving them fantastic insights into their assets, so we are super excited about this capability, the numbers that will get for a year our projection is not that much for the first year because our projection for the first year in terms of just H-live revenue as such is only 5 Crores to 10 Crores, but the impact it will have on our ability to service, which means in the spare parts that we provide, seal services that we provide, the new products that we can sell and overall our ability to engage with our customer much better is extremely, extremely high, so to take this as a journey for the next three years we will continue to invest in that growing there, this has been built largely in-house, we have had development partners and all, you can see we have also made a couple of minority investments in startups, they are helping us in big portions of H and H-live very, very excited about what the future holds and I think in terms of total investments, the investments and the startups we have shared what those numbers are, but our investments internally in terms of building some of this capability, building the platform, our ability to connect with the dealers and all that, is of the order of a few Crores.

**Sujit Jain:** Sure, thank you.

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

**Renu Baid:** Good afternoon, Sir. I have two questions, first if we look at TOESL business in the annual business, we have seen almost 75% growth in this business, but when it comes to profit our margin is 20% growth because I want to understand A. In terms of this portfolio some 200 Crores in FY2022, how do we see the growth panning out in the next three to five years time the business approaching a 1000 Crores mark when and how should we look at the profitability of this business improvement it just seem to be more of a driven portfolio, so if could help understand the profitability will be helpful?





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**Ashish Bhandari:**

So, overall TOESL is growing continuously and will continue to grow for the next three to five years, at least for the next 12 to 18 months we see a very strong pipeline, we should finish that business this is this year at a run rate that is between 300 Crores to 400 Crores and next year we should be able to add another 100 Crores to 150 Crores for sure, so think a line of sight to in two years to 500 Crores clearly exist can this get to 800 Crores in four years, I would think possible. In terms of profitability at a project level it is not reducing, these are all this entire IRR projects, there has been some loading of cost because as we are adding these projects online most of these projects have an incubation cost which is early on which is starting to hit those projects, but overall we are also adding head count and all to be able to make this long term business, we do not see a slowdown and our margins at a asset level are still holding strong, yes, Rajendran, do you what to share anything else.

**R. Arunachalam:**

Yes, well I think you covered it and there is also a fuel cost increase that has happened during the last quarter as well as this quarter, but this is the pass through, but then I think the fuel cost when it increases we do not have the same level of margin that we would have on the overall project that would be a marginal mark due to fuel cost increase, you know why it is reflecting in the top line as well as in the convolution cost, the margins are not as high and hence you would see the material cost percentage going up and then profitability margins percentages being a difficult those kind of business that I think that is the structure of the business.

**Renu Baid:**

And the solar utility portfolio would also be on the TOESL it will be under separate subsidiary so which the project would be executed?

**Ashish Bhandari:**

I think good question, I can spend some time talking about solar opex business, our solar opex business, we have First Energy Private Limited and that particular business showed a loss of 4 Crores in this particular quarter and that was driven by a shift in the mix, historically we were doing capex projects, which means we were selling equipment and doing the EPC of small rooftop projects in solar, so that is the difference that we are little bit, no more than little bit walking away from and our focus is on opex projects and as we speak we are executing three clusters on opex project, one in Tamil Nadu, one in Maharashtra and one in Gujarat and all three of these should give us a projected revenue and a projected megawatts installed that is beyond our projections for the business, it is doing better than what we expected, but the impact of that will only start to show up in Q3, the first asset that we have in Tamil Nadu will start to show revenue in late October,



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the second asset in Maharashtra will start to show revenue in November and the Gujarat asset which is a hybrid asset will not start to show revenue until Q1 of next year, so we are building up, but meanwhile that businesses because of the operating costs of the business is taking that cost, which is the negative 4 Crores profitability number that the business is taking, but we like the backlog in the pipeline the team is developing.

**Renu Baid:**

Got it, and lastly if I may, in your comments on the order inflow you did mention that the export duty on steel could happen impact on our last projects in pipeline could be expected, on the flip side if you see the commodity price is coming off would you believe that large order inflows which was from the government sector could actually see acceleration in project pipeline, so if you could just collaborate and help us on the aspects how do you look at the last project pipeline picking in the next six to nine months?

**Ashish Bhandari:**

Renu, very good question and I do not have a 100% answer to give you, and you hit the nail on the head when you said that the run is that some of these bigger projects especially in steel where there are some really big projects being talked about those project owners may slow down those projects, so that is the clear risk, on the other side the fact that there is softening in the commodity prices makes it much easier for the refining and petrochemical projects to hit their budgets and for those projects to go ahead, so you see a mix of both things that are possible, possible economic slowdown making certain people in steel and potentially cement a little conservative meanwhile many others who had projects that had envisage that was sitting on the fence may come in and say okay we are seeing stability let us move forward, I do not know how things will pan out, but as we see overall what I can talk about is a pipeline of enquiries a pipeline of enquiry is strong.

**Renu Baid:**

Thanks much and all the best.

**Moderator:**

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

**Ankur Sharma:**

Sir, good morning. Thanks for your time. My question is on your revenue and EBITDA numbers, when I look at a three year CAGR basis and just comparing it to Q1 2020, which was the last pretty normal kind of a quarter, the top line growth is about 5% CAGR and EBITDA is slightly down, despite has having pretty strong order backlog and very, very strong orders as well both base in large orders, so just trying to understand is there some constraints on RM supplies or there is a constraints on to the customer side



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which is keeping us from ramping up our top line significantly or do you believe that will happen maybe over the next few year and therefore we see a significant growth over last year?

**Ashish Bhandari:**

I think I do not see any constraints right now any significant constraints, there are always project to project move, but in delivery nor are there any significant customer projects where customers are not asking for delivery if anything this is as smooth as half years in my current role, so comfortable with that, our backlog that we had built up was built up with a certain maturity and we are sticking to that maturity, during that period there was a lot of stuff that happened, but I think it is all smooth and manageable, I do not think internally as an example while we did more than 1600 Crores our backlog internally when we are projected we have only projected 1500, yes, the overall each business ended up doing more, more, more, more when what we were projecting and if that holds at the backlog matures we should be comfortable here, we do not see any particular concerns on that, the only place where we had little bit of execution challenge was on our PTTI business where we had a negative 3 Crores loss despite the fact that our enquiry pipeline was decent and the order backlog was decent where they were two projects, which we wanted to deliver where the customers were not ready to take deliveries but beyond that is the small part of our business overall, but most of the rest of the business not the problem.

**Ankur Sharma:**

Sir, second question as you also said and what we have seen early in the RM side steel, copper, aluminium pretty much most RM kind of correcting that anywhere between 20% to 25%, so just wanted to understand how does it work in our case in terms of both our larger or base orders, do we reduce prices once your borrowing prices fall, do we largely retain our existing order backlog values and therefore any fall in RM prices results in higher margins, we were trying to understand how that piece work?

**Ashish Bhandari:**

So, all of our projects are fixed price projects, there should not be a scenario where we would have to, customers would come back in and we negotiate pricing steel price is going down, so I did not add anything, there maybe one or two there have been cases where people have come to call saying can you cut down your prices and all that, but I think in all cases we are still higher than where we were a year ago so to speak here, so I think those are manageable discussions, we do not see a concern, I think what you will see is an improvement in margins in Q2 and Q3 clearly, you will not see that like if our backlog is 9500 Crores and that means we need to buy 4700 Crores worth of material that



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has 4700 Crores just because the steel prices have gone down by 10%, 15% will suddenly become lower by that 10% to 15%, what happened because we have been doing one of the things we have been pushing very hard internally is to cut the cycle from when we get a projects to when we order out extremely, extremely short, so we are trying to make sure that if we take a project that even if it is a higher price you are clearing out the ordering of it so that your margins do not dilute relative to what you committed. Q1 was good because the pricing went up like day-by-day things were going up and so in that one-to-two-month period you could do nothing to prevent yourself, so I think portion is completely behind us, I expect Q2 to be much milder where you see the impact of volume showing up in a much bigger way and a moderating of overall cost.

**Ankur Sharma:**

Okay and just a last one from my side, you did talk about even large orders potentially from steel getting delayed because of the coal export duty which was common, if you could also pass upon the ordering from FGD, power, the fining those were the pipeline which was there, how are you going to finalized?

**Ashish Bhandari:**

So, FGD moderate to low, we do not expect too many orders, there are some things, but I do not think we will be super aggressive as I have stated previously and also there is a limited amount of uncertainty in the FGD space where many of the companies have gone made representations that given the steel price increase they may be given some relief in executing these projects, so the government I think the finance ministry had returned to the industry ministry to potentially look at that delay, so many other customers have used that letter from finance ministry to the industry ministry to hold off and slow down their projects, meanwhile the reason that letter was written which is the commodity price increases is no longer holding through so that industry also does not know what will happen so we have got multiple projects which are going through the coating phase, but we do not know what will happen to them, so I will keep them all in the moderate to low phase, similarly the large steel and the cement projects all of them the customers are like going through with getting codes for the projects doing all that whether they go forward with the projects are not again, we wait to see. Petrochemical, the projects are going ahead and many of them are driven by government issues where we see projects happening and now that the commodity prices have stabilized, their beds will open and they will get awarded whether we win or not we do not know, but our pipeline of projects here is strong beyond this in portions of international and portions of waste heat, multi fuel there we see considerable strength, there none of these will be orders that we will come and report out, but in the 200 Crores we see a very, very good pipeline still.



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- Ankur Sharma:** Got that, great. That is very helpful, Sir. Thank you, that is all.
- Moderator:** Thank you. The next question is from the line of Deepak Krishnan from Macquarie. Please go ahead.
- Deepak Krishnan:** Sure, Sir. Thank you for the opportunity. I just specifically want to understand on the international front especially on the European business, what have been the impact so far and are we seeing any material slow down there as well as for your chemicals business in the US given the overall macro environment, how are we seeing order pipeline over there?
- Ashish Bhandari:** The order pipeline overall I think still good we do not see a slowdown and in our international business also, in Europe if you take an example, which is where our Danstoker business is currently is actually seeing some of its strongest order enquiry pipeline and that is driven by many of countries in the European Union Engineering out how do you disconnect from Russia effectively so which means looking at biomass as an option, looking at electric boiler as an option all of that becomes of a lot of interest which is driving a strong order enquiry book for us, so I think we do not see a slowdown on the international side at all in fact Southeast Asia and Europe both of which were last year somewhat slower than what we would like them, today we are comfortable and in the case of Europe having an order enquiry pipeline, which is beyond what we think our plant can deliver because we were cutting down capacity at the plant in the last couple of years, so we do not a slow down right now and even our Stellar business as I said that is driven by wastage recovery and some other macroeconomic drivers which are beyond just an economic slowdown, no particular slowdown, we are manageable.
- Deepak Krishnan:** Sure, just probably one followup question on the chemical segment first, if you look at the impact of mix, impact of freight, how would classify all three and where do we see probably they are easing out where do we still see some scope of what to be done and the overall order book position, how much of would you see and how much of it has some kind of variable or pass through?
- Ashish Bhandari:** So, Deepak I understood that you wanted to understand slightly better on the Q1 performance and you are looking to also understand the Q2?
- Deepak Krishnan:** Yes, so Q1 especially for the chemicals and the trend of it and just from an overall perspective where are we on the fixed prices or variable price contracts?



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**R. Arunachalam:**

I think buy and large chemical business as well it is a short cycle business so they are primarily fixed price, of course there are a portion of likely long-term contract, but they are only a portion of it so on the impacts of Q1 I think at least cover about it earlier on the commodity cost being elevated still on the ratings business and you know that is one of the challenge that will continue to have in terms of price passed through, so that is what is impacting us and as well as the product mix is a significant factor because we have different product groups with the different margins in this particular business, we have water treatment chemicals, construction chemicals, specialty chemicals and so we have multiple product groups of differing margins and different customer segments which has also have different margins and so those come into play and that is one of the reasons that we have some fluctuation in the margins, that is also for the specialty chemical that we continue to target to improve where the margins are better as we have shared in the past, which also have certain role to play, so some of this they are in the positive side in quarter one, but yes, in quarter two we are expecting some of the product mix which used to be in favor specialty chemicals and some better margin just to be executed in quarter two and also the commodity cost declining in some of the product groups so it is also positive for us I think Ashish earlier confirmed that we are looking for better numbers from that business on the profitability side.

**Deepak Krishnan:**

Thanks a lot. These are my questions.

**Moderator:**

Thank you. The next question is from the line of Deepak Narnolia from Birla Sun Life Insurance. Please go ahead.

**Deepak Narnolia:**

Sir, thank you for giving me the opportunity. I have one question about your profit margins, I think more than two years every quarter the company is reporting volatile margin and off and on that is spiking commodity price, but in that context I just wanted to know how much is your fixed price contracts and how much is variable priced contract and from when you see this profitability coming back to 9% or 10% level?

**Ashish Bhandari:**

I think I hope I understood your question right you are talking about a volatile margins and what is the price driver of these margins and how much is your fixed price and how much is your variable price, I think practically all of our contracts and I will be in overwhelming high portion of our projects are all fixed price, yes there are two FGD project which have some amount of price flexibility, but other than our entire set of projects are all fixed price, which means when commodity prices go up we take the hit, when commodity prices go down we get better advantage, what is not fixed price is our



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products business and our services business, which are also fixed price, but we have the ability to react there much, much faster and there are ability to react of the period of few weeks, which means we can increase the prices because the court validity is the month, so that much of a freedom and flexibility you would have to be able to increase prices overall and then on the services site I guess we can increase our prices even more because that is our people and everything there about, I look at our backlog as I have said when do you think the margins will get to 9% to 10% profitability I do not know when was the last time we were at 9% to 10% profitability, we were always a good cash generating business and you can see our management of working capital and all continues to be solid. In terms of margins and profitability I think the last year and a half the way the commodity cycles have moved and they have not just moved been volatile, they have just been up, up, up, up, up, it is only now and the last two months that we are seeing a down portion, we do not care if it is up or down, we just want stability in the commodity prices so that we can price ourselves accordingly and when those projects or the margins that, if I take just to give you an example of the kinds of things that happened, long steel Rs.58 per kg, March 2022 Rs.71 per kg, BQ plates Rs.80 per kg in December, March Rs.105 per kg, aluminium Rs.152 per kg till 78 in March, nickel Rs.1500 per kg in December, 2750 in March, so it is not that we could absorb through into our business, the good part is by June lot of that has come down again, we are back to where we were in December, so I hope you will start to see profitability also which is relative to how we did it in December and I think I challenge our teams and I will put it out there to look at Q2 and Q3 as a performance that at least a sense of direction on what we are working on and it would not be 10% profitability, but it will be much, much better than what we showed in Q1. I personally from my point a view Q1 was a fantastic performance because of everything that we had to take in and to be able to still deliver a profitability, which showed the power the scale can bring and so with the 1600 Crores top line if you could deliver that kind of a profitability with the 9500 Crores backlog, which you can see if you break it down what kind of top line we can deliver in future quarters the impact on the top line with the soften commodity prices should be something that I am looking forward to delivery.

**Deepak Narnolia:**

Sir, in your backlog how much is project if you can broadly split that?

**Ashish Bhandari:**

In our backlog we have more projects than 10 products relative to history because we have been winning lot of bigger stuff, but everything that we have grown like in this particular quarter we grew our projects business from 1230 Crores of the orders we got



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this quarter were projects, 790 Crores were products and 300 Crores were services, all three of them are 20% above relative to what it was in Q1 of last year in terms of the order booking and really I mean services part to grow that has been the focus that we have on services right now because that is not the history of Thermax, your projects go up and down in some senses, we are right now focusing on improving our base business as well and services profitability if our overall profitability on a gross margin bases came down by 7% in Q1, the services profitability on the margin percentage basis came down by 1%, so we love the services part of that business and the resilience that it has to be able to be profitable and in many ways those are the kinds of initiatives that allowed us to deliver what we were able to deliver in Q1.

**Deepak Narnolia:** So, the mix you did not mention the project versus product mix in your order backlog and has it changed in the last couple of years?

**Ashish Bhandari:** I do not know on the backlog what is the mix, see the backlog is also a wrong one to look at because our services numbers as an example are very largely book and bill yes, if you look at our backlog of course our backlog will show predominantly projects, but that is right because in any particular quarter right now is this particular quarter as an example.

**Deepak Narnolia:** Got it, in turnover you can say the splits, Sir?

**R. Arunachalam:** So, turnover split I think Ashish just mentioned sometime back, on the turnover split we do not, but maybe we can do that and share that on the turnover split in a subsequent base we can share that.

**Deepak Narnolia:** And the order will be largely project?

**Ashish Bhandari:** No, 50:50, I just said that of the 2300 Crores we got 1100 Crores was products and services, 1100 Crores was projects, so 50:50 and that is I mean look in our history we would not be ever be doing 1000 Crores plus in a quarter of products and services, we have super bullish in that part of a business.

**Deepak Narnolia:** Thank you.

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





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**Bhavin Vithlani:**

Thank you for the opportunity. Ashish, sorry to ask again, you have told enough on the margins front, but just to understand a more sustainable level of margins as the commodity headwinds go faster, will it be fair to say that roughly a third of our revenues on a sustainable basis will be the larger projects, which are 5% to 6% kind of margins, services will be about 15%, which will be high teens closer to 20% and products will be 11% to 12% will be the balance part of the revenue and that is how we could get to a margin level of 10% to 11% on a sustainable basis?

**Ashish Bhandari:**

I think not a bad summary from an aspiration basis, I think the services percentage is a little lower than what we are targeting what you have shared and maybe from a long-term profitability business basis, the product business may not yet be at the numbers that you are sharing, but from a direction perspectives you are absolutely right, the only other caveat that I would provide is that overtime we need to be able to show you guys the solutions part of our business separately as well which is the question that Renu had asked on how is the TOESL business doing and on top of the TOESL business starting in Q3 and Q4, the solar part of the business will also start to overlay to create a solutions business, which today maybe not as strong, but by next year will start to become possibly 700 Crores to 800 Crores worth of recurring revenue on a continuous basis for Thermax, so like 200 Crores to 250 Crores worth of our quarterly revenue will start to show up from these segments then on top of it if I add the regular services revenue about 25% plus of our numbers should start to become lot more stable and continues with a decent margin associated with it, so that direction holds and then if I add chemicals out of it, so our idea is to get more than 50%, well more than 50% of our business to become predictable, stable and hopefully with bit more stability on the commodity pricing lot more predictable overall.

**Bhavin Vithlani:**

Sure, that is helpful, just the last questions from my side, energy transition is one of the key risk that you have fighting on, could you just help us understand the initiatives you are taking especially on the R&D side and that is one part that I see Indian own engineering company is missing the R&D, the efforts that you have been doing on the R&D innovation and the kind of products that you see that the kind of up move that we are seeing maybe hopefully next two, three years and once that settles down the next leg of growth that we see from some of these products?

**Ashish Bhandari:**

Bhavin, good question and now that I think as you know Thermax more and more some of these questions are really starting to get to the core of what we are looking to do, some



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we talk about, some for as you can imagine competitive reasons we cannot, as an example, this quarter you will be announced this subsidiary specifically to focus on bio-CNG, we are doing it because we think it is meaningful enough as a segment and can become sufficiently large and we could convince major developer of these kinds of projects ever in Beirut to come in and actually take a stake in that subsidiary as well and become a partner, so that is an example, that particular subsidiary right now as only three orders, but to take three orders already all of the each order would be 50 Crores, 50 Crores so these will never be orders that will you come and report out as an exception to the street, but the opportunity that this create is to create a whole different segment for Thermax, which starts with EPC of these projects, then you can do O&M and services around these projects, create long-term revenue streams which can be very, very interesting, so we need the timeline time to build and grow them, one more thing that you would see that we have released and that is a product which is already out so it is called Flexisource, it allows us to take various different kind of biomass and based and convert them into, energy into and this has been particularly targeted to customers that currently run coal because the boiler has the flexibility to run coal as well, so the boiler actually cost 50% more or maybe 100% more than a traditional coal boiler, but the flexibility that it gives the customer to be able to run multiple different kinds of fuel means that for many, many customers the payback would be less than two years and then it addresses their sustainability story as well, so two small examples of the kinds of things that Thermax is able to do, which are relatively novel in the space, there are others who are also in this space, but I would say some of what we are doing is definitely unique, many of the cooling applications that you will hear, we have low heat waste recovery and taking that low heat waste recovery and driving heat comes from it, chillers from it, I mean the applications are numerous and they are all driven by an R&D capability that is based on understanding the science behind absorption chillers that Thermax has which I guess at least in the Indian framework nobody else would have, so these are all sets of things that you are working on that you are really excited upon and none of them are clean I mean you can come and do something lithium bromide, which is the heart of these chillers, lithium bromide pricing went up 300% last quarter, so okay, we have to go absorb that in all of this that you provide you think you have cool technology your customers like you, but nobody is going to allow you to take a 300% cost increase on the price that they have agreed upon and manage it through, so we work through some of those challenges, but in terms of applications it is quite excited and this on top of everything that green hydrogen and all those other bits can come to bear that.



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- Bhavin Vithlani:** Thank you so much for answering this, very helpful.
- Moderator:** Thank you. The next question is from the line of Shaleen Seth from Seers Fund Management. Please go ahead.
- Shaleen Seth:** Sir, first of all I like to congratulate on the buoyancy in the order book, I think we have double our order book in the last two year, so what is the executing possibility that you look at specifically in other environment going forward?
- Ashish Bhandari:** Fairly high, I think concerns on execution, we are very focused on executing without adding significantly more people and which is the big emphasis for us and also looking at this time to actually spend a little bit more, but spend it on automation, on productivity, on lot of different things and if you take a look Thermax's cost of manpower through the years has gone up, and last year when we finished we were in 2021 it was north of 15% with the numbers that happened last year that number came down to 13%, we are really looking at how do we pay people more, but try and focus lot more on productivity, so that we do not add people, so that whole emphasis that we have on productivity is resulting in a lot of initiatives internally some of them will be difficult because it is asking change, process change and all that, that will I think put some burden on our ability to deliver, but otherwise from a capacity point a few, availability of people all of that manageable, attrition is in double digits, but manageable. Put a number on execution capability?
- Ashish Bhandari:** 20 years.
- Shaleen Seth:** Could you just put a number on a quarterly execution is other environment?
- Ashish Bhandari:** Quarterly execution is that like a future backlog?
- Shaleen Seth:** Yes.
- Ashish Bhandari:** Future backlog, we stayed away from sharing future projections and an exact number but I am sharing that we understand the backlog, we understand the maturity with which it took was taken and overall we do not see too many execution challenges right now, I think that I do not should we share a future look on backlog, we have not done, so we will stay away from that, you guys are now doing a better and better job of anyway forecasting Thermax's numbers so I leave you all to it, thanks.



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**Shaleen Seth:** Thank you.

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

**Aditya Mongia:** Thanks for the opportunity, good afternoon to all. The question that I have is molding to in the waste to energy segment, how much does it contribute let us say India versus overseas put together for you at a portfolio level, the opportunity thrives and the competition that you face in this segment, thank you?

**Ashish Bhandari:** Over the last year-and-a-half significant and not just 30% across our overall portfolio because we have been running about 70%, of our 70% green nearly 50% has been driven by base to conversions have some sort, variety of different applications, different applications have had strengthen different parts of our portfolio, the waste to energy part, the specific one which is around this multi fuel one that I talk to you about that portion is around 40 Crores to 50 Crores of brand new business per quarter that we did in Q1 that is the Flexisource that I was talking to you about and non-recoverable solid waste, overall waste to energy has been 30% of our portfolio in this last year, continues to be extremely strong, the newer applications of this new Flexisource that I talked to is 40 Crores to 50 Crores Q1 continuing to grow and like this there are couple of other applications also that we are quite excited about the bio CNG I was more example that I talked about that we are very excited about.

**Aditya Mongia:** Thank you for the response.

**Moderator:** Thank you. The next question is from the line of Rahul Agarwal from L&T Mutual Fund. Please go ahead.

**Rahul Agarwal:** Thanks for the opportunity. Sir, just one question with respect to understanding the commodity impact on the incremental order inflow and is this order book of 9500 Crores can this be the peak just say one year, two year because of this commodity fall?

**Ashish Bhandari:** Sorry, could you repeat what will peak in one to two years because of the commodity fall?

**Rahul Agarwal:** So the commodity order inflow and the order book that we have reached are that elevated the commodity prices and now with the commodity is coming off, do you see that order



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inflow can also see the similar fall and the order backlog as well could see that kind of fall, so volume growth may not be impacted because of the pricing fall?

**Ashish Bhandari:**

I try and answer your both parts of how I read that question, can be slow down in commodity prices, slowdown in the overall industry and can that bring a top line down I think you clarify that was not your main question, but I will answer that question as well, I think quite possibly and it is the whole world goes through a recession India will catch a cold you cannot be completely disconnected so far we have not seen that, we are seeing reasonably strong enquiry outlook as I said before, the second question which you asked which is that some of what you are seeing in our top line is increased pricing that we would have and as the commodity prices come down will that pricing come down as well, I think that is also a very valid question, I would say our impact of commodity prices was in the low single digits, I mean was in single digits not low single digits, so overall was the single digits pricing so to that amount maybe the top line can moderate I would take the margin side of the equation any day on that front, because if the commodity prices come down by 15% I would be more than happy to pass on 7% to 8% price reduction to our customers that is possible, we will see quarter by quarter I think right now we are holding on to a price increases, we will see it is a competitive space, I am sure as a competition starts to reduce prices we do maybe an environment where we have to reduce prices.

**Rahul Agarwal:**

Great, Sir. Thank you and all the best.

**Moderator:**

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

**Amit Mahawar:**

Thank you, Sir, I just have one question, Thermax will go ahead with both domestic and globally business growth model, a lot of large project in terms of overall share of business the complexity of the book will keep on really challenges, so just want to understand what kind of crosses and recovery follow in evaluating the last especially with respect to credit risk you know payment cycles, etc., that is my question, thank you?

**Ashish Bhandari:**

I think that I would say Thermax is the best practice, we are fairly conservative even in our history previously also some of the biggest projects that we have taken which are Dangote, Reliance they have all been actually a creator to the business, the largest of the large where we have been very, very conservative, if you take a look at our TOESL business which is the regular continues business where we are putting a cost at day zero



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and the revenues get realized over the next 10 years on a continuous basis, our client list is double A and triple A, who's who of the world, the top notch FMCG customers, top notch former customers so there is no dilution in that sense and from a risk profile I do Thermax's processes overall need to improve in terms of how do we execute projects, turning and bringing with more digital, making it less manual, bringing in productivity, bringing vendors into that mix, bringing very modern technologies that are available, but from a risk perspective we are absolutely solid.

**Amit Mahawar:** Thank you and best wishes.

**Moderator:** Thank you. The next question is from the line of Akshay Kothari from Envision Capital Services. Please go ahead.

**Akshay Kothari:** I just had one question considering all our contracts are fixed price contracts we would be hedging, I am we would be hedging, so I just wanted to understand how much is the hedge is effective in the commodity price scenario?

**Ashish Bhandari:** We have looked at it in a lot of detail and we have looked at it every time practice go up and we have not found a suitable hedge, in a chemicals business styrene and crude are related but they do not follow each other to the extent that you would say I will go and hedge crude together hedge on styrene and the cost of hedging styrene by itself is so expensive that it is not worth, similarly on steel the multiple grades of steel that we buy and be good chunk of a buy even like stainless steel tubes for our boilers and so we have not found a suitable hedge at all, the only hedges that we do on our own effects and on effects we are practically 100% hedge, on commodities we have no hedge at all.

**Ashish Bhandari:** Okay, that is it. Thanks a lot.

**Moderator:** I would now like to hand the conference over to Ms. Bhoomika Nair from closing comments.

**Bhoomika Nair:** Thank you very much for answering all the questions and all the participants for being on the call, wishing you all the way best.

**Ashish Bhandari:** Thank you. Thanks, Bhoomika for visiting us. Wish you all the best.



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

**Bhoomika Nair:** I would just like to thank everyone for taking time out and being on the call and especially the management for giving us an opportunity to host you. Wishing you all the very best, Sir. Thank you so much.

**Ashish Bhandar:** Thank you so much, thank you Bhoomika. I wish everyone a very good day and a good week as well. 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.