



“Thermax Limited
Q3 FY24 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to the Thermax Limited Q3 FY24 Earnings Conference Call, hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star then zero 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 Advisors Limited. Thank you, and over to you, ma'am.

Bhoomika Nair: Thanks, Zico. Good morning, everyone, and a warm welcome to the Q3 FY24 earnings call of Thermax Limited. We have the management today being represented by Mr. Ashish Bhandari, Managing Director and CEO; and Mr. Rajendran Arunachalam, Group CFO and Executive Vice President. At this point, I will hand over the floor to Mr. Bhandari for his initial remarks, post which we'll open up the floor for Q&A. Over to you, sir.

Ashish Bhandari: Thank you. Thanks everyone, for being on the call. We have tried the connection a couple of times where initially we were told that the voice was not clear. So if that's the case, and you cannot hear me well, please do interrupt and let us know. Interesting quarter. I'll say what worked well, what did not work well. What I wasn't happy about were two counts: first is, just on our project side, we had an execution surprise, which resulted in lower profitability on a specific project relative to what we expected.

And we took a hit, given the stage of the project and knowing the extent of the surprise, which is what depressed our profitability on the Industrial Infra side. Overall, I think on the order side, I would have expected better performance on the project side. Yes, I think we started this year by talking about not having too many big projects immediately, but with an expectation that as the year finished, we would see a bigger pipeline.

I would say the pipeline now is even bigger, and we can talk about this some of the inputs that I can share for how to think about the future. But in the specific project, in the specific quarter, and this may be a theme for Q4 as well. On the project side, we don't have as much to show. So that has taken a bit of a sheen from -- and there's been one specific thing in Green Solutions also.

We'll talk about that. But that has taken the sheen out of some good execution on a lot of the Industrial Products side, the profitability on the Chemical side, etcetera by some of these larger questions. Overall, how do I look at the period that is coming in next year? Reasonably bullish. But as part of your questions, I can share more details on what I see evolving, why I have this confidence and use that as a part to go deeper.

So with that as the background, let's jump into the questions straightaway. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amit Anwani from PL Capital. Please go ahead.

Amit Anwani: The first question is on the profit on the surprise which you highlighted about the Industrial Infra. I just wanted to understand the extent of impact which you had this quarter? And are there more impact expected in 4Q as well on this front?

- Ashish Bhandari:** Sorry, could you repeat the second part of your question? So first, I got which was the...
- Amit Anwani:** Is there more impact expected in 4Q, Q1 anything in the next six months on the project side?
- Ashish Bhandari:** Okay. So the orders, the impact that we had this year, and this particular quarter was of the order of INR 10 crores, broken up by one major project. And in that overall project, we had some reasonable amount of savings also that we had -- it's called contingency in a typical project. As we look into the future, we expect the contingency to more than account for any further surprises that may come. But I can't rule it out entirely.
- Yes, the project is still in a phase where there is more potential, though I would say the engineering is complete and the sourcing is also now largely done. So we think the risk is retired, but we can never be completely sure. So that is to the second point. On the first point, see, there are two things: one, and you will see that in the numbers for TBSPL as well.
- As we are looking to change the base of our projects business, we are going through a difficult period. But I think this is a necessary difficult period. The bio-CNG business, which is what you see as part of TBSPL is showing some really, really good progress. But that progress has come at an expense of project delays and a lot of learning. And some of that also we have taken a hit. It's not the project where there are surprises.
- In TBSPL, there is constant monitoring where the surprise, in a way, it was -- it would also be a surprise, but that was known and well understood that we were in an area where we were continuing to improve. In my view, that is very necessary and important. And I do hope that the projects that we are to expect, that the projects that we are getting now will be a lot more profitable on the TBSPL side. So that's the answer to your question, Amit.
- Amit Anwani:** Sure, sir. And second question on the inquiry pipeline you highlighted that now it has even widened more compared to last quarter. So last quarter, you did highlight it, steel, F&B, all of these sectors. Just wanted to understand, are we -- are these the sectors where we are seeing more traction or any new areas that emerging for inquiries?
- Ashish Bhandari:** The other big sector, which has emerged back again in a very, very big way is the power sector, where in general, for across industries, coal is becoming a big discussion point again and a talk that India is short of power. And so the inquiry pipeline overall relating to thermal, both utility side and what would be called as captive has gone up, which is -- and not only that, even internationally in the Middle East, now we are seeing an increased pipeline of projects.
- So for large projects, I would say nothing imminent in the sense the next 90 days or this quarter, but if I take the next year as a whole, a lot more bullish that we will be -- like in big projects, I mean, we have had, six quarters feels like and we haven't had anything big to report. I think that will change next year for sure.
- Amit Anwani:** Sure, sir. And lastly, on the bio-CNG we got five orders?
- Ashish Bhandari:** I would say, if you can just hold on because we have said one or two questions for each person. So at the end, hopefully, you will get a chance again. If I may give it back to the host. And

hopefully, whatever question you have, will get answered by somebody -- will get asked by somebody else as well.

Moderator: Thank you. Our next question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Sir, if you can just talk a little bit about the inquiry pipeline. You spoke about power being extremely strong. Are we really looking to bid for these projects because we understand from our previous conversations that thermal was not particularly a very strong focus area for Thermax, but are we changing our thought process on that? And also, how is the inquiry pipeline looking from other sectors like steel, oil, and gas, etcetera?

That's my first question. And the second question is that we've seen a fairly -- you spoke about Green Solutions, lots happening there. We've seen a margin uptick out there from earlier single-digit kind of a profile to almost 11% in the current quarter. So how should we look at this segment as one moves ahead?

Ashish Bhandari: Okay. If I may answer the first question. And second, I have a clarification. So when I get to the second question, you can help me understand again what you meant. But on the first question, I'll say, see, overall, I think, steel pretty much all those big projects and everything that we talked about, especially from greenfield continue to move to the right. In the sense that we haven't lost anything. We haven't won too much in sponge iron and all.

There have been a fair bit of activity, but it's been small. Yes, the bigger stuff has just continued to sit out there and hopefully next year, you can see all the big announcements being made. Hopefully, some of it will come to show. But overall in many captive coal power projects, even for other industries are being looked at again.

And in power, where I stated, we did not want to do -- we were clear we didn't want to do big EPC projects, which historically we haven't made money on an L1 basis in an extremely competitive scenario. That said, if the projects are structured right, and they are in a space that is accretive, which is where many of the discussions are tending to be now.

And if it is like payment terms, etcetera, are all done, then we would be open to looking at this. And I would say the discussions in all the activity is trending in that -- in the later part of what I'm talking about. Still early to say. But I expect as early as even Q2, Q3 of next year, maybe even Q1, but there should be substantive progress.

So in each one of our interactions, I could give you better and better insight. But I think the entire power sector has emerged in the last three months, relatively -- in a relatively big way. Perhaps more than even the refining and petrochemical pipeline that we had 1.5 years ago.

To your second question, I suspect you are referring to PBIT, where you are saying our numbers have improved. I think you need to look at the interest line as well because Green Solutions has a fairly big interest component. If you take interest into account, Green Solutions was a drag on the business, but an expected drag.

I'll say what part of the Green Solutions was not expected and what part was expected. One, I said previously also, Green Solutions will continue to be in a loss until the second half of '25. And I think that is still on track unless some things change. I think that part is still on track. But in this particular quarter, there were two things that happened.

One, the Chennai floods that happened affected our ability to produce from our assets quite significantly in Tamil Nadu, given two of our installations are in Tamil Nadu. Third, what happened was that one particular project, again, for Tamil Nadu, which was executed, but we had the depreciation hit for the whole quarter but actual production came for less than a month.

So, while we were happy with the execution of the project, all of these flood and related ancillary issues created a big negative drag on the business. Overall, I think in the period where we are scaling up our projects, the initial part, we continue to see small, small surprises in terms of getting the plant to stability.

But with fair amount of confidence that we will be able to sort them out -- and the reason I'm saying that is that the surprises are not repeating in the sense that things we are fixing are staying fixed. So that gives me confidence that we are on a track that we will be able to deliver what we say on Green Solutions as well.

Yes, the TOESL side of the business, we have an orders issue, but profitability, revenues, overall EBITDA, and overall return on capital continues to be on plan and good.

Bhoomika Nair: Okay. Okay. Sir, just one question and just on the...

Ashish Bhandari: Bhoomika, can I ask you to go back to the list and then come back?

Bhoomika Nair: Sure.

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

Aditya Mongia: The first question that I had was more linked to the recent development that has happened in the metal space wherein there is carbon border adjustment mechanism or CBAM as it is called. I want to kind of understand from the company the opportunity if that can get opened up related to, let's say, decarbonising the processes for Indian players and also the opportunity on the solar side, if you can comment on that?

Ashish Bhandari: Okay. I'll take the first question first. The opportunity over a 10-year period, extremely high; opportunity in the next quarter or six months, possibly low because while there is a carbon tax or at least a mechanism coming in for a carbon tax, border tax for Europe, to make large-scale changes to how we make steel in India will result in a significant higher cost for many other users of steel, where today that carbon tax may not be coming into play.

So almost every player that we are talking to is starting with relatively small experiments and initiatives to understand what technology can do and what it can deliver. Large-scale projects of the size that have -- some of which are being announced in Europe are not today happening in

India. But that is not to say that over the next five years, that will not happen because technology, all the experiments, etcetera, that are being done.

And these are not experiments like necessarily in the lab. These are field experiments to install something, putting in something around hydrogen as an example, how much can you put in a process? What waste heat, etcetera, available in other parts? How do you bring that? What is the actual cost of storage that you get? So there are many, many open questions right now even in terms of the process as well.

So we are going through all of that as an industry, I would say, on the steel side. So it's small on the small period, big on the long term. Your next question was on solar. I'll expand the question on solar, hybrid and storage. Overall, what is our look on renewable energy? The look on renewable energy is reasonably bullish in the sense that while the sector is competitive, there are enough opportunities for good players, and we are limited, not by demand, we're limited by supply, and we are limited by capital.

Yes, we're limited by capital because we have said we want to grow this platform organically, and then we want to grow this in a structured manner, investing healthy capital into this and not doing anything silly. I think I've said this previously also.

If the growth needs are more than what we think we can fund the business with, then we will look to bring in an external partner also into the FEPL platform to continue to build and grow the platform. I hope I've answered both your questions.

Aditya Mongia: I hope if you consider both of these as two parts of the question. Can I squeeze one more?

Ashish Bhandari: Sure, why not.

Aditya Mongia: The other question is again on this bio-CNG space. I just want to take your view whether the ability to add value over time will lead it to become something like what has happened on the solar PV side? Or is that a very different view that you have given the input and, let's say, biomass be involved inside, is the ability to create value for someone like Thermax or will it kind of lead to ROEs being extremely small over time?

Ashish Bhandari: I think the sector is -- at least that's my current view, is very different from the solar sector. Solar, if you take a look, the panel is relatively a commodity, lot of the understanding on how do you execute a project. Also, can, over time, become less of a differentiating factor. There are still elements of technology, how do you do O&M, how do you -- just the fiscal discipline, etcetera?

Those become your areas of differentiation. But bio-CNG in that sense is very, very different. It is very different first on the various elements of unique technology, which are not repealed, and there are multiple in bio-CNG. Second is the EPC aspect is also not repealed. To put a plant up in a budget, in space and time which is very constrained is not easy at all, and it is not something -- and the EPC part is very, very good and requires a lot of differentiation. It's not manual that 20 people can do it at all.

The third part is that even operating this is not easy because this is like a plant where a lot of small things are all in coordination, which means a small miss in one part of the plant reflects very badly in the overall process. So you have to finetune and manage it constantly, and we see a lot of capabilities and know-how and IP coming from the O&M portion of this as well. So overall, we see bio-CNG as a place where long-term differentiation can be created on multiple fronts.

Moderator: Our next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Ashish, congratulations on a decent quarter, sir. So my first question is on some of the recently introduced products you have done in the last two years. So how has been the traction there, especially on flexiboilers, THVAC and ZLD? So how is the inquiry pipeline building up? How are the regulations changing? Any interactions with the government on the THVAC side? So how do you think opportunity is shaping up here?

Ashish Bhandari: So ZLD, fantastic. The opportunity pipeline continues to build very healthy across multiple industries, quite nice. Even the flexiboilers are doing quite well, good pipeline. The only caveat I would say is that in the last quarter or so, there has been a slowdown, hopefully, temporary, on the whole ethanol space. The whole sugar, I guess the sugar production was slightly low.

There were small policy changes that were -- not policy, there were announcements from the government on how much sugar would become available, etcetera, which was -- and then also the overall financing is getting more regularised into the sector. So the entire ethanol space went through a little bit of a slowdown, but that everyone I speak to, says that slowdown is temporary.

It will pick up again very, very soon. That pickup may take two to three months more. So the entire slowdown would be half a year almost, but that is imminent. THVAC, the trucks that we were talking about, we now have the THVAC installed as of last week on two trucks, and we need to collect a lot of field data on these trucks.

So maybe next quarter, I may have a lot more to share. Right now, we are going through the testing phase.

Parikshit Kandpal: My next question is on -- you touched upon that utility, both utility, power, power utility as well as the captive power. So there's a demand pipeline building out. So I think in the past, we have been saying that we will be going lower, especially on the supercritical side. So what kind of opportunity will be here for us in the segment if there's used revival?

Ashish Bhandari: We will see and hold on a little bit because the opportunity could be very big or maybe not as big. We had said very clearly that going in a particular direction on any of this will require a fair amount of thought and also in understanding that the projects have to be different from how they were done in the past. And because if that is how, then that is not something that we want to do.

And also if the scale of the project comes, we want to be sure that none of this should slow down the path that we are all on waste-to-energy, on everything that has been filling us where we are right now. So in the back end, there is work going on on understanding how can we debottleneck our factories to increase capacity? How do we get engineering capability as needed?

And simultaneously working with the industry and with the project owners on how can this all be structured in a way that makes commercial sense? So where the discussions are going, I wasn't comfortable sharing that three months ago. But I would say where the discussions are going right now, shows more promise than otherwise.

Moderator: The next question is from the line of Hetvee from Catamaran. Please go ahead.

Hetvee: My question was on the recent acquisition that we did on the water side. So you have previously mentioned that water has grown significantly to become a INR 1,000 crores business. I want to understand the rationale behind the acquisition, what it will add to the portfolio? And how will the water business look ahead?

Ashish Bhandari: Okay. So I said it is on a run rate to INR 1,000 crores business on the order side. On the revenue side, it has still not reached there, but should get there even on the revenue side on a run rate basis next year and continue to be on this growth path, yes. So that was my summary, just to clarify and confirm. On the water side, there are numerous areas where technology will continue to play a role.

And it is just fascinating as a space on what all is possible. One such area is ultrapure water where pharma needs ultrapure water and as needed, but increasingly, food and beverage and even semiconductors, manufacturing is also asking for ultrapure water, whereas for these industries that are core to Thermax, we already provide a lot of, not just water, many other industrial product-related solutions.

Ultrapure was a technology that we did not have. And with the partnership and the acquisition of TSA, this is also now a capability that we have, creates a platform on the basis of which we can not only just improve TSA's capability, but also go to many of these sectors and give more of a complete offering to these customers. So we like the sectorial growth. We like the cross-selling opportunities.

We like the technology aspect of what we have added to our portfolio. All three of those make sense.

Hetvee: Sir, just to clarify, the TSA has historically been more active on the pharma and chemical side. So when we talk about ultrapure water, will it also open up all the semiconductor opportunities? Or is it restricted to...

Ashish Bhandari: No, it will open up manufacturing and semiconductor-related opportunities. We'll have to go through the qualification cycle, etcetera. Certainly, a big pipeline in food and beverage as well. Both of these sectors will develop.

Hetvee: Got it. And just my second question was more of a clarification that the recent order that we won on the bio-CNG side. So this will be according to TBSPL, which is again regarded in the infra projects instead of the Green Solutions. Would that be correct?

Ashish Bhandari: Yes. Because this is an EPC kind of a project, and we are doing this as EPC. In Green Solutions, we are doing build-own-operate, where the operate is on our books. That's the difference. This

is an EPC where we are responsible for setting up a plant for our customers. The customer is responsible then for developing the project.

We are responsible hopefully, long term for O&M of the project as well, but that comes later. But here, we are setting up plants for our customers.

Moderator: Thank you. Our next question is from the line of Lavina Quadros from Jefferies. Please go ahead.

Lavina Quadros: Ashish, just a couple of things. One is on the Middle East pipeline. Can you just give some colour if majority of it is from hydrocarbon, the inquiries or even from sectors outside? And...

Ashish Bhandari: So hydrocarbon and related downstream industries. And this is in some of the same geographies that are very, very active in setting up downstream industries across, but hydrocarbon and related industries.

Lavina Quadros: Okay. And, Ashish, on the domestic pipeline compared to the beginning of the year, you said power clearly has shown upside surprise. Any other sectors or is it predominantly power?

Ashish Bhandari: So right now, in terms of bigger projects, predominantly power. Across, I would say, the one which has little concerned me, has been this ethanol space because this has been part of a lot of projects for Thermax and has been a strong sector. This is also a sector where many of our multi-fuel boilers, etcetera, have a very good role to play also. So this was a sector slightly on the negative side.

And then on the negative side, also, I would say, the whole steel sector relative to what we would have expected on the bigger project side, continues to slightly disappoint. But the overall backlog now of bigger projects is much, much bigger. Yes. So, when we started this year, I said I was concerned about bigger projects. I would say next year, I'm a lot more bullish.

Otherwise, on the base business, lot of what you see from F&B, multiple other sectors continues to be good and strong. Overall, India is in a healthy space. I don't think that's a problem at all.

Moderator: Thank you. The next question is from Swati Jhunjhunwala from BOB Capital. Please go ahead.

Swati Jhunjhunwala: Just two from my side. First, could you give a breakdown of the PBT by segment just to get a sense of each segment on Q3 this year versus last year? And second, about the inquiries in the power sector, so are the inquiries -- are they meeting our margin threshold? And how is the pricing of going in the power plant model?

Ashish Bhandari: So I'll answer the second one very quickly and then pass it to Rajendran to share the first one. On the second one, early to say. When we go through the formal bidding cycle, which is in the next three to six months, then I can come back and share. Until that particular point, very early to say. So right now, as I said very clearly, we are working with our customers to position the packages correctly.

Not put packages, not make them in a way that they detract from being able to serve those well. So that is the work that is going on. The expectation is if we can structure the packages well, the expectation from both sides is real, then when we bid, we will bid them with prices that are good.

And then, of course, if we bid them with prices that are good, and we win them, then we can come back and say we have actually delivered on the promise that the sector this time around will come with a lot better profitability.

So with that, how has the sectorial growth been? I'll pass it to Rajendran to share.

Rajendran Arunachalam: So I think your specific question was on the interest allocation. See, I think that's for the reason that we have the segmental performance, which is given prior to the interest, which could be common for some segments. But for the green segment of ours, Green Solutions business, we have two entities where we are specifically having borrowings. And it makes sense to look at their results along with the interest.

And so, we will take cognisance of your question and try to provide the interest, particularly attributable to that segment, going ahead. But however, I think I will, over this call, tell you the exact number of the interest cost attributable to the segment. We'll move on to the next question. I'll come back and answer this.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Sir, just in terms of order inquiries and pipeline, you did speak about steel refining and power. But if you could just also touch upon the other sectors, how the outlook is looking in terms of capex, particularly in view of the upcoming national elections are you seeing pause? Or are you seeing no impact per se, if you can just talk about that?

Ashish Bhandari: I would say multiple other sectors, may be just a very slight pause. And especially, I talked about this whole sugar and ethanol sector, slight amount of slowdown, F&B overall, quite bullish. Even our international pipeline on some of our bigger projects is now starting to get a little better. But domestically, in -- and I can open up some of the other sectors that we look at as well, my reflection, as I talked through, look at our pipeline.

And the pipeline, the number itself is one metric, the velocity, and that is more of a subjective call. As I talked to many of our dealers, our channels and right now I'm meeting a lot of customers as part of roadshows as well. I sense a very slight slowdown. Yes, I would say it's very, very slight, and it seems temporary. But that's an indication and a feeling that I get.

Bhoomika Nair: Okay, okay. And sir, previously, you had mentioned that the large project pipeline was not looking very healthy. If you can just comment about how that is kind of shaping up as one is moving ahead, obviously, power is seeing a very large inquiry level, but from the steel or refining, pet-chem or any other categories that you're seeing?

Ashish Bhandari: Refining, domestically, is light and continues to be light, and it is not growing, and it's not shrinking either, but it is at a level which is we consider at the lower end of our trough domestically. Internationally, as I said, at least downstream, petrochemical and related industries are starting to grow, especially for the Middle East. Cement, reasonably decent. But again, not as big as it was when we had a wave of wastage recovery projects that were happening two years ago. But a lot of new plants, new inquiries, overall decent.

Sugar and distillery, which has given us a lot of orders in the past as well, has been a little slower than what it was overall, but I think this is a sector that has the potential to, like in a month or two, come back because the number of inquiries and even like many, many customers who have given orders but not given advances. And we don't book them until the customers give advances. Some of that sentiment can change in weeks and not even months.

So this sector is very, very fast to respond. And like an OMC set of tenders open and suddenly, once those tenders open, there could be multiple people ready to run immediately. So tough to make a call. Slight slowdown seems temporary. Overall pipeline is still healthy. I guess that would be my summary.

Bhoomika Nair: Okay. And just one last question on the international business. Danstoker, etcetera, we've seen a fairly steady order intake over the last couple of quarters. You had mentioned earlier on that there was some bit of an improvement in terms of ordering activity out there. So how is that panning out? And also in terms of the profitability in those markets? That's it from my side.

Ashish Bhandari: Danstoker, I would say, okay, improved profitability and now the order book has improved and it's stable at the new, what is the new mean, so to say. But at this mean, the orders that we are taking are relatively better profitability and, which is what is starting to show in Danstoker's overall stability as well. As we had said previously, we don't want to do anything silly.

The ask for that is not to grow but to continue to be on a path of recovery and get to stable, continued profitability. It may not be as profitable as our India business, but that is okay. PTTI continues to be lagging but improving hopefully, as well. So PTTI is loss-making, will continue to be loss-making for a little bit, but the order situation at PTTI has improved.

Yes, which means that should translate into fewer losses. And if this trend continues, hopefully, we will get to profitability next year as well.

Moderator: Thank you. Our next question is from the line of Abhijeet from YES Securities. Please go ahead.

Ashish Bhandari: Sorry, before Abhijeet answers, Rajendran had an update on the interest bit.

Rajendran Arunachalam: Yes. I think Swati from BOB Capital had asked a question on the interest cost attributable to the Green Solutions segment. I think out of the INR 26.6 crores that you see as interest for the quarter, the interest that is attributable to the Green Solutions segment is INR 16.6 crores. And for the similar period of last year, the interest attributable is INR 1.79 crores.

On a year-to-date basis, the same number would be INR 34.2 crores. And previous period, that is year-to-date FY22-FY23, that number would be INR 4.19 crores. I hope I have been able to clarify clearly. If any queries, please come back. Thank you.

Ashish Bhandari: Rajendran, and I think as you mentioned, going forward, we should start to show that to -- even, yes.

Rajendran Arunachalam: For the Green Solutions.

Ashish Bhandari: And you want to share where the rest of the interest is going...

Rajendran Arunachalam: The rest of the business is in our common -- so the rest of the interest, Ashish, is on the regular borrowings that we do, which is primarily on the backend credit, which is backed by export orders and which is on -- which is backed by a certain subvention on a concessional basis.

Ashish Bhandari: Okay. Sorry, and you can ask your question again, please.

Moderator: Mr. Abhijeet, you can go ahead with your question.

Abhijeet: So, my question is what is the nature of impact of this INR 10 crores that we talk about in this particular quarter? Is it the cost overrun? Or is this mismatch in terms of the engineering delivery? So what is the nature of this impact? And I'm assuming that this pertains to the bio-CNG segment? You can correct me if I'm wrong here. You can talk about this?

Ashish Bhandari: Yes, yes, sure. So, the INR 10 crores I was talking about is not referring to the bio-CNG sector. Even there, we have had a hit -- there the hit was understood. In the INR 10 crores I'm talking about, roughly relates to a sulphur recovery unit project that we had taken a couple of years ago, which was for us project which was going through its engineering design.

And as we went through the engineering design and the subsequent ordering, in certain very specific areas, there was a big mismatch relative to what we had expected. And as a result, our buying and the eventual cost was higher than what we expected. On bio-CNG and TBSPL, Rajendran, would you want to share how to...

Rajendran Arunachalam: Yes. So there are some overruns in a few projects under execution. But however, we are expecting corrections to come in, in the subsequent quarter because there are back-to-back claims that have been raised, but which have to be settled. And till the time they haven't been settled, we cannot recognise them. So hence, that would follow in the coming quarters. So we do not expect that to be a permanent challenge on us.

Ashish Bhandari: See, bio-CNG is supposed to be a shorter turnaround project in the sense that, done well, they should be done and dusted in a year, 12 months from start to finish and customers are asking for even tighter and tighter schedules. The projects that we have taken so far have not shown that because we had a big learning curve.

I hope we are at the end of that learning curve, at least on one big part of the project here, which is around this whole rice straw and all of these related things, I hope we are at for one set of feedstocks, which is considered to be the most complicated feedstock. I hope we are at the end of that learning curve.

And I'm saying hope because the next -- and not expect because the next 60 days are quite critical as we go out and complete these projects. They are continuing to ramp up and ramping up well, having sold for lot of other things. If the ramp-up continues at this pace, that we can come back and claim -- and this would be a big deal because there are not too many people around who can show this capability. It's a nontrivial bid.

And the learning that we have done is actually R&D expense, at least in my mind and my books, hugely valuable, but hugely painful and hopefully over. And this is all on the TBSPL, whose numbers we share separately anyway, yes, Rajendran?

Rajendran Arunachalam: Right.

Abhijeet: Sir, thank you for the explanation. One more thing, on the large project front, you mentioned that FY25, we could see some of these large projects coming in from steel or power maybe. So sir, I mean, in terms of -- I mean, if you talk about steel, particularly, in your discussions with the industry participants, what is the outlook here? And why haven't we received any order in this particular year. I mean the expansion plans have been very strong for the industry? So what is that thing?

Ashish Bhandari: Expansion plans have been strong. I would love to understand also what is preventing some of these plans from going forward, which means this talk of what I understand is at least some of them, the greenfield projects, what is the nature of capacity that gets added, especially relating to how some of the new energy transition technologies, whether these are DRI or blast furnace based, even within these, what are the sub technologies, the overall design of the plant, etcetera?

Those are being continuously re-evaluated, which is being -- which is the reason why some of this is pushing out.

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

Amit Mahawar: Ashish, I just have one question. I know Thermax will not give guidance, has never given guidance. But directionally, if I see your segments, four of them, you've been adding a lot of new products, right, a lot of new introductions. Even in bio-CNG, there are a lot of opportunities. But on the growth side on each segment, our profitability also, qualitatively, if you can help us understand, are we still at a very low end of the profitability that the businesses could generate potentially?

And I'm asking this question more because the scale that you can have in each, whether it's packaged boilers, right, or the new offerings that are coming out with, might still have a very nascent volume level that are next vis-a-vis what the peak number Thermax can do? So whatever you can help us here will be helpful.

Ashish Bhandari: Sure. Let me take them one by one by one. I'll start with Industrial Products. Industrial Products, you can see, we have been increasing our profitability year after year after year. And to the point that we are now on the -- practically at a 9.5%, 10% range. I think, at least for a couple of quarters, Rajendran?

Rajendran Arunachalam: Yes.

Ashish Bhandari: Yes, regularly. I think we've been there more or less. As part of this, some parts of this business as they continue to grow and scale like the water business, etcetera, that I talked about, we can continue to improve profitability. In heating and boiler specifically, which is our anchor

business, which is already reasonably profitable and has grown quite a bit at a decent clip, there improving profitability further, today would mean potentially trading market share.

Yes, because it's a very -- it's in a space where a lot of competitors look to copy what Thermax is doing and try to do it at a cheaper price. So I run that risk. But overall, I think for a reasonable amount of industrial products, I think we can continue to improve the profitability. In Industrial Infra, I see a much bigger opportunity to improve profitability because we are still relatively low and projects like bio-CNG, etcetera, are coming in expected to be at a much higher profitability than what we have historically done projects at.

We have had some learning curves, etcetera. But as we go through that learning curve, and we continue to show differentiation in our offering, I hope that we can get to -- and get to and stay at a better profitability number. Chemicals, we are at a much higher number anyway. I don't think the profitability we can expect continued growth. What I would like to see in Chemicals and what we are planning for and I'm okay to commit to delivering as well is continued volume growth and significant volume growth here.

We really want to see this business put on the accelerator and are investing accordingly and a lot of new things at the back end to keep this business on the accelerator. Green Solutions' profitability will improve because sooner as opposed to later, the FEPL business in which we have taken quite a few losses will stabilise, and then it will start to become profitable and hopefully not be a drag. So we have a reasonable sense of timing on that as well.

Amit Mahawar:

Very helpful, Ashish. And maybe second and the last question is on the challenges side, especially on the non-industrial portfolio, the food and beverage because you are moving towards a lot of agri side also, right on the bio-CNG, we have challenges of logistics, etcetera, faced by some other companies in the sector itself is a challenge. So is that going to be a segment where you have a lot of challenges? Or do you think the scale-up can be significant from here on? That's my last question.

Ashish Bhandari:

In bio-CNG, the scale-up can be significant. Yes, there is a lot of potential. And even sugar, ethanol, as India looks to get to 10% -- from 10% to 20%, ethanol, a lot of new things are possible. And those will -- can continue to drive growth. And on the TOESL side, we have shown that we can work with biomass reasonably well, and it's a strength. There are a lot of areas that are complicated and difficult.

Some of those areas actually create opportunities to be of value. So TOESL is a good example in that sense of being able to show value in a sector where, otherwise, it can look disorganised or unorganised and fast-moving, otherwise, fast-moving in terms of prices and complex supply chains, etcetera. So I look at this as more positive than otherwise, but there are challenges.

And nothing is completely clean or -- completely clean in the sense that it's a perfect answer saying this is like one plus one is two, yes; one plus one has grades. One bad set of rains can complicate things. Suddenly, rice straw availability in north of India could get complicated, etcetera. All I can say is Thermax is playing in areas that we think are our strengths. So for biomass and bio-CNG projects, we are focussing on technology and EPC and O&M.

How to source the biomass and who to sell it to, etcetera? Other than one specific case, we are staying away from. And that one specific case is done for a very tactical and an important reason why -- which is why we are doing that. Again, a long answer to your question, but I hope I've answered that.

Moderator: Sir, do we have -- can we take a few more questions from the participants?

Ashish Bhandari: Yes. Okay. We can take one or two more.

Moderator: Okay, sir. The next question is from the line of Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: My first question is, sir, what is the operating portfolio in the green asset in megawatt terms? And what is under-construction portfolio in megawatt terms?

Ashish Bhandari: Okay. I think I can share the exact numbers. Rajendran may pull it out. I think we'll come back and answer this question. I have the numbers in my mind, but before I blurt them out, I'll let Rajendran confirm and come back. And the reason I'm asking that is the -- what is under construction, how do we report that out, making sure we are on the same terms. Okay, I'll come back and answer that. Any other questions?.

Mohit Kumar: My second question is also related to the investment and debt in both FEPL and TOESL separately, if you can give it out?

Ashish Bhandari: Sure. We will start to report out. I think Rajendran has already shared some amount of detail on the interest expense, etcetera. But going forward, we'll break that out separately.

Mohit Kumar: So my last question on the -- I think in the budget, the government announced that some kind of aggregator policy for biofuel. Do you think it will help in the medium term? And how do you think this will play out?

Ashish Bhandari: See the policy that is announced, I think I said that before also is one of many, many policies. The SATAT policy had come out. And then there are other policies that have come out in terms of blending and the requirement that OMCs have to blend a certain amount of gas from biogas, etcetera. In all of this, the market was already starting to formalise and a lot of activity was already happening.

The one big part that was still not completely clear was on the sourcing of biofuels for this sector. And this is specifically things like rice straw and parali grass, etcetera. So the government is now providing additional incentive to these sectors to also formalise, ultimately working to a place, hopefully, where we don't do any stubble burning. And a lot of that, what is today's stubble goes into useful energy generation as opposed to just being burned and -- in an unregulated manner led to the sky, now to make it come into a more formal world and the subsidies and the things government has done is to organise this stubble, give additional incentive. So it's one of many steps, and they're all positive, all positive in my mind.

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

Ashish Bhandari: If I can answer the question, what is operational is close to 200 megawatts. What is under construction is another 100 megawatts. What's under discussion right now and in some form of finalisation is another 300 megawatts. So that's how we look at the pipeline. Overall, we had said over five years, we wanted to get to 1 gigawatt. That's the track we are still on.

Moderator: Mr. Aditya, you can go ahead with your question.

Aditya Mongia: Ashish, my question was more on the coal gasification technology. You've talked about carbon capture being a critical part of making this technology sustainable. Are there any such moves that you are seeing on the metal space that can throw up opportunities for you in the next three to five years? And in general, your sense of how should we be thinking through some kind of numbers in that kind of horizon from these technologies for Thermax?

Ashish Bhandari: You're talking about coal gasification, specifically, yes?

Aditya Mongia: Yes. And carbon capture alongside that, yes.

Ashish Bhandari: So I would say very, very interesting phase, nothing imminent. Yes, the expectation and the lot of discussions going on, nothing imminent. And I'll take carbon capture slightly further away -- but it will happen. It has to happen because the whole world, and there was a question earlier about restrictions coming in from Europe, etcetera. Those restrictions will get bigger and stronger, and the world overall will put more and more pressure.

India's own commitments, we will, as a country, we are coming back and saying we'll live up to our commitments. So those commitments mean that more and more restrictions will come about, and that will mean technologies around carbon capture will reach a point where they're ready to take off. They're not there right now.

Coal gasification is a precursor in many ways to coal becoming cleaner, and there also, right now, the discussions are with government entities to get some portion of what is VGF funding that the government has allocated for coal gasification to come to some project that is based on Thermax's technology.

And multiple discussions are going on with multiple government entities to see if we can make one project happen. I hope that in the next six months, I can come back with some good news, but remains to be seen, remains to be seen.

Aditya Mongia: Understood. We'll wait for that. Just one more question from my side. And in last time around in the analyst meet, you were talking about the heat pumps portfolio combined with a few other products that I guess you have taken a lead in kind of working more around. Any concrete business moves or wins that you can think through in the near term?

Ashish Bhandari: Two big customer successes on the heat pump, both of which are major names, both of whom have given orders. Very excited about getting those. So now ultimately, we have -- the pipeline overall is also emerging nicely. And this is a place where we are looking to double down, add significant salespeople, add significant service capability to build out a pipeline.

The first set of customer sales that we have done have shown that a segment exists, which would value these kinds of products. Now how do we find all the other similar customers in similar segments, make pitches, etcetera? We'll need investment, and we are going ahead with those investments.

- Aditya Mongia:** Which sector do these customers represent and which sectors you think that should be...
- Ashish Bhandari:** So one is a big leader in food and beverage. The other is in the automotive industry.
- Moderator:** Thank you.
- Ashish Bhandari:** Thanks. I think we'll call it a day at this particular point. Unless I don't know if there are -- if there's only one or two hands, I can take those. If there are too many questions, then I say one last question, and we call it a close.
- Moderator:** Yes. We have the last question from the line of Swati Jhunjunwala from BOB Capital. Please go ahead.
- Swati Jhunjunwala:** Yes. Just wanted to clarify, so based on the interest numbers that you've given, Q3 was -- the profit to a write-down because of the interest. Is that correct, Q3 of this year as well as next year -- as well as last year?
- Ashish Bhandari:** Yes. Yes, Green Solutions has been -- and I've been saying that, yes, that's been a loss-making place for as we've been ramping up FEPL. And until the second half of next year, we'll continue to be loss-making. In fact, it will come maybe slightly loss-making next year as a whole as well. It is the year after it will turn profitable. That has been the expectation, and that has been the call for FEPL. And I think that's the track that it is on.
- Moderator:** Thank you. Ladies and gentlemen, that brings us to the end of the question-and-answer session. I would now like to hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Limited, for closing comments.
- Bhoomika Nair:** I would just like to thank all the participants and particularly the management for giving us the opportunity to host the call. Thank you very much, sir, and wishing you all the very best.
- Ashish Bhandari:** Thank you.
- Rajendran Arunachalam:** Thank you.
- Ashish Bhandari:** Thanks. Bye.