Management Discussion

Kunal Shah - Analyst, DAM Capital Advisors
Yeah, hi, good afternoon. Welcome to the 1QF27 earnings call of Thermax Limited. We have the management today, Mr. Ashish Bhandari, MD and CEO, and Mr. Arunachalam, Group CFO and Executive Vice President. At this point, I'll hand over the floor to the management for their opening remarks. Thank you, and over to you, sir.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Thank you very much, everyone, and I hope I'm audible. And also thank you for coming into this call, and I'm sure there are a lot of questions. Before I get to the questions, I would like to share my thoughts on what happened in the quarter. A very difficult quarter, felt like was the toughest one, at least relative to expectations. For the past few years that we have had. Not that we haven't had tough quarters in the past, but this one felt particularly so. I would want to spend a few minutes talking about what happened in the quarter, what are we doing to fix it, and also share why I continue to be bullish about the year as a whole.

Let me first start with what happened in the quarter itself. Of the things that did not go relative to expectations. The first was, and by far the biggest, was the hit that we had to take for one specific project, which is the cost to completion for, for a government project, which it is part of that same bucket of projects that we had said that we don't want to do. And it is the same project against which we had taken a hit last year. We are now in the, in the last 4 quarters of execution of that project.

In June, uh, the engineering partner that we had, which is the detailed engineering partner on the basis of whose design and prior expertise we were doing the EPC of the project, uh, came back with some significant changes. Uh, that- those set of changes at that late hour was not something that we had budgeted for. And given it was a loss-making project, we took that time to take a step back, understand all the risks that we have on- in this project that, that we can see, and a contingency for what we cannot see over the- as we execute the project over the next 4 quarters.

And we took the impact of this forecast and change in cost, including what it would take us for site extension, expediting to meet customer commitments, et cetera. We have a reserve for LD, a portion of the LD, which we have kept intact, and some other numbers for what may come about in the future. But this is the hit that we have taken from a cost-to-completion perspective. There was also an impact in industrial products, more so than other places, of not being able to ship inventory- ship finished goods inventory to the tune of overall to the tune of about Rs 300 crores.

A good portion of it was for international project- international customers, including for the Middle East, where because of the Gulf War, shipping rates were quite high and many customers chose to delay picking up equipment. Also, there was some commodity price impact to the tune of Rs 10 crores, which some portion of it was expected that we would have a tough quarter because the commodity prices went up in February, March.. And as some of those projects which have got shorter durations on the industrial- on the product side, as they converted into products.

So we were expecting some part of that hit to come in. And in that sense, the hit was not too much. It was in line with what was expected. It is the increase and not being able to ship what we wanted to ship that had a bigger impact on our profitability. And then finally, within Green Solutions- and now we have done two parts. We have recast our BioCNG business as part of Green Solutions. It is how it is operated. It has moved from Industrial Infra to Green Solutions, and it is led by Green Solutions as

well.

And FEPL, FEPL in particular, which is our wind, solar, renewables business. We were- we had not expected a Rs 20 crore loss in that business. That Rs 20 crore loss is a combination of two factors. One is in Tamil Nadu, where we had a project which was like actually two projects which were complete, but they got complete during the period where the government changed. And so the whole portion where the government was- the elections were going on and later on when the new government came in, many of the projects which were, uh, were just put on hold for no particular reason.

So, uh, so those projects we expected were just sitting on somebody coming and saying, yes, you can, you can produce electricity from these assets. Uh, we expect to get, uh, get this approval done within the next week itself. We have got teams that are just sitting at the bureaucracy and talking to the ministry. But that change in government really set us back. The other reason at SEPL was that as we are now choosing to cut back in areas and we think we have a good set of assets, we want to bring an external investor into the platform.

Some of the carrying costs of the people that we have affected the bottom line as well. So both of these together resulted in a Rs 20 crore loss in FPL, and we are carrying an Rs 8 crore loss in BioCNG, which is the- I'll talk about BioCNG later otherwise. So these are the things that contributed to Q1. As I look at the year as a whole, I am as bullish as I was when we had shared when we talked about the Q4s. And let me first start with the revenue and profitability portion. I'll then go into the order side.

On revenues, you know, our backlog is quite significant, and in Q1 we barely delivered 7% growth in revenue. Some portions of it was because I talked about the Rs 300 crores that could not ship out, but even with the Rs 300 crores taken in, our backlog is building up very nicely and our backlog, the quality of our backlog for the most part, especially on the project side, is very good. On the industrial products, there is one more quarter of some amount of volatility as the commodity prices completely get flushed out of industrial products.

But otherwise, in industrial projects, the backlog that remains is very, very, very good and profitable. And that will start to show up in Q2, Q3, and Q4. You have also previously seen that when we do better than Rs 3,000 crores, just the, the gross margin impact that you get and how the gross margin flows through to profitability is nice. Last year we did one quarter which was more than Rs 3,000 crores. This year we'll have to do 2 and hopefully 3 quarters that are more than Rs 3,000 crores. So you will see that impact on profitability as well.

Next, on profitability, I have said and we've been saying that there are 3 areas that have- where we need to do better. One is these government projects that are long duration with civil construction, which for the last 3 years we haven't taken at all. And I previously committed that this would be the last year we would have any exposure to those. I think for the most part I would stick to that. NRL with this change will slip into Q1 of next year, but all the cost impacts I expect that we have absorbed and taken care of this year.

Whatever remains, hopefully something that, that will not have any major impact. But our SGD projects, HRRL, everything- HRRL is over with this quarter. FGD, all the FGD projects are going as we had committed and planned previously and will get executed between Q1 and Q2. One more plant got handed over. Q2, one more plant will get handed over, and the last one in Q4 of this year. So all FGD would be, and there are no surprises coming on FGD. They're not very profitable, but there are no more surprises on FGD.

We are executing every project, and now that we have delivered one plant to the customer, we know very well from an engineering point of view what is entailed, and we're just working that on, on schedule. FEPL- I've already shared what our path on FEPL is. This year we will look to, to bring a, to bring a, to bring up partner to the platform who will take substantial majority of the platform. And third is BioCNG. On BioCNG, we have 4 projects which I talked about, which are the EverEnviro projects where we had PGTR commitments, which is performance commitments to the, to the customer.

Of those 4 customers, of those 4 projects, One, we have finished PGTR successfully. Second one is going through PGTR where half the PGTR is over and it's also going through successfully. The next two, because of some of the monsoon changes, monsoons have significantly affected operations in those areas where the rice straw coming in was wet and there were some other challenges in terms of enhancing electricity, etc., at those sites. They will go through PGTR in August and September. So, so next quarter I should have much better insights into how those projects are going.

But that is the last remaining portion on the BioCNG side, where at that point our liabilities all across would be, would be over. The question now is, for 2 years on BioCNG, we haven't taken any new projects. Whatever orders we have had have been change orders on existing sites to add capacity or whatever the customer would pay us for. But we haven't taken on any new projects and we are carrying a team which is- which is for which we are taking a hit of about Rs 8 crores a quarter right now, Rs 7-8 crores.

We are waiting. That cost will get liquidated against new projects because that's the manpower that we need to execute the project. And we need, um, to the tune of 2 projects, which is 250 crores, to, um, to basically work this- the team that- and the cost that we have against that team. The expectation is that there are some big policy changes that are expected imminently, which should then create a significant pipeline for Thermax Limited.. And I'll answer kind of whether that is, um, how, what is the outlook, etc., as part of the questions that you have.

So this is kind of of the, of the things that are detractors to the Thermax Limited numbers on the revenue and profitability side, and my, my opinion on those. On the order side, while we, it looked like it was a weak orders quarter. We have a significant opportunity pipeline across the board, and we had a very good orders year last year. I expect us to exceed that order book this year. Yeah, which means we have got- even in Q1, there were two big shake hands that were done, relatively big, a few hundred crores.

But we could not because the advance didn't come in, we couldn't book it. Super Critical also, there is a continued pipeline. International, across the board, there is a very good pipeline. So I stay very bullish on orders and continuing to build a pipeline of the kind that we like and want to execute better on. Chemicals also, we have had a turnaround in the business. There's still some risk relating to commodity prices, but on the volume coming back and which helping- which helps us on the bottom line, that part is, is good.

So with this opening and preamble, because you would have a lot of questions, um, I'm okay to go beyond the, uh, the standard time that we have set for our discussion. I look forward to answering your questions one by one by one.

Questions & Answers

Operator
Thank you very much. We will now begin with the question and answer session. Anyone who wishes to ask a question may press star and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Rahul Gajare from Macquarie Group. Please go ahead.

Rahul Gajare - Analyst, Macquarie Group
Yeah, hi, good morning, and thanks for this opportunity. So my first question is, you know, you did touch upon the order where this is really coming from. Could you quantify the size of the project which was there, and how much of that is pending in the execution which you expect to complete over the next 4 quarters, uh, where you've taken this Rs 91 crore hit?

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Yeah, so the original order was, uh, about Rs 1,200 crores, of which now it is running at negative teens profitability, which means the loss that we have on the project is close to Rs 150 crores. Rajinder, could you specify what the number is if you're comfortable sharing that? The order itself was taken in FY22 and it is in its last portion of execution now, where, where what remains is now execution on the, on the ground. The last 4 quarters are still execution heavy from a civil and construction, uh, construction.

Civil is largely over. It's on the construction side, it's still heavy. But the engineering portion, which is where some of these changes and the corresponding equipment and all those other changes came about, we now have a formal letter from our engineering partner saying the engineering is now 100% complete in their part. At the final stages of commissioning, there could be some minor movements here and there, but the large- the engineering is now complete. Have I answered your question, Rahul?

Rahul Gajare - Analyst, Macquarie Group
Yes. The balance, I think that's something which we're just waiting for.

Unidentified Participant
The invoicing completed is about 74% and balance 26% is to go.

Rahul Gajare - Analyst, Macquarie Group
Sure. Yeah. So my second question is, you know, uh, you know With Thermax Limited, we are seeing, you know, when you are delivering project, you know, if there is any shortfall in terms of, you know, the output that was expected, and, you know, we'll end up having penalties or higher cost or make good for the loss that the customer would have had. Now I want to know, is this the normal terms and condition of the industry, or is it that it's different with every customer?

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
See, we have a- and we have shared a page which we would like to, to go into a little bit more detail with, with everyone. The realization is the kinds of projects that we had- FGD, HRRL, majority of the FGD projects, HRRL, NRL- they all have one theme, which is common. Yeah, customers that are government customers and L1 method of bidding and a typically tougher line taken by customers on

what feels like our reasonable decisions, and which is why these projects tend to go on forever. And customers And we have got lot more highly demanding customers here, our international customers that we serve in the Middle East and other places.

They are way more demanding. But there is a practicality in how that whole discussion and those relationships work, which for government projects we have seen really doesn't happen. So this method and the way this happens is in some ways unique to a kind of set of things that we have said we'll just walk away from. Yes, so there is a whole set of government projects which we are not saying we will never do them, but we will do them at a price point and which are commensurate with the risk that you are taking.

And if you don't get those price points with those customers, then it is okay if those numbers go down to zero. And over the last 3 years, they've come down to zero practically. Yeah, we are doing nothing. We have taken one IOCL project Thermax Limited, which is very small, which is Rs 50-60 crores. But otherwise, there is nothing that we have taken on a government project where we would have- we are still living through things that we had taken some time ago, and this is the last year that we are working through.

The only other one where we have risk is relating to the BioCNG side, for example, where there is a performance contract really in BioCNG projects. Typically, almost everywhere where we have performance targets- Thermax Limited, we know our equipment well enough that very rarely, if ever, we get into the performance of our equipment. Yeah, we tend to work in areas of energy, water, air pollution control. We know very well what we can deliver or not deliver, and we can talk a little bit about supercritical as well.

On, on BioSupercritical is, is in that sense a part of what we understand much better than, than otherwise. BioCNG, we, we went in because the whole industry was very nascent. We took on some performance guarantees which were difficult to handle because on both sides the feed itself that we got was very different than the feed that was expected. So it went into a little bit of back and forth. Other than these two areas, there is nothing. And both of these areas, for the last- for BioCNG, more than two years, and for these large government projects, more than three years- we haven't done anything.

And we are bringing this portion of our business down to zero, where we have customers that we don't like or economic models that are not completely in our control. Both of these we are bringing down to zero. We are just cleaning up our book from what was in the past. Yeah, but otherwise, with most government, private customers, international customers, there is a relationship which is back and forth. It is not like every project is smooth. In some projects we have LD exposure, etc., as well. We manage that in a reasonable fashion with the 90+ percent of our customers.

The last thing I would say, Rahul, is that The way we account for things is that if it is a profit-making project and you have a cost increase, that cost increase gets accounted for as the project accounting happens. Yeah, which means even if there's a cost increase of Rs 10 crore but you have Rs 300 crores to go over, over say 4 quarters, you take, you take proportional risk as you execute the project itself. But for loss-making contracts, the way our accounting works is you have to do loss accounting for whatever you see in the future.

So this is a loss accounting for execution that will happen over the next 4 quarters.

Rahul Gajare - Analyst, Macquarie Group
So just following up on this aspect, now I clearly understand how the government contracts, uh, will,

uh, you know, now that we'll be probably at the last leg of it. But as far as, you know, on the BioCNG performance guarantees, how long do they typically have? I mean, is it 1 year or it's like a 5-year performance guarantee that-

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
No, our responsibility. So it is 1 month or 3 months. So that is it. Yeah. And as I shared in the opening, there are, um, there are practically 4 projects on which we still have that performance risk, of which one we have delivered, handed over. Second one has crossed more than 50% and is continuing, uh, to make, uh, good progress. We, we are confident we will hit the commitments that we have made to the customer. The next two will go through performance execution in August and September. Thank you very

Rahul Gajare - Analyst, Macquarie Group
Much. Yeah, thank you very much for this. Uh, I have more questions, but I'll come back in the queue. Thank you very much. We'll

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Come back here. We'll, we'll run this longer if your questions are not answered by anybody else. We'll take them up. Okay, thanks. Thank

Rahul Gajare - Analyst, Macquarie Group
You very much.

Operator
Thank you, ladies and gentlemen. You are requested to restrict your questions to 2 questions per participant. We have the next question from the line of Atul Tiwari from JP Morgan. Please go ahead.

Atul Tiwari - Analyst, J.P. Morgan
Yes, sir. Thanks a lot. So my question is on your order book. So as a part of your order book, you know, what will be the proportion of the government and PSU projects currently?

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Of our order book, what remains? Um, I think it is Rs 300 crores if I, if I'm, uh, right. Rs 300 to Rs 400 crores is what would be left.

Atul Tiwari - Analyst, J.P. Morgan
Okay, so very minuscule, you know, out of almost Rs 14,000 crore rupees, just Rs 300 crore pending.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Yep, yep, it's getting to less than 5% and we've got- and almost going towards, uh, 0% then.

Atul Tiwari - Analyst, J.P. Morgan
Okay, and at least in the foreseeable future you do not see yourself bidding for any more PSU and government projects? I wouldn't

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Say absolutely no. I would say we would do those at our terms and, um, and priced correctly. So I don't think it is right to say never, because in cases where boilers and certain capability that we

have where we can do something that nobody else can, if there are only one or two participants that can do that correctly and you price it right and you win it, then we can look at that. But, uh, not at, um, not certainly not at the way we bid them in the past, where we took those projects the way we bid a domestic project.

And that is really not the case. We are working those because the sites get delayed. It is not in your control. Most private players account for that correctly, give you extensions, give you money for those extensions. Government customers, even good ones- in this particular case, I wouldn't say the customer is too, too unfair, but just the way the process works is not something- they have to price it correctly. So I wouldn't say a complete no or a never, but we would price it correctly, and we would do things where we are we have a particular capability which is not available with anybody else.

By the way, sorry, I'll make an exception to what I had said. I said there is only one IOCL project which is of the tune of Rs 60 crores. There is one other project, um, which is also less than Rs 100 crores, which is a green methanol project for Kandla Port. Kandla Port, I suspect, will get treated as a as a government entity at the end. But this is producing green methanol where we have the technology for producing green methanol from syngas to green methanol, which nobody else in India does with indigenous technology.

So the project was configured and developed on the basis of our capability, which is why we were doing that. That's it.

Atul Tiwari - Analyst, J.P. Morgan
Okay, sir. And for this project which had the cost overrun of Rs 91 crore, uh, you seem to suggest that it's- I mean, mostly it was because of some last-minute engineering changes by your engineering partner. So how does it work now that you have booked the losses? Do you have some kind of claims against the engineering partner as well? Because it looks like that what they should have done in the earlier part of the project, they delayed it and you know, and because of it, things kind of went out of control.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Yeah, so first, I think this was a wrong project to take. Yeah, we shouldn't have taken it. It was, um, it was just wrong. Yeah, it was. And after this, '23 and '24 onwards, we have completely changed the way we take on projects and the kinds of things we put in place before we, before we look on a project. So for example, so I'll start there, yeah, to say that this project itself was a mistake to take. And because the engineering partner in a project order of Rs 1,200 crores has an exposure of less than Rs 100 crores, and they build that in in portions where what you left, what you are left with is a few crores of LD.

And that few crores of LD is nothing that you can, you can do, whereas you are taking a hit of more than 100 crores and you've got working aside. So just the model itself was, was a mistake on, on our part. What- and this was also something was in an area that we were not was relatively- not relatively, was new to Thermax Limited. In almost every other case, we do the engineering ourselves. So the question is, why did we take on a project which was that large where we did not know the engineering, and furthermore was a PSU, and all of that?

Those are all the questions that our board has also asked, and, and the only answer I can give is it was a, it was a mistake. Mistake and not one that we have remotely done in the last 3 years. Now for almost every project including this, the project that we took for green methanol, we do majority of

the engineering before we even bid on the project. And if we can't do that, then we just walk away and we don't even bid for the project. So we do like a 3D model which is not 100% accurate but a largely highly accurate model on the basis of which you can do the costing of the project and retire the engineering risk, including- we did this for supercritical as well- before we take on the project itself.

Yeah, so a lot of work is done in advance so that your costing is extremely granular and you are doing engineering and you have a methodology by, methodology by which even if the engineering partner is involved Like in Supercritical, we have got BNW as our engineering partner. All the risks that are in the project are identified before we bid for the project itself, which is why for the first Supercritical project, it took us nearly a year to close with the customer. And also in the case of Supercritical, um, we said no to all civilian construction, we said no to all balance of plant, we said we will just deliver the boiler.

And nothing else. With the customer, we had changed provisions for commodity price increase, for, for the imported portion that we had, currency fluctuation. All of those safeguards we had put in the order itself that we took on. Yeah, so those are a lot of things were put in place. In this particular case, it is something that internally has just taken so much of our discussion bandwidth for the last year because it's called into question practically everything about how we execute projects in Thermax Limited, which is why this time around we took a page to share with all of you because project execution can never be completely perfect.

But it was important for us to share with you how we see our own execution. And this is something that we are sharing with the board on a continuous basis. This is the first time we have shared it with, uh, with our analysts, but we are sharing. I'll spend some time on that slide. We have taken all the projects that we have been executing that are greater than Rs 100 crores over the last couple of years, and we have broken them down between private export and PSU. And what we are talking- it doesn't matter what, how, at what margin you book the project.

What we are looking at is relative to how you booked the project, uh, how did you deliver the project. Yeah, that is the range at which- how did you deliver, or in your system, based on your current visibility, how do you think you will deliver the project, which is why the export projects are not all delivered, but how- on what path are you to deliver those projects? So in that list, which is, uh, more than 30 projects that we have shared- 35 projects if I remember right, total- other than the PSU projects, almost all the other projects where you have price movement which is negative is less than 10%.

And of those 10%, um, that, that are more than 5%, uh, you will see there is a corresponding number which is greater than 5% as well. Yeah, which means while there are price movements, everything else is largely under control or better than under control. Yeah, doing better and better. It's only on those PSU projects where we have had an issue. Which we are completely bringing down to zero and being very careful in terms of how we book, even if we choose to bid on anything going forward.

Atul Tiwari - Analyst, J.P. Morgan
Okay, sir. And if you can allow the last one from my side on- Sorry to interrupt,

Operator
Sir. May I please request you-

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Look, I'll go a little longer here because people have follow-up questions. If it is the question in the same category, then I'll allow it. Yeah, because if there are follow-on questions in just the same category, I'll allow it.

Atul Tiwari - Analyst, J.P. Morgan
I will come back in the queue. I have a question.

Operator
Thank you. We have the next question from the line of Pankaj Debreval from Ikigai Asset Manager. Please go ahead.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Thank you. Thanks, Ashish, for the opportunity. Coming from my investor side, you know, the problem we are grappling with Thermax Limited last many quarters is the commentary, and finally what comes out in execution. And the consistency has been an issue which not- was not there for a long time, because I've been seeing this company for more than 2 decades now. Um, in your view, what's going wrong? Because even if I look at your fourth quarter commentary, and to just You know, Varvatham, you said that in the industrial infra business we are fairly confident, we should definitely- we have confidence in the margins going forward.

And I'm sure this project, as you alluded, has been a point of discussion for last 12 months within your boardroom, and you fairly were aware that this could be something which could hit us as you move ahead in FY27. So I'm just trying to understand that how as investors we should take that from an overall commentary perspective, because that's something what the market reaction is also showing out. Uh, it's,

Mohit Kumar - Analyst, ICICI Securities
Uh, investors are not very confident on what the commentary has been and what the execution finally comes out to be. I'm being a little bit candid, but that's the, you know, discussion with people. Thank you.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Your question is, is very valid and And I don't think it is unfair by any means. Anybody looking at our numbers would have that same opinion, including our board, which has been absolutely clear, transparent, and brutal in its expectations of us as a team. And I don't have- I think anything I share beyond making excuses would only take away from the fact that we haven't done a good job of showing what it is that we are capable of. Yeah, so let me just take- with that as a preamble, let me take a step back on 2 parts.

We've been saying now for, for now, few quarters that we realized we made a couple of mistakes. And then in the last 3 years, we have been working to bring these mistakes and the impact of these mistakes down to zero. Even last year that we had, when we had shared our numbers, I talked about that 2027 is the last year where we will see impact of some of these businesses. And I will, I will stay, stick to that, that word, and I'll continue to, to stick to that. It is, despite all of this, at least in, in this period, despite taking all of these hits, we have been showing by the time the year gets done that our revenue, while it may be flat, our profitability, despite taking all of these hits, has largely been going up, um, moderately.

Not as much as I would like, but it has been going up moderately. And I would say, even with taking this Rs 90 crore hit, I expect this year to be a very good year. And at the heart of it comes down to the backlog that we have built up and getting that backlog to translate into revenue as we- as some of these legacy projects get worked out and finished. So that is the only thing I can say why I see consistency in our future and these three areas where we need to clean up our act., and what we are doing to clean up our act.

Now let me talk about this particular project and what happened, um, and what changed. The engineering change that came from our partner came in June, early part of June, and when it came in, it was first a surprise that we did not expect or like, and then the team took, uh a couple of weeks to go out and say, okay, this is a change that has to come through. What is the impact of this, uh, change that will come about? It will. So that impact then came out as a bigger number than what we were expecting.

And then as is prudent accounting, we took a step back to say, okay, you know, if this is what is happening and then we need to take into account other impacts that will happen, which means society can get longer. You will have to account for that. You may have other changes which were in your medium risk, even though you may have opportunity of change orders and all that. You need to start accounting for those medium risks in your number as well. And so then after looking at all of that, um, we- this rather large number, uh, came up and, and prudent accounting said just take that hit.

And, uh, and which was not easy because it's taking away from a lot of other good work that is going on in all other parts of Thermax Limited, which is why we shared the execution profile on how tightly We are monitoring and working almost all of our projects here. Outside of this one project, there's less than 10% of our projects which have a movement of less than 5%. It is more than corresponded by many projects which are more than 20%, which have an impact of better than 5%. So net-net, we actually, outside of this one project, we- our project execution adds to to our as-sold profitability, not takes away from our as-sold.

But your point around us not doing a good job overall in terms of what we are showing to our investors is correct. I think I- it is, it is something not just this year, it is what has been getting us to work extremely hard for for 4 quarters. And in fact, it actually starts the year before where we said no to so many orders because we didn't think they were the kinds of orders we should take. So all of FY25, we said no to orders. And FY26, where we started to focus a lot more on international, even domestic, we said no to NTPC orders for supercritical because they had all the characteristics that we did not like.

We were extremely patient on when we acted on our first one, the breakthroughs in data centers and all. And none of those things have been delivered yet. Yet the entire data center backlog, which is now several hundred crores for the US and extremely profitable, are things that are sitting in our backlog and will get executed over the next few quarters. So the good portion we haven't been able to show to the extent that we would like. Certainly we are showing the bad portion more often than we would like to.

I don't know, any more questions you would have on this particular point? Only just one, you know, maybe an observation, suggestion, whichever way you can take it. And whenever there's a huge divergence between what you have said previously and the outcome is very different, like the IT companies, you can give a profit warning just at the start of the quarter so that every investor, everybody is

Dhawan Shah - Analyst, AlphaCure Advisors
On the same page. And this kind of a negative surprise probably takes everybody, you know, very negatively. So profit warning could be a better way to do it rather than surprising it every quarter on, on some of the other side. So I understand, just

Mohit Kumar - Analyst, ICICI Securities
An observation, it's a good corporate governance. And it will help you in the future.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
I, I think we even- this point got discussed, and, and our couple of members of our board have made that very specific comment that you do, that IT companies and it means, uh, take time out. We debated that internally. I think going forward, I'll- I'm not committing to it, it's between, uh, us as a team to decide, but I think this is something that we could have done Also, what happened was the- as the numbers came out and we had some, uh, idea about what that looked like, to clear that through our board and through our auditors also took a couple of weeks because this was a surprise at, at many levels on, on this particular project.

And the questions were exactly the questions that you are asking asking, can it get any worse? Are you being conservative enough? How could you be so bad? All of those questions that you are asking, which were valid. So some of that also took a little longer to conclude and to, and to finish. But your feedback is very well taken, and, and without committing to it for sure, your suggestion is something that we are looking at very strongly. To say if there are such surprises, we need to be sharing those much earlier and doing so.

Yeah, and we will take this into account. Thank you.

Amit Anwani - Analyst, PL Capital
Thank you, Ashish. Thank you. Wish you all the best.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Thank you.

Operator
Thank you. Ladies and gentlemen, you are requested to restrict your question to one question per participant. I repeat, you are requested to restrict your question to one per participant. We'll take the next question from the line of Bhavin Vitlani from SBI Mutual Funds. Please go ahead.

Bhavin Vitlani - Analyst, SBI Mutual Funds
Yeah, so Ashish, this is like, if I look at the Thermax Limited pre-COVID and post-COVID, I mean, the two halves, if there was a difficult 6-year period where a lot of talent was being restructured, but even the pre-COVID era, even the project was taken in a difficult environment, 4-5% margin, but at the end it used to come out with a 6-7% margin. But have we seen that the restructuring of talent- and I think, I mean, if you could answer that, is that the talent issue where we had Thermax Limited with an impeccable execution track record and that has become completely inversely over the last 6 years, and we've been consistently seeing disappointments over the last 24 quarters.

So maybe you could talk about the talent. The second thing is, while we have seen a few mistakes, and you called out those mistakes, you pointed out public sector, and the worry that is that because of the one or two mistakes, will you compromise the growth significantly? Because In hindsight, you could say that, okay, these were things that you could have corrected, but not taking public sector

projects and taking projects with these specifics, would you be compromising on the growth, and that can hamper the underlying long-term growth for Thermax Limited for just want of being conservative?

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Good questions, and thank you. First, on the talent bit, In this particular portion, I don't see that as a concern. At least that wasn't the, the concern. The mistakes that were made, even if the team that was doing it was the same team, actually every- the top 5 people who were involved were all with more than 20 years of within Thermax Limited and with project execution expertise of the nature that is relevant for doing projects. So it's not like they were not of projects background. They were, they were, and they are.

Not everyone in the team is still with Thermax Limited. We have had some structuring that has been announced as well and some consolidation in how we work. So that was, that was announced as well. Not all of that was announced. Some of it, as you looked at the restructuring of our business, the elements and how we are reporting and bringing things together, it was as part of, part of that. I don't think talent by itself is a- was a point. If anything, we are seeing an environment right now where Even in some cases, talent that had left Thermax is looking to, to come back in multiple parts of our business.

But certainly in these large project execution, there were zero people who were not long-term Thermax people. And I would say even the BioCNG business, the way it got incubated and led, the first entire portion of the business. Only now we are getting one or two people from the outside. Everybody else was legacy and, uh, from ex-project experience. FEPL is the only area where we have had leadership that has come from the outside, and THERMAX Limited is the area where we have had leadership come from the outside.

THERMAX Limited has done spectacularly well. And even in this last quarter, Tosil booked 2 orders, very good marquee orders, and one of which was Tosil's largest order of Rs 120+ crores within- with a 10-year revenue outlook of Rs 2,000 crores. It is that level of numbers that are, that are coming into, into the business. And we really like that. FEPL overall, I think, was not the right business for Thermax Limited. That's the only way I can, I can put it out. Yeah. The second part of your question is, will we be conservative?

In some parts, there was a redirection of the business, and that actually was more 2025. If you remember, 2025 was a very muted year for orders for Thermax Limited. And even at that time, there were multiple projects that we bid on for governments also, which if the price wasn't right and we lost them, we were perfectly okay losing them. But FY26, almost everything that we did, we like. Yeah, and we will not compromise on our growth as long as it is in the right areas and in ways that we like. And the focus then is on having technical differentiation and capability which is worthwhile.

And second, continuing to really get good at project execution. Yes, I think the mistakes that have happened have happened. We can't continue to cry our whole, uh, our entire quarters in the entire year about it, but there's a significant focus on just executing projects better, which is- and by the way, to me, that is not just Thermax Limited. Entire Indian ecosystem needs to get much better on executing projects because we are working in an environment where weather patterns are fluctuating, labor is not that easily available.

We need to bring in a lot more automation, lot more digital into how project execution is structured. Yeah, and that whole model is a post-COVID model change which needs to happen. It does not

mean that we will not do projects going forward. And certainly you will see in TBWEs where we think we have a- where we have got good capability, where we are able to execute well, we are taking projects. And even in this year, we will take projects where customers are good. We know how to price them right.

It is in, in an areas where Thermax Limited can do well. We will do, we will take. And which is why Bhavin, I was saying on the order side, I still see a pipeline which is better than what we did last year.

Bhavin Vitlani - Analyst, SBI Mutual Funds
Sure. Thank you so much for taking my question.

Operator
Thank you. The next question comes from the line of Amit Mahawar from UBS Asset Management. Please go ahead.

Amit Mahawar - Analyst, UBS
Uh, yeah, hi sir, this is Amit from UBS Securities. Ashish, I just have one question. Um, you know, a lot has been discussed already about the legacy orders, how it will flow. So thank you for that. Um, and just following up on Bhavesh's question, um, Can you help us? There's a lot of demand and growth we can see on industrial states, on compliance, ZLD, ETP, right? You have a lot of industrial product pipeline, right? I know these discussions get lost right now on a very, very overwhelming quarter, but if you can throw some light on these segments and most importantly the PVW scale-up, because that's where the core of profitability could lie looking beyond the legacy order.

So if you can spend some time on 3, 4 important segments in the pipeline. Thank you.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Let me use the first question that you had to share industrial products and what is going on in industrial products, and then I'll spend time on TBWE. Yeah, that's how I'll, I'll break my response. Amit, you are right on industrial products. The deep, broad events which are relating to, to sustainability- better, cleaner air, cleaner water- continue to drive a very healthy pipeline. Yeah, Thermax Limited, as an example, which was a very small portion of our business and a negligible portion of our business even 2 2 years ago in our water business as driver of ZLD plus ETP overall, with ZLD as a core, has become the single biggest part of our water business here.

And, and then if you add up solutions around desalination and, and other emerging areas, those have become the driver of our, our water business domestically and internationally, both Similarly, on clean air, the emphasis that is coming from many states on just better control of what we exhaust out of our plants is getting better. I don't think the, the enforcement is still as good as we think it can be. Like In my opinion, in the northern part of India, significantly better implementation is needed.

The policies may be there, but enforcement is not as good as can be. And we have the technology. We have the technology to go out to every one of those plants and retrofit them with air pollution control equipment, which would cut down the emissions significantly, bring them up to the tightest norms that are possible, which will help during winter months when pollution gets really, really high. In cooling, similarly, there are trends around data centers, around our heat pump technology, which has got good legs as we go forward, CLCC technologies, which can deliver much lesser cooling needs at at plants and commercial locations.

And in boilers also, the whole biomass boiler bit- every one of these areas I feel has got good

growth. And it is that kind of growth that we have been seeing for the last 2 to 3 years. Solid double-digit growth year on year is the trend that I am seeing. In this part of the, of the business domestically and increasingly internationally. We are getting more and more competitive internationally, which is, which is also good to see. In that same breath, I would say in industrial products, you could see our profitability in Q1 drop because of some exposure to commodity prices.

And because we were not able to ship as much as we would like to in industrial products in two parts of our industrial products business, like pollution control equipment, design and engineering. You have- you can do well, but it is largely just steel, steel, steel. So when steel prices jumped up by 18%, it went from 52, 53 to 61 plus in, in just two months. For plates. So that impact comes on a couple of those businesses. Those we need to work through in our cooling and our heating business. Cooling in particular, where we have got opportunity for much higher margins given the spaces that it is working in.

The backlog is more Q3 and Q4. So, so I see some amount of pressure on in Q2 in industrial products. Margin. That will get cleared in Q3 and Q4. Year overall, I'm still confident that we can, in industrial products, deliver a year which will have good profitability growth, good orders growth, and good revenue growth. TBWES is the place where there is a structural shift that is going on, and here we are adding capacity. Not only are we adding capacity, we are looking to work with our our ecosystem to significantly increase the capacity through our ecosystem as well, because we are seeing a big pipeline of thermal projects happening.

We are seeing international pipeline including Middle East and Africa, uh, and waste-to-energy domestically and internationally increase quite substantially. And finally, we see a big pipeline not a big pipeline, but a pipeline for data centers also starting to, to come by for the US. This is specifically for the US where natural gas to power is a, is a big space. Yeah, so this is specific to the, to the US. So in TBW, yes, we are increasing capacity at our plant, as I said, and also looking to increase capacity through our, through our ecosystem as well.

So what I would say is look for measured continuous growth in industrial products, look for discontinuous growth, which is what we are going through on the TBWEF side, and then even on the project side of the kind I think we can execute well. Power plants, private customers, domestic and international, taken at reasonably good margins. Even there, our pipeline is increasing now.

Amit Mahawar - Analyst, UBS
Thank you.

Operator
Thank you. We'll take the next question from the line of Aditya Mongia from Kotak Institutional Equities. Please go ahead.

Aditya Mongia - Analyst, Kotak Institutional Equities
Uh, thank you for the opportunity. Um, the question from my side was more linked to your competitive positioning in two key markets, data centers and, um, hydrogen. And why I asked this question is that somewhere a few years back you talked about heat pumps and where you stand, at what temperature you can extract speed, how good you are. Over in these two segments, in data centers and hydrogen, as we understand, there's a combination of capabilities that is growing up inside the company. The annual report was fairly informative on that aspect.

We just want to understand how better you are versus others, and accordingly, how big can these

businesses come- it could become for you over time.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
There are 4 parts of our business that have exposure to, to data centers. Our cooling business, where we provide absorption chillers and hybrid CLCTs. Our DBWES business, which is capable of providing boilers and pressure parts for boilers for large power projects which then are powering data centers. So these power projects are specific to powering data centers. Third is water and fourth is chemicals where you need water treatment chemicals for water that you- water plants that you supply for data centers.

So those are the 4 portions of our business that have exposure to data centers. All 4 of them are critical to a data center. And you will see there's a lot of talk about power, cooling, and water as drivers of data centers. Of these, the order that I mentioned is the order in which We have differentiation. The biggest differentiation we have is on the cooling side, where, um, what we can do in, especially in co-located, uh, where power is co-located with the data center, what we can do for, uh, for international markets, particularly the US very few can do, and the competitors are maximum 1 to 2 globally, not just domestically, globally.

The question there is how do you get yourself in front of the customer and you have a position by which you can explain and work your technology into the overall scheme for the data Thermax Limited. And there we had our first win last year, which we were really excited about. Even now, the overall pipeline that we are working of those kinds of projects is significant. There are two major solution providers in the US, both of whom- with whom we have MOUs that are inked, that they will incorporate this our technology as part of their overall execution philosophy of cooling for a data center, where, where we are getting more and more progress.

I, if I had to commit, while there is a larger range, I would think between Q3 and Q4 we should be showing two more wins that relate to cooling solutions, going for data centers in the US. That's my, that's my expectation. Handshakes in, in this quarter and next, and order booking in Q3 and Q4. And that pipeline, I hope it each quarter will continue to, continue to grow. And similarly, cooling for India and other markets where if with our hybrid CLCTs we have a position on technology which is different.

Traditional cooling towers can't do it. And we, again, the core point is, can I save power that is needed at the data center? So in cooling, we have a position which is unique. Next would be boiler pressure parts going into the US where Very few Indian companies have that exposure and that capability. And where we have a breakthrough, the competition is not from China. The competition is actually from US-based companies and what we can, what we can supply. I guess there could be competition from China going forward as well.

But there also, the question is not as much on price. The question is on how quickly you can deliver and trust in our ability to engineer that. Yeah, so that is second. In water and in chemicals, while we have a pipeline, it is not super differentiated in the sense that the water that is needed has to meet what water needs to- water norms that need to get me met for any other, uh, basically, uh, water treatment plant as well. Yeah, this is called as raw water treatment, and it's a, it's a basically a configuration which is relatively standard for water, so it's competitive.

And similarly on the chemical side, once that raw water treatment plant comes up, cleaning it with chemicals is also relatively straightforward. In water treatment chemicals overall, we are one of the larger players in India. So, so we get a share from that point of view, but it is not something where

we think the technology is particularly demanding. Okay, have I answered your question? It's a fair amount of detail,

Aditya Mongia - Analyst, Kotak Institutional Equities
Just partly the handling part. As in, we could see through the manufacturing being there, the alliances being there, a lot of things happening over there from a capability stack perspective. Yes.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
So hydrogen, I would put hydrogen and bio-CNG as two areas where we are saying we will commit to putting our head down and working through this because we do see light at the end of the tunnel. And in hydrogen, in my view, there is only one other company in India that has put together a team and the capability of the nature that we have. And we have already shaken hands on one project. We can't announce it yet. Hopefully in the next quarter is when we will announce it because it has got some time to when it will become bookable.

But we are starting to see some success coming our way on the on the hydrogen side based on our partnership with HydrogenPro. And not only that, even on SOEC where our demo plant has to go up, we- our demo plant will go up at the end of this year. It will be a showcase plant and it will be showcased with global standards. It will be not just for India, it will be a showcase for global standards and we expect couple of very big names to be partners in that demo project as well, to where we will be able to show our capabilities.

So hydrogen, right now we are working through and carrying a team of about 40-50 people, which is just doing engineering and work and setting up the demo plant, etc. But next quarter we should be able to announce an order as well and next year start to show revenues occur around hydrogen as well. Helpful. Thank you. Thank you. Thank

Operator
You. The next question comes from the line of Amit Anwani from PL Capital. Please go

Amit Anwani - Analyst, PL Capital
Ahead. Hi, sir. Thank you for taking the question. So you did you did on the products business in terms of margin and growth. Just wanted an understanding basis the current order book in industrial infra, and you have given one slide about the margin change. What's the margin expectation now? This is the current book. And second question, you said you will exceed the overall order inflow versus the last year, and you also highlighted, there's been challenges in PSU public sector orders and the focus is on the private sector orders.

So for the remaining 9 months, what is that you're factoring into the order inflow, uh, in which segments? And is it the data center which you highlighted or the other segments which will contribute to the expectation of your order inflow given the constraint that you have set for yourself.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Sure. So, and as I said, not just this year, even for the last 2 years, we have completely walked away from any large government multi-year civil construction kind of projects. In fact, overall in our portfolio, we have taken And we will- it's not like civil and construction we will say no to, but we are- wherever civil and construction is involved, we are going in with our eyes wide, wide open. If I had to share why am I overall excited about that, we think we can do better on orders. Let me first focus on industrial infra because that is the place in which we had booked large orders last year.

So how do they match is what I would like to share first. So industrial infra, we had a supercritical project that we booked last year. I suspect we will repeat a supercritical project this year, at least one, maybe more than one as well. Yeah, we've got multiple active opportunities and I I do think with the overall capacity look in the market, we will- there will be more customers who will look to work with Thermax Limited. So that portion is at worst equal to what we did last year. Then we had an international set of projects, one relatively large project for the Middle East and one relatively large project which were- which was in refining and petrochemical.

For Africa. Both of these we see equal to or more in this coming year. Africa, our pipeline continues to grow. And of the projects that I talked about, we have already shaken hands on one in Q1, which we just couldn't book because we're just waiting for the advance. But the project is all signed and done, and we have got more in the pipeline for for the, for the remaining quarters as well. Similarly, Middle East, we see a good pipeline. So whatever we did last year, we should be able to do more.

And on top of that, we've got the data center pipeline opening up for the US and India, some supercritical, so subcritical and captive thermal also coming in. In addition to waste-to-energy and some of the areas where we think we can, we can execute a couple of EPC projects also. So overall, the pipeline is very healthy. We were very patient in Q1, wanting to, to focus on booking what we think as an order profile that we like, which is why it looks relatively muted. But by the time the year goes through, our pipeline continues to be, uh, continues to be strong, and I expect to do better than what we did last year.

Industrial products, you can see even in this quarter we showed double-digit growth over last year. We will continue to be on that path for the, for the remaining year as well. There are, I think there is some short-term kind of where some of our sectors like rice, from which we get quite a bit of business, some of the customers are worried on exports to Middle East, etc. But there are timing, timing moves here and there, not too much overall. Our pipeline continues to be good in industrial products, will grow year on year.

Chemicals, we have shown a much better Q1 and some of our volumes have come back. In chemicals. So I do expect that we will grow, um, at least 20%, hopefully, in chemicals. In Green Solutions, um, Tocel has had good success in Q1. And in Tocel, the numbers don't go down on revenue. Yeah, they continue to go up. And so, uh, Tocel had a very good Q4 on order booking, very good Q1, and a very good pipeline going forward. Tocel is on path to becoming an Rs 800-1000 crore business over the next 2 years on a consistent basis.

It's already on a run rate of better than Rs 600 crore, but the outlook is it should get to- we already see visibility of it getting to Rs 800-900 crores, and then kind of as it continues to do well, getting Rs 2000 crores kind kind of a number on a continuous basis. BioCNG, I spoke about, we haven't taken any reasonable number of orders. If BioCNG opens up as a sector, the expectation is in August itself some of the pricing changes that the government wants to do will come into place. So Q3, Q4, there should be a good pipeline of BioCNG projects also starting to develop.

Hydrogen, I've already shared my outlook. So other than FEPL, and even in FEPL that we complete, they come into execution and they start to produce power, they will start to show more as well. So that's my reason for confidence across the board on, on why I think on orders we will have a decent year.

Amit Anwani - Analyst, PL Capital
All right, so just to follow up, without, without

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Anything on PSE, without anything on PSUs.

Amit Anwani - Analyst, PL Capital
All right, just to follow up on data center, what's the size of this power plant? Sorry to

Operator
Interrupt, sir. May I please request you to rejoin the queue for any follow-up questions?

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Thank you.

Operator
Thank you. The next question comes from the line of Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar - Analyst, ICICI Securities
Good afternoon, sir, and thanks for the opportunity. My question is that in the opening address you mentioned that there are big policy changes which you think should create a significant pipeline for Thermax. Can you please dwell on it and what kind of policy change you're expecting and which segment? Yeah,

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
No, no, I did not say big policy changes are expected that will affect all of Thermax here. The only policy change I was referring to was specific to to BioCNG, and I'll repeat that again. Beyond that, it wasn't policy-driven. India doubling down on thermal is something that 3 years ago, if anything, post-COVID, we were actually building a Thermax Limited where thermal would have no role to play. And where we stand today, one of our biggest pipelines is from thermal, not only supercritical, even subcritical captive power plants, a very large pipeline for thermal which has, uh, uh, which has emerged.

Yeah, so, so that was my only point. Nuclear and many other sectors will have relevance for Thermax Limited, but that is not for the next 3 years. They will all have relevance later on. Where policy will play a role is actually largely on the green solutions area. And the biggest area would be in bio-CNG, where bio-CNG today- the government has said they want 5,000 bio-CNG plants and waste-to-energy plants. The reality is that we have 150 plants in India. Most of them are not meeting the economics that the- that were originally envisioned.

And, and are effectively not loss-making, but with significantly low returns on, on equity. That is the reality. And also because of which lately no one has been putting large-scale plants, including the, the big players out there. Meanwhile, India's import bill continues to increase on natural gas. We don't have an effective home for, for parrali. So, so you don't have, what do I use all this parrali for? And there is a very high degree of expectation and confidence that the government will look to fix this.

What is expected is that the price of bio-CNG will go up by more than 20%, somewhere between 20 to 30%. So if that price goes up by more than 20 to 30%, this is straight money going into into improving the economics of the project. Doesn't affect cost, simple price increase for bio-CNG with higher mandates for bio-CNG mixing into as part of overall CNG mix, and then state benefits and other benefits as part of what is called the Sampurn scheme that the central government is expected

to push. In fact, many Many of us are expecting that August 10th, where there is a big conference in, in New Delhi, uh, there will be some announcements that will come up.

Even if they don't come up there, the expectation is August is when they will come up. Yeah. Second would be green methanol, where, uh, government is looking as part of SECI to create a movement around green methanol as part of our ports. And India to become a green methanol hub. So there also, SECI is collecting, uh, tenders and creating a big pipeline on green methanol. Both versions of green methanol, e-methanol and biomass to methanol, are areas where Thermax Limited will have a role to play.

We'll be very careful in the kinds of projects we take and the risks that we take. Our first focus is on executing our first project in Kanla and making that as a showcase place. Yeah, and the Kanla was particularly chosen as a small size project in which we can amply demonstrate our, our technology. And Kanla will get executed, um, from our portion between, I think, Q4 of this year and Q1 of this year. It's not delayed by us, it is more the site and the what the customer needs to do, which may, which may delay it.

And then hydrogen, we've talked quite a bit about hydrogen, is one more area where government policy can impact how big the market can be. Yeah, but in the traditional portion of our business, there is no dependence on, on policy at all.

Mohit Kumar - Analyst, ICICI Securities
Understood. So thank you and all the best. Thank you.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Thank you.

Operator
Thank you. The next question comes from the line of Sudha- Sudhadeep Mitra from Nuama. Please go ahead.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Good afternoon and thank you for the opportunity. This is Sudhadeep Mitra here. Uh, just wanted to check that, you know, in your opening comments, uh, you've talked about the fact that we have only about Rs 300 crores of PSU and government-related orders out of a total Rs 40,000 crore order book. So is it right to understand that this is the only portion of, let's say, painful legacy projects that are left, which could be exposed to cost escalations on margins? And beyond the Rs 300 crore, hopefully the pain ends.

And also, what is the, let's say, new normal in terms of the consolidated EBITDA margins that you would look at once all the legacy projects are done with? Thanks. So first part is yes, on the industrial intra side, this is the last portion. Yeah, it's got a mix of NRL and the FGD projects, that is the last remaining bits. The, the two last BioCNG projects are- I talked about 4, of which 2 are going through PGTR. One is finished, one is well through its PGTR, and the last 2 remaining are- that's the one area where we are confident.

But until we finish it, that is an area which may- which is also something that, that we need to close out, and that too should get closed out between by in Q3. Yeah, that is the expectation. So with that, that would be the end of any of this that we are looking at. Of what we are bringing in, not everything would be of that same, uh, quality and high margin. But if I was looking at the blended number between- and exports and private and all the spaces that we are looking at I would say for

contribution margin and EBITDA margin on industrial infra, I can finally see line of sight to taking that business to 10% and beyond on profitability, not just on EBITDA but on profitability itself.

Industrial products, as I've shared in the past, the focus is The focus is, of course, on increasing profitability in each part. But there are two parts of the business where growth is high. But from a profitability mix perspective, they are, they, they are lower in profitability, which is water and pollution, air pollution control, which we, which are basically clean water, clean air businesses. Thermax Limited, they tend to have lower profitability than cooling and boilers. So there is a mix impact because these two are growing slightly slower, slightly faster than boilers, because boilers we have a very high share in and finding new areas of growth is not that easy.

But in cooling, which is both profitable and potentially high growth, that we need to continue to keep on the acceleration to make sure that the blended mix is also one that continues to grow in profitability. Yeah, but, but if you asked me for a number that, that is consistent, my thing would be continue on the profitability path and continue on the growth path, which is maintain profitability, continue growth on industrial products, chemicals, getting to, to double-digit EBITDA. Is something that we've already shown in Q1.

I would expect- I would like to continue that. Chemicals, I would like to say, while we have had a good Q1 and we see some visibility to continued improvement, there is commodity price pressure out there, which in between felt like would go down with the war coming kind of and the crude prices coming down. In the last week. That is again kind of something that is, that is changing quite rapidly. So we have, and a lot of what we do in chemicals is exports, and we compete with Chinese players on the export market.

So that is a little bit of worry on how our customers will continue to absorb the increased prices that we are doing. Yeah, we also had the pressure of this 10%, 10% tariff which has now been put on. It's the US is just very tough to determine how they are acting. So far our customers are holding on and in a couple of cases some of our biggest customers don't want to work with Chinese anymore. So, so I see I'm I am happy where we are right now and optimistic, but worried that if this holds on for too long, will we continue to be able to push our price increases through to our customers or not.

Okay, understood,

Aditya Mongia - Analyst, Kotak Institutional Equities
Understood. Thanks, thanks so much.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Thank you,

Operator
Thank you so much. The next question comes from the line of Dhawan Shah from AlphaCure Advisors. Please go ahead.

Dhawan Shah - Analyst, AlphaCure Advisors
Yeah, uh, thanks for the opportunity, sir. So my question is on the Rs 300 crores of order which you mentioned that was delayed last quarter because of the logistic-related challenges. So is that shipped now? And, uh, and let's say, you know, if you have- if you had recorded that Rs 300 crores of revenue, is it fair to assume that the adjusted EBITDA of last quarter could be around Rs 290-300 odd crores because the fixed cost as has already been incurred, and, uh, the gross margin is roughly 45 to 50 odd percent.

So that would directly flow to the EBITDA. Is it the right assumption?

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
I don't think our gross margins is 45, uh, 50 at all. They're actually only two of our businesses where gross margins are 45-50 in, um, in the rest of our businesses, it ranges from 15% to 30%. Yeah, the- like in our projects business as an example, gross margins are of the order of 15%. Yeah, with, with 5% GMA and 10% coming down then to, to the profitability line. That's a, that's an ideal kind of a business in a way. So there is a range to those numbers. But your thinking is, is right, because in some of these cases, especially where we had exports, there was some amount of profitability that was also- that was better than our average profitability in what we could not ship.

We haven't been able to ship all of it even now. There is a chunk that has moved, and even in Q2 we'll have to be We'll have to be doubly aware because not only the Rs 300 crore shipped from- slipped from Q1 to Q2, we had a big, relatively bigger number for Q2 already. Because you can see, with a Rs 14,000 crore backlog, even if I take out about Rs 2,500 crore which is for deliveries in future years, we have a big number that is, that is due for shipment in the year. So each quarter we should be looking to do Rs 3,000+ crores, and, and that number puts a load of burden in a good way on our entire supply chain and our ecosystem.

So, so we not only need to take those Rs 300 crores in, but we have to make sure that what is at the end of September, we are, we are making sure that that also ships out. Yeah, so there is- execution-wise, there will be, uh, there will be continued, um, visibility and pressure on the, on the whole quarter. The last point, I think, as I'm thinking aloud, is our first shipment for the US, which, which was for data centers, a significant portion was supposed to ship out in Q1 and was supposed to get recognized in Q2.

That is now shipping in Q2 and will get recognized in Q3. Yeah, which is something we already know because- and that wasn't delayed, we were ready in time. The customer- and you, you are hearing constantly in the US, data center projects are getting delayed because of environmental constraints. Rains and people slowing down projects and all. So the project got slowed out at the customer end. They finally agreed to take the equipment. It is shipping out later this month, but it will only get recognized once the customer takes possession of the equipment, which will then happen, uh, Rajan, then our expectation is Q3.

Unidentified Participant
Yeah, you're right, Ashish, in terms of revenue recognition,

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Revenue recognition, and then the margin recognition also will show up in Q3. But that said, Q2, we have got a lot of good orders and some other adjustments, uh, which are all relating to LD reversals and cash collections, etc. We expect a good Q2 on profitability, um, especially given some of the, the hit that we took, uh, in Q2 last year. Yeah, so Q2, Q2, Q3, Q4, each one now should be a significant improvement over last year.

Dhawan Shah - Analyst, AlphaCure Advisors
Understood, sir. And secondly, I think in the presentation, slide number 17, you had one, you know, the table of that more than Rs 100 crore of projects in the industrial infra segment, wherein the changes in margin and the number of counts also have been given. So can you share, you know, the absolute amount of that project also? Because I think number of counts won't be, you know, we not

able to understand based on the number of calls. There were two

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
Other metrics, which is the absolute amount and the, um, absolute amount and the profitability of individual projects, which we thought we shouldn't share because then it starts to share competitive information, and it's not- that was not correct. Um, the- but I see your point that the absolute amount is something that would be helpful. I can't commit to this right now, but I'll talk to Rajendran and see if that is something that is reasonable to share or not. Yeah,

Dhawan Shah - Analyst, AlphaCure Advisors
Sure, sir. Thank you. That's all for myself.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
What I can share is that in absolute, if I remove this Rs 97 crore number, in absolute numbers, as part of our total execution, through execution, we add to our margin and not subtract. Yeah, which is something that we can that we can share. Yeah, the PSU projects were the, were the only exception. And until this Rs 91 crores, even including the PSU projects in aggregate, we were through execution adding to our margin and not subtracting.

Dhawan Shah - Analyst, AlphaCure Advisors
Understood. Sure, thank

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
You.

Operator
Thank you. Ladies and gentlemen, in the interest of time, we'll take that as the last question, and I would now like to hand the conference over to the management for closing comments. Thank you, and over to you.

Ashish Bhandari - Managing Director and Chief Executive Officer, Thermax Limited
So there was a lot of questions which were all across on, on our margins and our profitability. I hope we did justice to sharing every bit of it with complete transparency with all of you. It's not a quarter that is- we are proud of, or it is reflective of what the company that we are building at Thermax Limited and the performance that we can deliver at Thermax Limited. And that is very well understood by all of us and by our board as well. And I'll leave it at that. Thank you very much for your questions.

If even afterwards, over the next month or so, as you have more questions and, and there is more in-depth discussions needed compared to previous quarters, we'll be more amenable to, to having discussions. Be patient, we are just going through- we need to go focus on the business itself, but we will, through the remaining of the quarter as well, be open to sharing more from Thermax Limited. Thank you.

Operator
Thank you. On behalf of Dam Capital Advisors Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.