



## “Thermax Limited Q1 FY13 Earnings Conference Call”

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**MODERATORS:**    **MR. M. S UNNIKRISHNAN – MD & CEO, THERMAX LIMITED**  
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**Moderator** Ladies and gentlemen good day and welcome to the Thermax Limited Q1-FY2013 Earnings Conference Call hosted by SBI Cap Securities Limited. As a reminder for the duration of this conference, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference please signal an operator by pressing “\*” and then “0” on your touch tone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Nirav D Vasa from SBI Cap Securities Ltd. Thank you and over to you sir.

**Nirav D Vasa** Thank you very much Inba. A warm welcome to all the participants on the conference call and a very good morning. I would like to thank the management of Thermax Ltd for giving us this opportunity to host Q1- FY 13 post results conference call of the company. Representing the management are Mr. MS Unnikrishnan, MD and CEO of Thermax Limited and Mr. Gopal Mahadevan, Chief Financial Officer of Thermax Ltd. May I please request the management to give some opening remarks related to the quarter's performance after which we can start the Q&A session.

**M. S. Unnikrishnan** Thank you Nirav. A warm welcome to all of you for participating in this call. Let me straight away get onto the results. I do not know how you have reacted to that and possibly the market has reacted that it may not be a very good result. But I thought we had very clearly indicated that we are opening the year with a 25% lower carry forward orders. The capital goods industry is not in the best of shape. In our understanding of the difficult circumstance, the results are not satisfactory, but I would take it as okay. Our total income of 983 crores is lower by 6% percent, 5.8% to be precise in comparison to the last year's first quarter. Energy sector which comprises of our boilers heater business, heating, cooling and also the EPC business has contributed to 77.7% of the total income.



Our Enviro, Chemicals, and Water business has contributed 22.3% of the total sales in the current quarter. During this quarter, our large project businesses, which are EPC and B&H and part of the air pollution control saw contraction in their revenues which is purely on account of the fact that we had lower carry forward orders and the billing cycle was not in favor of that. Whereas the other businesses like heating business, cooling business, water treatment business and chemicals saw a growth in the current quarter. But the growth of these business was unable to offset the negative impact of the project businesses which is why income reported is -5.8 %. 77.2% of this has come from domestic business and 22.8% has come from the International exports of the main company. Our international business export has grown by 10% for the current quarter and domestic has contracted and that is why the overall contraction is 5.8%. Order intake for the current quarter has been 1258 crores and if you remember, I had indicated that we possibly might have seen the worst of situations of 590 in Q3 last year. It has improved to 802 in the last quarter and as expected, we have been able to make it to 1258 for the current quarter. In this we also had an EPC order not from India, but from Zambia for a cement plant for a 30 MW captive power plant. We also have a couple of more enquiries from the African continent and from South Asia. I am hopeful that in the course of the year we should be able to see some orders coming from outside India for EPC. And we also have received orders for the boilers and heaters divisions which had seen an absolute lack of order. Of the 2 major orders which have come, one is come from Kalinganagar Steel plant worth of 285 crores for blast furnace gas fired boiler and the other is from Reliance for their approximately 180 crores expansion heat recovery steam generators and radiant boilers major. We do not report these kind of orders because they are not very substantial in terms of size in comparison to the size of the company.

Now coming back to the PVP for the current quarter, it is at 98.1 crores which is 16+ percentage lower than the previous year's number but this is



after booking the mark to market losses of 12.3 crores in the current quarter in comparison to the last year such quarter of 15 lakhs positive. If I were to be looking at the mark to market losses accounted for the EBITDA in comparison to the previous year, is almost at 11.3% level that we had last year. At the group level, our income has come down to 1170 from 1240 maintaining the same trend as the parent company at an approximately 6% drop of the top-line. For the PBP at the profit level, you would see a substantial reduction at the group level and this is on account of the following three factors. In the current quarter in comparison to the previous year's quarter, we have registered the losses of our joint venture with Babcock & Wilcox. It is fundamentally the working capital and the revenue expenses incurred by the company as part of the consolidation which we have included. Losses at Thermax Zhejiang, our Chinese subsidiary are continuing, though we are hopefully things would improve in the current year. We also had a surprise negative in the 1<sup>st</sup> quarter alone for our Danstoker subsidiary of which one of the orders were a surprise for all of us because there had been some extra expenses incurred in completing the job, and the other one was related to a lower margin order itself. But that is only an indicator and nothing to unduly get worried about as we progress in the current a year. We are very clear that Danstoker is going to be turning positive but the good news about Danstoker is that their order booking in the first quarter has been better than the previous first quarter so at least we can see a positive trend in the top-line, which will also translate into the bottom-line going forward. Last quarter, Thermax Instrumentation Limited, the 100 % subsidiary of the company which does construction work for our EPC business continued negative bottom-line. here is extended site work going on and unforeseen things have been booked at site operations and couple of sites on the company. One of them predominantly being Meenakshi which is nearing completion. We imagine that the trend will be reversed by second half of the current year and we will possibly have a challenging year for the



particular subsidiary but I do not think it is going to be substantially lower for the full year.

So this quarter had these 3 negative factors contributing to the overall lower group level number than the main company's numbers. Having taken so much of time, I think I will rather hand this over to you because there may be a lot of queries from your side. So let me leave it to people to ask me question here after.

**Moderator** Thank you very much. Ladies and gentlemen .We will now begin the question-and-answer session. Our first question is from Enam Asset Management that is Keerti Dalvi, please go ahead.

**Keerti Dalvi** First question would be on your order inflow and order book stand alone as well as consol if you can give us the breakup in energy, environment and international?

**Gopal Mahadevan** As you see order inflows of Thermax that is 1257 crores, energy is about 949 and environment is 308 and for the group it is 1412 with energy contributing 1103 and environment is 309. You wanted the domestic and the export as well?

**Keerti Dalvi** Yes.

**Gopal Mahadevan** The domestic order booking for Thermax it is 934 and the export order booking is 323.

**Keerti Dalvi** And similar break up for the order book as well quarter carrying forward?

**Gopal Mahadevan** The order balance in domestic is 3707 for Thermax and the export is 767.

**Keerti Dalvi** And energy and environment?



**Gopal Mahadevan** In the energy, environment, the order carry forward for Thermax is total is 4474, broken down into 3409 for energy, 1065 for environment. For the group you had asked it was 5042, 3970 energy and 1072 for environment.

**Keerti Dalvi** Second question would be on your balance sheet. If you could explain last year in our annual report, there are certain expenditures which have shown significant jump, especially I'm talking about the stores and the spare parts. So was there anything one-offs?

**Gopal Mahadevan** There was no one offs it is actually a classification which is happened in the current year, so when we actually look at it on a consolidated basis actually stores, spare parts and the price expenses if you get totally it up you would actually see that for the current year and the previous year the numbers would predominantly add up.

**Keerti Dalvi** So there are the recurring ones?

**Gopal Mahadevan** These are recurring once there is absolutely no shooting that has happened, it is only a reclassification that was done in the current year.

**M. S. Unnikrishnan** You have to club both of them is it only the way we reported it earlier, under which item head of the accounts is just reclassified. Otherwise there is nothing at all.

**Keerti Dalvi** And this year and if you could explain what is our working capital situation in the first quarter because on a Y-O-Y basis as well the capital employed has gone up so is that because our JV coming into the picture?

**M. S. Unnikrishnan** There are multiple reasons for it. Let me specifically tell you that between the last quarter and the current quarter, the working capital position has improved because if we were to look at it last year. *In the current year first quarter there is a deterioration of approximately 200 crores there is more, which is into multiples things like the capital employed I'm talking about.* Also part of it is joint-venture into the business and investment. In time



as the turnover went up we have got higher levels of accounts receivables equally accounts payables also has proportionately gone up so overall, if you look at last year's first quarter as the current year first quarter there is higher level of capital employed between Q4 of last year and Q1 of the current year, there is an improvement, our networking capital has come down from at least 50 crores it has gone down by.

**Keerti Dalvi** And what is your outlook going forward. Where do you see this current year shaping in terms of inflows as well as margins that would be my last question?

**M. S. Unnikrishnan** If you ask me is the order booking satisfactory I will never be satisfied. But, in comparison to what we were predicting it is better, going forward, it depends a lot more on what is going to happen in the country but in any case, we are confident you should be able to improve our order book in comparison to the previous year that much we are working towards. Margins we are trying to maintain I mentioned to you that despite the difficult circumstances the margins should be maintained and normally within 100-150 basis points I should be able to retain it.

**Moderator** Our next question is from Srinivas Rao of HDFC Mutual Fund, please go ahead.

**Srinivas Rao** Just wanted to understand on this, you mentioned about EPC jobs in Zambia, can you explain how are you looking at it and how different it is a doing business there versus in India?

**M. S. Unnikrishnan** This order is from a fairly large and diversified groups from an investing company or investor who wants to be an Ambani of India in the Africa. He is into multiple manufacturing and he is originally from Nigeria but this current plant is in Zambia. In all the African continent also currently across the continent we are seeing a lot of investment happening in medium-size companies in the consumer and infrastructure sector which



are majority of them are more on our products side and there are limited numbers of openings available also for boilers and heaters business and the captive power business of the country. And in this current month we are doing the entire design, engineering, supplying and project management and supervision of construction is what we are going to be doing, the value is USD36.5 million for which the LC is already open. We normally report only when the LC is opened on the company advance is received and work has already started.

**Srinivas Rao** So you are not doing the actual execution at the sites/?

**M. S. Unnikrishnan** Physical construction is done by a contracting company taken on board by the customer the entire construction of the cement plant, including so the entire responsibility rest with Thermax in terms of supervising it and commissioning it.

**Srinivas Rao** So what kind of contingency are factoring in this and what is the opportunity overall?

**M. S. Unnikrishnan** Order of this kind the contingencies are more related to if there is any design errors which would be arising between the time when you pick the orders when you actually execute it which normally for a captive power plant when the land and money and rest is done by us is not so high number one, second is in terms of the commodity price variation that you would take at the time of estimation and when you are executing normally to circumvent this we do register majority of the cost booking in terms of placement of orders within 45 days of registered order so. On both this counts it is quite well clear and of course the dollar order so it can be only if but anyway we don't take any fund Gopal does not do all of that it is currency booked for the period for the order so there would be an upside or downside an account of the currency. These are three risks which I can think of.





**Srinivas Rao** And is there any opportunities whether it is in Africa, I think you are doing something in far East Asia also so what can we expect in terms of orders per year?

**M. S. Unnikrishnan** I cannot give you a specific number, excepting for the fact that we do not see a downturn in the African continent nor in the South East Asian sector. Both these places we are seeing it business as usual, but it is not contributing any large numbers to Thermax's overall business but we will focus on, even whatever little is available we will mop it up. That is the answer which I can give you right now there are a couple of enquiries for EPC and large size boilers in both these market at this point in time.

**Srinivas Rao** Last year you have seen a very good growth in export revenues. So can we expect that revenues to go up or flat?

**M. S. Unnikrishnan** Current year the revenues may be even lower because it is just a carry forward order, order booking is what we are looking forward to currently. But the revenues are for companies like us I said foregone conclusions with orders are available order books is what we should be looking forward to in that we should certainly see an improvement.

**Srinivas Rao** My next question is on this domestic captive power business can you give us what is happening there. What is your outlook in terms of, what can we expect this year, overall for the market and for Thermax?

**M. S. Unnikrishnan** Predominantly, if I were to look at the quantum of orders that we have executed in the past for captive power our CPC it is more in cement plant and then in steel sector and in then the various sectors, cement sectors the Southern companies are even today at 60% to 70% capacity utilization, the northern sector is touched 90 so once you touch a 90 number, panic buttons are pressed by them and they start releasing the enquiries for expansion. So I do see at least enquiries started getting release from couple of groups and all of them are having good balance sheet, though



the government is latched on a huge penalty on all of them. How are they going to react and how are they going to take it so the government is a different issue. They look up to improvement in consumption in 2014-15 and I would believe that second half of the current year we should be able to see at least some orders nearing negotiation stage. Steel sector is absolutely cool right now there is nothing happening over there. Barring the Kalinganagar which I've mentioned to you the orders that we normally take for the captive power in the steel industry is sponge iron and allied industry there is no investment expected at least maybe the two quarters. I would imagine steel prices are coming down now globally and in India also for a change, last month it has come down so I don't expect a substantial improvement in that market either. There are various sectors like paper sector, may be chemical sector there are enquiries, fertilizer sector, there could be possibility. So put together, I would believe that the captive sector is a mixed bag for the current year, but since the larger and super critical power plants are getting delayed in the country and power shortage across all and next thing is every state in the country is introducing the electricity charges including the communist states of the country. I heard about one state increasing the 30% yesterday as a communist state inclusion. So I'm sure captive power is going to be viable moving forward. My expectation that the enquiry should start coming in the second half of the current year that is my overall outlook on captive. Captive should be doing well in the next maybe if I have to take a medium outlook, 1 to 3 year period there should be more orders in captive power sector.

**Srinivas Rao** If I am looking at this year its 30 to 100 MW category. So what do you think would be the size?

**M. S. Unnikrishnan** A tough question to answer because even if people want to buy they don't have money. If they have money also they do not want to spend current condition.



**Srinivas Rao** Last time you were saying, you will reduce prices to protect your market share. So what is the outlook now on the overall?

**M. S. Unnikrishnan** Market share continues to be retained by the company. We are in each of the sectors if I were to look at it, barring the environment pollution control sector where there are challenges because low price competition is little tough over there, in all other segments of our business or our portfolios like our package boiler, absorption chiller, chemicals, water treatment plants of the larger nature, we are still having our market share retained. It is only in that sector where a lot of uneven competition is there where one may have to be coming down to breakeven levels or below to pick order which we are consciously not breaking otherwise it is market share, maintained by the company.

**Srinivas Rao** What I'm trying to understand is, you said you do not mind reducing prices to maintain market share. So does it mean that you are lowering your return expectation or margin expectations?

**M. S. Unnikrishnan** I mentioned that we would want to maintain between 100 to 150 basis points overall is the intention of the company, within that if we were to be picking an order at a lower margin we will have to see supply chain also supports us. Unlike in the case of automobile equivalent where you already have an agreement done with them for the year, here every contract we negotiate with the complaint chain. So many of times, we have an ability to pass on a lower margin also to our supply chain by which we are able to retain, I cannot say retain is a word which is very strong so let me say attempt to retain our margin.

**Moderator** Our next question is from Aditya Bhartiya of CLSA, please go ahead.

**Aditya Bhartiya** Just a clarification when you say that margins will be maintained do you referred to this stand-alone entity or the consolidated business?



**M. S. Unnikrishnan** I'm talking about stand-alone, certainly consolidated I give an explanation that there is not much, the main expenses related to the JVs in the group as the JV there, there are no orders and this is something thankfully you had been giving us every day in the morning of good report about the power sector. So I am hoping for you to be predicting when are we going to be getting an order in that area, but in other fronts, I do not think any substantial change, excepting for I would say one subsidiary the construction subsidiary and the power sector. All other should be doing okay in the current year.

**Aditya Bhartiya** The instrumentation subsidiary, which incurred losses last year, you briefly mentioned that it is partly on account of Meenakshi order. Any other order or any of the smaller order where in you are also seeing cost over runs?

**M. S. Unnikrishnan** There are not to that extent, because let me tell you the reasons for it, one is the construction challenge in some of the states, I mean, since you are from power analysis, two items which have gone up is cement and second is sand which is never calculated to be as the main item of cost but sand does almost overtaken cement now in the country. And movement of sand is not allowed, license raj is already been put onto that. Some of them have increased the construction cost, number one. Second, the labor cost for some of the specialised area just to give you an example insulation work to be done which is to be done in every boiler and in every power plant, one could get it, get it done with a cost of hundred Rs. 110 a square meter year back, and today the prevailing rate is Rs. 450 a square meter like what you pay for land in the country and still you won't get labor because that is a very-very specialised labor. Similarly there are been a couple of areas where labor charges have overshoot far beyond what would have expected. When you book an order say maybe two years back, the labor charges in the country in the countryside would be equivalent to maybe helper is Rs. 250 but today you have to pay for 450. The reason I cannot



blame the government for the NREGA, availability as well as the cost has gone up so that is the current pressure. The fresh order which you are taking are after factoring in the current cost, these are the reasons but you will have a challenge for the current year but future will be taken care of.

**Aditya Bhartiya** And in this quarter material cost as a percentage of revenues stood at only 67% which has been lower than the historical levels. Was it on account of some mix impact?

**M. S. Unnikrishnan** Part of mix impact because projects have come down, EPC has come down so products have improved. So naturally product should be contributing more. Wind force, I cannot think of being very substantial. So if your question would be in the four years will we be able to maintain? Our intention is to improve but let us see how it is going to be panning out.

**Aditya Bhartiya** Lastly, you mentioned about competition in the air pollution business, how is the outlook for other verticals in the environment segment?

**M. S. Unnikrishnan** Chemicals should be steady and will grow in the current year. Margins also should improve in comparison to the previous year on account of the fact that the petroleum prices will come down at least stabilize, I would say and should be helping us. Second is the water treatment business where we will have a growth scene barring one sector that is the power because we have been fairly strong in the larger power plants and treatment plant supplied where I am not expecting any substantial change to happen barring the NTPC tenders, so water should also see a growth that is the overall outlook for the environment sector.

**Aditya Bhartiya** If I remember correctly, earlier you had indicated that you would not be undertaking Municipality water treatment project but in the annual report you seem to have suggested that you will be open to take in such projects as well, is my understanding correct?



**M. S. Unnikrishnan** You are right. We were very clear that we will only be into the sewage treatment plants in the water segment for the municipal corporation and we had a valid reason for it, because the water treatment was more of pumping, storing and distribution where as we have seen with the groundwater quality deterioration happening at a substantial level where a the technology play emerging in the municipal water supply also so we have specifically targeting that niche market where it is the capacity upgradation for this. For example, imagine there is a municipal corporation in the location having 100 million liters per day of water supply treatment plant and they want to double and because the population has gone up due to urbanisation. Now there is no land available only way they can upgrade the existing plant in having an elevated technology being put to use. So there is a play for companies of the stature of Thermax participating specifically for that area. So when we said that we are going to be entering the municipal water treatment or it is a specific entry in those areas there is a positive play for companies like us available. It is not for the conventional one where you have a water intake system, piping, cutting the city open all that I repeat, and a huge tankage is to be made and underground type pipeline that is what the area that we are into.

**Moderator** Our next question is from Lokesh Garg of Kotak Institutional Equities, please go ahead.

**Lokesh Garg** Just wanted to ask you in continuation of this earlier question itself. You also have reported in your annual report that JNNURM in the first phase seems to have sort of finished and to that extent that the second phase is being planned. Thus, are you seeing incremental business activity at this point of time, particularly from the urban bodies segment at this time?

**M. S. Unnikrishnan** EQRs are coming, but funding is yet to be managed and I'd do not think where do we start thing to allocate the fund, negotiates are going on between the local bodies, or maybe the Urban Development Ministry so



respective states in the planning commission, I would expect that second half of the current year, there should be money allocation happening and lot of should start picking up at the end of the current year and the next year onwards for JNNURM projects. Some of the unfinished projects where there is revived there could be a possibility for enquiry but we will be very choosy in bidding for it. So for us JNNURM is a journey on but money to coming towards the end of the current year.

**Lokesh Garg** Just to reiterate your overall thought process basically you are saying that you will attempt to maintain the margins as much as possible. However, going by circumstances 100 to 150 basis points variation is possible and considering obviously the circumstances this variation is downwards, right?

**M. S. Unnikrishnan** We have carry-forward orders which are revenue recognizable in the current year and we have a certainty of the profitability. There are orders which have been booked and billed which is a fairly good portion of our balance sheet also normally so that will depend a lot more on the markets circumstances where it is panning out that is what we will want to control where my answer where intention is to retain in the margin, but the intention also being equally strong in retaining the market share. Leave that opportunity for us we can confirm it as we move forward.

**Lokesh Garg** Last year we had done about to let us say 11% margins at EBITDA level. So we may actually see somewhere around 10 also has the worst case?

**M. S. Unnikrishnan** No guidance from Thermax ever so you can infer from whatever we say as to what we will be ending up at.

**Lokesh Garg** But this 100-150 basis declined for you to deliver the point is only on incremental business or on the total overall P&L?

**M. S. Unnikrishnan** Overall P&L.



**Lokesh Garg** Yesterday one of your peers in the subcritical power equipment business commented that there is a 10 to 15 GW of ordering pipeline available in the market, just wanted to understand from your side whether do you also see that pipeline and to what extent would you participate and how much it is progressing?

**M. S. Unnikrishnan** There are enquiries in the market, now should you consider them at a buying platform. See normally for somebody like Thermax a buying platform is the one which will be defining the pipeline for order finalisation. The enquiries mean intention for people to be setting up because of the number that my peer has talked about at least 5 to 6 of them are at a stage where they have not even got land fully allocated, they do not have an environment impact study completed at the approval for the land which is in possession of their and some of them do not have any fuel supply agreement signed so such case, yes, FSA can happen overnight also in our country so what will be the impact of some of the policy decisions going to be taken by the government is the ones who will convert some of these normal enquiries into finalisation stage, so approximately the numbers that you mention about 10 to 15,000 is the intention currently, I would say. But reality, how many of them will take off in the next 12 months, I have my suspicions.

**Lokesh Garg** Do you have your own assessment of realistic enquiry which you see as an opportunity?

**M. S. Unnikrishnan** I would presume that one or two public sector electricity board base tenders would get concluded in the next maybe 6 to 9 months' period. There could be one or two joint sector orders which will go through one of them even may be on nomination basis one of the public sector companies will go through in the next nine months because I'm talking about the current year. Private sector orders, I have my major suspicion even one will go through or not.





**Moderator** Our next question is from Pritesh Chheda of Emaky Global, please go ahead.

**Pritesh Chheda** First if you could share the outlook on the base business and second within projects if domestic project business especially within captive does not pan out the way we think, as of now, is there a scope to offset that incrementally this year and from what areas, that is the first part of the question. Second, we have written in the annual report about certain diversifications within the project business. So if those pan out then is there a chance that the return ratios for Thermax become significantly different from what they are today?

**M. S. Unnikrishnan** For the first question is what is the outlook going forward related to our steady businesses versus the larger ones. I would personally say that our steady business starts with chemical as number one, which will continue to grow in the current year. Our absorption chiller business will grow in the current year, we will also see growth in our package boiler business and for smaller sizes of water and air pollution control business. These are, I cannot say insulated from the economic downturn, but they are not so impacted beyond a level. Because most of them are on balance sheet expansion or a very small greenfield projects which can be managed by the balance sheet from the country so that is possible so I would see that. Now how much would that contribute to on the total size of the company. I believe in the good year it would be equivalent to maybe 20 to 25%, sometimes even 30% of the balance sheet of the company. Then comes the captive power boilers called cogeneration boilers for example, a chemical factory wanting to have maybe a 40 to 50 ton of steam for their project along with maybe a 5 MW to 10 MW power needed there in majority of the cases what we gain is boiler orders and very limited cases where we get an EPC order. There is a mixed bag there are some industries where I'm not expecting any expansion in the current year which I've mentioned earlier that is, cement, steel and larger chemical factories are not expected



to be coming. There is a possible upside from oil sector because the government is seized up on the need to be reversing the trend in infra spending they have already given a written instruction to all the CEO's of the public sector oil companies to go ahead with the expansion program but none of them can fructify in the current year at the best may be one odd can come towards the end of the year, but next year beginning, it should be helping us. So other than oil sector, other than steel sectors and the chemical, in the food sector, in the sugar sector there are enquiries and I'm sure order finalisation would happen in that area also. Than the next one is on the main water treatment business there is industrial side of the water treatment and the municipal side of the water treatment, project side. Industrial side I do not think there will be a major growth, but it will not be negative either because there are still pressures on many companies to have water recycling done so tertiary treatment of the existing water treatment modifying it to recycle the water we have seen an improvement in the order intake in that area. There companies like Thermax also have got a specific play because it is a technology play not everybody can do that. The guarantees are needed which there are limited companies in the country who can do that we are one such company. So I would see that that area would grow. In the municipal segment I explained earlier, I'm not seeing anything going to happen in the next two quarters. By the time the money gets allocated couple of it may be go through, but the main ones are going to be coming towards the end of the current year beginning of the next year only that is about the water. Air pollution control side we depend a lot on cement and steel industry and I do not expect any major investment will be happening in order booking in the immediate future that is as far as the domestic market is concerned which we have an opening available for taking on the Middle East, South East Asia and African market for all the products I have mentioned above where the focus is already put in by the company. How much of that can be converted into orders and how much will be received because that is the point that has been fought, not by the Indian competitors alone, there are



also people from every part of the world looking at that pie. So there we have an advantage in terms of having operated in most of the markets we have also I would say rupee advantage available in comparison to outside countries, other countries so we will concentrate and focus on that. So whatever is the major reduction happening in order book in India we will try to make it up in the international market. Our intention is towards improving our order booking and order book position in comparison to what we entered the current year when we're going to close the current year. Your second part of the question related to the new items that we have started on that is the balance of planned which we mentioned about. One order we have picked up in the current quarter for a turbine island for a solar thermal power plant. If the existing ordered which I mean to say under execution by the private and the public undertaking, including NTPC for larger power plants, there is the need for some of the items that we have capable of doing now will we get our remunerative price and will it be manageable. All that has to be seen but at least we have started prospecting and bidding for it for the balance of land. But balance of land is not as safe as a business like EPC we will do because in view of the one does not get a letter of credit from the customers and normally you get treated like a contractor so these are areas where we are going to be very selective because we my pick an order, but we may not be good in terms of when we convert into the balance sheet so that is the next area. Is there any other area that you had in your mind?

**Pritesh Chheda** No. On the new business that we are attracting or the incremental flows that we are attracting is there any change in the terms of trade which needs to be highlighted?

**M. S. Unnikrishnan** Something which I need to be highlighting is when I get government orders example, you would have seen that the account receivables had a negative movement, let me say positive in number and negative in perception that is on account of the fact that currently we are executing a



fairly large order for Bhilai Steel Plant, which is 440 crore and OMP, a public sector oil company worth of 580 crores and water treatment has got multiple orders from NTPC equivalent going on. Most of them will not be allowing us to go ahead with our terms of payment it has to be the government's terms of payment. In private sector we have not made any deviations from our normal practices so far, though while executive collection is not as good as, one has to be putting in a lot more of effort to collect money.

**Pritesh Chheda** But the change of trade in the base business if any?

**M. S. Unnikrishnan** No.

**Pritesh Chheda** My next question is about the service portfolio and within that your longer term vision on the service portfolio within that the O&M portfolio of power plants?

**M. S. Unnikrishnan** We have incubated a service arm as an independent SBU in every business vertical of the company. Some of them have gone past, some of them are not at the same pace not to our satisfaction. In this there are three specific segments also one is after markets which is spare parts, plain vanilla. In some of them we do get almost like absorption chillers 80 to 85% of the aftermarket is captured by the company because it is a very specialised product, but in a conventional boiler our inability to capturing all the spare businesses is virtually nil because the customer can afford to be buying the components from the original supplier itself. So branding of our used sub-components is something which you have initiated, but it is not an easy task to do in an overnight, but it is initiated, let me say, so that is aftermarket that is one portion of thing. Second is retrofit and revamp because technology keeps getting up graded or fuel should keep happening, let us say oil price going up, people want to shift to biomass, somebody from biomass who wants to shift to coal so those are retrofit and revamp orders or maybe in the life of the plant is to be extended. So



we do a light extension study and improvement done. And third item is the performance management we call it as operations and maintenance. So it is there in our water business. It is there in our boiler business and in our top-line business and even in air pollution control it is there now the one which is growing the fastest in the company is the operation and maintenance as you mentioned, and the largest portfolio there is the power plant, which has crossed 1000 MW right now in operations. It is growing, it is profitable all the business over here are growing, but is it to the extent that we are expecting because we wanted to reach up to 15% of our gross revenues to come from services and revenue side of the portfolio. The kind of growth that we have seen in the last two years related to overall business of 40%-50%. We were unable to reach to that same level, but I would believe that going forward, we should be able to see steady growth of 15% in the service business within the country. That is as far as the service portfolio is concerned.

**Pritesh Chheda** But when do you think you reach 15% of revenues there?

**M. S. Unnikrishnan** If the business were to remain the way it is, we will reach very fast. We do not want it to be happening, EPC is the main issue. If we have to grow a project business at a faster pace because there is not equivalent quantum available on the service side of the project business.

**Pritesh Chheda** We did some bad debt provisioning in fiscal '12, and we had highlighted that ideally there was no set of customers in your receivables which would have gone bad. So I'm just wondering what did happen in fiscal '12 and is there a case this year or it was one-off last year?

**M. S. Unnikrishnan** Two issues, one is LD provisioning and second is LD payable. Provisioning is the norms of prudence followed by the company. So whenever it exceeds 365 days, anything which we believe should be collected. We will provide a certain percentage of that and once it crosses



beyond a level it is totally provided for that is one item. Otherwise, if you talk of bad debts. It is written-off money you're talking about.

**Gopal Mahadevan** Just to add to we are actually going as per norms. We have certain norms where our receivables goes up and irrespective to what happens to the job, job may be a little extended but everything might be fine, but we stick to our norms to make the provisions it is only conservative, once the job is completed we also write it off.

**Pritesh Chheda** Which means it is act of prudence and not one which actually has gone bad?

**M. S. Unnikrishnan** I also need to give you a feeler, the market is not as good as it seems to be may be in 2003-04-06 and may be 2009-10 also because we are also listening about the debt restructuring done by many customers so we would ensure that we do not take orders from such kind of customers because we have bid but no decision is being taken but if any of the existing customers were to get into a financial difficulties. What is the name of the game happening whenever we read in the newspapers? So I would be cautious to give an answer on that right now to say that nothing will happen because many of our larger customers were to get into some difficulty, we will have some challenge. We will keep you informed if there is anything.

**Pritesh Chheda** You initially mentioned that in Thermax Babcock JV you actually be booked a loss this quarter. What was that amount?

**M. S. Unnikrishnan** Amounts sorry, I will not be able to declare but let me tell you on account of the fact that the revenue expense, the one off trade of the company is booked in that and it is yet to be commissioned we have not commissioned the plant so far.

**Moderator** Our next question is from Devang Patel of Avandus, please go ahead.



- Devang Patel** Can you give us the share of power in the order book and revenue for the quarter?
- Gopal Mahadevan** For Thermax the order balance of power out of 4474 the order balance of power is 1074.
- Devang Patel** And in the revenue book for the quarter?
- Gopal Mahadevan** In the revenue book for the quarter for Thermax power revenue is 292 as supposed to 973, total.
- Devang Patel** The order inflows for this quarter, does it include any orders deferred from the fourth quarter or if we expect this run rate to sustain for the rest of the year. What has changed in the environment that we book nearly 50% more orders this quarter?
- M. S. Unnikrishnan** There is no specific difference which was booked and not registered I cannot see that way. This is I told you, our main run rate related to base orders are around 550-600 crores and when we get larger orders the numbers will cross 1000 so larger orders have come both in the boilers and heaters group and the captive power group. Now, am I seeing captive power orders? Because the main thing which can make a difference into the numbers for us to be touching four digits is we should have minimum one order for a captive power of some size, which we will be able to repeat, I hope I should be able to repeat for the next quarter also, I cannot predict a quarter beyond that, because we are living not even a quarter-to-quarter now, day-by-day for order booking.
- Devang Patel** The environment business has tended to grow faster than the energy business over the last few years and now that you are seeing there is more competition coming in, would we see incrementally this business is growing slower than the energy business?



**M. S. Unnikrishnan** Energy business is growing in chunks, and environment business will grow consistently it is the way I can mention. Competition is there in both not that I mean energy. We were seen as a major growth market by the entire world. Everybody is clamoring for Indian now with all the negative news about India will some of the mid-row is good for the company that would happen selfishly, I can say, but otherwise competition is going to be there. Growth in environment is steady because we have got couple of steady business over there. That is one is the chemical and water is more of a steady type partially insulated from the economics up and down.

**Moderator** Our next question is from Dhananjay Mishra of Sushil Finance, please go ahead.

**Dhananjay Mishra** My question is pertaining to the EPC order I missed on this value of this order?

**M. S. Unnikrishnan** It is USD26.5 million.

**Dhananjay Mishra** In terms of order inflow what is the percentage in terms of EPC power in this quarter?

**Gopal Mahadevan** Power order inflow for the quarter was 240 crores as against total order inflow of 1257.

**Dhananjay Mishra** And this quarter we have done about 1250 crores in terms of order inflow so can we expect at least quarter-on-quarter improvement for the next two or three quarters and this provided we get one or two EPC this small 20 to 30 MW orders going forward. Can we maintain quarter-on-quarter growth in terms of order inflow going forward?

**M. S. Unnikrishnan** What you are expecting is what we are also expecting now will it fructified we will report when we come for the next meeting. We are working on that it is not an easy task currently to predict because earlier day predictability was far superior because the people who discuss with





you for finalisation of an order there is no guarantee that they will sign the cheque and give it to you because things do change so quickly that is the reason for it. There are at least couple of enquiries on the anvil will it get into the conclusion state and will we be able to collect advance and start the work. We normally would declare it as an order only when we received the advance work starts with a noticed proceed received from the customer.

**Dhananjay Mishra** Last question about the slow-moving order, what is the percentage of slow-moving order in total backlog?

**M. S. Unnikrishnan** Nothing substantial for a change in fact, we have removed any order which would be moving at all. And if there is a slowness of movement we will also reduce our exposure to and I do not think even may be 100-150 crores worth of orders may be, there where what we expected or what we are capable of executing versus what the customer is managing it could be 100-150 crores nothing substantial.

**Dhananjay Mishra** Last in terms of debtor's position. What is the current debtor's position as of now?

**M. S. Unnikrishnan** We normally will not give specifically on the item-by-item on the working capital.

**Sanjay Mishra** Working capital as part of the percentage turnover you can give?

**Gopal Mahadevan** What we had actually mentioned what Unny had mentioned instead of giving a percentage of turnover what Unny mentioned was that on a quarter-on-quarter basis, one had seen an increase in the working capital, approximately 400 crores net working capital.

**M. S. Unnikrishnan** That is between last year Q1 and current year Q1 whereas between Q4 and Q1 of the current year there is an improvement of approximately 50 crores.



**Moderator** Our next question is from Inderjeet Bhatia of Macquarie Capital, please go ahead.

**Inderjeet Bhatia** You are said that you are ready to sacrifice or ready to play between retaining market share in and retaining the margins and 100-150 basis points is the swing that you can look at. Given the market condition are you confident enough by sacrificing 100 basis points margin you can actually grow from the current run rate in order inflows or even that is challenging?

**M. S. Unnikrishnan** If you ask me will it be practical to halve this strategy of retaining the market share by compromising a maximum of 100-150 basis points. It is a strategy that we have taken every strategy will have a play also in the fee if the size of the order is very large or it is a very important customer of mine whom I do not want to lose because I want to have a consistency, I do not want entry given to my competition. I definitely will not stick to my strategy but this is a kind of a message to the system within the company that this is the maximum you will go down to but you will still have to retain so price is not the only thing that will decide the order but at least with the regular customers, there will strictly be sharing the competitive information we have an opening available of something like a first right of refusal, these are the factors but customer kind of an order certainly if somebody were to be offering us something where the risk is very high, we will certainly not compromise that but if it is something like a regular order, which is a run of the mill order where I am making see maybe a package boiler every month we make 120 of them 2 more numbers to be picked up at the breakeven plus a margin okay get it, those kind of things work but on an average you would like to retain the market share but we will go down after this kind of a number and we are trying to make it happen.



**Inderjeet Bhatia** Another thing you have been mentioning on the call consistently is that you do not want to book orders till the time LCs have been opened and you are very strong visibility about work starting, are there any substantial size kind of orders which are where either you are L1 or orders have been done in place, but you're not confident enough to book it announced it and start work on?

**M. S. Unnikrishnan** Not at this moment.

**Moderator** Our next question is from Bhavin Vithlani of Enam Securities, please go ahead.

**Bhavin Vithlani** Two questions one is, if you can highlight what were the losses on instrumentation which was about 12 crores in fiscal '12?

**M. S. Unnikrishnan** I have explained that is this is the cost overrun in construction in multiple sites because Thermax Instrumentation is doing all the constructions work for all the EPC jobs in the company so it's the multiple hike predominantly one site I also mentioned about it.

**Bhavin Vithlani** But if I reduce the consolidated minus standalone, there is roughly about 14-15 crore of losses at the subsidiary level in the current quarter?

**M. S. Unnikrishnan** Current quarter, I explained that in length that there has been...., my opening statement was itself Bahvin on that. Very quickly to say that there is TBW joint venture the revenue expenses for the working capital for the current quarter is booked as a loss in consolidation then Zhejiang in China continues to having a negative and I also mentioned about Danstoker for the quarter had a negative but we are confident as we move ahead for the year there will be positive in the company, that is the reason.

**Bhavin Vithlani** Just clarification on the other, you said this study state business of chemicals and absorption cooling and package boilers water treatment will grow. Would that growth number being 10 to 15%?



**M. S. Unnikrishnan** Numbers can't be said, it looks like we should be able to grow at least earlier number that you mentioned.

**Bhavin Vithlani** If I see the environmental business on the segmental performance, the margins have come off quarter-on-quarter so any specific reason?

**M. S. Unnikrishnan** There are challenges in the air pollution business, I mentioned earlier about the very tough competition number one. Second is that is only business for the company which is exposed to a spot price of steel normally in all of other businesses I told you specialised field in the boiler business or a chiller business, it is a bulk buying or bulk order finalisation done by the company in the beginning of the year itself but over here every order when we are executing only I buy the standards steel which is a our old steel, ordered steel which do pick it up and there are the prices are spot prices, normally we would keep a margin of maybe Rs.1 or Rs.2 per kilogram of steel as a contingency but last year the steel prices have risen by Rs.4.5 across the year so that is insufficient to take care of it number one and this is the market where normally air pollution control is the last priority for any project and they finalise order also, all the contingencies of the project are eaten up so it comes under pressure for finalisation and if there is a weaker competition which are many in the market currently you get under stressed orders that is the reason. And we are continued to be saying that, I can't be telling anything other than that excepting for the fact that I am seeing steel prices are weakening now so maybe it should improve the margins of that business, maybe, I can't say will, maybe.

**Bhavin Vithlani** Sir, we have seen margins going up all the way from 12% to 14% now down to 10% end of this quarter, you highlighted 12.4 crores as a mark-to-market loss is that in environment or in energy segment?

**M. S. Unnikrishnan** It is a combination of both.



- Bhavin Vithlani** So this fall in margins do you believe is temporarily or structurally?
- M. S. Unnikrishnan** If a market is exuberant the way it is used to be in say between 2003 to 2007 or maybe 2009-2010 one year then capital goods industry has got a potential to make a profit of, I mean, company like us has a potential to make profit of upwards of 12%-13% even under stress the way it is retaining a double digit is the biggest challenge.
- Bhavin Vithlani** My question is more specific to the environment segment?
- M. S. Unnikrishnan** Environment segment on one item specially air pollution and part of the larger projects of industrial type in water follow the same as energy only. If you look at the chemical business and the consumable and maybe the water standards and municipal, which doesn't have a technicality equivalent to that of the industrial cycle.
- Bhavin Vithlani** So on the SPX you were earlier highlighted some bulk orders of NTPC coming and a few enquiries on how is that progressing?
- M. S. Unnikrishnan** NTPC is released one enquiry among the bulk orders, I'm talking about 11x660 is already ordered out by the time we came in that market, 800 is the one which was remained where they placed an order for the first BTG with one of the companies and against that there is an enquiry in the market right now for 800 MW in the free numbers we will be bidding for it.
- Bhavin Vithlani** Let us say in the 800 MW power plant a 1000 MW power plant what is the proportion of the our product in the SPX?
- M. S. Unnikrishnan** If you look at the air pollution control for 800 MW, even I shouldn't be revealing the number of the ways I'm sure everybody will know what price one will be quoting but the range of things is 122 maybe 155 crores is the range of prices which will prevail 155 up to that depending upon the scope. The private order sometimes they might not give you the full



order, they will buy the steel and we will supply the basic component it can be 80 to 90 crore that range that we are talking about for an average.

**Bhavin Vithlani** Last question is pertaining to the order flow, you highlighted about the order flow is the core focus area of the management and given the run rate we may even touch the FY10 levels also in that situation would you believe that the growth rates of Thermax revenues will look up in the next fiscal year and this year is kind of an aberration?

**M. S. Unnikrishnan** If we are able to improve our order booking over the last year we will have a growth, this quarter is already gone in which I have not done better than the previous year because 1440 versus 1250 it is a spillover but going forward I can see that they booked a quarter 590 I am sure I will not repeat the 590 in the current year, we have done 800 in the last quarter, I'm sure we want to do better so there is an opportunity available for us if things were to be remaining even at the same level we should be able to do better than the previous year in the order carry forward which should enable us again book this for the FY 13-14 will depend a lot more on economic situation prevailing in India and the world. I'm hopeful, if you ask me things to turn around at least for a good positive by the end of current year and early beginning next year so we should see a growth next year. We are looking forward to that.

**Bhavin Vithlani** If I add back the number you said maybe a 1000 crore is a base run rate now for the order flows going forward?

**M. S. Unnikrishnan** We are hoping it will happen, see, finds are there for us, why one is not as confident as what one were earlier is there are too many variables in the market currently and your ability to be twining all of them and then to say it is this predictability is not really corrected now as a company we would rather give you surprises of positive nature than be very exuberant and then come back and say to sorry, we have let you down.



**Bhavin Vithlani** We have seen some environment related activities increased in India where some of these cement plants were being asked to shut down due to environment pollution which you have said, are you seeing increased business opportunities on account of this?

**M. S. Unnikrishnan** No certainly not. Cement companies have not had any major enquiry released done by so though some of them are in discussion about new localities where we are expecting to expand the capacity. I have expect you would see that in the northern sector of India you would find at least two or three new capacity addition initiated in the current year. South will take at least maybe more than 18 months more so 60% capacity utilisation is a very-very.....

**Bhavin Vithlani** My question was specific to environment product the heat recovery steam generators or the environment related plant or water treatment pollution control related aspects?

**M. S. Unnikrishnan** So Bhavin, there is no major movement in that area.

**Moderator** Thank you very much. Due to time constraint that was the last question. I would now like to hand the conference over to Mr. Nirav Vasa for closing comments.

**Nirav. D. Vasa** I would like to thank the management once again for giving us an opportunity to host the conference call and I would also like to thank the participants for attending the call, I hope it was really helpful to them.

**Moderator** Thank you very much. Ladies and gentlemen on behalf of SBI Caps Securities Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect your lines.