

Q2FY12 Post Result Conference Call Transcript**Representative:**

Mr. M. S. Unnikrishnan, Managing Director – Managing Director & CEO
Mr. Gopal Mahadevan – Executive Vice President & CFO

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Operator

Ladies and gentlemen good day and welcome to the Q2 FY12 Post Results Conference Call of Thermax Limited hosted by Prabhudas Lilladher Private Limited.

As a reminder to all, participants' 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.

Operator

I would now like to hand the conference over to Mr. **Kunal Sheth** from Prabhudas Lilladher. Thank you, and over to you sir.

Kunal Sheth

Thank you. On behalf of Prabhudas Lilladher, I would like to welcome the management of Thermax on the call. The management is represented by Mr. M. S. Unnikrishnan, Managing Director and the CEO; and Mr. Gopal Mahadevan, Executive VP and CFO.

I would now request Mr. Unnikrishnan to give us some opening remarks, after that we'll open the floor for a Q&A. Over to you, sir.

M. S. Unnikrishnan, Managing Director

Thank you, Kunal, Gopal. A very warm welcome to all of you and it's a pleasure to be with all of you once a quarter because of the keenness that you show in knowing about the results of the company and the way we have been able to manage our organization through these difficult times.

For the quarter, we posted a sales of 1,287 crores, it's a 23% jump in comparison to the previous year same quarter. Our consolidated total operating income for the Group at the first half is 2,733 crores in comparison to 2,001 crores in the previous year.

As usual between energy and environment segments we have 77.7 % for energy and the environment sector is 22.3%, though when it's compared with the order booking, for a change, in the current quarter the environment segment has overtaken. Our PBT is at 148.5 crores for Thermax Limited, up from last year Q2 number of 130.9 crores. The first half PBT is at 265.4 crores in comparison to the last year's first half at 229.8 crores. The order intake for the quarter is at 1,189 crores, it is 10% lower than in the previous year same quarter 1,326 crores and marginally lower last quarter. We did not have any major EPC orders concluded in the current quarter.

So, if I were to keep the EPC portion away, every business of the company has booked more orders in the current quarter in comparison to the previous year same quarter. If only an EPC order had come, maybe it would have crossed the expectations of all of us also.

At this moment of time, the order backlog for Thermax Limited is 5,770 crores in comparison to 6,602 crores in the previous year for September. If we were to compare this with the beginning of the year, we are in a marginally better position as we opened the 1st of April with whatever order carry forward and we've improved it. But in comparison to the previous year, we are certainly lower.

At the Group level our carry forward orders are standing at 6,531 crores as against 7,276 crores for the same period, same time last year. The main sectors contributing to the order bookings for the current quarter- refinery and petrochemical- have taken number one position in the current quarter at almost 30%, ferrous metals has come down to 12%, cement is at very low of 6%, power at 8%, textile is at 7%, food processing, mining and municipal sewage project and chemicals are almost at 4% each.

So it's an indicator of how things will happen in the market, power has come down, cement has come down. These are the sectors which have possibly given us a lower order booking in comparison to the previous year.

In the press release we have also declared our technological tie-up with two companies. One is Tecnochem, and second, Dalton. Both are European companies, leaders in their own field and these are for building material chemicals. I'll just explain to you what this is all about.

Imagine you are constructing a very tall building, say 100 storey building the way which Lodha is going to construct in Bombay or maybe when you construct an airport which doesn't have any columns coming in between at all or if you're going to construct a stadium or the modern IT buildings which doesn't have to have columns in between or a bridge to be constructed across a river or a sea.

It is not the cement and steel which brings in the strength. Fundamentally, it is the chemical. Those building material chemicals, we do believe, have got a major play in the growth of the country, nation building exercise.

So it's a performance chemical. And we've a technology transfer agreement signed and the technology is under transfer at this point of time. We'll bring this to India in the Q4 of current year as imported and then distributed in India. And by Q2 next year we would have our manufacturing facility up and going. And this would be done as a product in addition to our chemical business, which currently is purely the water treatment chemicals and the performance enhancement chemicals.

Also happy to inform you that 18 months back I'd declared technology transfer from Lambion for silent combustion of biomass. Very happy to say that we absorbed the technology 100%, indigenized all the components and the first boiler based on this technology is already under construction. We have received six more orders which normally are in the range of 10 tonnes to may be 30 - 40 tonnes steam capacity, order values ranging between 2 crores to 10 crores.

Our Shive village solar hybrid project is advancing at a faster pace; we should be commissioning it by the 14th of November. This project which we announced one year back, it's also getting commissioned.

In the current quarter, Thermax has also created the first ever triple effect absorption chiller of the world and it was unveiled and commissioned at the National Solar Centre. It works on solar energy. .

So that's about all. . I would now leave it to all of you to ask any questions. Thank you.

Operator

Thank you sir. Ladies and gentlemen we will now begin the question-and-answer session.

The first question is from Aditya B. from CLSA. Please go ahead.

Analyst

Hello, good morning sir.

M. S. Unnikrishnan, Managing Director

Yes Aditya.

Analyst

Sir just wanted to understand if you are seeing any pricing pressure in the industry, especially as order inflows have started to slow down a bit?

M. S. Unnikrishnan, Managing Director

Certainly, especially for the larger projects. When I say larger it is 25-30-40 crore sized project and certainly that is so for the triple digit kind of project. There is substantial pressure prevailing in the market. The weaker of the competition, normally get very low prices.

We've not compelled ourselves to take orders at very low prices. But there is the price pressure. And unfortunately, Aditya, at the time when we should be expecting the commodity prices to be flattening, though it just happened for copper and maybe aluminum partially, steel is going up.

Of course you know the reason for it, all the iron ore mines are locked out by the Supreme Court which is the right thing they've done. But it creates an artificial scarcity in the country.

Analyst

Okay. And for the smaller products business which is the major chunk of your business. You're still not seeing any significant pricing pressure and you continue to command a pricing premium over your smaller peers?

M. S. Unnikrishnan, Managing Director

Not that there is not a pricing pressure. It is not as ferocious as you find in larger projects. And the market preference is with us. In any case you are getting your price premium in the market, that continues, but there is a market expectation-- since there is retardation in economy expected, you guys have to also pull down the prices. This is expected. But it's not impacted so far.

Analyst

Okay. And sir, are you seeing execution cycle lengthening for some of your longer duration projects?

M. S. Unnikrishnan, Managing Director

Not anything very, very specific though collections have become a little more tedious in comparison to what was earlier where cheques used to come by post. Now you've got to send people and many times you may have to ensure people sit over there till the cheques are collected.

There I will not put it on any other reason but high interest rates. Those who have got money on the balance sheet and who owe me money will prefer putting it in the fixed deposit for one more month. There are Gopal Mahadevans sitting in such companies also, so they will earn a little more money on the treasury.

But otherwise we don't have off balance sheet projects of substantial nature because most of our projects are ongoing. Other than maybe one or two projects, everything is on balance sheet projects. We are able to get money. But your question is if there are larger projects being currently discussed for finalisation or virtually we know the order is mine, we have not started giving advances for such projects.

Though none of them are there on record, what we're recording as carry forward or order books and none of those orders are there.

Analyst

Understood sir, understood. And lastly sir what is happening on the JNNURM spending, if you could just throw a bit of light on that?

M. S. Unnikrishnan, Managing Director

We are happy to say that one project got finalised in the current quarter which is the part of the order booking from the state of Punjab. So disbursement has started, it's happening right now, but they are very tight. The proposals are evaluated in more detail than what used to happen earlier. I can see a slackening on this side.

I mean the tightness is coming down and such projects will go through in the current year. Indications of first order has already come and I have got a couple of inquiries on the buying platform right now. Discussions are going on.

Analyst

Understood. And sir what's the typical order size in this business?

M. S. Unnikrishnan, Managing Director

Can vary between 10 crores to a 40 crores, we don't bid for the 150-200 crores kind of contracts where a good part of the value will be captured for piping which we don't do.

Analyst

Right, right. Thanks a lot sir.

M. S. Unnikrishnan, Managing Director

Thank you.

Operator

Thank you. The next question is from Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Analyst

Sir you have got 30% of your orders from refinery in this quarter?

M. S. Unnikrishnan, Managing Director

Yeah.

Analyst

Can you give us some colour on who these kind of customers that you've got these orders from and what is the product that we are supplying to them?

M. S. Unnikrishnan, Managing Director

GAIL is one and there are other oil companies. Petrochemical --it's not really petrol, its oil and gas sector.

Analyst

Okay.

M. S. Unnikrishnan, Managing Director

And we've got flue gas coolers as a product and also refinery boilers – radiant boilers. .

Analyst

Okay, if domestic...

M. S. Unnikrishnan, Managing Director

There is a domain where there will be limited number of players, not everybody is prequalified to do that because they are following some APA standards and safety standards, and quality standards are subject to the prequalification. We're one of the very few prequalified to do that other than BHEL and maybe one or two other companies.

Analyst

Okay. Sir second question is on one of the reports from RBI suggest that the capacity utilisation levels in the industry has improved actually quarter-on-quarter and we are not seeing that happening in steel and cement particularly, but is there any other signals like refinery, food, beverages these kind of segments that are doing well. If it's so, how much of our kind of revenues come from these segments and will it benefiting if they come back to CapEx?

M. S. Unnikrishnan, Managing Director

100% sir. They don't contribute to double-digit size, but since we are present in same food, beverages food processing, certainly it will help us.

Analyst

But is it true that what RBI is saying is happening in these segments that capacity utilisation has reached more than 90% levels and these are closer to making some expansions in the near future?

M. S. Unnikrishnan, Managing Director

Many have already gone ahead with their plan, the food sector, the processing sector, beverages sector, there are project coming, but those are not very large ticket size for RBI to take cognizance of, because normal projects' size of this kind are double-digit. Some of them are 80 crores, 150 crores, 200 crores size where companies like us will have a share of maybe 5 to 10 crores coming from that.

Analyst

Okay.

M. S. Unnikrishnan, Managing Director

See in comparison to the steel and cement sector or the power sector where each project cost is in four digits, there is no movement at all.

Analyst

Sir, margins have actually not improved Q-o-Q basis even though 30% improvement has happened in sales. Is it to do with more EPC getting executed this quarter? And if it's so, can we see an improvement in the margin in the coming quarters?

M. S. Unnikrishnan, Managing Director

My answer for that is it is not only the EPC, which has gone up in the current quarter in comparison to previous recent quarter certainly has. Apart from that there are some orders where they could have been a margin pressure and some areas such as our air pollution control business which is largely steel oriented. .

The prices have gone by at least maybe Rs. 4 per Kg for steel, over what we would have budgeted maybe a six months back in currency. So that price pressure has also put on to a margin pressure.

Analyst

Okay sir. Sir thanks for taking my question. I'll come back if I have additional question.

Operator

Thank you. The next question is from Deepal Delivala from Citigroup. Please go ahead.

Deepal Delivala

Good morning sir.

M. S. Unnikrishnan, Managing Director

Yes Deepal.

Deepal Delivala

Sir, my question was more on margin. You mentioned that there is margin pressure, where do you see the, we always maintain that we'll do double-digit margin going forward in the larger business. How confident are you of maintaining that, I mean given the environment has come-off quite sharply, how much of that is a challenge for us and how are we confident about going about it.

M. S. Unnikrishnan, Managing Director

First is we are working towards maintaining double-digit margin and every activity is done in the company towards that, I can vouch for it. Now your question is will I be able to confirm that it will be going up. In the current circumstance, maintaining a double-digit margin is the best solution that the company can give and which I'm confident about, from the orders which we have.

Yeah, I may have one quarter which may drop. But I am not expecting that it is going to have any substantial impact for a quarter. But on a Y-O-Y basis, year-to-year, I think I should be able to give a double-digit stand and maybe little more than double-digits also. The kind of 11, 12 percentages could be for possible.

There is pressure on the margins for two counts. Number one is fresh order intake. When you go and finalise, and when the competition is very weak and they don't have orders on hand, then they may quote ridiculously low prices to cover their cost. So the customer, even though he may want to buy from me, will negotiate based on somebody else's quotation. That's reason number one.

Second, as I mentioned about steel prices- instead of weakening, it's strengthening. It's a local phenomena because iron ore is in short supply. Many southern steel companies have shutdown their manufacturing facility. Coal prices have gone up and international coke prices are no more subsidised for India.

So there is an Indian phenomena prevailing which is increasing the steel cost and I'm 80-85% steel-oriented as a company, so these are the two issues. But despite all of that lot of work has been done to ensure that we are able to retain the margins.

Deepal Delivala

Yeah. Sir the second question was more on the larger orders, especially on the supercritical side, I mean you've seen what happened with the last tender of NTPC, what's our plan going forward? I mean are we talking to private IPPs? How was a space looking there?

M. S. Unnikrishnan, Managing Director

Exactly, first of all NTPC we were not one of the most serious bidders, because the factory would have been ready only by September 2012

Deepal Delivala

Correct.

M. S. Unnikrishnan, Managing Director

And their delivery period is about to be starting from now which means I would have had to budget for some amount of imported cost which should have been also charged at 14% more.

Deepal Delivala

Correct.

M. S. Unnikrishnan, Managing Director

So that is one of the reasons. Plus NTPC tenders may not be the best examples of what should happen in the private or open segment, because with five parties participating, somebody has to commit suicide to get the order. That Thermax will never do. So that's the first answer for that.

Now we are already in touch with private companies and there are offers getting developed where there is marked preference we've seen in the market with a couple of developers for going for an EPC. So we're working with international companies and with one Indian company where we are a consortium partner to fit into their EPC.

Deepal Delivala

Okay.

M. S. Unnikrishnan, Managing Director

It's already gone. But Deepal unless otherwise a couple of issues related to power segment is sorted by the government...

Deepal Delivala

Correct.

M. S. Unnikrishnan, Managing Director

...It will take some [time](#) for the power sector to restart placement of orders.

Deepal Delivala

Okay.

M. S. Unnikrishnan, Managing Director

Yeah.

Deepal Delivala

Thank you so much sir. Thank you so much.

M. S. Unnikrishnan, Managing Director

Thank you Deepal.

Operator

Thank you. Ladies and gentlemen in order to ensure that the management is able to address questions from all the participants, please limit your questions to two per participant. The next question is from Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni

Yeah, thanks a lot for taking my question. I have two book keeping questions. The first one is regarding employee cost. On the year-on-year basis this number has actually come down slightly. And the second one is can you please tell the consequence of your other income which has actually been a bit contributor to the bottom line this quarter?

M. S. Unnikrishnan, Managing Director

Yeah. First question I would request Gopal to answer. Let him answer both of them. I will come back to you for explaining the second portion and other things. Gopal please, will you please help him?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Sure, sure. As far as the employee cost is concerned we have been actually taking steps to contain numbers and that is one part of the effect that you see. Overall the employee cost as a percentage has also been rationalised and is coming down.

And secondly, there was some change in provisioning that we needed to do. We need not provide some of the provision that we needed to do last year, due to which we have seen that the employee cost has been kept at the same level. And of course, on a year-to-date basis, you would see that the employee cost is marginally higher than what it was last year.

As far as the second question is concerned, with respect to other income that is predominantly only interest and dividend income from the investment. You know the surplus that we have nearly is 700 crores. So that is invested and that yields interest from fixed deposits as well as dividend income from mutual funds.

Pulkit Patni

Okay.

M. S. Unnikrishnan, Managing Director

I would like to augment both of them, another step also. Just to clarify we have given increments to all our employees, is a double-digit increment. So we'll also be accounting for it so, not that we have crunched on money to our employees fund.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Absolutely

M. S. Unnikrishnan, Managing Director

That's point number one. Second other income as you've seen the interest income, it is also business income. When you do a larger project, cash flows, if you manage well each project can also generate income from that, that's the way we do the costing.

So in Thermax's balance sheet, other income from the treasury part of that, not full part of that is also allocable to the operations for the business. We do pay interest to our or maybe any of my businesses, especially EPC ones and the larger project businesses when they have got additional cash generation done from a project. Gopal will put that in the treasury and the income is accorded back to the businesses. So it is not the shareholders funds alone, it is also customers fund.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Very true, very true. It's part of a business model, you are right on that.

M. S. Unnikrishnan, Managing Director

That's why we do the costing.

Pulkit Patni

Absolutely. Okay, Just one more thing. Can you tell me the total consolidated order inflow number as well?

M. S. Unnikrishnan, Managing Director

Gopal will you please help him?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Yeah. For the Thermax Group the total order inflow is 1,285 crores.

Pulkit Patni

Okay. Thanks a lot.

Operator

Thank you. The next question is from Nandita B. from Karma Capital Management. Please go ahead.

Nandita Agarwal Parker

Hi, this is Nandita Parker.

M. S. Unnikrishnan, Managing Director

Yes, Nandita.

Nandita Agarwal Parker

I just wanted to get your view on what do you think is the scenario that's emerging for the second half of this year in terms of industry and order inflow? And also may be shed some light on what you see happening next year? I mean are things sort of looking like they're going to shape up or do you think this is what a long sales cycle will remain or how do see that?

M. S. Unnikrishnan, Managing Director

Nandita in the first place, for the second half almost our fate is clear, because it will be based on the orders carried forward by the company.

Nandita Agarwal Parker

Right.

M. S. Unnikrishnan, Managing Director

So it is in terms of the revenue recognition possibility from the current orders. I never give a guidance, but I can tell that it will certainly make us grow as for the full year; you may not be able to see the same percentage growth for the Q3 and Q4. But all the orders on hand will get carried forward for the next year.

Now as far as order booking is concerned for the next two quarters, I'm not seeing any substantial improvement which has happened at the ground level, because there is no positive news in the country. I mean whether it is related to governance, whether it is related to interest rate, whether it is related to land reform's act, all that put together.

There is a negativity. But what I am finding today in my personal discussion with the CEOs of companies in India, everybody has faith in the Indian economy and Indian demand, which is growing at the rate of depending up on the GDP growth, whatever it could be. I mean could be between 6 to 8% let us say that.

Various commodity demands in the country are growing at least between a 5% to 12% on an average. Some of them at 12%, some of them at 6% the lowest and 7-8 on an average, there is a growth expected, Y-o-Y it is expected. Any capacity expansion that any Indian company plans for today and places an order for their main plant and utilities like boilers, heaters with companies like Thermax would take anywhere from 24 months to 36 months to certify it and one more year for it to stabilise in production for that particular factory.

So in three to four years ahead is what will be the real fruits of what they pay for the order for capital expense today. And with 7 to 8 or 10% average growth in demand, three to four years down the line for anything that you are in, demand in the country is going to be minimum 30% or more.

So those who are taking dividends are far sighted; the people who are wanting to capitalise on the Indian demand growing up. And they are not unduly worried about the bank rate, that the interest at 0.85 or 13.5%, they aren't worried about. What they do believe is banks have also become wise. There are three points allowed, levels allowed for borrower. So even if it was the peak of the interest today two years down the line if that were to come down, they will be able to reset it for the latest value.

So creating capacity has been seen by many Indian industrialists as a necessity to grow their business and to capture the ongoing demand that would happen in the future. And in their opinion, to de-link decision making from the fundamentals prevailing in the economy or maybe political situation in the country. That's my answer for that.

So I'm expecting that many of them who would have delayed the decision making will start doing it from Q4 onwards. And India alone should see a positivity by maybe Q1, Q2 next year, of the level that we were one year back.

Nandita Agarwal Parker

That's fantastic.

M. S. Unnikrishnan, Managing Director

This is my expectation.

Nandita Agarwal Parker

We say momentary as you said.

M. S. Unnikrishnan, Managing Director

This can be derailed over something. If the European collapse were to happen and Greece were to go out of the currency regime and if Spain and Italy are to follow , then the fear cycle will spread to the entire global market.

Nandita Agarwal Parker

Right.

M. S. Unnikrishnan, Managing Director

That is something which I hope we'll avoid. Otherwise things can improve in my opinion.

Nandita Agarwal Parker

Okay, great. And just second question related to this is on you've had double-digit salary increases to your employees this year, what do you think, how would you approach next year after this kind of an increase?

M. S. Unnikrishnan, Managing Director

It will be purely based on the market situation. We had been rewarding our employees quite well and I'm sure they are quite attached and aligned to the company. If the market were to remain positive, we'll continue to give but in case if there is difficulty like in 2008, we had brought down the increments to between 5 to 7%. So we have the options available, number one.

Number two is, we have a fairly well developed incentive scheme or profit share scheme, so that will depend on the profitability of the company. So let's wait.

Nandita Agarwal Parker

Right. Thank you.

Operator

Thank you. The next question is from Srinivas Rao from HDFC Mutual Fund. Please go ahead.

Srinivas Rao Ravuri

Yes, hello sir.

M. S. Unnikrishnan, Managing Director

Hi Srinivas.

Srinivas Rao Ravuri

Yeah, just continuing on the earlier question, I wanted to know on power sector right now looks gloomy. So how do you see things changing over a period of time?

M. S. Unnikrishnan, Managing Director

The power segment can pick up only when all of us do recognise that we are enjoying power at a cheaper price, 40% do not pay for power, balance 50 % also on an average paying lower than the global average.

We are all paying much more than the global average because we are pursuing the higher earning people in the country. So the average price of power has got to go up with the moment that is recognised and implemented by the government of India, many PPAs have to be regulated. And in any case future PPAs will be upward from Rs 3, Rs 3.5 unit of electricity.

Expecting that Indonesia, Australia and South Africa will subsidise the Indian consumer for power is the myth. So that has got to change in the mindset of consumers, number one. Second, we need to have the current projects taking off and once they start repaying their loans to the banks; they can take more exposure on the power sector. Otherwise that sector alone can't be taking all this chunk of money. So that is second reason in my opinion.

And third and most important is government has got to bring in the next level or reforms related to power, which will be about mine opening, go-no go, withdrawal or selective withdrawal at least from that area. And the land acquisition had to be implemented in whichever fashion it is, because in our calculation the budget cost can go up anywhere from maybe a 8% to maybe a 14% depending upon the state where they are putting up and the land value. I think that if you put it across maybe ten years spread it is nothing in for the electricity charges. Maybe another say 4-5 paise more to be paid by Indians on account of the revised land prices which is only fair for the farmer. So this might take on that, but will the government have the guts for all these corrections? With all the difficulties we are facing I don't think it is a priority for them.

Srinivas Rao Ravuri

Sir my question is I mean most specifically on the equipment side looks like we're going to see a market declining. At the same time actual capacities would be much higher in terms of players manufacturing capacity to make BTG.

M. S. Unnikrishnan, Managing Director

It is going to be prevailing for short while, certainly yes. By the time we come into the market in September next year there will be additional 3,000 megawatt capacity. BGR hasn't completed and I think they'll come later.

So the real challenge will be near 2013-14, when all of them are in place you will have more capacity, but by the time, I suppose two year period is sufficient for the country to wake up and make all the changes which I spoke about. That's why we talked about over a time when you have support. I would believe that two to three years down the line there won't be any problems. But there will be a problem for maybe 12 months to 18 months as of now.

Srinivas Rao Ravuri

Okay.

M. S. Unnikrishnan, Managing Director

Nothing will happen in the last two quarters, plus another year maybe.

Srinivas Rao Ravuri

Okay sir. And the second one is, sir, can you tell us which sectors excluding power look promising for you in terms of order booking in 12 months?

M. S. Unnikrishnan, Managing Director

I would look forward to the oil and gas sector because all of them are now wanting expansion because all the automobiles that you're producing needs petrol and diesel. So whether you like to pay for petrol prices as per the government requirement or not, end of the day we have to consume petrol. So that is one area.

Srinivas Rao Ravuri

So what is Thermax offering in that, sir?

M. S. Unnikrishnan, Managing Director

Oh, we have boilers, we've got heaters, and we've got waste heat recovery system, water treatment plants, refinery effluent treatment plant. We do supply a lot of equipment. Plus it also gives us the revenue because we supply chemicals on a continuous basis for refineries. .

Srinivas Rao Ravuri

Okay.

M. S. Unnikrishnan, Managing Director

Food sector, food processing sector there is certainly a positive movement. Then I am expecting that the moment cement capacities come on board and prices stabilise in the next maybe two to three quarters time, you will certainly see cement also start the next cycle.

Srinivas Rao Ravuri

Okay.

M. S. Unnikrishnan, Managing Director

Then basic chemical expansion is going on. There are many who are putting up expansion programs. All of them will say in public that 'look interest rates are high, I don't want to do that' but you can't forgo the growing markets.

Srinivas Rao Ravuri

Okay. So petroleum you're saying, food and chemicals?

M. S. Unnikrishnan, Managing Director

Correct. The one which will take some time will be ferrous metal, because people will wait. Because they are very large ticket investments and nobody will want to do that unless they see a turnaround.

Cement is not such a last ticket investment, most of them are in the region of maybe 800 crore to maybe 1,500 crore is the average size of investment which in my opinion many will want to do that. Once they commission their current plans and they see demand picking up, which should happen.

So you would have seen the new road contracts getting finalised in the last maybe three months and construction is catching up. See, there is a demand for construction in India, though real estate prices are no indicators for that. You go to any city, see there is construction going on, it is not like some other countries where like the way what you've seen in Dubai, maybe two years back, all the trains were idle. All Indian cities are constructing even today.

Srinivas Rao Ravuri

So sir if I'm asking you in different way, excluding this power and say ferrous metals, the activity level over the next 12 months, would it be better than what it was in the last 12 months.

M. S. Unnikrishnan, Managing Director

No, it would be catching up. Will hopefully improve after the next two quarters.

Srinivas Rao Ravuri

Okay, okay.

M. S. Unnikrishnan, Managing Director

So what negativity that we see these two quarters will start turning to positivity. That is my current take on this. I also told you that these are all Indian perspectives. I am equally aware of the international perspectives which I answered to somebody earlier. If something were to happen in the international arena in a very negative way, all this will get delayed to at least one year.

Srinivas Rao Ravuri

Okay okay. Right sir. Thank you and all the best.

Operator

Thank you. The next question is from Lokesh Garg from Kotak Securities. Please go ahead.

Lokesh Garg

Hi sir. Good morning.

M. S. Unnikrishnan, Managing Director

Hi Lokesh.

Lokesh Garg

Sir, I just wanted to ask you actually continuing in some sense earlier questions itself while this quarter's order inflow may have been driven by the sectors that you shared with us in terms of numbers. But wanted to get a more medium term sense, let's say about two years timeframe or thereabouts, what is the broad industry mix that we have got. In which case we'll get a better sense of the likely direction for the order inflows of the company?

M. S. Unnikrishnan, Managing Director

Two year down the line I would assume the lost ground to be caught back by the cement and steel also.

Lokesh Garg

Not down the line. Sir I'm actually sorry, I was referring to the mix over the last two or three years. Sir we get an average mix other than just the quarterly mix which can be quite volatile.

M. S. Unnikrishnan, Managing Director

I would give you the top five segments which contribute to the larger size booking of Thermax, it is cement, steel, power, oil and gas sector are the top four. And something very closer to that in say, if I were to talk about three, four segments which are contributing upper single-digit is you will find food and chemicals. These are the two others which come closer to that.

Lokesh Garg

Sure

M. S. Unnikrishnan, Managing Director

All of them will get cash back and I'm quite certain about that. Two year period that you spoke about. Yeah. Short-term you will find difficulties in each one of them.

Lokesh Garg

Okay. Is it fair to say that cement and steel might be roughly about 40% of the business?

M. S. Unnikrishnan, Managing Director

No, certainly not at this point, average yeah, cement plus steel put together would be around say between; yeah you are right up to 35 plus percentage.

Lokesh Garg

Sure. Sir I wanted to take your sense in quantitative terms also, is it do you seem it is possible at this point of time to retain this Rs. 1,200 to 1,300 crores of order inflows each quarter in the next two or three quarters as well?

M. S. Unnikrishnan, Managing Director

Enquiries are there Lokesh on hand, but the larger one aren't getting so easily finalised. Like last quarter we had no big orders, but yeah still like I'll say they were oil & gas sector gave me 200 crores worth of order, the balance 900 crores and odd came from varied sectors, small, small ones put together.

So chemical business, my air pollution control, the water and the normal package boiler sales, chiller sales. So to continue same way it is fair to anticipate four-digit order booking for the next quarter also.

Lokesh Garg

Sure sir. Other recent event that happened is bulk tendering in the Indian market for 9 x 800 megawatt boiler, any sort of your perspective on the same in terms of players, pricing likely scenario going forward and particularly Thermax positioning within that.

M. S. Unnikrishnan, Managing Director

I would believe that NTPC tender was a bulk tender so everybody had to put in their best to get the order. But for both turbines and for boilers, the way it has gone, was it remunerative? It remains to be seen.

For references, registrations various other reasons could be there. I don't think that is the price at which orders are going to go in the private segment or even NTPC in the future. .

And everybody is aware of the fact that nothing is going to happen even in the private sector for the next maybe two or three quarters. So they were wanting to be growth orders. For Thermax Babcock & Wilcox in any case even if the factory is getting ready by 2012, I would have had to get certain of the components directly imported from outside, to meet up with the NTPC delivery time.

So moving ahead once the capacity is up and going, well I will have to be covering my cost, that means I will have to book orders, but in any case the way we have made our business plan the first year of operation we are expecting in any case one order only, one

order of 660 or 600 is what our expectation. Second year two numbers of 660 and third year reaching up to 2,000 megawatt, that's the business plan.

And the initial year the losses are already budgeted by the company and I discussed about 850 crores of investment for it. So there is no surprise for the company, but only thing is the power sector doesn't improve for a period of may be two calendar years then all of us will have some difficulty about the investment made for some. But long-term, medium term, when I say the five plus years, I don't think there is anything that needs to be worried about the performance.

Aren't we seeing now, this October itself there is no state in the country that is not having power supply issues. at this point of time. So what the summer is going to be next year. The government will be forced to act upon that.

Lokesh Garg

Sure. Thanks a lot sir.

M. S. Unnikrishnan, Managing Director

Thank you, Lokesh.

Operator

Next question is from Pankaj Sharma from UBS. Please go ahead.

Pankaj Sharma

Good morning sir. This is Pankaj. Yeah sir, in the some of the interviews where you appeared over the last quarter you were indicating difficulties in order inflow, but if we look at the order inflow number for this quarter is quite reasonable. So are you referring to the orders which might get closed in the second half or situation has started to improve slightly?

M. S. Unnikrishnan, Managing Director

Ones which I normally speak about are those which are in EPC segment, which should be a ticket size of maybe a 200 crores, 300 crores, 500 crores kind of a size. They are still in difficulty Pankaj.

Pankaj Sharma

Okay sir.

M. S. Unnikrishnan, Managing Director

Those are the ones where people do calculate the payback, the IRR with a high level of tightness. And those projects are still not going to be happening barring one or two, in my opinion. Now the way our order booking is reasonable is on account of the fact that our other businesses had been concentrating a lot more on our smaller products, maybe medium size packages. Those have helped the company and will continue to help the company also.

So there is nothing like an expectation that we were targeting some larger orders, and if they don't come, we will not have similar order booking for the quarter going forward. I'm not making a promise, but we are aiming for a four-digit number for the next two quarters also.

Our intention is that unless there is something drastically going wrong, we should be near about that number.

Pankaj Sharma

Okay, sir. And sir like it would be of course very, very difficult to make a guess on that, but do you think that because of these EPC orders not coming in a big way there was lot more pressure in the smaller jobs, so of course you were highlighting that the pricing pressure is there and also there are smaller companies and probably not very definite companies that making lot of compromise on that.

So probably are you seeing the margin profile which is significantly different from the profile we have today in the orders which you have won recently.

M. S. Unnikrishnan, Managing Director

Not as a generic way, certainly there could be some orders picked up at lower than the average margins, but some of them will get the compensated with the better margin orders. So, on an average if you are going to take all the order, you will be almost closer to the margins that one considered. And again as we've mentioned, there is the dark cloud in case if steel prices were to be going up further, which is another possibility.

Then there could be an impact on the margin. Not very high, but see none these are going bring us down very low. I keep continue to tell that way, Thermax management always does everything possible to ensure we have within plus or minus 100 basis points; that is the way we work.

Pankaj Sharma

Got it, correct. Okay, and just last thing from my side sir, if you may allow that. On the power sector this question of course has been asked number of times, but your capacity is coming on-stream next September. So by when we should expect that you may be able to look at an order and let's say if you don't get it by let's say March or may be June. You would start getting worried in the kind of compromise others are making, you would also, probably also make that compromise and look for an order inflow in that business.

M. S. Unnikrishnan, Managing Director

We will wait for in any case the capacity to come in on swing before we take such a decision.

Pankaj Sharma

Right.

M. S. Unnikrishnan, Managing Director

Because of technology absorption, there is a lot of work for a lot of our people who are already on board, because to set up a factory and to set up the supply chain across the country for various components, all that would take time. So we will not find it immediately.

Pankaj Sharma

Okay.

M. S. Unnikrishnan, Managing Director

I don't think we will take such a decision and we do not have such a debt exposure, so there is debt on this which is a manageable debt only, nothing to unduly worry about.

Pankaj Sharma

Okay.

M. S. Unnikrishnan, Managing Director

By doing that, we will be entering the market at a lower price point but later will be very difficult. So it will be equivalent to when you enter India if you have to sell at maybe a Honda price, you will never be able to sell it at Mercedes price later.

Pankaj Sharma

Sure.

M. S. Unnikrishnan, Managing Director

You have to be, you would have a staying power in the market which we do have and we want to utilise that.

Pankaj Sharma

Sure. Sir that's very good to hear. All the best and thank you very much.

M. S. Unnikrishnan, Managing Director

Thank you, Pankaj.

Operator

Thank you sir. The next question is from Kirti Dalvi from Enam AMC. Please go ahead.

Analyst

Good morning sir.

M. S. Unnikrishnan, Managing Director

Hi Kirti.

Analyst

Yeah. A few question from side. If you could give us few data on share of our EPC and share of our product business and our revenues as well as in our order book?

M. S. Unnikrishnan, Managing Director

Gopal is the best person to help. Please do that Gopal.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Yeah. You want the order balance the share of EPC, right?

Analyst

Yes sir. And if you could give the energy environment breakup as well.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

The order balance is 5,770 crores.

Analyst

Sure.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

.Out of which, energy is 4,615 crores

Analyst

Okay.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

And environment is 1,155 crores. And the power EPC balance is 1,910 crores out of that.

Analyst

Okay. And sir for the Group?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Order balance for the Group is 6,531 crores, out of which energy is 5,370 crores.

Analyst

Okay.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

1,161 crores is environment.

Analyst

Okay. And the EPC share sir?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

See the EPC share, you could possibly add another 437 crores to the number that I told you earlier.

Analyst

Okay, And in our revenues in the current quarter sir, as you mentioned that there is a lot of EPC bookings that must have happened in the first half as well, because if I remember rightly in the first quarter as well we had a very high share of EPC?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Yeah. The range is anywhere between 28 to 30%.

Analyst

Okay, and sir, in our operating income for this quarter there is I think 44 crores in the last year same quarter and this year, it is around 17 crore. Is there any significant item which has changed in that?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

There are actually some provisions related to the jobs which we provided last year. We had made some provisions in an earlier year relating to jobs which had written back. So as per accounting norms, we need to write it back in the other operating income.

Analyst

So this year, it is not there, I mean this particular quarter?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

These things keep moving, if you notice there is some amount of movement that happens. And then there is also another chunk of foreign currency income last year, which this year, thanks to the rupee depreciation, is charged to the P&L account on the expenditure side. So, we didn't highlight that as another reason for possibly lower profitability. This is a timing difference issue, but that has also actually impacted profitability for the quarter a little bit.

Analyst

Could you give us then ForEx loss quantum, I mean how much it was?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

This is timing difference, this keeps moving. This quarter the ForEx charged to the P&L is approximately about 8 crores.

Analyst

Okay. And sir, this order book, I mean in order inflow we got a fair amount of details in term of the segment wise...

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Yeah.

Analyst

In the current order book, if you could give us the breakup among these segments like ferrous metals, textile, cement, power and sugar?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

I don't believe we share that because what we do provide as a standard practice is the energy and environment numbers, and after that we provide the power numbers. Since we have diverse businesses, there are exposures to these industry sectors from various SBUs. It's a little difficult to actually break it down further and give it.

Analyst

Thanks sir. Many of my questions have been answered. Just the last one on Danstoker. What's the contribution in the first half approximately sir, not the exact data points, and if you could give outlook on that business as well?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Okay. See, as far as the Danstoker numbers are concerned, we have just completed the first year of acquisition.

Analyst

Okay.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

And revenue for the quarter should be somewhere in the range of about 97 to 100 crores.

Analyst

In the quarter, sir.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Yeah, yeah.

Analyst

And first half?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

First half would be in the range of about 200 crores.

Analyst

Okay, okay. And sir, the outlook?

M. S. Unnikrishnan, Managing Director

In first year under Thermax, it has substantially grown. I would say better than our expectation.

Analyst

Okay.

M. S. Unnikrishnan, Managing Director

I don't expect the same range of growth in the current year because the catchment area is predominantly Europe. They drove the company up. In the current year, Germany and maybe even Scandinavian countries in which they operate are dealing with some amount of difficulty in the last two-three months. So, I wouldn't expect it to certainly be a stable operation. I don't expect that it will be growing in any larger way, maybe early double-digit is the expectation I have for the next year. I'll be happy to make it happen.

We are very happy that unlike various other exercises done by many global companies in the European Continent who are currently reeling under difficulty, we are not in a difficult scenario. We are in the green area, which is promising. What happens when the economies undergo tension and pressure? The trigger for the investment comes from the progressive area, and that is why I told about growth. Unless the European economy stabilizes, we cannot have major growth.

Analyst

Sure. So the documents, the profitability in this first half has also been maintained or must have improved compared to last year... I mean since we acquired?

M. S. Unnikrishnan, Managing Director

Overall Profitability on operations could be better, but we've introduced various norms of Thermax way of provisioning, of doing the projects. So there could be some money kept aside for that. And plus we have also invested; we are expanding some line balancing

Analyst

Okay. Sir, if you could give an order inflow data in the similar way, the energy environment for the company as well as group?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Yeah.

M. S. Unnikrishnan, Managing Director

Gopal, can give you that.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Sure. I'll do that. The order inflow for the quarter was 1,189 crores, broken into energy 845 crores and environment 344 crore.

Analyst

Okay.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

And you wanted for the group, right?

Analyst

Yes, sir.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

The order booking for the group is 1,285 crores, energy being 934 crores and environment is 351 crores.

Analyst

Fair enough, sir. Thank you very much, and wish you luck.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Thanks. Thank you very much.

Operator

Thank you. The next question is from Nirav Vasa from SBICap Securities. Please go ahead.

Nirav Vasa

Hello?

M. S. Unnikrishnan, Managing Director

Hi, Nirav.

Nirav Vasa

Yeah. Thank you very much for taking my question, sir. Sir, my question was pertaining to the Chinese operations. Can you throw some light on the outlook that you see in that for that subsidiary?

M. S. Unnikrishnan, Managing Director

Yeah. First is, they have improved their performance, both on order booking and revenue recognition for the quarter. And for the first half, the outlook is positive. China has even grown by 9.3% in the GDP in Q3. And we do see positivity for that subsidiary. I expect that if the Chinese economy continues performing the same way next financial year, we should be breaking even.

Nirav Vasa

Sir, would it be possible for you to share the revenue and the order backlog of that subsidiary?

M. S. Unnikrishnan, Managing Director

We've not been doing that since we got multiple subsidiaries right now. It therefore becomes difficult to be in the time frame that is available to complete that.

Nirav Vasa

Okay. Thank you very much, sir. My queries have been answered.

M. S. Unnikrishnan, Managing Director

Thank you. Thank you Nirav.

Operator

Next question is from Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda

Good afternoon, sir.

M. S. Unnikrishnan, Managing Director

Hi, Pritesh.

Pritesh Chheda

Hello, sir. Just a question, on the inflow side, if you could give some qualitative aspects in terms that the inflow number is more linked to the Greenfield projects demand or it is more of replacement demand?

M. S. Unnikrishnan, Managing Director

Replacement demand is very low. In the total number that would be there, it would not even be 10%. Let me say that of the 1,189 crores, there will be orders for service business for the company, operation maintenance and others. We are 9.8 to 10% on those kinds of areas. And then the replacement or retrofit and revamp as you call it, could be another say 5 to 7%, where on 80-85% is for fresh projects only in that numbers that you heard about.

Pritesh Chheda

Okay. And in the next two quarters when we are plotting or expecting a certain inflow, if you could tell us certain projects which could come up in your opinion for confirmations or finalisations? Or it would still be a product orders considered during this phase?

M. S. Unnikrishnan, Managing Director

We are even now looking at product orders more than the project orders. Because for project orders to be turned around, you're going to see a lot more of positivity in the market.

Pritesh Chheda

Okay.

M. S. Unnikrishnan, Managing Director

Which, though I am hoping for, I'm also a decision maker. We are going ahead with our investments. So I am expecting that our counterparts in other companies would be behaving like us. If that will happen, turnaround can be possible, because it's equivalent to, say, if somebody wants to have a Greenfield project any sector other than food where consumption is continuing ...even in auto or cement or steel.... Will you take a decision the next three to six months time? I doubt.

Pritesh Chheda

Okay. And lastly, I missed on the Forex charge of 8 crore, what is this number, and where it is accounted, and how is it?

M. S. Unnikrishnan, Managing Director

Gopal, would you please answer it?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Sure, sure, I'll do that. See, see the Forex charge is actually market-to-market that happens on the exports that we have taken, and the foreign currency fluctuates. And since we are predominantly an export company, what has happened is that when the rupee depreciated, then you have a charge that comes in which gets neutralised or becomes zero as soon as the realisations come in. So this is purely a timing issue, but of course the reason I just highlighted that was, it does have an impact on the current quarter's profitability. And to answer the second question, it is in other expenditure.

Pritesh Chheda

Okay. It's a part of other expenditures.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Absolutely.

Pritesh Chheda

Okay. Thank you. Could you give us the first half number, would it be similar to this 8 crore only?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Yeah. It would be somewhere similar to that.

Pritesh Chheda

Okay.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Because the predominant part has happened only in the second quarter, the rupee depreciation

Pritesh Chheda

Right.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

That happened only in the second quarter.

Pritesh Chheda

And same period last year, what would be that number. If any?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

It was a gain, It was about 15 crores of gain.

Pritesh Chheda

15 crore of gain in quarter two or H1?

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

H1.

Pritesh Chheda

H1.



Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Yeah.

Pritesh Chheda

And thank you, sir. Thank you, and all the best to you.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Thank you. Thank you.

Operator

Thank you. Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand over the conference back to the Thermax management for their final remarks.

M. S. Unnikrishnan, Managing Director

Thanks a lot everybody. And my apologies for not being able to answer the balance questions because we are also taking up Analysts call from different places for perhaps the first time. I am currently in Nagpur, and Gopal is not in his office, he is speaking from some other place.

But we would continue answering your questions. I'm sure many of you could meet us in Pune or may be at Bombay, or you could also send us emails or telephone us. I know there is a lot of anxiety in the minds of all of you related to what's going to happen. The only thing I want to conclude is it is not as bad as what we think, yeah, but it is difficult. Well, difficult times will need difficult management, and we are confident of managing the times also.

Okay. Thanks a lot once again.

Gopal Mahadevan, Chief Financial Officer and Executive Vice President

Thank you. Thank you very much.

Operator

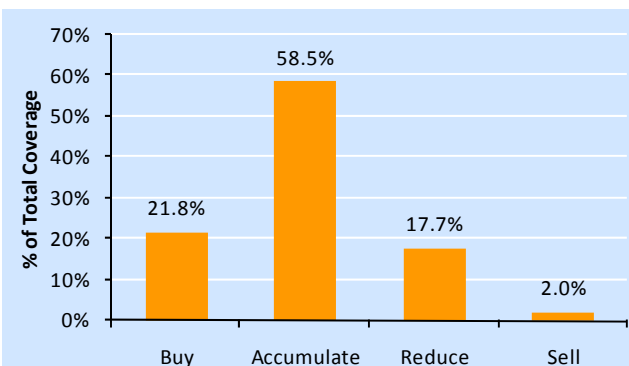
Thank you very much. On behalf of Prabhudas Lilladher Private Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines. Thank you.

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