



**THERMAX**

Sustainable solutions  
Energy & Environment

## “Thermax Limited Q4 FY15 Results Conference Call”

**May 27, 2015**



**THERMAX**  
Sustainable solutions  
Energy & Environment



**MANAGEMENT:**     **MR. M.S. UNNIKRISHNAN – MANAGING DIRECTOR & CHIEF  
EXECUTIVE OFFICER, THERMAX LIMITED**  
**MR. AMITABHA MUKHOPADHYAY – EXECUTIVE VICE PRESIDENT  
AND CHIEF FINANCIAL OFFICER, THERMAX LIMITED**

**MODERATOR:**     **MR. SATYAM AGARWAL – MOTILAL OSWAL SECURITIES LIMITED**

**Moderator:** Ladies and Gentlemen, good day and welcome to Thermax Limited Q4 FY15 results conference call hosted by Motilal Oswal Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Satyam Agarwal from Motilal Oswal. Thank you and over to you sir.

**Satyam Agarwal:** Thank you Karuna. Good morning everyone. We welcome you to the conference call of Thermax FY15 results. We have with us M S Unnikrishnan – Managing Director & CEO and Amitabha Mukhopadhyay – Executive Vice President and Chief Financial Officer of Thermax.

We would first start with the opening remarks by the management and then we would have the Q&A session. Over to you sir.

**M S Unnikrishnan:** Thank you Satyam. Good morning to all of you. Thanks a lot for the keen interest you continue to be evincing on being with us and in our results sharing. Let me straight away get on with the results which are already in your hand.

For the quarter Q4, our order booking was lower by 15% at 973 on the standalone basis. At the group level the booking is 4% better at 1415 crore versus 1359 of the previous year. This has happened on account of the fact that the negative of the standalone is there are reportable large project orders either in the boiler and heater or in the power segment within the company. Though the orders for the conventional

sector, which I continue mentioning about have been at the same rate. Good news is that the intake of enquiries on the conventional areas, small ticket size has improved substantially in the last one quarter but fructification of that into concluded orders, we may have to wait for quarter two. However the inflow of enquiries for the larger projections of cement industry, steel industry, fertilizer are not anything remarkable to report at this point of time.

We have also received the first ever supercritical order for pressure part manufacturing, the core equipment manufacturing as well as the part of detailed engineering from our partners Babcock & Wilcox for a 1x160 megawatt to be installed in Vietnam by them. Approximate value of the order as of now is around 267 crore which further can go up depending upon if there is an enhanced scope which will be done from India.

More importantly, our manufacturing facility and the people who are employed over there will get exposed to manufacturing and designing supercritical boiler which would increase our confidence to be bidding at a winning level going forward for supercritical boilers in India. That's about order booking.

Order back log for Thermax Limited is substantially lower at 18% in comparison to the previous year at 4396 and at the group level we are only 7% lower at 5670 crore carried forward. Naturally, when you are carrying forward a lower quantum of order into the fresh year, unless otherwise, the book and bill orders are substantial in the current year, our ability to be delivering the same level of the results as current year will be challenging. But looking at the way the enquiries are available for short cycle orders with the company, it is a possibility but we will have to see quarter-on-quarter as to how we are able to convert those

enquiries into orders and also into revenue recognised in the coming year.

Coming to revenues for the quarter, it had been a good quarter and we had been able to accelerate our execution of the orders on hand almost touching 1500 crore for the current quarter, a 10% improvement. At the group level it is an improvement of 8% at 1681 making us clock a turnover of around 4646 on the revenue side for the company with a 10% year-over-year in comparison to the previous year. And at the group level our revenues have gone up to 5340, a 6% improvement over the previous year.

Other side on the PBT, for the quarter certainly we have notched up to 12.8%, in the recent past this has been one of the best profitability, attributable a lot to the following two factors. Number one is an operational efficiency improvement, second is also certain amount of treasury income helping us in the current quarter, put together at 192.4 crore for the PBT level for standalone and at the group level we are 164.1, this is a 9.8% on the quarterly turnover. Year level for Thermax Limited 497, it is a 22% improvement. I mean to say for the full year the operations have certainly contributed to belt tightening and cost control and an efficiency improvement within the company.

Couple of more points worth mentioning is, the cash position of the company from opening of 763 crore at the beginning of the year has improved 973, thanks to Amitabha and his team in managing the working capital, there is an improvement. Despite the toughest market condition where payments are very difficult to come by he and his team have certainly managed the balance sheet by compressing the networking capital further. And also this profit is delivered after

incurring a respectable employee cost improvement. The attrition is fairly well under control at this point of time because the economy is turning around and companies like Thermax always has a difficulty of holding on to the best talent in the country which maybe the desirable for the rest of the country also.

One more issue I need to be reporting is, we have concluded almost last phase of the exit from the Omnical in Germany. So there is a further hit taken by our team on the consolidated balance sheet on account of the guarantees which would have been given by the parent company Danstoker, all those are also accounted for. Our expectation is, incidentally the company has also put an administration, in parts many of that is also taken over or maybe bought over by other organisations. Employees are all being reemployed with somebody else, so we do not expect any man power related hit back on to the parent company, this is Danstoker going forward. And the order position in Danstoker after we giving out Omnical has started improving and I am very confident in the current year it will report profits also.

You guys have been consistently asking me a question for the past seven years as to when will we see positivity in the China subsidiary of the company. We are very happy to inform you, though marginal in number, the Chinese subsidiary of Thermax has reported a profit and the recent the acquisition, Rifax is also turned positive. That is all about my talk. Let me leave it for all of you to be asking me further clarification. Once again thanking you for being with us and part of us. Thank you.

**Moderator:** Thank you very much sir. Sir, do we open the floor for Q&A?

**M S Unnikrishnan:** Yes.

**Moderator:** Sure, thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Ruchi Vora from CLSA. Please go ahead.

**Ruchi Vora:** My first question is more on the order book for the fourth quarter and the full year if you could help us with the breaking it into energy and environment and also standalone and domestic and international.

**M S Unnikrishnan:** Amitabha, please.

**Amitabha Mukhopadhyay:** Order intake for the quarter, 776 crore energy, 197 crore environment, total 973 crore. Order balance, 3649 for energy, 747 for environment, total 4396.

**Ruchi Vora:** And for the full year sir?

**Amitabha Mukhopadhyay:** Full year, 2956 for energy, 995 for environment, total 3951. And total order balance, 3649 for energy, 747 for environment, total 4396 that is also the same. Is that okay, both the numbers are for standalone entity.

**Ruchi Vora:** Yes, thank you so much. And just as a follow-on on the order book, just wanted to get some sense, you did mention that there is an improved level of enquiry for the smaller ticket size orders, so just wanted some color from you. Are there any other green shoots in the international and the domestic market and if you could just give brief on how that will shape up over the next few quarters?

**M S Unnikrishnan:** In the domestic market we continue to see an increased activity in the FMCG sector, food processing sector and the brewery sector. The light

engineering sector is one more addition in the recent past that I can talk about. Selectively, the textile sector more in terms of water and wastewater related, may not be the capacity addition we are seeing that. We have seen some amount of moment also in the paper sector in the current year. In the tire sector we have seen enquiries coming to us, but those are limited numbers, there are 100 players but whosoever are available there are enquiries coming in from them. Those conclusions have not happened so far, may happen going forward, of course and alcohol and breweries I mentioned about are there.

There had been a lull in the Southeast Asian market for a quarter but with our specific project on internationalisation and our investment in Indonesia, we have got a lot more of force on the ground. So we have increased enquiry from there, now is it attributable to the economic improvement of the country or is it on account of our own increased activity, I will not want to pass a judgment on that. Whereas India and Middle East have gone to a slumber, far beyond our expectation for the fresh project announcements have come down, two counts for it. We cannot blame the oil price for it because Saudi's increased involvement in the anti-terror activity and their geopolitical movement in that area is going to bring it down. Africa, I have not seen any remarkable reduction in enquiry though currency devaluation of a substantial nature in the last two quarters made all of us believe that it is going to come down. But they do not seem to be getting worried about that because investors over there are not domestic in nature, a lot more of the money for investments is coming either from European continent or the ones which are sovereign to sovereign supported. So all that is very active, there is nothing inactive over there.

One other information I can pass on it, I do not think there is anything further expected negative from the European continent. Last year, Thermax had a difficulty because we had closed down our one operation and otherwise also European continent was under pressure. But we can see for area of activity that we are in, the Ukraine crisis seems to have rolled over and Greek crises seems to be already written off or maybe already taken into consideration by people because the enquiry pipeline which is very dry for Danstoker group in the last year, we are seeing green shoots over there. Certainly there is movement I can see in terms of activity improvement in European continent that is the overall take on the international.

So what we are looking forward is the short cycle order conclusion in the country because now the Government of India is going to be more execution oriented than oratory orientation. So I would believe that there should be an improvement in execution and order conclusion should start picking up in the first half for medium size small projects. In the second half, I think we should see enquiry improvements for the larger projects. That is our expectation.

**Ruchi Vora:** Thank you sir. That is very helpful. And I have a last question on your subsidiaries, just to get some color on how the profitability would shape up for TBW and you mentioned the Chinese subsidiary has also been profitable and Danstoker. So if you could give us some color on how that would shape up.

**M S Unnikrishnan:** Normally, we avoid forward-looking statements but let me clarify to you, last year TBW has opened the year with hardly any order on hand. Current, we have opened the year with fairly decent enough and this will keep something going on. So there will be income, income will



certainly generate margin that should offset part of the losses, so we expect the losses to come down in the next year. By what number, let us see as we move forward, that's point number one.

Zhejiang, the Chinese subsidiary of ours, carry forward orders into the current year is marginally better than the previous year and Chinese outlook for the economy is negative but for our company can be positive. So we would expect the current year for us to be profitable in China. And Danstoker group after Omnical write-offs in the current year should be positive, so we will turn positive in the current year. My expectation is that the reduction in losses in TBWs and a positivity to be prevailing in all the operating subsidiaries for the company. I may have a loss in the quarter but on a yearly basis you will keep asking me quarter-over-quarter. So, I would not be able to deliver in smaller entities but yearly basis should be better.

**Moderator:** Thank you. We move on to the next question that is from the line of Aditya Bhartiya from Investec. Please go ahead.

**Aditya Bhartiya:** Sir you mentioned in the BSE release that there has been no noticeable improvement in the core sectors of the economy, which sectors were you referring to and by when do you see these sectors picking up?

**M S Unnikrishnan:** Yes. Most important ones are the infrastructure oriented which were not directly beneficial to me but indirectly. The road sector, the road construction, not the ordering, how many kilometers per day are roads built by the country, how many dwellings are built by the country, how many bridges and dams are built by the country or the infrastructure which are normally government oriented. And a lot of government oriented building also were constructed through PWD, CPWD that is

the area which I mentioned about that there is no improvement in that, on the contrary there had been a lower allocation for most of this in the last budget and even what was budgeted was not spent to my reckoning because government is yet to be releasing some of the data. That is point number one.

Now you may ask how does it make a difference, you are not Larsen & Toubro in construction to do that. Well, when more cement gets consumed, cement companies will have better capacity utilisation and similarly automatically steel will also get consumed. So those are indirect benefits for the company.

Next one is steel sector and cement sector, neither major projects cleared, nor do we have any conclusion of orders. You may have some isolated ones, some company we want to go for waste heat recovery from the cement plant to increase this overall efficiency, a small company doing that such kind of things are happening but nothing in terms of conclusion for newer capacity. So the discussions are there but nothing on the paper.

And composite steel, though announcements are there, SAIL is going to expand, quotations are given but I don't think a tender has come, quotation is just an intention but tender is something where a real purchase would happen. So there is no composite steel, barring one company, JSW Steel where they seem to be going ahead with a 5 million ton per annum expansion. Well, these are on the paper right now; we will have to wait and watch and see how it will convert Indian ordering for the components.

Then comes fertilizer, there are five of them which were on the anvil for the past 2.5 years with the previous government and the current government where we are importing urea, paying foreign currency where you can domestically manufacture it but certainly we are helping the government in foreign exchange savings which I do not know for some invalid reason has not gone through. So that is another sector which I speak about as a core sector movement.

Power saw one of the worse of the years last year in terms of power equipment ordering barring few of them which went on nomination basis and one or two tenders it has come down further. However that is an area where, I do not know Greenshoot is a very wrong word because all of you understand it differently, so let me tell that one difficulty that we had in the previous years of power equipment being ordered as BTG and maybe EPC. We are seeing at least couple of enquiries on the anvil from NTPC and maybe with couple of other central government organisations or state electricity boards where it maybe only for boiler island and expanded island, which will make us participate into those and our ability to compete will be the only question against the depressed market pricing levels. If we are able to reach up to a decent pricing level we should be able to at least bag some orders or an order in the current year.

So when I said about that overall no recovery visible and not going to be visible for some time to happen, these were the industries which I aimed at.

**Aditya Bhartiya:** And sir you briefly touched upon the power industry saying that there are some enquiries from NTPCs and SEBs, so from what we had understood these were mainly EPC orders with you were mentioning

that there could be some BTG orders separately as well. So any idea that you can give which are these orders which could get placed?

**M S Unnikrishnan:** See, there are two of them for boiler alone, the first one is for NTPC Katwa for 12x660 for boiler whereas Neyveli Lignite Corporation is going to be coming for Ghatampur projects for 3x660 megawatt. All these have a little more scope than the conventional boiler and maybe require to do some civil work, but let's not get into detail for that. And BTG there are couple of them, NTPC after this two also there are three more enquiries which are in the pipeline which I should not be naming them unless NTPC announces that. But we are aware of the fact that boiler alone, boiler island alone there are enquiries which are under preparation which will be in the market progressively in the current year, decent enough sizes which we should get prepared for.

**Aditya Bhartiya:** Okay. And sir in Thermax's order backlog, are there any slow moving orders, are you seeing the proportion of slow moving orders coming down or going up, any idea you can give on that?

**M S Unnikrishnan:** Thankfully we have cleaned up the order book, Amitabha does it every month or maybe quarter. So orders that you say they are normal moving orders only. Now among those orders, is there a slower movement? Nobody seems to be in a hurry in India that much I can tell you. The way I would look at the project execution in the country is on the base of customers paying you. We are able to collect money from the market is an indication people are serious about execution.

**Moderator:** Thank you. Our next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

**Sandeep Tulsian:** Sir my first question is a book keeping question, if could give breakup of the inflows and backlog in between domestic and international for the quarter and the full year?

**M S Unnikrishnan:** Yes, Amitabha is giving you.

**Amitabha Mukhopadhyay:** Inflows for the quarter, out of total order booking for 973 crores the domestic is 681 crores and export is 292 crores. For the full year, out of total order intake of 4645, 3553 is domestic.

**M S Unnikrishnan:** Order book is what they asked.

**Amitabha Mukhopadhyay:** Order book, okay.

**M S Unnikrishnan:** Just the numeric later, give it to him in one.

**Amitabha Mukhopadhyay:** 2271 is domestic, 1680 export, total 3951.

**Sandeep Tulsian:** Got it. And for the backlog sir?

**Amitabha Mukhopadhyay:** For the backlog 2799 domestic, 1597 exports, total 4396.

**Sandeep Tulsian:** Got it. Sir my second question is on the environment segment, after a lot of quarters where we had seen the revenue was more or less in that 50 crores kind of number, we have seen sort of minor improvement in this particular quarter. If you could elaborate more on which particular sub-segment is it coming from and what would be the sustainable quarterly run rate going forward for this segment?

**M S Unnikrishnan:** Environment segment has got water waste solutions, air and the chemical business of the company. We have had difficulty in the water which I had mentioned last year that will come out of in the current year and I need to thank my team that they are almost over there. So

forcibly we were not participating and I also mentioned that we are not into the municipal segment anymore, so that is where the retardation has happened. So we have been able to cover the ground partially in the product segment in the commercial and the industrial area. But industrial area recovery will also follow the capital good side, so that will take longer time. But the other one, the standard product is compounded and I would certainly anticipate growth going forward. Then comes the air pollution control, we have been able to do far better than the previous year in terms of fresh order intake. Now question is will it continue, what is the sustainability in the coming years, it is going to be sustainable because the Government of India is certainly clear about the fact that pollution standards have to improve further and that is already being at least selectively in certain industries, I won't name them. One or two industries where the new norms have already been declared by the government. Enforcement of a central ruling will depend a lot more on the state and local agencies. So I would expect them to improve in the coming year. Chemical business should naturally be growing in the current year. So you should see positive numbers improvement in the environment segment of the order intake and top line, not every month or every quarter, I am talking about overall for the year. And bottom-line is already improved in comparison of the previous year and we should continue to see that improvement prevailing for the year also.

Let me give you a ratio, last year of the order intake of the group for the full year of 6480, 4672 came from India and only 1808 from outside India. In the current year, though it is lower by 18% at 5293, the domestic is only 2388 and the international is 2905. So for the full year of Thermax Group we are more international than domestic. Our

survival, a lot depends upon the globe than India. When India performs than you know globe performance is not going to come down, we can perform better.

**Sandeep Tulsian:** Alright. So the mix is meaningfully changed now in favor of exports?

**M S Unnikrishnan:** Yes.

**Moderator:** Thank you. Our next question is from the line of Amit Sinha from Macquarie. Please go ahead.

**Inder:** Good morning gentlemen, this is Inder here from Macquarie, thanks for the opportunity. My question is again on the power sector, you said there are some enquiry but would you want to kind of put a ballpark number as to what could be the overall size of opportunity in India in FY16 in terms of realistic orders which can get placed this year compared to say around 7, 8 gigawatts which has been the run rate for last two years?

**M S Unnikrishnan:** The enquiries are going to be there from credible players this time, NTPC has got already five more projects because after that 9x800 and 11x660, which most of it is lifted up and Tanda 2x660 there are five projects at various stages of tenders to be coming out from them. Around 8000 megawatt will be ordered out by NTPC in the next 12 to 18 months. There is also Neyveli Lignite Corporation where they have already allocated mine in Uttar Pradesh and it is not a part of the coal scam in any case, so that is around 2000 megawatt. You got state electricity boards, I am not naming any one of them, put together at least maybe 4000 megawatt. So you are talking about approximately 12000 to 14000 megawatt going to be done in a year or a two. I have not counted any private companies in India because I am not certain of

any of them have the muscle power right now to place an order and pay in advance.

**Inder:** Okay. And does this number include possibility that some of these orders get on a nominated basis and not come into market?

**M S Unnikrishnan:** Likelihood for one state but not for others because beyond a level nomination of a public limited company where it is not the right thing to do because they themselves know that the nomination base means that they are paying more and they do not have too much of control over time frame of that also. Nomination works out when the others are busy, now everybody is free.

**Inder:** Okay. My second question is, if you look at some of the bids which happened in the last couple of years, where do you think the biggest problem for Thermax has been to kind of emerge as a credible challenger to get some of these orders? Is it just having an EPC structure into these orders has been a big question mark or the competition continues to be even more desperate than we are for orders?

**M S Unnikrishnan:** Both are true. It was true more in terms, see all of us expected India will go the boiler way or a BTG way at the best, however bankers insisted upon newer developers to go for EPC because of the lack of capability of the states. Now as many of the supercritical plants are commissioned in India by virtually everybody, India has understood supercritical is another version of a boiler and it is not that out of the moon you are importing it, it is domestically makeable. So now it is coming down to BTG and the boiler level, it is my understanding. It is what we had been talking about earlier. I mean in India anything can



change, but at least the way I am seeing the movement is they are coming to normal level. That is one of the thing which could have hurt us in the recent past because we had to be having a three legged race with somebody for BTG and maybe where leg is not involved at all for EPC, where it is to be carried by somebody on their shoulder. So that possibly is improving right now with a single boiler coming in. So next thing is our challenge of being competitive. When you execute orders your ability to bring the cost down improves, aspiration of others are playing a major role visible from the balance sheet of the respective companies. However, Thermax is not a desperate company, we will never be desperate but we are going to be strategic in our thinking in terms of we need to make a market entry. How we are going to make a market entry? Only when there is a market you can enter, otherwise you are entering a field which does not have a game going on. So the game is going to start and we will have to play the game. I mean we will be prudent in various factors but we will also be strategic in our thinking as we are going to be entering that much at least I can reveal.

**Inder:** Just a follow-up on that, especially for NTPC, now NTPC is one of the companies with proven execution capabilities, what is the thinking when they go from earlier from B2G to EPC and now likely to go back into even a boiler and turbine separately and then the other parts separately. So what is the thinking according to you say at a company like NTPC level?

**M S Unnikrishnan:** I will not want to gauge it or infer anything excepting for facts and data to be put on table, while they bought boiler separately, turbine separately and BOP separately for years together, they went for an EPC in one or two cases, BTG in one or two cases. The enquiry which is coming out of them right now is for boilers. Now all this can change.

Tomorrow if there is a banker who is telling that I will give you at a low rate of interest on the debt side but I will want to have a good EPC company to do that, then only I feel secured about that depends upon what will be the decision making of and whosoever is going to sign on the dotted line. But the way it is perceived as India is progressively going to move into boiler, another progressively NTPC seems to be coming back, others also should be coming back.

**Moderator:** Thank you. Our next question is from the line of Venkatesh Balasubramaniam from Citi Research. Please go ahead.

**Venkatesh B:** I was just checking up this consolidated order inflow for the year is 5293 crores, am I correct?

**M S Unnikrishnan:** Correct. I think consolidated 5293 crores is a right number, you are right.

**Venkatesh B:** Okay sir. Now I was wondering what is there in the other income, the standalone numbers, why do you have such a large number of 63 crores, is there some exceptional item in that?

**M S Unnikrishnan:** No, it is a treasury income and also interest earned, that's only, there is no one-time investment which is going to be of a different nature, there is nothing one-time.

**Venkatesh B:** Okay sir. And what was the loss at the Thermax Babcock & Wilcox level in the current year?

**Amitabha Mukhopadhyay:** The loss for the year for the joint venture is 125 crores.

**Venkatesh B:** Okay sir. Sir finally, I was just wondering that it is a broader question, when will you start giving consolidated numbers details on a quarterly

basis? Details in terms of cost and line by line instead of just giving it as a footnote, when will we start seeing that happening from Thermax because almost all your peers have started giving consolidated numbers, the standalone numbers does not give the entire picture and we do not get a flavor of the numbers, just this total income, PBT and PAT. So when will you start doing that?

**M S Unnikrishnan:** Okay. I am sure Amitabha will answer, but let me clarify to you. Our subsidiaries and others were insignificant in comparison of the main company. As significance of them improve there is a point in we giving it, otherwise I have been reading many balance sheets where the difference between the standalone and consolidated is maybe less than 10%, not material. So Amitabha is working on that, when are you going to give it you can tell them also.

**Amitabha Mukhopadhyay:** Okay. We should also understand that the accounting standards are going to change from next year as the IND AS that is the India version of IFRS make entry. So we also have to move towards that because that is based on consolidated accounts. But at the same time let me also mention that once we move to the new accounting standards the joint ventures will of course come as a single line, so to that extent there will be a different standard, we will have to move towards the way the world follows.

**Venkatesh B:** Okay. Sir the question was from the perspective that for example when you win an EPC order, only the manufacturing part gets done by the standalone. Some amount of value capture of that order happens in the subsidiary so we really do not get to understand the proper economics of the business by just looking at the standalone that is the reason why I was insisting on why you are not sharing the consolidated numbers.

**M S Unnikrishnan:** We will be sharing it as we mentioned about.

**Moderator:** Thank you. Our next question is from the line of Renu Baid from B&K Securities. Please go ahead.

**Renu Baid:** Sir just two questions from my side, one, we understand that inflows were weak and relatively order book also is lower this year and in one of the recent media interviews you had quoted that FY16 probably at consol level you will be looking at flat sales, so what is your outlook, next year can we target some growth or probably growth would be challenging on the top line side?

**M S Unnikrishnan:** See, words cannot encompass that when you are opening the year with a lower order carry forward, naturally one may look forward to a lower top line. However, in the carry forward orders of last year versus current year, revenue recognition ability is little different. Last year some large orders had to be executed beyond a year also, whereas what has carried forward currently, there is nothing substantial to be executed after the current year. So that one number to number comparison may not be the reality, there is something beyond the numbers also. That is point number one. And at the consol level since you asked about, TBW has got order of little better nature, I mean they hardly had anything last year but current year they have got some orders. I would say we have an opportunity for doing better at consol level, at Thermax level it depends a lot more on our short cycle, product, services, and small projects orders and how it's going to pan out in the first three quarters. I have an ability to revenue recognise what I receive in Q3 also in Q4, whatever I can do I can revenue recognize in Q4 with the huge manufacturing capability that we have got. So I will not want to give a guidance equivalent of that, I

mentioned outset of that FY16 is going to be challenging for everybody including we also.

**Renu Baid:** Right. And sir TBW, will it be possible for you to share approximate how does the order book look like in number terms?

**M S Unnikrishnan:** TBW is I think they will give you, order book is around 600 crores I think.

**Amitabha Mukhopadhyay:** 629 crores is the order balance.

**M S Unnikrishnan:** 629 Renu.

**Renu Baid:** Sure. And this should be approximately 2.5 years execution timeframe?

**M S Unnikrishnan:** No, no not such long run. It is only because we are not doing the construction portion. Engineering it will get over quickly and manufacturing there afterwards which also we have such huge capacity.

**Renu Baid:** Right. And sir just another question from an understanding perspective, we understand NTPC this year would be floating orders or tenders for four units of 1000 megawatt range supercritical, so how do we stand along with the Babcock & Wilcox JV for this size and this range of supercritical units?

**M S Unnikrishnan:** See the ones which they have already come with we will not be participating, but the ones which UMPP mentioned by them, which they may be awarded on a nomination basis, we may be participating. But current one which is for some 4x1000 megawatts that we will not be participating.

**Renu Baid:** Okay. But would it be because of certain technical specification or qualification?

**M S Unnikrishnan:** We are equally qualified, but it is tender which came out at a time when we were on some other one, that's right. The future ones, certainly we will be participating.

**Moderator:** Thank you. Our next question is from the line of Kunal Seth from Prabhudas Lilladher. Please go ahead.

**Kunal Seth:** Sir just wanted to check in Omnical, so have we taken any further provisions apart from what we have taken in Q2?

**M S Unnikrishnan:** Certainly, Amitabha will you please answer that question.

**Amitabha Mukhopadhyay:** Apart from what we had taken in Q2 there were certain subsequent guarantees were there, so about ₹1 million we have taken over and above that. So I think by now it is mostly accounted for.

**Kunal Seth:** Okay. ₹1 million over and above 26 crores that we had taken at that point in time?

**Amitabha Mukhopadhyay:** Yes.

**Moderator:** Thank you. Our next question is from the line of Bhavin Vithlani from Axis Capital. Please go ahead.

**Bhavin Vithlani:** I have two questions, pardon me for being naïve. So we have two significant investments of what I have been seeing in the last four or five years, so one is TBW and another is SPX and for the reasons well-known we have seen they have not worked the way we would have wanted. And my question is, if you can highlight what is it that the

management is doing to overcome the difficulty? So one of the things you highlighted in your conference call that you are getting the orders from your international joint venture partner and that will hold something in good stead, if you can elaborate further what is the plan of action, can export be a large proportion of TBW and simultaneously you can also highlight about SPX. And my second question is, we have seen significant increase in your cash balances, what is the plan of cash used, can we see increase in dividends, the payouts or do you have some inorganic options in your mind? These are my questions.

**M S Unnikrishnan:** First of all in TBW we have discussed at length, but let me clarify one more that one is to have a market, so Indian market was virtually absent, it is opening up and whatever was existing, earlier there were more of BTGs and EPCs which seem to be moving towards the boiler alone. So our opportunity and chances are improving. So in a market which is opening up what can make us succeed, our ability to compete against a highly depressed pricing, not costing, cost is the same for everybody, it is an opportunity which is being utilized by different people in different way. So in that our ability at a costing and pricing level and I am sure I am capable of coming to the costing level, pricing level we will have to see as to how we are going to be reaching up to that level. So if the market is putting up multiple options, say there are maybe six or seven tenders, highly unlikely that prices are going to be at a negative or a loss. So as it picks up our opportunity improves, that's point number one.

**Bhavin Vithlani:** Sorry to interrupt, sir my question was, assuming a bear case let's assume the domestic market remains as is, so what is the plan B?

**M S Unnikrishnan:** I am coming to that only, internal certainly we opened up with the first two orders, 2x350 sub-critical and one is the supercritical which has come in as a pressure part and engineering. One of the subsidiaries of B&W's is they are in waste energy specializing in that, we have also got a € million order from them which is also under execution. So internationally the orders received by the B&W group should naturally, I mean I do not want to make a claim all of them will come but they have one more JV in China but they have not given anything over there, it is going to be more of this company. Also ASME approved factory right now, so that should improve. Now what can that number be, these are chunky orders, I mean we cannot also predict how much will they be able to compete in the global market to pick it up right now. So whatever happens over there should be coming in, but I do not expect that to be making our company profitable, but that will give us experience that will make us improve our capabilities, I mean if tomorrow not for NTPC tender where you are going to be the lowest to get an order, when you are going to be negotiating with a power plant in India or a China Light & Power or a Torrent Power or maybe a Tera Power, equivalent tomorrow, certainly these all will wait that if somebody is capable of making a boiler for the rest of the world. Well that means they are capable of doing a good job. So those are the areas where we will get benefitted. So I am not looking at to this kind of quarter-over-quarter or a short-term, please that's the clarity, we have losses very high in the last year coming in with some orders it should come down, more orders will come down further. When do we reach critical mass where we can say that we have arrived, we are forming and incubating a company which is not small in nature for our size of a company and please remember, when BHEL incubated their supercritical they were already maybe 30,000 crores company. L&T



incubated maybe 850 crores investment for boiler making, exactly the size of Thermax for this one, they were a 70,000 crores company. So our capabilities are in terms of nimble foot in this, our technological capabilities related to boilers of 45 years, it will play but please remember you cannot have a success with the 800, 1000, 1200, all of them at the mastery level in the beginning with 280 people which is increasing by the day. We kept the man power fairly well under control to ensure that pre-incubation period we do not unnecessarily incur losses, we have started gearing up now, we are quite confident about 660 megawatt in every aspect including the Vietnam order, we supported BMW in costing, pricing, engineering, and now it's fructified in the execution. So now we are translated in India, so I should be a major player for 660 megawatt which is the pre-dominant portion of Indian ordering is going to be for the next two to three years' time, 800 megawatt we will start bidding now. Renu asked the question earlier about 1000 megawatt, I will bid selectively one or two of them, so that is the way it is going to be. Now, what are we going to do? We have also had a very strong dialog at the top most levels of B&W as to how as partners we are going to make it competitive for the Indian depressed pricing, so this is strategic decision which both the partners are going to sit together to understand and analyze and we have already arrived at a conclusion how we are going to take it on. So give us time for participating and winning.

**Bhavin Vithlani:** So the other two questions, one is, similarly SPX and DUs of cash.

**M S Unnikrishnan:** SPX is a very small subsidiary as a joint venture with 10-10 crores each being invested by both the parties. It has still got cash available for 2.5 years for a burn rate the way it is happening and they were totally dependent upon only the power sector for the product and power

sector nothing has happened. When TBW gets orders, naturally they will have the orders flowing into them for the pollution control equipment or for the energy improvement equipment which is part of the boiler. In the mean time we indigenized the small type air-cooled condensers surge in the country and they already have 40 crores, 45 crores or 50 crores worth of orders on hand, their breakeven point today maybe 60 crores, 70 crores only. So I would expect them to be profitable without even power sector, our entire intention is even if the power sector were to take longer time, can we turnaround this company at least by 2016-17 is what we are currently working on, it is a small investment only. Then on cash, we will never shy away from utilizing the cash for the better options, but we will have to really see the better options. In any case investments are going on, let me maybe consolidate for all of you as to what are the current investments going on in Thermax. We have already taken on land in Dahej for setting up our export-oriented chemical factory, so the land is already picked up by the company, 18 months down the line you should be having the factory up and going, that's a growing business where we want to be invest in a profitable business for the company.

We have just concluded our deal for picking up land in Indonesia which I mentioned last time has already concluded and there we are setting up our manufacturing facility. There are three blending locations in India, one in Coimbatore, one in Eastern part, and one in Northern part for our building material chemicals businesses. The Coimbatore land is already picked up by the company from the Government of Tamil Nadu, that investment going on. We will look forward to the next cycle of growth where our current facilities maybe short so we will be investing in one more manufacturing capacity.

Where? I will let you know once we have decided about it, those are already internal plans. So the business that we are in are going to grow, I mean not that we are going to continue remaining in the same space so we need to be investing in that area and the balance money is available, will be increased dividend. Are we paying good enough dividends? I think it is good enough maybe in the current year also it is also almost with our 30% of the net profits are given as dividend, balance should be retained in the growing industry. You can return money where you do not need money, we need money to grow the business also, we need to retain the money either for organic or inorganic. So all the plans which are ongoing are organic in nature, so if there is anything inorganic, not that we are not looking at it, something good happening, we will strike it.

**Bhavin Vithlani:** Okay, just a follow-up. The investments that you highlighted about chemical, the building materials and the new facility in Indonesia, how much revenue addition can we expect out of these?

**M S Unnikrishnan:** All of these will have a payback period equivalent of maybe around four to five years is what we normally take as investment worthy, five upwards. So our intention is to create a \$100 million turnover from the Southeast Asian market for the products of the company. So ask me in number of years which I mentioned we should be reaching up to that level.

Chemical business which is in size of 300 crores at this point of time should cross into two that is multiplication of business by 2020. So that is an addition which is going to happen from there. Both these are product businesses of the company where investment to turnover ratios are not as much as like an EPC where you only have a man power and

maybe office and computer, this is investment oriented but much stable businesses. The strategy if you look at it is we have cash flow coming in good from the large project business where we will be investing for competency building and the balance money will be utilized a lot more for our less volatile business which are the boilers, the chillers, the chemicals, the services. Does it answer your question Bhavin?

**Bhavin Vithlani:** Yes that answers my question.

**Moderator:** Thank you. Our next question is from the line of Sanjeev Kumar Panda from Sharekhan Ltd. Please go ahead.

**Sanjeev Kumar Panda:** Most of my questions have been answered. So sir how do we see the CAPEX, as you said this land that you are taking at Dahej and Indonesia that we were talking about, so what kind of CAPEX we should model in our numbers?

**M S Unnikrishnan:** Chemical should be 150 crores for the Dahej facility, approximately because we are also still in negotiation for the modernization of the state of the art technology portion, (+150). Indonesia in two stages it will be around \$25 million, the first part would be approximately \$16 to \$17 million and second is another \$7 to \$8 million two years down the line. The chemicals smaller facility each one of them should be costing depending up on the land price within 15 crores to 20 crores each for the blending units.

**Sanjeev Kumar Panda:** So sir total for the next two years, like what kind of numbers that we should be looking at?

**M S Unnikrishnan:** As I mentioned, about around 400 crores should be the organic growth investment because there will be many more which will be going into

many other business for line balancing as we are currently geared to do a 7000 crores let us say that as Thermax Limited internal capacities available. But if the surge in orders in some project areas are more, we may have to line balance and by certain machinery those are accounted in the kind of numbers which I indicated to you.

**Moderator:** Thank you. Our next question is from the line of Deepak Agarwal from Elara Capital. Please go ahead.

**Deepak Agarwal:** Sir couple of questions. Given that we have seen a sizable change in the mix of the order backlog that you are carrying forward for next year in favor of exports, would you like to comment on the impact of such a change on the margin profile?

**M S Unnikrishnan:** No, margin profile will remain almost the same only, you won't find substantial difference in that way.

**Deepak Agarwal:** Okay. Because even factoring in some kind of a FOREX volatility which can be seen in several of this export market?

**M S Unnikrishnan:** Thankfully FOREX is covered by us.

**Deepak Agarwal:** Okay. My next question is, what kind of the base order inflows, like you always just mentioned that India as an economy even in the worst of the times we maintain a base order inflow of about 500 crores to 700 crores depending on which quarter we paid. So what is the run rate that you have seen in the last three to six months and maybe in the current quarter do you see any change in this?

**M S Unnikrishnan:** See, for the product range of the company the run rate is 500 to 600 is what I meant, 700 is another target, all of us we will keep on increasing

the target also regularly. It panned out exactly the same way in the current year. Barring that two quarters where we had international orders coming in that remained domestic at the same level. My expectation is, it will remain the same or marginally improve for in the coming year at least from Q3 onwards, because see enquiry inflow has improved for the smaller areas, conclusions have to be visible. What you look at it is also the profits made by the sectors which I mentioned in the beginning which is policy oriented B2C companies, B-to-commercial companies where if you really see the profitability of those companies has not come down and they have got one more balance sheet cleared and after paying dividends they are going to carry forward money on the balance sheet. Now with the interest rates coming down and no FMB market available, what will they do with their money, see they were also asked questions like you guys are asking me why the ROCE is coming down. So they have to necessarily invest that money for capacity creation and consumer businesses should improve. So I am hoping in that area the ordering should also improve in the current year itself.

**Deepak Agarwal:** Okay. And my last question is on, any commentary on the renewable and especially solar because for the last one hour we did not hear anything on the renewable side which we have been quite talking in the earlier con-calls also and we expect to see some kind of sizable action from the government side, at least on the solar front. So how do you see the opportunity in FY16 and FY17?

**M S Unnikrishnan:** Solar has got two components, we were originally into solar thermal being a thermal company, in that we have got products ready, there are projects going on also but not an extent where things can improve. Because see, solar takes a back seat the moment the oil prices go down

and that's why all solar companies in the globe will currently be sweating, thankfully we are not highly invested into that technology and maybe our internal capabilities and the existing capacities, so that is going on. But the solar PV side, specifically with the Chinese influx happened in the pricing of the PV panel is almost is possible for you to be generating electricity at Rs.6.5 to Rs.7 let's say after paying for everything, Rs.7, Rs.7.25 a unit of electricity. So there is a movement in that area, we are also in to that right now. We have incidentally executed almost 4 megawatt to 5 megawatt worth of orders in last year and we have also climbed on from rooftop to a single 1 megawatt power plant we completed in 45 days from the date of order to completion and handing over. We have orders on hand and we are increasing the number of people in their group to do. But personally if you ask me, where is technology in the solar PV, no Indian company have the technology, all of us buy the panels from outside India and then the balance we do, this is pure EPC with a low margin area. So one can rise up the top line, maybe in fact even I could have increased my order booking and maybe the top line by having a lot more of solar PV orders taken which are also going to happen, there are 5 megawatt, 20 megawatt, 50 megawatt and NTPC is talking about 250 megawatt which is five plants of 50 megawatt each to be coming in. So each order will be equivalent to maybe 350 crores, if I pick one order 350 crores turnover. But that will have, my understanding the way things are happening may not be the kind of margins that all of you look forward to, nor will it add on to anything beyond a level in terms of EPC competency. So because at least when I do the power plant EPC captive power I make the boiler, I make the water treatment plant, I design those lines. Over here land is given queue, standard frames, it is something like a car park, doesn't it look like that, and many of them

parked together. So it is many modules being put. So we are also into that, that's why it is not an exciting beyond a level and there is some technology change is going to be happening which I do not expect from any Indian company in India.

**Deepak Agarwal:** Or are you looking for acquisition of a technology company in solar or say a Chinese company?

**M S Unnikrishnan:** Nothing comes less than a couple of billion dollars over there, and after that the technology obsolescence rate in that is so quick, anybody who put their fingers into that has only lost money so far. Chinese companies lose money, they extinguish money. So one cannot say in that. It is an advisable thing for any other company. See, it is a highly volatile sector, so over there the government was supporting earlier with the subsidy for solar PV which is almost withdrawn now, so it is going to be a market level pricing at this point of time, we are there in that. One, I am not trying to be ambivalent about we are there but we are not really doing anything beyond a level. We have an opportunity to rise but let's wait and watch a little more as to technology development taking halt. One thing I can vouch for it then, what we did for village earlier, for village electrification for 150 kW which I spoke about some time back, we are repeating it with an EU funding, India government does not want to fund but an EU funded 3 megawatt project at Rs.65 crores I am executing in the state of Bihar. I did not possibly talk about it earlier, the land is already procured and it is 100% funding coming from European Union, ₹ million plus and balance from the local entity, it is already owned in the orders available. We are executing a thermal based system for Indian Institute of Science for the new campus coming in Mysore and IISC is going to be coming from that front. So those are already moving. Why I did not



make a big thing about that so far is, my expectation of what should have happened in solar in India is now taking shape, it is going the PV way which maybe temporarily okay, not in the long-term.

**Moderator:** Thank you. Ladies and Gentlemen, due to time constraint that was the last question. I would now like to hand over the floor back to Mr. Satyam Agarwal for his closing comments. Over to you Mr. Agarwal.

**Satyam Agarwal:** Thank you. We thank the management of Thermax for providing us this opportunity and the participants for joining in the conference call. Sir, would you want to make any closing remarks?

**M S Unnikrishnan:** I thank you from the bottom of my heart, because I certainly do like my conversation with all of you. You ask very pointed questions which make us think a lot more otherwise we may also become once in a while complacent and dormant in thinking. We treat you as our partners and you have a stake as much as we have. Thank you once again for all the help and the right questions. Thank you. Looking forward to be with you a quarter down the line. Thank you.

**Moderator:** Thank you very much sir. Ladies and Gentlemen, on behalf of Motilal Oswal Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.