Thermax

Q3FY12 Post Result Conference Call Transcript

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Moderator – Lavina

Ladies and gentlemen. Good day and welcome to the Thermax Q3FY12 Results Conference Call hosted by Prabhudas Lilladher Private Limited. As a reminder, for the duration of this conference all participants' line are in a listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Kunal Sheth of Prabhudas Lilladher. Thank you and over to you sir.

Kunal Sheth - Prabhudas Lilladher Private Limited

Yeah, thank you Lavina. Good morning to everyone. I would like to welcome the management of Thermax on the call. The management is represented by Mr. Unnikrishnan, Managing Director and CEO, and Mr. Gopal Mahadevan, Executive VP and CFO for Thermax. I will request Mr. Unnikrishnan to give us some opening remarks and then we will open the floor for a Q&A. Over to you sir.

M S Unnikrishnan, Managing Director & CEO – Thermax Limited

Thank you, Kunal. Good morning everybody, a very warm welcome and thank you for the continued interest in Thermax. You have already gone through the published results of the organization. It may not be the best of results that we have been used to declaring quarter-over-quarter. Tougher times in the market place, even tougher time for a capital goods industry. Despite that, we have been able to marginally improve our top line. And the bottom line has certainly been hit by a decline of 6%. To give a break up of this revenue, our domestic sale stands at Rs 939 crore almost flat and export has grown by almost 18% and stands at Rs 323.9 crore. In Q3 of the current year, energy business contributed to 78.2% and environment business contributed to 21.8%. PBT for the quarter is down by 6% at Rs 138 crore. Our YTD order intake for the current year stands at Rs 3223 crore. Out of this, Rs 2754 is from domestic market and Rs 469 crore comes from the international market. At the quarter end, our aggregated order balance for Thermax Limited stands at Rs 5100 crore in comparison to last year's number of Rs 6353 crore representing a drop of approximately Rs 1250 crore. That's almost a 20% drop. During the current quarter, we did not have any large project orders concluded barring Rs 70 crore from a ferrous metallurgy company; otherwise there are the conventional smaller product orders of the company, of which a 14% has come from the power sector. Food processing industry has taken over the second place at 7%, chemical has taken 8%, drugs and pharma 6% and then multiple segments contribute to a total order intake of Rs 590 crore for the quarter. Consolidated total income for the Thermax group on the first three quarters stand at Rs 4200 crore in comparison to Rs 3372 crore on YTD level. At the group level our order balance at Q3 is Rs 5809 crore. Since there is a time limitation, I will rather the participants ask me questions as we continue further. So I will hand over back to Kunal to take on the questions.

Kunal Sheth - Prabhudas Lilladher Private Limited

Yeah, Lavina, can you please open the floor for Q&A.

Moderator –Lavina

Sure sir. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*" and"1" on their touchtone telephone. If you wish to remove yourself from the question queue, you may press "*" and"2". Participants are requested to use handset while asking a question. Anyone who has a question may press "*" and"1" at this time. Our first question is from the line of Mr. Venugopal Garre from Barclays Capital, please go ahead.

Mr. Venugopal Garre – Barclays Capital

Sir, two questions from me. Firstly, would you help us understand the status of Babcock & Wilcox JV in terms of the construction, how much money has been put in from your side as well as B&W. And second question is largely if you could also give us an update on order outlook for both LPP and MPP segment going forward.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

The TBW joint venture project construction is going as per plan and we are confident of getting the plant ready for commissioning by September 2012 as per the original promise. Now as far as cash infusion is concerned, depending upon the payments that we made to the contractor as well for the equipment ordered, we are happy to say that a good part of the imported machinery has already arrived in India.

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Limited

We don't have the number readily, the overall project cost is Rs. 824 crore and as you rightly mentioned we are going for almost 1:1 debt and the project is expected to be commissioned by September 2012.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

On the LPP side, we don't have any orders under negotiations in the current quarter. I would expect negotiations for one project to take place in the Q1 of next year. Then again we will only be able to confirm when we get the financials for the project. Otherwise there are one or two fresh enquires which have started coming out from the market in the BTG led type or may be EPC type in 150 MW. We have seen an increasing desire even among the larger power developers to look at possibilities of 2 x 150 and 2 x 300 because funding for larger ticket size projects is going to be a bit difficult in the current circumstances. So I would expect the enquiry pipeline to improve from Q1 onwards for LPP. Finalization will certainly depend upon the ability of the bankers' funding so we will have to wait and watch.

Moderator – Lavina

Our next question is from the line of Mr. Atul Tiwari from Citigroup. Please go ahead.

Mr. Atul Tiwari – Citigroup

Hello sir. I just have one very broad question. Sir, Yeah sir, in this quarter you have seen sort of a soft order inflow. So very broadly speaking the inflow was soft because either there were no orders or there were orders but probably pricing was not attractive. So you did not bid for them or you did not want to compromise on commercial condition- which was the case. I mean were there no orders or you did not bid for them.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

In the smaller size projects of the type where the orders got booked, there was price pressure but orders got finalized and we have not specifically refused any orders of smaller size. In the larger size, there were not many finalizations and may be one order we would have refused on account of the price level which was just not acceptable. Otherwise there were no order finalizations. So I would say, for Q3 it is more of no finalization as a first reason, and terms and prices not acceptable may be merely 10 to 15% of that.

Mr. Atul Tiwari – Citigroup

Okay sir, just following on that question. If say the current slowdown continues for two three more quarters and we have a further rundown in the order book and we know that you always go for profitability, will that policy continue or would you probably compromise a little bit on your margins and commercial terms and try to take orders. So what is the thought process in that direction?

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

We have got fixed expenses and a fairly large establishment to be taken care of in terms of multiple factories and our suppliers who also have created capacity for us. If the market were to continue to decline or remain at the same pace for the next two quarters, we will have to take the decision to conclude orders at lower margins because fixed charges are the first priority. Fixed charges for companies like Thermax is not interest repayment. It is more in terms of the establishment of people, of process and supply chain all put together. But we will not compromise on the commercial terms.

Moderator –Lavina

Our next question is from the line of Aditya Bhatia from CLSA. Please go ahead.

Mr. Aditya Bhatia –CLSA

Hello, good morning sir. Just wanted to understand if you are seeing any signs of execution slowing; in a sense, are there any customers who are asking you to defer delivery?

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Not in the larger project so far- thankfully, I should say. We have seen a flat execution in Rs 150 odd crore orders. Some of them are picking up in the current quarter again. Unlike in the 2008 crisis where orders were getting stuck or cancelled, we don't have such kind of movement.

Mr. Aditya Bhatia – CLSA

Okay. And lastly sir, if you could share some of your larger orders and the kind of revenues that you might have booked on large orders corollary

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Let me give you update, for Bajaj Hindustan, we have already commissioned one location and 2x50 MW is already commissioned for generating power. The second one is on the verge of commissioning. So by March the Bajaj Hindustan order revenue would have been recognized. We will be through with execution of the SAIL order by the end of March but from their side there will be some delay as they are getting ready their gas furnace ready. So the last phase or hook up will get delayed to next year. Our billing for Meenakshi will be completed by March. It will be heading for commissioning by June 2012. Then OMPL is progressing with no problems from either side. . Then current year's first quarter declared two orders. First was from Grasim Group for Rs400 crore, 3x 30 MW, progressing well but majority of billing will happen next year. In the same quarter we also had a BTG order from Visakhapatnam steel plant. It is at the engineering stage. It's a fairly long delivery project.

Mr. Aditya Bhatia – CLSA

How long could that be sir, three years or more?

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

No, certainly a good part of revenue will be recognised next year; it will be completed by middle of FY14. It is aligned with their commissioning phases, that's why. My delivery could have been much shorter but I have to go along with their project execution cycle.

Moderator – Lavina

Our next question is from the line of Kirti Dalvi from Enam AMC. Please go ahead.

Kirti Dalvi – Enam AMC

Good morning sir, few questions from my side. First, if you could give us your take on the current ground reality. I mean what it was say a couple of quarters back, what you are saying now in your respective segment? Can you elaborate on competitive intensity, pricing environment or margin outlook? And second question is on the order book and order inflow break up if you could give. That's all.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd.

Ground reality is if I were to compare between the beginning of the current year that's April May June quarter versus October November December, it has substantially deteriorated. None of us expected things to come to such a stage where there wouldn't be a single finalization in some of the largest sectors. As I mentioned, nothing substantially happened in the entire last quarter in the power, steel, cement and oil-gas sectors. But all of us were expecting that by end of September things could change**.** Despite this feeling many of the negative sentiments prevailing in the market and uncertainty about the European crisis are forcing many of my customers to not conclude large sized projects. They are all continuing with lower projects of brown field expansion or smaller projects where the entire budget expense could be limited to Rs. 100-150 crore that they can manage from their own balance sheet. So that is the scenario. I have seen in one month of January, some amount of reversal happening in some sectors. If it is going to be generic, let's wait and watch. My personal anticipation is that consumption is going to pick up in the country so the auto sector has got to do well. Same with the food sector; durables have to do equally well. So when you see the consumption oriented sectors getting active for two consecutive quarters, naturally there will be a need to create additional capacity where larger projects may need to be financed.

Kirti Dalvi – Enam AMC

But sir this performance of the current year in terms of our order book and order inflow will definitely have some impact on our future growth- let's say FY13 probably and probably on margins as well.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

If I were to say it will not happen I will be unfair to you. When you see a depletion of order carry forward by the company of almost Rs. 1200 crore in nine months time, it's almost equivalent to one quarter revenue recognition of the company. So even if the market rate picks up by H2 of next year, I will be challenged to maintain the balance sheet size at the same level for the next year. That's the reality. But orders are available. Margins of all the orders available are decent enough. And we certainly are working to ensure the margins improve. For next year it's going to be challenging for Thermax and for the entire capital goods industry. But we will be one of the ones better off because I still have multiple orders which are book and bill available here. For example the chemical business of Thermax which I booked in the month of March 2013 will be billed in March 2013. The service business which continues like operations maintenance and various value-added services will continue to be booked and billed month over month. My conventional product business has a product cycle- a manufacturing order to cash cycle - varying between four weeks for the smallest one to may be six months. So whatever I book in the first half of next year can also be revenue recognized. So that will help a company like Thermax although it doesn't mean that I can expect growth next year unless some windfall happens and things totally change – which I don't expect. Another negative factor is we have discounted no further degradation in the European crisis which will impact the Indian economy. So that is a call we have taken. But if we are to go through a banking crisis and if a fear psychosis prevails over whatever little optimism is left, it will once again have a dampening effect on the Indian industry. So that's something which we need to be worried about. Otherwise, yeah, capital goods industry will pass through one of the toughest times in the recent past. We will sail through with a lot of pain, but by FY14 we should see better days.

Kirti Dalvi – Enam AMC

Sure sir. And the last question sir on the order book and order inflow if you could give a break up between your energy and environment.

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

Order inflow for the quarter was Rs. 590.4 crore with energy having about Rs. 386 crore and environment having Rs. 204 crore.

Kirti Dalvi – Enam AMC

Okay, this is the standalone right sir.

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

You want the order balance as well?

Kirti Dalvi – Enam AMC

Yeah

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

Okay, order balance for Thermax was Rs. 5104 crore with energy being Rs. 4029 crore and environment being Rs.1079 crore.

Kirti Dalvi – Enam AMC

But sir this is a standalone I want consolidated.

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

The consolidated order inflow was Rs. 742 crore with energy being Rs. 532 crore and environment is Rs. 210 crore. The order balance was 5809 crore with energy accounting for 4728 crore and environment accounting for 1080 crore.

Kirti Dalvi – Enam AMC

Okay, sir the last question if I may. Balance sheet details if you could have, how is the working capital situation in this quarter, have you seen any deterioration and the planning CAPEX? That's all for my side.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

See, working capital is positive right now. But lower inflow order means we are missing approximately almost Rs.100 crore of cash normally which comes in quarter in terms of advance lower order booking. It has depleted and from last quarter to current quarter may be by Rs.100 crore.

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

Yeah, see the working capital today is positive marginally at about Rs. 175 crore but this is more a timing issue at the moment. If I may just add that you were absolutely right that is little bit stretch in the overall monetary situation which is why we are saying this. Hopefully we will be working on this for Q4.

Kirti Dalvi – Enam AMC

Sure sir.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Let me also clarify, our inventory is of the same level as the last quarter. There is no deviation or it's fairly well contained. In the accounts receivables there would have been a rise of may be Rs. 50-60 crore, but nothing substantial that one needs to be concerned about.

I mentioned in the last con call also that collection of account receivables is not as easy as in the past when people sent cheques by post. Currently we need to depute people and may be telephone calls to ensure that money is collected.

Kirti Dalvi – Enam AMC

Sure sir, thank you very much and wish you good luck.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Thank you.

Moderator – Lavina

Our next question is from the line of Indrajeet Bhatia from Macquarie Capital. Please go ahead.

Mr. Indrajeet Bhatia –Macquarie Capital

Good morning gentlemen, thanks for taking my questions. The first question is on, you mentioned about your order book structure moving into having more short cycle kind of orders. But do you think that is sufficient to get into situation where we do not have any meaningful decline in top line in FY13 given what kind of visibility for ordering close in quarter four or in early part of the next fiscal year. And the second question is, have you also started to see some kind of softening on the commodity prices and that there is room for some cushioning to the margins from that front.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

First one, I have to be fair to all of you that with the depleted order carry forward as we are entering into the financial year, you will certainly see decline in top line for some quarters and you should be expecting it. Book and bill for short cycle order will not be able to compensate for larger size orders which could be revenue recognized without any problem. So there will be pressure on the top line and you will see some quarters also decline, as you mentioned. And I don't think it can be targeting growth next year. We should be accepting the fact that there may be decline in the top line. But will it be substantial decline? No, I don't think we are heading for substantial decline at the top. Our challenges in the market will be taken up in such a way that we will be able to reach 90 plus percentage of where we are currently. And with that, how we can retain our bottom line in the same proportion. Work is on to maintain profitability and declining commodity prices will help it . I hope steel, our main consumption, to decline. I am expecting steel prices should smoothen, going forward, because rupees declined from Rs. 50 to 49 and if it were to remain in the range of 48, import can be substituted for a higher Indian steel price. This will force the Indian steel industry to come down to that level and put it at a global pricing level which I think will happen by Q1.

Mr. Indrajeet Bhatia –Macquarie Capital

if you look at expense, on a consolidated basis close to 20% of your costs are fixed costs like employee cost and SG&A, are there any levers in those cost going forward especially into FY13 which would prevent I would say larger margin decline. In terms of say what kind of man power addition you are seeing at or which is likely to kind of remaining flattish, any color on that?

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Since order book is not very healthy, we will certainly ensure that no extra man power is added in areas where it is not needed. We have variability in our pay related to people in terms of the physical contract employees from the company. For example of the total base of 5000 plus full time employees of the company, 1000 plus is on the blue collar, another 900-1000 is fixed term contract and 3000 odd is full time employees of the company, permanent employees. We have a variability of around 900 numbers available on fixed term contract. They are based on the orders on hand so there is variability available and blue collar of course I will not be able to tell you the number but certainly a lot of blue collar is on temporary and contract and service provider basis. That will depend upon the load in the factory. Then comes the variable pay for the white collar employees which is fairly large because we have short term incentive profit sharing on the profits made by the company. That's again variable. These two-three factors should help us. Apart from that fixed charges are for our day to day operations and when you are under margin pressure we will ensure that everything within the capability of the management to control cost will be done.

Mr. Indrajeet Bhatia –Macquarie Capital

Okay sir thanks a lot. Thank you.

Moderator – Lavina

Our next question is from the line of Deepal Delivala from Citigroup. Please go ahead.

Deepal Delivala – Citigroup

Sir, thank you for taking my question. My question forced for the international business. Could you give us a sense of the profitability of Danstoker, how much revenue we booked and what could be the kind of EBITDA and net margin there.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Well Deepal we have been desisting from giving any numbers for subsidiaries. We have done better than previous year before we took over the company. Their order booking, their top line and bottom line have improved in comparison to when we took over the company one year ago. Though bottom line reporting may be slightly lower than previous year on account of the fact we have started the provisioning norms of Thermax which is not the normal European norms for smaller company like them. We provide certain time for AR, for inventory, and those provision norms are included. So the reported number may be lower but on a last year versus current year on the same basis, its better profit. So that's about Danstoker. For this I need to compliment my team that despite the difficulties faced in the European market they have been able to manage the balance sheet well.

Deepal Delivala – Citigroup

Okay, thank so much sir.

Moderator – Lavina

Our next question is from the line of Laxminarayan from Standard Chartered Securities. Please go ahead.

Mr. Laxminarayan – Standard Chartered Securities

Good morning Unny and Gopal. My first question is, was there one and half crore loss in the overseas subsidiary when you do a consolidated P&L minus a standalone entity, and what were the reasons for that? For the start up cost associated with TBW JV, could you clarify a bit?

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

Just let me know how you have arrived at that one and half crore, just wanted to know.

Mr. Laxminarayan – Standard Chartered Securities

It's basically consolidated P&L for the quarter minus the standalone profitability.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

That is not only for the international, Gopal, you don't give the number exactly. But let me tell you Laxmi you are the best mathematician I know of. We have profits in our subsidiary in America, in UK and Danstoker whereas in our Chinese subsidiary, we have losses in the current quarter as well. I have mentioned continuously that we are expecting cash break even next year and real profit year after. That's is about our overseas subsidiaries. There is a loss in one of the domestic subsidiary in the current quarter and they may report a similar loss for the next quarter also but not a very substantially large number, in one of the construction companies.

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

Okay, Unny you are right absolutely. Just to add here, Laxmi, what we are publishing is only the YTD numbers and YTD numbers PBT for just to give clarity is Rs. 413.2 crore as opposed to consolidated for standalone number that we have for the nine months is Rs. 403.83.

Mr. Laxminarayan – Standard Chartered Securities

We do of course keep track on quarterly basis too. Anyway second question is on the Thermax Babcock & Wilcox joint venture. If you could tell us the man power ramp, your earlier assumption of bit break even by fiscal 15 and if we could move to one year beyond that also given the current situation in the market so if you could tell us how you would ramp up man power and what associated cost for the joint venture would be.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Yeah, we currently have white collar number in the vicinity of 130, we have not done the ramp up which would have been expected. If you had seen a buoyant power market the way we had expected it, then we would have 250-260 people by this time. At the end of September we would have even had 400-500 numbers on dot. So the ramp up expected by the time we commission the plant in September 2012 will be less than 250, the total white collar segment. Blue collar recruitment will be minimal to ensure that we are able to run the factory. That's the current model and we have got a very special model being worked out by our industrial relations group where man power will not be on the balance sheet of the company for other than very limited blue collar that will be employed in the beginning for two years time. So by understanding that the market may not be in a better condition, we had to change some of our assumptions in terms of man power recruitment. That's already been taken care of Laxmi. And next question related to cash break even for the company getting postponed by a year or more. It is a reality because It will be foolish on our side not to accept the fact that power industry will not be in a position to stand up in the next may be one year.. I do believe that it should take at least a year plus for the industry to come even because everybody is struggling. All the developers, not one power developer can say that my balance sheet is in a good condition. So their ability to proceed with future projects would get postponed. I am sure you need to be worried about the power crisis that we are going to facing in the country, as consumption is going up, per capita consumption is going up, and many more factories are getting created. Unfortunately, the new power plants are not going to keep in tune with that. I would say that those who got money today and invest in power plants will mint money, may be in '14, '15, '16.

Mr. Laxminarayan – Standard Chartered Securities

Perfect. And one last question if I may. Sometime ago may be two three months Babcock & Wilcox actually announced global partnership with I believe Toshiba Corporation also extends to Asia and we get something out of it for Thermax also. Are you engaging with them in a more meaningful way

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Certainly, in fact the framework agreement they signed is a very confidential one. It's got multiple things but one of them is co-operation in Asia where B&W joint venture in India will be participating with them for projects in India and certainly it is not going to be ending at BTG alone. Toshiba intends to get into EPC, if they are able to sell their way of EPC in India. So let's wait and watch for it. But certainly there is work going on between TBW and Toshiba for joint bidding.

Mr. Laxminarayan – Standard Chartered Securities

What about TBW Toshiba and Thermax? Are you readying yourself also for that or not?

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Thermax will be engaged in many ways, if EPC work were to be handled by a consortium – water treatment, air pollution control and water plus some part of the piping work which are very critical piping for power plant, and for which Thermax has got expertise . It won't be very large in terms of numbers, but when it comes, certainly we will be party to it.

Mr. Laxminarayan – Standard Chartered Securities

Perfect, thank you so much and all the best.

Moderator – Lavina

Our next question is from the line of Mr. Rajesh Panjwani from CLSA, please go ahead.

Mr. Rajesh Panjwani – CLSA

Hello sir, my first question is just follow up on the previous question on Babcock & Wilcox. If you look at the industry environment currently, the one issue is that the overall volume of order is not high and the other issue is that it seems to be at least from the last couple of bids, the players bid very aggressively for the projects. And there was hope earlier that these aggressive bids may be just one off in subsequent bids. Some of these players may be more rational. But given that the industry environment remains very challenging do you see risk that there could be a longer time for which some of these competitors can continue to be very aggressive in their bids.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

You are right. It is one way to look at the desperation of pricing which is in some of the bidding in the recent past. When we look at the costing, we are currently getting ready for the 660 MW and 800 MW for the future, NTPC bidding or private company bidding. You see a rational in the reduction of cost also. There were some positions taken by the supply chain partners in the past and they were seeing the Indian market as a very small one. So the pricing of components was based on a smaller market size. As volumes go up, we will be able to see a lowering of component pricing. So I think there is going to be rational reductions like that. Based on the desperation of the players, irrational reduction will continue. Like BHEL was quoting prices in the range of Rs.3 crore rupees for BTG, they have come down to 2.3. So that's kind of 2.3 to 2.5, let's say, depending upon discount. So that's workable and nobody is going to be making loss at 2.5. Yeah of course at 2, certainly it will be suicide.

NTPC bidding was a little odd to all of us including the people who participated and won also. How will be making money in those bids? And how long can capital goods companies continue to make losses and become more like banks? They are not highly capitalised, if you look at the turnover versus the capital available and the money available to the balance sheet, nobody can continue to make losses unlike commodity companies. So for temporary survival, a one off order will do, but Thermax will not resort to it. We are there on a medium to long term basis, and we don't intend to go below break even. We certainly want to make profits. I would believe it will even out. We have to wait for that time when there are sufficient orders getting finalised in the market. And when there are sufficient orders, meaning something like 15000 MW finalization in one year for boilers I can vouch that nobody will take orders at a loss.

Mr. Rajesh Panjwani – CLSA

Okay, fine, thank you sir.

Moderator – Lavina

Our next question is from Nirav Vasa from SBI Cap Securities. Please go ahead.

Mr. Nirav Vasa – SBI Cap Securities

Thank you very much for taking my question sir. Sir my first question pertains to the EPC component which is there in the order backlog. Would it be possible for you to quantify that?

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

Yeah order balance?

Mr. Nirav Vasa – SBI Cap Securities

Yes, EPC aspect and order balance.

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

The EPC aspect, the total order balance for Thermax is Rs. 5104 and out of that power EPC division order balance is Rs. 1575.

Mr. Nirav Vasa – SBI Cap Securities

1575, okay sir and second number I wanted to know what is the advance that we are receiving first nine months?

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

We don’t normally give the breakup of the advanced inflow because see what happen, one, is its pretty difficult number to compute because of the continuous flow money that comes and that gets adjusted against the revenues.

Mr. Nirav Vasa – SBI Cap Securities

Sir, approximate percentage can you give something.

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

See typically depending on the contract, advances we receive other than government contracts are anyway between 10-15% of the order value.

Mr. Nirav Vasa – SBI Cap Securities

Sir and final question. In the September ended quarter, in your balance sheet there were a debt of around Rs. 90 crore. Is the debt still on the balance sheet?

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

Yeah predominant part of it is there, that is purely short term working capital based credit that is there. So it is not a long term debt.

Mr. Nirav Vasa – SBI Cap Securities

So that number is more than Rs. 90 crore now

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

It has come down. It is about Rs. 10 crore lower; it’s about Rs. 80 crore.

Mr. Nirav Vasa – SBI Cap Securities

Rs. 80 crore. Thank you very much sir.

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

Thanks.

Moderator – Lavina

Next question is from Bhavan Vitlani from ENAM. Please go ahead.

Charanjeet – ENAM

Hello, this is Charanjeet from ENAM, just wanted to check, one, on the export market, how the outlook is and which markets do you see the growth coming from. And also in the environment segment, how do you see the water and air pollution segment panning out in the coming year.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Charanjeet, in the export segment, we are currently active in the Middle East, Southeast Asia predominantly and in the African continent to certain extent. We do not see anything negative in the Southeast market. On the contrary I do see enquiries. Inflows are increasing because Thermax is now very active there in comparison to one year ago or because the market itself is behaving better. But overall sentiments from Southeast Asian market are not as bad as India. That's point number one. But since the market is doing quite okay you find increased competition and everybody's focus is over there. Earlier it was Chinese versus Indian versus Europe. But today you got Koreans and Japanese also participating over there. And we have seen pricing which is not seen from Japanese companies in the recent past. Is it desperation or is it because they are able to cut their cost, one has to wait and watch. So there is an improvement in the market sentiment in Southeast Asia but competition is equally tough. Then comes the Middle East. Nothing substantial happened in the recent past in the Middle East for many of the projects that we were doing. But four larger projects got ordered out in the last two quarters for large EPC for Oil Company, petrochemical expansion and one power project. All four of them were picked by only one country and that is Korea. The world including Chinese are wondering how they took this order and at what prices. Despite having oil in Saudi they are encouraging people to go for coal firing for smaller capacity power plants. That is a good movement. I would expect things to improve in all these markets especially Qatar, Abu Dhabi and Saudi Arabia in the coming years in comparison to previous years. Africa remains the same, there is no substantial difference.

Charanjeet – ENAM

Okay, sir and on the environment segment like, what is the outlook and how do you see the margins panning out?

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

In the environment segment there are three product portfolios of Thermax, one is the chemical. I don't find anything which is negative at all over there nor do I find anything so positive because of consumption oriented items. So it will continue at just about double digit starting at a 10% kind of growth in water treatment. We are working on operational excellence to improve the margins in chemicals. Water business will see growth next year too. JNNURM is going to be expiring in the current March. I hope the finance ministry will continue it. All of us are in dialogue with the government to continue with the governmental funding to JNNURM for water supply and sewage schemes for cities. If that is going to continue I am sure the water business will continue to grow. But it is not to be seen as 20-30% growth; one should expect 10-15% growth in the next year for water. Then comes air pollution control- air pollution control will not follow the chemical and the water because it is an industrial item and whenever there is an economy downturn or economy strain, the air pollution control business suffers. And I would expect it to suffer next year. It may not be able to see growth next year.

Charanjeet – ENAM

Okay sir, just one last question. I wanted to understand your order inflow outlook for the next year and which sector you see this order flow coming from.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Our base level order booking of upward of Rs. 500 crore per quarter will happen for multiple segments starting with food to chemical to automobile to hospitality to everything put together. Medium to large sectors will be helping us. So that's the base level. They will continue. The difference that has to be made will be based on project side orders where there are four or five major sectors. One is power, second is oil and gas sector petroleum sector, and third is metallurgical sector that is steel and nonferrous metallurgy and cement. In these let's say I am discounting power sector for the next year. Barring a couple of them coming next year, I would expect steel sector to start doing okay at least in order finalization at H2, Q2 end Q3 beginning. The reason I'm saying this is because there are movements in Tata's Kalinganagar where nothing much had been seen for one-two years. Now at least all tenders are out including one for the captive power for the glass furnace, which is under discussion.

And similarly POSCO is getting environment clearance from the government. So those will be sporting a lot more of downstream steel product also. And looking at such large investments there will be others also wanting to catch up with them. Otherwise some of the remaining companies who may be single digit million of tons in output will get blocked in the presence of such larger capacity coming. These are currently my perception or may be my projection based on what I am reading or what I understand from the market. So steel sector should start having RFP at least in the market and may be order finalization should start towards the second half of next year. For Cement, thankfully barring one or two companies, everybody is not in such a bad shape that they were little earlier. And I do believe consumption of cement is going to be increasing with more and more road projects announced, signed and awarded by the government. And construction sector has not taken beating so far in India. So cement should also start next year. In Petroleum where there are no indicator, again in my perspective, look at the quantum of automobiles getting manufactured in the country. Two and two half million numbers of four wheelers and maybe I don't know how many million, six, seven million of two wheelers. Where is the petrol going to come for that. We could have refinery expansion done in the country to support this oil demand. So refinery expansion is also going to take place next year. I think the net instructions or may be guidance from the finance minister will be urging the public sector undertakings to start expanding using their balance sheet. I would imagine that government on the steel sector plus oil sector will also start investing next year. So this is my hope for may be the next two years. The next year is going to be very, very challenging for all of us in terms of order booking, orders will be there, base level will be there, and if there are windfall available in the market certainly we will be able to do better.

Charanjeet – ENAM

Okay sir, one last thing which I wanted to understand is on the Abhijeet Power order, we heard that BHEL took that order after pricing aggressively , can you please just comment on like how did this happen like or the terms changed or something.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

I would refrain from commenting on a close door discussion meeting which happened. It is true that in the Abhijeet order, we were the front runner and they virtually concluded with us. But there were certain pressures on Abhijeet because they are already executing a power plant, and their lifeline power plant of 270 MW in the four numbers is with BHEL as their prime supply contractor also. And there are challenges they would have faced in that project where they would have had to make a compromise to ensure that they went along with BHEL for the expansion. I would limit it at that, but let's say that we were technically far, far superior to what could have been offered by anybody else in this particular project. It will help us in the future and what you said is right.

Charanjeet – ENAM

Okay sir but what were the kind of margins in the order like?

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

It is the Thermax kind of margin that would have been there in that order.

Charanjeet – ENAM

Okay, so BHEL would have bid aggressive -

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

When desperation catches companies you can imagine what all can be done. An order of that magnitude would have certainly helped my balance sheet plus sentiments of all of you reporting 1000 plus crore in the coming quarter would have made all of us happy. Hopefully, another Abhijeet will come through; let's wait for it.

Charanjeet – ENAM

Okay sir, that's all from my side. Thanks.

Moderator – Lavina

We will take our next question from the line of Dhananjay Mishra from Sushil Finance. Please go ahead.

Mr. Dhananjay Mishra – Sushil Finance

Yeah good morning, all my questions have been answered. Just one question on Forex, was there anything on the Forex side which had an impact on our margin in this quarter?

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

Depreciation of the rupee had an impact on the result of the company and that has been quite significant. It's more than 100 basis points. But let me also assure you that these are temporary timing differences because we have a very conservative foreign exchange hedging policy where we protect our cash flows. So there is movement from the expenditure to the top line as the contracts get executed. So to answer your question, yes there has been foreign exchange impact on the P&L for the quarter and it has been over 100 basis points. Thanks.

Mr. Dhananjay Mishra – Sushil Finance

And what is it in terms of crore, last quarter we had Rs. 8 crore impact on margins.

Gopal Mahadevan - Chief Financial Officer and Executive Vice President –Thermax Ltd

For the overall impact, if you are going to take a percentage of revenue, which is about Rs.1269 crore, you can actually work out a number.

Mr. Dhananjay Mishra – Sushil Finance

Okay and sir do you still hold this margin target of about 10% in next year given we are expecting fall in revenue. So do we still hold double digit margin for next year or could there be some pressure on margin?

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Dhananjay we would want to retain double digit margins, so the intention of the management and the team will be to retain the margin. If it is a matter of retaining the market share, and if you were to find out to whom market share is going to, that's the only way we may compromise on margins. We will not compromise just to show growth on top line because then to recapture the margin will not be an easy task. But if I have to lose existing customers for margin, I will not allow that to happen because we have almost anytime between 60-65% of my orders in normal circumstances coming from existing customers. And I need to be servicing them and since they stand by me in tough times, I have to stand by them too. But if I were to accept an order at lower margin there are various ways by which you can still retain at least a double digit margin by passing on a part of that to my supply chain and managing internal processes better. We are working at that. I am not giving guidance but certainly our intention is to retain a double digit margin despite a reduction on top line in the next year.

Moderator – Lavina

Next one from Ashutosh Gar from Dalal and Brocha. Please go ahead.

Ashutosh Gar – Dalal and Brocha

Good morning sir. Just wanted to know if at all the import duty has to come through, then what sort of impact it would have on companies like Thermax and if you can throw some light on what is the pricing difference in case of Chinese equipment and the non-Chinese; I mean on the foreign equipment, if you can throw some light on that.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

No Chinese order got finalized in the recent past. We talk of Chinese prices for some projects finalized earlier. It was only Reliance Power which was concluded sometime ago and Abhijeet has placed an order but I don't think it's going through. When you compare those prices with the current Indian prevailing prices, you get the margin gap Chinese enjoy. Let's say 14% duty imposition would help Indian companies to be almost on the same level with Chinese prices. But that doesn't mean that Chinese will remain at the same level. Their factories are also not going to be full in the coming time. So if they were to take an aggressive position tomorrow, they may want to dump on to India. There is no logic in pricing from that particular country. So that is something we need to wait and watch.

Ashutosh Gar – Dalal and Brocha

So basically sir if at all the import duty has to come through then the order scenario for domestic players at least would be better than what we are seeing right now.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

100%. We are giving 14% disadvantage to somebody or let us say, currently there is an advantage available to them that could be withdrawn. See, if you want to import power equipment in any country in the world, you got to pay duty. I have never heard of any country right from America to China that acts differently. Imagine that BHEL or Thermax go to sell their power equipment to China, they will have to pay 17% duty over there. India was one of the very few countries, for whatever reason, that has been giving a free run to import power equipment.

Ashutosh Gar – Dalal and Brocha

Okay, sir basically I wanted to understand the scenario which you are building I mean H1 being very tough going ahead, in that case you are not assuming the import duty to come through that, that's what I am trying to understand?

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

There are fundamentally four issues that have to be resolved before the power industry reverses the trend of growth. First one is about the power pricing in the country in tune with the global energy resource pricing. Which means nobody is going to subsidize electricity charges for the common Indian man by giving you coal at a cheaper price. So if you are going to take the energy pricing level of coal you are going to increase the average electricity tariff in the country by at least may be 30 to 40% depending on state to state. That is something which the state electricity board will have to take care of. The moment they do that, the banks will see money coming to the balance sheet of the SEBs, which will decide their ability to offer loans. Second is related to availability of coal and its GCV. That's why energy security impacts us. Third item is interest rate which currently are prevailing for most of the power developers upward for 13% and that IRR may not justify. So the banking system easily will not have second lending increase unless the interest comes down. Fourth and most important one is the land acquisition act which is not very conducive for the power industry the way they propose in the parliament. But even if that came through, it will help boost the power development. These are the four items which we are expecting, you guys know better than me how it will happen. For all the four things to be taken care of by the government and with the power developers and collectivity of Indians, it would take not less than 18 months. Now the bolder ones will start going ahead with expansion. NTPC kind of companies got money available, and it's a government organization. Similarly there are some stronger balance sheets of power companies - one or two of them - who will start it by H2 next year when they see movement in this area. That is a reality.

Ashutosh Gar – Dalal and Brocha

Okay sir, thanks a lot sir, thank you.

Moderator – Lavina

We will take our last question from the line of Mr. Punit Bhamba from Ambit Capital. Please go ahead.

Mr. Bhargav – Ambit Capital

Good morning sir. This is Bhargav here.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Hi Bhargav. .

Mr. Bhargav – Ambit Capital

Sir, my basic first question would be how is the coal situation as far as captive power plants are concerned. Obviously they use a lot of imported coal. So just wanted to get a sense from you in terms of how is the availability on imported coal right now.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Availability is an English word; there is also another one, abundance. But price is a question. So if you are willing to pay, coal is available and since captive guys do not need too much of coal, there is no dearth of availability. So nobody is shutting down the plant because of shortage of coal. Captive power guys are the bulk consumers; they consume 30-40 megawatt. So the grid's increase in power tariff really does not matter. So they remain almost at the constant level. The coal pricing hasn't gone up in the world. If they are going to buy from the open market, their captive generation costs almost equivalent to grid pricing in some cases. So some of them would have shut down but with the electricity price going up, everybody is increasing the grid prices and everybody again restarts some of the shut down plants. That is a reality.

Mr. Bhargav – Ambit Capital

But sir now if they are above 13 gigawatt of project which are under construction on imported coals. So once they come in how do you see the demand supply situation as far as imported coal is concerned?

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

See there are mines opening up in Indonesia in plenty, though the quality of coal is not as expected. Earlier Indonesian coal had only anywhere from 16-20% moisture content. Latest ones have 30-35% moisture. So if you design your plant for this kind of moisture content you can certainly import it from Indonesia. There are many more coal mines opening in Australia. Some of them are Indian companies themselves, others are the local companies. Availability of coal from imported markets may not be under so much pressure. Of course there will be a price pressure because there is a competition between India and China to import these coals. I mean there could be price- availability which will be okay in my opinion.

Mr. Bhargav – Ambit Capital

And for infrastructure, are you comfortable? I mean if the 45 million tons of coal gets consumed by IPP once they come under commissioning mode, is there enough infrastructure to basically transport that coal into India?

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Into India no, within India is a problem,. For Mundra there is no problem because sea lines are free, you don't have to make a road in the sea, you only need to get more barges. Plenty of them are available. So the power plants which are coming on the coastal lines of India may not have a problem. But within the country all of them will have problems.

Especially the ones who are there in the Chattisgarh region who expected they will be getting domestic coal, they won't be able to get the coal. If they want to convert their power plant to imported coal they will find it very, very difficult to get sufficient number of trucks and the road infrastructure for transporting it. And the cost is going to be prohibitive. So that is that. So you will need to consider that power plants existing or coming up along the peninsula coastal line may not find it difficult.

Mr. Bhargav – Ambit Capital

And sir if I may ask the last question sir. Assuming a scenario wherein we have an improvement in the industrial CAPEX cycle, if you assume that interest rate are cut, going forward and assuming a scenario where in IPP market continues to remain the way it is, do you see a scenario wherein we could have growth in order intake on YoY basis just on the back of improvement in the industrial CAPEX cycle.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Yeah, certainly if the industrial CAPEX cycle were to improve, all of us will show good order booking. But expecting that to happen overnight is not possible because there is a standard economy modeling. Consumption has to go up and capacity has become insufficient, then new capacity gets built and then you place an order for capacity building which means capital equipment.

Mr. Bhargav – Ambit Capital

And sir if you have to just put in a number in terms of YoY growth, what could be that number which you would be comfortable with?

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Any capital goods industry will feel happy when you have a double-digit order intake growth order on a YoY basis, not a QoQ basis. Because timing can be adjusted internally.

Mr. Bhargav – Ambit Capital

So assuming there are no other receivables from IPP, you possibly are hinting that there could be a double-digit growth in order intake just by recovery in industrial CAPEX when you are getting orders for captive power?

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

You are right.

Mr. Bhargav – Ambit Capital

Okay, thank you very much and all the best.

Moderator – Lavina

That was the last question. I would now like to hand the conference over to the management of Thermax for their closing comments.

M S Unnikrishnan, Managing Director and CEO – Thermax Ltd

Thanks a lot once again for being patient with us. I hope we have been able to answer your queries. All of us share the same concern that if CAPEX cycles don't catch up in the next two to three quarters, then industry will get into a difficult cycle. Companies like us are better off, be rest assured that everything that can be done to ensure that we spread our tentacle outside India in whatever the limited market available, shall be taken care of. Secondly, we will not compromise on the terms but margins we may have to in case a situation arises where we might lose market share. Then we will take a very prudent call but we will wait and watch. Let the dialogue between us continue. I would also expect feedback from you to help us improve our capabilities. Thanking you once again.

Moderator – Lavina

On the behalf of Prabhudas Lilladher Private Limited that concludes this conference. Thank you for joining us. You may now disconnect.

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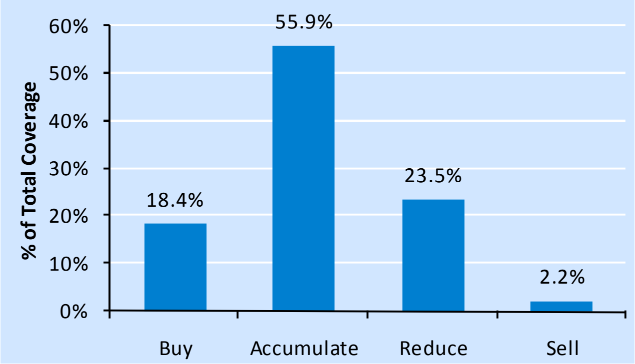

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