"Thermax Limited Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Thermax Limited's Q4 FY'13 earnings conference call, hosted by SBI Cap Securities Limited. As a reminder for the duration of this conference call participants' lines will be in the listen- only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Alok Ramachandran of SBI Cap Securities. Thank you and over to you sir.

Alok Ramachandran: Good morning ladies and gentlemen. On behalf of SBI Cap Securities we welcome the management of Thermax Limited along with the participants' for the Q4 FY'13 Earnings Conference Call. With us today we have the MD and CEO of Thermax Limited, Mr. M.S. Unnikrishnan and the Executive Vice President and CFO, Mr. Gopal Mahadevan. Without taking much of the time I handover the floor of the call to the management for their opening remarks on the results, after which we would open the floor for the Q & A Session. Over to you Sir.

M. S. Unnikrishnan: Thank you Alok. A warm welcome and good morning to everybody. Thanks a lot for in the keen interest again and actively participating in knowing more about Thermax. The results are already in front of you. I do not know how to make a comment, is it as per your expectation or does it fall below, but for the Q4 the topline is 12.9% lower in comparison to the previous year. However in comparison to the previous two quarters, we have been able to bridge the gap. Annual performance is brought down to nearly 11.6% lower than the previous year. Our bottom line is lower by 11.2% in comparison to the Q4 of previous year, which is better than what we would have ourselves expected. This is primarily on account of the fact that we have been able to contain the material cost by 1.26% for the quarter and for overall year it has come down by 1.67%.

For this I should give credit to the commodity markets easing out to a certain extent, but equally to the internal efforts put in by our entire team in containing cost. Especially the cost reduction exercise driven by Gopal at the center and also the business which is taking active interest to make it happen.

Coming back to the order position that is the only good news, we have improved our order booking to 4,859 crores in comparison to previous year's 4,032 crores. The consolidated order intake for the group at the group level is 5,609 versus 4,632 - an improvement of almost 1,000 crores, 21% improvement at the company level.

The breakup of order booking is 19.5% up for the domestic market, and 101.7% for export order booking for the quarter. Segmentally, if I have to take a cut, 73.2% from energy and 26.8% from environment. Our net profit for Q4 as I indicated to you in percentage, it is at 115 crore as against 130 crore in the last year for the same number.

Last year we had 809 crores order booking for the fourth quarter and it has gone up to 1,155 for the quarter. It is predominantly on the back of a better booking in the international markets in comparison to the domestic. Domestic also has gone up, but it is at 19.5% in that front. The segment, which has contributed to the overall order booking for the company, 19% has come from ferrous. Power still contributed 18% that is a residual orders of power group, which is like start up boilers, water treatment plants, chemicals, minor air pollution control equipment, which comes into coal handling plant. Food and chemical put together has now touched double-digit at 10% becoming prominent in the absence of the main sector. Cement sector is come down to 7%, which used to be leading in 2006, 2007 and 2008 - three years it had been the first sector, which has now come down to a fourth level at 7%. Textile, mining and distillery put together have come to 13%. So these are the ones, which are helping us to be retaining four- digit order booking.

At the group level we posted revenue of 5433 crores and energy segment of this contributed to 80% and balance from of course environment sector. That is about the overall performance of the company. Couple of updates TBW plant as promised is ready. There are some minor last part to be completed related to some shifting of the tower by the electricity board and once that is done we can charge our transformer and start the work. There are not any orders booked for TBW, nor am I expecting anything to be happening in the immediate future. Because there is not anything other than one or two tenders in the market right now. So that is our concern going forward, I am sure we will answer it in detail, but let me clarify to that if there is any tender coming, even for BTG now we are prepared for taking consortium bidding along with the Toshiba and any other partners available in the country.

Now let me hand it over to all of you to ask me any specific questions. Before handing it over I would also like to introduce Mr. G. P. Kulkarni, who has joined Thermax as the Vice President and Company Secretary and Head of the Legal. He is also participating in the meeting. Thank you.

Moderator: Thank you very much sir. Our first question is from Renu Baid of Batlivala & Karani Securities. Please go ahead.

Renu Baid: Good morning sir. Numbers overall have been good but yes, we have seen there is volatility in terms of quarterly inflows, but broadly would like you to share the view that you have from the ground and from your end customers. How are the enquiry levels looking for the coming 12, 18 months? Specifically if you can also share some details of couple of large CPP's where order finalisations are likely in near couple of quarters?

M. S. Unnikrishnan: Let me give the answer in two parts. Part one is what is happening at the ground level related to inflow of enquires and the finalisation of orders. Inflow of enquires are very minimal for the cement sector, the steel sector, and the power sector. ONG barring the Cochin project and Reliance - the Cochin already ordering has started and Reliance is yet to be starting but the negotiations and the discussions are on. But others I am not seeing any movement. As I mentioned to you the enquiries are there for the very low-level project value, ticket size of projects. For example of food expansion, chemical expansion or a pharma expansion, which normally are in the region of maybe a 100 to 500 crores kind of a project size where there are not too much of borrowings needed and most of them are on balance sheet and out of balance sheet. continue to be there, which would in my opinion will continue and I do not think I am not expecting any negativity. Am I expecting the larger projects to be coming in the way we expected three months back? I still have my suspicion Renu, because I thought cement sector should turnaround by H2 of the current year, but in my discussions with couple of large cement company CEO's they do believe that though the balance sheets are producing money, the capacity utilisation is something which they are worried about. There are no connectivity between what they are doing and what they have seen in the market. I am seeing a lot of interaction activity going on in the country, but they are still complaining that the capacity utilisation has not touched 85% for us to start reordering. One or two of them have spoken to us that if you were to go for a captive power plant for this, what will the cost be? Is it going to come down? But nothing has reached a level where finalisation may happen, barring we have may be one or two enquiries which are very nominal enquiries, maybe 25 megawatt somebody want one more plant, which is standby or may be little expansion for it, otherwise nothing substantial in the cement sector coming in.

Steel we had one order in the last quarter from one of the private groups, which if you remember in the last quarter I mentioned it. Irrespective, what happens with the steel sector Bhushan will continue to be investing and JSPL with the good balance sheet, either will invest in power or in steel. These are the only two which I am seeing than the Tata Kalinganagar project going on and there are no other things in that company.

So overall if I am going to talk about domestic markets, I do not expect barring one or two win force, any major changes to happening in the current year. Now the efforts taken in by companies like us in international market in South East Asia, Middle East and Africa should have a little more order booking accretion delivered to the Company. Now to what extent it is going to be fructifying because I have not seen any slowdown in these three markets. In fact I would believe that the South East Asian market is going to improve in the current year, African market there is no shortage of funds available except for the fact that in all the three markets, the competition is heating up. It is Chinese, Koreans, very limited Indians and the new entrant to the Indian market is Europeans who are able to currently give a tough run to even the Chinese. Now is it on account of the fact that they want to retain the jobs in their country or they have literally done something wonderful by which they are able to bring the cost down. Because we have seen in the earlier past in projects in any of the three markets Middle East, South East Asia or African continent, Europeans are absolutely out priced, but now we see that they cannot breach the price levels of India or China, but they can come closer. So the perk sitting companies where they like to go for European mix at even a 10% premium, is within their reach right now. That is a concern for all of us. Is it a temporary phenomena or it is something of a medium-term phenomena? We are going to wait and watch, that is about overall market situation.

Renu Baid: So sir overall if you look at domestic would be similar to what we have seen last year no major changes and exports at least the target that we were having mid to small sized EPC orders at least on an average one to two order every quarter. So that should be maintained?

M. S. Unnikrishnan: It is our expectation. Renu, you are talking like my Chairperson. That should be maintained. I wish I am able to maintain, I will maintain, let us try to make it happen.

Renu Baid: So overall we should be able to see at least mid term growth in intake in the coming year?

M. S. Unnikrishnan: We are hoping it should happen. Last year I predicted that we will have certainly a better order booking and I was expecting it too, but we have almost touched 20% better than the previous year. So we are also hoping a double-digit growth to order booking is the best word I can think of right now and we will keep updating you. See unlike a consumption orientation where you have got alternatives available in the larger projects, if one project does not happen then the numbers are very large bulky in number that is why, let us continue to follow but as of now if I were to take a bet on that I am sure the booking could be better than the previous year though may be one quarter I may go below the previous year also it is quite like this.

Renu Baid: Yes, quarterly is not a matter of concern, but overall the competition and export should not concern for at least teens growth?

M. S. Unnikrishnan: See, I will put it like this that the kind of exercise we have done in terms of value engineering and also the currency advantage possibly India has already obtained by depreciation of the currency, both put together should help us and in project jobs apart from price there are lot more of contact points and networking needed in terms of availability of people. So we have been able to push a lot more of our people into the international market resident there, we already opened offices and subsidiaries in Kenya, we done it in Nigeria and the one in Ethiopia is on the way. So with that, things should change, I am sure.

Renu Baid: Sure and that is indeed good and sir my second question if you can just throw some more insights how has been the performance of subsidiaries Danstoker and others for the current year and how does the outlook for the next year for them?

M. S. Unnikrishnan: Danstoker in the current year on topline had been marginally better than the previous year; however, their order intake had been far superior than the previous year, offering a better top-line for the next year, they are profitable. Normally we do not declare how much the profit is, but let me also admit over there that Danstoker had a loss in one of the quarters and all of you are concerned about it but it is profitable in the current quarter and profitability is expected to be improving because we had been able to do certain value engineering there also, so things should improve. Danstoker has performed well whereas our Zhejiang, the Chinese subsidiary continues to be in loss. Our order booking was not too good in the last Q3 and Q2 on account of the fact that China virtually set down with the new government to take charge. So investments did not go through. Q4 order booking we have seen an improvement. I do not want to promise, when we will work towards breaking even in the current year. We are also got into larger size chillers of China which we were not doing earlier. So there if we have to get at least one or two, medium to large sized orders we should be able to come closer to breakeven. But things were improving there in China, because since the new government took charge, we see a lot more enquiries inflow, whereas in Q2 and Q3 of last year there was a drying up of enquiries, but things are looking positive over there, and China and new government really means the business. I do not know same is the case for India or not. Then comes TECC is the profitable company, which is operating as a subsidiary whereas TIL losses which was there last year will continue as I mentioned for the initial one or two quarters of the current year, but towards the end of the year we should turn around TIL because the construction sites of one or two projects which we had difficulties are one-by-one getting over, so it is improving its performance. So that is about overall performance of subsidiaries. Then the overall result that we have declared to you the consolidated, also accounts for the losses incurred booked under our joint venture with Babcock & Wilcox that is why the consolidated number is substantially lower than the main company number.

Renu Baid: Will it be possible for you to share the value of loss in the JV? Yes, this is my last question I am done.

M. S. Unnikrishnan: It is right now not declared because we have not completed the COD. So it will be unfair to the bankers if I declare to the market what is the loss that I booked over there.

Renu Baid: Okay not a problem sir, thank you so much and all the best.

Moderator: Thank you. Our next question is from Mahesh Bendre of Quantum Securities. Please go ahead.

Mahesh Bendre: Hi sir, I just want to know what is the current execution period for our existing order book?

M. S. Unnikrishnan: Well, majority of them are executable in the current year, some of the orders of the larger projects, which would have booked in Q3 and Q4, part of that will also spill over to the year after that.

Mahesh Bendre: Sure, and sir I just want to know what is the capacity utilisation in our factories now?

M. S. Unnikrishnan: It varies between product to product, because though we have got one factory, inside the factory there are multiple plants, each one of them dedicated for different products. To start with Chemical business for the resins, we do not have capacity available at one surplus. I wish I could get a license for the new factory which we have applied for Jhagadia for resin, that is chemical which is a small portfolio but it is almost full. It is standard products of the company like absorption chiller I have almost full booking for India but China has got extra capacity. Then for our package boilers, we are upwards of 85% booking and for our project business as well between say if next two, three months I am fully booked but if I have to take a full year perspective, I have at least may be a 35% surplus capacity available I can do and if I get more orders there are enough one more supply chain available for me to even give an accretion of 40%- 45% also over and above this I can outsource and get it done. In EPC, I have surplus capacity available because I do not need to manufacture anything there other than the boiler. For air pollution control, I have one more surplus capacity available and similarly for water.

See let me give you this without adding any additional manufacturing facility, we can grow by at least 25% further.

Mahesh Bendre: Sure, and sir last question what is our capital expenditure plan for next year Sir?

M. S. Unnikrishnan: We have virtually capitalised everything ongoing projects, we will only have maintenance capital barring some line balancing done so it will be in double digit not in triple digit.

Mahesh Bendre: Thank you Sir.

Moderator: Thank you very much. Our next question is from Piyush Mittal of Franklin Templeton. Please go ahead.

Piyush Mittal: I guess my question was regarding what was the money that was spent in terms of capex last year?

M. S. Unnikrishnan: 120 crores is what we capitalised approximately. Am I correct Gopal?

Gopal Mahadevan: Yes, you are right.

Piyush Mittal: How much of that was associated with the TBW?

M. S. Unnikrishnan: Nothing because TBW will be capitalised separately, it does not come on the main balance sheet of the company. The 120 crores, which I have mentioned is fundamentally our expansion, which we have done of our new plant in Baroda factory and various other expansions that we are doing within the existing businesses.

Piyush Mittal: Unny, what is your take on some of the renewable initiatives that the company has taken in the next couples of years now? How are you ramping some of those businesses and also maybe on the most service business side where you trying to put in a lot of effort over the last two years?

M. S. Unnikrishnan: Let me start with the renewable. Solar is now swelled to almost 60 people dedicated to that, we have now dedicated manufacturing for the solar thermal components. The ones, which were in R&D to pilot has now gotten commercial, both in heating as well as in cooling. Revenue numbers are in now double-digit not in single-digit anymore. I hope they independently operate in the current year to become a small business unit of the company and turn profitable towards end of it. That is our solar thermal both beating and cooling. Earlier we only had R&D projects. Today I can say that for one multinational in India-for their new plant in Mysore, their design center is totally air conditioned using a solar thermal plant supplied by Thermax Rs.1.5 crores at least. We have got in Mahindra & Mahindra for their auto plant at their heat pumping done by solar by Thermax this is another crores worth of a project. So earlier we were having 10, 20, 30 lakhs kind of projects, now we have started getting into crore plus kind size of projects and on an average we are getting two to three projects every quarter and it is improving now. So that is why I am very confident about the solar thermal, which is going as a hybridisation project along with our either heating or cooling that is the point number one. Second is in solar PV which we were not in till may be a two quarters back we have gotten into insulation where we buy the solar PV panels from anybody including American, European manufactures and Japanese manufactures, avoiding Chinese as much as possible in that area and we are doing roof-mounted the PV and we have started with an 80 KW and I am very happy to announce since you ask about that we won in a government tender from MNRE both from the cities of Chennai and Bangalore one megawatt each rooftop project which Thermax will be executing for our customers, and this will be executed in the current year. Each megawatt is around 7.8 or 8 crores or 16 crores kind of a size of project. So solar PV should reach a respectable number in the current year by the end and I would believe there is a trend going forward. So I would expect it to reach a triple digit size either in the FY'15 at least it is to be reaching a triple digits in terms of the topline then it becomes profitable that is as well as solar is concerned. Now we have been taken it out of India though my guys are itching to move but I am trying to tell them to wait and prove it in India. Because just to give you number wise it is not very large to talk about it there are 70 and odd 77 numbers of solar thermal based heating and cooling plants operating in the world 48 of them are I believe in India and almost 70% of them are supplied by Thermax so that is a kind of build up we are doing. So as the market picks up, now how will it pickup let me tell you, it is an indirect support coming for the business, diesel price increase from Rs.38 to Rs.50 and odd, current and expected to reach 70 in the next may be 12 months period is going to be a major boost for solar thermal sales in cities of the country because there are lot of hotels and hospitals and various other buildings where they have electricity generated using diesel because they cannot use furnace oil and with the diesel price going up the viability of solar only goes up. So I would believe the decision made by the government of India UPA II one good thing for Thermax is that they have made diesel price at commercial parity should increase the solar sales in the future that is as far as solar is concerned.

Then next item is geothermal, which we are aware of. We have not signed the concessional agreement for our PPA in Jammu and Kashmir because investigations are yet to be completed by us related to the potential where we have to have investors coming in along with us to be investing whereas the Maharashtra project is moving at a faster pace than the J&K project for geothermal. So these are the initiatives that we have taken in the recent past.

Mahesh Bendre: Quickly on the service side where you put in a lot of effort?

M. S. Unnikrishnan: Well I will tell you about that. Service has drawn in the current year. Our target was that we should be having 15% of our topline coming from service related income service and revenue because chemical, a good part of that is along with service only. I am very happy that current year we are closer to that 15%. Our O&M both in power and water, plus also the various other value added service offering by the company. We have exceeding 650 crores in the current year all of them put together, which is very closer to 50% that we are expecting going forward; possibly I will be revising the targets for. Earlier they were company wise target, we are now believing that we have a play available in some of the product areas beyond 15% also. So that is the movement we are taking and we are also taking it out of India. Let me tell you since I mentioned about it. We have already started posting people in two markets Middle East and South East Asia and I would expect two years of work to be done in that area for we can also expect a better improved income to come from these two markets also.

Mahesh Bendre: If I can squeeze one last question. And this is more of a longer-term question, if I compare the company say from end of 2010 to maybe today in going forward what I was trying to understand, what is the within your revenues and order book today and as you see going forward what is the incremental revenues that you have that you did not had that point in time and what will be the quantum of that may be two years. So I am talking about net new business that Thermax never had actually? Is it possible to answer that question or maybe I will take it offline?

M. S. Unnikrishnan: Of course I may not be able to give you the right number, but if I were to take a magnitude indicator for it. Our EPC have shrunk between 2010 and today from a 1500 to may be 1100 and odd. So may be you are talking about 400 shrinkage in the EPC. The larger projects have come down all put together projects side business would have come down from in 4000 to in 3000. That is taken over by the service improvement, business improvement, the new renewables or equivalent product business of the Company. So the complexity of the organisation that, this is the way we would have looked at in 2010 that we were almost at 67% to 70% of projects and the balance is products and services. It is now moving in the other direction and it is bringing in stability to the organisation. It may not be the chance of the market because certainly the size has shrunk overall. Now as the things have got, you are asking for a perspective going forward. Projects businesses can grow when the reversal of the economy happens because then the larger ticket size projects are aplenty in the country. Now are we going to then capitalise there and the reverse to become 75% projects and 25% products. Internally we realise that we want to know how such certain benchmarks kept for it because project is too cyclical. We love it but we do not want to have such an affair or romance with that we get to married to that permanently so we want to both of them running, that is the current decision. So that is the cross section in change. So that shifting, which has happened, is the product which were existing in the company or new portfolio started that number I may not have but let me tell you at least may be eleven different product pieces were creating by the company in the past three years. We have taken a count of it recently in our R&D review. So that eleven of them which have gotten into the commercial level, how much of that contributed with the topline, bottom-line, I do not have the numbers right now.

Mahesh Bendre: Okay, appreciate it. Thanks a lot for the questions. Thank you.

Moderator: Thank you. Our next question is from Venkatesh B of Citi. Please go ahead.

Venkatesh B: Good morning sir. Firstly I would like to congratulate you for maintaining your margins at decent levels despite the 11% top-line decline.

M. S. Unnikrishnan: Thank you Venkatesh.

Venkatesh B: Sir my question is given that you had a 20% inflow growth last year you should be able to do like a 15% topline growth this year right?

M. S. Unnikrishnan: That is you are deciding and wish me all the best to do that. I would like to do that but I do not know is it practical. Let me clarify to you with an improvement in order booking, you would see the order carry forward we also had some corrections made approximately of 100 crores some of the orders which were not moving at all got removed from that. So we have an opening order position marginally better than the previous year, let us say that. That is a reality. Now with that if the economy were to help us, because we have got capacity available as I answered earlier - surplus capacity available and virtually every business barring chemical we have got capacity available and both in manufacturing as well as supply chain capacities available, so even short-term execution of projects are practical with Thermax. Now will the market give me those orders let us wait and watch.

Venkatesh B: Okay, so if you get that, you are talking about targeting double digit kind of order inflow growth this year right and I think when Renu was asking you a few questions if you do manage to get that double digit kind of inflow growth you should be able to get this 15% topline growth, is that a right way to?

M. S. Unnikrishnan: For example if I have to get double digits for to satisfy Renu, I need to get orders in Q4 also, even orders coming in Q4 we treated as current year order. So that may show that number but I would not be able to execute it. There are lot more of factors there Venkatesh. The timing of the order and if any product orders, which I would receive up to the first half then anyhow 100% executed then revenue recognition in the year and chemical of mine even if I get the order in the month of February, I will revenue recognise in the month of March, but if I get an order if may be a very large order or may be a 500 crores size of project even say in the month of June or July, my ability to revenue recognise even a 10% of that will depend upon what kind of project. The EPC project I will have may be 7% to 8% of that recognised revenue in the current year. So both of them are not so easily correlating for a company like Thermax. It depends up on which division is getting that order, what is the cycle time or maybe delivery period asked by the customer contract which is asked by the customer.

Venkatesh B: Okay, so I guess double digit should be a more fair assumption?

M. S. Unnikrishnan: I really do not know.

Venkatesh B: Okay, now can you maintain your margins at the same level next year at this 10.6% kind of levels?

M. S. Unnikrishnan: We are going to be like last year it is what we struggled to retain the margin. I think I will have to repeat the same sentence with the sentence repeated. That we will struggle to retain the margin, albeit with the quarter you could have possibly a drop like last year we had one quarter I believe you are first quarter or something, but year wise we should be able to. Let me tell you my employee cost has gone up by 1.2% of the topline between last year and current year, in 7.3% for FY'12 and in FY'13 it has gone to 8.5%. So despite that increase in it could have hit the company by a 1.2% in terms of the overall profitability of the organisation we managed it, because the fact that we reduced the material cost by 1.67% and the bill tightening done. Now if the topline would remain stagnant in the coming year and the margins under pressure the same way we were, than from where do I take the cost out of? So that is why I will have to look forward to how the market is going to be easing out. So that is why we were struggling but we will, there are enough and more intellectual brains available in the organisation to do value engineering in the better way. We will struggle but I think we should be able to retain. Anyway progressively even quarter-over-quarter we will be discussing though it is not a guidance I will say that if there is a difficulty I let all of you know about it.

Venkatesh B: Sir this TBW facility when does it come on line?

M. S. Unnikrishnan: I am unable to say because it is ready the declaring it is even if have to say it's come on line it will be something like it is ready declared only for the purpose order intake is more important. But it is ready, let us say that is ready, it not declared ready because that is more of a commercial and legalities related to that.

Venkatesh B: But this year you will see like around 100 crores kind of a loss there, because of that would be the running cost right?

M. S. Unnikrishnan: A little more than that it could be.

Venkatesh B: Thank you very much sir and all the very best.

Moderator: Thank you. Our next question is from Venugopal Garre of Barclays. Please go ahead.

Venugopal Garre: Hi, Unny and Gopal a very good morning to you. Sir I just wanted to know your commentary in the beginning of the call seem to be a bit cautious compared to your view at the beginning of last year. You are very confident about the growth in FY'13 in terms of orders. Now your commentary on CPB market itself seemed to be quite weak. So are we banking on some large orders for us to be able to drive the growth or we are visible to of some order wins where we are in the final stage. So I just wanted to understand this connect between growth versus the commentary?

M. S. Unnikrishnan: Main issue is last year beginning, there was more visibility of medium sized projects though some of them did not fructify but there was a visibility. Currently there a couple of enquires but not as many as that we had last year. So it has to be small and medium sized to help the company to have a order intake better than the previous year. The next item I have mentioned about is international, which we had been able to do better in the current year. I should do in better than what I have done in the current year to make it the numbers that we spoke about. Then the level of hope that we had in the beginning of the last year for the overall economy I am sure Venu, you yourself are aware of couple of factor which is happened in the country one is April, May of 2013 versus April, May of 2012 the consumer goods growth just compare it that way it was in double digit last year and the current year it has come down to 1.97%. Now unless the consumption has seen positive, capacity utilisation will not be visible for the decision makers unless they see that positive movement in consumption growth why would they create new capacity, if they create new capacity then I get orders. So this is the disparity between last year and current year. Many people do not interconnect between the sectorial numbers when you see the IIT's and GDP numbers, which are spoken about, whereas we need to be very, very closely watching it, that is why I am talking about the overall market sentiment if I have to have a barometer to measure it which mean to say April 2012 and 2013, I do not think anybody in India whether it is a common citizen, a consumer or an industrialist will say the things have improved. Now deteriorated may be for sector-to-sector, that is why my confidence level is not as good as last year, but I am not translating that into the numbers because when the confidence is a little lower you normally overwork, in companies like Thermax at least, so we will ensure that we will put in our efforts to still overcome the difficulties that we have in the market. I hope that answers.

Venugopal Garre: I do appreciate. Sir my second question is as I always ask about the LPP segment in the beginning you made a commentary that there are just one or two tenders is that it? is there nothing else that you are seeing in the next few months?

M. S. Unnikrishnan: Certainly few months if you talk about all the enquiries on the anvil known to us because incidentally most of them are International Competitive Bidding's or it is in the public domain. So I am sure you must be aware of it especially those who are tracking the power sector. I am not expecting any large power projects in the private sector to be taking shape baring one company, I will not name them, but one of them will come forward in the first half of the current year itself. For second half, there are one or two enquiries in the anvil, but I do not know because they could have finalised in the current first half itself but the movements that I am seeing are not very positive and it may happen, may not happen. Then in electricity about there are two, three of them are expected to come and most are which are going to be EPC. We will not participate in all of them. We will have to certainly look at the financial position of those electricity boards and so that we can go along with some EPC company like Toshiba or there are one or two others who are also discussing currently with us to participate in those, so that is the reality and I am sure same will be the answer given to you by two other elder brothers in the industry who are manufacturing boilers in the country of supercritical nature or facility available. I am sure you would have spoken to them also and in the power sector none of us are expecting things to be turning around so quickly.

Venugopal Garre: Thank you Sir.

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

Bhavin Vithlani: Good morning Unny. Good morning Gopal. Excellent on the margins. My question first is one the book keeping. I think I would have missed, so if you can help me with the numbers on order inflow breakup standalone group on order inflow, order backlog also what was the EPC order inflow and how the EPC revenue for the current year?

M. S. Unnikrishnan: Gopal please help him out.

Gopal Mahadevan: For the quarter the order inflow was 1155 crores for the company and for the group was 1366 crores. Then you wanted the order balance?

Bhavin Vithlani: Yes, order balance and if you can break these between energy and environment?

Gopal Mahadevan: Of course I can, now 1155 crores can be broken down into 846 crores of energy and 309 crores of environment. For the group I had mentioned 1366 crores for the quarter broken down into 1052 for energy and 314 crores for environment. Order balance is for the company 4357 crores broken down into energy 3275 crores and environment is 1082. For the group it is 4878 crores, energy constitutes 3789 and environment constitutes 1089 crores. You also wanted the power inflows order booking for the quarter?

Bhavin Vithlani: For the year?

Gopal Mahadevan: You wanted power for the year?

Bhavin Vithlani: For the quarter and for the year?

Gopal Mahadevan: In power division right?

Bhavin Vithlani: Right power division.

Gopal Mahadevan: See power division for the quarter the order inflow is 179 crores for the quarter and for the year it is 1502 crores. 179 crores for the quarter and for the year just give me a moment, for the power it is 1502 crores.

Bhavin Vithlani: 1500 crores and how were the revenues of the power division?

Gopal Mahadevan: We normally give order inflows for the power division. I think probably we will have to restrict to that.

Bhavin Vithlani: My second question is if I actually got this right, in one of the questions, Unny, you mentioned about the standard products and the services business doing well along with I think we emphasised a lot on the exports order doing very well, so, if you can throw more light on how has been the growth of the standard products, how much it constitutes of the company? Services you said it is about 15%, how do you see the growth going forward and separately on the export side?

M. S. Unnikrishnan: On the services side, we will be witnessing a growth. Please recognise for a fact that unless the economy fix up, service piece are also going to grow at a slower pace only. There are two types of service. One is where we offer it from the existing guys. When somebody is already managing the operational maintenance and I offer him some better performance and take over his operation. That is one type of a service. There the growth is one can depend upon the kind of margin reduction one is willing to be accepting which we are not ready for our entire intention to service business is to have an operating margins business to be created, so that growth will be restricted. Then come the new service products, which are like energy orders, which we do or retrofit and revamp that we do. In that the main, money would come from the retrofit and revamp only, which again smaller ticket size companies go ahead with, but the moment it becomes a 10 crores retrofit job, it is again treated like a normal capex. So that is an area where I have concerns as to will we are able to grow well. So, overall I would expect that irrespective of the economic trends, there will be a double-digit growth in that which is without any ambiguity one can talk about in the service area. International, there are two items. One is where we are bidding to European and Japanese and Korean EPC companies who in any case are getting orders from the Middle East and all these markets, which I mentioned about for lump sum turnkey orders for refinery expansion or larger factories, where some of our product go as a part of that. So all of them now try to fish in the troubled water, trying to get a better price, so I have to offer very, very competitive prices, like the way we have been taking domestic orders in the earlier domestic margins, whereas earlier we were getting better international margins, but those orders are there, through tougher competition. Then the conventional products that new have got are being peddled in all these markets. There we have seen an order booking increase of 25% plus last year in the standard products area, it should repeat in the current year. I am sure.

Bhavin Vithlani: The standard products are relatively better margin versus the projects. Is that a right assumption?

M. S. Unnikrishnan: If it is done through a distributor, the margins are the same only, because there is price list, there is also the minimum acceptable price equivalent. There one is unable to increase the prices, but if it is maybe a direct sale made by the company, depending upon the competition, one is able to negotiate and sometimes get a better price, but can you take it as a rule that the margins are going to improve, because I would rather say no because currently with the domestic market not looking very bright, I would rather have my team take an order than trying to maximize profitability. In a good year, when domestic market is doing very well, you go abroad for improving your margins. When domestic market is not doing well at all, you want to fill your offers there margins are a secondary concern. Margin making is in the factory and the supply chain, not at the market place.

Bhavin Vithlani: That answers my question. Thank you so much and wish you all the best for the future.

Moderator: Thank you. Our next question is from the line of Mr. Salil Desai of Premji Invest. Please go ahead.

Salil Desai: Sir, you mentioned that some of the PSU generating companies are likely to bid out more on EPS orders for power, rather than separate packages. So in that scenario, how do you see your competitiveness since you have to partner with a buying supplier vis-à-vis your competitive like L&T and BHEL have integrated facilities?

M. S. Unnikrishnan: In EPC Thermax or TBW. Our joint venture will never be lead bidder. Lead bidder is going to be somebody else and they will have a consortium. You cannot have a pure play EPC in such large value order then the margin that everybody does will make you non-competitive. So, what one does is you have a consortium signed so that there is no doubling of the margin. For example, my selling price will be taken as an input price and no margin will be added by the consortium partner. So there is no disadvantage to a consortium

EPC in comparison to BHEL or L&T. So that they have to take their profits or at least break even for the boiler and turbine, same would be the case for others also, but the clarity what I need to say that I do not think anybody is going to make any big money for the next couple of years because if the number of enquiries are so low the guy who is willing to take a loss at the time of bidding is the one who is going to get the order. When there is surplus, if you could have every quarter two or three orders going on in the market then everybody will make money. When we have got one order for a quarter, three, four, five of them including us trying to take an order, you can imagine the person who commits the mistake gets the orders.

Salil Desai: Second is how do you see customers from the payment related angle? are you seeing any improvement in the signed undertaking to pay you or any improvement in the liquidity with these guys?

M. S. Unnikrishnan: In my opinion there is no liquidity crisis, but there is a lack of intention to pay on time to preserve cash on the balance sheet. That is still prevailing. On the contrary, I cannot even use the word improvement, there is deterioration in the market and so it becomes very difficult these days because these are my customers. 60% plus of them are my regular customers, repeat customers, so we cannot be cutting our relationships for our collection. There are delays in payments in the market, but we are very cautious to ensure that payments are coming in, albeit little delayed and you would get stuck into anything so muddy. I cannot guarantee nothing will be muddy but at least not so muddy in such a way it really hits us. I need to be admitting that the current assets have increased in the current year in comparison to the opening, there is an increase but nothing alarming where one need to be worried about if we had a worry Gopal will certainly instruct that there is a provisioning done as for the policy that we follow, very prudent policy that we follow.

Salil Desai: Thank you.

Moderator: Thank you. We will take our next question from Fatima Pasha of ICICI Prudential. Please go ahead.

Fatima Pasha: Sir, extremely good margins. Sir, just wanted to understand like someone had just asked about FY'10 to now and you just lineated about how services and products have become a big part of sales now versus in FY'10 but despite that if I just see your margins from 12.1 would have come down to 10.8 say from 2010 to now. So, how are we looking at it, services and products, can it as a percentage of sales go up anymore incrementally and if it does not then is there a risk to margin that we are looking at because somewhere signifying that your projects in EPC business margins are much worse, because I do not think product margins would have dropped as much or have those product margins also dropped and the entire shift has been downwards?

M. S. Unnikrishnan: I am just comparing FY10 versus FY13. When there is buoyancy in the market, you make better margins anything and everything, because it maybe a commodity item, to pure commodity to niche products. There is surplus capacity available in the market for whether the product or a project. So the margins are going to be under pressure. The only silver lining in the last three months, we are seeing loosening of commodity prices. So, that is the only one we are going to pass it down to the market, maybe we can retain the margins. Now for all of us to go to teen level margins, the FY10 kind of margins one has to see market growth of maybe 8% to 9%. When the GDP grows by 8% to 9%, energy will by at least 11% to 12%. When the 11% to 12% growth is available we have ability to sticking to the prices. Currently, I am very open that no Indian engineering company or capital goods companies operating from strength. All of them are operating from the weakness when they sit for a negotiation. Unfortunately, engineering goods are negotiated every order and it depends on what is the vulnerability of the competition that is where the market prices are decided. So, it could be likely that one of the competitors has got a bank loan to be repaid or he does not have money to pay salaries, so he just picks an order for an advance cheque to be collected, it is a reality.

Fatima Pasha: That I can understand. Do you think that the percentage of sales of products is going to go up now in FY'14 or now you think as a percentage of sales are pretty much there and now growth will have to come from projection?

M. S. Unnikrishnan: Both are possible. We do not have 100% market share in any of the products. It varies between in a water products where I am 15% to 18% to the highest I am having is about 85% market share, but on an average I would say a 30% plus percentage is the right now. Now, can I not increase it to 40%, but only question is when I am taking the orders of my next competitor who normally used to have a 10% lower than me that is where it makes the difference. It is a judicious mix one has to take on this; it depends on the factory loading. If it going to be helping me to be on a marginal pricing basis, when I am going to be buying in bulk, which will help me to get a better discount on a commodity, which will improve my topline by maybe a 10% but bottomline may not go with proportion, but little, all those decisions are taken on the spot only. Let me tell you the market is so volatile we are very active these days. Gopal, me and people like us normally who would be sitting in corporate office only now I think we are more in the market.

Fatima Pasha: Fair enough. Sir, just last question, we have maintained this 1200 crores quarterly run rate and order inflow now for four quarters, are we like best case hoping to retain this or we believe that it will go to a 1400 crores kind of run rate?

M. S. Unnikrishnan: I do not think, I can predict on that though intentions maybe to alleviate it, I do not see any market movement, which is making me confidently tell I will do that. I want to do is the right answer.

Fatima Pasha: Fair enough.

Moderator: Thank you very much. Ladies and gentlemen due to time constraints we will take our last question from Indrajeet Bhatia of Macquarie. Please go ahead.

Indrajeet Bhatia: My question is regarding this opportunity on the utility boiler EPC packages. Would there be some sense on what kind of opportunity is there from these trade government kind of bids in the next 12 months or so?

M. S. Unnikrishnan: There are two or three major bids expected where they are talking about going ahead with the project. One is the Neyveli Lignite Corporation. I am not treating them like a public sector or like a State Electricity Board equivalent of that, so they are not really a state electricity board. They have a license obtained for three numbers in the State of Uttar Pradesh. Now how the project will take shape in the next maybe 10 to 11 months they have a target to complete it in the current year where there is likelihood that they would not buy EPC, they may go for at the best PTG and possibly even a boiler loan. That is one. There are two other state electricity boards who are also going ahead with the tendering process. So, there are three of them currently. Couple of more of them may come, but only states like Tamil Nadu has come out already with their tender, but they wanted the funding concept to be brought in by the EPC bidder for tenure. So, there is lot of complications in that currently.

Indrajeet Bhatia: In this TN what we understand the bid has already been invited and as you said the EPC player is required to bring in some kind of a funding support for the project, so in that kind of a scenario how does Thermax participate in it. You have answered that, you will not be the lead consortium player, but would you still be even looking at such kind of a project where there is a funding support that you have to give?

M. S. Unnikrishnan: Certainly no. Thermax will not look at it. Currently, we have invested say around Rs.800 crores of which 50% is Thermax's responsibility for the JV. We shall not be investing anything to get an order compromising our profits.

Indrajeet Bhatia: Thanks a lot and best of luck.

M. S. Unnikrishnan: Thank you.

Moderator: Thank you very much Sir. I would now like to hand the floor back to Mr. Alok Ramachandran for closing comments. Over to you Sir.

Alok Ramachandran: Thank you. On behalf of SBI Cap Securities I thank all the participants who have participated in the call. I thank the management for giving us an opportunity to SBI Cap Securities to host the call. I wish the management and all the participants all the best for the future.

M. S. Unnikrishnan: Thank you everybody. Thanks a lot to all of you once again. Sorry for the shortage of time. That is why we could be taken limited number of calls. I am sure you will have opportunity to talk to us later also. All the best. Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of SBI Cap Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your line.