



## “Thermax Limited Q4 2016 Post Results Conference Call”

May 26, 2016



**ANALYST:** **MR. ANKUR SHARMA – VICE PRESIDENT - INSTITUTIONAL RESEARCH, MOTILAL OSWAL SECURITIES LIMITED**

**MANAGEMENT:** **MR. M. S. UNNIKRISHNAN - MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – THERMAX LIMITED**  
**MR. AMITABHA MUKHOPADHYAY - EXECUTIVE VP AND GROUP CFO - THERMAX LIMITED**

*May 26, 2016*

**Moderator:** Ladies and gentlemen, good day and welcome to the Thermax Q4 FY 2016 Post Results Earnings Conference Call, hosted by Motilal Oswal Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ankur Sharma from Motilal Oswal Securities. Thank you and over to you Sir!

**Ankur Sharma:** Thanks Karuna. Good morning ladies and gentlemen and welcome to the Q4 2016 post results conference call of Thermax. On the call today, we have Mr. M.S. Unnikrishnan, Managing Director and CEO and Mr. Amitabha Mukhopadhyay, Executive VP and Group CFO. I would like to hand over the floor to Mr. Unnikrishnan for his opening remarks and we can have the Q and A session. Over to you Sir!

**M.S. Unnikrishnan:** Thank you Ankur. Thanks a lot to each one of you and warm welcome to our quarterly results announcements. This also happens to be the yearly results announcement. Let me start with the numbers. For this quarter Q4 Thermax Limited Standalone had a revenue of 1262 Crores from operations. It is 15% lower than the same quarter last year. Of this, domestic is down by 31% whereas international quotient is up by 36%. At the year end YTD our revenues are at 4287, 6% lower than the previous year number of 4544. At the yearly level, domestic is down by 18% whereas international business is up by 32%, which is the only reason why we have been able to put up at least a decent enough number, may not be to our satisfaction. . Our order intake for the current quarter had been the highest in the past four quarters. It is at 1177 crore for Thermax Limited as against 973 crore, 21% up from previous year, same quarter. At the yearly level we are down by 6% at 3701 crore versus 3951 crore for the previous year. For this quarter our PBT is at 152 crores, 21% lower than the previous year’s same quarter at 192. For the full year it is at 437 crore versus 497 crore which means a 12% reduction on that front.

Coming to the group, it is a positive result for this quarter as well as the full year. Quarter-wise, the order intake itself is at 1527 crore versus 1419 crore, which is an 8% improvement over the previous year. Revenues were 1596 Crore which is 4% lower for the quarter. For the full year we are up by 4% at 5425 crore versus 5238 crore. This improvement between Thermax Limited standalone and the group level has been made possible on account of two factors. Number one is TBWES, our joint venture with B&W

*Thermax*

*May 26, 2016*

had an income recorded in excess of 200 odd Crore. Amitabha will give the exact numbers. Secondly, our construction company which is doing Reliance Construction had the highest ever topline in excess of 300 Crore of rupees. These two have contributed in ensuring that though at Thermax level we are lower at the group level we are better than the previous year.

Now, coming to the order intake for this quarter for the group level we are at 1527 which is 8% above the previous year, and at the full year level we are down by 15% in fresh order intake for Thermax Group at 4515 crore versus last year same number of 5293 crore. For this quarter our PBT at the group level is at 85 crore versus last year at 87 crore but for the full year t, we are up 22%, on a 4% higher revenues. The e PBT is 22% higher at 389 crore for the group making the group profitability also improve from 7.3 to 7.8. That is about the numbers.

If I have to give an outlook we are not disappointed with the numbers excepting for the order intake which continues to be at a depressed level, suboptimal level on account of the fact that there are no major project conclusions happening in the larger segments which Thermax normally receives larger orders, but no projects specifically in steel; , cement, no expansions; oil and gas still waiting for enquiries to come out; fertiliser only one project got concluded and that is also for LG efficiency not for capacity enhancement which we fought and got from the market. To be precise in the entire year within India there were only three orders of more than 100 Crore value... triple digit orders got concluded; two of them were received by Thermax and only one went out of our hand. Between 50 to 100 crore, there were six orders that got concluded in the country and of which three of them came to Thermax and other three were taken by various competitors. That is the condition prevailing.

On the other side, on the working capital we have been able to bring our accounts receivables under control. I would have been happier if we could get some more money but I would say the team has done well in terms of collecting in very difficult circumstances. Inventories are brought down substantially, and I may not be able to do anything further on the inventory improvement. Expenses are well under control and our employee cost is marginally higher than the previous year. We may not be in a buoyant market but India employment market is not negative even today, so retaining the manpower has been difficult. One good news is that, I don't know how you are going to be reacting to this, both the partners that is Babcock & Wilcox and Thermax together have decided to pay up the debt on the joint venture in advance because we did not want to burden the joint venture

*Thermax*

*May 26, 2016*

with an interest repayment which will compel them to take wrong decision. In these difficult days, we would rather go with less baggage, so sufficient infusion was done by both the partners by which the entire debt of 442 crore got paid, not in the previous year but in the current year. It is only prudent on my part to inform you that again Thermax Group has become debt free. This will bring down the breakeven level substantially. TBW, in any case, has reduced their losses without repayment from 124 in to around 70 crores. . With the burden of interest taken away from them, they will turn EBITDA positive with whatever are the orders incoming from the joint venture partner. The last feedback to you is about Reliance, particularly you may want to know what has happened on the project we have been involved with. The supply was totally completed, construction progressing at a feverish pitch and I am very happy to inform you that both at Dahej and Hazira site y we should be commissioning all the boilers in the next three to four months time. r. There will be some issues we need to sort out, but they will be about minor things; otherwise we should also be closing the site in the current financial year. I will leave the discussion at this level and allowing you to be asking me questions.

**Moderator:** Ladies and gentlemen, we will now begin the question and answer session. First question is from Renu Baid from IIFL, please go ahead.

**Renu Baid:** Sir, interesting to see that you have finally started sharing the entire detail, consolidated financials of Thermax Group as a whole but unfortunately if you can help us understand, I think, on the segmental side we have not shared anything on the standalone performance, just for the interest of investors and analysts to understand how have our business segments performed during the fourth quarter and overall for the year at Thermax Limited if you can share some insights or some details.

**Amitabha M.:** For fourth quarter the standalone segmental revenue energy segment was 1036, environment segment 271, in rupees Crores, intersegment revenue was 14, so after adjusting for 14 overall revenue was 1293, corresponding figure for the previous year is 1252, 330 and after adjusting intersegmental was 1508. Segmental profit, energy segment 139, environment segment 18, overall 152. This is the fourth quarter segmental numbers.

**Renu Baid:** Sir does not this show as if we have seen overall weakness in sales both energy as well as environment have seen reasonable drop as in energy declining by double digit and environment closer to that, are we not seeing at least the base orders contributing to business volumes and growth, any structural reasons to get concerned here apart from weak orders that we have had.

*May 26, 2016*

- M.S. Unnikrishnan:** I don't think there is any structural weakness in anything that is visible. The base orders continue to come in protecting us, that is both in products and services continuing to be there and I should say that the entire order intake, if I were to analyze the energy segment, the standard product order intake for the company had been better than the previous year at full year level, I am not talking about quarterly level, I may not have all the numbers in front of me but on a yearly level standard products have had a better order intake and the enquiry pipe flow, if I look at the back of the better balance sheets of the medium sized companies of India, investment cycle is ongoing so there is no concern for worry over there. However, the carry forward orders which is available for the project businesses like Power EPC as well as B&H business of ours has come down to almost an all-time low in the recent past. which is an indicator - that is not going to support the company unless a fresh ordering starts in that area. Now, is it structural change, well, we have been waiting for that for the past three years, otherwise there is no cause for worry on that count at all. Same continues for environment. At the back of smaller investment, smaller size investment it is continuing, however I need to say that despite government's stipulation and the CPCB notification for the new norms related to particulate emission, SOx emission and NOx emission, I don't think the market is responding positively, nor are the state governments responding positively to implement them in the immediate future. They may implement it at leisure. .
- Renu Baid:** Sir again a bookkeeping item, in the fourth quarter if we see the other expenses seem to be pretty steep at almost 260 Crores, so is there any forex loss element or any other exceptional item there because otherwise in the gross margin front we have done a reasonably good job, it is only on the other expenses which still looked a little higher, so any particular insight on that?
- M.S. Unnikrishnan:** We would have written off maybe any doubtful debts in the current circumstances where we would have had settlement done with customers, otherwise these are all one-time, there is nothing which is of a permanent nature.
- Renu Baid:** What could be the quantum of this probable write off?
- Amitabha M.:** The fourth quarter other expenses as you mentioned, was 260 Crores which compares to the corresponding year fourth quarter of 284 Crores. If you see your debt level, fourth quarter number for other expenses actually has not gone up. Secondly as Unny mentioned we have this time taken a reasonably conservative view of our receivables and an additional quantum

*Thermax*

*May 26, 2016*

of 13 Crores have been provided for, based on our perception of certain receivables. So, to that extent, 13 Crores I think it is a one-time item which is included in this.

**Renu Baid:** And this essentially would be customer from the government side or the private sector?

**Amitabha M.:** I think it includes primarily private sector.

**Renu Baid:** Sir if you can give some outlook with respect to how have the overall subs performance been for the fourth quarter and for the full year, TBW you did mention few things, but a little more on the other subs and how their performance was at PBT and PAT level?

**M.S. Unnikrishnan:** We will not be telling you the PBT and PAT level for each one of them, but let me try helping you out with the overall numbers.

**Renu Baid:** A broad colour of how the performance has been, not exact numbers.

**M.S. Unnikrishnan:** Because there are so many of them, small, small ones I may confuse you in the future.. that is the only reason. We have had both our construction arms - subsidiaries doing far better than the previous year on the topline there is major improvement in revenues for both Thermax Engineering Construction and Thermax Instrumentation Limited. We also have our other subsidiaries Thermax Onsite Energy Solutions improving their profits. All three of them are that way. Coming to our Danstoker Group, at the overall level, both of them put together, it is almost flat on the topline, marginal numbers, in fact maybe a Crore here and there. But their order intake for the year is better, whereas for the Construction subsidiaries both Thermax Instrumentation and Thermax Engineering Construction they follow the EPC and boiler business where the order intake is low and construction orders are also lower. For the Danstoker Group, we are expecting a better performance than the current year and it is profitable. On the profitability I will talk about later whereas on the Chinese subsidiary the topline has come down. There are only very risky orders going on in China right now which we are not participating in. But even at the subdued reduced level of the topline it is EBITDA positive though at PBT level it is negative and their cash position is good. They do not have any extra borrowing. We did not have to send any money from here. They are managing it quite well. Then both Thermax Europe and America their toplines are lower than the previous year but profitable.

*May 26, 2016*

Now coming to the profit levels, barring the Chinese subsidiary, Thermax China, which is EBITDA positive but PBT negative, all other subsidiaries have made profits in the full year. . . That is on the subsidiaries.

- Renu Baid:** TBW what was the amount of loss, I missed the number when you mentioned it initially?
- M.S. Unnikrishnan:** 70 Crores in comparison to 124. This is a large number, that is why I am repeating, we had a loss of 124 crore, it is brought down to 70.
- Moderator:** The next question is from the line of Sandeep Tulsian from JM Financial, please go ahead.
- Sandeep Tulsian:** I would like to understand more about this order that we got from RCL, this energy efficiency related order, is it first such order, what is the scope, what would be the future scope of similar orders in this field?
- M.S. Unnikrishnan:** This is a combined cycle plant which means this plant will give both electricity and steam for the fertiliser process. This has got gas turbines which are going to be supplied by Siemens .. very special kind of gas turbines for small capacity and the waste gases coming from the gas turbine will be recovered and converted to steam and that steam will be utilized in the process. It is an entire EPC job given to Thermax. We had a tough competition with a large public sector of the country and we have been able to manage it and this order will have to be completed in a period of less than two years and . The work is already on. This is an existing site of theirs, so it is a brownfield rather than a greenfield, and their balance sheet is good enough where I don't think they need to do any borrowing to do this job, the work is already ongoing.
- Sandeep Tulsian:** So is this a different order from usually what we bid for or have we done many such similar orders in the past?
- M.S. Unnikrishnan:** No. We have done two jobs. One very similar to this for OMPL which is a joint venture between ONGC and MRPL. That is commissioned and the second one for North Eastern Power Corporation NEPCO where there is a gas turbine generating power in existence. We have done the tail side to take the waste gases and generate steam from that. That will be put in steam turbine, two of the jobs we have done and it is a very interesting question you asked about because the oil and gas prices remaining at the current level, normal gas prices coming down, small capacity combined cycle power plants will be a lot more attractive . If there is a utility for you to use steam in a process as well as generate electricity in the

*May 26, 2016*

industry the gas is available. This could be a good possibility where overall cost of energy can be brought down below that of conventional energy, which is an entry for the company. We are establishing ourselves in this area. .

**Sandeep Tulsian:** Sir my second question is on the growth outlook, we have done fairly well, as we started the year with an 18% lower order book, but sales declined only 6%, starting FY 2017 with another 15% lower order book now, you obviously some colour as to long cycle orders are at all time low, what kind of colour can you give as to the mix between the short cycle and long cycle and execution period profile change of the company over the next say one to two years?

**M.S. Unnikrishnan:** For the current year I have 3700 Crores only available to the parent company that is Thermax Limited. It is 600 Crores lower than what I entered the year with. I have capacity available, if orders were to be available, I can do better than the current year, but expecting so many orders to be made available either in the domestic or international markets may not be practical. If you remember in the beginning of last year, normally though we do not give guidance, I said that we will strive to keep the drop in topline to a single digit and we will try to make a double digit profit PBT at the end of the year. I think I think the team has done almost closer to that or better than that. Current year I am not giving you a guidance because there is volatility in the market where if the government were to do what they are expected to do, and what we are going to listen to many people in the next two days about what they are going to do as a government, it can help us with the short cycle, because in my opinion consumption started picking up in some sectors. FMCG is showing positive signs after maybe four quarters, automobile and light engineering is showing positivity.. If people were to go for line balancing which means short cycle orders can be there, and if the equipment are going to run at a higher capacity, service income can also pick up though the global cues are not very positive. How much can India help me? So, if the system were to continue at the same pace as last year for the short-cycle orders I will certainly have a drop in the topline. The challenge is : will we be in the position to retain the double digit margins? We will try. . We are doing everything possible. You had been listening to us for the past so many years – that we will try and maybe somehow we manage it. Current year, I don't , want to comment on that unless I reach up to at least maybe middle of the year. That's the reality. So the colour that you need to see is that it is not darkening. It is lightening from the last year at this point of time.

**Sandeep Tulsian:** Sir, the new capital goods policy was cleared by the ministry yesterday, any thoughts, any sections which are specifically applicable to Thermax from the policy, if you can highlight?

*May 26, 2016*

The capital goods policy has got three sections, number one is to create capacity in the country, second is technology creation needed for the future and third is trade and exports. And I happen to be working very closely with the government by heading one of this verticals, the trade and exports committee is headed by me. . I am fully aware of the contents of that. Expecting anything which is going to be helping Thermax or the industry in one year period, will be a pipe dream but if implemented with multiple ministries, in a period of three years you will see Indian capital goods industry taking a leap and then growing along with the rest of India. If India grows, capital goods industry will grow. .you would have also seen that. for any Indian banking system that supports expansion of the power sector for both capital equipment and T&D equipment, it is mandatory for them to buy from India. There are similar kind of things which are for capacity creation, technology development fund. The first level of 793 crore is already approved. The second of 1500 crore will come in the next year budget. This will support small and medium scale industry of the country that may not have an ability to create technology. Technology purchases is a sequel to what China does through design offices where they buy technology from foreign companies and give it to domestic companies. For the third section, trade and export, if the global trade of capital goods is \$100 billion, India is maybe less than 1%. and we want to increase our exports to 40% of production. This means that if India's current capital goods production is around 265000 crore, we need to go to 750000; of that, 40% will form international business. Thermax will be at the forefront as a company already in international markets. So in three to five years Thermax should go from the current 30 and odd percent to almost 50%, which will help Thermax 100%.

- Moderator:** The next question is from the line of Bhavin Vitlani from Axis Capital, please go ahead.
- Bhavin Vitlani:** Unni, could you help us what was the short-cycle revenues for the years, baby boilers, the chillers, it can help us forecast a bit better.
- M.S. Unnikrishnan:** Chillers, boilers and services of that put together including domestic and what we exported out of India not including the international turnover of Danstoker or Rifox which is excess of 900 crore rupees for the full year. For air pollution control and water businesses we do not treat it separately; it is single income. But since you want to know, both put together could approximately be another 300 plus crores of rupees. You can say around 1300-1400.
- Bhavin Vitlani:** How has this grown over last year FY 2015 over FY 2016?
- M.S. Unnikrishnan:** Upper single digit to some of them crossing even double digit.

*Thermax*

*May 26, 2016*

- Bhavin Vithlani:** About 8 to 9% growth would be a fair assumption?
- M.S. Unnikrishnan:** Yes.
- Bhavin Vithlani:** How do you see the scenario, do you see these businesses growing at double digits now as you mentioned, some of the segments it caters to us showing positive signs.
- M.S. Unnikrishnan:** First half I am expecting a similar kind of growth of continuum, second half of the year if government were to lift up the policies and then positivism were to prevail in the market, then second half you can see a double digit growth.
- Bhavin Vithlani:** If you could give us your breakup of the order book and order backlog for both Thermax Limited and consolidated?
- Amitabha M.:** I will give you the split of energy and environment, 3134 for energy and 631 for environment, total 3747, this is Thermax standalone.
- Bhavin Vithlani:** How much was exports backlog?
- Amitabha M.:** In order balance export backlog is 1092 crore, total.
- Bhavin Vithlani:** Order inflow?
- Amitabha M.:** Order inflows for Thermax Limited, energy 961, environment 216, for the quarter. For the full year, order intake for Thermax Limited -- 2890 in energy, 810 in environment segment, total 3701 crore. Export order intake for the year is 909 crore for Thermax Limited.
- Bhavin Vithlani:** For the quarter?
- Amitabha M.:** For the quarter order intake, export is 155 crore.
- Bhavin Vithlani:** Unni a question is what we keep hearing is this one large project of Dangote where Thermax is favorably placed. Could you give us some color on when do we expect some decision from that. We understand currency restrictions are impacting the drawing of LC?
- M.S. Unnikrishnan:** Bhavin, we are equally keen that the project moves. What is specifically visible at the site is already public domain information. They have done the land development, progressing site office is opened, almost 100 people site structure is in place, a good number of them being

*Thermax*

*May 26, 2016*

Indians and many of them are our friends from the Indian oil industry. The project is moving. They have not signed up with any banking system though earlier they had Standard Chartered Bank offering them \$3 million of credit line, which they have not taken. Since there are multiple Indian companies who have not concluded, I would say, they have reached the final stages of order conclusion with Dangote group, and they are also in discussion with EXIM Bank of India. But of course Bhavin, you should understand that EXIM Bank is not like the rest of the global banking system where sovereign to sovereign credit is given or sovereign to large project companies credit's are given. It will depend upon where the credit is going to happen. So we will wait and watch. We have done some amount of work in engineering, which in any case idle manpower of Thermax will be happy to do. The first confirmation you will get will be from the filing our company's secretary about orders being registered. That will be the positive move. So I do not think anything is expected in the first quarter or at least in the immediate three to four months time. This is not our order. You are talking about \$8 to \$9 billion worth of a refinery project taking off than what the promoter can afford to spend for development of land and may be write off equivalent. The moment any investment goes away from the write off level of the first investor, you can say the conservative project is taking off and thankfully you do not have the environmental difficulties in NGTO of India, CPCB of India and may be land acquisition problem. Those kinds of things are not there because government is going to be a direct partner in some way for the local governments. That is it. So only hurdle is money, which well he is making a lot of money as a group, we make almost, billion-dollar profit in the cement business in Nigeria itself. So his ability to be producing a \$2 to \$3 billion of equity in the next four years time for making the project fructify it is not a problem at all for him. So debt will be the issue, which again for the group assets, which is highly unleveraged, getting the debt is not a problem but the country risk and the accompanied interest rate, which should not become refining margin erosion is what he is currently working on. So I will keep you posted, Bhavin.

**Bhavin Vithlani:** Last question, Unni you mentioned in TBWS last year we got some 400-odd Crores orders from the partner. How are we seeing the situation? If you could give some of the orders won last year and how do you see the pipeline going forward?

**M.S. Unnikrishnan:** There are a couple of enquiries they are aggressively pursuing in the global market, which we are supporting and the JV is supporting them. There are different processes are there. Last of the North American manufacturing unit which is in the balance sheet or may be in the possession of BMW was lost a few weeks back at Mississippi. It is big news in the North American continent because they want manufacturing to come over there and they

*Thermax*

*May 26, 2016*

were closing down one. It is there in public domain, so I can talk about it. So, if they were to get an order naturally the JV will be the beneficiary of that. One more thing to talk about is they surprised the world by buying an Italian company in dry cooling last week again at \$130 million. They do not have any manufacturing unless this new company has got something in Italy but still it will be cheaper to make in India. Pipeline is there and it is an active pipeline.

- Bhavin Vithlani:** Sir, 300 Crores revenue you did last year do you believe this is repeatable in 2017 as well?
- M.S. Unnikrishnan:** Certainly I got carry forward equivalent to that. Next year is not a worry. Year after that is a worry.
- Bhavin Vithlani:** Sir, if you get the order in current fiscal then?
- M.S. Unnikrishnan:** Basically it will be completed in the year. Supplies will happen the year after that.
- Bhavin Vithlani:** Thank you.
- Moderator:** Thank you. The next question is from the line of Pranav Gokhale from Invesco India Asset Management. Please go ahead.
- Pranav Gokhale:** Good morning Sir. Just a question, Sir, do you see more of a biomass opportunity emerging for you? We have seen quite a few turbine players talking about these opportunities, but we have just not heard anything in terms of order inflow or backlog from Thermax for quite a while? And if you could just highlight with respect to your COM block product as well, if you could throw some light on that?
- M.S. Unnikrishnan:** In fact baseline opportunity, which I spoke about for the product list of the company is Combloc which is doing well. We have also introduced it outside India. We have picked first set of orders from South East Asia also and we eventually start manufacturing in the Indonesian facility once that is ready. Comblocs are biomass boilers and not for power generation or cogeneration. So the other company which would have spoken to you will be normally in the range of may be 8 to 10MW ... perhaps 5 to 20MW or 5 to 15MW. In that area other than for the sugar industry or allied industries, I have not seen any movement in the last one-year. So if anybody were to talk about orders being received for turbines it could be predominantly in the sugar sector. There we participate only in a very few orders because of the governance requirements or what we would like to continue in that area. But

*Thermax*

*May 26, 2016*

we are receiving orders from that area and we have booked five orders last year for a spent wash based boiler and also power generation. Majority of our sugar factories have an attachment of distillery which produce waste on a spent wash and for which we have created a new design. I would have mentioned this very specialised boiler some years ago, which can produce steam from this waste. It is very dirty difficult waste to utilise, so we have had orders in this sector for the last year and I have a healthy pipeline of enquiries for that also. There are two types of biomass, one of the rice biomass, and second was the locally available biomass and I have not seen an improvement because most of them who set up capacities are struggling today to collect their payments from the electricity boards, because they get a preferential payment value from normal PPA in India for biomass based power plants. I am talking about 5, 10, 15, 20MW over Rs.5.50 on an average of electricity whereas electricity boards who are unable to pay the debt though there is an obligation on them to buy. That is the reality.

**Pranav Gokhale:** Is Europe a big market for these waste to sort of heat or waste to fuel sort and energy rather.

**M.S. Unnikrishnan:** Yes you are right because they believe that Europe is moving into Greece and all the energy requirements are consolidated between electricity, heat, chilling. If there is any other form of energy needed, they go for biomass as a base and Europe having so much of extra land and feeble population, they can cultivate energy. This means that market works predominantly on wood chips. So you will find thousands of hectares of wood cultivation, which has got a high end and fast yield of wood chips. That is not prevailing in India and I am very confident that it wont is because India has got 2.65% of the global land and 17.5% of global population. So you cannot have what happens in Europe or Brazil to be repeated over here.

**Pranav Gokhale:** Sir, but do you see a big pipeline in Europe where you can be a beneficiary of this?

**M.S. Unnikrishnan:** Danstoker is surviving only on that. Their entire boilers are purely on waste and maybe biomass and they were thriving a couple of years back when there was such of subsidy available from various government. Once the European economy begins trending negatively most of the subsidies are withdrawn. That is why it is not an upswing, but currently, I can see a movement happening from larger organizations like Unilevers, the Nestle's of the world or may be a lot big the pharma companies. They have their own internal carbon foot print reduction targets for sustainability because they are all really socially committed, Europe more than America. They go for this concept of energy plans and biomass as a fuel.

*Thermax*

*May 26, 2016*

So I cannot see a surge happening, but there is a very large opportunity, which is getting capitalized as we move on and we are hoping it will reflect in Danstoker results.

**Pranav Gokhale:** Thank you Sir and all the best.

**Moderator:** Thank you. The next question is from the line of Charanjit Singh from B&K Securities. Please go ahead.

**Charanjit Singh:** Good morning. Sir, if I heard your initial commentary that we have shown a very good hit rate in terms of order finalizations where the market was extremely depressed. Sir, in terms of pricing and the competition in these orders how has been that during this timeframe? How much are the pricing would have seen a dip in this market?

**M.S. Unnikrishnan:** You are right, Charanjit. Last year we have seen desperation from competition more than the previous year especially from one of the major competitors. This may be because some of them were very active in South American continents, which has now gotten into a bit of hibernation. This has increased their competitive desire in the local markets, but internally we also have been able to contain our cost and the order that you have taken are certainly at aggressive margins, but I am not expecting that it will end up into no margin orders. It will be positive margin. How do we improve it to come closer? See, on capital goods sales there is no way in the current circumstances you can have better margins. It can only have the wrap around down by doing a solution mode, second service mode, both of which are the ones which are helping us if you take an equipment, try to get operation maintenance order also for it later which will improve your margins in a lifecycle of the project that you have sold. That is the way we are currently looking at things. You are right about the competition.

**Charanjit Singh:** Sir, in a recent NTPC Sail Durgapur order for around 40MW there was a reverse price bidding, which was done, so how do you see this trend for reverse price auctioning and from companies like NTPC?

**M.S. Unnikrishnan:** There are many who are now resorting into reverse auction. It is a norm. In any case many of our international orders are picked up only through reverse auction. There you have a prequalification period. The only thing in India we are yet to be developing is the right system for it because you may have a tendency to ask horse and a mayor and may be a donkey to match up with each other. Whereas Europeans and the global biggies have a prequalification requirement of a certain nature to ensure that there is an equity which is

*Thermax*

*May 26, 2016*

prevalent. Second is that there is a high level of technical evaluation and comparability done and then you go for an e-auction. So in e-auction what will happen is you will end up getting no margin or may be very less margin order because the people will continue to shave it off till such time it starts bleeding and once the bleeding continues the healthier of the one who can be afford to be shedding a little bit more of blood will pick the order, but the only thing is that when you have an infusion of blood done from the suppliers to survive. So that is the way the market functioning right now. India it is not so fair. The one that you are talking about even at the lowest of the price levels it is not spread properly. So I am not wanting to comment anything beyond on that that is not an example to be taken for a good deal option. We have picked up e-auction orders and still made profit also, but we are okay with that. If India can go for at least all the government orders and PSUs, all the worries that we have got related to the ill practices can disappear.

**Charanjit Singh:**

Sir, just last thing, if we look at it on the government focus is not to add more of significant thermal capacity and they may in the future demotivate smaller capital power plants going forward so, how do you see this scenario evolving in the longer term if more of larger power plants are being given linkages and captive power plants are not being any linkage or any preference?

**M.S. Unnikrishnan:**

Two points over there. Let me say something contrary to what have you said. . May be next few years, not immediately, but may be one or two years down the line, the inaction by the government in setting up power plants especially firm power plants(I do not look at solar as a firm power plant, it is infirm as power supply), whereas the GDP growth continuing and three of our ministers who are pushing the economy –I am I am talking about the infrastructure related minsters, Gadkari, Suresh Prabhu and. Parrikar -- there will be higher infra oriented commodity manufacturing demand going up. Similarly, with power demand going up, and huge cities, smart cities, getting constructed, each building needing minimum 1MW to 5MW, by 2020 to 2022, you are going to end up with peak demand and the peak deficit going up. So, imagine availability and may be reliability of power again going back to what prevailed before say, 2006 times. It will then l compel many more people to depend upon captive power and with the subdued price of gas, oil or coal or any such commodities, it will still go back to captive power for another cycle by the time. I hope India will wake up and again set up more thermal power plants believing that if you want base power, the solution is either nuclear or thermal and you do not have much of choice available. You need some power to run this country.

**Charanjit Singh:**

Thanks a lot for taking my question.

*May 26, 2016*

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

**Deepak Agarwal:** Good morning Sir. Sir, my first question is can you give us some update on the capex for your new factories in Indonesia? How it is progressing?

**M.S. Unnikrishnan:** Construction has started. I think Bhoomi Pooja happened may be two or three months back. It is being done in two phases now, because we want to have phase one completed very quickly because Indonesia, from the time we decided to set it up over there and now, has undergone some changes internally and lot more of protections have happened. With currency devaluation and commodity prices coming down, they do not want too much of outflow of foreign currency happening. So we see an opportunity at a faster pace than what we saw earlier in Indonesia itself. So I would believe that in the current year itself we will have phase I completed so that we have the manufacturing license available and we start taking orders with the local manufacturing. . However I will complete the balance portion as planned. The first phase of investment which we talked about that time was near to 150 Crores, or \$25 million will get completed in that 18 months period which we spoke about. That is about the Indonesian investments.

**Deepak Agarwal:** What about the Dahej and the construction chemicals?

**M.S. Unnikrishnan:** Dahej is going on well. In fact construction has come above ground. The civil construction is almost reached a level where we can start the mechanical portion. My expectation is that I should start commercial production, we are aiming for the Q4 of the current year.

**Deepak Agarwal:** How much do you think they will contribute in the next two three years in terms of revenue contribution? How much do you think, it may not be an exact number but some percentage of the topline coming from this new factories?

**M.S. Unnikrishnan:** Phase I will not contribute substantially because of the shifting of the current facilities manufacturing into that. There will be a marginal improvement...when it reaches 20000 tonnes capacity which is expected a year after that. Deepak, I believe your line got disconnected.

**Deepak Agarwal:** You were mentioning the shifting of the current capacities to new location would drive revenues, so that one.

*Thermax*

*May 26, 2016*

- M.S. Unnikrishnan:** The current revenues of 150 Crores in resins will double to 300 once 20000 becomes operational and the phase II of Dahej which is also part of our investment plan : to elevate to 40000 m<sup>3</sup>, which has got a potential to take it to Rs.800 plus Crore of turnout. When I mentioned that resins is only one part of our chemical business, we have got paper chemicals, construction chemicals, and performance chemical, which are almost the same size as the resins, which is now currently being done from Jhagadia, the other chemical factory we have got in Gujarat. . That is the one, which is also expanding over and above this.
- Deepak Agarwal:** Also can you comment on how has been this year with the small company that you have acquired early this year? First energy, so how did you close in FY2016?
- M.S. Unnikrishnan:** They had one difficulty about the gas price. It was coming down. I hope you remember that this company supplies wooden pellets and stores of gasifier nature for larger kitchens like Sodexo equivalent or may be canteens of companies, very large restaurants. So, with the commercial gas price having come down their ability to scale up the business did not fructify though , I cannot say they have not performed but not to their expectation. But they are now also moving into industries where small capacity gas fired boilers are in existence and those guys who have to buy gas at commercial prices, where there is an advantage available. So, there we are focusing a lot more on. Let us wait for a two- year time to talk about it. By then we would have also acquired the second tranches of the shares. . We should be able to control it and support it beyond a leve..
- Deepak Agarwal:** My last housekeeping question, can you give the order backlog at the group level between energy and segment?
- M.S. Unnikrishnan:** Amitabha will give it to you.
- Amitabha M:** Order backlog at the group level is 4659 Crores and split between energy and environment is 4033 Crores energy and 626 Crores is environment.
- Deepak Agarwal:** Between domestic and exports?
- Amitabha M:** I think group numbers are not purely that way because it has got a various international things included, so group numbers let us leave the energy environment split.
- Deepak Agarwal:** Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Venkatesh Balasubramaniam from Citi Group. Please go ahead.

*May 26, 2016*

- Venkatesh B:** Thank you for the opportunity Sir. My first question is this, if I actually look at your numbers, the standalone numbers and the consolidated numbers, there is approximately 25 to 30 Crores kind of a difference, and I think your JV with Babcock Wilcox contributed 70 Crores of losses. So basically the difference between the numbers is basically the losses in Babcock Wilcox. Now given that you expect that EBITDA would turn positive next year and you have repaid the debt, is it like that from next year onwards your consolidated numbers after a long time would be actually higher than your standalone numbers? Would it be a right extrapolation?
- M.S. Unnikrishnan:** At the EBITDA level, it should be. , unless and otherwise any of my other subsidiaries were to get into a major difficulty. Minor difficulties are manageable.
- Bhavin Vithlani:** Sir, I am talking about the profit level.
- M.S. Unnikrishnan:** They will not be PBT positive next year. They will be EBITDA positive next year. The depreciation is there for a very large investment, which certainly will be there.
- Venkatesh B:** Now last year at the standalone level you started the year with your backlog was down 18% YOY when you started and you ended the year at around -7% kind of a topline growth, now with around -15% the decline in sales in the current year should be lesser than last year. Would it be a right interpretation Sir?
- M.S. Unnikrishnan:** Arithmetically yes, practically we will have to live by the day.
- Venkatesh B:** It is a function of how much orders you get in the current year?
- M.S. Unnikrishnan:** Absolutely right.
- Venkatesh B:** Now if I come to the orders part, do you expect to do more orders than current year in FY2017 than in FY2016?
- M.S. Unnikrishnan:** Book and bill orders we are expecting could be better. I mentioned earlier that in the first half I see the trend as the same; however, an improvement in the draft should be possible for the second half if the government investment decisions are made. People look at the macroeconomic situation first and then come to their balance sheet. So macroeconomic situation seem to be improving in the country, business confidence is improving and it starts with politics but if there is a decline I think in the current year there is no elections. We will have to wait up to UP election, otherwise everything is gung-ho. I think they will do a lot

*Thermax*

*May 26, 2016*

more and things will pick up. On wrong things we have wrong sentiments that is the only thing which is unpredictable but otherwise things should be better for at least the regular orders for the company's e products should be improving in the current year. Enquiries are there, better than what we opened up in the last year. Will they fructify into orders, executable orders, and cash flow for us? I agree, our larger project segment will not do well whether they like it or not. One is the capacity utilisation, second is which banking system has got money to give to the steel sector currently. Cement segment, everybody will be standing in queue to give money, but they do not want to, at least at this point of time. That is it. So base order level, I think, there is enough and more money in the market available and we find more consumption happening in the market. So it should happen is my belief.

**Venkatesh B:** Sir, one last question from my side, if I look at your EBITDA margins across the four quarters, they have been steady in this 9% to 9.5% kind of a band, but when I actually notice, if I remove the other operating income, we see that though the first two quarters, if I look at the picture without the other operating income it looks like the first two quarter margins are around 8.2% to 8.3% and then suddenly in the third and fourth quarter this has gone to around 6% kind of levels. Now what exactly has happened that your core business margins have come off on a first half versus second half by almost 300-basis points and secondly why is your other operating income for the third and the fourth quarter so high what is actually contributing to these high other operating numbers?

**M.S. Unnikrishnan:** Well, other operating income, Amitabha, you have got a break up for that? Why do not you explain to him about that?

**Amitabha M:** As far as other operating income is concerned, certainly these are intricate parts of the operation. Some of these items, I would like to give you more of an accounting adjustment, just to give you an example exchange fluctuation; now this relates to we have an hedging policy and as per the hedging policy we have booked entire exposure. Now depending on the exchange rate on the day we book the transaction, when the money realized and a part comes in top most sale, a part comes in exchange fluctuation. Similarly export incentives, sale of scrap, these are total integral part of the revenues of the company, it is not anything which is non-core, if we execute an export order, export incentive is as much an operating income as the sales itself. So, I think you should look at both together.

**M.S. Unnikrishnan:** But his question was, was there anything, why H1 was so high and where it did come from, provided the booking once the income got accrued to give the reason for it. For example, export incentive as you mentioned t/. They will not do the registration of the booking of

*Thermax*

*May 26, 2016*

that income the same day itself. Maybe it can shift from quarter-to-quarter. Be assured, more importantly for you to understand – is there an underlying factor unknown to the market, which can impact the stability of the balance sheet is the question. To that, the answer is no. It is a continuum of the business and as he mentioned. We are booking that extra income which otherwise can be booked in the main operating income. That is the only difference.

**Venkatesh B:** Thank you very much Sir. All the very best.

**Moderator:** Thank you. As there are no further questions, I would hand the floor over to the Ankur Sharma for closing comments.

**Ankur Sharma:** Any closing remarks from your side Sir?

**M.S. Unnikrishnan:** First of all, thanks a lot for the participation and the incisive questions. As I mentioned about we look up to you as our partners who give inputs. It is a very tough market and we are almost into a month and a half, almost two months, unlike normally we do it in the same month itself, one and a half is already over. I need to be very open with you that there are no visible changes either on the positive or negative side at this point of time and we need to continuously watch it and if there are any information that you would like to share with us individually since you meet up with all my customers also anything either way plus or minus, please do share with us. Thanks a lot once again to each one of you.

**Moderator:** Thank you on behalf of Motilal Oswal Securities Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.