



“Thermax Limited’s Q1 FY14 Earnings Conference Call”

July 26, 2013



MODERATORS:

Mr. M. S Unnikrishnan – MD & CEO, Thermax Limited

Mr. Gopal Mahadevan – CFO, Thermax Limited

Ms. Bhoomika Nair – Analyst, IDFC Securities Limited.

Moderator: Ladies and gentlemen good day and welcome to the Thermax Limited's Q1 FY14 earnings conference call hosted by IDFC Securities Limited. As a reminder, all participants' 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 any assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair of IDFC Securities. Thank you and over to you Ms. Nair.

Bhoomika Nair: Thank you. Good morning everyone. Welcome to Q1 FY14 earnings call of Thermax Limited. The management is today being represented by Mr. M. S. Unnikrishnan, Managing Director & CEO as also Mr. Gopal Mahadevan, Executive Vice President & CFO. I now like to hand the call to the management for the initial remarks, post which we will open up the floor for Q&A. Over to you sir.

M. S. Unnikrishnan: Thank you Bhoomika. Very warm welcome to all my dear friends who religiously attend our quarterly calls. Thanks a lot once again for the keen interest that you are showing in following our organisation and being partners with us in these difficult times. The results are already in the market.

Just to recap the main numbers. The topline for the company has declined by an approximate 12.5%, the predominant portion of that coming from the domestic sales, approximately 15 plus percentage reduction in the topline on the domestic sales. International business virtually remains at the same level as the last year's same

quarter resulting in a 12.5% decline. The topline at the EBITDA level has declined by 15.5% accounting for the treasury income which has got a differential between last year's first quarter and current year's first quarter at around Rs. 10.5 crores and plus one crore addition depreciation. Between last year's and this year's first quarter, the topline at the EBITDA level has declined by 15.5% at about 10.5 crores and one crore addition depreciation.

The PBT is declined by 24% at this level. The only good news to talk about in such difficult times is our order booking. We have been able to manage an order booking of 2123 crores, which is 69% above previous year's same quarter and in my opinion in the history of the company the highest ever recorded in one quarter order booking.

If I elaborate it further, there is a single order which we have declared to all of you and to the press about the refinery based 9 CFBC boilers valued at Rs. 1700 crore. However, the numbers which concern Thermax Limited's order booking from this is 1350 crores; the balance Rs. 350 crore goes into the construction arm of our company. So if I were to remove those 1350 crore, we have around 770 crore worth of order booking for the normal ones. We would have touched around 1000 crore in the normal circumstances without this kind of large order. Now when you compare the current market scenario, is it a great number? In my opinion it is not a great number. At the ground level, I have seen a deceleration between the last quarter and current quarter in terms of order finalisation. Though, there are ongoing enquiries and discussions there is nothing concrete on the ground and projects have not been signed off.

Coming to the numbers from the topline; I mentioned 851 as against 973 and our energy business have contributed to 73.3% and the environment has contributed to 26.7% out of this. We have seen in the current quarter a decline in our project businesses which is boiler and heater, EPC business, environment and water business. However, the product business of the company had a marginal growth. Domestic has contributed 74.4% and international has contributed 25.6%, that is exports out of India. Order intake as I mentioned is at Rs. 2123 crore and the PBT is at Rs. 74.5 crore versus Rs. 98.1 crore in the last year. On PBT, the material cost has come down substantially, which may give an impression that there is something substantial and there could be a further reduction possible. Let me clarify that in the current quarter, there were projects executed which had better lower cost availability. Also the projects which have been executed had provisions to ensure that we are able to complete the project. But without that, we were able to manage it and the operation & maintenance income as a percentage in the overall turnover in the current quarter is substantially higher, albeit on account of the overall lower number. So, there the cost that is registered is much lower, but part of that will get accounted on the other expenditure. That is why you would see the material cost has come down and the other expenses have gone up. The reason for other expenses going up: number one is the mark-to-market losses which overall is recorded as Rs. 24 crore for the current quarter versus Rs.13 crore for the last year same quarter. The net impact of that in the PBT could be in the range of 5-6 crore. You would have also noticed that the employee costs for the current quarter versus the last year same quarter has gone up by 10% in real numbers, about

9 crore. This could have impacted the profitability. When you have a higher sales, higher employee costs is marginalised. However, if you got lower sales, any employee cost increase will be directly hitting the bottom-line. These are not explanations and I am sure you may want to know the reasons for it. There are no explanations to deliver a lower balance sheet than what the market would expect.

Coming to the top of the line question, you may have on your mind about our joint venture TBWES. Well, the plant is nearing completion. The large part related to the government permissions are currently undergoing. We may declare the plant as commissioned and ready in the Q3. There are no movements related to any order intake, though there are discussions with at least one or two parties. I cannot disclose the names but I am sure you know it better about the market movements.

Thermax Instrumentation Limited, I had mentioned to you in the last quarter that we may continue to be having a negative balance sheet for couple of more quarters, in the current quarter of about Rs. 4-5 crore. Thermax Zhejiang, China again I mentioned that will continue to be negative, but the performance has improved in terms of order intake. It is in a far better position than the previous year. In China, we have also entered into the heat pump market, which, unlike chillers, is currently a growing market. It gives us hope that with this new product line added on, we should be able to turn around the company. I am not committing any further because we were expecting things should happen faster, but at least we can see the light at the end of the tunnel for this subsidiary.

On working capital in the current quarter, there is a negative and a positive. The negative is that the number of days sales outstanding (DSO) has gone up from 109 to 143, but that on two accounts. Number one is the sale itself being the numerator is lower. So naturally it will have an impact on that, but more importantly it has come down in real numbers between the beginning of the quarter and the end of the quarter, which means there had been an improvement in overall collection in the current quarter, but not to my satisfaction. If you ask me I will need more money to come to the market. On the inventory side let me clarify that we have been able to retain and maintain the inventory both in terms of number of days as well as in terms of value. We are very careful about inwards of the material and processing of the material to ensure that we do not create finished goods or partly work in progress situation because some of these projects are not moving as per our expectation.

That is about the overall situation of Thermax. Now, let me come to an important point. Gopal has indicated his desire to pursue an alternate career. We had tried our level best to discuss with him to continue with us. We have had a great stint where all through my CEO tenure in the company, he had been my able number two as a CFO. We have been working together to ensure that whatever has happened in the company, plus and minus, we are equally responsible for it. He has contributed a lot to the organisation. We are not very happy that he is leaving the organisation and I would have preferred that he retire from here. Well, but we cannot stand in the way of somebody's career options. So he is moving possibly down South which I am sure he will declare later when he is in a

position to do that. Let us all together wish him a great career ahead and I am sure he will be a well-wisher of Thermax in the future too. Thanks a lot and I leave it to open to ask me questions.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. We will take our first question from the line of Renu Baid of B&K Securities. Please go ahead.

Renu Baid: Good numbers, just a bit of a slower execution on the project side, energy segment. So my first question definitely comes on the same front. We have seen sales thing lower, so was there any particular projects where revenue bookings were deferred or any particular reason assigned why energy segment despite last 4-5 quarters inflows being healthy slipped in terms of sales?

M. S. Unnikrishnan: I need to be honest about that. There are two specific projects both are government projects and there is nothing to worry about the execution part of it. The pace of execution that Thermax would like to have, in those projects are not at the same level, but it is only procedure delays. There is a consultant who has also another government organisation for these two projects and they are not in a hurry to execute it at the pace that we want it. If I were to push them and then if the material gets supplied without an approval, which would mean a delay in payments. So that would have made difference of 70-80 crores. But let me tell you, are there any projects held the way they had in the past Brahmani equivalent kind of projects? Not a single such project as of now. Though, there are 3 or 4 private sector projects where they are in a hurry to complete it as per the original schedule, and the projects are ongoing. In some sectors, since the capacity utilisation has come

down in the last 1 or 2 quarters I would say, all of us are expecting that there will be a capacity shortage and reordering is going to restart. Whatever is the reason, I am sure you know it better than me in terms of the capacity utilisation having declined and that is the reality.

Renu Baid: And sir approximately what proportion of our order book will see these slow moving projects, which are slightly running behind schedule for X number of reasons? What broad proportion of order book will they constitute?

M. S. Unnikrishnan: I would say 10 to 15%, not anything beyond that.

Renu Baid: Sure and if you can just also elaborate a bit as you have mentioned about 770 crores came in from other normal order bookings. So sector wise or industry wise, how has the order booking been for us in the first quarter?

M. S. Unnikrishnan: The current quarter will unnecessarily skew the bookings because one big order is in the refinery sector which accounts for 76% -- that large order plus couple of more orders that we received from the refinery sector. If I remove that, in the current quarter textiles and food has contributed. Power as a sector also has contributed. Despite the slowdown in power, there are orders from power industry for chemicals, which are consumed in the cooling water systems in the company. There are recycling orders in the power industry. We have got orders from the paper sector, fairly large ones. Then we have got orders from chemical industry, food & food processing industry. Cement also given one order, but if I keep aside the big ones that make up the 76%, all others are 3% to

4% only of the total order booking. If I have to remove that one, well then you will find the following sectors like food, food processing, paper, textile, drugs and pharma, even infra, there are one or two small ones. So at 770, if I were to take it the normal way, it is below the market.

Renu Baid: So sir excluding this one large order you think overall for the year the rest 9 months, at least this small short cycle orders should continue, there could be a bit of hiccups given the macro constraints that we have today.

M. S. Unnikrishnan: There are a lot of negative sentiments. If you see sentiments were negative earlier or from positive, it is declining. The positivity was coming down to a neutral level, but last one quarter which we pass, the entire industry is feeling as if no one seems worried about the governance of the country. Even the RBI is talking of squeezing the liquidity. I just spoke about it to the media that 'Look, you cannot have a gearbox without grease running.' So an economy which is expected to be growing at even may be 4 or 5%, you need liquidity to make it run and you are talking about a 2 trillion economy without liquidity being squeezed. So I am not in agreement with what has been spoken currently and it can have a major ramification in terms of lot of noise to be coming in the system and I hope it will reach to calamitous level, may be a crack in the economy. So I am sure lot more of rethinking needs to be done by the banking system of the country and the finance minister also right now. RBI is only one of the players and they are not the player to control the economy. That is something which I am worried about because if liquidity were to be absolutely tighten beyond the level, where do you have the money to flow. I am

talking about money flowing in consumption because I am not unduly worried about capital goods industry, which I am part of it because we cannot be selfish to believe that everything should be in favor of our industry. I want it to be in favor of the country. That is what I am talking about. It could be reaching to levels which are unmanageable by any governance in case if they continue on the same ideas that they have spoke about. It is quite dangerous.

Moderator: Thank you very much sir. Our next question is from Aditya Bhartia of Espirito Santo. Please go ahead.

Aditya Bhartia: Sir just wanted to understand a bit more on the performance of subsidiaries and also wanted to understand that last year like we had booked certain losses in Babcock & Wilcox JV, what was that on account for and have we booked any further losses in the first quarter?

M. S. Unnikrishnan: In the first quarter overall if you see, the group profit and company profit it is almost same. So there are negatives. Let me tell you which are the negatives and which are the positives. Numbers I won't give you specifically, but I will give you answer for TBWES. Our plus subsidiaries are Thermax Engineering Construction Company; Thermax Onsite Energy Solutions Limited both of them in India produced positive results. Among the international subsidiaries, we have got profits in Danstoker. We have also got profits in Thermax Europe Limited, Thermax Inc. our subsidiary in the US. The only international subsidiary is Thermax China, where the losses have come down from the last year substantially for the first quarter and I am expecting it to be improving going forward. Well, we should be containing the losses

in the current year. That is about the negatives and positives for the current year to talk about. Now coming to TBWES, we had booked the operating losses of the JV in the last year. Current year first quarter also there is a negative which is around 7.8 crores and that is already included in the group consolidation.

Aditya Bhartia: And sir what are these losses on account for given that we have not yet declared these facilities becoming operational?

Gopal Mahadevan: It is a good question. What happens is before plant gets capitalised, the factory gets capitalised. The expenditure that is incurred towards setting up of the factory would certainly get capitalised along with the cost, but there are expenditures which are not directly attributable to the facility itself, which in any company would need to get charged to the revenues. So these are others and costs incurred for setting up the factory.

M. S. Unnikrishnan: Salaries and expenses incurred in running the office as of today will have to book on a quarter-over-quarter basis.

Aditya Bhartia: And sir secondly just wanted to understand what are you seeing on the competitive intensity? Are there any signs of pricing stabilising in the power sector as well as on the environment side?

M. S. Unnikrishnan: Both answers are different. For power sector, frankly there were no order conclusions in the entire quarter for BTG or power equipment. Though, in the BOP side as I mentioned there would have been consumable from the existing power companies or smaller orders placed for other items, some of them are received by us also. Any comment made on the power sector could be speculative as there is no data to speak about. However I am only

taking a cue from the fact that the last tender which got concluded in the Q4 of last year picked up by Larsen & Toubro was at one of the lowest prices. That is a one-off case on account of the fact that they had components already ordered out for the JP order, which I am sure they would have compulsion for taking that. But if you look at between the original Indian prices when Doosan was a winner in the first NTPC tender till the Tanda tender, the domestic prices of all companies I would say the serious players like BHEL, Larsen & Toubro and TBWES were substantially lower than the original ones. So, a year and a half to 2 years Indians have learnt to be competitive. Chinese currency is appreciated against Indian rupee depreciating. And, the plus 5% duty imposed by the government. So, these factors should make the main Indian players for BTG more competitive than what they were. So an onslaught by the international companies cannot be an easy going task in the future.. Now coming to environmental products is where a price pressure comes in because the least priority in a downturn is to go for high quality, high performing environment and pollution control equipment. Currently the demand of the market is to get pollution approvals. So there could be and there will be pressure on margins on the environmental products, not for us alone, but for everybody.

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

Venkatesh B: My first question is what is the logic of having these two subsidiaries Thermax Instrumentation and Thermax Engineering Construction because at the end of the day, they do the EPC work. So why do you need a 100% subsidiary and why are they not a part

of the parent because otherwise your parent numbers are not actually representative of the underlying economics of the business. So why do you have it as a 100% subsidiary to do this work?

M. S. Unnikrishnan: There are multiple opinions on the tax structure and the tax structure implementation in the country. So when you have indivisible works contract execution done for commercial consideration, some companies would do construction on one company and supply on another company. There are several companies including some very large ones, who may take it on the same company. Let me clarify Venkatesh there is no intention from Thermax's side to have any camouflaging done here. That is why we declare them also and there is no other reason than commercial and taxation considerations on this. Beyond that I won't be able to answer to you because that won't be fair. When you sit across with me in Pune, I possibly be able to explain to you on an excel sheet and show it to you what it means.

Venkatesh B: Sir the second question is what we understand from our channel checks is that Jindal Steel and Power has given the first unit of Godda to you and also given you an advance for the same. Is there any truth to that and if it is so why are you not announcing the order?

M. S. Unnikrishnan: If we were to be getting advance from any customer and which we believe is sufficiently worthwhile for us to be proceeding with the job, we will be the first to declare to the stock exchange and to all of you. So please be ensured and assured of the fact that the threshold limits where Thermax will consider an order is live that

is yet to happen. You can possibly put a wire; if you energised electricity will flow. If not so, it will be just a wire. So whatever you want to infer from that, you can take it right now.

Venkatesh B: Sir since I have only two questions are asked, but I just thought one data question. Overall Thermax group level, what was the inflow in the quarter?

M. S. Unnikrishnan: Order inflow, Gopal will give you the numbers.

Gopal Mahadevan: For Thermax group isn't it?

Venkatesh B: Yes sir.

Gopal Mahadevan: Thermax group order inflow is 2611.3 crores.

Moderator: Thank you. Our next question is from Purna Jhavar of Emkay. Please go ahead.

Pritesh: Just couple of questions. Do you still believe that the standard orders which we get for quarter which runs at about 700-800 crores. Can it be sustained over the next 2-3 quarters considering the current state of business or involvement? And second, in your backlog today, how much of the order backlog would be from pure projects related business?

M. S. Unnikrishnan: Pritesh, first one is our baseline for the product is around 500 and a trickle of medium-sized projects is one which makes it 700-800 which you mentioned about. I am very confident of telling you that there is so much of lethargy in decision making and is it inflicted on account of their lack of confidence in our own consumption pattern. It is something which is worrisome. I trust and believe that

it should continue in terms of order finalisation for the base number. I am talking about Q3 of last year was a very bad number. I am talking of FY 12. If we revisiting the same thing in the current fluid circumstances with everybody threatening that from banking system to RBI to everybody telling that why do we need growth and another set of people not even bothered to look at what is manufacturing growth in the country. I am yet to come across anybody talking in the industry currently. So the circumstances under those what is going to happen is unpredictable. So, I will not say if orders are going to come through or not. Even if you look at the reality in those enquiries, there is no reduction in enquiry. I am still getting fresh enquiries. Why would anybody want to waste a time sending an enquiry and calling for discussions in such a different condition? So there is some activity. Will it culminate into conclusion of orders then let us say we would have concluded more number of orders, but I am unable to report them to all of you because I do not have a financial backing for these orders and some of them are companies where there is money available. They do not need to be borrowing money. These are all brown field or line balancing equivalents, 5 crores-10 crores kind of orders. They would have given some nominal advance that is insufficient to be declaring an order. So will it turn around? I am also waiting and watching like all of you.

Pritesh: I will just intervene you. What is the differentiation you put between the small orders and the medium orders? Is it by size that you differ and then what is that number?

M. S. Unnikrishnan: The orders picked up by my conventional heating business, cooling business, water treatment business and standard air

pollution control business, these are the ones we call it as medium and small orders and the one which go into a captive power or boiler or a very large air pollution control for a cement factory or may be a steel factory, these are the project orders. If it is in the boiler side, the value could be 20 crores and upwards. If it is in air pollution, it will be 10 crores and above and I have seen an order of 10 crores is a project order for me. So that is part of the project. That is why we consider that.

Pritesh: And any of these lines of businesses where you see threat of price lead competition, something which worries you any of it area?

M. S. Unnikrishnan: Price competition is everywhere incidentally, barring the absorption chillers where we have an 85% market share, every other business I am ranging may be between 20 to 35 % market share and the number of competitors of my stature will be 1 or 2 and the rest of them are I would say fragmented competition. So fragmented competition today is looking out for advanced cheque which will go to their banks to repay for their loans or to ensure they are able to pay salaries. So for them, the intention of picking an order is not give a solution to the customer. Certainly there will be margin pressure, but are we able to manage it because the 65% of my customers are repeat customers. So there is a loyalty factor so long as I am able to give the commercially viable offer. So a combination of such kind of things are working in our favor at least to tell that please do not be struck on to your price, take the order execute in good days will give you good margin because that is a kind of relationship we enjoy in the market.

Pritesh: Similar percentage you can give on the orders in this 800 crores number coming from pure replacement or brown field related. Is it entirely that only as of now?

M. S. Unnikrishnan: Predominant portion of the orders coming are brown field sanction, very limited green field.

Pritesh: And lastly the backlog consisting of projects business if you could tell, how much is the project related backlog in this?

M. S. Unnikrishnan: Unfortunately there are products in project business also and that is why the combination is bit take two-third ones. We do not take that big order out from that. That is the project order.

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

Bhavin Vithlani: First, in your opening remarks you highlighted that the projects business in this quarter has gone down, but the products business has gone up. Can you share the percentage contribution to the revenues in this quarter?

M. S. Unnikrishnan: Marginally gone up is the word I use that way. So it is not something reportedly high as reduction was predominantly in EPC side where we would have had almost EPC billing has come down to almost half in the quarter let us say that, by half it has come down because contractually there were not many and the two orders which are MMTC order and NICCO I will take names, nothing to worry on that because projects are moving but albeit pace of movement was lower. That is why the reason has happened in those.

Bhavin Vithlani: What was the EPC revenue in this quarter?

Gopal Mahadevan: The EPC, power division revenue let me put it that way. The power division revenue for the quarter was 149 crores.

Bhavin Vithlani: And how much is the order inflow and backlog of the EPC division?

Gopal Mahadevan: I am just telling Thermax numbers, not the Group. So power division, the order inflow was 49 crores and you wanted the backlog right?

Bhavin Vithlani: Right.

Gopal Mahadevan: The backlog was 1478.

Moderator: Thank you. The next question is from Lokesh Garg of Kotak. Please go ahead.

Lokesh Garg: Sir just wanted to ask you question on exports sort of pickup. We did not see exports pickup materially in FY 13 particularly from the data that has come out in annual report as well. So wanted your outlook on the same because hopefully from this point onwards for a capable company like yours with support of currency, exports should start growing materially.

M. S. Unnikrishnan: I would say that there is a skew in the current quarter alone in the export order intake because last year first quarter, we had an order from African continent for EPC. Second we also had from Africa and South East Asia some fairly good orders in the first quarter. Without that we were to compare, my order booking for the absorption chillers is more in the first quarter for the exports. My

chemical order intake is better for the exports in the market. Generally if I talk about standard products, there is an improvement, but for the project side, not much is concluded so far, though there are enquiries. Now your question again is about what would be the benefits we will be able to derive from the currency depreciation in the international markets. My understanding is it is increasing Indian companies' competitive position vis-à-vis pricing in the international market. Pricing is not the only arm through which we will be able to get orders. It is also the desperation of the competition and how others are fairing in that. One positive for Thermax we have got references available, we have got a good name available, but that will not stand state when we compete against Japanese, Koreans and European competition because the brand value of Indian capital goods is not at the same range. So this rupee devaluation will help all of us to ensure that the Indian companies are able to be much lower in price in comparison to European and Japanese. We should also be able to get some customers with our past experience. So we are certainly putting in a lot of efforts to ensure that we are able to be there in the market. A lot more activities we have done both in Africa, South East Asia and Middle East. Some localised capabilities needed for execution of projects because product orders are not sufficient to be making the kind of number growth we are looking forward in the international market.

Lokesh Garg: Apart from that question, what are the other large opportunities both in domestic and exports markets that we are focusing right now, is it something that is material and is on the table which can be discussed?

M. S. Unnikrishnan: The projects are known to you because there are not any large projects other than what we declared. I have been talking very frankly to all of you about the sectors, where it can make a difference for company like Thermax. Power is the first one where I am not expecting a reversal improvement immediately. So there are some positive moves at various areas, but it will take time. Second is refinery sector, which I mentioned to you about one in South and one in Gujarat. Gujarat, I have already declared the first order and if you are interested in knowing that we have also got one small order in South. I think we should be able to get not triple digit but double digit crores because it is a smaller project. Steel, there is nothing happening. Cement I was expecting many things to happen, but nothing has started happening there either. So majority of the largest sectors where it can make a difference in terms of our order carry forward or execution cycle, all of them are currently at little negative level. So I would not be very optimistic about overnight change and order booking.

Moderator: Thank you. Our next question is from Shubdeep Mitra of JM Financial. Please go ahead.

Shubdeep Mitra: Sir my first question is with regard to the orders that we have booked especially the large petrochemical order. We are looking at an execution period I understand of around 24-28 months. So would we be looking at the order getting executed by end of FY 15 or would probably also spill over into FY 16?

M. S. Unnikrishnan: 29 months is our commissioning period for this progressively starting at 24. So two calendar years from the time we got the notice to proceed which is in the month of June. That is June 2013-

15; we should be able to conclude the first one commissioned. Another say 5 months which means you are talking about August, September. By October 2015, we should be able to do it. So it will spill over into FY 16. What is the quantum of billing is the question. It will be a spilling over to two major financial years and half financial year there afterwards.

Shubdeep Mitra: And sir secondly given the strong order book that we have now, are we expecting margins to probably improve from here or probably stay stable?

M. S. Unnikrishnan: That is a toughest question. Margins on the existing orders, this is one order which will be execute by one division and special team is already created to get it executed. All other businesses have the varied kinds of carry forward orders in comparison to some of them are lower, some of them are better and margin protection is what we are working on. The rupee devaluation beyond a level does not help margin improvement. When you have a rupee devaluation done, the petroleum products price in the country is going to shoot up. Various other things like electricity prices are going up. This will have an indirect secondary impact in the overall operating expenses for commercial organisations and industrial organisations, which mean my supplies, are going to be under pressure for margin. Where do they go for their margin improvements? It will have to come to people like us. So how do we negotiate with them and still retain a margin is our intention and we are working on that. Their intention will be to ensure their losses and if the demand were to pick up than both the sides will be willing to give up. If the demand were to be remaining in a declined status, it will be a pressure on both the sides and this is

not for Thermax I am talking about but for a capital goods industry or contracting and infrastructure industry. So all of us are trying to protect our margins. So somebody will lose and somebody will gain. Nobody is going to gain completely let me say that. Margins remain constant in the market. Who is able to retain, who is able to give up is a question that is going to be answered progressively. I am sorry for giving a philosophical answer than a binary answer which I normally would like to give because these are things which cannot be predicted.

Shubdeep Mitra: Completely understood. If I may just squeeze in one last question. This is on the other income component, you were saying something at the beginning of the call, I missed that. I understand that the other income for the current quarter has been on the lower side. Could you please explain?

M. S. Unnikrishnan: Last year in the first quarter, we had FMP maturity which contributed to an added income. In the current year, I do not have that same number to compensate. So I mentioned approximately 10 crore worth of delta between last year first quarter and current year first quarter is already visible on the balance sheet. That is it.

Moderator: Thank you. Our next question is from Satyam Agarwal of Motilal Oswal Securities. Please go ahead.

Neerav: My query pertains to the ordering status and the ordering activity that you are witnessing in Middle Eastern market. Sir just wanted to get some update on that?

M. S. Unnikrishnan: Currently ordering is going on only one expansion that is Takreer Refinery, where the main EPC bidder is Samsung. He is not

bidder, he is the one EPC. Last year they won it. So they are releasing the orders for various components. We are the bidders in one or two small packages with ranging between \$8-10 million. Let us hope that all of you pray for me to get at least one order out of that in the next quarter. Other than that, in Saudi Arabia there is PQs already out for a new expansion program. By the time they award the Indian contracts could be a little longer time. So it will be out for ordering for components of the sorts, Thermax will be participating in the next financial year and I hope we will be an active player. There is one power order which got finalised in Saudi Arabia for 700 MW, but we understand that is also now on the halt for financial reasons. Now it had gone to a European company, but I do not think it is getting executed. There are some minor movement in Qatar, Kuwait and Abu Dhabi. These are all very small areas where I do not think companies from India including Thermax will have any major role to play.

Neerav: So basically this was about the refinery CAPEX, but my query was more towards the ordering that was expected before to meet the infrastructure requirement for the FIFA World Cup which is going to be held in Qatar. They are planning to construct around 12 new stadiums for that and I believe Thermax has already supplied chillers and other activities previously.

M. S. Unnikrishnan: We supplied for the existing one of solar based chiller and its working very well. It is available on YouTube also. As and when the buildings get ready, I am sure there will be order for the chillers, but those will be at least a year and a half to two years away.

Neerav: Sir, my last question pertains to the margins that you are seeing in the O&M business. Sir, what my understanding is that across the industries people are now trying to cut corner in terms of costing. So when you are renewing your new O&M contracts, are you facing any pricing pressure on that front?

M. S. Unnikrishnan: You are right because everybody is currently looking forward to reduce the cost. So when you renegotiate an O&M contract, there is always price pressure and we manage to retain it. Thankfully I have not lost any contract in the last one quarter. Knowingly we left one contract last year, otherwise we have not. In fact, we have added two more contracts in the current quarter under the power O&M contract. There are no other orders. There are pressures. You may have to give once in a while because end of the day, an O&M contract is a marriage with somebody. So in a marriage, there is a give and take. When somebody says that I have to reduce my operating costs and I am under pressure, we have to marginally give. How much you give and what you gain on that account is the question that one has to take into consideration on a case-to-case basis. But yes, you are right on the bang. There are challenges of that kind.

Moderator: Thank you very much. Our next question is from Madan Gopal of Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Sir first on the annual report number if I look at the services spares and the O&M portion that has almost doubled in the last two years from 250 crores to 550 crores something like that. So how do you see going forward for this business in FY 14?

M. S. Unnikrishnan: It will continue to be at the same level. At least it will not decline like an EPC business. It will remain almost stable and like Neerav asked the question earlier, maintaining margins is a challenge there, but we will still work towards that and fresh contracts we are running around wherever it is possible. Today, we are also moving out of Thermax, as contracts like O&M early we would do only for our own equipment. Today, we would do it for anybody because our knowledge is same whether it is somebody else's boilers, somebody else's power plants or somebody else's water treatment plan. Under the current circumstances motivating people to part with their operation maintenances is not an easy task. So we are trying for it, and I would expect a growth also in that area.

Madan Gopal: When you are talking about the 770 crores base order that you have got this year, you were talking about the general macro scenario probably hurting it and we have to see how it moves, but the nature of these orders has come from textiles, paper, food and these kind of sector which are more different on consumption and we are yet to hear any kind of slowdown but it is not as severe as what we are seeing in infra side. So to that extent is there the threat of this falling is relatively lower. Can I see that way?

M. S. Unnikrishnan: If you were to have gradation done for it, the infra related will certainly drop and it will not come back for Q3. Whereas consumption oriented of the types that you are talking about may not grow, but can remain stable or at least the instability quotient could be lower in that one. Let us say that way.

Madan Gopal: Last question on export front, what was the exports contribution last year in the order inflow it would have been around 600 crores something like that?

Gopal Mahadevan: Q1 last year?

Madan Gopal: No, full year.

M. S. Unnikrishnan: 984 crores is our exports revenue last year in comparison to 1143 of the year prior to that. Order intake in the last year was marginally better than the previous year. Now current quarter we are at same level 221 versus 218. So, export has not jumped up nor it has come down. I would expect it to be a little better for the current year. If Thermax has stopped looking at exports any further we are looking at international business now because we combined our Europe Limited and Danstoker, all put together. So those we would expect that overall there should be a growth in the current year and domestic barring the last project order.

Moderator: Thank you very much. Our next question is from Aman Batra of Goldman Sachs. Please go ahead.

Aman Batra: Sir one thing on the FOREX MTM, you have highlighted 24 crores of Forex MTM. Can we split that into the two segments just to understand which segment margins are getting impacted here?

M. S. Unnikrishnan: Unfortunately we do not do it. Gopal Mahadevan only does excel sheet.

Aman Batra: Just a qualitative aspect would be helpful.

M. S. Unnikrishnan: We don't do segmental change. What we do is contract to contract, and in any case 24 crores are overall reported. A part recovery could have been also done. The net impact on the balance sheet of the current quarter is a smaller number than that. So it is only a restatement of that accounts of the advances available with the company from international market. And the orders which are outstanding are already forward covered at a lower number and wherever I have made the sales in the current quarter, a recoup could have also happened. The net is what we need to be worry and for the balance sheet 24 crores is the overall reported number. Let me clarify that Thermax does not take any fund on foreign currency and we normally cover net position, which means we get incoming dollars or incoming foreign currency. So the net position is what we cover. Now if at all there were a real impact of balance sheet of the company is on account of two reasons. One is in case if I am unable to physically move the goods out of India for XYZ reasons based on the commitment I gave to the Reserve Bank of India, then I necessarily suffer that as real losses. Similarly invading of the material which should have happened on a particular day, I am unable to do that on account of my mistake or my supplier's mistake I am sitting on injury. These two are marginal when you compare the overall balance sheet size of Thermax, but otherwise whatever you find at any quarter anywhere in the past or in the future on Thermax will only be mark-to-market which we will be compulsorily following without any fail.

Aman Batra: And the second question is on the working capital you said that the working capital is better on a quarter on quarter basis. Would that

be true on the consolidated level as well and if you can throw how do you look on that going forward as well?

M. S. Unnikrishnan: I may not have exact numbers, because subsidiary reviews have their audit committee. They also report back to us. So overall there is nothing which is different than the main company and group as far as current assets are concerned.

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

Salil Desai: Sir, can you share some outlook on export or international opportunities for the TBWES subsidiary from India?

M. S. Unnikrishnan: First of all, when we set up the joint venture with Babcock & Wilcox, our understanding is that this will encompass Indian market and this will in our understanding sufficiently larger at a capacity of 3000 MW. When we expect the Indian market YoY could be ranging between 15 to 25,000 MW per annum for thermal ordering, which would have meant at the lowest of the level 15,000 MW is equal to the 20% market share and at the highest of the level, it is 10 to 12% market share is the aspiration that we had. Now having seen the sudden change happened in the power sector in India, we are currently in dialogue with our partners Babcock & Wilcox that can this be utilised for the international forays. Thankfully they do not have another manufacturing facility of the same kind for boiler making for supercritical other than their joint venture partnership in China. Any joint venture with the Beijing boiler, it is government of Beijing City. So naturally they will have a preference for this modern facility to be utilised for if at all there

are orders going to be coming in. Now how many such supercritical power plants will come outside China and India in this current decade is a big question. There could be isolated ones happening in some parts of the world and naturally this could be a preferred location for them to be utilising. Apart from that the engineering capabilities created by them and the language capability available to the Indian engineers may also be another entitlement for them to utilise this facility. So that is all what I can say right now. If there are orders if they get it, I am sure they will naturally have a drift towards this joint venture getting executed.

Salil Desai: So can we understand that this is more like potential sometime in the future, but no action right now.

M. S. Unnikrishnan: 100%.

Salil Desai: And sir second is as you said the order inflow includes some O&M orders also. Now what typical terms of these contracts are?

M. S. Unnikrishnan: Operation maintenance normally will be 3 plus years minimum. Sometimes it would be 5 years. We also are not very keen to have a very long tenure contract unless there is a telescopic increase in the cost de-payment available to us. So that is the way we negotiate. Of course there is a notice period available on both the sides to call it off, but let me clarify it to you that we started this business 6 years back. The first one was for operation & maintenance of a boiler. Other than we are taking a call to continue with some of the contracts on account of their payment on time or some of our cultural values. Like we care a lot for safety, we care a lot more for ensuring that the plant is operating in a particular

fashion. If that integrity cannot be maintained, then we move on our own. We have done that with some contracts; otherwise we have not had any force withdrawal of the O&M so far. Though in one or two cases, the customer wanted to reduce the cost substantially. We have accepted to that, so long as we are making a profit because the relationship is equally important for the company than the money in operation & maintenance. O&M has looked upon by those who look at the balance sheet for the profits additionally generated, but the operating management of any company should be looking forward to a continued relationship with value customer. When I am in his premises, anything that he buys of the kind that we manufacture is highly and unlikely will go to somebody else.

Salil Desai: And this revenue recognition I presume would be linear in these contracts?

M. S. Unnikrishnan: Because you cannot increase nor can you reduce.

Salil Desai: And what is the proportional in the total backlog of O&M contracts?

M. S. Unnikrishnan: Salil, I do not have a correct number because the way we book is not like IT companies where they book the entire 5 years contract of \$500 million into the carry forward. Thermax does YoY booking which means even if I got a 5-year contract; it will not be there for the 5-year valuation in my carry forward. Every first of April we will add on what is applicable for the balance tenure of the year. For example, if the contract is applicable for up to say 30th of April will have the full value added. Contracts are going to

be expiring in end of September and we have to renegotiate. We will add 6 months value into the contract and that is the way we do it.

Moderator: Thank you. Our next question is from Fatima Pacha of ICICI Prudential. Please go ahead.

Fatima Pacha: Sir just wanted to understand from the annual report I could see that a lot of import has come down, I do not know whether for FY 13 specifically. So, the net currency benefits were much higher for you this year versus in last many years. So, is there whatever we were importing initially, we are trying to force domestically or it is just a one-off which you should ignore?

M. S. Unnikrishnan: I have not got into detail but I am trying to find an answer on the spot. So I may be right to a certain extent but could also go wrong. So let me answer you. The main component that we import from outside India is chunky items turbines. Sometimes that's a single value large items and it is true that last year our imported turbines could have been lower and a good number of orders are gone to domestic supplier who is extremely careful right now about having indigenised their international operations. It is a Gujarat based company, a very large European multinational that much I can give you. So there it will be a dollar order, euro order could have become now rupee order that is one possibility. Second largest item that we import is tubes and drum material, pressure part material as we call it. There certain amount of indigenisation is now practical because alloy steel which we had necessarily import even for medium pressure boilers are currently available in India. So that could be the second reason. Third reason could only be

unknown to me which would be that a specific order had more import which could be case-to-case basis. Going forward what would be that impact on company like India. Let me tell you, even for supercritical boilers, today we have an indigenisation level of less than 30%. So moving forward it is going to be more indigenous not only for me, but companies like us.

Fatima Pacha: Fair enough sir and just the last question on your general standard products. I think it is around 2000 crores kind of run rate. Do you think that will help you this year because we know that in FY 12-13, it is this particular segment that is held because you are trying to innovate a lot of different products and margins are also much better other than projects? So do you see that business holding up or do you expect growth in that FY 14?

M. S. Unnikrishnan: Growth may not be practical idea, but holding on to something which you are hoping to happen, despite what we all spoke in the past one hour, I am sure that is the same thing in the industry that you are facing. There are still bold people in India who are investing and only thing is that they are smaller ticket size investments where the standard products are going in. So, it should hold on.

Fatima Pacha: So, for revenue growth it will be primarily some projects, right? I think whatever projects that you just spoke about which are little slowing down right now, even what you won this quarter that is where you expect the execution growth to come from?

M. S. Unnikrishnan: Correct. Let me tell you, EPC contracts could come even now in the next 3 quarters. It may not be four digit numbers, but more than

100 crores to may be 250 crores. There could be possibilities of EPC contracts, people are holding on today. They should ideally finalise.

Moderator: Thank you. Our next question is from Kirti Dalvi of Enam Asset Management. Please go ahead.

Kirti Dalvi: Just couple of questions. First would be on your order inflow and order booking if I can take the breakup of energy, environment and international. The second question may be repetitive, apologies for that. In international markets the way other companies have gone and bid for the projects as well as the product and the impact they are having it currently. So what is the scenario for Thermax? Are we at the same competitive edge maintaining for us vis-à-vis like other MNC players in the international markets?

M. S. Unnikrishnan: Gopal will help you for the first item in terms of orders.

Gopal Mahadevan: Order inflow for Thermax 2123 crores for the quarter broken down into 1902 for energy and 221 crores for environment. I will share group numbers also. 2611 crores broken down into 2383 for energy and 228 for environment.

Kirti Dalvi: And international orders?

Gopal Mahadevan: I will give you the export invoicing for Thermax. The total order inflow was 2123 crores which I had mentioned to you and the exports out of that is 251 crores.

Kirti Dalvi: And for the group sir?

Gopal Mahadevan: Group I will have to give it to you because I do not have the number readily, just give me a moment. I will it share with you separately.

Kirti Dalvi: Order book also if you can give the breakup?

Gopal Mahadevan: Order backlog for the group is 6322 crores and if you want order balance because what you refer to as order book. The overall order book was 5530 crores for Thermax and out of that, exports accounted for 871 crores and at the group level the order balance is 6322 crores. Out of that, exports and outside India was 1143 crores.

Kirti Dalvi: And energy and environment?

Gopal Mahadevan: Do you want for the order balance?

Kirti Dalvi: Yes.

Gopal Mahadevan: Now I am just giving breakup, 6322 crores, I am giving the breakdown between energy and environment. 5288 crores is the energy segment. I repeat that and 1034 is for the environment.

Moderator: Thank you very much. Our next question is from Sonaal Kohli of Resolute Capital. Please go ahead.

Sonaal Kohli: My first question is that out of your distinct revenues, what portion of your revenues would be from non-Greenfield projects where the plants are already operational, but the client has decided to add one power project and has this ratio changed substantially in last 1-2 years?

M. S. Unnikrishnan: I may not have a readymade number because the fact that the orders from such countries could be for captive power and could also be for boiler where he is going to construct it on his own. So if I have to look at last quarter incidentally there are no orders at all for any captive power as an EPC. It is only O&M order. I should not say nothing because 10 crores can make a difference. There is a 10 crores order from one of my existing customers who felt our boiler is over performing. So that excess steam that he is able to produce on that, he wants to convert into power. He gave me an add-on order to put a baby turbine to generate may be 2 MW out of them. So that is an order available, otherwise nothing. If I were to take last year, the Greenfield power versus a fresh one, I believe 30% was for add-on power and 70% would have been approximately for the Greenfield projects in captive power and among the boiler orders for last year, approximately the same percentage will follow.

Sonaal Kohli: Secondly sir if power tariffs were to fall further from here, at what kind of threshold level would it starting impacting your business?

M. S. Unnikrishnan: In any case power prices cannot come down in the country. It can only go one way and it is upwards. So do not have any hopes with its coming down, otherwise we will close all the power developers of the country. It will not happen, but in any case since you ask, let me give you what is the breakeven number for domestic coal based power generation in the captive industry and also imported basis. If one were to get coal at the Coal India rated price today in an existing power plant of let us say 100 MW, you can generate electricity at anywhere up to Rs. 3.5 at the best maximum and if the guy is closer to the pithead it can even be 3.25 even today. A

new plant being installed by somebody and pay for the full depreciation can even touch Rs. 4 that is the only difference on that front. Now coming to imported coal depending upon whether is on the seashore or whether in the center of the country can vary within Rs. 4 to 4.75 per unit of electricity. Now let me give you how much are we paying? In our Pune Factory we are paying Rs. 8.6 per unit of electricity. Factory at Baroda, I am paying a charge of Rs. 6.75 per unit of electricity. If I am using 10 MW of electricity as capacity requirement, I would have gone for a captive power at 1.5 MW and that too in the night you hardly need electricity, we cannot afford to do that. Captive power is here to stay; it is viable in the country and it will become increasingly viable.

Sonaal Kohli: And sir when you give out your order book, what is the threshold level at which you decide to include project in your order book, what is the minimum amount of advances, what you take to put that out in the order book?

M. S. Unnikrishnan: It depends upon the segment that I take the order from. A government order will be registered when they have a letter of intent or an award issued by them because many of them do not give advance and if at all if they give advance, they charge me 15% in the shareholding advance at all because Gopal does not give me 15% for the treasury that is available to him. So certainly I cannot afford that. That is point number one. There are established customers who got certain terms of payments where they give notice to proceed a letter of award and through their ERP system, order number is allocated and land is handed over for me to start the work. It will still get registered and where the advances could be progressive when you complete the engineering and design than

I register it. Then comes tendered ones like NTPC where then it is award is good enough for it. Advances not needed. Beyond that, Thermax will demand a 10% advance being made available for registration of an order. That is the way we do. It is not that one cut and paste for everything. It is a segment government versus PSU versus all that.

Sonaal Kohli: Sir, in terms of your order book, what portion of your order book would be where you would have received this 10% advances versus the order book where you did not receive any advances.

M. S. Unnikrishnan: No private order of that sort will have it. Government orders may be there without advance, but we get advances in 2-3 months' time. We can also take it by giving a bank guarantee, but we do not do that. What we do is that we complete the package for the first 5% advance and that would be less than a month's period. So I can say bank guarantee for 36 months or 24 months and collect the advances taken for the work that is done by us. So if you look at it, there are no government orders and the larger sizes are registered in the recent past. There were no advances available. For example, NMDC I have received the full advance, NIPCO I have received the full advance because I have completed that portion of engineering work. So that is the non-advance orders are in substantial.

Moderator: Thank you very much sir. Ladies and gentlemen due to time constraints, that was the last question. I would now like to hand the conference back to Ms. Bhoomika Nair for closing comments. Over to you ma'am.

Bhoomika Nair: Thank you very much sir for taking time out and also all the participants for being on this call and I would like to wish on behalf of everybody all the very best to Mr. Gopal.

Gopal Mahadevan: Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.