

Conference Call Transcript

Thermax

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Corporate Participants

Mr. M S Unnikrishnan
Managing Director

Mr. Gopal Mahadevan
Chief Financial Officer

Questions and Answers

Misal Singh: Thanks, Farah. Good morning, everybody. I welcome you on behalf of Edelweiss to this conference call with the management of Thermax. I have with me Mr. Unnikrishnan and Mr. Gopal Mahadevan and his team from Thermax. Mr. Unnikrishnan will give some initial comments and the recent developments after which we will go over to question and answers. Over to you, sir.

M. S. Unnikrishnan: Thank you, Misal. Good morning to everyone. Thanks a lot for taking the interest and joining our conference call. Unlike the normal conference calls that we do every quarter, this is a special occasion where we have amicably settled our litigation with Purolite in America. The details are already given out in the press release along with some more bullet points relating to the entire dispute and how it got settled.

Highlights of the settlement is we will be paying \$38 million in four tranches, the first one in April of 2010, second in July of 2010, third is in October 2010, and the last tranche will be paid in December 2010. Currently, we have decided at this point of time, we will be charging the entire amount to the P&L of the 2010 financial year accounts and the cash flows will go from next year in four equal installments. That is the current expectation. What this entails to Thermax is a co-ownership of the disputed technology and undisputed use for this across the world in perpetuity.

And further to talk about, this will be closing all disputes with Purolite and there is no further financial obligation from Thermax on this account at all here afterwards.

Why we have taken the decision at this point of time? The case is pertaining to a dispute that arose in year 2005 and the litigation started in the first quarter 2005. After protracted litigation of approximately five years, we were to go for a jury trial, starting from 1st of March 2010. Looking at the uncertainties of a jury trial and outcome of that, and also the management time that is going to be involved –, we had two options - To continue with the jury trial and in an unlikely event of we getting an adverse jury trial verdict, we would have gone for the next appeal level also, which would mean again a longer litigation. Again, one cannot be predicting what will be the outcome of that and the costs and management time involved. And for a company like Thermax, which is totally engrossed in the growth path at this point of time that you are aware and of the order carry forward at this point of time we are having, and the growth plans related to the power area. Secondly, also in climate change related green products with the company and, waste to energy, there is a good future and great future available for the organization. So why should we be getting stuck on with litigation. So we have taken a prudent decision with the long-term view to settle it out of the court and move on. That is all about the entire

settlement details. I would leave it to people to ask me specific questions so that we can answer.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer session. At this time if you would like to ask a question you may press '*' then '1' on your touchtone telephone. If you decide you want to withdraw your question from the questioning queue you may press '*' then '2' to remove yourself from the queue. The first question comes from the line of Sumeet Agarwal from HSBC. Please go ahead.

Sumeet Agarwal: Yeah, hi, sir.

M. S. Unnikrishnan: Hi, Sumeet.

Sumeet Agarwal: Sir, just wanted to know you would be the owner of the technology and other IPR. What is the potential of this technology or the project and how can you ramp? Is there any chances of further ramping up of the ion exchange business?

M. S. Unnikrishnan: We have not specifically calculated what will be the possibility for ramping of the business. Just to inform you that this business is also expected to grow and this will be removing the shackles, that is what you need to be considering. Finance analysis as to what would be the upping for the company, excepting for the fact that the size of the business is fairly large in the world and we are a marginal player at this point of time.

Sumeet Agarwal: Yeah, sir, the reason I am asking is if I look at your ion exchange business for which you had this technology, it is not a significant business in terms of the settlement that you have done for it. So just also wanted to break-up. Is there any break-up in terms of the technology costs and the punitive damages or is it –

M. S. Unnikrishnan: You have to depart from the resins business of the company and look at the litigation in isolation. It is the litigation against Thermax as a company, not the resins business of Thermax. So we cannot isolate Thermax from this resin business. That is why to take a, I told you a prudent decision, looking at Thermax as an organization at an overall perspective.

Sumeet Agarwal: Okay, fine. As of now, I am through in my queries. Thanks a lot.

M. S. Unnikrishnan: Thank you, Sumeet.

Moderator: Thank you. The next question comes from the line of Neilesh Rajani from Tata Mutual Fund. Please go ahead.

Neilesh Rajani: Sir, just wanted to understand in terms of have you not done this out of court settlement what would have been the actual process that would have gone, how much time would have taken, how much would you have to eventually payout in case you would have extended this particular case, sir, that was the first question?

M. S. Unnikrishnan: One does not come out with an actual number. But I can

give you some approximation from which you can derive. What would have been the impact of that? First of all, this case is filed in Pennsylvania. There is an Act on us, Pennsylvania Uniform Trade Secrets Act (PUTSA). As per that if you are proven to be in trade secret violation in certain conditions the damages can be tripled also. And in such cases, the court can also award the litigation expenses of the other party. If one were to cumulate this kind of a thing, what could have been the limit of liability, could have been in triple digits, let me say. It could have gone up to a triple digit. Now, one does not really calculate. And again, before that, will the litigation be the last ending point or will there be something more there afterwards? Because one is normally aware of trade secret litigation can also be reopened there afterwards. So closing this kind of a chapter would be in the best interest of the organization. And knowing fully well that we are a company which is technology-oriented, innovation-oriented, we would certainly not want to have a jury trial where unnecessarily we will have to be opening up the finer points of technology and trade secret. That is why we have taken this kind of a decision. The numbers are, I am sure, it is known to both the sides, negotiated settlement, both the sides were happy to sign on an agreement, let us say that.

Neilesh Rajani: Sir, my second question would actually be related to this particular outflow, this particular amount that you would have to shell out in next 1-1.5 years, can one of the reasons of having to sort out this litigation at this stage is because you see an opportunity for this particular business or maybe you are looking at certain acquisitions in this particular stage in the overseas market which would have taken some time if the litigation was still on and hence we hastened up the procedure of getting the things sorted out. Can that be concluded or....

M. S. Unnikrishnan: The fact was slightly different. Either we continued with the jury trial starting 1st of March, or else we settled prior to 1st of March. Timing is more related to the jury trial starting. So we either settle right now or we enter the jury trial then we will see to the end. Then we are opening up the Pandora's box that is the point number one. We do not have any other consideration related to M&A or anything at this point of time.

Neilesh Rajani: And again, the question that Sumeet asked, in terms of the opportunities if you can still give some sense, some idea as to how would this particular technology help you grow that particular business in the next few years to compensate for the damages that you have done, if you can just throw some light on that, sir?

M. S. Unnikrishnan: We aren't calculating that we will be able to recover from specifically this business the entire money, but the ramification on Thermax as an organization of not being indicted in the United States Court is a savior for the company; because you should realize for a fact that Thermax is into the technology area, both in energy and environment and is related to water business, there are lot of interrelations of this. So we have taken a view of, standing at maybe 10,000 feet and above, rather than coming to the ground level calculating on an excel sheet level at this point of time.

Neilesh Rajani: That is all from my side. Thanks a lot and all the very best.

M. S. Unnikrishnan: Thank you. Sorry, if I have not satisfied you.

Neilesh Rajani: No, no, that is okay.

Moderator: Thank you. The next question comes from the line of Dhimant Shah from HSBC. Please go ahead.

Dhimant Shah: Just wanted to ask you, since it was an out of court settlement, of course, we had gone the other way, you would have had to pay triple or whatever. But we have seen in so many other cases, for example, a case in point as possibly you pay in case of Satyam, they are talking about settling at one time or whatever. So could you not have done a cost benefit analysis both past and future possibly and then gauge as to what exactly would be needed to be paid, number one. Number two; can you also delve a little bit on why you want to pass the amount through profit and loss as opposed to possibly writing it off from reserve?

M. S. Unnikrishnan: The first one is we have done an analysis of cost benefit for Thermax as an entity. I am unable to reveal it to you in detail, But certainly it is not like a decision taken where we are going to settle at any amount, I am sorry. We had detailed deliberation, which involved the business then apart from the corporate management of the company, each of the divisions of the company. We have taken a legal view from our attorneys from America and also another second opinion from a very, very senior counsel from India, who is an expert and rated to be the best in the country related to commercial litigation. We had the advice of this, then the entire wisdom of our board of directors was available to us on this to discuss in detail, and finally, we arrived at a certain decision. I am sorry, I cannot reveal some of those numbers and how we calculated and how we arrived at. Based on the negotiations we have settled only when we realized it we can settle for that number and what the company will benefit from. This being an amicable settlement there are some agreements signed by both sides on what can be revealed and what cannot be revealed. Be assured of the fact that it is beneficial for the shareholders of the company; certainly, it is beneficial for the company. In the short-term it is going to have a temporary setback in terms of quite a large quantum of money to be absorbed from the balance sheet and then going forward, it will be an uncertain movement for the company. It is not going to drag Thermax into anything further that is the point number one. Second, should we be absorbing it on to the P&L in the current year or should we charge it to the reserves, there are opinions of various people being taken, I have only given the first level, what is the thought process of given a choice Thermax would like to add it to the P&L and be done with it and go with the clean balance sheet in the next year. Now, as we progress in the current month or maybe coming month, March, before we are closing the balance sheet, if we were to find that it is more beneficial for the shareholders, investors of this company, we charge it to the left side of the balance sheet, provided it is a permissible, it is meeting all the statutory requirements, then certainly, we will go for that. That option is still open to us at this point of time.

Dhimant Shah: Okay, but I mean there is no way they would have agreed to a lower amount is what you are essentially saying?

M. S. Unnikrishnan: There, I would say that, leave it to your wisdom that (inaudible).

Dhimant Shah: Yeah, sir, sorry, I could not hear the last sentence.

M. S. Unnikrishnan: I am telling that, well, in a negotiation of this kind when you are going to settle it out of court, both the sides will certainly try for the best number. What we could achieve in our ability, this is the best number that we could be achieving.

Dhimant Shah: Okay. Right. And in future, does that give you the right to use the same technology without any hindrance or what is it?

M. S. Unnikrishnan: Yeah, we can use all the information trade secrets which is available without any hinderance anywhere. We can do whatever we feel like across the world and it is in perpetuity. We can buy, sell, we can set up another unit, using this technology, all that open access is available to us. And when you say, co-ownership or a joint ownership it indicates that as much as that can be done by the other company we can also repeat the same thing and as long as we do not use Purolite logo, name or trademark..

Dhimant Shah: And one last question, what would be the rough estimated cumulative sales out of this resin based?

M. S. Unnikrishnan: Just repeat the question, I did not get it.

Dhimant Shah: What would be the cumulative sales that you would have done till date on based on this technology?

M. S. Unnikrishnan: Average sales per year is \$22-25 million in the last year. So, cumulative if you talk about it, we started the business -- In 1970s, so 30 plus years of experience of the company.

Dhimant Shah: Okay, sir, thanks.

Moderator: Thank you. The next question comes from the line of Richard D'Souza from ASK Investment Managers. Please go ahead.

Richard D'Souza: Yeah, good morning, sir.

M. S. Unnikrishnan: Hi, Richard.

Richard D'Souza: Hi. Just wanted to enquire the previous question the person asked about the turnover which we could not get it right. Was it \$22-25 million last year in FY09?

M. S. Unnikrishnan: FY09 business of resin was \$22-25 million.

Richard D'Souza: And just wanted to know what are the competing technologies which are there in this particular area and Purolite from some this technology how much turnover would it have posted? And then what geographies were they operating with. Were they operating in India or not?

M. S. Unnikrishnan: The resin business is predominantly for water purification. Various kinds of water treatment, right from softening to demineralization to

mixed bed reactors which are used for water purification from hard water to cold water to the ultra pure water needed for maybe a very high capacity power plant. There are also non-water applications for the resins which go into pharma, also into various other chemical industries. This is the total market for resin. The size is estimated to be anywhere up to a billion dollars across the world at this point of time. The number one market in the world is America for that matter. The main players at this point of time are Dow Chemicals, who recently purchased the number two in the market, known as Rohm and Haas. So, after the M&A of Rohm and Haas, they are number one, I think they must be holding 25-30% of the total world market size. Second company is Purolite themselves who are reckoning. So, these are only information from let us say, reliable sources, is an excess of \$200 million, estimated between \$200 million to \$230 million is the size of business done by this particular company. After these two, there are companies like Mitsubishi, then, Lanxess is another company which is fairly large in size. They are also in to near to maybe \$0.25 billion kind of the sales turnover. Then, next tier, private players, in India, it is Thermax and Ion Exchange and Mitsubishi in Japan, and there are couple of Chinese makers who are not very large in size at this point of time. So that is overall resin business.

Richard D'Souza: Okay, sir. And in India, what you estimate the size to be, for this particular business?

M. S. Unnikrishnan: India is a growing market. Currently, estimated at, say around \$35-40 million at this point of time and growing at a very fast pace. As the water purification increases for the new plants as well as the replacement resins are utilized. It is a growing market anyway.

Richard D'Souza: Okay, thank you, sir, wish you all the best.

M. S. Unnikrishnan: Thank you, Richard.

Moderator: Thank you. The next question comes from the line of Pranav Gokhale from Religare Asset Management. Please go ahead.

Pranav Gokhale: I just want to take this last question forward. This right which we have got for the resins, the technology, we can use it both in pharma and the metals and maybe food processing industry as well? I mean, these are the kind of avenues in front of us?

M. S. Unnikrishnan: Fundamentally, the process, the process that is available to us can be used to make resins of different types, which can be used for various applications.

Pranav Gokhale: It covers the entire gamut of industry including the metals, copper, zinc, lead, food and process industries and pharma industries as well?

M. S. Unnikrishnan: Yeah, you are right. Absolutely, right.

Pranav Gokhale: And sir, just, the other question, do we have to pay any particular fix royalty now on this or

M. S. Unnikrishnan: No, no, this is a one-time settlement charges, nothing needs to be paid ever here afterwards.

Pranav Gokhale: Okay, sure. This is just the one-off or will you look to combine with Purolite for furthering the technology again?

M. S. Unnikrishnan: Certainly, no. Not at this point of time, after having litigated, and have gone the opposite way for five years, settlement is arrived. So both should live peacefully. Not in the agenda right now, let me say that way.

Pranav Gokhale: Are there any other pending cases in front of us, apart from this case going ahead?

M. S. Unnikrishnan: There are no trade secret or IP related cases against or for Thermax at this point of time. That much I can clarify to you.

Pranav Gokhale: Okay, thank you sir.

M. S. Unnikrishnan: Thank you, Pranav.

Moderator: Thank you. The next question comes from the line of Gagan Thareja from B&K Securities. Please go ahead.

Gagan Thareja: Sir, just wanted to clarify are you now in a position to or do you have the right to sell this technology further? As you have been a user of this technology thus far, now, are you in a position to sell it also?

M. S. Unnikrishnan: We have legal rights to sell it. Will we sell it is another question.

Gagan Thareja: Sir, just wondering any given that Purolite earned a significant amount from this business. What was the thought process behind them giving the right to sell this technology to Thermax when they could have taken that much market for themselves?

M. S. Unnikrishnan: I can only make a speculative imagination what could have played in their mind. Because there is a belief in their mind that Thermax is privy to their technology, which we refuted. Since they have a feeling that Thermax is privy to that, maybe their intention is, earn right now itself and let them continue. That will be official. That would be the possibility at this point of time. This again, I am putting as a conjuncture.

Gagan Thareja: Would it be fair to assume that the settlement figure that you have talked of is the kind of in a way the opportunity cost for them as in this is what they feel could have been the potential market for them, which they have earned through the settlement now?

M. S. Unnikrishnan: It is anybody's guess. But I should assume so, because if somebody were to conceive that they should be satisfied to that extent at least. Their expectation was much more to be precise. Much more. It was a tough job for us to have made them agree for both the number as well as for the conditions, let us say that way.

Gagan Thareja: And sir, now that this much cash going out of the balance sheet, does that in any case impact your project execution in the next year?

M. S. Unnikrishnan: Thankfully, no. We have cash reserves of at least Rs. 725 at this point of time. And this amount is not going to make a dent. Certainly,

any cash loss out is not something which company will welcome. But for an amicable settlement of a case of this kind, it is worth it, let us take it that way. But as for the project execution not one will suffer because all the projects are well-funded, nothing to worry on that. Our internal projects which we have planned, related to expansion programs of the company, all of them will go through. That much of money going out of the balance sheet maybe Gopal, I am sure will be unhappy about that.

Gagan Thareja: Sir, last question, in hindsight, would there have been any possibility to have created a contingent liability for this particular litigation that has happened?

M. S. Unnikrishnan: Gagan, that would have been a wrong step on the part of a company, because the contingent liability will get reported on the balance sheet and on the litigation of this kind, can have a high adverse impact. When you admit that and the moment you provide any kind of a liability, contingent or maybe on the balance sheet in any of the schedule -, it will be read by everybody. So it will be seen in a sub judice condition that will come in, there is an admittance already in existence, so that will go totally against us either in a litigation or in a settlement.

Gagan Thareja: Got your point, thank you, sir.

M. S. Unnikrishnan: Thank you.

Moderator: Thank you. The next question comes from the line of Anupam Tiwari from Reliance Mutual Fund. Please go ahead.

Gagan Thareja: It is always good to talk to you.

M. S. Unnikrishnan: Thank you.

Anupam Tiwari: I think first, as a shareholder, we would like to place complete reliance on your wisdom, so I will not question you and the logic, rationale behind the amount or the settlement. What I want to understand more is that as we believe is that this is a very sophisticated piece of technology which very varied use and very few companies or organizations in the world have complete gamut of understanding on this piece of technology.

M. S. Unnikrishnan: You are right, absolutely right.

Anupam Tiwari: So, in this curve, where you stand today, say, would you say that your learning or your organizational understanding of this technology would be at par with Purolite?

M. S. Unnikrishnan: I would want to make a statement that we are at par, but let us take a different platform to understand it. The water related technology is at a high sophistication in developed world in comparison to developing world. So, Purolite has got their operations in North America, which is a home ground for water technology growth in the, I would say, past maybe 40-50 years. So that means companies like Dow Chemicals, Rohm and Haas and maybe Purolite is a next tier player. So an American or a European technology platform, we will have to believe is maybe a little ahead of Asian countries at this point of time. That is why most of the Asian countries or developing countries would depend

upon developed world, both Europe and America for water and water related technologies. That is the reality at this point of time. Now, if I have to peg ourselves Thermax has been in the business for quite a number of years. We started somewhere in the 70s, and so 30odd years of experience is available to the company, but predominantly we were operating in India, though a part of our resin business if I have to say that way, we have been selling in America. Our resins are accepted in America. We do a turnover of \$8-10 million - at least in the recent past we have been doing that much in America also. We are an accepted Asian or an Indian manufacturer. We have got certain standard of capacity. In India also, you only have Ion Exchange the original player, which also grew from Permutit Corporation of London.

Anupam Tiwari: Just two things more to understand that when you talked about the water, and if I have to exclude water and this technology can be used in other multiple ways, so in other areas also we have capability to manufacture resins and apply them?

Unnikrishnan : We had been supplying. See that is the different market, resin is a replacement for various other reactions. For example, say, when you go to the making, say, fruit juice, there are two ways of doing that. You can make a pulp out of the fruit, say, orange and that pulp can be segregated from the solid to liquid there is membrane separation possible for that. Other way to do that is you have an ionic charge given to the density differential, so you can extract a juice from a pulp. So that is another way of doing resin application. Similarly, say, when you have the Crocin tablet you and I take for our child who is maybe eight months old, you have to give a emulsion for him. The emulsion separation is done using an ionic reaction. Very, very specialized applications of resin. But those are very limited. Now, Thermax is already on to this area on a research level and a minimum supply level. There can also be very, very specialized application, there are, coal washeries coming up and there could be a lot of application for them. Mineral separation, there are applications of that kind. So other than water there are applications. Currently, the full blown developed segment for resin application is water. Others are developing, let us say that way.

Anupam Tiwari: And one last thing to understand, now you have a capability to take it further -- I am asking about technology level on your own?

M. S. Unnikrishnan: Certainly, we have.

Anupam Tiwari: You have enough learning have to do further R&D and grow this technology on your own?

M. S. Unnikrishnan: Certainly, yes, we have a set of people who have experience of double-digit maybe 10 plus years, some of them having gone up to 20 years of living in this technology area. We have the ability.

Anupam Tiwari: Thank you, sir, and best of luck.

M. S. Unnikrishnan: Thank you, Anupam.

Moderator: Thank you. The next question comes from the line of Vishal Saraf

from SBI Mutual Fund. Please go ahead.

Vishal Saraf: Hi, sir. Just wanted to continue further on the previous question. Like, we are mentioning that we are the joint owners of the technology and while Purolite believe that we have their technology, we had developed the same thing on our own behalf, by our own.

M. S. Unnikrishnan: Absolutely, right.

Vishal Saraf: So now being joint owner, do we get from them some value curve on how they develop the technology or their entire technology as well?

M. S. Unnikrishnan: No, no, certainly no. Whatever is disputed, which is in their opinion, taken away by these people, only those are the ones where there is joint ownership.

Vishal Saraf: Okay, but they would not share what exactly was their technology and what is our technology and whether we can use that particular process or that particular technology?

M. S. Unnikrishnan: These are all very grey areas whether it is theirs or ours, because technology in chemical reactions are very defined, it is a science. Then along with the science comes from trade secrets, that is - how to do that? Like in text book, most of us have read also, how to make iron, how to make steel, how to make copper, how to make various things, but we can't start a steel company based on a text book alone. So the trade secret related to how to convert the technique or may be science in to manufacturing processes, let us say, that is the knowledge available. Thermax had been making this. So we have a way of making it. Now the process by which Thermax has been manufacturing versus the process by which they would have been making, there could have been a difference in that. Now each process may have its pluses and minuses. Now we are privy to whatever, say once if we have the litigation completed and once the money gets paid and then we have the knowledge of the distributed trade secret available, we will have that as an open source available to us. Now that does not mean that Thermax did not know, Thermax knew, Thermax has got capabilities, Thermax also knows and Thermax has got its trade secrets also. Now with the other one when you compare, will it be better. I am sure some of them will be better, definitely.

Vishal Saraf: But then we are now privy to their trade secrets and their technology as well, so they will be sharing that with us is it?

M. S. Unnikrishnan: No, wherever there had been an overlap or a dispute which is arisen which has forced them to be litigating against Thermax, those areas, it is now available to Thermax, let us say it that way.

Vishal Saraf: Okay right sir. And sir just one more point earlier you mentioned that for its technology you see a high growth rate in India going forward, can you elaborate what kind of growth rate you see?

M. S. Unnikrishnan: Business will grow in India it is a growing business. In water business you have a consumption of resins. There are two types of technologies going to be used in water area. One is membrane, second is resin.

Thermax is luckily into both of them. , We are giving solutions based on membrane also. A set of water treatment will be made in membrane, for example, if we got to create drinking water or usable water from sea water which is going to be one of the major requirements in India - that is membrane technology, not a resin technology. Whereas if we are going to be having a fine purification of even the reverse osmosis based water to be done for making use of it in a power plant, we need another mixed bed technology which is based on resin. So both do find applications, that's the way it is. So as the water business is going to be growing in India, we very strongly believe that both resin technology as well as membrane technology will have a growth in Indian market. And we are having both - both resin as well as membrane.

Vishal Saraf: Okay sir yeah. That's all from my side. Thanks a lot sir.

M. S. Unnikrishnan: Thank you.

Moderator: Thank you. The next question comes from the line of Navneet Iyengar from Motilal Oswal Securities. Please go ahead.

Navneet Iyengar: Good morning sir.

M. S. Unnikrishnan: Hi Navneet, you asked me everything yesterday?

Navneet Iyengar: Sir just wanted that one clarity.

M. S. Unnikrishnan: Yeah.

Navneet Iyengar: The press release actually mentioned the dispute on three distinct production processes which were in dispute. Were these related to the resin or the membrane or both?

M. S. Unnikrishnan: It is related only to resin.

Navneet Iyengar: And sir just last question. The whole amount would it be taken before the .., i.e., during Q4 it will be booked into the P&L or we will push it to FY11 and then do it accordingly?

M. S. Unnikrishnan: Currently let us say, no decision has been taken, because we are just out of the settlement, our current understanding - among the senior team of management and the finance team - is that we are actually yet to take it to the board at this point of time that we should be charging it out to the P&L in the current year itself and next year let us have a clean slate. We have got sufficient orders. It's not a uncertain year for the company going forward because you are aware of our order carry forward, so we are going in for a growth next year unlike the previous years where we had some difficulty of growth. So there is a visibility of growth here in the next year. Should we be worried about and can't we charge it off in the current year itself. I would say this is decision making has got to be taken in conjunction or maybe in consultation with our legal advisors, I am talking about tax advisors, audit committee of the company also.

Navneet Iyengar: So Q4 would be prudent enough to take it and then move forward, FY11 should be clean?

M. S. Unnikrishnan: This is what the management currently believes but let

me tell you, what is the thing which can change our decision. If there is a better tax applicability or any benefit that can be arising to the share holders of this company, we would want the share holders point of view to be taken more than an operating point of view because cash is not so much of a difficulty, cash is already committed in terms of four installments only, that is already defined. So once that definition is done the next level to be taken care of is how do we take care of the interests of the investors of the company? So this is what will be the prime criteria for us to be taking that decision. So we will have some time available till end of March to go to the audit committee and put in our proposal and then get it approved.

Navneet Iyengar: Sir I am just bouncing a thought probably, would it be great if you take a tax break on FY 11 figures on this number?

M. S. Unnikrishnan: Unfortunately that is an area where operating executives and tax executives have a difference of opinion. So I would leave it to them. At this point of time I do not want to take a call on that. It is too premature at this point of time. If there is a possibility for it, I am sure Gopal and team will work on that and the best one which is for the company, company means as of today it's the shareholders, we will take a right decision. But in any case what I suggest Navneet is that if you were to, I am sure you guys know better than us in some of the areas, any treatment done differently in some other companies please inform us. Gopal also you can tell him or maybe you can send me also an email or maybe call us.

Navneet Iyengar: Surely sir.

M. S. Unnikrishnan: It's your company ultimately.

Navneet Iyengar: Sure. So for the time being Q4 looks more favorable?

M. S. Unnikrishnan: Yeah.

Navneet Iyengar: Okay. Thanks a lot sir.

M. S. Unnikrishnan: Yeah, thank you.

Moderator: Thank you. The next question comes from the line of Lakshmi Narayanan from BNP Paribas. Please go ahead.

Lakshmi Narayanan: Good morning Unni and Gopal.

M. S. Unnikrishnan: Hi Lakshmi how are you?

Lakshmi Narayanan: I am fine. Just to take you to a broader level, as a company Thermax has leveraged technology alliances and absorbed and has grown in several areas. Now looking at this one off incident what are the lessons to be learnt and lot of times you would be working with your technology partners and co-developing technology, let us say in the future, so how would you protect yourselves from potential litigation like this, this is something which you could reassure us?

M. S. Unnikrishnan: First of all this is a one of case Lakshmi to talk about and there are lessons learnt by the company. We cannot be boldly telling that look we have done everything right, some areas there has been laxity, I am fully

aware of that fact. Reassurance is that, we do not have any other trade secret litigation pending nor would ever we want to get into that, so we will take all kinds of precautions to ensure that the company is protected from any kind of trade secret related litigation. Processes are already written and some of them are implemented and will be implemented further based on the learnings. A team of people will be studying this thread bare as to how do we protect the organization going forward. Second is, we do joint development where there is a technical partnership with other companies, there it is purely based on an NDA, Non disclosures and confidentiality which are signed in the beginning. One is where we develop with somebody else where we got to protect our knowledge so that is protected. Second is no infringing on the partners areas, both are very well defined in wherever we are creating. One of the reasons for us to be having a rejuvenation done to our R&D wing and converting that into resource technology and innovation centre with ingress of lot of internationally, let me say, people who work in multi-national companies like GE or Emersons, Honeywell, is to bring in those practices also. We got a separate IP cell currently installed in our RTIC headed by one of the persons who worked in such a multi-national, so the practices of the West is brought in. Lakshmi you brought in the most vital point on the entire agreement that going forward we will be creating technology, how do we protect it and some of the good technologies that Thermax might be creating may not be liked by the rest of the world, so we got to ensure that we do not infringe onto somebody's IP and we don't have a litigation coming. This is an area we will be taking care of. I can only verbally reassure you at this point of time, processes are getting in place. Believe us we will be putting in place systems for that.

Lakshmi Narayanan: Perfect Unni, thanks for that.

M. S. Unnikrishnan: Thank you Lakshmi.

Moderator: Thank you. The next question comes from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.

Sanjeev Zarbade: Yeah good morning sir. Just wanted to know post the agreement where do we rank in terms of technological advancement and technological availability in the environmental and water treatment business globally?

M. S. Unnikrishnan: Unfortunately there is no pegging order published or calibrated. I would say that there was a dispute about this technology, let us say that way, where whether it belonged to us or whether it belonged to the other party, whether we infringed upon that, these were the kinds of disputes. Now it puts a full stop for that argument or a dispute and Thermax in co-owner of these processes in this particular area of resin. This whatever the two or three processes which we mentioned about. So that is all that I wanted to conclude at this point of time, beyond that, it will be unfair on my part to be commenting currently, as to have we gone couple of notches up. We were selling resin in America so that means our technology was acceptable to the western world also.

Sanjeev Zarbade: And are there any other technological related gaps in our portfolio which we may like to fill?

M. S. Unnikrishnan: In the water area not in the resin area. Let me talk about it, we have recently signed up for a technology transfer from a German company because we do an analysis as to which are the areas where we got a gap and scout around for a technology. So one of the areas that we found was that difficult to treat effluent. A lot more of polluting companies will set up their factories in India. There will be effluent which cannot be treated by the conventional technologies. Scouted around we found a company in Germany and we purchased the technology from them. It is for difficult to treat effluent. So that is an area where we have already found a solution. As we move up in the value chain we may come across gaps because solution requirements are different for different companies.

Sanjeev Zarbade: Sure. Okay sir thanks and all the best to both of you.

M. S. Unnikrishnan: Thank you Sanjeev.

Moderator: Thank you. The next question comes from the line of Deepti Chauhan from Asit C Mehta. Please go ahead.

Deepti Chauhan: Thank you. I had a few questions. One, the timeline which is suggested that April, July, October, December that is pertaining to the cash outflow and the charged to the P&L is not yet decided, is that correct?

M. S. Unnikrishnan: What you told first one is correct, the pay out in the April, July, October and December is concerned. I would say that the current level of understanding the decision is tending towards taking in the current year's P&L itself. And also the reason to support our decision is that next year, its already a visible year for the company. We could carry forward order sufficient for meeting the growth requirements for the next year plus the market is looking to be positive for next year, so we are heading for a fairly good growth for next year. So why should we be carrying a pain to the next year? Might as well close it up in the current year and then go with a clean slate for next year, that is our current thinking.

Deepti Chauhan: Second is whenever this charge comes into the P&L this will be above the line or this will have some tax implications as well, I mean, will it be below the line or above the line?

M. S. Unnikrishnan: Our intention is to keep it below the line. Tax is something which we can only propose and this decision is taken by people who do not work for us, so there, we will have to certainly depend upon them.

Deepti Chauhan: Okay and last question is pending the litigation with Purolite, did we have any kind of restrictions placed on us as far as selling products which are made from this particular technology say in U.S. or otherwise?

M. S. Unnikrishnan: After the agreement we are free to do anywhere in the world perpetuity usage of this one.

Deepti Chauhan: No prior to when the litigation was pending with Purolite did we have restrictions in selling this product in U.S.?

M. S. Unnikrishnan: There was a restraining order on us from disclosing or using the allegedly disputed technology, that is the legal word for it, so whatever is the outcome of that. It means that if we were to be caught using any of them it would have been a violation.

Deepti Chauhan: Correct. Because we said that out of \$ 22 million of sales of this product in FY09 we had somewhere close to \$ 8-10 million coming from America so this means that we were still doing some kind of sales, but this was not out of the technology from Purolite, is that correct?

M. S. Unnikrishnan: Well that is a thing that should have been judged by the court, thankfully the judgment has not come, it is a settlement. So what we have decided is that whatever has become the past we don't dispute any more. They could have disputed that maybe part of that was as per that also; there could have been a possibility.

Deepti Chauhan: Okay thanks a lot sir.

Moderator: Thank you. The next question comes from the line of Deepal Deliwala from Citi. Please go ahead.

Deepal Deliwala: Good morning sir most of my questions have been answered. Just one question on this question of royalty, sir basically the way to understand this settlement amount is it's an NPV or all the future cash flows that even Purolite would have got had you paid a royalty to them, plus the future litigation costs.

M. S. Unnikrishnan: Frankly speaking such an excel sheet has not been made by Gopal to such a clarity but certainly yes, when we arrived at a settlement, there were three factors Deepal in that front. First and most important one was about a jury trial uncertainty, and PUTSA - the three time damages, the legal expenses, what could be that total number like, that is the point number one. Second is we would prefer to settle it outside the court, so we decided we could rather have amount arrived at for an out-of-court settlement. This after having decided from the large number to smaller number would have been the benefit that the company could accrue out of that. So a settlement could have been done in such a way that we pay the money and say thank you or there could have been a possibility where we pay the money and tell what can we gain out of that. Gain at this point of time is that we become co-owners for the technologies under dispute. So once that comes to you then you look as it as to what is that you can gain from that. Now the excel sheet to us indicates we are going to gain something. Now is that going to compensate exactly for the 38 million? - no. We have not done that in a closing calculation. Because it is very difficult at this point of time to say. Just look at it like this, Thermax has settled this of which there is one gain for the company - out of litigation, out of all clutches. Second it is allowing you even a disputed technology becomes a part of your armory and you can utilize it unfettered across the globe in perpetuity. Now how to gain out of that we will have to plan for it. Let's look at it like that Deepal.

Deepal Deliwala: Right and sir the immediate benefit of this you mentioned in

your previous discussion that you had a restraining order to use this technology in the U.S. and the average sale for this business for us was roughly \$ 22-25 million last year. If this restraining order, since now it will be removed, what is the immediate impact in the next one year. What I am trying to do is trying to quantify the affect of removal of this restraining order in the immediate one year or so.

M. S. Unnikrishnan : I do not expect an immediate change for it because there are two ways to increase the resin sales, one is process and technology, second is capacity and the marketing arm. The companies are not waiting there for Thermax to go there to offer and buy because they are a long term relationships. Resin is a consumable. So to displace one existing supplier with another supplier, needs a long term activity. We can expect anything to be happening, changing, immediately in the next year, but it is going to be helping the organization in the future to grow the chemical business, let's say that.

Deepal Deliwala: Okay, so sir this decision on this charging of the entire amount this year, its almost 90% decided that it will be happen this year only or there is a fair chance it could kind of change?

M. S. Unnikrishnan : That is something which we have not decided. See everything is pointing towards charging in the current year. Imagine that if the same thing were to be happening one calendar year back. Exactly, if you were to turn the clock back to one year, and we would have the same discussion I would not have been so confident because we did not know what is going to happen to the Indian market or the global market in terms of the future of Thermax for one year. You remember, I was telling the same time last year that we may have a drop in turnover and we are going to have a drop in turnover in the current year. Next year I am very confident based on, maybe last year I had 2,900 crore carry forward of which almost 1,000 crore order were on hold, some of them getting cancelled. We did not know what is going to happen to the world. Whereas at this point of time I have got 5,223 crore of carry forward orders and good part of that is revenue recognizable next year. My factory is fairly booked and the Indian economy is doing well. So we can look forward to even book-and-bill good numbers. So if that certainty is there for the future why should I be having the pain carried for the next year. So why don't we close it up in the current year and in any case reward the share holders next year, is the way we are looking at this point of time. I mentioned to you there could be two factors related to any change in this one. Any better way of treating this in the balance sheet which will benefit the shareholders. That is something which we will look at it and if we were to get a better answer before we close in the balance sheet, there is a betterment of any way by a different treatment of charging it over, if it is permissible legally rightfully that we can charge it lesser in the balance sheet to the carry forward, all that we will be evaluating as we go further, that's the way to treat it.

Deepal Deliwala: Okay perfect sir, thank you so much.

M. S. Unnikrishnan : Thank you Deepal.

Moderator: Thank you. The next question comes from the line of Kunal Sheth from Religare Capital Markets. Please go ahead.

Kunal Sheth: Sir most of my questions have been answered. Thank you.

M. S. Unnikrishnan : Thank you Kunal.

Moderator: Thank you. The next question comes from the line of Deepak Aggarwal from Deutsche Bank. Please go ahead.

Deepak Aggarwal: Good morning Mr. Unnikrishnan, Deepak here. I have one broad question. Thermax we believe that is like and we see the company as more of a technology company and it has entered in a technology agreements almost in all of its projects, be it boilers, be it water or be it chemicals with Georgia Pacific or we have agreement with GE Water. I hear that you mentioned that there is no trade secret case that is pending. But what about any other litigation that is outstanding or which can impact your other growth drivers of the company especially in the light of all these technology agreements that you have in place?

M. S. Unnikrishnan : We do not have any litigation currently ongoing related to technology or IPR or trade secrets. Now like any normal companies there could be litigations of a commercial nature which are normally declared if there is anything substantial will be taken into. We may have issues like maybe performance of an equipment?

Deepak Aggarwal: That's fine because that is normal course of business.

M. S. Unnikrishnan : Normal course of business only are the current ongoing litigations. This is the only one in the history of the company and we pray and will work towards ensuring this remains the only one.

Deepak Aggarwal: Okay. And secondly how is your arrangement with the Babcock & Wilcox going on, on the boilers side of it on the sub critical as well as super critical side, how is that progressing?

M. S. Unnikrishnan : Sub critical has progressed quite well. The technology absorption is completed even up to 300 mega watt.

Deepak Aggarwal: And about the super critical side?

M. S. Unnikrishnan : Super critical side, I am on a NDA so let us remain there, give me an opportunity to keep something for the future to talk.

Deepak Aggarwal: Okay fair enough. That's about from my side, thanks a lot.

M. S. Unnikrishnan : Thank you Deepak.

Moderator: Thank you. The next question comes from the line of Archana Makhija from Morgan Stanley. Please go ahead.

Archana Makhija: My questions have been answered, thank you.

Moderator: Thank you. The next question comes from the line of Akshen Thakkar from Enam Securities. Please go ahead.

Akshen Thakkar: All my questions have been answered, thank you.

Moderator: Thank you. The next question comes from the line of Abhishek Puri from JM Financial. Please go ahead.

Abhishek Puri: : Good morning Mr. Unnikrishnan, good morning Gopal.

M. S. Unnikrishnan : Good morning.

Abhishek Puri: First of all I just wanted to understand the cost competitiveness of Thermax vis-à-vis other players because just to tell you where I am coming from is basically a lot of small time players have been supplying the DM equipment along with resins being imported from outside.

M. S. Unnikrishnan : If you are talking about Demineralization plant, they need both cationic and anionic resins which are manufactured by Thermax, ion exchange and maybe one or two small companies in India. Then there are resin manufactures in China, then there are big names which I mentioned as Rohm and Haas, Mitsubishi and Lanxess and Purolite also. The raw material for resin is primary expense for styrene. Styrene is the number one item, it is an important component so there is a price leveling for anybody and everybody in the market. Thereafterwards it is more of a process and it is not very less labour intensive also, let me say it is not such a fully automatic process. So in that count if you are to look at it there is a cost advantage for an Indian or an Asian manufacturer. On product quality and consistency basis Indian manufacturers are reputed to be better than the Chinese. The Demineralization plant is supplying water into another plant. So normally companies are very particular about the quality of resin that is put into the DM plant. On that count apart from the cost advantage that we have got on the labor side I told quality advantage is also a variable in Indian manufacturers. So our surmises of having experienced American market and even Japanese markets for almost more than a decade right now is that we have a cost advantage available and it will continue to be remaining for a little longer period.

Abhishek Puri: You brought forward the question of quality as well, just wanted to check with you whether some of the tenders which come through, they specify that they want Dow chemicals or they are neutral kind of contracts as well?

M. S. Unnikrishnan : In India it is not specified. I have not come across anywhere where they are talking only about Dow. Whereas in North American market or may be in European market there could be regular buyers. The resin and all are long term relationship. Imagine if there is a company who has been buying resin from Dow for the past 20-30 years, for them to be moving out to come to Thermax or to Purolite or to may be Mitsubishi it will take a herculean task so there price alone won't make a difference, it has to be a service also. They are highly service oriented. When they change their process, the resin also should be tweaked. So you have to have the ability to improve that which Thermax incidentally has got as a company. So we had been able to break open some accounts in the developed world also. In fact, in Japan, we have got a account which is a fairly large global company and they are quite happy with Thermax despite having a Mitsubishi in their own country.

Abhishek Puri: Okay. So its primarily what you are saying is market shares more or less stable whereas the market has to grow for the business to grow.

M. S. Unnikrishnan : Correct and other than that whenever there are new applications e.g. displacement of a process where a resin comes it, then everybody has got an option There the chance will be given to the one who has got more technical capability and service capability, where Indians, at least Thermax will be ranked high.

Abhishek Puri: Sure the second point you raised was on the better business potential for the membrane business which is the RO because a lot of projects in India are now focusing on taking water from the sea because inland water is not easily available. So do you see in that scenario that resins business will actually shift over the membrane business, would there be a shift in the business or it's a completely complemented business to resin?

M. S. Unnikrishnan : Thankfully it is complimentary because those were in any case not going be the resin business. Wherever you got a TDS in excess of maybe an 800-1000 it has to be a membrane business. So that was never a membrane business. On the contrary, I would say that even after RO you have got a mixed bed to do the polishing. So there is a market for membrane, there is a market for resin also. In a country like India it can only grow because of water consumption - how many of us do drink purified water every time including you and me? So it is going be a growing business.

Abhishek Puri: So given that background just wanted the management forecast on the payback period for this kind of an amount?

M. S. Unnikrishnan : Thankfully I was not asked by the board to give that number. See litigation settlements cannot be commercial settlements purely the way we do that. If it is maybe a technology purchase agreement I would have been able to give you the numbers exactly at this point of time.

Abhishek Puri: We would assume this as your technology purchase because I think you have built up the resin business by yourself. So if it is taken as a technology purchase amount then what should be considered as a reasonable payback period for this kind of an amount or so?

M. S. Unnikrishnan : Quite long. It has to be treated as both. One is the commercial settlement plus also technology transfer. That is the way we are considering in our mind also.

Abhishek Puri: Okay, great sir, thank you so much for answering my questions.

M. S. Unnikrishnan : Thank you Abhishek.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Misal Singh for closing comments.

Misal Singh: Thanks Sarah. I would like to thank all the participants and the management of Thermax on behalf of Edelweiss for the conference call. Thanks a lot sir and all the best for the next year and the coming quarter.

M. S. Unnikrishnan : Thank you. Thank you Misal and thanks everybody from our side.

Moderator: Thank you very much. On behalf of Edelweiss Securities Limited that concludes this conference call. Thank you all for joining us and you may now disconnect you lines.

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