

Conference Call Transcript

Thermax

Q3FY10 Results

February 02, 2010 | 10:30 a.m. IST

Corporate Participants

Mr. M S Unnikrishnan
Managing Director

Mr. Gopal Mahadevan
Chief Financial Officer

Questions and Answers

Moderator: Ladies and gentleman, good morning and welcome to the Thermax Limited Q3 FY10 Earnings Conference Call, hosted by Edelweiss Securities Limited. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Misal Singh from Edelweiss Securities. Thank you and over to you, Mr. Singh.

Misal Singh: Thanks Melissa. I welcome all of you on behalf of Edelweiss to the quarter 3 earnings call of Thermax. I have with me, Mr. Unnikrishnan, Managing Director and Mr. Gopal Mahadevan, CFO representing Thermax. I would now request Mr. Unnikrishnan to give some initial comments on the results after which we will go to the question and answer (Q&A) session. Over to you, sir.

Mr. Unnikrishnan: Thank you, Misal. A very warm welcome to everybody who is participating and a good morning to all of you. Thanks once again for your keen interest in Thermax and desire to know more about the results of the company. As usual, I will give you some of the highlights of the quarter 3 performance. To start on with, our order intake for this quarter had been INR 1,379 crore. It is 89% up in comparison to the previous year's number for the same quarter of INR 731 crore. Of this, INR 1,226 crore has come from the domestic market and INR 153 crore from the international market; if I have to compare with the previous year, the corresponding figures are INR 671 crore and INR 60 crore, respectively. So, the good news is that the market has started picking up, may not be in the entire sector that we are operating. Some sectors still are lagging, but there is positive news as far the order book is concerned. The YTD level for the three quarters, our booking is 3,855 in comparison to 3,078 for the same period for the previous year. And, this is our domestic number and international number is 576 as against 647 for the international. Putting the total together at this point of time, overall, total order booking at this point of time for the company is 4,431 as against the previous year of 3,725. That is the order booking. Order backlog for the company carry forward at this point of time is 36% higher than the previous year and the number is 5,233 and the good news is the last year's many of orders which we carried forward at the same point of time were on hold or got canceled later in the Q4 last year, whereas in the current year, the orders are very, very positive and strong orders. So, the number, when I say is 36% up plus also a positive indicator that these are executable confirmed orders. The cash position of the company has improved substantially. Between last year same quarter, it was 354 and current year, it is at 724. If I were to compare it with the previous quarter also, we closed at INR 687 crore for Q2 ending. It has again gone up to

724. So, cash position has strengthened for the organization. Another manifestation of this can be seen from the net working capital position of the company. It is at minus 146, which means you have got a negative working capital at this point of time it is 146. Now, let me come to some of the areas where we ourselves aren't absolutely happy about. Our revenues at this point of time in comparison to the previous year is down by 6% at INR 748 crore versus INR 795 crore of previous year and EBIDTA is at 89.4 versus 96.8 of the previous year, it was 11.9%. I promised you guys that we will try maintaining our profitability for the current quarter. Sorry, it is marginally lower. For a reduction of 6% on the top line, EBIDTA is lower by 8%, so it is marginal, but it is a quarterly impact only. There is no trend to be seen at the moment that it is going to be declining. Yeah, certainly when you have more and more EPC orders executed, my normal take is at a 50 basis points to 100 basis points is what you should be expecting going up or down, depending upon the product mix side. But, the good news is in terms of our execution and markets accepting equipment and the products, past three quarters, if I were to look at it, our revenues have gone up from 538 in Q1, 680 in Q2, and 748 in Q3. So, there is a progressive improvement. And, with orders on hand, I am expecting Q4 should be much better than Q3 and we will try to surpass our last year's Q4 number. So, if I have to take in terms of percentage performance, Q1 of the current year was minus 25 in comparison with the previous year (I am rounding off the numbers), and Q2 was the minus 15, whereas Q3 is improved to a minus 6. So, I should be positive in the current quarter. At least, I will try to, that is the effort being put in by the company. Another positive news is that all subsidiaries of our company, barring the Chinese subsidiary (Thermax Zhejiang Limited) which has just about started operating, all other operating subsidiaries have reported positive results for the quarter. It is another good news to talk about. Normally, always you guys ask me this question as to why is that on consolidated basis, your numbers look a little negative? So, barring the Chinese baby, which is under incubation and certainly it has to be nurtured and supported to be on a positive side. That is generally about the information. We also have given you an update on our litigation in the USA relating to the chemical resin portion of the business is now slated for a trial starting from 1st of March. So, I would want to leave the forum back to the people to ask me questions and end monologue. Thanks once again. Misal, you can take on.

Misal Singh: Yeah, Melissa, we can take the questions now.

Moderator: Sure sir. Thank you, ladies and gentlemen. We will now begin the Q&A session. Any one who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the questioning queue, you may press '*' and '2'. Participants are requested to use handsets while asking a question. Participants are also requested to limit their questions to two per participant during the initial round. The first question is from the line of Deepal Delivala from Citigroup. Please go ahead.

Deepal Delivala: Good morning, sir. Hello?

Mr. Unnikrishnan: Please go ahead.

Deepal Delivala: Yeah. Hi. Sir, two questions, one on this litigation that you are talking about. This is not related to the Purolite litigation, right?

Mr. Unnikrishnan: It is the same litigation.

Deepal Delivala: It is the same litigation. Okay. So, this is final hearing that will happen in the March?

Mr. Unnikrishnan: Correct. The final hearing is in March.

Deepal Delivala: And our expectation is that we should not have any liability, right, on the back of this?

Mr. Unnikrishnan: Currently, it is sub judice; so, I cannot give any speculative answer. That is why we have reported it is going to trial.

Deepal Delivala: Okay. Okay. Sir, second question is on the supercritical side, we have been discussing this and you mentioned that this is the year when you will announce supercritical tie-up. So, when is that expected?

Mr. Unnikrishnan: Promise that I will announce it, but I have mentioned natural migration for a graduate is to do post graduation and the good year should be coming. So, the moment I am ready with them, I am the first person to come to the market. So wait for that to be happening.

Deepal Delivala: But, we can expect it within this current fiscal?

Mr. Unnikrishnan: Current fiscal, it will be...no, I do not think it is the right answer at this point of time. We are moving in the direction. Beyond that, confidentiality demands that I do not disclose anything on that.

Deepal Delivala: Right. Sir, on the back of the strong order inflow that we have got so far, what would be the growth outlook for the next two years? I mean, what is the execution period for this order book?

Mr. Unnikrishnan: Order book, I predicted in the beginning of the year that we are heading for a 15% growth in order booking for the current year.

Deepal Delivala: Right.

Mr. Unnikrishnan: I think we should be able to execute it in the current year.

Deepal Delivala: Right.

Mr. Unnikrishnan: Inquiry inflow is I have got to see that it is positive, but you know, there are a lot of talks about, I mean, industry is gearing for some great position, especially the power area.

Deepal Delivala: Right.

Mr. Unnikrishnan: Our price is also growing. So, to have on a 15% growth over the previous year, that is something which I cannot currently see. I would only say outlook is positive for next year. It is too early to predict on next year. But current year, I will exceed what I spoke to you guys that much I can tell you.

Deepal Delivala: Right. Right, sir. So, 15% is at least doable in the next year.

Mr. Unnikrishnan: You are right.

Deepal Delivala: All right, sir. I will get back with more questions if I have any.

Mr. Unnikrishnan: Thank you.

Deepal Delivala: Thank you.

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

Anupam Tiwari: Good morning, sir.

Mr. Unnikrishnan: Kaise ho Anupam?

Anupam Tiwari: Sir, I wanted to understand that do you foresee any kind of impact on our captive business from all these environmental tightening of norms and all that?

Mr. Unnikrishnan: Because of environmental tightening, captive will not suffer because captive power plants have also moved into cutting-edge technology by the name of circulating fluidized bed technology which is supposedly at the same level or may be better than some of the larger UMPPs. So, environment-wise, I do not expect any problem. It is more in terms of, there is a speculation of about if you have got too many UMPPs coming, power situation will improve in the country, will there be need for it? When I talked to the industrialists or people who run companies and main guzzlers of power, they say the Indian grid is not going to be dependable for at least a decade. So, there will be growth both, for captive as well as for the main power.

Anupam Tiwari: And, we have decided to transition the phase, from say being a captive to the smaller power plants and then may be move into supercritical level. But, we hear that now government is discouraging IPPs at the subcritical level because of efficiency on the fuel front and environment issue. So, do you think that our transition to supercritical should be a little bit faster? Is there any thought process like that?

Mr. Unnikrishnan: We are almost second in thinking, excepting for one fact, that it is not the government's pressure that will be encouraging supercritical or may be discouraging subcritical. It is the cash availability. You should realize for a typical supercritical power plant, may be, nobody goes for a single plant. There will be minimum two in the 660, that is the minimum size people have gone for. 1,220 megawatt at may be INR 5.75-6 crore is the average investment for it. You are talking about something that may be a thousand plus crore of rupees per power plant and may be a 1:3 debt-equity ratio and may be even say 1:4 or so if somebody can manage it that way. You are talking about an equity position of something like equivalent to how much, INR 2000 crore of rupees? How many balance sheets can take on 2000 crore of rupees in cash? And, sectoral restrictions and may be exposure in regions and company wise, will restrict the number of very large projects. So, India will have to, I mean, live with whether we like it or not. You will have captive power plants, you will have IPPs in may be 300 range, 500 range. You will also have ultra mega and

supercritical power plant. So, our expectation is that in India, we will have at least, for the next 10 years, 2x150's, 2x300's, 2x500's in subcritical range. Then, 660 multipliers and 800 multipliers will be the supercritical. But, if you calculate the total megawattage, I am sure it will be in the favor of supercritical 12th plan onwards, i.e., 2012 onwards. It will be in favor. When I say, it will be 50, 55, 60, 65%. Not beyond that.

Anupam Tiwari: Sir, any development worth discussing at this stage on other business, that is environmental and water business that you would like to share with us?

Mr. Unnikrishnan: I can share some news related to our municipal wastewater business. It has started gaining traction. Last quarter, I declared INR 155 crore worth of orders booked in the municipal sector. Obviously, we will qualify for a couple of more jobs, so there is movement in that direction in the water side and equally on the environment side. We had picked up an USD 10 mn order from Oman, which is under execution. We have also picked up another order from the international market from another Middle Eastern country, worth almost USD 20 mn. So, these are the breakthroughs that we are getting in the environment business. So, Thermax's environment business has also started looking outside India. That is the positive news I can give you. But, if you see the quantum of growth that you have seen in the power sector and power sector related business for us, environment, we will have to do better and we need to do better. That is what we are planning in this quarter.

Anupam Tiwari: Okay, sir. Thanks a lot. Best of luck.

Mr. Unnikrishnan: Thank you, Mr. Tiwari.

Moderator: Thank you, Mr. Tiwari. The next question is from the line of Sachin Trivedi from UTI Mutual Fund. Please go ahead.

Sachin Trivedi: Hello. Hi, sir. Good morning sir. Sir, just in your opening remarks you said that the sequential growth is good. Is it sustainable and can we see that sequential growth in revenue for the coming few quarters?

Mr. Unnikrishnan: The intention is that but I may dip in a quarter, so you will remind me about that. So, I would say that next quarter certainly will be better than the current quarter. Normally, Q1 is always lower for most of the companies in India and thankfully abroad too, I checked this recently. Because after the euphoria of the year end, normally there is a slowness. Not for my ability, I am talking about market's ability to pick, I mean, our invoices. So, I would expect growth in Q1, Q2, Q3, and Q4. Q1; there could be a dip next year. Thereafter, we shall pick it up. With the order book on hand, there is a possibility if the market is good, then we should be able to push them and show a growth next year quarter-over-quarter.

Sachin Trivedi: And sir, this year, certainly, we have seen sequentially decline in EBITDA margin for the company. So, is it just a result of lower sales for us or it has something more and in future, do we see 10% plus margin for the company or ...?

Mr. Unnikrishnan: There are two specific reasons for that, Sachin. #1 is what you are seeing as order under-execution or what were executed in the recent past are the ones which have picked up with the ferocious competition in the market. Post Lehman, when the market collapsed, you remember October, November, December of the last year. I am talking about immediately after the collapse. Hardly, any orders were getting picked up; so, whatever was available, everybody was fighting for it.

Sachin Trivedi: Okay.

Mr. Unnikrishnan: That time, none of us looked at, may be, margins. We looked at cash, good orders, and sustenance was the indication. So those are getting executed in say may be in the Q2 and Q3 of the current year. That is the point #1. Second is the product mix, if I were to do larger EPCs or EPC-related projects of the kind.

Sachin Trivedi: Hmm.

Mr. Unnikrishnan: Sometimes in the margins, quarter-to-quarter, there could be a variation; they could be lower also. These are the two reasons I will attribute it to. Your question is will sustain a double digit. I do not think I will keep my job if I have to go to single digit. So, let us be clear on the fact that we are talking about sustaining the kinds of margins. Yeah. Quarter-over-quarter, you should be giving me the relevance of 100 basis points here and there.

Sachin Trivedi: Okay. Year and year, or will your number should be closer to 11 and 11-1/2% margin or more?

Mr. Unnikrishnan: Yeah., I think the target that I need to be accepting is a little better, but we will be hovering in double digits early numbers.

Sachin Trivedi: Okay, okay, okay. Sir, third question is related to, in past you have been saying that our balance sheet restricts us to take few mega orders. So, do we have some more appetite to take more orders?

Mr. Unnikrishnan: Yeah, because we are looking forward to a better balance sheet for the next year in terms of the size. I have been talking about the net worth of the company and the cash position improving.

Sachin Trivedi: Huh, huh.

Mr. Unnikrishnan: The entire requirement on Gopal Mahadevan is to preserve cash so that we can take more orders.

Sachin Trivedi: Huh, huh.

Mr. Unnikrishnan: So, if the condition improves, we will take larger and larger orders.

Sachin Trivedi: So, how many more orders we can take and....?

Mr. Unnikrishnan: That depends upon like very large order, one. May be if it is smaller one, may be a couple of them.

Sachin Trivedi: And, how will you qualify the very large order. May be a INR

1000 crore plus order or....?

Mr. Unnikrishnan: Currently, very large is INR 1000 crore for Thermax.

Sachin Trivedi: Okay, okay, okay. Just one final and last question. Has the momentum for our base business picked up in order flows?

Mr. Unnikrishnan: Are you talking about the conventional products?

Sachin Trivedi: Yes, yes.

Mr. Unnikrishnan: It has improved between Q2 and Q3 in many sectors.

Sachin Trivedi: Okay.

Mr. Unnikrishnan: There are some sectors still lagging. Because we have also sales to the construction sector. We also have the real estate, hospitality, there it has not picked up to the extent that we would have expected.

Sachin Trivedi: Okay.

Mr. Unnikrishnan: But otherwise, pharma is fairly good. It is in the food industry, FMGC, yeah, it has picked up. Even auto has now started looking up. Though, in auto you are seeing the growth in the unit sales numbers as well.

Sachin Trivedi: Huh, huh.

Mr. Unnikrishnan: What we need to see is the capacity expansion. We have got inquiries beginning to trickle in from the auto industry for a couple of products also.

Sachin Trivedi: Okay, sir. Thanks a lot. Thank you, sir.

Mr. Unnikrishnan: Thank you, Mr. Trivedi.

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

Gagan Thareja: Good morning, sir.

Mr. Unnikrishnan: Good morning, Gagan.

Gagan Thareja: Yeah. Sir, is it possible to understand the mix of your year-to-date revenue and your order backlog in terms of your end-user business segments?

Mr. Unnikrishnan: End-user business segments?

Gagan Thareja: Yeah.

Mr. Unnikrishnan: Yeah. We will give you the top three, top four let us say that, cement, ferrous metal, refinery petrochemicals, power generation are the top four for us and this time, it is very close. Normally, I would say that one of the industries would have been 20-25%. Thankfully, this time, on a let us say, YTD because quarter to quarter is..., we are at 14, 13, 11, and 12. Just about....

Gagan Thareja: Yeah.

Mr. Unnikrishnan: That is the way.

Gagan Thareja: Sir, it is cement, ferrous, refineries, and...?

Mr. Unnikrishnan: Power. See when I say power generation, even when our water treatment plant goes into power generation it is treated for Power ...you know.

Gagan Thareja: Okay. The same would hold for your order backlog as this?

Mr. Unnikrishnan: No, certainly power orders are large. So, with the very large IPP orders, almost you know, one IPP alone is five thousand carry forward. That alone would be a 20%.

Gagan Thareja: Yes sir. Sir, just in the ballpark, is it possible to understand the breakup in your backlog?

Mr. Unnikrishnan: Yeah. I will hand it over to Gopal.

Gagan Thareja: Yeah.

Mr. Unnikrishnan: Please give them energy environment sector booking.

Gopal Mahadevan: Yeah. For Thermax Limited, the order backlog is INR 5,233 crore broken down into Energy 4,444 and Environment 789.

Gagan Thareja: Okay. Also, sir, as you transit towards, you know, larger orders, which become a bigger part of your backlog. Your book-to-bill ratios should ideally be changing. I mean, can we get a sense of how this book-to-bill ratio moves from, let's say, the last five years to the next five years?

M. S. Unnikrishnan: We want to create a visibility for our larger project business to 24 months. Thermax will continue to have a chemical business, which will be, you know, every month you book and invoice also. So, the products, which will have order lifecycle of something like may be maximum three to four months, and we have gotten medium-size projects which will go for the, you know, medium size boilers, air pollution control, which are again less than 12 months, then the larger projects 12-18 months, that's the way. So, there is no way we can create visibility for the smaller products in any way, that one is a book-and-bill business. It will continue to be month over month book and bill. We will continue to be quarter-over-quarter book and bill, so the shift of that will be, if we were at may be....

Gagan Thareja: : Sir, I could not hear you, could you?

M. S. Unnikrishnan: : Two-thirds of longer more than one-year execution period and less than one-year execution period the one-third.

Gagan Thareja: : Okay.

M. S. Unnikrishnan: We would want to retain that in the same vicinity. Perhaps, we have made 65-70 as maximum range available for the long-term projects. Others we would like to continue because Thermax's core competency will be for technology and technology means a lot more of customers who are supported with the smaller boilers and smaller projects also. We will allow this to continue.

Gagan Thareja: : And, how does this transition impact your working capital, you have had almost negative working capital on a sustainable basis now for some time. Does that change when you transit into these sorts of orders?

M. S. Unnikrishnan: The kind of orders that we go after the way we negotiate our terms, we do not become a bank, is our intention. So, normally we have a S-curve mechanism of project execution. That is the way, we ask for it. Barring the government contracts, where you know financial support is not available for executing a contract, most of our larger projects do support on their own. See, once in a while, depending upon may be the quarter, payments have not come on time or some delayed. Otherwise, we have continued to be closer to a negative working capital for even for the larger projects. That's we would continue. So, I would say that the way of products would be needing more capital support because the market is shifting; for short-sighted projects, people are not willing to give any substantial advance, like in the past in India.

Gagan Thareja: And, sir, in terms of your manufacturing capacity or in terms of your, you know, project execution capacity, how much can you digest in terms of order intake in a given year?

M. S. Unnikrishnan: : There are some areas where I do not have a manufacturing restriction at all. So, I would keep them aside. For example, water projects, I do not have any manufacturing facility; in products, where we do assembling, sky is the limit, I mean, compatible for our capacity and capability. Environmentally, air pollution control business of ours is again totally outsourced. So, we have got sufficient outsourcing capacity available at this point of time.

Gagan Thareja: : Okay.

M. S. Unnikrishnan: : Then, the boiler business of the company with the new factory commissioned in Baroda and still one more shift available for me to go with, the third shift available over there.

Gagan Thareja: : Okay.

M. S. Unnikrishnan: We can raise it up by that portion alone where at least may be, I would say, 25-30% is possible over there. Absorption chillers in India, the capacity will almost be 75-89% full. It can take may be 20-25, but we have got a China factory that has got a capacity of 100 already in excess, 100 numbers available, can be doubled with a very minor investment. There is capacity available. That is really the main business company.

Gagan Thareja: : Okay.

M. S. Unnikrishnan: : They have capacity available.

Gagan Thareja: : Fine. Thank you. That will be all from my side.

Moderator: Thank you Mr. Thareja. As reminder to all the participants in the question queue, please limit your questions to two per participant during the initial round. The next question is from the line of Madhuchanda Dey from Kotak. Please go ahead.

Madhuchanda Dey: Sir, sorry for asking a housekeeping question as I joined the call a little late. If you could give me the standalone order inflow for the quarter and the backlog with the breakup first?

M. S. Unnikrishnan: Gopal, would you please help her?

Gopal Mahadevan: Yeah, I will give the numbers for Thermax.

Madhuchanda Dey: Yeah, I got the consolidated, which was just shared. I do not have the standalone inflow and the backlog breakup.

Gopal Mahadevan: Yeah, I am giving that. I will give it between energy and environment, the order inflow for the quarter, that is order intake.

Madhuchanda Dey: Yeah.

Gopal Mahadevan: INR 1,379 crore, broken down into: Energy - INR 1,107 crore and Environment - INR 272 crore.

Madhuchanda Dey: Okay.

Gopal Mahadevan: The order backlog, which I gave earlier, was INR 5,233 crore, broken down into INR 4,444 crore.

Madhuchanda Dey: That was the consolidated or?

Gopal Mahadevan: That was Thermax.

Madhuchanda Dey: Okay, not the consolidated entity. Right. So, INR 5,233 crore was Thermax standalone order backlog, right?

Gopal Mahadevan: Yes.

Madhuchanda Dey: Yeah. My second question is not a housekeeping question. It is like, you said that something on the supercritical side, would be announced sometimes. We are given to understand that in twelfth plan most of the ordering at least from the fuel standpoint, there would be a preference for supercritical projects and that ordering should start towards the end of the 11th plan itself. So, given the fact that you are not on the ground with the supercritical, do you think that there will be some competitive disadvantage in that space?

M. S. Unnikrishnan: First of all, I should be very, very restrained in giving answers to all of your questions. Across may be four or five quarters you made me talk, and deducted and inferred that Thermax is in the supercritical, whereas I gave information that natural migration is the supercritical. So, may be with announcement I did not speak anything. Let us go ahead with expectation that Thermax will have to enter there. That's all, number one. Second is, NTPC purchase, the government purchases not the only order finalization is going happen, the country is going forward for supercritical. That is going to be a major percentage, but not the substantial percentage and an entry into that, the current one is only for 11 numbers of 660 megawatt. The second entry will be coming out from the government for 800 megawatts size, which will be, I believe, in the next fiscal itself. There are many more private operators who are also wanting to go for supercritical. So, any entrant including Thermax who may come in the field in the next may be financial year will be qualified as the third player after BHEL and Larsen & Toubro (L&T). So, that is the point number one. Yeah, in one way it will be readily available right now with joint venture and were to participate, naturally the government would have preferred giving

you one order. They have already told that the third company will get minimum one.

Madhuchanda Dey: Yeah.

M. S. Unnikrishnan: Actually, debating, if there is no third company qualified from India, they may not give to anybody. They will not give to Chinese.

Madhuchanda Dey: Right.

M. S. Unnikrishnan: Yeah. So, does that answer you question?

Madhuchanda Dey: No, not really. Because my question was, I mean, is there, given this scenario when you yourself said that yes that's going to be a field where large amount of orders are likely to be flowing not only from the government side but also from private utilities, do you see that happening, I mean, this tie-up and breaking the ground with the respect to supercritical any time, in the next six months? That is my question.

M. S. Unnikrishnan: Our intention is that. That much I can tell you. See, sometimes what happens...these are all major investments for companies because if you see BHEL had a capacity for the import technology, L&T despite their huge capabilities had to go for a joint venture. So, Thermax will get more capability than L&T for thermal engineering but for project execution and this one you need to have a joint venture. That is what if you remember some discussions we had how company should take it up. So, such kind of things would naturally take time for it. That is the only reason. But whatever we promised or whatever we confirmed to the market so far, we have not gone back so this is what I mentioned about that. In any case, subcritical already available to me, we are bidding for that which is already on the anvil. Supercritical is the next migration what I mentioned about. I agree with you, if we were to have a company or JV in operation last year we would have been equivalent to L&T. That's accepted that way.

Madhuchanda Dey: Okay. Thanks.

Moderator: Thank you, Ms. Dey. The next question is from the line of Dharendra Tiwari from Ambit Capital. Please go ahead.

Dharendra Tiwari: Good morning, sir.

M. S. Unnikrishnan: Hi, Dharendra babu.

Dharendra Tiwari: How are you, sir?

M. S. Unnikrishnan: I am fine.

Dharendra Tiwari: Finally, we are in good news.

M. S. Unnikrishnan: O, okay. Okay, tell me.

Dharendra Tiwari: Yeah, if you compare the post Lehman era and as you said these were at low prices. What should be the percentage increase in the pricing for the various projects that are coming to you? Gross major products or project groups in the last about a year or so?

M. S. Unnikrishnan: A year down the line, two phenomenons are going to

happen. One is that, the market will improve. There will be more orders. So, most of the players in the field will have good order booking. Thermax will be one party. So, order booking should improve. Next, is the margin. Normally, all of us will together ensure that the average price. I am not talking about in any negative way, I am talking about when your coffers are full, order booking is there for all the companies, you will tend to pick and choose orders. So that may happen, may, I am not predicting, may happen towards the second half of next year. But, there are also other sets of people known as suppliers who will wait for the opportunity and they will up their prices. Aren't you seeing the aluminium prices having gone up four times in the past one quarter?

Dhirendra Tiwari: Right.

M. S. Unnikrishnan: The order is increased by little more, but there is little reduction given by sale for some government pressure. So, I am expecting that the market booms are very, very beautiful to make money. So, they will not allow us to set off people those who are capital equipment makers to only make money. I would believe everybody, when the business improves, the margins improve naturally. And, if we are smart enough, we will be able to retain the margin. That is the way it is like. I do not expect, you know, something like 200 basis point improvement for overall market profitability. I do not think it is going to happen.

Dhirendra Tiwari: But, the current order book will have a slightly better pricing as compared to the order that you booked in last one year?

M. S. Unnikrishnan: The orders, which are coming in right now, are at the margins that you want to take orders, whereas may be 6-9 months back we would have taken orders, which are not the kind of margin. But, companies like Thermax may be happy with it and improvement to talk about. But, the product mix can make a difference because when there are larger EPC orders, they do not give me the margin that is our requirement. That is the way we will have to look at it. So, I could have more EPC orders, very large project orders, overall margin will be little over, but when you will look at my EPM for that point of time, because it is coming in without an investment. EPC is done as investment. So, on a relevant capital employed basis or with the earnings per share basis, it will be improving. That's the way we are looking at is not EBITDA margin. We are looking at ROCE.

Dhirendra Tiwari: So, in this context if, for example, one takes an EPC contract for you, say of 300 megawatt of power project.

M. S. Unnikrishnan: Yeah.

Dhirendra Tiwari: So, on one hand you have companies like BHEL, which are close to 90% of indigenous manufacturing and have more than 20% margins. On the other hand, you have companies like Reliance Energy, which have almost everything outsourced in the project management, so there are 6-7% margins. Now in between companies like Thermax, you know, will be manufacturing boilers indigenously, but rest is being outsourced. So would you, you know, settle somewhere between 12-13% margin or would be more or less

in a typical project of subcritical power project?

M. S. Unnikrishnan: That is a little higher. BHEL is lucky because most of their projects are, you know, they also have mixture of projects. Many of their projects they get on nomination basis where I do not know what margins they are making. They have mixed projects and nuclear projects a lot of private projects, which are unknown to many of us where we do not participate in the oil industry or not allowed to participate they do get in margins which are unknown to all of us, number one. Second is, they do manufacture right from valves to pumps to motors and even tubes. They got a tube mill. Their value capturing is virtually 100% and they have got virtually depreciated machinery available and they have got also manpower available that continued to be getting at the cheapest price even the best of the engineers in the country. So, their overall costs are not comparable to the industry and apart from that I need to admit that they are good at something so why would I say that. They are an extremely well-run company.

Dhirendra Tiwari: Yes, yes.

M. S. Unnikrishnan: Organizations. So, they are making that money. Now, we are not comparable to a proper EPC company like, you know, Reliance. We do make apart from boilers, water treatment plant, air pollution control plant also we make. And, we have now signing joint ventures like SPX for regenerative air preheaters. All these are also going to be made by them. As the Thermax group going forward, we would want to be double-digit profit organization even for EPC in toto.

Dhirendra Tiwari: Okay.

M. S. Unnikrishnan: Our EPC portion may not be in double digits, but like if I had to talk about my Indian portfolio as a company.

Dhirendra Tiwari: Right.

M. S. Unnikrishnan: Going to be double-digit organization. Does it answer, Dhirendra?

Dhirendra Tiwari: Yeah, Yeah, sure. Thank you very much and all the best for the rest of the year and the next year. Thank you very much sir.

M. S. Unnikrishnan: Thank you.

Moderator: Thank you Mr. Tiwari. The next question is from the line of Lakshminarayana Ganti from BNP Paribas. Please go ahead.

Lakshminarayana Ganti: Hi Gopal and Unni. My first question is on the outlook for CAPEX from your non-power clients, namely your cement, fertilizers, refinery, and petrochemical. How do you think CAPEX will plan out for these industries over the next 12-18 month timeframe?

M. S. Unnikrishnan: I think cement has overtaken market's expectation also. Because there was an expected reluctance in cement market, barring may be two to three states what we hear is stability of price for cement and in couple of states it has gone up by INR 5. Our second expectation of the cement price to

drop to at least may be INR 10, it is the other way. Lakshmi you know, you do meet those guys, but I am only reading from the reports so may be whatever I am hearing and apart from that, a good number of cement companies have finalized in the last may be two quarters orders, some of which were refused by Thermax also. I can recollect Madras Cement has given us an order in the last quarter. We had couple of orders lost, let me say, since we talked about sectorial portion of it. India Cement is something, which is going to a competitor of mine and one more cement company is under finalization, but we may not be picking it up, coming to that cement has picked up. Oil industry is again looking back because, despite reduction in oil prices going to may be USD 30-40 for a quarter, it is stabilized at USD 65-88 on an average and everybody is looking forward to a triple digit you know dollar for a barrel for year 2011 onwards is what we do hear. So, all oil companies are currently making plans for expansion. A couple of them have also given us the enquiry. That is as far oil industry is concerned. Surprisingly, steel has not done so well, I mean, let me tell you, though we have order booking, but it is not to the expectation of Thermax or the industry also. Steel has not invested sufficiently. Especially, the larger ones like the POSCO and may be even Mittal, Arcelor Mittal as it remained on papers and drawing boards, it has not gone beyond request for quotation. It has not reached up to any negotiation stage even for the main ones. So, there are only small, small expansions at this point of time or may be I would say a couple of sponge iron guys coming in. Otherwise, it is a disappointment at this point of time as far as the steel industry is concerned.

Lakshminarayana Ganti: Okay, the second question is, in your order book, obviously the large orders are not dominating and can you update us on time lines for the orders, for example, Essar, Brahmani, steel orders and recently also your Meenakshi Power and so on so, what are the timing lines we are looking at, number one. What kind of margins that you believe in?

M. S. Unnikrishnan: I will answer question number one. Second I will refrain from answering. Balance sheet will answer the second question. So, the point number one, thing is Essar has now started the momentum. Their LC is also opened. So, earlier I have spoken about advance being received, we have received 10 and later 20%. LC is open, so it is in traction. So Q4 onwards dispatches will start and main dispatches will happen next year, though the commissioning may take place in the year afterward. That is as far as Essar feedback is there. Second one on Brahmani. Brahmani project is on a hold at this point of time as far as we are concerned. I will be very open on that. Because of the political difficulties faced by the chairman of the company, you know, who I am referring to.

Lakshminarayana Ganti: Yeah.

M. S. Unnikrishnan: So, we have the advance available. We have done the engineering. We have done initial placement of orders for some major items, but which are also put on hold. Unless they do go for a financial closure, we will not reactivate the order. As far as the Meenakshi is concerned, the activity is on, LC is opened, site is at a full-fledge level. I can say that we got manpower

in excess of 1,000 at the site at this point of time. Good part of the revenue will be recognized in FY11 and some portion will spill over to FY12 . It has to be commissioned in FY12. That is the way it is.

Lakshminarayana Ganti: And, as a policy, when you have situations like this such as Brahmani, do you adjust that in order backlog and then report number or is it part of the order backlog you reported?

M. S. Unnikrishnan: Brahmani is there, the order backlog is there, solid order with full advance available, but thankfully there are no other Brahmanis of the states available. There are may be some small Brahmanis, but there is nothing equivalent to that in the current order book that you reported.

Lakshminarayana Ganti: So, this is part of your order backlog?

M. S. Unnikrishnan: That is correct. INR 280-290 crore, I do not exactly remember, INR 280-290 crore, approximate number.

Lakshminarayana Ganti: There has been no reduction in scope for Essar contract.

M. S. Unnikrishnan: No, that is declared. That is only adjusted. The four numbers have come down to two numbers. If you remember I was talking about may be almost three or four quarters back. It has come down to two, that two is what is going on.

Lakshminarayana Ganti: That answers it. Thanks a lot.

M. S. Unnikrishnan: Thank you Lakshmi.

Moderator: Thank you Mr. Ganti. The next question is from the line of Bhargav Buddhadev from Nobel. Please go ahead.

Bhargav Buddhadev: Yeah, good morning Sir.

M. S. Unnikrishnan: Yes Bhargav.

Bhargav Buddhadev: Yeah sir, when we say that we will be probably looking at double digits margins next year. Could you tell us what are the assumptions that we are building in terms of percentage execution from the EPC orders?

M. S. Unnikrishnan: Assumptions are that EPC orders, normally we start revenue recognizing six months onwards in a minor way. When we start ground-breaking and then engineering is completed, procurement orders are 85% over, then we start with the piling. If it is you know 18-month EPC order, my main revenue recognition is between the ninth and may be fifteenth month, If it is a Meenakshi kind of a project, which is supposed to be you know COD'd or may be commissioned and handed over with the 30-month period onwards. But may be our main revenue recognition happening between may be the twelfth month, main. Prior to that there will be some, but 12 and 24 one calendar year will be the time when the main revenue recognition happens. That is the assumption.

Bhargav Buddhadev: So sir, bulk of the revenues from the EPC would mainly start flowing in from FY12. Is this what you are trying to infer sir?

M. S. Unnikrishnan: No, I would say good part next year. FY12 also a part. FY12 I am free now, I would say that you should wish me well for getting more orders for FY12.

Bhargav Buddhadev: Okay. And lastly sir would it be possible to tell us out of the current order backlog what percentage would be pure EPC orders.

M. S. Unnikrishnan: Our EPC order, normally we don't give that as, we give energy, environment. Yeah but power we normally. We can tell you.

Gopal Mahadevan: See out of the INR 5,233 crore.

M. S. Unnikrishnan: So let's say 45% is EPC.

Bhargav Buddhadev: Okay fair, enough.

M. S. Unnikrishnan: Thank you Bhargav.

Bhargav Buddhadev: Okay, sir, thank you.

M. S. Unnikrishnan: The reports are good, what you are sending to us.

Bhargav Buddhadev: Thank you, sir.

Moderator: Thank you Mr. Buddhadev. The next question is from the line of Anu P from Omi Advisories. Please go ahead.

Anu P: Good morning sir, this is Anu from Omi Advisories. Hello.

M. S. Unnikrishnan: Yeah, yeah, I can hear you. Please go ahead.

Anu P: My question is regarding margins. Actually from the first quarter if you will see there is a decline in the margin. Actually and now the raw material prices are also increasing, so where are you seeing the margins at that end of the current year or in the next year?

M. S. Unnikrishnan: This is the problem of doing a good margin once in awhile. Actually in Q4 of last year, we have done a very good performance. Gopal has declared very good results in last year Q4. So now we are giving an average result, so you feel the decline, but let me assure that in Q4 of the current year also our margins will be maintained, is our current understanding. Next year, at this point of time we will be too speculative, but you brought out a right point that raw material prices are hardening in the market, so we are working on ensuring that we maintain margins whatever are there in the order book. So in terms of forward booking of raw material and long-term contracting if we are into, all that we are taking care of at this point of time.

Anu P: Okay sir. Next question is regarding the order book sir. What is the order inflow for the first nine months, sir.

M. S. Unnikrishnan: Gopal will you please help her.

Gopal Mahadevan: Yeah, sure yeah. The order inflow for the Thermax for the nine months is INR 4,431 crore.

Anu P: Okay. Out of this how much from domestic market and export?

Gopal Mahadevan: Yeah, for the first nine months out of INR 4,431 crore, the domestic was 3855 and the export was 576.

Anu P: 576, okay sir. Okay sir. So out of the total order book of INR 5233 crore, what is the percentage of export order?

Gopal Mahadevan: Of this order backlog?

Anu P: Yeah.

Gopal Mahadevan: Yeah. See out of the order balance of INR 5,233 crore.

Anu P: Yeah.

Gopal Mahadevan: Domestic was 4640 and the export was 594.

Anu P: 594, okay sir. Sir can you give the... hello.

Moderator: I am sorry to interrupt. Would it be possible for to you to back in queue we have participants in

Anu P: Only one question.

Moderator: Ma'am please come back in the queue.

Anu P: Okay, thank you.

Moderator: Thank you. The next question is from the line of Shalabh Agarwal from Sundaram BNP Paribas. Please go ahead.

Shalabh Agarwal: Good morning Sir.

M. S. Unnikrishnan: Yes Shalabh.

Shalabh Agarwal: Sir just wanted to check if you can give us some sense of what kind of, you know, ordering pipeline you see in terms of kinds of orders that you are bidding for, especially on the power side?

Unnikrishnan: Power side, captive there are inquires. In fact, it is better than the last year, same time in terms of the inquires and seriousness of the discussion.

Shalabh Agarwal: Okay.

M. S. Unnikrishnan: That is as far as captive side. When I state captive, you take from may be a 10 megawatt onwards, 8 megawatt up to may be a 50 megawatt category enquiry. Then upwards of that, we are choosy about the ones which we are bidding for. Because a lot of them will be happy if one can do EPC, but we have some term restrictions in terms of how we operate on the credit terms that we give also. So though the enquiries may be there in the market, we always work on two to three enquiries, not beyond two to three inquiries at any point of time. I am talking about 100 megawatt, 150 megawatt or equivalent of that at this point of time. So that is as far as the power enquiries. That is what you are asking Shalabh. You are asking about EPC enquiries, the larger enquiries.

Shalabh Agarwal: Right, right. Sir in the larger orders when we take the entire order for EPC, then do we tie up with one single player for the turbines or you know for project management or the tie-up depending upon case-to-case basis?

M. S. Unnikrishnan: We do case-to-case basis. Because if we tie up, in the

range that we are currently operating, you know, you are talking about may be 8 or may be 150 megawatt that is the normal range.

Shalabh Agarwal: Right.

M. S. Unnikrishnan: And 300 may be a very rare case. Otherwise this may be 150s what we have currently gone for. In the range, first of all there are multiple choices available and customers do not have liking for a single turbine supplier, each customer has got a different choice. For example, somebody who has some experience with BHEL may say I want only BHEL. There are some people who will say it is okay if the European or a Japanese, but there are some people who will say sorry I want the cost to be low, I don't mind Chinese. So we leave that option to the customer. And normally before you are signing on the dotted lines you would have already concluded your supplier. You have got to declare the partner and sometimes they come also for taking discussions. So that's the way it is done.

Shalabh Agarwal: Right. currently 2x500 kind of a configuration with our current execution capability?

M. S. Unnikrishnan: No, we will not be bidding for 2x500 for EPC certainly at this point of time.

Shalabh Agarwal: Okay, thank you sir and all the very best to you.

M. S. Unnikrishnan: Thank you Shalabh.

Moderator: Thank you Mr. Agarwal. The next question is from the line of Akshen Thakar from Enam Securities. Please go ahead.

Akshen Thakar: Hi sir. I just wanted clarification on the boiler business. Currently, what would be the capacity that you know we would have, means what sort of orders that we can take in the utility boiler business per annum.

M. S. Unnikrishnan: Our total installed capacity for large capacity boilers is something like 1500 megawatt per annum, is our capacity. In that if I were to take very small orders, then, you know when I say small orders is a 10 megawatt, 25 megawatt, the values will be I do not think that I can do 1500, but if I were to take a proper mix of may be 15 megawatt or 100 megawatt range, if I were to have say may be four or five orders, at least four or five in a year and the balance in the medium range may be 25 to 50 and then the smaller orders, then I can do all the 1,500. That is the current capacity.

Akshen Thakar: Okay. And sir basically in the last call you had mentioned that you plan to bid for the NTPC 250-500 megawatt sort of ranges from FY 11. Any update on that whether you have submitted any bids over there?

M. S. Unnikrishnan: NTPC has not come out with an enquiry. So we have decided to bid for the 250-300 range. So there are at least enquires on board, under currently, offer preparation and discussions are already on.

Akshen Thakar: Okay, okay sir. So currently we can do a single boiler size, right, 250-300.

M. S. Unnikrishnan: No double also. Two numbers or three numbers also we

can bid for. Normally, nobody goes for a single number for one in 300. It is 2x150 or 2x300.

Akshen Thakar: Sure. And sir I had one housekeeping question. On a consolidated basis, could you just give the breakup of your order backlog and order intake?

Gopal Mahadevan: Okay the total order balance on the consolidated basis is INR 5,613 crore. You wanted the breakup, how, how did you want the breakup?

Akshen Thakar: The energy and environment.

Gopal Mahadevan: Yeah Energy, it is 4,819 and 794 for environment.

Akshen Thakar: Okay and intake breakup.

Gopal Mahadevan: This is for the nine months you wanted. Right.

Akshen Thakar: Nine months or whichever breakup have available, the quarter or

Gopal Mahadevan: Yeah, the nine months. Consolidated INR 4,949 crore, energy is 4,109, and 840 is environment. Actually the total number is INR 4,949 crore, if you were to round it up.

Akshen Thakar: Thanks a lot sir, thank you. That is it from my side.

Moderator: Thank you Mr. Thakar. The next question is from the line Kirti Dalvi from Enam Asset Management. Please go ahead.

Kirti Dalvi: Good morning sir. Most of my questions have been answered. Just a few housekeeping questions. What is your CAPEX for nine months FY10.

Unnikrishnan: Gopal can you give the capitalization. He will give you what is capitalized for the first time.

Kirti Dalvi: Sure sir.

Gopal Mahadevan: Up INR 77 crore.

Kirti Dalvi: This standalone sir right?

Gopal Mahadevan: Yeah. There is nothing major in the group. The group does not....

Kirti Dalvi: Okay and sir what is for the full year?

M. S. Unnikrishnan: Nine months only.

Gopal Mahadevan: It is for the nine months.

Kirti Dalvi: Yeah, I know what is the target for the full year sir.

M. S. Unnikrishnan: Yeah, may be it is touching 100 let's says for at this point of time.

Gopal Mahadevan: Significant number.

Kirti Dalvi: And are we looking for significant one for the next year sir.

M. S. Unnikrishnan: It will be better than the current year because last year,

the ongoing year we had constraint, or may be you put some kind of control in terms of capital expenses. Uncertainty prevailed and things have started improving currently and we believe it should be better. Depending on how the market is going to pan out, we will want to improve CAPEX next year.

Kirti Dalvi: But this would be in which area sir.

M. S. Unnikrishnan: All the businesses. Because line balancing requirements for a higher capacity manufacturing, we will go to the next level in terms of manufacturing so those are the main ones and then process automation.

Kirti Dalvi: And sir we did mention in our earlier analyst meet that we are looking for the green energy power or rather the solar power and I think if I am not wrong are we executing any project along with the government in Gujarat or Maharashtra?

M. S. Unnikrishnan: Not those mega projects, which are getting announced. We are currently doing a 250 kilowatt solar-thermal hybrid power plant.

Kirti Dalvi: Okay.

M. S. Unnikrishnan: Solar field plus also biomass in hybrid condition for a village rural electrification model.

Kirti Dalvi: Okay.

M. S. Unnikrishnan: Groundbreaking has happened and in 18-month period, we should be able to complete it. It is a developmental project Thermax is doing along with the Department of Science and Technology, as an innovation and technology project of the Government of India and Thermax.

Kirti Dalvi: Okay. Would you like to put number to it? I mean what is the size of the project?

M. S. Unnikrishnan: This project is INR 12 crore of rupees, including a five-year operation maintenance contract. It will touch around INR 14 crore.

Gopal Mahadevan: That is the overall outlay.

M. S. Unnikrishnan: Like apart from Thermax's intellectual capital contribution, which I don't know what is the value you will put for us.

Kirti Dalvi: Okay. It is INR 40 crore you said, right sir?

M. S. Unnikrishnan: 14

Kirti Dalvi: 14, okay sir. Thanks a lot sir and wish you good luck.

Moderator: Thank you Ms. Dalvi. The next question is from the line of Navneet Iyenger from Motilal Oswal. Please go ahead.

Navneet Iyenger: Good morning sir.

M. S. Unnikrishnan: Good morning.

Navneet Iyenger: Sir just wanted to get a view from you as to you know what kind of traction do you see, you know, the large umbrella government projects, basically the JNNURM projects. How do you see that disbursement coming to municipalities and then flowing into your book in this plan. Second, in terms of

when you want to migrate to supercritical what kind of specifications in terms of your boiler castings, etc. will it take for you to migrate. Third, just wanted a few data points actually on the Thermax Group order backlog, thanks.

M. S. Unnikrishnan: Gopal will answer the third one, I will try to answer you on the question one and two. Your question is about JNNURM; how is traction of the money flowing, not the projects flowing. Well JNNURM for the water and waste-water, there have not been any restrictions by the government last year and going forward also. Whereas in the road projects, I do understand that for the city projects they have started retarding the disbursement. So, any news related to any reduction in the allocation for the municipal projects on water and waste water, no. It is only positive. The information available from the government indicates they want to increase it since they are seeking good companies now coming forward to take contracts unlike may be three years back. There are good companies, taking projects as far that is concerned. And wherever we are executing projects, we have not come across any major cash flow difficulties at this point of time, coming on that, point number one. So then, JNNURM we are very positive. Things should improve only. On the supercritical, thankfully the casting requirements on the boiler are not so high, though there are. I mean you are one of the very few persons who have asked so far in my experience about casting for boiler. Boilers also do need casting.

Navneet Iyenger: Right.

M. S. Unnikrishnan: It is possible for our current vendors also to upgrade from subcritical to supercritical because...

Navneet Iyenger: Okay.

M. S. Unnikrishnan: These things are not pressure-oriented, it is temperature-oriented.

Navneet Iyenger: Okay.

M. S. Unnikrishnan: Which are very similar so it is manageable from our side, but supercritical will have constraints related to you know stainless steel or other alloy steel not manufactured in India.

Navneet Iyenger: Right.

M. S. Unnikrishnan: There are may be two known good manufacturers, one from Japan and one from Europe?

Navneet Iyenger: Nippon is it?

M. S. Unnikrishnan: One is in Japan and other one is in Germany.

Navneet Iyenger: Okay.

M. S. Unnikrishnan: There are others but then I mean, they are not as well established and a company like Thermax may not look at them at this point of time. So, there will be limitations of capacity availability for those materials, which one has got to be careful because with so much of Chinese orders and so much of Indian orders.

Navneet Iyenger: Right.

M. S. Unnikrishnan: Various manufacturers starting with BHEL and L&T or the Chinese there is a waiting list for that , a queue for it

Navneet Iyenger: Sir, basically if these, the alloy steel casting was a temperature-oriented constraint, would it be right to say that you will have to run a lot of trials before the actual commissioning is concerned and the retention money could be higher in these orders?

M. S. Unnikrishnan: Trial will only be, thankfully there will 72-hour trial for any power plant. See if that is supercritical or subcritical, it does not make any substantial difference as far as the trials are concerned, but your question is related to retention money, well that depends upon how an order is finalized. I agree with you large project and tenders normally specify anywhere from 10-20%. Thermax does not deal in 20%. We normally try to restrict it to 7.5 to 10% retention, which again there are milestones for payment. Okay, if once commission is done, we don't retain the cash, we give a bank guarantee, that is the way we normally we operate.

Navneet Iyenger: Okay. And sir the last question was the third quarter order-related figures if you could just....

M. S. Unnikrishnan: Gopal is coming forward, please ask him.

Gopal Mahadevan: Yeah, you had asked for the order balance for the third quarter.

Navneet Iyenger: Third quarter Thermax group, just the order backlog and inflow for the environment and energy respectively.

Gopal Mahadevan: See the order balance is the same. The order balance for Thermax group is 5613.

Navneet Iyenger: Okay.

Gopal Mahadevan: And for the energy it is 4819 and for environment it is 794.

Navneet Iyenger: 4819.

Gopal Mahadevan: Yeah,

Navneet Iyenger: Okay and 794.

Gopal Mahadevan: For environment.

Navneet Iyenger: For inflow, it was 1379.

Gopal Mahadevan: It is for the Thermax stand-alone.

Navneet Iyenger: 1379.

Gopal Mahadevan: Yeah.

Navneet Iyenger: Right, and for the energy and environment breakup.

Gopal Mahadevan: Can I repeat it? See what I will do is you are asking for the order backlog of the order balance.

Navneet Iyenger: Okay.

Gopal Mahadevan: For as on December 31, 2009.

Navneet Iyenger: Right.

Gopal Mahadevan: For Thermax group, the order balance is INR 5,613 crore and for energy that is broken down in the energy 4819. Environment it is 794.

Navneet Iyenger: Right.

Gopal Mahadevan: And you wanted for Thermax standalone?

Navneet Iyenger: No I wanted the same Thermax Group figures, inflow figures segment-wise.

Gopal Mahadevan: Order inflow numbers for the group?

Navneet Iyenger: Right.

Gopal Mahadevan: Okay, the inflow order, the inflow numbers for the group for the nine months.

Navneet Iyenger: If you could give me third quarter, that will be good.

Gopal Mahadevan: Third quarter?

Navneet Iyenger: Right.

Gopal Mahadevan: Okay. The third quarter numbers, order inflow for Thermax Group is INR 1,548 crore. Energy is INR 1,273 crore and environment INR 275 crore.

Navneet Iyenger: 275. Thanks a lot sir, thank you.

Gopal Mahadevan: Thanks.

Moderator: Thank you Mr. Iyenger. The next question is from the line of Ritesh Cheddha from Emkay Global. Please go ahead.

Ritesh Cheddha: Hi Gopal, hi Unni. Question was on the order flow side. At the end of the quarter two, we had talked about that H2, we largely see about INR 1500-1700 crore of order inflow. We already received that in quarter 3. Would you wish to change that upwards, that is the first question. Second, on the environment side, if you could help us you know highlight a more sustainable growth, a long-term growth in environment and the key growth drivers at this stage and the incremental growth drivers in that segment going forward.

M. S. Unnikrishnan: First one is will we wish to change the numbers. We have already changed the number, but what is the number I can't declare at this point in time say but I did mention 1,500 upwards, so upwards can be any number. But fourth quarter, I don't know will there be major orders but it should be good that is what we are looking forward.

Ritesh Cheddha: What kind of enquiry levels at this stage we have in the system, if you help us understand.

M. S. Unnikrishnan: Enquiry levels are as good as or may be better than the last year the same point of time, that is for sure. Some of the major orders got concluded like the INR 1,000 crore order, then INR 470 crore order for IMFA. Some of them which were on traction, we were able to conclude. Normal

gestation period for such large projects are anywhere from six months to nine months. So we have initiated now a couple of other similar kind of projects in discussion level, none of them I am expecting to be concluding in the current quarters, certainly no.

Ritesh Cheddha: Okay.

M. S. Unnikrishnan: Yeah there are projects on discussion but more important for us is to how more orders come for our standard products. There also we see traction in the current quarter. In the last quarter, there was traction in inquiry inflow; it has improved in comparison with the previous quarter. Enquiry inflows have improved. So that it is as far as that is concerned. Then next thing you asked about going forward.

Ritesh Cheddha: Yeah going forward.

M. S. Unnikrishnan: Environment business what are the key drivers.

Ritesh Cheddha: Yeah. Drivers and what are the more sustainable long-term growth ____1:01:02 in that business?

M. S. Unnikrishnan: Sustainable long-term business in the environment sector for Thermax is water and wastewater. There because we would want to be more technology-oriented than a contract-oriented or you know construction-oriented in the water business. If we were to be willing to do trans-city or may be intercity piping or 40 km pipeline from a dam to the city, then cutting open in the city and distribution lines along with some pumping system and a very small conventional treatment plan, we can run our order booking. It may be sustainable, but that is not the area that Thermax would like to be. We would very specifically look forward to municipal wastewater treatment. We do believe that stage 1, is to treat the, you know, municipal sewage and stage 2 in the country will be reclaim that water and recycle and reuse it, because water is a major concern, because we also have... Every business that we do should have our social concern. Environmental impact also should be there for that. That is the wastewater as far as the growth driver for that and there see barely 24-25% of Indian sewage is supposedly treated at this point of time in the city. Villages it is not treated. So you can imagine what is the massivity of wastewater treatment needed in the country and we are witnessing one of the largest urbanization ever witnessed by humanity, almost may be 29% of Indians are living in cities, half of them in slums but we are expected to be having a 40% of Indians living in the cities by the turn of the current decade. So, I need to be looking forward to 10% of the Indians, which means you are talking about 12 crore more Indians going to be living in cities of India and each person consuming approximately 180 liters of water and 80% of that comes as a sewage. So, you know we can calculate what are the millions of liters of sewage that is going to be generated and with the JNNURM funding coming in, there will be treatment plans coming more and more and we have had our own patented technology on fluidized biological reactor and currently, we also have another tie up with another company for a sequential batch reactor created. These two are you know forward-looking technologies. We would expect that

we will have a considerable market share going forward. It should year-over-year increase i.e. as far as the key driver for the wastewater portion is concerned. We have a vertical for industrial water treatment and there again we have had our technologies. But we also signed another technology licensing from a German company with the name of Wehrle for difficult-to-treat effluent because the massive industrialization going to be witnessed by India in the current year. Despite cyclical dip or may be some global economic crisis-oriented dip, India will have to be growing. So a lot more of industries are coming up. A set of them will be creating effluent, which can't be treated by conventional technologies. So, there will be a set of niche players, very limited number of players, where Thermax is aiming to be taking a pivotal position. Where there is a social responsibility as a corporate citizen, we do believe that some company has got to bring in good technologies, so Thermax should be there in the forefront for it and we have taken the move towards that. So, I would look forward to see traction in that. Third one is point of use Waste Treatment Plants, which are standardized and currently, we have got an assembly plant in Pune and from where we are sending out standard softeners, filters, you know, skid-mounted reverse osmosis plants, electronic dissection plants, using electrical technology for effluent treatment. These, are currently reaching almost I would say triple digit. In the next year, I should be reaching in terms of top line for it and this is an area where we expect the urbanization happening and may be standardized industries coming in. This will also have a sustainable growth possibility. These are the three areas of you know water-related business which are sustainable and will grow also. There is a lot more of water business in construction, sea water desalination, which we have not taken a call on. In any case I told you contracting Thermax is not interested in doing because that is not the model that we want to work on. Technology ownership is very important for the country. Then comes air pollution control business of ours, where we are now breaking grounds. We are getting into larger size of air pollution control projects, which are supposedly the only the playground for may be companies of the sort of Alstom and the international companies, but Thermax has already taken a position; we have taken an order recently from one of the aluminium majors in country worth around INR 70 Cr plus, making entry for Thermax into larger air pollution control projects. So, we have very clear-cut, well laid out plans for growing this business and sustaining growth.

Ritesh Cheddha: Okay. What are the top three businesses within the environment business at this stage and the contribution to environment business and if you could pinpoint on the blended growth for environment on a long-term basis considering all these growth drivers.

M. S. Unnikrishnan: Thankfully, we have got equally good plans for our energy business also. So I cannot have a situation where though, I mean if energy subsidizing and environment overtaking at least in the coming decade because what you feel in the global perspectives also is energy business is much larger than.

Ritesh Cheddha: Yeah. No. My question was within environment you talked

about these three to four growth drivers and at this stage, what are the top three in the contribution to the environment segments revenue?

M. S. Unnikrishnan: The way we report the environment segment is that there are three business units, strategic business units. One is air pollution control, which leads the pack. Second is water and wastewater and third one is the chemical. That is the pecking order.

Ritesh Cheddha: Okay that is how it is. Thank you and for a more long-term blended growth if you could give us some ballpark.

M. S. Unnikrishnan: Water and waste water will lead the pack in the three-year period from now, despite all my plans of maintaining the growth of air pollution. I don't think it can overtake, because may be if I were to consolidate our expected growth in a joint venture with SPX Corporation, air pollution control can still be neck-to-neck with water.

Ritesh Cheddha: Okay. Many thanks to you and all the best.

Moderator: Thank you Mr. Cheddha. Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand the floor back to Mr. Misal Singh for closing comments. Please go ahead sir.

Misal Singh: Thanks Melissa. I would like to thank the management of Thermax for giving us the opportunity to host the call and for all the participants on the call and all the best for the next quarter and next year.

M. S. Unnikrishnan: Thank you Misal, thank you. Thanks a lot to everyone also another time.

Gopal Mahadevan: Thanks.

Misal Singh: Thanks.

Moderator: Thank you gentlemen of the management, thank you Mr. Singh. Ladies and gentleman, on behalf of Edelweiss Securities Ltd, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

Disclaimer

This document has been prepared by Edelweiss Securities Ltd. Mumbai, India and is meant for use by the recipient only as information and is not for circulation. Edelweiss, its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. This information in the document should not be construed as representation of our Analyst or Edelweiss's view. The information contained in event transcripts is a textual representation of the applicable company's conference call and while efforts are made to provide an accurate transcription, there may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference calls. Edelweiss or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this document. The user assumes the entire risk of any use made of this information. In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks. Important factors that could make a difference to the Company's operations include, among others, economic conditions affecting conditions in the domestic and overseas markets in which the Company operates, changes in Government regulations, tax laws and other statutes and incidental factors. The information contained herein is as of the date referenced and Edelweiss does not undertake any obligation to update these statements. Edelweiss and/or its directors and/or its employees may have interests or positions, financial or otherwise, in the securities mentioned in this presentation.