

Thermax India

Q4FY10 Conference Call: 13 May 2010

Management: Mr. M.S. Unnikrishnan (Managing Director)

Mr. Gopal Mahadevan (CFO)

Moderator: Suhas Hari (Religare Capital Markets Ltd)

Operator:

Thank you for standing by and welcome to Thermax India Limited Q4FY10 results conference call hosted by Religare Capital Markets. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, please press *1 on your telephone. Please be advised this conference is being recorded today. I would like to hand the conference over to Mr. Suhas Hari. Over to you, sir.

Mr. Suhas Hari:

Thank you. Welcome all to the fourth quarter and FY10 results conference call of Thermax Limited. We have with us on the call from Thermax, Mr. M.S. Unnikrishnan who is the Managing Director, Mr. Gopal Mahadevan, who is the CFO and Mr. Akkshay Mathhur. Over to you sir for the presentation and the Q&A later.

Mr. M.S. Unnikrishnan:

Thank you Suhas. Thanks a lot for hosting our conference call too. Very good morning to all the participants and our friends from the investing and analyst community, who supported us and I am very happy to be announcing the Q4 as well as the FY10 financial results of the company. We promised that we will try to be within minus 10% of the last year's performance and I think we have been able to satisfy you by remaining at may be minus 2 to 3% on the top line for the company and the group. I will start on with the Q4 performance. For the first time the company has crossed Rs. 1000 crore in the top line, to be precise Rs. 1219 crore is the number for the top line for the company, which is an improvement over last year by almost 28.6%. If I would look at quarter over quarter the first quarter of the year was 538, second quarter 680, third quarter 748, and fourth quarter as promised we have exceeded the numbers. It is an indication that the market has fairly improved, credit is available in the market, customers are lifting the material and our internal execution capability and our factory manufacturing capacities come into play and are helping us to support the market with the orders on hand. Our domestic revenue is 79% and export is 21%. Exports suddenly are lower in comparison to last year by 28%, if I were to discount deemed export, there is still a gap of approximately 21% on the international business. Segment-wise, 72% of the quarter revenues come from energy side and environment has contributed to 28%. At this point of time the company is carrying forward Rs. 5381 crore orders in





comparison to Rs. 2897 crore last year - an 86% increase in the carry forward orders. Of these orders, we have international contributing to 19% and domestic contributing to 81%,. Energy segment, fortunately or I do not know how to put it across, is at 85% and environment is lagging at 15%. This is primarily on account of couple of large orders that we have picked up in the energy segment for the captive power and IPP and that is the reason for the skew. Our net profit for the quarter if I got to look at it, well, before the extraordinary item, which is already declared to all of you, we are at Rs. 154 crore of PBT which is an all time high in the history of the company for any quarter. But I had promised you that we will not want to have the pain carried forward for the next year so we will charge it of to the P&L in the current year itself. After charging it of in the quarter we are sorry to declare a figure of negative 16, but it is only for a quarter, and things should be cleaner going forward. That is about current position. The cash and cash equivalent has increased by Rs 192 crore to a level of Rs 916 crore at this point of time, i.e. between the quarters there is an improvement of 192 crore of rupees. Now coming to the full year performance, our total order booking for the year is Rs 5794 crore, it is an accretion of 63% in comparison to last years figure of Rs 3557 crore. 86% of these orders have come from India and the 14% has come from international markets. International markets were a disappointment as far as we are concerned, because primarily the captive markets of Thermax i.e. Southeast Asia, Middle East, and Africa, have not done too well. In fact, I mean, Africa has become the number one market in comparison to Southeast Asia and Middle East for the year because Middle East, despite of all the promises, since the bankers are from the European continent, is not looking so promising, I do not think it is going to be improving beyond the level in the current year too. Energy segment has contributed to 80% of the full year's order booking and environment is the balance 20%, which is retaining and maintaining the same numbers. In fact I should congratulate my team from the environment business because order booking in the energy segment was easier, but environment segment was very-very difficult because there is not so much of market available in the country for it. Rest of the numbers are declared. The total top line for the company for the year is lower by 2.4% in comparison to last year at Rs. 3185 crore , 79% domestic, our ratios are almost 80:20, so I do not think I need to be repeating it again. Net profit before extraordinary items is down by 10.4% at Rs. 256 crore versus Rs. 286 crore before the extraordinary items being considered. At Thermax group level, our income is at Rs. 3370 crore versus Rs. 3460 crore - a marginal decline in comparison to previous year and profit before tax, we have just about crossed Rs 400 crore for the group versus Rs 423 crore of the last year. Couple of main highlights to again remind you, we have already declared many of these in the press in the past and in our discussions earlier, that we have signed the joint venture with B&W. Just to give an update, between the last press release and the discussion that we had, the new company's name is already applied for with the ROC, there is a team of people currently working on the joint venture. We have already given our application to the government for allocation of land, negotiations are ongoing. Technology transfer activities have already commenced and so we are as per our time commitment as far as our project execution for the joint venture is concerned. Negotiations are also on with various bankers, prospective bankers. We have got a very positive response from the banking community for supporting this. We mentioned about the US litigation having been concluded and the pain should be over with the balance sheet having been closed yesterday. We have had some good orders come from various parts of the country, but very specifically we would like to mention about technology transfer, which we have had from Germany for Sequential Batch Reactor, which is put to use for an order that we picked up from Jammu & Kashmir Lake Development Authority for the cleanup of the Dal Lake. It is a repeat order from the Government of Jammu & Kashmir, which when completed over the next couple of years, will be an example for the country on how lakes can be preserved.. Air Pollution Control division of the company has picked up a fairly large order from the international markets - in the global tendering against some



tough European competition, we have been able to pick an order worth almost USD 19 million. We have also executed an order very successfully for the air pollution control business in the Middle East, worth almost USD 10 million, first of a kind. It is a feather in the cap for our country because there are very few Indian companies who are recognized in the international market for doing the pollution control job, especially in an advanced market like Middle East that is something which we have completed. I have also declared about the SPX joint venture formation, the company is formed, the board of directors is in place. We have already had first quarter meeting. Prospecting is already ongoing, discussions are on with multiple customers at various levels. Our expectation is that we should be able to pick the first order in the current year itself and start the operations of the company.

With this I will conclude and I would request you to be individually asking the question so that I do not intrude into the time or their time that is available. Back to you, Suhas..

Mr. Suhas Hari:

Thanks Mr. Unnikrishnan. Operator, we can open the floor for questions please.

Operator:

Sure sir. At this time, if you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press hash or the pound key. First question is from Mr. Atul Tiwari of Citi Group. Mr. Atul Tiwari, You can go ahead.

Mr. Atul Tiwari:

Yes, sir. Sir, this order backlog number that you mentioned 53 billion rupees, is it standalone or consolidated number?

Mr. M.S. Unnikrishnan:

Rs 5380 crore is standalone. Consolidated, Gopal says is almost near to 6000 crore.

Mr. Gopal Mahadevan

Yes, it is Rs 5966 crore.

Mr. M.S. Unnikrishnan:

5966, Atul is the number for the consolidated.

Ms. Deepal:

Sir, this is Deepal here. Sir, just one question on your order backlog, orders in for discussions with potential client. Sir, what is the sense you are getting from clients in terms of future order inflows, are we seeing significant pickup in client enquiries and finalization of orders?



Mr. M.S. Unnikrishnan:

We have already concluded one fairly large order worth Rs 580 crore. Earlier all of us would have been very happy with Meenakshi at Rs. 1000 crore, always we look forward to orders bigger than that. We concluded that in the last month. I think we gave a press release also for that. Apart from that, as I mentioned earlier, there are enquiries. Pace of discussions are fairly good, I would say that.

Ms. Deepal:

Okay, sir any kind of particular sectors which are picking up or showing significant pickup in terms of investment?

Mr. M.S. Unnikrishnan:

Most of the segments have now come to normalcy. Let me say, in fact if I see the order booking for the last year, if we could analyze, all four sectors, though the positions would have changed, remain as power generation, ferrous metal, cement, and refinery.. Except for the fact that power generation has become number one as against ferrous metals in the previous year, it is almost the same and the spread is better. Municipal projects are picking up, sugar companies have started picking up. Chemical, food processing, there is an overall spread. I would say that, yes textile is yet to be showing any substantial improvement, barring two or three major players, who continue to be making money while others are losing money looks like,. Yes, another segment, I need to be admitting, hospitality has not picked up to the extent the auto segment or equivalent have picked up. See, most of them will only give marginal orders for us. The spread after the first seven or eight groups is only in 1% or 1.5%. So, fairly well spread.

Ms. Deepal:

Sir, as far as the subcritical tie-up is concerned, we would be going ahead and bidding for these orders with the NTPC DVC tenders now, right?

Mr. M.S. Unnikrishnan:

We are entitled to. We are applying for the prequalification because the next one is not 660 MW, it is going to be 800 MW. So, yes the discussions are already on, we have already put an application for it.

Ms. Deepal:

Sir, just to understand that, we need to have that land thing in place even for qualification for this order?

Mr. M.S. Unnikrishnan:

Yes, it will have to be. See the prequalification is going to remain the same - you need to be having the land in position, you will have to have Rs 100 crore come from your partner and the joint venture agreement should have been in place. These are the three conditions apart from various plethora of technical requirements.

Ms. Deepal:

Sir, we would be having a land in place before that, right?



Mr. M.S. Unnikrishnan:

I am sure, before the opening of the tender, we should be having the land in place, I am sure.

Ms. Deepal:

Okay. I know, you would not want to disclose as to where the land would be?

Mr. M.S. Unnikrishnan:

Not at this point in time.

Ms. Deepal:

Not at this point in time. Okay sir, I will revert with more questions, thank you so much.

Mr. M.S. Unnikrishnan:

Thank you Deepal.

Operator:

Thank you. Second question comes from Ms. Keerthi Dalvi of Enam ES. Ms. Keerthi Dalvi, you can go ahead.

Ms. Keerthi Dalvi:

Good morning sir and congratulations for your good top line numbers.

Mr. M.S. Unnikrishnan:

Thank you.

Ms. Keerthi Dalvi:

Sir, first question on our order book and order inflow. What would be the breakup in order book and order inflow, consolidated?

Mr. M.S. Unnikrishnan:

Can I request Gopal to give the exact number?

Mr. Gopal Mahadevan

You wanted between energy and environment?

Ms. Keerthi Dalvi:

Yes, sir.

Mr. Gopal Mahadevan

As far as the order inflows for the quarter are concerned, the consolidated numbers are Rs 1464 crore that is Rs 1100 crore in Energy segment and Rs 364 crore in Environment segment.



Ms. Keerthi Dalvi:

And sir, full year?

Mr. Gopal Mahadevan

Full year numbers, okay. I will give you the order backlog and then give you the full year numbers.

Ms. Keerthi Dalvi:

Sure, sir.

Mr. Gopal Mahadevan

The order backlog is Rs 5966 crore, which I had mentioned earlier - Rs 5138 crore being for Energy, and Rs 828 crore for Environment segment.

Ms. Keerthi Dalvi:

And international, sir?

Mr. Gopal Mahadevan

International, I will okay, let me give. The international order booking for the quarter for Energy is Rs 159 crore and Rs 119 crore for environment, so total international order booking is Rs 278 crore.

Ms. Keerthi Dalvi:

Sorry, Rs 278 crore this is for the quarter you said.

Mr. M.S. Unnikrishnan:

Yes.

Ms. Keerthi Dalvi:

Would it be possible sir, the full year consolidated order booking numbers.

Mr. Gopal Mahadevan :

I will give you the numbers. Just take the YTD numbers under booking for the group, Rs 5206 crore for energy and Rs 1204 crore for environment, which makes it Rs 6410 crore for the year as a whole and you wanted the export order booking, right?

Ms. Keerthi Dalvi:

Yes.

Mr. Gopal Mahadevan :

The export order booking for Thermax Limited for the full year is - the domestic booking for the full year is Rs 4958 crore and the order booking for export is Rs 836 crore.



Ms. Keerthi Dalvi:

Okay. Sir, just a question on our JVs, whenever we will book the orders in a JV, how that accounting treatment will happen in Thermax, I mean only to the extent of JV our JV share will get booked in our books?

Mr. M.S. Unnikrishnan:

Order booking will not be shared. Order booking will be registered in the JV itself. Order execution will also be displayed in separate balance sheet. While Gopal consolidates the the balance sheet, being 51% share holder, he is entitled to integrate it with the main company, based on the IFRS requirement as and when the company is operational.

Ms. Keerthi Dalvi:

Okay. So, as of now we have not received single order in the JV?

Mr. M.S. Unnikrishnan:

Not yet, since the JV has just been formed.

Ms. Keerthi Dalvi:

So, it will not be a part of our Thermax order book as a whole?

Mr. Gopal Mahadevan:

No, certainly not.. Not yet, nothing that is material has happened in the JV because like Unni mentioned, we are getting incorporated and just getting started.

Ms. Keerthi Dalvi:

No, I was just asking for the future, I mean, as and when we will book it.

Mr. M.S. Unnikrishnan:

On prudent accounting practice, one would not have anything taken on the order booking. Order booking is never taken into accounting at all, it is only a declaration. It becomes a revenue for the balance sheet for accounting purpose only when revenues start getting generated out of that.

Ms. Keerthi Dalvi:

Okay. Sir, the last question, in staff cost in Q4 has gone up significantly. Any particular reasons for that?

Mr. M.S. Unnikrishnan:

No specific reason excepting for the fact that we would normally budget for our incentives in the last quarter. Since we have seen a top line growing, we should be rewarding shareholders and other stake holders known as employees also, that is the way.



Ms. Keerthi Dalvi:

Okay. And sir, last, would it be possible to get any working capital details or a balance sheet part?

Mr. M.S. Unnikrishnan:

Normally, we do not declare it.

Ms. Keerthi Dalvi:

Okay, sir, capex at least for the FY10, how much we must have incurred?

Mr. M.S. Unnikrishnan:

Rs 87 crore is the total capex expenses for the full year.

Ms. Keerthi Dalvi:

Consolidated?

Mr. M.S. Unnikrishnan:

Yes.

Ms. Keerthi Dalvi:

Okay, and any plan for the next year sir?

Mr. M.S. Unnikrishnan:

Yes, we will have to be expending our portion of the equity for the joint venture which is expected to be Rs 175 crore. Depending upon the demand of the money, we will be spending in the money. So, we will keep that aside in any case as a reserve from our thing to be given to the joint venture. Our line balancing and various other plans should be taking early triple digit numbers in terms of the capex for the next year.

Ms. Keerthi Dalvi:

Okay, sir. Thanks a lot and wish you good luck, sir.

Operator:

Thank you. Third question comes from Ms. Deepti Chauhan of Asit C. Mehta. Ms. Deepti Chauhan, you may go head.

Ms. Deepti Chauhan:

Thank you. Morning sir. I just wanted to ask this Rs. 175 crore which you mentioned of the equity which we will have to put into this joint venture, will this amount go, I mean the entire amount will be put in together in one year or it will be a gradual infusion of money?



Mr. M.S. Unnikrishnan:

It will be gradual, but it will not be month over month. Between the partners, we have agreed as to what should be the tranch of disbursement. Three is what we are currently considering. First will be for startup and buying of the land in equivalent and then there afterwards the burnout rate for the initial period and for the plant and machinery.. A good part of the Rs 700 crore corpus for the JV will be for setting up a major manufacturing facility. I would imagine that it would take 18 months from July quarter onwards, when the full money would have been gone out of the balance sheet of Thermax.

Ms. Deepti Chauhan:

Okay, sir, you are talking about this entire 175 crore being pumped in FY11 itself?

Mr. M.S. Unnikrishnan:

No. 18 months from Q2 onwards of current year, which means three-quarters of the current year and another three quarters of the next year.

Ms. Deepti Chauhan:

Okay, all right.

Mr. M.S. Unnikrishnan:

Thank you.

Ms. Deepti Chauhan:

Sir, about, just needed some color on you know what is the kind of order or enquiries you are witnessing on the water segment front because we have been seeking for quite sometime about the orders to be coming in from the municipal side. So, what is the status right now, what is the kind of development which is happening on that front?

Mr. M.S. Unnikrishnan:

In the first place, I am happy to say that we have seen results of orders of municipal water treatment last year. I may not be able to give specific numbers, but we received almost close to Rs 170 crore worth of orders in the last year from various municipal corporations. We have been able to deliver whatever we promised to you last year,. Our order booking in water business itself, is almost Rs 450 plus crore in the last year which is almost double, in fact 113% higher in comparison to previous year. A good part of that is on account of the municipal orders.

Ms. Deepti Chauhan:

Okay. Sir, one last question. On this any guidance I mean apart from this 175 crore the other capex which is to spent, what would that be on?



Mr. M.S. Unnikrishnan:

Those are line balancing and to look after the increased order booking. We are expecting that the company will continue to grow and we need to create capacities. When we created Savli two years back, we believed that it is a huge capacity. But since the order book has increased, it is going to be insufficient in the future. So, we have to start planning for the future, those are the initiations.

Ms. Deepti Chauhan:

Okay, sir. Any guidance you would want to share with us as to what is the kind of growth you would be expecting in the order booking for this year?

Mr. M.S. Unnikrishnan:

Unfortunately, I have been the poorest guide so far. I generally give only approximations. You have seen the improvement in the carry forward orders. Why we do not want to give a guidance, let me tell you. One cannot predict how the market will behave. For example, last quarter we had been able to perform better because the market, because people were lifting deliveries, credit availability is a must, and most of the balance sheets of customers are showing positive signs in the current year. We had been hearing everybody talking about only positive results. Good money is available, good orders are on hand. We have a capacity to execute orders and we should expect a good growth in the current year. This is how I would like to put it.

Ms. Deepti Chauhan:

Thanks a lot.

Mr. M.S. Unnikrishnan:

There is one cautious optimism on account of the European challenge. If that were to pan out in a negative way, there will be a fever in India, so I am sure we will also be impacted by that.

Ms. Deepti Chauhan:

Okay, sir. Thanks a lot, sir again.

Mr. Suhas Hari:

Operator, if you can restrict to two questions per participant.

Operator:

Sure sir. Next question comes from Mr. Kamlesh Kotak from Asian Market Securities. Mr. Kamlesh Kotak, you can go ahead.

Mr. Kamlesh Kotak:

Hello.

Mr. M.S. Unnikrishnan:

Hi, Kamlesh.



Mr. Kamlesh Kotak:

Good morning sir.

Mr. M.S. Unnikrishnan:

Good morning.

Mr. Kamlesh Kotak:

Sir, just wanted two points. One is how you see the margins scenario in the context of the rising material cost and could you tell us how much of the order book is on fixed price or the PVC close based, I mean?

Mr. M.S. Unnikrishnan:

Of the carry forward orders, I have hardly any orders which have got a price variation clause. Some of them are government contracts where they normally allow a input price variation, there is a formula agreed upon..Otherwise all others are fixed price contracts. But we have covered for all the specialized steel items for most of the orders because we normally have the prudent practice of placing the orders with our respective counterparts outside India, the moment we receive the advance from our customer. What we have as an open position will be the structural steel which will contribute to the 10% of my total raw material cost, that is a spot purchase normally. There we will have to be expecting a price increase in case if the steel industry were to, I mean go ahead with the price increase. That can put may be up to 25 basis point impact on the balance sheet of the company. And then there could be say like, there are also contingencies, we try to manage it and relationship management all that is tried out. This is what I normally say that a 100 basis point is what you should give as a credence or may be allowance for margin of error to a company like Thermax. We manage the balance sheet quite well but we can go wrong by that kind of a percentage even if my team were do the best of the purchase also.

Mr. Kamlesh Kotak:

Okay. And can you breakup the order book between government and private if at all possible?

Mr. M.S. Unnikrishnan:

See, we do not have the exact numbers.

Mr. Kamlesh Kotak:

Broad base numbers?

Mr. M.S. Unnikrishnan:

Yes, may be we have 15 plus percentage that could be available from the government sector.

Mr. Kamlesh Kotak:

Sorry.



Mr. M.S. Unnikrishnan:

15 plus percent.

Mr. Kamlesh Kotak:

15%, okay. And lastly sir, could you let us know how big is the opportunity for this tie up made with SPX for air pollution control and how big is now our portfolio in terms of BOP market, how many packages we are capable of handling?

Mr. M.S. Unnikrishnan:

Question number one, SPX market size, at this point o time if you were to be installing may be a say in reality 10,000 to 15,000 megawatts per year. I am talking about all the installation starts, not when the order placement happens, which may be from 2013-14 onwards, when you will be really, you know installing 10 to 15,000 megawatt per year, I would size the market for the products that we are currently talking about as Rs 1500 to 2000 crore per annum, and you should expect this company to be doing at least a 20+ percentage of the market share of that.

Mr. Kamlesh Kotak:

So, 1500 to 2000 crore relates to this 10,000 to 15,000 megawatt or . . .

Mr. M.S. Unnikrishnan:

Yes 10 to 15,000 megawatts.

Mr. Kamlesh Kotak:

Okay..

Mr. M.S. Unnikrishnan:

These are all numbers. Year gets over in 12 months and projects get over in 40 months. So there are always overlaps available, that is why the numbers are approximate.

Mr. Kamlesh Kotak:

So, we are aiming 20% market share of that, okay. And second part sir?

Mr. M.S. Unnikrishnan:

Second part, you wanted to know about, how many BOP packages we are now capable of handling?

Mr. M.S. Unnikrishnan:

Yes, since our intention is to be getting on with the IPP orders for 150 and 300 megawatts, we are taking BOP only for one or two packages as an enquiry and working out, because the same set of people can do either BOP or the entire EPC itself. So, BOP will be a filling factor rather than that of main EPC, that is the way we have strategized it. So, we are capable of doing, if you ask me, three BOPs at any point of time. Either it will be three EPCs of the large capacity or three BOPs, or a combination of both.

**Mr. Kamlesh Kotak:**

Okay, all right, fine. Thank you sir.

Operator:

Thank you. Participants are requested to restrict to two questions at a time, thank you. Next question comes from Mr. Venugopal Gharay from Credit Suisse. Mr. Venugopal Gharay, You can go ahead.

Mr. Venugopal Gharay:

Hi, thanks for taking my question. You know, I just wanted to understand on the subcritical orders, especially the subcritical power generation equipment orders, could you give the sense of the order pipeline that we have currently for this year? Have we started bidding for 300 megawatt or 500 megawatt individual set sizes? And in terms of the capacity that we had 1.5 gigawatt of capacity that we built last year, have we fully ramped up that in terms of our staffing, etc?

Mr. M.S. Unnikrishnan:

We have started bidding for 300 megawatts. There are more than one bids which are on the table for discussion for 300 megawatts. 500 megawatts unfortunately, there is no inquiry in the country at this point of time where one could be bidding for. Last year there was only one 500 megawatt which was awarded on a nomination basis to BHEL because that is the third set at the same place where there are already two running,. Second question was about 1500 megawatts, equivalent capacity at Baroda, is it fully operational ?. Yes, it is fully manned at this point in time, even the second shift is manned. So it has risen up. The man hours generated by the factory is almost 75% to 80% of the original design value and I would expect that in the current year by Q2, we should be running at 95 plus percentage capacity of Baroda factory.

Mr. Venugopal Gharay:

Okay. Sir, just my second question on the absorption cooling business, especially the China facilities, any update on how things are progressing on that front?

Mr. M.S. Unnikrishnan:

Orders have started improving. I mentioned to you in one of the quarters last year that Chinese debacle, especially the Guangdong province entire industrial collapse has had an impact on our investment on account of the fact that we were targeting that particular market. So, we had to shift the manpower and reopen our operations in terms of the marketing into some other segment, which has happened and last quarter we had at least positive order booking and current quarter also looks positive. So, I would believe that whatever we spoke about three and half years for it to be breaking even, we are still struggling for it and may be it will take one more year, that is the only change. But otherwise, our acceptability, more important for an Indian company in China should be in terms of are you able to make products and sell it with Thermax brand over there without any global partner. I am very happy to say that we have done that. We have manufactured more than 30 chillers in the premises and each one of them have performed extremely well though it is a very new brand new factory. Normally, chillers are not an easy item to manufacture. We have introduced our robotic manufacturing facility over there which has done extremely well. We have exported chillers from there to our American and European market and they have been well accepted, that is point



number two. And third is the Chinese manpower - the attrition rates are 30% to 35% whereas for Thermax we have been able to inculcate a loyalty culture. The attrition rate is what we normally face in India. So these are the three positives I will talk about. Then, we are creating a niche for Thermax, we are more of a knowledge oriented company. We had been getting into solution mode for chillers over there. So, the application related business that we have picked up, for example, one we have picked up for you know PV factory, one of the largest manufacturers in the world, for their manufacturing facility. It is a very specialized job. Only a company like Thermax could get that order despite their having been seven chiller manufacturers in China. And another one is for coal mine air injection and cooling system - when application engineering came in Thermax picked up the order. So, we are creating a niche, so it is a slower journey but it is a firmer journey.

Mr. Venugopal Gharay:

Thank you so much, sir.

Operator:

Thank you. Participants are requested to restrict to two questions at a time, thank you. Next question comes from Mr. Sanjeev from Kotak P&G. You can go ahead, sir.

Mr. Sanjeev:

Yes, thank you for taking my question. First let me congratulate Mr. Mahadevan for getting the best CFO award.

Mr. Gopal Mahadevan

Thank you, Sanjeev.

Mr. Sanjeev:

Sir, basically, just wanted some update on some of the projects that were basically delayed in the previous year. What is the status of those projects. Whether they have started or not yet?

Mr. M.S. Unnikrishnan:

There were three larger projects which we continuously declare about the pace of activity. One is the Essar project for four numbers 200 megawatts boiler order which. I confirmed later that only two of them are going and other two are not going. Those two are really going at a very fast pace without any problems., Second there is a government order from Steel Authority of India, it is moving without any problems, without any difficulties at all. Third is Brahmani Steel, which is not opened at all, though we have the advance and we have been able to complete the engineering, it is totally on hold. Well it may revive, because it depends upon the political temperature rather than anything to do with it.

Mr. Sanjeev:

Okay, sir, that is it from my side.

Mr. M.S. Unnikrishnan:

Thank you.

**Operator:**

Thank you. Next we have Mr. Laxmi Narayana from PNB Paribas. You can go ahead.

Mr. Laxmi Narayana:

Good morning, Unni and Gopal. My only question is, your raw material costs are way too high for this quarter, unusually high I would say, and going forward, how should we think about margins considering some of the large orders are EPC in nature. So, could you give any sort of color what to expect?

Mr. M.S. Unnikrishnan:

I think you have already answered my question. Wherever EPC is going to be higher, margins will be lower than the conventional. When I am able to have more product orders in a particular quarter, you will have improvement in that one. On an yearly basis, if you are able to have the product mix managed within a plus or minus 10%, you will not have more than plus or minus 100 basis point differentiation in the overall margins, that is the answer Laxmi. Thankfully, we have been able to increase order intake also in the environment segment, where the margins are good and even the product segment has started doing well, order booking has improved. Otherwise, it would have been a concern Laxmi going forward on account of the fact that we have got oblongivity of very large orders and lower margins. So, that situation is not true reflection at this point in time. I would believe that we should be able to, yes, I am not expecting that I mean margins are going to be retained or improved in the coming year, because EPC orders are on hand, there is no denial of the fact and there is a pressure of input cost also. Raw material price increase is expected. The only positive sign I would see is that if the Indian economy were to continue to behave positively, the way it is doing currently, the margin pressure in the field will come down. Otherwise, at the time of order finalization, if I were to look at four quarters back, there was a ferocity of competition. I mean people were picking up orders at any margin. Today, with most of the participants in the market having orders, I will not say sufficient or insufficient, no body would just grab an order for keeping the books on, that is the answer at this point of time.

Mr. Laxmi Narayana:

Fair enough. And just as an after thought, the second question I had is in terms of short cycle v/s long gestation project. Could you breakdown order backlog or is it difficult to do?

Mr. M.S. Unnikrishnan:

We ourselves do not keep the number for it. but in the last quarter, we have got all the larger projects which you are already aware of, which are more than 18 to 24 months, some of them like you know Meenakshi is 30 months delivery or an IMFA at may be 24 months delivery. So, I would . . .

Mr. Laxmi Narayana:

Essar would be?



Mr. M.S. Unnikrishnan:

Essar is already now on the execution level. Thought it was at 28 months, we have already completed may be 12 months of that now. Current year is the main year for that. Most of the Essar would be through in the current year. Only the commissioning would happen in the year after but otherwise major portion of the supplies will get completed in the current year.

Mr. Laxmi Narayana:

Okay. Thank you both of you.

Operator:

Thank you. Next question comes from Mr. Manish Chogle from Bajaj Alliance. You can go ahead, sir.

Mr. Manish Chogle:

Thanks for taking my question. This is just a followup on the last question. So, should one be expecting single digit margins for FY11?

Mr. M.S. Unnikrishnan:

No, certainly not.

Mr. Manish Chogle:

Yes, thanks.

Operator:

Thank you. Next question comes from Mr. Sameer Kulkarni of Pentaid Securities. You can go ahead, sir.

Mr. Sameer Kulkarni:

Good morning sir. Sir, my question is thus the consolidated order backlog included Brahmani order. I also wanted to know the consolidated order backlog as on March 2010 as well as the quarter IV forder inflow segmentwise - energy as well as environment.

Mr. M.S. Unnikrishnan:

You have a connectivity problem. I will be a little louder. Are you able to hear it right now.

Mr. Sameer Kulkarni:

Yes, sir.

Mr. M.S. Unnikrishnan:

Now, Brahani is already there in the carry forward orders which is indicated by Gopal. He will further give you what is the March 2010 in carry forward segment wise.

**Mr. Gopal Mahadevan**

So, you want the order backlog for March 2010, am I right.

Mr. Sameer Kulkarni:

Yes sir.

Mr. Gopa1 Mahadevan:

For the group, the overall order balance I had just given earlier, which is Rs 5966 crore is the order balance / backlog. And it is broken down into Rs 5138 crore in energy and Rs 828 crore in environment. Yes, what else did you want?

Mr. Sameer Kulkarni:

I just wanted to understand the execution cycle for a energy project especially for the order inflow which you have done in quarter four, the gas based project that you got an order this quarter four.

Mr. M.S. Unnikrishnan:

A good number of orders will get executed, a part of it, in the current year, but the larger ones will move in majorly to the year after that because execution cycle for larger projects are between say may be 18 to 20 months. So, part of that will get revenue recognized towards the end of the current year. In most of them, what one needs to be clear about that is even for the project to be initiating into revenue recognition, cash flow has got to be increased. So those will have to be the constraints to be looked into. But I mean a good part of them can be recognized in the current year itself, part of that.

Mr. Sameer Kulkarni:

Okay, sir. Just last question. What kind of pricing as well as the business growth you are targeting for the next year sir, as well as the project pricing is concerned?

Mr. M.S. Unnikrishnan:

Project pricing, well I mean, our intention will be to pass on the cost input increase to the market. It depends upon the competition and the customers than our intention because market as of now is quite stable, but can you rule out a volatility in the market going forward ?, I cannot say at this point of time. In case if there is a reduction in order finalization, margins may, I would say contract, may not crumble going forward. But orders on hand that are with decent enough margins and we need to protect it from getting eroded, that is all.

Mr. Sameer Kulkarni:

Okay sir, and what kind of business growth you are targeting for FY11?

Mr. M.S. Unnikrishnan:

We normally don't give a guidance. We are carrying forward a better order book at the beginning of the year in comparison to the previous year. So, it should result in a better growth in the coming year.



Mr. Sameer Kulkarni:

Okay, sir. Thanks a lot.

Operator:

Thank you. Participants are requested to restrict to two questions at a time, thank you. Next question comes from Mr. Sachin Trivedi of UTI Mutual Fund. Mr. Sachin Trivedi, you can go ahead.

Mr. Sachin Trivedi:

Hello.

Mr. M.S. Unnikrishnan:

Hi, Sachin.

Mr. Sachin Trivedi:

Yes, hi sir. Sir, question one is on the order booking we have seen substantial good order booking this year versus earlier guidance on order booking. So, do we see further acceleration in order booking this year?

Mr. M.S. Unnikrishnan:

Domestic market is showing signs of at least stability and our intention is to have a better order booking in the domestic market than the previous year. To what percentage?, I cannot say, there are enquiries. Let me say, for us, it starts with the inquiry inflow. Inquiry inflow is positive in almost all the segments that we are operating. Finalization up to the last month, April was good also. Now, there is always a worry about will the European crisis have ramification on the global confidence in capacity building. Our problem is that we are a capacity building oriented company. Many people who also negotiate, the last moment can take a back seat because you know banking system in India has got a relevance in European banking system. So, will the European banking system get into a pain in the coming couple of quarters, is something which we need to be worried about. So, order finalizations are a reflection of the banking confidence, because a good number of our products are purchased from debt, not from equity. That is where one will have to wait and watch.

Mr. Sachin Trivedi:

Okay. So, can I infer may be at least 6000 plus order in flow can be there for this year also?

Mr. M.S. Unnikrishnan:

That is more like the target the board & us have agreed on. So, let us wait.

Mr. Sachin Trivedi:

Okay. So, the other question was just the detail on the P&L presentation is what is the breakup of other operating income?



Mr. M.S. Unnikrishnan:

Gopal, would you like to answer that questions?

Mr. Gopal Mahadevan

Yes, see, the other operating income predominantly includes scrap sales, provisions that are written back you know which have been charged off in the previous year which gets written back and income on certain jobs, reimbursements from customers and stuff like that gets accounted here.

Mr. Sachin Trivedi:

Okay. So, interest income is not accounted here?

Mr. Gopal Mahadevan

Interest income comes in here. If you notice the published results, it comes in below. There is a line item other income, which is Rs 17.89 crore for the current quarter and Rs 11.89 crore for the same period last year. That is the interest and dividend income. Dividend income in the sense of the investments in the money market mutual funds.

Mr. Sachin Trivedi:

Okay. And sir last observation from P&L is if I were to look at the full year number and if I were to compare the purchase to net sales percentage, it has been increasing say in FY08 that number was minimal one digit 0.8% and this year it has increased to 4.1%. So, these purchases are further likely to grow in future and will that have any implication on the margin for us?

Mr. Gopal Mahadevan

Oh, you see you are talking about the classification called purchase for traded goods.

Mr. Sachin Trivedi:

Yes.

Mr. Gopal Mahadevan

You know, this is a classification requirement for disclosure. For us, actually if we were to look at it as a company, purchase for traded goods, raw material cost, you know the raw material consumption account, consumption of raw materials and increase and decrease in stock are all part of the same bucket but this is being classified and this is predominantly nothing but steel that we purchase and then give it to our job work vendors. You know that is the strategy that the company would keep adopting as to after it forecasts as to what are the steel prices and how it is going to go, we decide whether to purchase stock and then give it to our vendors or do they buy it directly. So, there is no specific concern on these numbers.

Mr. Sachin Trivedi:

Sir, it has nothing to do with the lack of capacity or it is just a strategy?

**Mr. M.S. Unnikrishnan:**

It is a strategy. It is not that we purchase the finished goods, may be a boiler from somebody and put our name and sell, not one of that kind. These are the strategic purchases done of the raw material to get a price advantage for our suppliers also. We buy and, see we have a purchasing muscle power, so we buy, we have got a better paying capacity, we are able to get better discounts, so we buy in bulk, stock and distribute to our fabricators, so those are the items.

Mr. Sachin Trivedi:

Okay. I really appreciate sir. Thanks for taking questions once again, thank you.

Operator:

Thank you. Next question comes from Mr. Pranav Gokale of Religare Asset Management. You can go ahead, sir.

Mr. Pranav Gokale

Hello.

Mr. M.S. Unnikrishnan:

Hi, Pranav.

Mr. Pranav Gokale

Yes, hi. Good set of numbers first, congrats for that. Just in terms of the overall order booking, I had just one question. What is the total, if we get a big order, what is the total percentage of work which we actually do captively and how much is outsourced?

Mr. M.S. Unnikrishnan:

It depends upon business to business, but anyway since you asked about, most of the time all of us concentrate on EPC for the power. We make the boiler within the company, we make the air pollution control equipment within the company, water treatment within the company, effluent treatment within the company. Rest all of them are purchase, or managed by the company in construction and equivalent type put together. So, it can amount to anywhere from may be a 38 to 45% depending upon the type and size of the job.

Mr. Pranav Gokale

So, 38 to 45% is in house or outside?

Mr. M.S. Unnikrishnan:

It is inhouse.

Mr. Pranav Gokale

Okay. And going ahead with the size of orders coming in, it will remain more or less in the same level.



Mr. M.S. Unnikrishnan:

Yes, correct.

Mr. Pranav Gokale

Okay. And sir, if I take the current order book, could you just highlight what is the gestation period for the current order book?

Mr. M.S. Unnikrishnan:

Unfortunately, it comprises of delivery periods ranging from one month to 30 months, and dissemination we normally do not do. That is done at the business level, not at corporate level.

Mr. Pranav Gokale

Okay. But this 15 to 18 months could be a fair sort of assumption?

Mr. M.S. Unnikrishnan:

Yes, certainly. There are some orders which will be taking up to 28 months, 24 to 26 months also, those are isolated cases.

Mr. Pranav Gokale

Okay. And just a last followup question. This cash which you have, there is no outflow because of purolite adjustment in the cash, right, that still has to take place?

Mr. M.S. Unnikrishnan:

That is yet to be taking place, four installments are to be paid.

Mr. Pranav Gokale

Thank you, sir.

Operator:

Thank you. Next question comes from Mr. Akshay Thakkar of Enam Securities. You can go ahead, sir.

Mr. Akshay Thakkar:

Sir, congratulations on a good set of numbers. Most of my questions have been answered. I just had two questions. First is, if you just share some outlook on the environment segment. How is each of the business panning out over the last couple of months and you know what is the trend that you are expecting going forward?

Mr. M.S. Unnikrishnan:

Environment segment has done very well in terms of inflow of orders in the last year. In fact, they have done in their smaller size, they have been able to catch up in percentage growth with the energy segment. So that is a positive sign. Going forward in the next say two or three quarters, I would certainly see in the pollution control as well as the water business, a positivity, absolutely, I don't think there should be a retardation in order booking in future also. It should continue.



Mr. Akshay Thakkar:

Okay. Sir, my other question was, if you could just throw some light on how margin recognition would take place. Let us say if you had a larger order with a 30-month execution cycle, let us say for some order only 15 or 20% execution takes place this year. Would the margin recognition be even or is there a threshold limit that you have for booking those margins?

Mr. M.S. Unnikrishnan:

Certainly yes. We have a proportionate mechanism. Revenue recognition and margin recognition goes, cost booking has got to be done in proportion, but it depends upon which item gets recognized. In some item you may have a higher margin than the EPC order, some of them, it is not exactly proportionate.

Mr. Akshay Thakkar:

Okay. All right. That is it from my side, sir. Thank you.

Mr. M.S. Unnikrishnan:

Thank you.

Operator:

Thank you. Next question comes from Mr. Kunal Seth from Prabhudas Leeladhar. You can go ahead, sir.

Mr. Kunal Seth:

Good morning sir.

Mr. M.S. Unnikrishnan:

Hi, Kunal.

Mr. Kunal Seth:

Sir, just wanted to know what is the percentage of EPC orders in our current order backlog?

Mr. M.S. Unnikrishnan:

Gopal, would you want to help him out?

Mr. Gopal Mahadevan

Yes, sure. You want to know the percentage of EPC on our current order backlog is it? Okay. See, essentially, I will only give the power division's order backlog. Total order backlog for the company is Rs 5381 crore out of which power division is about Rs 2451 crore.

Mr. M.S. Unnikrishnan:

So, around 46% let us say.



Mr. Kunal Seth:

2450.

Mr. M.S. Unnikrishnan:

Yes.

Mr. Kunal Seth:

And this will have execution cycle of about 18 months.

Mr. M.S. Unnikrishnan:

No, more than that. Some orders will be more than that.

Mr. Kunal Seth:

Okay, sir. About 20 to 25, okay. Sir, and after seeing significant order inflows in the current year, do we expect you know to surpass this kind of order inflow even in the current year that is FY11.

Mr. M.S. Unnikrishnan

Our expectation is that we should be surpassing it. Yes, it depends a lot on our ability to be concluding orders of larger nature where it is financially closed, and we have visibility available.

Mr. Kunal Seth:

But there are market available, enquiries are there.

Mr. M.S. Unnikrishnan:

Yes, there is visibility.

Mr. Kunal Seth:

Okay, sir. Thank you. That is it from my side.

Operator:

Thank you. Next question comes from Mr. Gagan Tharija of BNK Securities. You can go ahead, sir.

Mr. Gagan Tharija:

Good morning sir.

Mr. M.S. Unnikrishnan:

Yes, Gagan.

**Mr. Gagan Tharija:**

Sir, you mentioned that by 2013-14, you envisage the market to the annual market to be around 10 to 15 gigawatts. Considering that capacity creation from the supply side including Thermax and other companies, will probably reach or exceed that level by that time. How do you see that impacting your margins and working capital?

Mr. M.S. Unnikrishnan:

Thankfully, that will not impact Thermax because that is going to be a joint venture, the 10 to 15,000 which we have mentioned about is for the larger power plant. So, that will not have an impact on Thermax. May be the subcritical utility up to 1000 tons capacity can have an impact, that is a very limited number only on the balance sheet of the company. But you are right, with BHEL, L&T & Thermax, three major players having created capacity but price levels, I mean three companies have to make decent enough profitability and by the time the government is also going to be supporting the company by preventing a Chinese import is our expectation, probably this can be maintained. Yes, but will you get a BHEL profit of 18% and L&T's profit of 14% to 15%, I doubt. BHEL makes the money not only in boiler, which we will be making. They also make it in various other areas.

Mr. Gagan Tharija:

Okay. Sir, can you also throw some light over the sustainable opportunities in the gas based, the nuclear, and the solar power markets for Thermax?

Mr. M.S. Unnikrishnan:

See, gas, we have got three segments supporting. The first one being the combined cycle power plant. Recently, we declared an order of Rs 580 and odd crore from one of the oil companies. So, combined cycle power plants will be there of two types. One is the very large one which BHEL will take, GE will take, or a Hyundai will take, which is going to be thousands of crore, which we are not in. But medium size one 20 megawatts, 50 megawatts, 60 megawatts in EPC, we will be doing and that is something where we should be able to get orders. These are good orders in my opinion. Second is, absorption cooling business of a company will benefit in terms of gas availability for air conditioning of buildings, which I am talking about in 2013, 2014, 2015, those kind of years, certainly will help the company. Third is fuel shift in smaller companies where gas is going to be available, people may shift from conventional coal to gas as a fuel. So that is another thing. These are three areas where we are expecting the business to be coming from the gas sector. Solar is initiated, we have started marketing the product in the hospitality segment and medium-size industry for heating. We have already started. cooling. We have already taken two projects, so the incubation phase is over. It is now getting into the marketing phase.

Mr. Gagan Tharija:

And nuclear power, sir.

**Mr. M.S. Unnikrishnan:**

Nuclear, we are now bidding for NPCIL's packages for the forthcoming project executed by them directly. They are doing a package purchase thinking, rather than the way private industry would have been thinking about. I would believe with the current passage of the insurance liability bill going to happen in the parliament, one more law should be passed by the country for dividing the strategic use and civilian usage of nuclear technology. Once that happens, in 2012-13 onwards you may have private companies allowed to get into nuclear power generation. One or two of the larger companies like Tata Power equivalent will get into that, because they will be very-very choosy about who will be allowed to set up a nuclear power plant in the country in the initial phase. So, by the time Thermax is going to be ready for two items. Number one is known sensitive packages, which is like water intake system, water purification - which are not conventional, very-very stringent water purification plants for nuclear plants, air conditioning plants. These are two areas that we will be qualified to do. Each package will be in three digits, triple digits of crore of rupees and component manufacturing for the international companies like GE, Westinghouse, and Areva, and may be even couple of Indian biggies who will be taking it up, they will need the support of companies of Thermax stature to do the component as per ASME stamp. These are the two areas where we are looking forward to. Numbers I do not want to currently put anything at this point of time because it depends upon how government is able to create funds for it. Nuclear plants are not cheap, the way we expected it to be. A Megawatt will cost not less than may be 8 to 10,000 crore, but of course it has got a pay back, that is it.

Mr. Gagan Tharija:

Thank you, sir.

Operator:

Thank you. Next in line we have Mr. Vinod Cherri from RBS. You can go ahead, sir.

Mr. Vinod Cherri:

Yes, good morning, Unni and Gopal.

Mr. Gopal Mahadevan

Hi, Vinod.

Mr. Vinod Cherri:

Thanks for taking my questions. You mentioned something interesting when you said that last year, people were pitching forward at any level and that is no longer happening. So, would I assume that year on year pricing has improved, and is this pricing going to be more profitable or is it just a pass on of commodity prices?

**Mr. M.S. Unnikrishnan:**

We were expecting to improve the profitability when we started getting better prices, but our brethren who are suppliers, tier I and tier II, started I mean, nibbling at the bottom. Now, there is a crisis at this point of time because steel prices, if they were to be increasing further, it will be reaching an inflexion point in the market. So, then there could be an impact in the margin. Otherwise, you can improve the margin. If steel prices were to be remaining steady, we should be able to improve the margins in the coming year. I am talking overall, but see Thermax balance sheet or company balance sheet will depend upon how is the EPC versus the non-EPC in the execution.

Mr. Vinod Cherri:

The other thing I wanted to ask you is has pricing returned to the pre-2008 levels, or is it still way off from those numbers?

Mr. M.S. Unnikrishnan:

Not so far, certainly not. 2008 was, I mean like people were picking and choosing orders. 2010, we are not, and 2010-11, I do not think in most of the segments it will happen that way.

Mr. Vinod Cherri:

What is the kind of approximate pricing differential you would put a number at, you know, in terms of pre-2008 pricing and . . .

Mr. M.S. Unnikrishnan:

200 basis points.

Mr. Vinod Cherri:

200 basis points?

Mr. M.S. Unnikrishnan:

Yes.

Mr. Vinod Cherri:

Okay. And finally I just wanted to ask you, you outlined your top four segments, you know power, ferrous, cement. Are there any segment-specific pricing trend that you are able to forecast?

Mr. M.S. Unnikrishnan:

Certainly not, excepting for the fact that in power segment, to be precise, to say that it is more difficult to negotiate an order for a very large power plant because the customer does not get into, you know, the nitty gritty of the technology these days. They talk about the way you would bargain for vegetable, per megawatt basis. Some of that fever is caught around in India, introduced by Chinese. Whereas the western world and the developed world never finalize orders for power plants on per megawatt basis. So, that is something, which the moment Chinese are discouraged, or may be shunned away by the Indian governance, may be things will improve in that area. All other areas I am seeing that it is contract to contract price negotiation. It is not in terms of any specific price pressure.



Mr. Vinod Cherri:

Thank you.

Operator:

Thank you. Next in line, we have Mr. Sameera from Gupta Equity. You can go ahead, sir.

Mr. Sameera:

Hello, thank you very much for taking my question sir. Sir, but now in the conference call you informed that the scenario on the international side does not seem to be very rosy as of now and considering the fact that there is heavy meltdown in the European countries, do you foresee increased competition in your international orders affecting your margins there?

Mr. M.S. Unnikrishnan:

Yes Certainly. There is a desperation that can be seen from the European suppliers. International markets in which Thermax operates is majorly Southeast Asia, Middle East & Africa apart from a trickle sales of two products in North America. These are the international markets that we do operate. And there was always you know premium available for European or American make in these markets. American economy has picked up but European economy, I am expecting things are not going to be too good for them at least for a period of 24 months. There is a desperation from their side to pick orders. We had a price differential available plus classical Southeast Asian, Middle East customer would buy an Indian equipment at may be at 5 – 10% cheaper than European price. If European prices are like very close to Indian price, they will prefer buying from there. So that pressure will be there. But there I think you will get help by the Indian currency I think the currency should appreciate, already appreciated. It is a double edged sword,. if it were to go to that kind of a level, it should help us.

Mr. Sameera:

Okay. And sir, my last question pertains to your success of the investments that you are making for hybridization of technology with solar. Any major technological breakthroughs that you have achieved on that front and what kind of revenues are you expecting from this aspect of business?

Mr. M.S. Unnikrishnan:

On the solar, we already have one design of a dish available, but we are putting to use first ever Indian manufactured non glass based parabolic trough which is under testing right now, with the government support for the project. It will take an 18 months from now for it to be proven as a technology. Once that is done, then it will become a thing which will take on the hybridization project of Thermax. Revenue numbers are very difficult to predict at this point of time, it is an incubating business. It has very large potential. You have also read about the government support with the National Solar Mission and how much money the government is wanting to commit on that. These are all on paper at this point of time. Ground level how much will come, is a question. If it comes, you should look forward to 2013-14 onwards, solar becoming a fairly large business in India.



Mr. Sameera:

Yes, sir. Thank you very much.

Operator:

Thank you. Next in line we have Mr. Navneet Iyengar from Motilal Oswal. You can go ahead.

Mr. Navneet Iyengar:

Good morning sir.

Mr. M.S. Unnikrishnan:

Hi, good morning.

Mr. Navneet Iyengar:

Sir, just a couple of questions. One was after the JV which sets up its supercritical capacity, what would be the kind of you know the drum capacity which you will have and the Savli plant put together?

Mr. M.S. Unnikrishnan:

Drums are not needed for supercritical. So, drum capacity will only be for subcritical which will remain within Thermax. That is more than sufficient for our main company and even JV's subcritical requirement will be met some day. However, the megawattage capacity that will be creating in the supercritical JV will be 3000 megawatt per annum.

Mr. Navneet Iyengar:

Okay, 3000 megawatt will be the capacity and Savli will be purely subcritical.

Mr. M.S. Unnikrishnan:

And industrial both.

Mr. Navneet Iyengar:

And industrial at 1500, so combined, you will have about 4500 megawatt capacity.

Mr. M.S. Unnikrishnan:

Absolutely, right.

Mr. Navneet Iyengar:

Sir, and the next question was, once the JV gets its couple of supercritical orders, what would be shift in terms of your predictability in terms of raw material costing, product costing, pricing, etc., for a supercritical and what kind of a paradigm shift will have vis-à-vis whatever you have been doing as on date and does it require significant because these orders may not have price variation clauses. So, what is the sensitivity which you see on the project level, affecting your P&L balance sheet?

**Mr. M.S. Unnikrishnan:**

First of all it will be under the JV, not the main company's balance sheet to start with, Second, price needs a lot more of capacity or capability building in people in that particular JV, where we have already got people embedded and started, and they will get trained by B&W. Since it is a joint venture with a partner who is doing it for may be 100 years, 100 and odd years, that is where the knowledge will come from them. Unlike, you know, BHEL where they had the knowledge available for subcritical or transformation from subcritical to supercritical. In our case, from industrial to supercritical, we will need to have the knowledge coming from the partner, that will be coming in. Some of the senior positions in the joint venture will be manned by the partner's people, deputies coming from America, in the phase 1. So, the knowledge transfer and capability transfer will happen in the first one. Second is in terms of creation of subvendors who have got the the capability for, it is a challenge for anybody in India because we are not making supercritical boilers in India. So that is something which we have only started and it will take couple of years for it to be getting built up in the country. See, these are all the issues. One should realize that it is a new technology coming to the country and these are very long gestation projects, so it would take may be a decade - 2010-20 for the entire India to become a supercritical country. That is the way it happened in various other countries. This will happen in the current decade let us say, and we are one of the players in that. So, the pains and pangs will have to be undergone by all of us. Then margins, well if there are good players only in the field and limited number 3 or 4, let me say even in China all the supercritical boiler makers are making money. In India also, all of them will make money. How much money will they make will depend upon how the market is going to pan out. If you have got sufficient money, if our economic growth is going to be supported with a solid foundation and money, certainly all of us will make good money. If not so, well I mean, one has to look at how do we protect our investment. That is the reality.

Operator:

Thank you. Next in line, we have Mr. Nilesh Shetty from Quantum Assess Management. You can go ahead.

Mr. Nilesh Shetty:

Yes, just one clarification sir. I just want to know what caused the other operating income to virtually double wherein our top line did not grow much?

Mr. M.S. Unnikrishnan:

Gopal mentioned about what comprises the other income. Like these are from operations only, the scrap sales, or you know we do keep prudent provisions for AR for doubtful debts inventory etc. We have got some internal provisioning norms. So, even after you are providing it, there are times when we are able to settle with the customers amicably and we do get, because we have been very open, transparent, and positive with the customers. Those are the kind of incomes which come in.

Mr. Nilesh Shetty:

So, is there some large write back in there which we will not require going forward?

Mr. M.S. Unnikrishnan:

Yes, there may be, not very large one. There is nothing one off of the kind.



Mr. Nilesh Shetty:

Okay. And sir, I mean, revenues in the environment segment shot up in the quarter. I mean what is line of sustainable growth we can see going forward in this segment?

Mr. M.S. Unnikrishnan:

Revenues growth for environment should be a stable double digit figure going forward, very stable double digit, unlike energy where there could be spikes which will be resulting because of very large projects coming or not coming.

Mr. Nilesh Shetty:

Okay. And sir, one last question, I mean, previous was, you already mentioned that most of the orders which we have picked up in the downturn were with cutthroat competition. How many of these contracts have been able to execute and how much of the pain is still left with these picked up?

Mr. M.S. Unnikrishnan:

All the orders which got picked up and say may be I would imagine during October-December quarter of 2009 onwards up to last two quarters, let us say were at lower margins only. Half of them would have been executed. Another half are still remaining to be executed, let us say.

Operator:

Thank you. Next in line we have Mr. Kamlesh Kotak from Asian Market Security. You can go ahead,

Mr. Kamlesh Kotak:

Hello.

Mr. M.S. Unnikrishnan:

Yes, Kamlesh.

Mr. Kamlesh Kotak:

Yes sir. Could you withdraw some sense of the tendering that is happening both in subcritical and supercritical at current denture or the orders which are going to be finalized may be over next two to three quarters sir.

**Mr. M.S. Unnikrishnan:**

Subcritical there are not many. There are two or three only going on at this point of time for 300 megawatt to be finalized. The ones which are finalized are already BHEL orders are there and then some Chinese orders. But otherwise, for 300 megawatts there are two to three of them on the anvil. We are participating in two of these.. Supercritical tendering just closed some three months back. There were only two participants for the boiler, that is BHEL and L&T MHI joint venture for the 11 numbers which currently are resting with EGOM - that is Empowered Group of Ministers, that is one. Second tendering is going to be coming for the 800 megawatt. Though they declared in June, the RFQ will come out and prequalification documents are already submitted. My opinion is that it may get finalized some time in the current year because locations are yet to be finalized with the government. We are in touch with the government for that. There is one project going to go on nomination basis between Karnataka Electricity Board and BHEL; BHEL is going to put an equity partnership also. These are the public tenders. Private, there are only discussions, no negotiation going on at this time and we are not party in any case, because our company is yet to be set up. We have only signed the JV

Mr. Kamlesh Kotak:

Okay. And sir, that is it from my side.

Mr. Suhas Hari:

Operator, we will stop, we will just take one last question if at all.

Operator:

Sir, actually there are followup questions. You want me to take those.

Mr. Suhas Hari:

No, I think we will stop the followup questions. We will just tell them that we will take one last question, that is it. One last question and that is it.

Operator:

Sure sir. The last question comes from Ms. Keerthi Dalvi of Enam AM. You can go ahead, madam.

Ms. Keerthi Dalvi:

Thanks sir for taking my question. If you could give that figure for your provision written back in this entire year for FY10 which is a part of our other operating income?

Mr. M.S. Unnikrishnan:

We will not be able to declare that Keerthi as a practice. These are confidential information. We do write back year over year. There is a component of write back in other income is what I mentioned.

Ms. Keerthi Dalvi:

Okay. And sir, last one, was there any kind of forex gain in this quarter or loss?

**Mr. Gopal Mahadevan**

The total Forex gain in the current quarter was I think about 4 to 5 crore. But you must understand that this is actually only timing difference. So that is a notional gain.

Ms. Keerthi Dalvi:

Fair enough sir. Thanks a lot sir.

Operator:

Thank you.

Mr. Suhas Hari:

Yes, you can end it.

Operator:

At this time, there are no further questions from the participants. I would like to hand the floor back to Mr. Suhas Hari for the final remarks. Over to you, sir.

Mr. Suhas Hari:

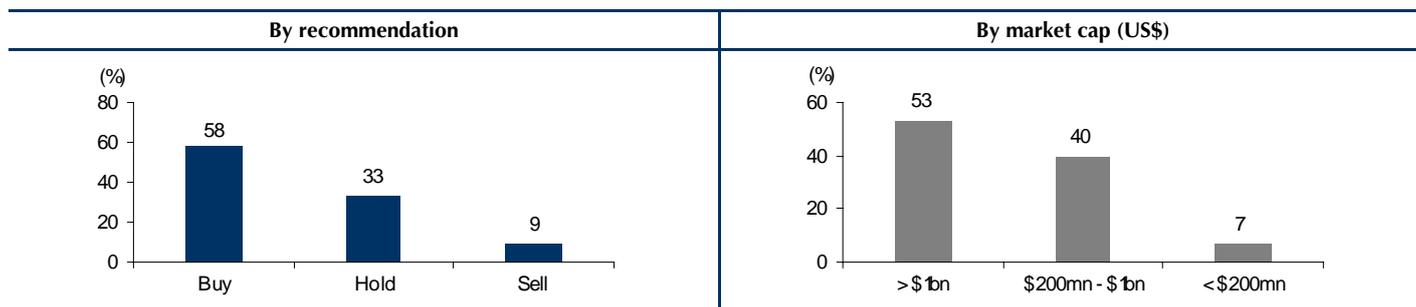
Yes, hi. Thank you. Thanks Mr. Unnikrishnan and Mr. Mahadevan for patiently answering all the questions and in case there are any followup questions I guess you know they can take them off line. Thanks everyone once again for the call on behalf of Religare Capital Markets. Thank you everyone.

Operator:

That does conclude our conference for today. Thank you for participating on Reliance Conference Bridge. You may all disconnect now.



Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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