

Q1FY12 Post Result Conference Call Transcript**Representative:**

Mr. M S Unnikrishnan – Managing Director & CEO
Mr. Gopal Mahadevan – Executive Vice President & CFO

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Operator

Ladies and gentlemen, good morning and welcome to the Q1 FY 12 Results, conference call of Thermax hosted by Prabhudas Lilladher. As a reminder 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 should need any assistance during this conference call, you may signal an Operator by pressing "*" and then "0" on your touchtone telephones. Please note that this conference call is being recorded. Joining us on the call today from Prabhudas Lilladher are Ms. Amisha Vora and Mr. Dilip Bhat, Joint Managing Directors, along with Mr. Kunal Sheth. I would now like to hand the conference over to Mr. Sheth. Thank you, and over to you sir.

Mr. Kunal Sheth - Prabhudas Lilladher

Thank you Farah. I would like to welcome the management of Thermax on the call. From the management we have Mr. M S Unnikrishnan, Managing Director & CEO and Mr. Gopal Mahadevan, Executive Vice President & CFO. Now I would like to request Mr. Unnikrishnan to give us some opening remarks and then we can open the floor for Q&A. Over to you sir.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Thank you Kunal. Good morning to everyone and a very warm welcome. The results are out already. In the fairly depressing Indian markets, Thermax has been able to present a positive result for the first quarter with your support. The quarter showed the revenues of Rs. 1044.4 crore, a 32.2% jump for the company. It is the first time in the history of the company that we have been able to cross Rs. 1,000 crore in the first quarter itself. The consolidated income for the group is at Rs. 1,240 crore in comparison to Rs. 835 crore for the previous year. To give breakup of our revenue, the domestic market has shown a growth of 28.3% and the export revenues has grown by 54.1%. Between Energy and Environment the contribution is 77% and 23% for the current quarter. Our PBT is at Rs. 117 crore for the first quarter as against Rs. 98.8 crore for the previous year same quarter. Our order intake has been Rs. 1444 crore for Thermax Limited. It is 17% lower than previous year same quarter. Previous year same quarter the order booking was Rs. 1731 crore due to a single order worth Rs. 580 crore we had in the power EPC and such an order is missing in the current quarter. If I would keep that aside, every other division of the company has registered marginal to moderate increase in order booking for the first quarter. Order backlog at the end of quarter one on the consolidated basis is Rs. 6,804 crore as against Rs. 6,446 crore as of March end, which is an improvement of approximately Rs. 358 crore. At the quarter ends, we have got an order book of Rs. 5,889 crore as against Rs. 6,330 crore for the June 2010 which is a 7% decline in comparison to the first quarter of the previous year. This is explained from the fact that you had been seeing in the quarter two and quarter three of FY 11 a reduction in order booking. In fact we went all the way down up to Rs. 987 crore in the Q3 of last year. It is improving from there to Rs. 1,270 crore in the Q4 and the current quarter Rs. 1444 crore. The sectors which have contributed to the current quarter's order booking are ferrous metal contributed to 34%, Textile at 22.5%, Cement at 12%, Power at 9%, Sugar at 5%, Mining at 4.5% and Food processing at 4%. I'm giving you the details of many more segments to indicate that there are some sectors performing okay and some of them are not performing okay like Power, which normally used to contribute around 18 - 20%, has come down to 9%. But as you have seen Sugar, Mining and the Food processing taking a prominent position of 4% , which is very heartening for the company to be getting

benefitted in order intake from multiple segments than that being limited to two and three segments. Noteworthy order booking for the company for the last quarter is that we have picked up an order for EPC for three numbers 32 megawatt from of textile fiber manufacturing company and it's an indication that despite the depressing situation in the market there are companies setting up captive power plants of moderate and larger size also. Other than that we had announced couple of innovation projects for the company in the last quarter. We spoke about Triple Effect absorption chiller. For the first time anywhere in the world, designed from the first principle by the technology team of Thermax was installed along with the solar farm for air conditioning in the National Solar Research Centre in Gurgaon in Delhi. Many more developments are underway in the organization which should be fortifying into commercially viable products and projects in the next 18 to 24 months period. Not taking much of time from all of you I'll hand it over to Kunal now to take on the questions from participants.

Mr. Kunal Sheth - Prabhudas Lilladher

Farah can we please start the Q&A.

Operator

Sure. Ladies and gentlemen, we will now begin with question and answer session. At this time if you would like to ask a question you may enter "*" followed by "1" on your touchtone telephone. If you wish to withdraw your question from the queue you may enter "*" followed by "2". Participants are requested to use only handsets while asking questions. Participants are also requested to limit their questions to two per participants. Our first question is from the line of Kirti Dalvi from Enam AMC. Please go ahead.

Kirti Dalvi – Enam AMC

Yeah, few questions from my side. First one is on the annual report in the management commentary where we are mentioning that the order inflows to be faster and higher to maintain the growth trajectory what we have seen it in the past. What is this trajectory which we are anticipating and what kind of order inflows to sustain that trajectory we need for the current year. Again qualitative explanation would also do.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

You know Kirti, quantitative guidance we don't give however qualitative certainly I will give you. What we meant by that is if the order intake were to be slowing down and retarding in comparison to the previous year, then having a growth projection for the following year will be difficult. But the current quantum of orders on hand and with the normal book bill it is practical for a company like us to expect growth from the current year, however the same may not be what we have shown in the first quarter but certainly a moderate growth can be expected. In case economy will start acceleration back from the current deceleration, our expectations is that our order booking should be ahead of invoicing. Which we could make it happen in the current quarter. You have seen the reversal of the trend that at a revenue recognition of Rs. 1,044 crore versus order booking of Rs. 1,444 crore which means that Rs. 400 crore is added onto the order carry forward in the current quarter. So our order book built up is expected for the next three quarters in the current year which is the qualitative aspect which I would like to put across.

Kirti Dalvi – Enam AMC

Sir, you also mentioned that there is certain strategic orders which we must have accepted at lower margins; are these orders in the process of execution or already got executed sir?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

This is under execution.

Kirti Dalvi – Enam AMC

And this year probably we will finish those orders?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Most of them will be over in the current year.

Kirti Dalvi – Enam AMC

Okay, Sir the second one is, if you could give little bit highlight on Danstoker numbers for the current quarter.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Separately we don't indicate it, as it's a subsidiary, but let me give you that the order booking has been good after we took over the company from October last year. In the nine months period, despite the depressing conditions prevailing in Europe, we have been able to have an accretion of order booking in double digits. So that's the change, the revenue recognition of the company is also in the same range and the profitability is retained and maintained in terms of percentage.

Kirti Dalvi – Enam AMC

Okay do you foresee the same profitability going forward as well?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Yeah. We are very clear about the fact that there will be some onetime expenses which we would be incurring when we take over a company. This is because accounting practice that we follow is different and very strong in India. We are one of the better ones. Gopal and the team member have been maintaining prudence in accounting and that is getting installed in that company. This includes provisioning for various kinds of cost, various things like contingencies all that may have a temporary impact but those are all remaining in the balance sheet only so we are very confident that it will grow in profitability.

Kirti Dalvi – Enam AMC

The last one, again if you could give break-up of your order inflow as well as order book in terms of your energy and environment.

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

For Thermax Limited Energy segment the order inflow is of Rs. 1117 crore and environment is of Rs. 327 crore

Kirti Dalvi – Enam AMC

How much was the energy sir?

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

Energy is of Rs. 1,117 crore and environment is of Rs. 327 crore and order balance order book as we call it is Rs. 4,805 crore for energy and Rs. 1084 crore for environment.

Kirti Dalvi – Enam AMC

And sir for the consolidated as well?

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer.

Yeah, for the consolidated the order inflows is Rs. 1353 crore and Rs. 335 crore energy and environment respectively and order balance is Rs. 5,714 crore and Rs. 1,090 crore.

Kirti Dalvi – Enam AMC

And sir what's the CapEx we have planned for FY 12.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

What we'll be sanctioning and what we will be spending is the way you have to ask, There are no major new CapEx getting sanctioned in the current year. However what we have committed in the previous year, like our investment into the TBW joint venture, approximately Rs. 200 crore is the total investment from Thermax of which may be Rs. 50 crore would have been already spent . And upto June, we'll be spending a majority of the balance because the plant has to be up and running by September next year so that will be one. Second, we have expansion plans for chemical plant for performance chemicals, paper chemicals and one more new item that we are getting into so that's where around Rs. 30 crore is to be expended in the Jhagadia plant and Rs. 25 to 30 crore will be spent in our plant in Solapur for the air pollution control. There are some internal CapEx for our existing factories, plus IT improvement so all put together may be Rs. 50 to 55 crore will be spent in the current year.

Kirti Dalvi – Enam AMC

Thanks sir. Thank you and wish you good luck.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Thank you.

Operator

Thank you. Participants are requested to please limit their questions to two per participants. The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal – Sundaram Mutual Fund.

Sir my first question is on what is the percentage of EPC sales for the current quarter versus products? How is it compared to the last quarter for the last year?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

I will give you the numbers that we have, last year first quarter versus current year first quarter, It was Rs. 180 crore for the last year first quarter and the current year it is Rs. 316 crore.

Madan Gopal – Sundaram Mutual Fund.

Ok so it has increased so.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

It has essentially gone up in the current year and so that is the reason why margins are not in comparison and when you compare the margins last year first quarter versus current year first quarter.

Madan Gopal – Sundaram Mutual Fund.

So the second question is on the subsidiary like we have seen for the first time the subsidiary profit was close to RS. 5 crore which subsidiary is it and can you give brief outlook on how to look for the full year?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Barring our Chinese subsidiary, which is the new company and it will be soon reaching full run up, all subsidiaries have made the profit in the current quarter. That is the change that we have seen in the company, whether it is Thermax Instrumentation, Thermax Engineering Construction, Thermax Europe Limited, Thermax Incorporated America and Danstoker all of them have made profits in the first quarter.

Madan Gopal – Sundaram Mutual Fund.

Ok so we have an order book of roughly Rs. 1000 crore excluding the standalone so what kind of margins can we expect for the end execution that we can expect from Rs. 1000 crore order book?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Well it will follow the same pattern as the parent company but the profits won't be at the same percentage maybe you can expect the subsidiaries to reaching a critical mark.

Madan Gopal – Sundaram Mutual Fund.

So atleast this year they would make some 4 to 5% margin something like that?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

We are heading towards that; let's hope that. Because we say that subsidiaries are like babies. The babies are coming out of the shell, some of them have reached a size where they will make a 5% profit, some like China will still be continuing to be making negative for this year and maybe part of next year. Our Thermax Europe Limited and Thermax Incorporated are marketing and servicing subsidiaries so it's a matter of how much profit can you afford to be giving them because we are already booking part of

their profit in the parent company. Then comes the Thermax Engineering Construction company and Thermax Instrumentation companies which are fundamentally doing the construction work for our boilers and EPC job. EPC profits, you know how much is the percentage, so put them together our aim is to ensure that they don't drain anything from the parent company and start accrediting profit. And in coming three to four years range they will reach upto double digit that's what we are working currently. But I will be very happy to say that in the current quarter we have been able to be positive in all of them and I am sure Gopal and Team who are managing the subsidiaries directly with the management committee should ensure that quarter over quarter we are able to deliver same numbers.

Madan Gopal – Sundaram Mutual Fund.

Ok. Thanks sir, thanks for taking my question.

Operator

Thank you. The next question is from the line of Manish Chougule from Bajaj Allianz. Please go ahead.

Manish Chougule – Bajaj Allianz

Hello.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Please go ahead.

Manish Chougule – Bajaj Allianz

Thank you. Sir can you let me know the status of few large orders that we were executing to start with the sale orders sir when will these be executed? When these will end by what time?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

The order is at the peak of its execution period at this point in time and good part of the revenue is already recognized by the current quarter that we are discussing and it will be over in the current year preferably by December quarter it should be over, then you will have little over maybe the commissioning you know being a government organization they have to be ready with their inputs also to commission that. So as far as Thermax balance sheet is concerned that will be over in the current year. Before you ask me I might tell you Meenakshi is the next larger order and is again at the peak of revenue recognition. We would have recognized almost 65 to 70% and the balance is going on. We have to complete the trial steaming by December. So March should be the commission period for Meenakshi, and we might take a couple of months here and there. We will be certainly through with that in the current year itself or maybe next year beginning. One of the order of Rs. 580 crore that we picked up from OMPL that is for the refinery, during last year first quarter, we have already a year down the line. 75 - 80% is actually over in the current year. These are the larger orders that we have on the balance sheet and the other one in the current year first quarter of Rs. 401 crore from one of the fiber company in India; that has just started only; their revenue recognition will go majority into the next year.

Manish Chougule – Bajaj Allianz

And so I assume that the Essar order that we are completely done with?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

It is already over in the first quarter.

Manish Chougule – Bajaj Allianz

Ok. Thank you very much sir.

Operator

Thank you. Participants with questions may press “*” followed by “1”. The next question is from the line of Venugopal Garre from Credit Suisse. Please go ahead.

Venugopal Garre – Credit Suisse

Sir firstly if you could give us some qualitative flavor of the orders in this quarter even if you have highlight the segments which you could be broadly? Any large orders you know which you would want to highlight?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Vishal will give you the percentage and then I will come to the balance later.

Venugopal Garre – Credit Suisse

So we have received around 34% from the ferrous metal side, textiles because of the order from the large viscous manufacturing company has raised to 22.5%, Cement is at 12%, Power 9% which includes captive power plants, Sugar is at 5%, mining is at 4.5% and food processing mainly for packaged heating division has contributed 4% in the order book.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Is it okay Venu or do you want something more?

Venugopal Garre – Credit Suisse

Yeah in terms of any large orders in this or these are I mean more so from EPC side or from the water side if you can highlight anything that you have won?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

See in the power side noteworthy two orders are the ones which we have declared to the Stock Exchanges, Rs. 401 crore from the viscous fiber plant of one of the major Indian groups, second we had a breakthrough from the government owned steel company, for a BTG for a 120 MW and this is an area where we are pursuing enquiries aggressively. Because always people complaint about turbines so we have partners for turbines; this is an order which we have picked up with partnership with Siemens. Turbines is from Siemens and the boilers are from Thermax. Blast furnace gas fired boilers 2 numbers are being supplied by Thermax in the segment which was the citadel of BHEL in the earlier part and Chinese are the only companies in the whole world available who can supply this kind of waste heat recovery boilers. So we have got an order for these, Rs. 350 odd crore. The steel industry growth is going to

happen whether today or tomorrow so temporarily you may have a slackening happening because all of us are worried about. So otherwise steel is going to be the prime investment area in the country for the next three to four years. So blast furnace based boilers will be going to have a major say in that, and hence that is for the next area. Next thing to give you is our water business side we have had fairly good orders booking in the current quarter almost you know a 20 plus percentage improvement in the order booking compared to the last year first quarter and the major changes are happening is that almost one-third of the orders that we book in the water business is for recycling of the waste water. So whatever we were harnessing around that you can do a treatment of water or you can do an effluent treatment by anybody but recycling effluent and recovery of water resources that's for reuse is our cup of tea where you need technology. I am only hoping that this trend continues with the water starved country like India. So that is another qualitative aspect which I can talk about. Then our heating business which fundamentally follows what's happening to the MSME industry, we have had an improvement in the order booking though marginal; marginal when I say it's almost double digit equivalent. It is across the country we can see people are investing in the food sector. In the food industry processing industry good investment is being visible to us despite all the difficulties faced by most of them.

Venugopal Garre – Credit Suisse

And sir my second question is more with respect to your business plan in the LPP segment. Now since the time that's almost like quite a few quarters since you had conceptualized your plan and you know went ahead with the B&W JV since then we have seen the pricing also in the market decline this you know quite a few orders we have seen pricing being much lower than what it used to be in the past. Now does that in any way deter you in terms of going ahead with your business plan or is there any change in how you are looking ahead in the market going ahead?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

See when the price comes down it is the indication that people who are making humongous profit are reducing their profit expectations and the second indication is that suppliers who had been making more profits have reduced their components prices because efficiency improvement cannot bring down the prices to that level. So my expectation is for the LPP portion, there is sub-critical power plants for which we will be doing EPC. There we ourselves are seeing prices coming down from our supplier side per megawatt basis and hence we should be able to be competitive; Thermax certainly will not be the alone in the country. I am sure about that there are customers who are going to be buying so much. But last quarter there have not been any substantial order finalization for an EPC which happened in the LPP side. I am not aware of anything barring one order which is concluded on the Chinese by one of the companies in India but there are no Indian orders finalized in the last quarter for the LPP side. Then comes super critical which we are going to start bidding, maybe in a short while from now because the activities related to factory creation and the technology transfer are all going on very well and we are also pre-qualified for the 9x800 with NTPC. It's a short term opinion that everybody is concerned. In the Indian market order finalization from the power industries has come down but I would expect by the time we are ready by next year things should improve.

Operator

Thank you. The next question is from the line of Nainesh Rajani from Tata Mutual Fund. Please go ahead.

Nainesh Rajani – Tata Mutual Fund

Good morning sir. A couple of questions from my end. First just wanted to understand order inflow for the full year and what you anticipate for the full year when you speak to the various industries what is the sense that you are getting sir at this point in time?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

It's a mixed reaction at this point in time especially for those who are planning for off balance sheet funded projects where they need to be taking fairly large credit. They are all delayed because they want to know as to how long will this interest rate hike continue; they are all expecting that it has already peaked and it has to come down so they all are waiting for the signatures to be done at the better rate than what is currently prevailing in the market, that is for the off balance sheet funded projects. On the on-balance sheet ground field improvement, line balancing expansion projects I don't find anyone knows an answer but people will go through number of sessions of negotiations and would expect a lot more from the suppliers at this point in time. See in the market despite a little negative sentiments prevailing the commodity prices haven't weakened, if you look at steel prices, aluminum prices or even copper prices one has not seen weakening or a reduction in substantial nature. So there is anticipation in the market that commodity prices may weaken. I am not telling it is going to weaken but it may weaken. But expectation is that some decision making delay in that. But anybody who has got cash flow of positive balance sheet available, they are all going with expansion program because whatever capital purchase they make in the current year they will be factoring in the capacity which is commercially realizable. So everybody is aware of the fact that Indian market is going to grow, demand is going to grow in fact demand is not coming down at all in any areas consumption but it is only increasing. But the wiser people or the bolder people are taking decision. That is why we are having order booking happening even in these market conditions.

Nainesh Rajani – Tata Mutual Fund

So by the end of the year do you expect that things could atleast the order flow of not outgrows last year's order inflows number could atleast be equal to that if not significantly lower than last year?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

For a company like us I can predict consistency for my service business I can predict for my small capacities but turnkey orders if one were to come or not to come, can make a difference in that the overall order booking. That's why otherwise, it's not that we are shying away from that. We are aggressive in the market to ensure that if there are orders getting finalized then fine I will ensure that the market share is maintained.

Nainesh Rajani – Tata Mutual Fund

All right sir second just wanted to understand your large EPC order that we have been expecting to get one over the last sometime of actually what is the visibility on a large utility order that our company could get sir?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Currently it is not very visible because some of the projects which are on anvil are also not moving ahead because in the EPC, area for IPP, the issue related with land acquisition, the mine clearance for coal connectivity, coal pricing and the credit availability. Currently, there is nothing going right for the industry. We are expecting the government to take a lead into that otherwise we will be in trouble tomorrow. So unless that improves, I mean I have not come across anybody having booked any substantial large orders of the type that you would take, though couple of orders were taken by Chinese or maybe by BHEL or may be one or two orders by Europe, we haven't come across any sub critical range orders that what we foresee. I don't want to say that we have lost the one

which we were anticipating, we were unable to take that order, otherwise nothing has gone in the recent past. That's the reason so let's wait and watch. See there are many companies who have programs and teams of people working for sub critical range EPCs. I am talking about customers' developments but they are all going very slow currently. When they started their project plan the interest prevailing in the country were 9.75% and in one year it has gone to 13.75% and most of them will not be able to get 13.75% they may have to agree to 14.5 to 15%. At 15% interest rate and current coal pricing, IPPs aren't getting signed at very larger values and higher power prices are virtually collapsed in the last year. Who will want to put their project at this situation and say that ok I will go ahead with it; so there is bit of a difficulty at this point of time; it is nothing to do with our ability to get an order, it is more to do with current economic situation prevailing in the power industry in the country.

Nainesh Rajani – Tata Mutual Fund

All right sir so then can we safely assume that let's forget this year and maybe you know couple of years down the line maybe two three years once you know the industry actually stabilizes do we see ourselves being a not a significant in terms of sizeable player in the larger utility or boiler and utility player market sir?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

100%. We are putting Rs. 850 crore for setting up a factory, one of highest for the size of our company for a joint venture manufacturing facility.

Nainesh Rajani – Tata Mutual Fund

So it is just matter of time when we graduate from you know being a small power order you know our order book you know was not significantly depended on small projects, will in a couple of years you know we would actually graduate to a higher level we can safely assume that to happen?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

100%.

Operator

Thank you. The next question is from the line of Deepal Delivala from Citi. Please go ahead.

Deepal Delivala – Citi

Good morning sir I joined the call late so if you could just give a brief outlook on your inflow expectations for the current year and the revenue growth guidance for the next year in case what do you see what most likely scenario that could pan out?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Order inflows, for that I have already spoken at length, about the order inflow so what we would do is that we will give you details later, so that we will save the time. But let me tell you that order inflows have improved in comparison to previous year, previous quarter. From previous two quarters, there is a rise of Rs. 983 crore going to Rs. 1200 crore to say Rs. 1444 crore in the current quarter. But if you would compare that with previous year first quarter, we are lower say by substantial numbers around Rs. 300 crore that is why we are lower. But then last year first quarter we had a chunky order of Rs. 580 crore; infact our EPC booking of Rs.

890 crore in the first quarter last year as it is current year maybe some Rs. 300 odd crore because Rs. 400 crore order which we declared, on that part is booked in our subsidiary for the construction portion and the equipment supply portion is Rs. 360 crore only. So there is already a gap of Rs. 500 crore over there. So if I would keep it at that, in the conventional group order booking of Thermax many of them have performed better and all of them have performed better marginally or may be moderately better is what I mentioned about and second question that you asked about what is the guidance for?

Deepal Delivala – Citi

Sir what is the outlook for the ongoing quarter because you know you have just mentioned about the industry waiting for the peaking of or rather the reduction in the interest rates or actually the peaking and the issues of credit availability for expansion, so I mean what is the outlook that you see from the industry perspective, that's number one and are there any large projects that we are actively considering at this point in time where atleast you could see some kind of result in some of the next couple of quarters?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Point number one is that, see orders are getting finalized, it's not like I mean no orders are getting finalized. There are orders getting finalized, there are enquiries also but the people who take the bolder decisions to give us advance to control the order are not as much as that was prevailing maybe one year ago. Then there was a high positivism in the market, I don't see that much in the market currently but the people making the decisions are the ones who are oblivious or maybe not worried about what would happen in the short term because everybody is aware of the fact that the income levels in the country is going up, it is growing up in the order of 7% plus percentage GDP which is the sweetness for anybody to talk about and the person will only say that 7% GDP growth they have dreamed their life for that I mean for any expansion so that is also there. So consumption is going up, demand is going up, with all the other negatives there are investors, certain investors, who are going ahead with the finalizations, a good number of them are seen in the consumer goods durable area, chemicals, food and food processing. Despite this may be the cement is showing a major decline in revenue as well as maybe the profitability in the last quarter but I still have enquiries from the cement industry. I mean whether they conclude in the current or the next two to three quarters I can't say currently? Similarly, steel there is an anticipated reduction in price, all of us are expecting that the steel prices will come down but still there are people who are expanding in the steel capacity, so it's a mixed reaction. You cannot take a generic theory that India is got to be retarded or I would give you right word in English which is moderation at this time;

Operator

Thank you. The next question is from the line of Srinivas Rao from HDFC Mutual Fund. Please go ahead.

Srinivas Rao – HDFC Mutual Fund

Hello sir. Congrats on good set of numbers.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Thank you.

Srinivas Rao – HDFC Mutual Fund

Sir my question is on the order inflow outlook for the company. You have touched upon the overall outlook, if you can also talk about you know captive power market set in 250 MW how is the market doing and how is Thermax market share both in EPC and standalone boiler market?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

In the last one quarter what you seen is there are enquiries in domestic market for captive power but the order finalizations are lower than the previous year. If I am going to compare this for the pure heating where people do buy large capacity boiler for process heating. In process heating I have not seen any retardation in order finalization, where in captive segment there is retardation why? Because there are also suspicion as to if the demand does not pick up probably, the power situation will improve or all this kind of number of things will happen. Earlier you know what my customers were doing. Maybe if you are going back to two to three quarters a steel company or a chemical company needing maybe 20MW of power will go for 2x18 and make it 36 or 2x20 and make it 40 MW now what it does with the extra capacity is during the peak season the summer season he will sell merchant power at maybe at Rs. 10 or Rs. 11 and earn profits out of that; currently they are not being taken up and considered as a risky decision by many of my current customers; if he needs 25 MW of power he will go with 25 only. So that's the phenomenon which I am witnessing at this point in time. Is there reduction in order enquiry inflows? No, enquiries are there even today, in fact we are busy discussing with people but now decisions are getting delayed that is the only current condition. Next what outlook can I predict on that? My opinion on that is nothing is going to change to a positive direction for the next two quarters atleast because I would believe that one to two more increases in the interest rates are expected, 27 of July or maybe tomorrow they are expecting it to be increased by 25 basis points. And maybe if the inflation doesn't come down further they will increase to another 25 to 50 basis points. Beyond that nobody will want banks; banks will have to go alone and I am sure they can shut their shops, nobody is going to borrow money from there afterwards if they are going to continue with that. So quarter after that there will be severity prevailing and it will become so attractive for foreign funds to be brining because with the 14 to 15.5% interest rates prevailing domestically even with the spread of foreign currency to be taken and for it to be taken and for that thing to be taken you can still get foreign funds then I am sure lot of people are going to go to look at India as a market to bring in money. And that should make the project start picking up from December onwards. So that is the projections about the captive power segment. On the standalone boilers it follows exactly the same principle I told about EPC because it is a captive power plant or the power generation plant where some decide to go for you know buying packages separately but somebody would go for buying it as an EPC so it is our prediction as far as this. But it doesn't mean that Thermax won't have order improvement because we are working in such a way that India is not the only market we can currently still we are having enquiries from outside India also.

Srinivas Rao – HDFC Mutual Fund

So that is my next question sir I wanted to also know from overseas what's your outlook on overseas business?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Overseas there are enquiries currently. In the last quarter for the boilers, there were in fact orders picked up from even Europe for EPC companies. Oil companies are expanding all through the continents across the group. We have fairly good number of enquiries on finalization platform but of course international orders are not as easy as it was two or three years back. Because the globe is undergoing a difficulty so all competition including Korean will be willing to give an Indian price today, Japanese will be willing to give an Indian price today, Chinese of course you don't have to say what price they will quote they want orders only. So then also competition in the international market is not an easy task to manage for everybody. But there are some exclusive clubs available

with oil industries or some EPC through a lot of pre-qualification, Thermax is one of the qualified companies for doing EPC plus boiler and heater supplies for various parts Middle East and South East Asia and even in couple of European enquiries we have.

Srinivas Rao – HDFC Mutual Fund

Sir coming back to domestic market, are we seeing Thermax market share moving up or down in the last 12 months sir?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

It had moved very high in the last one quarter that's why many of my competitors don't have the same booking as I have in the last quarter. Depending upon which business are we in say may be in water business of mine which had a barely 10 or 11% market share, almost had 20% share in the last quarter. My boilers and heater business have touched almost a 50% market share in the last quarter from the early 30s. EPC there weren't too many orders finalized and whatever was finalized was one we picked up. There were couples of orders which we lost also. I can't say more on that, those were the ones which were not commercially ours. Because we need an exit to be given by customer and our terms of payments are normally little above the market level. Otherwise our market share has gone up. In only that way we can have this kind of booking otherwise we would have reported lower numbers.

Srinivas Rao – HDFC Mutual Fund

Ok and so any updates on Thermax's CFBC business?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

CFBC?

Srinivas Rao – HDFC Mutual Fund

Yeah

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

CFBC has done well in the last quarter we had good numbers of orders picked up.

Srinivas Rao – HDFC Mutual Fund

And on the O&M business sir?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

If luck prevails, O&M billing should touch closer to triple digits next year. I am heading for a triple digit billing. We have picked up a couple of more O&M orders in the captive segment.

Srinivas Rao – HDFC Mutual Fund

What will be your cumulative capacity under O&M sir now?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

635 MW is what we are currently running and we have got another 200 MW started.

Srinivas Rao – HDFC Mutual Fund

Ok great sir and all the best.

Operator

Thank you. The next question is from the line of Pankaj Sharman from UBS Securities. Please go ahead.

Pankaj Sharman - UBS Securities

Good morning sir. Sir two questions, one is on the JV which you have with Babcock and Wilcox supposed to start delivering and supposed to get commissioned in September 2012 so are we on track for that and also by when we should start seeing revenue recognition from that JV and the order from probably the next quarter or next to next quarter you start booking orders from their facility?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

It's going on time. There is nothing perceptible to be reported, I mean delay or so. Work is going on very well. We already have got the people on board, the technology transfer has already happened for both the 660 and 800 MW. Bids are under preparation for NTPC; that's the major bid that we are putting in. Discussions are going on with NTPC at this point of time for typical clarifications. Other than that we need to be moving ahead with BTG offering along with Toshiba which you would have read in newspapers that B&W has got a global MoU signed with Toshiba for working together for power plant and so Toshiba has got their joint venture in India with JSW for making turbines. So we will be ready for BTG on consortium basis by the end of current year. We are now starting prospects in this particular area also. But to be precise there aren't any substantial accelerated movement visible in the market currently on the super critical area or newer projects except in the one which we are already known to all of you. So we will start bidding for private companies in the serious manner for current year Q3 onwards and we should if luck prevails and if things are ok, expect orders in the current year towards the end.

Pankaj Sharman - UBS Securities

Ok and sir delivery should start may be FY'14 because next year FY'13 half you would complete the commissioning and FY'14 onwards we should see delivery from that facility is that assumption correct?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

We can deliver also from FY13 itself but subject to be getting the orders. Because normal time between the order received and revenue recognition is around 10 to 12 months period. And prior to that also we can have, say if we take an order on a particular day for a super critical boiler for such 2 numbers, you will start revenue recognition from fourth month onwards, engineering will be getting billed in the first maybe second or third quarter onwards and the structural supplies will start maybe a quarter prior to your pressure parts going from the factory. So you can have a say trickling of income coming from maybe a six months onwards. It will start peaking by maybe 18 months to 24 months to 30 months that's the way it is shown.

Pankaj Sharman - UBS Securities

Ok great sir, Thank you very much.

Operator

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

Pranav Gokhale – Religare Asset Management

Good morning sir. Congrats on good set of numbers. Hello?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Thank you.

Pranav Gokhale – Religare Asset Management

Yeah sir just question on the water business, do you target the water business only for the industrial portion or are you looking at the municipality and the states also for the water business?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

We have three specific areas in the water business which are defined as performance units and run by individual General Manager reporting to VP who is the head of the business. First one is the standard product group which will be supplying pre-assembled filter, RO plants solutions, varying in the value of 5 lakh minimum going all the way maybe upto 1 crore rupees. The size of this PU maybe of Rs. 100 crore in the current year in terms of booking and revenues. Second is our industrial product group where we specialize little on technology and not on a very ordinary water treatment plant. I would say we would not go for municipal water treatment we would certainly go for high quality water delivery from normal intake of water from river or a sea where we supply RO Reverse Osmosis including sewage water recycling all that we do. So that is major area, frankly speaking and third one is the municipal projects where we only do the sewage treatment plant using a bio reactor technology. We have got two types of reactors. One is the Fluidized Aerobic Bio Reactor, it's the patented technology of Thermax; second is which we started last year is Sequencing Batch Reactor. These two are specialized projects which we do supply. In this area also we have not had any substantial order last year also but we are expecting some good orders in the current year. That's the thing about the Thermax water business.

Pranav Gokhale – Religare Asset Management

But this is only related to your earlier statement there is no water treatment making it potable or making it more in terms of mud like desalination or something like that?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

We supplied the first ever desalination plant of this country way back in 1995 for Nirma a 4000 meter cube per day capacity plant designed and maintained by us for some number of years; so the water that you get from that is better than what you need to be drinking quality water so that we do. But what we do is the reverse RO based plant not the thermal desalination based plants.

Pranav Gokhale – Religare Asset Management

So in terms of pre-qualification and other things there is no particular hindrance because RO based; you can go ahead with it.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Obviously with RO based we can go ahead with that.

Pranav Gokhale – Religare Asset Management

My second question is once you I mean once you reach a particular mark this is more in terms of the long term considering the cyclicity nature of the business which I have also touched upon in the annual report how do you really look at you know growing on in a reasonable scenario say two years or three years down the line if you can give a particular scale?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

We already have a clear cut plan for growing the company from a billion to two billion. We have the path really cut for it. A part of that is going to be in the current business and current locations. We are exporting our products currently to different countries but I would like to inform you that inorganic path is also being conceived in that. You have also seen a major JV being commissioned that is TBW, which when it is grown fully, a 3000 MW or even if you are able to maintain at 2500 MW per annum you are talking of Rs. 3000 crore to come from that plant which we are expecting will happen. We have embarked upon couple of new areas in solar, you will hear from us further also from Solar, that's an area of concentration for the company. So in the short term growth is coming from the existing business only and from medium to long term growth are coming from the new market and new businesses that we are currently creating.

Pranav Gokhale – Religare Asset Management

So like new something like a solar will it be in terms of size we will be able to actually take care of whatever your historical growth is or whatever you envisage over the next three four years to grow?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

It is in a hybrid condition say what will happen is solar will also be used as the vehicle for growing the current business. Currently the fuel used for our boilers, chillers equivalent are oil, gas, coal biomass. When you replace for hybridized solar along with that, solar is going to be viable more importantly. Unless people like us i.e. Thermax kind of a company who will get into the business it will not become viable also. So we are getting into that and the solar field will be added onto the boiler and then to the chiller. So then the cost differential or the input differential will be say for a classical boiler which is worth say may be 100 units for the Rs. 100 crore or Rs. 100 lakh or whatever or Rs. 100 equivalent of a boiler the solar input will be equivalent to the 2.5 times. So whenever you will sell a Rs. 100 worth of boiler you will be able to sell Rs. 200 worth of solar with that. So it will be lifting up even much larger numbers when you hybridize a part of our existing boiler or chiller customers. This is already proved in very low solar intense countries like Germany, where if you will look at couple of companies I am not naming anyone of those which are in the heating business because they need more of heating and less cooling, their turnover is multiplied on account of solar input going along with that.

Pranav Gokhale – Religare Asset Management

Sir but then will it be more of a discretionary spend or this solar will be non-discretionary spend for the, from the point of view of consumer?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Currently, discretionary on account of the fact that only those who have got a green commitment will buy the solar which is not viable. But when an inflexion point is going to be reaching, because if you believe that natural resources are limited in the world whether it is oil, coal or gas and that will be driving the prices up for energy whether it is crude petroleum or coal or equivalent of that. My prediction is that five year down the line crude oil will be \$200 and the equivalent price of coal is going to be \$180 to \$200 at that which means electricity prices which people have to pay will touch Rs. 5 to 6. The premise that I am currently sitting in and you sitting in Bombay is already paying Rs. 7 to 8 per unit of electricity whereas at Rs. 10.50 solar is viable, so five years down the line all of us will be paying for electricity at the range of Rs. 10 to 11. And the solar developed cost should be coming down to single digit. At that point of time there will be viability available. So those who are entering into the business currently because this is a knowledge runs business, this is not something that you can just enter into tomorrow. Companies like us should have I mean we are expecting that we should be able to play a major role in that and in fact it is not only electricity. In a country like India you will be needing more cooling because approximately 35 to 40% of the electricity we are going to be generating is going to be utilized for air conditioning because we are a hot country, becoming hotter and for people to kind of I mean survive and work and live we may be needing air conditioning in the country. And we have our products available absorption chillers will see better days in the future which we have been holding on for the past 18 to 20 years. So we see better days coming in the future because we are a cooling market and we will be creating market in India.

Pranav Gokhale – Religare Asset Management

So with all these new businesses coming in will your capital efficiency remain the same or do you expect a larger share of your capital employed in these new businesses which may not be that capital efficient as your current business stream?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

As fully the business we are entering are asset light as far as the capital investment is concerned. So we should be able to maintain the ratios. But we also want to use capital because see capital rights have got dependency on intellectual capital so there is nothing in the world cannot be capitalized. Either physical capital or intellectual capital, so currently we have got a high intellectual capital which none of us are valuing. The day when it comes, intellectual capital as evaluation my rest of the valuation of net worth will be brushed by the intellectual capital owned by the company. So it is with the talents flight and talent limitation that is going to happen in the country, safety demand we should be getting into due risk by capital intensive investment also with the business. So Gopal and I have worked out on multiple plans also, which will be involving and we will be investing money to securitize the future of the company. This will be the revenue side of the business where we have started in the small way. With the steam on hire which is small subsidiary which is thankfully when somebody asks the question to are you making money, this small baby subsidiary has also made a positive profit last year. So we want to invest a lot more into that. There the ratio of bottom line to top line will be 1:1 let me say that sorry my apologies asset to turnover ratio will be 1:1 whereas in Thermax currently with a total capital employed of Rs. 1000 odd crore we are able to see a billion dollar coming. We want to do that because see it is not very same because whatever the barriers we'll be creating you can also create investment as a barrier for competition to come in.

Pranav Gokhale – Religare Asset Management

Ok but on the financial perspective do you see incremental RoCs or RoEs going for I mean going lower or trending lower with more of EPC business coming in or with more of these long term or large power sector projects coming in?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Our expectation is RoC should be improving for parent company and the money generated for that has got to be invested for the future growth in term of inorganic and revenue side of the business. That's what we are intending to do.

Pranav Gokhale – Religare Asset Management

Sure. Thank you sir.

Operator

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

Sanjeev Zarbade – Kotak Securities

Yes sir. Thank you for taking my question. Sir basically just wanted to get an idea of about the revenue growth which creditably was very strong was it because of some you know short cycled orders which were which directly you know flowed through the revenue without much you know showing an impact on the order backlog?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Well your question can be answered indirectly Sanjeev, expecting the same growth repeating for the next three quarters in the current year is it a practicality what you are asking indirectly? So there is a chance for that you are right. We will not be able to maintaining that as a percentage of growth for the current year. I will atleast try for it; if the economic situation prevailing in the country and in the globe is very conducive. So since it is not so great as this point of time. I don't think it is flip at this point of time we had orders available and which had to be executed to the customer.

Sanjeev Zarbade – Kotak Securities

And sir we have indicated that in order intake the power was 9% of the overall mix but we have a captive power order of Rs. 400 odd crore so is that included in the power or it's in textile?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

It's which segment has given the order. When we say power it's an order coming from power industry so this has come from the viscous fiber or a fiber equivalent which will go in the textile segment. In case of power, it will be a wrong thing to do because where do you need that equipment, it will be used into the textile industry.

Sanjeev Zarbade – Kotak Securities

Ok and sir in the annual report we have a loss at subsidiary level of Rs. 9 crore in TBW Energy Systems so that is basically recurring or?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

It's an investment done because see you have a company formed about 90 people working for an organization I am sure the burnout rate will be there you will see bigger number negatives for the next two or three years' time till that the time we will reach the targeted turnover.

Sanjeev Zarbade – Kotak Securities

Ok sir. Thank you. And all the best for the future.

Operator

Thank you. The next question is from the line of Sanjay Doshi from Reliance Mutual Fund. Please go ahead.

Sanjay Doshi – Reliance Mutual Fund.

Good morning sir thanks for the opportunity. Just wanted to share or just wanted to get your idea on the margins front we have seen a bit of dip in margins and probably that's because of the mix and some of the orders that we took strategically. We have also seen order inflows being stronger than the industry for this quarter so when do we expect margins to turn around or be to see levels of FY10 or FY09 or do we see that as a distant possibility?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

First of all margins if you compare with the last quarter Q4 and Q1 it is not a dip, it is maintained but if you compare with the last year first quarter and current year first quarter there is dip of maybe a 150 basis points. Now you have got all the right information from the disclosure about we having picked up more orders and equally equivalent, it is shown that whenever we do a higher level of EPC or larger capacity boilers in competition with smaller sized competitors the margins can dip but we also have the lever available for us to be improving the margins by doing a designed to cost internally which is what we are very capable of; equally supplier partnership where they take the burden also because at the end of the day when I book a 100 unit worth of an order atleast maybe of a 35 to 40 units, I have given to my regular suppliers who make the pump, the motors, the valves and insulation material lot of that things. So they have to also bear a part of the burden; it's their efficiency improvement equally put together. So I don't want to hear news about confidence but we are quite capable of managing the margins for the current year but your question is when we will go back to 13 to 14 equivalent of that? See when you have one-third of your turnover coming from an EPC business, if you can make a double digit margin on the company's balance sheet is itself an achievement. As our business are improving in the other areas also, revenues side of the business you hear about momentum going up, there is I meant attention paid by the company to improve it so as to achieve the kind of levels that we were at earlier.

Sanjay Doshi – Reliance Mutual Fund.

Ok sir. So medium term scenario do looks good for the margins.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Yeah, yeah. Absolutely right.

Sanjay Doshi – Reliance Mutual Fund.

Thank you sir.

Operator

Thank you. Ladies and gentleman that was the last question. I would like to hand the floor over to the management for closing comments.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Thanks a lot to each one of you for having being patient with us and I hope me and my team were able to give you the answers that you are seeking. If there is anything which we were unable to give it to you in the right perspective, I am sure you could send an email to Gopal, Vishal or even to me also and we will certainly reply to you. I normally do not give any outlook but on closing I want to say that India is a positive story, short term there are too many negatives news that we are reading the newspapers but don't get deterred by that. Atleast within the company we are positive about Indian economy and I am sure that to take care of the temporary negative one has to look outside India which we are already doing. And thanks a lot for your corporation, support and we look forward to your support in the future also.

Operator

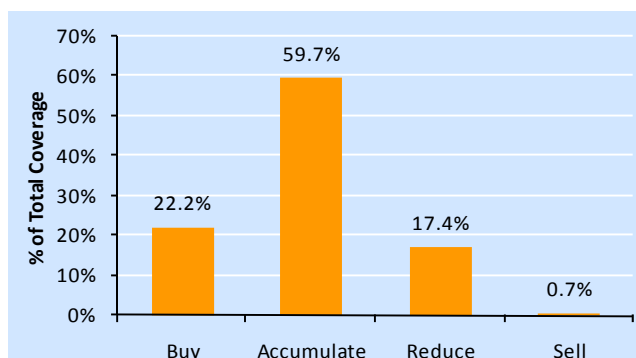
Thank you. On behalf of Prabhudas Lilladher that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

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