



Thermax Limited Q1 FY 2015 Results Earnings Conference Call

July 23, 2014



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Moderator: Ladies and gentlemen, good day and welcome to the Thermax Limited Q1 FY 2015 Post Results Conference Call, hosted by Motilal Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Satyam Agrawal from Motilal Oswal Securities. Thank you and over to you Mr. Agarwal!

Satyam Agrawal: Thank you Karuna. Good morning everyone. We welcome you to the Q1 FY 2015 post results conference of Thermax. We have with us Mr. M. S. Unnikrishnan, Managing Director and CEO and Mr. Amitabha Mukhopadhyay, Executive Vice President and CFO of the company. We would first start with the briefing from the managing team on the quarterly numbers & the trends visible and then move onto the Q&A session. Over to you Sir!

M.S. Unnikrishnan: Thank you Satyam. Good morning all of you. Once again welcome to our quarterly briefing. Thanks again for having the keen interest in following the company and supporting us. This has been a disappointing quarter for everyone including us in overall terms, but let me assure you, it is not a trend setting indicator, it is an isolated incident.

Let me take the numbers first. The domestic order booking is at 457 crore as against 1871 crore previous year, which contained Rs.1350 crore single order. The base order remains constant. Export orders Rs.205 crore versus Rs. 251 last year, a negative of 19% putting it 662 crore for Thermax Limited as against 2123 crore in the previous year same quarter.

Moving onto the group level, same disappointment continues. Both PECC and Thermax Instrumentation are appendages to our respective business - B&H & power, when their order booking virtually at a very low level. We also had disappointing quarter in order intake in Danstoker in comparison to the previous year making the entire group level booking at Rs.797 crore as against 2597 in the previous year for the same quarter.

Moving onto order balance, our order balance stands at Thermax Limited is Rs.5206 crore of which 922 for exports and 4284 is for domestic market. At the group level it is 5948 of which 4805 for domestic and international is 1143 almost equivalent to the previous year.

Revenues for Thermax Limited is 831 crore 2%+ percentage lower than the previous year 851 crore. At the group level we are at 1001 as against 1042 which is 4% lower than the previous year.

At profitability, it is at 7.1%, Rs.58.9 crores versus 74.5 that is 8.8% the previous year. Predominantly attributable to two reasons; number

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one is water business continues to be negative but it is better in comparison to the previous quarter. As we have promised, it will take a couple or more quarters to recover, predominantly on account of the cost overruns and the scheduled delay. But it would certainly turnaround by Q4 in the current year.

Second reason, in the energy business, we had expected certain orders which may have better margin to be executed in the current quarter. It did not get revenue recognised. These are the two predominant reasons as we move further.

At the group level, profits are lower in comparison to the last quarter and in the current year our JV with Babcock & Wilcox after being inaugurated, approximately Rs.31 crore losses for the quarter versus in the previous full year number of Rs.53 crore. We have marginal loss of Rs.2 crore in the Chinese subsidiary and even Danstroker is negative in the current quarter. But at the end of the year, their losses will be much lower than the last year and Danstroker should be profitable and positive.

Other than that to record our forays into international market continues; however, there is nothing reportable in terms of larger project orders which are registered at this point of time. Since the time is very limited, I would hand it over to the person conducting Karuna to take on Q&A session now. Thank you.

Moderator: Thank you very much Sir. The first question is from the line of Aditya Bhartia from Espirito Santo. Please go ahead.

Aditya Bhartia: Good morning Sir. After the new government coming into power how do you expect the scenario to shape up as in how quick and will they be able to do the recovery and which sectors are likely to be the first beneficiaries?

M.S. Unnikrishnan: Aditya, very difficult question to answer, but let me attempt it. Whatever we have witnessed in the last two months from the government, all indicators are positive; however, the traction on the ground has not happened. Why do we have such a low order booking in the first quarter? Because entire April and May has gone in the elections in the country. Only, post elections and the government formation, the ground level things have been started moving. First of all power industry is very important for our company. So power and MNRE renewable energy being brought under one ministry is a great move.

On the count, I would say that it is a positive move. It should take a couple of quarters at least for the minister to be in-charge and make the necessary changes. I am very positive about the power industry, but it will take time. Second is the land acquisition which had been an anathema or difficulty for the industry. The government has set up a committee under Mr. Gadkari and they have already recommended the necessary changes. So this change is again positive in nature.

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The budget if you look at it, there is no continuity with the freebies and nothing substantially change, but the government intentions are very clear. So overall these are the indicators at this point of time to talk about and the way our PM has initiated friendly gesture with our nearby countries. Security is the most important thing for economy stability and the initiatives taken by the Prime Minister to invite all the SAARC leaders including Chinese for the inauguration of the government gives positive indications.

However capital goods industry cannot expect turnaround quickly, once we should turnaround at a faster pace that is in Q2, Q3 and Q4 are the consumption. This is for supporting consumption. So you will have FMCG, food processing, textiles, durables and then automobiles picking up at a faster pace. Then you will have commodity industries, which is cement, steel again following them once the capacity utilization of all the industries come to a critical level. You will find capable industries receiving orders and them to be converting that in the revenues on the balance sheet, I would believe it will take 12 months onwards for short cycle and may be 16 to 18 months for the long cycle orders. Somebody like us with 5200 crore order backlog will try to make more revenue recognisable in the current year. It may bring the addition safety that we are going to order for the current year and we need some more to increase the growth potential for the current year and future of course looks like it should be positive.

Aditya Bhartia: Thanks a lot sir. My second question is on the revenue side, despite the quarter opening order backlog being almost 20% year-on-year

basis, revenues in this quarter fell by almost 3% points. Are there any slow moving orders in the backlog and how is the execution on Reliance order progressing?

M.S. Unnikrishnan: There were very minimal slow moving orders. If I were to give one number alone, the water business had drop of Rs.40 crore. If I were to have that and add the same number in the current year, I would have reported may be 2% more revenue recognition than the previous year on one account itself. Second, Reliance order execution got delayed. We would have initiated the site activity in the month of February, we were ready in both the sites, we have got an entourage of one general manager each with 20 plus engineers and equivalent at site. There has been minor delay from their site nothing of any concern. The work is already started; drums have started moving from the factory, but that February to June delay of the entire project on account of the internal reasons. They have most of the clearances but they decided to take it up in the internal structuring for the SPV formation sometime, but it is already commenced, so that it had any impact in Q4 Thermax for last year and Thermax in the current year. Please remember there is no linearity for the order carried forward to be executed in a straight line method in a proportionate basis. Each order is treated separately, but please remember a good part of the orders on hand is revenue recognisable in the current year. So the smoothening will happen as we move into the H2 portion. I believe things should be improving in the coming quarters that we are announcing the revenue recognition. I know somewhere I feeling that all of you had over projected that

revenues will rise, even I did not know about that, that is why there is a disappointment. Nothing got cancelled maybe small amount of may be Rs.5, Rs.10 crore could be there, but nothing substantial. Pace of execution is not going to be catching up for anybody in the next may be one or two quarters, because India has got a turnaround. That is the reality.

Aditya Bhartia: Thanks a lot.

Moderator: Thank you. We will move onto the next question from the line of Piyush Mittal from Franklin Templeton. Please go ahead.

Piyush Mittal: Thanks for taking my question Sir. Just quickly on the international foray if you can discuss a little bit more and Unny I appreciate you if you can may be draw some comparables in terms of how you are positioned in two years before and how your positioned today in terms of perception and acceptability of Thermax in the international markets?

M.S. Unnikrishnan: Piyush, good question. I would divide the answer into two parts. Number one is on the product side and number two is on the project side. The markets that we are targeting and focusing continue to be South East Asia, Middle East and Africa. We already have fairly large number of insulations for our absorption chillers, our standard packaged boilers and chemical and to a certain extent some of our value added services prevailing in all these three markets since maybe 18 to 20 years. That is why we have been able to raise our exports

from Rs.100 crore to Rs.1000 crore, stable number within a period of decade. But our share in this market especially South East Asia and Africa, Africa is not really calculable, because there is no authentic data available comprising published data. But in the South East Asia, there are published data available that we are in single digit. Our products are performing well and we are notch above the Chinese products, but a notch below the European or American products. That is the way we are perceived by the market, which is also sufficiently good enough for us to be earning a decent EBITDA in comparison to what we are earning in India. So we have decided to have a little more of internationalisation orientation, globalisation orientation in comparison to the export orientation for the product business of the company. So we have engaged McKinsey to help us and this is commissioned as project Genesis. The same way we had project Evergreen run in 2004, which enables the company to grow multifold between 2003 and 2010. A similar kind of exercise spanning over 18 month is commissioned and thus commences activity from the month of May. It will encompass South East Asia, Middle East and Africa and will complete our strategy and on the ground decision making. All investment may not be happening in 18 months but it will focus to drive up the sales to substantially higher number by localising the activities. Now I cannot confirm what will be the localization. It is likely that in the chemical business, you will send the concentrate from India and do the blending over there and distribution through a channel over there. In the packaged boiler, we may continue to be manufactured in the core components in India, but we will have

assembly plant over there whereas in absorption chiller may come either from China or from India because there may not be in a critical mass available in any of the markets. This is about the product business. The project business activity we started two-and-a-half years back and I am very happy that we have received multiple orders. In the earlier past, Thermax was only taking an order for supply of components and supervision of direction in all the markets. From last year onwards we have started even taking orders with local portion of construction, commissioning all done locally. Now the next stage we are moving in the current movers in terms of having local supply partnership created and some amount of project management also moving in eventually to even start prospecting and bidding and execution from these markets. That is the idea. The timeframe that we have in a mind is a five year period for the entire thing to be completed where a good portion of 40% income at a sustainable level comes from outside India and 60% come from India that is the overall move on this. So from an exporting model we will be moving into internationalised model, where we have got in China or Europe, we will be operating in these three markets too progressively. Is that answers your question Piyush?

Piyush Mittal: That answers my question. Thank you.

Moderator: Thank you. The next question is from the line of Devang Patel from IL&FS Broking. Please go ahead.

Devang Patel: Good morning Sir. You spoke about changes after the new government, you can also touch upon the river cleaning and the prospects there if you have done some evaluation Rs.1800 crore have been spent in the past two decades, but what could be the size coming up and what market share we enjoy in water treatment and effluent treatment plants?

M.S. Unnikrishnan: We were participating in the JNNURM funded municipal sewage treatment plants and I do not have a number for market share because there is no unified data available for it. The project that we have done, majority of them were JNNURM funded without that we were not moving. However in the past two years, the funding and the disbursement of money from the JNNURM Central Authority from Delhi to various corporations were very feeble. That is one of the reasons, why we got into the bit of logged jam in the municipal project because there was no fund flow happening. Now we are taking a calculated call right now to refrain from participating in the river cleanup program for some time to happen. Though there is a good business potential over there, I would rather have shrink the business for three to four quarters and make it profitable and then grow. We have got a sequential back reacted technology recently created by the company and we have commissioned plants also based on this technology. We would offer this to larger contractors because the river cleanup program or a centrally effluent treatment plants contract will be half of them will be built-on-operate basis especially the STPs and the river cleanup will be very large civil part of the work where you

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will have to have sewage lines undergrounds created and the civil portion could be as high as anywhere 50% to 75% and the treatment portion would be limited to 10% to 15%. So we will partner or supply consortium technology partnership to the prospective bidders of our intention and we will not want to be directly involved at least for the next two to three years when we are very confident that we want to be playing in that field. So I do not think Thermax can look forward to getting benefited from the river cleanup program of the government and we do not have regret for it. It may give some big number on the topline. I do not know how secured will that be on the bottomline and if at all in the bottomline in terms of the receipt of cash of payments from the sector. For the water business there will be some other possibilities because if the enforcement of pollution is going to be stronger in the country, which is our expectations in my dialogue with the government, they really see this. They do not want to pollute the rivers for the country anymore than what has happened, which means the existing laws related to pollution will be strongly enforced across the country and the newer companies board will setting up capacities in the country will be necessarily asked to follow the existing norms and once the some of the states are already moving onto an online measurement of the treated what quality before it being put into the rivers for the country. If that were to become unknown, a company like Thermax which believes in honesty and designing with integrity, a plan will have a major role to play even the industrial growth of the country. I would rather target on that because we are privy, we have knowledge of technology and we would play on the technology and

innovation and possibly return back to money making in that area and we may not look forward to improvement maybe in the river cleanup program. Sorry for the disappointment, Devang, but that is what the way we are thinking at this juncture.

Devang Patel: Sir what you said in the past that the environment is essentially led cycle but if these changes that may come up. Do you see environment growth and margins overtaking the energy business in the next few years or is that still sometime away.

M.S. Unnikrishnan: Normally energy leads and environment lags because energy conversion will be creating so much of havoc for the environment. You first create the havoc and then you solve the same environment follows. That is the pattern that is followed by every economy which grew in the world starting with Europe and America and then Japan and equivalent. So India may not be an exception for it. So in my opinion energy will be a faster growth at least for the foreseeable future and environmental follow up but I would say that awareness has picked up substantially and the sizes of some industry which are going to be setting a plant in the future in India are sufficient enough to be conscious about how they are going to be dealing with pollution. So in my opinion may be five year back in the last cycle of 2003 to 2007 when capacities got created everybody was willing to compromise on the environment equipment in light of keeping the overall project cost lower. I do not think it will be the case going forward there is no majority of investments happenings so environment sector of the

business will certainly have a pie available to be played around as we are moving ahead.

Devang Patel: Thank you so much.

Moderator: Thank you. The next question is from the line of Venkatesh B from Citi Group. Please go ahead.

Venkatesh B: Good morning. Sir the first question is now given that the first quarter sales have been a little bit on the weaker side and you said by the second half there should be some amount of improvement is it logical to assume that you can do more than 10% sale growth in the current year?

M.S. Unnikrishnan: Though I refrain from giving guidance, I can give you guiding answer for it. It is practical answer for it.

Venkatesh B: Now secondly the margins have been disappointing and you have given a few set of reasons. Now if we look at it from a top down perspective last year also I think margins had contracted almost like 100 bases point on a YOY basis. It continue to contract now big chunk of the orders that you have been winning over the last couple of years have been won in an environment where there were not enough orders and actually you have your order inflows have surprised on the upside. I mean most of the investors and I guess it made us surprised you also. So is it logical to assume that the margin contractions which you saw last year should continue this year also because the order itself are lower margin orders than what you would have won historically.

M.S. Unnikrishnan: Venkatesh you are right in some aspects may be a slight improvement could be possible. Let me repeat it. Venkatesh, the number of orders on the table is a decision driver for the margins. If there are many orders in the market with limited number of players you can make a lot of profits but when there are limited number very less quantum of inquiries or orders to be concluded in the place remaining constant the weaker or the one will pick it at a very low price and the others will be compelled to take the rest of the orders at lower margins. That is one of the reasons. However we also have an option and opportunity available to do little more value engineering that is where the knowledge and technology capability of companies like Thermax comes into picture. Second is being a largest capacity buyer we are able to pass on part of the difficulties to supplier so a margins contraction may not be in proportion to the margin contraction at the time of finalisation of the order. For example you take an order at a 5% margin that is what is available in the market you can make it into 7% or 8% by the time they complete the execution. Unless the execution gets into the difficulty the way it had happened for one of the businesses of the company. Others are very well managed and everything is going on well over there. The next question is the margin going to contract? No, it is going to be stable or contracting. If you compare with the 12% to 13% margin what would have made in the hay days of 2006-2007 versus the large years 9.6% and a year before may be 10 point something. I am not expecting a substantial contraction or the further contraction. We are working towards ensuring that we at least reach up to the last year's percentage

and if there is a practicality we should be improving it and if I am able to rise up the topline beyond what we have achieved naturally there should be a margin impact available on the positive side because fixed cost would have been covered at certain level and you will have the size benefits coming to the company. These two factors put together stability of margins the previous year level at least should be practical.

Venkatesh B: Just a couple of other small questions. As I remember last year you used to mention that the operating cost of running the subsidiary with Babcock Wilcox will cost roughly around 110 crore every year. Now are we executing or do we have any orders which Babcock Wilcox has done to prevent us from delivering like 110 crore loss this year or we will have that quantum of loss this year?

M.S. Unnikrishnan: I think it is 110 to 120 somewhere as I mentioned. Let me clarify, we have started supporting Babcock and Wilcox for their tendering and proposal making at least in two or three continents and it is already ongoing and any of them fructifying in the current year. Whether it is detailed engineering and manufacturing order we will be receiving it. But converting that into the top line maybe highly unlikely in the current year because not the least projects of that sort will have a design period of six to eight months. We have already completed four months, even if we were to be having a conclusion happening in the Q2 with the six months remaining there afterwards a very marginal revenue accretion only will be possible. So I would like to admit and be very frank about it that we are heading for a year of substantial losses in the JV but I am hopeful and positive with the kind

of movement happening in the international market for BMW and they also cannot go dry without an order.

Venkatesh B: Sir, finally one last question in the introduction you mentioned that you remain positive on the power sector given that the minister for power and coal are similar and dynamic person but when we actually see the macro data we wonder what is the economic sense to add any more power plants in India given that our deficits have come down to 3% and our power plants are running at say 7 years lows in terms of utilization levels have almost 50% so today if you have enough coal and enough demand you can increase India's generation by almost 50% just by making sure people have enough fuel. So why should anybody add anymore power plants in India at least for the next four to five years?

M.S. Unnikrishnan: Simple reason the numbers reported do not tell what is underlying, so if you look at the underlying in the last summer we had may be 210000 megawatts available capacity and we utilized only 110. The reason is that they gave power to you and me to live in the cities and deprive the entire Indian population even the rural area of power and the power cuts were ranging between 12 hours and 20 hours. The rural areas recovery cost is approximately Rs.1.5 to Rs.1.8 per unit of electricity. There is a cost of generation is 3.76 to Rs.3.8. So the deficit between the recovery and the cost expenses is approximately Rs.2 plus and at that level the state government not have the funds to write a cheque and give to the respective distribution companies. So they prefer rather depriving people of power so if deprivation can

continue and if India wants to be like a Sub Saharan Country even with Modi's "Ache din aane wale hain" than there is no need to have any power plants, point number one. So if one were to be calculating even the minimal power to be given to people and how to charge them is a different question. There is a big political challenge. Let me give you the numbers for the national totality of last year, the cost of purchase and generation of power overall put together in whatever condition the generating companies wherein last year were Rs.3.76 a unit was the average cost. And the whole new plant put together recovery nationally was Rs.3.06. So there is a national deficit of approximately 70 paisa per every unit of electricity generated, but that is something, which needs to be addressed politically. There is a demand also on the smaller people who are not paying. This is a political issue to be resolved. How they are going to resolve it? You have seen in the tough state like Delhi where everybody promised reduction. How they increase electricity charges by some 12% to 13% last week. Tamil Nadu has increased two to three times. So once the recovery improves and people do believe that they need power and they are willing to pay even these smaller values, Rs.100 to Rs.200. So we will have to enforce that. It is going to take time. Venkatesh, I also agree with you expecting power industry to be turning around over night. The companies is like us on one side we are paying Rs.10 to Rs.11 for every office of Thermax in the country and for factories we are paying Rs.8 and the cost of generation of electricity using imported coal and exceeded Rs.5.5. Why would anybody go for electricity from the grid in the future? Everybody will go for captive

power and that is where the reverse inflation is going to happen in the country. So this churn is what we were going to be witnessing and I am confident the current government should be able to take a decision on that. They understand economics to start with. Second they got a majority available and they got an intention available and if they want industrialise this country they better produce more power. That is why I mentioned about given 18 months periods for the power not one quarter.

Venkatesh B: Thanks a lot that was a very nicely explained. Thanks a lot for the final answer especially thanks.

Moderator: Thank you. The next question is from the line of Nalin Ladiwala from TATA AIA Life Insurance. Please go ahead.

Nalin Ladiwala: Thanks a lot for taking my question. This question pertains to our operations and maintenance revenue this has been growing very rapidly even if FY 2014 is grew by 25%. So what is the value composition could you share some medium term targets or may be the market potential?

M.S. Unnikrishnan: Nalin, we have got three specific offerings in operations & maintenance in the company. The number one and the largest being is in the captive power. We started it as support for our own EPC customers who may not be able to manage and run a plant. We got associated back and today we are running around 60 odd insulations with running around 1200 megawatt. We have also forayed outside

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India. Currently there are three plants we are running in the international markets in Philippines and Indonesia. We are expanding into all the three markets segments, which I mentioned about. What is a value proposition from Thermax? We were doing body shopping in the first year and second year. Now we have moved into value added services. So we give an availability guarantee for the captive power plant and it can be in excess 90% plus which no other company in the country is currently able to do that. Though multinational companies like Korea Power or maybe equivalent are able to do. We are already reached to that level. Secondly, we have offer composite operation maintenance. It is not a monthly charge. It is a per unit of electricity generated including the consumables, spare parts. Of course there is a take up pay also for a minimum level, but these are the differentiated offering we are giving. Now we have added on something more with the remote performance and management system predictable maintenance and based on which we are now able to improve the performance by certain margins like efficiency improvement, internal power consumption guarantee, water consumption guarantees and we are now venturing into sharing of the gain. That is the way we have moved. This way any good company in the international market has done. This is where we are at. We have not ventured into larger IPP because that is an area where we may need a support of a company who is already doing in the international market. That is as far as the power is concerned. Second is on the water business predominantly for the recycled type of plants or sewage treatment plants of the municipal corporation we have operation maintenance done. There are

more than 100 plants, some of them very small also in nature. Larger ones we are currently managing there in any case the plant has to run 24/7 so availability guarantee is nothing extra. More in terms of what is the difference between Thermax doing an O&M versus somebody else doing it? We can give a chemical consumption guarantee to the manufacture to water treatment chemicals to understand how the chemistry works on that. So we also calculate the dosages for it and we also start automating the plant. Now we have not gone and taken very large plants so far because very large plants are owned by the governments, municipal corporations, state governments, where we are not very comfortable doing those kind of business and third is for the value added operation maintenance from boilers and absorption chillers, which is recently started and doing quite okay. So these are the three areas. The potential for this is industrialisation as much as it happens, a lot of companies want to outsource technology oriented services and there will be many more candidates for it. So that is the growth oriented business.

Nalin Ladiwala: One question out of here sir, you mentioned that we are working on 1000 megawatts installed capacity O&M for power. So what could be your realisation per megawatt over here per annum?

M.S. Unnikrishnan: We have a total billing in excess of Rs.165 crores, let us take that, you can never convert this into megawatt to megawatt because each company, somebody may not want us to do the coal handling plant or somebody may not want us to touch the water treatment plant and somebody say that I have a DCS system for the entire chemical unit so

I do not want to manage the control room. It can vary from installation to installation, so unified number will be unfair linearity is not practical in that case.

Nalin Ladiwala: Our margins here would be at least twice our overall margins?

M.S. Unnikrishnan: It is far superior than the conventional engineering margins. Please remember these are things which were utilized with the global multinationals in the world when the economy stabilized for taking newer orders you will take it to break even and make your profit in the life cycle, which we have not learned, we will have to learn it going forward.

Nalin Ladiwala: My second question is that in some of the recent tenders for power projects, Thermax was not participating. I understand there were EPC tenders, so is the fact that we do not have buying generator manufacturing capability. Is that proving to be stumping block because going forward many of these projects are going to be given out to the government agencies state electricity boards even NTPC seems to be moving into an EPC mood rather than breaking up into TUV Rheinland Boiler etc.?

M.S. Unnikrishnan: You are right in some way. Let me clarify you, there are three ways or ordering for a power plant. First is the EPC as you had mentioned. Second BTG that is boil turbine combination and third is the package, each items bought as a package. So wherever there is only boiler we are there. BTG we have lose arrangement with Toshiba because there

do not make boilers so they needed a partner, BTG partnership is also practical. EPC currently, the tenders that you had bid including NTPC there are only two main bidders to this side that is BHEL and other companies L&T-MHI. Will it become totally EPC in the country is the question that you are going to ask? I do not believe in the medium to long term it can remain because the sizes of orders are so huge and I do not think both this balance sheets of the companies are capable of taking so much of EPC, the way it happens in India. EPC in the global perspective is where the EPC contractor gets a margin above this in open book mechanism where the better does the backend which Flower Daniel does but in India NTPC equivalent will say that you sign on the doctrine and you will be accountable for it for a minimal margin and the liabilities are piling up and I do not think both these companies whose name I have taken out comfortably taking EPC in the future of this type. Imagine that if India were to order 15000 megawatt in the year, in a good year EPC value of that will be equivalent to Rs.90000 crore and I do not know if the Indian banks will give loan to both these companies, so it will turnout. But we are also looking at possibilities of participating in EPC because where somebody else taking a lead for.

Nalin Ladiwala: You mentioned that we have sort of lost arrangement with Toshiba, but recently Toshiba also sort of went ahead with Doosan?

M.S. Unnikrishnan: Certainly is. Toshiba has Doosan and I do not deny that. They also understood going ahead with Doosan what is it mean for them, is it winnable or so. Doosan does not have a capacity created in India,

progressively with this kind of government coming in I am not taking protection available, preference available for the domestic capacity.

Nalin Ladiwala: Thanks a lot for taking my questions.

Moderator: Thank you. The next question is from the line of Amit Sinha from Macquarie. Please go ahead.

Inderjeet: Good morning. This is Inderjeet from Macquarie. My question is on this international foray if you look at last two, three years we generally had some difficulty I would say protecting margins in the international business while we always kind of done better than expectation on domestic businesses and you are talking about increased internationalization more projects and with larger scope being taken. So how does the management think about margin playing out in those businesses, is there any large investment, which needs to be done in various geographies to kind of protect margins and how do you kind of look at that?

M.S. Unnikrishnan: First of all you get good margins in several kinds of projects. For example oil and gas projects since there is a level playing field and there is an equality of competition. You can just certainly make a margin because price levels are higher, but if you talk about standard products being sold and say some markets in Africa, Southeast Asia where we compete against, Chinese margins maybe lower whereas if I compete for chemical business anywhere in the world my competition is global in nature, there are 10 times bigger than Thermax in size so

their margin expectations are higher. So there cannot be generic perception that international business means lower margin, some areas are higher margin only and sometimes rupee helps you also to improve the margins. The rupee value come down to 52 certainly the margins will shrink. Opportunity will shrink, but if rupee would remain at the current level or depreciate further this can be better for the company that is point number one. Second is what is the kind of investment needed to be local in nature, they are not very large because you do not have to buy over companies like the way one will spend in the developer nor are there any large companies available for buying over in this geography. However, local investment will be needed to have offices even fabrication units, assembly units at this point of time and if there is anything available in the market as readymade which can be converted into where people available proximate to our technology or there are boiler makers, there are smaller ones, certainly we will prefer that rather than going for a Greenfield where we will have to start negotiating of the government to bring in money might as well buy something in excess since and convert and alleviate that to our level and we are not talking about big money in anyways.

Inderjeet: My second question is if you could just highlight the overall market size as per your understanding in the BTG, EPC all space put together power and the captive power, IPP is in the captive power, in the fives which you think as available in FY 2015 potentially going forward?

M.S. Unnikrishnan: FY 2015 my understanding is for the IPP larger BTG segment, there could be two or three orders to be concluded which would be 650 megawatt into two numbers equivalent, whereas one tender of NTPC expected to come for four numbers of 660 which will have to be an EPC or BTG. This is in fact not a full EPC it is only BTG equivalent where we are pre-qualified a bid for it and we are currently working out the tie up possibility for the BTG. I cannot reveal beyond that. There is another tender expectation from NTPC but that I do not think will happen in the current year. This tender will come out. It will get bided out, will it be decided ordered in the current year itself I am unable to say. There are two or three other private bids are already at the level of finalisation but will anyone of them convert it into manufacturing order or may not happen in the current year. However, the next year I have a visibility for at least five defence projects in the BTG or boiler or EPC area, which will be amounting to may be 8000 to 9000 megawatt of an ordering in the FY 2015-2016. The captive power there are not anything on the finalisation stage barring some ways to energy, which are all ticket size of 70, 80, 120 crore kind of size. As investment cycle picks up for cement and steel even sponge iron you may see some ordering happening towards end of the current year in the captive segment.

Moderator: Thank you. The next question is from the line of Renu Baid from B&K Securities India Limited. Please go ahead.

Renu Baid: Good afternoon Sir. Couple of, I think most of the questions have been through just wanted to clarifications that I was wanting to

understand. First is elaborating on the entire export and internationalisation strategy, is there any capex that earmarked for the next three to five years which we would be investing to make the local presence felt?

M.S. Unnikrishnan: We have not rounded the number because the market work has just started and approximation I did not want to give right now. I will be ready with the right number a two quarter's down the line when we are very clear because we are piloting it. The study is already completed. The field work has started and that should get over in the four month period time where I will be clear as to which localisation are we going to be having capacities created. There are clusters available also. For example say Southeast Asia earlier were four countries, Indonesia, Malaysia, Thailand, Philippines, now we have got Cambodia, Vietnam, and Myanmar added and will get added onto that. So which is the most ideal for investing is that one location or two locations, so we have started forming companies. I am happy to say that for ensuring that this investment can be done Amitabha has already formed the company in Singapore. Subsidiary is formed and under this companies the companies will get formed in the respective countries and some of them may be marketing and servicing and some of them may be project management, some of them also will have manufacturing and assembling. So that clarity will emerge in the next six months period and investment plan would have been completed in the current year, so I will be able to give you some feeler in the

current year, but let me tell you, Renu it is not 100 million, 200 million dollar not that kind of size, it is double digits only.

Renu Baid:

Sir second thing on the subsidiary side and the consol performance because when we look at the standalone we can understand the margin pressures and execution headwinds, but as we incrementally look at more of EPC turnkey jobs and having more subsidiaries for growth and expansion, the consol performance becomes more important and within that the Danstroker where you are looking that subsidiary almost stabilizing and being profitable again there has been lumpiness and some losses coming back in subsidiary, so what is the outlook on the profitability at the consol level at this point of time even if you do not look at the new internationalization strategy leaving that apart how does that overall net margins or profitability for the international subsidiaries look like? I would say the overall subsidiary at the consol performance for international?

M.S. Unnikrishnan: Let me take first domestic then we will move to international.

There are three operating subsidiaries in India, Thermax Engineering Construction Company, Thermax Instrumentation, fundamentally appendages of B&H and power business, TIL was loss making, but became profitable last year. Current year both of them will be making marginal profit, so they should not become drain on the main company. Third operating subsidiary in India is Thermax Onsite Energy Solutions Limited, which we started three years back. It is profitable it will continue to be profitable. We are investing quite, I cannot use the word heavily for Thermax but from 15 crore total in a

capital outlay, Amitabha is it fair to say in the current year the gross block in the company will be crossing Rs.50 to Rs.60 Crores?

Amitabha M: Yes.

M.S. Unnikrishnan: It is profitable and at EBITDA level it will be much more profitable because depreciation is about to take on that but it is profitable company, so nothing to worry in this field. When you got two operating joint ventures, which will have to be consolidated because we have 51% owners of this company, so in that Babcock & Wilcox subsidiary as I cautioned all of you a year back itself and if no orders were to flow in we will continue to be booking the full losses of that and SPX is a marginal loans. In the past two period what happened it will be in the same level may even become profitable next year so that is as far as subsidiaries and JVs in India. Then we move onto the international market, the main is Danstroker. Danstroker has got three arms under that. There is a Danstroker company in Denmark and Omnical in Germany and also Boiler Works, which we acquired for capacity enhancement for a minimal amount in Denmark. Of that Danstroker is profitable and will remain so. Boiler Works is an acquisition recently capacity enhancement, it will be profitable for the year. Omnical right from the beginning was a suspicious loss making company, which couple of quarters we made profit. We are relooking at that as to what we will do with that. We may run out of patience and we may take any action that is necessary, so I do not expect that Thermax is going to continue having any, lumpiness is there. Let me say in the last quarter there have been some changes which we have

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not understood well earlier. The Ukrain crisis, which has come in right now it has got an impact in the Indian investment climate in the fuller Europe. It is because of two reasons one is the gas availability, if they were to isolate Russia, the energy supply can be a challenge. There is a political ramification, there is an industrial ramification. Industrial ramification will have some impact because that green oriented business of Danstroker group also will depend upon the government subsidies in those countries, green subsidies. That is number one. Germany has withdrawn the capital investment subsidy which they gave for gas based power combined cycle of smaller capacity in distributed generation, which they encouraged. They were given 31 Euro cents per KW has investment subsidy which has come down to almost 16, 17. So viability of such projects will have to be looked into. We are not investors. We are only talking about equipment supply over there. I do not know anybody is aware of the fact that how many trucks move in through the borders from Germany into Russia with capital goods and may be various goods and all of that has come to stand still for the past three months. So there is some amount of temporary misalignment in the entire geopolitical structure of Europe and I am expecting that it cannot remain because Europe cannot remain this way and the standoff will have to come that we have some temporary ramification but it can have ramification for the current year or may be couple of quarters but end of the day Danstroker is a profitable will remain profitable as a group. Then we move into Thermax Europe Limited, the marketing company of ours in London, it is always at profit although marginal is smaller but it is doing

turnover it is growing, it is profitable. Then we move into Thermax Incorporate America where we have challenges two or three years back, but past three years consistently we have been profitable. Tiny subsidiary is another one which had been growing but still not reached up to the level of profitability. Now I also want to change my attitude towards that company. There is something as a growing child other one as an elder child of mine. So it is a growing child of mine I have to give time to ensure that it is becoming profitable so when is it going to become profitable and is it sustainable? It is going to become profitable and will be sustainable. Will it be in the current year? Let us wait and watch for it. So that is about the subsidiaries. Does it not give a clear picture Renu?

Renu Baid: The only thing was concerning is when we look at the overall consol performance ROC and the net margins are substantially weaker, so we are looking when will the bottom out and probably we see traction at those numbers?

M.S. Unnikrishnan: Barring the B&W portion of the JV, bottoming and all is over. The quarter-over-quarter for us there could be lumpiness once in a while. We have smoothened it in the past three or four year's time.

Renu Baid: More on an annual basis, not just quarterly?

M.S. Unnikrishnan: Annual basis I think should smoothen out. Current year let us wait and watch. I think there should not be a problem to my understanding. Yearly there should not be a problem. First quarter no

reflection of the year let me reassure to all of you first quarter of Q1 of current year there is no reflection of the year FY 2015 that much I can assure you.

Renu Baid: Thank you so much and all the best. Hopefully numbers will get back with traction and execution.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I would now like to hand over the floor back to Mr. Satyam Agrawal for his closing remarks. Over to you Sir!

Satyam Agrawal: We thank the management for providing us the opportunity to host for the call. We also thank the participants. Thank you everyone.

M.S. Unnikrishnan: Thank you everybody from Thermax's side. I know you would have been happier with a little bit numbers. Give us time progressively we will improve and nothing has gone wrong, nothing will ever go wrong also when we are around over here. Thank you once again.

Moderator: Thank you very much Sir. On behalf of Motilal Oswal Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.