



“Thermax Limited Q1 2017 Post Results Conference Call”

August 11, 2016



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**MANAGEMENT: MR. M. S. UNNIKRISHNAN - MANAGING DIRECTOR AND
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Moderator: Good day ladies and gentlemen and welcome to the Thermax Limited Q1 FY 2017 Results Conference Call, hosted by Motilal Oswal Securities. 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. Ankur Sharma from Motilal Oswal Securities. Thank you and over to you Mr. Sharma!

Ankur Sharma: Thanks Margaret. Good morning ladies and gentlemen and welcome to the Thermax Limited Q1 2017 post results earnings call. We have with us today from the management team Mr. M.S. Unnikrishnan, Managing Director and CEO and Mr. Amitabha Mukhopadhyay, Executive VP and Group CFO. We shall have the opening remarks from the management and then open the floor to Q&A. Over to you Sir!

M.S. Unnikrishnan: Thank you Ankur. Thanks a lot to each one of my friends on the analyst community for keenly following us and being present for our concall today also. Numbers are already in front of you. Just for clarity I would repeat some of them and then will get directly onto the discussion.

For the first quarter, the results are on expected lines having entered the year with 15% reduced order carry forward we were able to recognize Rs.814 Crores of revenue on Thermax Limited balance sheet it is almost 20% drop. Despite the drop by that kind of percentage we have been able to retain the PBT at 8.3% versus last year is 8.2%. The only negative beyond what we expected is in terms of fresh order intake limited to Rs.698 Crores for the company as against Rs.877 last year because there was an expectation of an improvement in project ordering at least of the medium and small size did not happen, so we had to be contended with the regular orders that would come from the non-policy oriented sectors like food, food processing, pharma.

Only new entrant into the area, for a change unlike earlier years where steel, cement would compete against each other to be number one in Thermax’s order registration, food processing was number one for new orders in this quarter.

Even the international orders intake was not expected. We have couple of small, medium size projects under negotiation. The decisions are postponed, so we are expecting that thing should be improving in the next quarter.

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At the group levels our revenues are barely Rs.1002 Crores versus Rs.1231 Crores in the previous year, almost again 19% lower. There of course our PBT is lower by 23% restraining it to 81 versus 105 of the previous year. The positive about over here is barring the Chinese subsidiary all subsidiaries of the company had been positive in the current year. This includes the European subsidiary which we had reported a difficulty last year at the same time on account of the closure of Omnical. Danstoker, Thermax European subsidiary is profitable, Thermax America is profitable, and barring the Chinese subsidiary, three Indian operating subsidiaries Thermax Onsite Energy Solutions, Engineering Construction Company and Instrumentation all of them have turned profitable in the current quarter.

At the group level order intake is still muted at 824 versus 1020 of the last year. We did not receive any orders from our JV partners from America in the current quarter though there are two enquires, which we were supporting. Will it happen in the next quarter or during the current year? There is a positive expectation that both of them should be concluded in the year either in Q3 or Q4 itself.

Work at the Dahej Chemical factory is progressing very well. We should be able to have the commercial production commencing by March. Indonesia again as per our original expectation by end of Q3-- we should be having in the commercial production start from there. We had contracted land in Sri City in Andhra Pradesh, but we were waiting for the pollution control clearance before paying the advance and taking possession of the land. I am very happy to report that we received it both from central and the state government and we would be proceeding with the closure for the land deal. My expectation is 18 months down the line there afterwards we should be having the plant up and ongoing. That is about factories.

One news which must be moving around in the market so because couple of you had called up our office to verify about solar thermal project of NTPC, it is actually Q2 order we are the L1 for the first ever solar thermal hybrid plant in NTPC. It is worth Rs.80 Crores, but in my opinion it would be registered only a month down the line though we are the lowest version in comparison to Chinese competition. We have brought in one of the finest of the German technologies for the first of a kind and therefore Asia for augmenting the production or reducing in the carbon footprint by hybridizing conventional thermal to solar thermal. These are all the information from my side and I would leave it you to ask me specific questions so that we can have a healthy discussion. Thanks a lot once again for being with us.

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Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Good morning Sir. Sir first question from my side just understand little more on the profitability in this current quarter after readjustment for Ind-AS if we see environment segment profitability was fairly weak so are there any particular one-offs in that segment which impacted is 3.5% kind of margins or it would more of our trend in the newer quarters?

M.S. Unnikrishnan: In the environment segment, there was a one-time medium size provision made, otherwise there is nothing substantially reportable. That is in the water side of the business only otherwise both air pollution control and air pollution control the revenue recognition has not really gone up in the quarter because of which there were just about of the critical mass level only, but otherwise there is nothing to be looked at as a trend in terms of reduction or any improvement.

Renu Baid: Probably margin should be at 6% to 7% range in where we had seen last year in this?

M.S. Unnikrishnan: You are right, by the time we close the year, we will be almost at that level.

Renu Baid: Sir, with respect to orders you did share that couple of orders in the TBW JV we could be expecting, if you can also share details of progress with respect to the export, midsize project especially Dangote, which has been there in the news for some time, so how are we seeking from our this projects to close and on the domestic side any progress on cement or the allied projects where you expecting from finalization beginning this year?

M.S. Unnikrishnan: I will not take the name. I am not allowed to take name, but for the order that you mentioned about, the financial closure for the project is awaited. I do not expect that order to take off in the current year to be precise because unless otherwise financial closure for the project happen which is an \$89 billion size of project equity. For a Nigerian country credit availability from the international banking system may take a longer time, but the project will go through because there is absolute shortage of refined petroleum in the particular county. It has got a fairly large population and has automobile utility at the higher level, so to save foreign currency when they are about crude petroleum available it make cements and it is bankable project. But banking system is yet to be concluding in the last part so my expectation it may take with a longer time. I was not talking about those projects mentioned about, I am talking about \$20 - \$25 million up to \$15 million kind of medium or

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small size projects which are emanating out of Southeast Asia or may be even couple of the Middle East. What I mentioned is that there are real project on the ground, but nobody is in the hurry to finalise like the way in India.

Renu Baid: Sir, my last question would be on the export side if you can draw some commends with the respect to how is the performance in this quarter, both of the respect to orders as well as revenue booking that we have seen?

M.S. Unnikrishnan: Amitabha will you please help us with the numbers for exports in the order booking?

Amitabha M: In export side in terms of revenue in this quarter we have recorded 231 Crores on standalone level, 394 Crores at a consolidated level. The consolidated numbers are 394 Crores revenue is marginally lower than what it was last year at 408 Crores same period.

Renu Baid: On standalone last year how much was it Sir?

Amitabha M: 263 and in terms of order intake, at the consolidated level it is 299 Crores compared to 386 Crores last year and standalone 182 Crores compare to 255 Crores last year.

Renu Baid: I have few more questions, but I will come back in the queue for them, thank you and all the best.

Moderator: Thank you. The next question is from the line of Harish Bihani from Kotak. Please go ahead.

Harish Bihani: Good morning. Sir one request that I have is you share the segmental financials for standalone about two quarters back in case you can this start that it will be very useful. It is just that not having this standalone number makes our life a more difficult. Hence the request. My question is with the total equity invested now is it to the tune of 920 Crores in TBW JV after their debt repayment and assuming I want make 15% return on equity on this will I have to execute a full to your kind of a project in a year is that broad maths correct? And related is what we likelihood that in this particular year I will receive one large order say of 1.3 gigawatt and outlook for the next two years are so and finely what is the kind of likely support that we should see from BMW given that they have been invested for money in this particular JV?

M.S. Unnikrishnan: First of all your assumption of the 835 could be is total invested money, point number one, so you talking about 15% ROCE if you could get it your talking about almost 120 Crores

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profit to be made. You can get 120 Crores profit from 1500 Crores orders or so, you can make it from 4000 also. That depends upon how profitable the order is. At the price that things were going in the market earlier certainly nobody was going to be making money and you know the balance sheets of the people who are making large capacity boilers in India of the kind. Now we see the improvement in the pricing in one project which has got bid out at NLC Ghatampur. Now that was an EPC order. Ghatampur was only the boiler order. The next project should include something beyond the boiler but there is nothing in sight right now. I need to be very honest with you because NTPC is overburdened with execution of existing projects. They have not been able to complete even the first 11 in the sub 60, which if we remember 9 x 800 which was ordered three years or four years back. None of them are commissioned so far and I doubt whether their management, the government or the bankers who were supporting them will want them to be bidding for anything further unless they commission some of this, and repay the debt they have taken.

Next thing is about the UDAY based project. Frankly speaking it is not taken off so far. All of you know better than me because of the clause by which the debt will be converted into a bond. Nobody realized that there is going to be going out of the bond quota for each of the states. They thought it is somebody over and above, what we were permitted. With most of the Indian state exchequer and treasury in major difficulty and hardly anybody barring to states have spareable bond capacity, I doubt whether UDAY is going to take off. If that were to be taking off, Thermax will have to be selective. For some states we may, but others we may not so I cannot give any realistic prediction in the current year related to order intake of larger nature. We paid the debt and that is an indication from both the sides to continue with that expecting a 15% ROCE on that I do not think is expected for some time to happen. I will be honest with you and when can it happen? There are only limited number of people who will bid for it and the government has already stipulated that for state funded, Indian government funded or Indian banking system funded projects cannot import any power equipment. It has to be made in India so that limits our worry of competition from China. So I expect prices to improve. Once the price improve, the next thing to happen is there should be credit worthy projects where we do not become a banker, we become a supplier. So when will it happen? Harish and the entire team, my understanding is not in the current year, not in the next year may be so we may have to make do with orders and support coming from TBW to stay afloat and not to have any cash loss made in the company going forward. That is our current take. I hope that answers the right way.

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Harish Bihani: Sir just followup on this is when we have support from TBW apart from the smaller sized orders that we have getting is there a chance that TBW gets a larger size order which may come to this particular JV?

M.S. Unnikrishnan: In fact last year they have received an order for a 660 megawatt supercritical from Vietnam which was offered to India. Please remember international companies currently are giving us pressure parts and the engineering. Now even if we can increase rest of the supplies, that is bought out components nobody will want to buy pump from India. We have now induced the structural steel and ducting and such kind of thing, which we are doing vendor development in India. See if you take an order from NTPC or may be an Indian company and execute it the Indian supplier are good enough for it. The global standards the power plant making is not the way India is following. So that is where we are having challenges, we are moving in the direction. I am confident that the progressively we should be able to so TBW is also currently in the opinion they do not have any enquires of that level which are in the conclusion stage right now. What they have is currently 300 megawatt or 150 megawatt equivalent.

Harish Bihani: Quick two questions on the Indonesia plant which will be ready in this particular year what is the kind of asset turn and peak revenue possible and for the next one to two years the potential revenue from this particular facility? Same is for our chemical factory, which is going to be commissioned what is the kind of revenue that we are looking for the next two years any kind of peak revenue asset turn that we can do? Lastly Thermax Engineering Construction if you look at the annual report revenues almost grown by 2x in FY2016 given the execution of the Reliance order; however, profitability is negligible so safe to assume that Reliance order margin was lower over there?

M.S. Unnikrishnan: First the question is related to Indonesia it will take time for it to be reaching to a profitability level. Please Harish only thing is engineering manufacturing capacity versus commodity manufacturing or a cement manufacturing where we can run up million tonnes for cement company into the market is available into same capacity and when it happen engineering industry so we are not on two year span to see us what will be the ROCE from that; however, I will give you the numbers. Certainly yes, what we are expecting to be revenue generating from the manufacturing unit and what we will buy and assemble put together is \$25 million in the first three years period of what we have identified. where it will reach the level the manufacturing to break even, how much can it generate our expectation is it should be capable of delivering our \$100 million turnover in Asia continent as the market picks up or when we are able to be selling. With you doing that which in India

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has taken how many years, but market sizes is bigger than that. So that is in the point number one. The chemical factory should be attracting investment which will be done in the phase I, depends upon how we are able to be capture the market. It is capable of delivering turnover up to 250 to 275 Crores with 150 Crores investment. And third your question was related to TECC, suddenly TECC is taken the plant because the project delay in terms of construction they have to have an establishment and I am sure Reliance also will support the company when we commission. There are claims, but I cannot talk about that in this forum or for recording, but certainly we had a major difficulty in TIL. If you remember when Thermax instrumentation Limited executed Meenakshi, it went into a negative, but it became positive there after. So only when the settlement happens with the customer, some infusion happens and it becomes positive so we are expecting similar thing to happen over here also, but you are right on the construction side of the project

Harish Bihani:

Thank you very much Sir and all the very best.

Moderator:

Thank you. The next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Sandeep Tulsian:

Good morning Sir. Sir, my first question in on the devaluation of the Nigerian Naira we also had some orders from there in the past, so how is it impacting the execution is it still our substantial portion of our export order book and secondly how is it also impacting the inflows from that region especially you touched upon the Dangote order if you can just briefly guide us?

M.S. Unnikrishnan:

First and foremost we had a \$16 million order from that company which is under execution for which we already have an LC available, execution is happening and in my opinion entire supplies to be completed by in the next quarter or may be very little the Q4 and LC is valid and thankfully we always take a forward cover respective what happens. So it is an open LC and confirmed LC so I do not anticipate any trouble or a problem to that order. Other thing you guys are calling it an order. I have not seen it as an order. Once the customers pays me in advance and then I know visibility of the LC is coming it becomes an order whatever is at the prevailing rate. Mr. Mukhopadhyay will have ensure that it is booked for the period and we do not take any fund. We only want to do engineering and delivery and make whatever is estimated profit. Nothing speculative because I do not think we are going to impacted, but the question is will they have the muscle power to be importing capital equipments here afterwards, now it is a cash into situation. There is nothing you can do or build over there in the part of the world. Everything has to come

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from outside and they have an increasing demand because they got a population about around 18 to 20 Crores, which is a fairly large population and they have got natural wealth available which was plundered earlier. They are one of the largest oil reserves in the world. So in the oil reserve with the current government coming in, I suppose is a cleaner government than what it was earlier, so things should improve and the wisest thing they have done is to float the currency. If they were keeping it artificially higher then we would have had black money getting generated and the lot more of parallel trade happening so I would say it is wisest thing that country has done in so going for short cut to accept the fact that the currency was only 380 Naira to a dollar and we will go to 400, but they have got wealth available which can be exported which can bring in foreign currency to stabilize the country. But this particular project that all of you are talking about, we will wait for it to be financially closed before we can talk about anything.

Sandeep Tulsian:

Sir my second question is on the order book mix of course you sustained the base orders or the orders with short cycle kind of an execution period over the last few quarters so if you just gives color has to how the order book mix has changed over the last four to five years during the peak of FY2011 to FY2012 how much large orders of contributing as percentage of your book and how much is it now and how this can change the margin dynamics?

M.S. Unnikrishnan:

There is no consistency of those number, so I will be giving your range bound number because chunky orders what it happens they were Reliance order comes in a quarter, then it will make the entire calculation topsy-turvy so you got of the understanding that I am going to give your trending. We had at some point time an average order carry forward between 5000 to 6000 Crores, peak would have 600 would have been the average in those kinds of condition we would had almost 70% of the carry forward orders of the medium to long gestation project and 30% of the short gestation. Now what is available for the company is that 70 would come down to may be between 50 and 60 hovering around at this level right now that is the way the numbers are panning out right now and there is one more difference. Even the orders that you would received in the states, would have been received from the past two years, the longest gestation period for completion of a project would be may be 20 to 22 months whereas in the earlier days could have been 30 to 36 months. Currently what I am holding there is hardly any order with me which will go into more than 20 months or 18 months. 18 months is the longest delivery unless I get an order of 500 Crores to 1000 Crores I will not move to 20 in terms of delivery period. That is positive for me because whatever is available is quickly revenue recognizable and with a huge capacity remaining both in design, engineering, project management and manufacturing the cycle times can still be improved.

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- Sandeep Tulsian:** That answers my query Sir. Thanks a lot for this.
- Moderator:** Thank you. The next question is from the line of Ankit Sancheti from Kotak. Please go ahead.
- Ankit Sancheti:** This is Nitin here. Just one question this solar thermal opportunity one is solar thermal more competitive been solar PV in India now?
- M.S. Unnikrishnan:** No, never, it still has not become viable for some more time this is something when has understand we have been discussed with MNRE, the Government of India and power ministry and when they directed us to NTPC, it had been workup may be couple of years to make the government understand that in any thermal power plant which is may be a 25 megawatt and above there is something what is a low pressure and high pressure heater attached to the turbine. That is one which preheats water before it goes to the boiler. Normally this heating is done by having the stream taken out of the turbine. What we suggested to the government is that you need only low pressure steam to do that heating of this whereas these boilers are making supercritical pressures steam. Why you want to waste it? All power plants have plenty of land available so why do not you go for a solar thermal concentrator, which will generate steam which will heat up the feed water and you can disconnect the steam tapping in normal circumstances from the turbine. The turbine efficiency improves and in any case since the input heat is going to be from solar, you are naturally reducing the carbon footprint and that what is what government is talking about we want reduce as much possible in thermal power plants. So the government accepted and MNRE accepted it. It needed time for it to be configuring it till such tender which got regenerated couple of times finally was opened up two weeks back. Initially there were no competition so they have to get competition which is another problem in India, and finally became winner of this particular project. It is around 80 Crores so there are around 18 megawatt equivalent of thermal heat which is being taken out which I have may not having the numbers readily available, but it means how many may be 30000 to 40000 tonnes of carbon dioxide machine per year being subvented.
- Ankit Sancheti:** Just understand this is ancillary to our existing thermal power plant?
- M.S. Unnikrishnan:** All the existing captive and larger plants of India up to of supercritical can gave this thing introduced in my understanding the potential for this is to create at least 35000 megawatt additional capacity or 35000 megawatt or generation to be offset with solar.

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Ankit Sancheti: Sir, last one any update or any potential which is opening in the environment space from pollution control on the thermal power stations that we have discussed in the previous two quarters?

M.S. Unnikrishnan: As far as SOx Sulfur oxide is concerned, not one order is concluded nor will be concluded for some time. The NOx side there had been discussion. The government is looking forward to NTPC doing that job for them. We have been in touch with them and discussions with them it is likely that NTPC are assigned four companies to do piloting in their existing plants so they can decide as to what technology to go far and then start bidding out, but the other side of the story is that they themselves have budgeted at 20000 Crores investment to be done at the next two years to meet up the new regulation. They also given letter to the government telling that give us 5 to 10 years is repeated by all other people also other private generators also. So the movement on that is slow, but I have seen it earlier also in the cycle when government introduced first time 250 mg to be brought to 150, it has taken three years once we started happening everybody was told by the government do not come to us, now go and implement it only. Current condition is that the difficulties the existing players are telling that it going to increase our cost input not only in capital, second also in terms of the revenue expense to run the plant which will increase the generation cost by so much. So let the Electricity Regulatory Authority allow was to charge automatically that with traditional burden on to the market which of course politically motivated Government of India on other side will not agree very quickly. So my personal expectation is it is at least two years away before trickle will start happening and make it to four years away when it is going to be massive demand going to be happening in the market.

Ankit Sancheti: Last thing, anything on the cement side that we are seeing from SOx and NOx is now playing?

M.S. Unnikrishnan: Yes, cement side there are been at least four enquiries, offer given, but they do not seem to be in a hurry, they also have to show their activities, when they are called for the meeting, we will carry the quotation submitted by all of us and say that we are saying in discussion, Cement can afford to go because they have money available. Power industry as I told we do not have money, because all of them already waiting for CDR to happen, so who will give the money even if they have to go to SOx and NOx in the power industry, but cement everybody is having sufficient money or else very less leverage balance sheet they can afford to go for it.

Ankit Sancheti: Thanks and all the best Sir.

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Moderator: Thank you. We have the next question from the line of Aditya Bhatia from Investec. Please go ahead.

Aditya Bhatia: Sir first my question is fairly broad on the overall macro are you seeing any improvement in the overall industrial capex scenario and are you seeing improvement enquiry levels from larger sectors like hydrocarbon, metallurgy and may be even cement?

M.S. Unnikrishnan: I need to be disappointing you with no as an answer, because cement there are couple of enquiries on the waste heat base power, whatever is the reason for there are couple of enquiries, but they should of concluded by this generally in the first quarter we have got an order from medium size cement plant there, an EPC order for cement waste sheet. Currently we are in discussion for two more to open, but there are not going for ultimate recovery of 100% recoverable, if they take only part heat recovery so that we investment is over. There is not a single cement captive power order under discussion in this country with me or with my competitors, nor is it going to happen because one company which has declared about an investment 4500 Crores to setup their capacity in the southern part of India. They have one extra captive power plant available which they are intending to shifting to the new plant where they are going to be putting and so I am not expecting that there will be something going to happen. In steel there was a very minor movement, not on the composite main steel area. In the sponge iron, in the beginning, I am talking about may be last 8 to 9 years in the clamour in the country go up for sponge iron, those who set up 50 tonnes per day capacity, 100 tonnes per day capacity they have not gone for heat recovery and they were sending hot air hot gas at 500 degrees centigrade into the thin air. Now the pollution authorities have served notice to all of them and told them now do not even discuss you have to recover the heat, so all those set up those plants have now started putting heat recovery related stations and we have received the couple of orders and couple of enquiries are under negotiations right now. In the composite steel not even a discussion is going on one of the largest private sector players who was on the verge of giving an order to Chinese company for a 6 million tonnes per annum steel expansion he has put it on hold, so I am expecting any unless otherwise there is a clarity related to how you are going to deal with Chinese surplus capacity and how the sovereign can protect the Indian manufacture. I do not think there is any steel maker in India who will stick his neck out and take a bank loan because please remember a billion per million tonne is investment for it and today his viability starting to two to three million so \$2 to \$3 million size of a project may be equivalent to \$2 billion to \$2.5 billion. Investor India will want to have clarity that look he has to be then a declared defaulter and runaway from the country I do not think anybody is interested at this point and steel is in my opinion also.

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Oil and gas I think we are taking big risk as a country in my opinion. Also with the quantum of automobiles getting manufactured and used and cc's of the machine going all the way up, we will be had shortage of refined petroleum in the country and we may be forced to import because please remember it could take at least a period of 3 and 3.5 years to have the refinery up provided land is available. So I think we are already delayed. That I think should start picking up. They are currently talking but I have belief that the PSU based refiners will move into expansion more may be towards the Q4, next year. You should certainly see some ordering out happening and second in the refineries sector is government has already declared that we are going to bypass Euro-V and directly getting in the Euro-V equivalent Bharat-VI without really recognizing what is it means. First we do not have technology and they have kept a target of 2020 to make it happen. Nobody has really estimated what will be investments. To my very back of the envelope calculation may be 100000, 1 lakh Crores to be invested by the refineries to meet up with Europe-VI standards of petroleum products in the country. I am only wishing that it would happen but if the government is serious about they should invest the money and if were to happen then all of us will be very happy so will technology tie-ups be negotiated I think under discussion with government. It has to come from America. There is one or two companies in the world who can give the technology. Scientific Design and EOP are the companies who have got that, if that is available then Engineers India Limited will start making the tenders. We are generally in the know of things so as and when it happens we should take off. The last one is about power. Power certainly as I told you I am not expecting anything quickly to happen though it is going to be suicidal for the country now to do that that is about it.

Aditya Bhatia:

Sir in the years when we used to have may be 55000 Crores rupees of annual ordering typically there used to be 15000 Crores rupees of these large orders which the company used to have are you seeing that kind of momentum returning the next year also?

M.S. Unnikrishnan:

One year, next year after that onwards. See unlike many other economies of the world, the major economies of the world, the major economies of the world India and China or the two which have got aspiring population looking forward to better quality of your life and the stability between India and China the tenure of president there is 10 years and nobody ask questions. In between, it is a unitary rolling. In India you get tenure of five years, but second year onwards you are being asked and challenged by the people those you elected you also so aspiration of the society because people are there so can have more energy generated in which our form here heating, cooling power. Whenever is energy development you will certainly pollute there so you will have pollution control. We are in the sweet spot so my opinion is that whatever we have seen as a decline, we are continuing for the past

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may be third year we are into can it continue without of unrest. I have my own suspicion so I think political inspector will have to take charge and may be one year is too early right now and I am sure and I am very quite clear about the fact, but progressively it will start turning around, what we seen between may be a 2003 to 2008 without any stop when the minor break and continued up to 2011, that 2003 should when is that the question, when is turnover happening? My opinions we are almost 24 months of away from that my personal take having seen last cycle, you can see the forward cycles, the forward movement visibilities in terms of cash not being utilized in the country which I think getting in their though all of this complaining about credit off take interest rate is come down. Money is going to come to the market people will one side spend so in the FMCG or non-policy oriented area so you can see capacity utilization going really high and I can see the enquiries already started improving that area in the conventional area which I mentioned about. On the other side next question is bank may lend one day once their NPA problems are resolved whichever way they are going to be resolving, but where is offtake going to be so banks will come to our level where without the RBI intervention the interest rates in the county will come down. I am predicting that way without the intervention are Reserve Bank of India. You will find in the next may be 18 months period they will be forced to lend without force of RBI coming to being so because there will be surplus money available in the system which is not getting invested. A conventional good processing factory of 150 Crores to 250 Crores dairy project is not what the bank is looking forward to. They need projects of may be couple of billion size which can come only in the cost sectors. Now which are the concept where they will lend we will have to wait and watch. Cement of course I am sure all of them will stand in due to lend today. Steel at the moment we know that China has already more may be 100 million tonnes capacity or maybe they start developing the western part of China we they are doing currently if we start doing that deal with steel over there are the kind of site they are going to wait for, but either will have difficulty in the country political or else we will have to start investing basic community capacity, it will happen that is my take on that.

Moderator: Thank you. The next question is from the line of Pranav Gokhale from Invesco Mutual Fund. Please go ahead.

Pranav Gokhale: Good morning Sir. My question on investment in Sri City please help us understand what will be the quant of investment and the size of boilers which will manufacture and may be what could be the turnover possibility in that?

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M.S. Unnikrishnan: First and foremost 40 acres land per se of it is will be dedicating for one product of the company -- absorption chillers. There we have capacity in Pune and only 100 in China. We have been witnessing an improvement in the order booking probably for it so the first plant, which is going to come of there we are spending Rs.150 Crores to make absorption chillers over there that client is going to be designed all the capacity of 800 numbers in the future, what will be setting up will be 400 numbers with Rs.150 Crores. The balance land is taken with an intention to have the boiler capacity created as and when we see growth happening, the land remain with us that is intension. The purpose of going to two reasons. Number one our factory in Pune almost now 45 plus years old is in the mid of the city and manufacturing techniques needed for the kind of IoT oriented modern communication, pure steel oriented machines it cannot be done in Pune so it is compulsion for the company to have a modern plant and what we do with Pune manufacturing with future will not be discussed right now. Certainly understand that we are going into modern plant and second most important is maritime movement security because chiller business is predominantly an export oriented business, little in India and more outside India. We are supplying to 70-odd countries. Our current facilities are western oriented and we depend upon the western parts of the country and I am sure you guys are aware more than me about how good some moving in Indian Ocean Indonesia and how America is withdrawing what all is going to be anticipated. We do not want to be a vulnerable company in the future so will be want to utilize Chennai, Visakhapatnam and Krishnapatnam port as an alternative for the company. That is reason for strategically moving and keeping one of our factory on the eastern side of India. So these are the two factors and what kind turnover can you get 400 chillers if we can make from there you can do turnover of 400 Crores.

Pranav Gokhale: And this facility will be ready 18 months Sir?

M.S. Unnikrishnan: Expectation 18 months. sometimes what happens is we change in between something in terms of our technology because we are trying to make it by modern plant in terms of it being a high level automation so 18 months what we are currently taken you take it for because by the time some of permissions in the last part to happen see there are many companies in India, who will start the construction activity when you get the first clearance from the government and then they will continue applying. Thermax is one company where we will wait for all the clearance to be hand before we have the Bhoomi Pooja done so my expectation 18 months could be one or two months and couple of months, next quarter here and there. That is it.

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Pranav Gokhale: Next is a bookkeeping question can I just of broad split between in energy and environment when it comes to order inflow and backlog?

Amitabha M: Energy segment the total inflow of order during this quarter was 567 Crores; environment segment 257 Crores total 824 Crores, backlog energy segment 3755, environment segment 685, total 4440.

Pranav Gokhale: And standalone please?

Amitabha M: Energy 439, environment 259 total 698, backlog 2981, 672 total 3653.

Pranav Gokhale: Thank you Sir.

Moderator: Thank you. The next question is from the line of Ashutosh Narkar from HSBC. Please go ahead.

Ashutosh Narkar: Mr. Unnikrishnan two questions one is you elaborated a lot on the outlook for the industry if you could specifically talk about the power generation thermal power equipment industry and do you think that you know how long will it take for us to kind of go back to 12 to 15 gigawatts of thermal bidding out over the probably to three to four years timeframe that is one? Second are you seeing any improvement in terms of or say state electricity board to you outlined that you would not want to bid our for, but over the next two to three years timeframe these players could start giving out close to 5 to 6 gigawatts of new orders?

M.S. Unnikrishnan: Let me answer the first portion. The fundamental issues are still remaining the same which we stopped talking about you are enthusing me to repeat it another time I will do that. Most importantly the tariffs have come to a level of investment level in India. Latest numbers I may not have, but it would not have changed beyond level. I presume the cost of generation of electricity has now gone to almost Rs.4 with so much solar company nods in the country. Even the saving that we had in terms of call price coming down we offered it by having an accelerated solar program in the country. Sir at Rs.4 when you are generating electricity, I am told the number currently in war is Rs.3.12 to Rs.3.15 as recovery by the various electricity boards put together so the gap between cost of generation and the recovery is still remaining at something like may be an 0.80 to 0.85 paisa it was 0.70 earlier we have made it to 0.80 to 0.85 so that is a great achievement we have had in the past one or two years. So who is going to fund all of this? So the people who should either there should up privatize entire thing like the way it happened in many other countries. Here they have kept the

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control within them because even now trifurcation has already happened of the electricity board into Genco and Transco and Discom, but all three of them, they were expected to be companies as the Indian Company's Act and they had a freedom to list it or get in joint venture partners, now of this has happened so unless the political spectrum of the country takes a decision that we will how do make electricity as a breakeven at this do not make profit in the country that is the biggest problem prevailing and going to be worsening further and other aspects, which one should take care of that is the advent of rooftop solar which is now coming into something like build on operate, you lend your roof as factories so you can get electricity at may be Rs.5.5 or Rs.6. Now what happens with this kind of condition is the consumer who is capable of paying is withdrawing from the grid and getting in self generation so the need for subsidy on the electricity is going to be increasing in the country and this is going to create big problem that is problem number one. We all of us have forgotten about land acquisition, which was a big issue may be an 18 months back now we have taken it as actively that whatever is law is a law, forget about it which means in the rural you are paying four times as far current law, power plant can come in this cities will coming in the rural areas. The average price the land in the country in the rural area remain at 25000 to 50000 maximum 100000, today the entire land where we can never create a power plant which is all taken care by in between people and the running rate is between Rs.10 to Rs.25 lakh. If at 10 lakh the power producer is going to buy at 40 lakhs an acre and even 25 lakh is going to buy it one lakh an acre so it is going to further increase of cost whereas the majority of the very generate electricity the government acquires the land and you hand it over to them so you withdraw the entire section for the land acquisition act there is second problem so land acquisition is still problem. The only problem which has got solved in the country is called extraction. Thanks to our good power minister Piyush Patel has done a good job. Our coal production has gone up and thankfully globally there is not much of a demand for coal as coal price has come down, there is one positive which is looked up right now and the last item was related to the financing and the balance sheet bleeding of the power companies which is government is declared UDAY, but I think spoke about that earlier in the same seeing that UDAY is not going to take off unless and otherwise and there is round of discussion even with the government if they are not going to be increasing in the bond limits for the states and if they are going to consume the existing limits for the purpose of UDAY the state government are not keen.

Ashutosh Narkar:

Sir, thanks for the detailed reply, what I wanted to carry on the question is that we entered into TBW to get into the long cycle capex now that does not look like moving ahead in the manner which we wanted to what is next business segment which we would like to get into

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the long cycle capex which will kind of give us that visibility for four to five years timeframe?

M.S. Unnikrishnan: In the business pollution control it is next one which we are looking forward to where whatever said and done there will be courts in the country will intervene and we have to be moving along with the world and we have an example available of China having developed without pollution being taken care. Now they are spending money so India. I am very clear having discussed with the bureaucracy of the country that they are going to be enforcing it progressively that is next largest segment going to happening in the country.

Ashutosh Narkar: But we kind of zeroed in on to any particular technology or any particular product which we would like to offer?

M.S. Unnikrishnan: We already have our current partner itself having technology and second this within Thermax we have already signed the for technology transfer from Marsulex Corporation of America flue gas desulphurization of sulfur control. That action is already taken on both, but there again it is not going to take off, your question was when will we go back to 15 India will go back to ordering 15-gigawatt, unless there is a disruption in technology going to happened which I have not seen anything happening immediately so India have good generate more power, we are only postponing a problem. It has to be addressed. That is it.

Moderator: Thank you. The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Good morning. Sir, I joined the discussion a little later probably you to have addressed that there is seems to be some change in the way, we have accounted for even last year Q1 numbers as far as Ind-AS of the profitability seems to be mean reported lower than what it was in what was Q1 before as per old accounting standards?

M.S. Unnikrishnan: Yes so instead of me attempting to answer of very technical question the expert is available Mr. Mukhopadhyay, please tell him about it.

Amitabha M: I think because of Ind-AS coming in there are certain changes in the reported number for June 2015 and March 2015 full year. We have provided the reconciliation between two primarily our case will be on account of couple of two to three area where major differences have come. First one is because of a change of controlled definition we will not be consolidating the joint venture.

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- Madan Gopal:** Sir, I am referring to the standalone numbers?
- Amitabha M:** The standalone number the item which is going to in fact primarily will be expected credit loss model has been introduced as per the requirement of this and in terms of this expected credit loss model, we have to now provide for expected loss while earlier the standard was only with reference to incurred loss. I know one thing is that we have reasonably conservative approach earlier also so on a default risk it has not impacted us, but the new standard also requires us to provide for the delays so that is a new concept which has come and because of it we had to provide for the expected credit loss and will see there is change of last year same quarter the index of 8.69 Crores.
- Madan Gopal:** This quarter Sir.
- Amitabha M:** I think now you know the number as the comparable numbers had a available so I think once a June 2015 has become comparable with June 2016 we should not get into at the quarterly level at the detailed each and every item.
- Madan Gopal:** Okay so but broadly the expected credit loss number is similar?
- Amitabha M:** Number lower than what is to us in the first quarter of last year.
- M.S. Unnikrishnan:** Incidentally my opinion is that you take an order from public sector undertaking where there is history known that they normally delay the project so first invoice when you could make you are going to make a provision most of the you guys attending are chartered accountants you know that what is reality in that.
- Madan Gopal:** Thanks for answering that Sir.
- Moderator:** Thank you. The next question is from the line of Abhishek Puri from Deutsche Bank. Please go ahead.
- Abhishek Puri:** Couple of things from my side. What is the contribution of services revenue in this quarter and why our gross margins as high as almost 50% for the quarter if you can highlight on that?
- M S Unnikrishnan:** First question was about the service. In fact the second question is partly answered in the first question. With the larger Reliance equivalent of revenue recognition having disappeared from the balance sheet in the current quarter, numbers have a higher percentage

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of product and services in that one, so that is one of the reasons why the gross margin improvement is there in that front and your question is what is the percentage of service income have we taken it as a percentage, there may not be readily number available? Do we have? May be what we do that Abhishek you can give a call to Amrita later, she will give you the exact numbers of that because we do not report nor do we take it separately though in each business services there, so our operational maintenance in power, in water in each one of them separately reported, but accumulation is not taken by us, so maybe since the shortage of time she will give a call to you and give the number.

Abhishek Puri: My second question Sir, if you can give us one of provision that you made in the water business you said for the environmental division where the margins have come off and what is the un-executed order book for TBW now?

M S Unnikrishnan: It is around Rs.3 Crores only the provision which you asked, sort of big number in that front water side it is such a number, TBW is the order carry forward, Amitabha is it there in the list, TBW alone? Rs.382 Crores.

Abhishek Puri: My last question will be on the solar thermal Sir. I think the experience in the country for last couple of years I think Reliance Power is the only one which is kind of established a project and they have not been able to stabilize it till date, so this CSP kind of a plant do you think that technology has kind of stabilized now and we can get continuous output from there?

M S Unnikrishnan: The CSP is full-fledged power plant that is why there is a difficulty over there. Here instead a power plant is only generating steam from this, which is giving the heat into the existing power plant.

Abhishek Puri: So basically we do not need the criticality of steam temperature and pressure here versus power plant, a full-fledged power plant you are saying?

M S Unnikrishnan: Not to that extent because for example turbine will stop rolling if you have seen pressure or temperature are maintained, such kind of thing. About here you need to be concentrating in the heat and you need reach your temperature certainly to give the heat out, otherwise we will not be able to give the heat out and in any case the power plant is not impacted, it is a hybrid arising out of the system that is the way we conceived in that way, you are in any case bleeding the steam from the existing boiler or from the turbine and heating the preheating the water that is getting hybridized so ask them about solar available, so in this

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case only when you reach the pressure and temperature will other valve close at this valve open, so whenever there is a cloud cover or a rainy time it is just would not move.

Abhishek Puri: Thank you so much and the best Sir.

M S Unnikrishnan: Madan's answer is readily available. Now Madan it is 22% to 23% is approximate service revenue apportion of the total revenue that we have had. It is gone up from the last year by 2% or 2.5%.

Moderator: Thank you Sir. Ladies and gentlemen due to time constraint that was the last question. I would now like to hand the floor over to the management for closing comments.

M S Unnikrishnan: Thank you everybody. I am sorry we are unable to be giving you exciting results for some time to happen and be with us and will keep sharing and informing each of the report what is happening, whenever you get any information related to uptick happening or people planning for capex please keep us informed about it. We have prepared for this tougher time to continue for some more time that is the way we are configuring our operation and we would continue waiting for orders to happen wherever in the world. We are now spread fairly because knowing fully well India may not have medium sized projects to happen for the next may be year, year and a half. We have fairly well spread on a every enquiry that is available outside India, not an easy task to conclude, but we are working on that because there are many countries especially competing countries of ours or company sample in countries where they are willing to orders without letter of credit from international market which certainly we will not do, so there are limitations of us also picking orders from the international market. Price we may be willing to compromise, but not in the terms, that is about it. Thanks a lot for the continued support. We really enjoy the kind of questions that you are asking and the way you have been considerate and supportive to us. Thanks a lot once again. See you again in the next quarter.

Moderator: Thank you. On behalf of Motilal Oswal Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.