"Thermax Limited Q4 FY2017 Earnings Conference Call"

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ANALYST: **MR. ANKUR SHARMA – MOTILAL OSWAL SECURITIES LIMITED**

MANAGEMENT: **MR. M. S. UNNIKRISHNAN - MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – THERMAX LIMITED**
MR. AMITABHA MUKHOPADHYAY - EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER – THERMAX LIMITED

Moderator: Ladies and Gentlemen, good day and welcome to the Thermax Limited Q4 FY2017 Earning 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 '*' then '0' on your touchtone telephone. I would now like to hand the conference over to Mr. Ankur Sharma from Motilal Oswal Securities. Thank you and over to you, Mr. Sharma.

Ankur Sharma: Thanks Karuna. Good morning, ladies and gentlemen, and welcome to the Q4'17 post results earnings call of Thermax Limited. With us today from the management team, we have Mr. M. S. Unnikrishnan – M.D. & CEO and Mr. Amitabha Mukhopadhyay – Executive VP and CFO. We shall begin with opening remarks from Mr. Unnikrishnan and then open the floor for to Q&A. Over to you, Sir!

M.S. Unnikrishnan: Warm welcome to all my dear friends from the investor community. Let me start on with the numbers. For the quarter I am not going to give the numbers. I am restricting it to the year, because the quarter numbers are better than the full year numbers, so I thought I should focus a lot more on the year number. The order intake for the quarter is at Rs. 4394 Crores versus Rs. 4352 Crores for the previous year. This is for the Thermax Group at full-year basis. It is a 1% better than the previous year, so let us say that it is the same level as the previous year, but there is something noteworthy which is last year 64% of all the orders that we registered came from the domestic market leaving 36% from outside India whereas in the current year the composition is little above 50% coming from India and a little less than 50% coming from outside India. So our dependence on the Indian market is coming down, which is not a good sign, but our survival is currently being supported a lot more by outside India than India. We would want to improve it going forward and we are hoping the infrastructure area improves in the current year , hopefully at least in the second half of the current year.

Coming to the revenues we have a 13% drop in our revenues from 5388 to 4704 and the dissemination of this is last year we did 63% from the domestic market, 33% from the international market leaving the balance for other income and adjustments. In the current year, 63 has come down to 60, 33 has gone up to 35 leaving the balance for the adjustments. So that is about the numbers for revenues. This will leave us with a order carry forward for the group almost 5% lower than the previous year's 4186 coming down to 3976 but this does not include the order that we registered in the last month and a half of $157 million which is already there in the public domain. So if you really look at it our order carry forward position, it is better than the previous year at this juncture and I would presume even at the end of the current year we should be better off than the opening of the current year.

At the EBITDA level we were at 9.1% and dropping down to 8.97% when it comes to PBT in the last year, which has improved substantially by a 60 basis points to 9.5% for the year-end. There were two specific exercises that we have taken in the last year, one in terms of manpower rationalization which is not anything substantial to talk about. Some numbers had to be done in some of the project businesses of the company to ensure that the idling manpower is partially optimized and on the second count, we initiated a project Agile, which is headed by Amitabha personally to ensure that we are able to rationalize our cost and it had been also success. So success of both of these is the real factors behind our improvement at the bottom-line. So a good part of this should be sustainable in the coming year, subject to our ability to be getting decent enough orders moving forward.

Now moving away from the numbers, your first and foremost question must be why we took an impairment at this juncture when there is uncertainty prevailing. Could we not have waited for a little longer till clarity arises? No, when our own government says that there may not be a need for any substantial addition to the thermal power spectrum of the country it will be imprudent on our part not to listen to that and leave it. So we have taken an impairment of the assets. Amitabha will give you the details of the numbers as I hand it over to him towards the end of it.

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We have also taken a minor impairment on our Chinese investment not that it is really impaired, but in our understanding it is going to be now another manufacturing facility for the company because looking at the Chinese market and the way things have happening over there, utilizing it predominantly for only China and exporting only balance may not be the wise decision. So considering that as a factor whatever was necessary has already been done though it is not of major sum. The third is about the share that we picked up in an Indian small company which is into consumer segment of energy - First Energy. Post our acquisition of this company, the oil price has dipped to almost 25 gone and back to the 50s at this point of time, so we had to give up a good part .. at least a 30% of our customers who are utilizing pellet-fired cooking systems. Once the price went back to 50s, there is an improvement in that area but the company is struggling right now and we thought it is prudent only to provide that at this point of time. Moving forward if there is an upside, then we will certainly look at it positively. So these are the three impairments.

Now coming back to the market behavior for the full year and personally what we are looking forward to. In the initial two months, the first quarter was not too good, but second, third quarter we saw an uptake in terms of order intake and we were expecting it to continue. Certainly the demonetization has impacted all of us though we thought we would escape. So finalization of orders came down during the demonetisation and towards the end of the year. But I am very happy to say that, that is behind us and today I do see at least in the consumption-oriented areas that the market is certainly wanting to go ahead and invest. It will certainly help us going forward, though it may not be in every sector but in food and food processing, textile, beverages, alcohol, light engineering, pharma. The others are auto ancillaries where we are seeing an improvement. So that is positive and on the negative side in the last year and going forward, we are not expecting anything to happen in the power sector barring in solar where we have some small play available. Again, based on the reduction that you have seen in the recent past of tariffs, the margins are going to be under terrific pressure and we do not want to emphasise a lot more there. We will be present and we are watching the movement in that area. In the steel area, though all the steel companies have started standing up and their balance sheets are positive, we would not want to bet on that for at least a year, year and a half and maybe even longer period of time. So the only sector where we are expecting some amount of an improvement would be cement, where even now there are a fairly large number of them who have still not implemented waste heat recovery based power plants. They are going to be morally and possibly now also obliged beyond a level because there is a renewable purchase obligation on each one of them to go for it. Our question is whether they will all flock there in the first year or will take two to three years. They talk about 25 plus insulations needed in the country and we will be an active player on that front. I am also expecting that if the current trend were to continue with our minister pushing for road construction at a faster pace and allied city development and some smart cities picking up, we are looking forward to the cement consumption picking up. Will it reach an investment level in the end of the current year or will it get shifted to the next year, is a speculation and I do not have a right answer for it. It is certainly going to pick up being a locally manufactured item. In refinery, the three more expansions we were hoping to happen has moved couple of notches ahead and tenders would come out towards the second half of the current year at least for one refinery and progressively two more. We will be one of the beneficiaries of it. May I now hand it over to Amitabha before we take questions. Amitabha especially on the impairment side, I would like them to be given the right numbers and reasoning. If they need anything more, they can ask. Thank you.

Amitabha M: Good morning. I will just take you through three specific numbers, so that upfront clarity is provided. First I refer to the standalone accounts where there is an exceptional amount of Rs.133 Crores for this quarter. This Rs. 133 Crores exceptional item relates to the impairment provision on our investments in the standalone books that we have provided for three joint ventures and subsidiaries, TBWES, First Energy, and our Chinese subsidiary. Out of this, Rs.112 Crores coming from the impairment in the investment of TBWES. This is what has come as an exceptional item.

Now moving back, you will find exceptional items in consolidated accounts is only Rs. 17.84 Crores. This primarily relates to First Energy impairment that we have done in the standalone books. The similar impact has gone to consolidation because there was a goodwill on consolidation which hast to be impaired. It is a consequence of the impairment in the standalone of the investment. You will find there is share of jointly controlled entity. We have shown a loss of Rs. 65 Crores in this quarter in consolidated accounts. Now for TBWES joint venture the impairment of Rs. 112 Crores that we have provided for in our investments, the JVs board has also provided for impairment of fixed assets. That fixed assets impairment that has been provided for, our share of that in the JV is Rs. 66 Crores. So when we say Rs. 65 Crores is the share of the losses of the JV that we have taken in this quarter, Rs. 66 Crores relates to the loss due to impairment of fixed assets in the JVs book. So actuallythere is a profit for the year on the JV, wherein our share is about Rs.2.6 Crores, the remaining is only one-off item.

There was no impact of the impairment of Chinese subsidiary that has come into the consolidated accounts because despite the impairment provided for in investment in standalone, these have already been accounted for in the consolidated accounts as losses. So there was no impact of this impairment of Chinese subsidiary that is flowing into consolidated. These are the breakup of the three numbers and there was a bit of an accounting technicality involved so if any question or further clarification is required, I will provide them.

M.S. Unnikrishnan: Thank you Amitabha for excellent depiction of those numbers, thank you and I need to appreciate the good work done by Amitabha and his team, the rare companies in India to have completed the accounting as per the Ind AS practice and we have very clean and clear balance sheet also ready and I am sure if there are queries we can answer it also as we moving forward. So thanks a lot, I will stop over here for my friends to ask me any queries that they have on the results of the company. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Sir, thanks for taking my question. My first question is related to this chemicals business what could be the potential growth over the next two to three years in this business, it carries good margins. Will the business grow once there is a capacity addition, which we are currently doing in Gujarat, is there a potential for the margins also to sustain because in the earlier call you had mentioned that there was some Chinese competition prevailing in this segment.

M.S. Unnikrishnan: Ravi it will certainly help because we have constrained capacity for a number of years and it did take a lot of effort for us to get this factory which should be up and going in July. We will charge the chemicals into our vessels and I would expect the production to begin in a streamlined fashion towards the end of the first quarter. So second half of the current year, I should have a benefit of this and then it will be progressive so if I were to take a three year perspective of this, certainly the chemical business based on resins which is currently Rs. 175 Crores out of the total turnover that you are see, has potential to grow 15%. Let me say that on an average with that and margins initially at the EBITDA level will remain constant or maybe better off, the PBT level will take a minor beating because of the depreciation that we accounted for that but it is a positive sign.

Ravi Swaminathan: And moving onto the Enviro segment what are the opportunities, which are there currently. You had mentioned that SOx and NOx people are increasingly preferring SNCR which has SCR. Is there an opportunity still which is there in that particular segment and in the water segment, your comments on participation in Namami Gange orders etc. would be really helpful.

M.S. Unnikrishnan: Starting up with the air pollution control side though people are taking exception to the fact that they can manage with the SNCR. NTPC is going ahead with SCR as a technology but the only thing is the crowded market, where there are multiple people who are going to be given opportunity to set up pilot plants of which we are also one of the selected ones participating. So it is good news but we will have to see will and how they will implement. I would say that in the current year we will go without any order barring maybe one or two tenders which are already outside the NTPC ambit. Otherwise, the government is waiting for this to happen.

Then coming to the other areas of gaseous emission, nobody is pushing for it but I presume moving forward in a selective way like in Gujarat, there is a stipulation that certain boiler should certainly have at least FGD or may be some kind of clean up system as a necessity. It is already in vogue and I am sure once Gujarat takes the lead other states will follow. But will all the 30 states of the country go for it? The answer is no, but at least I would expect progressively in the next maybe three to five year period virtually every industrialized state of the country will go for a cleanup system with every boiler. I am talking about small to big so there is a good market going to be available for it. Most of the large polluting companies in the country will be hooked onto the pollution control department through a wireless or even with the wire system and there is a good demand for those who can provide along with the equipment, a monitoring possibility. The least we would do is to retain our customers through our monitoring offering. Now how will it translate into bigger numbers currently I will not comment on, but it will certainly be moving forward.

Water business has just come out of some pain areas. Let it take some time to regain health before we begin dreaming about the Namami Gange because we are not very comfortable dealing with either the earlier government or the current government for water treatment, water purification, etc. Namami Gange has two parts to it. Number one is the municipal corporation, which are pumping in untreated effluent into the river. We will not be participating in that one. That may be contributing to the larger part of the business. However there are a couple of industries --at least 300 to 400 numbers of a certain size and above and there are prospective customers waiting for some kind of a support from the government. They are telling that if you do not support us, we will not survive. As the new policy evolves for that, we will be a very strong player in that market because some of the effluent is not an easy thing to treat and these are the areas where Thermax has got capability and technology available. In my limited understanding, those will be contributing to earliest maybe a 25+% of the total evolving market as we move forward.

Ravi Swaminathan: There is a 25% market out of the 20000 Crores estimated size of the entire Namami Gange program, is my understanding right?

M.S. Unnikrishnan: You are right, but this number is based on our best understanding. There will be a market that is evolving, so those numbers are very large in nature it again depends up on whether the government be funding or not. If they are not going to be funding, it will take a longer period of time for the implementation to fructify.

Ravi Swaminathan: Understood and sir coming onto TBW JV if you could give the full year numbers in terms of revenue and order book for TBW JV it would be really helpful and if you can give us thought process on what are we going to do over the next one to two years given the fact that opportunity is not there, we will look at international orders?

M.S. Unnikrishnan: Numbers Amitabha will give you; and balance I will try to help you with the answer. So, Amitabha is taking it on, so let me just give you an indication that we are very clinically looking at whether we should be continuing with the JV or not. So order book can be possible from the JV partner in a small way. But that may be a couple of Rs. 100 Crores turnover and maybe near to no loss or maybe a little loss here and there. Is that the future of Thermax is something which we are re-looking at. I do not want to answer that beyond a level at this point of time because we may have to take some tougher calls than what we have taken already.

Ravi Swaminathan: Understood Sir.

M.S. Unnikrishnan: Yes. Thank you.

Ravi Swaminathan: And the numbers?

Amitabha M: As in the JV, we have order backlog of Rs. 203 Crores at the yearend, revenue for the year is Rs. 294 Crores and during the year the JV has incurred a loss of 64 Crores. I am talking about our side of the loss, so JVs loss will be double of that. It of course includes Rs.130 Crores of impairment which the JV has to do on account of its fixed assets .

M.S. Unnikrishnan: If you would remove that on the operations is what I am sure he is interested in JV's interest, it is the

Ravi Swaminathan: I think about Rs.10 Crores will be the number.

M.S. Unnikrishnan: So let us say Ravi on a Rs. 297 Crores one would incur a loss of maybe a 10 Crores. If you can do a 350 Crores it may be a breakeven that should be the numbers is that okay.

Amitabha M: Yes.

Ravi Swaminathan: At an EBITDA level what would have been?

M.S. Unnikrishnan: I mean it is EBITDA positive.

Ravi Swaminathan: Okay sir thanks for answering my question.

Moderator: Thank you. First question is from the line of Madhan Gopal from Sundaram Mutual Fund. Please go ahead.

Madhan Gopal: Sir you explained about opportunities coming up in cement side WHR opportunities. Roughly what sort of megawatt terms it would be the 25 installations converting to?

M.S. Unnikrishnan: You can take on an average of 8 megawatt per site because some of them are small, some will be bigger than that so you can take say maybe a 200 plus megawatt.

Madhan Gopal: And you talked about solar and in last two calls we were talking about opportunities with NTPC on the solar thermal side. Will the fall in the PBC make our client re-look at the entire project proposal or you think completely unrelated?

M.S. Unnikrishnan: It will be unrelated because that is a different opportunity altogether, but certainly when there is I mean you can get electricity virtually free that is the way the guys are talking about but nobody has done the real estimate and cost of that. This is after giving them free land and maybe couple of other freebees being given that is the numbers we are talking about for solar parts of the state that is in Rajasthan so I think it will be treating separately.

Madhan Gopal: Any new site again talk from NTPC side is you looking at other than the Dadri where we are doing currently.

M.S. Unnikrishnan: There are two more sites, which they have in their mind but they say that let them first be commissioned and let the establishment of the technology be happening and then we can move ahead, that is the way it is currently being.

Madhan Gopal: So it might probably be a year before we see the next…?

M.S. Unnikrishnan: Obviously one year is what we should take with the safety.

Madhan Gopal: And what is happening in Thailand Sir, there are opportunities at the sugar front, last year we have got some orders any improvement there, are the additional orders coming through?

M.S. Unnikrishnan: Enquires are there. Two more enquiries have come in and the discussions are on and I am hopeful that in the second half we are expecting further enquiries, we are going in steps but that is happening.

Madhan Gopal: Thanks for taking my question. Wish you best of luck.

M.S. Unnikrishnan: Thank you Madhan.

Moderator: Thank you. Next question is from the line of Venu Gopal from Bernstein. Please go ahead.

Venu Gopal: Sir firstly just wanted to understand over the last couple of years we have taken impairments etc. and quite a few of your new initiatives on nickel gases for example earlier and now I am a bit surprised why an impairment in First Energy as well as the absorption cooling subsidiary in China because as I understand things were improving there after seven, eight years.

M.S. Unnikrishnan: It is only our conservatism and prudence not to wait for the end and then fight it out, we are going to fight it out in the market certainly yes but we thought it is better to clean the balance sheet and move ahead. While there is a positive prediction, there is a also chance of something going wrong. So in such a kind of a situation it is better to provide rather than wait for it to happen or not. That is why we have done it and if there is anything positive that's going to happen, we will certainly write it back also. First Energy was a small amount, but you had asked the right question Venu. Is it such an important thing for you to provide, can't you wait for it? My take on that is that oil price crash all of a sudden happened and it went back to 50 but there is a lot of speculation about oil markets in the future. The world may move into electrified vehicles EVs at a faster pace than what is expected. When you minister says that by 2030 India will not have any vehicles other than electric vehicles, you take notice. It may not happen in reality 100% but if even half of that would happen then you don't need oil in the world. So in a medium-term I am not talking about short-term, if the oil prices were to come down by $25 then what is the future of the company ? I agree, it is likely that it may not happen at all then certainly we will be back in business of it. Now you may also ask the question, are you thinking too far ahead in a market, which is shortsighted right now. Now we want to be a little more than short sighted. That is only a reason for it.

Venu Gopal: Now I understand Unni. It has become difficult to predict when these things are taken as a call from management so that is the only thing if at all. My second question is more to do with the fact that we when we venture into TBWE sometime, a couple of years back there was an excitement that you would be amongst the top three right L&T, BHEL and us. Now somewhere down the line, the market itself was weak and then Doosan entered from an EPC perspective and they were also very competitive. Now what you see incrementally is that you do not want to participate in supercritical opportunity. See end of the day, it is a cycle. So few years down the line, you could again see the cycle improve. So why this call if at all because you are almost breakeven now to even think of getting out of the venture.

M.S. Unnikrishnan: It is a tough question to be answer in but let me attempt doing that let us says. First of all there is a global movement, and there is a domestic movement. In the global movement, we are recognizing for a fact that it is become increasingly difficult to get funding for coal-based power plants barring in China and India. So, B&W operations are… China already have a joint venture and India too a joint venture. So this can sustain for the next five to seven years. One should be having sufficient orders happening outside China and outside India, which is where our entire crux is on right now. We do not have a definitive answer that it can sustain and there is a dog eat dog competition in that particular market. So B&W themselves are re-looking at their own strategy going forward so they can survive in this area in the international market. There are 50:50 chances at this point of time that it may survive also in that market. That is only input available to us. They had orders available with them for almost a year. Now there is a possibility for one of them to be fructifying into an advance and this after so much of discussions back and forth. So if the catchment market is drying up and in China their joint venture has picked up orders of 1000 megawatt at two numbersthey are becoming very, very specialized but would not take from this particular JV. India is governed by a set of people who believe that you can run the entire country using solar and may be governments do not last such long. But we have to be prudent and stay the course and look at the situation very critically and clinically. sometimes we have to accept the fact that things do happen and assuming the government is going to last minimum of up to 2024 and they believe that they can run without too many thermal power plants coming in, 7000 megawatt is going to be ordered out in the coming year. If another 7000 will get ordered, in three or four or five years we were going to have about 6000, 7000 or 8000, then do we need three players in the country is the question. Though everybody is for big numbers and in reality India has got at least maybe 15000 megawatt capacity which I concurred with all you maybe three years back, at 15000 capacity existing three Indian players and maybe an international player one, one and a half going to be participating a 20,000 megawatt global capacity fighting for 7000 it will be going to somebody who is willing to take losses. Should we be in that market is the question. You should support me in fact telling us it is the right way to look at it. I am unable to find a situation where we can say the sorry we are fighting it out. No, I do not see that happening at this point of time. So the call is going to be, we will depend upon the orders going to come from our partners and will continue at near to breakeven for a longer period of time and the question that is in your mind is how long is that long. That long is going to be two years, three years. I will be the first person to say that we have enough and more available on our balance sheet to be holding on to that but in case if I were to know that it will be longer then we should move ahead in life. We do not know an answer for it. We are moving possibly towards one.

Venu Gopal: Thanks a lot Unni, I appreciate the detailed reply to this. Thanks.

Moderator: Thank you. Next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Sir thanks a lot for taking my question, Sir could you just talk about the energy and environment split between order inflow and order book and Sir as we requested last time around if you could just include this in your press release it will be really helpful because this is the question that anyways anybody would be asking?

M.S. Unnikrishnan: I do not have any problem Amitabha can do that. Amitabha please help him out.

Amitabha M: I will give you for consolidated for the quarter energy Rs. 802 Crores, environment segment Rs. 245 Crores and chemical Rs. 123 Crores, total Rs. 1170 Crores order intake. At a standalone level I will give you energy Rs. 705 Crores, environment Rs. 245 Crores and chemical Rs. 22 Crores. The order balance at a consolidated level, energy Rs. 3391 Crores, environment Rs. 567 Crores, and chemical Rs. 18 Crores, total Rs. 3976 Crores. On a standalone basis, energy Rs. 3020 Crores, environment Rs. 567 Crores, chemical Rs. 31 Crores, total Rs. 3618 Crores. These numbers of consolidated order balance numbers do not include the joint venture so this is one change we have made. So that the consolidated order balance relates to the consolidated revenue of the company because under the new Ind AS, the joint venture accounting has moved to only share of profit or loss. This change has been done. The order balance of joint venture was Rs. 218 Crores so if we had followed the earlier basis for a comparison 218 needs to be added to look at what we were doing up till earlier. Thank you.

Pulkit Patni: Sir that was my second question actually Sir could you clarify that the Rs. 4600 Crores order backlog we had last year actually included the joint venture and that is something that has been taken out which is why the opening order backlog is Rs. 4186 Crores?

Amitabha M: Absolutely and this is what has been done till last time we used to put within that and including joint venture, so we have removed the joint ventures and we have removed what used to be there within bracket in the press release.

Pulkit Patni: Okay. That is useful Sir. Thank you so much.

M.S. Unnikrishnan: Thank you Pulkit.

Moderator: Thank you. Next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Sir my first question is you did mention of a couple of projects to cut down cost structures both at the stocks as well as in other expenses and specifically if we look at the Q4 and full year difference between the standalone and consol, there has been a substantial Q-o-Q reduction in expenses, so almost…so do we see those levels of the other expenses sustaining since there has been a sharp reduction similarly the staff expense. And if you can highlight a little more with respect to specifically at which entities where these programs undertaken and what kind of cost reductions have we achieved?

M.S. Unnikrishnan: It is predominantly done on Thermax Group only which includes the subsidiaries of the company. It would have neutralized the impact of the salary increase of the entire company in one shot so even if we give a salary increase, we will not have a cost increase on entire staff for the year, that is the first part. Then next part is related to rationalization of cost, we should bring in a full year something like maybe a Rs.30 plus Crores – Rs. 30, 35 Crores without any problem…this is after passing the balance benefits for picking up of orders that way we considered 50:50, 50 for the market, 50 for us.

Renu Baid: Sure, because Sir if you see the profitability operating margins at the staff level should a smart improvement in Q4 almost 14% margin and overall for the full year margins at this time is close to 8% so was there a combination of better quality orders execution also or purely you think it was driven by the cost rationalization measures.

M.S. Unnikrishnan: No, I will have to give credit for both of them and also possibly one more thing is that when you have a lower turnover, the services business of the company becomes a major contributor. So firstly, the share of service business has gone up and secondly, cost rationalization done on both accounts and people and then some good orders.

Renu Baid: Can you share what was the exact share of services in our Q4 and full year revenue mix?

M.S. Unnikrishnan: It could be in the region of around say 9% to 10% of the total income for the full year basis and if one were to add chemicals as in service business, good part of our chemical business is service business only. There are two aspects of the chemical business. The first one is the resin which is barring the initial charge that we give, the balance is on replacing the chemical every three years for those who have treatment plants. The other half of our chemical business is totally service business for oil field chemicals which get into oil production. Then we have good construction chemicals and a third is cooling water chemicals to maintain cooling towers. All these are service-oriented where there is a service substantial portion and the value portion may be smaller.

Renu Baid: And also one question which is to Amitabha Sir, there has been a sharp jump in unallocable expenses. So anything specific to read through into it or you think it would be more of a one off in the quarter.

Amitabha M: Can you repeat which one?

Renu Baid: Unallocable expenses if we look at the quarterly trend, there we would have seen that the other unallocable expenses typically was running at Rs. -10 to Rs. -12 Crores quarterly and this quarter it was Rs. plus 23 Crores which brought down the annual numbers substantially, so any insight into why was the unallocable expenses net higher for the quarter.

Amitabha M: No I do not think that there is any specific thing like that. There was such a corporate level expenditure during this period so that could have had an effect.

Renu Baid: Okay otherwise nothing outlier in that.

Amitabha M: No nothing like that.

M.S. Unnikrishnan: I think what she is asking is that there is one-time investment or is it on the same level going forward?

Amitabha M: No it is more of quarter-on-quarter, certain bunching of our corporate level expenditure, which had taken place.

Renu Baid: And Sir lastly if you can just I am sure you have broadly shared the highlight and the outlook with respect to business but now that order book has been broadly flattish but short cycle business are apparently growing, so would it be fair enough that we assume that FY2017 was the worst in terms of business volume as well as profitability, now we should see improvement or meaningful double digit improvement in the numbers as we go ahead in 2018-2019.

M.S. Unnikrishnan: I am as hopeful as what you are and we are working towards that. Amitabha wants to answer one more question.

Amitabha M: One thing of course that you will find one of the exceptional item which was there Rs. 18 Crores that of course is included in the other unallocable expenditure for the quarter in consolidated that we already spoke about.

Renu Baid: And Sir one request as in the way we typically give the segmental numbers on a consol basis if you can also share these numbers on a standalone basis, it becomes a little more easier to how the India performance has moved.

M.S. Unnikrishnan: Oh yes, Amitabha is it ready with you right now or you want to wait for the next quarter? If it is ready, we will give it to you. I think he is looking it at that.

Amitabha M: The consolidated number you have already got that.

Renu Baid: Yes the standalone numbers if you can include it in your press release or your statements also, it will be easier for us.

M.S. Unnikrishnan: I think then we will do it as a release in the statement from next quarter, we will do that we do not have any problem for it also.

Amitabha M: Standalone information just now we can provide for the quarter energy environment and chemicals revenue at Rs. 1069, Rs. 254 Crores and Rs. 75 Crores respectively. There is inter segment revenue of Rs. 26 Crores. On segment results that is profit before tax and interest, energy Rs. 131 Crores, environment Rs. 25 Crores, and chemical Rs. 13. So these are the three numbers on standalone. Okay.

M.S. Unnikrishnan: Is that okay?

Renu Baid: Thank you so much sir and all the best.

Moderator: Thank you. Next question is from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

Abhishek Puri: Thank you so much Sir. On the consolidated numbers do we have to adjust for Rs. 66 Crores as I heard as the share of TBW loss for this quarter, is that correct?

M.S. Unnikrishnan: Yes it is, that will be adjusted is what I understand. Amitabha will you please?

Amitabha M: Yes, TBWES is just we are doing single line consolidation. If you are looking at consolidated accounts, you will not see that particular number here.

Abhishek Puri: But the loss has been kind of booked in the subsidiary right, you said that Rs. 66 Crores is the PAT in our or the subsidiary profitability of share that will be consolidated here in the 645 million that you have reported as a share of JV and associate.

Amitabha M: See let us put it, you are asking the Rs. 141 Crores?

Abhishek Puri: Yes.

Amitabha M: The number in the consolidated for the quarter for energy segment that number is 141. The number does not include an impairment loss of TBWES.

Abhishek Puri: And this… the share of JV and associate this Rs. 64.5 Crores that you have reported that also does not include the Rs. 66 Crores loss that you mentioned?

Amitabha M: No if you are saying Rs. 160 Crores look at what we have referred to so far Rs. 160 Crores profit before tax in the segmental account for the quarter, now you can look at the consolidated account profit before tax, this is before the loss of the joint venture, which is adjusted is the Rs. 18 Crores impairment provision in the investment of First Energy, so that is the only thing which is getting adjusted. JVs loss share is coming below the line, below this.

Abhishek Puri: Fair point so, which is what I am trying to get to a recurring profit number from Rs. 43.7 Crores reported profit. Should we add 66 Crores to get to the adjusted profit?

Amitabha M: Rs. 49 Crores and you should add Rs. 65 Crores at loss which will be in a consolidated account. Yes out of that Rs. 66 Crores should add and you should add also the Rs. 18 Crores, which you are saying above as an exceptional item. These three if we have had you will find and the number without impact of exceptional items.

Abhishek Puri: Right I understood Sir. Thank you for the clarification. Sir secondly on the overall the captive power demand has been quite muted as well given that the industrial demand is weak and the LGBR date of CA suggest that there will be 8% over capacity or surplus capacity in the country, so is this also impacting the captive power demand as such in the economy.

M.S. Unnikrishnan: On the face of it looks like that. I do not know how to react to that but I am quite certain about the fact that there is a lot of suppression of the demand. My understanding is going forward, captive power will be there at least for the next two-year period of time into cement industry and in any case refineries will go for their own captive power whether it is solid fuel fired or oil fired. I am happier with coal firing because the size of the orders will go up. I will certainly go for these two segments and in spite of the romance on solar for running most of the industries, we need to go for captive power. There is a huge attraction even now available. We are all talking about the prices of solar energy coming down but coal prices have also gone down to $30. You can pick at this point of time coal from Indonesia at that kind of a price. In our own country, coal prices have been slashed. So today you can generate captive power virtually at less than Rs.5 in any case for a capacity of may be 15 megawatt an above. I am talking about and half the people who are currently buying electricity from the grid are paying Rs.8 to R.9, so arbitrage is still available but there is a wait and watch in the minds of people who say that electricity cost as a part of my total turnover is going to be only 2.5%, 3% so let me wait. The economy may pick up in perhaps four years or the next year. So for the time being we will go for it as limited spectrum. We are picking orders even in India. A Pharma Company has given an order last year, two of them I think given orders for captive power plant. There are a couple of others also currently in discussion.There are two chemical companies which are expanding their capacity in the country. Both of them are going for captive power. One is in the state of Gujarat where they have got surplus power. There is 30 or 40 megawatt one under discussion. There is a textile offer in Madhya Pradesh. He is intending to go for a 60-megawatt power plant using coal incidentally. All the plants are going to be using coal. What is happening at the ground level and what is spoken at the ministerial level, the gap is so wide. We are on the ground level but we are not making noise about that because in any case if we make a noise about it then unfortunately even they will be curtailed from doing that. There are four or five captive power plants under negotiation right now. Whether we get it or a competitor does is immaterial as long as the industry is moving in that direction.

Abhishek Puri: Very helpful Sir. Lastly on the segments that you have been highlighting for last one year are the same ones, which have been growing so food and beverage, textile, pharma, auto ancillaries. I have been hearing from you on this con call for last four quarters, so what is growing in this segment more than what you have been seeing last one year, so incremental growth is being supplied by any of these sectors growing faster or is it any new sector being added like you mentioned cement is a possibility?

M.S. Unnikrishnan: I would say that in the food and food processing, dairy industry is growing faster than the rest of them right now and it is at back of the eating habits of you and me in this country.

The meat eating percent is growing up and fundamentally all of them are investing in the dairy industry. Other than that in India, there is no pattern why anybody should hugely invest in a captive power plant for a textile industry where he has constrained the capacity utilization this point of time. So he believes that captive power is cheaper for him and he is going for it. The chemical companies which I mentioned about are are going to be making caustic soda. He is informed enough to be going for captive power because he says that his entire profitability will depend upon the cost arbitrage he will have on the electricity. If he were to buy from the grid because in the caustic soda making electricity is the major expense in that area so he wants to have a captive power. The other one is the LAB manufacturing company that is having a backward integration done which is going to go in the detergents . Last year I had a big order from a detergent maker in the country. So there are isolated instances. Now moving onto other areas, cement is seeing movement because if there are enough and more manufacturers in the country, you better start utilizing the waste heat you are throwing out. They are sitting on their license for limestone and coal linkage and will go to capacity expansion. I think one or two of them towards the end of the current year. They will have to go for it because one is pan India there is 70% capacity utilization. Let me be open with you there will be a scramble for the fight. Couple of us will be fighting against each other but we have to be healthy to take the orders.

Abhishek Puri: That is helpful sir thank you and all the very best.

Moderator: Thank you. Next question is from the line of Inderjeet Singh from Macquarie. Please go ahead.

Inderjeet Singh: Thanks Unni for the opportunity. My question is related to all the opportunities that you have talked about I just wanted to understand the materiality of all these. Are these kind of small orders ticket size of Rs. 5, Rs. 10, Rs. 15 odd Crores or is there an opportunity for us to get something more meaningful Rs. 50, Rs. 100 Crores kind of orders from this entire sector that you have been talking about for the last 12 months or so.

M.S. Unnikrishnan: The small ones 50 Crores will not be there and we have been getting orders and that is why the numbers are in front of you. Those sectors I presume will continue to be investing. Rs 50 Crore-size ticket size would not be there in the first half of the sector, which I spoke about. After this, the critical market movement will be 10 Crores. We have Rs. 15 Crores once in a while but not Rs. 50 Crores in that area, certainly not.

Inderjeet Singh: Sir this all these entire space put together would be say what portion of our existing business, so as understand that there not too many big orders that we have got in, in the last couple of years then they barring one each year but this would be like what 50%, 60% of the entire portfolio that we have in terms of business at this point of time?

M.S. Unnikrishnan: I would say that the kind of numbers that you are telling is absolutely right. Once you get a windfall. So I keep it aside. If I have to talk about Rs. 1000 to Rs. 1250 Crores range of order intake to happen in a quarter, in a quarter I may get also Rs. 2000 Crores because a big thing would have happened that way. Let us keep that aside. In the Rs. 1000 to Rs. 1250 it is a 50% to 55% is the current number that we are running right now.

Inderjeet Singh: Sure. Okay. Now coming to this TBW joint venture after taking the write off and I would say a fairly gloomy outlook at this point of time, what is the form of restructuring which can happen in this? Is there a possibility we can sell this to an existing player or we just shut it down or see our joint venture partner takes it over or we take further write off in just close it? So what exactly are options we are considering here at?

M.S. Unnikrishnan: All the option that you mentioned are available in front of us. In that which is the one that is more suitable for the company is what we are looking forward to. The best thing is to give it to somebody who is already into the market and who is looking forward to India at a very, very long perspective, which are very limited in the world right now because BHEL of course will have to survive so they will continue. Second is Larsen & Toubro, L&T I do not know what will be the con call results of that but let me be very open with you. All of us, the three of us are concerned about how things are going to be shaping up in the country and Mitsubishi and Hitachi conglomeration have already happened in Japan, so with that they may have an opportunity available but will the Indian partner want to continue in that is a question because that maybe least priority in that company right now because for them it is not a major issue . I do not know what attention will that be getting in the company so I will leave it at that. Then comes the rest of them, there is no Indian player who will be healthy enough to be coming closer to acquiring this. So one is that we continue with that but otherwise is we say that sorry it does not have to be. In the international market, Chinese can certainly be available so we cannot write it off that way. So I will leave at that right now. We have not come to the conclusion. The moment you come to the conclusion be assured of the fact that you will be the first to hear from us. Only thing you will have to wait for the con call to happen but we will certainly share with you. Currently, we have not taken a call but will we be compelled to take a call, I want you to stand by me on that call taken.

Inderjeet Singh: So I think just to extend that argument if you look at your existing business portfolio, do you think that the existing investment that you have done in that joint venture there is some kind of an overlap, there is some kind of a usability of that equipment base for an existing business… is there something like that?

M.S. Unnikrishnan: Not the big ones. See now there is a block on thermal power. If somebody were to go for with a smaller capacity of 150 megawatt I already have the technology for it and we all have separate agreement with the partner also for the CFBC. If somebody were to cross the limit of 100 megawatt and say I want to put a 500 megawatt CFBC which are all possible. Once that is sorted, there will be a day when you are going to cry for capacity in this country. It is only a question as to should we be waiting so long but see there are plus and minus so that is the evaluation currently going on. In my understanding give or take maybe a five to seven year period of time, as the industry realizes that we need to be…I mean solar alone cannot but there is one disruptive technological change which can change the entire way of thinking. If battery technologies were to be taking off to a level where it becomes practical for you to have batteries and miniaturized versions available which can store the electricity for reduced consumption you may move into that. Now these are areas, which are totally unknown to India. Let me be very open to all of you that India is not going to be the birthplace of batteries for the world going to be. It is going to be the laboratories of the world where they are already working on that and in case if a disruption were to happen into the next two to three years period of time, some of the dreams related to thermal can take a walk it is a possibility. Now one should bet either way it is a question, now one can bet and say incur a loss of small amount there maybe some small amount one can continue with that but what will happen is do you live in a world of hope or do you live in a world of aspiration. If you are living in a world of hope you can be defeated and in an aspiration, you are walking, hoping, waiting. That is where it is more spiritual answer for an Indian company to be thinking but we would rather be aspirational.

Inderjeet Singh: Thanks a lot Sir. Best of luck.

Moderator: Thank you. Next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Sir the first question was more on getting some sense of financials on the subsidiary side, if you could talk about the key subsidiaries and how the year has gone by for that.

M.S. Unnikrishnan: Barring two of them all of them are positive in the current year. The one which is in negative the China one is negative and the small baby one in Rifox in Germany again went into negative but frankly speaking that was in accounting because whatever technology we got from them we started manufacture in India if I got to offset the profits made by the technology in India. It is a breakeven plus situation but in Germany we are booking a loss. So the prime losses in our subsidiary in China is -9.9crores for the current year versus last year's number of -3.5crores. We had an order worth around Rs. 20 Crores picked up from China for an EPC, which they were doing in Saudi Arabia. If I were to continue with an order being executed from China, I would have been closer to breakeven but we decided to execute that from India on account to the fact that I can get a letter of credit for our supply from India to Saudi Arabia. But if I were to supply my equipment from China-to-China I would have to wait for the paper work to happen. So if I were to offset that, the losses in Chinese subsidiary would be narrowed down to almost like last year's level. The losses in that JV is not as much as what we are booking over here that is in any case from next year onwards the intention of the company is to ensure that it becomes a manufacturing centre rather than a separate entity because frankly speaking the way Chinese market is behaving for absorption chillers, because outside what you hear is about China growing and China going to rebound. In reality at the ground level most of the kind of investment where one would need chillers have come down and we have started competing outside India. So we will have to treat that as a manufacturing facility and I will be needing it also. Frankly my facility in Pune is not able to be supporting the future business as we are speaking up so I will have the Chinese manufacturing facility plus the new modern facility that we are creating in southern part of India in Sri City. So put together we will have say an 800 plus capability in the Sri city manufacturing, a 100 capability remaining in China making it 900 and I will enter the market with the carry forward order possibilities of maybe 400 plus numbers and another say four or five years progressively we will reach up to the capacity that we have. So that is the major plan the entire thing related to cooling.

Aditya Mongia: Sure Sir that is helpful. Just one more clarification someone asked a question on captive power and demand of it going forward given where we are in terms of the grid supply and you mentioned basically two points one being continuous supply of power and that began attraction for captive and the second being the cost arbitrage. On the second part, is there are a possibility that the government may start putting some kind of cess or something to bring down that arbitrage for the period of time over which there is good supply happening.

M.S. Unnikrishnan: In my understanding some states have done it already Telangana has already got it and Maharashtra has got it for solar. It is isolated way it is there but the amounts have not become so big that the entire arbitrage is eaten away by the cess on this. It is a more of a state subject than the central subject it is a cash generative situation. If you deprive people of generating their own power especially the chunky guys who will be needing a larger quantum of power, you may find a backlash in terms of people wanting to avoid this particular state. So job creation wise this will become a issue over there. So the way I am looking at it is that there are some states where we are acknowledging like Gujarat doing it with a minor cess. There are states allowing captive power. They will limit the entire arbitrage facility not to a big chunk they will limit it to maybe an Rs.2, Rs.2.5. That is the way they will move ahead.

Aditya Mongia: Sure Sir. Those were the questions from my side. Thanks a lot.

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

M.S. Unnikrishnan: Thanks a lot to each one of you for being patient with us and once again I need to say that we are not out of the woods as an industry and there are opportunities opening up and equally there are challenging times available. What we did not discuss at length is related to the competition in the international market. In my understanding it is not easy task for anybody to be winning bids in the international market. Last year we had been lucky enough to be getting orders in Middle East and South East Asia and one big chunky order from one market which again probably this we will keep you informed about the execution status of that one. There are enquires on the anvil right now for captive power from a couple of markets. In one market in South America, it is more of a funding issue. If funding comes through then it will take off and in South East Asia, funding is not the issue, it is in terms of regulatory clearances to be given but I would expect overall captive power ordering to be better in the current year than the previous year and the boilers and heater which is our business which is frankly speaking the largest business of the company, we should see something better in the current year and I will keep you updated on that and thanks a lot once again to each one of you.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Motilal Oswal Securities, that concludes this conference call. Thank you for joining us today and you may now disconnect your line.