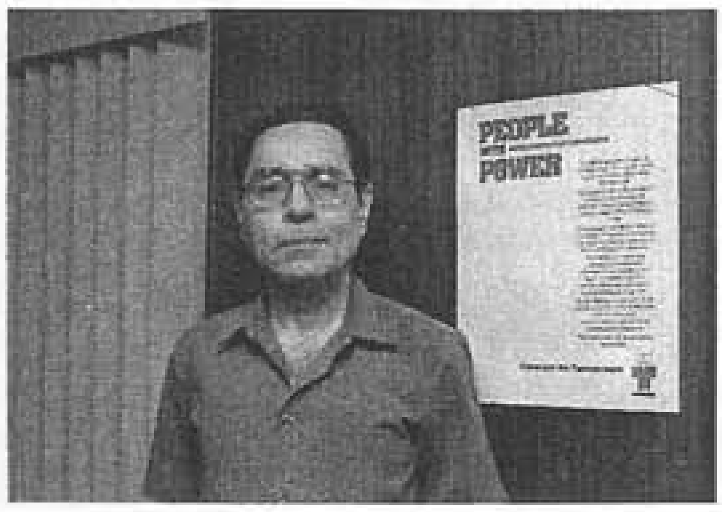
DIALOGUE



In sharing excerpts from the Directors' Report, I have a two-fold purpose : (i) to reflect on the past and provide a sense of direction for the future, "a great deal has been achieved – but, much more remains to be done." And (ii) : Rather selfishly, to gain a respite from my usual dialogue, particularly as I am rushing to catch my flight to Detroit.

Trust you will find it good reading.

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> **"In the earlier years, we often prided ourselves on some profit that never really was. A profit that added to assets that never materialized – assets like debtors and inventories which gathered like fungus and had ultimately to be written off. One can play this game for a little while but ultimately the day of reckoning arrives – as it did in 1985-86. All divisions now are scrupulously aware of showing the correct profit – not the profit that never was."**

Writing for *Fireside* has always been, for me, a great labour of love – a labour, if any, being the creative frustration in quest of a good story. This year's Annual Report provides an appropriate setting for a good story – to reminisce about the growth and performance of our Company in the last 5 years.

In 1985-86, Thermax dipped to its lowest ebb. In that year, the Company barely broke even – prompting Thermax-watchers to liken it to "a meteor, rather than a star." In the report to the shareholders for the 15-month period ending 30th September '86, our Directors mentioned that, "1985-86 was a trying year – but in retrospect we shall look upon 1985-86 as a year of awakening, as a year of grace. 1986-87 is a turning point. We can say with quiet confidence today that the current year will generate an operating profit of not less than Rs. 3 crores and in the year following Thermax will be back on the growth track – continuing its leadership in its chosen fields of Energy and Environment."

As we look back over this period, you will see that our Company has lived upto its commitment. The year following ended on 30th September '87 with a profit before tax of Rs. 2.6 crores – a little short of target. The 18-month period ending 31st March '89 reported a PBT of Rs. 8.5 crores – representing an annualised figure of Rs. 5.7 crores. The last year – 1989-90 – saw a doubling of the PBT to a figure of Rs. 12.5 crores.

As we reflect on our growth in the last 5 years several thoughts emerge which, we believe, could have contributed to our performance. We decided to share these thoughts through the Directors' Report to our shareholders, and now to a larger audience in *Fireside.*

EXCERPTS :

A strategy of growth

As one reflects on the last 5 years, a certain broad strategy of growth emerges – partly planned and partly by way of a response to events as they unfolded.

A value-added society

"Understanding the market in depth, stretching it to its fullest potential, creating new unfulfilled needs, putting all one's talent and that of the entire team in clear focus, being obsessed in the process, and emerging a leader – this is living a Mission. This is the role and heritage of a value-added society."

This has been the cornerstone of your Company's growth. Responding to market urges, a host of new products and application technologies have emerged. 50% of what your Company makes and sells today did not exist 5 years ago.

Fluidised bed technology for high ash coals and agro wastes, absorption chillers, process integrated boilers, retrofit and life extension of old boilers, fired heaters, incineration of toxic wastes, de-dusting systems for the cement and steel industries, metal removal products from effluents, fume extraction from arc furnaces, nuclear grade resins, pour point depressant, fireside and fuel additive chemicals, desalination plants, electrodialysis membranes, cathodic electrodip process of coating, data communication products, parallel processing, metal film resistors in a full range of values

"Economists talk of an export-led strategy of growth. In some senses, this is true of your organisation. In 1984-85, your Company exported some Rs. 12 crores worth of goods and services, substantially to the Soviet Union. This year your Company's exports exceed Rs. 82 crores."

and tolerances, automatic silo systems for the sugar industry – the list attests to a creative outpouring of which your Company can be justifiably proud.

Most of these products and technologies accord with our national priorities of conserving energy, preserving the environment and developing and exploiting our export potential. What is of special significance is that a number of these new ideas were able to move from concept to commercial completion in good time thanks to the active interaction between R&D, Engineering, Manufacturing and the operating Divisions. It is in the fitness of things that this current year should witness the inauguration of two major events : (i) The Combimax – a uniquely designed packaged boiler operating at an efficiency of 92% – a brain child of the Engineering group; and (ii) The new, modern R&D centre, with its complete prototype testing facilities at Chinchwad.

Made in India

"It's our mission to generate and fulfil needs of markets around the world through the export of goods and services in which we, as a country, enjoy a comparative advantage, and do it in a manner that brings glory to the words 'Made in India'."

Economists talk of an export-led strategy of growth. In some senses, this is true of your organisation. In 1984-85, your Company exported some Rs. 12 crores worth of goods and services, substantially to the Soviet Union. This year your Company's exports exceed Rs. 82 crores, including the development of new markets in the US for software and ion exchange resins, and in Africa and the ASEAN region for boilers, Thermopacs and water treatment plants. One major breakthrough has been the pioneering of a host of selected engineering products to the Soviet Union – machine tools, textile machinery, heavy duty castings and forgings, and computers and computer peripherals.

Another area of focus that is emerging is the choice of your Company as the preferred supplier by consultants and contractors of international repute for third world projects. A major project is under way for the supply and erection, in free foreign exchange, of steam boilers, water treatment plant and pollution control equipment for a cement plant being set up by a Japanese consortium in Nepal. In the year under review, your Company was awarded a contract for the transfer of technology for a range of shell boilers to SEHEE (State Enterprise for Heavy Engineering Equipment) in Baghdad, Iraq. It was concluded after keen competition from a well-known West German boiler manufacturer. Apart from the know-how fee of $400,000, this association opens up an opportunity of exporting critical components to Iraq till the technology transfer is absorbed.

In the statutory presentation of the Annual Accounts, one is required to give a note on the earnings in foreign currency and the value of imports and expenditure in foreign currency. Your Company is happy to announce that it continues to be a substantial *net* earner of foreign exchange. In the year under review, your Company earned foreign exchange to the tune of Rs. 82 crores. It spent by way of imports and expenditure in foreign currency an amount of Rs. 17 crores, earning a *net* foreign exchange of Rs. 65 crores. To the best of our knowledge, there are very few engineering companies in the country who can better that record.

Starting the year before the year starts

In a capital-goods industry like ours, where the gestation for procuring an order and executing it may extend anywhere from 3 months to 3 years, it becomes essential to start the year well before the year starts. In earlier years, most divisions had a year as a focus. As a result, one came out of the year-end euphoria in the first 3 months of the new year, gathered momentum in the next quarter, changed gears in the third and raced to a fever pitch in the last couple of months. It ended up as a hit and miss exercise. All divisions now realise that the name of the game is not a 100-metre sprint, but a marathon.

Order booking for the year becomes relevant only if it ends the year with a sufficient order backlog. Order execution, then, starts from the very first day of the new year. And, the first target is a break-even such that at that turnover the division recovers all fixed costs *for the entire year.* Thereafter, the contribution is not burdened with overheads and every Rupee earned brings in a targeted return after meeting direct costs. This awareness has contributed in some measure to your Company's turn-around and growth in profitability.

Happiness is a positive cash flow

In the earlier years, we often prided ourselves on some profit that never really was. A profit that added to assets that never materialised – assets like debtors and inventories which gathered like fungus and had ultimately to be written off. One can play this game for a little while but ultimately the day of reckoning arrives – as it did in 1985-86. All divisions now are scrupulously aware of showing the correct profit – not the profit that never was. Each division is also concerned, not only with profit before tax, but also with a target of cash flow and funds flow. The change of focus can be reflected in a much healthier portfolio of working capital. Your Finance Division is co-ordinating an exercise and a target of "zero working capital". The impact of this effort will be seen in the coming year and the years ahead.

Materials as a profit centre.

In our type of business, materials is, by far, the largest single item of cost. Your Materials Division in Manufacturing has been assiduously working for the last 3 years on a computerised on-line system of material planning, stocking and procurement. At the corporate level, the set up of a Steel Cell for procurement of steel at control rates and the development of corporate contracts for "A" value items have considerably rationalised the purchase function. As a result, material costs and inventory have been contained despite a substantial inflation in material inputs. The same exercise is now being attempted in non-manufacturing divisions and the outcome should be equally gratifying.

PI to CT

For the last several years, your Manufacturing Division has been actively involved in improving the Performance Index in the plants – partly through changes in methods, partly through innovative special purpose machines, partly through developing multi-skills, and partly through well thought out incentive programmes. Most plants have shown a commendable improvement in PI. While continuing the effort, your Manufacturing Division will now be focusing on improving cycle-times. Better cycle-times would mean a larger turnover, quicker deliveries and reduction in work-in-progress.

People with power

"To make things happen. To innovate. To change things. To change themselves. To grow. As individuals and as teams. Thermax People. Helping them to grow is the committed Training policy of the Company .... Thermax believes in nurturing a human organisation which understands the paradox that the total organisation is more important than the individual but this does not make the individual less important."

In 1985-86, your Company's total strength of people was 2300. Today, the figure has reached 2600 – an increase of 13%, while the turnover has doubled. This reflects the improved productivity per individual.

The "quotes" in this Report are from the company's various Mission statements.

In a broader sense, the Human Resources and IR Divisions have actively contributed to this developmental effort.

(i) Your Company lays great stress on training – for, it is only by training that each individual adds value to the organisation and also adds to his own personal self-worth. To give an idea of the magnitude of the training inputs, HR started a full-fledged Training Centre at Yeshwantnagar 3 years ago. Last year, they conducted 80 training programmes involving as many as 1200 people – covering such diverse subjects as statistical process control, communication skills, draughtsmen's training : limits, fits and tolerances, leadership on the job, using PC's, value added management and similar.

(ii) Building on this tradition, IR started a Technical Training Centre at your Chinchwad works last year. One basic objective : to help plant operatives acquire new skills. A fitter learns welding, a sheet-metal worker takes on assembly, a welder becomes an IBR welder, and so on.

(iii) As part of the turnaround effort, several divisions have gone through an arduous team building exercise. HR has actively facilitated the move through intensive small-group discussions across all levels and functions within each division and generated considerable enthusiasm, togetherness and a strong commitment to succeed.

Quality means we care

"In the final analysis, quality is not just a product, quality is not just a package of services and attributes, quality is a way of life. Quality is a shop where materials move in an orderly way. Quality is an office where work gets accomplished with neatness and quiet efficiency. Quality is a factory where scrap is stored where it should be. Quality is a person who responds to a telex within 24 hours. Quality is a telephone operator who tells the caller to hold on to the line while she makes a connection. Quality is a sales engineer who does not oversell his product. Quality is a manager who honours his commitment."

Over the last 5 years, a considerable awareness has emerged that quality should permeate all that we make and sell. Setting up of a physical and non-destructive testing laboratory, developing detailed quality assurance manuals, building and updating a critical vendor list, training a cadre of plant managers and operatives who do not require inspection, generating a system of feedback and review of rejects and customer complaints, franchising of the customer service function across the country, enlarging and strengthening a number of quality circles – all these have helped the activity evolve from quality control to quality management. As a result, your Company stands in a select group of manufacturers to be awarded the ASME 'S' Stamp – your Company's products can now withstand competition from well-known manufacturers in Europe and the United States and your Company's standards are increasingly being accepted as a norm by consultants of international repute. But a great deal needs to be done before your Company can move from quality management to total quality management – and this is going to be a major area of focus in time to come.

And so we come to 31st March, 1990. A great deal has been achieved, but much more remains to be done : Professional management of large projects, decentralisation of the accounting function, management of information, building up leadership of some of the also-ran divisions, reducing cycle-times, keeping up morale and commitment as we grow in numbers, concern, for quality in all its aspects – these are some of the challenges in the years ahead: The coming year –1990-91 -promises to be a good year, and as we turn into the new decade, your Company looks forward to a continuing momentum of growth in turnover and profitability – in service of a value-added society.

"But a great deal needs to be done before your Company can move from quality management to total quality management – and this is going to be a major area of focus in time to come."

Rohinton Aga