"Thermax Limited
Q3 FY2019 Results Conference Call"

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Moderator: Good morning ladies and gentlemen, welcome to the Thermax Limited Q3 FY2019 Earnings Conference Call, hosted by Motilal Oswal Financial Services. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Shah from Motilal Oswal Financial Securities. Thank you and over to you Sir!

Amit Shah: Thank you Lizann. Good morning everyone and welcome to 3Q FY2019 Earnings Concall for Thermax Limited. Today representing the management, we have with us Mr. M.S. Unnikrishnan, MD & CEO; and Mr. Amitabha Mukhopadhyay, Executive Vice President and Group CFO of Thermax Limited. I will now hand over the call to the management for their opening remarks post which we can open the floor for Q&A session. Over to you Sir!

M.S. Unnikrishnan: Thanks Amit and a warm welcome and good morning to all my friends. It is a pleasure to be with all of you. As usual, I will start with a gist of the results of the company, beginning with the order booking at the Group level. We have been able to marginally improve the order booking to Rs.1,480 crore from Rs.1,413 of the previous year same quarter, but in terms of order carry forward or order balance , we have a fairly good number at an all-time high of Rs.6,475 crore at the Group level, which is 17% higher in comparison to what it was in the last year the same time.

Total Revenues for the group are 29% up at Rs.1,468 crore and at operating levels, the PBT has improved by 17% to Rs.112.1 crore for the group. After the exceptional items, the profit after tax is at Rs 75.crore as against Rs 58 crore for the last year. Coming to the exceptional items, there are some negatives and some positives. The negative is in terms of impairment of investment in Danstoker due to impairment of the goodwill, which was stated at Rs.126 Crores for the Danstoker Group when we purchased it in 2010. We also made a minor impairment of Rs.13 crore in First Energy Private Limited, which we bought over three years back, but there is a positive on account of impairment reversal after we have taken the decision to buy over the assets of Babcock & Wilcox through a share purchase. There is an upside of reversal of Rs.112 Crores, which would mean a net impairment effect of Rs.27 crores at the Thermax standalone level. The adjustment is on account of the plus and the minus adjusted, which I mentioned about Danstoker versus the impairment reversal happening on account of the TBWES .

The Board has taken the decision to do a slump sale. The logic behind this is that TBWES has a factory as well as edifice available which is capable of manufacturing boilers of different kinds - either low pressure, high pressure and even supercritical; whereas Thermax has got Boilers and Heaters group, which has been manufacturing subcritical range in the co-generation and captive power from almost 1980s onwards, so instead of operating two different edifices we found it prudent to have this merged with TBWES and operate as an entity as a 100% subsidiary and the route that is chosen after multiple discussions is to make a slump sale of this particular business of B&H into that company and this would be affected through a loan to be given to them at the time of the transaction . In our understanding, we are gearing to have the transaction completed latest by April or May of the year. Otherwise, all other procedures related to transfer of manpower and asset being managed by the team would also take place. This will certainly have a synergy impact effect of having one set of management running the same business under the same umbrella of Thermax Group.

For the time being, we have decided to retain the name of TBWES. If we need to change it into any other name will be a decision that we will take when we go to the market progressively. That is about the overall results for the current quarter. To indicate an outlook to you, we have had a good quarter in terms of order intake. Despite not being supported by the domestic market, we have been able to register a decent order book on account of the fact that our international order intake has gone up by 65% even when the domestic has gone down by 10% so that has certainly helped us. By looking at the enquiry pipeline, which is under active consideration for finalization both in the domestic market and the international market, there are sufficient number of medium and small size projects under negotiation and continuing without any difficulty even with the worries of the election happening or the global melt down or may be an anticipated GDP contraction from 3.3 to 3. Enquiries are there, orders are getting finalized. However, looking forward in terms of the medium and large size projects especially in the power sector, oil and gas sector, fertilizer, steel sector, none of them are going to happen immediately within the country or projects of Rs.500 Crores and above size in the international market. None of this will predict a contraction in order registration. Based on the numbers available in front of us and the pipeline, we can certainly target for an improvement in order intake even in the coming year so that is overall take on that. To give you a feedback on Indonesia, it is doing well, our order intake has been fairly good for the packaged boiler business. Beyond Indonesia, we have been able to also register orders from Myanmar, Vietnam, Malaysia and Philippines. The manufacturing will be done in Indonesia which is a positive sign and I am sure that if you look at the tempo of enquiry generation and order finalization, we should be able to be on target in ensuring that this particular edifice will cross the break-even level as promised to all of you in a five-year period of time from completion. That is from my side and I will leave it you to ask me specific questions so that I can help you by giving the right answers. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: I have a question just wanted to understand how the china slow down is likely to impact both domestic and international business given the fact that is so basically if there is a slow down over there, your competitors over there who provide their backup power for the steel plants, cement plant, etc., how competition is panning out from China as a country if you can highlight that it would be really helpful?

M. S. Unnikrishnan: Thank you Ravi, it is a very wise and right question at this juncture. Yes, the Chinese competition is increasing across the globe and there is an impatience that we are seeing in the Chinese suppliers across the globe. We have been able to resist it because the disadvantage with China in the last may be three to four years has been the increasing cost of manufacturing equipment similar to what we are manufacture. They are able to manage in line manufactured items like mobile phones, electronic items and the coolants, but when it comes to the bespoke items, the cost have gone up in China. We were also operating in China so we know that cost have gone up over there, so their ability to be competing against a well-run Indian company in the global market, will not be as good as we did see in the last up cycle or down cycle either. With the difficulty for them to be selling in North America and Europe due to the negativity prevailing against Chinese product even in Europe although they do not have trade war with them, we can see a preference of lowered levels so that is an opening for India. For example, if we have to export an absorption chiller made in our China factory to America, my customer has to pay 25% import duty, but earlier it was nil. For India it is nil even now or a very low percentage unless they turn against India and also put a security duty against India in which case it may be difficult. Coming to the neutral countries like Middle East, Southeast Asia and part of Africa, any order that you pick up for medium size projects in this part of the world, our end competition is with one or two Indian companies and the rest of them are Chinese. So, for Thermax, whether is in India or abroad, the competition is almost the same and we have been able to manage it. But only thing that is prevalent is that the margin improvement is not an easy task because they are willing to go to any extent. One more thing is the sovereign credit that Chinese companies used to offer to countries and/or maybe even to individual projects of certain size is coming down. I think Chinese credit has been looked up on microscopically by various customers and countries and in that they do know that they possibly agree for a lower price, but later it becomes a burden and companies aren't as receptive to Chinese credits as they used to be earlier . It's a mixed reaction offering us both opportunities as well as challenges. If we are able to continue maintaining our costs under check and quality improvement, I think we can beat Chinese in the global market.

Ravi Swaminathan: And among the core large sector you had touched upon power, fertilizer, etc., if you can touch upon steel, cement, chemicals, aluminum, etc., how is the industry demand in environment is there from these sectors, it would be really helpful?

M. S. Unnikrishnan: Steel, to say the least, the capacity utilization has really gone up post the minimum import price that India has been imposed upon. On the contrary, all of them have been enriching their balance sheet. To a certain extent it is okay but beyond that it is not productive. Because we cannot afford to import only the nonconventional items, which are not manufactured in the country so easily so that is inflection point. But the expansion programs are not taking off because even today as the consolidation based on NCLT is to be completed. For Bhushan Steel. I think is already over. However, there is a second Bhushan Steel and also Essar to be completed and the health of the industry having improved, they should start thinking about expansion. I think I mentioned in one of the early concalls that Kalinganagar expansion 2 as well as the Morvi of JSW is already ordered out. So we got one and lost the other order. We also saw a spurt in sponge iron orders conclusion in the eastern sector of India, which are orders in good numbers for our company which is another positive news. But I am not expecting anything more to happen in the next may be four to five quarters in terms of steel capacity expansion though the Government of India is already outlining the capacity expansion program from 130 million tonnes per annum to 300, which in my opinion is not needed in India because we do not need 300 million tonnes per annum of steel to be manufactured. Doubling it from 130 to 250 plus is something, which we need as a country, but that would need a one to two-year period of time to be put into practice, so that is as far as the steel industry is concerned. All the non-ferrous expansion programs both for aluminum and copper are completed, their capacity is getting utilized, so there is possibility that one year down the line, non-ferrous further capacity addition is the next thing to happen. Coming to oil and gas sector, it is a pity that we are not going ahead with the expansion program. We will anytime fall short of petroleum product availability and will be forced to import refined petroleum. There are three of them, and I am happy to say that in two of the projects, the government has already appointed project management consultants and for one of them the technology transfer agreement has been signed . I am expecting the tenders to be out in the market during H2 of the next year and people like us should be enriching balance sheet with orders to be coming in towards the end of next year or may be beginning of the year after. That is as far as the oil and gas industry is concerned. In fertilizer, I do not think anything is going to happen for at least one year. There are two different schools of thought in the decision-making fraternity of the country – one that we already are over fertilizing the land that we have, so we should be reducing the utilisation of urea while there are others who say that for yield improvement you have to go for upper quality of NPK mixture. The government has to take a call on this, so I am not expecting anything to happen. Power is another story where we will possibly regret in the future for not having increased capacity because as the economy is going to start growing at the same rate for the next three to four years, there will be peak deficit and it cannot be met by either solar or wind. We need to necessarily go for supercritical thermal power plants, but the balance sheets of all the current thermal capacities are bleeding. I do not think they have the muscle power to expand nor is the banking sector in any position to support the overhang of debt on their side. It will be tricky for the country, but the truth is that we will not have any major expansion program for power in the next one year. In Cement , I need to say that all of the major players are healthy, happy, they were gung-ho about expanding, but I think they have gone down slightly. But all of them have programs currently for waste heat recovery to be converted into power which is a happy situation. Unlike earlier for example, for three million tonnes per annum plant they would go for a 10 to 12-megawatt size of a waste heat recovery-based power plant. Today they are extracting the last of the heat from the plant and elevating the power generation even up to 22 megawatt for a 3 million tonnes plant, which will mean almost 40% of the power can come from the plant itself, so that is a good move, which should benefit companies like us. Of course, there is competition, it is not that we are the only company and price points aren't improving despite the steel prices having gone up. So that is about the main sector that we spoke about.

Ravi Swaminathan: Got it Sir. Thanks for the detailed explantation. Sir if you could give the order book breakup, it would be really helpful?

M.S. Unnikrishnan: We will now onwards give only the consolidated level numbers and all numbers that we speak will be on consolidated basis. Amit, please go ahead.

Amitabha M: Quarter-on-quarter order intake -energy segment is Rs.1153 Crores, Enviro segment Rs.212 Crores, Chemicals Rs. 114 crore, total 1479 crore. Order balance - Energy segment Rs.5764 Crores, environment segment Rs.641 Crores, chemicals Rs.70 Crores, total Rs.6475 Crores. Thank you.

Ravi Swaminathan: Thanks Sir.

Moderator: Thank you. The next question is from the line of Ranjit Shivram from ICICI Securities. Please go ahead.

Ranjit Shivram: Good morning Sir, just if you can throw some light like we had been avoiding this FGD orders for a long time, so in the next slot of NTPC are we participating, are we seeing the payment terms improving and also from the other FGD related opportunity, how are we going on with, if you can some clarity on that?

M. S. Unnikrishnan: Yes, Shivram, we have been able to partially improve the terms of payment after multiple discussions with government and NTPC. Unlike the secondary tenders where they have increased the retention to 35%, it has now come down to 17.5%. Not that it is a great number, but it is tolerable, so we can at least participate. So, in the second bulk tender, we are participating, and the price bids are yet to be put for. The technical discussions are going on and bids are already under evaluation, we will be there, but not for all of them, there are multiple of them, we will be selective in terms of which the projects that we will target . Next, in the private industry, though enquiries are there, nobody has come forward for finalization barring one, in that particular one we are at an advanced stage of discussion and commercial procedures will start, may be in the next month and possibly conclusion should happen in the first quarter of the coming year, so we are back in the FGD business. .But only thing is, as I mentioned, like the way supercritical didn't happen, if we are going to have a topline created without any bottomline and no consideration for technology we will have to be careful . The one factor, which is to be considered by all of us here is that the industry does not look up to having an FGD as a value add for power generation. They feel it is a burden on their cost. Thankfully the government has agreed for a pass through for the capital cost, and we will be actively participating. The good news is that we are active in the other private sector not for very large orders. In the cement industry, wherever there is an FGD being installed, a good part of the orders is coming to your company. We are also encouraging many of the other guzzlers of energy from solid fuels where they also import coal once, to introduce FGD which will save them from difficulties in the future and have been able to convince some of them. . Progressively, I think there is a pioneering effort needed from companies like us to ensure that FGD becomes a normal product that gets added on along with the boiler in the future too.

Ranjit Shivram: Last call you were sounding very much positive and that positivity has come down a bit this quarter so what has actually happened and what has changed your overall tone?

M.S. Unnikrishnan: I am as positive as what I was last time, may be there is something missing in my words. . One should recognize the fact that the global situation is turning a little negative between the last quarter and current quarter. Last time nobody talked about an expected global GDP contraction to 3% from 3.3%, instead people said that manufacturing is being revisited in America, Europe may come positive, however they have not been able to sort out many issues in North America related to investment. There is a shutdown happening, it has already happened for a long period and again uncertainties prevail around whether it will happen for a second time. Brexit has not really gone through. Now these are very, very big political things, which small company like Thermax should not be worried about ideally, but this impacts investment destinations and investment value. Even where projects have got a viability, people will look forward to these factors before making decisions. Once the Brexit is complete, everybody will know where to invest, how to invest. Similarly in North America, we await to see if the government is going ahead with the real Americanization plan or if there will still be a continued trade war, which started with China or is it going to be maneuvered in the future and sorted out, in which case there will be availability of goods from a low tariff country which will be forcing an investor to come forth. Because please remember, anybody who sets up a project with capital being deployed will look forward to a minimum stability of 10 years where the capitals are recovered and the loan is repaid, so such kind of decisions sometimes can have an impact based on this kind of geopolitical decision making. So, I am not sounding negative. Certainly, I feel that the election scenario within the country has changed between the last call and the current call. Though normally I do not give a political commentary, the loss of three states by the ruling party of the country has made people, even those who firmly believed that it is going to continue for another five years, sit back and now do various arithmetic to find out if there will be political stability or not. In a country like India where the government is the main investor through borrowing and government supported policies create capacity in the larger sector for commodities and infrastructure, certainly there will be a concern around stability of governance. At the end of the day, the decision related to investments in the country are not made by one million people, it is may be a 100 people in total who take all the decisions. So those 100 people will certainly have a thought process on whether they should wait. That is about it, otherwise everything is fine, nothing has gone wrong.

Ranjit Shivram: Okay and Sir this raw material to sales has been increased level in the last couple of quarters, so is it largely to do with the pricing pressure or is it regarding commodity prices, which we are unable to pass through, what is causing that?

M. S. Unnikrishnan: Both are true. With the pricing pressure in the market at the time of finalization, though we are in a fairly healthy position as far as the order book is concerned, the same thing cannot be said for every competitor of mine. When an order is being finalized, the weaker of the competition will be willing to accept prices, which are much lower than the ideal price level, which will force people like us to lower prices. When we are accepting an order, especially the negotiated ones, and not tendered alone, we may get to know what prices are being offered by my competition. And the customer wanting to buy from Thermax, they will necessarily say that - look this is the opportunity available for me to get at this price but I still prefer to deal with you, but you will have to come down on prices. So, of that, how much can I pass it to my suppliers is the question. Now commodity prices were on an upswing for the past may be few quarters, steel right from Rs.28 a kilogram all the way up to Rs.45, may be now it is stabilizing between 42 to 45. So for the entire cost increase that has happened to steel or the associated commodities, there is no way we could have increased our prices in the market and that has had a hit, so this is the condition prevailing. Unless you have at least three to four quarters of a lot of orders available in the market where the companies come under pressure, we are also part of that entire eco system, so I cannot be an island of excellence where I say that this is a minimum that I will accept otherwise I would not take the order. We have got people, so we need to keep the edifice on so that is where we would normally prefer taking orders from good companies where there would not be delay in execution and they are able to generate funds to execute the project, those are the kind of projects we accept even at the cost of a minor compromise on margins. That is the reality and same thing prevails in the global market too.

Ranjit Shivram: Thank you and I will join for further questions.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Good morning Sir. My first question pertains to Dangote order, are margins in that order comparable to the margins that we have historically been seeing and are you facing any cash collection issues in that order?

M. S. Unnikrishnan: I am not expected to be very open about the margins in an order, it will be in the public domain, but however Aditya I can reveal to you that the margins are not inferior to what we normally make. We struggle a lot to ensure that we are able to get good prices and we will do a good job, so that no over expenses happen, so the margins should be closer to what we normally make, that is number one. So far there has not been any cash flow difficulty from the customer, and yes, they have paid all the milestones that we had asked for so far. The initial four boilers have also passed the hydraulic test, so now it will be at the last part of the assembly and they can move out of the country in the first quarter of next year, so I presume that they would take delivery and pay. Plus, there are standby letters of credit available for the last part of the payment. Just to give you another indicator, the main equipment, which is to come for the refinery work to start, has to come from Korea. I am happy to say that it has reached the jetty at Nigeria also and one more Indian company, which is supplying a very large equipment has also got into the ship now. So, the project is progressing quite well and there has not been any cash flow problem so far on this project from the customer side, so things should happen, with may be a minor delay here and there.

Aditya Bhartia: Sure Sir and Sir just wanted to understand how is the response being to our Indonesia facility. You did indicate a bit in your opening remarks, but if you could just lay out how you are seeing this facility over the next three or four years?

M. S. Unnikrishnan: First and foremost, we are manufacturing packaged boilers and some components for medium size capacity boilers, the larger ones will continue to be going from India. Now for these, there were limited local competition who were ruling the roost over there, certainly there would have been resistance from them to let Thermax enter into the market as a local manufacturer. Very happy to say that today the factory is almost coming to a level of utilization of some steepest percentage, which is quite good for an engineering company. We have already cleared our next level of machinery expansion to increase the capacity and that is already ordered out. There are some very large groups in that part of the world who if start buying from a company like Thermax will certainly bring consistency in incoming orders. I am very happy to say that we have been able to capture orders from some of the largest groups in Indonesia and in the other ASEAN countries and the best information to be shared with all of you is that the company which bought the first boiler manufactured in my Indonesian factory has given me a repeat order for making another boiler, so that is a reaffirmation of the quality of product that we are able to bring out from the factory. So, I am quite positive about the boiler manufacturing side of our initiative in Indonesia.

Aditya Bhartia: Last question when you spoke about different industry especially the industries, which place large orders you did not sound too optimistic, but while speaking about order inflow expectation you spoke about likelihood of order flows next year being higher than this year, so how should we kind of reconcile the two things?

M. S. Unnikrishnan: One is that I am expecting an improvement in the standard products order finalisation because the enquiries and the response from the customers is from around 20 to 21 different segments, comprising food processing, alcohol, beverages, auto industry, ancillaries, light engineering, pharma - all of them are on a positive upswing. They are not looking at a change in the government or the continuation; they are looking at the urbanisation that is unabated in the country, and as a result of which there is an increase in the consumption. Even in the election year, a lot of money in the budget is being targeted for the rural economy and when they have more money what do they do? They buy white goods, consume a lot more, so the capacity utilisation of those consuming industries will go up, which is why I am quite positive that whatever may not happen in the larger sector, part of that can be compensated with the other sectors, which is consumption oriented. The international markets already were so negative, but I have seen that in the current quarter, there has been an uptick in the order finalisation in the international market, which is an indicator that they will continue to finalise medium size orders. If we are able to sustain the same level of aggression and cost control, we should be able to get similar kind of orders from the global market like the Dangote order of Rs.1000 Crores which we received in the previous year. This year, without a Dangote in the current scenario, I am almost closer to what we achieved in the previous year, which is an optimist view and an indication that things can happen, for better order bookings. There are certain calculations and assumptions we make. If something were to go totally wrong, I would come back and say sorry to you, but based on the information I have, I feel there could be an improvement which is a reality.

Aditya Bhartia: Thanks a lot Sir.

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

Renu Baid: Good afternoon Sir. Two, three questions from my end. First if I look at the performance for the quarter, energy segment margin is a bit weaker and broadly it seems that that it could be coming in from the international subsidiaries from our side and you have also taken a knock at Danstoker, so how should we correct all these points and if you can help us understand the performance of the core energy segment, India segment as well as outside India and what is dragging the margins in the energy business for us?

M. S. Unnikrishnan: Renu, domestic business has improved its margins in energy, to be precise, in cooling, which was a major challenge in the last year but has shown improvement in the margins in the domestic market as well as the international markets. The Heating business has also improved their margins. Boilers and heaters are almost at the same level in terms of the margin. The Power business may undergo a bit of an improvement challenge, but otherwise they are positive, but yes, the larger tendered orders that we have accepted in the last year, are under execution currently. One major project in the State of Gujarat and three from the fertiliser sector, are currently seeing a bit of tension in the margin, not that of an margin erosion though. So overall the margins in Indian operations are seeing an improvement or will atleast be maintaining so. The major negative margins currently are coming from the Danstoker group where we had cost overruns as I mentioned and continues to be affected in the current quarter also. I will talk about the actions we are taking to improve the future there. With the closure of one or two larger companies in that part of the world from where we were getting project type orders for Danstoker and Boiler Works as another subsidiary, the project orders were lingering beyond the level at which we are booking site expenses, which are higher than what we would have expected, so that is what was the negative. In the current quarter alone, we have a negative closer to Rs. 17 crore from these projects, that are almost reaching conclusion. So we have decided not to take anything other than the standard product orders under the Danstoker group. The existing ones are going to be through by end of March or early April, then nothing will remain as non-project orders over there and that is point number one. Secondly, we are going to close down our manufacturing of projects from the Boiler Works factory and since our Polish factory is now catching momentum, where currently we are able to generate 1000 man hours per week in manufacturing and our plan is to double our target by the beginning of next year or possibly even triple it towards the end of the next year. As I mentioned to you guys in the concall earlier, the cost of manufacturing in Poland is almost one-third of what you have in Denmark, so that should also help me improve and find a way for more orders coming in the future. Germany as a country, which is the largest market in the entire Europe was not possible for Thermax, because we had a company earlier named Omnical there, which we shut down. The legal framework needed us to wait for the entire administration process to be completed, post which only we will be allowed to start an operation there - the period for which has now come, so by Q1 or Q2 of next year I can start selling back in Germany through the Danstoker brand. I am going to re-enter the largest European market along with a low-cost manufacturing support from Poland. This is the action that we are taking in Danstoker and it should bring us back to the good days when we used to make 7%, 8% EBITDA , and that should happen in some part of next year. As far as the European and Chinese operations are concerned, I told you that we have stopped selling conventional absorption chillers and are only making heat exchangers for the district heating system that will continue for some more time. I will inform all of you at the appropriate time about what we are going to do with them. So, this is about the negatives from the international operations. Thermax Inc. in America is turning in positive, Thermax Europe is turning in positive and overseas offices through which we are picking orders is normal, though there was a major concern for two to three quarters in the last year where the enquiries were there, but orders were not getting fulfilled. But in the current quarter, there has been a reversal, that is why my international order booking has substantially improved for the products in the current quarter, so that is about the overall scenario Renu.

Renu Baid: Right, you mentioned there was a Rs.17 Crores cost overruns in this quarter for Danstoker also, so YTD if you see energy margins approximately 6% and about 7.7%, 8% adjusting for these one offs, so for next year should we be targeting to be closer to double digit margins in the energy segment or you think there could be headwinds from the current project mix that we have and the businesses that we mentioned about?

M. S. Unnikrishnan: The orders in hand should help us get closer to what you are expecting, unless a spurt of any cost increase happens. Two, I am compelled to take orders the way we have taken in some of the earlier years where there were only positive margins, but not an 8% or 10% kind of margin, so how the margin is going to pan out is a question. The energy product business receives short cycle orders of a three to five-month delivery equivalent, so whatever I do in the first half of the next year will also get recognised as revenue in the same year. If they come in at decent margins, we should be able to improve the margins in the next year for the energy sector.

Renu Baid: Right and overall for the nine months help us with how was the net financials for Danstoker for the nine months in terms of the losses or profitability from their end?

M. S. Unnikrishnan: It was negative, we can’t tell you where things have gone wrong or how we will turn it round and bring it back to normalcy. It would be unfair for us to state the net financials for a small subsidiary alone, and though it may turn into some positive results for the Q4, but the yearend will be negative for us.

Renu Baid: Sure Sir. That is, it from my side. Thank you and all the best.

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

Venkatesh P: Good afternoon Sir. I had just one question, last year we did close to almost on the consolidated level we did around 9% EBITDA margins, now for three quarters we have seen contractions, first quarter 158 basis points, second quarter 150 basis point and third quarter 108 basis points, so is it reasonable to assume that we should close out the full year at below 8% margins and the fact that the current backlog also has orders, which are at that range 8% kind of margins?

M. S. Unnikrishnan: Next quarter though I cannot predict, I think it could be better than the numbers that you have in your mind and should reflect a slight improvement rather than degrading any further.

Venkatesh P: Yes Sir, that is what I was hoping that it will be higher, even if you do like say 8.8% in the fourth quarter, the full year number will come in at around 7.8%, so I was factoring that into my numbers while I was asking you this question?

M. S. Unnikrishnan: So we are trying. But there may be surprises of the time, like I mentioned about Danstoker - if that were to be positive or neutral in the current quarter we would have been at the same level as last year, there would not have been any negative. So next quarter we are trying our level best. Unlike in an auto industry where you know the count of every car sold, what is the cost and what is the profit in each of them, in our case only when you account for each of the expenses in the project orders, will you be able to know the cost; though we have a better control on all of that. I am not expecting anything substantially negative in the coming quarter. There could be one or two here and there, as I told you some projects are having a tightness in margin but there will be an improvement in the next quarter. For the next year, I would not like to currently comment because as we execute projects, please remember surprises can happen, which we are normally able to manage but once in a while, we will have a little difficulty or challenge that may happen. But otherwise I do not think next year we will remain at the same level, it could be better is what our current anticipation is. What took us by surprise, not only me but everyone, is the steel price increase. I do not think that any of you really understood what it means for companies who are buying equipments where the suppliers will cry telling that for even the order that you have taken I am losing money so help me out. The steel price went up from about Rs.28000 a tonne, all the way to 40 to 45, without a month when you could see a negative or a decline. Now it is almost stabilizing, though twice they had reduced but again they have increased in the recent past. So they have played havoc to the Indian manufacturing industry, which is using ferrous metallurgy. At the same time styrene prices went up, so my chemical business of resin manufacturing was impacted. The price of styrene has gone up all the way by 37% and the customers would not pay 37% higher for the rate contracts that we have with them for the risen cost. Thank god it will now come back to the original level with petroleum and crude prices having come down. So, these are the variations and in such situations, there are companies that could go out of control and get negative instead of remaining a decently profitable organisation. I am not expecting any commodity spurt in the next at least three to four quarters, but these are unpredictable things that can happen. I presume it should not happen, and if it does the margins still may not improve in a big way, but at least whatever erosion has happened can be possibly recovered in the next year, is my current consideration.

Venkatesh P: How much percentage of your backlog has got passed cost pass through clauses?

M. S. Unnikrishnan: In our industry hardly, any order will come with the cost pass through. Though all our quotations and offers will have that price variation clause, it will be struck off before the business gets concluded. There are some government tenders where you get PVC price variation clause and we do not participate in too many. I have mentioned in the earlier concalls how we manage to contain the cost for the major items by placing the letter of orders for the specialised field within seven days of receiving the order, so those are protected, but for a commodity like steel I cannot protect because nobody agrees for a long time contract. .

Venkatesh P: Thank you Sir and all the very best.

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

Pulkit Patni: Thanks a lot for taking my questions. My first question is could you talk about the capacity expansion plan at Dahej therefore the resin factory we are going from 12000 tonnes to about 40000 tonnes, so where are we today in terms of our capacity utilization there?

M. S. Unnikrishnan: The first tranche of the capacity that we created at Dahej is 12000-meter cube per annum, which got commissioned last year, it is currently running at 720 metric cube in the last month and expected to reach to 900 as I promised you by March, so that is as far as existing capacity is concerned. The next level of expansion was to go from 12000 to 22000 and an additional 10000, for which we already have orders, some of them have already come, some are them are coming in and our expectation is that by the Q2 of next year we should be able to commission the plan. Last time when we had put up the new capacity, we faced various challenges in capacity raising, but since some issues had been sorted out, I presume the expansion program from 12000 to 22000 once commissioned may not have the teething problems similar to the ones we faced last time. By December we should be able to rise and by March 2020 we should be having 22000 available to us. The current capacity need for the company is approximately 17000 to 18000 metric cube, so that is sufficient for the next two to three years and we shall continue to run our factory in Maharashtra, that 10000 I have not added. The next level is to take it from 22000 to 40000. We have the master plan ready, we have not taken the investment decision yet but there are thought processes in our mind - should we have another 18000 also created at Dahej as per the master plan or should we look at where the consuming markets are and have one more location thought through. It is something which is currently undecided though in terms of investment it is very clear that we will be investing for taking it from 22000 to 40000. Will it be at Dahej or any other location is something, which we will conclude in the coming year and then we will inform all of you as we go ahead with that.

Pulkit Patni: Understood Sir. My second question is while you have grown your order book by 17% on year-on-year basis if I look at the last three quarters we have been in the Rs.6400 Crores rate, now given the fact that next quarter is right before election how should we look at next year's revenue growth for the company, do you think we can grow from where we are this year or it should be ballpark in the same range as what we will clock for FY2019?

M. S. Unnikrishnan: All our ambitions have to increase, but you are right, a lot depends on the orders to be concluded in Q4, Q1 and Q2. If there are similar kind of order intakes, then certainly one would see an improvement in the topline also next year, but in case there is a major contraction beyond expectation either by postponed decision making or by losing the orders to competition who have become very desperate or the customers deciding to postpone the decision making, all three of which are possible. So no company will ever target to contract the topline though if there were contractions to happen, how to control the middle line to ensure the bottomline does not get duly impacted needs to be worked out. We will measure the market on a daily basis and the order intake, based on which decisions will be taken as to which way to direct it.

Pulkit Patni: Sure Sir. Thanks a lot.

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

Sandeep Tulsiyan: Good morning Sir. My first question is on the environment segment margins, we have seen a very sharp volatility in margin in this particular segment, so is it more to do with the mix between different subsegments or is it more because of the commodity price between the procurement and delivery that is impacting the margins?

M. S. Unnikrishnan: Both your assumptions are right Sandeep, the environment segment as we are reporting comprises of water business and air pollution control business. The Water business is now stabilised after having gone through some major difficulties in the earlier times. The margins are improving, and the improvement is in both the industrial projects as well as in the standard products that we sell to the commercial segments. The air pollution control is the one, which has taken a maximum hit owing to the commodity price increase, but now with the stability in steel prices, I am presuming that we should be able to maintain the same kind of margins in the environment segment going forward also.

Sandeep Tulsiyan: Understood. Sir my second question is if you could give us a breakup of domestic and international inflows as well as order book both for third quarter as well as corresponding number for last year?

Amitabha M: Domestic and international order booking and carry forward. The domestic order intake for the current quarter is Rs.1025 Crores, for international it is Rs.455 Crores, the total is Rs.1480 Crores. The order carry forward for domestic is Rs.4140 Crores, international is Rs.2335 Crores, total is Rs.6475 Crores, YTD order intake for domestic is Rs.2970 Crores and international is Rs.1506 Crores, while the total is Rs.4476 Crores.

Sandeep Tulsiyan: Corresponding number for last year Q3 if you can just give for the same?

Amitabha M: Last year for the quarter, domestic order intake was Rs.1137 Crores, international was Rs.276 Crores, and the total was Rs.1413 Crores, YTD order intake for domestic was Rs.2421 Crores, international was Rs.2360 Crores, while total was Rs.4781 Crores, order balance for domestic was Rs.2789 Crores, international was Rs.2767 Crores, total was Rs.5556 Crores.

Sandeep Tulsian: Thank you so much Sir for taking those questions.

Moderator: Thank you. The next question is from the line of Lokesh Garg from Credit Suisse. Please go ahead.

Lokesh Garg: Good Morning., I just wanted to get a perspective on what segments are contributing to domestic inflows of let us say Rs.1000 Crores this year and may be Rs. 4000 Crores for the nine months and similarly a little bit more perspective on some ways segments and in some ways countries that are contributing to this let us say Rs.2300 Crores of order inflows for nine months what we have had in the company?

M. S. Unnikrishnan: We had a fairly good order intake coming from the tyre segment, where many of them have concluded orders for their expansion programs and happy to inform you that we have been able to get all the orders in the segment. There have also been orders coming in the domestic market from food processing industry, it is from multiple kinds of food processing industries across the country whether in South or West or maybe North, but not so much in Eastern region. We have had sponge iron industry investing in the current quarter, only one order, but otherwise in the first two quarters there had been more orders in the eastern region from the sponge iron industry. We have had the chemical industry giving us orders, paper industry giving us orders also. We are not aware that we are importing a lot of waste paper or may be decolorizing and recycling paper within the country, which is used for packaging afterwards. With e-commerce picking up, though the demand for reading paper is coming down, the craft paper utility is substantially going up in unbelievable quantities, so India is being seen as a major country for e- commerce in the future. Looking at that, a lot more of people are setting up paper plants which will need specialized boilers and we do design such kind of equipment, where we have received good support in that industry. We have had orders from the FMCG industry including a FMCG major for their capacity increase at various places and their franchisees are giving us orders. If I have to talk about orders coming from outside India we have had orders from Nigeria and the South East Asian market, so there are various parts of the world where we had been able to improve orders. There is a sugar refinery coming up in Thailand with 2 x 8 megawatt captive power plant and cogeneration plant. We have received the order against global competition from one of the largest FMCG multibillion dollar companies of the world. So, we have had good orders from various segments and thankfully in this quarter we did not have any order, which is of the tune of Rs.100 Crores. All the orders were small and medium and it gives a lot of confidence. The question that you guys keep asking and worrying about is that if the big orders were absconding how we are going to survive, we have seen that. But of course, this will need a lot of efforts to be present in the market not just at the time of finalization. When the enquiries are created, we need to get involved and Thermax should able to add value, helping the customers select the right product and the right combination; the pressure, temperature and fuel everything put together and only then we get a premium. So, we need to have a lot more force, where I need to appreciate that we have had a good channel management improvement in the recent past and my channel sales through channel partners in the country has gone up almost 20%. This 20% is not only due to increase in the enquiries but also the channel effectives going up where our people have been able to convert a customer who would have otherwise gone to a low cost boiler. We are able to get it for Thermax because we explained to the customer the benefit of buying high efficiency boiler. Then we have introduced some new products. We had ignored the smaller capacities in between, thinking that people have gone away from oil and gas firings where we were the king, into solid fuel firings, and we thought okay it is not worth going for. But today for the past one year we have introduced a new product - fully automated boiler, which can burn coal and tinder with just one tonne of steel and this is selling like a hot cake. We are now taking it out of the country so there are some of these product innovations that we have done. We are also reinforcing our presence, which is giving me the confidence that even in deals where big projects are absent, we should be able to improve our standard products order booking. That is what has really helped us in the current quarter. Can I repeat the same thing in every quarter ? Our intention is to do that way but will the market buy is what we will have to wait and watch. .

Lokesh Garg: Yes sure, thanks a lot for detailed explanation, wanted to just ask you just on that clue that you give in the answer itself, of the 4475 Crores worth of orders that we had in YTD time how many orders are upwards of 100 Crores and how many are below that either in quantum or number whatever?

M. S. Unnikrishnan: In the current quarter, there weren't any, but in the last quarter there were a couple of orders.

Lokesh Garg: For nine months from your memory if you can suggest what quantum came from order size of 100 Crores?

M. S. Unnikrishnan: They are not big tenders that we won, nor did we conclude some big orders, there were orders for a lot of projects maybe in the range of 25 to 50 Crores. There would have been many because in this phase they will buy automated boilers, in which the boiler alone can be of 40 to 50 Crores plus.

Lokesh Garg: Sure. Thanks a lot Sir.

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

Inderjeet Singh B: Thanks for the opportunity, just one question just followup to Venky's question earlier. If things remaining same and no change in commodity prices, would we be able to kind of get to say a 9% mark on EBITDA margin next year.

M. S. Unnikrishnan: Possible is the one-word answer. If the commodities do not vary, we would not have to negotiate, delaying the decisions for purchase. Please remember that 60% to 65% sometimes even 70% of my costs are in purchase and many times for the discrete items, technical items we procure . When the commodity prices go up naturally the suppliers will up their prices disproportionately and to get them to a decent enough price takes a lot of time and efforts whereas if the commodity prices are stable, our ability to negotiate with the suppliers would be far superior and then things do not get delayed. So barring one or two projects, which are to be executed in the coming year, all others have decent enough margins. One or two of them are into bit of a difficulty, which will not impact me and will be compensated by margin improvement in the rest of them. So the commodity price stability is the best time to improve the margins; second is the time when the market is plump with enquiries, so much of finalization happens. We have not witnessed both for some number of years whereas the price stability in the input prices are visible today.

Inderjeet Singh B: Got it Sir. Thank you.

Moderator: Thank you. The next question is from the line of Riya Mehta from Anand Rathi. Please go ahead.

Riya Mehta: Congratulations for good set of numbers. Sir I would like to ask about the growth prospect coming forward so in our pipeline what do you see about the private capex happening and in which user industry basically?

M. S. Unnikrishnan: Before I give your answer, I have one answer to Lokesh. Lokesh you asked if there was one order that we concluded in the last quarter, which shows order value more than 100. It is an order value where I cannot tell you exact number, but almost close to Rs.200 Crores from a leading corporate group for capacity expansion of an existing thermal power plant, so that is an order registered on Thermax as well as my subsidiary. Now coming to Riya, your question on the sectors, where I am expecting the orders to happen there seems to be a lot of enquiries, which are in the pipeline. We have Salesforce in place so our entire enquiry, registration and followup is automated these days. The sector, which is topping the enquiry list is food and food processing almost I would say is 14% to 15% of all the enquiries that I have globally, and it is not just an Indian phenomena. We do see a lot more capacity utilization happening in Indonesia, Thailand and Philippines, all of them related to food processing, so that is the number one sector where I am expecting orders to happen. Some part of this sector is dairy and milk products where again there are multiple projects in the country for capacity expansion. Next one that is currently visible to us is the light engineering and automobile component industry where the orders may be smaller in size, but there are multiple enquiries. In sugar sector I suspect, it is a combination because either they make sugar or they go for ethanol, there are enquiries in the pipeline at the negotiation stage. Waste heat recovery related to cement industry and the entire distillery sector has enquiries because all of them are under terrific pressure to convert distillery waste into usable energy and we are one of the companies specializing in that product and there are lot of customers across the country who are now wanting to have tertiary recovery of energy means the energy, which otherwise would have been let out through the chimney is being valued by people; recovering that heat and making it usable. Water is the area where we are expecting substantial growth in the coming years because of the fact that there is water starvation happening. For example, the Dahej area where we have a chemical factory is under threat of no fresh water being supplied for all companies for the next six months because there was contamination and they were told that they cannot be given fresh water and better fend for themselves. So many of my customers in that area are already talking if we can recycle the entire thing, so zero liquid discharge is catching up across the country. Not every company has the technological solution for recycling the entire effluent as usable water, as it is a hi-tech job, so these are the areas where Thermax will find their own niche market. We have just introduced the multistage evaporator designed with a Thermax system.

So with that I am expecting that I should be able to address that particular market. Pollution control related to SOx emission is going to come to the industry in a big way next year because earlier we only were aware of Delhi having smoke. Now most of the cities in India are having smoke so SOx emission control being imposed in a stringent way for the conventional industries. So I should see an order improvement happening in that area. These are the general sectors. Beyond these, knitting is catching up in India much more than the composite textile and export has again started improving in this area. Government is also supporting the industry through a second program which was earlier known TUF, Textile Upgradation Fund. So TUF2 is already in vogue but only for select companies. It is availed through credit given for export orders. So those are already helping, not all, but select textile sectors to invest where we find improvement in both effluent treatment and heating equipment.

Absorption cooling is also improving, both in the domestic market in the current year and the international market on same peripherals, so cooling as a business will also grow next year. So these are sectors where I am expecting major growth. I have not considered any thermal power-oriented projects to come to us, nor have we considered a steel plant awarded other than maybe some sponge iron to happen, but I am certainly targeting the oil and gas industry. I only hope that the refinery expansion enquiries will be on time and I should be able to register atleast one order otherwise I am prepared to wait for the year after, but enquiries should be out in the market next year. So these are areas where we are expecting improvement to happen in the next year for order intake.

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

Ashutosh Mehta: Sir just wanted to get a sense on how the liquidity situation in the market is currently, both in terms of advances for new orders and receipt of payments for the ongoing projects, if Amitabha can help us with the operating cash flow number for the nine-month period.

M. S. Unnikrishnan: Ashutosh I need to say that it is better than what it was in the last quarter. There is betterment because the banks were not wanting to take a credit application from anybody may be two quarters back. But things have improved, but not to the extent that all of us will be feeling. So the time taken between shaking hands and cheques being credited to their account which were taking maybe a month to two months has now improved to the same month itself. Most of them are coming; barring some people who have weaker balance sheets. That is point number one. For larger projects with weaker balance sheets, no bank is even willing to discuss. So that is one of the reasons that one should be clear about. So, the fact is that only those who have a decent credit history will be able to get it from the banking system. Also remember that all the money that the government is giving to the farmers and for budgetary allocation, will reach the hands through banking systems and some of them comes back as FDs to them. So, they have to be disbursing the money and they are also on a lookout for customers with good credits. Many of our customers are good creditors, let me repeat the word, many, not that all my customers are credit worthy, many of them are. So, there is not so much of difficulty that we had may be a few quarters back. It is improving, it can still improve. That is a current take on that. On the working capital side, we are better off than last year. To my reckoning, our net accounts receivables have improved to 91 days at this point of time, though the inventories have gone up, but then for a higher carry forward order and with the toughening commodity prices; we had to keep higher raw material inventory. So, these are the two areas that I can talk about and my cash position currently is Rs.840 Crores apart from the cap. So that is about the cash position of the company.

Ashutosh Mehta: Right sir, Sir on the operating cash flow for the nine-month period if Mr. Amitabha can help us with that.

M. S. Unnikrishnan: Amitabha What is operating cash flow do you have the number?

Mr. Amitabha: Operating cash flow for this quarter is Rs. 150 Crores before capex.

Ashutosh Mehta: Sure Sir, Thank you. Those are my questions.

Moderator: Thank you. The next question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram: Sir Just wanted to understand like if the sugar distillery policy was there and we heard that lot of these sugar companies are putting in distillery facilities. So in that aspect have you seen orders from that area and how big that opportunity can be for Thermax.

M. S. Unnikrishnan: We are aware of the distilleries coming up and we do not make the distillery plant and many of the distillery plant makers may also supply the smaller boiler on their own, however, the waste which comes out of the distillery known as spent wash, has a pollution problem. There, we are one of the companies making a specialized solution for converting that waste to usable energy and we are even making power out of that. So we are continuously getting orders from the distillery segment for the spent wash boiler or the captive power plant using spent wash. And, another side of the story is that there are bioethanol plants being planned by the oil industry. There are five projects already sanctioned and tendered out right now.

Each one of them will need very specialized boiler which we are developing or developing along with some of the larger EPC contractors who may take those orders. So that is another area where a part of sugar or sugarcane may go into producing sugar and other part can go for bioethanol which will be blending with petrol. So that is another area where I am expecting things to improve going forward.

Renjith Sivaram: How big will these opportunities be in terms of numbers.

M. S. Unnikrishnan: A classical boiler for a distillery can go anywhere between Rs.12 Crores to Rs. 25 Crores depending upon what is the quantum of wastage in the rating. So if 10 of them are to be concluded in a year, Rs.250 Crores is the maximum size of the market.

Renjith Sivaram: And lastly can you give the breakup of the revenue in terms of exports and domestic, for the quarter and nine month.

Mr. Amitabha: Of the total revenues, revenue of Rs.1436 Crores for the quarter - Rs.833 is domestic, Rs. 603 is international and YTD, Rs. 2139 is domestic, Rs.1761 is international, total Rs. 3900 Crores.

Renjith Sivaram: Okay sir Thanks.

Moderator: The next question is from the line Elesh Gopani from Gopani Securities. Please go ahead

Elesh Gopani: Thank you for the opportunity, in the auditors reports there is a qualification regarding that there are many sales tax views against company and we have made appeals so what is the status of these appeals and in which course they are situated now?

M. S. Unnikrishnan: The status of that appeal is that it relates to excise duty and we have gone to the tribunal and hearing is pending in present level.

Elesh Gopani: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now hand the conference over to the Mr. Amit Shah for his closing comments.

Mr. Amit Shah: Sir Thank you for providing us with the opportunity if you have any closing remarks please do the same Sir.

M. S. Unnikrishnan: Thanks a lot, to all my friends and community for continuously being with us, supporting us, asking us very, very right and constructive questions, many a times we get ideas from your questions on what we need to do going forward. So, continue supporting us, times may be challenging but we are having decent enough order carry forward. Challenges could be there on the cost, but we will able to manage it. So that is all I would like to comment. I am looking forward to better quarters at least in the immediate future. Thanks a lot once again.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Motilal Oswal Finance and Services, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.