"Thermax Limited
Q4 FY2020 Earnings Conference Call"

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ANALYST: **MISS. BHOOMIKA NAIR - IDFC SECURITIES LIMITED**

MANAGEMENT: **MR. M. S. UNNIKRISHNAN - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – THERMAX LIMITED**
MR. RAJENDRAN ARUNACHALAM – GROUP CHIEF FINANCIAL OFFICER - THERMAX LIMITED
MR. ASHISH BHANDARI – JOINT MANAGING DIRECTOR AND CEO

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2020 earnings Conference Call of Thermax Limited, hosted by IDFC 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 phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from IDFC Securities. Thank you and over to you Mam!

Bhoomika Nair: Thanks Margreth. Good morning everyone. On behalf of IDFC Securities, I would like to welcome you to the Q4 FY2020 Earnings Call of Thermax. The management today is being represented by Mr. M.S. Unnikrishnan, Managing Director and CEO; Mr. Ashish Bhandari, Joint Managing Director and CEO and Mr. Rajendran Arunachalam, Group CFO. I will now hand over the call to Mr. Unnikrishnan for his initial remarks, post which we can open up the floor for Q&A. Over to you, Sir!

M. S. Unnikrishnan: Thank you Bhoomika and warm welcome to all our dear friends for the fourth quarter results discussion. As usual I will give you the introductory talk on the numbers and major happenings during the last quarter. I would also give you a picture of what happened in the last two and a half months which is almost the first quarter of FY 21 and then we will open it up for discussions. Let me also take this opportunity to introduce Ashish Bhandari who has joined as Joint Managing Director on April 6, 2020 and will continue as the JMD till end of August and on September 1, 2020, he will be taking over as a Managing Director. However, from July 1, 2020, he will be in-charge and all the operations will be managed by him. I will be there to support him.

As I mentioned about starting with the order booking for the Q4, we had expected that we may be able to exceed the last year's number pre-COVID . However, against the last year's Rs. 1,157 crore, the current year's order intake has come down to Rs. 952 crore, in that domestic order booking has come down by only 11% that is Rs. 669 crore coming down to Rs. 594 crore. The major hit was on the international markets where it has come down from Rs. 488 crore to Rs. 358 crore, thus totaling to Rs. 952 crore. With this, the full year order intake for the company is Rs. 5498 crore approximately Rs. 5500 Crores, 2% lower than the last year's number of Rs. 5633 crore. We were expecting to exceed last year's number which is what I had promised. If not for the major negatives of the month of March, we would have certainly exceeded but no orders are lost, it is still under discussion and some of them will happen possibly in the H2 of the current year. That is about order intake.

With this order intake, our order balance as of the end of Q4 that is end of March is marginally lower by 2% at Rs. 5238 crore versus last year's closing orders of Rs. 5370 crore. Just in case your arithmetic may not be exactly working on this opening versus revenue recognition versus the new order booking, it is on account of the fact that there are some orders which are not really moving, so we have removed from the order carry forward. So this number of Rs. 5238 which I have given you would have been around Rs. 5450 crore before correction. The corrections are made to ensure that only the live and active orders are carried forward into the next year so the live orders itself are just about 2% lower than the last year's similar number.

Coming to the revenues for the quarter including the other income, the current year number is Rs. 1354 crore versus Rs. 2126 crore with a 36% drop in comparison to the last year. I owe an explanation to all of you as to how could COVID which is applicable only for part of the quarter and specifically the lockdown which was for just about a week, have impacted the revenues for the company to this kind of a number. The reality is that we were certainly not going to notch the last year's number of Rs. 2037 crore, we were aiming to reach a Rs. 1750 crore to Rs. 1800 crore. Everything was geared including all the factory outputs and supply chain which directly sends the material to our sites also. Unfortunately for us we had finished goods stock plus equipment which were partially completed and could have been ready in the last may be 10 days within the factory; material lying in trucks at various parts of the factory and material ready with the suppliers amounting to around 400 Crores to 500 Crores. So Rs. 500 crore worth was the kind of material which could not be revenue recognized and that is the reason for the topline having come down to the stated level and it has really hit our bottom line also. Please remember capital goods companies normally do between 20% to 25% - depending upon the year and the kind of projects you manage - in the last month of March. In that also the last two weeks is the real push of the material movement from the factories of ours and our suppliers, this is where it has hit the company and has gone to the extent of hitting the EBITDA as well as PBT. At the EBITDA level, we have come down from last year's Rs. 200 Crores to Rs. 79 crores and at the PBT level the numbers have come down from Rs. 195 crores to Rs. 59 crores. There are some items which may be one of reasons for the major drop in the profitability, I would do that for the full year rather than doing it for the quarter. If I had to talk about a bridge you would find that last year for the full year, we made profits PBT of around Rs.501 Crores current year this has come down by 125 Crores to 375, a 126 Crores drop though the turnover has not dropped to that extent, the yearly turnover drop is only 4%. With the 4% drop our PBT have come down by 25% and EBITDA is -15% on a full year basis. In that the treasury income is lower by Rs. 24 Crores, our cooling division had a swing of -14 Crores which is catching up in the current year. Similarly, additional depreciation which has happened on account of the TBWES integration with the main company, we had a 25 Crores hit at the PBT level. We also started the digitization journey with an external consultant coming and helping us, having onetime expense of Rs. 14 Crores. All of these sums to around Rs. 80 Crores – 85 Crores that will be justifiable to bridge the gap of 125 Crores between last year and current year, the rest is on account of the turnover reduction. Otherwise operation wise, I would want to guarantee to all of you that there is nothing which has really gone wrong. We have entered the year, even with the COVID, at a Rs. 5300 Crores carry forward orders and we would expect that Q1 with most of the factories shutdown may be a washout, Q2 will see improvement, middle of Q3 onwards normalcy should start prevailing in the market as per our expectations.

Now coming to what happens to Thermax factories, we had to shut down all our Indian factories as per the instruction given by the government from March 23, 2020. However, our factories in Denmark, Poland and Germany continued to run, even the Indonesia factory was running at a lower load for a fairly long period of time. Being a supporting organization to the essential services, all the three chemical factories of Thermax got permission to restart the activity from April 6. It took us a week to restart them and I am very happy to report that all three chemical factories today are operating at capacities in excess of 50% and may have even reached 60%. But unfortunately for us, at our Dahej factory, a neighboring factory had a major fire that was reported in all the newspapers and the fire was so massive that two of our contract workers who were running the effluent treatment plant lost their lives and our entire factory had to be shutdown and we will have to factor 30 days to 40 days for the Dahej factory to come back to normalcy. There are major damages to some of the structures, some vessels and their electronic control system for a fully automated plant, due to which we will be losing production of not less than 30 days to 35 days minimum that could even go upto 40 days to 45 days. Otherwise chemical would have been even be running to a level where in Q2, we would have crossed the last year’s turnover but let me assure you we are possibly working towards breakeven plus and near to profitability for the chemical division even for a difficult Q1 in the current year.

The rest of the factories of the company progressively received permission to reopen and I am very happy to state that the last factory of our company to receive permission to restart is Pune, because Pune is a major containment area. So all the factories of Thermax are running now ranging between capacities from 25% to 50% plus in some of the European factory and even Sri City factory has almost reached 50% production. We never had any contract labor difficulty because we do not engage too much of contract labor. However, our supply chain which has got lot of MSMEs will face the migrant labor difficulty for some time, but we are helping them to ensure that they are able come back. As we are catching up on the production where we are expecting that by mid Q3, we should be in a position to be ready to run the factories in full capacity based on the orders available, we will be supporting our supply chain.

One more thing which will be impacting the organization is that the MSME definition has been revised from previously Rs. 100 Crores turnover to 250 Crores so many more of our suppliers will be coming under MSME but the only impact is making the payment on time. Here Thermax is quite capable, and we have been managing that and we would support them. It is in our interest to support our MSME suppliers to ensure that we are able to complete our supplies on time. That is all related to supply chain.

We are not finding any shortage of raw material at this point of time even with the latest happening related to China. We have got outstanding orders of Rs. 154 Crores from that particular country out of our total purchase of maybe Rs. 3,500 crores so it is insignificant, but we need to find alternative sources which my team is already working on. We have opened the year with again no debt. Happy to report that in both the months of April and May, we have been able to manage the entire operation without taking anything away from the treasury on the contrary we have added little more to the treasury in the most difficult times. So, going forward also we will ensure that we do not drain our treasury unless otherwise it is a real necessity. So, the strength of the company's balance sheet will continue to be the same going forward. In one of the toughest years where payments were becoming difficult, I am very happy to inform you that the working capital for the full year has come down to Rs.128 Crores which was almost Rs. 200 crore in the beginning of the year and the DSO also has come down in a tough year like last year.

So I will stop over here for you people to ask me questions. It is a tough year but we are a tough company to manage a tough situation. Be with us and with all your support, we should be able to ride through this current year also.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram: Good morning Sir and congrats on good cash flows despite the weak execution. One thing which we observed is that the other expenditure has been a bit high even compared to last quarter and despite this fall in revenue so what has led to that, is there some forex impact or something one off in other expenditure?

M. S. Unnikrishnan: Rajendran will give you the answer with approximate numbers in that area which are the other substantial major expenses.

Rajendran: The major expenditure in other expenses have seen certain bad debt that we have written down during the last financial year as well as there has been increase in warranty provisions that we have made last year given completion of certain project jobs and at the end of which we have to make some warranty provisions on that as well as some one time warranty expenses that we have had to incur so given that I think our Q4 warranty expenses is slightly higher than what has been in the past.

M. S. Unnikrishnan: In this number some of them are only provisions. For example, Dangote which reached completion stage. So whenever some projects reach a completion stage, we provide certain percentage of that order value as a warranty provision and it will be written back only when the warranty period is over, but there are some warranty expenses also incurred which will not be written back, they are already lost out as he mentioned. Some of these are one time; there is nothing that is recurring apart from expenses incurred in manufacturing and other areas.

Renjith Sivaram: Okay, so can you quantify that one off provisioning for this quarter?

Rajendran: For the quarter, the increase has been in the region of about 15 Crores.

Renjith Sivaram: Okay 15 Crores and was there any forex related loss or something like that?

Rajendran: Forex related impact for the full year has been about 17 Crores compared to loss of last year 1 Crores so that you can say an impact of about 16 Crores.

M. S. Unnikrishnan: Yes, there is a net impact between last year and current year and the full year impact of forex loss of Rs.16 Crores.

Rajendran: This year we had a rupee depreciation at the year-end so on our forward exchange contract we had a mark-to-market loss compared to prior year, a reverse situation.

Renjith Sivaram: So how much that was booked in fourth quarter?

Rajendran: 15 Crores current year versus a gain of 6 Crores last year.

Renjith Sivaram: Okay and for the fourth quarter?

Rajendran: Fourth quarter number I will let you know in sometime.

Renjith Sivaram: Okay and Sir if you can give us some outlook regarding our overseas subsidiaries especially Europe and South-East Asia, how are they placed and how do you see the next year, previous year how was their performance?

M. S. Unnikrishnan: Danstoker continued to be loss making though we expected it to turn around .As I had mentioned in one of the con calls, we have got a new CEO appointed there, we have also stopped all the project businesses over there. Order intake has not been bad for them, carry forward is also okay - I mean not substantial but not negative either. I do not want to say anything at this point of time but the way it is currently operating, it looks like in the first quarter itself, we may be closer to break even over there. As compared to all the negatives of India, the factories were running over there and with the cost reduction exercise that we have undertaken, we may be closer to that so it will turn around in the current year. The enquiry position also makes it fairly possible because Europe has not gone so negative like the way India has with the lockdown. The enquiry related activities are okay, orders have to be concluded. We have carry forward for the first quarter and may be little for the second quarter but orders are getting concluded there also.

Coming to South-East Asia subsidiary, of course it is expected to be negative because in any case only in the fifth year we are supposed to make profit but the losses have come down in Indonesia as compared to the previous year which is an indication that it is in the right direction of movement and we are closely monitoring it . So that is about Indonesia. So this is about the two major running factories outside India.

Renjith Sivaram: Can you quantify the losses of Danstoker and Indonesia?

M. S. Unnikrishnan: Normally we do not tell that Renjith.

Renjith Sivaram: Okay and Sir lastly break up of order intake order book segment wise if you have?

M. S. Unnikrishnan: Yes, he will give you.

Rajendran: Order intake right?

M. S. Unnikrishnan: Yes.

Rajendran: You wanted it for the full year?

Renjith Sivaram: Full year and for the quarter.

Rajendran: For the full year of FY2019-FY2020 energy segment is 3280, 1777 is a number for environment, chemical is 441 and total is 5498 and the order balance for the energy segment is 3557, environment is 1601 and chemical is 80 Crores and the total is 5238 Crores.

Renjith Sivaram: If you can give the breakup in terms of domestic and export?

Rajendran: You are talking about the order balance am I right?

Renjith Sivaram: Yes.

Rajendran: Okay so the order balance the domestic is 3795 and export is 1443.

Renjith Sivaram: Okay. Sure Sir, I will join for the question.

Moderator: Thank you. Ladies and gentlemen, we also have Mr. Ashish Bhandari in the call with us. The next question is from the line Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: On the outset Unny we would like to thank you for your gesture of extending your term in the difficult times. My question is more on the outlook and when we look at the order balance we have a large part, a reasonable part which is the FGD where the execution timeline is around three years and the execution timeline for the others is slower and we have this COVID related disruptions, so how do you see the year panning ahead given that been adjusting for the timelines we have a low order book?

M. S. Unnikrishnan: We have a decent order book. As I mentioned, it is almost similar to last year's number. Even during the lockdown period barring the initial two weeks' time, work from home has already started even for many of the customers. For example, in case of the two FGD orders, we had engineering happening, approvals happening and we were negotiating with suppliers and other such activities happening. They may not be 100% of what could have happened with all companies running with 100% manpower. So, I am not expecting a substantial delay in the off take of the movement of the FGD orders even in the current year is my anticipation. I want to repeat the word anticipation because if further lockdown happens considering that there is a lot of unpredictability, I am not sure how things are going to pan out in the future. The way it is looking today, I am sure revenue recognition will also happen for part of the order in the current year itself for FGD. I should not be giving the numbers but I can tell you we did have orders getting concluded during April and May both from India as well as from abroad, not the kind of numbers that we are used but better that what one could have expected in the lockdown and shutdown kind of a situation that prevailed across the globe. I would say there are sectors like Drugs, Pharma, Food, FMCG and Dairy where orders were concluded even during this period of time. We have done surveys with all our customers and we were in touch with every customer of Thermax whose carry forward orders were part executed or yet to be executed about their opinion on how to go about with the order. Almost 84% of them told that they are going ahead with the project, the balance asked for time to revert because they needed to see how their cash flows are going to pan out and if they need to be in a hurry to have the equipment . Otherwise 84% of them are very clear that they are going ahead with that they were also worried about the fact that their factories are shut down. Thankfully, most of the sites have re-opened which I possibly did not mention in the opening talk that I am very happy to say that almost 90%-95% of our construction sites are already on and we have been able to retain at least more than 50%-60% of our labor through the labor contractors. We have taken care of them and once the capacity requirement for construction starts going up, we should be able to also attract the migrant labor to come back and start the work. I do not think that is going to impact Thermax's movement. Yes, on account of the factories being shut down across the country for almost 60 days-70 days there will be an impact on the Indian industry economy and the world so we will be a part of that but as the re-opening happens, I am not unduly worried . We have got orders on hand and for the bad orders, we would have already taken a decision and removed them from the carry forward orders.

Bhavin Vithlani: The second you briefly mentioned on the supply chain where a large part you mentioned Rs.3,500 Crores of procurement from China and we have a large part of procurement also which comes from small and medium scale enterprises and that section is specifically showing weakness and we have been able to get more out of the supply on the pricing as well as on the working capital front. Do you see that this situation may actually turn adverse for the short to medium term?

M. S. Unnikrishnan: There are some vendors who may get into difficulty and their difficulties are on two counts. Number one is related to availability of labor that is the most important one and second is the cash position for them. We have conducted vendors survey to analyze where are we standing and I am very happy to tell you that 46% of our vendors do not have any kind of difficulty either on the working capital or the labor issues. The issues are with the balance 44% of which we also know who are the ones having difficulty for man power but when they talk about manpower it is not for running at half the capacity but if they would run at the full capacity. I am also working beyond Thermax with the Government of India related to the migrant labor just to keep all of you informed. I chair The National Committee for Confederation in the Industry for Industrial Relation and I am happy to inform you the first two weeks of June has seen a lot more of reverse migrations, the people who migrated realized that there is no livelihood and factories are opening, so their biggest worry was that will they have work available. So work has already re-started in most of the factories in India that has currently opened so with that kind of a positive thing prevailing, many of the people are coming back. By the time we need 100% contract labor or the migrant labor at our suppliers premises, it would be second half of Q3 and that is when India will need migrant labor to come back. I am very happy to tell you that most of those who returned, though I cannot say 100%, will come back. They may not come back to say possibly for the construction industry or home servant or maid kind of jobs or where there is an exploitation. Construction sector is equally responsible for them to be left on the road and which forced them to go. But the MSME industry has got fixed location of manufacturing and also pays decent enough salaries. I am sure that our supply chain also practices minimum standard of operation and minimum wages are paid. They will be able to get their workmen as and when they want. So, there is no major risk of that kind. Will it mean that 100% is risk free? No, there are some of them who may have cash difficulty because they were already in difficulty and with the current situation, they would have got into much deeper difficulty. So, here what Thermax will do is support our suppliers by buying raw material which are meant for our supplies which is what we resorting to do. So, we will take care of their labor related area, we will also support them on the material availability and cash flow. So, I do not foresee any major issue for Thermax. Regarding China, you have not got the number right, let me tell you. I told you that we will be buying Rs.158 Crores of Rs.3,000 plus Crores from China that is miniscule and for that, we will have to locate some other country or we will see how we are going to manage but that will not impact Thermax. On the contrary, I would say that whatever is happening today is good for Thermax because a lot of unwanted Chinese competition in India who were trying to undercut will vanish and there will decent enough profitable orders happening not only in India but in rest of the world also.

Bhavin Vithlani: Yes, thank you so much.

Moderator: Thank you. The next question is from the line of Kirthi K Jain from Sundaram Mutual Fund. Please go ahead.

Kirthi K Jain: Sir congratulations on this good execution amid challenging time and also you have done a very good job in cash flows congratulations for that. My first question is Sir you had highlighted on this Chinese issue roughly how much would be say Chinese business would be doing on competing to us, what would be the addressable opportunity they would be doing with us in India and the key geographies which you are doing in the overseas market?

M. S. Unnikrishnan: See suddenly it has come down substantially, may be three years back, Chinese and Indian capital goods companies had a 50-50 share. Today it has come to very few may be in the cement industry; otherwise there are many areas where they do not compete with Thermax areas such as in water treatment; they do not compete with us in say effluent control any more though they have done earlier. They are no longer getting qualified for FGD equivalent of that. So, if I would really calculate, it is not much in India but in the international market, especially South-East Asia in Indonesia, in Malaysia, in Thailand and in Philippines. In that entire market, we have a competition from Chinese. Similarly, in the African market also there is big competition from Chinese. So, these are the two markets where we operate where they have an upper hand over the Indian companies including Thermax.

Kirthi K Jain: Sir with regard to the sequential increase in other expenses one you had highlighted is digitization expense of Rs.15 Crores and other one you had highlighted is the increase in the provisions of Rs.15 Crores other than that anything is there Sir the increase in the other expense sequential basis?

M. S. Unnikrishnan: One difference you also mention warranty expenses and warranty provisions so warranty expense is also one time, warranty provisions may continue but it has been a little more in the current quarter.

Kirthi K Jain: So all three put together how much Sir, Rs.30 Crores?

M. S. Unnikrishnan: A little more of that, are talking about only Q4?

Kirthi K Jain; Q3 vis-à-vis Q4 Sir, there is other increase expense is of around Rs.70 Crores how will you bridge the gap Sir?

M. S. Unnikrishnan: So that Rs.70 Crores I will give some time for Rajendra to get the details, thankfully we have come to the office today to talk to you guys otherwise I am entering the office after 70 odd days. I thought okay I should talk to you from the office but all the records may not be available. So, let me give some time to Rajendra to dig out the delta between the sequential Q3 and Q4.

Kirthi K Jain: Sir last question on chemical, is there any key order wins like Indian companies are getting lot of orders from the overseas companies, is our chemical distribution getting any good traction and can we expect a 20% - 25% kind of growth in this year in chemical division?

M. S. Unnikrishnan: 20%-25% will be difficult but there will be a growth in the current year of double digit percentage. I wish my Dahej factory did not undergo this difficulty at this very crucial juncture. The majority of the chemical orders that we are getting are from North America for specialty resin. We were ramping up the plant, in fact my next phase of expansion was supposed be commissioned in June now, it just may get delayed and that may take away little of the top line. So 20%-25% will not happen, but otherwise our one-on-one production from there would have also added on at least a 5% additional plus for the company. So, let us wait for it to happen but I am happy to report that all parts of chemical businesses are doing quite well.

Kirthi K Jain: Good or let me tell you like this say in FY2022 we would be able to get to the exit rate would be better so that we catch up in FY2022 in terms of new orders, new trials and approvals will we be doing a better run rate in FY2022 given the current status of trials and new customer enquiries and orders?

M. S. Unnikrishnan: One hundred percent. I am very happy to tell that there are those who even visited our Dahej factory from the developed world both from Europe and America, and the further process is happening despite COVID so I am confident about the fact that the new orders for specialty resin both from Europe and America will start happening. They are already happening but there has been some difficulties related to the samples reaching there, trials being taken, people travelling which all should standardize in the second half of the current year and as you mentioned, I was very happy when you asked that question. If not 2021, in 2022 I am one hundred percent confident there will be a major rise in chemical exports out of India from our chemical facility.

Moderator: Thank you. The next question is from the line of Dhawal Shah from Girik Capital. Please go ahead.

Dhawal Shah: Sir my question is on the pharma sector, what sort of opportunity do you foresee coming out of government's focus on increasing API production domestically and have you seen any sort of enquiries starting just what is your overall sense because it is big number in terms of a lot of production is shifting back to India ?

M. S. Unnikrishnan: Yes, API should certainly benefit Thermax. In a classical API factory, what you need is heating, so boilers, then there will be water treatment and very important is wastewater treatment. So, these are the three main items, some of them may also have absorption chillers. So, three to four business of the company will get benefited from this development. We have started receiving enquiries; some of them are almost at the closure stage because there are people who have already decided to expand their existing API capacity where the orders will get concluded in Q2 itself and the new ones that the government is encouraging would happen in the H2 of the current year. Normal API plant, the kind that you normally talk about, let me say an offer with potential for boiler plus water treatment and waste water treatment put together is in the range of 2 Crores to may be 7 Crores.

Dhawal Shah: Rs.2 Crores to Rs.7 Crores on a capex size of?

M. S. Unnikrishnan: In their plant.

Dhawal Shah: Okay Sir any ballpark capacity like say for 50 ton-100 ton how would we reach that Rs.2 Crores to Rs.7 Crores numbers?

M. S. Unnikrishnan: This is based on the enquires that we have received, so I am not relating that to API capacity may be our guys will do it as soon as the market opens up properly.

Dhawal Shah: Got it Sir, government has announced Rs.1000 Crores for common infrastructure facility for API plant so our business would qualify in that Rs.1000 Crores what government will be offering?

M. S. Unnikrishnan: See even I am not very clear as to what part that will encompass - the land development, government facilities and may be the water intake from there because at most of the places water will not be available. So, it will involve taking the water from very far away place, bringing water transportations over there, and for managing the waste. So, the Rs.1000 Crores is the common facility unless if you decide about a CETP and if it is there, then there will be pre-qualification and will we take or can we take that is a kind of thing we will have to think about going forward.

Dhawal Shah: Got it Sir, just last question, in the other industry say the other heavy industry like Steel, Cement, Paper and couple of the others where do you see a significant or a considerable slow down to happen in terms of ordering activity given over capacity status or real slowdown in terms of the consumption of the end product. What is your sense and would segments which are growing would compensate the loss of business from de-growing or slowly growing sector?

M. S. Unnikrishnan: My real take for the current year is order booking will be surely lower than the previous year because the larger orders will come from markets like Steel, Cement as these are the contributors for large size orders and Cement may still continue to invest in the second half of the current year, and some green shoots could be visible. See the Indian industry was in a total negative sentiment in the month of March and April. In May there was some kind of a positive sentiment and I am very happy to say the first two weeks of June have been generally positive across the country for most of the businesses. So, we will have to wait and watch if anybody will come to the level where they feel that now let me start placing the orders because there were a lot of enquiries under discussion levels or finalisation from many industries including Cement.. However, they have all got into shell now; when will they come out of the shell and when will they start ordering is something which one has to wait and watch. However, for the Oil and Gas industry which we had mentioned in the last two or three conference calls related to refinery expansions, ordering will continue to happen. They have already part ordered for the civil works, many of the equipment are already ordered out and they have to go for utilities. So, there ordering will happen, but nothing will happen in the fertilizer sector. I also see that enquiries have started from Food and Food Processing and have even started concluding orders in the last part of May and beginning of June. So, I am expecting it will certainly start coming because their projects are of short durations, and it normally takes one year to one and half years to commission the plant. So, there we can have an order coming in and part billing also done in the current year itself. But Q1 may not be worthwhile talking about order booking. There is order booking but not the kind of numbers that order books are used to, Q2 far superior than that, Q3 onwards we can discuss about orders happening and the sectors which should be looked at. Because your question was can the other sectors offset for the larger orders - no it would not be practical. Yes, there could be some one of big order, if that would have happened in any case we would have let you know about it.

Moderator: Thank you. I would request Mr. Shah to rejoin the queue. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Good morning Sir. Good to see excellent work on balance sheet and cash flow management for last year. So, as we look for FY2021, how are we looking at the cost implications of COVID when it comes to execution on the existing projects in hand and how are we targeting to cope with this cost increase and what are the kind cost actually that we have planned for 2021 to offset this impact?

M. S. Unnikrishnan: Renu we have implemented the new way of working site by site and factory by factory. We have not opened a single site without having in place measures for physical distancing and all the precautionary safety measures have been taken, safety is first for the company. The cost that we have calculated for managing this entire thing at this current level is approximately Rs. 20 Crores to Rs. 25 Crores to ensure that the human safety is taken care of in all the places. Now, how do we manage? Well it will be managed, and it will be done in first place. Secondly, how much of that will come from customers and how much will be spent by Thermax is a question. In every place where it is done, we are asking the customers to help us. The natural answer from the customer is that in the COVID kind of a situation you should be able to get a lot of reduction in cost from your supplier so part of that will offset from there. So, it is highly unlikely any customer is going to pay me, this is my outlook. But for the fresh order booking it will be a part of the cost included right from the beginning itself.

Renu Baid: Okay and last time we had mentioned that we are taking many actions to cut down fixed the variable expenses internally to cope with this kind of uncertainty. So, would we have any details or some numbers to quantify in terms of what are the kind of savings that we are looking for FY2021 apart from the benign commodity cost which could provide some support?

M. S. Unnikrishnan: First and foremost, there are 30 different things on every line item of the schedule where the cost is recognised, but I cannot reveal the number because it is only target given, target given should not be given outside, until the numbers start happening. But I am confident that we should be able to hit the target varying between 4% to 5% to a double-digit percentage, in every item there will be reduction in cost. It is already worked out and good number of people are working on that. Next is that there had been a voluntary reduction that we have agreed in the salaries of white collar for those who are getting salaries above Rs. 6 Lakhs CTC, ranging between 3% going all the way up to 20% for the CEO and Executive Council Members. It has already been implemented from the last month. There are various other areas where we are looking at manpower because if the orders are not substantial we may not want to cut the manpower, but anybody who is on a contract equivalent like fixed term contract certainly we will look at how many of them we need to keep and how many of them we can get off from the payroll. We are going to give incentive for the last year but in the current year there would be no increment. given. So, there will be lot of cost reduction at every aspect or at every line item that goes into the Balance Sheet in the current year. See we are re-working on the numbers in fact we have re-worked three or four times from the time when we got it approved from the Board in the month of January. So, we are looking at it on a regular basis instead of one number and we are confident that orders are available, it depends upon the cash flow of our customers. We will not deliver material and wait for the payment to happen in the current situation. We need to have re-assurance from the customer if he is willing to take if I manufacture and I will get the payment within a reasonable period of time only in such cases, we will compromise on the top line but we will not compromise on the middle line and the bottom line; that is the way we are moving.

Moderator: Thank you. The next question is from the line of Akshat Haria from Multi Act Equity. Please go ahead.

Akshat Haria: Thank you for the opportunity Sir. Sir my question is on FGD I would like to know your views on what is happening over there in terms of execution and the time line what is happening on working capital receivables and new order and also on whether the deadline would be moved ahead or how is the government thinking about it if you would have any views on that also?

M. S. Unnikrishnan: Yes, Akshay, from whatever I am aware of, the original ordering done in the first lot and the second lot had taken a much longer period of time to start taking off from the ground level though the orders were awarded because this was the first time in the country. Thankfully companies like Thermax have got an advantage of not having participated in that because whatever was the learning at that point is also helping us so that is point number one. So, execution is happening at lot 1, lot 2 and lot 3, lot 4 where we are also a part and has now started moving perfectly okay on that ground. There the next question is initially those who were taking the orders they had agreed for a 35% retention 30% plus another 5% also on various accounts. Those guys are having difficulty in cash flows. So, execution for the initial lots were moving very slow but they have started catching momentum now and for the current orders which got declared where Thermax is also a recipient, there is a movement in terms of execution, there is no slowness at all of any kind. Even during COVID period as mentioned to somebody in one of the earlier questions, there has been movement in terms of engineering, engineering approval, placement of purchase orders and ground level activity in any case was expected to happen only in the second half of the current year. So, we are gearing up for it and both the companies have not expressed any difficulty related to how they are going to fund us going forward. Now, the next question related to - will the rest of them get postponed and then will there be extension given by the government, nobody has sought extension so far knowing fully well the financial health, except State Electricity Board where I would personally believe that there may be an extension available but NTPC and central government organisations and the private industry will not get extension, they will be going ahead with the next lot. In fact we submitted our offer during this period of time also and technical discussions are going on and price bid will also be submitted both for private industries as well as for NTPC the first lot is going to take place. So, state government do not have money and I do not think anybody will bid to them at this point of time when they come out with the tenders, that is the reality.

Askshat Hariya: Yes, Sir just one follow up if I am not wrong your view was that private sector would take some time to come out with their tenders, so now private sector has been moving?

M. S. Unnikrishnan: Yes they are moving and let me also tell you that there are others who are running in heavy metal industry capacities of captive power plants going all the way to 750 to 1000 megawatts especially aluminum industry where they have imported may be boilers from China or may be some other Indian suppliers, and also 150 megawatt in multiple numbers.

There are also smaller plants which have not ordered the FGD, they are all being asked to go ahead with that. So, there are enquiries in the market for 150 megawatt, 210 megawatt and even 550 megawatt.

Akshat Hariya: Okay. So, Sir since the deadline will be near now and there would be some sort of shortage of supply because there lot of orders have to be fulfilled in a short period of time so there could be some price hike?

M. S. Unnikrishnan: Unfortunately the market dynamics or theories that we learnt in the management institute says that the markets should face bigger margin when things are like this but the competition is so bad that they do not allow the price to lift up, that is the reality. But a consolidation in terms of the smaller players moving out and the initial guys who were very adventurous in pricing having seen how much money they are going to lose. I am expecting all the orders will become profitable in the country, not the way it went in the beginning where people lost money to take orders . So, there will be profitable orders, can the margins move up to the kind of margins that all of us want, I doubt in the current circumstances anybody would come to that level because everybody is in need of orders and uncertainty means people will under bridge.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Thank for the opportunity and congratulations for good number in such a challenging environment I just had a follow up to the FGD questions you answered. So, if I just talk about lot 1 to lot 3 and you talked about it all will be not favorable even before COVID kind of hit and there is no discussion yet from NTPC or anyone in terms of either easing the credit terms or re-looking in the margin so do you think if any of the orders may be up for re-tendering because of lot of these companies may not be able to fulfill the whole order execution do you see any of those elements happening and also are there demands by the customers say for NTPC lot 1to lot 3 that if in case there is a deadline not met in the execution time line then we may actually impose a penalty of any sort?

M. S. Unnikrishnan: LDs are already there in all of them and NTPC kind of company and all PSUs are very well known for cutting the LDs whatever you might do, unless delay is because of them, if it is because of the suppliers they will cut the LD that is for sure. That is point number one, and since already that is a part of the tender. To my reckoning they have not approached any supplier so far for the existing contract for any further price reduction and will there be a re-tendering for the orders awarded? No, because nobody will want to take chance with NTPC to abandon an order unless the company is already bankrupt. They would beg, borrow but complete the project so that they would not get into the blacklist of NTPC because it is a very promising and very important customer for every supplier or a contractor in India. Then comes re-tendering, it has already happened for the lot number 3, where they had been re-tendering for some of the sites. Wherever the lowest bidder was more than 10% to 20% of the original budget that they had kept, all of them have gone for re-bidding. But the re-bidding of NTPC is not very fruitful, because there was one particular case where the original budget say was 100, the L1 was almost 170 and they went for re-bidding. In the re-bid, L1 went from 170 to 190 so they did not have a choice but to go with the higher price in that count and just to let all of you know that Thermax is not a part of either the first bid or the second bid. So, such re-bidding from NTPC lot happened only when the gap was too high in their budget versus the actual bid, then they call L1 for a negotiation asking if they will match the price to whatever the budget is which is impractical for anybody to do that, so then it goes for re-bidding otherwise I do not expect any of the ongoing orders where a supplier or a contractor will run away and he will come for a risk purchase and a re-bid. So far it has not happened nor I am expecting anything will happen after that.

Viraj Kacharia: Okay but when you say that in case lot 1 to lot 3 is the execution now as per the time line or you see delays in the sense. Why I am asking is because there will be some cost escalation and in that case does the suppliers are the ones who kind of bear this because the margin structure and the term either way in lot 1 to 3 or either way much lower than what you probably are looking at in lot 4. So, how does that really work out in terms of cost escalation or any of those elements that is one and second how you talked about the overall re-tendering the price being higher than the initial bit in lot 3. So, considering that one would think that the margin structure in lot 4 and onwards would be much higher but your commentary says other way so why is that?

M. S. Unnikrishnan: The margins have improved. Earlier there were no margins. In the beginning people just took the orders without understanding what is the need to set up FGD and what do NTPC technical terms mean but that is only in the first lot. Later, there were also uneven competition but now the competition is only with good companies. I mean the people who bid for it are only four or five well-known larger companies who are participating in the bid and none of them will never take wrong order unless a wrong estimate happens. Margins could have improved at least from negative to positive, it has already happened but will it happen further, Akshay had asked that question which I doubt because within India the tendering which happens in the PSU - all of them are quoting similar kind of prices always the gap between L1 and L2 will be 10% and L1 and H1 could be 30%-40% also that is the way it happens.

Moderator: Thank you. The next question is from the line of Paramveer Singh from CMC Mutual Funds. Please go ahead.

Paramveer Singh: Sir I was just trying to understand we have done this investment of almost around Rs.450 Crores on Sri City and Indonesia and I just wanted to understand like in terms of the ramp up versus what we were expecting earlier and what could be now over the next two to three years from opex how we see the revenue scale up in Indonesia and if there any absorption chiller front and what are the challenges we are facing in Indonesia because it seems that the ramp up is slower than what we are earlier expecting?

M. S. Unnikrishnan: You are right Paramveer, I will go one by one. The first one was a chemical plant that way commissioned in Dahej. I am very happy that it is really helping Thermax to ramp up the chemical business and especially the profitability because we are able to produce very high quality in a highly automated plant so there we are able to move up and scale up is happening faster. Covid would have had some small impact but otherwise it will be out of that and will do very well. So, it is paying back and our phase 2 expansion to raise the capacity from 12,000 to 22,000 is on course except for the accident which has happened in the nearby factory which has pulled me down by may be a month, month and a half otherwise all doing well and really I am thankful that we have been able to put that plant up which will certainly help our resin business to grow and increase the profitability.

Next about Sri City, we had hiccups in the beginning, but it is settled in every possible way, very happy to say that despite the closure of chillers production in my Pune facility totally and also the shutdown of the Chinese factory where we have sold out the land and the factory also, this modern plant in Sri City is supporting the cooling business. Being one of the most automated engineering factories of India for heavy fabrication, we had some issues but we overcame all of that and the factory today is able to supply to any customer, any capacity and the best quality possible for absorption chillers in the world. So, that is also taking shape. It will do well. We had some setback last year on the profitability on account of some of the material which had to be shifted, where the supplier took a little longer time so little over expense has happened but now everything is under control over there.

Third is the Indonesia investment, you are right on that. Not that if we have gone wrong in anything, we continued getting larger orders for which again we have to continue making the components in India and not the Indonesian factory so the focus is totally shifted to smaller size of orders where 100% manufacturing is possible in Indonesia number one. Second, we will also be adding on some more machinery over there to ensure that even medium sized boilers can be made as the market is shifting in that particular fashion and very happy to say that in the last few months there had been certain major orders that we have been able to receive and before the onset of Corona these were on the finalisation platform, three-four projects which were sufficient to make us come back to normalcy in comparison to the original plan but it may have got postponed because of Corona but that will happen. So, by the year end of the current year we should be on course for Indonesia. Just to repeat for those who have not heard from me earlier, these three investments we have done to ensure that the product part of the Thermax business portfolio has a faster growth possibility so that we de-risk from the volatility of the balance sheet which normally occurs because very large and chunky orders happen in EPC or maybe at the boilers and heaters and we have not really invested in capacity building for the other businesses, that is where we have put in the money and I am very happy to say two of them are already on line, third also will come on line with the current year.

Rajendran was to give some numbers, so I think he is ready with that chart. So, can you please help them before close.

Rajendran: So, I think there was a query on the Q4 versus Q3 other expenses increase on the consolidated financial numbers so primarily I think the increase has happened in our freight outward expenses on account of large export projects getting executed, the freight expenses being in our scope, these expenses were incurred. The second is the site expenses being higher, we had few of the power projects that we had picked up for execution coming up for major site work in this quarter and so the site expenses increased compared to the past quarter so that is the other reason and then there have been many other smaller increases in our royalty, repair, rates and taxes and certain other item hits.

M. S. Unnikrishnan: So, that is the question somebody had asked I think Dhawal had asked the question.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Thank you for the opportunity again. So, if you can give us like you have been giving historically, how is the breakup of the order flow on the sector wise last year we know about the FGD order but it will be helpful and may be if you can give some outlook on the larger projects you mentioned about refinery it will be helpful if you can quantify that?

Rajendran: You needed the order inflow sector wise for the full year on a consolidated basis. The order bookings on a consolidated basis for segment wise is as follows. For energy segment the total is 3280.

Bhavin Vithlani: I am sorry to interrupt. Actually, I was looking at the sector, like historically you have been giving the breakup cement, steel, power, pharma, food processing etc.,

M. S. Unnikrishnan: I do not think we have prepared it due to work from home but let me give you an approximation for it. For the year if I look at it, the largest fund happened to be from power because the FGD orders have overshadowed the rest of them. Second area is food and food processing. These are the two leading fronts. We also had orders from Oil and Gas industry but as a percentage I would not be able to give right now because it is not completed for the current year. I agree with you that normally I prepare it at the year end and tell you about it also I mean quarter-on-quarter and year-on-year but that maybe in the next quarter when we do it in the month of August I will give you even for the previous numbers.

Bhavin Vithlani: Yes, it is absolutely fine. If you can give some color on what could be size of the refining opportunity on the FGD you mentioned that state is something you may not want to pursue it but can we repeat the size of FGD orders that we got it current year but just trying to reconcile?

M. S. Unnikrishnan: There are two of them of current year that we have registered. One is 470 odd and second one is 430 so put together around 900 plus crores is what we have registered in FGD from two of these. We also had smaller industrial FGD orders which could have been say few crores where difference could have come. There are such kind of FGD orders under the discussion both for smaller ones and the larger ones.

The next one is you asked about in the Oil and Gas industry. We have not booked any large orders, but these are all heater kind of orders for Rs.40 to Rs.50 crores and another one where we would be L1, I think the order has come equal to Rs.70 Crores to Rs.80 Crores. Not any large ones are currently coming, however, we have bid for heaters and also some boilers in all the refinery expansion programme. All the order finalisation got postponed by two months to three months. The area for which we are bidding for heaters and captive plants are under discussion right now and the technical bidding is over and the price bid will happen in the next maybe two months. I am expecting that you also need couple of meetings beyond virtual meetings for such kind of larger tenders. So, it maybe postponed to where I expected the orders concluded in H1 itself may go to the beginning of H2 that is about the refinery expansions in India.

Internationally there are one or two enquiries crossing the budgetary level for refineries for both the heater as well as for the radiant boilers for that. They have not come to purchase level or a final tendering level but little more than the budgetary level.

Bhavin Vithlani: Sir, last time you mentioned that the refinery order flow current year if things work out well could be about Rs.1000 Crores which you had assumed the 30% stake for you…

M. S. Unnikrishnan: That is still on and the only thing is where I would have expected it to be coming in at least by the end of H1 may shift to beginning of H2, Q3 or Q4 times, there on all of them are on.

Bhavin Vithlani: Okay and can we expect some FGD orders also like we had Rs.900 Crores as you mentioned last year?

M. S. Unnikrishnan: In the current year we are bidding, we will come to know about it, there are four sites owned, very large 1000 MW and the smaller one is 390 MW. We will participate in the FGD projects but not all of them, we will be selective about which one to bid for and this lot should certainly be concluded in the current year itself.

Bhavin Vithlani: Just one last question, due to the new norms you mentioned that you are taking safety precaution and there is some cost but do you see there could be some productivity related compromise which could add to your cost while you may recover in the subsequent new orders, can that impact the profitability of the current order book?

M. S. Unnikrishnan: See, in the beginning there will be loss of productivity especially with the physical distancing needed during the construction and in the factories. Thankfully, the capital goods industry is at an advantage over this physical distancing. For maybe in automobile assembly line, there may be difficulty because the line is already built and it is 2 km or 5 km in length and it is already filled up with people standing and working whereas we operate at minimum size of factories from 30 to 40, upto 100 acres and fabrication areas where we can always have extra space available so space constraint related productivity loss will be virtually nil. Now there are activities where helper will be standing close to maybe a welder so that is not permissible so I need to invest in fixtures for which I will have to take the investment, and if we would do, it will be very marginal, couple of crores of rupees will be needed for them but that is not going to be in double digits of crores of rupees for factories so that has already been done. Same thing will also be repeated for the site then the rest of the things are only for the processes and there are also cost for transportation of workmen. For example, earlier we could put 50 people in the bus but today it will be only 20 or 25 let us say, if that be the case the transportation cost will go up but when you compare with the size of orders, size of the top end of the company, this could add to maybe a 25 basis points let us say pertaining to COVID related, safety related issues. Everything put together, 25 basis points could be taken for a company which I think is needed and it would be done and I think it will become a practise not only for me but for everybody.

Bhavin Vithlani: Thank you for taking questions. Best wishes from our side.

Moderator: Thank you. Ladies and gentlemen due to the time constraint that was the last question, I now hand the conference over to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair: Thank you very much Sir for taking time out and giving us an opportunity to host the call and thank you to all the participants for being there. Thank you very much and wishing you all the very best.

M. S. Unnikrishnan: Than you Bhoomika, I want to have a word with all my friends also. This is the final one that I will be taking, from next con call for Q1, I maybe present but I would certainly like my successor Ashish who is already there in the call to conduct it. For those who have not heard about him, let me introduce him. He is an Engineer from IIT Mumbai, started working with one of the large oil multinationals from the campus and worked directly outside India and in international market in operations of oil industry and then he did his Master's in Business Management from Duke University in North America and from there he worked for McKinsey for few years, then he was in two startups in North America and later he joined General Electric Company, GE in the product business of theirs in North America. He was sent to India to set up the same business in India for them including manufacturing. Post that he was with a vertical of GE and after the consolidation he was the Head of the Oil & Gas business of GE in India and Asia Pacific from where he has joined us. The day-to-day affairs of the company would be managed with effect from 1st July by him, I will be there to help him out for two more months that is why I told I would be there for the next con call as a person to help him out and he would be conducting it. Ashish, would you like to say some few words to the people who are participating.

Ashish Bhandari: Thank you very much for giving me the opportunity and also for the very kind introduction to everybody that is on the call. I humbly accept the responsibility that is given to me to work alongside Unny and I learn from him in this very challenging environment. I have nothing further to add on the business which Unny had done a fantastic job of sharing with all of you. I will just talk maybe just for a minute about the transition itself.

I have been on board starting the second week of April, April 7, 2020 to be precise and for the last nine weeks I have been working with Unny and the team on every part of the business here on safety procedures and response to COVID, all our budgeting for next year, our analysis which has finished in the board presentation, doing that, working with the individual businesses and the bigger opportunities, starting the factories and the sites up so all of that has given a good idea about our past and present and then also what we are thinking of for the future. Unny would very much be there until end of August mentoring and guiding and helping me out in every which way and I will be taking his guidance for everything possible on all counts. So, I do expect that the handover and the transition will be as smooth and even under these current circumstances we are doing everything possible to make sure that nothing that is missed because of the transition. I look forward to interacting with each one of you in a more vocal way in the next set of discussion and I thank everyone for your time to listen to us today. Thank you very much.

M. S. Unnikrishnan: Thank you Ashish and for those who may want to know as to where I am going, I will be around only. I have already joined as an Independent Director on the boards of two companies, one is KEC International and I have recently joined the board of Kirloskar Brothers and I have multiple offers, but I may fix one or two more and I will also be teaching in one of the IITs either Mumbai or Delhi depending upon the one which is convenient for me. I will be active in the industry not in terms of any executive role, but non-executive support to the companies. That is about it. Thanks a lot for the continued support, your feedback is what has made me think a lot. After every con call or personal discussions with you, it has always given me some learning and I have taken it back and implemented your questions or answers arising from your questions because you look at Thermax differently than any of the employees and this is a great learning for me and I am sure it will be for Ashish also. Please continue supporting him and his team. You have always supported a great company and make it greater with all your support. Thanks a lot once again.

Moderator: Thank you. On behalf of IDFC Securities, that concludes this conference. Thank you for joining us and you may now disconnect