"Thermax Limited Q1 FY2018 Results Conference Call"

August 09, 2017

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Thermax Limited
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MENT: **MR. M. S. UNNIKRISHNAN - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – THERMAX LIMITED**

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Moderator: Good morning ladies and gentlemen, welcome to the Thermax Limited Q1 FY2018 Results Conference Call hosted by Motilal Oswal Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankur Sharma from Motilal Oswal Securities. Thank you and over to you Sir!

Ankur Sharma: Thanks Lisa. Good morning, ladies and gentlemen, and welcome to the Q12018 post results earnings call of Thermax Limited. With us today from the management, we have Mr. M. S. Unnikrishnan, Managing Director & CEO and Mr. Amitabha Mukhopadhyay, Executive VP and CFO. We shall begin with opening remarks from Mr. Unnikrishnan and then open the floor for Q&A session. Over to you Sir!

M.S. Unnikrishnan: Thank you Ankur. A very warm welcome and good morning to all our well wishers who had been supporting us all this while through the thick and thin of what we are undergoing in the industrial sector. I presume we have not disappointed you beyond a level because we have already cautioned that the results can have an impact because of the GST introduction.. On the order-booking front at the group level we have been able to have an improvement by almost 135% over the last year where it has gone up from Rs.817 to Rs.1919 Crores. If I split this between domestic and international, the domestic had been marginally better going up from 525 to 538 where international order intake has gone up from 292 to 1381. Even if one were to be discounting the large order, which we have registered from the African continent, there is an improvement in the international order intake for the quarter. This has helped us to take our order carry forward for the group from Rs.4040 Crores to almost closer to Rs.5000 at Rs.4944 Crores. You are seeing an improvement in our order carry forward after may be five consecutive quarters where we had been quarter-after-quarter reporting reduction in the order book. It has gone up by 22% that is a positive for the current quarter.

Our revenue recognition for the quarter has come down by 10.5% to be precise from Rs.977 Crores last year for the first quarter down to 874. In the domestic it has come down from 603 to 547 Crores, international it has come down from 375 to 327 and the other income and other operational income put together is minorly lower in comparison to the previous year number. Now there are two factors. We aim to be at least touching the last year's number or marginally exceeding in the first quarter knowing fully well the execution of the orders, which were on board for the quarter one. We had two impacts. First and foremost is the GST. We had some of our fairly large customers who informed us well in advance to not dispatch anything in the month of June unless we have a clarity about GST implementation and the rates and the input tax credit possibility. Unfortunately a circular from the Government of India very clearly indicated that a one month grace period, which they allowed for the entire input material is not available to capital goods for the month of July. We were a little worried about how it would be taken up by our customers, so second half of the month of June where normally we would have done fairly large part of our revenue recognition had to come to a zero level and we had to suffer on the topline. Amitabha and teams estimate it is approximate Rs.80 Crores for the topline reduction we had to accept on account of GST implementation. Even in export consignments, which we were quite hopeful about towards end of the month, there was a malware attack on the JNPT port operation and the main lines who were managing our shipping consignment. Therefore we were unable to move the goods on to the ship and prudently decided that though the material was already in the port, not to consider for the current year.

Theoretically once it has moved out of the factory and inside the port we could have, but we have taken a decision we do not want to do that, so that has also add a 30 plus power impact in the current quarter's number. If both did not happen, may be we would have been at least marginally better than what we did last year and as an impact of that we would have been able to meet up with the street expectation of topline and bottomline. Normally we do not work towards that, but I am sure based on input taken from us also. That is as far as revenues are concerned.

At the EBITDA level, we continued to be managing the balance sheet sufficiently well. At the group level we were last year at 8.9% in the first quarter. It has come down by basis points to 8.%, but at the PBT level we have improved it marginally from 8.3% to 8.7%, That is about overall results for the quarter. Standalone if there is anything I am sure Amitabha will help you as I was told by all of you that you would rather prefer hearing from us on the group level numbers alone. Update on the activities from the other area, very happy to inform you that the Indonesian plant was inaugurated in the beginning of the month and commercial production is starting from there for the package boilers. We are receiving fairly good support. We had more than 60 odd customers of our from the Asian region coming all the way to this particular small city to support us for the inauguration of the factory, which was attended by the local mayor and Meher. My expectation is Q2 may have minor impact, but Q3 onwards we should have factory producing locally for Indonesia and towards end of the current year we should also producing for other countries in the Asian group from Indonesian unit of the Thermax.

Dahej factory again as per promise we have been able to load the raw material to the entire factory, the trials are on, and I am expecting that Q2 we should have the commercial production and dispatches starting from the export oriented unit. The resin segment of the chemical business should be visible towards Q4 because I would naturally expect Q3 for us to be very careful to ensure that Thermax's quality standards are retained and we will not just want to price up the chemical production. Q4 will be a very normal production quarter for the new factory over there and workers started moving at a faster pace at our southern factory. Current estimate is we should be able to be up and going, the commercial production starting in Q1 of FY2019 from Sri City facility of Thermax.

On TBWs we have not received any further orders nor did we bid for any of them, there was only one order, which got concluded in the entire quarter for three numbers 800 megawatt on EPC basis. Thermax did not participate because it did not have a partner as a boiler supplier alone for this particular one. You would see in the overall numbers that after a long number of quarters we have been having a larger inventory hold up in the factory purely on account of the fact that irrespective of the GST hitches that we have passed through we have to be supplying our equipments in the current quarter in future. So you may find inventory having gone up, but nothing to worry. There is no difficult inventory that you are holding as it is purely on account of the dispatch constraint that we put on the entire system.

There is a minor deterioration in the accounts receivables that is again temporary because bill passing in many of our customers places were also constrained. I am not expecting improvement in the month of July, so it will come to a normalcy towards end of Q2 and everything would be under control there afterwards. Enquiry inflow for the current quarter had been far better than what you have seen in the last year first quarter both for medium size project businesses as well as for the standard products for the company. Let me conclude over here and give you more time to ask me questions. Thanks a lot once again.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We take the first question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Sir first question is on you mentioned the enquiry has been far better in Q1 broadly if you can give some idea on is it sort of double digit growth that you are seeing on the enquiry front and also if you can give some sort of a picture on which sector that is coming in new then what it has been in Q1 last year that will be helpful?

M.S. Unnikrishnan: Madan, in the standard products area we have seen textile industry in the primary sector and the secondary sector, which means polyester sector and the yarn sector and very limited number of weaving and knitting sector giving us extra enquiries than what we expected. It is limited to two or three locations, predominantly in the Gujarat sector and southern sector oriented towards Coimbatore, but very limited from the Kanpur or Ludhiana area. This is the sector where we started seeing upsurge in enquiry. Light and commodity chemicals medium size factories we are seeing expansion, good number of them are in brownfield, very limited in Greenfield in that area, so that is about the second sector. We also are seeing an improvement from the food sector even though it is very good last year also in the first quarter. In the food processing sector including beverages, a lot more of enquiries have started coming in though conclusion there as it is little slower in comparison to others, but there are fresh enquiries in a lot more of food processing across the country. This is the phenomenon that we are seeing. More states are inviting food-processing companies. The industrial states are inviting and we are getting enquiries from that area. Then Bharat VI has started moving, so far we have seen Rs.190 Crores water finalization happening and very happy to say Thermax had been successful in getting I believe around Rs.82 Crores worth of orders incoming. Balance portion is going to two or three suppliers including one of the largest public sectors. My expectation is enquiries are underprocessing from the consultant side with where you would have bid for it worth another Rs.200 Crores to be controlled in the current year minimum and I would expect a similar kind of market share for Thermax on that front. In the fertilizer sector we have seen two or three very firm enquiries ongoing and we are bidding for captive power plants, water treatment plants also in those sectors.

All of a sudden with the steel industry having improved their balance sheet performance we are seeing some movement in the sponge iron sector I cannot commit that it is going to be consistent and may be sustainable one, but sporadically there had been fairly good number of sponge iron enquiries both for waste heat recovery and converting that into the captive power, so there are enquiries from that sector. We do see in the cement sector waste heat recovery, which I continue talking about in the past two or three quarters, cashing momentum, enquiries have very seriously been discussed, orders are getting concluded and vague in that sector where the tougher competition if you have to get orders it may be under terrific pressure on the margins, but we are finding ways and means to also overcome some of this. That is about generally from the domestic market. There are various other sectors also in some cities we started getting from Tier-2 areas the hospitality sector giving us enquiry both for the water heating, the smaller size of water heaters and the baby boilers. We are seeing in the rubber sector gloves improving we are seeing in the Tier sector enquiries getting fructified. Let me say that we are seeing some positive sentiments prevailing though Amitabha continues telling me that the entire year will go with the after effects of demonetisation followed by RERA, now the GST. But I am seeing Indian investors at least in the private sector have started waking up at least in the medium size project that I think fluctuations in the market are almost over and we should look forward to something positive going ahead.

Madan Gopal: Thanks Sir! In the orders recently finalized or particularly in refinery and these areas, are you seeing pricing okay or is challenging?

M.S. Unnikrishnan: I never had a single occasion including repeat order from very loyal customers where they are happy handing over a good margin to us. It is buyers market right now and I expect it to be continuing for at least 18-24 months period. The only way we can make or maintain margins at least for the time being is ensuring that we are able to pass it down to part at least for supplies. So all of us are working under pressure and keeping the cost under control which are the only two factors. Other than that may be engineering improvement because there is a limit to engineering improvement also, you cannot compromise on overall engineering quality, so that is the only way Madan right now.

Madan Gopal: Thank you Sir! Thanks for taking my question.

Moderator: Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Regarding this Oil and Gas you told another Rs.200 Crores of orders are there in the pipeline, is it like what is the nature of these projects? So in this Oil and Gas space what would be the steady state ordering that one can expect or in fact what is the kind of opportunity that will be there and what is the nature of order?

M.S. Unnikrishnan: Ravi, Bharat VI means the sulphur content in the fuel is going to come down irrespective of the input fuel. So there is a de-hydrodesulfurization plant, which will need special waste heat recovery systems. There are a limited flue gas coolers and limited number of companies in the world who can do what we can and we happen to be one of the better companies who can do that. There is a public sector leader of India and also one of the international companies who have their edifices in India participating in that front. It is a de-qualification requirement of high nature to do that we were prequalified company. After technical things are over it is a price gain. You are going to bid for it and you are going to be the lowest and only then can you get the order. Of course there will be some loading available if you have quality, the power consumption and the various factors like cycle cost. This is Bharat VI orientation for Indian refineries and the ordering that is expected is not consistent. I would say the current expectation there are three places, three different types of equipments getting concluded, so there will be at least 25% of the ordering already over, 75% is going to be remaining. Some will happen in the balance of the current year, some will spill over to the next year, but in any case the commitment by the refineries is that by FY2020 there should be up and going. Automobile industries may want a little more time. To achieve Bharat VI there are two factors. Number one is the automobile engine must meet with the standard and combustion, second is the fuel to be elevated, quality to be elevated. So we play on this side, the other side engine side will be played by the engine manufacturer of the country. But the second point is at least three to four times the Indian refining capacity is also there in the world, which is going to come to Euro 6 standard progressively. India is bypassing the world by going directly from Euro 4 to Euro 6. The world is going through Euro 4 to Euro 5 to Euro 6 so I would imagine that global capacity enhancement or may be quality improvement is also simultaneous affair, which will also be an area where we want to play. Our success in India can partially be replicated with the course advantage going to be well approval subject to our ability to getting prequalified in some of the global refineries.

Ravi Swaminathan: You have used that steel sponge iron sector some kind of traction seeing, but the main steel plants that is some kind of consolidation, which might happen so will that kind of push the ordering by a few more months or years what is your view on that?

M.S. Unnikrishnan: It is a mixed view. The people who have balance sheets, which are partially leveraged and leveraging gap or capacity available naturally going for expansion because the government has shown it has resolved that with an MIP we will be able to manage the WTO. With the current stand off that is going on between us and our neighbouring country, it is an indication that we may not want the trade surplus to be handed over, which will hit us in the wrong way and that resolve, which we have not seen in the earlier past and the messages that all of us are hearing is that build capacity domestically, because global surplus in steel is ensconced in one country only. And if that is not going to be made available so easily to the country and some amount of patriotism prevailing I think time has come for the steel industry to be investing in private stocks. At least two or three very senior personnel in the decision making level of the steel industry indicates that some of them are looking at least expanding if they have captive mine availability. So I think there could be amount of ordering going to start not in the current year certainly no, Ravi, it could spillover to the next year, but something will happen in that area.

Ravi Swaminathan: Thank you.

Moderator: Thank you. The next question is from the line of Sachin Dinesh Trivedi from UTI Asset Management. Please go ahead.

Sachin Dinesh Trivedi: Just three capacity that we are going to commission in next six months. Sir if you can elaborate what kind of revenue potential you see in each of them and in your understanding how long do you think it will take for full ramp up to take place? And what could be the margin in each of the three areas?

M.S. Unnikrishanan: Let me address each one of them separately. The one which is commissioned, the Indonesian plant, these are manufacturing hub for Asean countries and in that the product that we are going to get into such heating boilers, which are the package boilers which we do sell. Currently we are selling in those countries that are Asean countries manufactured from India. So that it is progressively getting shifted into this particular factory. What is the size of the market? This market for the heating boilers then the standard package water treatment plant, standard air pollution control equipment and absorption chillers which will be the mandate for this entire edifice including the factory to support. In our understanding can be a potential market of $400 million, but where we can play is starting with the $200 million in the next one-year. Progressively when we are geographically available everywhere with our officers and people, these are intention for the next three years. We are talking about 400 million size of a market and in that what we are expecting is 14% to 15% market share taking us only for the products closer to the 75 plus million and with the projects business partially going to be supported as a local company. The moment you have a local registration you also can do projects from there. We are targeting $200 million including the projects to come in the next three year period, so that is the target for South East Asian facility. Of the 200 million, $75 million will be supported by this manufacturing facility. Now margins in that markets, there are no global biggies in that market as of today. There are only local companies in each of the countries. So technically and financially we are stronger than them, so we should be able to penetrate in the market without much of a difficulty. Will we be able to improve our margins than what we are currently making? Certainly because as an exporter there was already logistic cost and an import duty. Both these are going to be brief but for spreading our tentacles in the market, there is an expense also involved. So partly get offset, but I would presume that operation should one day reach up to a profitability 100-basis points more than what you are making in India. That is where the Indonesian edifice is concerned. We currently are only localizing the boiler portion but I am expecting the water is the next one to localize, which I am sure, should happen in the next year. The master plan is including all of that from a particular water base. Now coming to the chemical factories getting commissioned, I have limitation in resin capacity for the past four years. We have been straggled with only 10000 meter cube per annum capacity for existing facility and this one which is getting commissioned is straightaway 12000 meter cube getting added and as we move further in phase 2, which will be part shifting of our current capacity from the existing facility will lift it to a 20000 in exactly 24 months from down the line. This means Thermax will have two times chemicals resin manufacturing capacity in 24 month period and if we are able to sell that in the global market I am capable of increasing this capacity to 40000 in phase 3. If I am able to do 1,2 and 3 in quick session, the revenue possibility from the resin factory of Dahej is almost 1800 plus Rs.1000. When do we reach over there that is the big question.

Sachin Dinesh Trivedi: It is a 40000 tonne capacity right Sir?

M.S. Unnikrishanan: It is ultimately what we will be reaching. We have global size. There is no Indian company, which had aimed to become a global capacity. There were two more Indian capacities currently and multinational has a local factory over here. But none of them are aiming for this. This is for specialty resin than commodity resin. If I were to aim for commodity resin, I can reach 40000 in exactly three to four years by doing contract manufacturing. But we want to have manufacturing plus technology combination which means speciality resin application. Lock in customer or get into customer and it will take my anticipation is 6 to 7 or reach over later kind of a size.

Sachin Dinesh Trivedi: And customer here is sticky customer?

M.S. Unnikrishanan: We were all very large process manufacturers spread across Europe, America and developed world like Japan and now China also. They are also developed and these chemicals help them to reduce their overall manufacturing cost or process changes to be made so that is why when as to enter with application knowledge of chemistry and then making a small trial. Just to give an example. Conventional commodity resin which gets into water treatment will fetch you may be Rs.30 a liter whereas if I were to make the same resin capable of recovering escaping nuclear particles from nuclear power plant, I can sell the same for Rs.1500 a liter. The raw material remaining constant, so what you add there is knowledge. So that knowledge does not come over, it is trial and error and these are the sweet spot available for the company to move in but it will take time. So we are not trying as I told about it. For selling Rs.36 a liter I can do it may be in three-year period I can reach the full capacity but your bottomline will be like commodity chemical company, if you are aware of that how do they make it separate.

Sachin Dinesh Trivedi: Third capacity for the AP facility?

M.S. Unnikrishanan: AP facility is purely dedicated going to be for the absorbing chillers where currently they are going to capacity constraint almost reaching in Pune facility of ours and the costs are going through the roof because we are in a metro city almost manufacturing heavy equipment. So our intension is like the way we setup the new capacity in Savli in Baroda or Solapur for the boilers. I would say normal cost but in most models, because we could be modifying our factories in Pune. Whereas this is something, which is getting into I cannot say digital factory, but walk in towards the digitization of manufacturing. In Pune we can make 300 chillers in a year, employing say X number of people. I am going to do 2.5 times a capacity in these three cities at half the number of manpower. So you can imagine what is the level of automation that we are going to be doing. So that is what is going to be taking us to the global markets more its consistency of quality and compatible costs also for that, so that is about three cities. Up and going as I told Q1 FY2019 we should be able to give you the good news, give out take couple of months here and there.

Sachin Dinesh Trivedi: To ramp up to this 2.5 times of demand will it be three to four year timeframe or it will be short frame within two years we can ramp up. What is your take on this?

M.S. Unnikrishanan: Unless we are willing to be halving strategies to compromise on the margin and be spreading, that is what the strategy for the company is. In engineering companies, the thinking should be you retain your market position and pricing and then spread across the globe with the position that you are holding. The moment you have a pressure to fill the factory you lose the margin forever. It is equivalent to Mercedes were to create a capacity in India as Suzuki and start selling at their price. They will never be able to get what they are currently doing, so that is the way we do. Our equipments are not like Suzuki versus Benz but we are seen in many cases in the country as the premium product and whatever areas that we are in, that is what we have been doing it all through the globe. Our strategy always is when you create a capacity we do not do it for two years. I do it for 10 years because we cannot create a two-year capacity like the way you do for cement factories cut and paste done. Technologies do play a lot more in that one and that is what we are doing also. We continuously improve our performance. For example, may be 10 years back, you needed 4 kilograms of steam in an absorbing chiller to give a tonne of air conditioning. Today I can do it 3.5. Our intention is the capacity addition filling should also go along with technology improvement that is why we are always plan. That is the one of the reason because all guys continue asking us to how will you maintain margin. Margins can only be maintained by innovating. For capacity is secondary, technology is primary for Thermax.

Sachin Dinesh Trivedi: Okay, really I appreciate Sir. Thank you very much.

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

Aditya Bhartia: Good morning Sir. In the environment business after posting profits for last three quarters, we are again seeing some losses to what exactly is happening over there and is the water business that is contributing to do those losses?

M.S. Unnikrishanan: I need to appreciate Amitabha who is also the business head for water that he reduced the losses for the Q1. So in year Q1 only it is an abruption on that. It will towards the end of the year, you will certainly see similar kind of numbers of last year though order intake had not been too good for the last one quarter in both air pollution control as well as water, but it will pickup. As there is nothing of worry or carry forward orders available to both the environment business that the air pollution is controlled and the water are almost at similar kind of levels of last year and it should help us progressively to revenue recognize the remaining quarters and should retain the profitability and water our internal promises that we should do better in terms of profitability in the current year. There is nothing to worry.

Aditya Bhartia: Sure Sir and on the Africa order that we have received this time around, could you please guide us with what the execution schedule could be with we have received advance from the customer and kind of competition that we may have?

M.S. Unnikrishanan: Aditya, I answer right question on that front. Frankly, we have signed this contract almost two quarters back and our conservatism will only record it and report all of you when cash is in our account 20 million n cheque has been received. So advance is received the first one part of the advance received and second advance also we have I believe received in the current quarter and there are 14 different equipments to be manufactured and send across to this county and we have opted for though it is very massive in size in fact the largest one will be almost of 1500 tonnes of weight and it is going to be practical for us to do it in India because we have a port assembly facility. So we will be making the component in our various factories, assembling it in our Mundra assembly facility for most of them and in a special vessel it will move to Africa because we do not want to do too much of site work for this. The time period available for this is the first consignment to move out of India in 14 months and the last one to be reaching there year down the line that is the 26 month period available. Looking at the way the work is moving at the site. Initially there was a delay from their side but now we are catching up. Knowing the vagaries of real site work in that part of the world, we would be calibrating our delivery period and dispatch timing in tune with the site requirement rather than we in a hurry manufacture and wait for them to be lifting it because then we will be sticking our neck out with the cash flow deficit possible. But this is something, which will have to be acting very prudently. So my expectation is next two years we should be able to complete the entire project in terms of revenue recognition and this is only a supervision of construction, no local work included that I spoke about in the numbers that we are talking about right now.

Aditya Bhartia: Sure and lastly could you please tell us about what is really happening on SOx and NOx emission norms in the sector, are we seeing some ordering over there, what is the kind of competition that we are seeing and which are the players with a better position?

M.S. Unnikrishanan: We will go separately SOx and NOx another way. SOx has already started happening in the country for smaller plants in second kiln industry or may be those are already in captive power generation, smaller versions getting added. Those are smaller orders may be some cement plants have gone for it, classical 3 million tonnes per annum or 10000 tonnes per day cement plant will be spending 2.5 equals to rupees type of an FGD type of FGD for them. But the main ordering is just going to start for the SOx emission though a good part of the industry is of course the Government of India asking for a time period of 5 to 10 years to implement because most of them have balance sheets, which are highly stressed, but NTPC we have taken a lead to say that is for government arm or an organization is going implemented. So they have finalized on the technology and the type to be done and the bulk tender is in the offing, the tender has already come out. I presume 13 size the first one going to be happening, identified locations and tender is out and we are one of the prequalified companies we are participating in that but original number of applicants who are under consideration on 19. I do not how many of them are going to be finally prequalified and may be shortlisted. There are also rules to the government is put across that the company will not be allow to take more than three sites of the 13. I will want to play the game as it moves and if it going to be loss making game to gain frame, we will not do anything be assured of that fact. We will have to see and only information I can give you is, the first ever bidded FGD in the country, Thermax was L1 but I did not get or take the order both we have to put together in the state of Uttar Pradesh, it happened almost in the last year, it is going to be somebody else for XYZ reasons. This is an opportunity going to be opening up. First the NTPC and the good citizens of India in the private industry and state electricity boards put together it can be a fairly large market opportunity available. If it is going to be profitable moving forward it will certainly impact us positively as far as SOx is concerned. In the meantime there are lot more of cement, steel and captive power where they will be needing the smaller Rs.1 Crores, Rs.2 Crores kind of things which is what we are really focusing right now to ensure that we have a market share of not less than one-third to be picked up and I am very confident about that we should be able to manage it because most of them are our existing customers happy with us and the solution that we have got technically superior than what others can offer and financially also cheaper for them that as far as SOx is concerned. As far as NOx is concerned, there is not much happening though may be in some industries in cement equivalent there are two options available in the market. One is known as selective catalytic reduction, which is almost similar to what you have in your cars at the exhaust for the silencer, what you put in the car using a ceramic honeycomb. That is the automobile technology to be utilized for the power plant. So that is what is being aimed by the larger companies whereas smaller companies are wanting to go for something on SNCR which will be very low level technology, but those are also using Indian coal it is proven in the market including by our own technology people that it may be practical for you to be managing with the SNCR for smaller ones and for larger power plant necessarily they have to go for SCR. Now SCR technology can cause almost equivalent of Crore a rupees for megawatt. That is why the power industry is wary about introducing right now because all of them are having stressed balance sheets. But NTPC is taking the lead in that and they have identified nine different sites earlier it was only three or four numbers and not it is nine in sites and nine different companies will be allowed to put a pilot plant taking 1% of the gas is coming out and prove that the technology is working based on which there could be bulk tendering or tendering going to happen. My expectation of what will happen is 18 to 24 months down the line where tendering is going to be starting provided they are having the financial capability to manage it also. So that is about it. We have a technology available to us from our joint venture partners from America who supplied almost equal to a 100000-megawatt of NOx plants in various parts of the world. So as and when it fix we will be there in the field that is about the entire opportunity, so huge opportunity but is there a money, we will have to wait and watch. Is it okay Aditya?

Aditya Bhartia: Yes Sir, absolutely. Thanks a lot.

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

Renu Baid: Good afternoon Sir. Couple of questions. First if you see on the cost side as in the last year we highlighted significant cost measures to reduce in other expenses. So almost double-digit reduction in other expenses do you think at the sustainable element for us in the current trend and do we see substantial support to margin from this both in domestic as well as the consolidated level?

M.S. Unnikrishanan: On one side, we are holding the expenses very tight. Amitabha and team are really; really tightening beyond this I do not think tightening is practical. So cost control will continue. We have to continue because the market has in turned around for us to relax. That is point of moment. But there is humongous pressure on us to reduce in the margins and order finalizations for any project, smaller ones we are able to get on our may be market number brand equity, but the larger projects customers are exercising real choices right now. So whatever you are able to say can you retail from your balance sheet or will have they passed on to the customer is a pressure that they are currently working on that is something which we have to be careful, so I will not want to comment it. I can assure you that will continue with the cost reduction exercise and we will be able to hold it tight. Will we be able to transfer it to the bottom of the balance sheets? I will not want to comment on that right now.

Renu Baid: But there were no one-off and the other expenses in this quarter?

M.S. Unnikrishanan: Nothing remarkable to talk about Renu.

Renu Baid: Second if you see overall in this quarter, the inflows were led by Dangote order. For domestic base orders were relatively weak or you highlight of a strong order pipeline enquiry, so do we think for this year we should be able to manage growth in the domestic order flows?

M.S. Unnikrishanan: I am hoping for a growth in the current year even the first quarter with all this marginal in nature, 538 Crores may be 1% or 2% of growth only. I am expecting the ordering should improve. It may be surprising that why should anybody stop ordering in the month of June when GST is going to happen, it happened also. Many of them did postpone it because they do not know how GST is going to be impacting. I hope all of you are aware of the fact the GST is beneficial for capital good industry. Because in the earlier past whatever the taxes duties paid on buying capital equipment only excise duty and service tax, service tax not in all cases was VATable or may be more VATable available to our customers. Now the entire GST is VATable for them. So there is an added advantage for the buying capital goods. So I am not trying to say the entice people to buy if there is a need people will buy, certainly it should be helping, some positive.

Renu Baid: Two bookkeeping questions for Amitabha Sir. A) On the order book mix inflow and mix both on energy environment and exports and how has been the performance of the key subsidiaries or JVs, Dangote and the Chinese subs?

A. Mukhopadhyay: At a consolidated basis, the total order booking was Rs.1919 Crores of which domestic was Rs.538 Crores and export Rs.1381 Crores. Energy total order booking was Rs.1727 Crores and enviro Rs.102 Crores and chemical Rs.90 Crores. So this is the breakup of order booking.

Renu Baid: An order backlog?

A. Mukhopadhyay: Order backlog on a consolidated basis, total order backlog Rs.4944 Crores of which energy is Rs.4318 Crores, enviro is Rs.578 Crores, chemical is Rs.48 Crores.

Renu Baid: How was the backlog split between domestic and exports?

A. Mukhopadhyay: Total backlog Rs.4944 Crores split into domestic Rs.2269 Crores, export Rs.2675 Crores.

Renu Baid: Our performance of Danstoker and TBW JV?

A. Mukhopadhyay: Danstoker has made a profit, operations have been profitable and the profit was marginally better than not that marginally slightly better than last year first quarter. So there has been an improvement in performance of Danstoker and when we look at a Danstoker Group even in terms of order intake also we have seen an improvement there.

Renu Baid: What would be our share of profit or loss from TBW JV for the quarter?

A. Mukhopadhyay: It is about Rs.7 Crores negative for the quarter.

Renu Baid: Thank you Sir and all the best.

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

Venu Gopal: Just one question on the international order, once in a while and two, three years you tend to get the large 1000 Crores equivalent size orders. Now in terms of risk management, is there anything you need to do in this order where you think there could be potential risk to give an example, is this like fixed price contract and you also mentioned in your commentary earlier in the call that you would probably sort of manage your manufacturing sort of trying to time it with the site requirements etc. So given your experience in such large order size. Could you just explain to us how you intend to sort of go around managing the risk on this order?

M.S. Unnikrishnan: First and foremost risk in a project is a technical and performance risk. Since we done – there are three products in this involved, number one is heat recovery steam generator, which goes at the back of us, Gastromin by GE, in that let me clarify there are n number separate with Thermax so far and it is working in Indian refineries, international refineries, so technical performance the risk is very low in that one, product number one. Product number two is radiant boiler, which supply high-pressure steam for the process. We have done enough and more in India, abroad. No technical risk at all of the kind. Third are the flu gas coolers or the heaters and the coolers on that account. Those are also done by us for the refinery, so technically I would take it as a very low risk in terms of performance, you could always have some surprises when you are commissioning, but those are all that we can immediately put it back into operation, the expertise available, in the Thermax the engineering strengths available. Next is commercial risk number one related to delay in execution of the project. If I were to do this job for may be British or American or European owner refinery anywhere, normally they will running faster than an Indian ecosystem. Here it is in a country where the ecosystem is inferior to what we have, so I am expecting the project to be moving slower than our capability, so we should not be delaying, but there is a delay risk. Am I covered for the currency in a delay? We are progressively covering most of it, the currency risk is almost come down to half the valuation of the project, and with the estimate that is done will cover it totally in the next may be two quarter time, so current risk those may prevail will lower in nature. Why we are going ahead with – normally you know about the fact that Thermax wherever we receive an order in that one we will take 100% coverage for the net position. Here why we did not want to take is that the currency is highly volatile right now, our currency and that country's currency put together, so we wanted to securitize progressively and not that we are taking any points something which Amitabha goes to on a weekly basis on this particular order. So currency risk is not so high. Are we getting a price variation for a currency risk, it is a dollar denominated contract $157 million all what I get. Unless we agree for some joint claim where I do something more, physically or materially, so that is as far as currency risk is concerned. Then comes the project getting into a difficulty in terms of project does not move at all, it should move because the engineering consultants for this are Engineers India Limited who put up virtually refinery in India, so I do not think there should be a refinery project execution and technology for this has come from, there is only one company in the world who can give refining technology knows as UOP of America it is from them, so the input and route technology and execution of the project I do not think. Last item is about the developers, financial muscle power to go through a three-year or a four-year project when I compare that may be his Indian counterpart who is the richest Indian or may be let us say that the largest private refinery of India. Financial muscle power wise that person or may be the group may not be at the same level, but that promoters is registered as African elite today and his networth for the company put together is in double digit billions of dollars, but the country is high risk country, so these are the factors. So if there is a delay in execution we may have a working capital hold up, which you know that we hardly use our working capital available to Amitabha, bank has so many complain that why are you taking the available working capital, so it is in majority of the area low risk, but in delay related execution not from our side overall project execution from their side there could be a medium risk which can mean we are having a hold up material for some number of months, we do not expect because we have already paid out to be precise to many companies including Thermax almost 30% of the entire order value already, so the financial commitment in the company is very high.

Venu Gopal: Just two small things within that actually, one is, is it a fixed price contract and number two to what extent, are they are external bought-outs which means you have to go to some other manufacturers to get some content, so is it like 60% of something which you are manufacturing and something is going to come from outside from third party?

M.S. Unnikrishnan: Fixed price contract as far as dollar denomination is concerned, that is very clear and in refinery I will never come across where anybody will give price variation including in India, so that is the fixed price refinery practice. Number two is what we are going to be manufacturing, if I have to look at the value base even the raw material in any case I would procure. I do only the value addition inside the factory, but it is not in full scoping where if I had to look at may be a classical refinery item it is exactly what we have done for Reliance in India or may be Essar in India. It is in comparison to coal fired boiler, all the three items it has got a higher manufacturing content than what a coal fired power plant boiler is like. But you can compare like an EPC where I only make one third, two third has got from outside, the value addition in the Thermax it is substantial in this one including the construction which will be done in assembly plant of ours in Mundra. It is very fairly large in size.

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

Pulkit Patni: Sir Most of my questions are answered. Just one question, given the performance in the quarter in your commentary regarding higher enquiries and some of the revenue miss that we had because of GST and other issues, would it be fair to assume that with the kind of order backlog that we are starting now we should expect things only to improve from here in terms of performance?

M.S. Unnikrishnan: I would have given a blanket answer, but from now means hereafter nothing will ever go wrong that is something which highly improper for me to commenting on, but looking at this order like Venu mentioned about that once in a while you guys get one large order that helps us to stabilize the bottom, so this will stabilize at least one project business of mine for a period of two calendar years because Rs.1000 Crores majority is going to be revenue recognized in the next financial years just starting with baseline of may be 400 to 500 per year, so that one of them is securitised, so that point number one. My regular order intake for the standard products has not come down in the current quarter, even though there is an overshadowing impact of the over order intake because big project order other one if I had compare my heating order, my cooling order, my chemical order, my service ordering, nothing has come down in comparison to last year first quarter or in the recent past and then I commented to you that the kind of enquiries that you are receiving are indicative of the stability of that regular orders, so negative worry would have been a contraction in the enquiry intake or order finalization, but both of them are looking positive. Now with all this, is it a real positive, no, I will not give – I do not want any of you to be carrying an impression no India has turned around- global has turned around, Thermax has is turning, no hockey stick, we are looking forward to an improved year in various factors, but I do not want to throw caution into the wind, I am optimistic, but very, very cautious, we are not normal cautiously, very, very cautiously optimistic at this point of time.

Pulkit Patni: Sure Sir. That is it. Thank you.

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

Aditya Mongia: I had two questions from my side. The first one was on the quarter gone by and standalone numbers in specific was there a specific reason for the gross margins to have declined the way they have?

M.S. Unnikrishnan: Amitabha would you want to comment on that?

A Mukhopadhyay: Fourth quarter gone by one of the reason of course is that yes in certain business you see even in a consolidated level we had a little bit of margin pressure in the energy segment and that is one of the reason in the standalone also, so there is a margin pressure, which was there. As Unni was mentioning sometime back that there are pricing pressure, which we are seeing in the market, but it was more predominantly one quarter impact, which we had so that is the one of the thing.

Aditya Mongia: Sir second question was more on the annual reports and it talks about new products and new technologies being introduced by the company, would you want to comment more on what can be the business opportunity from these kinds of additions which have happened to business for us?

M.S. Unnikrishnan: Just one second you will have to give it to me Aditya on that the one specifically that has been there in the balance sheet, I will have to take a look on that. I wanted to give you a specifically answer for what is printed you read, the two items which I mentioned over there are the fuel cells number one and the gasification. In the coal gasification we already started quoting for that is not a product available Indian market right now with anybody, so it is a first of a kind that we are introducing in the market, which is the market segment that will be wanting this. Anybody who is burning an LPG or a gas for a heating purpose or any manufacturing process, so for example where they make ceramic tiles, the number one cost for them is gas and some people are using LPG. Today with the subsidy for LPG having gone away, it is a huge cost for them whereas I can convert their gas production from the way they are buying as the LPG to coal has the basis for it, which will save them energy, so that is something, which we are approaching the customers in that area. There are various other industries where they are burning also gas, but produced from different raw material, so whereas I can give them a gas that we produce from coal, which will reduce overall cost substantially. It is going to be taking time because converting somebody who is using a clean fuel into a coal is going to be taking time. Now the ones which I mentioned in the balance sheet correct it that it is biomass gasification mentioned about here whereas coal gasifier is also something which already introduced and biomass gasification what we have done is we have brought in a technology from Netherlands from ECN and we setup a one megawatt gas engine based power plant for one of the mandis where soya bean is brought in. You will have the soy bean brought in by the farmers, take the beans out and give it to the processor and the shell mountains of that gets piled up and there is no use for it. It creates an environmental problem, so this is something where we created a technology where you can gasify this bio waste and produce a high quality gas. The conventional gasifiers, which are already available in the country would give you up to may be 1000 kilocalories or heat per meter cube of the gas produced whereas here we have been able to establish a free time higher heating value at 3000. Once you have 3000 kilocalorie heating value gas available, gas engine can function without any failures, which should remove all the current problems of the gasifiers available in the country. We are just trying it out to convert municipal waste into a usable gas for power production and trials are ongoing on that. Now if you are able to really get through that application, it will solve the problem for the country and certainly should open up a huge business opportunity for the country. If that does not happen also any bio waste, which cannot be combusted in a boiler as a biomass, gasification is possible, so it is going to be having a major value addition for both the heating and captive generation business of the country. Now my own personal experience in India of introducing products like this it does take two to three years for the market to accept it and they should see in India 10 plants working then you can peg to 100 as possible. The first 10 plants should take two to three year period of time then it is a natural increase multiplication not an improvement increase, so that is an answer for that. Fuel cells is a technology which we created for the Indian defense which I have spoken in some of the concalls earlier for the Scorpion Submarine program of India. The entire power requirement for the submarine will be supplied using this phosphoric acid based fuel cells and you already have the first commercial order, which will be getting through and supply level the second quarter and third quarter in the current year. We are simultaneously developing with national chemical laboratories with the funding support from the Government of India small capacity fuel cells, which can be used for mobile towers or may be various very specific application, for example any food and drug approved godown in the world will not permit a forklift to run with a diesel engine because the gas is coming from that will contain carbon monoxide That coming in the contact with the food item is dangerous, so globally people will only allow either an electric or battery operated forklift or a fuel cell operated. Battery operated will get discharged very quickly and it cannot lift the same way to all through as the battery is getting discharged, whereas the fuel cell run one can be 24x7 in operation, we are talking about technology development and more it to be reached. So this will have far reaching ramifications for Thermax as a company the first time we are venturing into technology is beyond the normal combustion and we are seeing some success in that, so these are the defining movements for technology changes for the company. But please remember none of this is going to be in the short-term where many of you look at how quickly it can come on to the topline and bottomline of the company. Some of this will take a longer period of time, but we are on the path that is it Aditya.

Aditya Mongia: Well, Mr. Unni Sir thanks a lot for your response. Those are my question.

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

Abhishek Puri: Thank you for the opportunity and good afternoon Sir. Firstly most of my questions have been answered, just wanted to check in the annual report you have mentioned one of the order finalizations for waste heat recovery projects in the cement and captive power projects for the fertilizer plant, have they been finalized or considered in the current order inflow that is one and secondly it is good to see many industry leading products being introduced by you in the market like bio-cars can zero liquid discharge and you spoke about the coal gasification technology; however, I see that in your commentary or otherwise over the last few years you are more comfortable taking smaller sized orders or focus on smaller industries where the order sizes are between Rs.2 to Rs.3 Crores to Rs.10 Crores to Rs.20 Crores, is that a conscious decision taken by the company to protect the balance sheet and so that the risk are mitigated where there are larger number of small projects versus one large project?

M.S. Unnikrishnan: First and foremost in the first quarter we have received already one EPC order for a cement based sheet and there are further enquiries on, some of them may for the EPC base, some of them may go for split they only buy the boiler from me, so there are enquiries number one. Second in the fertilizer we already have an order and execution from one of the fertilizer companies, we have received a water fairly large size order also, not in the current quarter, in Q4 of last year from a fertilizer expansion program. There are two more fertilizer expansion program where there will be capital power involved, which have expecting would get concluded across the year. Which quarter I cannot comment right now, then the question is I need to give a clarification so that all of you aware of the fact that Thermax is weary of taking EPC for a 660 megawatt power plant, which will be amounting to may be 2500 or 3000 Crores, but I am more than happy to take a Rs.100 Crores order, Rs.200 Crores order, Rs.500 Crores order, even a Rs.1700 Crores order of Reliance we executed post that we mentioned in my commentary we have completed the entire plant and may be in one of the time when we come for any of the analysts meet will show it you on a video, it is a marvelous engineering project first of a kind the world, so we can execute, so our sweet spot, see the small Rs.1 Crores, Rs.2 Crores for the product this is for the company. We have heating as a product business, cooling as a product business, standard water as a product business, air pollution control standard products chemical of course is very low value. In this four items our sweet spot varies between may be a Rs.10 lakh order to may be a Rs.10 Crores order and we are very comfortable most everything is built in a factory and send, we are very happy doing that. Any numbers, I have got capacities of – I can even do two types than what I am doing currently, then comes captive power plant boilers, waste heat recovery boilers and very, very specialized kind of boilers and heaters where our sweet spots varies between may be Rs.10 Crores, even Rs.2, Rs.3 Crores also once in a while we will do get it, going all the way to doing a 100 Crores, 200 Crores size of project or even Reliance is only boilers, nine boilers amounting to 1700 Crores, but I would say such kind of are one off, but most of the projects in this area will fall between the kind of may be Rs.40, Rs.50, Rs.60, Rs.80, Rs.100 Crores kind of size, they are hungry for orders because I have got huge capacity available. The capacity utilization fallen below 50% right now, so that is a sweet spot I do not have any problem.

In EPC captive power plant we want to be very honest with all of you that I am happy doing may be five megawatt to may be 50 megawatt though we have won 300 IPP. I am not comfortable doing an IPP not because of our reasons, governance requirements of Thermax and what we would like to be will restrict us to do captive power plants for good customers globally and we have done up to 300, but the kind of enquiries if I could look at it, it varies between 10 megawatt to may be a 60 megawatt as a predominant part of that. A 60-megawatt captive power plant today will cost Rs.250 Crores, Rs.300 Crores. So we are very much happy to do this kind of thing, so let us, there not be any misunderstanding on that count and the way we considered our company is that we have got heating business, which can handle the standard products, we have got B&H (boilers and heaters) which can do Rs.100, Rs.300 Crores kind of projects and we have got a EPC which can manage Rs.1000 Crores, Rs.1500 Crores that is possible, so we have got configuration done very properly in the organization. Is that okay?

Abhishek Puri: Yes Sir. That is good to hear. Thank you so much and all the very best.

Moderator: Thank you. Ladies and gentlemen that was the last question, I now hand the conference over to the management for their closing comments.

M.S. Unnikrishnan: Thanks a lot to all of you. Let me also take this opportunity to say that I know the disappointment in some of you related to the expectations from the topline and the bottomline for the current quarter, but nothing is lost out or nothing is missed out. It is purely an aberration on account of an external factor, which I told you will clear it up, but I also want to caution the market that most of the month of July has gone in most of the company including Thermax in GST adoption. We have shifted on the ERP systems which are available in the country and adopted by companies like us had a lot of hitches in the beginning, we have overcome that and customers are also getting used to and our supplier partners also because today you have got to have linkage of the last of the raw material suppliers and my customers all linked on to the same book through the wire and in that area we are ready. Most of our suppliers are ready, some numbers are yet to be coming online, customers as and when they are getting ready there could be some aberration and how it is going on. I am also hoping that the government's ability in the GST in entire hardware system what they created and the software they have adopted should be able to take care of the quantum of business transaction to be conducted to link up each one of them. If there is any glitch in that is going to happen all of us will have to cautious about it for quarter more, but your company is totally white and capable and are already – I can say that each business of the company is today going on with new GST and mechanism only, so far no glitches, but let us keep our fingers crossed as we move for one more quarter. That is it from my side. Thanks a lot for being with us and looking forward to your continued support. Thanking you once again.

Moderator: Thank you. Ladies and gentlemen on behalf of Motilal Oswal Securities that concludes today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.