"Thermax Q2 FY 2017 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Thermax Q2 FY2017 Earning Conference Call, hosted by Motilal Oswal Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone telephone. 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: Yes, thanks Janis. Good morning ladies and gentlemen and welcome to the Q2 FY2017 post results earnings call of Thermax Limited. With us today from the management team are Mr. M. S. Unnikrishnan, MD & CEO and Mr. Amitabha Mukhopadhyay Executive VP and CFO. We shall begin with the opening remarks from Mr. Unnikrishnan and then open the floor to Q&A. Over to you sir!

M. S. Unnikrishnan: Thank you Ankur. And a warm welcome to all our well-wishers and supporters and friends from the analyst community for consistently being with us and supporting us. You already have seen the numbers. Amitabha and team has put in the numbers very properly. We have been able to adhere to the accounting practices changes, so we are going to discuss more on the group financials than the company financials. So starting with the order intake in the current quarter, it had been an okay- to-better quarter in comparison to what we ourselves would have expected. Order booking at 1241 crore for the group is 31% more than previous year's same quarter. Getting into the numbers, domestic order booking had been almost flat as compared to the previous year for the same quarter. What saved the day for us is the international order intake – more for Thermax Limited, and not for the subsidiaries beyond a level. Why I specifically mentioned this, we have not received any orders from our JV Partners and TBWS or maybe it is more of our subsidiaries in Europe and also Thermax's export order intake which made it happen. Revenues are lower in comparison with the previous year by 13%. However, it is better than the Q1 where we were almost 20% lower. This makes the H1 level maybe only at -16 making us work towards a target of bringing it down to single digits by the time we reach the year-end. PBT at the group level is at 105.7, % taking the percentage PBT from 7.9% to 10.6%. We have already indicated to you that our order carry forward for the Group is 600 crores lower than the previous year at the same time. Coming to Thermax Limited, the order intake is 36% up at 1098 crore, versus 810 crore. Here again, as I mentioned, it's 50/50 split between domestic and international, domestic is barely 5% higher whereas for international, it is almost 90% higher than the previous year. This is on account of the fact that we have been able to get a fairly good order from Thailand for sugar factory. Thailand has issued new sugar licenses. Approximately 19 of them are expected to come in the next 2 to 3 year period. The first one just got concluded. Thermax had been lucky enough to get the order. Of course the competition was very tough from Japanese as well as Korean and European manufactures. We have also got an order from the oil sector in the Middle East, another positive news to give you. So the international project orders have helped us. On the product side, chillers, heaters, boilers, and chemicals certainly helped us to have a better order booking from the international market. Thermax Limited standalone revenues are -21% at 845 crore in comparison to 1072 crore, last year. We anticipated it as the contractual deliveries that we were to make based on the carry forward orders were lower for the quarter. Apart from that we also had some slow moving in

1 or 2 projects and we did not want to take a risk of supplying the material and then end up with accounts receivables. We have improved our AR position substantially in the last quarter and we do not want to tamper with that. At the Thermax level PBT is at 10.5% at 88.8 crore versus 93.3 crore. Despite a drop of 21% on the top line we had been able to restrict our PBT drop at a minimal level. So that is about the numbers and I am sure Amitabha will help you for further indicators. One good news which we have not declared to the press is about an order that we have been able to conclude with NTPC as a lead bidder - the first ever thermal hybridization done in a power plant for Dadri and this had been something in discussion with NTPC for the past 3 years. With a German solar technology company also supporting us, this is a sample project; 78 crore would be the size of the project. We had of course competition from one Indian company and a Chinese company but we were able to win the tender. It is a fast track execution which will be completed in a year’s time based on which many more projects are expected in the country. What does it mean? Conventionally in a power plant, you got low pressure and high pressure heaters to enhance the efficiency of the turbine, but for this steam is taken out from the turbine, so

there is always an overall efficiency loss. So, what we proposed over here is to put up solar thermal fields in the land available in the existing power plant and produce steam from solar energy thereby reducing the intake of steam from the boiler for this purpose. This will enhance the overall efficiency and capacity of the power plant. The potential in the country could almost be equivalent to maybe 4000 megawatt to 5000 megawatt of all the captive power and the central thermal power plants of the country.

Construction is progressing very well for the chemical factory at Dahej. We plan to commission it by the first quarter of the coming year. Similarly at our upcoming Indonesian factory, construction of the building is completed, machinery is under installation. We should be up and going by March of the current year. The cost reduction exercises that we have been undertaking internally and some manpower optimisations have certainly ensured that we will be containing the overall expenses to run the business and to remain almost at the similar level of profitability. So that is the overall take from my side. I leave it to the floor for your questions so that I can clarify further points.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. Anyone who wishes to ask a question may press '*' and '1' on your touchstone telephone. If you wish to remove yourself from the question queue you may press '*' and '2'. Participants are requested to only use handset while asking a question. Ladies and gentleman we will wait for a moment while the question queue assembles. We take the first question from the line of Renu Baid from IFL. Please go ahead.

Renu Baid: Hi good morning Sir. Sir interesting to see that despite lower volumes and operating profit, we saw a turnaround in the subs, they were positive contribution from JVs was positive. So if you can highlight how has been the status of the performance of the JV, especially TBW JB and what is the outlook, would it be possible to sustain this performance and the profit level from subs.

M. S. Unnikrishnan: Renu, it is a heartening thing that we have got a positive profit from the JV in the current year. That is on account of an order which is under execution which is profitable and the cost contained when we are done over there. Now sustaining that in the future is at this point of time unpredictable. I would like to be honest on that because we have not received any new orders, which means though B&W has concluded orders, it has not been able to get the notice to proceed for the orders they have in the international market right now. So in the absence of fresh orders not coming in the first half of the current year, if at all anything would be happening it can only be in the Q4 or in the Q1 of next year. We will have to depend on the carry forward orders of the JV for the next maybe up to June. So, I would take the current quarter of the JV performance of TBW sales specifically as a one-off case and certainly they should be running EBITDA positive.

Renu Baid: But will it be possible to throw as an overall for the first half, how was the JV performance with respect to sales and EBIT or PAT whatever you can share if at all the JV financial performance?

M. S. Unnikrishnan: Amitabha will give you that number.

Amitabha M.: The JV for the first half has recorded our share of the profit, 7.5 crore, 3.3 crore for the half year is our share and during this period the JV has posted a revenue of 157 crore.

Renu Baid: Sure, so what is the pending backlog with the JV currently?

Amitabha M: Total backlog is a little over 300 crore.

Renu Baid: Sure. Sir second question is though we have seen some uptake with respect to new orders overall are we seeing the base order run rate sustaining and with respect to the conversion of newer orders, how is the pipeline looking, as in anything from the oil and gas space and international orders are we actually seeing that pace of order flow is accelerating with some of the orders flowing in this quarter.

M. S. Unnikrishnan: Renu order intake for the standard products for heating, cooling chemicals, the small water treatment plants had been better in the quarter in comparison with last year but not substantially better. I would say in late single digits… between them they are better off in the current quarter. Similarly, the enquiry inflow had been very positive, but conversion of those enquiries into orders is something which I would wait and watch. So I do not want to make a comment that there is a turnaround in order finalisation, but I see that things have not deteriorated and, maybe, our aggression in the market and the way we had been able to contain the cost and pass it on to the market has possibly helped us to increase the market share also in the standard products. So that is point number one. Next question about the project ordering in the country, no, certainly no, I mean I am not expecting anything to happen in the captive power segment, the cogeneration segment, especially in steel, cement, etc., which we already mentioned. Your question on oil and gas, yes, there is a movement between last quarter and current quarter, especially for the Euro 6 implementation, Bharat VI implementation though last time itself I mentioned that I do not know how the industry is going to cope with the demand of the government that by 2020 we should be ready with that. At least one tender is already in the market for sulphur reduction, desulphurisation projects of the oil refinery, we are bidding for it. See, if all the refineries in the country were to implement the Bharat VI as an addendum or maybe improvement of their existing projects, the opportunity available for us could be anywhere up to Rs. 800 crore. These I believe should be ordered out in the next three quarters (max) barring extraneous factors. We will be an active partner along with maybe 3 or 4 other people of which 2 of us are going to be from India, 3 from outside India. And u asked about international pipeline. There are couple of low to medium size projects, varying from 50 to 150 crore size. There are 4 or 5 of them in the market which we are aggressively pursuing. It is very tough in the global market. Let me say though we picked up good orders in the current quarter, those are good only for topline and bottom-line would be created as a tough time for my team to make it. But you know that we have not failed so far. I think we should be able to be able to manage it.

Renu Baid: Sure, thank you so much sir and I will get back in the question queue with more.

M. S. Unnikrishnan: Thank you.

Moderator: Thank you. We take the next question from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: Hi sir, congrats on a good quarter. Firstly, on the NTPC order just wanted to understand this is a 78 Crores order, is that what you mentioned. Can you explain to us the scope of the work essentially in terms of what you are going to do in this particular project and also incremental opportunities are there any tenders visible or it is only going commence after this sort of a framework project is done.

M. S. Unnikrishnan: First of all, thank you Venu for those good words. This one it is a total turnkey project in an existing

NTPC thermal power plant we will have to install a solar field, the thermal mirror based field, but not the conventional parabolic trough. These are known as a linear frenal concentrators. CFLR is the technology. It is coming from a German company by the name of Nova Tech who are our partners in doing this. There are similar kinds of things existing for direct steam generation. See, normally in a thermal plant abroad, to generate steam, in solar thermal concentrators, you got mirror concentrators which are parabolic in nature. Oil gets heated up, which is passed through a steam generator so indirectly generates steam, whereas frenal concentrators can generate steam directly from water. So that is first of a kind that we are going to do, though in a very small way Thermax has done this for a village electrification project earlier. So this is right from the civil foundation to the entire solar concentrators, steam generation, all the accessories, control schematics and integrating these with the existing power plant. The next question is will everybody wait for their first plan to be over. To my reckoning NTPC will be the main customer, private industry power plants may not have money currently to invest though it may be very attractive for them. NTPC certainly will wait for the first commission, normally they would have taken a 24-month period but this is a fast track project in 12 months, which we also agreed we should be able to do that. So they will possibly prepare the tenders but I would expect the market to be opening up only after this is commissioned successfully.

Venugopal Garre: Okay, okay sir. Sir my second question, I also wanted to understand since the Indonesian facility will be sort of ready in another quarter or two, so just wanted to understand how you are now planning for order bidding for that. I mean is there any visibility that you have in terms of tenders for that particular facility.

M. S. Unnikrishnan: Yes, these are expected, predominant part is going to be for the standard products of the company. We don't want to immediately do large projects from there. These are for the heating range of products for the company. Since you asked about it we have taken very proactive action for this. If you remember I had mentioned how we formed a listed company at Singapore through which we invested and created further subsidiaries, one of them being in Indonesia which also includes this manufacturing facility. We also have a setup in Bangkok, that is Thermax Thailand Limited, we have got another one in Philippines and also in Malaysia – so, four of them in South East Asia. And we have almost 40 people on the ground at this point of time – meeting up with consultants and ensuring that we are spread in the market; appointing distributors and dealers for agents for smaller capacities in remote areas. I am very happy to say that even before our factory is ready we took the first order from Indonesia which of course we will execute from India, but we already have decent enough pipeline of enquiries created. We have also trained and recruited local manpower not only for running the factory; even for sales and service and similar functions for executing projects. They are under training. So by the time they are ready with the factory, commissioning maybe in March, but real operations let me say by Q1, by then, there should be orders available from there, not from Indonesia alone, it will also be from other ASEAN countries. This facility is meant as a hub for the region.

Venugopal Garre: Sure sir. Thanks a lot.

Moderator: Thank you. We take the next question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Good morning Sir. Hello Sir. Sir on the NTPC solar thermal order, I wanted to understand what sort of benefits the client is likely to get what sort of payback period, if you can explain a bit of that, that will be helpful.

M. S. Unnikrishnan: Then this will save them low pressure steam being taken out from the turbine for the period when you have got steam available. So in the night certainly you will have to be still taking it out, so the benefit is going to be available, I would believe in a place like Dadri between 1500 to 1800 days in a year. Now based on the cost, which currently would mean a payback period of 6.5 to 7 years.

Madan Gopal: Okay.

M. S. Unnikrishnan: Now depending on the cost of capital. But if you are to look at only payback, it may not be the fastest moving thing in comparison to various other options. However, there is a renewable purchase obligation for every thermal power plant, as India is a signatory for COP21. So, there is an obligation to generate green. **Madan Gopal:** Okay and that was helpful and on the Thailand sugar, you got one order from there, you said what sort of opportunity is there, I missed on that part.

M. S. Unnikrishnan: See, government of Thailand is giving 19 new licenses for new sugar factories, in each of the sugar factory; you know there will be one captive power plant, captive-cum cogeneration plant. In India and Africa the approach is to buy the entire sugar machinery along with the captive power plant from one supplier, then Thermax is out because we do not make sugar machinery. In Thailand they have been following the practice of buying the sugar plant separately and the power plant separately and we have got maybe near to 20 installations currently working in South East Asia for sugar factories and we are recognized as one of the better companies in the world, I repeat the word, in the world, for supplying large capacity bagasse based boilers. When I say this, capacities up to 200 tonnes of capacity, which is fairly large for boilers, the equivalent of maybe a 60 megawatt of power, and these are high pressure boilers. There are very few in the world who will make it, because these are not the conventional fluid based technologies. These are very specifically designed grate boilers. It is available to one Japanese company and one 1 or 2 European companies and 2 Indian companies are main contenders for large capacities. So we have running installations and have created a good brand equity in that market, so that is why we got the order. There may be many more, because sugar factories are normally set up by the existing companies. So where they have an experience they have a preference for Thermax.

Madan Gopal: Out of this new boilers of 19 most of them have been placed or it is just the beginning only?

M. S. Unnikrishnan: First one placed, see there has to be some financial closure for all of this. I would imagine a 36-month period for all of them to be fructifying, maybe couple of dropouts could also be there. I would imagine maybe 14 or 15 of them will come in over a 3-year period.

Madan Gopal: And size was 60 megawatt.

M. S. Unnikrishnan: A boiler size is equivalent to that. See part of the steam will be used by them in the process; the balance will go for power generation.

Madan Gopal: Great sir, thank you and wish you best of luck.

M. S. Unnikrishnan: Thank you Madan.

Moderator: Thank you. We take the next question from the line of Inderjeet Singh from Macquarie. Please go ahead.

Inderjeet Singh: Thank you gentlemen for the opportunity. My first question is on this again NTPC opportunity that you talked about, now if this project has to be completed in 12 months, is it also fair to assume that NTPC would want to kind of monitor the operations over a period of time before going ahead with the next round of tenders. Or this technology is proven and hence we should not take too much time after that.

M. S. Unnikrishnan: In India it has to be proven. The sun appearing in Spain, Germany and India are the same. In fact, we have a higher incidence of solar energy in India in caparison to where it is already done. So it is already known to them, they have visited and are convinced technically that it is a feasible thing. But as a government organization, they may certainly want to have a firsthand commissioning and a performance test conducted, more than the experience. Whatever other parameters guaranteed by the contractor like us has to be fulfilled. Once that is there, tenders can come prior to that but they may not finalise another order. Because the tender may have to be modified if there is a modification needed while we are implementing it. But in our opinion it may not be. Next question are we geared to do in a 12-month period a project of NTPC's, certainly I need to confirm that we are capable of doing that.

Inderjeet Singh: Sure. So Dadri being roughly for 2000 megawatt project and on that we have backed a roughly an 80 Crores kind of a project. If NTPC we have to implement this across its 40 odd gigawatt capacity, that Maths is right, I would assume that the total opportunity size is 1600 odd Crores.

M. S. Unnikrishnan: Yes, you are right... This is not for the entire 2000 MW; it is only for one of the power plants over there. It is a little larger but I would want to be conservative, See, since solar is a preferred option by the government of India, NTPC has been looked upon by the Ministry for renewable energy. So there is a good potential for it.

Inderjeet Singh: And you were making some comments about the diesel authorisation opportunity in oil and gas. Can you just put again a ballpark number to that as to what could be the opportunity size there?

M. S. Unnikrishnan: Conservative estimative at Rs. 800 crore if all the existing refineries were to go to Euro 6. Our opportunity, overall sites of the entire expansion program can be as high as Rs. 50,000 Crores.

Inderjeet Singh: Sure. And you think that the larger program, this will kind of government will pursue the entire spectrum of kind of Euro 6 or only these diesel authorisation units could be ordered first phase and then the bigger program could be taken up.

M. S. Unnikrishnan: I know, I think Euro 6 compliance you will have to do…main thing is sulphur, but beyond that there are other things. So, it will not be a part one and the balance will be done later, no it's not the way. The plant will be based on the refining capacity and the crude (whatever is the input type of crude) and the sulphur currently prevailing there will necessarily need to go for the full-fledged modification to the plant.

Inderjeet Singh: Sure, thanks a lot.

M. S. Unnikrishnan: Thank you Inderjeet.

Moderator: Thank you. We take the next question from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Sandeep Tulsian: Good morning, congratulations on great set of numbers. Sir my first question, book keeping one, the other income has seen a very big jump both on standalone and if you could just clarify the components of that?

M. S. Unnikrishnan: Amitabha would you like to help him out.

Amitabha M.: Other income includes some of the usual write backs and treasury income. The treasury income during this period has gone up to about 19 crore plus and also we had got certain other interest income and apart from that it is primarily on account of operational items, which are the usual quarter to quarter write back of some of some of the liabilities for which earlier we had made provisions.

Sandeep Tulsian: So this thing is largely write back of liabilities and treasuring.

M. S. Unnikrishnan: Yes. See we have a practice of providing for AR and inventory, Thermax standards for us to keep a prudent check of the balance sheet, even though ongoing projects, if an AR were to exceed certain number of days we have a policy to provide for it, but naturally it is a delay of the project is on account of the customer or in case if he is delayed because he did not have money when we already provided for it and we know we will get the money, so it happens every quarter also. So it is normally treated as a regular operational income only.

Sandeep Tulsian: Sir my second question is on the subsidiaries performance, which were highlighted in the previous quarter that barring Thermax China all the subsidiaries have revived and you know at breakeven levels, but given this quarter subsidiary inflows were not as strong, what could be the path going forward for your subsidiaries now.

M. S. Unnikrishnan: Subsidiaries, it is not that it is good. Let me say I will take them as a real operating subsidiaries and then subsidiaries which are you know marketing and service. So the real operating subsidiaries or the company are Danstoker Group, which comprises of Danstoker and boiler works. They were under stress last year because of the closure of Omnical whereas in the current year, they have turned around and they have been profitable in both the quarters. We are expecting them to be decently profitable for a European engineering organization, they will be decently profitable for the year. Then we have got Zhejiang that is our Chinese subsidiary. In the current quarter we have a negative and I am sure based on the orders available and whatever we are feeding them for the international markets, they can come closer to EBITDA positive like last year. They were EBITDA positive last year also and current year also we are expecting them to be EBITDA positive. It is visible right now. In China anything can happen in the last moment, but let us see, wait and watch on that account. Then we have got a very small subsidiary outside Rifox in Germany, it is a very small one, it is a 3 million Euro sized company. It was a loss making company which we bought over 4 - 5 quarters they were in positive, but not in current quarter. See, they are supplying us specific product for the oil and gas industry, the orders which are available are not executable at this point of time, because of which they may have a tough time, so we may end of the year end up with a small negative on that. That is about overseas subsidiaries. The marketing oriented subsidiaries of London, Thermax Group Limited and American one, will remain profitable. Then we come to the domestic subsidiary. There are 2 construction subsidiaries of one is TECC which does the construction for the boilers as group of the company and Thermax Instrumentation Limited (TIL) which does the construction for the EPC jobs for the company. Both of them were profitable last year, current year also they should be ending up positive. Of these TECC on account of the Reliance project getting extended we do not have a great profit in the current year. TIL should be decently profitable in the current year also. If you remember maybe for years together Thermax profit was always higher than the group profit, whereas the current year we had been showing improvement in that area. Now, I cannot promise that all of them will be coming into same level of profitability of Thermax, though some of them have a potential to reach there.

Sandeep Tulsian: Sir there is a small anomaly in the numbers basically if we just reduce the standalone environment segment sales from standalone basically we get a negative number for the subsidiaries for last year, 2QFY16 so I just wanted to check why is that number negative?

M. S. Unnikrishnan: I am taking the cushion and parking it here, Sandeep before we closing I will give you, because this is being a restatement of the number, Amitabha do you have the number right now, so Amitabha will give the number.

Amitabha M.: This relates the standalone numbers, there is certain products which got despatched from India, but ultimately it did not get sold by the subsidiary, it lies in the inventory so that causes the standalone number being higher. It is an inventory difference in adjustment, which happens at a consolidation level. It remained in the inventory at a consolidated level for an international sale.

Sandeep Tulsian: Got it and Sir lastly before closing, if you can just give me the split between energy environment segment for both standalone and consolidated order book and order inflows. That's all from my side. Thank you.

Amitabha M.: Standalone energy domestic 419 crore and international 502 crore, environment domestic 130 crore and international 47 crore, in total both domestic and international 549 crore, so this is the standalone. In consolidated domestic energy is 476 crore and international 593 crore, environment 130 crore international 43 crore, total domestic 606 crore and international 635 crore. So this is the ordered intake. As far as order balance is concerned at a standalone level the break up is domestic 2577 crore export is 1340 crore, total 3917 crore at a consolidated level domestic 2742 crore, international 1837 crore, and total 4579 crore.

Sandeep Tulsian: Thank you so much Sir.

Moderator: Thank you. We take the next question from the line of Bhavin Vithlani from Axis Capital. Please go ahead.

Bhavin Vithlani: Morning Unny and Amitabha and wish you a happy New Year and good to see order inflow turning around after a long time.

M. S. Unnikrishnan: Thank you Bhavin, and let there be your wishes for it to continue the same way.

Bhavin Vithlani: So Unny I had few question. First is the mayhem that we are seeing on ground level, demonetization, do you see any impact on your business or the industry if you could say that is number one. The second question is the NTPC opportunity what we talked about what is in a per megawatt what basis if you could highlight what is the opportunity. The third thing is in the oil and gas you talked about 800 crores, but I understand Thermax there is many other things in the refinery so within a refinery Capex what is the wallet share for business like Thermax, so if a refinery Capex is 100 what is the wallet share and given the total Capex of 50,000 crore what should be the order potential over the next 2-3 years. These are my questions.

M. S. Unnikrishnan: First macro level demonetization has got two aspects. Common man will not be impacted at all in any case other than the inconvenience that they will be undergoing. If you really demonetize then the currency being made invalid totally and withdrawal of a currency denomination, I do not know why the press is reporting that way. Rs. 500 note is going to be available within a week's time, Rs.1000 may take a little longer time, but they are going to come with the 2000, so I do not expect anything for the people who have got white money. As to black money, it is all estimates people are talking about, so I would restrain from commenting on that beyond a level. If at all if money is remaining it will get back to white in a very quick way. 'Materialising' is the word I will use for it, they will convert that into purchasing durables… automobiles... so there could be a spurt in all of this as the money gets converted because Indians will find their ways and means though it is not the best thing to happen. Stashed away money, I do not know what is the quantum in real notes to talk about, so I do not think for the size of the economy, but the numbers are very huge I agree with you because people talk about, I believe 17 lakh crore and that 84% is only 500 and 1000 notes, if all of them were to be in such a conundrum how much of that will get blocked. So I will wait and watch but in my reckoning nothing is going to change except in the inconvenience for some time and there could be political ramifications because of coming elections.

If they were to withdraw 500s, 1000s and introduce the 2000 note and say that is the maximum size of the currency of the country and all transactions will have to then happen only through cards, and even vegetable vendor will also have that handheld machine, which is very easy for even a Wi-Fi operation these days. You have to move to that level. I would have said that we are really going to be cleaning Indian system and also tax collection would have improved in the country. Then, there will be more money available, our overall deficit in the budget will come down, there will be more money for infrastructure. I do not know the logical reason for the introduction of 2000 rupee notes, though I am support of demonetization of the notes. I do not think Indian economy will get impacted and thankfully we are not into the money transaction business, most of our customers are also are not …Our values start with maybe 2 lakh, many of them 50 Lakhs, crores of rupees. In that of course there are questions about maybe where transparency does not prevail government standards are not followed, I would be better off in fact. Bhavin, the bad practices prevailing in the capital goods industry will have a real jolt, I am sure; at least a set of people will certainly be coming closer to better governance practice, which will help a company like

Thermax in the medium to long term. That is the comment on that. NTPC as you mentioned , frankly speaking, if one were to replace the entire low pressure steam and also the high pressure steam, which is getting into HP and LP heaters in the power plant, then you are talking about each order should be double the size of what I have got because current one there are 2 restrictions. First of all is land available to ensure that you are able to have sufficient solar field put to generate maximum steam which will be almost equal to 100% of the steam that is being consumed by both the heaters. If this condition were to be prevailing then you are talking about classical 660 megawatt power plant can have an order value of almost close to 200 crore of rupees, single one itself. But most of the newer plants may not have thousands of acres of land, which is available for some of the older ones. So the estimate made by my team, if all the captive power plants of cement companies, steel companies, all of them in the country plus all the existing thermal power plants, not the real old ones, I am talking about the modern type, where to go for it, you are talking about near to 4000 megawatt of additional capacity generation in the country. This will go for maybe per megawatt cost of that only thermal generation, can be as high as may be 7 or 8 crore per megawatt so that 20000

– 25000 crore is potential. That's if everything in the country were to be going for solar, is that okay Bhavin.

Bhavin Vithlani: Yes, that is fine.

M. S. Unnikrishnan: What I gave you is for Euro 6 compliance where they are going to be spending… however a desulfurization plant also may need water. Now in the existing water treatment capacity of the refinery is sufficient to take care of this also, then there will not be any opportunity. But otherwise there could be more opportunities for water business. But there are no power possibilities as of now. In my understanding though you will be reading a little more of power trends and desulphurisation plants, those will be naturally available or else they may buy it. I do not think they will go for another HRG. At least from the budget which I heard about from the government is not a part of the deal, it is only they have looked at the equipment and the plant and machinery needed for specifically this area where unfortunately or fortunately my scope is limited to 800 crores approximately.

Bhavin Vithlani: Okay, thanks. Just one follow-up question, if any update you could give on the Nigeria project because last time you did mention that it could slip out to next year, but any progress on that front.

M. S. Unnikrishnan: We have supplied almost 75% of that against LC, LC is still valid, but construction for the project is not done by Thermax, they are only supervising it. So they have not started the construction of the main area, so they are delaying, so it is quite likely that a part of this will get delayed will get into the next year. That is the Nigerian plan I am talking about is for the cement plant where we have the order under execution, so that could have an impact on maybe Rs. 50 crore on the top line which you have anticipated otherwise.

Bhavin Vithlani: Within the refinery side of the business where the order which is been talked about.

M. S. Unnikrishnan: Refinery side is yet to take shape, though we are doing some design, of course contracts still being worked upon at a very slow pace. Since you want to know the update on that particular project at the site, land reclamation was going on, it is almost completed. There is a site office established with 200 engineers working over there, that much is known to us and the engineering consultant is Engineers India Limited, they got the payment for the first tranche also, that much information I can give you.

Bhavin Vithlani: Thank you so much and wish you all the best.

M. S. Unnikrishnan: Thank you Bhavin.

Moderator: Thank you. We take the next question from the line of Deepak Agarwal from Elara Capital. Please go ahead.

Deepak Agarwal: Hello. Yes, good afternoon sir, how are you. So my first question is can you give some color on the order inflow mix across sectors in the first half and how does it compare versus last year or you know year before that. They are reducing some kind of clear shift towards some certain specific sectors of the economy.

M. S. Unnikrishnan: Deepak, it is like this. With the standard products of the company, food and food processing has become the largest contributor. If one were to look at Thermax's order intake maybe a 3 or 4 years back and then steel would have contributed to almost 25% to 30% and either of them would be between 15% to 20% of the entire order intake in a quarter. Today, food and food processing has become the mainstay for the company, though it is not helping in the larger ones, but a lot of projects are happening and also the FMCG…we treat it as all of them under one umbrella only. There are 7 factories of Patanjali announced, Dabur is expanding, Godrej is expanding, virtually every food, food processing. Dairy is another area which we treat as part of food sector. There are so many of them. India has got I 18 or 20 dairies, with a turnover between 250 crores to 1000 crore. All of them are expanding, so in all of them we have opportunities available. So food is the number one industry. Second, in the current quarter we have seen pharma contributing also as a sector which started investing. Pharma expansions which were held down for some time with a US FDA fear – if you remember in 2014 -2105 and many of them had to clear their names out of that and many of the shares are crashed. They are good balance sheet companies, that I can see movement in the current quarter. Surprisingly wood processing, there are 60 licenses issued in the northern part of India itself for veneer making which were held back by the NGT and the environment ministry. So the license are issued. Each of them have may buy only a small product worth maybe 10 lakhs from me but 60 of them in one zone alone. Normally food processing is the maximum in south and east, that is going to start also, so that is another emerging sector. I can talk about medium sized processing chemical factories another one area where we have seen traction in the current quarter. These are not the biggies chemicals, I am talking about these are Tier 2 suppliers to companies both domestic and international. Many developed countries are borne to be shutting down their polluting chemical factories and some of them may appear in India. China, they appeared earlier. Now China there is an aversion for people to have all the eggs in the same basket and with the way things are happening over there. So that is one movement we are seeing in chemical. I am not taking about the base chemicals I am taking about fine chemicals. Last quarter we also seen specifically in two states, paper processing factories are coming in, reprocessing. Not the JK Paper equivalent where you start with the pulp, these are imported waste paper being deemed and reprocessed and utilized for packaging paper. There are many, in fact in one state alone there are 15 of them. With good movement in the auto sector, tyre sector is also now moving because their balance sheets have started improving with synthetic rubber pipes having come down along with the crude prices. So I can see expansion programs of virtually every tyre manufacturer of India. So these are the kind of sectors which I can positively talk about. Textile though was doing very well in the first quarter and last year's Q4, current quarter we have not seen that much of traction in place, I think they are overstretched beyond a level to my reckoning at this point of time. So that is about overall take on the sector wise movement if you are to ask me.

Deepak Agarwal: This is quite helpful, but I think if I recollect sometime in last year you mentioned that you know India is gradually becoming a paper capital of the world and you know so we do not see the fruits of that coming, transiting to more and more orders or at least the enquiry levels.

M. S. Unnikrishnan: See what happened is most of them are overstretched in the balance sheet and you know the big companies I do not want to name…the oldest family owned paper companies of the country have not kept pace with what should have happened in the market. Now some of them have invested and they have overinvested in terms of capacity creation, so they have to say one or two of them who commission their expansion programs in the last maybe 2 years, they are yet to reach the capacity utilization and start repaying the loans and having positive numbers coming on the balance sheet. A sector which you can expect to revive faster is cement where there is good money available, very little leveraging on the balance sheet for many of them and there is pick- up in demand. Most of them are crossed 70% in capacity utilization. So, if our PWD minister's dreams comes true of 30 kilometers of roads per day and tier 2 cities developing, smart cities getting constructed…if all that would happen : I do not want to be very optimistic about current year. Next year we should see cement companies coming forward and now there is nothing much available for consolidation. Barring one incomplete plant in Gujarat all others are bought over by someone or the other. So it is in the hands of people who really want to run cement factories. So with that I think we may see Capex revival next year for cement. Steel I am not expecting anything though they have started improving their balance sheet, with the minimum import prices given as a support by the government. And I am told that it will continue, they will want to ensure that Indian steel industry does not suffer. So they may take a little longer time to come out of the difficulty that they are in… though I am aware of one company, who were about to expand sometime back and put it on hold, that project is getting revived.

Moderator: Thank you. We take the next question from the line of Pavan Parekh from HDFC Securities. Please go ahead.

Pavan Parekh: Sir, most of the questions have been answered, just one thing, sir your understanding with frenal for the NTPC orders, so is it there is some technology transfer in this or is it a consortium or I mean, what is the understanding between the two partners.

M. S. Unnikrishnan: It is a consortium; they give the field for us. Overall plant design will belong to Thermax. It is something like the way I would buy a turbine in a pack where I have a say.

Pavan Parekh: Okay, so I mean the mirror that is largely going to be imported right.

M. S. Unnikrishnan: Currently, yes, though we could have bought in India, we did not buy from India because we would like to have the reflectivity matching up with what is officially and we will have to test it for Indian advancement, so we are getting it from there only.

Pavan Parekh: Sir 78 Crores is your share of the order.

M. S. Unnikrishnan: No it is a total. The order is on Thermax only.

Pavan Parekh: Okay, he is kind of a subcontractor to you.

M. S. Unnikrishnan: That is correct.

Pavan Parekh: Okay. And sir you gave some colour in terms of what could be your wallet share in the Euro 6 orders, can you give a similar kind of a picture for refining expansion sir, for example if 4000 Crores per million tonnes is a kind of a capex required for a refinery expansion what could be your potential order, I mean market size for you.

M. S. Unnikrishnan: If I have to take a conventional refinery which would be equivalent to say, I do not know what capacity people would go for. Reliance A-3 was the largest one, which had an investment of almost equivalent to maybe I think 6 to 7 billion dollars and the entire order for that for us would have been equivalent to Rs. 1000 crores all put together. Nobody will go for a small refinery unless it is a land limitation issue and may be some transportation nightmare, some of them have only limited access to the market. For example Cochin cannot expand beyond a level, because transporting petrol from there to Coimbatore, there is a catchment area so capacity limitations are there. If people would go for an average, I would say quarter million barrels per day, at least as an initial capacity, then you are talking about a 750 crore kind of wallet size per refinery. If there are, say may be four expansions to happen, 3000 crore is the opportunity going to open up, which is what we expect the government to clear. The way our current government has cleared the Euro 6, even bypassing Euro 5, I presume when they come they will say I want it yesterday, we are geared for it, and we have got huge factories sitting idle.

Pavan Parekh: Okay sir, that is helpful and all the best sir, thank you.

M. S. Unnikrishnan: Thank you, Pavan.

Moderator: Thank you. We take the next question from the line of Abhishek Puri from Deutche Bank. Please go ahead.

Abhishek Puri: Thank you so much and congratulations for good set of results sir.

M. S. Unnikrishnan: Thank you, Abhishek.

Abhishek Puri: Sir just wanted this, you know the overview that you have given on all the industries put together that is pretty helpful. In terms of the order potential from these 5-6 industries that you mentioned, would it be more than the current order inflow that you have mentioned is 5 billion or what will be the potential you know that we can look for.

M. S. Unnikrishnan: Based on the enquiry and the finalisation, the way it is happening, it can improve marginally, it cannot be substantially improved. See, we preponed investment, as I mentioned about dairy. I do not think there is a possibility for many more to happen. So the consistency of that happening across the next maybe 3 to 4 years I will not bet for it. It is normally a cycle Abhishek. So in the current cycle, which started maybe two quarters back, where post the new government coming in and people waiting and watching for the consumption improvement. If you remember FMCG was reporting an equity growth maybe four quarters back. From there we have not started moving upwards. You have seen FMCGs are positive generally and the sentiments are also positive. People started investing and the living habits of Indians have changed. As it happens with organisms, protein intake has gone up. So these are the areas where you would find more consumption of milk and milk products. Similarly wealth increase: per capita income increases first impacting basic amenities which are in the FMCG areas, not the cosmetic areas. That will have one cycle and normal cycle is of three years in investment and for the entire thing to be over, the construction and everything to be over is 4 to 5 years. So we are already into third quarter of that cycle. I would believe we should see that continuing for a two-year period. Now that will help me for two years and thereafter I am expecting cement will start and steel will start. So that is why if you ask me the reality is that we are being helped by the base orders and if they are going to take a plateau level, we should see the main projects level on cement and steel and oil refinery and all starting up.

Abhishek Puri: Sir if I have understood correctly, sir this means that the order base which is from the small industries can go up maybe from 5 to 6 billion or 7 billion. As per the addressable market that Thermax has with them.

M. S. Unnikrishnan: That is correct.

Abhishek Puri: And we will wait for the bigger investments to come back when our material recovery can be looked for.

M. S. Unnikrishnan: That is the kind of growth that you have seen in the earlier past. Last year, I had a contraction of maybe 8% to 9%, current year I also have a similar kind of percentage. But if I look from 2003 to 2011, it is a 3-year period average… If I take a group by a CAGR of maybe an 18%. I do not know if that will that come back in its totality, but at least today my international presence is better than what I was earlier, so a combination of the international presence and the domestic recovery, which I am expecting in the big projects in the next year to two year period of time, should at least see us growing. That is what we are expecting.

ABHISHEK Puri: Correct. Sir second question is on the share of profits from JVs & Associates, last year first half there is a 33 Crores loss, this year first half it is a 3.6 Crores profit and that is largely that you have mentioned is from TBW JV.

M. S. Unnikrishnan: Correct.

Abhishek Puri: Is there any other contribution from other JVs as well or other associates, which we should account for.

M. S. Unnikrishnan: There is a small negative Abhishek for that particular JV.

Abhishek Puri: Okay and TBW you expect profitability at this level in the second half of this year when the execution still continues.

M. S. Unnikrishnan: I will not bet on that because there had been a project, which got completed in the last quarter and the savings got released in the current quarter. I would take it as a one off number rather than as a consistent number. I would rather be conservative on that number.

Abhishek Puri: Understood sir, just one clarification on the order intake number for the current quarter standalone is about 1098 Crores.

M. S. Unnikrishnan: Correct.

Abhishek Puri: The breakup that you mentioned I probably got it wrong. So I have written domestic as 4.19 and export is 5.01, which adds up to 9.2.

Amitabha M.: Both 549 crore, 549 for export and 549 for domestic, totals to 1098 crore for the quarter standalone order intake.

M. S. Unnikrishnan: I think Abhishek you note, Amitabha went and said and he gave you domestic both in energy and environment, so you did not add the environment number, so what you had, the number is only energy that is why.

1098 crore is 50:50 for domestic and international in the current quarter.

Abhishek Puri: Okay that is great. Sir just a request in the press release, if you can give these you know basic numbers it will be easier and we will spend more time talking to you on you know your strategy as well as the future outlook rather than taking out these numbers. Just a request.

M. S. Unnikrishnan: We will do that, no problems at all. As much as possible, which is practical numbers, which in any case we put into public domain, why will not we do that? Amitabha will take that as a message. We will do that.

Abhishek Puri: Thank you so much and all the best sir.

M. S. Unnikrishnan: Thank you, Abhishek.

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

M. S. Unnikrishnan: Thanks a lot all of you. We have got a tough challenge to ensure that in the second half how things are going to be panning out. Orders are available; it depends lot more on the book and will to ensure that we are able to come closer to, I do not want the top line to drop beyond maybe single digit, so currently we are at -16 something like that to bring down to single digit. One cautionary note I would want to put over here is that, if GST implementation were to happen from 1st of April, and if our customers were to view that by postponing the deliveries into the next year they are going to save, then not only Thermax all those who are operating in the capital goods sector may have a challenge especially in the month of March and overall in the Q4. So we will continue to be in touch with the market and all of you. We are prepared, I mean our factories are ready, I mean it is working at break neck speed for all the orders coming in. I will not prepare material and have an inventory created in the last quarter, we do not have a cash flow problem but I do not want to have unnecessary working capital extension, so we will be very watchful and very careful about how we are going to manage Q4. Why am I saying this? Normally we do almost one third of our turnover a little over the last quarter. In that maybe 15% to 17% in the month of March and in case of a movement of that kind in the entire country then all of us including Thermax will be affected. All the numbers which I am planning for right now may have a ramification on that. We will keep in touch with you on that also. So thanks a lot once again for being with us and we will talk to all of you in the next quarter. Thank you once again.

Moderator: Thank you on behalf of Motilal Oswal Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.