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Conference Call Transcript

Thermax

Q1FY10 Results

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Corporate Participants

Mr. M S Unnikrishnan
Managing Director

Mr. Gopal Mahadevan
Chief Financial Officer

Questions and Answers

Moderator: Ladies and gentlemen good morning and welcome to the Thermax Q1FY10 conference call hosted by Edelweiss Securities. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's opening remarks. If you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Misal Singh of Edelweiss Securities. Thank you and over to you Mr. Singh.

Misal Singh: Thank you Rochelle. Good morning everybody. I welcome you all on behalf of Edelweiss for the Q1FY10 conference call of Thermax. I have with me Mr. Unnikrishnan and Mr. Gopal Mahadevan representing Thermax. Mr. Unnikrishnan will start by giving the initial comments on results after which we will take the question and answers, over to you sir.

M. S. Unnikrishnan: Thank you Misal. Good morning to everyone. Once again thanks a lot for joining in this conference call. It is encouraging to have your interest shown in our company. The 1st quarter results may not be up to the mark as per the market expectation.

Our top line has been INR 538 crore down by approximately 25%. Equally the PBT has been at Rs. 69 crore in comparison to 94 crore last year, again a 26% drop. However, the order booking has been encouraging even in difficult times, our order intake has gone up to INR 1,00.3 crore in comparison to 914 crore in the last year same quarter and more importantly in comparison to a INR 580 crore in the Q4 of last year, indicating that there is some positivity seen in the market at this point of time.

The reason for the reduction in the top line for the Q1 is lower intake of orders in Q3 of last year. Normally, for our kind of balance sheet the product businesses normally have a lag period between three and six months. Any order which is taken in the current month normally gets recognized in the revenue within a span of three to six months and the project orders normally would take anywhere from 6 to 18 months. So these are the reasons for the reduction. Apart from that, there has been also credit difficulty and slow pace of execution in some of the medium and large size contracts that we executed in the steel sector, that have added on to the reduction. Otherwise we would have been able to put up a little better performance at this point of time. But one should also recognize the fact that with the reduction in turnover of this kind - a (25%+) top line reduction, with fixed cost remaining constant should have had a reduction in EBIDTA by substantially large percentage, but we have been able to contain it and we have been able to maintain profitability at the same level even at a 25% reduced turnover. This has happened primarily on account of belt tightening and various measures taken by the company which we had explained in the last meeting. Also, Project Everlean has contained our cost and we have been able to eliminate waste.

To give you some other information than the numbers in the current quarter, we have inked two technical tie-ups—one with a German company by the name of Wehrle, which specializes in offering solutions for difficult to treat waste water. Our Indian industry is becoming more and more conscious about environmental pollution. There will be an emerging trend which is going to appear in the markets for ensuring that even difficult to treat effluents, which currently use conventional technologies will demand better technologies and I am sure our association with the Germany company will give a solution for the section of Indian market especially in pesticide, drugs, and pharma and chemical industry. We would expect that going forward that will place Thermax in a better position than what we are currently.

Second is a tie up with GE for marketing their membrane bioreactor, MBR, which is an emerging technology where a combination of membrane as well as bio-reaction happens in the same vessel, reducing the size of the entire treatment plant. It finds application both in sewage and industrial effluent treatment. We feel that going forward this is going to help our company's water business to have a high turnover and growth as well.

One more positive information is that our company has crossed a net worth of INR 1,000 crore at this point which is a landmark.

Our cash position improved in the current quarter, despite net profit after tax being only INR 46.5 crore . Net cash generated by the company of INR 88 crore is an indication of prudent operating practices followed in a difficult market situation. So I leave the talk at this point of time and leave it for people to ask me specific questions. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. At this time if you would like to ask a question please press * followed by 1 on your touch-tone telephone. If your questions have been answered and you wish to withdraw from the questioning queue please press * followed by 2. During the initial round of question and answer participants are requested to limit their questions with two per participant. Participants with questions may please press * and 1 at this time. Our first question is from the line of Sumit Agarwal of HSBC. Please go ahead.

Sumit Agarwal: Hi sir, how are you?

M. S. Unnikrishnan: Hi Mr. Agarwal.

Sumit Agarwal: Sir, can you throw more light on this INR 1,000 crore order that you have received? Which are the sectors and are there any big ticket orders in this INR 1,000 crore orders? If you can just give me the sectoral breakup.

M. S. Unnikrishnan: Of the INR 1,000 crore worth of orders, 763 crore came from the energy sector and 240 crore from the environment sector. There is a fairly good spread of orders among various segments of the industry. A good number of them are for captive power plants, specifically one order which we have picked up from one of the GCC countries for a captive power plant for a cement company. Second is from Madras Cement of Southern part of India. These are the two largest orders we are talking about. Otherwise, most of the other orders are medium and small in size.

Sumit Agarwal: Sir, can I get the size of these two orders, what would be the typical size?

M. S. Unnikrishnan: The export order is $29 million and the cement plant order from south is in excess of INR 100 crore, INR 103 crore to be precise.

Sumit Agarwal: And sir, apart from this order you said that major part of your 763 has come from the captive side. So if I have to look at what was the order from this captive side…?

M. S. Unnikrishnan: What I meant is captive power plants and these two orders put together are worth INR 250 crore, i.e. 25%.

Sumit Agarwal: And what about the other sectors like the steel and say other metals and mining or say refineries or the process plants how has been those sectors or industries have performed, pharma side?

M. S. Unnikrishnan: Unlike in the earlier past, where we had cement and steel contributing to majority of the order intake, this time we have a fairly good spread across five to six industries. Of course captive power generation is one, cement is again continuing to be one of the major sectors, ferrous metal and municipal projects, which if you remember, we had announced sometimes back that we are making our forays in to wastewater treatment for the Municipal Corporation. There again we had tremendous success so that has become a prominent segment of our order booking. In Distilleries also we have seen some positive growth in the current quarter.

Sumit Agarwal: Sir given this INR 1,003 crore order inflow for this quarter, how do you see private investments spanning out over the next three quarters and the year after, can you give us some sense on this side?

M. S. Unnikrishnan: There are certain segments of industry which are, I would say, cautiously positive and there are some of them, even now, still remaining negative. Those who have got cash available on their balance sheet are certainly looking forward to an improvement in FY11 and 2012 and have started sending inquiries and discussing with us seriously. Specifically in distillery, food processing, and cement industries we can see the movement. In the metal industry, still very few are optimistic at this point of time because if you look at, out of all the commodity prices, steel is the only one which has been marginally doing better than the past quarter in terms of the price level. Copper and aluminum have already gone up. So I would believe that in the current year finalizations in ferrous metallurgy would be lower but others will start picking up from Q3 onwards.

Moderator: Thank you. Our next question is from the line of Nirav Vasa of Gupta Equities. Please go ahead.

Nirav Vasa: Hello.

M. S. Unnikrishnan: Hi.

Nirav Vasa: Yeah thank you very much for taking my questions sir. Sir this order backlog of INR 1,003 crore which was bagged in the last quarter, can you quantify that in terms of domestic and international? Was this it the only order that you bagged from your international business of $29 million from GCC country?

M. S. Unnikrishnan: I will ask Gopal to give the numbers. Gopal could you please give the domestic and international.

Gopal Mahadevan: Yeah I will give. Just to clarify it, the order booking or the order inflow numbers were 1003 for the quarter. The domestic order booking was INR 705 crore the international order booking was INR 298 crore .

Nirav Vasa: Okay. And sir can you throw some light on the CAPEX guidance that you will be doing for FY10?

M. S. Unnikrishnan: In the current year we will not touch triple digit, the way we have done in the past few years, that is a guarantee. Past two years we had done INR 170 crore each on an average. Carry forward of some of the previous years capitalization is going to happen maybe in the 1st quarter itself it may be around INR 25 crore capitalization. Going forward, it will be line balancing and maybe some investment related to a new factory which we are planning for our chemical expansion in Gujarat, but that will not be fully capitalized, maybe some cash expense will happen. Capitalization will be limited in the current year.

Nirav Vasa: And apart from that sir the existing order backlog that you have of INR 3,230 crore , can you quantify that in terms of energy and environment?

Gopal Mahadevan: I will breakdown the order backlog as you had wanted, INR 3230 crore broken down into energy 2671 crore and environment 559 crore.

Nirav Vasa: And sir the same amount of 3230 in terms of domestic and international?

Gopal Mahadevan: Domestic is 2609 and international is 621.

Nirav Vasa: Thank you very much sir.

M. S. Unnikrishnan: Thank you.

Moderator: Thank you Mr. Vasa. Our next question is from the line of Nainesh Rajani of Tata Mutual Fund. Please go ahead.

Nainesh Rajani: Good morning sir. I just wanted to understand, you did mention the revenues in this particular quarter were slightly lower, maybe on account of lower order intake which happened in Q3. How has that trend been in Q4 and Q1? Do you expect the product business to revive to some extent that was my first question. My second question was related to utilities in the EPC orders that we are expecting, by when can we expect a decent order from your end?

M. S. Unnikrishnan: Okay the first question related to product. There had been a pick up in the product order booking but not up to the mark, I would say that. It is not, as per what happened in the 1st Quarter of last year or maybe in 2007/2008. I can see a revival or maybe increased vigor in distillery, food, then possibly in sugar area, agro based industries and some part of chemical industry also I can say that.

Nainesh Rajani: Okay. So basically maybe in the next quarter or maybe Q3 would also not see a significant increase in stability as far as your revenue is concerned. Can that be a fair enough conclusion to make sir?

M. S. Unnikrishnan: It is a very difficult question you have asked me. In Q3 will it be better than current? I would possibly imagine that our performance will depend upon how we execute orders on hand in the current year. So what is executable out of that, number 1. And my customer's ability to pay for it and pick it up also. My ability to execute today is certainly far superior than what it was a year back because we have got facilities available today. So the market will depend upon the cash availability, credit availability from banks, and second on value sheet of how this is generating money.

Nainesh Rajani: Okay. Sir but this current order book, what is the execution period for us sir?

M. S. Unnikrishnan: Some of them are executable in next quarter itself, some during the year, and some of them will go to the next year also.

Nainesh Rajani: Sir but last when we spoke I believe broad sense was that approximately INR 2,200 crore was supposed to be executed in FY10 and balance INR 1,000 crore probably in 2011. Is that the right number sir?

M. S. Unnikrishnan: Yeah, you are somewhere very close to that because these are numbers which even I may not normally calculate and keep with me for a conference call. But you are in the vicinity somewhere, let us say that.

Nainesh Rajani: And my second question sir, which I had asked utility order by when can we expect that to come in sir?

M. S. Unnikrishnan: For our utility forays, I did not mention, about pre-qualification in the last meeting. Currently, it is at the offer stage, proposals are already submitted in two different cases. Inspections are on at this point of time.

Nainesh Rajani: Alright sir. Sir if I can ask just one last question. Margins, you did mention we have been able to maintain our margins and some of them probably will not be sustainable and some of them would increase as our turnover increases. What is the broad sense in terms of margins even in worst quarter, in the bad quarter is this the base margin that we would be able to maintain and going forward margins would obviously expand going forward, can that again be a fair enough conclusion to make sir?

M. S. Unnikrishnan: That is asking for too much. Frankly speaking in a difficult time you have got to tighten your belt, but you cannot walk all the way with a tightened belt. Second, there are order finalizations happening in the market, unlike may be two quarters back. Competition is also very tough at this point of time. They would not make it easily possible for any company to make large margins at this point of time.

Nainesh Rajani: Alright sir, that is it all from my end. Thanks a lot and all the very best sir.

M. S. Unnikrishnan: Thank you.

Moderator: Thank you Mr. Rajani. Our next question is from the line of Amar Kedia of Nomura. Please go ahead.

Amar Kedia: Hi sir. Sir just wanted to understand a couple of things. First I was just going through your annual report, I find that current liabilities have gone up significantly over the last year, in fact they has gone up almost by 30 days, while on the same side your debtors and inventory has not really risen by that much. Is it safe to assume that we are pressurizing our vendors and this is likely to continue for sometime or even going ahead?

M. S. Unnikrishnan: Gopal, would you want to answer that or --?

Gopal Mahadevan: Can you just tell me the specific number that you are referring here?

Amar Kedia: Sir the currently liabilities as I can see that has gone up to almost INR 1,207 crore in consolidated numbers from INR 1,100 crore last year, in terms of number of days this is around 211 days as compared to 180 days last year?

M. S. Unnikrishnan: The current liabilities comprise our accounts payable and also advances as well as customer advances remaining with us.

Amar Kedia: Yes I saw that the customer advances have gone up significantly in fact.

M. S. Unnikrishnan: It is a positive sign.

Amar Kedia: Yes sir and do you expect this to continue going forward or is that a one time payment that has been captured on balance sheet date?

M. S. Unnikrishnan: If I get more orders I will ensure that the advances are better. In fact, if you remember we mentioned in earlier meetings that our intention is to collect more advances to secure and securitize orders which we receive. And, another positive news is that we have again turned working capital negative at this point of time. And the cash position for the company has improved by INR 88 crore in the last quarter. So we are concentrating a lot on the cash management.

Amar Kedia: Okay. Sir second question sir that I had was about your segmental breakup for the quarter in terms of the EBIT breakup, sir I noticed that the un-allocable expenses that is actually negative for the quarter. I mean why is that so, is there some kind of forex gain or something that is there?

Gopal Mahadevan: This is not forex gains. It is actually treasury income net of un-allocable expenses. In the previous quarters there were some un-allocable expenses which netted off exceeded the treasury income, which is why you have a negative here. The forex gains are allocated to respective businesses.

Amar Kedia: Okay alright. And sir and just one last question, the order inflow details that you mentioned I suppose they were for the standalone thing, right?

M. S. Unnikrishnan: That is correct.

Amar Kedia: Can I have the same numbers for consolidated level as well, I mean the order intake for consolidated both the energy and environment?

Gopal Mahadevan: You want the order inflow numbers of the group?

Amar Kedia: Yeah.

Gopal Mahadevan: The total number is INR 1,057 crore and domestic is 736 and outside India is 320.

Amar Kedia: Sir, can I have it in energy and environment as well?

Gopal Mahadevan: Sure 1057 again broken down for you, energy is 811 and environment is 246.

Amar Kedia: Okay sir, thanks a lot.

Gopal Mahadevan: Okay.

M. S. Unnikrishnan: Thank you Amar.

Moderator: Thank you Mr. Kedia. Our next question is from the line of Aparna Shankar of SBI Mutual Fund. Please go ahead.

Aparna Shankar: Yeah, good morning sir. Just wanted to understand this, our current order backlog, how much of this is Essar and Brahmani order would be contributing to it?

M. S. Unnikrishnan: All put together, it should be in the region of around INR 670 crore.

Aparna Shankar: Have we got any orders from these two entities for their second phase of expansion or something like that in this quarter?

M. S. Unnikrishnan: I want them to give me the LC for the present jobs. I am waiting to take the balance order, but jokes apart, Essar is still discussing about if they were to do the four numbers instead of the two, what would be the price that is the discussion, but should I take it as an indication that they want to go ahead with, I doubt at this point of time.

Aparna Shankar: Okay, I am not sure because I logged in little late, I am not sure, have guided for any top line and bottom line growth for FY10?

M. S. Unnikrishnan: Thankfully no, so you have not missed anything.

Aparna Shankar: Okay. That is all from my side sir, thank you.

Moderator: Thank you Ms. Shankar. Our next question is from the line of Aditya Khemani of HSBC Mutual Fund. Please go ahead.

Aditya Khemani: Good morning sir.

M. S. Unnikrishnan: Hi Aditya.

Aditya Khemani: Hi sir, sir what is happening on the environment sides because we saw like in the initial parts of the year that segment was going at a very good rate, but now this quarter we see that it has de-grown by 30%, so what is happening on that side because I guess that would be more kind of discretionary spend which will take a backseat when people have so many Greenfield CAPEX lined up, so sir could you talk on that sir?

M. S. Unnikrishnan: Current quarter's result alone you cannot infer based on that. But it is right that investments which will take forward step will be the ones where there is a payback available. Ones which may not have a payback can have certainly a lag and I would agree with you. We have to wait and watch as to is that the trend going to be followed by the market because in any case if somebody were to set up a new factory, pollution control will not permit them to get a consent letter unless they have their pollution control equipment both in terms of water and air pollution. So some of them are mandatory but some will be planning for it as they wish to be environment friendly and they would like to invest money for pollution control on their own valuations. You maybe right in that we will have to wait and watch for that.

Aditya Khemani: But, so this will be one segment which will show a prolonged period of pain?

M. S. Unnikrishnan: Thankfully we are also entering into waste water treatment for municipal corporations. We have received some orders in the current quarter. Can I compensate for the reduction in other areas? We will have to wait and watch.

Aditya Khemani: Okay. And sir in case you breakdown the segment further air pollution control was one segment which will be growing at 30% to 35% in the initial parts of the year and water and waste control was not growing at to that rate. So has that trend reversed on the air pollution control side also?

M. S. Unnikrishnan: No, air pollution control trend is not reversed in terms of positivity, whereas the water market has not changed but Thermax has changed and entered into the market and started taking positive steps towards that.

Aditya Khemani: Okay. So just on your end user industries like we see the end user industries mainly being refinery, petchem, ferrous metals and these industries, these are all global commodities which seem to be in a pretty bad shape. So will it be very difficult to expect a reversal in these segments over the next three to six month, I mean…?

M. S. Unnikrishnan: You are right. Globally, I do not expect any reversal to happen in any of the sectors that you have mentioned. It may not be exactly the same repetition for India because we are still short of petroleum refineries in the country. We are still a net importer of refined products in petroleum. And our downstream petrochemical industry is at a very feeble stage. If Indians were to take a long-term view, certainly there will be investment coming in there. In any case, one refinery investment is going on Guru Gobind Refinery which is joint venture between the Government of India and oil companies and Mittal. It is going ahead, after a lull they have already started placing orders and we are one of the lucky ones to get orders in the 1st Quarter from this particular company. There is one more public sector refinery currently having released inquiries for refinery equipments.

Aditya Khemani: Okay sir. Sir just last question on the export side normally you have a policy of booking currency at the remaining of the year, so last year you would have booked somewhere around 42 to 43 somewhere on that range, now with the Rupee being at Rs.48 does that mean that why our margins are not falling as we are not passing over the benefit out of that on to the orders or how is it exactly on that side sir?

M. S. Unnikrishnan: One correction I wanted to make is that, we do not book at the beginning of the year. As and when we receive any international orders, export orders reducing the import content orders is the net what we normally book…. so that is booked against any order, it is not based on any of the forecast, we book only on actuals.

Aditya Khemani: Okay. So that would mean that we are building similar margins as in the past or we do not get any benefit on the currency side?

M. S. Unnikrishnan: We do not want to get any benefit nor do we want to lose money, our intention is to protect the balance sheet, as much as possible.

Aditya Khemani: Thank you sir.

M. S. Unnikrishnan: Thank you Aditya.

Moderator: Our next question is from the line of Rajeev Mehra of JM Financial PMS. Please go ahead.

Rajeev Mehra: Hi, good morning sir.

M. S. Unnikrishnan: Hi Rajeev.

Rajeev Mehra: Sir I just wanted to understand going ahead you would be obviously wanting to enter in the utility boiler space in a bigger way with the kind of capex you have done in that. I just wanted to understand sir what is your view going ahead? There is a good market size for that, what could be the order size if you could take on the maximum side if you would want to intake going ahead if the market remains good? If you could just give me a view on that sense?

M. S. Unnikrishnan: We would like to graduate to 300 megawatt size in phase I, and then to 500 megawatt afterwards. So, current intentions are at 300 megawatt size of orders for the boiler and on the EPC side we have restrained ourselves to only captive power.

Rajeev Mehra: Okay, but would that EPC entry would be at the, this is the I Phase, would you want to get into the higher stage EPC also or is that out of the question at the moment?

M. S. Unnikrishnan: Certainly out of the question.

Rajeev Mehra: Okay. And sir, going ahead I just wanted to know if the market scenario improves considerably and you get into utility boiler and you start winning orders as well because of your reputation and your ability to execute, what could be the highest intake order which you could achieve or execute from your current capacities, if you could you just give me a ball mark number?

M. S. Unnikrishnan: Even if I were to get 2 x 300 MW or 2 x 500 MW, it is possible for us to execute for the boiler.

Rajeev Mehra: Okay got that, right, thanks sir.

Moderator: Thank you Mr. Mehra. Our next question is from the line of Deepal Delivala of Citigroup. Please go ahead.

Deepal Delivala: Good morning sir.

M. S. Unnikrishnan: Hi Deepal.

Deepal Delivala: Sir my question is more on order inflow in the future. In the last conference call you had mentioned that the second half would be much stronger than the first half in terms of order inflow numbers. And you have mentioned that you are seeing some pick up in certain industries. But what kind of a broad growth over last year would we see or de-growth over last year would be see in overall order inflow for the year?

M. S. Unnikrishnan: In overall orders we should see growth not decline in growth. I am sure my board and my chairperson will not tolerate me if I were to have a lower intake of orders for the year. In fact, we have seen that there is an improvement between the last three quarters and it will continue to improve. See some times there are very large order coming in that will change the entire picture also, but otherwise what I indicated in the last con-call is that I was expecting a INR 600 crore each in Q1 & Q2. In the 1st Quarter I am sure we have exceeded our expectation. And 2nd quarter also we should be certainly exceeding our expectation.

Deepal Delivala: Okay. So net-net if you are talking about a growth, I mean is it fair to assume that you would at least see a 10% to 15% order inflow growth for the current year?

M. S. Unnikrishnan: Yeah.

Deepal Delivala: 10% to 15% is broadly the number we should look at. Sir second question is on, I mean somebody have also asked earlier roughly out of that 3200 crore of order backlog, you said INR 2,300 crore is to be executable this year, this is only obviously on the project side, right?

M. S. Unnikrishnan: No, it is both products and projects.

Deepal Delivala: Okay, but the product side is also the book-to-bill cycle is actually more than one, so you will probably have much more coming in this year as well, right?

M. S. Unnikrishnan: The first number that you gave me itself I am not confirming that 2300 or so. I did tell that those are a part of next level planning i.e. level 2 to 3 level, in terms of how they plan in the factory. I may not be privy to that but in any case I had mentioned that we had opening orders worth INR 2,000 crore in the current year available with us. Part of that would have been recognized in the 1st quarter, whatever remains out of the carry forward plus what got added in the current quarter and still we will do an exercise for it, but it maybe something like that, and we will have some book and bill also happening, from the products business for the company. But all our product business does not have a same month book and bill some of them are maybe if I book it today it may get, chemical will get invoiced in the same month or next month, but the smaller boilers or water treatment plants of smaller variety will go for three months and an absorption chiller can take six months also.

Deepal Delivala: Okay sir, so broadly we would see a top-line growth this year?

M. S. Unnikrishnan: I do not think this is a practical expectation in the current year.

Deepal Delivala: Okay sir, we would see either a flat or a decline in the top-line?

M. S. Unnikrishnan: Yes.

Deepal Delivala: For the full year?

M. S. Unnikrishnan: We mentioned about the economic crisis of the last year, primarily the order cancellations, order going slow, as well as no orders getting finalized or maybe very less orders getting finalized from the Q2 and Q3 and Q4 of last year certainly have an impact in the current year.

Deepal Delivala: Sir and the last question that I had was in margins, now you mentioned that some of the improvement in margins was sustainable and some of it would, kind of go away once we have an uptick in the top-line growth going forward into the year, sir what is the base level margins that I mean the increased level of margins that one should work with for the business as a whole?

M. S. Unnikrishnan: I think you should take the benchmark of the better years of our business, which is the past two years, benchmarks and margins for the industry. I think we are one of the better performing companies. See the market does not allow you to, I mean get the margins beyond a particular level since there is competition.

Deepal Delivala: Okay so I think that broadly answers my questions. Sir I will come back with more questions if I have any, thank you so much.

Mr. Unnikrishnan: Thank you Deepal.

Moderator: Thank you Ms. Delivala. Our next question is from the line of Sanjeev Zarbade of Kotak Securities. Please go ahead.

Sanjeev Zarbade: Good morning Mr. Unnikrishnan , hello.

Mr. Unnikrishnan: Yes, Sanjeev you go ahead.

Sanjeev Zarbade: Sir I wanted to know the exports figure for this quarter and outlook for the year because we had a very good revenue growth on the exports front in FY09 so what was the outlook in that current year?

Mr. Unnikrishnan: We had INR 139 crore for the current quarter as compared to previous year's same quarter. But one more information is that if I were to remove the deemed export, it has been better. But our ability to perform at the same rate for the rest of the three quarters will not be there on account of the fact that India is still having some GDP growth but it is not so in the countries where we export into.

Sanjeev Zarbade: Okay. And sir my next question is like if we assume that the Indian GDP growth goes to around 7% to 8% by FY11, can we expect something like 30% to 35% growth in the order inflows in the FY11 or FY10, would that be a fair assumption?

Mr. Unnikrishnan: If there are orders getting finalized we will certainly go after that. See FY10 certainly you cannot expect this kind of growth because of the reason that the GDP growth is going to be limited. FY11, if everything is going to be normal, order intake may not be 30% to 35%, but upwards of 20% can be expected.

Sanjeev Zarbade: Okay sir, thanks and best of luck.

Mr. Unnikrishnan: Thank you Sanjeev.

Moderator: Thank you Mr. Zarbade. Our next question is from the line of Lakshminarayan Ganti from BNP Paribas. Please go ahead.

Lakshminarayan Ganti: Good morning Mr. Unnikrishnan and Gopal, I think great job done on the cost containing or cost containment if you can say that. Two questions I have one is if you see your product breakup that you gave in your annual report, we clearly see that the boilers and heater segment actually showed a growth in fiscal 2009 but the captive power plant sales are actually declined by 42% to be precise. Now is there an expectation one that this will change and can you throw some light on that because you are wining some captive power orders currently so that is my first question?

Mr. Unnikrishnan: Yeah actually Laxmi you go through the balance sheet so well that you get the finer points. If you remember last year we mentioned about that we are also targeting heaters as a rescue segment for the company. And, we have been able to gain orders from the heater segment, both in India as well as outside India which is why the boilers and heater business has been able to show a positive growth despite the captive reduction. And in the current year you are right since the captive orders are coming in, these captive orders will be contributing at least one-two boilers per order to the boilers and heaters group also. So with captive orders going up, you should have captive orders built-up for the boilers and heaters also going up.

Lakshminarayan Ganti: Okay. And second question is exports obviously contributed 22% of your total and your outlook is not that great for that part of the business based on your whatever backlog. When do you see that revive if you have any expectations on that, exports side ...?

Mr. Unnikrishnan: See our predominant exports are to Southeast Asia and Middle-East and very little to Africa. We do not expect this Southeast Asian market to revive at all in the current year. Middle East I can see some positivity happening in Saudi Arabia but may not be in UAE and Kuwait, and Africa of course is a very normal. Thankfully, it has not gone down nor has it gone up. So I would expect that Southeast Asia pick up should be expected in FY11 and that is the time we should see some positivity. More importantly the international credit and banking system is not anywhere near to the confidence level of India. So you guys will know better than me, I mean what is your prediction about the markets outside India like will they be performing better in the current year.

Lakshminarayan Ganti: I am moving on sir.

Mr. Unnikrishnan: So I think this year we will go firstly with the, I would say bad year for international market. But we have some isolated or selective windfall orders we are able to manage which should help us for the current year and part of the next year.

Lakshminarayan Ganti: Okay. And last question if I may ask is at one of the conferences last year you mentioned that roadmap for the company is to get into the 800 megawatt or the supercritical boiler range by 2011/2012 kind of timeline. Now are we still, given the slowdown as we think have we changed our plans or are we on track to do that, because some previous caller asked and you said you can execute up to 500 megawatt boilers, if you got even now. So is there any change to those plans because of the current slowdown?

Mr. Unnikrishnan: No, certainly no. Slowdown is just a phenomenon and power demand in India is a permanent requirement. I am sure it is something which we will have to view as a company in the medium-to-long term. And, we are not changing any of our medium-to-long term plan, as far as short-term plans, where we would have held on to maybe some investments related to maybe some critical for some time, otherwise our plan is on. It is as per our original plan only, no change at all.

Lakshminarayan Ganti: Okay sir, thanks a lot for taking my questions.

Mr. Unnikrishnan: Thank you Laksminarayan.

Moderator: Thank you Mr. Ganti. Our next question is from the line of Bhargav Buddhadev of Noble Group. Please go ahead.

Bhargav Buddhadev: Sir, could you give us the status of date on the Essar & Bramhani order has the company started working on that?

Mr. Unnikrishnan: Both the orders got renegotiated for numbers as well as the price. Numbers when I say in Essar we had order for four numbers 750 ton capacity boilers which has come down to two numbers. So the revised price for the two numbers incorporating also the commodity reduction to be considered. We have really done it and concluded it. And since advance is already available with us, it is a matter of they giving us a go-ahead for the LC, which is expected in the coming quarters. In the mean time, we have completed all of the engineering. We have also placed orders for the raw material to be purchased from outside India and also for bought out components A category ones from India, that is the level that we have gone in that order. Bramhani equally when they reduced the steel plant capacity from 2.5 million tons to 1.25, the number of boilers has come down by two and capacity of one boiler has also been reduced. In tune with that, we have renegotiated the price, terms remaining constant, advance is already received and LC is awaited, that is the current status of orders.

Bhargav Buddhadev: And second is sir that if you could highlight more on your cost rationalization program given that operating leverage is slightly high for our company and we have already added two new factories, so how are you managing your cost rationalization program?

Mr. Unnikrishnan: Capital is already invested. The buildings and machineries are already in place, but the manpower to go along is being calibrated in such a way that based on input orders whatever is required only is being inducted by the company at this point of time, that is the first rationalization done. Second is we have got fixed-term contracts of employees which we will look at very carefully as we go further depending upon the executable orders on hand at any point of time.

Bhargav Buddhadev: So which means that probably we can see a trend wherein your non-variable cost will go down as a percentage of revenues is it that which you are hinting at?

Mr. Unnikrishnan: We are as close to that, manpower cannot be totally variable, good part or majority of that is variable. Even for fixed manpower we have got variable pay. So there is variability available for the fixed manpower also, that will continue. But the rest of the cost related to running the factories certainly will be going along with the order intake as well as at the rate of execution of orders.

Bhargav Buddhadev: In other words if I just have to ask you indirectly that in case there is a decline in revenues do you expect a slightly higher cut in EBITDA margins earlier than what you had guided? Earlier you had guided for about 100 to 250 bps decline in EBITDA margins, but are you okay with that guidance or would you like to revise that guidance?

Mr. Unnikrishnan: No I will not want to revise that guidance. That would certainly be remaining, certainly.

Bhargav Buddhadev: And lastly sir on the other income I wanted some clarifications there has been a significant jump in the other income, any particular reason for it?

Mr. Unnikrishnan: Gopal would you want to answer that?

Gopal Mahadevan: See last quarter shows other income is 1028 as opposed to 1018.

Mr. Unnikrishnan: It is only a 10 lakh difference.

Gopal Mahadevan: It is only 10 lakh differences, INR 10.28 crore, up from INR 10.18 crore.

Mr. Unnikrishnan: But let me clarify another point. With the treasury money going up also maybe our corpus may increase. But the interest rates are not as good as what they used to be last year. And last year beginning companies like us had the benefit of FMPs which is still not in existence at this point of time. So our other income is predominantly from treasury which may not be, unless of course the interest rates were to go up in the next six months' time, substantially higher. We cannot expect any improvement in that area.

Gopal Mahadevan: Absolutely.

Mr. Unnikrishnan: Yeah.

Bhargave Buddhadev: Fair enough. Thank you very much sir and all the very best.

Mr. Unnikrishnan: Thank you.

Moderator: Thank you. Our next question is from the line of Kirti Dalvi of Enam AMC. Please go ahead.

Kirti Dalvi: Good morning sir, three questions specifically, could you just give us breakup of consolidated order book?

Mr. Unnikrishnan: Oh yes, Gopal will give you.

Gopal Mahadevan: You want the backlog or you want the …?

Kirti Dalvi: Backlog sir.

Gopal Mahadevan: It is 2773 domestic and outside India balance is 653.

Kirti Dalvi: I am sorry sir, I could not hear you, could you just repeat it?

Gopal Mahadevan: INR 3,426 crore is the order backlog or the order balance as on date.

Kirti Dalvi: 3426?

Gopal Mahadevan: Yeah.

Kirti Dalvi: Okay.

Gopal Mahadevan: 3426, in India it is 2773 and outside India is 653.

Kirti Dalvi: Okay. And sir energy and environment for the same?

Gopal Mahadevan: Yes 2863 is energy. And 563 is environment.

Kirti Dalvi: Okay. Sir the second question is we are putting lot of emphasis on this municipal corporation business and in terms of the water business and correct me if I am wrong, we are targeting some 50% of this INR 1,500 crore allocation which has been made for sewage treatment water business across the country, could you just elaborate more on this?

Mr. Unnikrishnan: Yeah. What we mentioned was that there is a programme under JNNURM with the Government of India, water and sewage treatment for municipal corporations across the country of which at least a half of them are in the areas where Thermax can have a role to play. If the corporation were to have sufficient land available they will go for conventional technologies. However, corporations where land is at a premium or those who have a shortage of land will normally prefer to go for a bio-reactor technology which will save land and space, will be the target market for the company. So we have had an entry made in the last year by creating a separate performance unit into the water and waste water business group of ours. We have seen some success in the beginning of the year including the current quarter and what we are doing is we are specifically targeting those corporations where there is stability in our own due-diligence found and where we know that those projects will get funding from JNNURM. We have already short listed a few of them. I am sorry I cannot reveal the number and there we have to participate in preparation of the DPR so that our technology gets included in the DPR which is sent to Delhi for approval. Once the project is approved then it comes to like normal process of tendering and then there is a process of getting the order. So we are targeting this industry and in our opinion it will be a growing segment of the waste water treatment market in the country.

Kirti Dalvi: And do you see the significant order inflow happening in the current year on this business?

Mr. Unnikrishnan: If you were to talk about Thermax's total order intake and ask for a word of significance I may not be able to give an answer but for waste water business of ours which last year was INR 220 crore it will be significant in number, certainly yes.

Kirti Dalvi: And sir margins are in line with our existing businesses?

Mr. Unnikrishnan: As a normal practice we will do business in areas where margins can be good, but the water business does not produce as higher margin as the overall EBIDTA of the company. But our intention is that with the technology differentiation that we are able to offer, we should be able to improve our margins in that area also.

Kirti Dalvi: Yeah sir the last question, was there any kind of forex gain or loss in the current quarter?

Gopal Mahadevan: There was INR 9 crore forex gain in the current quarter.

Kirti Dalvi: And that is a part of our other operating income is it?

Mr. Unnikrishnan: That is correct.

Kirti Dalvi: Thanks a lot sir and wish you good luck.

Mr. Unnikrishnan: Thank you.

Moderator: Thank you Ms. Dalvi. Our next question is from the line of Ashish Kacholia of Lucky Securities. Please go ahead.

Mitul Mehta: Yeah sir this is Mitul Mehta from Lucky Securities. Sir congratulations on a great cost cutting exercise that you have taken. My question to you is just wanted to get some more sense on your working capital management. You seem to be managing advances very well what kind of advances typically we get from our customers?

Mr. Unnikrishnan: We have a varied range of customers. Normal minimum advance that we would ask below which we will not accept an order is 10% excepting for the government orders where we may not get an advance, otherwise it is a minimum 10%. Our average advance level is around 18.5% at this point of time. It has improved in comparison to the last year when it was

15%. There is an improvement on that front.

Mitul Mehta: Okay. And sir new offerings of 300 megawatt and finally graduating to 500 megawatt when are we going to be ready with the product in this segment?

Mr. Unnikrishnan: Our technology transfer related to design is completed based on which we already have a standard design for a 300 megawatt available and it is already on the offer. We are pre-qualified and have already made proposals of that kind. For 500 MW also we have completed the proposal making training and we are currently in the market prospecting for inquiries for that one.

Mitul Mehta: Okay. And sir our peak monthly billing used to be close to about INR 220 crore when India was growing at 8% GDP. That came down to as low as INR 80 crore now we are again back to INR 200 crore?

Mr. Unnikrishnan: That is not billing, that is monthly order booking.

Mitul Mehta: Yeah monthly order booking, we are again back to INR 200 crore?

Mr. Unnikrishnan: Yeah you can say that in the current quarter we have booked INR 1,000 crore so it is at the level for one quarter. I do not want to take any message from one quarter, we will have to wait and watch for at least two to three quarters before we conclude anything now.

Mitul Mehta: Okay sir.

Sachin Kasera: Hi sir this is Sachin here. Just wanted to get a feel in terms of the cement order especially for the WHRB we had initially tried for one or two customers, what is the response there and how is the outlook on that going forward?

Mr. Unnikrishana: One order we have picked up is in Q4 from one of our customers JK Lakshmi. Otherwise we have not concluded anymore orders from the waste heat recover base at this point of time, though we have got two orders from the cement segment for captive power plant, conventional ones. There are some of them under discussion which I spoke about. We will have to wait and watch for that also.

Sachin Kasera: In terms of the benefit of clients even in the current energy prices this WHRB is a very good payback in terms of the expense they have to do for it sir?

Mr. Unnikrishnan: The average cost of power for cement industry varies between INR 4 and INR 5 depending upon which part of the country are they at this point of time. At that rate it has got a payback period of anywhere from six to six and a half years at this point of time. So there are some people who are plum with money and their IRR is lower that is why they will go for it. That is the way it is.

Sachin Kasera: And sir in terms of the overall order book what would be the boiler portion and EPC portion consolidated?

Mr. Unnikrishnan: Normally, we do not give that. We give energy and environmental, but the major is in any case boiler and EPC portion.

Sachin Kasera: Okay. And a last question, how much cash are we sitting on at this point of time?

Mr. Unnikrishnan: It is INR 550 crore.

Sachin Kasera: Okay great sir, thank you so much.

Mr. Unnikrishnan: Thank you.

Moderator: Thank you. Our next question is from the line of Bhavin Vithlani of Enam Securities. Please go ahead.

Bhavin Vithlani: Good morning sir. Sir just three questions I had.

Mr. Unnikrishnan: Yes Bhavin.

Bhavin Vithlani: First question was would we be able to maintain a same level of top line or would it be somewhere close to 4% to 5% lower, earlier I thought that given the order book we would be able to maintain absolute level of top line?

Mr. Unnikrishnan: I cannot give a very clear answer for it but based on what you have seen currently for the 1st quarter and the economic scenario and the orders on hand, one should expect a lower top line than the previous that is for sure. To what percentage, will certainly depend upon how we perform in Q3 and Q4 and not in Q2 because Q2 certainly will be lower than last year's Q2 but for Q3 and Q4 we have orders available. How and at what pace can we push has to be seen because we will not part with the goods unless we have the cash security or the financial security on that. So that is where I would predict at this point of time. Certainly it is expected to be lower than last year but to what percentage will clearly be dependent upon how the market is going to behave.

Bhavin Vithlani: But I believe not to the extent, it was lower in the 1st quarter?

Mr. Unnikrishnan No that is for sure. That is not our intension certainly no.

Bhavin Vithlani: Okay. And maybe on a safe side can one presume maybe 10% lower?

Mr. Unnikrishnan: You are wanting to take an answer from me which I do not want to give you. But anyway do keep the targets for me, will you be happy with that number?

Bhavin Vithlani: I would be happy if you give some growth sir.

Mr. Unnikrishnan: That is asking too much for me, in the current year at least.

Bhavin Vithalani: No, I do understand.

Mr. Unnikrishnan: Let us work towards it. See, like we have capabilities available within the company at this point of time in terms of manufacturing facility. We have people, we have got project management capability, everything is available. Orders partially available, balance has to come, we have got to still book and bill for the next nine months for the products division. So how the market will pan out will have to be seen.. See we were all worried about the monsoon for some time, will it be having some impact on business? But thankfully the second spurt of rain seems to be looking okay so the market should pick up. If that is the case, money should be available, then people should have the confidence of buying the equipment for which they have placed orders, that is the way it is you know that.

Bhavin Vithalani: Okay. Sir this second is basically on your margin profile. Could we expect that as we move forward the current quarter we have got benefit of lower material cost as we move forward that benefit will start diminishing and we may not be able to maintain current quarter's level of margin?

Mr. Unnikrishnan: There are some orders on hand for which I have already committed on raw materials. So whether it is positive or negative I already have the benefit available for the balance sheet. Only for raw steel which is going into the structure making and maybe ducting, casings which are possibly maybe 10% to 15% of my total steel purchase may have an impact going forward, going up or down. And for the future orders to be finalized I agree with you the market is not best currently because everybody is in need of orders and everybody has got capacity available. So there is a dog fight going on in the market, so it depends.

Bhavin Vithalani: Sir how intense is this fighting, is it that you know the question is would the margin be in the 12% to 13% band?

Mr. Unnikrishnan: One does not get 12% to 13% margin when you finalize an order that is for sure in the current market. But you may have an ability to come closer to that if you are able to work very hard by doing the project on time and do not commit mistakes and also get good prices from your suppliers. So it depends upon the efficiency of the supply chain and your project management ability that you are able to improve the margins in comparison to what you book at, at this point of time.

Bhavin Vithalani: Sir same question on the margins, I was just observing the last annual report there was some 9 crore of loss in the Chinese subsidiary. Any chance of that reversing in the current year?

Mr. Unnikrishnan: Certainly not. It is a fresh investment by the company and part of the losses are also the capitalization equivalent which in India what you do, all the pre-operative expense are capitalized in India. Chinese accounting practice and the law stipulates that you have to charge it to the Profit & Loss account when you start manufacturing. So one portion of the 9 crore is related to that, but in the current year being the first year of operation and China is as bad I mean as India in terms of the market conditions, we would not expect it to be performing very good. And in any case when we setup the facility, four years is what we had been expecting at the beginning for a positive balance sheet. It is a long term investment by the company.

Bhavin Vithalani: Okay fair enough. And sir the last question is a little bit on the technical side, what we understand is there are lot of plants which are coming up on the coal washery rejects so what is your ground level feeling on the same and what is the Thermax capability on such type of business?

Mr. Unnikrishnan: First a comment on the washery rejects availability in the country and the increasing demand for boilers for that. We are confident of the fact that with larger and larger power plants coming in the hinterlands of India which will have to depend upon the Indian coal and pulverized coal firing technology to be utilized we have to go for more and more coal washeries. Washeries will certainly produce rejects and our understanding is for a 100 megawatt equivalent you will have rejects available which can produce 200 to 300 megawatt worth of reject-based power. So that is a market, so there will be good market available especially in the central part of India. Thermax's capability to indicate you we were the first in the country to burn washery rejects. Later for Larsen & Toubro's factory in Awarpur almost more than a decade back. And currently we have got captive power plants running five of them or so on also on washery rejects. We are commissioning another plant of 40 megawatt capacity for CESC, Calcutta Electricity Corporation from their washery we are setting up a plant just about to be commissioned. And we will migrate to the next level capacity because in India you will be wanting 135 megawatt and 150 megawatt based on washery rejects working on CFBC technology. And we are one of the better companies in the world or maybe in India, in any case the best available with technology.

Bhaven Vithlani: Sir General Steel & Power is also setting up a similar so are we also negotiating with them for such type of orders?

Gopal Mahadevan: Could you please repeat the name of the company, General Steel?

Bhaven Vithlani: Yes sir.

Mr. Unnikrishnan: No we are not negotiating with them at this point of time.

Bhaven Vithlani: Okay fine, sir thank you very much for the questions.

Mr. Unnikrishnan: Thank you.

Moderator: Thank you Mr. Vithlani. Our next question is from the line of Kunal Sheth of Religare Capital Market. Please go ahead.

Kunal Sheth: Thank you sir, all my questions have been answered.

Mr. Unnikrishnan: Thank you.

Moderator: Thank you Mr. Sheth. Our next question is from the line of Pritesh of Chheda of Emkay Global. Please go ahead.

Pritesh Chheda: Hello sir, I just wanted to know what is the status in the sub-critical space of the boilers? And second based on the current capacity that you have what is the maximum order intake in the sub-critical that you could take both in volumes and value terms?

Mr. Unnikrishnan: Sub-critical status is, we are in the market right now and we have inquiries with us. Some inquiries, quotations made, discussions going on, not reached a negotiation stage, because negotiations normally happen when the company will have their financial closure nearing with the bankers. So that is the status to talk about our marketing side. We are now getting pre-qualified for more and more projects that is point number one. Second is the capacities, overall our manufacturing facility is capable of generating 2000 megawatts worth of captive and utility power plants at this point of time. So depending upon the orders coming in, I can take 2 x 300 megawatt, I can even take 2 x 500 megawatt, but our intention is to enter at the 300 range at this point of time.

Pritesh Chheda: What is the utilization of these capacities right now?

Mr. Unnikrishnan: Our Pune facilities are booked for almost 85% at this point of time for the current year. I have 14% balance remaining in the Pune facility. Baroda though I have got installed capacity, I have not manned it at this point of time. So we are manning it only based on our intake of orders. Say if I get a new order for a utility order other than Essar order which is there with the company, we will take a turnaround period of approximately six to nine months, so we have the manning completed and training them and getting them approved by the IBR for their being qualified to do the welding and the machinery approvals.

Pritesh Chheda: That is for the Baroda facility?

Mr. Unnikrishnan: That is correct.

Pritesh Chheda: Okay. Okay first of all, in the order flow guidance that you gave, a broader idea that you gave in terms of how the business would shape up in 2010, have we included any of the projects on utilities in our assessment and will it be an upside to our numbers or..?

Mr. Unnikrishnan: No new orders are considered whereas the current one which is Essar order part of that is considered in that current year.

Pritesh Chheda: Okay so barring Essar nothing else is considered in utility segment.

Mr. Unnikrishnan: You are right.

Pritesh Chheda: Okay. Last question, in the quarter one numbers, we have seen a significant drop in the cost, how much of the drop would you associate in terms of you know the entire business volume coming down in Quarter 1 and how much of it could be actually related with cost cutting measures that we have taken, just to get a broader idea on how this margins can pan out?

Mr. Unnikrishnan: You are almost at 50-50 on that. Our expenses for the containable and which is variable are approximately 50-50.

Pritesh Chheda: For the quarter?

Mr. Unnikrishnan: Generally I am talking about the reduction also, naturally when the business comes down half of the expense reduction has to automatically happen based on the reduction in the business and other half is on account of the exercise that we are undertaking currently.

Pritesh Chheda: Okay, many thanks to you sir and all the best sir.

Mr. Unnikrishnan: Thank you Mr. Chheda.

Moderator: Thank you Mr. Chheda. Ladies and gentleman due to time constraints that was the last question, I would now like to hand the conference over to Mr. Misal Singh for closing comments. Please go ahead sir.

Misal Singh: Thank Rochelle. I would like to thank the management of Thermax for taking time for this call and all the best to you sir for the remaining quarters. And I would like to thank everyone for being on this call, thanks a lot.

Mr. Unnikrishnan: Thank you Mr. Misal Singh.

Misal Singh: Thanks a lot.

Moderator: Thank you Mr. Singh. Thank you gentlemen of Thermax Management. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us on the Chorus call conferencing service and you may now disconnect your lines. Thank you.