“Thermax Limited Q4 FY-14 Earnings Conference Call”

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MANAGEMENT	**MR. M. S. UNNIKRISHNAN – MD & CEO, THERMAX LIMITED.** **MR. AMITABHA MUKHYOPADHYAY – GROUP CFO, THERMAX LIMITED**
MODERATOR	**MS. BHOOMIKA NAIR – ANALYST, IDFC SECURITIES LIMITED.**

Moderator Ladies and Gentlemen, Good day and welcome to the Thermax Limited Q4 FY- 14 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair of IDFC Securities. Thank you and over to you ma'am.

Bhoomika Nair Thanks Karuna. Good Morning everyone. Welcome to Thermax's Q4 FY- 14 Earnings Call. The management is being represented by Mr. M. S. Unnikrishnan – Managing Director & CEO and Mr. Amitabha Mukhopadhyay – Group CFO & Member - Executive Council. I will hand over the call to the management for the initial remarks, post which we will open up the floor for Q&A. Over to you, sir.

M.S. Unnikrishnan Thank you Bhoomika. Good morning everyone and thanks once again for being with us to share our results. To give you a snap shot of the performance for the quarter, I will touch upon both 4th quarter as well as the full year, starting on the group level.

Our order intake for FY 13-14 stood at Rs. 6, 480 crores; this is 16% higher than the previous year, and to be precise the highest ever recorded by the group so far. On standalone level, Thermax's order book for the current quarter had been Rs.1141 crore, which is almost same as the previous year's Rs.1155 crores in the last quarter. For the full year, Thermax Limited order intake has been Rs.5,394 crores which is approximately 11% higher than the previous year. For the full year the revenues are down by 8%, the PBT is lower by 21%, operating margins have gone down by 1.47% (which is from 9.64% to 8.17%). However, one thing we have been able to manage was our free cash flow; for the full year it has been improved to Rs.144 crores versus last year's Rs.16 crores. This is after investing in the joint venture and all other internal expansion programs which we have spoken about. Our export revenue had been up by 12%, energy profitability has improved by almost 1%, but the PBT has taken the plunge on account of two specific factors – number one, our environment segment profitability has shrunk by almost half. This I had mentioned to you in the last quarterly meeting that we have some major challenges going on in the water business and which will continue for one more quarter. Number two, in the Air Pollution Control business also the margins have dropped. The third item which is there in the environment segment is the Chemical business which has performed fairly well. But despite the spirited performance, the negatives in the water and air pollution business have ensured that it has come down to the present level.

Now for the quarter specifically:

Standalone revenue for the quarter is Rs.1,358 crore for Thermax Limited as against Rs.1,449 crore in the previous year; it is a drop of 6%, and the profit before tax also dropped by 15% for the quarter. However, one positive news to talk about in the Q4 is that we have been able to come back to a double- digit profitability. Though it is lower than the previous year may be a percent. This year it is at 10.3%, last year it was 11.4%. Material cost had been contained with reduction of 1.5% for the Q4. And for this quarter the contribution of exports has gone up to 27.32% as against 24.4%.

Sector Wise:

We have had order intake for the full year substantially coming from oil and gas. All of you are aware of the main order that we have received, plus we have also received an order from the public sector oil refinery in the southern part of India. I am very happy that even from Saudi Arabia we have picked up an order worth Rs.250 crore –

the single largest ever waste heat recovery system that we are going to provide for the oil sector. Otherwise, there had not been any substantial movement either in steel sector or in the cement sector. We have not received any orders in the power sector in the last quarter. Order book for Thermax Limited stands at Rs.5,389 crores which is 24% above the previous year which is Rs.4,357 crores, and for Thermax Group we are at Rs.6,121 crores as against Rs.4,878 crores at this point of time. The results are also after accounting for a FOREX loss of around 41 crores for the full year, a part of which could have been recovered on the top line, which Amitabha will explain to you in detail.

Let me stop here and move on to the question-and-answer session because I will rather leave a longer period of time for you to be asking the questions. Thank you.

Moderator Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. First question is from the line of Devang Patel from IL&FS Broking. Please go ahead.

Devang Patel On this Rs.1140-odd-crores of order inflow in the standalone book could you break this up into base orders and any large EPC orders?

M.S. Unnikrishnan Incidentally, we have not picked up any EPC order in the last one quarter. So there are no EPC orders at all in the Rs.1141 crores. If you talk about the base order type, order intake related to heating, cooling, the standard products had remained at the same level. We have had project orders in the boiler and waste heat recovery equivalent in the last quarter. So I would say that base orders has not gone up and remained almost at the same level and no EPC in any case.

Devang Patel Sir, looking forward to the next year what kind of increase should one expect in the base orders and how would that be related to the CAPEX cycle – would it be front ended? And again on the project orders we had a very large Rs.1700 crores order, are there any such similar orders in the pipeline?

M.S. Unnikrishnan So there are two questions from your side – one is how I am expecting the order book going forward especially on the base order type. With the sentiments reversing, consumption increasing, capacities getting utilised, should mean that capacity increase needs to be done by various sectors. So in my opinion there would not be any substantial change for at least 6-month period unless all the industries in India want to place all the orders in one quarter. Because even gearing up to place orders for capacity expansion normally would take minimum 6-month period, so let us give that 6-month to them. So I would believe, what was happening in the last year on the base order level will continue for two quarters and you should see an improvement happening in H2 starting with Q3 onwards, that is point one. On the larger project orders, last year's Rs.1700 crores order is a windfall order because such kind of orders comes once in a while and all of us should pray for similar kind of projects to happen. However the projects ordering related to EPC for captive power for cement, steel, and may be in other sectors also, I would imagine that would be towards the end of the year. So the impact of the current euphoria that is prevailing in the market to translate into the balance sheet or may be at least order book for companies like us, we should be giving a 6-month period and I would see it improving certainly in the second half. I believe that the second half order intake of companies like Thermax should be better in comparison to the previous year going forward. And any larger order that may come to the balance sheet will be revenue recognisable predominantly in FY- 16. And if there are very large projects it could even slip on to the year thereafter.

Devang Patel If you could just put a number to the order inflows expectation next year?

M.S. Unnikrishnan Devang, I have never given guidance in the past 8-years. How will I change? Let us say that we are expecting it to be better.

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

Sandeep Tulsiyan Sir, my first question is pertaining to the subsidiary's performance, if I just deduct the consol minus standalone and adjust for that Rs.35 crores tax that we had booked in the second quarter, it gives a number of about Rs.45 crores of loss in subsidiaries on an overall basis in fourth quarter itself. So sir if you could just give us the large loss heads in which of these subsidiaries that occurred and what is the roadmap over the next 2-years to improve this performance?

M.S. Unnikrishnan Sandeep, in fact, I should have done that first in the opening remark. On the subsidiaries – there are Thermax 100% domestic subsidiaries, international subsidiaries and joint ventures - two of them have to be consolidated because of our ownership of 51%. TIL, our subsidiary which had made losses in the last year, I promised that we should be able to turn it around in the last year. I am very happy to inform that we have been able to turn it around and as against a loss of around Rs.17-odd-crores we had made a profit in the current year. Then Thermax Engineering Construction Company also made marginal profit in the current year. Third one is Thermax Onsite Energy Solutions made a profit in the current year. So three of the operating subsidiaries of the company in India had been positive in the current year. Then the international subsidiaries – only one had negative, which is Thermax Zhejiang, our Chinese subsidiary. The performance has improved from last year's loss of Rs.8.8 crore. Normally, I do not give all the numbers since you asked specifically, both Thermax Europe Limited, Thermax Inc., Danstoker all of them are profitable. In fact, Danstoker has improved their profitability. The losses are there in the Thermax China subsidiary which we are trying to reduce.

However, the main losses which Thermax has booked in the current year last quarter specifically pertain to our joint ventures. For Thermax Babcock & Wilcox (TBWES), we have already declared the COD and I am sure it's already known to all of you. Thermax SPX joint venture has reported a very marginal loss of approximately Rs. 40 lakh for the full year of operations. So these are the numbers reflecting in the overall performance related to subsidiaries.

Sandeep Tulsiyan Secondly, on this environment segment, two observations – one is on the inflow front, the quarterly run rate which was on an average of say about Rs.300 crores a year or say 24 months back it has substantially declined to about say Rs.170-180 crores odd now, and your backlog has also similarly declined from say which used to be in Rs.1000 crores to Rs.1100 crores kind of a range to about Rs.850-900 crores now. Just need some comments on that how are you looking at the outlook in this segment, which specific sub-segment you are seeing an improvement as you mentioned that Chemicals is doing very well, when do you expect an improvement in the other parts of that particular segment, if you can highlight that?

M.S. Unnikrishnan Environment segment, the carry forward as you inferred is absolutely right, order intake have been lower; let us look at three of the arms of the environment business of the company – the first one is Water and Waste Solutions, where our entire exposure in the Municipal segment has come down because there are not too many JNNURM-funded projects going on in the country. Previous government had not been able to disburse even the previous year's funds which had resulted into delay of projects and losses in some of them. So neither we have many contracts, nor we are intending to be taking the fresh oncoming ones unless we complete the current projects. So we will continue to find decline in that area. And second segment is water in Industrial Products segment. Since there were no major investments in any of the segments in the energy, I do not expect an overnight improvement. To be precise in any of the newer factories or expansion programs, they would normally place order for the energy equipment first, and the environment equipment at the end because those are short delivery. Normally, you do not have an 18-month delivery period for a water project, you do not have that for an air pollution, normally it can be anywhere from 6 to 12-months period. So there I would not expect an order. Even if there are projects coming in, intake of orders for the environment sector related to water and even air pollution control is going to be lower. We continue to be doing quite well and still profitable in the water product segment, which is point-of-use, skid mounted standard RO plants, DM plants. These are doing okay and improved the performance in terms of top line and bottom line in the current year, I would expect it to continue to do well but that is marginal in comparison to the overall environment business segment. It is barely a triple digit at this point of time in comparison. You could say less than 10% of the total size. So which means the water and waste solutions business will continue to be not having a higher intake of orders, but it could be better than the previous year, that is my current anticipation. And since we had project delays or difficulties in a couple of them, we have also decided consciously that we will be taking orders at a decent enough profit, which are not available in the market currently. With a limited number of projects under finalisation, which will continue for couple of more quarters, I am sure the margins are going to be under stress not only for us, for anybody in this particular sector. Then we come to the Air Pollution business, which has come down from the previous year by approximately 20-25% top line drop, that means bottom line has also come down substantially, and we are now coming closer to a critical mass requirement for the business to remain profitable. It is profitable but business which can afford to be double-digit profits coming down to almost half of that.

We got carry forward orders in that area, but unless we see major orders happening in cement segment. Because air pollution control business of Thermax has got a high dependence on steel and cement. As these two sectors start ordering, that will happen in the second half of the current year. But it will not reflect on the balance sheet in any way in the coming year, it will only start improving totally in the year after. However, the chemical which is contributing to maybe almost 25%, can even touch 30% of the total environment segment going forward. But let me also give one more cautionary word, we have now forayed into building material chemicals. Current year, the tile marketing has started and we will get the top line. However, I do not want to put a number right now, because for it to become really profitable will be a year-to-year down the line, and we will be investing money into that. However, my belief is that environment should be showing a better performance overall at the bottom line level next year. On the top line as a group we are deciding to be stable rather than growth expectation on the Environment segment in the coming year. Year after that we will again go back to the original levels of turnovers and profitability.

Moderator: We move on to the next question which is from the line of Renu Baid from B&K Securities India Private Limited. Please go ahead.

Renu Baid: Sir first as in just coming back a little more on the standalone performance you did mention in the last question that environment segment you expect to remain fairly stable next year, then improve and break even in '16 getting back to the old profit numbers. So overall at the stand alone level if we look for Thermax Limited '15 onwards we should probably start looking at margins improving back closer to double-digit level with utilisational levels improving and better execution coming in?

M.S. Unnikrishnan: You are absolutely on the point; it should happen, will happen.

Renu Baid And the fact that today we are sitting with approximately 25% growth in order book getting the revenue accretion in the energy segment should not be a constraint if the investment sentiment improves in domestic market?

M.S. Unnikrishnan You are right.

Renu Baid So a double-digit growth in turnover should not be a too ambitious number to look at?

M.S. Unnikrishnan That will lead us to a guidance level, so we come up to that particular point with you but beyond that we do not. It is a double digit and there is growth going to be in the energy segment. Remember if you take the energy segment carry forward, there is one specific order which is substantially larger. It will also spill over to the year after that, which is why I am not giving numbers. Certainly there will be a growth in the energy segment in the current year.

Renu Baid Sir just coming back little on the TBW JV, if you could give some color in terms of are they now commissioning, how do the losses from the JV look at for the quarter, for the year, and what is the outlook for the next 12 to 18-months in this segment of the business?

M.S. Unnikrishnan Currently, the factory is commissioned and we had started manufacturing in that plant. Only a part of our orders are getting manufactured there. I do not expect any order for boiler going to happen for the next couple of quarters. Because if there is an enquiry in the market and if it is already tendered, you bid for it and you are in technical negotiation state then only it could have concluded in the coming quarters. However, there are not any such enquiries. Power orders are already in the public domain. There is nothing in negotiation right now, and NTPC, the main purchaser in the country for power equipment in the last 18-months period is already executing 22 orders, each of them 661- 800 set of them plus one more EPC order which they recently concluded. So I do not think NTPC will be in the market for finalisation or have any orders in the next may be at least 9-months, beyond that there could be one or two. Private sector to restart, we need our friend Mr. Piyush Goyal doing a lot of work related to supporting the industry, which I am sure is going to happen. So they are waking up and all the reforms getting completed. We should imagine people in the market to place the orders for boiler alone or BTG or EPC, where I can participate with somebody, we are talking about a 12-month period here. So, one is looking forward to almost a dry period of 12-months unless some windfall happens. I am sure I will be in touch with all of you when it happens. In the meantime, if there is any large order which will happen to Thermax in the industrial area or may be in the captive area or smaller IPP, we will be taking a part of that to TBW plant for manufacturing. Equally, we have also started supporting to Babcock & Wilcox for proposal for their international forays. It will get into detailed engineering if they get an order, and manufacturing certainly can happen in TBW facility. It is almost like an unwritten agreement, may be an obligation from their side morally, because they are also on 49% partner.

Renu Baid But are we seeing international pipelines from the JV?

M.S. Unnikrishnan There are no pipelines unfortunately in the international market other than in China for orders .There are isolated enquiries, pipeline would be something a very strong word to utilise, and it happens only when there is a power development happens. Here, they are isolated, where they participate and also may pick up one or two orders in a year. So there would be some upside which will happen. We are already geared up for starting the production at the lowest of the level of production, for that there is a manning done at executive level, management level, and worker level. So maintaining that entire edifice would be costing at anywhere from may be Rs.120-130 crores, including the debt servicing portion put together. Whatever is the contribution from that will offset that number and 51% is what is going to be translated back into the consolidated balance sheet of the company.

Renu Baid Sir what was the loss for the 4^{th} quarter?

Amitabha Mukhopadhyay The 4^{th} quarter loss for this particular JV is Rs. 25 crores.

Renu Baid And for the full year?

Amitabha Mukhopadhyay Rs.53 crores.

Moderator We have the next question from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha Sir what is the rough proportion of revenue between projects, products, and services for the entire year?

M.S. Unnikrishnan Amit, we do not even report to the board of the company exactly the same way, but I can give you a magnitude. Approximately, I am talking about Thermax Limited level not the global level, and for the balance remaining that 83%, the normal split between projects the ratio was $1/3^{rd}$: $2/3^{rd}$. Current year, it has marginally gone to the product side a little more. I would believe it could be equivalent to may be 55:45 let us say for the balance. Even in my product division there are projects taken, for example, when you supply a standard boiler which is manufactured in the factory in every aspect even painted, and it is only we put on to the foundation where our customers will say, will you please do my chimney also or somebody else will tell you do the input piping for the fuel oil? So that will be executed as a project and that is why I am talking about the accuracy of number. Amitabha got a lot of difficulty in that; he will have to take whatever we got from the factory as a product. Does that answer your question, Amit?

Amit Sinha Yeah, sir, you mean projects 55% and product 45% of the remaining?

M.S. Unnikrishnan You are right.

Amit Sinha My last question is on the outlook of the captive power; is it fair to assume that the pickup is at least 1 year from now?

M.S. Unnikrishnan I will have to give a short term and a medium term answer for it. Medium term answer is that all the inaction in terms of power plant ordering not happened in the past 24-months, except NTPC. I am talking about general industry across the country is certainly going to create a situation of shortage of power in the country. With the new government coming, sentiments improving, all of you are already in the market as gung-ho about so much of investment is going to happen, consumption is going to increase, I do not think there is enough and more power available in the country to support that. Our power demand in my rough estimate is going to be increasing by at least may be a 10% to 12% for the next 3 calendar years minimum, and I do not think there are as many power plants getting commissioned for in as many years. So what is option available, for some people, they may have to opt to captive generation. If investments were to be coming back in two specific industry, that is cement and steel. They do not have a choice but to go for it because cement plant cannot be run without a captive power plant and steam plant will not be viable unless you have your own waste gases converted into electricity, because they do not need so much of steam. So these two sectors investing, point one is related to shortage of power, second is investment in these two sectors should improve captive power orders in a period of a 3-year. How many of them will order in Q1 & Q2 of the current year, my anticipation is nil. Q3 onwards it will start and it should stabilise there afterwards. The way we are looking at if we are going to grow back at may be 8 plus percentage, there would not be sufficient money available in the Indian system to create the larger power plants. So India will necessarily have to have in my opinion a 5 to 10-year period to live with a requirement of captive power.

Moderator Thank you. Next question is from the line of Nirav Vasa from Motilal Oswal. Please go ahead.

Nirav Vasa Sir, can you help me with the order backlog breakup in terms of energy and environment for standalone and group pieces, please?

Amitabha Mukhopadhyay Order backlog on standalone basis, energy Rs.4601 crores, environment segment Rs.788 crores – total Rs.5389 crores. At the group level Rs.5321 crores energy, environment segment Rs.800 crores – total Rs.6121 crores.

Nirav Vasa Can I get the same numbers for the order inflows, please?

Amitabha Mukhopadhyay For the quarter, energy segment Rs.923 crores, environment segment Rs.218 crores – total Rs.1141 crores. At a group level, energy Rs.1139 crores, environment segment Rs.221 crores – total Rs.1359 crores.

Nirav Vasa My second question pertains to the pain that we are seeing in the environment segment. You had also clearly communicated that you are renegotiating that order with the customer. So just wanted to check any update on that and by what time can we expect some change there or any update from there?

M.S. Unnikrishnan I did not say we are renegotiating any orders, we are restarting some of the projects which were delayed, but there is no renegotiation involved. All of them are ongoing, some of them very small amount would have gone out of the order book, but those are not substantial for the size of the order book that we may be containing, and none of them are stalled projects. When you do execution after delay, then cost incurred by us are more, that is all, because remobilising, doing the work again in some of them, but those are payable by Thermax only. I do not think there is a renegotiation going on, those are all private projects of larger nature, these are not one or two, there are many.

Nirav Vasa If my understanding is right, some part of the order that we have won from Reliance is going to be executed in the JV of Babcock & Wilcox. So just wanted to understand if there is any progress specifically on the JV side for the Reliance order?

M.S. Unnikrishnan It is not going to be executed; we are some pressure parts into the factory. The raw material is already there, the processing is already ongoing and it will progress, that is the way. This project is executed under the supervision of one of the largest engineering consultants of the world. It will be following the global engineering standards of execution, that is one of the reasons why we received the order. Let me say, manufacturing has started now.

Nirav Vasa So that should have contributed in reducing the losses in the Babcock JV?

M.S. Unnikrishnan Not in the current year, production means when you take a raw material and then by the time you execute and it is out of the factory. It could be a couple of months, maybe a quarter also. So you will see some movement happening, nothing substantial. Do not have any big numbers in mind in that one, it is only to ensure that the factory is initiated. The good numbers will only happen when we have orders or B&W gets independent orders where the entire thing will be put back on to them, because they do not have a manufacturer.

Moderator The next question is from the line of Bhavin Vithlani from Axis Capital. Please go ahead.

Bhavin Vithlani If you can throw more light on the captive power market which we were discussing with your earlier gentleman are there possibilities that there are corporates or your clients who are discussing with you who do not have captive power and there is a possibility of industry who do not have captive power, they are also coming in, and it will be also sweetened with the new expansion from the basic industry?

M.S. Unnikrishnan I was of the same opinion which I shared with you guys maybe a year and half back when the ordering started reducing and the power prices started going up. Average price of electricity paid by industry today is anywhere from maybe Rs.6 to Rs.9, I am talking about manufacturing in the country. And if you can generate electricity at less than that, at least with an arbitrage of anywhere from Re.1 to Rs.2.50 by having your own captive power. So we had targeted some of the guys who can afford power, we targeted tyre industry, second was pharma. These two guys consume a lot of power, and furthermore also need steam influence. If the power generation increases the efficiency which means the unit cost of electricity can come down. We have been able to crack it with one pharma company in the last year, not one of the biggies in the country. Maybe they take quicker decision, others discuss with us for almost one year, MoU drafts were made but unfortunately it did not reach to the level where inking could be happening. So I do not know why some of them are still happy paying Rs.10 and Rs.11 electricity and still okay with it, when we can generate that maybe Rs.5.50. So there is unpredictability about the decision-making process going on in the company. Is it sentimental or is it that they do not want to invest the money, they would rather invest for having one more pharma expansion and then putting a captive power plant? And I took pharma as an example. The way I have seen this particular captive power industry, those who have a compulsion to go for it, he will go for in India, which are the steel and cement and large chemical companies – these are the three suspects. Smaller captive power has gone in for textile industry because that is a cogeneration. But those guys will not take it as an EPC, they will buy a boiler, then they will buy some second hand turbine or some turbine from somebody and come up with captive power plant. The organised EPCs even today limited to a sector of industry only. But, I hope this will get changed in the current cycle, which all of us are expecting.

Because if you are going to grow at the rate that we are expecting the country, let us say even 8%, it opens up a gap of not less than maybe 4000 to 5000 MW per year of captive power requirement. So that cannot be done by themselves, they have to depend on good EPC company, which means they will have to depend upon Thermax equivalence in the country. That is my understanding.

Bhavin Vithlani Second is if you can help me up with a few data points – how much of the export order inflow for the year and order backlog of exports? And also if you can also give us detail on EPC revenues, order inflow, margin, and backlog on EPC?

Amitabha Mukhopadhyay Order inflow for the quarter for exports Rs.368 crores and the carry forward orders Rs.924 crores.

Bhavin Vithlani For the year as a whole?

Amitabha Mukhopadhyay For the year order intake Rs.1,142 crores.

Bhavin Vithlani And this is a jump of how much over previous years?

Amitabha Mukhopadhyay The jump over previous year is about 4% net.

Bhavin Vithlani If you can also help us data points from the EPC revenues for the fiscal year, margin then order backlog?

Amitabha Mukhopadhyay Not margins, okay?

Bhavin Vithlani Okay, order inflow, revenue and backlog.

M.S. Unnikrishnan You will not get specifically for anything.

Amitabha Mukhopadhyay Revenues for the quarter for EPC is Rs.325 crores.

Bhavin Vithlani For the year?

Amitabha Mukhopadhyay For the year, the total revenue is Rs.920 crores and order backlog is Rs.912 crores.

Bhavin Vithlani Order inflow?

M.S. Unnikrishnan For the full year it is Rs.288 crores.

Moderator The next question is from the line of Sanjeev Panda from Sharekhan. Please go ahead.

Sanjeev Panda I would like to focus some light on the balance sheet side; the interest cost as we know has gone up because of the debt in the working capital side. While we have cash and investments which has also gone up, so what is the mind of management behind this, and if you can throw some light how we are going to plan with the cash and interest or the working capital requirement?

Amitabha Mukhopadhyay We have got certain specific export order and the borrowings whatever you see are the interest thereon relate to the specific working capital borrowing against the export order. It makes economic sense to fund the working capital requirement for such orders through the loan fund that is available from the banking system. So that is the only borrowings that we have got.

Sanjeev Panda Another point is higher loan and advances of Rs.248 crores to Rs.975 crores in our annual level, if you can throw some light where actually those have gone into?

M.S. Unnikrishnan When you got a higher carry forward orders, normally the money that you would be giving as advances to your suppliers would also be going up.

Sanjeev Panda There is a substantial jump of around 3x?

M.S. Unnikrishnan It is possible because there are specific projects numbers we are going through, but we have not lent to anybody, there is no loan given to anybody, we give only loans for employees, which is very minimal. There are hardly anything in numbers. Any advances given are purely to our suppliers and when there is a bulking of project orders, you would want to corner the raw material well in advance, otherwise the margins that you would have received at the time of conclusion of the order can be challenged later. Especially when you have got large project orders international material, domestic material, where we pay advance and block it, that is the only reason.

Sanjeev Panda We have done a very commendable cost management especially for looking at the gross margin improvement. Do we see any further space or room in that or we are done with that?

M.S. Unnikrishnan I can never say there is no room because we will have to find room, that is the way we work. But I agree with you in the circumstances that we were in, we could do that. As we are going to be executing more number of orders, and if the sentiment turnaround were to be real for the next year and if there were to be substantial order registration happening, the tightness with which you control has to be more. But it is not that we are going to lose control of that, you cannot tighten any further, and that is the reality.

Moderator The next question is from the line of Misal Singh from Religare Capital Markets. Please go ahead.

Misal Singh Just on the balance sheet, I am looking in this other current asset line item which has increased from about Rs.448 crores to Rs.787 crores.

Amitabha Mukhopadhyay The primary increase on that relates to the contract in progress which is a specific line item. As we have got a larger carry forward order, there are many orders which are in the progress, for which invoicing is going to take place at a subsequent date but the work has been done and gets recognised as a contract in progress. This is reflective of the increase in order balance especially in the larger projects.

Misal Singh For the whole order book if you could just give an idea of what is the breakup in terms of the end user industry segments they are coming from?

M.S. Unnikrishnan The carry forward numbers?

Misal Singh Yes, the carry forward – Rs.5400 odd crores.

M.S. Unnikrishnan Number one is oil and gas, both upstream and downstream is the main one. I am going to give you for order intake; approximately that sector would be contributing between 40% to 45%. Then we have got food and food processing; this time has come to 4 to 4.5%, power sector is 7%, there is sugar 3%, paper 3%, and ferrous metallurgy 7%, then we have got textiles 2%, chemicals 3%, cement 4%, and then general all put together 14%. So normally if you were to listen to Thermax same numbers in a standard year it would be anywhere say from 15% to 20% in steel, 15% to 20% in cement, 15% to 20% in power, oil and gas will be 15% to 20%, the balance will be the rest of them. There is a focus and concentration on the oil and gas sector on account of one big order which all of you are aware of. There is some other refinery expansion which happened in southern part of India which we picked an order. There are international companies also both in Middle East and one even in the African continent, we have an order available contributed to almost 45 plus percentage of the refinery segment orders.

Misal Singh On the other income, is there any one-off impact of anything there? Because the other income is probably a bit higher for the quarter I am talking at about Rs.35 crores.

M.S. Unnikrishnan We gave an answer for it I believe in the first and second quarter when the other income was lower, you guys asked a question, "Why is it lower?" Then I told you that these are on fixed maturity plans which will be maturing in Q3 & Q4, we will see a bulking over there, so that bulking has happened now, that is all, otherwise there is nothing specific.

Moderator We move on to the next question from the line of Kunal Sheth from Prabhudas Lilladher. Please go ahead.

Kunal Sheth Quickly had a question on Energy segment; over the last 2 to 3 years, the Energy segment margin is in the corridor of 9% to 10%, whereas previously it was in the corridor of about 13% to 14%. So do we see a scenario where those margin can get back to 13% to 14% in the next 2 to 3 years or the competitive scenario has changed in such a way that probably it will be difficult to get there again?

M.S. Unnikrishnan Two answers for it; it is not impossible to reach, it was never 13, 14% in the full, maybe one quarter, otherwise it is between 12 to 13% is a kind of range. Above 100 basis points is very difficult to achieve. For it to be reaching, there are pre-conditions to be maintained; we should be growing at the rate of at least may be (+8%) for a 2-to-3 year stability because then the ordering becomes fairly large. The capital good companies have one great advantage and one disadvantage. The advantage is that when they are down, they can pick any orders and execute quickly. But when they are plum with orders, they delay projects, then the market will depend upon Thermax kind of company where the reliability of execution of project is very high. Imagine that if India were to grow at the rate of maybe 5.5% in the current, year touching 6.5 to 7% year after that and then let us say that 17, 18, 19% we have run of 8+ percentage. I am confident that we should be able to reach up to the numbers that you are anticipating. Because then there are no newcomers going to come and overnight going to become our competitors. Our competitors are going to remain virtually the same, barring the international competition which again will depend a lot of factors which I cannot predict. But I do not expect any Indian company to be in the next 3 years time becoming an equal to Thermax in terms of I am talking about technical competency, ability to execute projects, project management ability, all that put together. Now second thing is about Thermax, our capability to do value engineering and innovation to come with products which are superior to others, where I am able to get a little bit of margin or in comparison to my competition in the market premium is something which can drive. Whenever Thermax had premium available in the market for their premium offerings, I am talking about which is a chunky order not the smaller one, which will make something which will contribute to 30, 40 percentage of my entire turnover, I get a premium in the market, getting 100 basis points over everybody is not a problem in the market. But these are the two factors which I believe can take to that, for which you have a better answer will India grow at (+8) for a consecutive period of three years, post the next 2 years, we can reach there.

Kunal Sheth If you can focus on what is the R&D pipeline – which are some of the bigger products that can contribute significantly to the inflow and revenue over the next 2 to 3 years from Thermax's table?

M.S. Unnikrishnan I do not see a single product taking that because there are multiple businesses. You yourself are aware there are 15 SBUs in the company. Each SBU has got their own innovation program. So each one of them would have one or two products each and a sigma all of that going to put together, come to say 20%, 25% of the total turnover of the company, and are working on that. However, I do not have any new offering in EPC because when the business is going to grow at a faster pace, EPC and projects will have a higher number. There your ability to do value engineering, also contain the cost and delay the customers so that he pays on time. Three factors will ensure that it will offset maybe the innovation that is done in the product division. You remember some numbers were spoken earlier in the beginning that 17% of the income coming from service business, innovation does not happen there, innovation will be there, only process that does not improve. The product part of the business is approximately 40, 45%. In that I have got an option of innovation of new products making some difference. In the project which is 55%, what can happen is discipline, ability to meet, managing the project schedule and the cost well under control, collect the money on time, there again this improvement can happen. So these are the factors.

Moderator Thank you. Next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal Just on export, we have got totally Rs.1100 crores kind of order inflow. If can you give more color on what is the sort of segments or products where this order has come from?

M.S. Unnikrishnan In the current year it is fairly well spread; first, I will take it in terms of products for the company, we have seen consistent orders coming for our chemical business from outside India, in fact chemical is almost 50% outside India and domestic is only 50%. We got our cooling business if I have to take China; turnover also is a part of it. India is now only 10, 15%, balance is coming from outside. The process heating business of the company is almost even if I keep Danstoker away is equivalent to 40% coming from outside India. So these are the products business of the company which is contributing to that. In the project, in the current year unfortunately, the EPC was again nil, it was a washout despite we are trying. There were some major losses, there were not many orders getting concluded. And we had some success happening in our heater business, the larger capacity boiler business. Both water and environment, they were hardly anything coming in. Product portfolios of the company have done well. So these were the segments internally if I have to talk about. Which territories have contributed to the order intake? It is the classical one – Southeast Asia, Middle East, but Africa was not our sight in the current year, and little coming from North America for the chemicals and the chiller businesses maybe almost $8 to $10 million.

Madan Gopal But the color of these exports as you said in FY13 was more from EPC business and this year it has changed, so probably that has resulted in kind of single-digit growth in order inflow. So should FY15 be a good year for exports – can we do double digit there?

M.S. Unnikrishnan I would certainly tell you that export order intake for the EPC and projects will be better than the current year. Products will not have sporadic growth; it will only be a regular growth. Our captive markets are also looking up like India most of them including Africa; it is looking good at least for the immediate future. So, we should have improvement in our order intake for the product business of the company. Project – I am sure, the decision which got delayed last year, we have not lost as I mentioned about, and some of them should take place in the current year. So there should be some orders, at least some of them fructifying in the coming year. So, we should see an improvement overall.

Moderator Thank you. Next question is from the line of Mayur Patel from DSP BlackRock. Please go ahead.

Mayur Patel Is it fair to assume your utilisation level currently will be in the range of 50% to 60%?

M.S. Unnikrishnan There is no single number of variable for it within the company because each business is different. If I were to talk about range can be starting as a number that you spoke to, say maybe all the way up to 90, 95% in Chemicals, but Chemicals is a smaller of the business. Let us look at the larger ones which are within the company. The EPC business is the kind of numbers that you spoke about, because there the manufacturing directly impacting, it is in terms of the capabilities, project management capacity, contraction capability; it is maybe languishing at that kind of a level 50%. Though order intake was lower, order execution is going on to the previous one; we get into a realm of maybe less than 15 in case no fresh take order takes place. But if fresh orders were to come, it will rise up above 50. Our average execution capabilities are around Rs.1500 to Rs.1800 crores at the peak if I run really like a mad speed for EPC, which will be languishing at 50. In the Project side of the heating, boiler all of them put together, we must be currently ranging between plant-to-plant; we have got 14 plants between Savli and Pune put together, it maybe ranging between 60 minimum. Some of them running at full capacity right now, because the larger order which is from the refinery has already made a plum for at least a couple of plants, which are making the larger components for. So that is the second one. And my water environment business area, we are still talking about 60 to 65% range, can do. There is no manufacturing substantially; very minimal. Services business is upwards of 90%, because there is manpower capability. Some of them are manufactured chemicals are almost at brim, that is the reality.

Mayur Patel JV I just want to confirm, you said Rs.120 crores is the overall kind of loss if there are no execution, right?

M.S. Unnikrishnan Keeping it alive is the kind of numbers; loss is not the numbers.

Mayur Patel And so your share would be 51% of that?

M.S. Unnikrishnan That is correct.

Mayur Patel One question on the strategy front; like you gave a fair idea about how the captive power market you are positive from a long term point of view both from demand increasing and also the new capacities whenever it will start in steel and cement, again there is more of a 5-year kind of question regarding new drivers. So on exports what I understand is we are currently doing more of this oil and gas or a couple of pockets where we have relationships and competencies. So, is there any thought process both in domestic and also in the overseas market to identify and add new drivers of growth or new pockets, anything you can share with us?

M.S. Unnikrishnan In the domestic, it is overall growth, because we have to have an investment done in the core sectors, which would certainly drive that. Apart from that, our ability to break into segments outside steel and cement, not that we have not done it, but we have done in various sectors. Maybe sugar sector is already done. But pharma sector, tyre sector which I mentioned, the expansion of more sectors. Also, let me clarify it to you; capacity of manufacturing in India is going up, India becomes the larger and larger economy, if somebody were to set up even a textile mill, the investment would be Rs.1,000 crores, whereas maybe 5 years back, Rs.100 crores is a major investment in textile industry. You look at the way Trident as a company is currently investing for towel making; he will need 40 MW of electricity to make towels in India. So the textile sector, as a critical mass is going to go up faster, from a smaller to medium size economy and medium to large economy. There will be many more segments in India which will generate requirement of power will go to a level of 20, 30, 40 MW, making them candidates sitting ideal for captive generation, and some of them also will be having steam requirements. And there will be a third segment happening CHPC, which is Combined Heating, Power and Cooling because some of them do also need cooling. So then the overall thermal efficiency of the plant can go up, which means the cost of electricity can come down further. So that is something which will be targeting the medium terms since you asked specifically the medium term. So one is expecting the segments to grow and creating more segments is domestic. For international market, we had been very calculated and very-very careful about not to spend too thin in the global market for captive power, because local capability building in construction and local partnership and securitisation of payment. Africa may have 20 enquiries, Thermax may only bid for 2, because other 18 they will not give an LC and expect that Europeans are delivering material, Chinese are delivering material, taking the money when they feel like only, but Indians cannot afford to do that. So in segments where it is practical for us to be securitising our payment with a negotiable instrument, albeit with maybe little extended credit also, we may have to be expanding. And the areas that we look forward to in the 5-year terrain, a little stronger footprint in African continent because they would not have too many super critical 1000 MW happening. They will never have a pan national grid over there, as it will be localised grids only. So they are candidates for companies and countries to go for 25, 50, 100 may be 200 MW equivalent to that. So there is a play available for us for particular 5 years. And then comes the Southeast Asian territory; especially Indonesia with so many islands they can never have a national grid, and they do not need to be putting 60 MW there. They need to put for each island maybe 40 or 50 MW and same could be repeated for Thailand and maybe Philippines. These two territories we would like to focus. Though depending upon how the political movement is going to happen in the South American continent because nobody is currently talking in India or even in Europe about how that is going to be panning out. That could be another captive power market because they have got a lot of biomass available, they are capable of running and they have got capabilities to run captive power plant. So that is another area which can emerge. I do not know is it 5 years or is it a little longer than that.

Mayur Patel Currently Rs.924 crores of export order backlog out of say Rs.5389 crores in standalone or if I take Rs.6100 crores of consolidated book, can this become significant or a much more meaningful say 5 years hence if you know things pan out as per your expectation and you make a better footprint in Africa and Indonesia, so is there a possibility of this becoming say 30, 40% of your mix?

M.S. Unnikrishnan In terms of EPC alone will not and we may not want it to happen also. There are times when we supply the boiler and air pollution control and water treatment plants for this kind of projects also. There is a possibility; it will reach to that kind of level. But, as an EPC alone, we may not be very comfortable having 40% of our order carry forward from outside India for captive power plants.

Moderator Ladies and Gentlemen, due to time constraint that was the last question. I would now like to hand over the floor back to Ms. Bhoomika Nair for her closing remarks. Over to you ma'am.

Bhoomika Nair Thank you everyone for being on the call, especially the management for taking time out and answering all our queries, thank you very much Sir.

M.S. Unnikrishnan Thank you. Thanks to each one of you and let's hope that with this government change more orders will happen. All of you also get a lot of business like us. Thank you.

Moderator Thank you all. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.