"Thermax Limited Q3 FY 2015 Results Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Thermax Limited Q3 FY 2015 Results Conference Call, hosted by Motilal 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nirav Vasa from Motilal Oswal Securities. Thank you and over to you Mr. Vasa!

Nirav Vasa: Good morning everyone. A warm welcome to the Q3 FY2015 post results earnings conference of Thermax Limited. Representing the management side are Mr. M.S. Unnikrishnan, Managing Director and CEO of Thermax Limited along with him we have Mr. Amitabha Mukhopadhyay, Executive Vice President and Chief Financial Officer of the company. May I please request the management to give some opening remarks related to the company's quarterly and nine month FY 2015 performance after which we can start the Q&A session. Over to you Sir!

M.S. Unnikrishnan: Thank you Nirav. A warm welcome to all of you. Thanks once again for being with us for another quarter. Firstly, we have partially satisfied you but not fully. Results are already in front of you.

For the quarter, we have an order intake of 1228 crore, a drop of 10% in comparison to the previous year same quarter, and this itself if I dissect further in the domestic market, has come down by 42% from 1053 to 606 crore. The saving grace is the international booking, which has virtually doubled from 312 to 622 crore.

At the group level, we have even a little lower number in terms of order intake as in the current year we do not have Omnical order registrations. As you know Omnical is already in with the Administration. So at the group level it is at 1473 crore versus 1515 crore, around 3% drop. Overall international as a group, we have gone up from 443 crore to 824 crore, an 86% improvement in the order intake. That is as far as the orders are concerned.

Our order balance at this point of time is 5097, a drop of 11% from 5699 crore in the previous year same time. At the group level it is 6218 crore versus 6445 crore which is only a 4% drop. So almost at the same level.

Now the good news is that the revenue for the quarter has gone up 13% from 1136 crore – which is entirely operational. I have not included the treasury income as a part of it. That is why it is 1136 crore. Domestic contribution is 78% and international is 22% for the company for the current quarter.

At the group level the numbers for revenue are 1298 crore versus 1205. It is an 8% improvement. That is predominantly also on account of the fact that the Omnical results not available on the balance sheet of Thermax. That is one of the reasons for the revenue, the group level being a little lower in comparison to the domestic numbers.

At the PBT level we struggled, but as promised we maintained the double-digit PBT at 10.6% versus 9.7% of the previous year, a 25% improvement. At the PAT level it is only gone up by maybe last year's number for Thermax Limited. There is an improvement of only 13% and Amitabha will explain to you, why the taxation is marginally higher for the quarter in comparison to the previous year and the previous quarter or so.

Other than this there is no major information to be shared. It is an uneventful quarter other than maybe the one order which we picked up from the African continent. We are still waiting for the real turnaround to happen at the ground level. There are regular orders coming in from the conventional sectors where investment is seen, though at a sluggish level. Enquiries are available with the company for a couple of more captive power plants from Southern part of India.

So it is a wait and watch for the industry, for you and for us. So let me hand it over to all of you, for asking me specific questions.

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

Madan Gopal: Good morning sir. My first question is on your international order booking. It has been really encouraging, but how do you see now with the fall in crude prices, what kind of slightly medium term view that you have on international order booking from here? That would be my first question.

M.S. Unnikrishnan: Madan, there are two sides of the international order booking that we will have to look forward to. When the oil prices crashed from maybe $110 in an average for the previous year to may be less than $50, the world is going to be missing approximately 93 million barrels per day. The simple arithmetic will tell you that the little more than $2 trillion is missing in trade from the world. That kind of money normally gets into reinvestment in various other sectors. So suddenly there will be a dip in the investment cycle for the entire globe. How much India will be impacted by that, I will not want to make a guess on that. However, this can make a direct impact to some sectors starting with Middle Eastern sector, certainly, not in the quarter. All the projects in the Middle East are going to go through for the next 18 months to 24 months. All these are financially closed by all the countries. However, if current oil prices prevail for a little longer period of time, with Middle East getting impacted, we may find reduction in investment in the oil industry. Then the crude prices are directly hitting three or four economies starting with Russia and Iran. And Venezuela, are also will be among the countries where there will be a straight impact. A part of course Saudi Arabia, Qatar, Kuwait and Abu Dhabi which are already factored in. Now Russian economy getting into the difficulty and the currency depreciating has reduced secondary investment in the European market by the Russian conglomerate , which are already seeing some amount of impact in countries like Germany where we were operating earlier. So Thermax may not have a substantial impact on its international booking in majority of the areas, but more importantly, I would say that another factor, which we need to take into consideration is Euro becoming weaker and the expectation of the market that may even touch almost at parity level with dollar making European companies very competitive in the limited market of South East Asia and Africa where we are currently able to compete against the Japanese and pick up orders. Against Koreans and American companies too, we compete, but if European companies were to look at this as an opening based on the currency depreciation the competition then becomes tough. Please remember against the Chinese, when we compete we get a price premium, but against European we have to give a price discount to get an order. On medium term it depends more on the macroeconomic situation of the world rather, and nothing to do with oil in my opinion. More to do with the currency movement .

Madan Gopal: Sir, in the last two years, roughly how much of our order intake internationally would have been oil because we have got some of the Nigerian orders which are all most dependent on cement not per se oil, so less than 50% would have been oil dependent?

M.S. Unnikrishnan: No. Not even 50%. Thankfully, we have a good number of orders coming for absorption chillers, from any and every industry and including the commercial premises or basic cooling equivalent and nothing to do with any of the conversion industry. We have got chemical orders coming in, which is nothing to do with any of the industries, very little oil exposure is there. Our exposure to oil industry is predominantly on the downstream side and refining side, where we supply waste heat recovery system and flue gas coolers and equivalent of that. Those are sporadic, not very regular, but if I were to consider a block of maybe three years, it will be about 20% of the total order intake done by the company.

Madan Gopal: Sir, last question the raw material costs are remaining around 65% right now of the sales, you expect them to be there or any sort of improvements if possible?

M.S. Unnikrishnan: Improvement, I do not think is practical with the current depressed circumstances. When do you improve your material cost? Material cost is nothing but a factor of input costs, as a percentage of the sales value. If the sales value improves naturally the percentage will come down, which is not expected to grow in depressed circumstances and next is the commodity price reduction. Commodities where I have limitations especially because domestic market is always controlled by the currency movement. For example the steel prices could have been better in the domestic market, if rupee were to get maybe 55 because people would have resorted to importing it. But today you cannot do it at 61, 62, so wherever there is possibility of import, it is curtailed by the currency, barring things like maybe copperware, since the local production is insufficient. So I would imagine that maintaining at the current level itself is going to be a challenge, which we are capable of, but improvement in any reportable way won't be substantial. Maybe one quarter there could be some windfall, but otherwise nothing of a generic nature, Madan.

Madan Gopal: Thank you so much for taking my questions.

Moderator: Thank you. We have the next question from the line of Renu Baid from B&K Securities. Please go ahead.

Renu Baid: Good morning Sir. Couple of questions; we understand that oil and gas as a sector might not have direct impact on our order booking, but would you see that European companies could be incremental element in terms of competitive pressures, so for the international business where are we trying to be more aggressive to diversify our presence? Do we see increased competitive pressures in this market and thereby impacting our order flows?

M.S. Unnikrishnan: Exactly, there are companies which operate in oil and gas sector who may have products maybe available for other sectors also. Once you find the drying up of an existing market, survival will drive companies into any and every other available market, so increased competitive pressures could be there ; however, please remember capital goods is not something, where you can just make an entry overnight. It needs a lot more work to be done.. I would imagine a little different thinking. Earlier days in South East Asia or in Africa there was always a pressure to go for solid fuel combustion based energy systems. Whether it is power or heating, cooling, we do have some strain.. but if oil prices were to stabilize between $50 and $60 there won't be any compulsion on anybody to go for a fuel shift or to go for solid fuel combustion. That is a challenge which one may face, but of course there again availability factor, currency factor. For example, in India even though oil prices may come down nobody will want to buy an oil fired boiler to that extent because of other options on which you can depend more reliably.

Renu Baid: Correct and if we understand right, our export orders most of them would be on fixed price basis thereby we would tend to gain or to some extent because of weakening commodity prices especially steel prices, which happen there? So what would be the proportion of the order book which is fixed price currently?

M.S. Unnikrishnan: It depends upon the way you intersect it. Any international orders will have a currency fluctuation factored in on terms of the fact that Thermax will generally accept medium-to-large order only with negotiable instrument in hand, which gives you a forward currency booking possibility. So currency hedging is already done. Next is commodity hedging needed for it. As a standard practice within 30 to 45 days of receipt of an order we would have already booked an 80% to 85% of all our input material requirement. So even that is indirectly hedged because of which we may not have variability impact happening beyond a level, but of course when the currency fluctuates Amitabha does not have a choice, but on a mark-to-market basis (MTM basis) he is going to be booking quarter-on-quarter the losses or profits as the case maybe. But the recouping happens as we really do the business in transaction level. So one can always lose a lot of money if you do a fund game with the foreign currency, which Thermax is now allowed and we do not do that. I do not expect that to be hitting us. So if orders are available, we will certainly pick it and we will execute it.

Renu Baid: Sir, what proportion of our order book would be international orders, standalone?

M.S. Unnikrishnan: Amitabha, will you please help us with whatever carry forward orders, domestic versus international is what she is asking?

A Mukhopadhyay: The total order balance 5097 crore out of which balance 3524 crore is domestic, 1573 crore is international.

Moderator: Thank you. We will move on to the next question that is from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: Thanks for taking the question. Congratulations for good set of numbers. Sir, my first question is on the details of subsidiaries for this quarter?

M.S. Unnikrishnan: Details to inform you that overall as a single number is the normally we give. Amitabha do you want to give the subsidiary's number?

A Mukhopadhyay: We have the group number and we do not get into the individual subsidiaries every quarter.

M.S. Unnikrishnan: So let me give you an overall picture. In India the operating subsidiaries of Thermax are Thermax Engineering Construction Company, Thermax Instrumentation Limited, for boilers and the power plants respectively. Both of them are positive in terms of their revenue improvement as well as profitability. The third subsidiary in India is Thermax Onsite Energy Solutions Limited, a small company, which we started for selling steam on hire. It is doing well. In fact, including the third quarter it is at PBT positive level. We have further orders available also. I expect the company should be reaching a revenue level closer to 100 crore towards the end of next year on an annual basis and it will be PBT positive. At the EBITDA level they maybe even equivalent to, Amitabha if I were to say EBITDA double-digit is right for the company?

A Mukhopadhyay: Yes.

M.S. Unnikrishnan: Because depreciation is a little high on that because it is investment oriented business. So that is about the Indian operating subsidiaries. Internationally, our main subsidiaries are Danstoker, which had a negative in the current quarter due to the impact of the Omnical closure because the guarantees given on account of the subsidiary which is closed down. Towards year end, Danstoker should be turning positive barring the one-time write off which we have to take care of. Going forward my understanding is that Danstoker Group, which is Danstoker as well as Boilerworks put together will be profitable, but looking at the European difficulties, may not be as profitable that it used to be in the initial three or four years. There are also opportunities for the companies to be exporting out of Europe because the currency advantage is available to them. Thermax Zhejiang, our Chinese subsidiary, is in cash breakeven in the current quarter. It is good news because I have not been able to tell you that for such a long time. It is cash positive and profitable at this level. Of course, you all are aware of the news from China that growth has come down to 7% and is expected to be 6.5% next year. We are not such a huge player over there that we will get impacted. We still have headroom available for improvement of performance where we should look forward to at least on a yearly basis. We should be able to make an EBITDA positive by next year in China. Then our small subsidiaries, Thermax Europe Limited in London and Thermax Incorporated in the US – both have done well and they are profitable. Then the big question is where the negative is happening on the balance sheet and the consolidated level?

Thermax Babcock & Wilcox Limited, which is our 51% owned joint venture but will be qualified as a subsidiary for the purpose of consolidation. The losses are there, which are booked in the balance sheet, which is extensionally large in number in comparison to the previous year and Thermax SPX is a very small in nature has also had a negative. These are the two major negatives other than the Danstoker, which is only a temporary affair. So that is about the overall position of the subsidiaries. Is it okay?

Amit Sinha: Yes. Would you like to give or share any number on TBW subsidiary?

M.S. Unnikrishnan: TBW of course we will share the subsidiary number. Amitabha what is that negative for the current quarter?

A Mukhopadhyay: Our share of the loss for the quarter is about 17 crore from this joint venture.

Amit Sinha: My second question is on the working capital improvement; on TV you said that there has been improvement on the working capital. So, what is the improvements and are you seeing any improvement on the overall industry front?

M.S. Unnikrishnan: Yes, there is overall working capital utilisation of Thermax Limited has improved by almost 10% despite a very difficult market condition. It is a difficult task, but we have improved overall. That is point number one. Industry if you ask about, no. I do not think, because my colleagues in the industry are indicating to me that they are finding it more difficult. People are still waiting for relief of the payment. That is the overall industrial situation.

Moderator: Thank you. We have the next question from the line of Ashutosh Narkar from HSBC. Please go ahead.

Ashutosh Narkar: Just two questions; one on the execution side. We have not seen raw material costs as a percentage of sales so low for many companies, which kind of your similar numbers, do you think that will it be possible for us given that majority of the improvement we are seeing right now could be because of Reliance order and that new orders are not coming meaningfully, the raw material benefit will slow down? The second one is, if you could give us your outlook on the power equipment industry right now do you see any bids coming out over the next two to three quarters timeframe and how would be your strategy given the losses in TBW?

M.S. Unnikrishnan: Ashutosh, your first question about the margins improvement or the material cost, how would it pan out will surely rely. Reliance was thankfully not one of the most profitable orders. They do not allow supplies to make such huge profits. I agree with you we have done a lot of good work in terms of negotiations, engineering, all that which could have improved the margin from the time when we booked it. The question is can we maintain it between 65% and 70%. After Reliance moves out, will margins remain at a similar kind of number, it is practical. If my topline is say 1000 to 1200 than on a consistent basis we should be able to maintain. That is my answer. Reliance is not an obtrusively profitable order. That part I can clarify to you.

Amit Sinha: But that would be helping your operating leverage, right in the near term?

M.S. Unnikrishnan: Operating leverage certainly for one division. That would improve my performance in many other divisions. It is only one division order but it is a project. So that will make a difference. The next question you asked about power equipment and what is our current perception about power industry? Couple of good things and couple of bad things, as we say that the most important thing is that if we look at the overall balance sheet levels of the State Electricity Boards, the report which comes out is up to December and according to the published report that comes from the government is CRT is that the losses cumulatively for the first nine months of the electricity distribution companies, government owned once dropped down from near to 8000 crore to 3900 crore. That is the number which they have got it, which means there is a health improvement of the electricity board, which are virtually in ICU. I think they are in a general ward and they have to come out of that standing maybe couple of quarters down the line where they will become investment working to start. That is the good news to talk about. Next one is the coal block auction, which is expected to be happening any moment, though there are lots of pluses and minus and lot of opinions about it but we are hoping that it should at least stabilise coal availability and the price of coal in the country where it should be investment worthy for people to look at it. Because currently, if you talk to anybody at NTPC and maybe a couple of garment based electricity boards no private company wants to put their money in the power industry as of now. So this should be able to turn it around. Dr. Rajan has already given a hint of his intention to reduce the interest rates. The one industry which can have a major ramification if there is a 200-basis point reduction in interest rates on an average basis maybe five to six years period is the power industry. Because the IRRs of the power companies have never crossed better teens and they are quite happy with overall IRR of 16%, 17% and 18% and if you are able to get the interest down from say the current prevalent rate maybe at 12% average for the industry to maybe 10% and I am sure RBI should be able to come down to that level. Then we should see somehow profits happening in the entire region in the power industry and it becomes virtually investment worthy. Another story is that if India were to grow at the rate that we are expecting from the foreign operating may be 5% to 5.5% is the number floating currently for the current year and people are talking about 6% in the next year. Though, I am taking a medium view of maybe three to four years where the Indian growth will catch above 7% and may touch even 8%. The power demand in the country is going to be sky rocketing and there are not sufficient plans on order or under construction so there will be an opportunity in the power industry and thankfully there are only three makers for the items that we make. That is the boiler and turbines there are five makers, but for boiler it is only BHEL, L&T, MHI and Thermax have facilities which are worth consideration in the country it should be auguring good for the organization in the medium to long-term and the short-term we are going to be controlling the bleed and be willing to take the pain. Already you are seeing the quarter and many people are worried about what will happen to Thermax, this quarter is a classical indication of what will happen to Thermax balance sheet when TWB is going to start having an income. So income can only go up, it cannot come down any further. So it can only be meaning a better performance of the company in the short-term and in medium term a fairly good performance and I would say a five to seven year period, it will be a profitable company. That is my overall take on that.

Amit Sinha: That will help. Thank you very much Sir.

Moderator: Thank you. We have the next question from the line of Fatima Pancha from ICICI Prudential. Please go ahead.

Fatima Pancha: Great sort of numbers. Sir, I think standalone order booking you have given at 1228 crore. I do not know consolidated is it about 1500 crore?

M.S. Unnikrishnan: 1473 crore to be precise.

Fatima Pancha: Sir, just wanting to understand till last year I think we were saying that we were very comfortable with 1300 to 1400 crore run rate because you have a 500 crore, which is the standard product business and 700 crore you get fringed some project here and there. So that is I think one target that we had that you know we should keep to this number. Now sir, what is your sense because what you do now in Q4 in terms or order inflow will determine your revenue for the next year because your entire backlog is on a declining path. So just wanting to understand that what is the sense on the market that we are getting and what is the outlook for growth?

M.S. Unnikrishnan: It is a mixed level frankly speaking. I need to be admitting that Indian industry has not positively responded to the governments so far in terms of action. In words everybody has responded absolutely well and everybody is downhole and all of us are also living in that kind of a positive energy, but it has not translated to contracts and cheques being signed. It needs to happen. Now when it is going to happen is the question? I mean India is one classical country where opportunistic mentality is not there. Otherwise, why would you not want to invest for a cement company right now? If I place an order for a cement factory now, it is going to be producing cement in 2018. By that time, I am sure cement consumption in the country is going to go up, India is going to survive. Why is it that you guys are not doing it? If we talk about it, there is a Holcim Lafarge merger is going to make global capacity surplus. So there are extra capacities available in Philippines. I would import cement from Philippines or Brazil or South America. So these are the kind of things and I can vouch for it they will make a killing. They know that there is going to be a shortage in 2018-2019 the cement prices will go through the roof. Whether you make per bag basis or more number of bags produced to get a lower margins both are okay. So same is the case for steel. But whereas you see the economy turning around, we have seen it happen earlier. Everybody will then want to have a short delivery. Can you do the captive power plant in 12 months, 24 months otherwise they will threaten us with Chinese quotations. We are going to have a year down the line and that is a reality. So, I mean, if you ask me it is currently nobody has taken the action on the ground level, I see a lot of action happening in the small and medium scale companies which are coming from abroad. They are sitting with capacity. Everybody in the globe is looking at India. They have already started taking the action with the new government coming in but domestic companies I am yet to be seeing the larger business houses of India telling let us invest barring one oil refinery company who in any case irrespective whichever is the government they have their long-term plan.

Fatima Pancha: The SUs is fine, but the biggest thing is the private, right?

M.S. Unnikrishnan: For us the private, government even if the infra orders would start happening, it will have an indirect impact on us, but not direct impact, because we normally desist from doing too much of ground and work. That is the only reason why your balance sheet has been respectable in this area.

Fatima Pancha: Just a followup question, wanting to understand that do you see somewhere there is like you know if you get an order from BMW segment, it is a different thing, it will take you to a different trajectory, but do you see that with the current environment and steel industry is a big driver for you, right. Cement adds the margins, even if they add 10 million tonnes the capacity of power required is way lower. Like obviously in terms of capacity, steel is your biggest driver. Do you see that like the standalone energy segment will have a growth challenge just like BMW can obviously take a big uplift, I am not talking about the big size of political boilers? Obviously you want the captive boiler, are you seeing a structural issue in terms of growth that you can do in this segment?

M.S. Unnikrishnan: We can because you see it is not one sector. As you mentioned about steel is one sector. There has been maybe many, many quarters where cement had been 20% of our overall order intake of Thermax because cement would need air pollution control equipment and it will need captive power plant.

Fatima Pancha: Let us say energy. Let us not talk about environment; I can understand there is a big growth driver. I wanted the energy segment.

M.S. Unnikrishnan: In fact captive power and cement is one sector where they will have to necessarily go for captive power. So cement is there, fertiliser can give me orders, refineries can give me orders, certainly yes and basic chemical can give me good orders. So it is not only steel, overall economic turnaround. Let me tell you there are at least six fertiliser expansion program, which were lying with the cabinet of the earlier government which is clear, but not handed over to the ministry for execution. There is a lot of pressure in terms of shortage of fertiliser in the country. I hope you are aware of the fact. Urea is important and at what price are you doing it, and you know what is the decontrol that is going to happen. So all that put together is coming in and all of them are steam gutters. They take a lot of electricity also. So if there are sectors, if the government can open up, which can give me succour, it is practical.

Fatima Pancha: So you think 20% growth in energy segment, you do not think it is a difficulty. I am saying excluding supercritical.

M.S. Unnikrishnan: Whatever is available but I would say next year is going to be very challenging. Let me be open with all of you because if I do not book enough orders than next year there will be growth challenges, but we won't give up. You have seen it in the current year also, but year after that we should be looking forward to double-digit confirmed growth and team growth is possible there afterwards. It is possible.

Fatima Pancha: Fair enough sir. Best of luck. Thank you.

Moderator: Thank you. We have the next question from the line of Piyush Mittal from Franklin Templeton. Please go ahead.

Piyush Mittal: Hello guys. Thanks for taking my question. Unny, first question on this make in India, there is a lot of lip service being given. I was just wondering given your membership and all the industry boards and stuff, are you seeing any representations being made and what is the response from the government so far. Are you expecting anything in the budget.

M.S. Unnikrishnan: Piyush, you asked the right question, so I will have to take a few minutes to explain. Make in India, all of us were skepticism, when we announced it in August 2014 and all of us were invited to Delhi for the launch and we did not know what was going to be happen there afterwards. But I am very happy to say that in the month of December there was a one-day full session conducted at Delhi where there were 14 parallel groups running. The morning was addressed by the Finance Minister and Nirmala Sitharaman, Commerce Minister. She was the person who conducted the entire program for the full day and in each of the group, we belong to the capital goods and engineering industry and combined with automobile, because we are coming under the same ministry, our minister was with us, our secretary was with us, additional secretary, joint secretaries and everybody from the ministry from our side, and 20 CEOs who are literally managing this business segments for the country closed in a room for a three-hour period and we were given a very specific target. Target number one we invest, discuss any and every issue that is faced by the industry today and arrive at the top five problems, and you have to iron out with the government which are the top five. Both of you will have to agree upon. Next one is you have to come out with five key initiatives that the government will take, agreed by the industry which will turnaround your industry and third thing, five items done by the government which will make the medium-to-long-term profits for the industry positive and it is a good meeting. I need to say that. I will not comment on the political side of it, but I can say that industry and bureaucracy had fairly good leveraging meeting happening, very encouraging one and then in the afternoon we had two sessions of all the chief secretaries participating because states have implemented also and ultimately at 04:30 we congregated and began. Prime Minister with 10 cabinet ministers, 14 ministers of state and all the relevant secretaries of the government of India, Chairman of Pollution Control Board, Regulatory Commission, equivalent remaining there. Each secretary was made to make this presentation of the three slide each of the issues for one year action and three year action, listened to by the cabinet and the Prime Minister and ultimately telling now you guys have agreed to what you are going to do, better go and do this. This is the closure of the meeting. This is what has already happened. So I would say first milestone has already crossed. Now how do we get non-Parliamentary, which means that with this need and approval from the Rajya Sabha or the Lok Sabha the decisions across the ministries can be done between the industry or the government can do that, state government and the central government can do. My expectation is center has completed their part. Maybe in the next three months time, you would also have seen some shake up in the central bureaucracy. Implementation is going to be the key and we are looking forward to people who can implement whatever is decided, but I will give the government maybe three to four months for center to be implementing and next will be the state. We will have to also take part in that. I would give them a time up to maybe June or July for it to be coming into the ground level and you should see the green shoots there afterwards. So make in India is not a joke. Make in India is not a slogan. At least I have seen it actually for the past 18 years in India now and I have not seen for the first time, the government repeating that creation of employment is the necessity and for that making in India has to be done. Now in a country like India it is not going to happen overnight. So my expectation is that things are going to turn around. Money is available; plenty attraction is there for investment but hardcore industry would take a longer period of time to turn it around. That is the reality.

Piyush Mittal: Yes, just to kind of summarise based on there is a lot of concerns people have from a lot of different fronts, I think some reform on this make in India would be one of the substantial improvement that Thermax has in front of it.

M.S. Unnikrishnan: Yes. Specifically to give you an indicator for it that most bowling of some of the old power plants is going to make certainly mandatory in the country to be manufactured which would ensure that domestic companies are supported and if somebody were to bring in their way come and manufacture it in India, which means you want to have a competitive advantage or disadvantage for the Indian companies. That is something which is going to be very positive for capital goods industry. Next thing is inverted duties, where raw material duties are higher than the finished good duty getting changed where HF code numbers are being given by us to the government to correct it, so that value addition is going to be positive and schemes are going to be announced for export benefit for capital goods industry. So, some of them are going to be helping overall the industry to create a critical mass. The problem for the Indian industry to the capital goods barring seven or eight companies is they are all sub mass companies. There are very limited critical mass companies in the country. So unless and until they are able to be exporting out of the country, they would not have the critical mass, which will make them more competitive. That is the reality. So it is going to happen. Do not look quarter-on-quarter for that is the answer.

Piyush Mittal: Second question you are sitting on decent amount of cash and balance sheet, rupee seems to have strengthened against the Euro, anything you are looking for in terms of acquisitions?

M.S. Unnikrishnan: I will never say no for it, but we got to find the right company. You may find opportunities which may make your life difficult, Danstoker, which we took over was a good company, but it had a negative subsidiary available. We knew it from the beginning. We tried turning it around. It did not happen. Number two, we had to absorb the loss we have done it. So we have to be very careful as to what we are going to be thinking because attraction would be there, because the European crisis is going to be strengthening in my opinion. It is going to be what Greece is undergoing right now. The population wants freebies like Asians, but the countries do not want to give freebies. So there is going to be tension going to prevail. With that currency is going to depreciate further. So many companies will be available for buying, but anybody who goes and buys these companies will have to operate over there. If you are buying a company which is exporting on Europe it is going to be advantageous for you because the currency depreciating, but if your market is going to be captive in Europe, you may land into travel. So we will be very selective. Money was never a constraint for us to buy a company and it will not remain, but attractiveness in terms of technology and our ability to be managing the organisation profitably will be looked into and we will not venture out of the area of energy and environment. That is also let me tell you and not very large companies which maybe industrious where we believe that we can have quick topline growth to show to the market that we have grown as an organisation but suddenly later will not do that.

Piyush Mittal: Just one last quick question; on the consolidated numbers that you report, the PBT is before or after minority interest?

A Mukhopadhyay: The PBT is before minority interest and the PAT is after minority interest.

Piyush Mittal: Thank you.

Moderator: Thank you. The next question is from the line of Bhavin Vitlani from Axis Capital. Please go ahead.

Bhavin Vitlani: Congratulations for good set of numbers. Unny, you have strong orders from the international about 600-odd crore almost double of last year. Could you give us some color on any of the large projects that have come through and the other thing is if you can take us through what is the pipeline looking for the current quarter and the next quarter, any large projects that you are expecting?

M.S. Unnikrishnan: To start with one order, we will declare based out of the African continent for the cement company, one we have declared of the 672-odd crore order intake. Rest of them are scattered from virtually every part of the world and those are tonne the regular of the company, which we do get for absorb chiller, chemicals, heavy boilers to heaters, small air pollution equipments those are the ones.

Bhavin Vitlani: Are you seeing the baseline orders, improvement both in the domestic and the international market? We understand absence of large orders resulting in lower order inflow in the domestic markets, but are the baseline orders seeing an improvement?

M.S. Unnikrishnan: Baseline orders in the last one quarter there is no major improvement. I will have to be very honest with you though we expect it to be. The enquiries are at a higher level than what we had in the previous year same quarter, and handing over the cheque to initiate the work has not increased in the last one quarter nor are we expecting it to be increased in the current quarter, because there is always an optimism in words, but they are cautious when it comes to taking action. So that is on the domestic market. The international market, it is more of your reach and your ability to be penetrating in certain markets, which we have not done earlier for the conventional product, otherwise the market is available. Sufficiently large sizes of the market is available in the government sector, but please remember our biggest challenge is India and not Thermax because the country's brand is first when you talk about capital goods exporting and then comes Thermax. Thermax has got I would say brand in the medium size and small size energy products and environment, not environment as such, more of energy. Let me say that way for absorption chiller and maybe the boilers, heaters and now we are also getting into captive power market in the world. Our acceptability is quite good. Acceptability is equally good, but couple of things that you would face with competition heats up is one is the logistics limitations on India. Now the sailing from India to various parts in the world are not comparable to my competition countries, if it is Europe, if it is Japan and even in Korea. Well Japan may have a weekly sailing in the most of the parts in the world, Korea's sailing will make a shipping company and make it sail and China of course has got an advantage available over and above. So India has got such kind of limitations. Somebody will tell me can you do a captive power plant job maybe 18 month period in an African continent. Well it is next to impossible for an Indian company to do that, not only for Thermax, but for anybody to do that way. Whereas for Chinese it is nothing, no restrictions about it and the way we would talk about is they will take care of the entire EPC including sending the workmen from China and equipment will go from ship lot, people will come plain lot, that is what the Chinese talk about and the third item that we bring in is money through the Chinese banking system who is the sovereign also. So these are the kind of things which we do face otherwise these are available if only I have a Chinese company, or a Korean company, or a Japanese company or a European company or I have the facilities over there, maybe some of the trends are slightly different. We are working with limitations and within that limitation; we are treated at par with Japanese company, a Korean company, better than a Chinese company. It may not be at the same level of a European company because even today there is a love for European equipments and the people do believe that Europe produces offer little better quality in engineering standards, but otherwise we are able to compete. That is the reality.

Bhavin Vitlani: Last and a followup question to this international historically, Thermax has followed a practice of not taking EPC jobs. We have seen in the last quarter because the process has been you keep the equipment and along with the shipment of the equipment the risk goes away. Has there been any change in thought process because we saw a large EPC order?

M.S. Unnikrishnan: The once which are taken are exactly the same way that you mentioned about, but please remember we have to take the responsibility of what we supply even if it is constructed by somebody, but that cannot continue. Let me clarify to you. We have done also construction outside India, we have done in Philippines, we have done in Indonesia, and we may have to do progressively if we are going to be a major player. It will not be practical for you to have this kind of an attitude. In my opinion it maybe a little easy to do construction in Africa than doing it maybe in Middle East or maybe Indonesia because of labour you will be allowed to carry and visa regimes are easier in African continent rather than Middle Eastern continent. Of course costs will be higher because you may not get qualified workmen over there, you have to get it from the rest of it, but we will have to eventually do that. We are getting prepared to do that also. There is a question of risk. Let me clarify it to you. Risk is there in case we make substandard equipment. We do not make any substandard equipment. What we make for the world irrespective of the countries we see. Next is construction time one has to be very careful. Sir, how much time are you taking? Who is your partner for it? So we will have to partner with the right people and the right costs on that and in any case, a bank guarantee for the performance is already available with my customers wherever in the world irrespective of whether it is construction done by me or somebody else. So risk is there in any and every order that we execute in the earliest part and we have been able to circumvent. That is the reality.

Bhavin Vitlani: Thank you so much. That answers my question.

Moderator: Thank you. We have the next question from the line of Ankit Fitkariwala from Jefferies. Please go ahead.

Ankit Fitkariwala: Good morning Sir. This is basically a followup from the last comment that you made small and medium foreign companies are coming in India to setup plants. Could you just elaborate a bit on that? Which sectors they are doing and what kind of orders you are getting from them?

M.S. Unnikrishnan: Food processing is an area where we are seeing a lot of them coming at various parts of the country, right from Punjab to Southern part of India for spices. There are engineering companies coming in so with them we will be getting the orders for boilers, chillers, water treatment plant, small effluent treatment plants kind of orders. A lot of engineering companies have started off foraying their manufacturing into India. There are various other centers where they do come into and they buy from us, smaller heaters, water treatment plants, small pollution control equipments, VSAT etc.

Second one which I can talk about it that India has been looked upon as a destination for paper industry with multinational companies. It is a new thing, because our average consumption of paper is at a dismal level. It is a very lower level of consumption in paper and as effluent catches on and everybody reads what the government talks about. If all Indian were to get educated, of course they can use tablet and study, but they also may need text books. The printing for schools can go to maybe 8 to 9 folds in the future. So I have heard about five or six multinational companies having come and setup or bought over companies as big as even AP Paper Mills in the country. So there are enquiries from that industry coming in and paper is a steam guzzler, power guzzler also so that is another industry. You have seen textile companies having joint ventures or back office manufacturing created in India. Pharma, I forgot to mention about. Most of the pharma companies are expanding in India also. So these are the areas that I am seeing where MNCs are coming in.

Ankit Fitkariwala: Thanks a lot for this. Second one is a bookkeeping one. For the order book can you just give the breakup on consolidated and standalone level in terms of energy and environment?

M.S. Unnikrishnan: Consolidated level energy and environment, Amitabha, will you please give them about consolidated related to energy and environment?

A Mukhopadhyay: The order intake standalone energy is 1047 and environment 181 total is 1228. Consolidated energy 1284 and environment 189 total is 1473.

Ankit Fitkariwala: I asked the order book? This is order flow?

A Mukhopadhyay: Order book standalone is 4280 in energy and environment 817 total is 5097. Consolidated 5387 energy and 830 environment and total is 6217.

Ankit Fitkariwala: Thanks a lot Sir.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I would now like to hand over the floor back to Mr. Nirav Vasa for his closing remarks. Over to you Sir!

Nirav Vasa: Thank you Karuna. I would like to thank management for giving us the opportunity for hosting the call. Sir would you like to give some closing remarks?

M.S. Unnikrishnan: First of all apologies for not having taken any more questions because we are moving into some other meeting. I am sure we keep meeting each other regularly at different forums and also as far as possible between me and Amitabha we try to accommodate whenever you guys asked to come to Pune or maybe when we are in Mumbai. We will continue the interaction. My only request to you is that let us take results for the quarter and then move on to the next quarter. Things have not changed at the bottom level and any other advice you would like to give me also based on whatever you must be hearing from the industry is my consuming industry where you will be interacting also as much as we are interacting. The inside story is if you could also keep calling and informing us we would also formulate unconditional strategies to ensure that we are able to carry on. We are waiting for the turnaround to happen because we have not done any action to reduce the manpower. We have not done anything which is negative. We are all positive and we are waiting for it to happen. The moment the turnaround happens your company is capable of taking on and grow at the way we have grown earlier. Thank you once again.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Motilal Oswal Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.