"Thermax Limited Q3 FY 2016 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Thermax Q3 FY 2016 Results Conference Call, hosted by Motilal Oswal 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. Ankur Sharma from Motilal Oswal Securities. Thank you and over to you Sir!

Ankur Sharma: Thank you. Good afternoon ladies and gentlemen. Welcome to the Thermax's Q3 FY 2016 post results earnings call. We have with us today on the call, Mr. M. S. Unnikrishnan, Managing Director and CEO along with Mr. Amitabha Mukhopadhyay, Executive VP and CFO. I would request the management for their opening remarks and then we can have the questions. Over to you Sir!

M.S. Unnikrishnan: Thank you Ankur. A warm welcome and good morning to each one of you. Let me also wish you a very Happy New Year. Let me also introduce Mr. Amit Atre who has taken over as Company Secretary for the Thermax Group. Mr. G.P. Kulkarni has moved on and Amit Atre has joined us.

The results are already in front of you. As customary practice let me read out the relevant portions to you. Order intake for Thermax stand alone has come down by 29% at 868 Crores as against last year's

1228 Crores. At the Thermax Group level we are just above 1000 Crores as against 1473 Crores, a 32% drop.

Prime reason for this is we did not have any major project order either in India or in the international market during the quarter especially in the group level. Last year we had one order for our joint venture, from our partner worth around $66 million. That's not there in the current year. Last year, in the same quarter we also had a $55 million order from Dangote Group from Africa, which is also missing. Otherwise, order intake related to the standard products, from the private sector industry had been steady. And we would possibly see a minor improvement in inflow of enquiries in the standard products - for heating and cooling equipment and services; there is a minor improvement, nothing major to talk about. That is as far as our order intake is concerned.

As this order intake is lower than the revenues recognized by the company, our order balance has come down to 3830 crores at this point of time, even lower than what we declared the previous quarter. At the group level, the order balance is at 4767 Crores, around 23% down as compared to last year's order carry forward.

Revenues for the quarter is shy of 1000 Crores, at 996 Crores. No major retardation in execution of any of the existing projects. Nor is there any order cancellation worth mentioning or slowing down beyond a level of any of the execution. This is 11% lower because of which the PBT has come down by 21% at 95.7 crore as against 120.9 crore.

One noteworthy item to mention over here is revenues for the group is 1% higher than the previous year's same quarter at 1306 crore versus 1298 crore. That is positive and even at YTD level for nine month period the group revenues are up by 7% at 3829 crore versus 3579 crore for the previous year three quarters. PBT at the group level is at 85.4 crore, a 2% drop as against a topline increase of 1%.

The positive news which I had to give you is that for the YTD for the first nine months at the group level our PBT has gone up by 46% to 251 Crores versus last year's first nine months number of 172 Crores... That is about overall numbers.

We have seen couple of enquiries coming from the cement industry for waste heat recovery. Not for captive power plant, but only the waste heat recovery related couple of projects are currently under discussion level. Will any of them go through finalization stage and registration in the current quarter, I will not be able to predict. But I am sure, by the first quarter end, all three of them will get concluded. Whether we or our competitors receive the order, we will have to wait and watch.

There is no other major movement to talk about either of our joint ventures, but one more point to be mentioned, is that the SPX joint venture for the quarter has made a positive for the first time, they are above breakeven and they are possibly heading for a breakeven plus for the first time in the current year.

TBWES, our joint venture, Amitabha tells me, should be EBITDA positive towards the end of the year. This is based on looking at the invoicing and revenue recognition possibilities and on the orders in hand.

One more point we have declared in the published results of the company is about during the third quarter, the Commissioner of Excise has raised a demand of 1116 Crores on Thermax Limited. This pertains to an excise duty claim on bought out components by the Company for use at project sites. These items are already excise duty paid at the respective manufacturer's premises and directly sent to various construction sites. So, it does not enter Thermax's premise and no value addition is done by the company in the manufacturing premises.

We are very confident about a decision in our favor because in a similar case in the past, where excise had raised a demand, the upper courts and higher authorities had given a verdict in our favor. But as a prudent business practice, since the amount and magnitude are higher, we have just declared it.

So let me stop and give you the opportunity to ask me questions. Thanks a lot once again for being with us. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Aditya Bhartia from Investor Capital Services. Please go ahead.

Aditya Bhartia: Good morning Sir.

M.S. Unnikrishnan: Aditya, how are you?

Aditya Bhartia: I am doing good Sir. How are you?

M.S. Unnikrishnan: Fine.

Aditya Bhartia: Sir, it was comforting that you told that in the cement sector we are having certain enquiries. Also wanted to understand the other three key segments, which have contributed to large orders in the past, power, hydrocarbons and metallurgy. Are you seeing an improvement over there as well and how does the outlook look like versus what it was may be 12 months back?

M.S. Unnikrishnan: Aditya, in this steel sector, or the ferrous and non-ferrous both put together we are not seeing any movement of any kind nor I am expecting because if you look at the steel prices, it is at a historical low. Conventional steel has gone down to less than Rs.30000 and mind you Rs.30000 today and Rs.30000 of eight years back it is substantially depreciated value. So for every tonne of steel that is being manufactured and sold in the market I do not think anyone is making money and even if somebody is making, it is for a minimal quantum of money. So, I do not expect an uptick in the quick succession unless and otherwise the global cues are going to be better. Currently, they are holding on to on account of the 20% duty being supported by the Government of India as an antidumping duty. So that is as far as steel industry is concerned. However for the oil and gas sector, there is the possibility of investments in the refining sector. The Central Government has already asked Engineers India Limited to push for at least three projects in the coming years for the state owned oil industries and we are aware of the fact that they are drawing up the specification for expansion. All of them have decent enough balance sheet post the subsidy crisis which was prevailing when the oil prices reached to $120 a barrel. At $20 to $30 or $35 the subsidy burden has substantially come down and the balance sheets of oil companies are looking very healthy. So, my expectation is we should be able to see investments picking up for the refinery sector and remember we used to talk that India can't afford to import refined petroleum, only crude petroleum. Looking at the quarterly results of Reliance, I am sure CMDs of the public sector oil companies will be enticed to push the government to also go for a fast execution of the projects. So that is my answer.

Aditya Bhartia: Also on power generation Sir, if you could tell us how that sector looking?

M.S. Unnikrishnan: Not very healthy. Frankly speaking the capacity utilization in the grid is also not increasing beyond a level. Power production has improved, but since majority of the core sectors are operating at part load, their consumption pattern is not very conducive for construction to pick up. That is number one. Secondly, earlier we had difficulty with coal. Today it is available aplenty anywhere in the world; you can buy coal linkage, and I am told the price of low grade coal is fallen to $30 a tonne versus $150 to $160 which prevailed maybe three years back. So, fuel availability is not an issue, but the funding, especially the debt portion which was not so difficult maybe three years back, is going to get more difficult because most of the public sector banks have stressed assets related to power lending and the nonperforming. Such NPAs, Amitabha tells me, it is better not to mention a number. It is large. So in the current circumstances, it is highly unlikely that you will see any private sector investor getting into power at least for some time. Now that UDAY has been declared by the Minister for revival of discoms, there is a possibility that at least some of the states will sign up and quickly set up power plants. Now will we bid for them, what is our take on that, I would like to wait and watch before we commit on that. In any case, none of this is going to be happening, may be for the next two quarters. We are talking about the second half of the next year. We can take a relook at how power industry is going to develop within the country. If the same situation were to continue for maybe an 18-month period, certainly it will add to the stress on our joint venture with B&W; however, my captive power plant business will certainly have a positive movement as the economy is going to be recovering because to take care of 7% to 8% GDP growth India has not setup sufficient number of power plants. The lack of ordering will certainly have a positive impact on the captive purposes, going forward.

Aditya Bhartia: Understood Sir. Secondly, with sharp forex fluctuations that we are seeing in the last few months is it impacting our export plans in any manner and what does this mean for competition from overseas competitors?

M.S. Unnikrishnan: The currency movement of the last two quarters were within 60s, 63 to 68 one day and then coming back to maybe keep on varying and all of us are factoring even the number of 70 in that. I would say depreciation of Rupee is a great thing for all of us because we are a net exporter. Frankly speaking Indian currency had to depreciate because Chinese Yuan had depreciated by force in the recent past and without force by the market forces maybe in the next year. So unless Indian currency also takes a parallel move, Indian exporters who compete against Chinese will find it very difficult… especially for companies like us our main competition is China then Japan and then Europe. So, Japanese and Europe are already factored in which I mentioned in the last two quarter's call that they have currency depreciation beyond 20% which has certainly hurt us in the international market. We have done enough and more exercise to ensure that we are again back into the level of competition against both these countries, but Chinese was becoming the main other competitor with the currency depreciation in the last quarter. So, I think the current movement towards 70s will only help, will help Thermax people and companies; may not help the Government of India.

Aditya Bhartia: My question was not only about Rupee depreciation, but also depreciation of currencies of countries wherein we are looking to export. Some of those countries' currencies would have depreciated, I think more than Rupee depreciation and how would that impact be in international clients?

M.S. Unnikrishnan: Good question Aditya. Especially in the South East Asian market where we have made a move to setup our own facility in Indonesia. That is the country where maybe the worst currency depreciation has happened in the past two or three quarters. It has become more expensive for them to import and the government has taken protective measures. At this point of time are even not opening or allowing banks to open letter of credits for orders already placed because of which we are going to accelerate the execution of local manufacturing. The land is already taken on possession by us and the manufacturing license taken FY 2017 itself which otherwise, if you remember, I had declared 18 months from the date of possession of land. We may have to do it in one year itself and we will become a local company for manufacturing for South East Asia in FY 2017 itself.

Aditya Bhartia: Sir, for Africa how are we looking at that?

M.S. Unnikrishnan: Barring the Nigerian orders and Tanzanian orders which we are executing for a very large group over there we have not seen new ones. Their ability to give dollar LCs for third countries outside their country where they are operating itself is difficult and very large LCs are taking time. It has nothing to do with the currency depreciation. It is also the dollar position of some of the countries. For example, Nigeria: their main source of income is petroleum products which has come down drastically. The available dollars being lower, they may want to retain the currency within the country for their minimum requirements. See Africa was always the same way. And Bangladesh. Opening an LC in dollar is a very lengthy process over there because maybe couple of million dollars will have to go to the central bank and they will see what their outstanding position is before they even allow the local bank or international bank to open the LCs.

Aditya Bhartia: That is very helpful. Thanks a lot Sir.

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

Sandeep Tulsian: Good morning Sir. Sir, my first question is as you mentioned that large projects currently are facing a significant slowdown and given the way commodity prices are moving both metallurgy and Petrochem investments are likely to be weak, so is there a thought process on developing capabilities in any new sectors or any new product lines that you have opened up?

M.S. Unnikrishnan: I cannot declare, but all of us are concerned about the slackness that is going to be witnessed by us for the next few years. The COP 21 of Paris he put a lot of pressure on energy efficiency and green. There are indicators there could be pressures across the globe in terms of fossil related solutions and we had been a company which had been promoting green solutions for the past several decades. So those lines of products are already available to the company in its portfolio. That much I can reveal, beyond that we will have to see how the market is going to move. There are powers bigger than us who control the market, we cannot influence the market/ we can be present in the market and shaping that will depend upon how the market reaction is. So that is a positive sign in all the negatives we are currently talking about. I agree with you with the global commodity prices prevailing like this why should anybody invest. However, also look at some other compulsions. Cement is not a global industry. It is a local industry. So, if construction were to catch up in India, it can't be just for the metro cities of India. For the poor too, we need to be constructing houses in the country, which is already happening. There are odd projects announced by our minister, the Defence investments, I talked about infra related to virtually every large city, smart cities coming in, so cement demand in the country is going to be increasing and it cannot be imported from global sources, it will have to be locally manufactured. So, I would believe that irrespective of the global surplus capacities created by some countries especially China the local industry will grow in some of the sectors, but steel industry may not be able to have the same kind of a comfort unless the sovereign govt. acts to ensure the jobs are retained in the country. So that is something which we will have to wait and watch. Similarly about crude petroleum. If you can import crude petroleum and if you do the local refining the derivatives that you get from crude petroleum are not diesel and petrol alone. There are many more of the paraffins to take into creative petrochemical industry. GDP growth will also have an impact on petroleum requirement, I mean, petrol products other than oil and gas. I am sure there will be investment going to happen in India based on local demand, which may defy the global economic predictions. So, I am not entirely crestfallen to say that India has gone. We are not, but maybe in some areas we have difficulty. We will see, wait and watch how we are going to take care of that.

Sandeep Tulsian: My second question is on the capex that we had in the next two years had enlisted for the next two years that we are going to invest in some facilities in heating, cooling side and the manufacturing hub that we are setting up in Indonesia which was cumulatively Rs.400

to Rs.450 Crores is what you have mentioned in previous call. Is there a thought process on going slow on this particular end given the demand situation is weak or we are going ahead with the plan as what stated?

M.S. Unnikrishnan: We have done a stress testing of the investment plan, Amitabha team has done risk analysis for it and we have come to the conclusion that we will have to go ahead with three investments, because these are not for the areas which are related to the infra investment. So, let us take them one by one. The first one that we announced was the chemical factory to come up in Dahej where the land is already in possession and we also have the consent to start the manufacturing facility. If you recall may be in year 2009-2010, we bought land in Jhagadia to setup a main chemical factory but we have not had a license coming for the resin manufacturing. We already had the license for the rest of the chemicals, which is already up and going for the past three years – a facility for paper chemicals, construction chemicals and all that. But, for resin manufacturing we have only one facility currently and there we have got a limitation, we cannot expand it. So I have an existing capacity over 9000 to 10000 meter cube per annum and I have been producing 9000 to 10000 over the past three years. So for that business to grow, we need a new facility and Dahej plant is going through. While we are setting up that facility, we are putting in an SEZ because predominant part of our resin business is global in nature and approximately 65% to 70% of production is exported out of India to countries which are in any case not growing for the past may be three decades. Japan is our main market. North America, Europe, Japan equivalent Middle-East, none of these is growing at 8% or 9%. So, there is a steady market and we have a 3% market share globally for resins. So, why should I will be bothered about global economy movement when I have a 3% market share plus I have the cost advantage, innovation and knowledge advantage available. Dahej investment is on. Second is about our investment in Indonesia, which I just mentioned to Aditya in the earlier call that we have decided to go to Indonesia on account of the fact that you want a local player and being a local player is a positive. ASEAN countries too, the thinking is the way your Prime Minister asking to 'Make in India'. The President of Indonesia is talking about make in Indonesia. It is a fairly large market. So, we are not wanting to compromise on that. In fact the future business prospects in South East Asia is dependent upon our ability to be manufacture locally. The faster we do the better, so we are going ahead with that.

The third one is about cooling manufacturing facility in southern part of India. We have signed up for the land now in Andhra Pradesh. Details will be following not in the current quarter, quarter after that we would have concluded. In absorption chillers, we have 100 machine capacity in China, which is currently running at 60 to 70. We will reach up to 100 next year with international orders coming in. Please remember global warming means need for cooling is more and this one business where the refrigerant is water, not any polluting item, so we need to have capacity. When I look at medium to long term, all the investments will pay and what better time than this one when the commodity price is at the lowest and people are willing to negotiate and give you equipment at a cheaper price. So, there you are, Sandeep.

Sandeep Tulsian: Thank you very much for taking my question.

Moderator: Thank you. The next question is from the line of Lokesh Garg from Credit Suisse. Please go ahead.

Lokesh Garg: A couple of bookkeeping questions. Can you give a breakup of order inflows in terms of energy environment and international domestic this year like have been giving?

M.S. Unnikrishnan: Amitabha is going to help you out. Amitabha please.

Amitabha M. Order intake, quarter Energy Rs.693 Crores, Environment Rs.175 Crores, total 868 Crores. The previous same quarter Energy 1047, Environment 181, total 1228. Group level for the current quarter, Energy 818, Environment 182, total 1000, previous year same quarter Energy 1276, Environment 197, total 1473.

Lokesh Garg: Sir international, domestic mix?

Amitabha M. Total energy, domestic 528, international 165, total environment domestic 129, international 46, total domestic 657, total exports 211.

Lokesh Garg: My other question relates to pollution control norm recently notified by Ministry of Power. How does the company feel? Could you give us some bit more details from that? What are the opportunities by when, can they come and how prepared are we to handle those?

M.S. Unnikrishnan In the stipulation or the gazette, which has come out, there are three items, which are addressed by this notification. The first one is about the particulate emission, which for larger plants are currently at 50 and smaller ones were at 100 the new stipulation brings it down to 30 mg/Nm3. Now, Thermax have got technologies available for it. As such many of the recently constructed even captive power plants to larger plants have already suo moto gone in anticipation of this. So, retrofit revamp for some plants are going to happen especially the cement sector and I am quite confident all of them will go for it. We have enquiries coming in and some of them should be concluded, but I do not know if they may be able to implement in the two year time that is given to people. It may be extended, because fundamentally the central government can only give a stipulation through CPCB. The local state governments are going to get them implemented through various state level Pollution Control Boards. Knowing the way things do happen in India, I would presume that instead of two years it will be a little longer affair, but that is going to certainly give an impetus to our retrofit and revamp business. Second, in any case as newer boilers, newer captive power plants and larger power plants will all go for it. So, marginally there is a value enhancement going to happen to the orders that you will receive in the future right from baby boiler to supercritical boiler. We have technology available, and everything is manageable by us.

\ Second item which is in the listing is SOx control. SOx means Sulphuric oxides - sulphur dioxide, trioxide which can cause lot of problem and here it depends on the quantum of sulphur present in the coal that is being combusted. Fortunately for India and unfortunately for pollution control companies in India, the sulphur contained in Indian coal is negligible and at least based on the recorded data available many of the existing plants may be able to avoid installation of a complicated desulphurization plant. However, those utilizing imported coal from Indonesia, South Africa or Australia where the sulphur content can vary between may be 1% all the way up to 4% or 5%, they necessarily will have to go up for FGD plants. An FGD plant can cost anywhere between 30 lakhs to 40 lakhs per megawatt. So that is the kind of market size available, for existing ones and some of them as we go forward. So that is about the sulphur portion. Existing facility will also have to put as a retrofit FGD. Thermax has signed a technology transfer agreement with an American company, two quarters back. Technology is already absorbed and we already started bidding for the enquiries, which are coming out, and we are also prospecting in the market. I do not want to give a size of the market other than the numbers, which I gave it to you because it is a disputable thing as you do need an FGD or you do not need an FGD. To my understanding the Trombay Thermal Power Plant of BSP was forced to go for a retrofit a couple of years back, because of public complaint. So there are plants in India, power plants in India, which already provided for space for putting up FGD plants. As and when they come in, we will be one of the major bidders and participants in FGD irrespective of the capacity whether it is a one megawatt or 1000 megawatts.

Third item is Nitric oxide, NOx control. The standards stipulated by the government is really, really tight and this will need the introduction of a technology never tried out in India known as SCR,

-Selective Catalytic Reduction. So this is a technology normally used in automobile, all the cars that you guys are driving, already have that before the silencer. So our approximate estimation is a megawatt will cost around Rs.1.2 Crores. So, it will be like one more boiler price being added on to the cost of investment. Our joint venture partners Babcock & Wilcox are one of the finest SCR makers in the North America and they have as many plans. They have got more than 90000 megawatt at this point of time running, of which half of them are in North America and balance in rest of the world. So, as and when this gets implemented, we will certainly be a company in the market for this one - NOx emission control. Apart from the new norms, Gujarat has taken the lead insisting that 10 tonne boilers should be provided with scrubbers so that scrubbing of the gases are done. If one State starts that, I am sure others will also want it to be done. So, as we have been indicating for the past seven to eight years, as India becomes a developed country, environment regulations will follow energy business and more and more pollution control will happen. It has started moving in India at least in regulation and implementation, but we will have to wait and watch. The coming days can only be good for environment business.

Lokesh Garg: My last question Sir, is the possible to exist that this NOx standard could be revised given that the cost is quite high?

M.S. Unnikrishnan That is where it will finally end up in Supreme Court only, because I do not think once having enacted will anybody have the guts to bring it down especially when it is pertaining to pollution control and a lot of social activism is there. Beyond that I will not comment.

Lokesh Garg: Thanks a lot Sir.

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

Renu Baid: Good morning Sir. First question is on the export side, can you share how has the performance been in the current quarter with respect to sales and fresh orders? How much have contributed an overall for the nine months and how do we see this segment of a portfolio scaling up in the next 12 to 18 months timeframe?

Amitabha M: As far as export is concerned for the current quarter I have already given the number.

Renu Baid: That was for order intake for revenues and order backlog?

Amitabha M: Revenues from exports for the quarter was Rs.342 Crores compared to Rs.249 Crores for the corresponding quarter of the previous year.

Renu Baid: For the nine months?

Amitabha M: For the nine months ended the export revenue was Rs.954 Crores and for the corresponding nine-month period of the previous year it was Rs.731 Crores. So that is the about a 30% growth.

Renu Baid: How does this look in the order book mix today?

Amitabha M: In terms of order balance today Rs.3830 Crores of the overall order balance up to so you can see Rs.2430 Crores is domestic, Rs.1400

Crores is export, so that is a breakup, the total order book is Rs.3830 Crores.

M.S. Unnikrishnan: Renu, you want to know going forward what is prospects and you asked for a very short time 12 to 18 months.

Renu Baid: Or may be from 24 months perspective at least two years?

M.S. Unnikrishnan: It will be positive than what is currently, because the world has already factored in the commodity price reduction and also the oil price reduction. In steel, unlikely any capacity building will happen in any part of the world. Otherwise, as I mentioned, barring China every developing world is bereft of capacities. Localization is the next movement going to happen. Thankfully we started much earlier you remember we formed a company in Singapore. Already we got in Indonesia, Thailand and Philippines. We are moving into Africa also with at least three marketing offices in the current year itself other than what is being done by our representatives there. We had initiated a project especially for Africa, especially for the project marketing over there. It has borne fruits at the first level one with a couple of orders coming for captive power plants. Now, the number of people that we are deploying in the market is increasing, local partnerships are getting created for local construction... So there will be business available in various markets, capacities are getting built even in Africa, in South East Asia, albeit their ability to open an LC will not be like when you get an order from Europe. Where you get the LC may be within a week of the order being opened. In some other the parts of the world one has to be willing to wait for may be a little longer period of time.

Government of India is also seized upon the financial support needed. If you remember when we had the Africa seminar in the last quarter, the PM had committed a billion dollars to support export out of India into Africa. Some of it are now getting detailed and being work out. I am very happy to say that some of the business that we conduct, some of the products that we manufacture will find a place there and in the medium term which should be a beneficiary. EXIM bank and ECGC are also working on that. That much I can reveal to you. South East Asia, of course, there is no funding possibility, and with Chinese economy retarding, the situation where every order was followed along with credit may dry up or at least reduce in the coming time. Which will be a positive news for all of us. One of the reasons why in Africa or the South East Asian market or even why small countries like Sri Lanka bought Chinese equipment or went for a Chinese project order was because it always came with money. Today China may not be in a position unless they are willing to deplete their foreign exchange reserves which I do not think is the intention of the country. So, progressively we should be seeing an improvement in the position for Indian companies where we will have a level playing field, little of funding from the EXIM Bank equivalent. Also, without funding Chinese would not be able to compete against us. That is a positive that I am seeing. So to conclude, Renu, it there will be limited isolated projects taking shape in most of the areas barring steel in the rest of the world where we are present right now and we should be able to compete. We are doing a lot more of belt tightening and innovations in markets to combat competition from the existing players. We should improve our position in the global market.

Renu Baid: But Sir do you think the pricing on the forthcoming orders would be under pressure compared to the kind of margins that you see it from the international jobs over the last couple of years or would that be a point of contention?

M.S. Unnikrishnan: Sporadically isolated windfalls you may get with good margins, otherwise normal margins will be global margins. Global margins for EPC is double digit unlike in India where it is a single digit, that is I do not think anybody will compromise because the risk involved is higher, product margins will come under stress. I agree with you because the factory capacity utilization is what we look forward to. In any case capital goods companies like us, we never had a differential of high delta... may be one or two percentage here and there…that is what is Indian margins for such kind of products.

Renu Baid: Sir just last question in the last quarter you had mentioned that B&W globally has received the orders and we could be expecting some of these orders partly shared with the Indian JV, so what is the status, are we seeing some order flow traction happening in the coming quarter?

M.S. Unnikrishnan: Something should happen because enquiry drop has not happened, enquiry order loss has not happened in the last year for the partners, both are true. If that be the case, with whatever is happening is in the global power business, there is an overall retardation because the capacity utilization of existing ones being lower electricity consumption has not been picked up. So the big guys, the guys who set up power plants across the globe are not like the Indian Electricity Boards or Indian Gencos, these are all the well-known privately held large power companies like, I mean just to give an example Gaz de France, JE Power of Japan, or Korea Power Corporation, these are the big guys or China Light and Powers - these guys will wait for the global cues to turn positive in terms of GDP growth of the globe where they know the power consumption of the world will increase for them to be finalizing orders. They all have got long term plans so they sign on the cheque and hand over the orders to a company like B&W. We will have to wait for some time, but nothing is negatively happening right now, but, in my understanding, it is only a postponement at this point of time.

Renu Baid: So this could impact the TBW JV negatively in the next two years as existing projects get executed?

M.S. Unnikrishnan: you are right absolutely; unless there are intake of new orders and unless we get orders from India…we know how to limit the losses in that and even in the current year, at a very low turnover we will be EBITDA positive. That's our intention – keep the burner on and do not bleed.

Renu Baid: Thank you so much Sir, best of luck in the challenging market.

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

Pulkit Patni: Sir this is Pulkit Patni from Goldman. Actually most of my questions have been answered, just one question when we look at international competitions in geographies like Africa today which are the countries where you are seeing maximum competition from and also connected to this since you mentioned that the Chinese would not be coming with funding, but our understanding is there are a lot of Chinese capacity which is actually hunting for projects overseas, so there could be undercutting there, so if you could just highlight on that as well? Thanks.

M.S. Unnikrishnan: As mentioned our main competition right now is from India, not from China. For example an order in Africa will be competed against by two or three Indian companies because everybody is recognizing the capability of Indian engineering companies to execute global projects in captive power or similar areas. We have established our credentials not us alone, others also, so I have respect for my domestic competition where the good ones are present. Second competition is from the Chinese where they will never be able to get an Indian price, they will be able to get only lower price, so that is for sure that is also established fact. However, there are different players in different markets, depending on the fuel expertise. Chinese have an advantage in solid fuel in some markets. When you get into combined cycle power plants it could be Siemens or may be GE or some Japanese maker where there are established players like Nooter-Ericksen from America and NeM is from Netherlands, Doosan from Korea. Of course Chinese spread also will be there, then the competition spread is different, in such places we are leading players from India. I can very confidently say we are the number one from India, so earlier we would not have been so aggressive because we would not have reached everywhere because we knew that we may not be given an opportunity, but today there is an opportunity being given by at least some countries making us compete against all of them. The third is regarding competition faced by the standard products of the company – conventional heating products or absorption chiller, standard water treatment plants - there it is not international competition, but we compete with the domestic companies of those markets. Earlier, a customer reference was good enough for you to be getting repeat orders, today they would say why not you make it over here itself that is why we need to become local. So, moving ahead, there are three different types of competition. Pulkit what is the last part you asked about?

Pulkit Patni: Second my question was more about since you mentioned that the Chinese will not be coming with funding anymore, our understanding was that the Chinese given the amount of capacity they have created in a lot of international orders have actually become fairly aggressive, and so I just wanted you to address that part as well?

M.S. Unnikrishnan: We certainly feel that aggression. In the large projects in some areas they have created a name for themselves. For cement plants, globally Chinese are seen as an acceptable technical supplier by anybody currently; however, for a large capacity boiler of may be 300 megawatt or for 500 megawatt or 660 megawatt I do not think Chinese have the same repetition anywhere in the world because they are cut and paste company. In blast furnace manufacturing (the steel industry) Chinese are active, their plants are accepted. Thankfully there are not too many of them happening in the world, so there are some areas they don't have the edge over everybody. We do not find competition for a heating boilers in the globe from China. We find it in every country from their own local manufacturers. In Europe, our European subsidiary competes against European companies. When we go to South East Asia for standard products, these were Indonesian manufacturer or they import from Europe or from may be Japan, Korea. Yes, there is a limit, I also need to admit over here, there is a set of customers in South East Asian market especially more of in Indonesia and little in may be Thailand which are controlled by original Chinese investors who would have moved may be three generations back from China into these countries. They may continue to buy from Chinese manufacturer, otherwise we have a better brand equity and there is an aversion for Chinese products in some markets. In fact, there are orders that you do to take in the international market where there will be stipulation in the purchase order, no Chinese component allowed also is there. So these are all indicators of how the brand is perceived. I am agreeing with you that there is a push in China right from government to private companies to go on conquer the world market, because we found in a recent Indian order, the largest absorption chiller order we finalized in India, our main competition was from two Chinese companies and they virtually gave it free to my customer. But still, the customer came to back to us, so those kind of aggression one has to expect but it is not a competition which cannot be combated. We can combat it, but you need a lot of face time with customer and you need to be very aggressive technically and give performance guarantees.

Pulkit Patni: Sure Sir. That is helpful. Thank a lot.

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

Chockalingam: The question was regarding the other operating income, there has been a sharp increase Rs.42 Crores during this quarter, what does this pertain to?

M.S. Unnikrishnan: Amitabha will you please help him out.

Amitabha M: During this quarter the other operating income includes a foreign currency fluctuation. In the previous quarters we used to have a loss in foreign currency fluctuation accounts, so it was included in other expenses during this quarter, there is profit in the foreign currency. The corresponding effect of the foreign currency fluctuation goes into the sale, it goes into the topline through a POC accounting in AS7.

Chockalingam: But what is the quantum of this?

Amitabha M: It is about Rs.20 Crores. There was a policy regarding hedging it remains the same, all exposures and fully hit, so it is more of an accounting presentation.

Chockalingam: Okay historically, so it is like-to-like when were compare the EBITDA, because if we do not include this then the EBITDA margins are looking at 5.5% or so, so did not really understand why that was so?

Amitabha M: Whenever there is a negative, it comes under the other expenditure, wherever there is a positive it comes under other operating income, so it is a like-to-like, I do not think there is any classification adjustment.

Chockalingam: Fair enough Sir. Thank you.

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

Bhavin Vithlani: Morning Unny and morning Amitabha, this is Bhavin from Axis. Can you help us with the performance of TBW and Danstoker for the nine-month?

M.S. Unnikrishnan: Amitabha we have that readily available? Let me let you in the general way by the time Amitabha is taking the numbers, this is not something which we normally talk about, so let me tell you, Danstoker post Omnical being sent to administration has started performing better. Danstoker means the Danstoker and Boilerworks put together. In the current quarter they are in negative, but YTD they are positive and they are heading for it and we should be expecting a turnover in the range of around 34, 35 million Euros from Danstoker Group and a positive number upwards of 1.5 billion euro. So there will be a positive in the current year for Danstoker.

Bhavin Vithlani: Positive number of PBT or the EBITDA level?

M.S. Unnikrishnan: PBT and that year end is what I project to you and TBW's current numbers I may not remember, shall I give Bhavin what is going to be ending that is better.

Bhavin Vithlani: Yes that would be better.

M.S. Unnikrishnan: Because order booking we have not picked any order so far in the current year, we are working on the carry forward orders though we are expecting at least some movement in the current quarter, let us wait and watch for it, something could be happening, not domestic I am going to international support from BMW for current quarter itself, we should be ending up with the revenue upwards of Rs.360 Crores in the year end, it is what we are expecting as a revenue from them and this should be EBITDA positive.

Bhavin Vithlani: My second question is Unny when I was hearing you in the CNBC interview where you said the expectation of some large orders, which you are hoping to close it in the current year, could you give us some color on this?

M.S. Unnikrishnan: They are not large in that sense. See in the current quarter, in the existing there are no projects orders, even the EPC order or no large boiler order. A couple of them have been under negotiation for quite some time and every quarter we feel it is getting concluded. Some of them are tender based, so the tenders are also taking longer period of time. I do not know whether you are aware of the fact that earlier in India in a public sector tender if you are L1 within may be a short while after the reevaluation they release the letter of award, now they are calling for negotiation post being the lowest also, they have all the time available in the world. We know that they can excuse a supplier with a threat that we will go for a re-tender. Those are the kind of issues we spoke about with CNBC, so there could be some possibilities.

Bhavin Vithlani: But year as a whole, if you believe this L1 tender which are taking certain something long and you mentioned about some export orders also, would your order backlog be higher or lower than the current year?

M.S. Unnikrishnan: Certainly, I do not expect my order intake to be more than the revenue recognition in the current year, which should give an inference that carry forward should be lower, but how low is what will be decided in the next 60 days' time.

Bhavin Vithlani: Are you looking at some cost cutting or you believe that this is the temporary phenomenon and there are signs of pickup, so I will go through the pay in for a shorter period of time?

M.S. Unnikrishnan: If we are able to manage closer to a double digit PBT or EBITDA it will be suicidal for an engineering company to do any cost reduction related to manpower. Belt tightening is something regular that we are used to, because we got multiple holes on our belt, so we continue to tighten it. That is something which we regularly do, we will continue doing that. But we are also embarking on the international project business, product business and you do not have too many trained manpower in the cost sector especially in heat and mass transfer combustion engineering, or the areas we are getting into. If you expect Thermax to spread its tentacles in the global market the wiser decision is to compromise a little on the margin. So long as you're comfortable with that, it is preferable to taking harsher actions on that side.

Bhavin Vithlani: My last question is again on the new admission norm for the power plant, NTPC in its earning call said that their capex will be about Rs.20000 Crores for the existing 40 gigawatt and they are expecting to award the projects in the second half of FY2017. So historically my experience is Thermax is not very keen on the PSU or L1 business? But would Thermax be one of the leading contenders of the NTPC orders?

M.S. Unnikrishnan: We have, historically, executed orders for NTPC in air pollution control in consortium with a foreign company and also for water treatment plants. A direct order from NTPC and if you know the cash flow is securitized, we would certainly participate in the bidding process, but we don't want to be driven by desperation. You know about some companies who have taken at L1 in desperation and how their balance sheets turn out quarter over quarter. So rest assured of the fact that we will not become a banker for pollution control equipment for NTPC; however, even if you do not earn margins if we are covering our expenses plus something we may be able to earn. So, we will participate in a selective way

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

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor over to the management for any closing comment.

M.S. Unnikrishnan: Thank you Margaret. Thanks a lot once again to all of you. Ideally speaking our performance whatever it is worth is purely on account of the support we receive, from the feedback that and encouragement from you. These are tougher times as I mentioned in the last concall also, but we are not worried about that, our base order booking is protected. But on project orders, if available, Thermax will certainly be an aggressive player and take orders. It is a temporary phase and we should continue to hold on. We believe in your advice to stay put, not do anything wrong, do the right things. Should continue doing that way. Thank you once again.

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