THERMAX

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'We are missing governance structure that is suitable for growing country'

The last two years have been one of the toughest for the engineering and capital goods industry in India. Pune-based Thermax too took a beating, as orders dried-up. **M S UNNIKRISHNAN**, MD & CEO, Thermax in an interview with Shivani Shinde Nadhe, spoke about the firm's de-risking strategy, domestic markets and running a tight ship. Edited excerpts

Q&A

MS UNNIKRISHNAN
MD & CEO, Thermax

Thermax has been looking to bag international orders. Has it been a successful strategy?

We are segmenting our business profile for internationalisation. When we started we called it selective internationalisation. We look at expansion into markets in two ways—one is exports from India and the other is our direct presence in other local markets. I am very happy to say that we have crossed ₹1,000 crore of exports revenue from India for FY14. Going forward we would like to double our exports from India in a five year period.

Now we are creating a real globalization plan. As we have grown we have realised dependence one single geo-polity makes the company risky. We have to have higher dependence on other markets. Market share of majority of our products in India is upwards of 25 per cent. Any further market share gain would impact profitability. This will mean we are taking on those markets which do not want to pay premium, or may not be our core customers.

Are you looking at technological innovation, to go international?

We have to choose the market based on three aspects--readiness of product, delivery capability and automation level. Based on this we prefer South East Asia, Middle East, Africa and South America. At present these markets are big contributors. We also look at the matured markets like the US, which are driven by technology requiring high level of automation. Within our research and development centre we are working on this. We are also open for acquisition for international expansion. Acquisition will primarily be in the developed markets.

Do you see the domestic market improving anytime soon?

We need at least three years to get back to the growth rate that we saw before. I would believe if election gets over in Q1 of FY15, you will see some traction picking up after Q3. But real growth will be year after that, FY16 and FY17.

I would say it's a pity we are losing an opportunity. Thankfully, it is a lost opportunity for a small period of time. We have everything, natural resources, capital to invest from within and from outside, you have a domestic consumption market, sufficient manpower ready to be skilled and a democratic political framework. But what we are missing is a governance structure that is suitable for a growing country.

Capital goods industry needs large ticket size of investment like ports and roads. It depends on the governance of the country and policies are crucial. Second is the non-regulated sector which does not need policy direction but gets impacted by sentiments. This side of business will grow. But these are not large investments, and constitutes about 30-40 per cent of the country's investment cycle. This will ensure moderate growth.

Thermax bagged healthy orders in Q3, and also managed to improve working capital. Do you think this can continue?

We are happy to have improved the order book. It has improved substantially from the way we opened this year. We have been passing through a very tough market for the last two years, it's not a recent phenomenon. It's a buyers' market today, difficult to make margins. We can try to maintain it, improving is difficult. We have been facing this for long...since then we have been tightening our belts. Companies in the capital goods industry don't know what luxury is anymore.

We have not taken manpower out because we are looking forward towards growth. Rather we have taken this time as opportunity to train employees.

How do you see the road ahead for Thermax?

We will continue to pick orders from India and abroad. Since we are a sizeable player in India the domestic developments impact us more, but in the global markets we are still small and working on gaining market space. Once we open the global market we should come back to a double digit growth rate. This may not happen for next year, but we do expect that on a CAGR basis the growth to be in double digits for three years.