# "Thermax Limited
# Q1 FY2019 Earnings Conference Call"

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**Moderator:** Ladies and gentlemen, good day and welcome to the Thermax Limited Q1 FY2019 Earnings 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 "*" then "0" on your touchtone telephone. 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 Mr. Sharma!

**Ankur Sharma:** Thanks, Karuna. Good morning ladies and gentlemen and welcome to the Q1 2019 post results earnings call of Thermax Limited. With us today from the management team, we have Mr. M.S. Unnikrishnan, Managing Director and CEO and Mr. Amitabha Mukhopadhyay, Executive VP and CFO. As always, we shall being with the opening remarks from Mr. Unnikrishnan and then we open the floor to Q&A session. Over to you Sir!

**M.S. Unnikrishnan:** Thank you Ankur and a warm welcome and good morning to all my dear friends. Once again thank you for your continued support and the interest, which keeps us growing. I have just completed my interaction with the television channels and the market reaction is centered mainly around the profitability challenges, where Amitabha and I shall clear your doubts as well. As a regular practice we shall begin with the Thermax group numbers for Q1 of the current year. Our order intake for the quarter is Rs. 1,652 Crores versus Rs.1,919 crore**,** which is ahead of our plan because last year in the first quarter we had a single large order, of value more than 1,000 Crores. So the order booking has been good in the first quarter and our order balance has gone up to an all time high of Rs. 6,420 Crores due to healthy order intake in comparison to last year's Rs. 4,944 Crores. Orders from domestic market has gone up from Rs. 538 Crores to Rs. 1190 Crores for the quarter whereas the international order value has come down from Rs. 1,381 Crores to Rs. 463 Crores again due to the single order last year as mentioned earlier . Revenues from operations are up from Rs. 893 crores to Rs. 1,035 crore and total income has gone up from Rs. 917 crores to Rs. 1,066 crores. It is 16% above the last year first quarter. The PBT has been disappointing, which was a Rs. 75.7 crore and remained almost at the same level of Rs.76.1 crore and profitability reduced to 120 basis points further during the quarter. Speaking of Thermax standalone performance, the order booking has shown a downward trend of Rs. 1,742 coming down to Rs. 1,430 crore and the order balance increased to from Rs. 4530 crore to Rs. 5,873 crore, a 30% improvement. On a standalone basis revenues for Thermax have gone up by 16% from 756 crores to 877 crores.

Now the PBT for Thermax Limited last year was 49.7 Crores, which has gone up by 36% to 67.6 Crores, which is up by 100 basis point. You can infer here that the negative numbers in this quarter are due to group companies and outside the Thermax standalone.

There are three specific items, which have contributed to this negative. Last year, in the first quarter, the Danstoker Group had a profit of Rs.4.1 Crores and for the first quarter of the current year it is negative at 4.1 crores and this is emanating from the losses of two project orders of Boiler Works, subsidiary of Danstoker. Second is Thermax Europe Limited, a small operations of ours. Last year we had a profit of Rs. 3.9 Crores whereas in the current year we have reported a breakeven and not a major profit comprising only a couple of lakhs. We have also kept a provision related to our future claims pertaining to the submission of a couple of orders, already executed where we may have to replace some components. And the third factor is the subsidiary of Thermax, Thermax Engineering Construction Co. Ltd. that had a profit of 7.2 Crores last year, whereas it has come down by Rs.5 Crores, because last year we had a one time income coming from a major customer. These three factors put together and normalized across the board, there is no deterioration in the PBT or EBITDA. Ofcourse, I need to accept that the one item of Danstoker Group's 8.2 Crores negative is indeed a negative, but it is only an operational loss. Going forward, looking at the order intake and the project team confirming that we will not have to incur any further losses to complete the existing projects. The order intake, in the current quarter is also substantially positive in nature. So by the year end, we may have moved away from the entire negative impact. Coming to TBWES, we had already declared that the Board has decided to acquire the shareholding of our joint venture partner, Babcock & Wilcox. After having detailed deliberations the Board and the management of Thermax have decided to buy the entire equity of Babcock & Wilcox, which happened on the July 17, 2018 or July 18, 2018 we have become 100% owner of this company, along with the property and the assets and the JV being transferred as the subsidiary of Thermax. We also have the technology available both for the supercritical boilers as well as for NOx control, which is already under testing. Looking at the current good order intake of Thermax, I am sure this subsidiary is going to be beneficial going forward, since it is a world class facility, created for supercritical and any other kind of boiler making. As far as TBWES is concerned, I will personally discern informing the numbers unless we have the permission from Babcock & Wilcox or else I will leave it to Amitabha who has personally managed the negotiation and done a wonderful job along with his team members.

Reporting on the Dahej chemical factory, where I mentioned in the last quarter that it is coming up and we had some glitches in the initial period. I am happy to share that it is almost reached 50% capacity utilization for the original plant and with the kind of orders in hand, we should be able to reach 80% plus capacity utilization towards the beginning of the Q3. Coming to Sri City, the machines are installed and trial production should start within a month. The reason I am not committing a date is that it is a highly robotized factory which requires trial on each of the machines and the integration of the entire production line. In any case, these are in the offing, and maybe this month end itself or latest by beginning of September, we should start trial production in Sri City.

Coming back to the enquiry pipeline, there were some very positive movements in the last two or three quarters for the standard products as well as for medium sized projects; however, I am seeing a slack in finalization on two counts; one is the banking system difficulty, where many of our medium sized customers are finding it difficult to have their papers sanctioned and signed by the banks because the scrutiny has become very difficult. You need to have a history of having repaid all the loans on time and even then it may be difficult if the balance sheet is less leveraged for loan availability. Secondly, I am little worried about the impending elections which could raise a question on finalization of larger projects in the country. We have fairly improved the execution acceleration within the company. With the size of carry forward orders available, we are headed for a very good year by the time we reach the Q4. Thanks a lot once again and I leave the stage for you to ask me any specific questions.

**Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin a question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Venugopal G from Bernstein. Please go ahead.

**Venugopal G:** Thanks a lot for the opportunity. Unny, I actually wanted to understand more on the revenue side, the reason I asked this is because if I look at the commentary in post March quarter numbers where you had mentioned that given the e-way bill issue there was a Rs.200 Crores of revenues, which we could not book and that is essentially going to translate into June quarter revenues, which essentially means the Rs.200 of this quarter's revenue is actually the March quarter revenue, which you could not really bill. Second thing is last year in June quarter you had a GST impact, I was actually checking all the transcripts in the morning to be sure of the numbers, you had mentioned last year in June that there was an Rs.80 Crores impact on revenues, so the Rs.890 Crores of whatever is the revenues from operations was whatever 970, 980, well this quarter is 1035 minus 200, is 800 so what it means is to me it looks like that revenues have actually declined that is number one and it looks quite – does it look too intuitive because you have a very good backlog and backlog growth, so I really wanted to understand was there an issue in this quarter or you are going to catch up through the rest of the year?

**M.S. Unnikrishnan:** That is a good question, but the inference may not be correct. The thing about projects business is that it is not a locked movement, it cannot be that the revenue held back in last quarters will certainly have to happen in the current one. What happens is that there is a sequential requirement when it comes to dispatching project orders. But I fully agree with you on the product orders which is held for e-way bill or related difficulty. So, the arithmetic of the last quarter number being added to the current quarter may not be fully right, it may be partially right. Secondly, if you look at the inventory for the company, it has gone up fairly. I mean this is the first time that we have gone above 400 crores in inventory, reason being the pickup of the finished goods is not as good as it was earlier. The banking crisis in the market right now is certainly impacting the smaller customers who buy a Rs.5 lakh worth of boiler or a small water treatment plant. The movement from small and medium steel industry despite having good credit in the balance sheet are also taking time if they take any loans from the banks. These could be the possible reasons, otherwise I could have done little better, So, do not worry about the execution, on Thermax side at all.

**Venugopal G:** Sure Sir, my second question is especially the Danstoker thing where now Boiler Works is on loss. Did this loss surprise you or was it anticipated that look there are some problems going on and the reason I asked you is because it is likely fairly recurring features, so is there a risk of impairment that you see in that particular subsidiary or is it like back to normal work as usual going forward?

**M.S. Unnikrishnan:** Impairment may not be a necessity. There are three companies operating under Danstoker, one Danstoker in Denmark, Boiler Works in Germany and third one is a Polish subsidiary which we have taken over. Now Danstoker in the current quarter has not added, but they have a substantially positive outlook to offset the negative in Boiler Works. The earlier size of orders for Boiler Works was smaller whereas in the recent past we have had larger size orders coming in and due to execution pressure, I do not think we will be able to control the costs. It is my understanding that with some support from India we will kick start the process and the orders in hand will certainly deliver profit in the current year for Boiler works, so Danstoker would not really be negative next quarter, I am quite confident about it. On the Polish subsidiary I need to be very positive to say that we have already started registering orders, with the first boiler order from Poland. Otherwise it is also going to be a chase partially for manufacturing from Denmark, if you see I somewhere mentioned to you that manpower cost, manufacturing cost of Denmark versus Poland – it is the necessity for us to improve the profitability. As the volume is picking up in manufacturing both for

Danstoker as well as for their own orders in Eastern Europe, we will see the Danstoker profit improving only, but for the current year I am not expecting it to change overnight. But I think we are facing positive headwinds of the kind in the last two, three quarters as far as the profitability is concerned. We are taking charge of the execution at the Boiler Works at this point of time.

**Venugopal G:** Thanks a lot Sir.

**Moderator:** Thank you. The next question is from the line of Sumit Jain from ASK Investment Managers. Please go ahead.

**Sumit Jain:** Good morning Unny. I have question on the margins in chemical business 12.2%, so when do you see getting back to steady state. When we met you mentioned that the contract pricing comes for renewal once in a year and crude oil prices are higher from the time we sign the contracts and therefore the reset can happen little later that is question one and environment margin again is down to 3.1% after seeing three quarters of margins going up Q2, Q3, Q4 last year, so what would be the steady state margin there?

**M.S. Unnikrishnan:** The first thing about Chemicals is that there is an improvement in the current quarter, but as I mentioned all of them cannot be changed at once. There are two factors - wherever the contracts are renewed we should be able to get a price increase ranging between 4% and 7% so far. If we can implement this in all the contracts which are being signed, I would presume that it should result in the resin profitability improvement. It may not go back at the same level, but very close to that from Q4 onwards. In the Environment group of course in the current quarter, WWS is profitable and air pollution control is also profitable as against last year where both were not profitable in the first quarter. So, it is a positive movement and stability of margins. Air pollution control is the only business of ours where we have got an exposure to steel price variability and I am seeing a stability of steel price. I hope that if the prices do not increase any further, we should be able to see an improvement in the overall profitability by the end of the year. Meanwhile I will not want to commit on that, but the year end profitability of water plus Enviro should be certainly better than the last year.

**Sumit Jain:** One last question is on process cooling, which we spoke about in our last meeting what exactly we are looking at in process cooling segments that we can target?

**M.S. Unnikrishnan:** In industrial heat rejection process, a lot of water and heat gets consumed where the process cooling offerings provide energy efficient and environment friendly solutions, so the segment that you should look forward to is steel industry and the entire food industry. Even in the Pharma industry wherever there is a process cooling application, or wherever you need cooling done for the process will certainly require this application. I would presume that an entire process plant like even a refinery can have process cooling done. I would presume that 60% to 70% of the normal industry can certainly go for process cooling.

**Sumit Jain:** And therefore, what would be the project sizes in this segment?

**M.S. Unnikrishnan:** If I were to sell only the cooler then the size of the order could range between 30 - 40 lakhs all the way up to couple of Crores of rupees and if I take a project order, the minimum size of an order booking could be 2 to 3 Crores which can go all the way up to 30 to 40 Crores in the steel plant. And mind you I am only considering the size of the addressable market, we are not talking about everywhere, not even taking North America, parts of Europe and the developing world. The size should be almost three times that of the absorption cooling market. Absorption cooling market in the world is 700 million dollars, so $2.1 billion should be the size of process cooling market. It is much bigger than the current absorption market size. But of course, there will be competition and we have to a solution provider, it will take time for us to catch up to the market.

**Sumit Jain:** Sure. Thanks.

**Moderator:** Thank you. The next question is from the line of Ranjit Sivaram from ICICI Securities. Please go ahead.

**Ranjit Sivaram:** Good morning. Under the standalone also we have seen the gross margins have reduced, so is there any impact due to the pricing or will it normalize going forward, so what is the color on that standalone margins?

**M.S. Unnikrishnan:** I do not think so unless the way it has been reported is different. I am very confident about the fact that in the quarter, on a standalone basis, Thermax has seen an improvement in the margins of heating, cooling, chemical, enviro and even water businesses. The only area where there could be a gross margin reduction is in the power business, otherwise I do not think there is a reduction. Amitabha and all of us normally sit together for the concall but because of the strike in Pune, each of us are taking calls from different locations mostly from our residences because the office is closed today. I am unable to see the file in front of Amitabha, so I will ask him to clarify, but my understanding is that the PBT percentages have certainly gone up for Thermax Limited standalone. Amitabha, would you want to help him out in verifying if there is a gross margin reduction in Thermax Limited?

**Amitabha M:** No, I do not think that there is any margin reduction in standalone based on the kind of business mix because we have got project business, we have got product mix. You will find there will always be a play between the material cost and the other expenses because the other expenses include the site expenses, so the right way of looking at the margin will be at an EBITDA level where there is an improvement.

**Ranjit Sivaram:** Sir if you can help us with, every time you give the breakup of your order intake and order book in the quarter?

**Amitabha M:** For the quarter, I will give you the consolidated order book intake. Energy segment was Rs. 1,389 Crores, Environment segment was Rs. 158 Crores, Chemical was Rs. 105 Crores, total Rs. 1652 crores, so that is the consolidated order intake during the quarter and order balance for Energy segment is Rs. 5,749, Environment segment Rs. 621, Chemical 50, total 6420, this is the consolidated. You need standalone?

**Ranjit Sivaram:** Yes.

**Amitabha M:** Order intake Energy Rs. 1183, Enviro Rs. 158, Chemical Rs. 89, total Rs. 1430.

**Ranjit Sivaram:** Standalone order book?

**Amitabha M:** Order book Rs. 5,220 crores for Energy, Rs. 621 for Environment and Rs.32 crore is for Chemical, total Rs. 5,873.

**Ranjit Sivaram:** Thank you Sir and just one thing, which I wanted to clarify. From July, you have integrated the JV, so from next quarter onwards in the consolidated margins and the revenue, will that JV portion will also get added?

**Amitabha M:** Absolutely, I think from next quarter it will fall in the part of the consolidated accounts topline, including all the expenses and everything.

**Ranjit Sivaram:** Okay. Thank you, Sir.

**Moderator:** Thank you. The next question is from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

**Abhishek Puri:** Thank you for the opportunity Sir. On the profits from JVs and associates that turned into profitability versus loss as of last quarter, so maybe if you can give us some sense on the TBWES thing, so that we are able to model for the next couple of quarters as well. That is one and secondly in terms of your order inflow, the two orders that you have disclosed in your press release are from fertilizer in steels sectors, that is about 600 Crores odd, total order inflow for the quarter is 1600 Crores, so if you can give some sense which other sectors are contributing to it or components are contributing to it. That will helpful. Thank you.

**M.S. Unnikrishnan:** Abhishek, frankly yes you are right, in a very small way the PBT for Thermax Group has gone up to Rs. 76.4 crore may be minorly because of JVs. The TBWES JV that we will be taking over will not have any orders remaining and unless we start utilizing that facility on our own, something I am unable to disclose right now, certainly there will be movement there. It is not going to add either to the topline or bottomline. However, the other JV, SPX will bring in profitable operations in the current year as it has carry forward orders. Just to give you an idea, the JV should be churning a turnover of 50 to 60 Crore, and we had positive profits in the current year that will certainly benefit Thermax by the end of the current year. Otherwise for the former JV, I am not expecting that it will add anything to the topline and bottom-line. Thankfully the fixed expense, as per Amitabha and team on an annual basis will be not more than 5 - 6 Crores, unless we utilize this facility, in which case there will be variable cost, these are the same set of issues that we are currently evaluating. Is that okay Abhishek?

**Abhishek Puri:** Yes, that is helpful Sir, on the order side if you can give us some sense?

**M.S. Unnikrishnan:** Yes, correct you mentioned this. The numbers in the current quarter for the company has come from food and food processing industry. Apart from that, we also had some other sponge iron orders coming in the current quarter. We had the cement groups giving us orders for waste heat recovery-based power plant. Rest is scattered and spread across 16 to 19 different sectors. Thankfully the consumer facing industry continued investing which has helped us achieve a decent order intake. In the air pollution control business, we got many industrial customers and it is not the big power plant but the smaller ones that has helped the Enviro and the air pollution control business. Water business certainly had orders coming from various specific segments. So, it is fundamentally multiple sectors, not any of the larger sectors. My worry is that the fertilizer is done with placing orders, and same goes for steel so there is nothing pending in the country to happen. We need to wait for one of the larger segments like refineries to come back or cement for waste heat however none of these will happen in the immediate future though there are some enquiries.

**Abhishek Puri:** And you mentioned the enquiries have increased, so which are those sectors are they large ones or these are again the scattered ones which you mentioned earlier?

**M.S. Unnikrishnan:** There are lots of enquiries small to medium size, in the market that is the enquiry which I mentioned.

**Abhishek Puri:** All right Sir, all the very best, I will join back in the queue.

**M.S. Unnikrishnan:** We have lots of enquiries on hand, but not of the larger size.

**Moderator:** Thank you. The next question is from the line of Nilesh Bhaiya from Macquarie. Please go ahead.

**Inderjeet:** Couple of questions, first is on the Danstoker and Thermax Engineering you gave us numbers in terms of how much the impact is? Can you just delve on some reasons behind that as to why exactly this played out that is one and the second is on the steel orders, does the NCLT proceeding somehow delay the ordering from this year into next year, what is your outlook on that?

**M.S. Unnikrishnan:** Inder, in the case of Danstoker, these are cost overruns in executing orders. When you delay ordering of components you will not be able to negotiate, which is what happened in case of the European company and we ended up spending substantial amount of money in completing the projects. In India, as I mentioned earlier in the call, Thermax Engineering Construction Company last year in Q1, had income available from a final settlement for which the work was already over. Since the cost was already booked so the entire income was considered as a profit and in the current year that kind of a one-time income was not available. Ofcourse TECC is positive even now, but that extra income which was available last year is not available this year. Further, I also need to inform you that we have wound up the operations of Thermax Engineering Construction Company, which is dedicated to our boilers and heater construction. A separate construction arm Thermax Instrumentation Limited will continue. And the second question?

**Unknown Speaker:** Regarding the prospects in the steel sector, do you expect any delays?

**M S Unnikrishnan**: I do not expect a delay, because NCLT certainly will delay some business. We cannot discuss about this over a call. There are two orders that Thermax has received; one is JSW, second is Tata Steel. JSW is now going ahead with an expansion program, where they have ordered out almost 80% of the entire scheme; a major part of which has gone into China, while we are one of the rare large order gainers from India. The way we are currently seeing it, I am not expecting a delay there. If there is any progress, we will keep you informed about it. Similarly, the other order is at Kalinganagar from Tata Steel. We have not received the order that has gone to one of our major competitors - the largest Indian boiler maker has taken that order for a BTG. So, I am not expecting a delay in both the cases; neither from Tata Steel nor in this space.

**Unknown Speaker:** If I could just squeeze in one more, would you like to put a number in terms of given massive order booking, what kind of revenue growth are we are likely to see this year on a consolidated basis.

**M S Unnikrishnan**: Unfortunately, I have never had that habit of giving this specific guidance. You know the growth that you had in the first quarter itself, so those are the kind of numbers, which will be looking forward to.

**Unknown Speaker:** Thank you.

**Moderator:** Thank you. The next question is from the line of Venkatesh B from Citi Bank. Please go ahead.

**Venkatesh B**: Sir I had two questions - In your introductory remarks, you had mentioned that the profitability was low because of the international subsidiaries. Now, looking at your standalone numbers and looking at my notes for the first quarter of last year numbers, I notice that there was one of the other analysts, who had pointed out a Rs. 80 Crore impact because of GST and Rs.30 Crore impact because of Malware attack on JNPT port, adding up to Rs.110 Crores of loss sales. Now if you add that amount to standalone numbers of last year, last year first quarter standalone number should have been more like Rs.820 Crores, so if you compare to that this year practically there has been no growth, so that is one aspect of which I think the other person did point out because you lost around Rs.110 Crores of sales in the first quarter of last year, in the standalone numbers your margins was only 6% and when things bounced back next quarter, your margins moved on from 9% to 11%. So, against that in standalone numbers we have 6.9% margins, it certainly has a reason for us to worry that whether the backlog which you have booked is at a much lower EBITDA margins than what it is historically or is there any other reason to believe why your standalone margins are only 6.9% in the first quarter. If you could give us confidence in terms of how we build out our margins going forward, is my first question Sir?

**M S Unnikrishnan**: Venkatesh, maybe I should advise all of you to not calculate this way for capital projects or commodity business. You take it for granted that what is available in the earlier quarter or is missed out in the next quarter, will be added to the deficit. We are not an automobile company, which may have 50000 cars lying in some godown somewhere not being put to use. Whenever I can bill I do. It is just a project institutional mechanism not a single answer, though I also have product like boilers almost similar in behavior to automobiles, so please do not do that otherwise we will have these doubts and derive something which is a perception than arriving at the reality. Since you mentioned about Thermax Limited only, I'd like to say that the margins have improved substantially as compared to our turnover, despite the cost pressures. There is a marginal improvement in the heating business, in terms of the topline for the current year, while profits have gone up significantly. Does the answer satisfy you? Our cooling business last year incurred some loss and they have swung into profitability. So, do not derive numbers for project companies the way you are doing, or you have done your way. It's not a problem for me, but you will unnecessarily get confused about the stated Rs. 67 Crores profitability of Thermax Limited versus Rs. 50 crores in the last year. The margin improvement was on two counts, one being receiving more profitable orders, and second a higher turnover. Now coming to the margins of the carry forward orders is what the question is, right? Yes, we have received a good part of the orders in the last four quarters. If you go back to see the current quarter and the three previous ones in the domestic market, we have done quite well in the last three quarters and the current quarter put together. But in the domestic market one of the major impacts all of us have faced, including all my competitors, is the increase in commodity prices especially the steel and copper prices. Now in a tougher market, things have not really been able to turnaround and even today have not fully turned around and improved. We do not take orders at losses but if there is a profitable order, how to improve the profitability to deliver a double-digit profit is done through value engineering, while executing the project. Can I deliver double-digit profit at the end of the year, for a full year? It is possible, but it is not going to be an easy task. We are working towards that like the way we have done earlier also. There is a confidence that though the margins may be under pressure, we should be able to come closer to double-digit profitability. Do not derive numbers item wise, because then you will get confused as you do not have all the numbers. I do not want anyone of you to ever make any wrong calculations, you need to challenge sometimes but not for some of the things.

**Venkatesh B**: Thank you very much for the clarity. The second question is a broader strategy level question. I have been noticing that over the years our cash balance plus current investments have kept on going up, so if you look at FY2018, our cash balance plus current investment is almost 15 billion. Now when it is 15 billion and when you see it in comparison with the net worth of the company it is more than 50% of the networth. Now the first question is what is the reason to pile up so much of cash in your books on an annual basis you do capex of may be maximum Rs.200 Crores or so and you generally always deliver Rs.150 Crores to Rs.200 Crores minimum cash flow from operations, with a little bit of cash balance you can still manage to do the capex and whatever acquisitions need to be done, so what is the purpose of accumulating so much cash? Has the top management thought about returning this money to investors either through a buyback or in the form of special dividend?

**M S Unnikrishnan**: There again we will have to clarify the reality. We have a very large order carry forward in the recent past and we have been able to successfully collect good advances from the customers. A good part of the cash that you mentioned is the customer advance with us. The African order, where we built in the entire equipment in India and the cash flow has been supported by the customer. I cannot reveal the exact numbers on how much has come. So, customer money is also there with us. Our management of the projects are in such a way that we normally manage the cash flow for the project with the money from that specific project, not that we do it right every time, but there are many times we do not do wrong things. Secondly, it is not that we do not have any utility for the money available. If Thermax has to sustain growth in the next phase, which is already declared to all of you recently, we need a lot of money and the money available will be utilized. In any case, we have decent enough dividend payouts, we have given 250% to 400% and currently 300% dividend, so we are rewarding our investors who are loyal to us and whatever we do, the money will be adding to their value. So, we will need to retain the money. We want this money to build Thermax, where a lot of money will be needed to build additional capacity for our Chemical business going forward, we will need a lot more money to grow our heating and cooling business, for M&A in very specific areas and for reevaluating our business model.

**Venkatesh B**: Thank you very much for that answer. All the very best Sir.

**Moderator**: Thank you. The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.

**Bhoomika Nair**: Good afternoon Sir. If you could just talk a little bit in terms of the Indonesian subsidiary how it is performing and how our international business is shaping up and if Mr. Amitabha can actually give some colour on the international order inflow and the backlog, please?

**M S Unnikrishnan**: I will go with your order. First is on the Indonesian subsidiary. The first quarter had shown positive results in terms of order intake. We expected certain quantum of orders as budgeted and we have exceeded that in the first quarter. Whereas last year, faced headwinds over there, because as we started selling our locally manufactured boilers, we recognized some of the price that we expected but there were some issues which we have overcome. Enquiry is nice, money is also good, so I am expecting that by end of the year we should be on target in terms of the manufactured turnover at the Indonesian factory. So, whatever we have planned should be happening as far as Indonesia is concerned. We were also selling a part of heating boilers and absorption coolers there, but made in India with local value added, besides water treatment plants and air pollution control. There is some mixed success and part failure in some of the markets. Water has done well in few countries that we have targeted, in others the enquiry generation has started. Air coolers and pollution control are also doing well but for certain products. We are utilizing our salesforce in each of the locations to manage all the products. Wherever we find technical difficulties we increase the resources on ground. With these initiatives I should be at par for all the products of the company, other than heating of course where we are already at par. So, Indonesia is going on well. Now coming to the overall order intake and enquiry position. Enquiry position is not bad internationally; however, the order intake for the first quarter though it was good for the product business, I have not bagged major orders in the larger product business outside India in the first quarter. Now looking at the enquiry, with the oil prices having improved, we see that despite the political difficulties, refinery expansion programs are on the anvil. Now we already quoting to the EPC bidders who in turn will have to win the contract and then we should get the orders, so those are at least 12 to 18 months to go as far as Middle East is concerned. I have not seen anything substantially negative in the market in terms of enquiry inflow even for the products of the company despite the political instability. On the contrary, Middle East and North Africa had become almost equivalent to the Eastern Indian market for Thermax in India. So, it is north, east, south, west of India, Middle East and north Africa at least for the last quarter that had an enquiry inflow. I can also add South East Asia. So, the international order enquiries are picking up, but I need to admit that we were lucky enough when we bagged some of the large number of international orders in the project phase which are not many. There are couple of enquiries which can go to Rs.120 Crores to Rs.200 Crores size and of course I cannot predict the finalization right now. These will decide if I will be able to again cross the 35% international booking in the current year. Product business will do better in the international market, for projects I have a doubt if I will be able to overshoot what I have done without Danstoker in international market, even if I keep the Rs.1000 Crores order aside. Last year for example we had the large cement order coming in and three-four major orders coming for biomass fired boilers and we did large oil industry orders which is almost Rs.150 Crores. Such kind of finalizations has not happened in the first quarter, Is it okay?

**Moderator:** Thank you for your response Sir Bhoomika Nair has currently got disconnected from the call so we moved to the next question in the meanwhile that is from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

**Abhishek Puri**: Thanks for the opportunity once again Sir just wanted to check on your comment in the annual report regarding the FGD business on the air pollution side, you have not participated in any of the large bulk tenders that have come in from NTPC any specific reason why?

**M.S. Unnikrishnan:** Abhishek, for one of the parties where we are bidding, at stage II when we went in it was 10:80:10, which is 10% advance, 80% on the material, 10% commissioning. However midway through the process, the terms were revised in such a way that the reduction went up to 35% and the average size of the contracts were going to be not less than Rs.500 Crores or even Rs.1000 Crores. So, knowing fully well this is not the main business, this is one of the switch on equipment and it means a lot for us corporates to incorporate these terms with that fund, and even project delays can happen. I did not want that kind of reduction done, nowhere in the world has anyone heard about it. We have taken it up with management that we should not go ahead with this kind of terms. Many of our colleagues in the Indian market had agreed for the terms and taken the order, but Thermax will not take such orders. If they do not change the terms, we will only go for those tenders in the future where we get standard contract terms. I cannot comment on the capability of my competitors but anybody taking orders of the kind has L1 prices which are unheard of, which means there is hardly any margin. 35% of the money is going to come after the commissioning is over, which is challenging in capital goods industry. That is the answer for your question.

**Abhishek Puri:** Certainly, we will. Secondly on the other segment your comment on that there is no large fertilizer and steel orders right now, do you expect to be maintaining this order inflow run rate of about Rs.1500, Rs.1600 Crores in that scenario? Are there any small orders?

**M.S. Unnikrishnan:** Only small orders would not be practical. The initiatives that we are taking on various fronts are likely to fructify. For example, our entry into the commercial business sector started showing some results, with the capacity available for our chemical business, we will be able to take more orders, so those kinds of orders will improve, but if it can offset for an order of Rs.300 or 250 Crores is difficult to say. Looking at the enquiries right now a four-digit number in every quarter is what we wish to look forward to. Can it be an average of Rs.1500 crore? I would not comment on it right now because we cannot be overconfident in the current market situation. I could have asked the same question to the management in 2004, 2005, 2006, 2007, but today there are far more uncertainties not only in India but globally and at any point of time it can change, and investment is not happening anywhere in the world of the nature that we see in the last one to two years. So, we are going to be cautious. We have good enquiries; good orders and we stick to those orders. Whatever comes in the market of the kind which will not hurt the company commercially, there may be orders but we will not pick orders to increase order booking. We will do if they are executable and there is reasonable chance for us to make a decent profit on that. There are lots of projects happening in the rooftop and we are able to make profits from that which we never spoke about. Today I have enquiries whereas earlier we were only getting a view size rooftop that is 200 category, 300 category and in megawatt size also we are making profits that is decent enough. Similarly, in waste energy a lot is happening in different areas, where we are able to get orders. Otherwise, the generic answer to your question is that this is a targeted market so whatever happened in the last may be year or year and a half, we picked all those orders. There are enquiries in the pipeline, for which be assured of the fact that we will be the front runners.

**Abhishek Puri:** Fair enough. If I may ask one more question how is the Dangote order performing because I do not see your current assets or inventories being going up and secondly your liabilities have gone up quite a bit in the last couple of orders specifically in the current order as well about Rs.2626 Crores so what is the specific reason for that?

**M.S. Unnikrishnan:** Dangote order is progressing very well. In fact, manufacturing at our factory is going at a very good pace and at our assembly point, which is the Mundra unit, we have already started assembling four of them. I am expecting the first one to be completed by Q3 end, by which we will also be ready for testing and progressively in the next four to five months period, outer limit being two quarters, I should have completed the assembly of all. So my expectation is that once it is ready and tested and it should move out of India. I shall be candid in saying that they have been a good customer so far, by paying whatever is committed and also on time. Dangote is moving. What was the next question you asked, Abhishek?

**Abhishek Puri:** On the current liabilities specifically for the energy segment that has been going up and which is depressing the overall capital employed, but I just wanted to know the reason why it has happened?

**M.S. Unnikrishnan:** Amitabha would you want to give some details.

**Amitabha M:** I think Abhishek the single largest item for the liability side is the customer advances. So two things have happened - the order book has gone up so the customers advances have gone up and second as Unny mentioned sometime back, we got particularly large advances against a few orders so these have pushed up the customer advances, which is good and in line with our philosophy of execution of project orders. Good customer advance helped us expedite project execution also. So, this is as per design and this is the component.

**Abhishek Puri:** Thank you so much Sir. All the best.

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

**Renu Baid:** Good afternoon Sir. Sir I have two questions, a repeating on FGD side while I understand NTPC on the payment terms were not favorable, but what about the strategy for SEB market where we have already seen bid submission for one of the states in Gujarat, three of projects coming up - payment terms and everything were good, so essentially how we are looking at this market as in comfort with respect bidding for states or other sectors there?

**M.S. Unnikrishnan:** We want to continue bidding for it Renu. We will continue bidding because we have good technology. The way we studied this business so far, they would be reentering the State Electricity Board. I agree that this is from our side, but we were not prequalified in the beginning when we came out. Today we are prequalified to do that way. Sorry to say, again documentation requirement for prequalification in most of these cases, is very difficult for Thermax. Even if State Electricity Boards opportunities were to come, we may not be the prime candidate every time, you can have project delays and payments release beyond the level. Now one can always argue, what is wrong if we have not earned for smaller projects in the past for many electricity boards in the country, that is where we withdrew from that. Each company has its own style. Our strength is, we do not take orders where we have to write off the outstanding. We have not faced such situations, where maybe 4 or 5 Crores write off in these projects would be possible. We have never withdrawn Rs.100 Crores so far, even if a customer hasn't paid, so we have to be careful. SEBs is a possibility but the way we are moving as per the strategy is that we want to be an industry leader. So far whatever got concluded in the country, we have vouched for specific ones, the order size are Rs.1 Crores, Rs.2 Crores, Rs.5 Crores, but for the larger guys if I start implementing properly, I can get orders for Rs.10 Crores. So maybe I would rather go for Rs.10 Crores being awarded in a year rather than taking 100 or 150 Crores per order and then getting stuck in the project beyond a level. But if there are viable manufacturing opportunities or NTPC plans to correct the terms of payment, then we will participate in that. We would then be a part of the market, because market is also going with that kind of terms for final payment. We went for main tenders, but it is only for power plant orders that these are the terms that are put across.

**Renu Baid:** Second I know this question was addressed earlier as well, as even if you do not look on the quarterly basis for the core standalone operations, the EBITDA margins will still be up 7%, which compared to our usual normal benchmark margins is lower. So, was it some mix issue or some provisions in the standalone operations also which impacted the core EBITDA margins for the business?

**M.S. Unnikrishnan:** I thought I answered that, Renu. Our standalone last year, the EBITDA 6.2% and current year has gone up to 7.5% so we have gone up and the PBT level last year for Thermax standalone was 7%, current year is 8% and entire degradation of the quarterly result is on account of group level which I already explained. And if that were not to happen – Danstoker case and the TECC won extra income last year and the Thermax Europe Limited provisioning has been done. Thermax Limited standalone is where the main profits normally come from, it has gone up for the first quarter, which has got wiped off with the legacy which I mentioned about. I am quite happy that last year in the first quarter, all those who were negative have turned positive in the first quarter, so that is not a worry at all. I do not have the number that I can reconfirm, but I repeat standalone level for Thermax's PBT has gone up by 100 basis points to 130 basis points. This is Q1.

**Renu Baid:** I do agree. We were comparing with the annualized numbers and margins in terms of this. I think compared to the annualized levels there. Sir, second with respect I will give you inventory on order flows, are we still maintaining that for the financial year? We would be able to broadly have flat inflows versus last year or do you think they could be probability of decline if the large order backlog or at the pipeline has been looking a bit weak?

**M.S. Unnikrishnan:** I will want to wait till Q3 before commenting because we have got enquiries on hand; budgetary enquiries coming, and serious enquiry can happen all of a sudden. These are two or three budgetary enquiries with the customer and they may become serious about them. In a normal year I would have probably told that it could happen or that a certain value is possible, but in this relation some people will want to wait and watch. There are a couple of factors, which we need to be clear about - we are in the election year and many industries may delay decision making. That is why I am not committing right now on that, whereas last year I would have suggested what kind of enquiries we have received and the probability of doing it. But this time there is an external factor, which has nothing to do with project.

**Renu Baid:** Got it and Sir, the last question is how is the overall export portfolio performed for us with respect to revenues, you initially mentioned about orders for domestic and international, but to begin with respect to revenues have we seen international execution numbers picking up or growth was primarily driven by domestic alone?

**M.S. Unnikrishnan:** International first quarter was much better than last year, but for us the orders are in hand, so for me it is forward-looking, which is important. For example, revenue for the group for the international side has gone up from Rs.328 Crores to Rs.504 Crores in the first quarter and I am very confident with the many orders in hand, the yearly performance is going to be equally good. We should be doing well in the international market in the current year, but order booking is more from domestic in the first quarter. For example, our last year number for the first quarter was Rs.538 Crores, our second quarter for Thermax group was Rs.1190 Crores, which is 121% more than the last year for the first quarter. The international order intake has come down by 66% so my ability to do next year has come down. In the current year, of course I am confirming the number as we are far superior in the international for the full year, but in the next year I need project orders, products will happen and will grow by 10% next year, but I cannot predict if the project orders will grow by 10% even if I subsidize the large Dangote order to some extent.

**Renu Baid:** Thank you so much and all the best.

**Moderator:** Thank you. Ladies and gentlemen due to time constraint this was the last question I now hand the conference over to Mr. Unnikrishnan for his closing comments. Over to you Sir!

**M.S. Unnikrishnan:** Thanks a lot for being on the line and being supportive and asking such intuitive questions. Once again, apologies for any inconvenience to all of you. Normally all of us are in one office instead of being over the phone and with all the documents near us, to give the right answers. Thanks to each one of you. I am looking forward to being with you in the next quarter. Thank you.

**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 today. You may now disconnect your lines.