"Thermax Limited
Q3 FY2020 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Thermax Limited Q3 FY2020 Results Conference Call, hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Miss. Bhoomika Nair from IDFC Securities. Thank you and over to you!

Bhoomika Nair: Thank you, Zen. Good morning, everyone. On behalf of IDFC Securities, I would like to welcome you to the Q3 FY2020 Earnings Call of Thermax Limited. I have the management today being represented by Mr. M.S. Unnikrishnan, Managing Director and CEO; and Mr. Rajendran Arunachalam, Executive Vice President and Group CFO.

I will now hand over the call to Mr. Unnikrishnan for his opening remarks, post which we will open up the floor for Q&A. Over to you, Sir.

M. S. Unnikrishnan: Thanks a lot, Bhoomika. A warm welcome to all of you, and thanks for your cooperation and support as usual. I am looking forward to a very fruitful con call.

Let me start with the results for the quarter. I will be restricting it only to the group numbers and if there are any specific queries related to standalone results later on, we will certainly answer it. So, for the quarter, Q3, our order booking has gone up by 9% to Rs.1606 Crores from last year same quarter's Rs.1480 Crores, which is 9% more. In very difficult circumstances, this result could be achieved basically at the back of an order that we received for flue gas desulfurization systems from a private power producer of India.

On the revenue side, we are almost same as last year number, marginally lower at 2%, Rs.1410 Crores, coming down to Rs.1437 Crores. There were no specific project delays in the ones that we are executing, nor any specific areas where payments were unduly delayed so I cannot blame the customers for the current year's marginal drop in the turnover. But we did not notice any rush among customers who usually push you to complete the project in time, that kind of pressure was not visible. The overall sentiments being negative, there is no hurry from the market to complete the projects. That is the summary.

We come to EBITDA. Happy to share that at the EBITDA level, we are better off by 50 basis points, an answer to what you continue asking me - when will you start at least reversing the trend of reduction in profitability. At the EBITDA level, it is better, though you may see that at the profitability level for PBT, there is a drop because in the current quarter we had to account for an additional depreciation of the subsidiary TBWES, for which we had already purchased partner shares and also, one of the divisions has not performed well, that is Danstoker. Not a surprise, but we were expecting a turnaround in the current quarter, that is getting shifted to the next quarter. That is about the results.

To give an idea of order booking segment-wise, our order intake, frankly, is lower for the Energy segment of the company but compensated substantially by the Environment business, where I mentioned that we had an FGD order. Otherwise, also, Environment segment seems to positive both for the water division as well as for air pollution control in the current quarter. I would presume that at least for the industrial FGDs and industrial water treatment, things should continue to improve in the coming quarter as well as the year.

Some updates on the issues that we have been discussing about TBWES. Very happy to inform you that the factory is fully operational. For China, as I mentioned the last time, we will be closing the entire operations over there. It has already happened. The factory and the building have already been sold off along with the machinery, as part of the deal. The remaining usable inventory has already been shifted back to India.

At Danstoker, as I mentioned to you, we have the new management in place. It has taken a little longer than what we anticipated for the turnaround, but we are confident that going forward, it will be a profit-making entity. Happy to also inform you that Cooling division, which had made losses as I reported earlier, has turned around in the current quarter and looking forward to continued performance improvement of that business of the company.

Coming to the overall outlook, as we see it, yes, Q3 was one specific quarter where surprisingly we have seen the inquiry inflow and decision-making in the conventional consumer-facing industry also going down. We are hoping for some positive post the Budget. Though it does not carry any big bang announcement, there is nothing negative in any way to subside the economy. There are positives, especially for the consumer-facing industry, specifically related to the dairy industry, where there is an announcement to double milk production by 2023. Allocation is already made in the budget so we should see a lot more of improvement in the dairy and milk processing industry, which should need many of our products like standard boilers, water treatment plant, waste water treatment plant and also absorption chillers in some cases. Equally, we are looking at the cement industry to start ordering because there is a higher allocation given in the current budget for roads, both in rural area as well as in urban area and city connect roads. Though all of us were expecting something in the offering from the budget related to real estate, nothing of that kind is there. So, we cannot comment on that sector. But we have sufficient number of inquiries in hand, for waste heat recovery based captive power generation, which can be concluded, may not be in Q4, but certainly going forward. There are also 2 greenfield cement capacities under discussion. As they move forward, we will be one of the contenders for the captive power.

If you recollect, 1.5 years back I told you in a con call that cement companies are averse towards coal-based captive power plant. But the current trend is that anybody who is going for a new plant is also putting up a coal-based captive power plant.

We are seeing an improvement in the sponge iron industry, with multiple inquiries. Earlier, it was for small capacities, but now it has gone up for the first time in India to 600 tonnes per day and 750 tonnes per day and the small competition may not be able to take on, so it should be auguring something good for our company.

Coming to Oil and gas, happy to report to you that they have really started placing orders. Multiple EPC orders got concluded. Now it's our turn because they first order for the initial part of the construction and the utilities get ordered in the second lot so we have submitted our offers and discussions are on. Will it get concluded in Q4? I may not be able to confirm right now, but it is in the offering. The first one should conclude somewhere between Q4 and Q1. There are 3 of them under discussion at various stages. One is Barmer refinery, which has got captive power plant. For the first time, in the public sector, they are going for a coal-based captive power generation so we will be an active player in that. Second is Panipat Refinery and Gujarat Refinery, where we will be participating.

From the Budget, the only take that I need to share, which is relevant to the discussion, is that the income tax tweaking done by the Finance Minister can have a positive impact because one of the things that all of us did complain about was that consumption has come down in the country and disposable income in the hands of the people who need to invest is not available at all, leaving aside the inflation. Those who are in the tax bracket of above Rs.5 lakhs per annum to Rs.15 lakhs, in our opinion, are early earners who have just entered the industry or maybe at early stages of working. Those are the people who buy white goods, consumer items, affordable housing, automobiles. For them, when they have even an additional Rs.1,000 in their hand per month or maybe Rs.5,000, their EMI capability goes up so this should certainly buck the trend of consumption, which should give a positive sentiment to the market and the delayed decision-making that is happening for the past quarter and a half should certainly come back to normalcy. We will be one of the major beneficiaries if MSMEs and medium-sized companies of Rs.100 Crores to Rs.500 Crores size were to start investing. So, this is my overall take. We need to wait and watch both the domestic market as well as the international market as to how economies are going to perform.

Thanks a lot for listening to me and I leave it to you to ask me specific questions now.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Sir, my first question is to understand a little bit more on the Energy segment of the business. You mentioned the inflow is there and backlog is there on a decline so how should we look at the growth in this part of the portfolio in the next 12, 15 months? And the margin headwinds, which were there from high project cost and lower margins on certain large projects, are those headwinds broadly behind with the completion of these projects? If you can share some insights here?

M. S. Unnikrishnan: Thanks a lot, Renu. Yes, I need to say that order intake certainly has come down for the quarter, but that is no indication that it may continue. We also have a fairly strong presence for Energy segment outside India, not as much for Environment. I am expecting that going forward; order intake should improve both from the standard products area as well as for the projects. If I were to look at the inquiry pipeline for projects, it is much better than the same time last year. Now conclusions were not happening in many sectors. As I mentioned, we have been talking about the oil and gas sector for so many quarters. You personally must have been party to multiple other discussions other than the con call, when you meet other people.

Inquiries are online. We are bidding for it. And as I mentioned, unlike earlier O&G projects, the steam generating plants here also are going to be coal fired, which is not a cup of tea for everybody participating. There are very limited companies who will be qualified to do that, and our company is one among them and certainly, we look forward to giving it a good fight and should be able to report the results either in Q1 or beginning of Q2.

Similarly, in case of the other two, Panipat and Gujarat Refinery, we are prequalified and there were testing with the consultants so I am looking forward to an international consultant preferring a company like Thermax than prequalification being given to smaller players so there should be some positive news there.

Similarly, we have international O&G projects also, which was stalled for a long time. Qatar, Abu Dhabi, Saudi Arabia are again picking up. And there are inquiries for captive power plant in Southeast Asia and maybe South America and Africa. Progressively, they should start ordering out. So, my outlook for the coming year is that the project side of the business, which has taken a major beating in the current year in order intake, should report better numbers in the next year. Then, on the standard products, which was a mainstay of the company's balance sheet, has been lower in the current quarter. But as I mentioned some of the things in the opening remarks, I am expecting that sentiment, which is absolutely negative, perhaps at the rock bottom right now, has to progressively improve. We need to be patient, as there will be some convalescence period, so I am not expecting reversal in one quarter. Certainly, it could be progressively, H2 should be a normal good quarter for standard products. This is about Energy segment.

Coming to Environment, we already have a fairly good carry forward in air pollution control. And Lot 5 is going to be bidded where we are already an active participant. How many of them are we going to bid and win? We will not bid for losses. Certainly, no. We will be bidding for a decent enough profit. And I believe that the way the last bidding happened, many of those people who are outliers in negative profitability are out of the bidding circuit right now. It should improve. And some of them already have enough and more orders on hand in the Environment sector.

Water is an area where our order intake had not been good in the current year. As the MSME level, medium-sized projects pick up for the Energy segment; the Water segment should also pick up. That is the overall take of it. And did you ask profitability? Well, yes, in the current quarter or for the Energy, though the revenues are marginally lower than the previous year's same quarter, our profitability has improved for Energy segment, the PBT.

Renu Baid: Right. Overall yes, exactly. My point on the margins from an annualized basis, if we look margins, can we expect now from next year as the share of mix improves and some of the low-cost projects are nearing completion. Can Energy segment margins be back to 8% to 9% levels? Or you think it is slightly more challenging in the current environment?

M. S. Unnikrishnan: On the orders available, no major improvement. But we always work towards improvements so that will continue. Major improvement will happen only if the book and bill orders that you pick up for the next year is fairly large in number, and if the competition were not to bring the prices down. And currently, I am expecting a steady input cost, not that everything is going to skyrocket or come down. At the steady level, Thermax has been always able to improve. But if an unsteady stage were to prevail on account XYZ reason, we may be impacted. For example, say, in China, I am sorry to say, if the corona virus issue was to blow out of proportion. Chinese are the stabilizers of steel price in the world. 80-plus percentage of our consumption is steel so if that were to happen, I am sure all my friends in the steel industry in India are waiting for an opportunity to increase the prices. I have orders in hand, and there is normal steel which we buy from the open market. So, we will have to wait and watch. Though we will try to improve, that is a promise, but I cannot guarantee if it may happen going forward.

Renu Baid: Sure. Sir, just 1 question for Rajendran Sir. If you can share the split of inflows in backlog between Energy, Environment and Chemical for us?

Rajendran A: Are you looking for the quarter or for the year-to-date?

Renu Baid: For the quarter?

Rajendran A: Okay. For the quarter, the order book for the Energy segment was Rs.799 Crores, for the Environment segment it is Rs.691 Crores and Chemical is Rs.117 Crores. That is a total of Rs.1606 Crores. And you wanted order balance split?

Renu Baid: Yes.

Rajendran A: Okay so order balance is Rs.3734 Crores for the Energy segment, Rs.1635 Crores for the Environment segment and Rs.69 Crores for the Chemical segment.

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

Moderator: Thank you. The next question is from the line Kirti Jain of Sundaram Mutual Fund. Please go ahead.

Kirti Jain: Good performance amidst challenging times. Congratulations for that. And my first question is with regard to Chemical segment. Sir, like despite opening a new facility, our business continues to be on a flattish trend. When we are going to see improvement on the top line side? And current quarter, we had seen a very sharp improvement on the margins for the Chemical. What has headed? Can it be sustained in the Chemical margin side?

M. S. Unnikrishnan: First, on the Chemical, why the margins have improved in the current year? The mix of products that we sold in the current quarter had a fairly high share of specialty chemicals where the margins are far better than the conventional products. And going forward, can we repeat it? Our intention is to repeat. But to get new orders in specialty, it is a long-drawn affair because these are specialty meaning application-oriented chemicals, predominantly sold by us in America, and we are opening up the European market also. And displacing the current supplier, who naturally will be one of the largest chemical manufacturers in the world, is not an easy task. But we will ensure that it only goes up, it cannot come down. That is point number one. Your next question was about the top line being almost flat. Yes, we have knowingly not taken orders because our Dahej factory had stability issues in the Q1 of the current year, so we started picking orders only from Q2 onwards. Now it is stable and available for us. Currently, our Dahej capacity has gone all the way to nearly 10,000 metric cube per annum. And similar capacity is available in our earlier plant of Maharashtra.

Put together; we have 20,000 metric cubes available and the current offtake needed for meeting the target in the year would be something very close to 16,000 to 17,000 metric cube per annum. So, we have surplus capacity available at this juncture that should help us. The Phase II expansion of Dahej would be completed by Q1 end in every possibility. And since we have learnt how an automated plant needs to run, I would presume that the plant should reach stability within a quarter to 2 quarters. So, going forward, our capacity overall available for Thermax resins will go up from the current maybe 20,000 to 32,000 metric cube per annum, which leaves a fairly large headroom for growth of the business. So, both market and capacity are available. Now we need to ensure that we go and pick the orders so if that happens, certainly, you can see a continuation in this. There could be quarters where we may have more commodity manufacturing than specialty because we cannot have an idle capacity so, the overall percentage margin may come down, but our intention is to get all the new orders of specialty. But the market may not favor us every time so that also you should be taking with a pinch of salt. Is that okay, Kirti?

Kirti Jain: Yes, Sir so with this 32,000-metric cube, we should be reaching a turnover of Rs.1000 Crores, roughly. We can reach, right, Sir?

M. S. Unnikrishnan: With the existing capacity and the expansion that we have planned, for resins alone, we should be talking about maybe Rs.650 Crores. Originally, we were planning to go for another expansion, Phase 3, which we have put on hold for some time. Our plan is to take the resins business to an Rs.850 Crores turnover. For that, we will need to either increase the capacity at Dahej beyond 22,000 or else set up one more factory, which is under discussion with the Board of the company so we will keep you informed about it. That is as far as the resin business is concerned. But we also have performance chemicals business, which is growing. And it is almost touching Rs.150 Crores and will soon reach Rs.200 Crores and that is an area where you do not need extra capacity. And a couple of them can also have a possibility of breakout expansion in the market. Rs.1000 Crores is possible, in the overall capacity may be going forward. We can also exceed Rs.1000 Crores. Not immediately, but progressively.

Kirti Jain: So, Sir, next year we should expect improvement given the stabilization issues have been resolved, next year we should expect the improvement in Chemical business, Sir, at least 15%, 20% kind of improvement?

M. S. Unnikrishnan: I will not bet on a percentage, but it will certainly improve. It will be in double digits for sure. Will it be the number that you spoke about? Maybe we are also having similar kind of targets. Let us wait and watch for it to happen.

Kirti Jain: Sir, on this O&M and Services business, how has been our progress in YTD basis? And how we are looking directionally to improve on the O&M, which can improve our profitability when greenfield activity is a little tight?

M. S. Unnikrishnan: In O&M, we have combined our power O&M business, along with our other utility O&M so it is getting a real focus. There is strong leadership and strategy available. There, frankly speaking, with the economy having taken a beating, many customers are looking forward to a cost reduction when we renegotiate every O&M contract. So, unless we can match up with reducing our input cost, the margins may come down, so we already are resorting to digitization in that area. With that, customers are not asking for so much warm board to be provided, meaning I will only pay you so much, that change is also visible. Happy to inform you that the utility side that has been brought under the same umbrella has improved its profitability. Once it comes to a double-digit, we want it to expand further. And most of the O&M currently is based in India. We want to move out of India, so we have got limited projects going on in isolated countries, like one in Zambia, one in Tanzania is going to happen or in Nigeria, we are negotiating. But we want to take it into the second home market for the company, which is Southeast Asia, in a bigger way. So that is something where there is an absolute focus of the company related to operation and maintenance. And we never did operational maintenance for our larger boilers because the power division was doing it for captive power. But cutting off from there, if a customer is wanting an O&M only for a larger boiler, we have started doing it. In that, we can do value-add also so that also should be growing. Air pollution control did not have a service group, so we have created a service group in air pollution control with FGD orders happening because customers may need support. Water has already got more than 120 operation and maintenance contracts, but it is just running contract. But we need to be in the realm of online monitoring. In many states, now they have introduced online monitoring for effluent treatment plants, where the output results are directly connected with the pollution control office so there is a role available for companies like Thermax. Earlier, it was just a mining contract. But today, there needs to be capability and competency added along with mining so there I am expecting that, progressively, when the states become very strict on implementation on effluent discharge, we should have a role to play. If I have to put all the things together, I will say that we are headed for an improvement in the overall O&M business.

Kirti Jain: Okay so that should directionally also be a kicker to the margin, right, Sir? Apart from the mix moving from product project, O&M business also moving, let us say, directionally, the margins should improve, right, Sir, over a 1-year or 2-year time frame?

M. S. Unnikrishnan: Kirti, that is a directional impact. I have instruction from the Board that the maximum focus should be there on the Service business, where O&M is one portion. There are also other factors like replacement time, spare parts, upgradation of plant, retrofitting and revamping, those kinds of things are also being focused so overall, I would say that earlier we had a target of achieving 15% of our top line from Services, and it is being upped. I cannot disclose the number, but certainly we are working towards improving it.

Kirti Jain: Good to hear Sir. Thanks a lot Sir.

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

Ranjit Shivram: Sir, in the EBITDA margin, when we dwell a bit deeper, the raw mat to sales has increased while the other expenditure has come down so anything any trend you are catching on that side? Or is there any onetime in that other expenditure?

M. S. Unnikrishnan: Shivram, very good question. It is a quarterly impact right now because we are at an active stage of implementing some of the orders, which as I mentioned to you earlier, had cost overruns. Those costs are getting booked. I mentioned about a project in Gujarat and another one in northern part of India by the EPC group, which had major cost overruns. So, those are the ones, which are getting registered and it should improve moving forward, not in a quarter. For those projects, when at least 90% of the supplies are over, we should be able to see an improvement. Otherwise, I do not think there is any trend that needs to be looked into.

Ranjit Shivram: And other expenditure, is there any one-off in that?

M. S. Unnikrishnan: There is no one-off item in the other expenditures. I would say, it is the stability of two of the factories where we had a difficulty, one is in the southern part of India for chillers, and second is for chemicals. These 2 are one of the factors. And one more thing I need to say is that we were booking our port assembly facility expenses, as a part of other expenses only. It was not booked in the material or labor expenses. We have almost completed the Dangote assembly, with hardly anything left. Whatever is left is only related buying and selling of instrumentation and insulation. There could be an impact of that also, so it is a normalized rate now, let us say.

Ranjit Shivram: Okay. And how about the subsidiaries? If you can let us know how much is Dangote's revenue or profitability for this quarter or 9 months? And how about the other subsidiaries? We are expecting some improvement from Poland.

M. S. Unnikrishnan: Well, project-wise, we do not normally give the numbers, Sivaram. But I can say that we have clocked a better number for Dangote than we expected when we concluded the order with efficiency improvement and a lot of cost reduction measures taken by the team. And the entire activity is completed at the port assembly facility. And as I mentioned, only items which around Rs.138 Crores to Rs.140 Crores worth of revenue recognition is left, which we cannot do it immediately. It may even get into the next year because if we supply these items right now can have a problem related to weathering. Insulation will be done in the last part when they are ready with the refinery commissioning, so the balance portion will be supplied at that time. I would say that we have been able to manage this order pretty well. And certainly, Danstoker had been a letdown in the current quarter also, but we are expecting that it will turn around because we have detailed planning done, which is being monitored from the corporate office, so it should happen. I would say that they would still have a negative in the next quarter, but Q1 onwards, we should be able to talk about profitability for that also.

Ranjit Shivram: And Southeast Asia?

M. S. Unnikrishnan: In Southeast Asia, there are 2 factors. One is, when we pick orders and get them manufactured from India, that is for water, air pollution control and medium and large projects of the heating business. These orders continue to be profitable. But for the factory that we set up, dedicated for the heating business of the company in Indonesia, current year order book had not been too good so far so there is some redigging that we need to do in that particular market to get more orders. And finalizations have not been too good over there also, in Indonesia. I expect an improvement in that going forward. In fact, the two areas where we expect good improvement is Danstoker and the Indonesian edifice. Not that in Southeast Asia orders have come down, we are getting orders, but those are not manufacturable in the factory that we have constructed over there. Because we can only make standard packaged boilers in that factory as of now, nor do we want to make it into a project's kind of heating boilers. That we will want to continue to supply from India. The balanced portion will certainly have to be done in Indonesia.

Ranjit Shivram: Sir, lastly, this Lot 4, did we participate in the FGD because pricing was good? So, what was the reason?

M. S. Unnikrishnan: We bid for Lot 4, but then many of them went for rebidding, which is happening right now. In that well, I mean, why did they go for a rebidding? Because budget of NTPC versus the prices quoted for L1, L2 was so far away from the budget that they expected the price to come down. But we have done our costing with a lot of clarity that you cannot do the FGDs at the kind of price, so we stuck to our prices. There were a couple of them who were willing to reduce their price. They may know their reasons for reduction of price, so we have not won anything in that. Currently, we are participating in Lot 5. It is already out in the market. We are participating actively in that front.

Ranjit Shivram: Okay Sir thank you and all the best.

Moderator: Thank you. The next question is from the line of Umesh Raut from Yes Securities. Please go ahead.

Umesh Raut: Sir, my questions pertain to the Environment segment so government has announced some major stringent to the emission norm control for the power plants so how do you see FGD ordering, especially from the state side and private side, apart from NTPC, over the next 1 year?

M. S. Unnikrishnan: Umesh, I am expecting NTPC to conclude up to Lot 5 and there afterwards take a break and focus on executing these orders. It is quite visible that they are moving away because the lots are getting concluded, they may have some more plants remaining. But they are now coming out with tenders for full plants. I believe 2 of them are in the offing, that is full power plants. And they also need to find the funds for putting up the plants, and they may want to control costs of running their plant because there is some commitment that they have taken in their balance sheet related to the operation and maintenance cost, including consumables. Unless that is stabilized, they may not go for the rest of them is my current understanding. Of course, the government can insist upon. There are 2 sectors left out. One is the private sector, which is in deep trouble, so I do not expect much as all of them have asked for time extension. The government has not given it because the ruling is from NGT so let us wait and watch. And for Thermax to participate in private industries, there are very limited customers whom we may want to be working with and for one such company, we have already taken the order. I cannot reveal the name of some more that can come in. And 1 or 2 of them are good for us to be dealing with so that is the second. Third is the main sector, the state electricity boards. Well, barring 1 or 2, none of them have a balance sheet which can be leveraged any further, unless there is a funding. I know that there will be funding available, the entire power industry allocation by the Finance Minister is Rs. 22,000 Crores. How much of that is going to which state or all, is something that we will have to wait and watch. If that state government's past is indicative of their ability to pay, then we may participate depending upon the terms of payment so that is all what I can comment. I am not expecting anything substantial to happen in the next year, though there will be Lot 5 and part of that may shift into the next year, where we will be actively participating. And private, we will wait to see who comes out with inquiries.

Umesh Raut: Okay. On working capital, Sir, in your opening remark, you have mentioned that there is some stress in the channel still so how do you see that is moving up in next 1 or 2 quarters?

M. S. Unnikrishnan: First and foremost, maybe I did not communicate it well. What I mentioned about the channel is the inquiry inflow, not the cash flow in that area, so there is no stress at all. On the contrary, in the current quarter, our overall working capital utility has come down from Rs. 219 Crores to Rs. 177 Crores. There is an improvement in the cash flow. And we are not borrowing but managing it from our own money. So, I do not expect that we would not take orders, but we will not supply an equipment unless we are assured about the payments coming in from that particular sector. But there will be some stress. What you told for India and the industry is correct also because NBFC problems are not yet resolved. A lot of the channel range of products does depend upon the local financing and NBFC financing, which is not getting resolved. And there is nothing that is known to anyone of us. Barring the government’s intent to introduce factoring in MSME area, and they did mention certain numbers also, however, they are yet to be disseminated for us to understand how it can help us to sell more in that particular sector. That is the only information right now.

Umesh Raut: Okay. And Sir, orders you talked about from the 2 refineries, one from the Panipat and second from the Gujarat, then how much of the addressable opportunity is there from these 2 orders?

M. S. Unnikrishnan: Normally, the Indian capacities of refineries should fetch an opportunity between Rs.500 Crores to Rs.750 Crores. That, again, depends if they make it a part of an EPC. If it is an international company who has taken the EPC contract, they may prefer buying that item from their own country, though we do try for it. So that is where it can be, up to Rs.750 Crores per refinery.

Umesh Raut: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Varun Ginodia from Ambit Capital. Please go ahead.

Varun Ginodia: My question is on the Environment segment. Can you throw some light on the execution there? We have seen revenue declining for last couple of quarters, 5% to 10% year-on-year. How do you see that trending going forward? And when does these FGD orders translate into revenues? And secondly, on the margin side for that segment, 4% to 5% is the kind of trajectory we have seen over the last 2 quarters. Do you see that going in the range of 6% to 7% over the coming quarters?

M. S. Unnikrishnan: For the Environment segment, there is no difficulty in execution from our side. There were times when we have done maybe Rs.600 to Rs.700 Crore per year in Water business alone, whereas we have or will be doing much lower in the current year. This is due to the lack of orders getting finalised in the market. When there is a decline in the economy, despite all the pressures being put by the local pollution control authorities, people are wary about investing. So, it is a reflection of that. The carryforward orders were lower. Now we have two large orders for FGD, and we are gearing up to execute them. Our expectation is, between the Q2 and Q4 of next year, at least half of the revenues related to these should get recognised. Both the orders that we have taken are with profits, but I cannot reveal because they are tendered items. Now can the margins lift up to 6% to 7%. Absolutely possible. See, when the market is bereft of orders, you will have very tough competition. It is not that we want to bring down the margin, but it is the competitors who bring it down. Automatically, the beneficiary is the market. So currently, for FGDs, there are orders available in the hands of most of the larger companies, and it is also consolidated, not that everybody and anybody is being allowed to bid. With only selective bidding allowed, and some of them who have taken the orders in the earlier past with 30% retention, they are all worried about how they are going to run their balance sheet, will they have to fetch money for executing the projects. So, there is some possibility for improvement going forward. And in my opinion, 6% to 7% is workable. We had worked at that kind of percentage in the earlier past. And will it happen in the next year or year after that? Let us wait and watch.

Varun Ginodia: Okay. Thank you.

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

Abhishek Puri: Just quickly, Sir, on the China business that we had done, provisions in the first 2 quarters of about Rs. 8-odd million, they should have led to improvement in the margins in the current quarter, since they are not there anymore? But our turnover is up, but the margins are lower in the Energy segment. So just trying to understand, are there any further provisions still there in the current quarter?

M. S. Unnikrishnan: No, actually, the revenues have come down from Rs. 1,134 Crores which was the last year's number to Rs. 1,103 Crores in the current quarter. The margin last year, the PBT on that was Rs. 61.3 Crores. It has gone to Rs. 64.7 Crores. There is a valid reason for it, but it is not because of China. It is due to losses made by Danstoker, which are also part of the Energy losses and they are accounted for in the current quarter.

Abhishek Puri: I am sorry, what will be the losses at Danstoker now?

M. S. Unnikrishnan: Abhishek, I normally do not give specific numbers of each of the entities or divisions. So, it is a loss. It is almost close to a double-digit number.

Abhishek Puri: Okay. Last year, we were looking at Rs.29 Crores loss, I think, if I am not mistaken. And this year, we were looking at profitability in Danstoker. So, 9 months, we are still running at a loss?

M. S. Unnikrishnan: That is correct. And here also, we ended at a substantially lower number than the last year.

Abhishek Puri: Okay. Okay. Fair enough. And secondly, on the FGD business, you mentioned that 50% of the revenues will be booked in the second half of the year. What is the execution time frames? And are you facing any delays in the supply chain? I mean we are hearing from the other producers that the equipment, which has to be imported from outside, is taking much longer than anticipated.

M. S. Unnikrishnan: You are right...

Abhishek Puri: I am just trying to understand the revenue recognition for you, although we have the orders, but how will that pan out?

M. S. Unnikrishnan: 30 months is the execution period for both the projects that we have taken. We are almost into 2 quarters of execution Engineering is getting done. So, once the engineering is approved, the real procurement of the raw material will start. But the essential item which is - a very, very specialised and the most expensive - steel, currently available in the market, has to be procured. Nobody makes that in India. There are two countries where you can buy it. And for these projects, we have already concluded the order. This is one challenge all of us in the Lot 3 onwards are going to face, because for Lot 1, many of the suppliers tried to cobble that in India because it is costly. To be precise, it is a sandwich of material, steel and Hastelloy combined together. And using an explosive people want to make it in India. But it is available in China in a very proper way. And most of the Indian companies who have taken orders in Lot 3 onwards, including us in the Lot 4, will have to resort to China. So, will the current medical situation have an impact on that for supplies and delay the project? It is quite likely.

And in any case, please remember, the way most of the purchasers of the FGD systems will behave when they have to put a pollution control equipment versus a power generating equipment; as there is no revenue accretion possible by putting an FGD. On the contrary, they will be spending money from their pocket on Capex, also on Opex there afterwards the moment you commission it. So, they are not going to push for it and ask to make up for the time loss. But the way things are moving for the earlier orders is an indicator that there could be a delay by a couple of quarters because India is also learning how to approve an FGD. But we are in the second batch and approvals are going to come. So, either NTPC or DVC equivalent will know what is usable for India. So, I expect our engineering approvals to be faster. And we are also not the kind of companies that would take the orders in the first slot. We should do better engineering in comparison to our competitors. So that should go on. When I mentioned about the second half of the current year, it is solely on account of the fact that I have factored in some additional time. But we are confident that we do not need 30 months, we can deliver it earlier also, provided the process could be fast.

Abhishek Puri: If I may ask on the strategy part of your consolidating factories and operations that you have been doing. How far the efforts are over? You said TBW has started and the Sri City has started fully. And also, you were giving VRS to employees in some of the older factories. And also how the margins will be helped with digitization in the new factories or the automation in the new factories? If you can just touch upon that.

M. S. Unnikrishnan: TBWES is fully operational. In fact, we have got too much capacity available to take any orders. But for that to be utilised, it is going to take a much longer period of time because the market has not opened. If a situation similar to what happened between 2002, 2003 to maybe 2010 in India were to prevail, we will be very happy. We have got the capacity available. That is point number one. On the digitization of new factories, very happy to note that our Chemical factory in Dahej, which was recently commissioned, is operating with far less manpower than what we were operating with at our earlier plants. Similarly, the absorption chiller factory, which is commissioned in Sri City, is also operating with manpower per unit substantially lower. And though TBWES factory is a modern one, we need to tweak many things in the factory, which is in progress, because we have started operating a factory which was inoperative. So, we do not intend to make process automation immediately. Once the order rate picks up, which is what I am expecting next year onwards, we will do digitisation of that plant also. But that will be an add on. That is about it. But be assured of the fact that, progressively, we will be introducing digitisation even in the old factories of the company, not to reduce manpower alone, it is much more than that. Because with reduction of rework and histogram available, it will help us in product servicing in the future, because currently you have to refer to a bunch of old drawings to make a spare part of a boiler. But tomorrow, it can be available on a click. So, our delivery periods can improve in some of those areas. These are some benefits we will get in the future., Is that okay, Abhishek?

Abhishek Puri: Yes.

M. S. Unnikrishnan: Let me also appreciate you for the great reports you keep sending on the results. Analysis that you give we really value it. So, continue doing that good job.

Abhishek Puri: Thanks a lot Sir. And look forward to hearing from you in the next meet, along with the new MD.

M. S. Unnikrishnan: Yes, yes, of course, we will do that.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani Unni, could you speak about the change because I think first time in many decades that we have seen somebody who is going to lead Thermax has not been with Thermax. Usually, we have seen people joining as management trainee and improving to the ranks of the top management.

M. S. Unnikrishnan: We have selected a very, very suitable person, and I need to say that the NRC and the promoting family have taken extra pains and almost worked for a year to select the most ideal candidate in every aspect in terms of experience because we are a conglomeration of product business, project business and service business. Let me assure you that the incumbent is trained in all 3 of them. And he has worked for a fairly long period in a sector very similar to ours. So, he has got that experience. He has almost 7 to 8 of experience in project order conclusion in India itself. In that aspect, I would say, everything is taken care of.

Next, there is a major transition expected in the market, especially for heavy engineering companies. You have seen the kind of company who could not adapt to those changes in the developed world, what happened to many of them. So, Thermax is also going to transform into a different kind of an orbit of business model and will also depend a lot more on the international market than the domestic market. For the current size that we are at, the headroom available for growth in India, even if Indian economy were to grow back to the kind of percentages that we used to, we need to look outside. So, these are the factors which compelled us and the Board and the promoters to look at somebody from outside rather than inside. We have execution capability within for our current businesses. We have got order-obtaining capability from within. Margin improvement, of course, we have done it earlier, and will be repeated. Earlier I did mention to some of you in one of the calls that what are our future plans for a decade? How to triple our size from Rs.5,500 Crores to Rs.17,000 Crores. We are not only looking at heavy engineering to take us to that, a lot more of newer methods of managing the business needs to be thought through. This is why we have to resort to somebody from outside and be assured of the fact that it is going to add value to Thermax and lift Thermax from what we are currently. There is nothing wrong with us at this moment, but fundamentally we need to accelerate to some of the global standards. See, when we had crossed 30-plus percentage international income, I told that our 10-year plan is to take it to predominantly a 50-plus percentage international income. So those kind of things would be better done at a faster pace with an external induction. And certainly, I mean promoters will continue to be actively involved going forward also. Does that answer and does that make you happy, Bhavin?

Bhavin Vithlani: Yes. The second question is a little on the shorter term. Given that we have seen a drop in the order book, are you seeing visibility that we will end the year with an order book, which is similar to current levels or you see it slightly higher than the current levels? And this is more to do with the visibility on the revenue growth going into FY2021.

M. S. Unnikrishnan: I am expecting that if the next 50-odd days, 55 days pan out to be lucky for us, we should be talking about a number closer to what we were last year. That is our expectation. So I am not expecting anything to change the opening number substantially, a 5% to 10% here and there is where we will be opening the new year, based on the assumption that cement industry will order at least at the same level or a little more than the previous year in the country and international markets. Second, O&G is not present at all, which we talked about earlier. The last oil and gas expansion in the country in the PSU was the Cochin refinery, which happened maybe 5 to 6 years back. There is an opening available for a refinery, and we are one of the major players. Sorry, I should not be misquoted otherwise, during the Bharat VI transition, the largest beneficiary among the Indian companies was Thermax. So, O&G is going to order with definitiveness and the inquiries are already in the market, we are participating, and they do not have to wait for any funding to come from any agencies. All of them have been sufficiently provided for. So, in my opinion, in the next year, we should be able to do far better business because in the current year, projects order intake has substantially dropped, both for EPC as well as for the boilers and heaters, which has now become TBWES. And then towards the second half of the current year, which we are undergoing, the sentiments within the country has been very calibrated. Everybody is approaching possibly a level to say that if I have capacity available, should I really go for more. Though many have money with them, unleveraged balance sheet, cash available in the balance sheet, I am expecting them not to be idling the money and create capacity in the second half. So overall, next year should be seeing an improved order intake. That is my take on it. And if I have to look at the international enquiries last year versus the current year, at this point in time, we are better off. Now how will we conclude it and when will we get the LCs open because we will report the orders only when we have the LC in hand to orders. So that is about it. Is that okay, Bhavin?

Bhavin Vithlani: Yes, Thank you so much.

Moderator: Thank you. The next question is from the line of Manish Goel from Enam Holdings. Please go ahead.

Manish Goyal: Would it be possible to share the breakup between domestic and international in order intake and order book? And also, if you can give us some perspective you did mention international inquiries are better. If you can dwell more in terms of which are the segments or areas where you are probably seeing good inquiry pipeline?

M. S. Unnikrishnan: Rajendran, will you please help him out?

Rajendran A: On the order intake, you had wanted it for the quarter?

Manish Goyal: For the quarter and 9 months as well, please?

Rajendran A: Okay. I think I mentioned this on order intake for the consolidated...

Manish Goyal: I want domestic and international breakup.

Rajendran A: All right. Okay. So domestic order intake for the quarter is a total of Rs.1,050 Crores. That includes our FGD order that we have informed. And then export order intake of about Rs.266 Crores.

Manish Goyal: Okay. And for 9 months?

M. S. Unnikrishnan: Our domestic order intake is Rs.1,266 Crores, international is Rs.340 Crores, taking it to Rs.1,606 Crores for the quarter. And for the YTD numbers, domestic is Rs.3,205 Crores and international is Rs.1,104 Crores, taking it to Rs.4,309 Crores. Is that okay?

Manish Goyal: Yes. And if you can share the order book breakup as well, please?

M. S. Unnikrishnan: Order book means the balance?

Manish Goyal: Order balance, breakup between domestic and international?

M. S. Unnikrishnan: Rajendran, do you have that?

Rajendran A: Yes, it is Rs.5,439 Crores. The breakup is Rs.4,027 Crores for domestic and Rs.1,412 Crores for the exports.

M. S. Unnikrishnan: Is that okay, Manish?

Manish Goyal: Yes. Unni, if you can just probably dwell more in terms of international outlook, in terms of areas and opportunities?

M. S. Unnikrishnan: First and foremost, we are expecting that Southeast Asian economies will perform the same way or even better. But I need to give a cautionary statement with the prevailing coronavirus, though keeping that totally aside. If I were to look at the enquiries available from countries like Indonesia, Philippines, Thailand, Vietnam, four countries specifically, are better than the previous year for the standard products. And there are also projects visible for conclusions, both for EPC and larger boilers. So, there is a positive enthusiasm in us, which can be totally dampened in case something happens due to the coronavirus. I mean all of us are worried that it should not spread, and it should not impact our business. In the Middle East, last year at this point in time, we did not see too many refinery expansions. We are seeing that happening in Qatar and Abu Dhabi and even Saudi. Some of them are already ordering out. So maybe we will continue to do the balance portion. So, three locations. And for a change, for the first time, we are also prequalified for Qatar. But I am not promising that we will get orders there because this is the first time we are trying there. There will be a global competition.

In the refinery sector, because of the laxity of orders in the global market, there will be American competition, there will be European competition. All Indian and Asian will also be participating. So there, we will need to be really, really competitive to pick orders. Most of them will be negotiated, and not tendered out. So, there is an opening available. We are going to keep our costs really under control to ensure we are able to win in that area.

There are isolated enquiries from Africa and South America available for larger projects. Smaller ones are, of course, continuing. So, this is all about the project side.

On the product side, we see SAARC countries, especially Sri Lanka post-election and Bangladesh, whose GDP growth is even exceeding India's percentage growth, and enquiries are coming in. In Nepal, the initial aversion to Indian products has now come down. We have been able to pick up even an EPC order in the recent past for a cement plant over there. This is an indication that they are again looking at Indian players. So, SAARC could be a revival for standard products. And of course, Southeast Asian countries should also give a fillip for the product orders.

So overall, I need to admit that in the current year, we are also not so happy about the quantum of orders we have picked up so far. Even if I were to get a bumper in the balance 55 days, we will not be very happy about international order intake. So, if the domestic market were to turnaround and also the international expectations, we should do a better order intake in the next year. Is that okay, Manish?

Manish Goyal: Yes. Thank you so much.

Moderator: Thank you. The next question is from the line of Kirthi Jain from Sundaram Mutual Fund. Please go ahead.

Kirthi K Jain: Sir, just you were telling about this Danstoker loss, which we had this quarter and next quarter, that will be reduced. So how much delta can it produce in terms of the margins? Or anything you can tell us?

M. S. Unnikrishnan: A breakeven can mean an improvement of 50 basis points for the Energy segment, approximately that is the number. And if there is a turnaround meaning, they do not remain breakeven, they become positive, then it will be above that. It can make a difference to Thermax balance sheet on EBITDA, by at least maybe 30-plus basis points is what I am looking forward to. That is a swing if the real swing were to happen. But it will not happen in a year. In one year, it could be breakeven plus it will be profitable. There afterwards, we need to do a lot more things related to expanding our market reach. Totally shifting the noncritical orders to Poland where there is a major cost arbitrage available and marketing in Eastern European countries where we could be much more competitive. So, these are a couple of actions, which we have already planned and are taking place. That should help us.

Kirthi Jain: Europe, like, businesses are shrinking in the European region. Like what is the mitigation in terms of the cost structure we are doing so that we are competitive and we try to remain profitable and not lose money?

M. S. Unnikrishnan: First and foremost, we are in one of the most expensive countries for labor in the world, Denmark. And in that, they were making a profit when we bought them over. So now we are going to move to another medium expensive country. That is why we picked up the company in Poland, where there will be a substantially high-cost arbitrage available. And we are in the heavy engineering where labour intensity is much more than conventional automated, robotised setup so that is the first item. As we mentioned about that market likely to change, we are already witnessing it. Nowhere in the world other than in Europe will you find electric boilers reappearing. It used to happen maybe when I was a school student or perhaps a child. It is coming back with the electricity becoming cheap, and people will want to opt for electricity. So those are the indicators of one kind of change. Decarbonisation is something which could happen in that part of the world. So, can we have products, which may not need the carbon at all? One is electricity. Beyond that, even biomass, which is treated as green in developing world, the European countries may tomorrow say that they may not want to burn oil or gas also, then do we have a solution available. Currently, we need to say that we do not have a solution in our hand, that we will need a lot more of innovation. Solar is available, but solar heating is very expensive in comparison to the conventional ways of using fossil fuel. But in any case, be assured that we are not selling any qualified boilers which are almost getting banned in that part of the world. So, there will be changes of that kind.

Next is your worry about, will manufacturing disappear from that part of the world? At least, Thermax would say, no. Countries are becoming very mindful of the employment creation needed. That will continue. Do we need to have smaller facilities in each of the countries for the boiler business? If that becomes a necessity, there are enough plants available to be bought. That we will see as and when needed. But as of now, we intend to grow the business over there rather than getting unduly worried about what would happen because we are going to see, there is nothing predictable about the way the market is going to move. Energy will be needed. Inputs of energy will be different. In that, do we have the ability to create? And I think if we have been able to do it from India, I believe, we are capable of doing that also in Europe. So, we are quite confident we should be able to manage it. But it is a very good question because, Kirthi, these are the kind of things that worries us in the world, forget about Europe alone, as to how the complexity of energy market is going to shift and how fast will it happen and what will be the impact on our business.

Kirthi Jain: Sir, second question is one of during our AGM session, you had highlighted that sugar will be one of the promising area for FY2020, but nothing much has happened. How do you see FY2021 for the sugar Capex and how we will play that?

M. S. Unnikrishnan: First and foremost, in the domestic market, there were sugar orders, which we have picked up. And sugar, along with distillery, we have picked up orders in the domestic market. What we have not been able to pick was in Thailand and Indonesia, where new licenses are being issued for new sugar plants. Nobody has finalised any orders so far with us. So, I am expecting that it will be in the market in the coming year, and some of that should come to us because we already are in the sugar sector, in Thailand especially, orders executed in the past. It is fairly large in numbers that we have done. So, as it picks up, we will be one of the beneficiaries.

Moderator: Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to Ms. Bhoomika Nair for her closing comments.

Bhoomika Nair: On behalf of IDFC Securities, I would like to thank the management for giving us the opportunity and also all the participants for being on the call. Thank you very much, Sir, and wish you all the best.

M. S. Unnikrishnan: Thanks a lot, Bhoomika, and all other participants for your continued support. And I am sure you will continue to support Thermax for the next quarter and there afterwards my successor, who I spoke about. And you will have a lot more similar kind of insights being given by him. Mine was more related to India and the Indian economy, and you will be able to get even a better perspective on the global markets from him. I look forward to your continued support. Thank you.

Moderator: Ladies and gentlemen, on behalf of IDFC Securities Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines. Thank you.