"Thermax Limited Q2 2018
Post Results Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Thermax Q2 FY2018 Results Conference Call, hosted by Motilal Oswal Securities. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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 Mr. Ankur Sharma from Motilal Oswal Securities. Thank you, and over to you!

Ankur Sharma: Thanks Zaid. Good morning ladies and gentlemen and welcome to the Q2 2018 post results earnings call of Thermax Limited. With us today from the management, 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 open the floor to Q&A. Over to you Sir!

M.S. Unnikrishnan: Thank you Ankur and a warm welcome and good morning to all our well wishers who had been consistently supporting and participating along with us in the concall. The numbers are already in the market but just to give an over view of it.

On the order intake at the group level, all the numbers are going to be at the group level only. We have had an improvement in the order intake Q2 14% up from 1230 to 1397. Good news is the domestic order booking has improved by 20% in the same quarter. After a prolonged time of talking negatively about the domestic market, there is an improvement but it is not because of any specific chunky order. It is well spread across both products and projects. Projects are the already known ones of cement plant waste heat recovery systems and also Bharat Stage 6 related refinery quality improvement programs. Internationally, we have got an improvement of 8% order intake. We have had one chunky order in the entire thing, which is around $43 million from a cement factory for a captive power plant in the UAE and interestingly, this is UAE which is an oil surplus country. It is going to be burning coal to generate this 43 megawatt of power. It will be a precursor for many of them in that particular market also to look at coal as an option. So we look at this particular order as an opening for the organization to proliferate captive power plant in the so-called power surplus terrain of the world. Our revenues for the quarter is lower at 6% at 1033 versus 1096 for the last year same quarter. There are two factors which I would like to notify here. First and foremost the last year's number as reported had a component of excise duty whereas with the advent of GST, it is not a comparable number, though it may be 2% to 2.5% different. So the real reduction in turnover could be around 3.5% to 4% on a one-on-one basis versus last year. Second, in other discussions with some of you on the implementation of GST having an impact on capital goods industry, the most important one was the notification issued by the government. They were very particular that the input tax credit facility moratorium is available for all industries except capital goods which has had an impact on our invoicing for the opening month of July. In reality, we were able to start billing only by the second half of the month of July and even then, there were enough of more glitches. This was because of the interconnectivity and matching up to 4th and 5th level of suppliers. Amitabha informs that it is yet to happen at a 100% level, because of which we had to be slowing down our revenue recognition for the entire quarter. If not for that, with the kind of numbers we had in carry forward orders, we could have reported a higher number than the previous year same quarter.

Coming to the profitability, at the EBITDA level it is only 2% low but at PBT level it is much lower. To give you a comparison of last year versus current year, we had a profit of approximately Rs.8 Crores or Rs.7.5 Crores in the last year same quarter from our joint venture TBWES. In the current year same quarter there is a negative of approximately 97 lakhs or a Crore. So there is s swing of 8.5 plus Crores in this number and as usual the topline reduction would naturally impact the profitability. But nothing for any of you to be worrying about, the way we are looking at the current order carry forward and execution capability, we should be able to retain the profitability and try to improve it towards the end of the year.

Order balance has gone up by 24% at the group level from 4257 to 5261. Considering the trend that we are looking forward to based on the enquires on hand, we should be able to continue retaining at least this kind of an order backlog even at the end of the year. But of course we will continue to be in dialogue with you as to which orders are coming in. There are project enquires, limited numbers in the country. There are equal numbers also outside the country. Finalizations will certainly depend on capacity utilization movement in the country.

Coming to other information, we already reported in the press release that the chemical factory after a little of delay -- for the final approvals from the government of the country -- has commenced production in the current month. I am very happy to report that the first export consignment has already moved out of the country from this factory.One difference between the earlier manufacturing facility, which we have versus this one, is its a very modern automatic plant. On a click of a button through an algorithm, the production happens in this factory. We should be able to meet up with the world quality and delivery standards for the resin from this particular factory and we are very hopeful that progressively the chemical business can look forward to their growth potential coming from this facility. Second is the TBWES manufacturing facility had to be almost at nil production. Orders are not available nor are we looking forward to them. It is already reported but I want to say that all the impairments which were necessary for this has already been taken care by us in the last quarter and our understanding as we stand today is that whatever is the valuation provided by Amitabha and team on the balance sheet is even today valid.

Next is about the Indonesian facility which we commissioned in July. I am very happy to report to you that the enquiry inflow and the conversion of enquires and the orders for this factory has started happening and if things do go well, we should start the next year with sufficient carry forward orders. The enquires are not limited to only Indonesia, we are also getting it from Thailand, Vietnam, and the Philippines. So all markets are growing. Philippines is growing at 6.5% GDP even better than India, Indonesia is not bouncing back but at least recovering back from the negativity that is prevailing in that economy for a year and a half.

Among the positive signs in the market is the cement sector showing some positive indications maybe with the commitment by the central governemnt that they will be spending in excess of 600000 Crores for road building and which will be followed with a lot more of construction. We are seeing inquiries from the cement industry. In any case, there are sufficient number of inquires in the market out for waste heat recovery based power plants from the cement factory. Some of them are getting finalised and I am sure the rest of them also will conclude in the next quarter-to-quarter. I am expecting at least one or two fresh capacities also to be announced and ordered out in the next maybe three to four quarters. Another positive sign in the market is that steel industry seems to be all of a sudden looking up, one side positive for us, and other side negative for us. Negative is that they are strengthening the prices, putting pressure on our cost. Second is because of looking forward to possibly new investment happening, we started receiving inquires from sponge iron industry for capacity expansion but limited numbers especially from the Eastern region of India. We also have seen fertilizer industry giving clearances for three of the National Fertilizer conversion and modernisation programmes. They are at the prequalification and tendering stage and are going to start in the next quarter. These are the positive information from the market at this point of time. For want of time let me conclude over here and allow you to ask me questions so that I can answer them. Thanks a lot.

Moderator: Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Manish Agarwal from Bernstein. Please go ahead.

Manish Agarwal: Sir firstly on the quarterly revenue sir Q1 revenue had some impact of Rs. 30 Crores of malware attack on JNPT and then Rs. 80 Crores on account of some GST issues in the domestic revenue. Now this quarter revenue benefit from any of these.

M.S. Unnikrishnan: Certainly those were in any case translated into revenues in the current quarter. If not for those, with the 75% of the month of July being lost by the company and even August and September not at the same rate of…execution capability for the manufactured products of the company…See for Thermax there are items which are made in the factory and despatched from here, there are items which have made by our suppliers which are directly sent to the project sites. Those, which are sent directly to the project side did not have so much of a difficulty, what we have to take out from our factory, went at a very slow pace. For example it did take almost say in the beginning 2 hours for taking one invoice out of the system. Our business also partly depends on the Oracle's ability to be adjust to the Indian taxation system! It has now come back to may be 15 minutes for one invoice which in the good days before the introduction of GST, used to be 2 to 4 minutes. So you can imagine what is it means in terms of activity. Mr. Mukhopadhyay has got extra people to ensure that we are able to do billing. So these are the glitches in the system which is impacted. So the benefit has already come in the current quarter. If not for that maybe why reduction in turnover could have been may be another Rs. 100 Crore. That has helped us.

Manish Agarwal: And secondly on the order pipe and inquiry you talked about cement and steel, can you also talk a bit about Bharat Stage 6 and textile sectors.

M.S. Unnikrishnan: Yes of course Bharat 6 is partially ordered out and we have won some, also lost some. But I need to say that the market size that we mentioned - about Rs. 600 to 800 Crores - is almost confirmed if they go for the stage 2 also. Stage 1 ordering has come to around maybe a 354 kind of a size where we were the number one in terms of majority of the orders being received. Stage 2 couple of them enquiries are also out. So I would presume that the entire Bharat 6 related ordering out should be completed by Q1 of next year and we will be the number one in terms of the overall order intake, though there are others also getting orders.

Coming to textile industry - well in the quarter, there had been orders, if I could say for the current year's Q2, the contribution of textile industry in the overall intake of orders, global number is maybe a 3.5%, but internationally there is not so much. So if I have to compare that, 6.5% of my order intake in the current quarter is from the textile industry. In the current quarter, the number one sector continues to be the cement industry because there had been waste heat recovery based order intakes, which I mentioned in the last quarter…we had at waste heat recovery based captive power orders coming in to us both for boilers and the rest of the plant in water treatment plant equivalent to that for this remaining number. So textile is a distant sector maybe for this point of time. So that is the answer for that Manish.

Manish Agarwal: Just one number sir what are your market share in BS stage 1.

M.S. Unnikrishnan: Well I would not exactly tell you but we are upwards of 25% at this point of time.

Manish Agarwal: That is helpful thanks a lot sir.

Moderator: Thank you. Next question is from Manish Saxena from Pinebridge Investments. Please go ahead.

Manish Saxena: Sir I have got two things that I want to touch base. First of all you mentioned that at least the website shows that 60, you would like to have a greater proportion of international orders, just wanted to understand in terms of the international bidding, does it give you a similar level of price variation clauses or they are more of firm orders in terms of pricing and changes in the raw material front and second, if you could highlight in terms of the competitive cost advantages in the waste heat recovery things that today are the Chinese not very aggressive in this market or is it like you are able to increase your market share in the segment?

M.S. Unnikrishnan: Let me take the first one about price variation. No, no international contracts come on a price variation, it has to be at fixed price only. For any project order that we do take, we ensure that the raw materials are ordered immediately. Many a time it is within seven days' time, most of the raw material ordering is completed for specialized items leaving. Only the conventional steel for a smart pricing. So that will leave a risk of only 10% on the raw material. So 90% of the risk related with rate is concluded immediately. Amitabha and team also ensures that for the net possession, the currency forward is also covered immediately on a weekly basis so we do not take a refund either on the raw material nor on the currency. So, we protect our margins, whatever is available at the time of selling. If we have taken the order at a lower margin, it will be retained at lower margin. If you got a good margin, you retain it that way. Next question you asked is related to our ability to compete against Chinese in the waste heat recovery related area. In fact waste heat recovery in cement - Chinese were there and are still there. If I were to go back maybe nine months back then rupee was still prevailing at around say 68 upwards, we were more competitive than the Chinese in the global market. With the rupee coming down to 65, well that competitiveness had just come down by at least say5% but I would say that for overall solution capability Indian companies are preferred over Chinese companies. Because in most of the cement companies the waste heat recovery goes as attachment or maybe a refurbishment of the existing plant, so the ability of an Indian company to interfere with the running cement plant and then install a waste heat recovery based power plant is better. The Chinese style of cut and paste can do a far superior job in fresh Greenfield projects. So with their solution capability along with the engineering capability, Indian companies including Thermax are playing a positive role for waste heat recovery. But if we were to talk about a fresh plant where only land and money will be given to you for constructing a plant, even today Chinese can give a tough time to Indian companies. Indian rupee strengthening and possibly remaining so, and Amitabha tells me if the oil prices were to go up, then maybe in rupee can go back to 68. See as an exporter, I would like rupee to be between 68 to 70 but as an Indian I would like it to be at 65.

Manish Saxena: Just if I can squeeze in one more question between your seeing at least for the last few quarters that there is some sort of a pickup in the domestic markets or something like that so how would you see like you still would want to be a big portion being exports or a big portion being domestic, is that something of a conscious size or it will be also be gone by the way the market works about?

M.S. Unnikrishnan: The way we are currently positioned for virtually every business of mine I have got so much capacity available, both in engineering, construction and manufacturing and of course execution put together in all the markets we are operating. I am only looking forward to any market opening up. When I said earlier that I am going to focus a lot more on the international market because India is a very small market in my understanding for all the products and projects that Thermax is capable of delivering. And when the market is not growing at the rate that it used to earlier, if we had not focused on international markets in a very serious way, you would have seen much lower numbers of the order intake. Whatever said and done even the current quarter our order intake is more than 50% from outside India. A larger order for a captive power plant in an outside country would have taken two years of effort, even a $100000 worth of a boiler order from any part of the world would take a normal gestation period of six months from the date of inquiry and to get an inquiry to do a prospecting is another one year. So, we have to be necessarily in the planning mode. See what happened is Indian markets started showing negative signs five years back not today. But we thought it is going to be a turnaround, that was the expectation maybe. This is the foolishness of all of us in the industry that we are always positive, we are not one of the guys who will look at working in the worst case scenario. We continued on the journey for maybe year, year and a half before we took the action of setting up our offices and maybe much more focus in the international. So today we are there. Let me be very open to say that whether it is products or projects, we are there in markets like South East Asia, Middle East and even Africa. So I think that focus will continue to be there. It does not mean that I am not focusing on India. My manpower is predominantly in India and I am hoping, waiting and praying for Indian market to pick up - when my factories can be full again another time.

Manish Saxena: Thanks a lot Sir and wish you all the very best.

Moderator: Thank you. Next question is from Kirti Jain from Sundaram Mutual Fund. Please go ahead.

Madan: Good morning Sir. Madan from Sundaram. Sir on the chemical segment the margins were pretty healthy in this quarter what contributed to this and how much sustainable it this first and second how much is the order inflow in chemical segment in H1?

M.S. Unnikrishnan: First and foremost in the current quarter we had some special orders for which we could have a better margin than normal; but in any case the normal margins in chemical business will be much ahead of Thermax average margin which was possibly hidden in the environment section in the earlier past. Meaning chemical per se should always be delivering a higher profitability and current quarter had some chunky profitable orders - from North America for oil field sector where earlier it was a hold of some of the very large chemical companies of the world for oil field chemicals. Now with the oil prices having come down most of the oil operating companies those who are operating the wells and maybe managing the well and looking forward to third world countries to produce high quality product equivalent to what is manufactured and supplied by the Middle East or the West. So in that we are one of the successful companies because it does take two to three years for you to be working along with the oil operators to approve your material, etc. So I am very happy to say that at least two of the larger well operators with the world have approved of Thermax and those orders are coming at decent enough margin which has possibly helped us and your question is, is it sustainable? I want it to be sustainable and I am sure it is a lot more to do with the way we are able to continue to work with them.. Next, you asked about what is the order intake. Normally order intake of chemical business is almost equivalent to what you do a revenue recognition because the turnaround period for chemical is maximum maybe a quarter for larger orders. Otherwise you get an order and we would have already manufactured we despatch it the next day. It is more like a commodity or a product for us. .

Madan: Sir if I am right of this segment which is around 300 Crores mostly been an iron exchange resins dependent one, will the mix change over the next two years or like the way you are explaining oil field chemicals will come in and will that the margin accretive?

M.S. Unnikrishnan: First and foremost we were only a resin maker when we set up our chemical business. Happy to inform you since we took it out of mainstream and made it a separate entity, our income from resins is almost a 55% of the chemical topline. The specialty and performance chemicals are at 45% right now. The margins in specialty and performance chemicals are better than of resins though resins have also improved now. Our limitation for growth of the resin business was the lack of capacity because we had only one manufacturing unit in the state of Maharashtra and resin manufacturing would need a central government permission to set it up. So, it has taken a long period for us to get all the permissions and thankfully we have been able to get the factory commissioned, which I mentioned about and in Phase 1 we have a 12000 tonne capacity whereas we were operating only with the earlier 10000 meter cube capacity of Maharashtra. With the 12000 addition, we have almost 100% more capacity at this point of time. We will also be progressively adding on another 8000 at Dahej taking our overall capacity at Dahej to 20000. So we are expecting the resin business has the potential to grow up to Rs.800 Crore in future from the current 175- 180 Crores. So capacity is no more a limitation for resin business. Performance chemicals is something we have to work for. We are not an active player but present in cooling water chemicals in power plants. We are present in paper chemicals, construction chemicals, oil field chemicals and chemicals to improve performance of boilers and the heaters. It is a much bigger market than the resin market globally and in India there are some segments that are very profitable which can, may be, double the kind of profits Thermax is making. As I am talking about Thermax balance sheet, our focus will be more on high profitable specialty chemicals than to get into commodity chemicals which will make a normal profit to an extent. Our focus is on specialty chemicals. So the way we are planning to grow the business we are not worried about the topline growth in big percentages. We are interested in that consistent profitable growth

Madan: Thank you Sir.

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

Renu Baid: Sir firstly I am not sure what I missed in the starting if you can help us understand what has been the mix of exports and domestic in the current execution as well as for orders and backlog?

M.S. Unnikrishnan: Amitabha is going to give you answer the small question. Order intake revenue domestic and international.

Amitabha M: Total order intake for the quarter domestic is 692 Crores, international 705 Crores total 1397. Revenue domestic is 572 international 462 total 1033. Is that okay?

Renu Baid: In the backlog would it be more than 50% today has not the Dangote close to 60% I mean?

Amitabha M: In backlog domestic 2343 international 2918 total 5261.

Renu Baid: Sir broadly from a three to four year perspective if we have to see the way the newer businesses are growing in chemicals and international market for standard products how do we see the business mix panning out from the current profile has been broadly between DNH, chiller, CPP and wire chemicals how do we look at the business in the next three to five years and which segments will be largely heading for growth?

M.S. Unnikrishnan: Renu our intention is to grow. The rate of growth will depend upon the market response. But you should look in the areas where we invested, the three manufacturing facilities put in by the company. As for the product business of the company the last growth cycle of 2002 or 2003 to maybe 2010 for domestically and little internationally. Let us say that the projects have grown at a very, very fast pace. At the turn of the century we were at 30% project company and 70% product company. From there it became exactly the reverse 70% project and maybe 30% product and we recognize that the reasons for that one is we did not have capacity created nor we did go to those markets or have the real local player because in product business you cannot be exporting every time. We have to be locally available so all our moves are towards ensuring that the product business has the potential to grow at consistent double. World Bank themselves have revised their growth potential for the world by almost maybe a 0.5% for the current year and they are telling next year it is going to be upwards of 3.5% so that is an indication. I do not know if these are numbers given by bankers not from the people on the ground level but if there is going to be a turnaround on various counts this time we want to grow everywhere. So if we have to visualize Thermax maybe five-years down the line, projects may still be almost 50%, 55%.

Renu Baid: Sir if you look on the cost structure side as and your team has done a fabulous work in the last few quarters other expenses and staff and fixed overhead has been contained significantly so is a) is this pretty much sustainable and can be expect further improvement or this would be broadly there and if this is to be combined with the mix of your execution product driven then ideally one should see margins being fairly comfortable with operating leverage kicking in?

M.S. Unnikrishnan: Operating leverage should help me out. At EBITDA level I should be better off but at PBT level, it is also once in a while we do talk about it. I am going to have further depreciation for the fresh plants for them to fructify into at least rated capacity. It would be years ahead so at the EBITDA level, I am expecting if I am able to accrete the topline we should have an improvement in the margin, not on a quarter-over-quarter basis but it is certainly a couple of years.

Renu Baid: Double-digit margins and it is fairly comfortable?

M.S. Unnikrishnan: Renu we delivered it consistently for maybe almost a decade so our intention is to do the same thing. What we need is only the market nothing beyond that. There is nothing short in us and your support. Let us hope it is going to happen there.

Moderator: Thank you. We will move to the next question from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: My first question is again on the chemicals segment. You did give a color on which end-user industries it is catering to now. Also in terms of exports versus domestic, how that the segment is shipping up given the new factory has come in? And what kind of mix that segments will have between domestic and exports going forward?

M.S. Unnikrishnan: Sandeep, I will have to take chemical into two- one is the resin business and second is the specialty chemicals or performance chemicals. The resin business is predominantly an export business and the segment where we are supplying the resins is the water treatment segment, where our main markets are North America. We do sell across mainly anywhere between a $12 and $15 million worth of resins in North America. With the new capacity coming up, we are expecting things to improve. In resins, beyond water treatment, we have been able to establish specialty application of resin. I need to take some time to explain to you what it means. For example the medicine that all of us are taking with the flu may be a Paracetamol. It is a tablet for elder people but for a child it has going to be an emulsion. An emulsion is to be taken out from the drug. The liquid using ionic reaction are food grade and maybe drug grade resins that Thermax has mastered to manufacture. A conventional water treatment resin can go up per liter at a price ranging between maybe a Rs.60 and Rs.70 based on the styrene price but when you are going to make a specialty resin it may go up to Rs.600 also. So our focus is to ensure that we utilize the capacity that we created for specialty applications in the world, but to create a specialty application in pharma. It is there in food industry, it is there in say gold recovery in a gold mine, it is there in the nuclear recovery in the nuclear power plant. So these are all very high value resin but low volume business. It does take a lot of time and effort to dislodge the current biggies in this, which Thermax is now learning and that is the path that we are wanting to take. That is the segment we are targeting. The second is the specialty segment. Next is performance chemicals which is at 45% of the total topline which we are expecting to be a predominant part. Barring the oilfield chemicals which we started doing in North America, we will now spread to all the oil wells across the globe. The rest of the performance chemicals are purely domestic in nature. It gets into power plant or wherever you see a cooling tower whether it is a hospital, hotel or wherever there is an air condition plant or a power plant the cooling towers do get algae formation. The performance comes down so there is a chemical we manufacture which will be used to clean the entire thing. Then in municipal sewage treatment plants or any of other effluent treatment plants at any industry, effluent treatment plant as well as sewage treatment plant will need poly electrolytes. We are manufacturing paper chemicals, which was recently started by the company. Any paper compnay, Indian or abroad, will be needing what differentiates a pulp. Wood can create a newsprint, it can make packing paper, it can create writing paper and the last one is the cosmetic paper. Only difference being the price that we will be selling newsprint versus the cosmetic paper will be 1:100. What makes a difference is the chemical effluent to that so that is a very specialized kind of chemical which we have a tie-up with Georgia Pacific of North America. We have to develop further in India. We entered into construction chemicals in the recent past with a tie-up from an Italian company because the way Indian construction is going to go, taller buildings, wider buildings with less amount of columns allowed in between will be built. What makes a difference is the chemicals, which is going into construction so preconstruction chemical is something. Competitive market multinationals are the leaders over here but we know progressively with the brand equity of Thermax and the quality that we will be able to provide, we should be able to compete against them. We have also introduced post treatment chemicals for buildings. Since most of you are in Mumbai right now, half the sea facing buildings in Bombay do have a crack and you will see multiple companies reconstructing the building for reconstruction. You will be need chemicals to be injected for the concrete to come back to original strength and Thermax started making those chemicals. So these are the areas that we have gotten into for chemicals. There are very wide spectrum and today we feel that it can be taken out from the mainstream. It has got a growth potential on its own. So, capacity constraint is already cleared with the new factory coming in and for the performance chemicals we already have a factory at Jhagadia and there is enough and more capacity available to meet it with us growing demand in India. Is that okay Sandeep?

Sandeep Tulsiyan: Thank you for that detailed explanation. I am really enthused by understanding on this business. Secondly on this TBW, you have mentioned in the press release that only essential employees are now being retained. So what kind of numbers so this Rs.1 Crore kind of quarterly loss is number, which would sustain going forward or are there any scope for further improvement and turning the segment into profitable one?

M.S. Unnikrishnan: I do not expect that it would be profitable. So point number one we have absorbed part of this people in some of our internal teams in Thermax. B&W is also intending to start a design office in India, some will get absorbed over there. That is all I can disclose right now. Beyond that, it is more of an HR issue for the organization at this point of time, with no orders and nothing expected to happen.

Sandeep Tulsiyan: Thank you so much Sir for taking my questions.

Moderator: Thank you. The next question is from Deepak Narnolia from Birla Sunlife Insurance. Please go ahead.

Deepak Narnolia: I have one question regarding your three new facilities that is the chemical factory in Dahej and the chillers in Andhra and the Indonesian plant so in total if I take five year view what is the kind of incremental revenue you can expect from these three plants?

M.S. Unnikrishnan: Well our expectation for Chemical - in five years this particular factory should be able to add a 250 Crores to 300 Crores in terms of the resin revenues. The Indonesian factory is currently at Phase 1. Depends on the business we intend to pick up in South East Asia. We will have to be invest some more money, it is already sanctioned by the board. A full blown Indonesian factory is capable of doing $100 million worth of products from there. As to the chiller factory, the original master design from chiller factory is 850 numbers but we may go with 450 only in the beginning – basically shifting of what we what we are currently making in Pune. Progressively, it's a seven year period we are anticipating to touch that number. We are talking about chiller business adding on additionally a 350 to 400 Crores. If I have to add all these put together we are talking about in region of around 1200 Crores plus income to the balance sheet of Thermax Group.

Deepak Narnolia: In five years.

M.S. Unnikrishnan: If we take a 5 year time frame, let us say 150 1000 plus Crores -that is going to be the income from there.

Deepak Narnolia: The blended margin would be higher which is like particularly in the chemical business?

M.S. Unnikrishnan: It is as good as me predicting what my child is going to be because it is the future. The product businesses have contributed decent enough profit in the company. Yes I presume that it should continue but let us see at the end of the day these only depends upon the market reactions. If there is an upswing in the market, our capacity will enable us to make higher margin but if there is a lack of stability in the market I will be compelled to take the orders at even lower margins. Normally, it is the intention of companies to improve margins but once you create a capacity first priority is to fill the capacity… and then you reach a critical mark, breakeven, and then start making money.

Deepak Narnolia: One more question sir about this refinery capex so like lot of this orders are expected in refinery industry and some of the orders have come to EIL for PMC so what is the kind of percent is ordering for a company like Thermax in total Capex of refinery?

M.S. Unnikrishnan: See there are refineries for which EIL is currently working. In any case Thermax does not have a problem for prequalification. We will be bidding normally for the boilers. Second, for the heaters. Depending on whether they have got full water treatment requirement, whether there is seawater distillation and such other details, we will participate in water treatment too. And part of wastewater treatment too. Air pollution control is very limited in this area. So full blown refinery of the kind which are planned has a potential for Thermax upwards of 500 Crores.

Deepak Narnolia: 500 Crores each refinery means in percentage terms what kind of portion you can see?

M.S. Unnikrishnan: Percentage of the total refinery expenses.

Deepak Narnolia: Year-on-year.

M.S. Unnikrishnan: 17000 Crores to maybe a 25000 Crores is a normal investment for a refinery.

Deepak Narnolia: Per?

M.S. Unnikrishnan: No, not per I am talking about the capacity these guys are talking about I think 300000 barrels per day equivalent to 300000 barrels per day.

Deepak Narnolia: No like what I want to know that like if refinery capex of Rs.10000 Crores is coming up what is the kind of rough estimate of percentage ordering Thermax can we expect?

M.S. Unnikrishnan: Unfortunately unlike in a cement plant there is not direct connect. I will tell you the reason so you do not mistake me on that count. Many of them already have their own water treatment plant some of them are intent to buy part of electricity from the electricity board and keep only a captive power plant normal whereas somebody like a Reliance will go for a coal fired entire power plant as an attachment to that. It depends upon how they are going to calculate and are they going to still get pet coke or going to have a pet coke fired boiler inside the refinery. These are the factors which are currently under discussion with EIL and people like us. So it is very difficult to translate a number-to-number but I know from past experience : say Reliance Jamnagar Refinery Phase one give us orders those days worth around 600 Crores that is at that and I believe a 300000 or 400000 barrels per day kind. That is what everybody is going for. For power, they bought only the HRFG from us, whereas sometimes public sector refineries have a tendency to go for an EPC captive power plant. All this will be decided when they are going to break the packages. I also need to say that tomorrow in the bidding if Samsung or Hyundai were to be getting the orders or maybe some Japanese firm were to get the entire EPC order. They do not have any motivation that they should buy only from India though we are registered supplier with all the global EPC contractors

Deepak Narnolia: Thank you.

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

Abhishek Puri: Sir two questions one on the international business if I look at consolidated minus standalone we have negligible profit for that entities and the EBITDA has been fluctuating quite a bit over the last four five quarters so what is driving that and could we have a stedy state profitability in these businesses and what is stopping that, that is one and secondly you have order inflow which is close to two year high with this level of order book that you had last time your revenues were clocking at 1200 odd Crores on a quarterly basis when can we see that revenue picking up back again?

M.S. Unnikrishnan: First question : Profits certainly in the international businesses are lower per se because the markets do operate, I am talking about developed market and let me divide this further for the understanding of all of you, Abhishek. The international profitability ideally should be calculated even for exports. If I have to look at exporting out of India my profits are as good as India or maybe better than India, point number one. But the businesses which I do conduct totally with the full value chain embedded in the respective country like in Denmark or in China and Indonesia, and if it is happening right now, it will not match with India and in any case European profitability can only be in single digit, double digit does not happen. So, so there had been fluctuations in profitability of Danstoker group also. China is not profitable even today though we had EBITDA positive in two years. Current year so far it is negative and I am expecting at the yearend maybe minorly negative. International business will continue to be at that level. Danstoker group will now turn into better profitability but not comparable in profitability with the East European market that we are targeting. The manufacturing facility we have picked up recently from Poland- there the cost of labor is almost like our Pune manufacturing facility. I am expecting with that in the next year there should be a minor improvement year after that there will be a better improvement for Danstoker group profitability. China I do not want to predict anything because it is a yoyo. Our intention is to utilise it in the future as the manufacturing base though we will sell in China. But only by selling in China I do not think we will be able to make money at least in the immediate future so we are going to utilize that as a manufacturing base which would mean whatever is the kind of profit we make in India we can make over there also. Indonesia in any case even when we invested for this capacity we were very clear that the payback is going to be a minimum of 5.5%. I stand by that even today because the market that is something which we will see in the future. So again coming back exports out of India will retain the profitability and maybe better; however, manufacturing and doing business locally in another country would take a little longer time for it to become really profitable.

Abhishek Puri: Could not be a service to be Indonesia and the Asian customers from China factory since it is not doing very well in China internally.

M.S. Unnikrishnan: Yes we are already exporting out of China, but to my surprise not every customer in that part of the world when given an option of buying from China versus India prefers China. It is a new knowledge for us also. There are many more preferring to come from India though some of them Chinese based industrialist of South East Asia are more than happy and they want it from China but the many others see, to have a little negative experience about Chinese quality. After all the country brand do make a difference, but I agree with you progressively, that's our intension.

Abhishek Puri: I am sorry just following up on this one because your international investments our total investments have actually gone up quite substantially they are similar to your gross block in your standalone balance sheet now hence the return on equity or ROCE for your company will not go back to 30% range unless we start hitting in here so what are the incremental plans to invest in the international business or it will be more or less in the domestic business?

M.S. Unnikrishnan: Frankly speaking the percentage of ROCE that you see of Thermax's is incumbent upon the kind of project orders that we do take. For example in the EPC business or my water business or air pollution control business my ROCE is almost infinity. I do not need a factory for it. I can again come back to 30% if I start getting larger EPC orders across the globe or maybe the boilers and heaters business go back to a 3000 Crores or 2500 Crores as was the case five years back. What we are looking forward to is not an ROCE number. ROCE alone will be an indicator only for the chemical business where if I invest a Rs.100 Crores in the capacity I will be able to generate maybe an income of maximum 250 out of that. Next is the business of boiler heater or chiller where if I do an investment of 100 I can even get a 400 Crores turnover out of that because I manufacture only maybe 25% to 35% or 40% of the entire item balances procured item made by somebody else. So all that put together becomes my product though my internal manufacturing is a boiler pressure parts. So, even at this point of time though you may be seeing overall Thermax's ROC being at maybe a 17% or 15%, 16%, whatever we calculate we just pull down on account of my treasury. I have got a 1000 Crores treasury which will return to me pretax only 7% so if I have to look at my businesses even today it is about 20 which is the kind of return that you are looking forward to. My shareholders are happy if I give a 24% of an ROC basis for the business side, treasury as a conservative company and I am sure Amitabha will always have the burden of carrying a treasury not borrowing money and then paying interest that is at least for the considerable future intentionally. So we are not working on getting back to 30 but it may happen very quickly also based on how the market is going to be panning out.

Coming back to your question of how we are investing outside and what is our expectation, manufacturing facilities have got a life of minimum 30 plus years. Of course you guys will laugh at me at why are you looking at 30. But there will be a period when it depreciates and the net value net blocks will be nil also on the balance sheet. That is the way companies have to create capacity it is not like it is I can maybe one tenth of a boiler capacity or maybe half of a boiler capacity in each of the machines that you buy if when you start manufacturing in the first year the capacity utilization maybe in single digit for our rolling machine even today my rolling machines in the oldest of the factory does not have an output of more than 65% occupancy. So that is why ROC calculation for continues process chemical industry and cement industry or my own chemical factory versus an engineering factory my advice to all of you that do not look at the same way you have to create a capacity and you have to take by a five to six years more it to be full the movement we are full nothing will be less than may be a 23%, 24%, 25% ROC so the intentions to set up a capacity will it by picking on that is it.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir, on the revenues front, you mentioned that there are some GST transition-related issues. But at the same time, we should be seeing some of the larger orders that you have brought in last few quarters, getting in and contributing to revenues. So how should we look at the revenue profile going forward and how exactly should done with then what your order pan out?

M.S. Unnikrishnan: In fact Bhartia you have asked the right question at this point of time. We have got in excess of maybe 24% more orders on hand. In that there is one chunky order - the Dangote order, and we are very closely monitoring the movement of the order. I am very happy to say that we have received 45% of the advance from the customer for whatever we have done so far. The activities are going on very well. A refinery of this size being put up in a country like Nigeria versus being put up in a developed world - one always has to follow the project movement and our internal movement. So depending upon how that is going to be executed versus what we have planned for as revenue recognition there could be variations in numbers. But my expectation is current year we should be delivering a better number than the previous year on topline and if things were to go well for the carry forward orders next year, without any difficulty, we should still see a growth next year beyond the current year growth. That is the only guidance I can give at this point of time..We are also a company which depends a lot on book and bill for many of our product business. For example, Chemicals I can get an order today and despatch it tomorrow or at the best maybe within a month. A smaller boiler or chiller has a gestation period of three months from manufacturing. So book and bill will depend upon how the global economy or maybe the economies of the countries that we are going to be currently operating and our domestic country is going to be performing next year. So I would say 55% to 60% of Thermax's turnover is already clocked and the balance will depend up on how we are able to book fresh orders. But overall outlook overall for me is positive in comparison to the recent years.

Aditya Bhartia: Sir, just a follow-up question to what one of the participants earlier asked we have kept a very strong control on overhead expenses especially. And with all these new facilities coming in, is it fair to assume overhead expenses and employee expenses going up in the next two quarters?

M.S. Unnikrishnan: See there could be a variation here and there but disproportionate level of expenses is not expected where it will hit our balance sheet. For example Indonesian factory today I am running with 12 workman. I have just got $0.5 million worth of orders to be executed in the current quarter from that factory. Those 12 are good enough for it. My expectation is I should have maybe a $3 million of orders carried forward when I am going to open in the next year. The number will go from 12 to 30 so we are very particular. Many companies could go ahead and recruit 30 and keep them on board. We did not do it that way. We are closely monitoring each of the actions. Our intention is to make sure nothing comes and affects the balance sheet, spoiling all the good work done by my team. I cannot predict that things will not go wrong at all but within the control of management I think we should be able to be almost consistent. At EBITDA level there could be a drop, sorry PBT level because depreciation is going to be huge in the current year and next year going to be on account of the three city plan coming and chemical factory being taken into account but that is all after all my money are putting from one account to the other comes from EBITDA from depreciation.

Aditya Bhartia: Sir did we have any Forex impact in the particular quarter?

M.S. Unnikrishnan: Amitabha is there anything.

Amitabha M: Nothing significant.

M.S. Unnikrishnan: Nothing significant with the current quarter.

Aditya Bhartia: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Ankur Sharma from Motilal Oswal Securities. Please go ahead.

Ankur Sharma: Sir I just had one question if Amitabha could give us the breakup of the order than the order book into energy and environment please for this quarter?

Amitabha M: Order intake energy for this quarter 1097, environment 214 and chemical 86, total 1397. Orders balance energy 4586, environment 636, chemical 39, total 5261.

Ankur Sharma: Sir would you also has the number for the standalone similar numbers on orders and order book?

Amitabha M: Order book or that is order intake 894 energy, 214 environ and 77 chemical total 1185, order book 4156 energy 636 environ 26 chemical total 4819.

Ankur Sharma: Thank you so much. Unni would you like to have give some closing remarks before we close?

M.S. Unnikrishnan: Thanks a lot first of all for each one of you to be patiently listening to us. I hope I have been able to clarify the questions in the right way. If there are anything further remaining you can certainly contact either Amitabha or me. Certainly we will help you out. I do not want you to go with any negative feeling at this point of time about the quarterly performance. Is it going to be any reflection for the year-end, nor I am wanting you to go back with a feeling that things have turnaround. No. It is only some orders making a difference and maybe a little more of aggression from Thermax, which is very visible in the market and orders are still fought at very tight margins so we have got to tread the same path with caution. Overall, from the government side, I am talking about domestic market I am not expecting a turnaround for the industry because they will be targeting FY2019 election, so we are not in the priority list. In any case industry will not be in the priority list so we are going to continue focusing on the international market to ensure that we continue to ensure accretion of order intake. The Dangote order we will be continuously following up to ensure that there is no lockup of money. Be assured of the fact that we are heading for a better year than the previous one. Thanks a lot once again and we will continue our dialogue with all of you. Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Motilal Oswal Securities that concludes today's conference call. Thank you all for joining us. You may now disconnect your lines.