"Thermax Limited
Q4 FY2018 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Thermax Q4 FY2018 Results Conference Call, hosted by Motilal Oswal Securities. 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 the 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 Sir!

Ankur Sharma: Thanks Aman. Good morning ladies and gentlemen and welcome to the Q4 2018 results earnings call of Thermax. 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 begin 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. Good morning my dear friends. A quarter where I am sure there was a lot more expected from Thermax. Some good happenings and some which did not go exactly as we planned. So let me start with the good things. The order intake for the fourth quarter is 37% better with Rs. 1172 crore going up to Rs.1599 crore. Considering the overall order intake for the Group for the full year, it is Rs. 6380 crore versus Rs. 4394 crore, an improvement of 45% and almost an all-time high order intake for the year in the recent past.

For the quarter the revenues were lower. At the group level in comparison to last year's Rs, 1519 crore, we are lower by 5% at 1443 and including other income, it is lower by 4% at Rs. 1488 crore versus Rs.1549 crore. With this, the revenue for the full year is Rs. 4486 crore versus Rs 4590 crore, a minus 2% for the full year at the group level. Even after accounting income and other operating income, it has come down from Rs. 4704 crore to Rs.4602 crore.

We had targeted the Q4 revenue at a higher number which did not happen due to two specific reasons. Number one being some of the projects happening at a faster pace, in some consideration related to the e-way bill introduction, we were unable to push it in the last moment because the suppliers were not ready for it. That could have an impact of close to Rs. 100 Crores and our own inability to push things in that particular month, for various reasons could have been another Rs. 100 crore. So, we could have certainly been Rs. 200 crores more than what you see for the quarter, but most of that has already happened in the current quarter, in the last 45 days.

The profit for the quarter in comparison to last year's 12% PBT, was 100 basis points lower at 11% that at Thermax Group level. However, for Thermax standalone, our PBT has gone up from 12.2% to 12.4% for the quarter, and for the full year the PBT has come down from 10.5% to 10.1%.

Now, what are the reasons for the reduction in profits for the quarter, which have also reflected into the financial year? First and foremost, the revenue reduction and second is related to the overseas subsidiaries. Starting with Danstoker Group, they had a negative quarter. In the Chinese subsidiary of the company, we had few specific litigations ongoing where we have taken a prudent decision to keep a provision. We also have booked a negative related to the operating expenses of our Indonesian subsidiary, which should improve in the current quarter onwards.

In our environmental business, Water has certainly turned up from low profitability to decent enough profitability. Air Pollution control is the only division of Thermax, which usually bears the brunt of conventional steel price increase and they have reported very low level of profitability whereas, for the carry forward orders, we are having normal profitability that Thermax is used to.

Similarly, in the chemical business, we had to account for the entire depreciation of the new plant. So, these are some of the reasons for the Q4 performance. Even if our topline is lower, Thermax is used to delivering a double-digit at the group level. However these are the reasons to not have done that.

One more information known to all of you by disclosure is about our agreement with Babcock & Wilcox as to buy their 49% shareholding and take over the entire manufacturing facility. I will tell you the reason. Our large boiler capacity that we have created in India was way back in 2007 at Savli. As we are looking forward to the betterment and picking up of business, the world-class facility, which is designed by Americans is capable of making subcritical, supercritical and even captive power size boilers. I am unable to disclose any numbers or any terms at this point because we have signed an NDA. Only when the transaction is complete, we will certainly come back to all of you and inform you about the terms and the conditions. It also gives us technology for supercritical, subcritical and more importantly the air pollution control related to NOx technology which we would have to otherwise buy from the very limited suppliers in international market. Here we will get it along with the technology transfer for a relatively large period, 20 years is what is expected. I am happy to inform you that Dahej is now stabilised. We had some hitches in Q3 and in the beginning of Q4, but in the last month of Q4, Dahej plant is fully stabilised and ready to go. I am expecting that by September or October we should be able to reach the peak capacity of that particular factory.

Coming to the factory at Sricity, the building is complete. The machineries are under installation and this being a highly automated plant, I am expecting the commercial production or trial production to start from the Q2 end of the forthcoming year. So that is about the overall performance. I will leave it to all of you to ask me specific questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: Thanks for the opportunity. Unny, I just wanted to sort of understand that B&W transaction, I mean I remember last year in one of the quarter conference call you were more or less clear that you want to sell off the facility and you had indicated that investor should support your thought process on that and now we are doing the reverse where we are looking to buy out the stake of the B&W so how are thought process changed in the entire last 12 months on this joint venture especially given that there have been no orders that this JV has probably won from India in the last seven to eight years, so that is my first question?

M.S. Unnikrishnan: Venu, there is no change in what I have spoken. The facility fundamentally is an upgraded version of what we have at Baroda. It has got panel-making capability, which is a world-class facility, we have coil making capability, head making capability. Component-wise, it is a very high-quality manufacturing well-developed facility of 110 acres. Currently, there is no intention for us to bid for supercritical in India. Currently, we have looked at it as another extension of our facility. At our facility in Pune, the main Chinchwad facility, the first plant would be almost 40 plus years of age and the last added was also 20 plus years of age and there is a 55 acre complex available in Chinchwad. We have a long-term plan for a modern plant other than what we have at Baroda provided the financials are okay. So that's all I can disclose right now. Beyond that, you have to wait for the entire transaction to be over.

Venugopal Garre: No, I think fair, but I think from yield was not really at a concession price because more with whatever you will do with the facility, since you seem to be clear on the usage of the facility now so that is the main area that we would focus on rather than whether you get it cheap or costlier. The second question Unny is more to do with understanding with JV losses. I think you have mentioned something in the opening remarks with regards to China, I am sorry could not really hear that if you could just give us some understanding of Danstoker, First Energy and Absorption Cooling business in China at the same time comment on the increase in loss in JVs from associates? That will be great.

M.S. Unnikrishnan: Yes, of course, I will do that. Danstoker for the quarter and for the full year reported losses. This is one-off on account of two cost overruns incurred by Danstoker and of course, anticipated losses of the Polish facility we have taken over. It is now being pollinated with marketing workforce with our intention to take on the Eastern European Market. Even with that, it should have been breakeven plus, but the main Danstoker company losses were more than what we would normally have incurred. That is why Danstoker has reported a negative. Second is China where as I mentioned, we had few cases all of a sudden, not really performance related but back charge from our customers. It is not something ongoing but only started in the last year. Though we have been in China from 2008, this is the first time this is happening. Legal proceedings in China are entiriely different from how it carried out in India. In fact, it has even gone to the extent of one of the local courts sending an account freeze notice. So Rs.17.7 crore is what we have provided in the balance sheet over there. Because it is a prudence demand that when there are profits available, it is better that you provide for it rather than wait for the results to happen. Though we have contested each of them. Once we contest ruling over there, you will have a hearing in the next level upper court and until then, your side will never be heard. We have no complaints on the process. We have decided not to sell anything further in China at this point of time and we are utilizing it as our manufacturing facility which in any case is a modern robotics-oriented facility . We do have orders coming from the rest of the world and we can utilize it also. There is a strategic decision. We already have an old chiller factory in our Pune facility. With the new facility coming in Sricity, certainly we can have two facilities, one in India and one outside India. So, in China for the time being will be utilizing the manufacturing facility there till we have settled this kind of issues. That is about China.

Venugopal Garre: And Sir First Energy?

M.S. Unnikrishnan: **For** First Energy, there is an improvement in the overall performance after the last quarter when the oil prices have started improving. See earlier we had 3000 customers when the oil prices were in the range of around $80 upwards; it has come down less than 1000 in the last year when we have taken over the balance shares for the company because incomes have dropped. I am happy to say that it has started increasing. Currently, we are at 1100 tonnes per month of pellet sales; the revenue comes from sales of pellets only. It is expected to go to around 1400 if the prices were to remain the same. Upwards from $55 to $60 per barrel for oil prices, we are expecting that it should reach to breakeven levels in the next two quarters. Apart from that, when the facility was operating independently as a company they were having only customers in the commercial sector, hotel sector and maybe hostels of the colleges and most of them were cooking directly from the gas. Wheras we introduced steam based cooking, which will reduce the energy consumption by approximately 27% to 30%. I am happy to say that we have been able to pick up fairly large number of orders, new contracts of this kind where per customer consumption of the fuel, will be almost two and a half to three times. So with even less number of customers to serve, we will be able to reach a breakeven level. In the current year, we should reach breakeven for First Energy. I do not want to comment on which quarter, but certainly we will be ending up with breakeven by the year-end.

Venugopal Garre: Thanks a lot. I will queue back in further follow-ups.

Moderator: Thank you. The next question is from the line of Mayur Patel from DSP Blackrock. Please go ahead.

Mayur Patel: Thanks for the opportunity. Sir if you can just it is always very helpful to take the comments on the sector, given that we are still consistently seeing weakness in execution and energy and even in environment and chemicals which was supposed to be on a good traction and supposed to be a new growth driver, there also we saw a little bit of weakness, can you just a talk a bit about outlook and what you are saying given that your order inflow has been very good and that gives good amount of visibility in the near term, how do you see the outlook in all these three segments, just want to take your comments on that first?

M.S. Unnikrishnan: Mayur it is a one-quarter affair. Do not get disappointed beyond a level. Last year, in the initial quarters I did not have orders to execute, while now there are orders and we are very particular about the way we execute them, which I will not disclose beyond a level. However, accelerating execution means it has to match the cash flow requirements. So, in all the projects currently going on, there is no slackening, if at all there was any, has got back to track now. So, I do think there is any concern related to execution going forward. We are fully geared up for all the orders to be executed both in energy and environment areas. So it will be good numbers in the coming year. Next would be the cost factor, in all of them. Yes, there had been an increase in commodity prices in the last year. We have been able to overcome part of that, barring the ordinary IS2026 normal steel where we buy on spot prices. We book well in advance, so we do not have any impact of the costs going up. So air pollution control business of the environment sector had an impact on that account for the year. Going forward, we have been able to increase the prices to a certain extent. The market has not turned in any of the sectors into a sellers' market. Even today, it is a buyers' market. There are not enough and more orders where everybody can have their pockets full. So we will have to be very cautious moving forward. If you look at the middle line of the company despite the topline coming down, we have been able to retain, barring some expenses such as increase in the employee cost, which is certainly needed as we need to be having more people onboard, looking at 45% more orders on hand. So I do not find any challenge in that count. In Chemical, we have our manufacturing plant well. There are no problems on that count. In the current quarter, we had styrene prices going up also. The moment the crude petroleum prices go up, the next impact is on the styrene price. In resin contract, where we take international orders, these are minimum one-year contracts. Just because the raw material prices have gone up, I cannot demand higher price overnight. With the rupee having again gone down, it is not a great thing for India and for overall economy. I will be very happy when it goes to succeed me in my chemical business because I am a net exporter. Though styrene is important, but my price realization will improve going forward. So, only in the last quarter there was a reduction in PBT after capitalizing a factory of that kind and charging all the expenses for running the new factory, which started off at a very low production level. As you raise up factory of that kind, certainly there are extra expenses but that would all be gone once you reach a 50%-plus capacity. Currently, we are almost reaching an output of 47%, 48% of the rated capacity. So next year by Q2, we should be reaching 70% to 75% of the rated capacity for the Dahej factory, then we will come back to the normal profitability, which you will see in the coming year. So, I do not think, execution-wise, one should be worried. What one should worry about going forward, is an order getting into difficulty in execution. If you really go to the Arithmetic's of the numbers that we are have reported - carry forward orders are after knocking off the orders, which we feel may not go through at all. Unlike many other companies, who give a gross reporting, we do a net reporting only. That is point number one. So, it is quite safe. But beyond that, my challenge will be to ensure that I continue to book similar kind of orders in the current year so that I can secure the future. Because current year is quite secured in terms of my orders available and the enquiries available. But further conclusion of tenders in the future, like the way we have been able to do in the last two or three quarters, like in the first quarter, we booked Rs. 1000 Crores order for a refinery from Nigeria. Then we had orders coming from two fertilizer companies, fairly large in size, another one from Gujarat, a BTG order for 120-megawatt kinds. So those are our tenders where we have been successful. Now replicating that in the market in the coming year, will have to happen. First and foremost, there will be two steel factories coming in India, which are reporting good results. I will have to play in that market to pick up orders for fairly large-sized boilers for the blast furnaces. In Refinery expansion, I have not seen any enquiries in hand, though India Steel Limited is ready with the enquiry, they have not cleared it so far. In O&G industry, with the crude oil prevailing at this kind of price levels, refinery expansions abroad are on the cards. So secondly in the current year, I am looking at oil and gas sector, helping me to get larger orders. In Captive power, all of a sudden, similar companies have also started talking about waste heat recovery, plus one or two Greenfield capacity additions. So overall, the sectors which gave me the project orders selectively should help me in the current year to at least match the kind of order intake that we had last year, and if that prevails, we will improve beyond last year. Execution would not be a challenge in Thermax in the current year, and we should be able to achieve better numbers both in revenues and profitability in the current year. Is that okay, Mayur?

Mayur Patel: This is helpful, I will come back for more question. Thank you, Sir.

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

Kirthi Jain: Sir, on chemical when do you see the profitability and turnover really kicking up?

M.S. Unnikrishnan: Profitability improvement was there in Q4 of last year, and in Q1 this year, there will be an improvement. Turnover pickup will be on two counts. Number one is the resin factory picking up, where I can start taking orders. The way we will accept international orders is not for one container or two containers. It will be multiple containers, and the orders will be lasting for one year, two years, three years and four-year equivalent. We were waiting for the plant to stabilize before we conclude contracting. There are enquiries, and the customers come and certify the plant and then we do piloting. I would expect that Q3, Q4 onwards, you should be able to see resin turnover increasing and the real improvement will be next year.

Kirthi Jain: Sir, on subs level we had seen a loss of around 10, 12 Crores so when you see a turnaround in subs levels or when you will see an improvement in subs level?

M.S. Unnikrishnan: Current year itself. We had improved subsidiaries last year also. In the current year, Danstoker will certainly do well. China will continue to be a challenge, but I mentioned about China being converted into a manufacturing facility rather than a fully operating onc, including sale. Because I do not think we may be able to improve the selling in China, and it is not advisable knowing the current situation prevailing there as an Indian company. When we set up a factory in Indonesia, we never expected it to make profits in the first year, second year or even third year. As per my commitment, it has to reach a profitability level in the fourth year of operation. It is a build-up of a market. You invest in the capacity and that manufacturing facility cannot go from one-third capacity to 100% capacity in three or four years. It will start at a capacity utilization of 10%, then 20%, 30%, and 40%, further rising to 60% and above that it will break even and go beyond. I do not think overseas subsidiaries, other than China, will have a problem going forward.

Kirthi Jain: The last question on the large order visibility this year was a year of large order visibility like around five large orders we had announced in the public domain for FY2019 what is the visibility you have Sir?

M.S. Unnikrishnan: Not many under tendering now, but there are ones available at various levels of enquiry generation and discussion as well as budgetary level, both in the domestic and international market. I need to admit that I do not have a 1000 crores enquiry right now at the negotiation level. I have got enquiries which are 100 Crore to 300 Crores, which are in negotiation both in the domestic and international market. Usually, the gestation period for such large orders is anywhere from three to four months going all the way up to eight to nine months. There are possibilities that we should be able to conclude these kind of orders in the current year. But the overall enquiry level from domestic and international market for conventional medium-size project, which is a sweet spot for Thermax is also not bad, in fact is better than the last year.

Kirthi Jain: Sir, on FGD with the Babcock facility we have been acquiring, will that technology we can use for FGD?

M.S. Unnikrishnan: We can use it, but we don't want to use it because Babcock technology is a little more expensive than the Marsulex technology. Since we already have the Marsulex technology based on which we have already prequalified ourselves and have started bidding in the country. And frankly speaking, the first order whichever got finalized in India for a supercritical, we were the L1, but the order could not be taken for various external reasons. We have started selectively bidding for at least the electricity boards in the country who have a worthwhile balance sheet or NTPC. See even if it is going to be a dodgy event and you are going to have a topline and no bottomline, Thermax will not take orders despite having technology. Coming back to that, we already have the Marsulex technology, which is again American origin, available to us to bid going forward. Whereas NOx technology which is available, it is a very rare one and a good one. And that is where we would want to continue with the B&W technology for NOx. When Venu asked me the logic of having kept this with us, if somebody were to get B&W equivalent technology for NOx control, it will be very rare to find because there are more than 90000 megawatt of NOx plants running in the world using their technology. And in our discussion with NTPC in the past three years, where a trial needs to be conducted, we have always bid with B&W technology. In my understanding, nothing is going to happen for the next two to three years. The way air pollution control for power plants will happen is first the FGD, which just started moving. This trend will start and move into the traction level in the next two to three-year period of time, and then towards execution. NOx will start once the trials are complete in the coming one to two years' time. And then as the health of the electricity generating companies improve, they will be compelled to go one by one for NOx control. At that time, we will be one of the companies having one of the proven and best technologies available. And we have sufficiently good balance sheet to execute such complicated orders for the future.

Kirthi Jain: Sir, lastly any new other capex planned other than B&W?

M.S. Unnikrishnan: We have gone ahead with Phase 2 of the Dahej factory, because we need to have capacity created in excess of 20000 to ensure that we will not need our Paudh facility, the old chemical factory. So, phase 2 is already there, but that is only some Rs.50 Crores. It is already ongoing. Machinery is ordered for. We are waiting for the initial manufacturing to stabilize to go for the phase 2. Second, in Indonesia, the original investment is supposed to be $25 million, of which we only spent $15 million, $16 million. The balance Phase 2 is ordered out, so that we are ready with the Indonesian factory in all respects in the next one-year. Thermax is very overcautious, I mean, the way we take a decision. We will go stage-wise and see if it is happening as we planned. Then we go with the full-fledged implementation. These two are the ones, which we have already gone ahead with. We are looking at what is going to be the cash generation for the next 10-year period, 5-year period and where we are going to invest that money. It is something we are currently working with the board. And in my opinion, we will be able to declare where we will be heading in the next 6 to 8 months.

Moderator: Thank you. We have the next question from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Just wanted to know that how much of our order book as of now has a fixed price contract, Unny?

M.S. Unnikrishnan: Nitin, in the area that we belong to, there is hardly anything which we will get at a variable contract. Because when you sign any contract maybe Rs.10 Crores upwards of, it is a fixed price only. Unless, I take an order from maybe NPTC or some state enterprises where there is a price variation clause standard available. These are some orders, very limited ones. Otherwise, most of them are fixed-price contracts for us. And that had been historically true for the past. I have over 20 years of working in the company; it is always a fixed contract.

Nitin Arora: Unny, what is your outlook on the margins now given commodities is not coming down so how you are looking your margins going forward?

M.S. Unnikrishnan: First and foremost, the only way to retain whatever margin one has budgeted at the time of taking the order is placing the orders for all the commodity items, which are of special nature within one month, which is something Thermax does. Next, we have got annual rate contracts for the components that we purchase, like motors, pumps, valves that are also securitized by having the rate contract. The area where we cannot control is, as I mentioned earlier, about the normal steel that goes into structures, ducting, casings, which we buy from the open market, where nobody gives a rate contract. There the price has already gone up to almost 40-plus percentage in the last one year. I am not expecting it to strengthen any further because the minimum import price that is supporting the steel industry has already played the game. And I do not think the government is in the mood to even extend it or maybe also increase it any further. So whatever margins I have booked will be retained. Many times, when you take a tender and not a negotiated order you have to quote aggressively to become L1 to take the order. In such orders, to get a double-digit margin, you need to have a very strict disciplined execution, which is something which we are quite good at. My take is, yes, we may have a quarter-over-quarter reduction once in a while but on an annual basis, with the kind of portfolios that we have, we should be aiming for a double-digit margin in the current year also.

Nitin Arora: Now Unny, coming back to your global subsidiaries, I understand this year is a loss write-off and the next year looks good because there is a write-off in the base. It is I am talking about specifically China and First Energy. Is not it in your opinion becomes more viable to shutdown the China absorption cooling subsidiary being an old facility from last 10 years, still struggling? And I just want to know what's the future of the First Energy? Those are my last question.

M.S. Unnikrishnan: For China, we can take the decision that you mentioned at any point of time. In any case, impairment, which is needed, is almost taken care of. But there are hopes that that facility may help me in case of a price variation and there are some markets which may prefer China. The cycle time for production in China is an advantage. Just to give you an example, Adani needed 10000 tonnes of chilling for their new solar facility, which has come up in Gujarat. And they wanted the entire thing to be supplied exactly in three months. There is no way that with the Indian logistics, one would have been able to make it in the three-month period. I have been able to manage it only because I had a factory in China. There are global orders, which you get for a short cycle. And the Chinese ecosystem is such that we could place an order for tubes and get the delivery day after tomorrow; copper tubes is what I am talking about. In India, you place an order, you may get it after two months. So short-cycle order execution of larger capacity, with the kind of massive capacities available in China would be a better option. We will have to evaluate and should be very clear if we really want to shut it down. I mean, that factory produces world-quality absorption chillers. Though there are some countries that do not even accept from China, there are many that love items coming from China. It is not going to be a bleed beyond a level here afterwards because earlier, on EBITDA level, we were almost close to breakeven a couple of years before. But all of a sudden, things did change. And I cannot talk on a recorded call as to what does it means for a relationship and the Indian brand equity in that particular country. And I am sure you should be able to imagine that. So we have to weather it.

Nitin Arora: And what is the future you see for the First Energy?

M.S. Unnikrishnan: First Energy certainly will be one of the initiatives Thermax is making an entry into the commercial segment. We are a B2B company. And we have seen in the last cycle and number of cycles faced by the Thermax, but specifically between 2010-2011 till last year, the negative cycle for the capital goods industry. So being a B2B capacity building-oriented organization has taken a beating, though we are one of the rare companies who retained the balance sheet strength with no debt and still almost a double-digit profit at maybe 20% reduced topline. It is a commercial segment, which had continued to invest even in the down cycle. And there, at the end of the day a hotel also buys a boiler, not one, maybe most of them buy two boilers. They will buy water treatment plants. They will have requirement of a sewage treatment plant. These days many of them are looking at solar as an option. The products which are currently sold by Thermax for the industry are saleable to the commercial segment with minor tweaking and with high level of automation, but not so highly performance-oriented or efficient, as they do not require it. So there we want to be a player. That is the purpose for which we are looking at First Energy for investment. Unfortunately, it was a mistimed investment, because their entire business is on fuel shift, means somebody who is buying LPG cylinder in maybe a college or hostel or in a restaurant or Sodexo cooking place, who would be paying maybe Rs.600, Rs.700. I do not remember the value of each of the LPG cylinders. There is a 20% cost arbitrage by going for a gasified cooking from the wooden pallets. So, the entire gasifier of the cooker was supplied as item without any capital payment, like giving a lease to the kitchen. And they pay on a monthly consumption basis. That is the way First Energy is considered. Now as crude prices came down from $70, $80, $90, $110 to $25, $27, LPG price also crashed in the country and at that point, many of my customers shifted back to LPG. And unfortunately, or fortunately the existing players who are the shareholders had to give to Thermax their balance shares up to 17% at a very Rs.1 price equivalent. So, we took over that. We also issued preference shares to support that company. Today we have cash on hand available. And we have seen the reversal happening with the crude prices having tempered back to $60, $70. I do not expect, and the world does not expect it to come back less than $50. And I only need a four-year play to come back to normalcy. In the meantime, with our knowledge and capability, if you have got an open stove cooking, versus if you were to go for indirect heating using steam-based cooking for larger kitchens, you can certainly have an overall fuel consumption reduced by 27%, 28%. I am very happy that today I have got 100 enquiries in hand. At least 10 of them are converted into, by which my entire pellet sales have gone up by almost 30%. And I am expecting it to reach to a breakeven level of 1400 to 1500 tonnes per month of sale of pellets in the current year. Now once it reaches over there, I have access to all those commercial establishments. 3000 was the peak number of customers, about 24 months back. If I am get back to the 3000-customer access for my rest of the products the company, well, certainly, the investment plus will payback. That will be a vehicle used by the company for commercial market entry or various products of the company. There is a strategy behind all of this, Nitin. See like the way somebody asked me in China, can you not close it down? Knee-jerk reaction is not what we should do, because when you thought about a strategy, you certainly will face headwinds. You have got to see if the headwinds is a permanent death or it is a disease, which can be cured. My way of thinking is that if a strategy was right to enter, stay put, so long as you can afford it and certainly, if you play in the long term. That is the way we are looking at it right now.

Nitin Arora: Thank you Unny. Thanks a lot.

Moderator: Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Sir, you had seen quite a few orders from the PSU side in the last year, that is FY 2018. So are there few more orders, which are there from the fertilizer or chemical or any other sector, which is there? That is question number one. And from the private side, you had mentioned JSW, Tata Steel. What is the potential size of these orders? And will it have a cascading effect on the smaller steel, billet plants, etc., which will lead to order inflow for you over the next one to two years?

M.S. Unnikrishnan: First and foremost, in fertilizer, there may be one more in the immediate future and IPCO is vacillating if should they go ahead. One could happen in the current year. Next to talk about is both the projects in steel I mentioned about. JSW is already ordering. I think they almost completed the ordering for most of the steel plant to China, 78%-odd. And blast furnace-based power generation items are under negotiation right now. So once that is through, we are one of the major players in that area. In any case, in blast furnace firing and gas firing, we are the #1 in the country, in both technology, capability, everything put together. I stand a better chance to conclude that. Tata Steel were to conclude the order in the H1 of the current year, but their attention got diverted to Bhushan Steel. So since the deal is through, we need to really wait for what are their plans related to Kalinganagar expansion. Will it happen in the current year or will it get into the next year? These are the things, which we cannot predict right now. Now the next question about the down streaming impact of that related to the feed supply of sponge iron is where Thermax will certainly be benefited. We already got some orders in the last year. There are enquiries that we need to wait and watch for. See, there is no turnaround in investment cycle in the country for the larger commodity sectors. But there are hopes that it may happen going forward say for cement plants. I have been continually talking about it for the past two to three years. I mean, I hope all of you will remember that I told that all cement companies are having excellent balance sheet, highly leveraged one, with a lot of cash available. So once capacity utilization crosses certain percentage, I always told 85%, but I am seeing people who cross 75% also today have started looking at Greenfield expansion. And there are not too many consolidation possibilities remaining over here. You would have read in the today's newspaper about the largest Indian cement maker buying his own company, I mean, group company to consolidate further. That means there is nothing available in the market any further. So Greenfield capacities will have to happen. I am hoping that sector-wise turnarounds will happen. The way things are happening in the country related to steel production, nonferrous metal has to follow, not a single aluminum smelter or factory got commissioned after Aditya Birla Group where two of them who got commissioned two years back. Of course, I had at least some orders from there. In the consumption of metal there is an equation available. Normally, steel companies lead and then comes copper and aluminum. So, there will be something more to happen in the next two years. My expectation is that there will be selective investment happening in the core sectors, barring one that is a power sector for the next two- to three-year period of time. I should have a positive coming from each one of this. Currently, the expectation is that I have one in steel and I should be able to pick up both in fertilizer, continuing the success from last year.

Ravi Swaminathan: How large would that kind of potential order be at least if you can give a broad range it will be helpful?

M.S. Unnikrishnan: Like whatever had happened in the past. You have seen the numbers.

Ravi Swaminathan: How intensity of steel, aluminum and copper, so basically aluminum will it go for larger IPP range plants or how do you see that?

M.S. Unnikrishnan: In Aluminum, if you look at BALCO, they are about 8 numbers, 135 megawatt. Hindalco has got similarly couple of numbers of 150 megawatt. They are guzzlers of electricity. So it will be fairly large, medium size. So you have 200, 300 megawatt in multiple numbers.

Ravi Swaminathan: Got it and with the rise in crude oil prices do you see any further ordering opportunity from Middle East and Africa?

M.S. Unnikrishnan: Yes. In Africa I may not get right now because this refinery has to be commissioned before another one to happen. There will be opportunities in Middle East There will be an investment because they do not have any other option right now. Only raw material available to them very cheap is crude petroleum and only value addition they can do is refining there and of course, they can go for petrochemicals also, so that is the area where we look forward to. One thing, which you should have noticed is that in the last two or three years, a movement happening across the globe is to have gas as a feed fuel for captive power wherever it is available and that is an area where we really would focus. Earlier we did not have any capabilities for building a gas-based captive power plant. We started off with that one is OMPL, which is an ONGC joint venture. We commissioned the plant a year and a half back. Based on this we have got the pre-qualification for the RCF order and NFL order. We have gone ahead and picked up the order from North Eastern Power Company NEDCO, which is also commissioned, so with that today I have got prequalification and capability both. One is PRE-Q, and the second capability to satisfactorily execute captive power plant based on gas, which is a rare thing. None of the competitors barring maybe BHEL may have that kind of capability. So, this is an area where the shift is happening in the global market. I am expecting that many coal-based existing captive power plants in advanced economies where they can afford it may shift to gas if gas is going to be available, so in that, I want to be ready because I already have the pre-qualification up to a 100-megawatt captive power plant for gas-fired. I am sure both the companies who are making gas turbines in the world are aware of Thermax's capability and both the companies are averse to doing EPC. I am happy to do EPC of this particular size. I am expecting that this should give me an impetus the same way we did coal-fired captive in India then moved into the rest of the world in South East Asia and Africa in the last maybe six to seven years' time, I should be able to make a move regarding captive based on gas. I may not attempt to do that in the developed world, but in developing world certainly, we will be a major player.

Moderator: Thank you. Mr. Swaminathan. May I request you to join the question queue for any follow-ups as we have several participants waiting for their turn. Thank you. The next question is from the line of Salil Desai from Premji Invest. Please go ahead.

Salil Desai: Sir, this is just a clarification on your chemicals business. So, you are saying that raw material cost hits you immediately but the pass-through in the finished product side takes time and you have to negotiate with your customer to do that. So what is the time frame that you are looking for in terms of the lag between the cost?

M.S. Unnikrishnan: Most of the contracts will have a fixed-price proportionally for the current year contract. Whenever the year ends, next year, automatically, I can get an increase. But in the resin sales this kind, medium-to-long-term contracts are only 40% to 50% of my total output. The balance is retail sales, where I can increase costs. But there the competition will have to be considered. Something like, in the auto industry, who is the first one to increase car price when the steel price has gone up? It is only the highest of the brand. Smaller companies will not be able to do that. So, I am not a large player. I got to be waiting for a Lanxess or a Dow Chemicals to increase the prices, then immediately I jump.

Salil Desai: If I assume that is on an average it takes six months for any contract to come for renewal, then how do you manage? In the sense that as when you think of a business plan then is there a way you can hedge your risk of commodities spiking up or not? Or you just have to go with how the market behaves?

M.S. Unnikrishnan: No. There are some forward contracts for styrene also possible to a certain extent that we are already a part of , not on our own. We may have to do it because we are not buying in bulk of that kind. We do a bundled buying along with other major buyers, adding our quantity along with them that will protect us to a certain extent. But otherwise, it is only costs already considered to a certain extent. Otherwise, we would have plunged into loss. That does not happen . This increase had been very steep in the recent past. See, a normal increase, throughout the year, is maybe 10%. That shock absorber is already available. You are back on track. But if an increase were to happen by 40% from the beginning to end of the year, the shock absorber is incapable of taking that kind of a shock. So that padding is only done in the pricing, which is good enough in the normal circumstances. Whenever a spike happens of this kind, which I think we are already almost through or unless, otherwise, there is another prediction like in the last cycle people spoke about crude reaching to $200 a barrel; we will be in pain for some more time. Then of course, you may have to renew your contract. Nobody including my large competitors, will never do any business on loss. Many are foreclose/preclose contracts. I am not expecting something like that to happen. I think crude petroleum is going to range within maybe 10% to 15% in the current year, in which case we are sufficiently covered.

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

Aditya Bhartia: Good afternoon Sir. Sir, my question again is on margin sensitivity to raw material prices. Specifically, I wanted to understand for longer-execution orders, like, let us say, something like Dangote, are we completely covered from raw material cost fluctuations? And also, you mentioned that rupee depreciation hits the chemicals business, how does it exactly impact the businesses?

M.S. Unnikrishnan: Aditya, for Dangote, thankfully, our ordering is over by almost 90 percentage. It is only the last nuts and bolts, which are not going to impact, and these are COD category items in the entire cost structure. So that is already covered, nothing to worry on that count. And any imported component, even with the Indian rupee diluting, is all with forward cover taken care of. Similarly, for any large project orders, we already place the order for all the major components and raw materials, barring the conventional steel, preferably within 30 days. In fact, for alloy steel and all, we place order on the day when we conclude the contract with the customer and the advance is received. Same night, our purchase order will be sent by wire to our suppliers. Some amount of bulk buying in anticipation of the shortage of cues has also taken place. So that is fairly well covered for majority of the larger orders in hand. Otherwise, we are quite nimble and very agile to ensure that cost coverage is done very quickly. And they are reviewed also at very senior level, including Amitabha getting into it and reviewing our cost structure. And as I answered to you, in the chemical business, we do not get carried away beyond the level by what I spoke about because 50% of my sale is resin, balance 50% is performance chemicals and construction chemicals. There this styrene impact would not be there. Half of what is there is what one has to worry about. The current quarter that you see is because I continue to run our Paudh or Maharashtra factory and the new factory at Dahej. When you commission a plant, the entire manpower runs it. I cannot ask maybe one-third of the human beings, operators and managers, to be present to run one-third capacity. So the overheads related to running the entire Dahej factory has been incurred. As the capacity picks up to the full level or 60% level, which I anticipate by end of Q1 or beginning Q2, it will also turnaround. Otherwise, styrene, of course, is an impact, which I did mention already.

Moderator: Thank you. The next question is from the line of Sujit Jain from ASK Investments Managers. Please go ahead.

Sujit Jain: Good afternoon Unny. My question is that in the B&W JV, was there a put option to B&W?

M.S. Unnikrishnan: No, we did not have a put option.

Sujit Jain: I mean, they did have, or did they have?

M.S. Unnikrishnan: No.

Sujit Jain: One question, if I may, is that in the wake of MNCs putting up microgrids in their own captive factories in India and then demonstrating to their customers, what is the threat to captive power business in the long run?

M.S. Unnikrishnan: If India were to have created a much larger capacity of generation than what we have, captive power would have been in threat and will be in threat. You need to understand some numbers. China, at this point of time, has got a little over 1.1 million megawatt installed capacity. Our country with all surplus power being touted for almost a similar size of population is 340,000 megawatt. Now we want to be an economy as good as at least China, some day. The gap of power is so high, how can companies depend upon power coming from the wire. My understanding is that, fortunately or unfortunately in India, genset and captive power, based on solid fuel, will continue to remain for a considerable period of time. Once when we have a per capita availability of electricity in the country, touching 3500 to 4000 units of electricity per person per year, we may say that captive power can take a negative dive. India's number is just about touching 1000 the last time I heard, but the population is increasing by the day so now per capita maybe lower than 1000. China, for your information is touching 4000. So that is the kind of power requirement emerging. As affluence catches on in India, cost of power will become not an impacting factor for steel or power. Even today when we say there is surplus power or people are not buying, fundamentally, if you go to the rural areas in the peak of the summer, there will be power cuts. Not for half an hour or one hour like in Bombay, Pune and similar big cities. The rural India will not have power for the day, because what they pay is something like Rs.1.5 if at all they pay. And the purchase cost of electricity is already, you guys know it better than me, ranging between Rs.4 and during peak hours, they will charge you Rs.8 or Rs.9. It is not possible for any electricity board to supply at a subsidized rate to the rural area. As the rural economy picks up, somebody who can afford to use a mobile phone and pay maybe Rs.300 for the mobile charges, he will be willing to pay Rs.300, Rs.400 for electricity and have at least a fan running. To give answer to the question somewhere, our growth rate as of today, after touting various things happening in the last four years, which part of the Indian economy has grown? It is service industry. Service industry does not consume electricity. If you believe that India is going to be Singapore all through, that is service economy. All together for what Britain is trying to become, 100% service economy then you will be bypassing the Indian manufacturing. Because as I understand in economic development of countries or civilization to be precise, agro economies become manufacturing economies to service economy. We are actually building our agro-economy, it has almost reached a peak, only mechanization is going to happen. And manufacturing economy is yet to be pick up in the country, and then we will move the service economy. Manufacturing has to pick up one day. Otherwise, there will be so much of unemployment and chaos in the country. So, we are going to be forced to encourage manufacturing in the country. As the manufacturing picks up, per capita electricity consumption goes up. Why I am giving you a philosophical answer is that many a times we bring out the suspicion - will captive power survive in India; it is going to survive for a considerable period of time till we reach this kind of power availability in the country. And I do not think solar is an answer for it all of a sudden. Though solar will grow in the country, the wind will grow in the country, and I am sorry to say coal will restart in the country and that's when we will take the decision of going for supercritical. We will have the technology and a factory.

Sujit Jain: Yes.

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

Renu Baid: Good afternoon Sir. Just two questions from my end; A, you mentioned that the current backlog for the year-end includes some projects which have been canceled. So if you can briefly elaborate on that? Amitabha, if you can also share with respect to details on order intake and order backlog for energy, enviro? And my second question is, you did mention of a much healthier backlog and execution momentum sustaining. So, does that give us confidence that your despite missing revenues last quarter and the last year, this year we should be closer to 20% kind of growth rate, given the strong backlog with us on the EPC side?

M.S. Unnikrishnan: Yes. First and foremost, maybe I misspelt it, or you did not hear me. What I told in the statement related to the carry forward orders is that they are after considering orders, which may not move. That is why I spoke about the arithmetic. Opening order of the last year plus the new orders received, minus the revenues may not exactly match as it is after adjusting a new order which would be insignificant, that is the way Amitabha puts it. So, I am handing it over to him to give you the numbers of energy, environment. Chemical, usually, does not have too much of carry forward. Amitabha, you can give Renu the numbers?

A Mukhopadhyay: Renu, the consolidated level, the order intake for the quarter: energy is Rs.1350 Crores, enviro Rs.161 Crores, chemicals Rs.87 Crores, total Rs.1599 Crores and order balance is energy Rs.5042 Crores, enviro Rs.612 Crores, chemicals Rs.34 Crores, total Rs.5689 Crores.

M.S. Unnikrishnan: Renu, let me give you the numbers. If I open the last year with Rs.3976 Crores carry forward for the group, we booked 6380 new orders. We executed Rs.4391 Crores, leaving that, the number should have been Rs.5965 Crores. As against it, we are reporting Rs.5689 Crores, which means the orders which are cleaned, not cancelled, are Rs.276 Crores of carry forward orders. The cleansing is done by Amitabha and team after going through each order on whether it is moving or not. Now the second thing that you wanted to ask is about growth. Yes, if you do Arithmetic, it may be very close to reality. Now as we move, be assured of the fact that my factories are waiting for this kind of orders. So, all of them are now doing quite well. Most of the customers which we have considered do not have any NCLT or maybe CDR difficulties, for the orders which they have given us. So, it should move. Sometimes customers may delay the project, by a couple of months only. They may not want to take depreciation in a particular quarter, let us say, so go slow for it. All the orders are executable, which are reported over here, and we should be able to manage it well.

Moderator: Thank you. We have the next question from the line of Ranjith Sivaram from ICICI Securities. Please go ahead.

Ranjith Sivaram: Just in the previous question, you gave the consolidated breakup. So, can you help us with a stand-alone breakup of order intake and order book?

A. Mukhopadhyay: Standalone, energy, Rs.1232 Cores, enviro is Rs.161 Crores and chemical is Rs.80 Crores total Rs.1473 Crores and order balance, energy Rs.4659 Crores, enviro Rs.612 Crores, chemical Rs.31 Crores, total Rs.5302 Crores.

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

Inder: This is Inder here from Macquarie. Thanks for the opportunity. Unny you talked about opportunities potentially coming in from steel and cement for captive orders? What you think about competition in that segment? Is there a likelihood that some of the other established players in the BTG segment starts to also participate in this low-end segment given that the utility BTG order is not available in the market and have you seen that happening in any of the bids right now and what is it is doing to the pricing? Thank you.

M.S. Unnikrishnan: There are only two established players or two and a half let of the supercritical range in the country. One is the public-sector company and the other one is the private sector joint venture. The public-sector company as I see for the past three years, are participating in most of the smaller capacity, but they have not come down to a 20:25 megawatt. Once in a while they will bid for that, but they are unable to pull it through. I have not lost a single order to them in the recent past up to maybe 100-megawatt size. Gas is something they do, especially since they have designs of GE available with them for gas turbines of smaller capacity. They bid but they have not been able to be successful because after all a planned engineering for all India gas-based captive power plant is something, which we have now understood very well, and we are able to optimize on that. Not that they can't catch up, but haven't seen so far. The other joint venture of the domestic private sector company has not competed with us, they are very busy with very large contracts. This is very small in size. I am not expecting them to be coming in, but there are other regular competitors in coal, solid fuel and biomass. There are two main competitors of which one is trying their level best to get into this area. I will not write off any competition from there, but we have an advantage of having completed multiple projects and the knowledge gained but should be able to lower the price and margins. We can't have a free run available with great margins. We will have to ensure that we are able to get decent enough margin by executing on time and without having cost overruns. The next thing is to use the experience and the registration to move into the global market in the developing world and possibly make a go at it in the European market one day. Not immediately because we got to have the capability to manage the European standards of engineering for a project and execute locally, we will take time to reach there. We are capable in products, but in projects we need have partnerships to do that. That is, it Inder.

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

Bhavin Vithlani: Thank you for the opportunity. Unny two questions quickly. On chemicals you mentioned that you are going ahead with the phase 2 expansion, so could now give us what is the capacity now, utilization now and what is the investment you are expecting for the new phase and when would that be complete and what gives you the confidence of expansion into the next phase that will be helpful? The second question that I have is on the balance sheet that I see your working capital levels have been going up especially when I look at your debtors are up by 20%? We also see a commensurate increase in the liability side, but could you give us some color on the working capital? These are my two questions. Thank you.

M. S. Unnikrishnan: First, we have 10000 metric cube per annum capacity existing at our old factory in Maharashtra and the new one, which we commissioned at Dahej is 12000 metric cube per annum, which means 1000 metric cube per month. It has reached upto 500 metric cube per month at Dahej right now. My demand for the year FY2020 is going to be between 18000 and 19000 metric cube per annum, so once Dahej plant reaches 12000, I still need to run the Maharashtra old facility to take care of my FY2020 demand unless I have the phase 2, which means additional 10000 metric cube added at Dahej. Dahej phase 2 is at 10000 meter cube and Phase 1 is 12000. But for the initial plant itself we have gone for all the common facilities and utilities, everything is already designed and executed for 22000 because of which, at the expense of only Rs.60 Crores, we will be able to complete the phase 2, which is ordered out. I am expecting that we will commission it ideally by December but let us say that normally chemical plant commissioning can get delayed a little more. Come what may, in June 2019 that will be up and going, which will possibly liberate my full capacity in Maharashtra. It is an independent chemical factory with 70 acres of land and let me not declare what we do with that. The second is , Amitabha, he wanted some clarity related to that.

A Mukhopadhyay: I think Bhavin on the receivable side whatever is the increase you are seeing a little more than half of it is relating to two particular contracts where the receivables increase, which is secured receivables has been extended for the particular contract or for two contracts and the increase in liabilities what you were saying is that advances from customers has gone up significantly, so these are the two factors, which have contributed to the two aspects you enquired.

M. S. Unnikrishnan: Is that okay Bhavin?

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

Ankur Sharma: This question was for Amitabha actually. Sir could you please share the standalone segmental sales and EBIT numbers if you have it on you? We typically give it on our annual the press releases, so if you could please share that for the full year FY2018?

A Mukhopadhyay: Energy segmental?

Ankur Sharma: Yes please for the full year?

A Mukhopadhyay: I think Ankur we are not giving the standalone segment separately and this is now almost last six quarters. We have not given that, but I can give you the standalone revenue wise. You want for the quarter.

Ankur Sharma: For the full year Sir preferably?

A Mukhopadhyay: For the energy segment for the full year is 2928 Crores, environment segment is 635 Crores and chemical is 326 Crores. Total 3889 Crores there will be certain segment revenue.

Ankur Sharma: The EBIT numbers would not be available at this point right Sir?

A Mukhopadhyay: No. We are not sharing this EBIT number for the last three quarters.

Ankur Sharma: Understood. Got that. Not a problem Sir. Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you!

M.S. Unnikrishnan: Thank you. Thank you Ankur team also. I am sure there would have been a feeling of disappointment in all of you related to the Q4 performance. Take it as one quarter but look at the positives related to the carry forward and we should be able to pull through a good year. As I mentioned earlier, execution is a challenge, but it is not such a challenge for Thermax. We have done much, much better. We have managed much bigger carry forward , we automated better and symptoms are far superior, and the overall ecosystem is also in a better condition in the country in comparison to the great days when we did a Rs.6000 odd Crore turnover some time back in 2011. Margins certainly depend upon any substantial change in anything, and in any case most of the raw material prices are covered. Labour charge increase can have an impact not only for me but everybody in the country and is manageable. There is nothing that is worrisome for us at this point in time. My team is working on executing orders, and I and another set of people are currently working on how we ensure that order booking can be sustained or improved in the year. Looking forward to your continued support and advice. Thanks a lot once again for having interest and being with us all this while. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Motilal Oswal Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.