"Thermax Limited Q2 FY14 Earnings Conference Call"

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MODERATOR:	**MS. BHOOMIKA NAIR– ANALYST, IDFC SECURITIES LIMITED.**

Moderator Ladies and gentlemen, good day and welcome to the Thermax Limited Q2 FY14 Earnings Conference Call hosted by IDFC Securities Ltd. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch tone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from IDFC. Thank you and over to you.

Bhoomika Nair Good morning everyone and welcome to Thermax's Q2 FY14 Earnings Call. The management is being represented by Mr. M S Unnikrishnan – Managing Director and CEO; Mr. Amitabha Mukhopadhyay – CFO and Member Executive Council. I will now hand over the call to the management for the initial remarks post which we will open up this floor for Q&A. Over to you, sir.

MS Unnikrishnan Good morning and a very warm welcome to all of you and as usual thanks a lot for showing keen interest in knowing more about Thermax. I look forward to your queries as well as advice. Let me also reintroduce Amitabha, he had been the CFO of the company till 2007 and moved into one of the Tata Group companies as the group CFO and President. I am very happy that he has rejoined Thermax as a Group CFO, including the joint ventures, subsidiaries and the new initiatives that the company is starting. So welcome to Amitabha also to this meeting.

As all of you are aware capital goods industry has not been in the best of the shape on any of the areas in the past three months that we could be analyzing. Whatever we have been able to deliver is good but we struggled to manage the balance sheet at this point of time.

Coming to the specific numbers, our revenue stood at Rs.1030 crores as against Rs.1181 crores representing a decline of approximately 13% for the similar quarter in the previous year. Energy sector is this area contributed to 75.2 and environmental is 24.8. The decline in energy contributions environment 80:20 is now changed to 75:25 for the quarter under consideration. The decline in energy is predominantly on account of our reductions in large boiler and large projects of EPC. The services business for the company which is from the revenue side of the wallet of the customers improved by 18%. This is something we've promised earlier that we are trying to do, that is to de-volatilise the company by targeting revenue from service. The positive news is 18% improvement in that area. Domestic market has contributed 74% to the main company's balance sheet and 26% has come from exports in the current quarter. Another noteworthy thing is Thermax has now become 37% international company when comparing our domestic revenues and export revenues plus the international revenues. Our international revenues which have gone up 37% may be a good sign on one side but other side is an indicator of the domestic market currently crumbling.

Order intake had not been very encouraging but I do not want to use the word discouraging as it is Rs.768 crores as against a Rs.1162 crores. Let me tell you that there are no major order losses by the company, on the contrary there is active discussion with the customers but somehow there is a resistance or postponement happening across the industry for various larger sectors. The order booking is predominantly contributed by the standard orders that Thermax is known to take quarter over quarter. Very few projects from outside India have come and they are not very large in size.

Now sector wise, we have done quite okay in food, chemical, refinery, sugar and metals; metal means not anything substantial except two medium sized orders otherwise there is no recovery in steel. Sponge iron in one or two small orders have surprised all of us too.

The order carry forward for the main company stands at Rs.5308 crores as against Rs.4412 crores for the previous year giving a 20% higher level for the organisation. Though, not all of them are revenue recognisable in the current year because some of the orders are oming towards Q1 may move further. At the group level our numbers are Rs.6128 crores against Rs.4984 crores. On the PBT side for the main company it is 85.3 as against 131.8. Now a part of this can be bridged on account of the fact that the top line has declined by 13%. Apart from this we also have to register and book as per the accountancy practices for mark-to-market losses on the foreign exchange. The approximate number could be a (+10) crores on mark-to-market. May be Amitabha can give more details about that. And the recorded PBT is also abreast of the treasury earnings if you look at in comparison to the previous year and impact of that is also early double digits in crores of rupees Rs. (+10) crores difference in that front. Though, nothing to worry because the treasury's size has gone up but last year at the same time we had maturity of FMPs or maybe we had fixed deposits delivering where we could be booking the profits on our quarter over quarter basis. Current year it is more of FMP so we would expect a recovery on the treasury income of the company in Q3 and Q4 and you would certainly see that with the treasury being maintained quite well, the accounts and finance department will deliver at least similar kind of numbers of the previous year on a yearly basis.

If I were to look at these two numbers and the reduction in turnover by 13%, operations have maintained their efficiency. However, when the overall top line comes down naturally the expenses remain constant and some areas I've mentioned to you in the last quarter where we had increased the salaries there could be an impact on that. But that is a phase that we could live with as long as there is lower top line. So more important for the company is to book in more orders going forward and we are hopeful that things will improve. Here, I am not looking at anything to come from the government or RBI. I am talking about sentiments of the investors which are 400 to 500 Indian citizens having a faith in their country and 1.2 billion populations. Maybe if that sentiment is reversed, we should look forward to some improvement in the order booking in the next few quarters.

News to inform you is that we have started commercial production of our environment air pollution control factory at Solapur. It is another milestone going forward feature for the company because this is specifically Indian traders taking our company to international market for air pollution equipment. There are very few companies in the country having this kind of facilities and this should help us to increase our faith in the international market going forward. About TBWES joint-venture, it is certain that we have registered a loss in the quarter however we are ready to start production. Part of the Reliance order, we are intending to be handing over to the joint-venture manufacturing facility so that you can start production activities in that factory which is idle otherwise and will declare about it as we move towards that one. The Chinese subsidiary has improved its performance and they are closer to a cash breakeven in this current quarter but will it be sustainable and when are we going to make a real turnaround? I would wait for next year but certainly it has improved its performance. The subsidiary in Denmark has done quite well in order booking, revenues and profitability for the current quarter, which has helped the company to be declaring at the group level better numbers than the parent company which is always a struggle that all of us have. Let me also admit that we may have negative continuing in our Thermax Instrumentation subsidiary, as I promised that towards the end of the current year we are expecting to come close to a positive level as some of the difficult projects will get over by that time. So let me now leave it to the floor to ask me questions. Thank you.

Moderator Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Venugopal Garre from Barclays. Please go ahead.

Venugopal Garre On the taxation side just wanted to understand what this particular item? Is the extra taxes that you have provisioned for and what incrementally pending in terms of the past year?

MS Unnikrishnan This is something the Income Tax Department has come with in Section 133(A) where they wanted to get into the details of the commission paid by the organisation which are normally disputed in every capital goods company every year and ultimately when we were unable to come to a conclusion, we decided that these are the ones, so let us take it out of the taxation thing and take it as a dis-allowance. If that be the case, what will be the burden on the company? The current estimate given by department along with my finance department indicates that approximately this could be the number, so we did not want to postpone for any order to be passed by them. We are aware of prudency demanded that we make a provision for it and we provided for it and part of that could also be other payments when we're going to do and these are the final numbers. It will be unfair on my part to be committing on those as department behaves differently from companies, so we will have to wait for their response as we move forward.

Venugopal Garre Secondly on the B&W JV, it has been a while since the commissioning has got delayed for a while, so what are the issues that is currently pending and how many more quarters it could take and more so I also wanted to understand what kind of staffing levels that we would be working with especially the fact that you intend to give up part order from the Reliance order across that particular sub JV?

MS Unnikrishnan First of all there are no more permissions pending from any government authorities of substantial nature, no investment oriented decision. Procedural also I would say 95% is through and we can start it at any moment. We have staff for managing the plants who are already in place, we also have got a Vice President for the manufacturing unit as also technical staff . I am talking about the white-collar staff available. We have selected blue collar staff from various ITI but they will not be inducted directly as employees for the companies, they are on variable level. We're not going to have any blue-collar employees to start the factory, progressively we will have them inducted.

Venugopal Garre What are the kind of numbers that you are looking at in terms of employee strength?

MS Unnikrishnan For TBWES or manufacturing alone?

Venugopal Garre For TBWES as an entirety.

MS Unnikrishnan Without any external orders coming in we will limit our white-collar to 150 and blue-collar as I told you is going to be variable and as the order kicks in for one or two 660 MW which is the kind of order that we should be getting, this number could rise up at 200 in white-collar and blue-collar again will be apprentice level.

Moderator The next question is from the line of Sandeep Tulsiyan from JM Financials. Please go ahead.

Sandeep Tulsiyan Firstly just wanted to check if you do a simple math of your consolidated minus standalone the subsidy profit number looks at it has recovered substantially to about Rs. 11 crores in this quarter if I adjust for the tax number of 34.7 which you provided, could you just broadly indicate which subsidiaries are making loss but looking at the numbers it seems that some of them have recovered substantially, so could you just highlight broad numbers of the larger subsidiaries in terms of profit or loss that would help?

MS Unnikrishnan Numbers Sandeep I would not be able to specifically give you but let me again clarify the best improvement is done by Danstoker and it is not a 100% repeatable portion because the current quarter there had been some product mix advantages and the high profit order available to them which has substantially helped Danstoker give as profitability. Our American and European subsidiaries have also registered profit. In the Indian subsidiary, Thermax On-site Energy Solutions Ltd has registered profit whereas the negative is Thermax Instrumentation Limited. Thermax Zhejiang has seen a marginal loss that I should at least give your number because Chinese is an independent entity.

Amitabha Mukhopadhyay Thermax Zhejiang for the current loss in INR equivalent is Rs. 1 crore for the half-year.

Sandeep Tulsiyan I have two more questions, one is on the TBWES you had indicated earlier that at zero utilisation when a factories idling the annual kind of the PBT level loss of Rs. 90 crores to Rs. 95 crores now since you would be shifting some manufacturing of the Reliance order what could this number looked like now and number two I wanted to check on the number of days orders in past you have always indicated that you have Rs. 500 crores to Rs. 600 crores kind of quarterly base order, where you have not seen much of decline and in addition to that you look at booking your EPC order of Rs. 150 crores to Rs. 200 crores, so how does this number looked now given the current enquiry rates?

MS Unnikrishnan Let me clarify on TBWES that the number which you have mentioned is the operational expense for the company. You will have to add another say Rs.40 crores approximately for interest repayments so it will be 120 Crores to Rs. 130 crores rather than Rs.80 crores to Rs.90 crores. So clarify that, this is what you have spoken in the past, so that is one correction. Second you had asked me about what would be the impact of an order which is placed on them or would be placed by us. Reliance full order will not go there. Just a manufacturing initiation done for the panel shop and partially the coil shop so that we have the brand-new world-class machinery available and we started we need to have it, it is not that an order being passed on, it is not being intended. So let there not be any misgivings on that account, so that would not make any substantial difference. Of course machinery will get started, people will get employed also but the cost increase will get offset by the income they will pass out onto them that is the way it is going to be started. Going forward to give an answer for it if B &W were to be getting any order in the coming years let us say that in the next 12 to 18 month period whether it is 200 or 300 MW, for anything anywhere in the world now they will have a preference because they do not own a factory currently for making any of the items which are made by this particular factory. So naturally they have two JVs, one is the Chinese government in Beijing and second is in India. So we have an American Society of Mechanical Engineers approved factory right now and it is qualified to supply. They naturally will have a preference for feeding this. Any offsetting of expenses to happen you should have chunky sites of manufacturing to come to that not what we currently pass on, to make a remarkable or maybe noticeable difference in the losses.

Sandeep Tulsiyan So probably what about 1200 MW kind of a number would be where this facility would break even?

MS Unnikrishnan Something like that as a manufacturing but the breakeven is not a factor of manufacturing alone, manufacturing is not the biggest of the burden. The burden in this kind of a company would be in terms of the manpower needed to be recruited at the full scaling you will be having say 800 white-collar employees in the organization minimum to execute 2500 megawatts of order. And workmen whether on temporary, permanent, contract all put together you will need 1000, so that is the main expenses it is going to be to do that kind of a breakeven you'll be needing 1600 MW equivalent of that or depending upon, see 1000 say in today's circumstances in 2017-18 circumstances when everybody will again be talking about order book quite comfortably then the margins will improve, so between a 1200 to 1800 MW is what is breakeven depending upon the margins that you would be making on each of the orders.

Moderator The next question is from the line of Salil Desai from Premji Invest, please go it.

Salil Desai One clarification on the tax which assessment year does this pertained to, the additional provision?

Amitabha Mukhopadhyay It covers from 2007-08 till now.

Salil Desai Some part would be for the current year also possibly?

Amitabha Mukhopadhyay Yes.

Salil Desai Second is when you said that the Reliance order some part of the manufacturing will be done in the new factory, now does this in any way help us crunch time in terms of the delivery or this is just making use of their facility instead of ours?

MS Unnikrishnan Both the points that you have told are true, one is that we can save time because in any case that will hasten up the new parallel processing and second is in terms of it will also give a lot to our subsidiary and let me also clarify if there were to be another Reliance order which is not there in the country, I am just giving you a hypothetical situation anywhere in the world if that would be utilised for making a bid which otherwise Thermax would not be able to make. But frankly speaking don't ask me a question next quarter, do you have an enquiry, there are no enquiries currently, that is it.

Salil Desai So that 24 or 27 months can expect like 6 months some time-saving overall if you try and use both factories?

MS Unnikrishnan That would be our intention but please realise the project is executed not by us alone it is also by the buyer, so the buyers when they give particular timeframes, there are other interfacing activities to be done like maybe civil work, the inputs to be given for it, so commissioning a plant ahead of schedule will depend a lot more on the customer rather than our own ability to manufacture and deliver and even if you manufacture construction is an activity which will take the logical timeframe needed for it, so if you make the difference a little only not substantial at this point of time.

Salil Desai Earlier you mentioned the numbers on service revenues, export revenues and international, now these are what proportion of total revenues or 18% is the proportion of service revenues or 18% is the growth in the service revenues in the quarter?

MS Unnikrishnan We spoke about a growth of 18% in quarter versus last year versus the current year quarter. If you talk of as a percentage, when you say service inputs are majority of the chemical business, chemical is going into the consumer business, the way what we're looking at a Thermax balance sheet has got two portions, one is predominantly we were a CAPEX cycle company, only CAPEX. We encourage or maybe we created a service portfolio which includes even if a negative cycle continues in CAPEX, what will sustain, that includes pure service like operational maintenance, replacement, retrospective re-ramp and studies done for energy audit equivalent plus also the results and performance chemicals which we manufacture in our chemical business. Put together we kept a target of 15% to be the percentage of that on the overall balance sheet of the company when we started it. We have reshuffled that not only because of the effort of the company, but also because of market conditions as the CAPEX cycle will tank, so the OPEX cycle numbers are over powering. So otherwise if we were to be growing the way we planned we will be short of that. So the 18% growth that we have indicated is steady despite the decline in the turnover of the company what we promised or what we have internally taken as a target of service business to be growing that is the only statement to be taken from that perspective.

Moderator The next question is from the line of Inder from Macquarie. Please go ahead.

Inderjeet Singh My first question is on the top line given that we ended FY14 at 10% kind of growth in order backlog, how do you look to view the FY14 revenues to kind of pan out, the first two quarters have been on the weaker side, so if you could add some color on that??

MS Unnikrishnan I am not giving you a guidance to start with, so let me give you the first statement. Based on the order of carrying forward and the pace of execution that is permitted by the market conditions which means that the liquidity and the desire of the customers to be taking and thankfully we do not have any orders which are trailing or cancel, if there is a cancelled order, remove it from the order carry forward. Sometimes we believe that we will not be able to beat last year's number, so decline is already there from the first half, will we be able to bridge the overtake and then come to a yearly bridge number? The current understanding all of us do have especially with our financiers are very much involved in calculating them. They have advised me that we may not be able to exceed or meet, so there is a shortfall that is what we are looking forward to, will the shortfall be marginal or substantial; our current understanding is that we should be able to manage it within marginal numbers. Again why I am not promising anything, fairly decently moving project can get into a slowness if the cash flow were not to be coming in, you have seen on the current asset management of the company that despite a very challenging market conditions, we have marginally improved our current assets and cash holding of the company has improved. Now we will not want to compromise at any cost for showing a top line growth that is something a decision we have taken. At the current circumstances we do believe that the cash is king and we want to continue to running that way, so because of which we have certain challenges and certain I will say handicaps going, I would rather live with handicap rather than paying to the gallery to say that we will somehow meet that number and we will do that. You have seen that we have got almost equivalent to Rs. 5300 crores worth of carry forward which is approximately Rs. 900 crores more than previous years same numbers. So if I were to drive the company up the wall, I'm sure we can manufacture with the internal capability available to execute but will it remain in AR. It may go up but not to the extent that I will want it to be going out of control, so that constraints we're operating and I'm sure you should be appreciate us for that rather than telling why do not you try that.

Inderjeet Singh Just a follow-up on that, are there any particular the large orders which have where you have gone cautious about executing that, is that something that you want to point out?

MS Unnikrishnan Thankfully we do not have any large order which can make the difference to the balance sheet of the company of any slow-moving nature however let me tell you the payment cycles have taken a little slower progress path right now with some of our regular customers who had been our customers are the past 30 years let me say that if I bill something to them for Rs.5 crores in a month for example they used to bring Rs.4 crores and one will get delayed, today it is that every month there will give a cheque of Rs. 2 crores and say that continues supply, so we have kept certain project to project cash control mechanisms where internally there are some benchmarks done there, how many months of billing will we be waiting to get the money for before we take a decision to stall the process, so those kind of things are happening but none of those customers are also deep in trouble in terms of the negative balance sheet, thankfully we do not have any large orders which are stuck at this point of time, the largest order under execution right now for the company is NMDC that is a cash rich company government organisation but it is not at my pace I cannot execute it to the pace that I would want because it is under consultant and it is one part of the major project, all others are medium sized projects that we're having all of them are moving quite okay.

Inderjeet Singh Last question is on the power sector what is the kind of outlook that you have because yesterday BHEL talked about the 15,000 MW bidding opportunity, what do you think is the size where Thermax can participate to gain full year at this point in time and what kind of pricing levels you kind of seeing in the market?

MS Unnikrishnan I have stopped thinking in terms of megawatts per year because that is not used as it is a mythical numbers, what one should look at it how many enquiries are on the floor right now and which can be bid for. So one by one if I have to go for in the public sector there is a tender this year in Tamil Nadu. There are two of them to be precisely and both of them are demanding that the suppliers should also come with the long-term credit, so which rules out all of us if there is anybody willing to give to TNEB credit of maybe Rs. 8000 crores - Rs. 1000 crores per project for a period of 20 years, they can. So I don't think there is any Indian company going to be qualified and nor are we in a position to be participating with anybody that is number one. There are three numbers standards or 660 MW as for an EPC which NTPC has asked for the first time and maybe prequalified for to be bidding so that it is a pre-tender meetings are going on all Indian companies of any stature, BHEL, Larsen & Toubro, Thermax, everybody would want to participates, who is going to take the EPC lead is actually decided in this we have one or two more overtures which are very senior overtures so that call will be taken the second project on. There are two private projects of which one has got land available, environment clearance, coal linkage available which is been hanging on the things for equity participation from somebody to support it so that the financial closure can arrive, this is two numbers of 760 for the past 18 months if it concludes we have a chance also, everybody has got a chance in that but who will bell the cat with the lowest of the price and we'd be willing to, if somebody comes to suicide will certainly TBWES will not do that if it's at least a breakeven number we will give them a good boiler so that is the second one available. There is one number 660 MW of Maha Genco which is to be again an EPC expected postponed seven times and eight extension given recently so I expect that the tender should go through one more extension but before 31st of March it will close for submissions. Are we participating with the current commercial terms, we may not be very happy participating in that because we do not want the first order taken where 20% of the money is a retention and there is an overall liability which is far beyond what we would do, see we're going to be a little bit cautious on this, price one can compromise, can you make margins? Current circumstances making a breakeven would be practical unless otherwise two of the other major players also become desperate which I do not think they will become desperate, even if they become desperate nobody will go below prices what I'm expecting so breakeven is the kind of number one should be looking forward to why finalising the order and then use the internal system and the external supply chain to ensure that you make some marginal profit that is what one should be looking forward to and I'm not speculating on anything beyond that all other number I also have a list available with me to add up to 15,000 and sometimes 18,000 MW also, then we'll be living in hopes which I do not think we should be doing at this point in time, let us wait for it to happen.

Moderator The next question is from the line of Renu Baid from Batlivala and Karani Securities. Please go ahead.

Renu Baid First query, largely we have addressed in the sales side but profitability and margins have also be under pressure so just to repeat maybe I've missed in the initial remarks what is the M2M FOREX loss in the second quarter, first quarter it was Rs.25 crores so what was the quantity in the second quarter and overall what is the outlook on the profitability in margins?

Amitabha Mukhopadhyay The FOREX loss what we say is for the half-year is close to Rs.50 crores, so 24 plus, 26 that is the way the numbers have panned out.

MS Unnikrishnan And on the profitability Renu I was mention you to that in the current quarter also the profitability on the operations have not dipped beyond a level, of course there is a top line profit 30% naturally at the lower side of the top line with the expenses remaining virtually constant or gone up we are able to manage it but there was a Rs.20 crores overall difference between the previous year same quarter on account of mark-to-market which Amitabha mentioned on the FOREX and the treasury income put together from the other income side. Going forward there is a pressure, if we are unable to be meeting with our top line numbers if they have been declining substantially then our inability to be retaining profitability will be difficult but we are ensuring that since our order carry forward is better than the previous year we should be able to drive within certain parameters of acceptable practices of the operations of Thermax. Top-line in the next half and we are aiming to be leading up to a promise of can we have at least a 10% of bottom line is what we are trying to achieve but for guidance don't ask me and say that you will succeed or fail and don’t write a report about it.

Renu Baid But just to understand because if you look at the competitive environment around obviously orders at large are coming at lower margins then what they used to come last year or previous year before that so obviously one tends to assume or believe that maybe going forward the projects that will be executed will be carrying lower margins so will that be right to assume?

MS Unnikrishnan If the margin cues are going to be universal that means company like us do depend a lot more on the supply chain than what we do as a value add in the company. The valuables within the companies we have fused ourselves as per any further fusing will be bleeding, so which we will not do internal bleeding, tightening of belt has done. Now our inability to control suppliers margins are there in certain selected areas for example this steel should have come down in the country with the capital goods industry and infrastructure industry having contracted you should have spoken about a steel price reduction but unfortunately the rupee got depreciated all my friends from the steel industry have increased the steel prices so whereas a segment of the supply chain which I can squeeze and pass on the difficulties and there is another sector which will say sorry, “I won't do it for you”. So that is where the tension happens and then further we are also book and bill company, unlike many the larger capital goods companies we are also a part book and bill and part carry forward invoicing company. The book and bill area my inability to be increasing the margins is virtually out of question right now because my competitions are all marginal players, they are all in difficulty so they will want advances to come rather than profits to come, cash flow is more important for them. So there is a pressure on all of that. But if all this is going on there are mechanisms, you run a company under tight leash you can see how margin drop prevented, let me say margin improvement is impossible, marginal drop can be prevented substantially we are attempting to do that.

Renu Baid One book keeping question, the JV loss Babcock Wilcox was about Rs.7.8 crores in the first quarter, what was the quantum in the second quarter?

MS Unnikrishnan Let somebody else take the other question because as we are getting the number, we are thus opening it up and then Amitabha will give the numbers.

Renu Baid Lastly, if you can give the order book and the order intake breakup between energy environment segment normal bookkeeping housekeeping question?

Amitabha Mukhopadhyay The order intake for the quarter, energy is Rs.587 crores, environment is Rs.181 crores, total order intake for Rs. 768 crores.

Renu Baid And similarly for the group?

Amitabha Mukhopadhyay For the group Rs.770 crores for energy, Rs.201crores for environment, total Rs. 971 crores.

Renu Baid Similarly the order book breakup if we can have?

Amitabha Mukhopadhyay Order balance Rs. 4356crores for energy, Rs.952 crores for environment segment and total Rs.5308crores. And now you will ask for the group, Rs.5158crores for energy, Rs.970 crores for environment, total Rs.6128crores.

Moderator The next question is from the line of Kunal Sheth from Prabhudas Lilladher. Please go ahead.

Kunal Sheth Can you give some flavour about how the export market is panning out in terms of enquiry?

MS Unnikrishnan Good you ask me for enquiry not for orders because enquiry is the only area where there is a collapse, orders even in those markets have been not picking up the way we expected especially for South East Asian and Middle East. I don't know why they are catching the few from Indian sneezing also looks like, otherwise there is not difficulty over there. Now coming back to enquiry generation let me take this into two different areas, one is the product business of the company and second is the project business of the company. In product businesses there is a no remarkable growth in enquiry inflow it is both in Middle East market, South East Asian market and the African market but there is no drop at all also so enquiries are coming in and order booking is also continuing. However, for the project side of the businesses since we have established some of the offices and also moved people and recruited local people we are seeing an improvement in our enquiry intake in South East Asian and Africa for the project side of the business, if I say the project side of the business it includes the EPC, it also includes also the larger boiler business of the company and marginally in the air pollution control but not in the water because we have not started moving out of India for water so that has to be clarified. When are we expecting any fructification where we can report say I don't know what is the size of order but the number of a orders in the area I would say Q4 onwards one should be able to start seeing some improvements in the order intake on the project side.

Moderator The next question is from the line of Pritesh from Emkay Global. Please go ahead.

Pritesh Chheda Just one classification between the standalone and consol numbers so your subsidiaries is there any exceptional elements in the subsidiary which we should know about on a half yearly basis because I'm also putting for the question from the swinging number vis-à-vis the FY13 numbers that looks fairly high and this is despite TWBES putting a loss this year which is not so relevant loss?

MS Unnikrishnan Let me answer both in top line and bottom-line, first of all European subsidiary has done better and Indian rupee depreciation when I convert Euro into rupee between last year and current year so that is something if you discount it, it is not a phenomenal number difference. A phenomenal portion is part helped by the rupee depreciation by whatever is the percentage between, Euro was 60 last year and currently it is 80 or 82 but let me admit the fact that our European subsidiaries have done well in terms of Danstoker specifically I'm talking about, both in order intake as well as in top line and this quarter specifically they have a higher profitability on account of the fact that there were one or two orders which had exceptional profits also if one were to look at only the regular profit of theirs this number could have been lower by maybe €10,000 to €12,000 but still I would say that without having any major manpower increase and also facilities remaining virtually constant we have been able to run it up so that positive is there and similarly our Chinese subsidiary was bidding at large number that is under control like Amitabha mentioned to somebody earlier it was only around less than Rs. 2 crores is the first half losses and last year it could have been at least two times more than that, so if that comes under control the improvement will continue. In domestic subsidiaries there is nothing substantially changed excepting for the fact that the TIL will continue to be bleeding and I need to be open about it and we are hoping by the year-end we may possibly be able to turn around and at least quarterly breakeven we should be able to achieve. Next year onwards I'm expecting TIL also to be breakeven that’s the reality.

Pritesh Chheda So first half in your opening in the swing is largely to do with Danstoker and in there a lot of currency element in the subsidiaries?

MS Unnikrishnan Absolutely right.

Pritesh Chheda Secondly just taking some lead from your opening remarks of the short cycle order part of the business and the inflows seems to be doing okay so far. From few business segments or let us say customer segment point of view where'd you see activity in the near horizon more that you are comfortable or confident about?

MS Unnikrishnan We are okay with the sugar sector which otherwise we wouldn't had traction coming because these are chemical for example because the range are going to be produced higher cane availability for the next half of the coming year, October the crushing season has just about started so they consume a lot more of chemical so my chemical business should do better though it may not show a big number on a turnover of the size of Thermax, similarly for the food and food processing, breweries and Pharma are doing quite okay and their orders will continue to be coming in. Now there is one sector where IT when they are reporting 25% higher profit and they are all going gaga about recruiting more people they need to be constructing many more IT offices. I have only small production in the water treatment, waste water treatment but how much of a smaller that will certainly help the company so there are clearly pharma sector has done extremely well in India, I am expecting Pharma to be continue to be investing capacity creation and there are some sprucing up is going to be happen in most of the Pharma companies in terms of affluent treatment on account of the US FDA and European pressure coming in we should also improve medium-sized production there, so these are the sectors where I'm seeing, of course lot of these consume more alcohol than what it was earlier, so breweries and the alcohol sector should also continue which also we have got our product available in that.

Pritesh Chheda Any new sector because the Pharma, breweries, food processing has been on the anvil since the last three or four quarters in the interaction that you're putting forth, any new light that you see anywhere?

MS Unnikrishnan Sporadic but not a uniform generic nature in the textile industry. There is a sector of the textile industry which is investing but there is another set which is crying so overall if I say I am wearing a different cap for a moment as a capital goods company's National Heads from OCI, we have seen the textile and machinery reporting higher order intake also in the last two quarters including the current quarter it is an indicator that there is a textile, I don't want to use wrong words like revival but there is something happening in that area let me say that some bubble is there in that.

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

Bhavin Vithlani My question is on the Rs. 770 crores of order flow you highlighted in the current quarter how much was exports orders and how much it was on year-on-year basis and how much was on the full year last year the export orders?

AmitabhaMukhopadhyayRs.554croresare the orders from domestic, exports is Rs.214 crores that is the breakup of Rs.768 crores for Q2.

Bhavin Vithlani And how about same period last year and for the 12-13 fiscal years?

Amitabha Mukhopadhyay For the same period last year Rs.1013 crores for domestic and Rs.149 crores for export that was the breakup of Rs.1162 crores Q2 order booking last year.

Bhavin Vithlani And for the fiscal 12-13?

MS Unnikrishnan Just take it out in the meantime you can continue Bhavin.

Bhavin Vithlani Second question was last quarter you highlighted that NMDC and NEEPCO orders there was some design engineering part where it was not approved by the consultants and the execution was expected to start in the third quarter are you expecting further delays in commissioning of the execution of the NMDC and the NEEPCO orders and hence you are now guiding that the turnover might be flat to negative in the current year?

MS Unnikrishnan Did I say specifically about projects I don't remember but since you asked the question let me tell you NEEPCO is going without any problem they are wanting us to hastening the process of execution. NMDC is long gestation project in comparison to this where there is a movement I'm factoring in that right now in my answer to correlate with the topline maintenance or a reduction.

Bhavin Vithlani But are you seeing the design engineering stage would be over and now they will actively see the manufacturing stage coming in the third quarter?

MS Unnikrishnan It is in the manufacturing stage already.

Bhavin Vithlani And just to clarify on the foreign exchange loss, you said about Rs.26 crores in this quarter, much was it in the other expenses and how much of it was in the other income?

Amitabha Mukhopadhyay This quarter the entire Rs.26 crores thing will come in the other expenses, this is an answer from an accounting prospective and that is the classification will come it will be part of the other expenses.

Bhavin Vithlani Just to clarify the turnover would have been higher by Rs.26 crores because these foreign exchange hedging would be for exports, so your turnover would be higher by Rs. 26 crores and other expenses also higher by Rs.26 crores so it is netting off or there is an actual PBT impact of Rs.26 crores?

Amitabha Mukhopadhyay Actual PBT impact will be Rs.10 crores to the extent of this Rs. 26 crores there is always a timing difference what you are saying is right that at some point of time the revenue and this loss should net it off there is going to be a timing difference.

Bhavin Vithlani So net-net there is about Rs.16 crores increase in the top line and net-net about Rs.10 crores impact on the PBT?

Amitabha Mukhopadhyay About that.

Bhavin Vithlani If you can give us the breakup on the export order booking for the last fiscal?

Amitabha Mukhopadhyay Export order booking for the last year Rs.3761crores is domestic and Rs.1098 crores is export and total number is

Rs.4859 crores and while I am answering you there is another pending point we were to revert to you on what is the loss for the quarter of the TBWES'JV, the figure is Rs.9 crores for Q2 and H1 figure is Rs.16 crores.

Moderator The next question is from the line of Lokesh Garg from Kotak. Please go ahead.

Lokesh Garg Possibly my question relates to what Bhavin was asking essentially what we have observed in the results for the last couple of quarters is that your contribution margin or rather gross margins seem to be expending quite meaningfully on a H1 basis while there is significant increase in other expenses as well and net basis obviously there is an EBITDA margin decline so some part of it could be driven by what you explained related to FOREX but is there something as that you need to understand which is changing the composition of cost structure on P&L?

MS Unnikrishnan Nothing remarkable or standing out of that kind I would say that overall expenses per ton basis of conversion would naturally go up with the electricity charges going up may be the petrol prices increasing those kind of indicators are there, there again we will run a project to ensure that we bring it on a unit basis as what they are earlier possible and mark-to-market losses like Amitabha mentioned about there could be one odd order where maybe something could have been freight could have been able to up take there is a project business difficulties last year. I may have transportation X crores of rupees because I would have N number of projects which are to be delivered by the company, in the current year the N minus my cost will go down if it N plus then there will be more so those are the dissemination but otherwise if you look at this is the way one should look at the project company. The material costs is stable within say plus-minus 200 basis points equivalent, so it is stable current quarter is lower than the previous year same quarter but the consumption or maybe the purchase of traded goods could be added onto that so there is some improvement in the material cost and the other cost like Amitabha mentioned about it is predominantly mark-to-market is 1 million hit otherwise there is nothing substantial for the current quarter to report. There is nothing which has gone up beyond a level of nor we have we gained anything substantially. It is the only tightness in the operation to offset the increase which is happening outside our control that is the way we look at it.

Lokesh Garg Is there some sort of difference originating from partial shift from let say a larger proportion of EPC project business to a smaller proportion now in this year?

MS Unnikrishnan Could have done it, could have improved the margins, see if the margins on the products could have remained. See when the market contracts it is a learning for all of us may be the fourth down cycle, I am personally facing I have learnt it only in the fourth one, first three I did not learn that. It is not that when the cycle go down you'll be able to maintain margins in any area, every area because the conservatism of the sentiment is the one which controls the wallet of investors or maybe the purchase managers, they become very, very heavy and tiny negotiation and desperation of the market of the product over a project remains that is a reality. Only people get advantage of foreign currency like IT or maybe no choice at all like Pharma. I told you about cigarettes and alcohol where you can increase the margins when the market is in the negative cycle, so I do not think EPC reduction normal circumstances should increase the margin of Thermax, EPC only produces lower margins but one more clarity I want to give it to you. EPC margin being lower there is also contribution of margin coming from my boiler business, water treatment business and also the air pollution control business into the EPC because they register their profits from the items in the standard level, so Thermax and EPC profits versus maybe some other company would have manufactured anything, there is a traded EPC there is a difference in that condition also but it is reality Lokesh to say that people are negotiating very tough even for very ordinary things like chemicals, which otherwise he is using my resin from the past 10 years but now he's saying that reduce the price. We have got some options available, so to retain customers, similarly operation maintenance contract when you renegotiate the contract have to be renegotiated every year, every two years, every three years, what they will say is that you guys are still making profits whereas my balance sheet I've got a classical steel company who has got are captive plant of 10 MW O&M done by me, you say you guys are still making money he does not know whether I'm making money in O&M also Thermax is making profits whereas my balance sheet is bleeding so if you want to retain the operation maintenance contact reduce, so you had to renegotiate which we are also doing not that Amitabha and his team would not do that and when I have to do an IT company who deliver services to me for maintenance of computers I will also tell Amitabha why cannot you get it reduced, the same way why it is give and take game that us a reality, so if overall manufacturing sector margins are under threat right now that is the reality.

Lokesh Garg My next question basically relates to the fact that September quarter was particularly bad period with several sort of volatility in currency and the associated action by the RBI, some of it has since been rolled back, so over the last 1 to 1.5 months have you seen things turning better or it is still the same essentially?

MS Unnikrishnan There is nothing that is reportable visible for a market or management of a company of our sort would be telling that things have reversed or changed, on the contrary there is desperation, disillusion. Otherwise guys for example standards business had expected certain orders to be finalised by a larger corporations but they are delaying it. It is only the smaller corporations who are not impacted by all the sentiments they are going ahead with even if smaller product say line balance which otherwise they should have purchased by I am not naming anybody some of the larger corporation in the country they need to buy it, their operations at the unit head or the VP to say that I have already send the papers to the corporate office I have not got a signature for it and this is an equipment which is going to help the company to increase its productivity, reduce its cost of manufacturing but they are not going for it. I think I mentioned in the beginning I do not know whether Lokesh has heard around 500 Indians can make a difference for the entire sentiment, those 500 seems to be now taken it cool and I do not think an RBI governor or a Finance Minister or any one of us together going to be pleading with them is going to change they have money, let me give you numbers to make I'm not adding on the current year

H, I am talking about 31st of March, 2013, there were Rs. 7.5 lakh crores sitting in the balance sheet as a result of surplus in the Indian companies of this Rs. 1.7 lakh remained with the Government of India, so the moment they were told about the numbers they have declared that all 1.7 will be spend right on the government declared projects are they going to spend the money. I do not know but the balance Rs. 600,000 crores is sitting as a reserve and surplus in the balance sheets and they can take a decision they are not to worry about RBI Governor is going to talk about that 25 basis point increase or decrease in interest, they need to be believing consumption is going to catch back and next thing is that capital goods industry will take time to supply equipment and gestation period of project vary between 24 months to 60 months at the power to maybe a conventional one. They should take the initiative but they do not seem to be making it, now you guys are meeting all of them in person so asked them this question as to what makes them believe that the population of the country increasing by 20 million every year that is 2 crores every year, one Australia gets added to every year why is that they are not confident that the consumption will go up progressively and why are not they investing? The moment they reinvest, you don't have to ask me a questions I will surprise you with numbers.

Moderator The next question is from the line of Peeyush Mittal from Franklin Templeton. Please go ahead.

Peeyush Mittal First one is on the last year this was a question getting certification from some of the major oil companies I think Shell was one which was left it in the annual report so I guess the question is have you seen any enquiry and when did you expect some ordering to actually start flowing?

MS Unnikrishnan Shell I have a firm enquiry now so we will have to compete with the other global approved companies like me, who are 3 to 4 of them, so I should expect at least some traction in the Q3 or Q4 of incoming orders.

Peeyush Mittal Second question in general I think some of the manufacturing companies have indicated that given the issues within Europe, the European companies in general have become more open to Asian sourcing, are you seeing anything on similar lines looking to benefit from it?

MS Unnikrishnan Not visible to be talked about and to my understanding it is more related to China than to India in my understanding and they are net exporting countries for capital goods. So their ability to be absorbing an Indian thing the cost of employment. Unlike America capitalism in Europe is not so open you have to protect jobs in the respective countries. There are indirect restrictions they put even if the governments do talk about that that is my understanding. I have not seen any substantial improvement in enquiry not for Thermax alone I'm talking about for people in general in the Indian industry.

Peeyush Mittal Just on this tax provision that has been made, can you just answer the question in good faith was there any wrongdoing on part of Thermax or any wrong practices which were followed back in those days and maybe you have made some adequate arrangement to discontinue some of those practices I understand the provision and the reason why ask this because we as investor has a lot of trust and talk very highly of the management so just trying to ask that question along that line?

MS Unnikrishnan I will give you a one-liner and serve for its there is nothing untoward but the interpretation of the tax authority is different than what we may believe in so beyond that level one does not get on with the government that is the only answer I can give you at this point of time.

Moderator Ladies and gentlemen due to the time constraints we can take the last questions from the line of Ankur Sharma from Phillip Capital. Please go ahead.

Ankur Sharma Just one question on the Reliance order how is it progressing in terms of execution and what percentage of the total order could be booked as revenues in FY14?

MS Unnikrishnan It is progressing as expected. The basic engineering is completed whatever had to be coming from American Technology Partner that is B&W that portion is completed. We have completed placement of orders for all the pressure parts which are the expensive items we imported from outside India so placement engineering and placement of orders have moved exactly as per our expectation, manufacturing will be commencing now. What percentage of that will be revenue recognising will depend upon the readiness of both the sides in acceptance because we cannot be storing material over there, production will have to meet up with the construction readiness at the site that number will be available only maybe possibly beginning of Q4.

Ankur Sharma But the last portion would only come in by FY15 is that?

MS Unnikrishnan You are absolutely right on that.

Moderator I would now like to hand the floor back to Ms. Bhoomika Nair for closing comments. Please go ahead.

Bhoomika Nair Thank you everyone for being on the call especially the management for taking time out. Thank you very much.

MS Unnikrishnan Thanks Bhoomika and thank you everybody and I'm sorry these are not the best of the time for the industry in any case capital goods industry in particular you yourself have come with the report. So let us all work together to ensure that we are able to see better days in the future. Thank you.

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