"Thermax Limited Conference Call"

February 01, 2013

ANALYST: **MR. NIRAV VASA**

MANAGEMENT: **MR. M. S. UNNIKRISHNAN**
MR. GOPAL MAHADEVAN

Moderator: Ladies and gentlemen good day and welcome for the Thermax Limited Q3 FY'13 Post Results Conference Call, hosted by SBI Cap Securities Limited. As a reminder for the duration of the conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call you may signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would like to hand the conference to Mr. Nirav Vasa. Thank you and over to you Sir.

Nirav D. Vasa: Good afternoon ladies and gentleman and thank you very much for attending the 3Q FY'13 Post Results conference call of Thermax Limited. Representing the Management are Mr. M. S. Unnikrishnan, MD and CEO of Thermax and Mr. Gopal Mahadevan, Executive Vice President and CFO of Thermax Limited. May I please request the management to give some opening remarks related to company's performance for the Q3 and nine months FY'13 after which we can start the Q & A session.

M. S. Unnikrishnan: Thank you Nirav and good afternoon. Thanks a lot for being with us through this turbulent and difficult time. Performance is already declared but just to recapitulate our revenue for the quarter registered at Rs. 1047 Crores in comparison to Rs. 1269 Crores previous year same quarter. We have declined by almost 18% in the current quarter. Energy sector which comprises of our Boilers & Heater business and Heating & Cooling has contributed to 76.1% and Enviro Division which comprises of chemicals, water and waste solutions and air pollution control environment has contributed to

23.9%, maintaining the ratio almost within the bandwidth that we are normally in.

During this quarter our large project business which comprises of Power EPC, Boilers & Heaters and Air Pollution Control saw a marginal contraction both in revenues as well as profitability. However, our standard product business has seen an improvement both in revenues and profits. For the breakup of this revenue – the domestic market contributed 79.7% and international business 20.3% in the current year. The order intake for this quarter Rs. 1284 crores is the only silver lining we have against Rs. 590 crores for the same quarter for the previous year.

The mining, minerals and metals sector has contributed almost 49% of the order intake. We also have registered a single EPC order worth Rs. 503 crore, which is what is made the mining sector contribute to such a higher number. The cement sector contributed to 10%. We have had one waste heat recovery cement plant power plant order coming in the current quarter.

Food and food processing continues to be a contributor at 8%, and textile contributing to 4% in the current quarter. PBT as we declared is Rs. 109 Crores as against Rs. 138 Crores. As promised we have been able to retain double digit profitability despite major dip in the topline. I need to give a lot of credit to Gopal and his team to having ensured that bill tightening is continuing. Otherwise possibly it could have had an impact on the profitability.

Since there will be too many questions in the current quarter, I should limit my speech and I will leave it open to you to ask me specific questions. Please go ahead.

Moderator: Thank you very much Sir. Participants will begin the questions and answer session. Our first question is from the line of Renu Baid from B&K Securities. Please go ahead.

Renu Baid: Margins are good but topline was not as interesting. Sir, essentially if you look, we have received Rs. 1284 Crores of orders but now what does the view look like in terms of the order flow trajectory in the coming three to four quarters and what kind of growth can we translate in terms of sales. Because the business looks flattish kind of sales next year or lower single digit. So, what is your outlook on that side of the business?

M. S. Unnikrishnan: Renu for us, Rs. 590 Crore order intake of Q3 of last year is the one which is being reflected in the current quarter and if you look at Q4 of last year we were at Rs. 800 Crores order booking. Next quarter might also be subdued for revenues. Though, I do not want to give you any guidance at this point of time. Possibly, we could have had a little better revenue recognition for the current quarter but the liquidity in the market and the off take and movement of the projects are not as per our wish. We try to match execution of projects to cash flows. We try matching the project progress with the incoming money so I would expect that this would continue for a quarter-to-quarter. Because the interest rates have started moving downwards for the 25 basis points visible and I am seeing couple of private banks already bringing down the interest rates by almost 50 basis points. So I would believe that the acceleration of project execution can take place in Q1. Secondly on the order booking side, we have been able to book orders better than the previous year. So, I am expecting that in Q4, if things go well, we should able to see an improvement in the order booking. So overall in the current year you would see an improvement in the order booking but order carry forward may remain flat. Now the next year's order booking will depend upon how the following three or four sectors will be doing. Obviously, number one is power sector, where I need to admit that I am not expecting any improvement in the power sector where it can make a difference either in terms of order booking or in revenue recognition. If something happens there will be an upside beyond what I am expecting. Then comes the second largest sector for the company is cement, where I would certainly expect improvement in the coming months because if you look at the balance sheets of all my regular customers - cement companies, all of them are making very good money. Construction is continuing to improve under base rate. There is no reduction in the real estate sector and road projects. Despite one or two cancellations of GVK and GMR, the normal ones in interiors are continuing. Cement companies capacity utilisation has also crossed 80% including even in South India. So, we are already having enquiries coming in and normally with the gestation period of 30 to 36 months for a plant commissioning. I would believe, next year we should see cement companies setting up capacities. Albeit international companies I cannot say about three of them including Holcim, Lafarge and Heidelberg. Because there decision making is not India centric. Indian companies should go ahead and we should see it improving our order booking. Second is in the steel sector, I may not see any movement from POSCO or Arcelor Mittal projects. However Tata Steel is continuing investing and already they have ordered for the blast furnace gas based waste heat recovery system from Thermax. Captive power is yet to be decided by them. We are one of the contenders for that. I would believe that Tier II steel companies like JSPL, JSW and Bhushan Group should also see a capacity commitment because their capacity utilisation has improved and I also have seen them increasing the steel prices not once but twice in the last five months to be precise. So they are testing the ground whether they increase the prices and how is elasticity going to look, so I would expect brownfield expansion in that area. So there should be some traction in the steel industry that should also help us. On the sponge iron area with minor improvement happening in the iron ore availability in Karnataka, I don’t think it will have a substantial impact unless we have the iron ore availability across the globe improving. So sponge iron, I am not expecting anything to happen on that area.

Then comes oil and gas sector. Cochin Refinery expansion is already on. PQRs already on, quotations are already going from our side. Many orders would get finalised in the next six months period. We are contented for a ticket size of may be a Rs. 500 crore worth of orders out of that. But aggression and competition is there both from domestic and international players. I could either draw a blank or may be getting some orders also, that is a possibility. Reliance expansion is also expected any moment. We already have the enquiries. That should go through in the Q1 and Q2 so that is the second oil and gas sector. I am also expecting O&G sector to have second level of order finalisation to happen in the Middle Eastern market and we should be able to see some orders. I gave you the facts and data because what I am going to say here afterwards is my prediction, which is based on assumption. With all this I should be able to see better order finalisation in non-power industries in the next year and initial orders will go at lower margins. Secondary level, it would continue and you can get decent enough margin orders towards a second half of the coming year. Now what is the expectation Thermax is got out of this, we should be able to do better than the previous year in order booking that is overall.

Renu Baid: Sir actually my line got disconnected in the middle, so if I can just ask Gopal Sir to help with the order intake breakup for a consol and the standalone for the current quarter and for nine months and similar for order book as well?

Gopal Mahadevan: See order inflow for Thermax was Rs. 1284 crores for the quarter. Energy was Rs. 1018 crores and Environment was Rs. 266 crores. Consolidated for the quarter was Rs. 1457 crores; Energy Rs. 1189 crores and Environment was Rs. 268 crores. You wanted the YTD numbers as well right.

Renu Baid: Yes sir.

Gopal Mahadevan: Rs. 3704 crores is for Thermax order inflow broken down into Rs. 2810 crores for Energy and Environment is Rs. 894 crores and for Thermax group it was Rs. 4264 crores out of the numbers Rs. 3366 crores for Energy and Rs. 898 crores for Environment.

Renu Baid: Sir order book, how will this look like?

Gopal Mahadevan: If order balance for Thermax is Rs. 4649 crores and for the group is Rs. 5191 crores. Rs. 4649 crores is broken up into Rs. 3537 crores Energy and Rs. 1112 crores for Environment and Rs. 5191 crores is broken up into Rs. 4072 crores for Energy and Rs. 1119 crores for Environment.

Renu Baid: How has been the performance on the subsidiaries Danstoker & Thermax instrumentation in the current quarter?

M. S. Unnikrishnan: Danstoker is profitable for the current quarter and order intake is also good. Going forward Danstoker should continue to show better performance despite whatever is heard about European economic difficulties may be we are seeing positive traction. TIL will continue to be negative, the current quarter also we had negative and I am expecting the negativity to continue as I mentioned in the last concall that till Q1 of next year where we would have closed some of this extended sites. Otherwise the fresh orders which are taken by TIL are profitable, which as we execute may be a nine months down the line you will also see the profits coming back on that.

Renu Baid: Sir what would be the Danstoker nine months number if you can share broadly?

M. S. Unnikrishnan: We had not been sharing for subsidiaries separately so Renu sorry we are not sharing that practice.

Renu Baid: Not at all a problem Sir. Thank you so much and all the best for the coming quarters of the year. Thank you so much.

Moderator: Thank you. Our next question is from the line of Charanjeet Singh from Axis Capital. Please go ahead.

Charanjeet Singh: Sir if you can please help us understand what has led to this good margin performance during the quarter and which are the cost items which we have rationalised?

M. S. Unnikrishnan: On almost every aspects of the cost - one is related to manpower. We have not had any intake of fresh manpower done. Second is in terms of our overall factory expenses starting with consumables with electricity, fuel. Those expenses in proportion to what should have gone up because the unit rates have gone up for all of them substantially but we have had expenses done by which the number of units consumption starts come down. Overall G&A is kept under control. Material cost is also improved by more than 100 basis points, overall some divisions higher and some divisions lower. And a very, very tight control on the operations are the ones which resulted in managing this. Frankly speaking we didn't have this margin available when we had the order picked up and I need to admit that my team had ensured that we are able to pass on a part of this to the suppliers and a substantial part of a value engineering done while expecting the project to ensure that we are able to retain. If you remember, we have been telling that we will take orders for lower margin but we will struggle to make our profitability to double digit and one quarter we succeeded and I am sure we should be able to succeed further also.

Charanjeet Singh: Sir other thing which I wanted to understand is on the EPC side can you please give us the numbers for the EPC and how has been the competition during the quarter and year-to-date?

Gopal Mahadevan: For the quarter the overall order booking as I mentioned was Rs. 1284 crores out of which EPC was Rs. 638 crores. And you wanted for the YTD also right? YTD Rs. 3704 crores at Thermax level out of which the Power division, the EPC division has done Rs. 1324 crores.

Charanjeet Singh: If you can please help us with the export numbers during the quarter?

Gopal Mahadevan: Okay for the quarter the order booking as I mentioned was Rs. 1284 crores out of which domestic was Rs. 1074 crores and exports was Rs. 210 crores.

Charanjeet Singh: But how is the outlook for exports going forward and do we see Middle East and Africa showing good growth in FY'14?

M. S. Unnikrishnan: Our expectation is Africa will continue to be the same because they were not impacted by any economic downturn or any vagaries throughout the last 24 months. So we expect Africa will continue the same. But the attention of the globe on Africa has increased. So earlier there was Chinese competition only in Africa and limited European competition. But today we see that any small value capital equipment sale also it is between Europe, China and India, apart from once in a while some other South Eastern countries like Japan participating in that front. So Africa should continue to be steady. Next about Middle East, majority of the oil expansion projects committed by them in 2011 are now under construction. We in fact also have received in the last quarter two or three orders. Some of the reason for our decent enough order booking numbers is because there is no large captive power boiler order concluded in the country. But we have added two or three medium size orders from various companies including from Korean company EPC contract in Middle East. So my expectation is next level of expansion is going to be announced in the current year. Will any of them convert into order? First half of the next year I am not expecting but second half there is a possibility for orders to happen in the Middle East. But for the industrialisation of Middle East, I am not seeing any major capacity addition is going to happen over there. It is only in the oil and gas sector and not in the conventional sector that we are going to see any traction in the Middle East in the next year.

Charanjeet Singh: Sir what would be the major scope of Thermax is these kinds of projects in the Middle East?

M. S. Unnikrishnan: Well, any refinery expansion will have a power pack. In the power pack normally these guys go for gas turbines so at the backend of the gas turbines you have got heat recovery steam generator where it will be supplied either by GE or Siemens and we have another approved supplier for that. Of course there is always a competition between the Koreans, Japanese and Indian companies of which Thermax is No.1. Then we have about few gas coolers and in Sulphur recovery units in case if the crude petroleum has got higher quantum of sulphur there is a sulphur recovery units. So there is also heat recovery unit provided for it. So these are highly specialised equipments where limited number of companies in the world is qualified to supply as per the standard put in by the oil industry. But unlike earlier time the competition is very, very tough now.

Charanjeet Singh: Sir that is all from my side. Thank you.

Moderator: Thank you. Our next question is from the line of Mr. Lokesh Garg from Kotak. Please go ahead.

Lokesh Garg: Just want to ask you that considering the Rs. 500 crores of large order that we have benefited from in this quarter the residual runrate of order inflows. Is it below your expectation, as in leaving that order apart we are at basically Rs. 700 crores runrate. Is that little below of your expectation because this Rs. 500 crores is something of one off because usual order may be of the size of Rs. 100-250 or 200 crores, if it is a reasonably large order decision in favour of Thermax?

M. S. Unnikrishnan: Certainly there is an accretion or an improvement on account of that. I think I have mentioned earlier that a normal number without the chunky ones are around Rs 500 to 600 crores, which will be coming from the product businesses of the companies and the services business of the company and then comes the medium size projects, which can add on to Rs 100 to 300 crores in any quarter, the chunky one can add on. So where have we missed or may be you are right on the point that there could be some delay in finalisation in some sectors of the medium size projects, not in the small ones. So if I were to divide into three instead of only standard and the large one, the captive power segment had not been too good even in the current quarter also. So if we were to have standard product services plus captive and the chunky one then you are talking about a little better number than even Rs 1200 crores, that is the reality.

Lokesh Garg: In the captive power segment there has been an expectation that this power tariff size would lead to a stronger captive power demand and now this diesel prices have also being raised which essentially means that diesel genset become even more costlier. Are you seeing demand flow through or at least an enquiry flow through from these people, who did not think of captive power plant as yet but are been forced to think in that direction now?

M. S. Unnikrishnan: There are enquiries coming in more than what one would have thought should happen, especially in the pharma sector, tyre and the erstwhile companies who would never wanted to touch power plant on their own other than the genset you have mentioned about, there are enquiries. But there are apprehensions in their mind about their ability to buy the right power plant and running the right plant. So we are already educating them. It is a little time consuming because though we expected it to be an avalanche of enquiries and orders continuation to happen it may take a little longer time and the ticket size of these are between a 2 megawatt to less than 10 megawatt kind of sizes is their overall consumption and they also already have assets of steam generation available for the process heating. So keeping them as standby rather than going for a higher capacity means the per megawatt investments costs are little more. Even if we realise for a fact that the larger power plants the capital investment is only maximum Rs 5 crores for megawatt. When you go for a 5 megawatt power plant you may have to expend may be Rs. 8 to 9 crores per mega watt so its apart from the viability, absolute viability is in existent because today they are buying electricity at upwards of Rs. 6 and somebody is buying at Rs. 8 also and captive power plant can certainly deliver them par at less than Rs. 5 a unit. So there is an arbitrage available in many cases starting with a rupee to may be Rs. 2 and Rs. 2.5 depending upon which state do they belong and the confirming that you got power available. So it makes absolute sense. So their ability to buy the money availability and these are the issues. But I would believe that having delayed the power development program of the country, I am talking about the ultra mega and may be the larger mega power plant, hardly anything happening over there, industry will move towards that. It is a matter of how it is going to be starting. To be precise we have a small order in the current quarter also from a non-conventional sector like it is a pharma sector, which is already a drugs company given us order for a small captive power plant. I did not mention about it earlier, there are enquiries also coming from especially Andhra Pradesh and Tamil Nadu which has witnessed the worst of the power shortage in the last may be a quarter. Things can improve in the captive power segment.

Lokesh Garg: Sir one of the feedback we have been receiving and this is related to the utility market in the let us say space like NTPC, state utilities and private sector, large plants. Is it true that market may be moving slightly towards more combined BTG or a full scale EPC package and in this context may be even NTPC is throwing an EPC package for the first time versus doing usually a small broken up package business in the past, in which case such a move could be sort of unfriendly to Thermax's aspiration in this area because obviously

Thermax wouldn’t be able to take that kind of risk on large projects right?

M. S. Unnikrishnan: Answer number one is about NTPC, they have toyed with the idea, come out with the tender for Kahalgaon, which is an EPC but there afterwards they have reversed the decision and they have for the future ones are intending to be going for package buying only. That is a current level, so as NTPC is concerned we can put it. Then for the balance there is a mixture the newer developers would certainly be asked to go for a minimum BTG or an EPC by the banking community because they do not have a faith and trust on the ability of the newer generation of power developing companies. So they may insist upon an EPC. But how many EPC companies are there in India whose balance sheet can take may be a couple of orders barring Larsen & Toubro. I doubt whether anybody would be there and Indian EPC is like you take land and money and don’t come back to me and pay the penalty is a kind of way. They behave unlike the European or American. We have EPC where there is a sitting together and conducting an EPC, so even a Bechtel or a Black & Veatch are a Flaw Daniel the three other companies who can come to India their ability to quote for Indian standards for EPC is limited. So there will be enough and more demand for EPC but very limited supply for EPC for the ultra mega and supercritical as per my understanding. Then comes the traditional larger companies like Tata Power, the Reliance Power and emerging companies like Adani and CESC. I do not think they will have EPC assets because they do believe that why should they be paying upwards of 5% which is if we talk about even Rs 8000 crores worth of a project, Rs 400 crores to be paid as a premium to EPC company. So these are the current reality. But where are the orders in any case, I wish there are at least EPC then we have an option available to bid along with somebody. We are currently participating in one EPC for one of the forthcoming projects for 1320 megawatt where Toshiba International is taking the lead role and we are a consortium partner with them as a boiler supplier. So we always have that option available to be a partner with somebody also. We are talking about a company having restructured their loan and where we are assured the cash flow then we may want to participate with the lead bidder like Toshiba.

Lokesh Garg: Sir my last question, in the international market what you are seeing, how is Thermax approaching it in terms of project product mix of addressing those markets and any other additional countries or geographies that you wanted to address which are missing from the today's mix so that I can sort of bring up the bigger addressable opportunities yet?

M. S. Unnikrishnan: See there were two factors that contributed to our international business. I am talking about export out of India not the localised business. Number one was the product capability to be a bench mark equivalent. So we were traditionally exporting chemicals, absorption chillers, and standard boilers and now there are many other standard products, which are stable and manufactured from within this table and where performance is proven and sent across that will continue to be growing. Second that we were quite talking was the fraternal market where there is like Middle East, South East Asia, Africa where our level of delivery and when I say product delivery in quality all overall put together met up with the customer requirement. So these two are continuing and will continue also. Where we miss in earlier part is we never went ahead with constructing a plant somewhere outside India. Of course isolated in sense where they would have taken EPC or a construction order otherwise many Indian companies including Thermax were happy supplying the component and supervising the construction. But for us to be making a major dent or become a recognisable size of a player, you are going to have a locally created where the original design and components can come from India but the plant has to be build in the country. So we have chosen Africa and South East Asia are the two locations where we would do because we have tasted success in an isolated version earlier. So there is a move by the company to expand our operations in both the territories for larger sizes of Boilers, Heaters and even EPC. So that is the move that we are taking.

Lokesh Garg: Thanks a lot Sir.

Moderator: Thank you. We are going to take our next question from the line of Prerna Jhawar from Emkay global. Please go ahead.

Prerna Jhawar: Sir just wanted to understand as to why have margins in the environment segment fallen consistently and now that we are below in the Energy segment in that?

M. S. Unnikrishnan: Two reasons for it. Environment segment for the company comprises of chemical, air pollution control and the water business. The chemical business there is no drop in margins at all. However on the air pollution control there has been a major dip in the margins for two reasons. While finalising the orders there are lower margins only available in the market has shrunk. Whenever there is a contraction in the market, pollution control is the one which gets impacted because nobody is so clear that they want to be putting up the best of the plant, so margins coming under pressure. Second reason, this is one of the only businesses in the company where there is no coated steel or coated item in material. What we purchase is conventional steel which we buy only after we consume it. So we are normally dependent upon the vagaries for the market pricing. Last five six months the prices have gone up twice and that got ate into the margins of that particular business it has come down. Similarly in the water business and water and waste solutions we have seen a reduction in the margin one or two of them may be an isolated projects which may be or may not be repeatable but an overall margin reduction was visible in that area. Again, next question could be naturally what are we going to see for the next year? I would expect an improvement but not going back to the original levels in one year, it will take little longer time to be reaching up to the original levels. I would imagine may be a four plus quarters because we need to have more orders getting finalised in the market where one can demand you prices.

Prerna Jhawar: Sir could you also tell me as of now of the current environment segment order book how is the breakup of the order book between these three segments?

M. S. Unnikrishnan: We don't give a sub-segment Prerna. We are currently limiting to energy environment we will confuse with quarter-on-quarter information will be very difficult to follow that. That is why.

Prerna Jhawar: Okay sir could you give us some sense as to how is the market panning out for all these three segments?

M. S. Unnikrishnan: I can give you that. See in chemicals there are two businesses in that one is a water treatment chemicals, which normally grow by single digit percentage in the market only where Thermax is getting into more and more specialty chemicals in that area where I would imagine specialty will grow at double digit, resin will grow at single digit. But we are also constrained by capacity because we have only one factory for chemicals for resin and second one we are waiting for license to be given by the Government of India where we can set up the factory. When we talk about the performance chemicals which are may be half of chemical business that seen good traction and we should see a double digit growth on that one also. Air pollution control, I am not going to be predicting a growth of any substantial nature in the next year because with industrialisation still at a lower percentage. I don't think there is a priority for the industry to be putting up world class pollution control equipment despite the government pressure. So I don't expect air pollution control to be growing beyond a level next year. May be stable I would say at almost a same level. Water business will grow in the municipal sector and in the industrial sector by almost a double digit next year. Why is that I am confident about the water segment will grow even the industrial sector despite no major growth in the conventional area because water availability is a problem there are many customers who are looking forward to recycling and converting that into usable water. So on the recycle side we are seeing some traction happening in the recent past and I am expecting that will catch on. So that is the overall picture. So if I were to reconcile it that way, overall you will find a better order intake including chemicals and water. However air pollution control will be almost stable resultant being you will see an improvement in order book not substantial for next year.

Prerna Jhawar: Sir just one thing on the aggregate level could you quantify the kind of growth you were looking at in the order inflows in the next year?

M. S. Unnikrishnan: Well that is one number I am unable to predict. Aspirations are very high because we have got capacity available so if orders are available in market we can pick it up, so it depends upon how much would get finalised.

Prerna Jhawar: But still a ballpark number of any kinds?

M. S. Unnikrishnan: Unfortunately I don't want to give a number on that front because I would rather surprise you with positives when there are orders available by picking it and reporting it to you.

Prerna Jhawar: Many thanks Sir.

Moderator: Thank you. Our next question is from the line of Venkatesh P from Citi. Please go ahead.

Venkatesh P: My first question is if you could repeat the number for the order inflow for the Thermax Group in this quarter I am just double checking was it Rs 1467 Crores?

Gopal Mahadevan: The order inflow for Thermax group for this quarter is Rs 1457 Crores.

Venkatesh P: Sir now coming to the order inflow kind of a number now in the first nine months what you have done is roughly around Rs 3700 crores at the Thermax level. Now if I assume similar kind of number in the fourth quarter also you end up being almost Rs 5000 crores. Now Rs 5000 crores is like a 24% growth on last year's number. Now if you are expecting a growth on top of this you basically expecting something like Rs 1500 or 1400 crores kind of on a quarterly basis now given the state of the economy do not you think that is slightly on the optimistic side?

M. S. Unnikrishnan: Well, what prevails is only optimism so how can I be pessimistic our order booking at least. Revenue recognition is actually a fact based on the order carry forward but I gave you also a picture about what is expected the assumption which I put across in terms of if I were to have a better order booking for next year. When I said can I cross Rs 5000 crores next year in terms of order booking, it is practical. See it all depends on in case we have got to also get embroiled into another economic difficulty. Where is my confidence coming from? Painstakingly your Finance Minister is signed to control the deficits and if he is able to control the deficits government though may be the largest of the borrower will leave some money in the market for private industry to be investing. Look at the balance sheets of companies, I mean Thermax and capital goods industry except Larsen and Toubro are the only exceptions otherwise everybody will be showing a improvement in their balance sheet quarter over quarter despite all the negative talk. So whereas this money going to be utilised? With the bank? What they will do with the money? So the money is sitting on the balance of companies of the surplus and we have heard it from SBI Chairman himself in the talk two days back when we were talking about the credit policy announcement that Rs 60,000 crores they are idling when money available the CRR reduction further is adding a Rs 18,000 crores to the kitty put together. Money needs to be spend so and an again consumption dates are come down in the country if you look at since we may passed three or four months IIP numbers. FMCG is reporting consumption reduction, which means the saving rates are going to increase. So where is it going to ending up, it is going to end up as a gross capital formation over the country. So thankfully, I am in the capital goods industry, so if I will be the first beneficiary in case is the gross capital formations were to be improving. So this is the positivism I am talking about these are based on the assumptions which I put across, but in case imagine that if Mr. Chidambaram were to surprise all of us that sorry I failed in my attempt and I got a 6% gross deficit and including all the states put together if we were to touch 10% to 11% deficit to make a foreheads they will mop up all the money available with us and then we will all be telling sorry the expected didn't happen. But still that is only one part of the story, there are a lot more of industries who are looking forward to consumption but that can't reach the numbers as you told about, you are right on that and global economy also there is no more negative that we are listening to and I believe you and yourself all of put together are confirming to us that Europe is now becoming stable. Most of the Asian economies are looking forward, at least a marginal plus growth in comparison to previous year. So these two are the factors giving us confidence that maybe we should be in the position to improve our order booking that is it. Now let us wait and watch.

Venkatesh P: Sir that was on order inflows, now while that is a function of how things pan out next year sales is largely a function of what carry forward order you will end with, where you will have a fairly decent idea because we are already in January, there are just two months more, you must be negotiating. So if possible can in a fairly reason way predict what you will end up in terms of carrying forward order inflow. Now we are going to have something like sub 10% kind of a decline in sales now do you think you can grow at 15% next year in terms of sales?

M. S. Unnikrishnan: Number one is that I do not know whether I will be able to deliver sub 10% now having delivered a Q3 at minus 18% so that is something which I am going to see because it is not our inability to execute. I told you I can produce lot more than what the market needs today. So it is a matter of how the projects are moving. There are companies who would just dump material in a project and then show sales we are not doing that so because of it is I will move along with the market movement and the payment cycle - cash cycle so that is point No.1. So we don't do accelerated sales for showing sales and in that account I need to say that we are quite stubborn on some other issues. I prefer to say that we are conservative and stubborn on the account. Then comes the order carry forward for us today is better than the previous year, the number are already known to you. Now in another two months will I be better than the previous year? We will have to wait and watch because two months once again make a lot of difference in order conclusion. Imagine that if I were to be at the same level as a previous year in terms of order carry forward. For a moment think that way. If there are short cycle orders to be coming in larger number, I have an ability to be executing all the orders coming in the first half of the year can be executed by the short cycle because when it is not like the situation FY'10 and 11 where I had limitation of execution. Today my factories are capable of running three shifts if there are orders available and delivering something which I would normally deliver in the 12 months period I can make it nine months also. So that was the opportunity available. Now utilisation of an opportunity will be practically only if there is an opportunity really fructifying that is why I talk about predictions are very, very difficult at this point of time. If one would ask last year at the same time, will you have the same turnover as a previous year, I couldn't there answer currently I would say that I will be better than the current year ending. Between FY'13 and FY'14 there should be an improvement in order booking in my understanding, certainly on the top line also. To what percentage let us wait and watch.

Moderator: Thank you sir. Our next question is from the line of Mr. Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Sir when we met you explained opportunity in the pet coke project of Reliance. I was just intuitive to know other than the captive power side of that project do we have any of our heaters or chillers or air pollution control product or packets boiler getting in say gasification process or any other process in that project?

M. S. Unnikrishnan: Not in that project. That specific project won't have anything may be water I don't know they may already have plans for it. See the refinery expansion will have waste recovery boilers, heat recovery; steam generated, flew gas coolers and may be a water treatment. Air pollution won't be there in that.

Madan Gopal: Okay so in this project our scope is primarily over to the captive power?

M. S. Unnikrishnan: Yes.

Madan Gopal: Thanks Sir.

Moderator: Thank you. Our next question is from the line of Venugopal Gare from Barclays. Please go ahead.

Venugopal Gare: Sir just on understanding I wanted to know see now we have seen quite a few bid openings for BTGs in the last two months EPC of course is Rajasthan tenders and TPC Tanda Boiler or SRBTG, now we have a got sense a what pricing is there in the market now wanted to understand from your perspective. Our perception is that the pricing is bad and I wanted to know from your own costing you think that this kind of pricing continues, you still be participating and you would be able to win a bids in future years or there has to be some cost rework that needs to be done from your perspective over the industry?

M. S. Unnikrishnan: Two of the items that you mentioned about I will take each independently. The price at which Larsen & Toubro has bid for Tanda boiler, which gone at approximately Rs 1.39 crores per megawatt. Our understanding is not a sustainable price even for them because BGR had quoted a price of Rs 1.43 crores which the market felt was not the right price. I am talking about may be six months or almost nine months prior to that, so for two numbers it is not the right price. Desperation can be there in anybody including in Thermax also. Now desperation what it leads you to the question that you got to be answering. So sustainability well you may be able to pass on part of your cost in desperate situation the suppliers are may be even to breakeven at such kind of numbers barely. Barely would I say, provided you are able to have a cash flow management done. None of these companies that you currently talking are famous for supporting the suppliers or may be contractors with cash flow, so you may have to put in some money from your own banking limits also to run such kind of a projects. You have to take an overall count of those are not sustainable numbers point No.1. Next is Rajasthan tender which got opened. I am not able to talk about what are the reasons behind that but L1 was 5340 and L2 was 5900. The gap of 11% between two largest Indian companies, it cannot either be a mistake of in costing or may be a deliberate discussion to be taking an order. So I will not want to be passing a judgment based on two of the instant as to is power generation, power equipment manufacturing going to be profitable in the long term. I mean like you only talked about this order we have only two orders is got concluded in the recent past and both were tenders. It is only negotiated orders, where there is a possibility for somebody making a profit. Any tender that is going to be come in, even if I take it tomorrow tender it will be either breakeven or marginally at a loss which you will expect that can be covered as your executing the order. So price levels are below par, what is prevailing in the country.

Venugopal Gare: Sir from a TBW commissioning perspective we should be able to do that by March 2013 right or is it going to be next year the official commissioning I understand the facility would be ready by now?

M. S. Unnikrishnan: Yes it is only now under commissioning. For a plan like this one would do item by item commissioning there is nothing that is expected further to come from outside, so the last part of that is going on. It's a matter of whether you do it in Q4 or Q1 that is it.

Venugopal Gare: Thanks a lot sir.

Moderator: Thank you. Our next question is from the line of Sanjeev Panda from Sharekhan. Please go ahead.

Sanjeev Panda: Sir this is a book keeping question what are the position of our balance sheet in terms of borrowings in this time by this quarter end?

M. S. Unnikrishnan: There are no long term borrowings on the balance sheet of Thermax at all. On the working capital there is some amount could be there and that too why we do that we have cash available of Rs 600 plus crores now but if there may be month end quarter end pressure related to some of them where Gopal may decide not to break an FD rather than draw from the working capital available that is on main company. Then on the JV there is a borrowing, I suppose it is already articulated but I will repeat it in another time. The joint venture of TBW it is a almost 1:1.14 is the debt equity ratio, there is a borrowing for it and it continues because large part of the payments are getting made so the banks are also released in the cash for it. So that only borrowing currently we have.

Sanjeev Panda: On the other income part there is a dip end could you give a break up of that?

M. S. Unnikrishnan: Other income we don't give a separate breakup. Other income comprises of two items. No.1 is our earnings on the treasury.

Gopal Mahadevan: Are you talking about other income or other operating income?

Sanjeev Panda: Other income.

Gopal Mahadevan: Only treasury earnings.

M. S. Unnikrishnan: Only treasury earnings. These are not as attractive where it used to be and also what you register as an accrued income will also depend upon the maturity of the instruments. So in a quarter where the instrument matures you may have a higher number declared. So there could be likelihood that last year in the same quarter we had a matured instrument available so we have booked the profit and came out of that in the current quarter it don't happened there that could be the reason. But if you look at the kitty between last year current Q3 and current is almost the same there was hardly a difference in that.

Sanjeev Panda: Sir the last question is margin outlook and like our energy segment like how things you perceive to be shaping up in coming days?

M. S. Unnikrishnan: All the orders available for the company it will be a struggle for us to be meeting up with all your expectation but we will still deliver it. But fresh orders being taken it depends upon see there is a very large order currently. Nobody in the country will be able to get it at a double digit margin. We are very open because there is too much competition. You may escape with may be a double digit margin for a small order, where a repeat order comes to me from my existing customer who wants to buy a boiler of may be a Rs 50 lakhs worth of a size or may be some absorption chiller worth may be a crore rupees. Certainly I will be able to maintain a good margin in that front. So it is depending upon what is the mix of order intake larger order - lower margin, smaller orders - generally repeat orders, we get decent enough margins and nothing beyond that because repeat customers are very, very finicky these days. They will take quotations from my competition negotiate with them and only favour he does is that I like to continue to with you this is the price I have received from somebody please reduce from that. So the best negotiation capability of my engineers are matching up with the competitor's price and picking it up and then working toward simple in the margin.

Moderator: Thank you. Next question is from the line of Mr. Inderjeet from Macquarie. Please go ahead.

Inderjeet: Hi sir, this is Inderjeet here from Macquarie. My first question is on the working capital though you hinted that your cash levels are kind of pretty similar on a year-on-year basis but have you seen any change on the working capital side in the last few months?

M. S. Unnikrishnan: If I were to say nothing is changed I will be unfair to you. There is substantial pressure to collect money in the market right now. Now if you ask me is it because they have shortage of money. Even the people who have money they want to utilise the overall economic scenario to payback difficult position so collections are not as good as what it used to be. Second is they know that if they were to reduce they were to say for example in a month if I have executed a part of the project worth say may be Rs.10 crores, normally I would expect that at least Rs 9 crores out of that become 10% they may retain to pay me only when commissioning happen. Now will ad hoc check of Rs 5 crores. Now naturally what I would do that I will not supply Rs 10 crores in the next month, I will supply only half of that. He is okay with that in the earlier days when they were in a hurry to have the capacity completed they would immediately call somebody very senior including Gopal to say sorry another Rs 4 crores cheque I am preparing it please tell your department to ensure that material is supplied next month. That kind of pressure is not there in the market right now. There is a lack of pressure to adhere to execution schedule is also resulting in cash collection difficulties. So that is there so look at the Accounts Receivables overall there is I mean it has gone up but not substantially where there is any need for concern whereas we had been tightly managing our inventories. We are not inwarding material unless it is really needed. We are not manufacturing and converting raw materials into finished good unless we are almost confident. I do not say 100% we are successful still there are issues were we would have made it ready people will say that sorry I will take it instead of in the current month next month so that’s a current situation. It is not of a concern but not the best of the situation.

Inderjeet: Now in one of previous questions you said price of somewhere like Rs 1.4 crore per megawatt on a boiler looks be an sustainable price. Just to get a sense whether let us assume that the capacity is kind of 100% indigenised with very little amount of import content or even with an full indigenised capacity this would be an unsustainable price?

M. S. Unnikrishnan: In the last tender that I am purview to because thankfully in some of the tenders they would ask for what are the important component in the entire pricing. We were almost best at 21% imported components and that have apportionment has almost 79% domestic and all others were in the range of may be 25-30% was a barring one foreign company so that is a maximum that you can achieve under the current circumstances. I mean virtually at 20-25% only import component. That is why I mentioned about sustainability because there is no more scope available in the immediate future for indigenizing anything beyond.

Moderator: Thank you. Our next question is from the line of Kirti Dalvi from Enam Asset Management. Please go ahead.

Kirti Dalvi: Again hopping back on the same question of indication assuming that we carry forward a similar order book and if we aspire to have the higher sales growth compared to this year just wanted to check is that the short cycle execution products we are expecting very high growth in terms of inflows next year as well?

M. S. Unnikrishnan: Two factors to that Kirti short cycle I am hoping should be improving and even in the long cycle we will tend to reduce the cycle. Of course capacity is available if orders come on the right time. For example, if I were to have good order intake even for long cycle orders is that Q1 and Q2 that is H1 portion what realization is possible in the H2 whereas in the normal circumstances I may not be under pressure because why should I be over a time because the capacity is not there also so these are the two factors but its only a wish and aspiration I mentioned to you it will all depend upon how things are going to be panning out. If one were to be seeing order intake of a larger nature to happening only in the second half of the coming year then certainly we will find a difficulties in improving the topline.

Kirti Dalvi: Sir if you could possibly give a broad breakup in your order book what is the share of the standard product for what we say short cycle products in the consol order book of Rs 5100 Crores?

M. S. Unnikrishnan: Unfortunately we do not cut it that way a good part of our cooling and heating business, let me tell you EPC is not short cycle in any case that number which you all always tell you then almost a half of our water business, a half of the air pollution control business and the boilers and heater business these are all not they are all long cycle. Even in the standard product business which are used for heating of late there are larger sizes of orders coming in which may go into also may be a 12 months kind of an order cycle that is why it has to be in order by order and we do not cut it within the company in that way. It is not that I don't want to give it to you we don't cut that way in the company.

Moderator: Our next question is from the line of Jai Kakkad from Standard Chartered Securities. Please go ahead.

Lakshmi Narayanan: One question on TBW JV what would be the rough overhead cost that we should expect for full year next year?

M. S. Unnikrishnan: Full year of operation one would have a burden of approximately Rs 40 crore plus depreciation Rs 50 crore plus on interest free payment and establishment cost anywhere from say Rs 40 to 50 Crores that Rs 40 Crores will depend upon if you are in the minimum, Rs 50 Crores in case if I see an order coming in the revenue may happen later but I may have to recruiting people so that's approximately a Rs 120 Crores. Let us say that the average number its kind of overall put together. So the cash support needed is without depreciation is around 80 plus.

Lakshmi Narayanan: Second question is now that you along with some of your larger peers like L&T are focusing so much on exports could you give us a sense of your three year target for growing your export orders and the business. I know you must have definitely have had your annual planning etc., or may be for the past what's the current thinking about the way that this can go?

M. S. Unnikrishnan: We have a plan to ensure that our overall income should go from international market to one third and the domestic should comprise of two-third that one third will have two components. One components is exported out of India as finished good and second as the other businesses where it is locally manufactured like a Danstoker or Thermax China Limited and the value add that we will be doing in the future for construction for the projects that we would be undertaking. That is the target we have taken and we are working towards that.

Moderator: Our next question from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.

Bhargav Buddhadev: Sir you highlighted subdued execution for the Power sector in future as well I was just wondering if coal price pooling implementation could kick start the execution and if you think yes any timelines on what is the status on that?

M. S. Unnikrishnan: It is an accepted concept by the Power Ministry and also agreed upon by the Coal Ministry and now being also managed by the PMO, it is the place where it is currently registering. Now there are some limitations of implementing that because then somebody got what happen if somebody has a captive coal block there is where the government is unable to find an answer for it. All of us are supporting and working on that and I hope things should take a positive trend of some amicable solutions in the coming time. But that alone would not ease situation. In my opinion that will improve the availability of coal for the existing power plants and the pricing mechanism for the future for the PPAs which will have a variable component because domestic coal prices can be controlled international is an absolute variable so future PPAs will also need to be having a variability added on to that so that is another thing then it will have to go to a Power Finance Corporation and may be a Power Ministry to agree for a CRC for agreeing for variable PPA. Currently the PPA is not so variable is a limited variability only added on. That is point No.2. Land Reform Act is another major hurdle even if this is all done because coal extraction from earth is a necessity so we need to be talking about mine opening so that is another thing which will be still continuing and environment clearances which continues to be despite a change in the Minister, I don't think that has been any improvement that has been visible. Apart from the last item is the money availability earlier we complained only about the balance sheet of the State Electricity Boards now there are private electricity generation companies also who may have to look at restructuring their lands going forward in the next may be you will find it in the next one calendar year wherever when I sounded I was not sounding pessimistic I was being realistic. I think it is whether all of us are realistic on that because the desire is somebody like who set up a factory at Rs 800 plus Crores I should be getting orders I want everything to be done to get the orders. But I got to understand we are in India and there are certain things which can be done by the industry and something not to be done by the government. That is why I was sounding to be realistic. So with all this put together let me clarify to you that one, coal pooling and pool pricing acceptance will be one more positive move in the right direction and you may have to have another four or five more items we resolved before it kick starts the investment cycle.

Moderator: Thank you very much Sir. Participant that was the last question I would now like to hand the conference over to Mr. Nirav Vasa for closing comments.

Nirav D. Vasa: Thank you very much sir for giving this opportunity to host the conference call and I also like to thank the participants for attending the call. Thank you very much. Sir, would you like to give some closing comments?

M. S. Unnikrishnan: My apologize for not being able to answer if there was any further questions and I am sure you will get in touch with us through email and calls in the future also. Just a statement: though all of us are expecting that things are turning around my request to you is that be patient because you may see a quarter improvement and improvement in order booking or revenue. We should be calibrated in our thinking especially for the industries that we currently belong to. Companies like Thermax have got multiple portfolios so we will be stable as a company but for us growing at the rate that all of us are expecting you and us put together all of us want to grow. We need to see a lot more a change in the market and let us hope it is going to be happening and we keep continue dialogue with you. Thank you once again.

Moderator: Thank you sir. Participants on behalf of SBI Cap Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your line.