

Thermax

Q2FY11 Conference Call: 28 October 2010

Management: Mr. M S Unnikrishnan – Managing Director

Mr. Gopal Mahadevan – CFO and Executive Vice President

Moderator: Mr. Misal Singh (Religare Capital Markets Ltd)

Moderator: Thank you for standing by and welcome to the Thermax Q2 FY11 Result Conference Call hosted by Religare Capital Securities. At this time all participants are in a listen-only mode. There will be a presentation followed by a Question and Answer session at which time if you wish to ask a question please press *, 1 on your telephone. Please be advised this conference is being recorded today. I would like to hand the conference over to Mr. Misal Singh, Over to you sir.

Misal Singh: Hi Hema. Good morning everybody. I welcome you all on behalf of Religare Capital Markets to the Q2 FY11 conference call of Thermax. I have with Mr. Unnikrishnan, Managing Director and Mr. Gopal Mahadevan – CFO along with the team on the call. I would now hand over the proceedings to Mr. Unnikrishnan who will make a brief comment on the results followed by the Q&A.

Mr. Unnikrishnan: Thanks Misal, Hema and good morning to all of you and a very warm welcome to all of you for participating in our conference call. You have all gone through the results of the company, I am sure by evening. I will make my initial talk very short in such a way that you have more time available to ask me questions.

Our results have been Rs 1092 cr for top-line in comparison to Rs 677 cr for the same quarter previous year, recording a growth of 61%. Giving you a break-up of revenue, domestic sales is 800.4 crores showing a growth of 62% and export revenues are Rs 247.4 cr registering a growth of 42.9%. Of this energy business contributed to 81% showing a growth of 66% and the revenue from environment segment stood at 199 crore, grown by 27.1%. PBT for the quarter is Rs 130.9 cr as compared to Rs 82.9 cr of the previous year same quarter and registering a growth of 57-58%. Our order intake for the quarter is standing at Rs 1326 cr, of this Rs 1088 cr has come from domestic market and Rs 238 cr has come from the international market. At the end of current quarter company has an aggregated order balance of Rs 6602 cr an all-time high in comparison to Rs 4603 cr of the previous year registering a growth of 43%.

Consolidated total income of Thermax Group stands in excess of Rs 2000 cr, first time in the history that we have crossed Rs 2000 cr for H1 in comparison to Rs 1296 cr for the previous year same half and order balance at this point of time for the Thermax Group is Rs 7276 cr. A very brief regarding the two joint ventures which you will be very keen to know about. About our joint venture with Babcock & Wilcox, the JVC company got registered in the last quarter. We have got Board formed with Ms. Pudumjee chairperson of the company and there are three more nominees that is totally four nominations of Thermax, another four from the B&W side. The Chief Operating Officer, an expatriate has already come and joined the organization in India. A team of 50 people are already working. Technology transfer is ongoing and about the most covered thing which we want to know about the land, I can only tell you that we have concluded the land deal and it is under processing and the possession will be taken in the next two weeks time after which





we will make the announcement regarding this. Technology transfer is in process at this point of time and we should be ready to bid for the tenders going forward.

Our JV with SPX is progressing well. We are short listed or prequalified for tendering for NTPC's 11 numbers electrostatic precipitator and the first tender has already come to the company which is under preparation and we expect that we should be one of the active participants amongst the Indian and international competitors for the electrostatic precipitator order. At the same time, the company also generated two more inquiries for supercritical range of ESPs and two numbers of regenerative air preheater from Indian private sector also which I cannot reveal the name. So there is a traction already gained by that JV in terms of order inflow, inquiry inflow, and should be resulting into orders preferably by Q4 of current year in any case not less than the Q1 of next year. So now I hand it over to all of you to ask me any questions.

Moderator: At this time if you wish to ask a question, please press *, 1 on your telephone keypad and wait for your names to be announced. First in line we have Vikram Mahajan from Bay Capital, you may go ahead please.

Vikram Mahajan: Good morning and Congratulations on a good quarter. Sir what propelled such a spectacular growth in both energy and environment segments?

Mr. Unnikrishnan: Vikram before we were anyway case of getting prepared for good results on account of the fact that when we opened the quarter carry forward orders, contractually they were deliverable and customers were willing to give credit to all of them. Then Thermax is geared up accelerating its execution capabilities with our new factory coming into full stream. We already had the project management in construction so it is a harmony of all the capabilities of the company put together that has helped in reaching up this particular result. So there is no particular factor. It is multiplicity of various capabilities of the company playing and make it happen.

Vikram Mahajan: Why were the margins in the energy segment are a little subdued?

Mr. Unnikrishnan: You guys by now I thought familiar with Thermax's balance sheet. In the quarter where EPC business overtakes the rest of them, the margins normally take a beating, no I cannot say beating, it comes down but we are trying to manage it by having the other divisions to contribute to the margins, means we maintain the margins. But EPC is the one which normally drags it down.

Vikram Mahajan: So what was the contribution of EPC?

Mr. Unnikrishnan: 27-28% I understand.

Vikram Mahajan: Okay, and sir in terms of order book what are the key factors driving the inflows power generation, ferrous metal, cements refinery? And how do you think its panning for the second half?

Mr. Unnikrishnan: Of the orders that we have taken, current quarter there is no substantial contribution from the EPC segment, not very large at all, in fact it is in the non-EPC segment that we picked up more orders for the quarter. Since you are asking for an outlook let me tell you the inquiry inflows if we have to disseminate we have a good number of inquiries coming from the steel industry, not the composite steel industry, Sponge Iron, good number of captive work. Second we are seeing a revival of cement industries. There seems to be something really marvellous happening for the industry with the cement prices went out of the roof, so any and every large player industries is releasing inquiry including the multinationals which are being little slow in the last spurge in when the large capacity binge went on. So all of them have come in that side. Apart from that we are also seeing some change, geographically if I would look at it, in the eastern sector which are more related to ferrous and non ferrous metallurgy. In Orissa, in Bihar, Jharkhand there is a substantial industrialization going on. These are the areas which I currently talked about. In gas based plants in India, there is a movement at this point of time which we have been waiting for the past maybe 3.5 years. Since Mukesh Ambani spoke about the KG gas we all were waiting for that gas inquiries to be taken shape. Last



six months we got four major inquiries which have confirmed gas allocations and some of them would fructify going forward, of which one more thing change we are seeing is normally people will go for very large capacity combined cycle plants whereas currently we have seen also smaller ones which are in the 100 mw range and that too in an unlikely place like Uttar Pradesh being concluded. We have received orders for that it is included in the order booking.

Vikram Mahajan: And so you briefly spoke about inquiries about a couple of super critical boilers, so what is the size of and when do you think we will be getting firm orders for this?

Mr. Unnikrishnan: I mentioned to you very clearly Q4 we are getting geared to start quoting for super critical. There are proposals already given and what I mentioned about NTPC portions were that electrostatic precipitator which comes with other SPX joint venture not the boiler side. Most inquiries are already on hand and we are working on that. I believe the tender submission is in the current quarter Q3 depending upon NTPC to give an extension. We do not need extension but somebody were to ask for it otherwise for the super critical boilers we will be getting geared in the next quarter and order you should be expecting from next financial year.

Vikram Mahajan: So sir what would be the quantum of order accretion because of this?

Mr. Unnikrishnan: Currently I will not speculate on this, these are all very large orders. If I were to miss one I cannot compensate to something else. So I would rather go with some of it after we are bidding for it already, it is too early to comment right now.

Vikram Mahajan: And lastly how are we progressing in the water segment and what is our game plan in the medium term here?

Mr. Unnikrishnan: Water segment has shown a considerable growth in the current quarter related to their contribution in terms of both revenue recognition as well as order intake. I am seeing a fairly positive movements in the water segment and especially in two of the areas that we are participating #1 is the industrial projects because across the country in the medium and large sized industrial water treatment and industrial treatment is going up and municipal water treatment also sewage treatment there is a very encouraging news with the government advising further funds under JNNURM. Both are very positive at this point of time.

Vikram Mahajan: But again do you think because some municipalities are shifting to a BOT model if you bid aggressively for that, your ROCE again will be under pressure?

Mr. Unnikrishnan: We will not be bidding for BOT projects to start with unless otherwise there is a very strong revenue model and also securitisation model available in terms of the income to come there afterwards. We will not be bidding for it so we are targeting currently projects by JNNURM where between 80% to 90% of the funds are from the semi government. The BOT projects are drinking water distribution projects which we do not participate.

Vikram Mahajan: Thank you so much sir.

Moderator: Thank you sir. Next on line we have Venugopal from Credit Suisse. You may go ahead please.

VenuGopal Garre: Hi good morning Unni. I am doing fine sir. Just two questions, I am sorry if I missed it in the opening remarks. Could you give a qualitative flavour of the orders received in this quarter, no need for the names of the company that you have received from broadly the breakup.

Mr. Unnikrishnan: Thankfully I cannot remember in the names in the current quarter because unlike in the last year same quarter where we had Meenakshi to speak over



Rs 1000 cr, current quarter there are no singular order which has contributed in size. It is most of the product divisions of the company has done fairly well in terms of order intake. Its spread across our water business, in air pollution control business, it is also in our normal package boiler business and absorption chillers. And the basic boilers, well in fact the order intake in the current quarter only for the quarter for EPC is not anything substantial to talk about at this point of time. So if I were to talk about the segment at this point of time, it is seen in that steel industry, ferrous industry which has contributed to #1 and #2 is oil and gas industry and after #2 third is a power industry. Power when I say is not that the power plant, it is fundamentally the water treatment plant. It is a effluent treatment plants and also air pollution control equipment .

VenuGopal Garre: Okay. Sir my second question again you know now that you have mentioned that Meenakshi it has been a year since you have got to know that Rs 1000 cr sizes are IPP scale order, sir going forward in the next one and half years, especially on the sub-critical sites do we have a decent enough pipeline of orders that we are bidding for?

Mr. Unnikrishnan: Certainly we are very positive about that segment especially the 135-150-200 and up to 300 MW range not beyond 300 because beyond 300 there seems to marked preference for a super critical in the market currently. So in that range, there are fairly good number of inquiries which we are following and discussing. It is a financial portion and the equity portion, that seems to be quite okay. Indian banks seems to be wanting to fund these subcritical projects but the equity portion is something which is difficult, as these are first generation power plant developers. They have to be gathering the money for it. I would expect every quarter there would be one or two orders getting finalized across the country and we as a company are very selective about whom we deal with so in the next may be six months time also second half if luck prevails we should be able to declare at least one for raw order.

VenuGopal Garre: that's answers my question. Thanks a lot sir.

Moderator: Thank you sir. Next in line we have Madan Gopal from Sundaram, you go ahead please.

Madan Gopal: Hello sir good morning. I missed out what is the total order flow for the quarter and order book for the end of the quarter?

Mr. Unnikrishnan: Gopal would you want to help him out?

Gopal Mahadeven: Thermax Limited the total order inflow for the quarter is Rs 1326 cr.

Madan Gopal: How much of this from energy and environment?

Gopal Mahadeven: Energy is Rs 1051 cr and environment is Rs 275 cr and the order balance is Rs 6602 cr. In broken down energy is Rs 5594 cr and environmental Rs 1008 cr.

Madan Gopal: Sir any international order book that we have? This is including, this is a consolidated order book?

Gopal Mahadeven: The total order booking of course remains the same Rs 1326 cr. Domestic is Rs 1088 cr and export is Rs 238 cr.

Madan Gopal: Sir my second question is on in case if we were to do some 300 MW orders, how many units we can do within a year?

Mr. Unnikrishnan: It also depends upon what is the other subcritical orders or industrial boiler orders on hand available. They are, see it depends upon the slot of manufacturing and also what kind of orders do come in. If it is an EPC order you get a longer gestation period. Normally EPC order for a 300 MW you will get anywhere



from 26 months to 32 months. So we can do two numbers at any point of time as an intake and in the year I can take two orders to make that.

Madan Gopal Mahadeven: Okay, two 300 MW you can do at anytime.

Mr. Unnikrishnan: Yeah we can do that and I am supporting EPC but if you were to give me say four numbers of 300 only boiler I will not be able execute it. I can execute but then I will not be able to justice to my customers. Because our customer base in India is 20,000 overall in that boiler customers for the project size is approximately 350 and at least even 10% of them were to buy one boiler every year I have to be supplying 35 to them. So we have to have a long term versus single project decisions to be made. Many a times the decisions are made on the basis of this kind of analysis as to you do not let down a customer, so there is actually 65% of Thermax orders are repeat orders from repeat customer

Madan Gopal: So any other inquiries from the captive power side you are hearing right now?

Mr. Unnikrishnan: Yeah, see captive, currently on the top is steel industry actually there is a spurge of inquiry for the standard 100 – 350 tonnes per day sponge iron plants. Each one of them will have to put waste heat recovery, waste to energy based captive power plants to make their project viable. So it is a very standard cookie cut package available which is currently going on well. Cement companies are on a third level of investment in the country, all of them are on RFQ level. I would believe their order finalization for the cement capacity expansion will happen in Q4 onwards in the current year and the captive power plants will start with Q1 on next year. So you should see at least maybe six to eight of them getting finalized in the next financial year.

Madan Gopal Mahadeven: Okay sir. Thanks for taking my question.

Moderator: Thank you sir. Next in line we have Nainish Rajani from Tata Mutual Fund. You may go ahead please.

Nainish Rajani: Good morning sir. First of all as far as your order book is concerned and really the trend over the past one year breakup in terms of product in your total order book and you know EPC contract in your total order book you can just give us a trend and in the current order book what is the proportion of the same sir?

Mr. Unnikrishnan: Rajani we normally do not cut it the way you want but I will give you a flavour of how it is happening. We had accretion for EPC orders for quite say three or four quarters. Last is the one quarter where our products have overtaken EPC. It is a good sign of a balance for a company like us, otherwise we would have been named as an EPC company. So let me say that we are now very fairly well balanced. For the Rs 1326 cr of orders which Gopal has declared there is a higher percentage of product holders in the current juncture at this point of time.

Nainish Rajani: Sir then what I basically wanted to understand sir this is you know the standard products which is you now wherein the execution period is not too high, had the proportion of those orders actually started increasing and do you see that increasing going forward because that will actually propel the top line at the faster pace in the coming quarters. Is that a fair assumption to make?

Mr. Unnikrishnan: Yeah, I mean you are right on the question. This is an area where we ourselves were also anxiously looking forward to the reaction from the market and we are happy to say there is a positive sign in the current quarter where the overall booking of the very standard products of the company has exceeded 20 to 25% depending upon the product segment that we are in which we know even in the recent past whereas if you see in the last up cycle between 2003 to 2006 that is also a very positive sign, which we are already witnessed in the last quarter. Is that an indicator or a trend we will have to wait and watch for the quarters?

Nainish Rajani: Right sir, my second question would be in terms of you did mention something on gas based power plants and inquiries have increased, in terms of our



capabilities for executing a complete gas-base power plant, can you throw some light in terms of our capabilities that is you can cope up with change in feed stocks and all the other technicalities for gas based power plants and if you can just elaborate a bit on that sir please.

Mr. Unnikrishnan: Last quarter we have declared our entry into the gas based combined cycle but medium size, not the larger size power plant, for which we declared 580 crores of an order for one of the refineries coming up in India. So the gas based power plants are in these in three segments, so two segments but India is showing a third one also. The real large ones are 1000 MW and upwards, which are the very large wins of Frame-9 coming from either Siemens or GE and then along with that comes a steam turbine and waste heat recovery boiler and everything put together. Minimum size of such an order can be Rs 2500 cr and above and there the main chunk is taken away by a GE or a Siemens after GT supplier gas turbine or steam turbine supplier. The value capturing in the company like Thermax will be limited to the heat recovery steam generator and very limited BOP. In that segment Thermax will be limiting our ambition to supplying the HRSG which we are rated the #1 with a 75-80% market share at this point of time. Essar has given us an order. Reliance entire Jamnagar has done by Thermax. So we are the leader in that area. So we do not intent getting into EPC at this point of time. I would not deny it for the future. Currently we are telling no. Then our last segment which we thought is going to be emerging is industrial based combined cycle plant. Not the IPPs where they will be needing some quantum of power and the steam for the probably like textile industry or refinery where these are limited to less than 100 MW of capacity which we will be doing in entire EPC. Then heating which is the package equivalent of that there is power. There is also sometimes absorption chilling put together. So there is EPC segment where we are dealing it that has just started picking up now. The third segment under revolution which was seen currently in the market is that 100 to 500 MW kind of range where medium sized IPPs are also getting into gas commitments. In that area we are clear that we will do HRSG in any case heat recovery steam generator which you already have got an order for, two numbers in the last quarter.

Nainish Rajani: Actually that is all from my side. Thanks a lot and all the very best sir.

Moderator: Thank you sir. Next on line we have Sumeet Agarwal from MetLife, you may go ahead please.

Sumeet Agarwal: Hi sir how are you.

Mr. Unnikrishnan: Very fine Sumeet.

Sumeet Agarwal: Sir just wanted a few updates on this SPX JV that you have you mentioned that you have bid for 11 numbers of ESP?

Mr. Unnikrishnan: No, NTPC ESP should come to 11 numbers, everybody talks in the country only about boiler and turbine. They tend to forget that there is BOP solution also. So there is an ESP, there is revenue for it. NTPC has kept them outside of the scope of BTG supplier and they are coming out with the prequalification and bidding for the 11 numbers. And in that we have pre-qualified as a company, I am very happy to tell you that we have been pre-qualified. The first tender has come out of free numbers of ESP for one of the sites where we will be bidding for it and that is what I meant about.

Sumeet Agarwal: As of now this JV has not got any order or has it got any order?

Mr. Unnikrishnan: There is a captive order for them because the orders for 2 number 200 MW that is being executed by Thermax the originally heater is supplied by this JV that is the first order available to them which is under execution and we currently prospecting at this point of time.

Sumeet Agarwal: Also just wanted to check with you how is the competitive scenario in this environment, who are the other players?



Mr. Unnikrishnan: There are two distinctive products under this JV. First is known as regenerative air preheater, which is energy efficiency enhancing equipment. For that domestic competition is not much to talk about. Yeah, Alstom can compete, Howden can compete but they do not manufacture in India. They only do assembly in India, whereas BHEL is the number one but they do make their own. L&T will make on their own whereas TBW joint venture will buy from JV. Doosan can afford to buy from JV. So that is about for that particular product. For Electrostatic precipitator the competition will be from the following companies Alstom, BHEL themselves can compete if they opt to go only for the electrostatic precipitator. Then there is a company with a name of Shriram EPC who have got joint venture with company Hamon Cottrell so these are the main competition. Chinese are there for everything. But for pollution control, I think progressively the country is shunning them away .

Sumeet Agarwal: Also sir you have mentioned earlier that you would be looking at owning the assets and supplying say steam or say biogas plant what is the status and what is the target that you are looking over the next five years?

Mr. Unnikrishnan: Biogas I think we have not mentioned.

Sumeet Agarwal: Biomass sorry, not biogas.

Mr. Unnikrishnan: Biomass is in steam delivery system to talk about. We already incubated that last year itself. There are two plants currently working and we normally as being a conservative company will wait for one more year to see is the model working and we are able to deliver what we promised so all these are at tick at this point of time so Gopal and team has already put in a business plan and that is already on the cards. There are at least 10 people working on this as a separate team is formed. A company is formed for this also. It is known as Thermax Onsite Energy Services Limited and that is a company which we will take it on from the current year onwards. You should look forward to next year as starting point for the company's growth in order booking and the execution.

Sumeet Agarwal: Okay it would be only it is next year onwards that we can see some concrete plan on those Thermax onsite project.

Mr. Unnikrishnan: That is correct but currently it is generating income and thankfully we are not draining anything. On the contrary they are already cash positive business of the company. See we test any business for taking money before we increase in the size.

Misal Singh: Sumeet, this is Misal here. I am sorry to interfere.

Sumeet Agarwal: I will come later.

Moderator: Thank you sir. Next in line we have Lokesh Garg from Kotak Securities, you may go ahead please.

Lokesh Garg: Hi sir, good morning. Sir, actually I wanted to find out in electrostatic precipitator what is the revenue realization per megawatt the way we speak in boiler in turbines if there is a number like that?

Mr. Unnikrishnan: There are numbers which are floating in the market but it varies between 20 to 30 lakhs so it is depending upon what the customer will ask you to do whereas some customer will say that why do you want to do the ducting and casing I will give you only main components. Somebody will say sorry I will give you land and money then it is goes to 30 that is an average range Lokesh.

Lokesh Garg: Sure and similarly for regenerative preheaters.

Mr. Unnikrishnan: Almost similar kind of numbers.



Lokesh Garg: Sure other thing I wanted to ask you is sir what is the backlog mix that you have currently in terms of projects and product?

Mr. Unnikrishnan: We do not have that dissemination available though it is only an indicator because we ourselves do not want to see otherwise we will have to split the company into two. Every business of ours, our company has got projects and products for example, water treatment business has got product group in that one which is a very standard skid mounted units. Then there is we have electrostatic precipitators, similarly air pollution control we have got very-very standard pollution control equipments available which is like very standard catalogue based one, whereas we also do projects. So we do not do a cut down products and projects. It is on divisions and business that we make a cut that is the way it is.

Lokesh Garg: Any rough assessment you wish to give like it is 70-30 or 60-40 something like that.

Mr. Unnikrishnan: It can vary between 50-50 to 60-40 let us say that but that would be a quarter where I pick up may be Meenakshi equivalent orders in that particular quarter maybe projects will be 90% also could be possible. So it is not a yardstick on which we want to measure the performance of our company.

Lokesh Garg: Sure I understand that. Second thing I wanted to ask you is that you had said in the call that you had 27-28% EPC business in this quarter in the revenue line. Now going forward this may or may not increase depending on your order inflow track record and 2Q seems to indicate that this may not increase. But if EPC business actually contributes lower margins and if that percentage continues to increase going forward would you expect your margins to trend downwards significantly which is of the order of 200-300 basis points so just about remain the same at 11.5%. This is what we have seen for this quarter.

Mr. Unnikrishnan: Well EPC is on the margin percentage may sound to be bad but we do not need any investment to be done so for a shareholder, it is more important what ROCE you get on a capital that you invest. So we have got to balance the investors requirement and the customers requirement. So in that we have balanced efforts of taking EPC order, we want to continue taking EPC order bigger and larger but in proportion of growth of our standard products so that as a company we do not reduce our EBITDA margin at all. That is the way we working Lokesh.

Lokesh Garg: Sure thanks a lot sir.

Moderator: Thank you sir. Next in line we have Indrajeet Bhatia from Macquarie, you may go ahead please. Next in line we have Deepal Delivala from Citi. You may go ahead sir.

Deepal Delivala: Sir a couple of questions on the numbers. Now one was the other operating income seems to have gone up from Rs 9 cr last year to about Rs 43 cr this year. Any specific reason for this is this general business income that you know got clubbed in one quarter?

Mr. Unnikrishnan: See you already know my balance sheet better than me. It is exactly the same reason.

Deepal Delivala: Okay. The second question was on capex, I remember the first quarter you said you will be spending roughly about Rs 120 cr this year, right on your air pollution plant and the other plant that you mentioned in Gujarat. So how much of that has been spent and how much are we looking at spending?

Mr. Unnikrishnan: Those are the current year sanction project going forward. Capitalizations will happen only when the projects are under execution. I am happy to say that the both the projects which we have declared in the beginning, and as the Jhagadia Chemical Factory and the Sholapur Air Pollution Factory, ground breaking ceremony is over. Contract is under awarding. A normal period for execution of what this could be in the region of 12 months. So you would have part of the capitalization and in the current year, part in the next year,



Deepal Delivala: Okay. Sir and also one slightly micro question, now off late in our equipment industry we have seen very-very large orders being placed with the Chinese. One Lanco order went to Habin and today we have seen Rpower placing the order with Shanghai Electric for significantly large sized orders. Is there a view on this I mean how is the industry panning out and in that perspective how is our supercritical venture placed?

Mr. Unnikrishnan: Actually my view maybe partially biased being an Indian against Chinese so discount that. Now, let us go further as to what choice was available for the companies at this point of time. BHEL overbooked with maybe Rs 145,000 cr worth of order. Larsen & Toubro for the power side with 3000 MW capacity already have booking worth maybe 30,000 cr. at this point in time, the third player is Thermax which is now you heard me talk about land deal and the finalization equivalent is going to happen or we will be ready by 2012. So what will an investor do as a power plant developer? He has got to look around for options available. ADAG signing with Shanghai is the news which is almost will be 36 months old. It is only that they are going ahead with the execution plan for Krishnaputnam UMPP and may be one more of them. There is nothing new about it. Lanco had placed an order for subcritical to my reckoning may be almost a calendar year back maybe they are reconfirming with an LC once their order is concluded. Otherwise in my understanding no fresh orders have gone in the last six months which is not committed in the past. Government is also waiting for even Thermax to have their factory ready up and going where they get investment support in our understanding at this point of time.

Deepal Delivala: And sir your view on the import duty on the power equipment industry I mean are we seeing that you know they have postponed the decision, you know what is the view on that?

Mr. Unnikrishnan: This is exactly the reason. They say that okay we will put a duty but that will increase the cost of power plants in India unless there is domestic capacity available. So it is a chicken and egg situation despite the planning commission recommending and we were the part of the background discussion for it. What we have promised is that we are willing to, paper is ready. We are ready to implement provided there is capacity available.

Deepal Delivala: Okay and last question from my side is your order inflow run rate, I mean given the fact that you have spoken about SPX JV you know bidding for the 11 kind of sets of ESP plus the gas-based power plant inquiries coming through, would it be fair to say that the order inflow run rate would be higher than what we have seen in the first and the second quarter and primarily it will be focused on larger sized orders?

Mr. Unnikrishnan: That is a wish. Last portion is not right because we will not want to have the larger order alone coming in, in fact I expressed in the beginning that we are happy as the company that are normal standard historical products of the company which does contributes to fairly different margin entailing us to take larger EPC orders also improved in the last quarter. So we are looking forward to better order finalization. But Deepal the question over there is power plant order finalization does not mean anything unless the term sheet is signed. The equity is brought up to 30% by the developer. So an agreement being signed or maybe in shaking hands or MOU sign are no matter of consequence of Thermax's balance sheet. There are a lot of orders under finalization but there are very few which are getting financially close. We are in discussion with at least good customers where we do believe they have ability to close financially the term sheet.

Deepal Delivala: And there is one clarification on the earlier statements you made with one of the analysts questions, on the margin fronts you said that you will look to maintain margins at the current level, right of the company, even despite the fact that EPC could go up as percentage, and you know in terms of contribution what is your sense on material costs because you have seen in this quarter for example, you had a 500 basis points jump in material cost over last year and about 200 basis points increase over the first quarter, what is the trend there.



Mr. Unnikrishnan: This can vary on two counts, one is EPC. EPC when you do more, effectively the purchase cost will be more. Whereas when I buy for making a boiler or anything internally I only buy the raw material, here I buy the finished good. That can make a difference in the 500 basis points which you are talking about as one of the factors. Apart from depending upon the type of order you are executing in that particular quarter. Another reflection I were to give you, the truthful reflection ,of this in 2008 when there was an absolute decline in order book and which we used to discuss if you remember 2008-2009 time, very few orders were getting finalized for projects and there was scramble for orders we used to say at that time. The competition was very-very tough. So that is an order taken by the various businesses at lower than the normal margins that the company would normally expect. So those are kicking in terms of revenue recognition right now some of them may have impact from that. But currently with the market fairly positive in terms of order finalization, our expectation is that margins can be maintained including a combination of a product mix of EPC as we have planned like the way Gopal put it across 25-35% EPC, we still be able to maintain the margins.

Deepal Delivala: Thank you so much.

Moderator: Thank you madam. Next in line we have Srinivas Rao from HDFC Mutual Fund, you may go ahead please.

Srinivas Rao: Yeah good morning sir. Sir, the first question is on the BOP business, are you bidding for any project sir?

Mr. Unnikrishnan: Not currently, though we bid earlier. After we having taken the order for Meenakshi we already built up the BOP capability and which we converted into an EPC capability for the very large ones. We are currently looking for EPC than BOP one because with the same resources if I can do the full EPC rather than doing only the BOP, I have a better profitability plus my factory also will be engaged in manufacturing maybe 35-40% of that. That is the reason.

Srinivas Rao: Okay. And the second question is on the EPC or the project business. Can you tell us what are you doing to enhance the capacity of this project design or implementation side you know where are you today and you can tell us in terms of how much megawatt can you execute at a point per se as of now?

Mr. Unnikrishnan: Srinu it is a very good question, non-financial question which we would like to answer. We started seeing the growth perspective about it at least three to four years back so first we have taken care of proposals and process for the design capability. Substantial amount of automations is done in that area and also new people added and training given to , them otherwise an error over there is what is going to be resulting in a performance error in the plant. So that is taken care by the company. Second level is automated engineering and standardization done. Even in a very large project you can standardize various components and variety reduction is something which you have achieved also. For example, we had 45 different designs of drums available so we brought down to only 21 now. So item by item we are going to go. These are all done through software development, internally done. So we have got a team of people who are doing all these automated design. Then we were the first and possibly one of the best in the country in terms of three dimensional capability created for plant engineering which is each node of the software cost Rs. 75 lakhs and I currently have I believe 10-11 of them running and arguably one of the best. So you can visualize how a plant will look like and on the design table you complete the plant and then construction becomes easier that is why we can reduce the cycle time. It is already completed by the company. We got a highly automated project management system normally followed by the western countries not like typical Indian companies the way they do. With a product delivery group concept where each group is independent means a team of people who can take all decisions related execution of the project. It does not follow a hierarchy which is followed by other companies that is already in place. Third one is our logistics capability because most of these are shifting equipments from place to place and loading-unloading and reaching them safely as a river being involved which has substantially improved. And the last being construction, we have got



subsidiaries unlike many companies who will be doing say power plant engineering or maybe captive power plant EPC they subcontract their construct work to somebody else. Whereas Thermax is one of the rare companies you will find that we have got two subsidiaries Thermax Engineering Construction Company other one is Thermax Instrumentation. Both these are our construction arms which have gone leaps and bounds in their capabilities of execution. So this is we are fairly capable of executing larger projects at this point of time.

Srinivas Rao: Sir as an outsider you know the way we understand is (a) how many megawatts can you execute at a time or in number of people you have. Can you tell us a little bit on that?

Mr. Unnikrishnan: I will give for a layman's answer but I don't know whether it is very intelligent answer but in any case I will give you that. We have got capability to execute 1500 megawatt equivalent in our industrial range, subcritical range. It is building 3000 megawatts in our supercritical range. That is as far as boiler.

Srinivas Rao: It will be also number of sites, no?

Mr. Unnikrishnan: I can tell you that also, I will come to it. And apart from their EPC capability is in terms of we can execute in medium plants, when it is a medium plant up to 60 megawatt capacity. Our capability is approximately I would say 3- 50 megawatt per year we have the ability to execute in the 10 megawatt, 20 megawatt, cumulatively of 10 plants I can do, 10-15 plants I can do. In the very large one which are 2x150, 2x300, 1x300, equivalent, at any point of time Thermax can take an order, every quarter one. So if I take an order for maybe you know 2x150 in the quarter are you going for the next quarter take that order. So every quarter I can initiate one project, that is the reality.

Srinivas Rao: Okay. Great sir, thanks a lot and wish you all the best.

Mr. Unnikrishnan: Thank you.

Moderator: Thank you sir. Next in line we have Devang Patel from Avendus Capital. You may go ahead please.

Devang Patel: Hi sir my first question in terms of would you stand in terms of pricing power, on the macro side we are seeing the IIP capital indices slowing down, there are other companies also which are facing delays in project execution whereas Thermax is standing apart in terms of this acceleration in our project execution. So where do you see yourself in pricing power and given that you are seeing a lot of order traction. You see this pricing power increasing over the next two quarters?

Mr. Unnikrishnan: Pricing power for standard component which are mass manufactured like cables, motors, valves those kinds of items we have power. It goes up by your purchasing power, purchasing basket size which is increasing for the company. Currently our purchase is in the range of around Rs 3000 cr .Standard items will be contributing to may be almost 40%. So in that area we have got improved pricing power. In the rest of the items our supplies are maybe 10 times bigger than us so for our contribution to their valet side being very low. For example, specialized items are imported only from maybe Germany or from Japan, Thermax's purchases not even 1% of the turnover of their company. Even BHEL doesn't have any purchasing power with them, for the kind of size that they do buy. And then tubes and structural steel equivalent, steel companies do not unfortunately negotiate prices. They give us spot price we buy it when we need it maybe some consideration of terms of payment is what you can expect. I am very open about that. Whether Larsen & Toubro, Thermax, BHEL any one of them, none of us do have the kind of purchasing power in the global standard at this point of time for non-standard item, it is controlled by them only. So that is controlled by the commodity prices in the world like iron ore, coking coal these are the two factors for that. Copper is another item where we can get little impacted because of the cabling, motors and possibly as absorption chillers business of our company depends upon that. With the IIP declining in the recent past how do I see going forward? Well, IIP reduction is the concern for all of us but what contributes to IIP



we are started getting into that. We are getting impacted by the past IIP is the post-mortem of may be project companies which had happened or even which has happened may be 12 months on an average. So what you are seeing as an IIP growth or reduction of a particular month of August which you are referring to is referring to August of 2009 as far as project specifics are concerned. For a product company you think differently, you should not take my answer when you are going to analyze the cement company or may be an automobile company. Capital goods company is one month lag available. So we don't normally go by that. We go by what is the future looking like in terms of consumption in the country. At this point of time, our indication is in majority of the areas, consumption has gone up and which is going to make the existing capacity possibly insufficient or at an inflection point where an investor can think of expanding its capacity. So at least for the next 3 to 4 quarters, we are looking at order booking to continue at the same rate of improving it. That is my answer for it.

Devang Patel: Thank you sir.

Moderator: Next in line, we have Gagan Thareja from B&K Securities. You may go ahead please.

Gagan Thareja: Good morning sir. Sir my first question is essentially linked to your supply chain, lot of companies in the pump, valve or the diesel engine or gen-set segments have been speaking of supply constraints on their end and they are saying that although the demand is there, they are facing difficulties in ramping up, does that spill over to you?

Mr. Unnikrishnan: It can have an impact on us because we need to be buying pumps, motors, valves as a standard component. We have worked with them for the past nearly 4 years quite regularly, annually having conference and informing them what kind of purchases are we looking forward to and urging them to increase their capacity. Some people have done it. I have good companies to take example ; the pump side case they have virtually multiplied their capacity into two. In the valve area the medium-sized companies in India have done , the biggies have not done so I won't take the names. For the motors, there is surplus capacity available; for the LT even today. HT motors in any case options are available for one to go to any country outside India. So there are some areas where our supply is fairly sufficiently advanced. Some areas still constraints are there, but I would rather go step further down even with the capacities and existence with all of them what has not gone up in the country are forging industry and the casting foundries areas and machining partially. This investment is yet to be happening. So I do not think there is sufficient capacity on ground in the country currently to take care of the growth of 2011 may be 12, 13, 14.

Gagan Thareja: And my second question pertains to the area of gas based part. In GE recently announced significant order in this segment with their Frame-9 turbines. Can Thermax be in the reckoning for HRSG related to these projects?

Mr. Unnikrishnan: 101%. We are waiting for such things to happen in the country where people will buy Frame-9 turbine .We are one of the very few qualified company to be making the HRSG for same. We already have arguably the first Frame-9 made by an Indian company and it has also got a specialty known as reheat option for Lanco four months back. So we should be prequalified within that job.

Gagan Thareja: And in captive power over the past few years you have been mentioning that in sponge iron segment you deliberately kept out of doing EPC and you restricted yourself to just providing the boilers because of the financial growth of that particular sector. How is the situation at present? Are you just bidding for the boiler or are you taking up the entire project?

Mr. Unnikrishnan: We continue to take the boiler orders, but I need to admit that as the industry becomes larger, there will be a set of industrialists who will become good corporate citizens as well, so some of them who will be able have commercial transactions on the standard terms that we would accept i.e the LC fundamentally. In the last six months or so, we would have picked up at least 3 or 4 orders for EPC in



this segment with that kind of commercial guarantee. So there are set of them who will see like what happened is somebody who set up may be 4 or 5 batteries of sponge iron and would have had a trouble putting the entire plant together on his own or with his own employee and has seen his colleagues in the nearby area having done it through Thermax, they know that getting Thermax to do the job is good for him for time, schedule, and quality, then they will be willing to pay that extra price and give an LC for it. So we have had orders coming that way.

Gagan Thareja: Thank you sir.

Moderator: Thank you sir. Next in line, we have Sanjeev from Kotak Securities, you may go ahead please.

Sanjeev: Thank you for taking my question sir. I wanted to know the share of EPC in our order backlog, EPC and utilities?

Mr. Unnikrishnan: Gopal will give you that, power division.

Sanjeev: Sir my other question was that we have been traditionally operating on a very lean and negative working capital. So going ahead would your share of EPC likely to go up, would you see any change in this working capital kind of thing?

Mr. Unnikrishnan: The way we are currently operating we can always be within a bandwidth. I cannot guarantee that we will not have positive working capital at all, though just it continues to be remaining that way. Sometimes we can have ups and down and may be for a couple of quarters, we cannot be positive, but normally we are very particular about how we accept an order, how we execute the order. To ensure that there is not too much of borrowings done to execute the projects, otherwise we will also partially becoming temporary bankers. Thankfully, I am not permitted to do that by the Board of the company. I cannot guarantee that it will happen because even sometimes you may have huge consignments coming in from outside. We have bulk orders in place. Imagine that tomorrow if the steel prices were to be looking positive which I do not want to be seen that way, you may import bulk quantity of steel to be stocked here which means I will have to deploy the capital for it.

Gopal Mahadeven: The order balance as on 30 September the power division is Rs 2978 cr out of total balance of Rs 6602 cr.

Sanjeev: I wanted EPC and utilities

Mr. Unnikrishnan: They are not separately tracked. Utility is a part of our manufacturing, so we make boiler only.

Sanjeev: no issues and all the best.

Moderator: Thank you sir. Next in line, we have Akshen Thakar from Enam Securities. You may go ahead please.

Akshen Thakar: Most of my questions have been answered. I have couple of questions sir. If you could give some color on your environment business part of your growth. Could you been because first half was slightly weak, but what is the outlook in that segment going forward and the second question was that on the consolidated basis, if you could breakup your order backlog and intake?

Mr. Unnikrishnan: Environmental business for the company comprises of the water, waste water, air pollution control, and the chemical business. In that point, all three of them have grown in the first half both in intake of orders as well as in terms of revenue recognition. The outlook going forward, industrialization would be happening, the way we are projecting we are seeing at this point of time, all three will grow. The faster growth could possibly be in water and waste water and the number for that, Gopal will give you.



Gopal Mahadeven: He asked for Group I think he wanted the inflow and the order backlog right and you wanted between energy and environment. The order backlog at group level is Rs 7276 cr, energy being Rs 6261 cr, and environment being Rs 1015 cr and as far as order booking is concerned which is the order inflows for the quarter is Rs 1408 cr group total, energy being Rs 1126 cr, and environment being Rs 282 cr.

Akshen Thakar: Gopal if I am permitted to ask one more question, just wanted to get a color on last quarter we had mentioned that we are targeting double digit order intake growth. Does that sort of guidance still stand?

Gopal Mahadeven: I believe so, yes of course.

Akshen Thakar: Thank you so much.

Moderator: Thank you sir. Next in line, we have followup question from Sumit Agarwal from Metlife, you may go ahead please.

Sumit Agarwal: Sir my questions have been answered. Thank you.

Moderator: Thank you sir. Next in line, we have Ritesh Cheddha from MK Global. You may go ahead please.

Ritesh Cheddha: My questions have been answered. Thank you.

Moderator: Next in line, we have Yogitha from Wealth Managers. You may go ahead please.

Mayur: Good morning sir, this is Mayur here. Just had couple of questions. We had the plan of increasing our capabilities to 500 megawatt in the second phase? So now with the situation that we are not looking at, even industry is not looking at 500 megawatt as very preferable mode of putting up a plant. So we will restrict the capex which we had planned earlier for the second phase?

Mr. Unnikrishnan: In any case, change has happened when we signed the joint venture agreement with Babcock & Wilcox, the subcritical 500 megawatt or 600 megawatt, anything more than 300 megawatt has got shifted to the joint venture. So currently in Thermax main company, we have got subcritical boilers limited to 1000 tons of steam generation which will correspond 275 megawatt. 300 and above will be done under joint venture. So we have in the joint venture whatever the customer wants. Subcritical is also available and supercritical is also available. So that will make a difference for the company in future and in any case the capacity related to that is going to be commissioned in the joint venture manufacturing which is going to be on line by 2012.

Mayur: So on the boiler side, we are not looking at expansion in our own standalone entity as of now?

Mr. Unnikrishnan: We are looking for line balancing because strictly if the order intake were to be increasing, I am not talking in the current quarter or quarter basis in the medium-term if we are able to have a visibility of growth of 15% YoY for boiler business of the company which is industrial and subcritical up to 1000 tons capacity then we will expand the manufacturing capacity, certainly we will do that.

Mayur: can we have the export and domestic business break of first half at the same, you had given for the quarter as well as I did not have the first quarter numbers.

Mr. Unnikrishnan: No problem. Gopal will give you if it is available with him readily. Please

Gopal Mahadeven: You want?.

Mr. Unnikrishnan: The order booking in revenues for domestic versus international.



Gopal Mahadeven: I am giving the H1 numbers. Order booking for H1 is Rs 3058 cr and domestic out of that is Rs 2632 cr and exports is Rs 426 cr and we wanted the revenues as well. The revenues for H1 Thermax is Rs 1827 cr, out of which domestic is Rs 1449 cr and export is Rs 378 cr.

Mayur: Sir the earlier number of order booking is standalone or group?

Mr. Unnikrishnan: This is Thermax Limited, not the group numbers.

Gopal Mahadeven: You want the group?

Mayur: No just wanted to understand that the first order backlog details which you gave was for the standalone entity for Thermax Limited?

Mr. Unnikrishnan: Rs 6600 cr is for the standalone and Rs 7200 cr odd number is for the group.

Mayur: Thank you very much.

Moderator: Thank you sir.

Mr. Misal Singh: Hema, can we take the last question, I think we are close to the end of the call.

Moderator: Sure sir. Last question comes from Atul Tiwari from Citi group. You may go ahead please.

Atul Tiwari: Sir my question has been answered. Thank you.

Moderator: Next question is from the line of Kamlesh Kotak from Asian Market. You may go ahead please. Next in line, we have Kunal Sheth from Prabhudas Lilladher. You may go ahead please.

Kunal Sheth: Good morning sir. Sir I was just wondering any updates about the large size subcritical boilers we were talking about?

Mr. Unnikrishnan: Update is that we are still on the discussion level and as I had mentioned earlier subcritical larger size order will be declared by the company only when there is a financial closure for the customer, he having signed the term sheet and having put in part of the equity for the project. So there is nothing at this point of time which I would like to declare other than telling that we are on.

Kunal Sheth: But the negotiations are on at this point in time?

Mr. Unnikrishnan: Yes.

Kunal Sheth: Okay sir. That was from my side.

Moderator: Thank you sir. I would like to hand the floor back to Mr. Misal Singh for final remarks. Over to you sir.

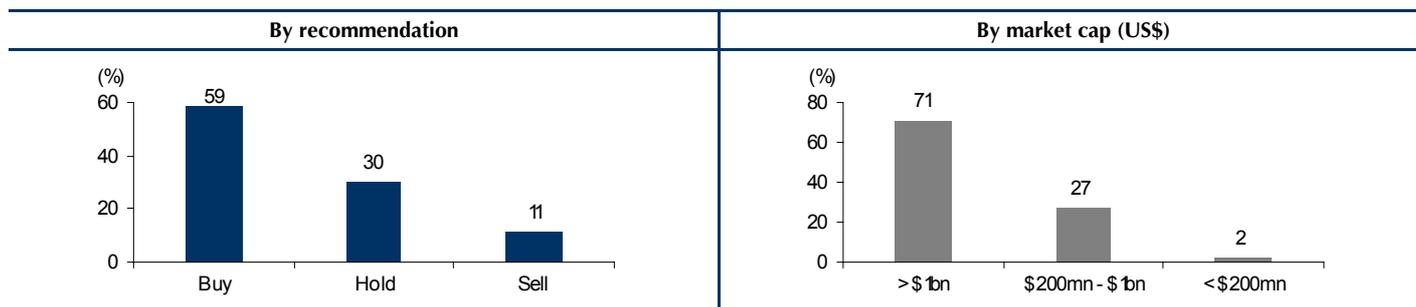
Misal Singh: Thank you Mr. Unnikrishnan and Mr. Gopal Mahadevan for the call and all the best for the subsequent quarters.

Mr. Unnikrishnan: Thank you Misal and thanks everyone.

Moderator: Thank you sir, that does conclude our conference for today. Thank you for participating on Reliance Conference Bridge. You may all disconnect now.



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Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

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