

## Thermax Ltd

### Q3FY11 Conference Call: 28 January 2011

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**Management:** Mr. MS Unnikrishnan, Managing Director

Mr. Gopal Mahadevan, CFO and Executive Vice President

**Moderator:** Mr. Misal Singh, Religare Capital Markets Ltd

**Moderator:** Ladies and gentlemen, good morning and welcome to the Q3 FY'11 earnings conference call of Thermax, hosted by Religare Capital Markets Limited. As a reminder for the duration of this conference all participants' line will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during this conference, please signal an operator by pressing "\*" and then "0" on their touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Misal Singh of Religare Capital Markets Limited. Thank you and over to you, Sir.

**Misal Singh:** Thanks Farah. I have with me, Mr. Unnikrishnan, CEO and Mr. Gopal Mahadevan, CFO and the team representing the management of Thermax. We will have the initial comments on the results from Mr. Unnikrishnan after which we will go to question and answers. Over to you, Sir.

**M. S. Unnikrishnan:** Thank you Misal and a very warm welcome and good morning to everybody who is participating in this Q3 analyst call for Thermax. Thank you once again for the keen interest in Thermax and your desire to know more about the results of our company. All of us are very happy that we have been able to deliver very satisfying quarterly results.

Our operating revenue is at INR 1241 Crore as against 748 crore for the previous year same quarter representing a 66% growth. The breakup of revenue is domestic sales is 972 and the international sales i.e. the exports revenue is 269. So domestic growth is 59% and the international growth is 95%. I need to admit to the fact that, over here this 95% growth that you are seeing in the exports is not the right number, it is represented that way, because this is also inclusive of sales for the deemed export. If I were to remove the deemed exports numbers than we are at maybe at 145 Crore for the exports, which is a flat number in comparison to the previous year.

Energy business has contributed to 77% and as usual we stick to the number of 80%,- 20%, and 20% coming from the environmental segment. Our profit before tax of 147 Crore an all-time quarterly high is 72% higher than the previous year. Certainly the extra profit or may be the better profitability, we have been able to churn out for the environment business had been one of the major factors. We are not highly impacted by the increase in commodity prices at this point of time, because most of our orders, which are executed or invoiced or revenue recognized during the quarter were supported with cover for the raw material well ahead in





time, hence this is one of the reasons why we have been able to fetch to the balance sheet at this point of time.

Our YTD order intake is for 4045 Crore, of this number 3580 is from domestic market, 465 from the export segment. At Thermax Limited level our quarterly order intake is 987.4 Crore and at Thermax Group level it is 1234 Crore

For the quarter, in the case of domestic order booking the major three segments, which contributed to our order intake, is starting with cement, then steel sector and 13% also came from the power sector. Consolidated operating income for the company at this point of time is 3372 Crore as against a 2087 Crore of the previous year first nine months, almost equaling to our full-year numbers of previous year. We have also declared in our press note that the Government of India, Ministry of New and Renewable Energy has entrusted CRISIL to rate the expertise and capability of agencies who are involved in setting up and designing solar concentrators and solar based power plants with the national solar mission already on.

I am very happy to inform you that CRISIL has rated Thermax in the solar thermal area. The highest is SP1A rating. This SP1A is the highest and you cannot go beyond that. There is no other company in India who got rated for this SP1A in the solar thermal area and it is a proud moment for all of us because this is a proof of our capability established. Of course the market has been growing, revenue recognition related to this should be expected to grow going forward, not in immediate quarters, so do not ask me questions about how much will you make in the next quarter, but I can assure you that the greening part that you have taken, this is going to be certainly helping.

We had also declared about us being selected by the Government of Maharashtra for setting up the first ever-geothermal power plant. The MoU is already ready. We are yet to be signing it. In the next one or two weeks' time it will be signed. There afterwards a block in the Ratnagiri sector is going to be handed over to Thermax and we will do a non-invasive study for this place within six months time including trials and we should be able to declare to the government as to what is the capacity that we will be able to set up for the power plant. Being a calibrated and conservative company we will not set up all of them in one stroke. We will put the pilot plant first and we have got a five-year period available from the date of signing the MoU to be extracting the power in the entire block that is allocated to us.

So with this I will stop from my side and I am leaving it for all of you to ask me questions. Thank a lot.

**Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. Our first question is from the line of Venugopal Garre from Credit Suisse. Please go ahead.

**Venugopal Garre:** Firstly Unni and Gopal congratulations on a very, very strong quarter. Sir, just a couple of questions; firstly have we included Danstoker's number in this quarter or is it something that we intent to do from next year?

**M. S. Unnikrishnan:** Danstoker number is already included, because from November 4 onwards Thermax is the owner of the company. This is the first quarter where we have included their results and hence its part of the consolidated numbers.

**Venugopal Garre:** So it is included in this quarter. Secondly I just wanted to understand progress on bidding for subcritical IPP orders and also wanted to understand in general we are seeing any slower order environment for such nature of orders?



**M. S. Unnikrishnan:** You are correct Venu. In fact we have not picked any orders in the entire year for the LPP range as we call it, IPP for you and LPP for me. LPP means large power plant, despite that we have been able to do this order booking, so it is our increase in market share in the rest of the areas, the medium power plants, the captive power plants and the smaller ones. In the IPP range, in the subcritical segment there has not been any major finalization so far, including the couple of ones which we were in discussion at this point of time. Are we seeing a slowdown is the question, it is not a slowdown. For the past six months you have been only listening to the interest rates going up, because the government is somehow trying to control the base level inflation rate and they believe intervention by the government is going to be controlling the inflation and the only arm available is the RBI and that is to increase REPO rate and reverse REPO rate and the lending rates in SLR and CRR, which has played havoc to the market at this point of time.

You know what is the base lending rate at this point of time? It can be double-digit interest regime, which is not very conducive for infrastructure projects especially for IPPs of the smaller capacity. Smaller capacity IPPs are normally set up by fresh companies, unknown companies. So it will be a slowdown in that area I am anticipating it, but we are not entirely worried about that. Thankfully we are a company having much wider product portfolio and we should be able to sustain despite that.

**Venugopal Garre:** Sir, my last question is on the progress on the supercritical tender site. Are we going to bid for the 9 x 800 MW tender and also if you could give us an idea of how the facility for the B&W JV have we started constructing the manufacturing plant as yet. Sir these are the last two questions.

**M. S. Unnikrishnan:** I will reverse the order of answering. The construction has started and we have placed the orders for all the major machines with international companies. The team is in place, the land is under development and we are progressing as per the plan and going to start up the factory in September 2012. That is point number one. We have already started working on prospecting and NTPC 800 MW is currently under consideration. I cannot confirm whether we will be bidding for it, certainly we will make sure that we get prequalified for it.

**Venugopal Garre:** Thank you so much Sir.

**Moderator:** Thank you. Our next question is from the line of Pritesh Chadha from MK Global. Please go ahead.

**Pritesh Chadha:** Good morning, Mr. Krishnan, Mr. Mahadevan. Couple of questions; one, for the first three quarters we have seen extremely strong execution, strong revenue growth; is there a case that some of the orders where the execution was stronger are nearing completion and incrementally for the next couple of quarters or next two to three quarters should the execution runrate slowdown? Second, since we are already in the month of January if you could guide us on what kind of order inflows could be locked in the last quarter and the target backlog that probably you are looking at the FY'11 end?

**M. S. Unnikrishnan:** Execution run rate is stabilized at above 1000 Crore is the answer which I will give you. Normally the Q1 and Q3 are benign and lean quarters for capital good companies. But our intention is as much as possible to linearize it in such a way that we have a four digit number and in fact our Q3 had been more than even Q4 of last year. That is an indication of our ability of execution going up which we have rightly captured. What is that impact in terms of going forward, whether you will see lower execution in the coming forward quarters? I do not think that is expected. You cannot expect we doing in the last quarter for meeting annual turnover, that kind of a thing may not happen anymore.



We are able to go along with the order booking and invoicing almost the same rate, barring the current quarter where the order booking for the domestic market is less than what we have revenue recognized which is an aberration. Your second question I will answer that We are targeting for an order book far better than what we have done in the previous quarter. Of course it all depends upon how we get the advances from customer. Shaking hands is not order booking registry for Gopal Mahadevan. He accepts orders only when the cheque is credited to the account. So we are expecting that we should be able to do fairly well. That is all what I can say at this point of time related to order booking.

**Pritesh Chadha:** Second thing your initial comments on the commodity input cost side how are we managing at this juncture and is there a case that the input cost as a percentage of sales could rise?

**M. S. Unnikrishnan:** Thankfully for majority of the carry forward orders we are covered, with the specialty steel, which goes into boiler making, high-pressure parts equivalent. For those we have already placed these orders, the moment we receive order from customer and even for the currency fluctuation again, which is also important where components are covered by a forward cover. So I do not anticipate any problem related to specialty steel. The bought out components which are the long lead items like the high pressure pumps, valves instrumentation, those are also normally covered within a two to three months time of the registry of the order, so there is sufficient coverage available for it.

Our open categories are predominately convention steel like structural, HR coils, sheet steel, aluminum, which are normal commodity purchases which in our case would be amounting to 15% to 18% of the total carry forward order value. That is an open category that we may have where volatility of the market pricing can have an impact. That will impact my balance sheet, which I always normally repeat 50-basis points or 100-basis points. So that is all volatility that we need to be facing at this point of time. As we go into the markets further I am expecting that steel prices may harden but I will have an ability to pass it on to my customers in the future, but there could be margin pressure in the marketplace when you finalize the order, so that will depend upon the number of orders getting finalized rather than the input cost going up.

Imagine a scenario where the number of orders to be finalized are going to be declining then there will be ferocity of competition and with the input cost going up then there will be margin reduction. But if the market were to be conducive and having sufficient number of orders which is to be finalized then there is a piece of pie for everybody even if the input costs were to go up we will be able to pass it down to the market. Now this is the elasticity of the market, which you are going to watch it in reality as we move further.

**Pritesh Chadha:** Lastly Danstoker's contribution for half yearly at revenue and EBITDA if you could tell us, and what is the outlook in Danstoker. That is the last question.

**M. S. Unnikrishnan:** First of all Danstoker is coming to our fold only for the quarter so they are not part of half-year, it is only for the current quarter alone and normally we do not give the numbers of any individual business and this is a part of our heating business, but I need to only admit to you that they have performed better than last year at the same quarter and they are as per plan in terms of going forward, I mean their outlook is very positive at this point of time.

**Pritesh Chadha:** What is the contribution from the Danstoker in the current quarter?



**M. S. Unnikrishnan:** It is a very small contribution only because of our Thermax's size of the company. I suppose you are aware of the fact that when we bought the company, Danstoker was 38 million Euro and as Thermax's size which is going to be billion dollar size company, it is not a such a very large contributor. But if I were to look at my heating business which is approximately may be equivalent to may be an 80 million Euro company 28-30 and 40 million is almost 50% of heating business so it is consolidation for the business under the main company.

**Pritesh Chadha:** Many thanks and all the best to you Sir.

**Moderator:** Thank you. Our next question is from the line of Nianesh Rajani from Tata Mutual Fund. Please go ahead.

**Nianesh Rajani:** Congratulations for a good set of numbers. What I wanted to understand is the standard product that we actually sell, what has been the contribution in this particular quarter and how has the standard products that you actually deliver, how is the progress going on? The reason I am asking this question is that the standard product basically would determine how well the industry CapEx side of the company is going and just wanted to understand that piece?

**M. S. Unnikrishnan:** Rajani, we make the standard products in four different business segments. The first one is the heating energy product of course the baby boilers to packaged boilers, going on to 30 tonnes/hr capacity. Second one is absorption chiller, which goes into cooling and chilling and third one is standard water treatment plants which goes from skid mounted to assembly unit and go into commercial units and small industries and the fourth one is smaller air-pollution control equipment. There is a fifth item, which I have not taken as a product, but that is a consumable, which is a resin and chemical supply. These are the ones that we internally categorize as the product.

Depending upon good or bad quarter it would be varying between anywhere from a 30% to 40% range of total revenue that is contributed to the balance sheet of the company. Now you want to know about how has been the order intake in the recent past for these four or five items on the balance sheet of the company? I am very happy to say that they have grown faster than the projects side of the business in the current year. I am not taking the chemical which goes into any other industry but other three - four product lines almost 30 industrial segments are supported by these product lines from Thermax. Barring two or three areas the order intake has been fairly well balanced and improved in all of them.

Enquiry inflow is also good, but what is lacking at this point of time is, earlier enquiry generation to order finalization cycle would get over anywhere from may be one day to maybe a three months cycle, that is kind of gestation period for conversion of an enquiry into an order. One day very rarely do happen. It now happens from anywhere from a month to may be a six months period, which means everybody is calculating backwards before signing the cheque for setting of a capacity. So what is that indicate the Indian market is not gung-ho though they are very positive, they are watching very positive and they are watching by the day as to what is happening around before they sign the cheque.

**Nianesh Rajani:** Sir, my second question would actually be on the utility order that we have anticipating and in the market that you expected to win a big order in few quarters. Can you throw some light on that and this not NTPC one that...?

**M. S. Unnikrishnan:** I am aware of what you are referring, we are only playing a shadow boxing in that front. I am sure the needs are also known to both sides, but it is not concluded so far nor can I say with confidence that I will be the winner in that because in such large contracts towards the last part of the finalization it is more of commerciality that plays vital role and Thermax being conservative company, it is



conservative we are the kind of company who got a clear path of taking orders and executing orders. There could be differences between the purchaser and the seller. Because these are all very large contracts where you could live together for couple of years then the plant will run for may be 20-30 years time. So, there could be discussion on commercialities, numbers, figures, so I will not confirm right now nothing has come to us at this point of time. Market has been speculating. I have never given a speculation. I would discount those numbers going forward in my kind of plan forward. I am very confident that the company is currently having a sound 6000 Crores carry forward orders, very healthy position for the balance sheet of the company going forward. All of them are healthy orders.

**Nianesh Rajani:** Sir, the current order book position can you throw some light on execution period for the order book?

**M. S. Unnikrishnan:** That is unfortunately the one number which even I am unable to be calculating internally, on account of the fact that it is from multiple divisions and the order carried forward rates are different. Some of them are short gestation, some of them are medium and some of them are long. But on an average I would say that all the product business that 30%-40% which I mentioned are always executable within a six to nine months period of time. The balance will be spilling over, the average distribution is 12 months to 24 month period barring one very large contract that could be even 30 months.

**Nianesh Rajani:** That is all my side. Thanks all lot sir and all the very best.

**Moderator:** Thank you. Our next question is from the line of Aditya Bhatia from CLSA. Please go ahead.

**Aditya Bhatia:** Hello Sir, congratulations on a good set of numbers. Just wanted to get a sense on the base of the large orders, which you are having?

**M. S. Unnikrishnan:** Base of the large orders that we are having on the balance sheet right now you mean to say?

**Aditya Bhatia:** Yes, like Meenakshi, Bajaj, Hindustan, and those kinds of orders?

**M. S. Unnikrishnan:** What I could do is that may be Gopal can help you with just one number if that were to be helping you the power divisions or EPC carry forward, he can tell you of this 7393 (ph), balance. You see like we ourselves do not have, we leave it to the business to be managing in that way how it moves, so EPC number he will give you, what is available in EPC.

**Gopal Mahadevan:** The power division order backlog as of December is 2740 Crore.

**M. S. Unnikrishnan:** It is 2740 crore of the 6300 crore in the power EPC group, but Aditya when you take the number, you should also be clear that of the 2700, approximately a 35%-38% is also internally manufactured like the boiler, water treatment plant and the air pollution control equipment. In many at times if you were to take classical EPC Company versus Thermax there is a difference in that, because some of this will also be short cycle manufacturing for the components. It is a little complex to understand Thermax, so it is better not to be calculating, it is better that wait for the quarterly results to come out where we give the right number.

**Aditya Bhatia:** Regarding the Brahmini order is there any progress on that?

**M. S. Unnikrishnan:** There is no progress but standstill only at this point of time.

**Aditya Bhatia:** We are not including that in 2740 Crores.



**M. S. Unnikrishnan:** Brahmini 223 Crore is input, because there is advance available of more than 10%, so as a normal practice governance we will keep it as an order in our bench, but not the cancelled order at this point of time.

**Aditya Bhatia:** Also wanted you get your sense on how the industrial CapEx scenario is looking like in India and if there are any particular industries wherein you are seeing delays in execution?

**M. S. Unnikrishnan:** It is the mixed reaction at this point of time, let me say that. There is a phenomenal activity going on in the steel and cement industry in the recent past. Like the way we have seen may be in 2005 only, most of the secondary steel manufactures of the likes of the Jindals and the Bhushan level, I am not talking about the Tata Steel Posco kind of people or the composite plant, they have already started finalizing the plans of expansion and some of which are also concluding orders with companies like Thermax or even my competitors that is the first level. Cement also we are seeing all of a sudden spurt in enquiries, some finalization happening and we have got some orders also. In the last quarter, we had orders from UltraTech Cement for two of their factories where some were the boiler order, Virat Cement giving us order, we had Bhushan Steel finalizing orders with us, and so I can see activities in that area.

I can see the food processing area a lot more of improvement in order finalization because despite the food inflation I do not know how to take it, I am not a consumer products area expert in that sense, but we are looking at high level of profitability accrued by the food industry, so a lot of investment coming in that area for food processing and secondary industry, which is feeding into that, specialized chemicals used for food preservatives, I can see that moment happening. Area where I am not seeing any major moment is the hospitality sector, the hotel, malls equivalent, not many of them are forthcoming. Government spending has taken a little slowing down in the last two quarters. I have not seen two much of JNNURM projects getting finalized, however the enquiries are there. Public sector undertakings again are back into recurring in terms of oil industries are talking about expansion, so these are the basic indicators.

Now if you wanted to know about my opinion about what would happen in the medium-term, not short-term I would say is that general inflation, which is uncontrolled despite all efforts by the governance of the country is going unabated, what happens is the cash available at the hands of the consumer for purchasing durables and equivalent wishes other than food is coming down. Food we buy to survive, but others you can postpone, so disposable income when it comes down there will be a less consumption. Once you have got less consumption, there is no need for more capacity, the way one would see, normally the investors would think about, so unless otherwise we are able to contain the inflation, there could be I do not want to use the wrong term slowdown, there will be a deceleration of growth in the country, so if you do an inflation adjustment for the GDP growth, you will not be able to exceed 8% in the next year. Currently, we will of course achieve 8.7-8.9%. That is the outlook that I have in my mind.

Now only positive I would give is European market is not in a very bad shape, the way we spoke nearly two quarters back. We are seeing it in our own new purchased company there. Germany as an economy has done very well with 3.6% GDP growth. We can see the enquiry inflow into the subsidiary or our new company in Germany and Denmark going up in enquiry inflows whereas all of us are thinking Europe is going to be in difficulty. South East Asia and Middle East on the rise because of the oil price almost touching a triple digit number we are seeing a revival of those economies. Africa is not bad, only America is a market, which we feel is not doing too well. In any case our taking that part of the market is not very high. That is our concern at this point of time.



**Aditya Bhatia:** One last question on the power side is there any order wherein you are seeing slow to pace due to let us say customer is delaying projects?

**M. S. Unnikrishnan:** We need to be watching more for our joint venture front, once we are ready for taking orders from September 2011 onwards to the time when we have reckoning for it. There the concern that I may have is in terms of the banking difficulties currently because banks are finding it very difficult to close their balance sheet everyday. That is why you have liquidity crisis everyday in the evening.

Unless banks have customer's cash available, there are two possibilities for it to happen, one is the saving rate increasing and the government relaxing further on this the CRR and the SLR where the liquidity improves in the system, which I think currently we are talking about approximately 50,000 Crore upwards is the money that is needed for the banks to feel a little breather. Once it happens you will find many more financial closures happening, banks are very scary about lending at this point of time, so those will have an impact when we are going into say may be 2012 onwards and FDI are not coming also as much as we expected.

**Aditya Bhatia:** I wanted to ask in your existing order backlog, is there any other particular wherein you are seeing is a slowdown may be it is not prepared due to customers delaying?

**M. S. Unnikrishnan:** Barring some of the small guys who may have delayed the project, otherwise all the projects are moving at a very, very fast pace. I will tell you the reason for it. Majority of the orders on the carry forward list of Thermax are on balance sheet projects of my existing customers and if you look at balance sheets of any and every company in India barring a few in exception, everybody is reporting better results quarter after quarter, so cash generated by the companies is being good. It is accrual from the balance sheet, which is supporting the institution than the bank funding. Of course you do not have worry about that portion at all.

**Aditya Bhatia:** Thanks a lot Sir.

**Moderator:** Thank you. Our next question is from the line of Srinivas Rao from HDFC Mutual Fund. Please go ahead.

**Srinivas Rao:** Hello Sir. Can you tell us the progress made in HRSG and CFBC and ESP products, if possible can you quantify what is their contribution to the order intake and what is the outlook?

**M. S. Unnikrishnan:** I will not be able to give you the number, but I can give you the way we are progressing on that. HRSG, we have a dedicated factory now fully operational at Savli. We have delivered an excellent product for one of the World Bank funded project in Nigeria which will make India proud and second one to Netherlands another 28 million Euro one commissioned already so these are the two positives to talk about. In HRSG area, the orders finalized in the country in the recent past, we have not been very successful on account of the fact that the first one has gone to a Korean EPC, who themselves have a manufacturing capability or a supplier support for the HRSG. That is I am talking about the GVK Power in India.

Second one is the Reliance 2000 megawatt power plant, where they have already placed orders with GE for the Gas Turbine. It is quite likely it may again go to an American company at the back for the support of an US EXIM funding, it is quite likely. These are the two but I cannot say it is negative, but this is a reality; however, the positive is that we have taken orders for other two medium-sized 100-megawatt equivalent coming in Uttar Pradesh, both of them the orders will come to Thermax only. The third plant, which is going to come in the State of Andhra Pradesh, is a small power plant; we have been able to conclude the EPC order for the combined cycle, minus the Gas Turbine, which is going to come from GE or BHEL directly. That is again positive news.





**Srinivas Rao:** We will be the value in this if you can share?

**M. S. Unnikrishnan:** 124 Crore is one order, others are maybe I think 40-50 Crore each kind of a size of an order. Despite the glut in the market as you guys were talking about our order booking is not so bad as a number to our surprise and further is that I am expecting gas allocations to really happen from next year onwards for some more projects because there are seven more projects currently which are waiting hydrocarbon director general's allocation. If that were to be happening, HRSG will catch hold in India. One more good news to share with you is that we are currently also registered with Siemens as another global supporting vendor. We have had our people sent to Germany for training so that we can be acclimatizing to their standards of international bidding process. So we will also be one of the supporting bidders for some of EPC bids they will be making various parts of the world that is about the HRGS portion.

**Srinivas Rao:** CFBC and ESP sir?

**M. S. Unnikrishnan:** For CFBC our bookings, I would say that we have recaptured the market share of upwards of 35% at this point of time, whereas price pressure in the market with the two to three other competitors are having sufficient orders than CFBC, but our order booking had been good.

**Srinivas Rao:** On ESP sir?

**M. S. Unnikrishnan:** For the industrial range of ESP, booking has been 15% more than the previous year so far in the first nine months and on the larger ones for example the joint venture of the ESP, we have bid for one of the NTPC projects, but there was price war so we did not give a bid for the second and third one. In fact for a change, Chinese were higher than Thermax in the first bid. The first order is going to go to company Korea Cottrell who will do possibly spot application in India. It is not approved, but at least they are L1, second one BHEL has done a very aggressive pricing, because they already have the order for boiler, so maybe they want to take the ESP orders that is about.

**Srinivas Rao:** Sir what is the outlook on the overseas business, I think you covered some part in European side but in Asia, any other markets?

**M. S. Unnikrishnan:** We are happy that both South East Asian and Middle-Asian-Market, which were not at all in a good position at this point of time last year, are showing signs in terms of positive enquires coming, discussions are happening. I am confident that finalizations will also follow. I think the product segment we have started getting orders from both these markets. Projects will be long gestation, so one could be waiting for couple of more quarters in that area, but is quite positive. Even though we are very small in Africa, there also orders getting finalized currently.

**Srinivas Rao:** Overall order intake from overseas will it be higher than last year?

**M. S. Unnikrishnan:** Just hold on for a second if Gopal could help me for the numbers, so that we will give you the numbers. It is correct. International order booking for the current year for the first nine months is what you are asking about.

**Gopal Mahadevan:** Are you asking for the nine months ordering booking, Srinivasi?

**Srinivas Rao:** One is nine month, more than that what is your outlook for the full year, will it be higher than previous year?

**M. S. Unnikrishnan:** If I would give you currently the nine-month statistics, last year at 604 Crores at nine months and we are 466 Cr at this time.

**Srinivas Rao:** Great sir. Thank you, very much. All the best.



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

**Madan Gopal:** Good morning sir. This is a followup question based on what you mentioned like we will be possibly tying up with Siemens for global sourcing on a HRSG, is there any talk, because Siemens is executing some projects of Torrent. Will we be supplying the HRSG for those projects?

**M. S. Unnikrishnan:** No we will not be supplying for Torrent. That is going to be supplied by Doosan. Because those projects could have been closed may be almost one year. Normally this is a learning that unless you sign up with an EPC bidder, when they make the bid to the customer, they will be submitting the technical portion of the bid of the supplier in the beginning itself when they bid for it, so it is for future jobs.

**Madan Gopal:** Second if I have missed out on because I joined this call later, just wanted your opinion on what is that you are seeing in the supercritical projects or any projects that you are likely to be bagging in the immediate future?

**M. S. Unnikrishnan:** Frankly our feel is that the bids are going to go may be in the next year Q1 onwards. We did prospecting sufficiently at this point of time, because we got to be ensuring that we are able to deliver it also, when we speak, it is not an order, we got to commit a delivery with a penalty. Our factory will be up and going only by September 2012 as I mentioned. Normal back calculation is that you would need anywhere from nine to 12 months to start manufacturing after collection of an order the pressure part, which means an order coming in the quarter of October to December 2011 is the most ideal one for the company. So we will be bidding for this now onwards, Q1 FY'12.

**Madan Gopal:** Sir we will be participating in the NTPC second phase bulk tender right?

**M. S. Unnikrishnan:** I mentioned we have already applied for prequalification. Our discussions are on. Documents are getting submitted. So we will ensure we are prequalified for it. Bidding will be a last minute decision, which will be taken on a various other factors, which I will talk about at that point of time because this is joint venture so there are two partners in that who will have to take the call on that.

**Madan Gopal:** Thank you. Thanks for taking my question.

**Moderator:** Thank you. Our next question is from the line of Madhuchanda De from Kotak. Please go ahead.

**Madhuchanda De:** Sir your order inflow as you mentioned rightly has been much lower than the runrate that we have seen in the past. So if you could just throw some more light on other than the utility was there any other disappointment that you are anticipating which did not come through?

**M. S. Unnikrishnan:** First is Madhu, in any case this is not very low in comparison to because the topline versus the order booking is almost matching, around 948 crore order booking versus 1226 crore that will be there, but otherwise in the EPC segment especially for the medium and large ones there were not any major order losses in the quarter. Finalizations have not happened is the right answer at this point of time. Now we are all very, very positive company that we do anticipate those will get finalized in the future. The future is Q4 of the current year or Q1 of next year is the answer that we are going to wait for. But I am confident that in the current quarter we should be able to reverse that number what we spoke about booking versus revenue recognition. We should match that for maybe better than the current quarter. It only happened for Q3, otherwise all other three quarters; it has been better than this quarter, it is only a quarter, so let us wait for one more quarter.



**Madhuchanda De:** Just one question on this, which would perhaps help us, understand the order booking thing a little better. If I recall in the last call you had mentioned that you would be growing your order booking by double-digit in FY'11 if I recall correctly? So far we have seen the order booking in the nine months lagging even your last year's full year booking by a huge margin, so do you still stick to that guidance of double digit order and over FY'10 in flow or do you think that you will be able to manage at least FY'10 in flow if you could?

**M. S. Unnikrishnan:** Truly speaking I am not the one who will give a guidance to go back on that, but at this time, it is practical to be assuming that we will be able to match up. We have 9% lower than the last year numbers at this point of time, to make up for a 9% on per 1000-basis last year 4300 we should be able to do that, things going well in the current quarters itself, but meeting with the double digit growth in booking at this point of time looks bit difficult. Unless the windfall order happens it is impossible to happen, but looking at the current condition I would rather expect for maybe a matching over the last years booking.

**Madhuchanda De:** That was very helpful Sir thank you.

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

**Kirti Dalvi:** Good morning sir and congratulation for very good set of numbers. Just a few questions you did mention that we were quite insulated (ph) in the nine months FY'11 because we were able to pass on our raw material price rise. Do you see that the existing order book will be able to continue to do the same thing and probably going forward in future like to say immediate one year basis?

**M. S. Unnikrishnan:** Of the orders which as I mentioned about, I already have support available for a good number of items and all very expensive steel equivalent. But for my open avenue the difficulties may arise only in the conventional steel to the amount of 15% of the carry forward. Whatever could be the volatility or changes in that it can impact, but that would not impact beyond 50-100 basis point is what I have spoken to people earlier.

**Kirti Dalvi:** So sir then what is the proportion of fixed price contracts in our current order book?

**M. S. Unnikrishnan:** Almost everything. Almost every contract is fixed price only.

**Kirti Dalvi:** Just a few questions on order book and order inflow, if you could give us the breakup of the standalone order inflow for this quarter and the breakup of the same like energy, environment and domestic and international?

**Gopal Mahadevan:** For Thermax Limited the order booking for the quarter is 987.4 Crore, broken up into domestic and export, domestic is 947.9 crore and export is 39.5 crore and you wanted energy and environment, energy is 693 crore, environment is 294.4 crore.

**Kirti Dalvi:** 294 crore and same thing also for consolidated?

**Gopal Mahadevan:** Consolidated order booking?

**Kirti Dalvi:** Yes sir.

**Gopal Mahadevan:** Consolidated order booking for the quarter is 1,234 Crore India order booking, or I will give the energy and environment here, energy is 938 Crore, environment is 296 Crore.

**Kirti Dalvi:** If it would be your favor if you could give the same for the order backlog?



**Gopal Mahadevan:** Order backlog?

**Kirti Dalvi:** Yes.

**Gopal Mahadevan:** The total order backlog for Thermax Limited is 6354 crore and out of which domestic is 5558 crore and export is 796 crore and the energy part of it is 5295 crore and environment is 1059 crore.

**Kirti Dalvi:** For console?

**Gopal Mahadevan:** The total order balance consolidated is 7154 crore and the energy is 6092 crore, and environment is 1062 crore.

**Kirti Dalvi:** Thank you and wish you good luck Sir.

**Moderator:** Thank you. The next question is from the line of Gagan Thareja from B&K Securities. Please go ahead.

**Gagan Thareja:** Good morning Sir. Sir, could you explain in detail regarding HRGS and everything, could you sort of give how the order intake for you has been in the captive power and cogent space, what is your outlook, what you foresee from the inquiry flow? Can you discuss the biomass based power segment in the same way?

**M. S. Unnikrishnan:** In the first nine months, we have touched almost 950 or 1000 Crore worth of orders inflow in the captive EPC segment. I think, last year we were at 1950 crore for the first nine months that is the number differentiation for the EPC portion. That is not because of any order loss. In fact it is because of no order finalization for the large power plant. Last year we had Meenakshi and in fact two orders together worth around Rs.1500 Crore. In the absence of that the order book may be 1000 Crore in the current year for EPC, this itself is , I would say a great achievement because it is only a captive part, no IPP at all involved in that. That is number one. However, in fact the boiler portion of many orders come to us from other EPC players that is why the boiler order booking is quite positive in comparison to the previous year. I would not have the numbers, but it is far better than the last year, only for the standalone boiler and water treatment plant, which goes to the power plant.

Then what is the outlook going forward? I am seeing that the captive orders going to be again reviving in certain of the segments, it has already done for the first time as well and I am seeing traction going forward also. Now there is a mixture of both public undertakings, PSUs and private, this Thermax is possibly not taking as many as orders in the earlier past. If we look at it in the previous year in 2009, we have taken an order from RSP that is Rourkela Steel plant, current year we have picked up an order from the OMPL, which is again a PSU and currently we have also further bids going on with the Government of India, both for boilers as well as for PSUs and EPC for the power plants. That is positive move, because as I am seeing it, IPPs is in the smaller range of 150 megawatt and up to 300 megawatt that is where we arrive that we would want to be participating as an EPC player.

There are not too many finalizations happening, reason for that being these promoters have difficulty of having their financial closure done though they may have the land purchased with the coal linkage brought in, but they have to have the financial closure done, there are difficulties at this point of time, but not that I am not trying to say it has not happened, but we had a longer period of time to get most of the clearances taken. That is why one of the reasons why not too many orders are finalized in this area. But that is not deterring us in anyway because the medium power plants, which are up to 60 megawatt or 100 megawatt I am seeing sufficient number of inquiries at this point of time and it, should be positive enough to talk about.



Then biomass based power plants there are two sectors in this one, one is the cooperative sugar factories in various states like Tamil Nadu, Maharashtra and Uttar Pradesh getting into generation with the part funding come from the Government agencies or IL&FS. There Thermax is not a major player because cooperative segment is not very conducive for our commercial dealings and normally we have an LC payment terms for an EPC order which I am sure they will not be able to do. They will have 20% retention to be kept with them, which is not something, which we will agree for. I am not getting into details. So that is not a segment that you play in. But we are playing in the smaller biomass based power plants of 5-megawatt, 8-megawatt, 10-megawatt, we have a good number of orders collected in the current year not for EPC side, but for the boiler for that matter.

**Gagan Thareja:** Does Danstoker acquisition help you in the biomass segment in the domestic market in any way at all?

**M. S. Unnikrishnan:** Not at this point of time. It will be helping in the next year onwards because we will be bringing in some of those technology, which are used for the biomass management system and biomass feeding system, and combustion system, which will be our integral part of the offering that we make. It may sound to be expensive in the beginning, but we will have to indengize those components to be manufactured in India. At that time I am sure it will be a new era for Indian biomass also. One change that has happened in the biomass field is that earlier plants were totally manual in nature. Now people are seeking automation because one is accuracy of feeding and second is even biomass guys, if they generate more power and if his PLF is better he gets better money, so he would like an automated plant. So automation is something, which will be bringing in from Danstoker to India.

**Gagan Thareja:** Could in the similar way discuss especially the water related environment business this year and your outlook on the same?

**M. S. Unnikrishnan:** This is one quarter where they have contributed the standard 20% of Thermax numbers, but in the bottomline their contribution was better than others. It is 27%. So it is growing. Water side has grown and is continuing to be growing. All three PUs i.e performance units of the water business that is standard packaged water treatment plants, point of use ones, second is industrial and third is the municipal, all three of them have grown. I have seen the fastest of the growth in the industrial segment in one area that is in the power segment. We have had orders from many of the larger power plants, which are being set up in India. These plants need very specialized water treatment plants, and we have good traction in that area and continuing with that traction I believe that we should have a better growth in that business next year, far superior than the other businesses of the company.

**Moderator:** Thank you. Our next question is from the line of Deepal Delivala from Citi. Please go ahead.

**Deepal Delivala:** Good morning Sir. Congratulations for a good set of numbers. My question was again going back to the NTPC order you have mentioned that you have submitted documents for prequalification. Are there any issues that could apart from the pricing obviously are there any issues that could retain you from the not bidding for the order?

**M. S. Unnikrishnan:** Other than pricing, of course that is something which you will put as a number and you will decide, but otherwise there are three parts for prequalification for a company like NTPC. The past experience of both the partners, so in that both of us are qualified, I will think that it is not an issue, but in case there will be some minor hitches here and there they will ask for various nitty-gritty's which is a matter of data provision equivalent that would happen and I am sure about qualifying this criteria.



Second is, we will have to expose ourselves to what is the kind of our joint venture agreement and how is that considered as shareholders agreement, which is the area where we will have to discuss with them. NTPC has got a certain style, and one cannot make the joint venture agreement only for NTPC projects. Those points will be clarified and extra support documents that they would ask, will be given. Third and most important is the commercial requirements of a tender, which will be having an inflexibility from PSU of the stature of NTPC. There we have to look at what are the risks, rewards and matrix for the company for taking the first order from NTPC. So these are three stages that people have to undergo. I told you one and two will not be a major issue. Third, I am not telling is a major issue. We will see as it comes at this point of time.

**Deepal Delivala:** Sir, is there any, I mean, again as I said that there is enough discussion in the market, what we have heard from some sources is that there is an issue with a liability clause which (indiscernible) 50.04 do not want to kind of sign up on and that could prevent you from bidding for the NTPC order is that true?

**M. S. Unnikrishnan:** No. That is false information. B&W is not a risk averse company. But there is an American legal system and Indian legal system. You can agree for any kind of a liability. There is no problem at all so long as you know there is a redressal available in case of unilateral action from any side. These are all very large orders, sometimes we will have a different ramification. They have done projects in India earlier and I do not think they will have any difficulty of that kind.

**Deepal Delivala:** Secondly going back on your couple of discussions on the outlook in the market, you have mentioned that I mean from what I gather from whatever discussion is that the order inflow runrate should pickup in the fourth quarter much more than third quarter. So you see some kind of a cautiously optimistic outlook, right, because you have mentioned that there are delays in finalizing of what is the case on the IPP side, even on the smaller IPP side. Now if going forward do you expect RBI to rise further and liquidity remains static, don't you think that going forward mood could turn dramatically?

**M. S. Unnikrishnan:** It would not turn dramatically because the market demand is still there. See what does it mean. It means that cost of funds are going to be more, so if I am the investor I will expect my product, which I am going to be making with the capital investment to deliver for that, interest to be repaid also, which means an overall industrial inflation cannot be ruled out, which we should be doing because for a GDP growth rate will be 8%-9% or 10%. Also one cannot afford a double digit inflation continue to be prevailing. This will overheat the economy beyond the level, then we will have some crisis coming in, which I am sure should be the worry for the prime minister, finance minister and may be Subba Rao. But otherwise I am sure my customers will continue to invest, because cement will be needed, because people need houses, so they will make cement, but only thing is that cement price will go to Rs.300 or Rs.350 like the way petrol prices are going to be, please be assured of the fact that people will buy petrol at Rs.100 in the next 18 months' time.

**Deepal Delivala:** I hope not.

**M. S. Unnikrishnan:** You will still drive the car, because of the spiraling impact. The governance has got a role to play to control it and I think they have not been able to do that. That is a sad situation, but it does not mean that industrialization of the world will not happen.

**Deepal Delivala:** So the consolidated order inflows that we have seen for the company till date and the expectation for the year end would be a flat over last year, last year I think we did about 6000 Crore of order inflow for the consolidated entity. So would you be looking at flattish number or a growth on that Sir?



**M. S. Unnikrishnan:** I told that I would. Though I expected that I should have a double digit growth in the current year, expecting that to happen in three months, in the current market situation, unless some windfall would happen will be unfair. So what we are aiming for is meeting up with whatever we have done last year.

**Deepal Delivala:** Okay, and so this windfall order inflow that you are expecting the chances of that seems to be de-remote at this point in time.

**M. S. Unnikrishnan:** You are right. Not revive I cannot say remote.

**Deepal Delivala:** But it is not going to happen immediately?

**M. S. Unnikrishnan:** Windfall itself indicates that it is somebody else's decision; it is a providence, which is helping you rather than your abilities to control the destiny.

**Deepal Delivala:** The last question I had is more on balance sheet. What are the net current assets at this point in time? Are we seeing any stretch in debtor days?

**M. S. Unnikrishnan:** No. Debtor days have gone up three days or less than 30 days of debtors only. When you have accretion in the top line in a quarter which is substantial 66%, when you talk about growth at least there will be current assets still, I will not call it as concern still. What companies like us are worried about is, if you have ageing of debtor. Often debtors happen; there is nothing alarming of any kind at this point of time.

**Deepal Delivala:** We are not seeing any stress there?

**M. S. Unnikrishnan:** Nothing of that kind at this point of time. Even if it is there, I will be the first person to tell you.

**Deepal Delivala:** So what is the cash on book?

**M. S. Unnikrishnan:** Gopal, how much is that?

**Gopal Mahadevan:** 650 crore.

**M. S. Unnikrishnan:** 650 crore.

**Deepal Delivala:** Last question from my side, if we do not bid for the NTPC orders and we say that the large projects are being taken longer to finalize on from the developers, what is the market that we would look at in that scenario?

**M. S. Unnikrishnan:** There are enough and more private players already, who are also setting up power plant. They were also waiting for us, those who will even go to China are waiting for Thermax and likes to be having the plant getting ready. It will shift from China to India. So that is already there and the government is waiting for us to be getting ready by September 2012 or may be 2012 December. BGR, L&T has already commissioned the plant. At least three or four credible capacities will be up and going and it is all Government of India's manufacturing facilities or India manufacturing facility. It will be protected with I am sure some amount of barrier.

**Deepal Delivala:** So you are saying that the duty would come through at some point in time?

**M. S. Unnikrishnan:** Should come through.

**Deepal Delivala:** But in case it does not come through then we would face competition from the Chinese, I mean we have seen the track record also.

**M. S. Unnikrishnan:** Let us say that China was also under pressure. I am sure you had been reading the international newspapers about how Mr. Hu Jintao was welcomed in the White House and how private meetings had happened. I am sure



that he will be forced to float his currency if they could survive. If the entire world is going to only provide trust for Chinese, I think then we have the chosen one, I do not think that is the truth. So I am expecting that they will also be forced to float their currency. I am personally operating a factory in China, many subsidies are coming down in that country. We are seeing it also happening on the ground level. So, multiple factors will ensure that the competitive edge will change and I will give an indication of it. Price opening, which has happened, may be a month back for NTPCs electrostatic precipitators, Chinese were even more expensive than Thermax.

**Deepal Delivala:** But sir, what about the Koreans?

**M. S. Unnikrishnan:** Well, always there will be one black sheep who will come there to make an entry for it, but I do not think Koreans have that capacity. Koreans are not such a major threat barring one such bid for a project. So it is not like China. It is not such an economy, which is going to be threatening companies like BHEL, Larson & Toubro, Thermax and rest of the companies in the country for that. I have a challenge, but I do not think they can be a major challenge.

**Deepal Delivala:** Thank you so much and wish you all the very best Sir.

**Moderator:** Thank you. Our next question is from the line of Kenin Jain from Voyager Fund. Please go ahead.

**Kenin Jain:** I just wanted to know that from our energy business portfolio, how much of the business come from 0 to 200 megawatt power plants and what is the business outlook on that side? I mean from the energy division we have done around 2400 Crore in FY'10 and we would be doing around 3200 Crore in FY'11, so I want to get a sense that how much of our business dependency is within 0-100 megawatt site power plant and how is the business outlook there? Because on the project side, as you likely mentioned that lots of promoters are thinking and the time has elongated, but on the 0-100 site what is your view Sir?

**M. S. Unnikrishnan:** Other than the Meenakshi order, which is under execution and at a fairly advanced stage, there are no single orders of more than 100 megawatts. So it is the 0-100 megawatt range only that you are seeing in the energy segment. So, that is the answer for number one. The outlook in that area is fairly positive. Thankfully this is contributed by multiple segments and different types of boilers in power plant.

The first one is where in the process itself we will be needing heat, so if we are going to set up a chemical factory, a pharma factory or a food processing factory, there are many, many such kind of companies where they do not have a choice, if you they have a manufacturing capacity then you need to have a boiler. While you are having a boiler and if the steam consumption is substantially larger and if you opt to go for solid fuel as the base support energy source for that like coal, then they go for a high-pressure boiler and have captive power plant or a cogeneration plant setup. So that is the way, heating, then cogeneration and then you come to a segment like a steel or may be a cement industry where the captive consumption of power is so high.

It is better to operate your own power plant than being dependent upon the external feeder coming from the electricity board, so they go for captive power plant. So these are the three levels, heating, cogeneration, and then captive power. In all the three segments, industrialization of India will create a good demand and the demand is in double digit, which will make my business in this segment to grow at a double digit YOY. That is point number one. In this area what is the differentiation that I can provide. Thermax provides equipment, we also provide solutions and we also provide a total EPC. So anything that the customer is seeking is available from Thermax's portfolio, so I am expecting that I will be one of the most preferred





companies from the country to get this kind of thing organized. That is the outlook going forward. Does that answer your question?

**Kenin Jain:** Yes partly. Now my next question is, from year on if in India large power generating capacities are coming up, so can one say that if this capacity really materializes in next three to four years we will have ample power and so to that extent the growth for your captive business from this manufacturing entities would not be to that extent which we saw in last four years from here on?

**M. S. Unnikrishnan:** I will give two types of answers, one is from what we are perceiving, you have a perception and I think that is a logical thinking in what you put? But I really put the points, which we see a little differently. There are two segments in the captive power industry, one is where there is no choice for the customer, but to go for captive power, such as cement industry, because they cannot afford to be depending upon a single feeder electrical distribution system of India, because if they do not to get power for certain number of hours the entire cement plants will become a piece of concrete. This will force them to go for a captive power. It is point number one.

Second is the steel industry where in a sponge iron factory you generate so much of waste gases, if you send them in the atmosphere first of all it is waste of energy and also pollution creating, so recovering that heat and converting that to usable energy is again a captive power station from steel industry. There are similar kinds of things in various other industries, but they may not be very large in size, 5-megawatt, 8-megawatt where they cannot depend upon the electricity boards PLF and may be the reliability factor, so there will be the captive for growing in India.

Second answer, which I wanted to give you, was that we are aware of China as the country, which set up the maximum number of electricity generating plants in the past two decades. I am told that the total number of quantum of electricity generator there is in the range of half a million megawatt at this point of time. I am operating a very small factory there in one of the provinces and the way they have done is that they have got a force power cut in the recent months over there because they had a shortage of electricity, so half a million megawatt of additional power in Chinese Economy of first half billion dollar, \$4 trillion size is still power cut orientation, so we are expecting to be a \$4 trillion economy by may be I think Gopal's calculation is 2022 and I do not think we will be capable of setting up additional half a million megawatt of power plant, so I do not expect that India will have absolute power surplus in the country.

Your peak deficiencies are increasing per day despite all the power plants getting commissioned and you can see also the reports coming that even the Eleventh and Twelfth plan we will be seeing falling short and we are downgrading our execution capability at this point of time. I do not think that is for at least a decade we need to be worried about. Afterwards I am sure we will have to relook at it.

**Kenin Jain:** Sir one last thing like in 0-100 megawatt you are leader when it comes to boiler, so who is the other company on the turbine side and from where you procure the turbines and any plans of Thermax entering into turbine side also 0-100 megawatt?

**M. S. Unnikrishnan:** Answer number one is that we do buy from multiple companies; it is Siemens who have got the capacity enhancement done in their Baroda factory, so their price level, service levels have improved. BHEL also supplies once in a while. We import from Japan, Shin Nippon another supplier, a very reliable supplier of Thermax, then we have got a very small capacities Triveni in India who currently is making up to 10-50-megawatt, but they have got a joint venture with GE to go up to 100-megawatt that is the next one available. Then once



in a while though we bring it from China. I cannot say that we are larger market for them. So there is variety variable at this point of time.

Should we have a big portfolio, I think it is too late in the day and number one and second is that is competency area, we are high pressure equipment manufacturer with combustion and heat transfer capability, whereas turbine making is more of casting, machining and forging capability with assembly very little and very rarely do an international company will part with a file dimension of planetary blade making technology to India. Nobody has got within India including the joint ventures which are currently set up in India for supercritical turbine making. All of them are going to be supplying the turbine blades, which are the real technology coming from the parent country. That is the reality. It would be viable for anybody to make it.

Triveni expanding our joint venture because we have already got a base available or Siemens expanding is a wiser decision, but any Indian company freshly entering into turbine up to 100-megawatt may not be the wisest decision to do at this point of time when you can just import it for many country. There are a lot of capacities sitting idle in the world, which will be very thankful to you, so European's will supply with India sizes may be going forward. I am talking about not today, I am talking about may be five years down the line.

**Kenin Jain:** Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Rajesh Panjwani from CLSA. Please go ahead.

**Rajesh Panjwani:** Thanks Sir. Most of my questions have been answered. Just one last one is we have recently there was a news on your geothermal venture in Maharashtra and earlier there were talks about the solar power business, so just wanted to understand what is your strategy there and are you planning to initially go in this business as a scale developer as well?

**M. S. Unnikrishnan:** I will start with geothermal. Geothermal, there is not a single plant operating in India. In geothermal, there are two solutions possible. In the western world you will extract the geothermal heat and use it for district heating because they are cold countries, whereas in India you may have to extract it and may be use it for power and generate electricity, so geothermal electricity generation is a solution for India at this point of time. We have been allocated a block in the State of Maharashtra where there is a perusable geothermal energy availability, so we will be going ahead with non-invasive study being done to reconfirm that whether the data available is correct and based on the data that we receive in that study we will go forward for trial drilling of couple of wells.

Like an oil well drilling, geothermal well drilling is done, which will go up to may be a kilometer of depth also, from which you will be reconfirming the data that you collected from the noninvasive study. Once that is done you know what is the potential available and at what level is it available, what is the reservoir capacity. Based on which you have got a five-year term available to set up capacity to extract the potential available and being what Thermax is, we will go for a pilot plant first anywhere from 3-5-megawatt on our own and there afterwards we will, depending upon how that will work out and then we will extract the full capacity from the place. That is our plan at this point of time, the geothermal.

For solar, Rajesh, our model is one for the power plant that we are currently building for Government of India in a village. This is a rural electrification model for the country because we do still believe that solar can provide a rural electrification solution beyond the PVs which is distributed by the Government of India. It is a couple of million numbers they want to be distributed, but there is just a panel on



the roof of a house and a single bulb for running for may be five hours with a small battery. What we believe is that village also need to have power available of a high potency for running motors and running fridges and cold storages. So the current one that we are making is 24 x 7, 250 KW availability for a village because solar energy will be available only for number of hours may be which will be equivalent to 2000 hours in the year. But village economy will also need motors to be run, so you will be needing heightened 415 volt power, which will be given by the solar energy plus also the biomass based boiler which we are supplier along with that. So that is a kind of plan that we have.

September 2011 we would have commissioned this particular plant as a model for the Government of India. There afterwards our expectation is like the JNNURM funding created by the Government of India for water supply for the cities, they will create a rural electrification fund which will be proliferated with the support of the Government of India. That is the business model that we are looking forward to solar power.

Second is related to the solar cooling and heating we already have a solution available and we are already selling to the hotel, we are also selling to lot of schools in India for the mid-day meal scheme where there do not have fuel available, solar concentrators are brought by Thermax for creating scheme for cooking in these schools. I would take, that like the way our heating business grown in industry in 1970s; solar-based heating may be growing in the industries also. I would imagine in 2015 it becomes a very normal solution in the country and where we will bring in various solutions to India. We will do the pioneering effort to bring in solar to industry of the country also. That is our idea Rajesh.

**Rajesh Panjwani:** On trend we are seeing in China is that combined heat and power plants are becoming very common and government is giving a very big push because they are much more efficient, do you see a similar move in India at some point of time and how are you positioned to capitalize on that?

**M. S. Unnikrishnan:** There are couple of plants already operating in the country where Thermax have supplied it. In India it will be combined heating power or combined heating cooling power or combined power and cooling, there are three solutions possible for it, but the main criteria for this is that you should be having a prime source of energy. As gas will available across the country, which is a most disputed thing in the country at this moment is, how much gas will available and who the owner is. Government believes that they are the owners of gas in the country and they will take the priority decision. Current priority decision taken by them is number one is they would want to give for a larger power plants like 2000-plus-megawatts, second is for fertilizer generation, which will have to support the farming of the country and third is the gas distribution for the homes, because even today 78% of India homes do not have gas connection, so these are three priorities set by them.

Now combined heating and cooling power it will become viable for certain sets of industry who has got a mixing and matching of power consumption, or a mall or may be an IT park. So if gas is reaching over there we will be first one to be giving the solution. Incidentally, we have given the solution of this kind abroad, so why we would not we giving it to our country. So I am waiting for the gas to be proliferated, distributed in the country. I am hoping that things should grow in that Rajesh.

**Rajesh Panjwani:** Thanks a lot. Just one last it would be given that the order environment is a bit difficult at this point of time, are you seeing more competition especially with you know you have already touched upon the competition angle from Chinese and Korean companies, but do you see some pressure on margins because of that because both factors being present overseas competition to some extent and some extent and the market being a bit weak?



**M. S. Unnikrishnan:** When the competition becomes tough margins do come under pressure. But what most of us do is that we will see this well in advance and we do a lot of internal corrections and improvements to ensure that we retain the margin. Improvement in the margin in a difficult market condition is not viable, but retention of the margins is possible. We have proved this in , if you remember 2008 post the Lehman collapse ,we still retain the margin. When the market is absolutely in shambles also which needed a lot of belt tightening which we are quite used to. So my intention is to retain the margin in the market and even if I were to lose in the market due to competition,,I will try to retain the same by having operational excellence done within the company, we will take it as it comes at this point of time.

**Rajesh Panjwani:** Thanks a lot Sir.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Misal Singh for closing comments.

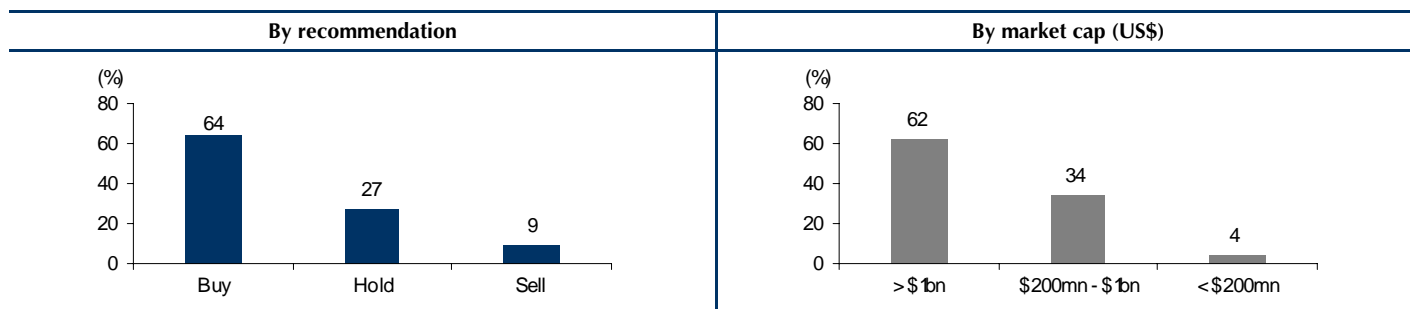
**Misal Singh:** I would like to thank the management of Thermax, Mr. Unnikrishnan, Mr. Gopal Mahadevan and the team for taking their time for this conference and all the best for you Sir for the subsequent quarters.

**M. S. Unnikrishnan:** Thank you.

**Moderator:** Thank you. On behalf of Religare Capital Markets Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.



### Coverage Profile



### Recommendation interpretation

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

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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