



“Thermax Limited Q3 FY14 Earnings Conference Call”

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MANAGEMENT:

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- Moderator Ladies and gentlemen good day and welcome to the Thermax Limited Q3 FY 14 Earnings Conference Call hosted by IDFC Securities Ltd. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing “*” then “0” on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from IDFC Securities. Thank you and over to Ms. Nair.
- Bhoomika Nair Good morning everyone and welcome to Thermax’s Q3 FY14 Earnings Call. The management is being represented by Mr. M S Unnikrishnan, Managing Director and CEO and Mr. Amitabha Mukhopadhyay, CFO. I will now hand over the call to the management for the initial remarks, post which we will open up the floor for Q&A. Over to you, sir.
- MS Unnikrishnan Good morning and welcome to our conference call for the results. Thanks a lot once again for being with us during this tough time and for your keen interest in knowing more about the organisation. The results are already in the front of you but let me reiterate a few points: our order intake for this quarter stood at Rs. 1365 crores versus previous year’s same quarter Rs. 1284 crores, a 6% growth. In the tougher times things could not have been better – let me put it that way. We were helped in two ways; number one, the regular conventional product orders are coming except the heating segment where it has not gone up. Cooling, chemical, services, standard products of water as well as air pollution control registered a growth. Secondly, we had a couple of projects orders coming in, that

we had been discussing quarter over quarter. One is from a refinery expansion project in the southern part of India in the government sector and another one from a private refinery from where we have taken an order earlier quarter also. We had one more order coming in for the heat recovery system and energy efficiency equipment from the same expansion project. Apart from that we had also registered small EPC orders from international markets. However, nothing happened in the domestic market related to EPC and the captive power. That's about the overall order intake.

Our revenues have crossed Rs. 1000 crore and we have bridged the gap between last year and current year at least for the quarter, because earlier quarter we were double-digit lower than the previous respective quarters. In the current year Q3, we are only at 3% lower; will we be able to repeat it for the next quarter to bridge the gap further? We are working towards it. The distribution of the revenue - 76% for the quarter has come from the energy segment and 24% has come from the environment segment. Again, domestic market contributed to about 76% of the revenues and 24% has come from the international business. It is noteworthy to mention it over here that the income from the international business has grown by 16% though the domestic revenue has declined level. The sectors which contributed to the overall performance is food, chemical, refinery, sugar, metal and we are expecting they will continue to perform in the coming quarters also. Our order carry forward is Rs. 5700 crores at 31st December as against Rs. 4650 a year back, which is 23% more and this is the real silver lining in the entire data related to the performance of the company. At the group level the order book is Rs. 6445 crore as against Rs. 5190 a previous year, which is 24% higher. At the PBT level for the quarter it is Rs. 97 crore for

standalone versus Rs. 109 crore of the previous year; it is 11% lower. Things could have been better if we had performed better in the environment segment. Environment segment as you're aware comprises three verticals for the company, the first being the water and waste solution, second is air pollution control and the third one is the chemical business of the company. Chemical business for the quarter has grown both in top line and the bottom line and their profitability remains good. Air pollution control had a drop in their top line, they also had a drop in their bottom line but they are positive in the bottom line. However, I need to be reporting to you that WWS, the water and waste solution business has gone into a negative in the current quarter and the fundamental reason for this are a couple of medium to large projects which are under execution. We are trying to complete these projects some of which are already delayed and to ensure that they are satisfactorily completed. We need to be expending more money than we expected or budgeted for. So the provisions needed for ensuring that these projects are completed to the satisfaction of the customers and some eventualities which we face in the couple of sites are already booked in the current quarter. I also need to caution you that it will continue for a quarter more for WWS, though may not be at the same level. We will be evaluating it as we move further but thereafter the orders which will be carried forward should ensure that it will not be negative. You may ask the question: how these surprises have come all of a sudden? Well, we were aware of some of these in terms of that we will be able to manage it. When you have a specification dispute with the customer sometimes we may believe that we should be able to manage it, sometimes in the interests of ensuring that the project goes through, we may agree for what do the customers ask

for and as a prudent company we would like to retain customers rather than have disputes with them. So that is the main reason. Amitabha has also helped in improving the overall profitability because the other income from the treasury is improved in comparison to the previous year same quarter as well as the preceding two quarters. Because, as against normal FMP, we had the FMP maturity happening in the current quarter which has helped in overall improvement in profitability. For the quarter there has been no major FOREX losses unlike the previous quarter. On the contrary there is a minor saving which I am sure Amitabha will tell you in detail.

One more positive news which I need to be reporting is that the service businesses continue to grow and in comparison to the previous year same quarter it is almost above 20%. We are stressing and focusing a lot more on how to improve the service revenue which should continue and it is a good sign.

So at YTD level the revenue is Rs. 2883 crore for Thermax Ltd balance sheet in comparison to Rs. 3183 which is 9% lower. So whatever promises that we made in the beginning of the year that we will try to contain the top line reduction to a single digit, we should be able to realize it if we are able to perform in the coming quarter also at least at the same level. I'm not making a commitment; I am only trying to say in challenging times with the liquidity crisis prevailing in the market, we will ensure that this is taken care of. I need to specifically report to you about the press news which is also highlighted as part of the results announcement regarding a High Court ruling which is related to our Mundra port assembly facility. Let me clarify to you what it is about. We have commissioned this

port assembly facility within the special economic zone (SEZ) promoted by Adani in Mundra. It is there we assemble the very large kind of pre-manufactured equipment especially for the waste recovery system and the boiler. We had all the clearances including the GPCB approval when we commenced our operations in 2008 and we have assembled multiple larger boilers from this site.

There is a PIL filed by an NGO from the local area objecting to the entire SEZ and the possible threat to the flora and fauna, the marine life because of the SEZ. The High Court of Gujarat had given an earlier ruling restraining it, for which SEZ and the participants have got a stay order from the Supreme Court, and continued their work. However in the last hearing the judge from Ahmadabad High Court has given an order for 12 companies including Thermax to stop activities, pending the Ministry of Environment and Forests taking a call within the next 30 days as to should there be an approval given for the overall SEZ. We have got currently four boilers under assembly over there amounting to approximately Rs. 130 crore worth of revenue to be recognised in the current quarter. From Ahmedabad High Court, we have taken a special permission post the order allowing us to take out the finished goods and I believe the permission is also for the raw material we have got there. Now we're in a dilemma as to how do we ensure in the balance number of days available in the current quarter, to assemble and ship it out to our customer. It may be a challenge, some of which may be practical, some impractical during the current quarter, which may have an impact of Rs. 130 crore overall; possibly anywhere between maybe a Rs. 50 crores to Rs. 100 crores as there could be a difficulty of recognizing the revenues. If we are able to manage, there won't be an impact. So there is no violation with Thermax as we have all

the approvals including GPCB and we do not want to comment anything beyond that. We look forward to the SEZ's ability to get the overall approval from the respective authorities.

We do not have anything to report specifically about our joint-venture with Babcock Wilcox other than that it will be commencing commercial operations. For this, a part of the larger petrochemical order that we have received will be manufactured under this facility.

That is about it and because of the limitations of time let me handed over to all of you to ask me questions. Thank you.

Moderator Ladies and gentlemen we will now begin the question and answer session. The next question is from the line of Renu Baid from Batlivala & Karani Securities, please go ahead.

Renu Baid Firstly when you started with the segmental numbers from the environment and the energy, you mentioned in water we have made negative but will it be possible to give some rough indication in terms of what would have been the dent? Because at the segment level, the numbers look very weak just 2% margins or Rs. 6 crores of EBITA, so within that environmental segment, what is the quantum of laws or the negatives that we are seeing in the water and waste solution. At the same time, it seems that there would have been some reallocation or some restatement of EBITA at the energy segment level where the nine-month number YTD and the individual quarter number looks lower than by about Rs. 22 crores, so could be some FOREX related element where un-allocable income is higher, so if you can elaborate a little on that?

MS Unnikrishnan You have already hit it but Amitabha will answer it in detail. But just to clarify that we do not specifically give vertical wise break-ups. If there is a positive number over there still in the environment

segment, I already mentioned very clearly that chemical has done better than the previous year, air pollution control is positive though its profitability has dropped but not substantially for the quarter and water business is negative. So water is the one which has taken away whatever is the difference that you find; otherwise overall it could have been lower than the energy segment. I would rather have CFO answer why there is that 22, Amitabha please help her out.

Amitabha Mukhopadhyay Renu as you rightly mention it is on account of reclassification of the FOREX. Energy has certain FOREX related losses which in the first half were kept under the energy segment. We have taken the views of the auditors and reclassified as un-allocable space, so it is a one-time reclassification and we'll have not any impact going forward. For the quarter there is no impact of such things, you may be followed that in the first half we had booked a significant FOREX loss.

Renu Baid Rs. 50 crores FOREX loss?

Amitabha Mukhopadhyay In Q3 that number is actually a +1 crore which is neither here nor there, so there is no impact of FOREX loss classification on the current quarter, so we have done it only for the first half.

Renu Baid So for the nine-month period of FOREX loss stands at what number?

Amitabha Mukhopadhyay Out of the entire forex loss, Rs. 22 crore, which is more of revaluation type, has been taken into unallocable. Now forex loss, as I have explained last time in terms of the accounting classification, is Rs. 48 crore. But once we take forward cover, there are certain compensations we get when we realize that the top line goes up and the net impact for the particular quarter is close to 0.

Renu Baid So at the end of nine months this number has come down to approximately Rs. 30 crores?

Amitabha Mukhopadhyay For the nine months ended the net impact was Rs. 10 crores till last quarter it has come down by about a crore, the net impact overall.

Renu Baid Second, you mentioned that metal obviously do not look that good but within the segment wise how are we seeing traction in terms of order inquiries and especially from the export market if you could give some clarity on that side on the business?

MS Unnikrishnan Export markets have performed better in the terms of order intake as I mentioned: about almost 20% for the quarter and overall if you look at it the domestic market. If I have to remove the larger chunky orders, the order intake could have been much lower than the previous year barring for the one-off larger orders. In international markets we have had better intake of orders and the last quarter specifically we had two orders from the South East Asian market for smaller size captive power plants. They are already registered, helping us have this kind of a number. So going forward, in the country if I had to look at our product offerings versus the segments which are currently operating, fortunately or unfortunately the performing segments remain the same – like food & food processing, pharma; chemical will continue and barring these two refinery expansions there is nothing on the card in that segment, though I mentioned last time also that the Central Government has asked the oil companies to come forward with their expansion programme. Steel Authority of India has announced again that they are going to expand their steel plants but we have had no inquiries from them. I would expect all that to happen only progressively.

Whereas in the private steel sector only one company, Bhushan Steel, had gone ahead with the placement of orders. There are a few sporadic order finalisation of smaller range in three or four sponge iron units in the eastern sector of the country. In my opinion it is not sustainable. Maybe somebody got some mine reallocated or something. But with the POSCO announcement by the government recently allowing them to go ahead and the restarting of operations in the Bellary mining, I would imagine that iron ore availability should be improving. So, on the steel side, there should be some positive news, at least one off cases in Q1-Q2 onwards. Cement remains in the negative, though I expected it to be positive at least in the H1 of the coming year. Currently I am a little skeptical about it reviving in H1; there could be a possibility by H2. In the international market let me say that there is no further improvement than what I had reported in the last quarter in three of the market that we are operating, that is in south-east Asia, Middle East and Africa. But there is no deterioration over there. We're expecting things over there, for order booking to improve for Thermax in the coming year from all the three markets.

Renu Baid Just too close if you can give a broad breakup of the 3rd Quarter order intake at the standalone between exports and different domestic segments?

Amitabha Mukhopadhyay Total order intake is Rs. 1365 crore, broken up into domestic is Rs. 1053 crore and Rs. 312 crore from exports.

Renu Baid And within domestic in terms of the segments refineries, oil and gas segments, metal and other key industries, broad key industries?

MS Unnikrishnan Renu we have never calculated that internally, we only take percentages for indication. Otherwise, we can give you the energy segment number ...

Amitabha Mukhopadhyay Rs. 1189 crore is for the energy segment.

Renu Baid And environment?

Amitabha Mukhopadhyay Rs. 176 crore for the environment segment.

Renu Baid And for the order book breakup similar if we can get?

Amitabha Mukhopadhyay Order balance?

Renu Baid Yes.

Amitabha Mukhopadhyay The total order book is Rs. 5699 crore; the breakup between export and domestic: Rs. 4774 crore domestic, Rs. 925 crore export; between energy and environment it is Rs. 4823 crore energy, Rs. 876 crore environment.

Moderator Question is from the line of Nainesh Rajani from Tata Mutual Fund, please go ahead.

Nainesh Rajani First of all about the Gujarat SEZ plant that you're talking about and it will now be shut for some time till you get further notice, if you can clarify what was the revenue potential of this particular plant or rather what was the revenue contribution of this particular plant over the last few years? Is it mainly for export unit? Will this have a significant impact on your export going forward because export apparently is supposed to be the driver for the next few quarters till there is any recovery in the domestic market, if you can throw some light on that?

MS Unnikrishnan There is no regular standardised number for this facility; it is a one-of-a-kind facility and depends on international orders that are available in the market for assembling large capacity items. It was

commissioned in 2008. I vividly remember there was a year when we did maybe less than double-digit crore and there was another year when we would have also touched over Rs. 300 crore. That is the range that we should talk about. It has the potential to do maybe on an average about Rs. 200 to Rs. 300 crore in a year for port assembled items. Now what we need to be worried about is that what other options available for the company right now. First of all we are quite hopeful and it is practical that this may be allowed to continue. Because in any case they had allowed nine companies to continue, some of them may be even polluting. Please remember it is related to pollution and we are not polluting as it's an assembly unit. Other than the water consumed by people, we do not take any other water, so there is no effluent and secondly, there is no chimney over there as we are not emitting any smoke or pollution. It is an absolutely nonpolluting unit we have in Mundra. This and other units in the SEZ earn dollars for the country. So, the High Court and Supreme Court of the country are also more economy oriented these days. I'm sure we should be able to get a favorable review and a verdict. But what other options are available with us, if it doesn't work out? We have options available. Earlier, we had been doing the assembly at JNPT, Mumbai. To avoid all the crowding that happens at JNPT, we moved out. So a possible shift is on the cards, let me say that we will not suffer on account of this on a permanent basis. Even if I lose 15 days in the current quarter I can make up that in my current quarter, so that is a temporary issue.

Nainesh Rajani

The second question, at the end you mentioned that you had transferred one particular order of refinery to B&W JV and that was now done by B&W JV. So if you can just elaborate little bit more on that, that order was part of Thermax Limited if I'm not mistaken, so

if you can clarify what order was that and why was it transferred to the JV and would Thermax standalone entity could have done that whole project and what was the rational of transferring that order into the B&W JV?

MS Unnikrishnan First of all, we have not transferred an order at all. This is treated as a manufacturing facility. We have a Thermax manufacturing facility in Pune and another one at Savli in Baroda, a larger one; at our joint venture manufacturing facility, for the order that we have taken of a very large order from a refinery, we will only be for making the furnace panel and the coils which are needed for the super heaters and the economizers. You can make it in any of these Thermax units or the Jt. Venture facility and by spreading it, we intend to manage time constraints. In any case Thermax would have sub contracted somewhere outside and instead of that we have done it in this facility and revenue will be 100% recognized by Thermax Ltd. By offloading part of the work at the JV facility, they have an income from the labor component or the jobbing component. It will enable the joint-venture machinery to be cranking without idling, so it is a win-win for both.

Moderator The next question is from the line of Mayur Patel from DSP Blackrock, please go ahead.

Mayur Patel Just have one simple question on your earnings, this quarter I'm seeing here I employed in the energy segment it is only Rs. 180 crores where as in the environment segment it is expanded significantly to Rs. 340 crores despite only 25% of the revenues coming from this isn't because of any working capital expansion or what could be the reasons for this?

Amitabha Mukhopadhyay It is typically for the working capital reason as far as the energy segment is concerned. The working capital requirement of that division has come down albeit temporarily. For some of the good orders we have received advances; customer advances have brought down the networking capital requirement for the business for the time being. As far as the environment segment is concerned yes there is an increase in working capital requirement there and that is the reason for the capital allocation increase for that segment.

Mayur Patel As you have been mentioning in the water business of the environment segment that there has been some cost overruns for which you are providing, so can you give some idea and you told that you get rid of this provision by year end and by that time we will have a clean slate. Can you share any directionally or anything that you can share with us in terms of how much is it this painful in the order book currently and some idea on that?

MS Unnikrishnan In any case the overall carry forward order for water business normally do not give it since you asked specifically that it is less than Rs. 500 crores, Rs. 415 crores would be precise at this point of time. We would be revenue recognising maybe another (+100) in the coming quarter, it may come down also. Thereafter whatever is going to remain, we will have sufficient provisions available to take care of the cost to completion. So that is why I mentioned that the difficulties will continue for one more quarter.

Mayur Patel What is your commentary on the working capital cycle as of now; has it been stable over previous quarters or it has improved or deteriorating?

M S Unnikrishnan On the inventory side there is nothing to worry as we do not have any non-movable inventory worth reporting, it is all under control.

On the accounts and receivables the DSO has in any case gone up. Please remember overall sales are 9% lower than the previous year and cash incoming collection is not up to the mark. There are no major ones, may be some smaller ones but it is all sufficiently provided in the balance sheet of the company. Let me clarify to you, even companies who have got money on the balance sheet do not pay on time these days, which is the only reason. But is there an intention not to pay? We do not have any substantial large projects where there is a hold; though there are a couple of smaller ones. But it is a tough time. Cash is king we say, even our customers say it; so, when it comes to payment, maybe that's the normal attitude of people.

- Moderator The next question is from the line of Aditya Bhartia from Espirito Santo, please go ahead.
- Aditya Bhartia My first question is on the water and pollution control business just wanted to understand whether these losses will relate to this particular quarter or you have made provisions for foreseeable losses as well?
- MS Unnikrishnan Both, as it cannot be happening one quarter alone, some of them stretch further forward.
- Aditya Bhartia And what could be a strategy for bidding for municipality orders from here on?
- MS Unnikrishnan We would certainly continue bidding for such jobs in a very, very selective manner the way we had been doing earlier and there is no change in that. We will go for only those where we are confident of the cash flows supporting the business.
- Aditya Bhartia The issue is more from the cash flow collections rather than from intense competition, is my understanding correct?

MS Unnikrishnan Competition is there. In any case we do not pre-qualify for anything, so we do not call for conventional waste water treatment. Let me clarify : in the municipal segment there are two specific areas, one is the water treatment and second is that sewage treatment. Thermax does not participate in the water treatment. As I mentioned earlier, water treatment is large in size value but low in technology. However, for sewage treatment we have got some patented technologies. Whenever those technologies are applicable, those are the ones where we pre-qualify. We want to participate in those and look forward to the ones which are funded by the central government like the JNNURM. So such bids will continue, but in a very selective way.

Aditya Bhartia And secondly it would great if you could share some details about the performance of main subsidiaries, it seems that overall there has been some losses in subsidiaries this quarter?

MS Unnikrishnan No, we have losses in the following two subsidiaries of the companies. First of all, in the Thermax Instrumentation Ltd which I already spoken about. Also our Chinese subsidiary has reported loss in the current quarter. However the Chinese subsidiary in the current quarter is almost close to the cash level positive, so there is an improvement there. When you see the consolidated final number you would also account for the joint venture which are subsidiaries for the company by virtue of our holding 51% stake. Babcock Wilcox subsidiary's negativity would have been taken in by Amitabha in this result and for the SPX JV, I think, there is no reportable loss in the first nine months. On the contrary it is positive by a marginal couple of lakhs over there.

- Aditya Bhartia How much could have been the losses in B&W JV and if you could tell us about Danstoker performance as well?
- MS Unnikrishnan We do not declare the Danstoker numbers but it is positive and if you remember last quarter it was very positive. Some of you asked me a question, whether we would consistently deliver, and I said, “Sorry, it is not repeatable”. There was a product mix advantage available last quarter. It is positive in the current quarter also. However for the TBWES portion, Amitabha please give Aditya the number.
- Amitabha Mukhopadhyay For TBWES portion the loss for the quarter is Rs. 12 crore and YTD is Rs. 28 crore.
- MS Unnikrishnan Absorbed on the balance sheet.
- Moderator The next question is from the line of Amit Sinha from Macquarie. Please go ahead.
- Amit Sinha My question is on the gross margin for this particular quarter, there has been a sequential decline in the gross margins of somewhere close to 250 basis points, is it because of the commodity prices going up or something like that?
- MS Unnikrishnan One is due to the booking of the negative of water business. That would make a difference though not substantially because we’re talking about all positives and one negative. And I mentioned to you that in the air pollution control business overall margins were lower, so the gross margins were lower. Otherwise if you look at the energy businesses overall, the gross margins have not reduced to that extent and sometime when you have got a surge in large project revenues recognised in a particular quarter, the material costs will go up which means the gross margins will come down. There is nothing reportable, where you need to be unduly concerned about and there

is an inconsistency which we have felt for a quarter but that will get evened out as we move for the full year.

Amit Sinha Will it be fair to assume that the water segment revenue will be approximately half of the environmental segment revenue because the order book is somewhere close to half?

MS Unnikrishnan I do not think I have readily available numbers, but that may not be. Let us say somewhere closer to that, not exactly half.

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

Kunal Sheth If you can throw some light on how is the competition behaving? Has it got worse?

MS Unnikrishnan Some of them are in difficulties or their ability to compete itself has come down in some segments. Otherwise, some of them have become very, very aggressive. To be precise, in the energy segment in the larger ones, Cethar Vessels is not visible at all, whereas the other two, ThyssenKrupp and IJT have become very aggressive. BHEL also has now started bidding for captive power plant boilers. I can see that kind of desperation. We have not found any Chinese competition at least in the last quarter despite the talk in the recent past. But it is noteworthy to mention that in the conventional business of the company where we compete against companies which are unknown to all of you because these are all the local manufacturers – some in the small boiler segments or some in the air pollution control segment – there is a desperation to survive. So it is not only prices where gross margins would be impacted, even the terms of payment compromise made by people would also have its effect. That is the way I would look at competition. Secondly, a couple of European multinationals have also started bidding in India

for both the segments of energy and environment. Now is it something that we are unduly worried about? No, with currency having depreciated, I think it is manageable. We should be able to manage it.

Kunal Sheth You mentioned that apart from pricing a lot of commercial terms have changed in lot of orders because of desperation but do you think this will be a structural band and probably it will not reverse once the market reverses or you think that once the market reverses even this will again get back to the normal?

MS Unnikrishnan It will get back to the normal. In any case, we are not compromising; the good companies are not compromising. So some customers may take advantage of it but then they will not be able to sustain. In a buyer's market you may dictate and the weaker ones will be forced to play along, but they will not be able to execute the orders on time.

Kunal Sheth And as far as our internal cost efficiencies are concern, is there any further room left to squeeze or we have almost done whatever they could have?

MS Unnikrishnan I would rather say that we're closer to the bone, very limited scope in what is remaining.

Moderator The next question is from the line of Abhishek Tyagi from CLSA. Please go ahead.

Abhishek Tyagi Your export revenues have grown handsomely at 16% but your domestic revenue is down 16% YoY, so is there a significant part of the order book which is now moving or very slow moving on the domestic side and whether you're seeing any signs of that improving over the next couple of quarters?

MS Unnikrishnan Abhishek there is nothing which is totally stuck, there are two projects which are stuck for quite some time and those are not very large. They are not some hundreds of crores, here I am talking about may be single digit crores of rupees where exposures are manageable. There is nothing that is getting stuck also. But you are right, there is a slowing of some of the projects. Normally, in the months of January-February-March, in the last quarter all my customers would be sitting in Pune to make me execute, so that they can gain the depreciation even those balance sheets where there is a good profit available, they may end up paying income tax to the Government of India.

Abhishek Tyagi You were mentioning that there was no urgency from the customers on project execution so that is when you got disconnected?

MS Unnikrishnan I said because of which we are compelled to look at each project especially the larger ones. Small projects may not be worrisome. So, is the cash flow going to be difficult? Based on the that we decide on the pace of execution.

Abhishek Tyagi Is there any impact of the impending elections which can further slowdown the execution of the next near two quarters or something?

MS Unnikrishnan I do not expect it because most of the current projects on execution are on balance sheet brown downfield or greenfield expansions. Most of them are supported by cash flows from their own balance sheets and limited amount of borrowings which are within the capabilities of those companies. So those may not get impacted unless there is a banking system collapse in the country, and I don't think we are heading for it. On the contrary, I feel confident of couple of issues addressed by the government in the recent past and we should also give them credit for it. They have been able to bring

down the current account deficit and the overall deficit with some curtailment happening and readjustment going to happen, and the huge dividends that they are taking out from the PSUs, I think cash availability in the entire banking system because they would not borrow beyond a level, that is what our worry was. The governments were to be mopping up all the money and the liquidity available in the market then there would not be any money available for any project to go through. So even if it is the worst of the governments to happen after the elections, I do not think they can do any harm to the economy for at least 2 to 3 quarters. So next year we should be seeing either neutrality or a positivity, so I am not unduly worried about the next year.

Moderator Question is from the line of Bhavin Milani from Axis Capital. Please go ahead.

Bhavin Milani In the starting you mentioned that there is an order from a public sector refinery if you could help us with the value of the order?

MS Unnikrishnan There are only two refinery expansions going on, you know it better than me, one is private and the other one is in the public sector. That is the order for heat recovery steam generated which we fought against one public sector and couple of private sector domestic and international companies and won on merit. Our equipment performance is rated far superior than the others because of which we were evaluated as a good company to be getting orders.

Bhavin Milani No, my question you said the order value from the Cochin refinery?

MS Unnikrishnan If it worth reporting in size you know how we give it to the stock exchange immediately after the order is received. It does not amount to 5% of the total turnover of the company. Why I'm explaining very specifically is that later, value of every order will be asked for.

It's not that you cannot get it from me but let me not declare the value because there are some norms that I need to follow and as I mentioned 5% and above of the overall turnover of the company, immediately we declare it publicly. I suppose that is only fair.

Bhavin Milani If it can tell us what was the provision for last order for water and if you can help us with the net working capital numbers it seems that the cash and equivalents in this quarter would have gone up?

MS Unnikrishnan As I mentioned earlier, we did mention that within the environment segments there is a negative, in that chemical is positive and done better in profitability, air pollution control the profitability has dropped and water is negative for the quarter, may continue for a quarter thereafter it will get lifted up. Unfortunately, we cannot declare it as a number.

Bhavin Milani Working capital details and the cash equivalent as on the balance sheet?

Amitabha Mukhopadhyay Working capital this quarter has come down almost to the extent of Rs. 90 crore. So there is an improvement in working capital. Cash and cash equivalents as on 31st December was Rs. 822 crore.

Bhavin Milani So this is predominantly due to receipt of advances from the large orders?

MS Unnikrishnan Cash and cash equivalents are Rs. 822 crores at this point of time and this comprises advances from customer. That is the way it is done. When the order booking goes up in the company and unexecuted portion remains more the advance would contribute more on that.

- Moderator The next question is from the line of Fatema Pacha from ICICI Prudential. Please go ahead.
- Fatema Pacha Regarding the consol orders, I do not think to give it, it should be around (+1500)?
- Amitabha Mukhopadhyay Total consolidated order intake for the quarter is Rs. 1515 crores.
- Fatema Pacha I just wanted to understand we have been on this Rs. 1200 crores- Rs. 1300 crores run rate and barring to Q2 aberration we have yet again come to this number, so what is the Q4 looking like. Do you think a Rs. 1500 crores- Rs. 1600 crores number looks good because generally it is Q4 or you think this time it'll be much more subdued and what is the outlook on the product side, is that continuing to do good?
- MS Unnikrishnan I wish it goes to the number that you mention but overall market sentiments are not good unless we get some chunky orders. When I say chunky orders, I mean triple digit orders; unless one or two of them are available it will be difficult as nothing is visible beyond a level. There are EPC enquiries which we had been negotiating but nobody seems to be signing and giving a cheque for it. If something of that will happen then only the numbers would happen otherwise it will be Rs. 500 crores to Rs. 600 crores size of standard product orders and then waiting for something better to happen. There is no celebration going on, so it is neutrality that is prevailing and there will be one or two guys who will wake up and say 'Oh! I forgot I should have finalised the order in Q4 otherwise it would get lapsed.' We are motivating people. In fact let me tell you earlier we were negotiating, today we motivate and negotiate with customers.

- Fatema Pacha So Rs. 600 crore is your product level and you are hopeful that you will likely achieve that and whatever comes on top of it is?
- MS Unnikrishnan That is correct.
- Moderator The next question is from the line of Lokesh Garg from Kotak Securities. Please go ahead.
- Lokesh Garg Basically I have shared with surface business has grown something like 20% in this quarter, could you give us a rough proportion of the revenue line between project, products and services for let say for nine months for this year roughly?
- MS Unnikrishnan That is not a ready-made number that is available with me. I'll give you one number, that of our service business. We are focusing to ensure that in the downturn also, we are able to retain it and I am telling you, it is growing. The difficulty for us as I mentioned earlier, that even with the standard product business today we have got a project. For example heating as a business for the company was treated as a product business but I had to divide that into two : of a very standard nature product which is made in the factory; and also the one which do need the site work. Because economy of scale of manufacturing in the country has gone up, today people do buy even solid fuel combustion boilers for just heating purpose in textile industry or food industry. They cannot be manufactured as a single product in the factory, so we introduce projects also in the product business. Similarly, in cooling everything is made in the factory; we test it also. But many customers tell us to work around at their sites and give them also the piping (we call it high side of it) and pumping system to be provided. So we have to pollinate even a project portion in our product business. Let me tell you overall as a company we must be in the region of around almost close to a

domestic numbers between maybe a 12% to 15% sometimes even 16% in the service side of the revenue, balance is the 2/3rd -1/3rd of the cut that I believe, the 2/3rd is the project side and 1/3rd products, which can vary because imagine that in a particular quarter even if I have to say two turbines built for the EPC job, that particular quarter the projects can be overtaking everything. They are so large in size and value and we stopped analyzing because it is only going to satisfy some internal targets, but it does not really make any difference for the customer segment. Customers are moving toward solutions even in the case of the smallest of the products. For example, chemicals is a pure product business of the company. Here, there are performance chemicals where the customer will say, ‘ you come and store your water treatment chemical or work here with cooling water chemical, and you also measure what is the quality deficiency and you bill me on a monthly basis including the manpower, testing and the chemical consumption.’ Now do I call it as a product business, service business or a project I do not know because of which we stop doing all this. When I say services it is pure services, because it is on the revenue side wallet of the customer. That’s why I am unable, not that I do not want to give it, this is way the market is morphing.

Lokesh Garg

My next question relates to export business basically you have roughly like Rs. 900 crores of backlog in exports from a total overall of something like Rs. 5700 crores which is 16% now with the traction that you are seeing in the three geographies that you spoke of, is it possible to ramp it up to let say 30% of the business in a year or so from here assuming that let us say domestic cycle remains slightly seeded?

MS Unnikrishnan No, because of the fact that there is a very large order in the order book which is domestic in nature; all of you are aware of that. To compensate for that imagine if I have to have a 30% offset of that available, on a 1700 into or maybe another 300 has come 2000 into 30, Rs. 600-700 crores worth of international order I have to be getting only to offset that single customer, so that will be impractical in a 12 to 18 months period which you have in mind. If I were to keep that aside is it practical for us to be rising above 20 which is our number (18 to 20)? Can I go above 20, we will work towards making it happen 20% to 25% of the balance. There again Lokesh the difficulty is in international markets. I was just listening to the PWC Chairman talk. He says that Indian CEOs are the fourth most confident about the economy of 2015, I am sure first would be China. If I remove India and China from the entire thing, for the majority of the countries in the world, CEOs are feeling not as confident as they were a year ago. So to expect the international order booking to pick up, it will also depend on what is going on inside the brains of the people who run the companies in the international market. That's the reality. Please go back after this con call and just listen to what PWC Chairman has spoken about in Davos in the World Economy Forum. So what I want to say is that there is no confidence of the industry prevailing in the international market also, barring only one market in the entire of the world that is the China. China is the one country where everybody believes that companies may perform better. All other markets will be going the Indian way next year. So will we get the orders finalised? I'm sure like the way it happens in India, one has to be aggressive and if the currency would remain in the same way, there is a perceived

advantage for the Indian company which will capitalise to the hilt that is the way it has to be looked at.

Lokesh Garg On the TBW venture, apart from some possibility of got the order eventually materializing, is there any prospect which is brightened up even a little bit?

MS Unnikrishnan No, it has remained the same. I would believe, that is an area in a political settlement the election is going to be making one difference because so-called CBI enquiry worries about cancellation of the allocated mines. All those will get cleared only after the election. Either way it'll get cleared only once it happens. After all, it is something lying in the dust and I'm sure it will reappear post elections.

Lokesh Garg And similar is the case in Gonda as well, no directional movement?

MS Unnikrishnan There I will not like to comment because it can happen irrespective of elections because that is liberated from anything about the current scam or the enquiry going on that particular project specifically it is a matter of management decision-making to go ahead and when to go-ahead with it. I am talking about the customer's management decision-making process, not Thermax's.

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

Peeyush Mittal Only some comments on year's timeframe, if the economy begins to improve given the whole coal situation, which is prevailing in the country, how do you assess the captive power ordering in the next cycle, do you think it will create challenges given so much issues on the coal side?



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MS Unnikrishnan If you look at the macro numbers of the inactivity in the main IPP segment and especially the much touted supercritical Ultra-Mega Power Plants, even the ones which are allocated not taking off, the power shortage is going to continue, and power reliability is also going to decrease, as we move forward. Both are going to affect industries. You're right in terms of coal production of the country is not going to increase with all the current negatives happening. So it has to be purely dependent on imported coal for captive power. If I were to set up a captive power plant I will not depend on domestic coal alone. I have to factor that even after importing coal and managing the logistics for it, if there is an arbitrage available. Now let me give you some numbers, with the global prevailing coal prices, you can generate electricity at anywhere from Rs. 4.5 to Rs. 5 a unit of electricity depending upon whether you are coastal based or close to shore, or you are in the central part of the India. So this is after accounting for depreciation and everything all charge off to the balance sheet number. Barring one or two states, average electricity tariff in the country for industry is already above this. In some states including the one where I am at present, it is almost a Rs. 3 per unit of electricity. Then the questions asked as an investor : am I a major consumer of electricity, where I want to run at captive power plant and pass that into the balance sheet profit of my company and am I willing to take pains to run a captive power plant? There are a set of customers who are prepared to undergo the pain of running a captive power plant. They might ask companies like Thermax to take care of the O&M to reduce the pain and then pass that to the balance sheet of the company. If that amount is going to be substantial as a percentage of the profits which we are making, if this will be the only weapon available for him to improve the profitability? There

are some industries like that, they will continue irrespective of whatever could be the coal prices. Now which of those segments will go for captive power? In any case, the usual suspects are there; cement and steel continue to be there, chemical and fertilizer will add onto that and to my reckoning with the size of manufacturing capacity going up in the country, tyre and rubber are getting into this area. Sugar was always there, food and food processing is also progressively setting up smaller capacities. So captive power generation, including cogeneration upwards of 10 MW is going to happen in that area.

Peeyush Mittal Second question it has been some time you guys have done any tag on acquisition some of the things which you were quite active maybe two or three years back, what is the thinking there given the cash on the balance sheet, are you not looking for any more things on inorganic front?

MS Unnikrishnan We are not an unwilling suitor; that much I can tell you. Unfortunately we did not come across a suitable match to go ahead. There are many offers available but not looking very attractive at the current scenario. Let me clarify, we can look at anything which will fit in with the strategic thinking of the company, we are waiting for it to happen. Unfortunately, nothing is visible right now. The valuation that we would want to do and in the right market and with uncertainty prevailing, Piyush, the European market is suspect right now unless we are very, very clear about it. The markets that we want to grow we continue to talk about Middle East, South East Asia and African markets. Please inform us about something which is befitting our company. If it is available we would like to look at it, very seriously.

Peeyush Mittal But why are you not doing anything on the Rifox front, it is a good business, it is a stable business, so I would have expected you guys to take some action to boost of the products strength on the steam product portfolio?

MS Unnikrishnan It was not large enough to be reporting in any of the con-calls or the discussions. Since you have asked it let me clarify once and for all that we bought it for a technology as it is one-of-a kind technology in the world. We transferred the technology also to India. We got the new manufacturing setup, a small one in Chakan in Pune. We started making products there, and for it to be marketed in Indian market you need to have IBR approval. I am happy to inform you that IBR approval has come, it will become in the first year itself a marginally profitable business adding on to the steam engineering portfolio of the company. We have started marketing this on behalf of Rifox, which is not a company which had ability to market it everywhere in the world. We have picked for them orders in the Middle East, our offices across the globe will be promoting this product in the next two years' time and it will be taken up as a major weapon to include or conclude the total portfolio requirement of steam engineering products of the company. Without Rifox, we had maybe 35% to 45% of the entire portfolio needed to be taken on the steam engineering market after this coming in, it has gone above 70% to 75%. It needs some more gaps to be filled in, which either we will do internally or through a technology purchase from somebody. So that is about steam engineering.

Moderator The next question is from the line of Siddharth Mohta from Principle India. Please go ahead.

Siddharth Mohta Just wanted to ask you given last 5 to 6 years of such situation in India, how do you see especially on the power equipment side. This business panning out in the next 3 to 4 years, what are the key trend changes that have been happened and how as an investor we need to see this sector going forward?

MS Unnikrishnan I will come from a maybe a 30,000 feet down to the ground level. We had the Indian Electricity Act passed in 2003 and one myth was created in the process : that we have privatised our power sector. It is the PPP, or the public-private partnership which is a reality. So, the mistaken notion in the minds of everyone from the bureaucracy to the political fraternity to equipment makers and power developer is that power is privatized. However, even today it is caught in the stranglehold of the governance of this country. So without change, nothing can happen and they are realising right now and there is now, at least in my understanding, the new Power Minister Jyotiraditya Scindia. When he took charge, he realised it and he wants to push further, secondary reforms. Some of them have happened. The most important one I'm confident about is the power purchase agreement, seen as a holy cow in the country which could not be touched. Now it is agreed that we can renew and renegotiate it; that is the biggest thing that happened. Now what we need to take care of is the tariff improvement which has happened substantially. Though there is some negativity in the new government in Delhi, I do not think it is sustainable across the country. If you're able to bring in the total tariff collected from all the consumers put together – those who pay, those who do not pay and those who pay more than what is necessary – it is equivalent to above the inflation level or the breakeven level of generation of power. This is the 30,000 feet view which I mentioned. Now ground

level, government seems to be the only sector which is capable of setting up new power capacity. I'm talking about NTPC and the SEBs of the world who are capable and who wants to develop and increase the generation capacity for the next 24 months' period. The private sector after the first experience is a little bit worried. Now with the secondary reforms in power which is expected to happen, I would believe the moment the new government takes charge, whichever government, you will see an upswing there and whether the imported the coal or the domestic coal to be utilised it depends upon the tariff that they are able to get from PPP. Now coming back to the equipment manufacturer like us, all of us are gung ho about the numbers arithmetic was being in favor of setting up an increasing capacity but beyond arithmetic nothing happened in the country. Will it happen? We are confident it is going to happen and I'm very happy that among the boiler makers there are only three who had put in the money, BHEL who's already there increased the capacity; L&T MHI set up their facility and now Thermax along with Babcock & Wilcox put up our manufacturing unit. Now will anybody will put in more money to make boiler of supercritical nature in India? I doubt it. So with three of us remaining in the medium-range, we will certainly have enough business but we should have the staying power from short to medium. I'm talking about 2 to 3 years' period which we are confident we are able to sail through.

Siddharth Mohta

Last question from my side the old debate of big power plant versus the smaller power plant. We remember that whenever we started to discuss this supercritical power plant there used to be huge debate that what is the potential for Thermax on the smaller side especially less than 300. Now given that the fuel has once again

become up a bigger question mark especially on the larger quantity of availability of local fuel, how you see this dynamics changing?

MS Unnikrishnan There is a lot more of options available for fuels to come from outside India for the marginal and the captive generators and it is already in the offing. You have another parallel going on for the huge consumers who will go and buy the mines or interests in the mines to run power plants which are IPP in nature - minimum 1000 MWs and above. There will be another set of people who will depend on the importer of coal from Australia, from Indonesia, from South Africa –who will cater to the captive manufacturers. That is the way to de-risk the market of the coal availability issue, which is happening. So that is not going to be a deterrent, it will happen. Now please remember India will have, at least in the foreseeable future, the coexistence from larger power plants, smaller power plants, and the captive power plants.

Siddharth Mohta But do you think the near term there could be a much more intensity to set up smaller power plants by industries that are then depending on larger power plants or grid supply because there is still an issue in terms of quality of supply that they can expect?

MS Unnikrishnan Logic is totally with you; many things which happen in the market are illogical. So, as of now, if I were to predict, based on what we should be having, a lot more of captive power plants may be coming up, in the next maybe 24 to 36 months period after the order finalization. Now, will we succeed in our logic or will something which is beyond logic happen, I'm unable to predict. But it should happen. Because I am seeing, for example, Indonesia as a country where the situation is almost the same kind, any company with certain size are always going for captive plant; also, in a small

country like Philippines it is happening. Why it is not happening in India, I do not know. In my opinion it is going to happen because I'm aware of the fact that where somebody is planning currently any investment plan of a Rs. 1000 crore and above and which has a power consumption of maybe 10 to 15 MW, then a captive power plant is there in their budget. So I'm waiting for such projects to get finalised and then it will become the norm of the day for some time at least.

Moderator Ladies and gentlemen due to the time constraints that was our last question. I now hand the floor over to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair Thank you very much sir for taking time out for the call and thank you all the participants.

MS Unnikrishnan Thanks all the participants; sorry there was a minor disappointment on account of the water. It is nothing to worry as it is only for the short term, we are working to improve the situation. Thank you for all the good wishes that you have given to us.

Moderator On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.