

Conference Call Transcript

Thermax Limited

Q2FY09 Results

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Corporate Participants

Mr. M S Unnikrishnan

Thermax Limited - Managing Director

Mr. Gopal Mahadevan

Thermax Limited - Chief Financial Officer

Questions and Answers

Moderator: Good morning, ladies and gentleman. I am Manjula, the moderator, for this conference. Welcome to the Thermax Limited (Thermax) conference call, hosted by Edelweiss Securities Limited. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer (Q&A) session. I would like to hand over to Mr. Misal Singh. Thank you, and over to you sir.

Mr. Misal Singh: Thanks Manjula. I welcome you all for the Thermax quarter two FY09 results conference call. I have with me Mr. Unnikrishnan and Mr. Gopal Mahadevan, representing Thermax. Mr. Unnikrishnan will first give a few comments on the results and then we will move on to the question and answers. Over to you sir.

Mr. M.S. Unnikrishnan: Thank you Misal. A very warm welcome to everybody who is participating, and also good afternoon and happy Diwali to everybody. I am very happy that despite the market sentiments, there is so much of interest shown in Thermax and desire to know more about the results of the company. Our performance for the second quarter is already published, and is with you. I would give you some of the highlights of the results of the company, which is possibly not in the published details. We have witnessed the highest ever order booking in the history of the company in the current quarter, at INR 2,210 crores. It is almost 166% higher than the last year second quarter. A very healthy carry-forward orders of INR 4071 crores for the company in comparison to 2,927 for the last year. We also registered our first order for the utility segment in the current quarter. Our China manufacturing facility has commenced the production. In fact, on July 31, we inaugurated the plant. The first two chillers are already manufactured from there by the time we are commenting at this point of time. Apart from that, we have also created a new design, first of a kind, increasing the capacity of the absorption chiller, (single chiller to 3,000 tonnes). This is leapfrogging our company into the next higher league. With the advent of gas-based power generation, distributive generation coming in the next two to three years' time (including in India), we find this will be a major winner for the organization. This will also remove the glass ceiling, which is there for the growth prospect for this particular smaller business.

Our package boiler factory in Baroda has also started production, and the first boiler from that factory is successfully dispatched from there after the IBR clearance.

Financial details are available to you. We had a moderate growth of 4.4% for the current quarter, INR 804 crores as against INR 770 crores in the previous year. Energy segment has contributed to 70.2% and environment segment has overtaken and gone up to 29.8 in the current quarter. Domestic is 74.3% and exports is 25.7% in the current quarter. Though export may seem slightly

lower in comparison with last year's same quarter, I need to clarify that. In physical export terms, if I remove the deemed export, the physical export is much higher than the previous year. PBT, of course, at 11.9%, lower than last year. But the main reason for this is, we had to be booking a mark-to-market loss of INR 37.4 crores in foreign exchange, which a good part of that will be coming back into the balance sheet of the company in the next three quarters' time. That is as far as the performance of the company is concerned.

Next, coming to the group's performance, there is an overall reduction when you compare Thermax's performance and to the group's. This is primarily owing to two factors. Number one is Thermax Zhejiang has already started the production. Unlike in India, the Chinese rule insists upon that all the pre-operative expenses are to be transferred from the balance sheet and charged to Profit & Loss as expenses and booked in the current year, unlike the way we do in India, where we can capitalise the pre-operatives. That is one of the reasons. Apart from that, Thermax Instrumentation Limited had a loss in the current quarter, but that is because there is no revenue booking currently.

The challenges ahead, one is to have a good order booking on hand. Second is also to have the worries about larger orders on the book, and will there be any financial closure difficulties or credit difficulties, which my customers will face. We already initiated a very strong set up of reviews of each of the enquiry. Every order which is on the order book, available at Rs. 5 Cr. and above, is being personally monitored by the CFO. And earlier, we never went back to the bankers of our customers to verify about the credit flow and the closure of the, you know, financing aspects of it. We will be continuously monitoring. That is one challenge that we are facing, and I do not need to be telling everybody is in a gloomy situation currently, worried about what would happen tomorrow. I am not one of those pessimistic persons, but certainly there is a concern as to will there be difficulties going ahead. That is the only issue which I currently need to inform everybody. Misal, I would like to open it to everybody to start asking questions rather than we continuing on.

Mr. Misal Singh: Okay. Manjula, can we please take questions.

Moderator: Sure sir. Thank you very much. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. Kindly note, participants are requested to ask one or two questions at the initial round and then come back for the follow-up questions. First in line, we have Mr. Trilok Agarwal from Birla SunLife. Please go ahead. Mr. Agarwal, your lines are open, please go ahead. As there is no response, we will move on to the next question. Next in line, we have Mr. Rahul from Religare Securities. Please go ahead.

Mr. Rahul: Good afternoon sir. This is Rahul from Religare.

Mr. M.S. Unnikrishnan: Hi Rahul.

Mr. Rahul: Sir, just wanted your inputs on.... we have seen strong order inflows this quarter. You can highlight few of them... you know... apart from these utility orders, which are the other big orders we have bagged in the quarter?

Mr. M.S. Unnikrishnan: We have received an order of INR 414 crores from a steel company. This is for a captive power plant, which would include three boilers of 100 tonne capacity, very specialised waste energy coming from the blast furnace gasses, and the entire EPC orders received by the company, the work has already come in for us. That is one of the orders. We have received another order from a paper company in Malaysia for boiler of 170 tonnes capacity. It is again a very specialized kind of an order, which we had received. Another one, is an export order from North America for four numbers, again waste to energy for a steel industry.

Mr. Rahul: Okay. Sir, what kind of feel you are getting from the overall industry, you know, in terms of decision making. Are there any delays in decision making or slowdown in enquiries?

Mr. M.S. Unnikrishnan: Until 30 days back, before Lehman Brothers collapse came in, it was only talks in the newspapers.....

Mr. Rahul: Okay.

Mr. M.S. Unnikrishnan:but now in the past, may be, two-to-three weeks, I am seeing there is a wait and watch kind of a sentiment for the larger orders. But the smaller ones, fundamentally for the... you know... standard package boilers, the standard products of the company, I have not seen any substantial changes at this point of time. But yeah... everybody is waiting and watching. Whenever my people do talk to the customers, they are also asking same questions. Do you think something is going to go wrong? That is the way it is.

Mr. Rahul: Any specific industries which you would like to point out, you are seeing, you know, major delays or, you know, reduction in enquiries?

Mr. M.S. Unnikrishnan: Textile, as an industry, has had the major setback in the last two quarters. Automobile as an industry had a setback in terms of investment, but these are very minor in contribution to our overall order booking. See, for us, fundamentally, it is the steel industry in which people have invested sufficiently; despite the doubt about capacity curtailment, people had been investing.

Mr. Rahul: Okay.

Mr. M.S. Unnikrishnan: Yeah.

Mr. Rahul: Sir, can you brief a little bit about the forex losses that you have booked, this is pertaining to what sir?

Mr. M.S. Unnikrishnan: This is a mark-to-market booking only. I would leave it to Gopal, the CFO, to give exact numbers and what are the reasons for it? Gopal would you please help them out with that.

Mr. Gopal Mahadevan: Thank you Unni.

Mr. M.S. Unnikrishnan: Yeah.

Mr. Gopal Mahadevan: See, these are, as I mentioned earlier, these are what we do as per our forex policy to cover all our net foreign exchange exposures on the orders that we have as simple plain vanilla forward covers. So, we do not take any positions. I wanted to clarify that to everyone. We do not take positions on our own account. These are purely for business, and the second thing is, for the quarter, we have had a mark-to-market because these are accounting related losses and these are mark-to-market losses. For the quarter, it is about INR 37 crores and for the half year it is INR 53 crores as against, you know, gains in the previous period. So, we had a gain of INR 3 crores and for the first half of last year, we had a gain of INR 7.24 crores.

Mr. Rahul: Okay. So, sir, these mark-to-market losses will be booked back into the, I mean, we will see reduction in this losses or how is it going to work?

Mr. Gopal Mahadevan: Yes, as we see, on the specific underlying, to give an answer to you, we would be, once the underlying, you know, invoicing happens, these would get released back into the accounts, and we hope that like Unni mentioned that, you know, we hope that there are no wide fluctuations in the forex as we go forward.

Mr. Rahul: Okay. Sir, because if we exclude the forex losses, which you have mentioned, which you have included in the other income....

Mr. Gopal Mahadevan: Yes, which is there in the notes as well.

Mr. Rahul: Yes, sir, then excluding that, then the margins would have been substantially higher?

Mr. M.S. Unnikrishnan: Margins have improved Rahul, better in comparison. We have introduced some substantially strong control systems in the entire operations. We have been able to improve the margins.

Mr. Rahul: Okay.

Mr. M.S. Unnikrishnan: Yeah.

Mr. Rahul: Okay sir, thank you.

Mr. M.S. Unnikrishnan: Thank you Rahul.

Mr. Gopal Mahadevan: Thank you.

Moderator: Thank you very much sir.

Mr. M.S. Unnikrishnan: Hello?

Moderator: Next in line, we have Mr. Amit from Lotus India AMC. Please go ahead.

Mr. Amit: Sir, just wanted to reconfirm, if these forex losses have been included in the other expenses?

Mr. M.S. Unnikrishnan: It is correct. The other expenses' main increase is on account of this only.

Mr. Amit: Okay, thank you.

Mr. M.S. Unnikrishnan: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Sachin Trivedi from UTI Mutual Fund. Please go ahead.

Mr. Sachin Trivedi: Hi sir.

Mr. M.S. Unnikrishnan: Hi Sachin.

Mr. Sachin Trivedi: Just one question. First is on the foreign exchange. If you can further clarify, what have you done in terms when we say, plain vanilla forward covers, what have we done in that?

Mr. M.S. Unnikrishnan: Can I explain it to you?

Mr. Sachin Trivedi: Yeah.

Mr. M.S. Unnikrishnan: As a policy, we do not keep anything more than one million dollars at any point of time uncovered. We are net exporters. So, based on our current or any based position, weekly, when we do that, imports that we need to do versus the export income that we gather, we have a forward cover taken for it. As there had been fluctuation or depreciation in the Indian rupee, every quarter we are going to be booking on the current rates. So, as per the AS 30 requirements, we have got to book the mark-to-market losses as a provisioning into the balance sheet of the company. As and when we recognize the revenues, this will get ploughed back provided the currency remains at the same level. If they were again to go to 60 or 65, which of course is impossible to happen, then this may not happen. That is the way it is like.

Mr. Sachin Trivedi: Sir, does it mean that we have covered the receivable or we have covered the order book?

Mr. M.S. Unnikrishnan: We have covered the order book also.

Mr. Sachin Trivedi: Order book also?

Mr. M.S. Unnikrishnan: Yeah, yeah. See, as a policy, we do not want to have any speculative gain on to the balance sheet of the company. We are good at making boilers and chillers and may be water treatment plants, we are not too good at foreign exchange management. So, our thinking is, if we have an order taken today, we cover the entire, you know, order itself for the period, but normally forward covers aren't available for a large or long order for the 18-month delivery period. So, we got to take it for the 12-month period. We re-book it at the end of 12 months also.

Mr. Sachin Trivedi: Sir, is it possible to get what is the foreign or in the order book which is there, what is the export order book for us?

Mr. Gopal Mahadevan: Are you talking about the forward cover?

Mr. Sachin Trivedi: No, not the....one is the cover and what is the international order book for us?

Mr. M.S. Unnikrishnan: At this point of time....Gopal, do you have the number readily available?

Mr. Gopal Mahadevan: See, what we do is we share the order booking for the

company as a whole Unni....

Mr. M.S. Unnikrishnan: Yeah.

Mr. Gopal Mahadevan:.....but we have the numbers.....

Mr. M.S. Unnikrishnan: Yeah.

Mr. Gopal Mahadevan:.....but we do not share the information as an order backlog between domestic and exports.

Mr. Sachin Trivedi:Okay, okay. Okay sir, my second question is regarding the other expenses?

Mr. M.S. Unnikrishnan: Yeah.

Mr. Sachin Trivedi:Even after adjusting for these mark-to-market losses, the other expenses for us has increased substantially. So, can you clarify on that, why is that?

Mr. M.S. Unnikrishnan: This is only a quarterly impact. There is nothing substantial, except for the fact that, when you do provisioning for various items, say like debtors, any warranty expenses, if you do a first of a kind of a project, just about completed, we will keep a provision till such time the plant is handed over to the customer.

Mr. Sachin Trivedi:Okay, okay.

Mr. M.S. Unnikrishnan: So, there had been plants of that kind, larger plants under commissioning right now. We will write back that only when we have handed over and settled with the customers.

Mr. Sachin Trivedi:So, next quarter, we should see.....

Mr. M.S. Unnikrishnan: It may not be next quarter. See, some of these are larger plants when we commission a captive power plant. This is a normal affair in the....see, yearly you would not have noticed it because now there are five plants under commissioning at this point of time.

Mr. Sachin Trivedi:Okay, okay sir. Thanks a lot.

Mr. M.S. Unnikrishnan: Thank you.

Mr. Gopal Mahadevan:Thank you.

Moderator: Thank you very much sir. I request the participants to ask one or two questions, at the initial rounds and then come back for the follow-up questions. Next in line, we have Deepal from Citigroup. Please go ahead.

Ms. Deepal:Hello sir, good afternoon.

Mr. M.S. Unnikrishnan: Hi Deepal.

Ms. Deepal:Hi.

Mr. Gopal Mahadevan:Hi Deepal.

Ms. Deepal:Hi Gopal. Sir, a couple of questions. Sir, at this time, you have not released the consolidated numbers as you usually do. Can I get some basic numbers like topline, margins, especially margins that were not given out,

interest expense, and basically the headline numbers?

Mr. M.S. Unnikrishnan: Gopal will give all these numbers. Only, one correction to inform you that, this is not done with Thermax knowingly. It is on account of the fact that the government, may be the stock exchange wanted a unified way of reporting.

Ms. Deepal: Accha.....

Mr. M.S. Unnikrishnan: That is why if you see the note, number three, we have already given the total income, PBT, and PAT for the group.

Ms. Deepal: Yes, I am aware of that. That is fine. I just wanted the EBITDA numbers, especially and to figure out how much of forex losses was also, you know....do we have any incremental forex loss at the consol level?

Mr. Gopal Mahadevan: Okay, I will....Unni, can I take it?

Mr. M.S. Unnikrishnan: Yeah, please, please Gopal. Give her the numbers.

Mr. Gopal Mahadevan: A couple of points quickly Deepal.

Ms. Deepal: Yeah.

Mr. Gopal Mahadevan: As Unni had rightly mentioned, this was required because the stock exchanges have come up with a very recent notification....

Ms. Deepal: Yes.

Mr. Gopal Mahadevan:and they have mentioned that, either a company should go in either for a consolidated reporting or you know a standalone reporting.

Ms. Deepal: Okay.

Mr. Gopal Mahadevan: And we have been providing this consolidated information purely as additional information to shareholders.

Ms. Deepal: Right.

Mr. Gopal Mahadevan: So, we had to follow the norms and change the formatting.

Ms. Deepal: Okay.

Mr. Gopal Mahadevan: Now, unfortunately because of the change in the formatting, I might not be able to give you this line item-wise breakdown that you are asking for even though I have the numbers....

Ms. Deepal: Right.

Mr. Gopal Mahadevan:but broadly to answer your question as far as the forex losses are concerned, there are no huge incremental losses over and above what we have stated, which are exceptional in material.

Ms. Deepal: Okay.

Mr. Gopal Mahadevan: The INR 37 crores and INR 53 crores that I talked to you about for the quarter and for the half year.....

Ms. Deepal: Yeah.

Mr. Gopal Mahadevan:.....are predominantly the numbers for the group as well.

Ms. Deepal:For the group, and Gopal, if you could just tell me the EBITDA margin?

Mr. Gopal Mahadevan:I will not be able to share that Deepal because you know then I will have to.....

Ms. Deepal:Fine.

Mr. Gopal Mahadevan:Because of my reporting constraints. So, please understand that.

Ms. Deepal:Not a problem. Sir, second question that I had was in terms of our CAPEX for this year, most of that would be as you said, you know, China is already done and Baroda is already commissioned. So, incremental CAPEX for this year....how much have we done so far and how much do we need to do?

Mr. M.S. Unnikrishnan: I think, we have booked already INR 107 or INR 108 crores in the first half of the year.

Ms. Deepal:Okay.

Mr. M.S. Unnikrishnan: Another INR 100 and odd crores is to be capitalised in the current year, where it is at various stages of the completion of the projects.

Ms. Deepal:Okay.

Mr. M.S. Unnikrishnan: Means already, a part of it is expended, but it will be booked, may be capitalised within this year.We do very prudent mechanism. Only when the machine is put to use, and we have a production made, we do the capitalisation. So, that will go through in the current and the next half of the year also.

Ms. Deepal:Okay sir, and sir, also given the commodity prices are softening across the board, like cement, steel, etc., what is your sense on incremental CAPEX for each of these. As you said, you know, you mentioned some time back, the steel is still investing.....

Mr. M.S. Unnikrishnan: Yeah.

Ms. Deepal:...but my question is for how long will they continue to do that, and if they do slowdown, you know, what is the plan B? I mean, I know that we are getting into the utility range....

Mr. M.S. Unnikrishnan: Yeah.

Ms. Deepal:.....but wouldn't one expect that if interest rates are high, then private utility, private IPPs would you know delay CAPEX?

Mr. M.S. Unnikrishnan: See, this is a very complex question that you have asked, but anyways, steel industry I am very confident about not being slowing down all the investments, a part of course, larger ones will happen. But in the power industry, there is a dichotomy now because with the foreign ECB funding, international funding is going to come virtually nil in the next may be 12-18 months period of time.

Ms. Deepal: Right.

Mr. M.S. Unnikrishnan: Larger power plants will be far and very few going to be coming in at this point of time.

Ms. Deepal: Right.

Mr. M.S. Unnikrishnan: So, I am expecting the power situation to be worsening further...

Ms. Deepal: Okay.

Mr. M.S. Unnikrishnan:and the fillip will be coming for the captive power, that is the way I am looking forward.

Ms. Deepal: Okay.

Mr. M.S. Unnikrishnan: So, one side will get hit. Other side, I will get a benefit....

Ms. Deepal: You are hedged that way?

Mr. M.S. Unnikrishnan: Yeah, that is the second point. Third, is that, in any case, we had been quite active in the international market in the recent market.

Ms. Deepal: Okay.

Mr. M.S. Unnikrishnan: Now, they have, see the committed CAPEX, not everybody is slowing down.

Ms. Deepal: Right.

Mr. M.S. Unnikrishnan: See, for example, some of my items are ordered in the middle of the project only. For example, refinery, if they have already gone ahead with the expansion, the heater order will come after say may be 8 months after the construction of the plant.

Ms. Deepal: Right.

Mr. M.S. Unnikrishnan: Such items will keep coming in, but one thing is there Deepal, you, me or even nobody can predict as to what exactly is going to happen. Clarity will come and the clouds will clear only in the next 6 months' time.

Ms. Deepal: Okay.

Mr. M.S. Unnikrishnan: Yeah.

Ms. Deepal: Sir, also on the standalone numbers, your margins expanded quite significantly, if you knock-off the forex loss. Our margins have expanded from some 13 odd percent to 16%.

Mr. M.S. Unnikrishnan: Yes.

Ms. Deepal: Sir, what is driving this? Is it only the cost control that you have mentioned or are we also, you know, having some higher margin orders that are being executed?

Mr. M.S. Unnikrishnan: From both...you are right on both accounts. I think, Deepal, you are able to answer my question better than I would answer.

Number one is that, there had been some good orders that got executed and revenue recognised during the quarter.

Ms. Deepal: Right.

Mr. M.S. Unnikrishnan: Apart from that, we had initiated...see many companies have started cost cutting exercises now only.

Ms. Deepal: Right.

Mr. M.S. Unnikrishnan: We started in the beginning of the year itself and tightened on various other areas.

Ms. Deepal: Right.

Mr. M.S. Unnikrishnan: So, that has borne fruits for the time being, let us put it that way.

Ms. Deepal: Okay. Sir, my last question, which I am not sure if you will answer. But, sir what is the topline guidance for this year?

Mr. M.S. Unnikrishnan: No, that I always told you in the current circumstances, see I opened the year with a lower order booking. So, I had been able to be stable off at 4-5% growth. Now, I have got higher carry-forward orders. It all depends upon my ability to manufacture; plus the markets' readiness to quickly pick it from me.

Ms. Deepal: Right.

Mr. M.S. Unnikrishnan: So, let us hope that I should be able to give something better than what you guys would have expected, probably then, things will go well.

Ms. Deepal: Okay sir. Thank you sir. I will come back with more questions.

Mr. M.S. Unnikrishnan: Yeah, thanks.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Bhavin from Enam Securities. Please go ahead.

Mr. Bhavin: Good afternoon sir.

Mr. M.S. Unnikrishnan: Hi Bhavin.

Mr. Bhavin: Hi. Sir, just give me the details of INR 800 crores order from the refinery; how much is the advance, we have received, and when do we have to start executing these orders?

Mr. M.S. Unnikrishnan: The period of execution of this order is 30 months.

Mr. Bhavin: Okay.

Mr. M.S. Unnikrishnan: We are already into the three months over into the project. Now, we have already received the first tranche of 10% advance quite some time back.

Mr. Bhavin: Okay.

Mr. M.S. Unnikrishnan: And with that we have completed engineering first portion of it, and it is done in America itself and we could start initiation of, you

know, sourcing of the raw materials. We have already placed orders for major raw materials, and revenue recognition will start happening next year beginning onwards.

Mr. Bhavin: Okay, the Q1 of FY10 onwards?

Mr. M.S. Unnikrishnan: That is correct.

Mr. Bhavin: Sir, the second question is, I was just observing, the incremental revenues in the energy and environmental segments are lower than the incremental capital employed. Any reason perhaps why is the capital incurred increased so significantly? Is it because of working capital or higher capitalisation?

Mr. M.S. Unnikrishnan: Both are true because in the current year, we had higher capitalisation in comparison to the previous year, number one. The second is, as the prices were increasing for the raw materials, if you recognize three quarter back onwards. Steel prices are skyrocketing, copper prices are skyrocketing. We have had some stocking policies initiated to ensure that we protect the balance sheet.

Mr. Bhavin: Okay.

Mr. M.S. Unnikrishnan: So, those are already there in our stocks. So, current assets have also gone up on account of that. Those are the two reasons.

Mr. Bhavin: Sir, could you share the net current assets and the cash on balance sheet as on date?

Mr. M.S. Unnikrishnan: Gopal, would you give them the number?

Mr. Gopal Mahadevan: Sure, yeah. The cash in the balance sheet is INR 294 crores.

Mr. Bhavin: Okay.

Mr. Gopal Mahadevan: And the net current asset, if you were to look at it, is about INR 81 crores utilisation.

Mr. Bhavin: Okay, positive number for this against the negative which we had earlier?

Mr. Gopal Mahadevan: I think same time last year, the net current asset was INR 55 crores or so positive.

Mr. M.S. Unnikrishnan: That will be a temporarily affair Bhavin.

Mr. Gopal Mahadevan: Yeah, it is a very temporary thing because it is a reporting net issue.....sorry Unni.... you were saying something.

Mr. M.S. Unnikrishnan: I was saying it was only a temporary affair. It is not that we have drawn money from the bank. It is only an adjustment at the month end only.

Mr. Bhavin: Sir, finally, sir if you could highlight on the CAPEX, you mentioned about INR 200 crores CAPEX this year, and what would be the CAPEX, you have outlined for the JV that you are doing with B&W. Would that require an additional CAPEX?

Mr. Gopal Mahadevan: JV?

Mr. M.S. Unnikrishnan: It is not a JV, it is only the utility license we have taken from them, for which, we have taken the first order also. Part of that is already spent and balance is ongoing. Now, let me tell you on the capital expenses, like every company and every customer of mine, I will be very prudent in calculating as to how much I need to be really investing. So, it will be a calculative and very, very, you know, IRR-based, hurdle-based rate of investment further done, sell versus buy. So, we will be going ahead at least for the next six months' time. Whatever the ongoing, where we have already substantially progressed in the execution of the CAPEX, we will continue. We will not curtail or stop anything midway, but anything newly to be taken up will be undergoing a lot, lot of evaluation within the company before we will be committing. Though we have cash available, we will be very careful about that.

Mr. Bhavin: Yes, sir, for the utility segment what is the total CAPEX we have done so far and what would be the CAPEX done by the end of this fiscal?

Mr. M.S. Unnikrishnan: As we have mentioned, in the current year, we have already capitalised INR 108 crores, of which, China is only one which....China is outside this number no Gopal? Hello?

Mr. Gopal Mahadevan: Yeah, outside this number.

Mr. M.S. Unnikrishnan: Pardon.

Mr. Gopal Mahadevan: Yes.

Mr. M.S. Unnikrishnan: China is over and above this ?

Mr. Gopal Mahadevan: Yes, China we would be finally infusing, as we had mentioned earlier, you know, in the last conference call, we would have about USD 11.5 million as the infusion....

Mr. M.S. Unnikrishnan: So, that is separate one. So, coming back to this INR 108 crores which is capitalised, a good part of that is for usable for utility, and another 107 is ongoing already, which is at various stages of completion, which will also get capitalised by the end of March. And about the next plan for increasing the capacity by utility, we will take a call in the next quarter. We will look at the market, how the market is going to be behaving.

Mr. Bhavin: Okay. Sir, given this kind of credit crunch, which are the sectors, where we are seeing enquiries still ongoing, and are we seeing any enhancement in the competitive intensity because of the credit crunch where there would be fewer orders and more manufacturers chasing that?

Mr. M.S. Unnikrishnan: Your assumptions are right. There will be reservation in any and every sector. Even the steel sector, where we have not really seen....Fundamentally, we were not into the composite steel mills of the Mittal type or may be I would say the Posco type, we were into the next level. So, there so far, all the ongoing projects are committed. We will have to wait and watch as to some more projects come. In captive power generation, I am expecting there will be more enquiries to come because of the reason that everybody is worried about that because of the external commercial borrowing

going to be virtually drying up; the big power plants in India are going to be a longer dream now. So, captive should start in every segment of the industry. In petrochemical and refinery, nobody is talking about a slowdown, though they are all making losses, but everybody's plans are ongoing. So, that area I am not finding it difficult. In fact, I would say food processing, paper and pulp everybody is investing in that....were investing. Say, I am not talking about the last one month's turmoil in the market, that if you keep aside. Now, we need to wait for, I would say, three months or six months period to understand as to will India or the global investment in the next six months or so, everybody put on hold all their future plans. Let us see what will happen...

Mr. Bhavin: Fair enough sir. Yeah, thank you very much and Happy Diwali.

Mr. M.S. Unnikrishnan: Thank you and same to you Bhavin.

Moderator: Thank you very much sir. Next in line, we have Mr. Neerav from Gupta Equities. Please go ahead.

Mr. Neerav: Hello.

Mr. M.S. Unnikrishnan: Hi, Neerav.

Mr. Neerav: Hello sir. Sir, I wanted to know the order booking that we have of INR 2100 crores, what is the duration during which it would be executed?

Mr. M.S. Unnikrishnan: INR 2100 crores....our current carry forward is 4071.....

Mr. Neerav: Yeah, 4071, so about that?

Mr. M.S. Unnikrishnan: 4071, some of them are executable in the current year itself.

Mr. Neerav: Okay.

Mr. M.S. Unnikrishnan: Those are the product orders, but the longest one would go up to 24 months let us say.

Mr. Neerav: So, this INR 4,070 crore order which is there with the company right now, would be executed in the next two years? Close to two years?

Mr. M.S. Unnikrishnan: No, very little will be in the....majority will be in the next year itself.

Mr. Neerav: Okay.

Mr. M.S. Unnikrishnan: Some part will be in the next six months. A major portion will be executed in the next year and very little carry forward the year after. May be one order may have a carry forward the year after that. One order and a little of that.

Mr. Neerav: Okay. Sir, apart from that what is the hedging strategy which we use for procurement of metal components and to insulate from the fluctuations in the metal prices?

Mr. M.S. Unnikrishnan: We have three types of raw material procurement. One is a very specialised boiler quality tubes, which are alloy steel in nature, which are all normal rate contract basis. In any case that is covered within between 24 hours and 7 days of we receiving the advance and the order. That

is already covered for.

Mr. Neerav: Okay.

Mr. M.S. Unnikrishnan: Second is the boiler tubes and you know, air preheated tubes and tube metallurgy, which is we have rate contracts....in India with Tata Steel and TI, Tube Investments. Internationally, with Nippon and a couple of other European companies.

Mr. Neerav: Okay.

Mr. M.S. Unnikrishnan: So, that also gets covered immediately. Our open exposure is only on normal carbon steel structurals and ductings, the flat products....

Mr. Neerav: Okay.

Mr. M.S. Unnikrishnan:which is contributing to even, may be in a boiler order, it will be less than 10% of the total value.

Mr. Neerav: Okay.

Mr. M.S. Unnikrishnan: That is normally a spot purchase where we had been stocking for the past two quarters, but since the prices have come down, we will stop stocking now.

Mr. Neerav: Okay. So, what is the total manpower employed currently?

Mr. M.S. Unnikrishnan: On the white collar, currently we have got 2,700 people on the rolls of the company, and 800 and odd people on the blue collar. That is the total on the company. We have got fixed-term contract employees in white collar approximately 1,000 of them and rest all of them are contract, you know, workers which are not directly of Thermax, but contractors who are employed for conservancy jobs equivalent of outsourced jobs. That is the way it is like.

Mr. Neerav: Sir, can you throw some light on what is the attrition rate that is faced by the company?

Mr. M.S. Unnikrishnan: We had 12% attrition in the last year. It was showing sign of going up in the first quarter of the current year, but now with the current industrial scenario, I think it will slowdown now. My outlook for the attrition will be lower now, going forward.

Mr. Neerav: Okay and sir any target IRR that we are looking for when we have made the capacity expansion plans?

Mr. M.S. Unnikrishnan: Which I cannot publically reveal, but there is a hurdle rate internal there.

Mr. Neerav: Okay sir, can you give some....would it be possible for you to give some benchmark or something like that?

Mr. M.S. Unnikrishnan: We vary it based on interest rates and for projects. Unfortunately, we do not have one product alone. For example, what is our chemical IRR that is won't be for the utility boiler. So that is the way. That is why I talked about....it is very private and internal number.

Mr. Neerav: Yeah and sir this existing order that we have, what portion of that order would be....are these orders taken under the price variation clause with price variation clause?

Mr. M.S. Unnikrishnan: Larger orders two of them, do have price variation clause.

Mr. Neerav: Sir, do we have any kind of policy wherein an order above a specific amount is taken with price variation clause and below that without price variation clause or something like that?

Mr. M.S. Unnikrishnan: If it is necessarily a price variation clause or a price, a profit protection plan should be there within. For example, if the customers were not to agree for a price variation clause, we will provide in our costing a contingency for escalation based on our understanding of the, you know, raw material price movement.

Mr. Neerav: Okay, okay.

Mr. M.S. Unnikrishnan: That is the way it is. Either it is given by the customer on an open book basis or we will assume and put in the costing. Otherwise, we do not take an order.

Mr. Neerav: Okay sir. Thank you very much. Majority of my doubts are cleared. Thank you very much.

Mr. M.S. Unnikrishnan: Thank you, bye, bye.

Moderator: Thank you very much sir. Next in line, we have Ms. Aparna from HSBC Mutual Fund. Please go ahead.

Ms. Aparna: Good afternoon sir. I am from SBI Mutual Fund and not HSBC.

Mr. M.S. Unnikrishnan: Yes Aparna, I remember you.

Ms. Aparna: How are you sir?

Mr. M.S. Unnikrishnan: I am very fine.

Ms. Aparna: Sir, just a small question about this forex loss. This currency will be only dollar or it is a basket of currencies?

Mr. M.S. Unnikrishnan: Gopal would you exactly give the answer for how it is booked in their books?

Mr. Gopal Mahadevan: Sure, it is predominantly dollar denominated currency, but we also have a smaller exposure to Euros and GBPs.

Ms. Aparna: May be 80% would be dollar denominated and balance would be some other currency?

Mr. Gopal Mahadevan: Yeah, it would be something close to that, may be about 70-75%. After that, we have a little bit of Yen. You know, it becomes very difficult Aparna to give a number....

Ms. Aparna: Yeah.

Mr. M.S. Unnikrishnan: It varies from time to time.

Mr. Gopal Mahadevan: Yeah, it varies from time to time depending on my

import content and my export content. You know, it is a net foreign exchange that we hedge. So, we have exposure, but I would say, you are right. You can say that predominantly, it is dollar, then we have Euro, GBP, and Yen.

Ms. Aparna: Okay, thanks a lot sir. That is all from my side.

Mr. M.S. Unnikrishnan: Thank you Aparna.

Mr. Gopal Mahadevan: Thank you.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Nainesh from Tata Mutual Fund. Please go ahead.

Mr. Nainesh: Good afternoon sir. Just one question, you did mention that your capital employed in the segments had increased and the reason for the same is that you had stocked up certain inventory at higher levels. Just wanted to understand for the orders that you have in hand, do you have a price variation clause. The reason I am asking this is I just want to understand now that the commodity prices have actually fallen down and you had procured your raw material at higher cost, what kind of impact would it happen to margins in the near future and in the coming couple of quarters sir?

Mr. M.S. Unnikrishnan: Thankfully, we have not done any substantial stocking for the size of orders that we have.

Mr. Nainesh: Okay.

Mr. M.S. Unnikrishnan: It is done only in one item which is the structural steel and ducting.

Mr. Nainesh: Okay.

Mr. M.S. Unnikrishnan: Those are the two items which are not very high worth of inventory, which would go in the short-time. So, it won't impact the balance sheet. So, your question is, thankfully I do not have all the orders of the say, for INR 4,071 crores worth of orders that I have. Around 1,200 of those orders I have a price variation clause. There I have to be very clear that if I have agreed for a price variation clause from the customer, I have protected my profitability.

Mr. Nainesh: Okay.

Mr. M.S. Unnikrishnan: If the steel prices were to come down, I am still willing to part with that also.

Mr. Nainesh: Okay.

Mr. M.S. Unnikrishnan: That fairness should be there.....prevailing under a company or the principal, we will always stand by that.

Mr. Nainesh: Alright, actually, that is all from my end. Thanks a lot sir.

Mr. M.S. Unnikrishnan: Yeah, thank you Nainesh.

Moderator: Thank you very much sir. Next in line, we have Mr. Sumit Agarwal from HSBC. Please go ahead.

Mr. Sumit Agarwal: Sir, hi.

Mr. M.S. Unnikrishnan: Hi Sumit.

Mr. Sumit Agarwal: How are you sir?

Mr. M.S. Unnikrishnan: Fine Sumit.

Mr. Sumit Agarwal: Sir, I just wanted to understand if I am looking at staff cost, quarterly staff cost, it has been continuously on a declining trend, any specific reason I am looking at from the second quarter last year to this year, every quarter it has been declining. Is there some sort of an outsourcing that you are doing and booking in the other expenses?

Mr. M.S. Unnikrishnan: Power cost....

Mr. Sumit Agarwal: No, staff cost...

Mr. M.S. Unnikrishnan: Staff cost, okay, okay, okay. Now, it is not only that. That is not the main reason. Though it could be one of the reasons, but for the increase in orders, increase in activities, we do believe in outsourcing. We have developed engineering outsourcing offices to do that. Apart from that, there are one or two reasons of cost booking related to the incentives and second is related to retirement of people, which would have happened more in the last year in the same quarter. These are one time.

Mr. Sumit Agarwal: No, what I am asking is your staff cost absolute number and not as a percentage of that, absolute number on a standalone basis have been continuously, absolute numbers have been decreasing.

Mr. M.S. Unnikrishnan: Correct.

Mr. Sumit Agarwal: So, what is the reason? Are the number of staffs getting reduced or.....

Mr. M.S. Unnikrishnan: There is no staff reduction happened. Yeah, some high cost staff retirement has happened as I told you, number two. Second is for the increased activity, we are outsourcing substantially. You are also right on that.

Mr. Sumit Agarwal: Okay, so that I the reason your other expenses would keep on increasing ?

Mr. M.S. Unnikrishnan: Yeah, absolutely right, yeah, yeah.

Mr. Sumit Agarwal: Okay sir, thanks a lot sir.

Mr. M.S. Unnikrishnan: Thank you, thank you Sumit.

Moderator: Thank you very much sir. Next in line, we have Mr. Sachin from UTI Mutual Fund. Please go ahead.

Mr. Sachin: Sir, hi.

Mr. M.S. Unnikrishnan: Hi Sachin.

Mr. Sachin: Sir, a couple of questions. One is regarding this foreign exchange loss is entirely attributable to energy segment or it also has some environment?

Mr. M.S. Unnikrishnan: Very little in environment, majority is in energy.

Mr. Sachin: Sir, my second question is regarding the line item, purchase of

traded goods has increased substantially?

Mr. M.S. Unnikrishnan: Yeah.

Mr. Sachin: Any comment on that?

Mr. M.S. Unnikrishnan: Gopal would you like to explain that?

Mr. Gopal Mahadevan: Yeah, yeah. See, this is more an accounting related issue. It is actually what Unni had mentioned that, we had stocked up for some steel also, which are actually been issued to jobs. Just wanted to also mention that there are no concern on the purchase of the steel and issuing them to the jobs. So, when we have to do that, there are some accounting related, you know, issues here, where we have to display them under the purchase of traded goods. So, since they are bought and then issued to jobs, they have to be shown because of some separate excise registration. Predominantly, it is only steel.

Mr. Sachin: Issued to job for the outside parties?

Mr. Gopal Mahadevan: Yeah, but these are issued.....

Mr. M.S. Unnikrishnan: For our jobs only?

Mr. Gopal Mahadevan: Yeah, our own jobs only. These are not for outside....

Mr. M.S. Unnikrishnan: It is a consumption, but for us a traded one. That is all.

Mr. Sachin: Is it fair to assume otherwise it would have been in our own....

Mr. Gopal Mahadevan: Material cost....

Mr. Sachin: Material cost.

Mr. Gopal Mahadevan: Correct, correct, absolutely.

Mr. Sachin: Okay sir and one final question is would you like to comment on how is the credit quality of our.....the order book that we have and would you like to make some comment on that of the existing order book?

Mr. M.S. Unnikrishnan: First of all, we do not register an order unless there is a formal advance of minimum 10% received.

Mr. Sachin: Okay.

Mr. M.S. Unnikrishnan: Number one. Second, unless the government order, government order sometimes it may be, otherwise it is always as an advance.

Mr. Sachin: Okay.

Mr. M.S. Unnikrishnan: Second is for all the larger orders, we have taken active investigation mode with Gopal and team working on as to what is the financial closure status of each of the projects. So, we are monitoring that way. So, at this point of time, I do not have a single order where I have a suspicion about a credit difficulty going forward, but I cannot comment on that tomorrow if some big company were to be collapsing, big company were to be defaulting on their, you know, earlier commitment to the bank, will they stop on disbursement. Those areas I think it is a volatility of the nature, which you and I

cannot predict at this point in time. Otherwise, it is all safe orders.

Mr. Sachin: So, it is not very clear whether all the projects are being through financial closure?

Mr. M.S. Unnikrishnan: It will be unfair on my part to comment on that because my customers may not like to listen to that...

Mr. Sachin: Okay, okay.

Mr. M.S. Unnikrishnan:but let me tell you, we do verify that.

Mr. Sachin: Okay fair enough.

Mr. M.S. Unnikrishnan: See, we have to participate along with them to go to the bankers also for financial closure. That is an advantage for a company like us for larger projects because they need to have meetings we are also called in.

Mr. Sachin: Okay, okay. Fair sir. Fair, thank you. Thanks a lot.

Mr. M.S. Unnikrishnan: Yeah, thank you Sachin.

Moderator: Thank you very much sir. Next in line, we have Ms. Hiral Sanghavi from Dalal & Broacha. Please go ahead.

Ms. Hiral Sanghavi: Hello sir.

Mr. M.S. Unnikrishnan: Hi Hiral.

Ms. Hiral Sanghavi: How are you sir.

Mr. M.S. Unnikrishnan: Fine.

Ms. Hiral Sanghavi: Sir, I do not know if I have missed this question. I just wanted to know what was the total order booking in the quarter?

Mr. M.S. Unnikrishnan: In the quarter.....

Mr. Gopal Mahadevan: INR 2,209 crore order inflow....

Ms. Hiral Sanghavi: Order inflow.

Mr. Gopal Mahadevan: ...for Thermax Limited.

Ms. Hiral Sanghavi: Okay, 2209.

Mr. Gopal Mahadevan: Yeah.

Ms. Hiral Sanghavi: And on a consolidated basis?

Mr. Gopal Mahadevan: 2,245.

Ms. Hiral Sanghavi: 2,245, and....

Mr. Gopal Mahadevan: These are record high numbers by the way.

Ms. Hiral Sanghavi: Yes sir. This would include INR 1200 crores of two large orders that we have received.

Mr. Gopal Mahadevan: Absolutely.

Ms. Hiral Sanghavi: Right and sir, what the break-up of our order book into the different segments?

Mr. M.S. Unnikrishnan: Gopal, please help her.

Mr. Gopal Mahadevan: Yeah, shall I give for consolidated?

Ms. Hiral Sanghavi: Sure.

Mr. Gopal Mahadevan: Okay, the energy segment order booking was INR 2034 crore

Ms. Hiral Sanghavi: 2034...

Mr. Gopal Mahadevan: ...and the environment segment was INR 210 crore.

Ms. Hiral Sanghavi: 210?

Mr. Gopal Mahadevan: Yeah.

Ms. Hiral Sanghavi: And order book?

Mr. Gopal Mahadevan: This is order booking inflow....

Ms. Hiral Sanghavi: Yeah, no I was talking about the order book at.....

Mr. M.S. Unnikrishnan: Order carry forward.

Mr. Gopal Mahadevan: The order backlog, the order book is INR 3765 crore....

Ms. Hiral Sanghavi: 3765..

Mr. Gopal Mahadevan: ...and INR 489 crore

Ms. Hiral Sanghavi: 489.

Mr. Gopal Mahadevan: Energy and environment respectively.

Ms. Hiral Sanghavi: Sure and in domestic and exports?

Mr. Gopal Mahadevan: In domestic and exports, I do not believe we give those numbers as backlog.

Mr. M.S. Unnikrishnan: Consolidated won't be there.

Mr. Gopal Mahadevan: Yeah, we do not share those numbers, even though I have them. Sorry.

Ms. Hiral Sanghavi: Okay and what was exports in the current quarter in the revenue?

Mr. Gopal Mahadevan: Exports in the current quarter was INR 203.4 crores....

Ms. Hiral Sanghavi: Okay.

Mr. Gopal Mahadevan:for Thermax Limited as opposed to INR 210 crores approximately in the previous quarter.

Ms. Hiral Sanghavi: Okay.

Mr. Gopal Mahadevan: But what we would have to remember is that, **Ms. Hiral Sanghavi:** Okay.

Mr. Gopal Mahadevan:if you look at the dollar exports, our exports have almost doubled.

Ms. Hiral Sanghavi: Alright. Alright sir, that is it from my side. Thank you and Happy Diwali.

Mr. M.S. Unnikrishnan: Happy Diwali to you too Hiral.

Moderator: Thank you very much ma'am. Next in line, we have Ms. Deepika from Capital Market. Please go ahead.

Ms. Ritika: Good morning sir. This is Ritika.

Mr. M.S. Unnikrishnan: Yes Ritika.

Ms. Ritika: I would like to just know on why is the profit margins of energy segment were lower...it was eroding even in the previous quarter. Can you give me a line upon that?

Mr. M.S. Unnikrishnan: In the current quarter most of the , or almost all of the foreign exchange loss booking is done in the energy segment. That is why. Otherwise, there is no erosion in that. It fact, there is an improvement in the current quarter.

Ms. Ritika: But even the revenues were also reeling under pressure right?

Mr. M.S. Unnikrishnan: Revenues were on account of the fact that two large divisions, one under the power division and second under boilers and utility division, opened the year with much lower order carry forward or order book than the previous year. So, their revenues in the first two quarters had been lower.

Ms. Ritika: Okay, so we expect some more in the next two quarters?

Mr. M.S. Unnikrishnan: Because they have got good order booking now, na....

Ms. Ritika: Okay, so now....

Mr. M.S. Unnikrishnan: Now, things would start improving for those two businesses.

Ms. Ritika: Okay, okay.

Mr. M.S. Unnikrishnan: Yes.

Ms. Ritika: Sir, what is the interest rate...current interest cost we have?

Mr. M.S. Unnikrishnan: Our interest cost is very low. Gopal, will you please...what is the number for the quarter, interest is INR 77 lakhs or something like that.

Ms. Ritika: 77 lakhs?

Mr. M.S. Unnikrishnan: Yeah.

Ms. Ritika: Accha, accha....

Mr. Gopal Mahadevan: Yeah, it was about 77 lakhs.

Mr. M.S. Unnikrishnan: Yeah.

Ms. Ritika: 77 lakhs, it is okay. Okay, thank you sir.

Mr. M.S. Unnikrishnan: Thank you Ritika.

Ms. Ritika: And Happy Diwali.

Mr. M.S. Unnikrishnan: Same to you.

Moderator: Thank you very much ma'am. Next in line, we have Ms. Deepti Chauhan from Asit C. Mehta. Please go ahead.

Ms. Deepti Chauhan: Good afternoon sir.

Mr. M.S. Unnikrishnan: Hi Deepti.

Ms. Deepti Chauhan: Hello sir. I just had one question with respect to the order book which we have got, that is the order backlog of somewhere around INR 4070 crores. You just said that in these six months of this particular year, we will have not executed much from this total order book and majority will be executed in the next year. Will you be able to provide how much exactly out of this total order backlog should we be seeing coming into our revenues this year?

Mr. M.S. Unnikrishnan: All the product groups' numbers will get recognised in the current year itself.

Ms. Deepti Chauhan: Okay and how much would that be?

Mr. M.S. Unnikrishnan: Numbers may not be readily available. Let me see like, what I said about current year, a good numbers of orders will also be recognised. Majority will be recognized next year.

Ms. Deepti Chauhan: Okay.

Mr. M.S. Unnikrishnan: But otherwise, see let me tell you the heating orders, the cooling orders, the chemical orders, the water products orders, environment products, all of them will get in the current year.

Ms. Deepti Chauhan: Okay.

Mr. M.S. Unnikrishnan: But the boilers and the heaters and the power and the utility order that we got, are the one which will get into the next year.

Ms. Deepti Chauhan: Okay and one basic question. For example, suppose we receive an order in this particular year, say for example, we receive an order in the energy segment, and how much...I mean, how long are this...I know, that the order takes time, may be say one and half year of execution. How is the advance being received. Like you said, you received 10% minimum in the initial phase.....

Mr. M.S. Unnikrishnan: Yeah.

Ms. Deepti Chauhan: then how does the revenue gets booked. Is it on percentage completion or.....

Mr. M.S. Unnikrishnan: Milestone-based income is also recognised for completion of engineering and then procurement of the main raw material. Then, there afterwards, it is on the percentage completion basis, the revenue recognition is done.

Ms. Deepti Chauhan: So, within how many months does the.... I mean majority of the revenue gets booked?

Mr. M.S. Unnikrishnan: In all the products, it will be done, say, we have got some of them which can be recognized in say may be four weeks or may be four months or five months also.

Ms. Deepti Chauhan: Okay.

Mr. M.S. Unnikrishnan: But the long gestation projects of the type that we are talking of about 18 months.....

Ms. Deepti Chauhan: Right.

Mr. M.S. Unnikrishnan:the recognition will start within the third month onwards.....

Ms. Deepti Chauhan: Alright.

Mr. M.S. Unnikrishnan:and the third months to may be nine months, you will have may be 25-30% of that recognized.

Ms. Deepti Chauhan: Okay.

Mr. M.S. Unnikrishnan: Then it is a smooth increase across the next may be 12 months or so.

Ms. Deepti Chauhan: Okay, thanks. Thanks a lot sir.

Mr. M.S. Unnikrishnan: Yeah, thank you Deepti.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Vinay from Maximus. Please go ahead.

Mr. Vinay Pandit: Hello?

Mr. M.S. Unnikrishnan: Hi Vinay.

Mr. Vinay Pandit: Yeah, hi sir. There are two things that I wanted to know. One is raw material prices and the rising previously and correcting now?

Mr. M.S. Unnikrishnan: Yeah.

Mr. Vinay Pandit: So, how do you think that has positively impacted margins and how do you see the situation in merchant power plants?

Mr. M.S. Unnikrishnan: First one is, I am very happy that the prices are stabilizing on account of the fact that you can take a, you know, clear view for the forthcoming orders. Otherwise, one is always worried about how much to keep at contingency and escalation. So, that is a positive aspect, and second is since, we are currently operating at a higher price level, based on a higher raw material cost, the declining raw material, we may not pass on the entire margin to the market. So, we may have at least for a short while a better play in order booking, that is number one. The second you are asking about the captive power market, how do I see it going forward. I would say that certain industries, if they are investing, they would certainly go for captive power plant because power scenario is going to worsen in the country.....

Mr. Vinay Pandit: Okay.

Mr. M.S. Unnikrishnan:because larger power plants, where is the money going to be coming in, all that big projects of India, ultra mega all for already

committed, only one has reached financial closure, that is Tata's Mundra project. Reliance's both projects are yet to reach financial closure. We are yet to see anything about Indiabulls Chhattisgarh project. Government has come with expression of interest from people for four more projects, but I do not know....each of the project is INR 20,000 crores, that component is approximately you talked about INR 16,000 crores for each of the projects. That kind of money Indian banks won't be able to give. It is actually a consortia of international bankers, and currently, their need to expose themselves to India for power sector is very dull in my opinion. So, at least for the next may be, but this is at this point of perception, everything is going to....everybody is going to wait and watch for may be a three to six months' time, but there afterwards, captive power plants will have betterment, and in any case, coal prices have also come down. Coal had gone all the high to USD 140-150 dollars a tonne. It is now going at something like may be USD 100 for the Australian kind of a coal and Indonesian coal has come down to USD 60. So, captive power is going to get into an attractive mode in the next may be six-nine months' time. It is my current anticipation, although something altogether changes in the world.

Mr. Vinay Pandit: Okay, okay.

Mr. M.S. Unnikrishnan: Yeah, yeah.

Mr. Vinay Pandit: Okay and sir what will be the timeline that you will see from the raw material price coming down to the benefit coming into your margins on these existing orders or the orders that you have taken at higher prices?

Mr. M.S. Unnikrishnan: Some of them will have immediate benefits, but those are...I mean I cannot quantify right now because if I had budgeted for may be 45 rupees of steel and we are going to be buying it say tomorrow, three or four months down the line at may be 41 rupees or 35 rupees, certainly that will pass on to the balance sheet, but those may not be many.

Mr. Vinay Pandit: Okay and are you already re-negotiating your raw material contracts?

Mr. M.S. Unnikrishnan: Yeah, yeah.

Mr. Vinay Pandit: Okay and to what extent?

Mr. M.S. Unnikrishnan: Those are the ones where substantial changes are there, we are directly talking to the, you know, suppliers telling that since the raw material prices have come down, don't be unfair to be equivalent. We have to have long-term relationships.

Mr. Vinay Pandit: So, what is the degree of change that you are looking at in the next month or so?

Mr. M.S. Unnikrishnan: Degree of change?

Mr. Vinay Pandit: Yeah, between the raw material price at which you were buying previously and at which you will be looking to buy now?

Mr. M.S. Unnikrishnan: Whatever I re-negotiate now, I will not get next month onwards because all the orders which are already with them are some of

the materials which have come in will have to get processed in the factory and that will go in the old price.

Mr. Vinay Pandit: Okay.

Mr. M.S. Unnikrishnan: Only the ones which will come in, may be, Q4 onwards, we will get the new price let us say that.

Mr. Vinay Pandit: Okay, so you think any benefit that will get out of this raw material correction?

Mr. M.S. Unnikrishnan: Will be going to the next year.

Mr. Vinay Pandit: Will go into FY10?

Mr. M.S. Unnikrishnan: That is correct and that too subject to there are a couple of things because the market can also be very violent. See, if the market width were shrinking, then there will be a bigger fight for the pie between competition....

Mr. Vinay Pandit: Okay.

Mr. M.S. Unnikrishnan: So, a weaker of the guy can also go and cut his prices also. So, we need to wait and watch and play.

Mr. Vinay Pandit: Right sir, thank you sir.

Mr. M.S. Unnikrishnan: Yeah, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Salil from Ambit Capital. Please go ahead.

Mr. Salil: Hello sir.

Mr. M.S. Unnikrishnan: Hi Salil.

Mr. Salil: Sir, I just heard that you have to part away with the declining commodity prices, you might have to give it to customers?

Mr. M.S. Unnikrishnan: Yes.

Mr. Salil: So, does it mean that our absolute order backlog might shrink? Absolute number?

Mr. M.S. Unnikrishnan: No. This will not shrink. I am talking for the future orders. When I want to negotiate an order tomorrow, lets say an order in Q4, of INR 10 crore were to be negotiated and in that material component may be 60% to 65%....

Mr. Salil: Okay.

Mr. M.S. Unnikrishnan:and lower material cost, which can be anticipated in the next year. See, my competitor may consider forward lower prices.....

Mr. Salil: Okay

Mr. M.S. Unnikrishnan: ...then to take that order, I may have to also come to the normal level, that is what I mentioned.

Mr. Salil: Sir, in price variation clause, because now the prices have corrected by 30-40%....

Mr. M.S. Unnikrishnan: Yeah.

Mr. Salil:....the order value may not remain INR 100 crores, suppose....

Mr. M.S. Unnikrishnan: That is only two orders that I have with a price variation clause. Thankfully, only two of them are there.

Mr. Salil:Okay and in fixed price, is there any pressure from the customers to re-negotiate the prices now?

Mr. M.S. Unnikrishnan: So far, I have not been, people have spoken, but not executed anything so far.

Mr. Salil:Okay, okay, and sir, one on the water treatment business, how are you doing and any new orders on that front?

Mr. M.S. Unnikrishnan: Frankly, water treatment business has not booked any major orders in the last quarter. They have got orders, but anything substantial. Current quarter, which has just started, we have already got an order, which is relatively substantial order....

Mr. Salil:Okay.

Mr. M.S. Unnikrishnan:but otherwise, water I have not seen any major, like the energy segment, equivalent to that has not come in the last quarter.

Mr. Salil:Okay, okay. Okay, thanks a lot.

Mr. M.S. Unnikrishnan: Thank you.

Moderator: Thank you very much sir. At this moment, I would like to hand over the floor back to Mr. Misal Singh for final remarks.

Mr. Misal Singh:Okay Manjula, do we have any more questions, we have time for about two more questions if we have them?

Moderator: Sure sir. Next in line, we have Mr. Vishal from Safe Partners. Please go ahead.

Mr. Vishal: Hello, good afternoon sir.

Mr. M.S. Unnikrishnan: Hi Vishal.

Mr. Vishal: Hi. I had two questions. First one, you mentioned an accounting policy, I mean an Accounting Standard related issue between India and China for the chiller plant?

Mr. Gopal Mahadevan: Yeah.

Mr. Vishal: Sir, if I could understand it correctly, in China you have to book the entire preoperative expense upon the commencement of the operations. Is that correct?

Mr. M.S. Unnikrishnan: Gopal, would you explain to him?

Mr. Gopal Mahadevan: Yeah, you see, what we are saying is that in China you cannot....there is no concept of any capitalization....

Mr. M.S. Unnikrishnan: or preoperative expenses....

Mr. Gopal Mahadevan: Yes, capitalization or preoperative expenses, so the day

when the plant is certified to become, you know, ready for production, then till that date, the entire expenses have to be charged on to the P&L.

Mr. Vishal: I see, so what was the impact of that if you compare with the vis-à-vis Indian standard?

Mr. Gopal Mahadevan: See, I will tell you, the impact of that overall charge was about INR 5.2 crores.

Mr. Vishal: Okay.

Mr. Gopal Mahadevan: Otherwise, what would have happened according to the Indian standard, you could have capitalized the entire INR 5.2 crores and added it to your asset block.....

Mr. M.S. Unnikrishnan: You will amortize it across so many years only..

Mr. Vishal: Yeah, I understood, understood.

Mr. M.S. Unnikrishnan: Yeah, okay.

Mr. Vishal: Okay. The second question was a more general stock market-related question, given Thermax's more strong cash position and also strong, you know, cash generation.....

Mr. M.S. Unnikrishnan: Why don't you do buyback?

Mr. Vishal: Yup....I am not saying why don't you do it....

Mr. M.S. Unnikrishnan: Yeah.

Mr. Vishal: I am asking whether you would consider it at some point?

Mr. M.S. Unnikrishnan: Number one, at this point of time is that, the cash has to be preserved for the investors.

Mr. Vishal: Yes.

Mr. M.S. Unnikrishnan: It is their own money. We keep the money safe only. In fact, I mean, Thermax is especially safer than many of the banks in the world. Going forward, we will be needing it. See, we would have gone ahead with all our expansion programs if not for the current turmoil that is going on. We have very definitive plans for investments, going forward.

Mr. Vishal: I see.

Mr. M.S. Unnikrishnan: So, that will benefit investors rather than having their, you know, valuations going temporarily up.

Mr. Vishal: I understood, understood.

Mr. M.S. Unnikrishnan: Yeah, yeah.

Mr. Vishal: With Misal's permission, can I ask one more question?

Mr. Misal Singh: Yeah, yeah, please.

Mr. Vishal: Okay. Given the softening of the, you know, commodity prices, are you internally thinking to, you know, have a bias towards fixed price contract going forward?

Mr. M.S. Unnikrishnan: What contract, fixed price contract?

Mr. Vishal: Yeah.

Mr. M.S. Unnikrishnan: In any case, we had been only having fixed price contracts for so many years. Only when it started shooting up, we did not have a choice, but to ask for larger contract price variation clause. We will wait and watch, for it stabilize. See, if it is again going to go back or may be absolute terms, it is better to be having a, you know, committed profit being received by the company than a speculative profit, we are taken care of. I would rather say that at this point of time my preference is that take such time I have stability of commodity prices, I will want to have a price variation clause for certain large orders. Not all of them, but large orders.

Mr. Vishal: I understood.

Mr. M.S. Unnikrishnan: Yeah.

Mr. Vishal: Thank you sir and have a great Diwali.

Mr. M.S. Unnikrishnan: Thank you, thank you. Same to you Mr. Vishal.

Moderator: Thank you very much sir. The final question comes from Mr. Manish. Please go ahead with your questions.

Mr. Manish: Good afternoon sir. My question is with regards to your order that you got from some steel plant in AP, it is a Greenfield steel plant, you mentioned?

Mr. M.S. Unnikrishnan: That is an order which we have not...okay, okay....yeah, yeah...

Mr. Manish: You have not included in this INR 4070 crores that is....okay, can you just give me a few details. Is this company an unlisted company, this steel plant that we are talking about?

Mr. M.S. Unnikrishnan: That is correct.

Mr. Manish: Okay. Can you just tell me in what line of business the promoters are, if you could?

Mr. M.S. Unnikrishnan: They are already into mining. They are one of the largest miners of the country and iron ore exporters of the country.

Mr. Manish: Okay.

Mr. M.S. Unnikrishnan: And this is their first composite steel plant coming in....

Mr. Manish: Okay.

Mr. M.S. Unnikrishnan:for which they have already given the orders to various companies in India and abroad for the various....you know, steel mills and various, various other things, and these are for their captive power plant which will produce steam as well as power for this one, and we will be utilizing waste gasses coming from the blast furnace gas also, blast furnace also for this one.

Mr. M.S. Unnikrishnan: Here we have also received the first tranche of the advance....

Mr. Manish: Okay.

Mr. M.S. Unnikrishnan: So, then second tranche will be against the engineering completion.

Mr. Manish: Okay.

Mr. M.S. Unnikrishnan: Third tranche will come against major material procured and there afterwards, progress of work.

Mr. Manish: Okay, but have you received any advance from this.....

Mr. M.S. Unnikrishnan: Yeah, yeah, first tranche is already received.

Mr. Manish: Okay, okay.

Mr. M.S. Unnikrishnan: Otherwise, we will not inform....we do not inform the stock exchange unless we have the cheque credited to our account.

Mr. Manish: Right.

Mr. M.S. Unnikrishnan: That is the way prudence will demand certain.....

Mr. Manish: Okay, I got it. Thank you very much. That is all on my part. Thank you.

Mr. M.S. Unnikrishnan: Yeah, thank you. Thank you Manish.

Moderator: Thank you very much sir. Now, I would like to handover to Mr. Misal Singh for final remarks.

Mr. Misal Singh: Thanks Manjula. Thank you Mr. Unnikrishnan and thank you Mr. Mahadevan for being on the call and our best wishes for Diwali. All the best for the remainder of the year. Thank you.

Mr. M. S. Unnikrishnan: Thank you Misal, thank you. Thanks a lot everybody.

Mr. Gopal Mahadevan: Thank you, bye, bye.

Mr. Misal Singh: Bye, bye.

Moderator: Thank you very much sir.

Mr. Misal Singh: Thank you Manjula.

Moderator: Ladies and gentleman, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.

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