

Q4FY11 Post Result Conference Call Transcript**Representative:**

Mr. M S Unnikrishnan – Managing Director & CEO
Mr. Gopal Mahadevan – Executive Vice President & CFO

PL Rep.:

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Operator

Ladies and gentlemen, good morning and welcome to the Q4 FY '11 post earnings conference call of Thermax hosted by Prabhudas Lilladher. As a reminder all participants' lines would be in the listen only mode. There will an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call please signal an Operator by pressing * and then "0" on your touchtone telephone. I would now like to hand the conference over to Mr. Kunal Sheth from Prabhudas Lilladher. Thank you and over to you sir.

Mr. Kunal Sheth - Prabhudas Lilladher

Thank you, on behalf of Prabhudas Lilladher I would like to welcome the management of Thermax on the call. The management is represented by Mr. M S Unnikrishnan, Managing Director and CEO and Mr. Gopal Mahadevan, Executive Vice President and CFO. I would request sir to give some opening remarks for the quarter and then we will open the floor for Q&A. over to you sir.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Thank you Kunal and good morning and warm welcome to everybody who is participating in this con call. Thanks for your keen interest as usual in Thermax and the desire to know more about the results of the company. I am very happy to share with you that for the year ended March 31 2011 we have climbed onto the Billion dollar club thanks to the well wishes and support of all of you. At Thermax level we have revenue of 4883 crore as against 3185 for the previous year. At group level we are at 5337 crore versus 3370 showing a growth in excess of 58% as a group. We are a \$1.2 billion group. Revenue in the domestic market have grown by a 53% and including deemed exports, the export revenues have gone up by 62%. As usual our Energy versus Environment is remaining at 80:20 as we are able to meet our requirement and we are unable to change our breakup 80:20. our annual profits before taxes were 573 crore in comparison to 392 crore for the previous year. Despite the pressures of commodity pricing reasons, cost reasons and inflationary tension in the market we have been able to maintain our profits within the promise that we have made earlier. Current year we had a substantial increase in our EPC turnover by almost Rs. 1000 crore so normally when you do a decent turnover of EPC the margins would tend to shun but the exemplary efforts put by the team has been able to help to retain the balance sheet at the level that has come out in the current year. The order booking for the quarter it is 1273 crore for Q4 in comparison to 1366 crore for the previous quarter and if I have to compare with the previous year same quarter, we are lower by approximately 7% for Q4. But I would take it as despite the depression in the market condition we have been able to improve quarter over quarter and going forward also whatever may be the pressures inflicted on the market by the increased interest rates I have a cautious optimism of order booking improving in the current quarter also. Then coming at the company level our order booking for the year is 5793 crore in comparison to 5318 crore last year, sorry 5793 crore was last year and 5318 crore is for current year, it is lower than our last year number by approximately an 8%. This is an area where we have not kept the promise; I have not been able to keep the promise. Some of the orders are expected to be getting concluded in the first month of the current year of which one of them has been announced in the market as 336 crore. There are many more under negotiations at this point in time. The order booking if I am going to disseminate, the ferrous metals has contributed 20% and cement has contributed 15%, Power segment has given 12%,

refinery given 18%, paper and pulp 7%, then sugar and food together is 8%. These are the main segments which have contributed in the order booking. Now for the international order if I would keep the deemed export outside the physical export of the booking, 46% of the booking has come from South East Asia, Middle East has contributed 16% and Africa and Europe without Danstroker is 10%. One good news is that I am seeing a revival of the market in South East Asia which in earlier con calls I had been telling India has improved but South East Asia haven't been picking up I can't say buoyancy but leveling and acceleration happening in the economy in South East Asia. Despite the political pressure that we do hear about the GCC countries of the Gulf is even now protected and investments are going through I can see inquiries coming in from that market also. During the last quarter the Power division received order booking of 120 Megawatt for EPC and another milestone is that municipal waste based power plants which is fuel from residual of municipal waste of 14 Megawatt EPC is also concluded by the company. Our Water business is lucky to get an order for a plant for a 6 x 150 megawatt power plant and we are also currently rated L1 for one of the NTPC plants for the tender based power plants that's going to be coming up. Our order backlog at the end of the year is at 6446 crore for the group as against 5966 compared to the previous year. One more information to give you is there is critical joint venture I mentioned about the land being prepared by the company in the last con call. I am happy to inform you that we had the Bhumi Pooja conducted, construction work is going on at the full speed at the site majority of the contracts for the construction as well as the equipment purchase is all concluded. I should be able to keep my promise of having the factory up and going by September '12. Since the time is limited I will not consume any more time I leave it open for all of you to be asking any question. Thank you once again.

Operator

Thank you very much sir. Ladies and gentleman we will now begin the questions and answer session. At this time if you would like to ask a question, you may enter "*" followed by "1" on your touchtone telephone. If you wish to withdraw your question, from the queue you may enter "*" followed by "2". Participants are requested to use only handsets while asking a question. Our first question is from the line of Charanjeet Singh from BNP Paribas. Please go ahead.

Mr. Laxminarayan - BNP Paribas

Good morning Unni and Gopal. This is Laxminarayan from BNP. Hi, so my first question is of there is sort of the optimism in the entire power sector has come down by a couple of notches. We are hearing from one of your private competitors that the demand for captive power plants may also come off compared to the past and the reason for that is obviously coal not being given to the smaller power plants as well as non-fuel non-cement industries which traditionally do not have sourcing logistics system in place to procure coal may not be very active in doing thermal captive power units going forward. This seems to be your bread and butter business so just wanted your thoughts on that. That's my first question. Secondly we do see atleast 60 to 65% of the pipeline orders for '12 plan getting phased out. Going forward our sense is that there will be a lull in the market atleast till certain near term but having said that what will be your strategy for the next two to three years to gain traction in the utility range. These are the two sorts of macro questions I have and then I'll join the queue. Thank you.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Laxmi, the first question is very pertinent. It is there in the mind of all of us that as to will the captive power have a reducing impact in the market. I am not seeing anything like that. Though logic says that when larger power plants are going to be coming in India in captive should be coming down. Fortunately for us the trend has not seen that. earlier we had orders coming in from JK cement and steel the last quarter though we didn't declare that we had an order from Indian cements for 50 megawatt. In order also from change in the paper company for 40 megawatt captive power plant currently I have enquiries for captive power plants from cement industries from certainly the steel industry. I don't see any kind of market sentiment which indicates that people are wanting to

move away from captive. On the contrary I am getting reconfirmation that people want to get in and how are they going to manage the coal? Well coal is an international commodity and in any case even for the larger power plants I mean indigenous themselves have been talking about wanting to buy mines. So it is going to be an important call which is having a lot more in the captive power plant segment and at a levelized price from the international market also one will see an arbitrage of not less than 50 paisa to Rs. 2 per unit of electricity depending upon the location state you are in and the price of coal. That's number one and so I want I mean I would have also joined your argument currently I need to differ with you because the market is indicating different kind of mood. On the utilities side you are right that on the 12th plan good number of power plants are not ordered out concluded especially with the two or three bulk orders placed coinciding with the visit of the Prime Minister of China the contract signed and one of them having financially closed with the Reliance Power. Others are all concluded and are ordered may be bigger orders and these are all concluded and I have not seen the financial for all of them and I would for that to be happening because sorry to say I don't have that kind of a confidence that for 12 numbers a 660 megawatt the current promoters will have the ability the generated the equity for the situation for. So these are all bulk orders placed to negotiate and get a price. I don't think we need to be duly different by that. Whereas currently atleast one capacity has come on board the BHEL, second Larsen and Turbo has started manufacturing and Thermax is planned to up and going to be in September, BGR announced land procurement and I do believe that they may be serious in going ahead with that. Even if four of us were going to be on board I would expect 2nd portion of the orders of 12th plans onwards are going to be for Indian companies. In NTPC tenders I don't think there is any participation expected from Chinese. So going forward 2nd half of the 12th plan and 13th plan which is under discussion with the planning commission that some of us also are participating in now as committee member I do see positivity that going forward government is wanting to support the Indian manufacturers, how they support let's sit and watch. And so I mentioned setting up a 3000 megawatt capacity only and I need to get maybe one or two orders first which is not a difficult task at this point in time as I expect.

Mr. Laxminarayan - BNP Paribas

One small question and then maybe I pass it onto the others you said you don't see any signs of slowdown from captive power plants from industry which are these power plants are you offering multifuel option and or is there any way that you are you know de-risking their investment in case the, can you explain?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

See you are more engineer than me I am sure about that. Certainly nobody in captive segment will go for a unifuel design at this point in time. It indicates important call as the domestic coal are number one second is that they also have facilities for petcoke firing which is a residue fuel available in our refineries and mountains of this are available abroad which I think will start coming to India because of the sulphur, difficulties not being combusted in the rest of the world but India positively desulphurization possibility and many of them are the smaller range are even going for biomass qualified power plants. See when you say captive power, the captive power may extend from a 5 megawatt to may be a 100 megawatt. An average capacity is today is 20 to 25 megawatt baring some larger capacities where it is larger than 25mw also. And there are multifuel capabilities built in and customers do ask for it and it is natural tendency for manufacturers to be offering that as a standard package.

Mr. Laxminarayan - BNP Paribas

Perfect, thanks so much and good luck.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Thank you Laxmi.

Operator

Our next question is from the line of Madana Gopal from Sundaram Mutual Fund, please go ahead.

Mr. Madana Gopal - Sundaram Mutual Fund

Good morning Sir.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Yes Madana.

Mr. Madana Gopal - Sundaram Mutual Fund

Sir can you explain the impact of this the DEPB withdrawal if you can tell us what kind of withdrawal that can have on financials and can you repeat the order inflow percentage you gave segment wise and the same of the sales and the order book also.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

I will answer the first portion and I will request Gopal to help you for the second portion that. This the withdrawal I have heard it also yesterday in the evening only that export benefits are going to be withdrawn. Thankfully our exports are not based on that and it is not a major impact to the balance sheet in terms of either positive or negative at this point in time. So I don't find anything is going to happen negatively. However as an Indian and somebody who is representing the capital of the industry I think the government has reacted the wrong way which I said in some interview early in the morning also that seeing the export climbing on to \$240 billion the government should have been supporting the industry more because if they want to grow the economy by 8 to 9% next year about 2012 – 13 because there is an improvement in various balance sheets not like Thermax but other companies and they are able to sell outside to the kind of benefits available and the domestic markets is not in the buoyant condition at this time. And second let me lead to Gopal to give you the booking and the order booking revenue recognition for the segments.

Mr. Madana Gopal - Sundaram Mutual Fund

Sir, So what kind of players would really get impacted because of this? Can you repeat that?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

See the advance license facility which is there is what is going to be withdrawn. So it is going to be cumbersome for people to make it happen and Gopal what will be the kind of percentage deficiency which may bring it to the balance sheet of the company?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

No he is telling what sector might be impacted or which company might get impacted?

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

People see the sectors are essentially going to be all large exporters who are actually going to through the DEPB route instead of the drawback route.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Especially the manufacturing people who have processing done within their premises will not have a humongous impact. It will be to the export houses.

Mr. Madana Gopal - Sundaram Mutual Fund

Ok. Ok, I got it.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

See Export houses will have an impact and to what extent that depends upon the money block up and may be bulk you are importing capability and your negotiating capability, intra trade is the kind of area where it will have an impact over there.

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

So the government has been also you know it is not the first time that they have been mentioning about this withdrawal, quite some time so it has happened but I don't think it's really going to impact that's the initial reaction.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

See in my opinion they saw see Anand Sharma had been talking about 200 billion withdrawals when they did a excessive calculation they came up with 214 billion, so some price going walk up there let us stop the benefit. The real export benefits have happened earlier whereas as packing benefits have been available at subsidized interest rates for an export benefit where you get an income tax offset, lot of these are available currently.

Mr. Madana Gopal - Sundaram Mutual Fund

Ok. Thank you sir. So can the second question on the order inflow can you repeat it?

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

Can you just let me know what numbers you want?

Mr. Madana Gopal - Sundaram Mutual Fund

Sir you mentioned the order inflow percentage wise from metallurgy and all, I missed out on the numbers. Can you repeat it again?

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

See I will repeat it for you. See metallurgy it is 20%, cement it is 15%, Power it is 12%, refinery 18%, paper and pulp 7%, then sugar and food is 8%.

Mr. Madana Gopal - Sundaram Mutual Fund

Can we get the these numbers for sales order book also if it is possible.

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

This is order book only we are talking. What happens is when the revenue is recognized, the full may not go through. This is the component supply and assembly at the site. Normally we want to give you numbers which can be related.

Mr. Madana Gopal - Sundaram Mutual Fund

So my last question is on we continuously keep on hearing that some companies entering in heat recovery boiler manufacturing and they are in tie up with some Chinese companies and they have got few orders recently, so are you seeing some increase in the competitive intensity in these segments as well in the ways to recovery in the Siemens plant particular?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Yeah there is increased competition in that and we were the first players to come and supply the first one to JK Lakshmi and then we repeated it for two more customers. We currently have enquiries also and yeah there are companies with Chinese tie ups being offered very low prices. As such these are very long payback discussion projects so customers may have a restriction of investment capability so what is that going to companies with Chinese collaboration. Yes only in that segment increase in competition, mark my words, they will come to people like us later and there are many who have tried in capital sector with companies in Chinese some of the very large Indian groups with Chinese captive power plants had to invest a huge amount of investment in supplies.

Mr. Madana Gopal - Sundaram Mutual Fund

Ok. Fine. Thanks for taking my question.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Thank you.

Operator

Thank you. Before we take the next question, we would like to request the participants to please limit their questions to per participant. And our next question is from the line of Venu Gopal from Credit Suisse, please go ahead.

Mr. Venu Gopal – Credit Suisse

Hi, good morning Unni and Gopal.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Hi Venu.

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

Good morning.

Mr. Venu Gopal – Credit Suisse

Sir, you know firstly based on your visibility of orders that you are seeing, of course I am excluding the LPP segment as of now. Is the industrial environment or activities strong enough for us to see any growth in orders this year from our core order inflows for us?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

It is very difficult to predict the current year unlike the previous year on account of the fact that uncertainties in the global geo political segment and in Indian system it is not predictable so all of us have some you know perceptions, let me tell you perception I am giving you not prediction I am giving you, at this point of time I am not seeing any reduction in the enquiries though order finalizations are getting delayed because credit is concerned and interest rates are concerned which we continue repeating. How are the inherent demand in the market to consume is continuing, so I am also an investor as well as a supplier that's the way if I look at our own investment plans I am unable to decelerate away or reduce the investment for capacity building for Thermax also. Why? Because if I were to depend upon the olden days ROI concept that say in 2004-05-06 where any investment was returned in three years period of time or only 4 years period of time, the RO is better because the interest is I am not talking about we because Thermax doesn't borrow money from its customers. Whereas now it will be 12 to 14% interest rate depending upon the strength of your balance sheet you will need to be getting 21 to 22% to be happy as the Indian investor which has got to come down as they say I am willing to be investing at maybe 18% IRR though the interest rate may be 14% because you don't build a capacity for three or four years, you really make money after depreciation payment of the loan is over. So I am seeing a set of bold Indian customers having a medium to long term view ready to be investing in a small amount of time so this gives you a confidence that I will be getting on it, number one. Second as a company I am fairly dealing by my participation in multiple segments in like the water business, the municipal segment, consumer segment plus I have got air pollution control which is mandatory for companies who are setting up factories for even the existing ones get a pollution control letter. For an absorption chiller is an efficient pollution control equipment that may be for better pay back and small capacity boilers are going to overtake. And these put together there is a fair de-risking available for me. But we might accelerate order booking better than the previous year I will be making a perceptive mistake in that way and so I won't reveal that it has to be seen quarter over quarter but we are aiming to be we will have to be very aggressive in pricing very aggressive in the market we can't afford to be leaving one enquiry. And we are a billion dollar Size Company and so had that ways to grow double digit is a challenge which all of us are seized upon and we will make it happen also.

Mr. Venu Gopal – Credit Suisse

Sir my second question is on the LPP segment I think you have mentioned in the call today that instead of one two large orders you know that can be expected this year I just want to understand where are we on negotiations for such orders, are we in a very early stage, is it like any might happen in the second half or are we close to finalizing and what is the pool of orders that we are sort of negotiating for in this segment especially the sub critical side?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Venu I did not say LPP segment I told power plant so i think I should be very careful of the adjectives that I use. Because that is a big word at this point in time and it is the captive power which I did mention about and in the LPP segment there are enquiries but LPP segment an order in the year equivalent, last we did follow one till the last and we missed a lot which you are aware of also and current year we still have enquiries on board and we are very clear about the fact that whether it's the LPP or captive power plants. Thermax will not compromise on the commercial aspect as some of our due diligence in taking an order. So I don't want to comment

on the possibility of how many of them we follow. See if there is an enquiry in the market today if it is a good promoting company with a strength of balance sheet we are following those enquiries. But most of them are taking a very long gestation period because I am not finding in the sub critical range of 100 to 300 megawatt where a single investor has got a balance sheet available in their equity portion so we have to depend upon you know equity support which we something which is very doubtful of the current year I mean the geopolitical situation to avail in India plus global market so we are following and I can't comment on that how many of them will reach a closure. It is a segment that I won't predict anything because it's so chunky if we lose one of them then our prediction will go wrong. I would rather have of medium sized orders followed.

Mr. Venu Gopal – Credit Suisse

Ok. Thank you so much sir.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Thank you Venu.

Operator

Thank you. Our next question is from the line of Aditya Bhartia from CLSA, please go ahead.

Mr. Aditya Bhartia – CLSA.

Hello good morning sir.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Yes Aditya.

Mr. Aditya Bhartia – CLSA.

Sir as you mentioned there were some large projects for which Thermax had participated in bidding but lost out to competition. So are you seeing pricing pressure getting very intensified and what could this mean to Thermax's margin going forward?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Pricing pressure is there on account of the fact that commodity prices have not eased out, may be food price inflation everybody will write because that affects the common man, steel price and copper price increase doesn't possibly affect the common man directly but it is impacting the balance sheet you always have a way to come out, the management has said that you got to run the balance sheet very tight. If you look at the Thermax balance sheet in the current year I am trying to sell the balance sheet but certainly saying that we have been able to manage our, Gopal and team have brought down our you know accounts receivables from 84 days to 70 days, inventory was brought down from may be cut short from 30 to 40 days. If you tightly manage the distribution you can still manage your margins and you got to put the pressure back onto the supplier to be innovative enough to deliver quality at a lower price. So I think that is the game just to complain that commodity prices are at premium I am unable to move the market is not the right solution. However the only worry that I have going forward at this point in time is there is a slackness in the order finalization in the market there are weaker competition who may have to under cut to take orders at very, very low prices bring the price down and then you may have difficulties but I don't think at this point of time we are set to that level in the market.

Mr. Aditya Bhartia – CLSA.

Ok thanks. And sir as you mentioned that you have been able to control debt days very well during this year but you see them moving up on account of change in nature of projects which you undertake as well as with the customer's balance sheet becoming little weaker than before.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

There are odd possibilities of such kind of cases happening so you could have a closer management of that you have done so what we do is that in majority of cases we have a system by which you do a good DD of the project available after getting the order also. And we accrued the manufacturing process also and the order situation is processed only on the basis of how the project is progressing that you don't unnecessarily lock up capital in that fund and well I mean customers always have always a tendency of not to pay you and we have to be after them. And that's going continue. And credit is going to be at a premium and they are paying huge interest so everybody will want to pay you late so we have to be very clear about the fact that we got to do a good follow up for it. There could be one or two cases couple of cases getting in the way. Aditya it's always there. But it's a closer watch on the projects. If you can leave your sites on projects you can certainly have huge money getting stuck and then having difficulty evaluating them.

Mr. Aditya Bhartia – CLSA.

Ok so the way things are going you expect that you should be able to control your working capital should control your lower lateral.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Yeah we should be able to manage it.

Mr. Aditya Bhartia – CLSA.

Yeah thanks.

Operator

Thank you. Our next question is from the line of Sreenivas Rao from HDFC Mutual Fund, please go ahead.

Mr. Sreenivas Rao - HDFC Mutual Fund

Yeah morning sir.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Good morning.

Mr. Sreenivas Rao - HDFC Mutual Fund

Can you tell us what would be order intake from the new initiative like JVs over the last two years that you have done and what is the order intake in FY'11?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Thermax SPX operation started last year and we have not had any orders come to this JV in the last year and we expected that the the JV having all the technical support before we start bidding for a process. We only bid for one in the last one year it was NTPC for the ESP which we were not the winner. And now the bids are under preparation and the current year I would expect order booking to start from the current year.

Mr. Sreenivas Rao - HDFC Mutual Fund

So what can we expect sir this year and next year?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

I don't have the answer because it's not like you know small order value because these sort of mark maybe upwards of 100 crore. So there are atleast 2 to 3 bids we would be putting in the current year we should be able to see atleast one odd from the current year.

Mr. Sreenivas Rao - HDFC Mutual Fund

And what about initiatives in the water and solar sir.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Water we had fairly good order, Gopal just give a possible indication for the water. Only for water and then Sreenivas don't ask me every quarter.

Mr. Sreenivas Rao - HDFC Mutual Fund

Oh no, yes sir.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Otherwise you'd make my life miserable. Just the water.

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

The Water order booking for the full year was 443 crore.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

So that's a fairly good number. You can see that may be in the 200 crore that we were in the earlier part it has become a fairly large sized order but I did also make a word of caution last year in the municipal segment despite second part of last year despite our best efforts the order finalizations weren't so fast because JNNURM funding had been slow paced in the last year though they declared that they would be investing X amount of money they had even delaying execution of many projects. And in fact we have got fairly

good rating from JNNURM also but most of the other competitors who do the work are normal contracting companies that there could be reasons for their delays. So there had been slackness in the orders in the second half of the current year and also expecting that the current year they have to disburse funds to declare government indications higher allocation for sewage treatment for the corporations. So that's about the water story. Solar has started picking up, it's not substantial numbers to talk about in crore, it's better to talk about the kind of projects that we have done. We had very good projects for heat pumping and chilling and using solar energy at Mahindra and Mahindra in Pune. We have done around 7 or 8 hotels which are you know on Solar cooking and laundry and we have done three projects on solar cooling and another one is we currently set up for the national solar mission of government of India. It's currently in commissioning in Delhi for first of a kind solar cooling project. One more thing to talk about is university in several parts of India buying you know for 37 dishes from our company which will displace in 30 tons of LPG per year using solar energy for cooking. I want to talk about solar in terms of numbers because clearly we are very open and these are investment pickup intimation for it to be creating an impact because the balance sheet of the company you should be giving me three to four years of time. That is one thing.

Mr. Sreenivas Rao - HDFC Mutual Fund

In the water what do you think is the addressable market for Thermax in terms of per annum site?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Three segments we are operating the first one is the commercial segment, the standard size unit where the market is currently of the type that we are doing. I am talking about standard type 750 to 1000 crore depending upon how many colleges come and how many hospitals come and small scale industries to come up. We have a market share of double digit share at this point. Thermax now reaching may be upto their 15 to 20% of the market share. Then the largest market is the municipal where the municipal ward segment is approximately 5000 crore in my opinion which we are not present nor do we intent to participate in that. That is something which is the pumping and piping equivalent. Then comes the sewage treatment where our estimate it's not very steady can be anywhere from 1500 to 2000 crore, of which JNNURM comes in about 1000 crore projects because there is an assurance of payment available. And in that certainly we had an order booking in double digit market share of that. So addressable market if you put it we are currently at 3000 to 3500 crore at this point in time doing at maybe 10 to 15%.

Mr. Sreenivas Rao - HDFC Mutual Fund

Ok so one last question from my side so what is the O&M power business?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

We currently have 641 MW of power plants in O&M in the company and good news is that large scale we also moved away from O&M from our EPC, so current numbers are 2/3rd and 1/3rd, 2/3rd of EPC and the other 1/3rd is from outside. We are now moving into even pulverized sulfur you know boiler based EPC or O&M which we are doing for one of the Aluminum or Steel companies of India. And now we are bidding for 100 MW for operation later. We have also introduced remote monitoring facilities for power plant operation.

Mr. Sreenivas Rao - HDFC Mutual Fund

Thanks and all the best.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Thank you Rao.

Operator

Thank you. Our next question is from the line of Nainesh Rajani from Tata Mutual Fund, please go ahead.

Mr. Nainesh Rajani - Tata Mutual Fund

Good morning sir.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Good morning sir.

Mr. Nainesh Rajani - Tata Mutual Fund

I just wanted to ask you did mention you were unable to win the order for the NTPC order that you actually bid for and also we have seen for over the last six months competition coming up and took away orders that we were likely to win. You did mention the opportunity that you have in various water treatment plants but how confident are you for your order book to grow next year taking into consideration three facts that competition had increased and again the macro picture does not look to be as great as we had seen some time ago and how confident are you about winning increasing your order next year?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

It depends on tender, it will come down because the tender is something that you put a number and the L1 gets order and whereas in the negotiated order the value had a factor and the lifecycle comes in the picture and you have to dial up with the customer and then you are able to finalize and that should help you because we do supply a product which is there at better availability and there are lot more of additional services provided into the company which is welcome by the customers because my survey indicates of the last one year that in excess of 50% of my orders are from my repeat customers. So there are people who value the relationship for the service that we provide. See one thing in capacity building in the country in terms of industrialization you have to take a beating expecting that I will have higher quantum of orders. If the country were to be growing at may be whatever the percentage 8% or 9% which means people will not invest. We have got to believe in something anchor my thought process on the growth of the country I should be able to increase my order book. By what percentage will depend on what exactly mentioned as to competitive minds? Not that we are resting on our laurels. We need innovation, creation products better versions of products and looking at the competition, we don't offer mark two products which are not better than the market competition. So there are lots of activities happening. Second is that unlike many of the medium or small size company, we have a global footprint. We have not closed any office internationally. We have contained and supported customers and I am expecting customers to come. Will I able to growth the order booking? I am sure no CEO of the country of this industry is going to be telling I am going to have a reduction in the order booking. Am I correct? So my intention is that it goes up and I put in all efforts to ensure that we grow the order booking. And the larger tenders that I mentioned about are the large turnkeys but that are not sustainable but I don't reject a project for losing a tender for a project. Because we do our homework very well and I know if it's an order not go after.

Mr. Nainesh Rajani - Tata Mutual Fund

Thanks a lot and good luck for the future.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Thank you.

Operator

Thank you. Our next question is from the line of Bhavin Vitlani from ICICI Securities. Please go ahead.

Mr. Bhavin Vitlani – Enam Securities

Hello sir.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Good morning.

Mr. Bhavin Vitlani – Enam Securities

Sir I am Bhavin from Enam Securities. Three questions number one is my observation is that the proportion of the EPC revenue booking has increased, so could you help me with the proportion of products versus EPC versus services revenues and what is your outlook towards the business mix for next year? number two is looking at the order backlog currently , if the order booking were to slip beyond the first half the revenue booking would have been increase, so could you help me understand how the revenue booking can be better off? Third is on the order inflow breakup, could you help us with the order inflow breakup similar way so that we can actually do a comparison of which industries are doing traction?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

I'll give you two one is the EPC and the balances you will get the number straight away from Gopal. Gopal what is the numbers for?

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

Shall I give the number for the full year?

Mr. Bhavin Vitlani – Enam Securities

Sure

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

You wanted the order booking right?

Mr. Bhavin Vitlani – Enam Securities

The breakup of order booking which you shared for the current year I if you can help us for the different segments also so that we can actually give you a comparison of which industry is showing traction?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

'10 and '11 he wants FY '11 and '10. The order bookings for that.

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

Ok I will give you that. Tell me whether this works ok. See the total order booking for Thermax for the full year was 5318 crore and last year 5794; out of this 5318, power division orders inflows was 1530, and the last year the same order inflow was 2140. Is that what you wanted?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Just a second Bhavin last year we had power that one big order of Menakshi in FY'10, in the current year there is no such kind of an order so the main drop is in the Power division, whose overall power reductions is 600 crore which indicates that for the products there is an improvement of better than the previous year.

Mr. Bhavin Vitlani – Enam Securities

The second question is on the proportion of EPC in the revenue booking because I am trying to correlate with the drop in margins because EPC is a low margin business.

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

The full year revenue was 4788 crore out of which the EPC, the Power EPC business was 1501 crore. Last year 3088 crore and the power EPC business was 583 crore.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

It was 1000 crore more in EPC which should be made by margin come down but we did not make it happen because our guys were all over to ensure that the margins would be retained for all of you.

Mr. Bhavin Vitlani – Enam Securities

And on the same lines what could be the proportion of the same which is FY'11 and '12 so I am trying to gauge the margin impact on the same.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Margins impacts which are forward looking statements are avoided by Thermax normally in that's why. Because then I am committed. It's not that I don't want to reveal. We always struggle to ensure if there is any reduction that we see to break it up and the more committed the market that my margins are going to drop down and I have already given up and that hadn't happened that

way and thankfully my order carried forward to be still working to improve the efficiency in purchase and internal efficiencies to somehow ensure that we held our own benchmark.

Mr. Bhavin Vitlani – Enam Securities

In that case if you can help me with what is the proportion of the EPC mix of the outstanding order book?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

I can give you that much.

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

Sure, the order balance is, for Thermax again is 5605 crore out of which the power EPC accounts for 2219 crore.

Mr. Bhavin Vitlani – Enam Securities

And same for last year?

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

Last year 5381 carry forward for the previous year out of which the Power division accounted for 2451 crore.

Mr. Bhavin Vitlani – Enam Securities

And my last question was, what is the outlook towards the order booking for the FY'11 and if in my reading the order booking does not pick up in the first half the revenue growth for current you would be single digits and may be flat for FY'13. So if my reading is means right if you can correct it or you can add it on, my thoughts.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

It is something which we are clear that we have to be booking orders in the first half, and first half across the year, if I look at the visibility and the traction which is seen in the past two months, despite the government trying to retard the infrastructure development by you know interest rates being increased, there are bold Indian investors who are still going ahead, who are supporting us to get better orders that is going on. So only question is that is it sufficient to the market is full of enquiries and full of isolations that people enjoy and that enjoyment is not being here and that's the situation there is currently. So every order is taken very seriously at the; most of us are currently engaged in inferring that we have the cost reduction exercises done and before contracting is and negation time itself we do participate and all that is happening. Wait and watch. If you ask me personally first of all last year we had good order booking infact even first quarter was more than 1000 crore and second quarter was 1700 crore and then we have dipped to 936 crore in the third quarter and increased 1236 in the fourth quarter. I am expecting that atleast first quarter I should be exceeding I am working towards reaching upto the last year may be exceeding and I want to take month over month and quarter over quarter for the order booking. Even if I look at the finalization happening at the steady business of the company which is the product side of the I think there is no reduction in order booking. No reduction on enquiry generation. Main indicator is my channel order booking for the last year was 411 crore as in 320 so there was almost 20% improvement in the channel booking. The channel is one in which booking are for the smaller plans, the smaller baby boilers the chemicals, the effluent standard control boilers all put together which means the market has been up in the last year and I am expecting that market to be high.

What you add is these chunky orders of 200 crore and above which are to be fought and bought and their margin are under pressure I agree with you.

Mr. Bhavin Vitlani – Enam Securities

Thank you so much for answering my question and wish you all the best

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Thank you Bhavin

Operator

Thank you. Participants are requested to please limit their questions to two per participants. Our next question is on the line of Mr. Rishi Iyer from Citigroup please go ahead

Ms. Deepal - Citigroup

Sir this is Deepal here

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Yes Deepal

Ms. Deepal - Citigroup

I joined late in the call first question I had was more on Housekeeping your fourth quarter order inflow for the group entity is how much sir?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

For the group is

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

For the group is 1528 crore

Ms. Deepal - Citigroup

One five two eight crore for the fourth quarter and for what would be it for full year?

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

Full year was order booking for the group was 5947

Ms. Deepal - Citigroup

Now the split that you gave seen the various segments can you give some splits for the order booking?

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

Various segments in what Deepal?

Ms. Deepal - Citigroup

For metallurgy, power segment etc.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

The difference between group and TIL and the TECC are the power and boilers so it will be almost same the proportionately almost same proportion don't make any substantial difference

Ms. Deepal - Citigroup

Okay. Sir the second question that I have was from what I understand in the commentary so far you saying that only lower segments and the lower power plants seem to be fairly steady and you know it seems to be going in as expected it's in the larger power projects that you know you are seeing competition and could see some potential pricing pressure

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

You are right

Ms. Deepal - Citigroup

So now we all know the first half would look actually weak but given that the rates are higher do you see there is a possibility of a slowdown continuing into the second half and if that happens what could apart, see there is only an amount of headroom that you have to improve efficiency beyond a point you have to take a call on pricing. So how much headroom do we have to kind of combat this pricing pressure and beyond at what point do we take a call that ok fine you know aggressively in terms of price?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

I need to segregate the growth for the company not to have flatness for this year or the next year. this year the level of reimbursement available on the orders carried forward that I have but will it for the next year and to build a next year if I were to find the first two quarters are booked in the maybe the second half of the current year, if there is a difficulty at that point in time then you take a calculated call I don't expect that call to be taken in six months period but in the second half of the current year imagine that you can build up an order booking in the current year also which will run into the next year and which will ensure that the fixed costs are covered and I am quite ok on that count and I will go steady on my pricing and if I find that order bookings aren't happening as expected in the first two quarters or the margins are not what I have to then certainly I will have to ensure a move from the larger nature. See this comes in because when you have multiple orders on finalization you can be steady in margins but when the elementary number of orders have to be finalized the first one will be the weaker of the competition. And the customers take advantage of that and if the customer is of certain standard and repute he may only take marginal advantage but if it is one of

those customers who don't mind buying from anybody, there are some customer that will not buy from some category of supplier especially for a boiler of 25 crore or 50 or 100 crore equivalent EPC. So there are customers who will buy from established companies. They will negotiate and make you reduce the margins where the overall margins comes down by 100 to 200 basis points. But there will be somebody who is not willing to listen to reason he will say that I am getting from China at X price. We will come down to the same price or maybe we will talk about C category Indian competition who may be willing to put his pants down to get the order. So there the decisions taken by the company that we don't want a premium but understand that this is a quality product and we want a return for that.

Ms. Deepal - Citigroup

But Sir you know prices in the industry once they come down unless consolidation really happens they don't go up again.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Not in contracting kind of project. So there are times in which we can do somethings, see everybody had got limitation capacity because when you book say couple of chunky orders your ability exceed the delivery period requirement comes out for the next order from the customer. So that's where otherwise there is no reason for delaying the project. And it falls into the normal pattern that you follow the automobile industry or durable industry. See if suppose my hands are full of orders then I can't take a big order, so there will be somebody who doesn't have orders and they want that in 20 months so we can have a premium in the market. So there is some kind of dynamism that plays out.

Ms. Deepal - Citigroup

Last question from my end, given what you have seen in the market as well as in terms of the interest rate and cost pressures, what is the kind of order inflow growth that one could look at for the current year if at all growth can be achieved?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

See we don't want to predict anything but we don't want to betterment on account of the fact that there is an improvement in the nature of the market in international market which is not as good as I spoke in the last year and depends upon the local projects alone and in that government projects play a good part. Currently I am seeing the international markets the area that we operate South East Asia, Middle East despite what people have read about the all unrest happening political unrest happening, GCC is not having any major unrest. And with the price of oil in triple digits they would like to invest their money in their own country. And South East Asia there is traction. So apart from that see power is a big factor when there is retardation and when the rate of interest is not picking up. But lot of expansion capacity in textile industry is going to happen sugar, cement, are all happening. There will be a lot of ripple effect that is going to be happening in the country. If you tell me there is an 8% upwards growth in the country that you are predicting currently to grow by 8%, you have to increase various capacities by atleast 10 to 15%. That 10 to 15% more orders have to be in this current year. Despite my difficulties across pressure I can get the share of my market alike. So let's all be working towards the improvement unless there are political blunders done by the country. I am cautiously optimistic Indian.

Ms. Deepal - Citigroup

So the last question from my side on the consolidated numbers what was your EBITDA margin for the full year?

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

Consolidated EBITDA margins just give me a moment. I'll just come back to that.

Operator

Thank you. Our next question is from the line of Pranav Gokhale from Religare AMC. Please go ahead.

Mr. Pranav Gokhale - Religare AMC

Hello good morning sir. Sir just taken the cue from the last question, how much of the total sales are the booklet and how much will be the actual products which will be all cycle so that inflow and execution both may happen in the current year?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

I can give you an average this is not easy to predict. Because the chemicals business was around 200 crore which was booked in a week. We got this channel line of products of over 400 crore in the water, boiler, chiller in the range of 4 weeks to 12 weeks of delivery period. Then have got medium sized products which range in values between maybe a 1 to 5 crore kind of size which you will do in one year time. The rest of them have long gestation time. For projects from 1 to 5 crore to 50 crore we do in less than 16 months. Then Captive power plants are from 18 to 24 months.

Mr. Pranav Gokhale - Religare AMC

If this is the percentage list of over the last two three years because of the IPP coming in and going ahead this order book size, overall gestation period how much has that changed over the last 2 to 3 years.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Other than the Meenakshi project which went till 30 months period. Our mix of orders remain constant. We always have 1/3rd of orders coming from small projects, and rest of them from medium to large scale. Quarter over quarter it may go 10% over. But 1/3rd and 2/3rd is the normal ratio that we have.

Mr. Pranav Gokhale - Religare AMC

In terms of the orders I mean LPP was there a material pricing difference or was the payment term that actually affected the process?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

I would resist on commenting on something like that. Because it will be unfair on the part of the person who took the order and placed the order.

Mr. Pranav Gokhale - Religare AMC

I am just trying to understand whether we have lost out on pricing or payment terms?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

It's a combination of these two and other two factors.

Mr. Pranav Gokhale - Religare AMC

And sir last question, in less than 100 MW space and less than 300MW space in the industrial, what is our market share currently and how much has it has been over the last two three years?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

In the less than 100 MW there are two types of markets, one is where people buy only the boiler and second is EPC have gone in for. Now the boiler portion where we do have a substantial presence large scale our market share was almost 37%. And in EPC last year again 30%. Between 100 to 300 you can't have a market share because only one or two orders get finalized every year.

Mr. Pranav Gokhale - Religare AMC

Ok so less than 100 MW of power, its 37% market share probably has it stable or it has increased over the years?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

It has increased over the last two years and it was 25 to 27%. We have been able to have our entire process include and better product available in market. And we are number one in position in the entire country. The heat recovery steam generator that we supply or the gas turbines, we are ahead in these two products also.

Mr. Pranav Gokhale - Religare AMC

In the 72MW order which we have received from combined cycle how much ordering actually booked or has it been completely booked?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

It's is only started execution in the last year and a major portion in the current year.

Mr. Pranav Gokhale - Religare AMC

Thank you sir and all the best.

Operator

Thank you. Our next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Mr. Sandeep Tulsian - JM Financial

Yeah good morning Sir. Firstly I would like to know if you can give us some color on your cooling and chemical business the way you explain on the water segment as in how the market is looking up and how have you seen the order inflow in the past year.

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

In the cooling, the first half of was not very promising and it was very flat. Second half things have started picking up. Cooling 40% is coming from outside India. Only the Middle East, the South East Asia or the North American did not pick up. Domestic market was very flat. Second half we started getting orders from international market. We have been able to make a dent in Solar chilling in India and abroad. Last year we had a marginal growth only. Going forward there will be improved growth from Europe America and Asia added to them. America was substantially better. We also have our operation in China which also have subsidiary. Last year order booking was very positive in the last two quarters. And we are heading for a good year we have got orders from I think almost of 70 chillers of last year. Currently we are expecting order of 100. We are heading for cash breakeven in 18 months for a 100% subsidiary. So 2013 – 2014 we should be substantially larger than Indian players. So we can look forward in Chinese market which are 50% of the global market to look at product capability and so we can be one of the top front players. Chemicals has almost touched 200 in the current year. There are two segments; the first is Resin business where we have got limitation of capacity in Maharashtra. The new chemical factory at Jhagadia is awaiting clearance from the pollution board. The performance in the chemicals business is growing atleast 20% and it's a high margin business. And the Jhagadia plant will be commissioned in the second half of the year. I would expect an average of 15% YoY growth in the chemicals business.

Mr. Sandeep Tulsian - JM Financial

Secondly I would like to know the order intake in the power business that you have highlighted in Indian rupees and in terms of megawatt terms also, what has been that number?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

I can give you an approximate number because the real calculation, Vishal is just taking out the calculation. So let him calculate it and normally the way you would calculate it may be divide by 4 crore on average. 370 MW is the range.

Mr. Sandeep Tulsian - JM Financial

370 to 400. It's down from 630MW mainly because of Meenakshi project. And lastly I would like to know on the Meenakshi and Brahmani order what is the status?

Mr. M S Unnikrishnan - Managing Director and Chief Executive Officer

Meenakshi is going in at very on schedule and we are going to have trails started by the second half of the year. I would expect Meenakshi to be revenue recognized by the current year. Number I can't give you because it's on contract. Brahmani order is on hold at this point in time, there is no movement in this time.

Mr. Sandeep Tulsian - JM Financial

Ok sir, that's it from my side. Thank you very much.

Operator



Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Kunal Sheth for closing comments.

Mr. Kunal Sheth - Prabhudas Lilladher

I would like to thank all the participants on the call and I would also like to thank the management of the Thermax for taking time off for this call. Thank you so much sir.

Mr. Gopal Mahadevan - Executive Vice President and Chief Financial Officer

Thank you Kunal and thank you everybody. Thanks a lot.

Operator

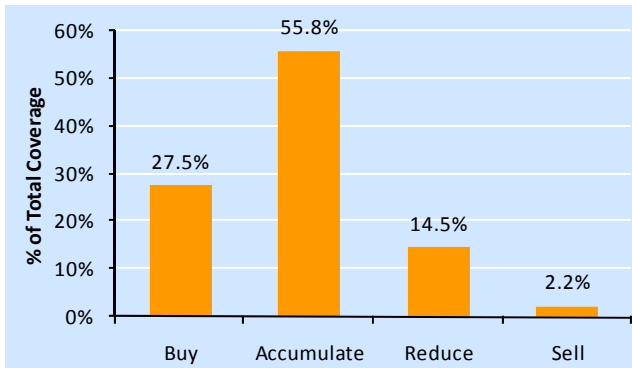
Thank you. On behalf of Prabhudas Lilladher, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

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