“Thermax Limited Q2 FY’15 Post Results Conference Call”

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MODERATOR: **MR. SATYAM AGARWAL – RESEARCH ANALYST, MOTILAL OSWAL SECURITIES**

MANAGEMENT: **MR. M. S. UNNIKRISHNAN – MD & CEO, THERMAX LIMITED.**
MR. AMITABHA MUKHOPADHYAY – CFO, THERMAX LIMITED.

Moderator: Ladies and gentlemen, good day and welcome to the Thermax Limited Q2 FY'15 post results conference call hosted by Motilal Oswal Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Satyam Agarwal from Motilal Oswal Securities. Thank you and over to you.

Satyam Agarwal: Thank you, Mohsin. Good Morning, everyone. We welcome you to the conference call of Thermax Q2 FY'15 results. We have with us Mr. M.S. Unnikrishnan – Managing Director and CEO; Mr. Amitabha Mukhopadhyay – Executive Vice President and Chief Financial Officer and other members of the management team of Thermax. We would first start with opening remarks by the management and then we would have the Q&A session. Over to you, sir.

M.S. Unnikrishnan: Thank you, Satyam. Good Morning, everybody. Thank you once again for showing keen interest in participating in our con calls and actively supporting us and nudging us to perform our task. Current quarter results are already announced. Let me go through the numbers, starting with the order booking for the parent company. We have an improved order intake 42% higher at Rs.1, 089 crores vs. Rs.768 crores of the previous year for the same quarter. One surprising change for this quarter is that our international order intake has surpassed the domestic share. There is one specific order which we have declared from a cement company which is setting up a 3 million tones p.a. capacity in Tanzania and Thermax will be building the captive power plant. It is 50 MW plant and including standbys would go up to 3X25 MW capacity.

Apart from this, at the group level too, order booking has gone up substantially and this is on the back of an order which we received for a joint venture TBWES from B&W for 2 boilers for a 316 MW IPP to be built in the Dominican

Republic. The entire detailed engineering as well as manufacturing of the critical pressure parts will be done by the joint venture.

Coming to revenues, we have 15% improved top line at Rs.1181 crores in operations in comparison to Rs.1030 crores for the previous year. Domestic market has contributed to an improvement of 19% and international has been 3% up in comparison with the previous year. Profit before tax for Thermax standalone has gone up to Rs. 124.8 crores in comparison to Rs. 85.3 crores for the previous year.

However, at the consolidated group level, you have seen the numbers are at a lower level and this is on account of two factors – first due to the situation in our subsidiary in Europe. As you know, Thermax owns Danstoker in Denmark and Danstoker owns Omnical in Germany. When Thermax took over Danstoker, Omnical was a loss-making organisation. We have tried to turn it around by various management changes including the CEO being replaced, multiple infusions there of people, etc. In the 14-odd quarters that we have run that company, may be one or two quarters had made some positives. But in our considered opinion we felt that it may not be possible for us to turn it around. So, we have taken a wiser decision to hand it over to administration. On the books of Danstoker which is held by Thermax, there will be a negative of approximately Rs.36 crores plus, which is being absorbed onto the group consolidation level. That is why you will find a major dip in the overall group profitability. Apart from this, TBWES, the JV for the quarter had a negative (of -27crores) and this part is also after minority interest is taken into the balance sheet at the PAT level. These are the two main reasons for the negatives that you will find in the consolidated level.

At the PBT for Thermax, you will find the treasury income substantially improved in comparison with the previous year's same quarter. There are two reasons for that. One reason is that we have had a tax refund coming to the company, which is approximately Rs.8 crores worth of interest paid by the government to the company for the money which is held by them. So, that is something which has helped us. Apart from this, foreign exchange level at Thermax Limited market-to-market there is a net gain of Rs.5.5 crores from the balance sheet of the company.

Regarding outlook in terms of order intake, domestic has not been good at all. Barring the standard products of the company (heating, cooling, water and air pollution standard products), there is no major movement or no major order concluded by the company in any of the core sectors like power, cement, steel or oil & gas.

With this, I would hand it over to you for asking me specific questions. Thank you.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. We have our first question from the line of Aditya Bhartia from Espirito Santo. Please go ahead.

Aditya Bhartia: On international orders, just wanted to understand, how are margins, working capital and risks involved different when compared with domestic orders?

M.S. Unnikrishnan: First of all, we insist upon having a negotiable instrument available with us in the form of an LC and if it is from countries where the risk involved, it is the confirmed LC value that would take. Barring items supplied through our distributors which are limited in some countries where the payments are guaranteed by them, we do not give any open credit in majority of the circumstances. There are isolated incidences where a very well known global EPC company like JGC of Japan, Technip from Europe, Sumitomo Corporation where they may not open an LC but they do make progress payments. Our past history has been that we have never till date got struck in payment unless it is a performance issue. So, that is already mitigated.

Aditya Bhartia: Sir, typically, are international margins similar to domestic orders?

M.S. Unnikrishnan: Normally, international margins are better than domestic margins, but case-to-case, there would also be isolated incidents of where the margins may be lower, but otherwise, we get the same or better margins in the international market.

Aditya Bhartia: And sir, you expect the traction that you are seeing in international markets to continue both in Asia as well as in Africa?

M.S. Unnikrishnan: I would expect it to happen but chunky orders may not come in every quarter. The larger order which we have received is from the same company which has purchased the captive power plant from Thermax where they have experienced how an Indian company can do a good job. So the word of mouth and experience will certainly ensure that there is at least a continuity of performance, consistency I cannot say.

Aditya Bhartia: Our losses in water business behind us and how you are seeing the margins in environment segment panning out?

M.S. Unnikrishnan: Water segment as I mentioned about my target is by Q4, it will be turned around. So, there is a negative in the current quarter albeit at a lower number and I am expecting the Q3 should be lower and by Q4 we expect it to happen. God willing, in business one cannot say that, but we should be able to turn it around.

Moderator: Thank you. We have the next question from the line of from Fatima Pancha from ICICI Prudential. Please go ahead.

Fatima Pancha: Sir, just wanted to understand, your capital employed in the energy segment, is actually up year-on-year practically Rs.200 crores odd increase in revenue. Is it that the order that we are executing now having a little more delayed payment cycle or it is just a normal thing, it is just a matter of a quarter here and there?

M.S. Unnikrishnan: No, you are on the right point Fatima. We were geared substantially for the Reliance order from the beginning of the last year itself and the order execution started picking up only in the last quarter. So, the investment made by the company in having all the raw materials procured to do the entire 9 boilers and various supplier orders all put together, we deployed good quantum of money. They have given us advances but we have exceeded that and we had to be doing it. I would say by Q4, we should come back to normalcy in the project which would ease the capital employed. Apart from that, there are customers who are not very happy to give you larger cheques and that still continues.

Fatima Pancha: Would you say that year-on-year working capital has got a little more adverse or it is just inventory?

M.S. Unnikrishnan: It is a matter of time only. Not that there is systemic or structural deficiency or a problem, it is a temporary issue only.

Fatima Pancha: And sir, I just wanted to clarify, like in India, most orders that we give out on Indian rupees. For an African country to give out an order, what currency do they give out the order? And secondly, what is the raw material pass-through or is it fixed cost projects that we take?

M.S. Unnikrishnan: The valuation of the order is in dollar terms, not any local currency and backed by an LC. Next, raw material price variations are not taken even in India or in international context to that extent. What one does is, for example, the order has come and advances also received, we declare only when the advance is already received by us. So, we have already given our advances and major ordering is completed for the raw material.

Fatima Pancha: Last question, the ordering outlook, what do you expect Q3 to be like? We used to always discuss, that you are always on an Rs.1200 crores run rate, what is your sense, do you think your second half will be much more accelerated because finally what we are building like we have had a stellar quarter, so people will build in like 15% revenue growth for next year as well for you. So just wanted to understand what is your ordering outlook this year?

M.S. Unnikrishnan: It is very volatile or unpredictable as far as the domestic market is concerned as to how H2 can pan out for the larger projects. I am very confident about the fact that the smaller ones for the product businesses will certainly improve in the H2, but the real numbers would come only when the key sectors start ordering out. I do not expect them to be very positive. But, let me clarify to you that there are no negative sentiments that we are coming across. With that it will be little presumptuous to currently expect higher ordering on the larger sectors. So, if I get substantial ordering from outside India, I should be able to possibly at least match up with the number. That is the way I am looking forward.

Moderator: Thank you. We have the next question from the line Nainesh Rajani from Tata Mutual Fund. Please go ahead.

Nainesh Rajani: I wanted to understand that over the past few quarters, we have not seen too many significant orders, but we have still seen margins on a trajectory level. They have still not fallen completely off the cliff. So just wanted to understand, let us say, the recoveries comes in coming 2-3 years, it is anyone's guess, what is the kind of operating leverage that we have established over the past few quarters rather or maybe more than that we have in our company and is it possible for us to exceed the margins that we had earlier got in the peak cycles?

M.S. Unnikrishnan: At least reaching the peak cycle can be a possibility. Crossing that may not be possible unless we have a revenue growth the way we had earlier. Probably by then the operating leverage will kick in. In fact, even in the current quarter, the improvement in the top line has helped, but we had not increased manpower; manpower has done a high turnover in comparison to the same quarter last year. Salaries would have gone up- certainly, you would get a salary increase, but not in proportion to the growth. 15% had been the growth in the top line for the current quarter whereas the salary improvement could have been maybe 7% or

8%. So, those leverages will be available. So, fundamentally what one needs to understand is that Thermax is sitting on enough capacity to go for a growth of maybe 50% to 60% with very minimal line balancing. So, that fixed cost containment will help certainly if there is a growth potential available. The kind of growth that most of us have visited sometime back in 2005, 2006 or maybe 2008, 2009 that were to happen, and then we can improve the margins.

Nainesh Rajani: Even if you do not take the 2005-06 into picture, even if you take let us say '09-10 when the revenues actually dip between '08 & '09 and then when it is launched back, the launch back was quite sharp. So with even slight increase in top line, let us say, more than 25-30%, is it possible for us to surpass those margins or maybe as you are saying maybe surpassing those margins with just 25-30% growth probably will not be possible?

M.S. Unnikrishnan: If the growth is on account of standard products or manufactured items substantially then that will be visible. Whereas, if you have an EPC-oriented business contributing to substantial growth, there the margins cannot be equivalent to the manufactured value. It is the product mix that would make a substantial difference in that area.

Nainesh Rajani: In your view, how far are we away from the kind of growth that we would ideally want the company and the industry to grow at? and what is it that you are looking at in terms of triggers in the economy or data points in the economy or in the markets that will make you believe that wealth growth is just a matter of a couple of quarters away, if you can just throw some light on that?

M.S. Unnikrishnan: Three or four factors which decide what we can look forward to. First is that consumption should increase, which can happen because inflation is fairly well under control and we have been also listening to the global commodity price reduction both in food articles and also on the conventional commodity which is getting into the manufacturing process. Both of them are stable and some of them are lowering. So, consumption will go up. Second credit off take in the banking system should certainly improve and now they are enticing people by reducing the interest rate which should also entice Dr. Rajan to reduce interest rate substantially. Not by some 25 basis points. We are talking about substantial number almost coming closer to a single digit which is the kind of interest rate applicable to developing countries of India's type. Third would be the availability of cash in the international market where India is being looked upon as an attractive destination. But any kind of an internal political turmoil or stand-off between the neighbors may limit the inflow of FDI into the country. There is uninterrupted flow coming in because everything is peaceful and tranquil. Consumption is going up and you got money available. Because consumption of the country will be around 65% of the GDP, that is sufficient to grow your GDP by maybe 4%. These can pull it up by another 2.5% to 3%. So, indirectly, all put together we are then heading for a (+7%) growth which would mean that everybody wants to invest. But we will be catching the tail end of the cycle only, because it has to be consumption-led, then investment-led. Consumption-led to the growth first, that is good for the commodities and the food. All those kind of industries and the capacity building guys like us will come at the tail end. Comparing that, if all what I said were to happen in the next may be two quarters, give and take maybe a year more for the order intake to be in a healthy position to transfer into the balance sheet, may be a couple of quarters there afterwards, that is the reality. All other things are speculations and may be statements.

Moderator: Thank you. We have the next question from the line of Bhavin Vithlani from Axis Capital. Please go ahead.

Bhavin Vithlani: First, if you can help me with some breakup of order flows as you have been giving segment wise energy, environment and exports in particular this quarter and the EPC breakup?

Amitabha Mukhopadhyay: Order inflow Rs.1, 089 crores for this quarter, Energy Rs.747 crores, Environment segment Rs.341 crores, Exports order intake is Rs.561 crores.

Bhavin Vithlani: Backlog?

Amitabha Mukhopadhyay: Order backlog Rs.5, 016 crores, Energy Rs.4, 145 crores, Environment segment Rs.871 crores.

Bhavin Vithlani: Is it possible on the group basis?

Amitabha Mukhopadhyay: On the group basis, Energy order intake Rs.1,237 crores, Environment segment Rs.370 crores, order balance is Energy Rs.5,185 crores, Environment segment Rs.882 crores, total Rs.6,067 crores.

Bhavin Vithlani: Second question is, you highlighted in the quarter that the standard products have been doing fairly okay but in the domestic market we have not seen improvement on the projects business. So, what is the kind of run rate we are seeing in the standard products business and are there any large projects where we have seen say the negotiations have come much closer than what we were earlier and maybe the order inflow on the large projects can improve? And next question is we have seen a fairly large order from TBW in this quarter. So now with this order coming in, maybe if you can give us an outlook on any arrangement or how we can see more orders from TBW and how will it help turn around TBW without getting any large orders from the supercritical?

M.S. Unnikrishnan: So, coming to the standard products versus the projects outlook for India, it is unfortunate that no worthwhile project orders in any sectors got concluded in the country in the last one quarter, though there are enquiries and discussions. Now, are we expecting some traction to be initiated in the next two quarters, in some sectors isolated or sporadic developments could be possible, but on a generic way, we cannot see anything happening in the country, at least something that I am very confident about. On the products side, we are seeing investments. For example, it will surprise all of us that if I have to take in the past 9 months, the number of paper plant expansion which are declared in the country and ordering out happening including multinationals coming into India. Amitabha tells me that India may become a publishing or a printing hub for the world. So, that is one sector opened up. You have seen that the healthy textile companies of the country or the less leveraged balance sheets are boldly investing. Similarly, we are seeing beverages, so that area (alcohol) and maybe sugar industry is expanded in the last 3, 4 quarters but Thermax place is limited because of various reasons. But the secondary industry of the sugar is molasses-based alcohol industry where there had been investments. We could get orders for boilers, most of them are solid fuel or biomass fired and the size could be Rs.2 crores to maybe Rs.10 crores in the best of circumstances. You would find an absorption chiller gone into some of them. That could be Rs.1 crores to Rs.1.5 crores of equivalents. Water treatment plant and effluent treatment plant ranging from Rs.50 lakhs to may be Rs. 2 to Rs.2.5 crores. These are the kind of ranges of orders which we need to be happy about in the current circumstances. The product order and standard project order normally would come to maybe Rs.150 crores to Rs.250 crores. This is the standard run rate which we talk about. Then the chunky run when things will improve. So, the domestic expectation of order intake ranging between Rs.500 to Rs.600 crores is what we should be happy with. Similarly, our efforts are continuing in Southeast Asia, Middle East and Africa. Middle East is less powerful right now because oil prices have crashed to early 80s and the fear of it crossing the boundary of 75. Then those countries will be sitting back and say that "why should I expand now?" So, the Middle East could be a question mark. Normally, what is good for India is good for Thermax but this is one area where good for India may not be good for us. So, coming back to this, touching a four digit order registration will need at least next 4 to 6 quarters increased effort in the international market.

Bhavin Vithlani: The next question which I had on the TBW orders which we have got. Can we expect more and can these orders help turn around without large supercritical order?

M.S. Unnikrishnan: Let me take into two parts – part one is can we expect or should we expect more orders from B&W? I would say that we should expect because this is already an ASME approved factory and they do not have another factory other then the Chinese joint venture and may be some other manufacturing facility in America which cannot produce the quality and the size that is needed for such kind of projects. So, I would believe that there are possibilities. We need to ensure that we execute a good order and we in any case are supporting them even at pre-tender times. And there is one more subsidiary of Babcock & Wilcox by the name Volund, it is a waste-to-energy specialist company based in Denmark and they do take municipal waste to energy, but those are all very large projects. Currently we are discussing with them maybe for a single digit million Euro, maybe €8 or €9 million size of pressure part manufacturing and maybe a little engineering. They had been procuring from China, and can shift to India. We were to get a couple of them in a year. Similarly, there are other projects which B&W is bidding outside India and America where they are taking the help and cost benefit of joint venture manufacturing. It should happen as and when they get any such orders. I don't know when but I am confident that it will happen. How many of them I cannot say. But the sizes will be like this - European orders may be €7 to 8 million small pressure part making and an American order could be equivalent to the same size of what you had seen. That is the kind of order they can look forward to, the size will be say $50 or $60 million. Now even if you were to get two such orders, can that turn around TBWES? No, is the answer. That will certainly reduce losses. The break-even for that can only happen when the Indian power industry picks up. We have one tender of 4 numbers of 660 MW of NTPC, which is on the anvil for which we are prequalified and the technical bid along with Toshiba. I am revealing only so much. It is a bid along with Toshiba our turbine supplier. BTG bid is already here, there are four parties – BHEL, L&T-MHI, Toshiba- TBWES and Doosan with Bharat forge and Alstom – four of them have put in the technical bids. It may conclude in the next 4 to 6 months time, and an NTP for that could happen may be Q1 end of next year. Other than that there are no other projects currently on the anvil and I am sure any moment all of us are expecting the land acquisition bill correction and the auction of the coal mines to happen. It has to be passed either through ordinance or the parliament in the winter session. All this put together may propel the power industry from slumber to action, may be four quarters down the line, and thereafter order finalisation. So, we will have to be looking forward to a dry next year and maybe fair year thereafter for order intake for TBWES. That is my overall perception about how TBWES will pan out in the next 18 months period.

Bhavin Vithlani: Just one follow-up on this. In the NTPC order, the EPC lead is JSW Toshiba or Thermax?

M.S. Unnikrishnan: It is Toshiba. It is not an EPC, but an expanded BPG. BPG is normally boiler and turbine and some piping in between. Also the coal, ash and the fuel handling plant is a part of this. So, it is a boiler, a turbine and some more accessories which normally get into BPG, all put together wrapped up. Front end bidder is Toshiba and it is not JSW Toshiba, it is Toshiba International Power Group which is based in Delhi and that will be leading. JSW Toshiba would be supplying the Turbine and TBWES will be giving them the Boiler.

Moderator: Thank you. We have the next question from the line of Lokesh Garg from Credit Suisse. Please go ahead.

Lokesh Garg: Sir, we have been sort of seeing this slow business for the last several years. In which case, just want to take your comment on state of competition also because there are two ways that it can go – one way is basically competition is hungry, so they can sort of continue to bid aggressively or other way is that some of those competitors can get hurt, in which case the company can actually emerge stronger relatively speaking. So in various segments, what are we seeing in that regard?

M.S. Unnikrishnan: Let me tell you that there is hardly anybody who has improved the health in the past 3 to 4 years in the entire industry. So, let me start with the conventional product sector of the company. Our competition is all medium small scale companies having Rs.100 crores turnover. Not one of them has shut down but most are under financial strain, because their loans are arranged from cooperative banks. Many of them may resort to very low pricing. That is really hard to pull the margins down, but we have been able to stay put. If the situation continues for may be 12 more months in the same way, then some of them will fall which would be good news. But they will again revamp the moment the industry comes back to normalcy. That is as far as the product business is concerned. In the water segment, barring VA Tech which is taking international orders and government orders and fairly large ones, virtually everybody is strapped with a lot of non-moving projects and many of them are in the municipal segment which we have exited. We have to take a hit and we will turn it around. In the captive power segment, the people who supply the boiler or do the EPC, there were 4 main players in domestic one – John Thompson, Thyssen Group, Thermax and Cethar Vessels. Now of this, 3 of the larger companies are still holding on, and I would say that honorably, all 3 of us are doing quite okay, whereas the fourth name which I mentioned is under strain and I do understand it will continue so for some more time. Will they continue in the business? I cannot comment on that but it is a fairly unhealthy situation for the competition. Then we come to the supercritical area where we are one of the players, there my reckoning is that the L&T-MHI, BHEL, two main players are not in a healthier condition for the boiler portion which we compete against them. I do not know, overall BHEL could be different, overall Larsen turbo could be different, but I am talking about this specific portion. They are not in healthier condition and order taken by anybody is not any decent margin in the last 18 month period. There are orders taken but those orders are not margins that both the companies' balance sheets are justifying. I am quite clear about the fact. Doosan is the fourth player in that front, not very well known about their balance sheet. However, we have indications that they themselves are not comfortable about the prices prevailing in the country, because I am sure none of us are interested in only making Indian power generation grow and have a leak in the balance sheet. I am sure everybody wants to do it with a healthy balance sheet. Then comes BGR, they are not bidding in the recent projects and they are not even prequalifying. So, that is the current condition. Now, initial orders for 2015-16 and first half of 2016-17, I would expect them to be not very profitable but you will see profitable orders coming back into the market, which is by the second half of 2016-17 which I mentioned while talking about the main power area. Otherwise, if the economy were to turn around, as we expect next year second half onwards, all orders taken by anybody in captive power industry in the range that we are in should be fairly decently profitable. But, if the economy does not turn around at all, by that time then we will have to postpone it by as many quarters, which we will have to wait and watch.

Moderator: Thank you. We have the next question from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: Sir, my first question is on the intake in the environment segment. After several quarters, we have seen a sharp uptick and this Rs.340 crores kind of inflow we have not reported in the last many quarters. Do you think this number should sustain going forward or was it a result of some spill over of previous quarters and should revert back to the earlier run rate that we were clocking?

M.S. Unnikrishnan: **E**nvironment sector contains three businesses groups of Thermax – First one is air pollution control business. They had a chunky order in the current quarter. Though it is not such a big order their ability to sustain the numbers is visible because a good part of them are retrofitting, revamping, and some action coming from some implementation directed by some of the pollution control boards. Though the new government is going to be very industry-friendly, I would expect they are not going to be environment-unfriendly. Because of which implementation is going to become stronger, bureaucracy is becoming stronger. So, environment sector and air pollution control and effluent treatment should certainly be having some amount of an improvement, I cannot say gross improvement. For example say, Ganga action plan is going to be declared any moment. I am sure the people who want to operate in the basins of Ganga will be forced to improve their effluent treatment and air pollution control. So, which could be an opportunity but I cannot guarantee which quarter it will happen. Then the second is water area, where we had stopped taking orders in the municipal segment and now, as I mentioned, we are focusing on standard products which can do better if there is an improvement in hospitality segment, construction segment and housing societies. In other sectors like food, food processing that I talked about, demand for the smaller size of water treatment plant is steadily improving. In the industrial products group of the water business, there are no major ones, but smaller ones and improvement projects are available; also recycle projects as water is becoming scarce. So we have started improving our order booking. Earlier we had stopped taking orders. The last one is the performance chemicals and water treatment chemicals business of the company which had been growing in any case at least early double-digit numbers. So, with that I would believe, yes, there could be a quarter where I may still report a dry number, but if I were to look at maybe a quarter-over-quarter for a trend, it is sustainable at certain level and above, it is going to be better.

Sandeep Tulsiyan: Second question is you mentioned that execution of the Reliance order has picked up in this particular quarter which you had been highlighting earlier. So are we able to catch up on the work or the timelines that we have missed and how much of the total order will you be able to execute in this year and will it be completely executed by end FY16 or will it flow over to FY17?

M.S. Unnikrishnan: As I mentioned about it has picked up. Q1 we started executing, Q2 it has picked up, Q3 and Q4 and next year it will be over at least as far as Thermax balance sheet is concerned by FY'16. The subsidiary Thermax Engineering Construction may have a minor spillover happening thereafter for their part of the order for the last part of the commissioning and testing, handing over protocol signature, documentation, and those kinds of things will happen. Otherwise, as a group, we would be through with this order by FY'16.

Sandeep Tulsiyan: You mentioned on the networking capital side that the capital employed had increased because of buildup of some inventory. Just looking at the individual numbers there, seem to be very sharp decline in your trade payables and also other long-term liabilities. So is it that you have adjusted the advance for those projects for these because inventory and debtors are largely similar to what they were in March or maybe slightly lower?

Amitabha Mukhopadhyay: I think for this project the comparison should be from September '13 one year back when this project was just at its beginning stage. At that point of time our working capital was customer advance, which is the negative working capital. Now, as we have started working on this project, each of the items has gone up. And today if you go back over a period of 12 months, almost additional Rs.200 crores have been drawn. So to that extent this is a very normal way the working capital moves along with the progress. So I do not think relating to this particular projects trade payable has come down or anything else. Inventories have gone up for this project, contract in progress has gone up for this project, our account receivables have also gone up but nothing is unusual, this is as planned. Now, looking at the other projects, yes, we have brought down our trade payables because we have to push other projects and based on the way the payment terms are there, certain trade payables had fallen due and we have paid it in the due course. So, looking it in 2 parts, Reliance projects which has happened is in a normal course, its working capital has gone up. As far as other projects are concerned, the rest of the company, trade payables have come down and that is the one significant component which has pushed up the overall working capital.

Moderator: Thank you. We have the next question from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: This is on the foreign subsidiary where you booked an exceptional loss. Now, could you clarify whether this loss is related to us writing off the entire investment or is it related to an operational loss made by that subsidiary in a particular quarter? My follow up question to that would be how should one look at losses coming from that subsidiary into the future given that this has been put by you under administration – should we assume that this is the last quarter of any possible losses coming for that particular subsidiary?

M.S. Unnikrishnan: First of all, this is not the loss of that subsidiary. Overall at Danstoker, whatever numbers got reported in the past was inclusive of Omnical plus or minus, so that is Q-o-Q adjusted. The current quarter where we have taken a loss is on account of closure of the value of the company on the balance sheet of Danstoker. This is exactly what has happened. Now, having put this into administration, what are the expected liabilities contingent upon the parent company. Knowing the way German administration works, that company does not belong to Danstoker or Thermax Group anymore, it belongs to the Government of Germany in the hands of an administrator. Now, whatever he may do with that company, either sell to somebody or is there anything done in bits and pieces or asset sale done or anything done on that account will go to the benefit of the government employees. Now, what are the outstanding liabilities? Orders if they are unexecuted and if their guarantee is given from the parent company, no parent company guarantee is given from Thermax's side. However, Danstoker has extended guarantees in a couple of cases which in our understanding, at least there are two such orders – one of them is already under execution by Danstoker directly rather than by the subsidiary, that is one outstanding order. We do not want to quantify the number and the guarantee, but this is not very big for our size. "Will there be any liability-related pension or employee claims coming on that?" No, it cannot reach up to either Danstoker or to Thermax. "Is there any undue favors of payments received by either of the parent?" That is across Thermax in terms of dividend taken out or money or a loan, anything in that way, then it can be recalled. To the best of our knowledge, there is nothing like that under sharing. However, there may be warranty claims which if they are unable to, we may have to make good for because Danstoker is going to operate in the market. Those are all the kind of things which are expected. But with this action, our expectation is Danstoker and Boilerworks which is the company which we bought under Danstoker later in Denmark, put together, will become consistently profitable, albeit maybe one quarter but otherwise on a year-to-year basis it should be a profitable entity rather than the way we had been holding the difficulty. And one of the reasons which force us to do this also is because Germany has a market. With the current volatility prevailing in the entire European market, we are not expecting to have too much investments for capital goods industry. That is one of the reasons that we felt wise and prudent to take the decision instead of carrying the pain.

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

Renu Baid: I just have one key query pending. You have already elaborated on Omnical and other allied impact that you would be having, but overall, if you can also elaborate how have the other subsidiaries perform financially for the quarter, because sales relatively Q-o-Q have just improved marginally by about Rs.8-10 crores, some translation impact there? And also the one-time exceptional loss that we have reported PBT level. Was there any tax shield for Danstoker also? So how does the PAT look for the subsidiaries after the exceptional loss?

M.S. Unnikrishnan: First is about the other subsidiaries of the company you asked about…

Renu Baid: Right, how are they doing, including the TBW JV performance?

M.S. Unnikrishnan: Including TBW JV is only a balance sheet, no performance, because when order comes, it will get executed next year. So that portion of TBW will continue. I think we mentioned that the losses were Rs.27 crores for the current quarter, of which whatever our portion is after minority interest is already aggregated in the consolidated number and will continue to be in the same way for the coming quarters. We may have some recruitment for taking over another job, because we are running a large enterprise with very feeble manpower. So to take on the few orders that are on the way, we will be having some expenses increased but that in the long term will be offset. Next is there are three main operating JVs in India – Thermax Engineering Construction which is doing the boiler construction management for the company and Thermax Instrumentation Limited which does the EPC Construction for the company. Both of them have reported positive only and there is no negative in the current quarter. Third one is Thermax Onsite Energy Solutions which is where we are giving steam on hire, we are not selling boiler, but for companies we set up boiler plant and on a monthly basis they do the billing. We started this company three years ago. And right from year one it is profitable. We had only four contracts earlier. Now there are 10. We expect virtually to double the turnover in the current year. At EBITDA level, it will certainly be positive. At PBT level, after writing off the depreciation because this is an asset-heavy organisation, PBT level should break even in the current year. But we are building a lot of assets and I am very happy to say one of the largest Indian companies which is there in the top ten of India – I am sure all of you will have shareholding in that company, I cannot reveal the name – they have taken a corporate decision that every expansion program of their dairy and the food area barring their negative area, they will be having Thermax put up a boiler plant. They will not buy a boiler and there are framework agreements signed. We are already installing or commissioning the first one for them in the plant in Aurangabad, second I think in southern part of India in Bengaluru and third one is under installation, and three more are on the anvil. We are also currently expanding. We believe that this got a good proposition, but we have to be very choosy about customers since we will be embedding equipment. Legal framework of our country is not something so compatible and easy going like the western world where if there is a dispute I can take the equipment out. So we are very choosy. There are two major pharma companies, well-known ones, almost on the verge of concluding the deal with us. So this is something visible for Thermax to utilize/ unutilize profit for Amitabha to be deployed in maybe a good ROC business. That is about the third Indian subsidiary. Then we get into the international subsidiaries. Danstoker group has reported a negative. Danstoker per se is profitable, Omnical is loss making and Boilerworks is also profitable. So that is about the Danstoker Group, the losses are only on account of Omnical and not on account of the other two companies. Then we come to Thermax Zhejiang our Chinese subsidiary. It is still at a negative but the losses are lower than the previous year and we are not years away from profit making. We are maybe quarters away from profit making. And to make that consistent, we will have to wait and watch. That is about Zhejiang. Then we talk about our Thermax Europe Limited, which is a subsidiary at London, other one is Thermax, Inc. in America. Both of them have turned out good profits for the current quarter though very small in number. So that is about the overall operations. Omnical which has already reported and our Zhejiang which is our Chinese subsidiary. These are the only loss making but not in big numbers.

Renu Baid: And the share of TBW JV which would be there?

M.S. Unnikrishnan: Correct, which I have already declared the numbers.

Renu Baid: What is the number for the first half TBW JV loss in our consol PBT levels?

M.S. Unnikrishnan: Rs.57 crores.

Renu Baid: Rs.57 crores is first half?

M.S. Unnikrishnan: You are right, Rs.57 crores is for overall, and our proportion is half of that.

Renu Baid: And on that one time exceptional loss that was at PBT level, so was there any tax shield that Danstoker has received or probably it would be same at the PAT level, no impact?

M.S. Unnikrishnan: No, unfortunately, that is not available.

Moderator: Thank you. The next question is from the line of Ashutosh Narkar from HSBC. Please go ahead.

Ashutosh Narkar: If you could place your outlook on the pricing environment over the next 12 to 18 months time in the domestic market specifically given that you do not anticipate an immediate recovery? And the second part, in the international market again, on the orders which we are winning, would it be fair to assume that our margins in that segment would be anywhere between around 8% to 10% at the minimum or how do you see when you are getting into these new markets the pricing environment for your products?

M.S. Unnikrishnan: Starting with the domestic margins, we have been able to hold on to at least a premium pricing for our segment for almost 18 months. So though the action level has not turned around, we will not dip margins any further. So could there be an improvement is the next question. It depends on how the ordering is going to be improving. If the ordering is going to remain at the same level, the margins will be at the same level. But if the ordering were to be improving say substantially, then the margins also will improve. That is as far as the domestic products are concerned. Project segment side, as and when orders get concluded, and on a case-to-case basis, I do not expect any better margins for at least a year in India. Because one order and 'n' number of competitors, the weakest of the guys get bitten in the bargain by others. I am sure that is what is going to happen in the initial part of it. In International orders in products, we are still able to manage good margins. In project we are talking case-to-case. EPC does not give you double digit margins whether in India or the international market. But for the equipments going into the EPC from our side, we will have a double-digit margin for sure. So that is about the margin outlook immediately. In margins, one should not be worried beyond a level. Whatever we have done I need to fact check by entire team including Amitabha for all the cost reduction activities we have been able to maintain and tightly manage the balance sheet. We have been able to come back to the double-digit in a quarter with an intention to retain and maintain that going forward. Even if once in a while there is a dip. The real improvement of our aspiration to be a teenager in margin can only happen when Indian market acceleration and the global market is going to be supporting us which is a couple of years away. That is the reality.

Ashutosh Narkar: On your order book, at 50 billion, what would be your average execution cycle – would it be fair to assume around 18-20 months time?

M.S. Unnikrishnan: Yes, you may be right in some areas. Fortunately or unfortunately, I do not know how to put it across. There are orders which are executable in a month to two months, three months cycle also with Thermax, there are orders which are long cycle; Reliance order originally was supposed to be 29 months. Rs.300 crores order which we have picked up from Africa right now is to be supplied in a period of maybe 14-15 months time. You cannot take average of that. Some of them are part executed, part remaining. So I would imagine that of the orders that we are carrying forward, 50-50 is split between current year and next year after this and some part of that even spill over to the year after.

Moderator: Ladies and Gentlemen, due to time constraints, that was our last question. I now hand the floor back to Mr. Satyam Agarwal. Over to you.

Satyam Agarwal: Thank you. We thank the management for giving us the opportunity to host the conference call. We also thank the participants for the participation. Sir, would you want to make some closing remarks?

M.S. Unnikrishnan: I want to thank each one of you who regularly dial in and patiently listen to us and keep meeting us at various locations including coming down to Pune. Let me assure you that we have passed through the worst of the situation in the past maybe 18 months and going forward the signals are positive, actions are yet to be initiated. So both teams will have to work patiently and whatever efforts taken by the company in the international markets for the projects will fructify but we will be cautious because we would not just go around and pick orders in 'n' number of countries and then have difficulties in the future. So we will be calibrated in taking orders in the international market, but we will take them to the extent to ensure that we are able to grow in the current year and the next year. To what percentage? Leave to us right now to the best judgment we take. And thanks a lot once again for the interest and cooperation and support. All the best to all of you.

Moderator: Thank you. On behalf of Motilal Oswal Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.