



“Thermax Limited Conference Call organized by IIFL Securities”

March 27, 2020



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MODERATOR: MS. RENU BAID - VICE PRESIDENT (RESEARCH), IIFL SECURITIES

Moderator: Ladies and gentlemen, good day and welcome to Thermax Limited Conference Call organized by IIFL Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during this conference call, please signal operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Renu Baid, Vice President (Research), IIFL Securities. Thank you and over to you ma'am.

Renu Baid: Thank you Mallika. Good afternoon, everyone and taking the time out to participate for the call. We have with us today with us the management of Thermax Limited represented by M.S. Unnikrishnan – MD & CEO and Mr. Rajendran who is the CFO. I would request Mr. Unnikrishnan to share his thoughts on the implications of COVID on the business environment and the company and thereafter we can start the session for Q&A. Thank you and over to you sir.

M.S. Unnikrishnan: Thanks a lot, Renu and welcome to all my friends. Normally, one wouldn't have ventured into making a call with hardly few days remaining to close the balance sheet for the year. But I thought it is prudent on our side to inform all of you about what had happened related to COVID within Thermax, that is the purpose of the call. Frankly, things were normal up to Q3 end. As Q4 started, there were already worries related to reduced e GDP growth; apprehensions in the minds of various people as to how is it going to pan out? Then we moved through January and February. But towards the end of February, we faced supply chain constraints because there were supplies that were to reach directly from China to our factories, which had to be processed and some of them were also related to suppliers who were dependent on component coming from China. But we thought this could be manageable. We are normally used to a lot of difficulties in the month of March every year. We thought this could be another repetition of similar kind of a thing. However, in a quick succession, things started moving at a very fast pace in the negative direction. Beginning of March, we had Pune becoming the epicenter for Maharashtra's COVID which put a lot of restriction by the local government. We had the collector taking over the national disaster management and asking various restriction to be put on movement before the national lockdown happened. And MH12 trucks which normally come from Pune were refused entry in some of the state borders. So as the country was waking up to this pandemic, Pune was already ahead in terms of various restrictions being put to and then happened this national lockdown.

The ramification of this had been far from the supply chain issues earlier. We were ready with almost 250-300 crores worth of material to be dispatched, which normally happens in the last week alone, when the collections do happen. Unfortunately, this time, we will be not be in a position to be lifting and I have got material at the ports both in Chennai and Bombay lying, however unfortunately ships aren't available. Even prior to the lockdown the entry of shipments to the Indian port was blocked by promulgating a rule that there is a minimum 14 days' time needed from the port of departure till port of call in India. And then we had to approach the government to relax it where they agreed for a fumigation of the ship to be done

before we allow it. But again, by the time all this happened the national lockdown happened. And we have another substantially larger, even more than this number under processing at our various factories as well as our suppliers. So, there will be material impact on the turnover revenues for the Q4, this would naturally mean that there could be an impact on the bottom-line for the quarter. But nothing to worry on the other side because all the orders are fairly well secured, but it may shift to the next quarter and as the lockdown opens up, the government intends to open it up by 15th but, will it be practical for us to expect everything to be as normal as prior to lockdown. So, there is an impact on the Q4 results on topline and bottom-line.

Now coming to what we have done as this is evolving. By the end of February itself we started preparing ourselves for working from home and we have been one of the earliest in the heavy engineering industry where activities which can be done from home was isolated and we have done a lot of activities related to procuring more laptops and upgrading the home computers of many people, installing what is needed to ensure that they are able to work from home. But brick and mortar company with manufacturing at the core of the activity will not be able to replicate what is done by the service industry or by say the IT and ITeS industry. So within the limitation, whatever could have been done has been done. Though many of us are working from home that doesn't make a weld happen in the factory or a maybe a grinding happen in the factory, maybe design is going on. To a certain extent, early stages of procurement is happening. We are trying to now securitize our Q1 as much as possible provided India and the globe is able to recover. So that is as far as the domestic market is concerned for us.

In the international market we are exposed to Europe where Denmark woke up quite late in the day. They shut it down and reopened it also, so the activities are going on at a reduced pace both in Danstoker as well as in the Polish factory of ours. Indonesia factory is running with miniscule level of activity and manpower because people aren't willing to come outside and work, but there are limited number of people affected in the area. And now coming to the project sites of the company, initially all of them were running at the same level. However, one to two days prior to the national lockdown, some of the companies started scaling down the operation. I am sorry to say that today barring very few operations maintenance site, project sites are also not in operation and people are not willing to work. There are workmen available in our colonies, our subcontractors colonies but even they are being asked to stay at home, because most of the parts of the country is under section 144 and workmen are not willing to come to the sites. So, it is a total lockdown as far as activities are concerned in sites also. Most of our customers who have given us operation in these contracts also have shut down their operations and for them to resume, it will take time.

Coming to my take on how things may pan out. There is a lot of optimism in India that we will escape the major COVID spread. However, my understanding is that we are unprepared for facing a major attack, that is why the government was forced to declare a 21 days shutdown and these 21 days have been taken for creating facilities within the country in an emergency basis for creating beds, ICU equivalent of that. And as it opens up, it is going to be calibrated opening only. So, it is not that post 14th of April, India will be back to normal and we will be getting ready to reopen as and when the government allows us to do that. There is a section of

people in the industry who do believe that it may take 3 months minimum and there afterwards a slow recovery which means that a year maybe lost. But I am hopeful that in H2 of the current year, we should come back to a level where we can say that factories are running, not to the full normal, at least as of the new normal. We do have orders available from the industry which are declared as essential services. However, it is impractical for us to even supply them at this juncture. Only, though people may ask this question, can't you manufacture and supply, sorry, I cannot run the factory with manpower not willing to come to the factory. That is about that.

In my opinion, just a general overall opinion of mine. EU is in an absolute disarray. America will get into a disarray. China, though they have recovered from stage I there will be a stage II for them. Which means 20 trillion plus another 20 trillion plus another 14 trillion, it is around say 54-55 trillion out of a 90 plus trillion global economy will be in major difficulty and others are also going to be in difficulty. I don't expect a global recovery to happen from this virus inflicted negativity, at least in the short term, when I say short term it is a year.

I stop over here and will allow you to ask me any specific question. Numbers, I will not be able to declare at this point of time because we are still looking at what revenue will be recognized, our auditors will verify the numbers before we talk about them which should happen naturally at the time when we declare the result in the next quarter.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

Sujit Jain: I wanted to ask you about the force majeure clauses that we have with clients, today there are newspaper reports that companies are getting back to their lawyers to understand, and what their understanding is that Indian contract act in force majeure does not specifically mention pandemics. So, to what extent then the contracts are under risk?

M.S. Unnikrishnan: Well, I don't think anybody needs it. We couldn't have delay, because at least half the customers have told us to also hold on. See, in force majeure as Indian contracts have talked about act of God. Now this is declared by United Nations also as a pandemic. A combination of this put together in the court of law I think will come under force majeure. I have suppliers of mine who are coming from European continent having served on me force majeure condition for delaying the supplies. Those who are in business would be protected for COVID-19 by this kind of force majeure condition, is my opinion.

Sujit Jain: And what this episode would lead in terms of working capital. We are known for managing really tight working capital schedules and at times negative working capital. So, what do you think that will get extended to?

M.S. Unnikrishnan: That is a very challenging question to be answered because today I had a pretty hard session with my business leaders, because almost 4 to 5 days lockdown has already happened. So, I

wanted to know the mood of the market. The companies who are as good as Thermax in terms of balance sheet strength are also waiting and watching and in that there is a section that is operating from home, so they didn't have authorities or maybe people to come in to make the payment. So, I would say during the lockdown period it is going to be a washout. Post that we will be certainly very careful about that. We will ensure that we will only support the project where we can have the cash flow coming in. Otherwise my treasury can be used as a bank. I don't have an ability to run beyond a quarter whereas money available can support this company for at least maybe 6 months to 8 months or maybe a little longer. That is the strength of the company. So, we will be very particular and we will be running the operations here afterwards purely on cash flow.

Sujit Jain: Okay. And one last question is on the schedule of Dangote order, like you mentioned some of your deliveries are ready for shipment but not getting listed in the ports. So how does the timeline work there?

M.S. Unnikrishnan: I have a standby letter of credit available for it, but it will expire at some point of time. So they are arranging the shipping for it and I have fairly large quantum of material of theirs now lying at the port which are waiting for ship. I believe it will not happen till maybe end of April. My understanding is ships are sailing in the world today, because that is another fear all of us did have, sailing at a little over level because the port of call at various places are shut. As they reopen it will move. So, whatever are lying in stock in my place, at the port or maybe my suppliers godowns where it is already inspected and cleared for dispatch by us, will move in my opinion by beginning of May. So, Dangote is one such case, there is a large value of item lying at the port.

Sujit Jain: What is the execution amount that is remaining?

M.S. Unnikrishnan: 150 crores approximately is remaining and the balance is only supervision, only very small construction is remaining in my scope, otherwise it is all constructed in India itself.

Moderator: Thank you. The next question is from the line of Aditya Dasgupta from ICICI Prudential. Please go ahead.

Aditya Dasgupta: I also wanted to discuss the working capital. So obviously you are indicating that you will be very careful going forward because obviously there is concern to catch everywhere. But whatever work you have already executed, the collections there also are not coming in, that would be a fair assumption to make, right?

M.S. Unnikrishnan: First two weeks of the current month, at least first week was as per plan, second week onwards there has been major hit and third week it is virtually, I mean you can say (16:39) __. So that is the way it is currently.

Aditya Dasgupta: That is to be expected.

M.S. Unnikrishnan: For everybody. I would rather be honest to say that I am not expecting anything to happen till the first half of April because offices of customers are barely running. I am also supplying to brick and mortar industry predominantly and most of them are shut down and their priority is not to pass my bill right now. We should be clear that April should be a wash out as far as collections are concerned. Though we maybe in contact through telephone and email and everything, the enablement of payment will start from May if India were to reopen by May let us say. Even then every customer will be careful, even those who have got cash, the CEO of the company or the promoter of the company will preserve cash. So, their intention is not to immediately pay, it will be a little more difficult, not little more, it is going to be difficult than what it was earlier to collect cash. Now incase if they are interested in continuing the project at the pace they want; they will have to release the payment. We never do arm twisting but as per S-Curve, if we are totally cash negative in your project, I don't have the ability to execute it unless for the cash. However, unlike the 2008 crisis where we came out, this is not an extraneous factor, it is more of a business factor. Here beyond this nobody wants to slow down. It is the fear, that is why I am not committing right now but we are clear how it is going to be panning out. I am very particular that in Q1 even if the lockdown were to be lifted and things were to become generally normalized with the fear and lot of restrictions happening, I don't think the project execution will come back to normalcy. Because one is the fear factor for the workmen to get to their work locations once all the sites restart. The workers who are from rural India will have to come back to these places, there will be family pressure on them for coming to distant places because life is more important for them. It is the middle class who is not entirely worried. The rich class and poor class are really worried, rich because they have lot of wealth and poor because they don't wealth. We have to be prepared for a slow normalcy to prevail at the construction side. In that we will add this caveat also that there should be money coming in whether in trickle form or decent form. It won't happen that there is no money coming and I only shed money. I would rather compromise on the topline rather than investing from our side.

Moderator: Thank you. The next question is from the line of Bhalchandra Shinde from Max Life. Please go ahead.

Bhalchandra Shinde: Sir, just wanted to check after this all this thing panning out, by when you expect overall CAPEX cycle to start actually showing some improvement?

M.S. Unnikrishnan: I got to give you a philosophical answer for it because it is unpredictable. See, the world is going from a growth mode into a survival mode. When the world's sentiments are in a growth mode everybody looked at the market, there is a gap available to fill in or a gap expected in the future to create capacity. So, capacity building is for these two items or maybe a new product being introduced where they are very clear that there will be an unsatiated need available. Then automatically capacity building starts, capacity building means capital goods or company will like to full get into an high gear. Here unfortunately human beings are on a worry related to survival. The moment it switches into survival mode consumption only comes down. As such India was facing the consumption reduction where we were waiting for it catch up. So in terms of the sentiments, with the fear factor of survival also coming in, I would imagine that

unless there are lease packages available or consumption picking up, where sentiments are so good that I want to consume, the cycle won't reverse. Why I am talking about this as a philosophical answer - if you look at Maslow's pyramid, at the bottom there is a food, shelter, clothing and comfort levels. These are the segments that will catch back first and because there in any case population is growing at bare minimum requirement. So, industries which are related to food, food processing, textiles will require much faster growth, construction will also catch up at least in developing world, like India. So these are the areas where I should be looking forward to, and since consumption were to catch back that means steel and cement will also improve. Then comes durables which are related to comforts like our white goods, then automobiles. So, these are the sectors that will progressively improve.

Now, there the caveat here. India, I think may not escape but will not have a major infliction of COVID, if it happened then couple of thousand will succumb to it. By the time things improve, it would be first 3 months or could be a little longer. But for the world to improve and come back to that confidence of purchasing and maybe consuming at the same rate that they were could take a year plus, maybe even more. So then the companies like us come in the last of the line, the consumption should start increasing, capacities should get utilized and the investor should feel confident to create more capacity, which means going from survival to growth mode, it is little longer period. So, all of us are currently gearing up to ensure that we also get back to survival mode and then move into a growth mode. And I would also recommend all of you also look at companies who plan that way rather than telling that okay, in a month down the line, two months down, the life is going to be normal. Life is going to be abnormal for some time, subnormal and later normal.

Bhalchandra Shinde: As previous participant also said, the cash flows might get stretched because of the working capital stress. So that phenomenon also will take it kind of a year to actually start showing some improvement.

M.S. Unnikrishnan: You are right, absolutely right. See, even if I am ready, the customer should have money to pay for. Ultimately cash flow for Thermax means cash flow of my customers. I mentioned that there are segments which will revive faster. So, we did an analysis about our orders in hand. Thankfully we have got orders in this particular segment which I mentioned. Plus, there are PSU orders which will continue. In products, there are few from some other sectors which we have to wait and watch. So, we will have to tune our operations based on the cash flow positions of my customers, not my cash flow.

Bhalchandra Shinde: According to you, sectors will be first to recover, as you said that overall, probably FMCG or consumption related sectors will start showing some improvement and then probably automobiles and all those things and later that incur, but if you take the order wise consumption improvement, how do you see the order exactly to happen?

M.S. Unnikrishnan: See, if I keep away the last quarter, I am talking about Q3 for almost a year and a half, food and food processing and dairy became the number one order giving segment for Thermax. If I have to go couple of years back, it was cement, steel, fertilizer, oil and gas. Those sectors

have taken a beating, maybe cement continues, let me be honest about that, but others withdrew, power withdrew from that. So, food and food processing were the mainstay for companies like us, which contributed almost equal to maybe 18%-20% of the order intake quarter-over-quarter. So, with them coming back into normalcy we will also catch up. Currently, they are all doing very well because there is panic buying going on, however as it stabilizes, I would say Q2-Q3 onwards we should see them coming back to normal level. They should get the confidence back that capacity building will be a necessity. In that I will add textiles, drugs and pharma also. So those sectors will continue. But those are the only ones which are going to recover fast. For the infra oriented ones, it will take much longer period of time.

Bhalchandra Shinde: And why you think, overall textile sector should start improving?

M.S. Unnikrishnan: Yes. It should start improving because they have not invested in the recent past in a big way. Let me tell you, what the lower strata of the people buy lot more beyond foods it is the shelter and clothing. Then comes white goods, automobiles. That is the sequencing.

Moderator: Thank you. We have the next question from the line of Susmit Patodia from Motilal Oswal Asset Management company. Please go ahead.

Susmit Patodia: You are the first manufacturing company to come on CNBC and warn us before anybody else did. So, thank you for that. Sir, my first question is on risk management. We have not seen a lockdown kind of a thing across the country. So, what are the risk that actually come up when we are not doing anything?

M.S. Unnikrishnan: Yes. First and foremost the supply chain breakage for companies like us because most of us have at least 50% to 60% of our supply chain resting in MSMEs and the remaining in larger companies like maybe Siemens or a KSB Pumps or L&T for valves equivalent but otherwise predominant part of our input comes from dependent organisations of MSME. Their ability to hold on during a lockdown is tough; unless the government also holds their hand, creates moratorium and loans to be given to them without collateral which we are incidentally taking up with CII and with the government to ensure that they are supported. So, this is the biggest challenge, which nobody will admit, but in reality, that is the biggest challenge - for the orders carried forward. Even I am going to restart, imagine the restarting in the normalcy is going to take 3 months, then in 3 months, what would have happened to my supplier? Did he have the holding power? So, we will support as much as possible. Today only I have instructed my people that any collection happening ever, the first thing will go to my MSME suppliers. Even if they do not quality as MSME due to technical reasons, but, somebody who is under financial stress should be supported, then the rest can be looked into afterwards. So that is the challenge number one. Second is, if we miss utilise or become very hungry for topline and bottomline, because I may have some chances of revenue recognizing some good numbers in the current month, I would have carried forward fairly decent number. Because if I want to show turnover for Q1, you saw that I am above breakeven or maybe see profit, if I may utilise my treasury to execute these orders then I become a bank, something for which the temptation

will be there in any organisation. So, we are not going to be populist about that. Even if I have to come back to you three months down the line to say that sorry, our turnover has gone say x%, let us say half in the next quarter, I would rather tell you the truth than build up a number to please anybody. And this is something which I am discussing with the Board also that let us be very careful about that fact, that is the second risk. So, we should not have any temptation of topline and bottom-line, everything has to be forgotten for some time. Survival and ensuring that we are one of the better companies having a decently good balance sheet with a treasury available. But the treasury can be emptied in one quarter to show a turnover by buying and paying to our supplier and then supplying it to my customer who is unable to pay because of this cash flow not matching. So that is the second reason we carry.

Third is not a risk, in third, an indirect thing is there. We are carrying good quality manpower with better pay in the industry and again the temptation would be there to show profit by reducing the manpower, I will not want to do that because these are the kind of times where we need to support our manpower. But one resort is to have a dialogue with them if the work is not happening because work from home is not so 100% for companies like us. So, should they temporarily take a salary cut and then moving forward ensure that they get it in the good days the money which they have foregone, maybe a year down the line, two years down the line. So, that is not a risk, but not to take the decision is a risk. Otherwise, the manpower cost can eat you and you can be empty of your treasury by keep paying the salaries with no work happening. So, in the worst scenario where recovery is going to take six months, then how will you deal with the manpower? You got to ensure that they are with you because nobody else is going to take them too, but we are going to support them. So manpower cost, can't even say skilled manpower or labour. The easiest thing is to do in a lockout right now is - no work no pay equally. No, we need to be more considerate because in the good time they were there with you to make money. So these are the kind of risks which we see right now. Then if it prolongs for recovery in the global economy for say imagine a one year plus, the solution currently for COVID is not what we are doing. Isolation is only a temporary affair. It is somebody finding medicine to cure it and a vaccine to be found, which the world is currently predicting will take anywhere from 9-months to 12 months. The moment that happens it will be like your normal flu after one year or two years, let us say that. Otherwise, we will be shutting down the shops everywhere in the world. So, science has got to help us. So that is what I am expecting to happen. If that gets prolonged for a longer period of time, the global economy will be in a recessionary mode. That recessionary mode I don't think companies in India will have the muscle power to overcome which will mean a lot more ramification because the government will become the largest borrower and the rupee will depreciate and a lot of things are there. This current time is insufficient to explain about that. But I am able to understand that if the world doesn't come out with a medicine for the cure and a vaccine in a period of 9 months to 12 months then we all are in for trouble. Up to that, all of us can manage the organisation. So that is the large part, a doomsday kind of a prediction. Otherwise, the first three are the risk that we are handling currently.

Susmit Patodia:

So, just taking from there and your earlier comment about some global countries being in disarray, is there a need to relook our 5-year, 10-year plan of global ambitions, you think?

M.S. Unnikrishnan: 100%. Why even long term, even for the first year also, I have already got an ABP for the Board of the company. But we are reworking on that with what could really happen in the market based on various things for the next year and we have already started thinking about. It is too early right now to comment on that. We have to think through any investment that we are going to make and even recalibrate the portfolios that we own, the geographical location that we are currently in and the investment that we already have and plans that we can make, we will have to be very careful about that. We have got our money also invested in outside India and we don't tell so much about what decisions do we take. Too early to publicly talk about, but it is already germinating in our minds and we were discussing that internally. Not only for us, our plans for the future, the way we saw the world should we see it the same way? Currently, it seems that if we escape out of it in a year, even two years, things can continue the same at least for the long-term plan. But if the world is going to change, we should be the first to change our thinking. That is our opinion.

Susmit Patodia: Sir, have you heard from any banks where you have undrawn lines that they are asking you to shrink the line, has that conversation happened?

M.S. Unnikrishnan: Thankfully no, because we have a cash limit and we have not taken one rupee out of that.

Susmit Patodia: So, it is not like it has been reduced by any money?

M.S. Unnikrishnan: No, in fact they have asked us that if we would need to utilise it, equivalent of that. We have told in any case we are paying the bank charges for the commitment that we guys have made. It is too early for us to comment on that.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: So, the couple of questions that I had one is given that the government is going overboard to help the needy and the situation is on the worsen side, do you believe that the infrastructure will take a back seat for a while, which impact the underlying environment and push out CAPEX for a year or so?

M.S. Unnikrishnan: Bhavin, my take is that the government is currently worried about people safety, their health and life. And I don't think it is there in the mind of anybody in the government at this point of time that what these people will do if they survive. So, the moment the life of people is securitized within manageable limits, we don't have a choice but to look at what these people will do. So, in that their support will be for the people who will be suffering now and will suffer tomorrow. This means small scale industry; medium scale industry and over stretched industry are the ones which will be given priority and they are not going to give it to the big corporate world. To India Inc. anything beyond some timeframe they will give, moratoriums will be available maybe for a longer period of renegotiation, NPA criteria, IBC criteria are the ones which the industries are also asking for and so the government also will concede, that every country will concede. But the direct benefit related to money will go to the lower section

and in that, they will not give the owner, they will give it possibly as a working capital like grease needed for running the machine and maybe to the unorganised sector in terms of direct cash transfer to the workmen like the way they have talked about 24% of the provident fund for those who have pay less than 15,000 will be made good by the government for the next three months, an equivalent of that they will give it. But for that also please remember, 1,70,000 crores we have already given to these people directly for three months plus kind of a timeframe. If that would extend for a quarter more, you are talking about maybe 3.5 lakh crores. Now if you have to do the similar kind of thing for an industry of this kind, you are talking about maybe 7-8 lakh crores equivalent of that which will be almost nine months GST collection of the country. So then, you should recognise that the government has got money coming only from GST, income tax, custom and then some excise duties will continue on some of the other item and borrowing. So, the balance will have to be done through government borrowing, international and domestic. International borrowings are going to be very difficult because every country in the world, right now America needs borrowing. So, it will be a lot more of ballooning, I mean our currency will suffer. As we are thinking about all of this in the private forums, I hope we are able to contain it and we don't have to resort to undue borrowing and fiscal deficit going to some 6%-7%-8%. Sorry for going so far away. But coming back to this, infra projects will certainly take a back seat right now. The cash available will be gone for supporting human life and later for ensuring that maybe the suffering part of the industry is taken care of.

Bhavin Vithlani: Sure. Thanks. Second question is on the supply chain for Thermax, given that a lot of them are small medium scale enterprises, what do you see a need to actually lend anything and although it means a shorter term reduction in the payables and increased working capital?

M.S. Unnikrishnan: Yes. We are already working out the plan. My team has already worked out how much will be needed for poor employees, contractor workers, what is the numbers and what is the kind of support needed from our side to keep it going for month-over-month. It has already been estimated and we will be supporting them. For the industry to revive is not going to be an easy task. As I mentioned at the beginning itself, in the risk of the company to develop somebody is not practical in a short while, so we will be supporting them.

Bhavin Vithlani: Lastly. Would you have a number, what would be non-discretionary fixed cost for Thermax on a monthly or an annual basis?

M.S. Unnikrishnan: We have all the numbers worked out, it's being reworked by Rajendran and team that is why I am not declaring. See, the normal days number is already known to us. In the difficult days and scenario 1 and scenario 2 we are reworking it out, that is what we are currently doing.

Bhavin Vithlani: So, what it would be currently if you take up some of the discretionary spend like travel and accidents, etc.?

M.S. Unnikrishnan: See, 100 is for say maybe salaries and expenses related to people. Another 100 will be for what people will be spending.

- Bhavin Vithlani:** So, this is on a, this is partly your and it will be 200 crores now as you mentioned?
- M.S. Unnikrishnan:** Normally whatever is spent on people is also spent on people in this situation. But in abnormal times, that second part that is the travel, those all we will curtail, right? In any case, all of us have learnt to conduct our business working from home. Working more from home than from office.
- Moderator:** Thank you. We will be taking the last question from the line of Abhishek Puri from Axis Capital. Please go ahead.
- Abhishek Puri:** Sir, most of the questions are answered. Just wanted to understand on the CAPEX plans largely, given the substantial push back in demand as you pointed out in terms of how the recovery could pan out? Our CAPEX and capacity expansion in the couple of facilities that we were doing in Gujarat and Sri City will that continue or we will stop the CAPEX for now and look for demand revival to come back?
- M.S. Unnikrishnan:** All physical CAPEX with the capacity creation has stopped barring the chemical capacity, which is almost under testing level in Dahej which will in any case be needed. Other than that, Sri City expansion won't happen. No capacity addition will happen till we really see the global economy back in the growth path.
- Abhishek Puri:** That is loud and clear. And continuing from the last question that Bhavin was asking on the cost front, I mean your manpower cost is around 800 odd crores and there on an annual basis and their other significant portions of cost on packaging freight, the other unnecessary components. So how do we understand. I know Q1 will be kind of a wash out as you mentioned, but how do we understand in terms of projects, products and design and engineering services. Do we still continue to book revenues for that portion or is it considered that since the factory is not able to put out material and hence, we will not be able to book any revenues out of it?
- M.S. Unnikrishnan:** Design Engineering, unless we have collected the order separately as Design Engineering, we will not recognise the revenue. Only when the manufacturing activity starts either in my factory or my supplier delivers the good, these are the kind of things where we do the revenue recognition. So there won't be any wrong reporting as per we are concerned for work from home, some people will design. If that design portion was given in a 100 crores order, imagine that I had a 3.5 crores order for Design Engineering, for example, if that is something and I can bill it to the customer then I will take it as a revenue. Otherwise with the part of the 100 unbillable separately I will not recognise it unless the stage reaches to a level of manufacturing or there are another milestone that we will utilise for it. Be rest assured about that part; it won't happen at all.
- Abhishek Puri:** And how much of this will be the services component and can that continue in this environment and will it be part of the essential services or not?

M.S. Unnikrishnan: It is a challenge for us, for example there are opportunities also arising out of the current condition. Multinational companies contacted day before yesterday, can we have at least the shut down time, we are worried about maintaining the effluent treatment and sewage treatment plants. There the operation is not done by us, they have their own people or somebody else doing it. So, I was more than willing to help him out to do that. It is a new business line getting opened. And then we really thought, the many of the plants that were shut down when you restart it maybe after a month also, the bacteria would be dead, so we will have to restart that also. So, there will be services which will rise for a time being but that will be a peak only, it will stabilise there afterwards. But your question is can you continue to be in service, for example operation maintenance, I have fairly large to the tune of something like maybe 200 odd crores or 250 crores worth of operation in these contracts. But many of my customers are also shut down. So, it is not going right now. Unless the companies start reopening, I won't have that income coming in. In service income there is remote service income available, though it is very limited right now. But that is a good opportunity because many customers will recognise that. Remote servicing and remote monitoring will be a good thing to happen because imagine that many customers of mine when we offered remote monitoring, they didn't opt for it. If they opted for it at least sitting in headquarters will be aware of what is the status of this may be the boiler, the chiller, it may not be functioning, maybe functioning. That could be an upside at the end of it.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Ms. Renu Baid for closing comments. Thank you every one for joining in and I would like to thank the management of Thermax for giving us the opportunity and more importantly sharing the time of and their views and insights on this event. Sir, any closing remarks from your end?

M.S. Unnikrishnan: Yes. Thanks a lot, Renu, for hosting it. And thanks a lot to all my friends also for coming online. I can only say that the world is passing through a very tough time, not tough time, I don't know what English word can be used for it. We have to navigate through this. In that all of us do believe that, people come first and then comes organisation and the business. So that is what all of us are thinking. So, let us pray for everybody and work towards ensuring that all of them stay back home and don't create any problem for the country and for the world. And once we recover, all upgrades are going to pick up and utilise the spend, we are going to utilise the time for it. Somebody asked a question, is it going to be a changed world? What all are the opportunities going to be available with our current competency, we are working on multiple areas and also recalibrating some of the things that we are doing currently, should we stop doing that? So, we do differently. We will be doing that also. And thanks a lot once again and we will be in touch with you. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of IIFL Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.