"Thermax Limited Conference Call"

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ANALYST: **MR. NIRAV DHANRAJ VASA**

MANAGEMENT: **MR. M. S. UNNIKRISHNAN**
MR. GOPAL MAHADEVAN

Moderator: Ladies and gentlemen, good day and welcome to the Thermax Limited, Q2 FY'13 earnings conference call, hosted by SBI Caps Securities Limited. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" followed by "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand over the conference to Mr. Nirav Dhanraj Vasa from SBI Caps Securities. Thank you and over to you, Sir.

Nirav Dhanraj Vasa: Thank you very much Madam. Good morning ladies and gentlemen, on behalf of SBI Caps Securities, I welcome you to Q2 FY'13 post results conference call of Thermax Limited. I would also like to thank the management for giving us the opportunity to host this conference call. Representing the management are, Mr. M. S. Unnikrishnan, MD and CEO of Thermax Limited, and Mr. Gopal Mahadevan, CFO, Thermax Limited. May I please request the management to give some opening remarks related to the quarter's performance after which we can start the Q&A session.

M. S. Unnikrishnan: Thank you Nirav. Good morning to all of you and a warm welcome. As usual for the kind of help you are extending to the company with the kind of questions that you ask which makes us sharper to perform better. The results are already in your hands, but let me reiterate a couple of points out of that.

Thermax Limited posted a total income of 1192 Crores as compared to 1304 of same quarter in previous year, showing a declined of 9%, but not a surprise to anyone of you because we had been cautioning and had been informing in the previous quarters too. Energy sector, which comprises of our boilers and heater business, cooling and heating business and the EPC business contributed to 78.3% of the income, which is reported. The environmental segment, which comprises of air pollution control, chemicals and the water and waste business has contributed 21.7%.

During this quarter, our large project businesses have shown a decline in revenue recognition whereas the environment segment has certainly shown a growth. Apart from this, even the product business of the company that is heating and cooling, water and wastewater, they also have produced a positive result of growth also for the quarter. Further, breaking it up our domestic contribution has gone up to 83.1, and the international has comedown to 16.9 on the Thermax's balance sheet. Normally, we are in 80:20 but international markets in the current quarter had not been too good, because the carried forward orders did not have contractual delivery for the Q2. That is reason for it.

Order intake for the quarter is 1162 Crores registered. Business after netting of approximately 65 Crores worth of orders, which were not moving at all. Otherwise you would have seen maybe a little marginally better number, but we were very conscious about the fact that an order, which does not move and does not have the advances available, should also be off from the order registered for the company so the net number is 1162 for the quarter.

Power sector contributed to approximately 33% of this number. We also have had an EPC order, which were declared prior to the Board meeting amounting Rs.280 Crores for a bottoming cycle of 49 MW, for an existing gas turbine based power plants in North Eastern part of India. Advances have come; work has started for the job already. The Ferrous Metal Sector though not doing too well in the country has contributed 25% of the current quarter's order intake, but there was one specific order for water & waste solutions won which is approximately in 91.5 Crores, which could have possibly made at look a little better, but there is no indicator that the sector is doing too well. If this windfall or order were to be removed from the order book or to be taken separately, the steel sector has not performed as good as what all of us have expected.

Other sector, which has contributed to the current quarters order booking, includes cement at 9% and sugar at 6%. You would note that sugar is that not medium where we were very good at picking orders, but these are specifically for a technology innovation done by the Company for using the spent-wash waste available in the distilleries of India and the sugar factories of India to be converted into usable energy. These are those two orders that which we has picked up.

Now coming to the profitability, we have been able to keep our word of retain double digit profits and Gopal & team had managed to make it a little better than double digit beginning also is at 131.8 Crores for the quarter in comparison to 148.5 for the previous year same quarter. Our total income for the first half is 2176 Crores in comparison to 2348 and the PBT is at 158 Crores versus 182 Crores for the previous year. At consolidated level the total income for the both is 2565 in comparison to 2733 for the same period for the previous year.

An update on TBW, Babcock & Wilcox joint venture, the factory is now full of machinery. It is installed. The last part of installation has started. We would have the line-up of manufacturing also getting cleared. I would expect that we should be ready to start manufacturing in the Q4 in the current year, subject to of course, one would have orders, one could have made it, and there it is better that you ask me questions and I give an answer put there are not any substantial or reportable kind of an enquiry prevailing in this quarter.

Now let me hand it back to all of you to ask me any specific questions. Thank you.

Moderator: Thank you very much. We have the first question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Good morning Sir. Sir, can you elaborate on the 33% of orders have come from power, so can you give some more color on what is the nature of this orders and which sector in power, is it private or where it has come from?

M. S. Unnikrishnan: First one is already publicly declared and I spoke about that is for the 49 MW in the North Eastern order. Second we had a captive power order from one of the cement companies for 30 MW power plants where the turbine is a free issue supply otherwise the value would have been higher. So that is already registered and the work has started. We also have got a smaller size of power plant for our chemical company. So, there are two captive orders and one main power order. These are the power sector orders.

Madan Gopal: Sir, what is the outlook on the oil and gas sector. How was it? Particularly your base power has which is coming from heater and chiller and all this? How was the order flow in that segment has been?

M. S. Unnikrishnan: For the quarter there is nothing substantial to talk about there were no single order got finalized in the oil and gas sector barring some repair work equivalent which we had from one or two refineries. We are aware of the technical specifications getting prepared and RFQ is getting ready for the Reliance’s third level expansion and we also are aware the Cochin refinery the financial closure is happening for 17000 Crores for the main expansion program of Cochin refinery. These are the two domestic refineries expansion expected, but in my opinion, the enquiries will be out in the market only by the Q4 and knowing the style of operation of the industry, one should expect the order finalization would happen in Q1. Now on the absorption chilling, the order booking has been very high for the last quarter but nothing surprise, and we will catch it up in the next quarter. Incidentally, let me tell you there is a spurt of enquiries coming from one or two states especially Andhra Pradesh and Tamil Nadu where the industries are bereft of power and many are wanting to convert electrical chilling into absorption chilling and at least those who already have a qualified boiler available in their factory produce a little more of steam and go for chilling. So, there are at least 8 to 9 enquiries come in, none of this are going to make a huge difference for Thermax's balance sheet but for the cooling business, this could been a good business and I do believe the trend of this kind should be expected to improve in the next year also because the power shortages are going to be staying for at least an 18 to 24 months period.

Madan Gopal: Sir, removing those major orders the base orders since to be still at around 500 Crores kind of levels so you are not seeing any major improvement in the second half possibly there would be some improvement or there is no a clear visibility as of now?

M. S. Unnikrishnan: I need to be waiting and watching. If you ask me the enquiry inflow is primarily is budgetary enquiry moving into some serious discussion whereas signs of that in some sectors not in every sector. We have also cement sector again talking to us about capacity expansion programs, but those are budgetary level. Will they fructify into confirmed orders I would wait for. Textile sector there is sporadic enquiries coming. Food sector continues to be releasing enquiries. So, that base number which you have mentioned about is a little better than 500 for the quarter, but not to the expectation that all of us have.

Madan Gopal: Last question from my side, captive orders, BHEL in their concall was saying that since no fresh investments happening in metal so they are not seeing any major captive order enquiry. Do you agree to it or you see some other sectors coming up where BHEL may not probably participate so that would help us?

M. S. Unnikrishnan: There would be, because I am expecting, my prediction is that captive power is going to be improving in the short period. When I say short it is not one or two quarters. I am talking about maybe specifically a two to three year period you should have resurgence of captive power coming back because the commercial power cost has now touched maybe Rs.6 to Rs.7 anywhere in the country barring Himachal Pradesh where they have hydel power available where not too many of industries are coming in up for huge power consumption orientation. I am talking about State of Tamil Nadu, Andhra Pradesh, Karnataka, Maharashtra, and Gujarat. This is the main wealth of industrialization happening in the country. Average power tariff is up to maybe Rs.5 to Rs.6, in Gujarat it is almost touching Rs.6.5, at this point of time. Any captive power including the open market called purchase level, will deliver you electricity at Rs.4, or at the best Rs.4.25. So it still has got an arbitrage available and it is going to be staying the same way. I am sure the major consumers of electricity will be constraint to go for they do not have a choice but to go for again captive for sometime. If we were to go ahead with our main power expansion the way all of us are expecting that year-on-year, there will be 15000 to 20000 MW getting added new as new orders being finalized maybe things could have been different. I am afraid, I need to be telling that barring the NTPC large order current year is not going to be witnessing any substantial power ordering, which means in next two three years where is the power going to come from.

Madan Gopal: So it is more of an outlook on fundamental helping the captive but the short-term enquiries you are still comfortable with it?

M. S. Unnikrishnan: Let me tell you the enquiry inflow is not started picking up beyond a level because there are some sectoral issues like they were maybe BHEL would have mentioned you steel has caught up in a different quagmire nothing to do with not even industries it is because availability of iron ore is a question for them and cocking coal because both of these are under the ground and land acquisition bill as going to be passed and again we were expecting that the government is going to pass it if the cabinet approved it but again something there was super cabinet beyond the Cabinet of India, which has possibly sent it back. So fundamentally, we are loosing time that is all; otherwise it is going to come back. We will have to wait and watch, but till happen because on one side the power demand is really peaking and it is unbearable. In fact, if you have to talk to companies, I am sure you must be attending concall of Andhra-based industries they are bereft of power for three days in a week. So, it is no more in a cost of power it is a cost of production that is why people do look at it.

Madan Gopal: Thanks for taking my question and best of luck.

Moderator: Thank you. We have the next question is from the line of Indrajeet Bhatia from Macquaire Capital. Please go ahead.

Indrajeet Bhatia: Good morning Sir. Firstly, congratulations I would say on a decent numbers in a difficult environment. My first question is on the export market I would say a couple of days back Triveni on its call was, I would say pretty optimistic about export opportunity in the captive power side, especially less than 100 MW. Would you confirm that and they also commented that the margins actually looking better than the Indian margins. So what is the view point of Thermax on that?

M. S. Unnikrishnan: Thanks Indrajeet first for the compliments. I would concur with Mr. Sawhney on that. I am sure the international market, not exactly less than 100, I am talking about maybe a 15 to 30 MW, there are active enquiries going on, some of the main the African continents, some also in the Middle East and South East Asian continent. Now competition is of two types the EPC bidders who come from China. It is ferocity of competition. I cannot even be explaining to you. They are wanting to take the order means they will give any price. If there is a split order well then Asian companies other than Chinese would stand a better chance. In EPC some of them do also come with the funding and financing from Chinese banking system, which is not available to Indian system. Now Triveni, specifically have got an advantage that he has got a joint venture with GE and GE is using their Indian manufacturing as a sourcing center. So, it is marketed by GE. I will not come in right now on will it all fructify into orders for Indian companies. Incidentally, we were the first to declare it in the first quarter itself an order from an African continent for Zambia for Dangote Group, the cement company. There are one or two more enquiries. Any of them converting the orders, we are all hoping that some of them should turnout in the orders either as a boiler order or as an EPC order.

Indrajeet Bhatia: Two things, one is given that, we had an order inflow runrate of around 1100, 1200 odd Crores now for two, three quarters now. Do you think that this kind of runrate can be sustained or maybe you can even see a pickup in that and if you could also comment on your subsidiaries where the loss used to have come down in Q2, what is the outlook there going for the next remaining part of the year?

M. S. Unnikrishnan: Your first question is related to 1100 to 1200 Crore range of sustainability of order booking, I am quite hopeful, we should be able to sustain it. Of course, I need to get at least one EPC order per quarter to make that number. My base number is hovering between 500 and 650 for the conventional products of the company, another say 150 to 200 Crores will come from boiler, which are larger in nature, larger water heating (ph) plant. So, that number to make it to 1100 to 1200 depends upon a minimum of an EPC order, which we had last quarter, current quarter, I am sure we should be able to get another one in the next quarter also, if I am able to manage it certainly. If not so it will be a bunching which will happen in the quarter later where we will make it into maybe I will take, can I repeat H1 performance in H2, is what we are looking forward? If we are able to do that then we will be better off than the previous year-end order intake. That is for the question number one. Second is, you asked about subsidiaries. We had specifically mentioned you about Meenakshi Project having put in pressure on our one subsidiary, which is doing the construction for it, it continues because we have already started producing electricity in one of them, second will also get into production level in the current quarter. So, I would have strain on one of the subsidiaries for a quarter or two more and it will then get back to the positive number in the next year. That is one construction arm. Second construction arm was always making money and it continues to be making money. We reported loss in two overseas subsidiaries. One is our Chinese subsidiary in the last quarter, which continues to be have a negative number, but we are able to contain it. Similarly, our Danstoker had loss in one quarter but we turned around and we have made a profit of at least maybe a million Euro plus kind of numbers in the current quarter. So, that is sustainable. The only thing that is negative, which will continue are two; one, we will have to continue to have this one of the construction subsidiaries for two more quarters under shift, and the consolidation which Gopal is constrained to do of the joint venture, which is their losses, will have to be accounted by the main company. So, those will continue, but with this confidence, we should be able to deliver good numbers.

Indrajeet Bhatia: Was there any losses of the joint venture or the super critical joint venture already booked in this quarter?

M. S. Unnikrishnan: Yes, we have booked their expenses for the current quarter, which Gopal could you please advice him the number.

Gopal Mahadevan: YTD, I think, April to September, we have had on a total basis about 24 Crores at the PBT level.

M. S. Unnikrishnan: It is pretty already accounted for.

Gopal Mahadevan: Your PAT would be of course 51% of it. Consolidation happens where the total PBT has to be taken and PAT of course will take that 51%, after they move to minority interest.

Gopal Mahadevan: Thank you.

Moderator: Thank you. We have the next question from the line of Sumit Agarwal from ICICI Bank. Please go ahead

Sumit Agarwal: Sir, just two questions. One is you have been now moving towards more of the EPC also, so how do you see the working capital intensity increasing for you going forward? Second is your Chinese subsidiary has been now making losses for almost a significant period of time. Do you see any revival happening or are you to going to close? What is the game plan though it is a small amount, what are your thought processes on that subsidiary now?

M. S. Unnikrishnan: Sumit, for the first question EPC per se does not put a stress on the working capital. It is only the EPC orders that we pick up in public sector where the terms of payments are dictated by them not by us. In private companies, there is the negotiation and we have cash flows normally managed through a negotiable instrument whereas in public sector it does not happen. So, of late, we had been having multiple public sector orders ongoing where we are better off than many other companies, because we do our job on time and we also force him to pay. So, that way we are better off. For example, 280 Crores order, we have taken is also from the public sector. Any one or two EPC orders which are currently going on to the market is also from public sector equivalent or that, semi-public sector, autonomous, where all of them have to follow certain pattern of payments. So, that may put a strain, but it is only a matter for increasing the number of days of DSO rather than putting a stress on the entire balance sheet of the company. So, that is one thing I am quite sure about and we also do take care of a measure, we have got some internal numbers, beyond which we will not take orders from public sector or from the government. Because then our exposure will be too high then I agree with you then we can come under strain, so that we do take care of internally, point number one. Second, in Chinese subsidiary, now we expected a turnaround in the current year towards end, to at least have a cash break even. Well, it may get postponed by a year that is all. But otherwise, if I were to look at the milestone achievement target that we have set for the subsidiary in China, we are well on track. Despite the Chinese economic difficulties we are not aware opaque Chinese reporting system what is happening inside, but let me tell you since you are operating over there they have just stopped placing orders for capital equipments for almost a period of three to four months, because of whatever the reason for it, because normally when the government is going to be changing hands, the policies could be totally different. The provinces, which they will be giving importance for could be different. We are experienced in something like that otherwise we could have possibly, we had an out limit chance of being cash positive at least by the end of the year, which will get certainly postponed to the next year. Now if you ask the question what is the game plan for the long-term? The same way as Siemens came to India maybe almost eight years back or an Atlas Copco came to India, Sandvik Asia came to India, Canametal came to India maybe 40 to 50 years back, Thermax has gone to China. We are there to stay and it is a good market and we know we are able to compete against Chinese in the international markets, so we are one of the very few Indian companies able to compete against Chinese in their own market and to make money is something which we learned in India. We are going to replicate that in China. That is the way I would take it and we are going to stay them.

Sumit Agarwal: Sir, two follow-up on the same thing how much is the accumulated losses in the Chinese subsidiaries now?

M. S. Unnikrishnan: I may not have the number right away. I may not have it. Totally we have invested $11.5 or $12 million what we invested. That is it.

Sumit Agarwal: Second thing, you have mentioned, about that you have some internal target of your public sector orders would not be more than this percent is it a percentage, is it a value or how is it?

M. S. Unnikrishnan: That is a combination of value, companies, same company will take multiple orders. These are not a norm where we have a printed sheet given to people. The discretion used by between Gopal and me because we have a price approval process in the organization, or a bid, no b.i.d. That is the way we do that, depending upon.

Sumit Agarwal: Thanks a lot and best of luck for your future.

Moderator: Thank you. We have the next question from the line of Srinivas Rao from HDFC Mutual Fund. Please go ahead.

Srinivas Rao: Good morning. Sir, in the past, you have mentioned about if needed we may have to go below double digits to ensure market share. Can you comment on what is happening?

M. S. Unnikrishnan: We have taken orders on single digit. I will not refuse that, but my team had been good enough to convert that to almost touch in double digit by their hard work and improvement in design engineering and cost control. This same attitude continues. If the market is going to continue in the same way we will selectively be force to take orders in the same way we are doing currently especially the larger once, because bulk orders larger sized orders are very limited in the market so we yet to be aggressive on pricing but then we are able to manage to improve the profitability, not each one of them are able to make it into double digits so it will continue. So Srini we will continue with the same thing that if the market were to deteriorate further is my only worry. If at the current level of datum if this is the datum, I think we should be able to maintain double digits.

Srinivas Rao: Next question is on the captive market in India you are saying, can you tell me what is the market now last year it was about 15000 MW and also you have mentioned more people are preferring to go for piecemeal rather than giving it on EPC what is the trend on that front?

M. S. Unnikrishnan: First, is I did not say there is a spurt right now. I was predicting based on my understanding of the market in the previous years whenever there is a substantial arbitrage available between the commercial rate of electricity versus the captive generation of electricity and second factor in that one is they should be capable of managing power plant and there are coal side plants are not okay for maybe a pharma company so those factors will have to be kept aside, but I am looking forward to an improvement or maybe at least for a period of two to three years time more orders to be forthcoming for captive power plants using coal as the fuel, is something which is my prediction. Now for us to be seeing those numbers to flow into the order book of me or my competition, should be a two to three quarters because somebody initiating it, the Board could approve concept, then they finalize the orders having engineers and consultants participating in that put together normal lifecycle for thought process concept to placement of order is at two, three quarters and sometimes four quarters. That is what I predicted point number one.

Srinivas Rao: EPC versus ordering boilers, turbine supply?

M. S. Unnikrishnan: It depends upon company-to-company. There are some customers of ours especially in the cement and steel sector if they have got a requirement for a captive they will only go for an EPC because they do understand what is the advantage of going for an EPC supplier versus they doing it themselves, but there are some other people who are still believing that they are saving money by not having an EPC. That will continue.

Srinivas Rao: That is all from me. Thanks a lot.

Moderator: Thank you. We have the next question is from the line of Lokesh Garg from Kotak Equities. Please go ahead.

Lokesh Garg: Good morning. Sir, just a sort of extending Srini's question, essentially if the captive market while we are expecting based on this arbitrage some sort of pick up how much of that pickup is contingent on fresh capex in some of these areas like steel, cement which are the order originating sector for this business?

M. S. Unnikrishnan: There will be two transits of that Lokesh. Number one, is where there are factories in existence but government is reneging on commitments of the electricity supply. I am aware of two companies I would name either of them, in the State of Andhra Pradesh where they were offered Rs.2.5, fixed electricity tariff for a period of four or five years and the government has given them notice they would not be able to give them that power because availability is an issue so that is one. So, there are people who are such get a special arrangements with many governments and entice them to get into the special economic zones and government setup plants where they will be benefit of the power availability, there is no wire available to take so much of power so somebody would approach them and somebody is going to tell them look have been it is better to generate on their own and run your O&M also, there are possibilities of they getting into captive power generator. That is point number one. Second, what I have mentioned is these are existing one. Then there are another set of customers for whom power outage means running the factories on diesel and diesel prices currently are subsidized even for all of us. I do not think that subsidiary can be continuing in 2014-15. So, the writing on the wall is very clear, if you are going to run your plant using a diesel-based captive power plant even furnace-oil-based, you are talking about electricity charges upwards of Rs.14 to Rs.15, a unit. Will the market be able to absorb that from the finished product? So, they may have to look at captive generation. Now not everybody is willing to accept this concept but they will have to experience and people will have to change. That is what I have mentioned about. We will see an enquiry improvement in the coming quarters. You will see the order finalization in maybe couple of quarters down the line and becoming a consistent theory in the country for at least maybe two to three years because of the fact all the inaction of the government and all of us put together in setting up newer capacities, the real vacuum in the country is 2011 mid till today we are talking about one year over and I am not expecting anything to happen for 18 more months. So we are talking about 2.5 years of inaction in the power generation, and power setting up in the country, what does it means for the industry. So, it means they are setting up their own power plants. That is all what I have meant.

Lokesh Garg: Sir, in this base, which is we are saying wherein there is a factory already exist and either it is not getting power or getting power-based on diesel-based generation, what is the sort of size of opportunity that exists. Basically, I am asking what the level of penetration that we already have is, the captive power already has in the cement, and let us say ferrous metal sectors basically?

M. S. Unnikrishnan: It is not only them even textile can do it. The main ones would be in the region of 5 to 15 megawatt kind of a capacity. Those are the ones who will be impacted and there are specific sectors, the power intensity on the cost of productions is fairly high. For example, a textile industry so what they would do now that they were buying process boilers of maybe a 20 tonne capacity for our textile expansion for an existing plant. They would go for double the capacity of the boiler, 48 tonnes of steam. They will divide that at a pressure of maybe something like maybe a 50, 60 of high-pressure high-temperature, put it to turbine then condense part of that and part of that will be taken as a backpressure and given to the process that is not at the cogeneration. So, that is the market that is going to be evolving.

Lokesh Garg: Essentially, if I rephrase what you are saying, you are saying that essentially 30, 40, 50, 60 megawatt type customers maybe already having captive largely but some of the smaller ones, which is below 15, may not be having and they maybe actually forced to go further, this is the way environment is panning out?

M. S. Unnikrishnan: Absolutely.

Lokesh Garg: Sir, other question that I wanted to have although you have given some outlook on BMW business and Babcock & Wilcox JV and that remains poor, but essentially, can this facility be used for let us say Babcock & Wilcox global business in that sense at least some bit of a business and manufacturing learning starts to come through?

M. S. Unnikrishnan: Certainly, that is there in the mind up BMW also, but there are not any orders with them either at this point of time with the utilizing this facility.

Lokesh Garg: Sir, one other question, which is mostly longer-term, is that over a period of time company basically has to add new products or capabilities to its mix because in the current area where it all operates, it is already having a fairly high market share more or less and across let us say boilers or captive power plants and things like that so what is that is on the table, which can sort of added to the company's capability mix over the next three to five years timeframe as to give you another let us say 3000 to 4000 Crores worth of revenue opportunity?

M. S. Unnikrishnan: 3000 to 4000 Crores opportunity will come only in two ways. One is the new markets where our market share is very feeble, in the international markets. We are already having a major thrush (ph) given to that. We will start seeing the results of that as we move further. Actions are already put on that. That is point number one. Second is, there are businesses where we do not have the market leadership even today. For example, in the water business we are not the market leader. So, I still have a gap to be filled in to reach up to my potential, so those are available. Then we have a foray into renewables, which is being supported by the government also and I am sure that is going to be the fastest growing market in the country as we move further. So, that is an area that we have. Of course, then we have got and when the opportunities available, we are looking forward to at the right time. So, in our opinion this is not the best of the time because volatility and uncertainty is the time when only opportunists will go and buy company. We are a little more conservative. We look at a little more of careful look at the balance sheets before we taking a decision on that. So, there are three attacks that we are going to be taking. First is about market share improvement in areas where we still have potential left and maintain the margin. Second are newer markets outside India, and third is the newer product portfolios we are looking forward to but all remaining within energy environment.

Moderator: Thank you. We have the next question from the line of Aditya Bhatia from CLSA. Please go ahead.

Aditya Bhatia: Good morning Sir. Quarter opening order backlog was almost down 25% from the last year levels; our revenue decline was limited to 9% on a year-on-year basis. What is the reason to the same? Is it on account of higher number of smaller lead-time orders?

M. S. Unnikrishnan: You got the answer also. You are right look at that.

Aditya Bhatia: In terms of these standard orders what kind of execution cycles should be assuming both on the energy and environment segments?

M. S. Unnikrishnan: In the environment sector there is one specific item like chemical business in a quarter which fetches me around 40, 45, where the lead-time if you get me the order today next week I deliver to you. That is there. There are smaller products, which are three to four weeks cycle time, average you should take something like maybe a three months period.

Aditya Bhatia: What about the energy segment?

M. S. Unnikrishnan: In the energy segment, there are also baby boilers, which are package boilers but standard boilers, which fetches me maybe a 45 to 50 Crores per water item, which would have anywhere up to maybe a three months cycle time.

Aditya Bhatia: Sir, in the release you have mentioned about competition intensifying, is there any particular area you were referring to or is it broad based?

M. S. Unnikrishnan: It is broad based. All of us are worried about India but everybody in the western world is looking at with the blinking eyes that look up in India still has got a growth of 5%. Their markets are at 1% and on a very small market it is almost $2 trillion size of GDP in that market is fairly large. So, the competition that we have spoke about is there are newer ones emerging every quarter, unknown ones coming in and through some agency they will get the enquiry. So, competition that is what we meant by nor they are loosing any specific ground. When we have got more number of people trying for the same pie the margins come under pressure that is what we meant by that.

Aditya Bhatia: Earlier, you had indicated that some of the orders have been backed at single digit margins so are we yet to see the impact of those orders in the financial as some of those orders have already been executed and it is because of stringent cost control that we have made in double digit margins?

M. S. Unnikrishnan: You are right on that, many of them are executed under execution both.

Aditya Bhatia: So you continue to believe that double-digit kind of margins can be sustained?

M. S. Unnikrishnan: Which is what we have been telling on the while for now five years and I will think we will continue in the same way.

Aditya Bhatia: Perfect, and lastly Sir other income had risen sharply in second quarter. What has been the reason of the same?

M. S. Unnikrishnan: These are on two counts. One is treasury income, second is there are write-backs. We have a stringent policy for provisioning for both debtors, stocks and nonmoving items in the entire balance sheet. So, some of them when it becomes again a collectable or when we recover, we write it back to the balance sheet. Once in a while you may find some of them going up and down.

Aditya Bhatia: Thank you.

Moderator: Thank you. We have the next question from the line of Venugopal Gare from Barclays. Please go ahead.

Venugopal Gare: Good morning to you. Sir, I just want a clarification this 1162 Crores of inflow this is the total consolidated inflows for this quarter?

M. S. Unnikrishnan: It is for Thermax Limited.

Venugopal Gare: So, what will be consol inflow and if you could give the breakup that you usually do in terms of energy environment for the backlog and for the inflow for this quarter consol and standalone?

M. S. Unnikrishnan: Gopal can you help him out?

Gopal Mahadevan: The total consolidated inflow is 1320 Crores with the energy being 998 and environment being 322.

Venugopal Gare: Right and the standalone the similar breakup for inflow for this quarter?

Gopal Mahadevan: Unni had already mentioned it is 1162 Crores, out of which energy is 841 and 321 is environment.

Venugopal Gare: Sir, I think I will probably take the backlog number if it is not handy, probably later?

Gopal Mahadevan: Do you want the backlog numbers?

Venugopal Gare: If you could give that?

Gopal Mahadevan: That is the order balance for Thermax is 4412, broken down into energy 3314 and environment is 1100 and for the Group it is 4984 with energy being 3880 and environment being 1104.

Venugopal Gare: Secondly, I just wanted to also check regarding the supercritical sort of joint venture. Now from what I understand, if I look at even the tenders that are out this year, do correct me if I am wrong on that, but most orders seem to be EPC right and couple of them I think at this BTGs so how are you actually approaching this market now is there a thought process of bidding in a consortium and are you bidding for these NTPC orders which we are going to be bid in probably Q4 so what is your thought process there in terms of how you will approach this supercritical market?

M. S. Unnikrishnan: Let me clarify NTPC is the ongoing tender there are two of them one is Kargoan and second is Tanda. Tanda is for the package buying. It is for boilers. We are already prequalified. We are at advance stage of technical discussions, but we are postponing the tender submission. So that is one so there we have qualified. Kargoan (ph) is something where they had urge for EPC, where we are not bidding. Then there are two other tenders one from State Electricity Board. I will not name them but it is an EPC. Second one is on autonomous body where again an EPC. In one of them we are bidding in consortium with an international EPC bidder of high repute, who also do have turbine in their portfolio. So, we are bidding as a consortium bidder. For the Electricity Board we are yet to be taking the final call as to should be a consortium partner, because the terms put by them are highly unfavorable to anybody who is going to get that order. So, we have already informed our potential EPC partner, consortium partner that we are wanting to bid, we are willing to bid for it, but only thing is that you can up maybe a 20% of the payment collected after maybe I am gone from this job. That it has to be collected when I am in this job. So, that is something, which we have signed for getting it organized. If that is agreed upon, we will participate in that also. So, that is the current one. There are a couple of budgetary enquiries, which are not really budgetary, I should say little more than budgetary, which are currently in discussion level with the bankers in the private sector at least two of them where we could be potential bidders. We will be and let me say we will be potential bidder one in the EPC, other one will be again package boiler.

Venugopal Gare: But this is on your own right the EPC one?

Moderator: Thank you. We have the next question is from the line of Deepal Delivala from Citi. Please go ahead.

Deepal Delivala: Good morning Mr. Unnikrishnan & Gopal. My questions have been answered. Thank you.

Moderator: Thank you. We have the next question from the line of Laxmi Narayanan from Catamaran. Please go ahead.

Laxmi Narayanan: Good morning Sir. I have two questions. One, on the captive power market if you can just tell me what the total market in terms of megawatts is for captive and what is the market share of Thermax? That is my first question. Second, on the boilers and heaters business what is the split between international and domestic for you?

M. S. Unnikrishnan: On the captive power, it is not a steady market to talk about. As I mentioned you, that last year was around 1500 megawatt, currently we are expecting that it would be a little lower than that. We have picked two orders so far, amounting to 80 – 90 megawatts. In the first half, if I am able to deliver the same, I will retain at 20% - 25% market share, which is inclusive of as the boiler sales as well as EPC sales put together if you take it that way and on the boilers and heaters, it again is not consistent in number but Gopal can help you by what is the current years number first half?

Gopal Mahadevan: The approximately order booking 20% of it is exports.

M. S. Unnikrishnan: So 20% international and 80% domestic for the boilers and heaters.

Laxmi Narayanan: What is the market share in boilers and heaters for domestic for us?

M. S. Unnikrishnan: In the solid fuel combustion, we have almost of 40% market share and in the oil there hardly anything happening in the country, whenever it happens because current year there was only two orders finally both of them came to us.

Laxmi Narayanan: That is it Sir. Thank you.

Moderator: Thank you. We have the next question is from the line of Kirti Dalvi from Enam Asset Management. Please go ahead.

Kirti Dalvi: Good morning Sir. Majority of my questions have been answered. Just couple of them you have mentioned that there was some write-back in your other income. Would it be possible to quantify this is significant amount?

Gopal Mahadevan: There is nothing majorly significant. Let me give you a broad color of what it is. Two things, one is the other operating income if you were to look at it that has gone from 16.9 Crore in September 30, 2011, which is to 11.32 Crores in current quarter. So it has been predominately… The other income, which is there, which is 27 Crores for the quarter and which is 29 in the same period last year, it is predominantly on account of interest and dividend that have come out of the mutual. What Unni was mentioning earlier was a mix of both which is the other income and the other income both put together.

Kirti Dalvi: So, the amount could not be large enough.

M. S. Unnikrishnan: Looking exceptional which is swinging the profitability.

Gopal Mahadevan: Then we will write it as exceptional item. Unfortunately or fortunately we do not have anything exceptional.

Kirti Dalvi: In terms of if I see your capital employed in your environment segment has gone up on a year-on-year as well as on a sequential basis so if you could throw a little bit light on that any of the projects which are on the slow moving or we have not received the revenue recognition has not happened or the receivables are still pending?

M. S. Unnikrishnan: There could be some projects but nothing substantial because thankfully in an environment segment there are not any large projects. In fact the largest order that we have received for the water business is in the last quarter was of 90 Crores, so we do not have any large projects. But let me clarify to you Kirti, collection is not as simple as that what it used to be maybe a two year back or maybe 2004, 2005, 2006 period. So, there are delays in payment but then we also accentuate our supplies and the construction work at the site to suite with that, but couple of them may go out of our control but then they are again brought back in another quarter that is the way it is.

Kirti Dalvi: In the current order book of almost 5000 odd Crores consol level, what could be the quantum of your slow moving orders or where you are facing little bit of delays maybe from the customer side?

M. S. Unnikrishnan: Incidentally, there are not any nonmoving orders there could be execution delays not as much as one would have expected it to be but it is in terms of cash flows. For example, let me say in the quarter I supplied for a 100 Crores project I have already supplied maybe 10 Crores in the quarter. If I do not receive any payment I will delay it myself. The customer may say we have completed that. I will delay it myself so that is the way it is. Wherever if I were to get maybe a 7- 8 Crores out of that 10 to in one or two Crores I know that I am in a quarter more. These are all discretionary decisions taken on our project-to-project based on the basis of reviews that we conduct. There is nothing where I should say that the project is taken up, we did half the work and moved away from site, not one of them where we moved from any site as of today.

Kirti Dalvi: Thanks a lot and Sir, at the beginning of the year itself you did mention that since you are carrying the lower order book, the visibility of revenue was lower for the current fiscal year. After the first half and the kind of order book you have what is your outlook for the next fiscal?

M. S. Unnikrishnan: Exactly what I started the year with the commitment that we are heading for a lower turnover. In that we were trying to be maintaining at least can we have the reduction at least within 10% is what we are trying for it.

Kirti Dalvi: That is Sir for the FY14?

M. S. Unnikrishnan: FY'14, it is too early to even dream about it. There are very difficult days to predict for beyond maybe a quarter-to-quarter. Like order intake because my entire FY14 will be depends upon the order intake in the H2 of the current year where we are working all of us are working, pray for as also for things to improve in the market.

Kirti Dalvi: Sir, if we are supposed to have even say, all double digit kind of growth if we aspire to have that in FY14, what kind of visibility you need to have by year end?

M. S. Unnikrishnan: If we are able to increase our order carry forward by at least maybe a 10% to 12% than the previous year then we will be looking for to double digit growth for the next year.

Kirti Dalvi: Thanks a lot and good luck Sir.

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

Pulkit Patni: Thanks a lot for taking my question Sir. I have a couple of them. The first one, you mentioned that you have got some extra order in the sugar industry this time because of some innovation. Si, I was just trying to get a sense on a quarter-on-quarter basis, what is the kind of extra revenue that the company typically booked because of the innovation or because of the new products being introduced on a frequent basis, if you can just a ballpark number to that?

M. S. Unnikrishnan: We normally calculate it internally for the new projects that we have gotten in the past three years what had been the booking. It varies between a 10% and 15% on a quarter-over-quarter it can vary.

Pulkit Patni: On a quarter-on-quarter basis about 15% of revenue comes from the new introductions or new innovations?

M. S. Unnikrishnan: 10% to 15%, sometimes we can have a large EPC order coming in. It will overwhelm the new baby project that is right.

Pulkit Patni: The second thing on this Babcock & Wilcox JV, if we try to look beyond the sound for the next six to eight months about all the problems in the sector. What is your outlook that over next 18 to 24 months, are you looking at certain things improving or any sort of visibility on where orders might come for this particular JV?

M. S. Unnikrishnan: I do not expect any new entrants other than maybe 11 to 12 consistent domestic power players in the private sector. The state electricity board, which are healthy which are 8 to 9 of them who will become healthy as they have increased the electricity tariffs and NTPC are the main buyers, going to be. Now the main issue that they have go to sought out is the existing outstanding loans with the banking sector. How it is going to be restructured and how they will be supported for any fresh projects, where it will depend upon them completing the existing projects drawing power, selling and making money and repaying to the banks so that sectoral lending can improve. So, there was some rough calculation made by some of us from the industry that one should look forward to FY'15 onwards the order finalization rate going back to 10000 megawatt in the thermal sector per year is what we are looking forward to. So, if that be the case, 10000 is going to happen in FY'15 onwards, well we have got a capacity of up to 3000 megawatt to be taken, our breakeven being around say 1200 megawatts, I think we should have at least intake of orders, which can sustain a breakeven in the future. That is my approximation right now. These are all predictions. Now there are couple of issues, which are known to all of you from the newspaper, but what we are concerned about is come what may, they should be clearing the Land Acquisition Act, they should remove this Go-No-Go sectoring which is done by the earlier Environmental Minister because there are some areas where the coal is lying under the earth and above there are trees. So, if you say trees cannot be cut, only way is that you have to go for a horizontal sharp mining, which is practiced in the entire Europe, but that technology is going to be bought into the country. Then we are delaying the entire power generation in the country by at least three years time. So, this is an issue, which the government has going to sought out right now, prime most thing. Second, the interest rates have to comedown by at least 200 to 250 basis points because power sector with the current level of costing prevailing in the market will have an IRR of maybe late teens on. Late teens when I say is depending upon if you have got free land maybe cheap land plus if you go for maybe not such a sophisticated plan, there are lot of factors and again which is a kind of coal we would be firing, you could be ending up with maybe late teens let us say 17, 18, 19 are the IRR possible. At 14% I will not borrow money and put up for power plant in this country. I want to see that there is the spread available of 5% to 6% for the investor, so the risk is worth taking, so that is the second sector which is going to happen. Third, of course, is I am sure electricity boards will have to start paying more, which I believe CERP has already made it mandatory for people to be increasing the tariff before they can set up any further capacity and many are signing on the dotted line with the central government for restructuring of the loans also. So, all these put together these are three main factors. The rest of them are coal is available in India if not also you can import it. Imported coal if I use it cost of power is going to be Rs.4. At Rs.4, I would not produce and sell it at Rs.3.5, so PPAs have to got to get signed for more than Rs.4 – Rs.4.5, in the future, which should happen, I am sure. This is the reality. So, for all these to be absorbed by the Indian market, I am waiting for I would say I will give an 18 month period for all this to be happening. But I have got a positive reading in the newspapers yesterday that the new Railway Minister told that we are going to be increasing the railway tariff, which is a ball (ph) move. So, if the government is able to increase, for example, diesel prices we have already done the first batch and I am sure progressively, they will find reasons to make it for common man they will give it cheaper but for those who can afford or those who need to be paying a higher price will make it happen. Second is the railway, so couple of these decisions is making us believe that the government is going to tell the Indians that look you better pay for the electricity that will happen, power expansion will also happen properly. So let us all wait for it to be happening.

Pulkit Patni: Thank you Sir. That is it from my side.

Moderator: Thank you. We have the next question from the line of Renu Vaid from B&K Securities. Please go ahead.

Renu Vaid: Good morning Sir. We had a good discussion on most of the queries. Just wanted some clarifications regarding Meenakshi, if you can share, we are expecting the project to be closed probably in next quarter, but what could be the kind of cost overruns or losses that our EPC Company has booked on account of this order or what is the likely cost overruns on this order that you have seen?

M. S. Unnikrishnan: Unfortunately, I am constraint from reporting that outside.

Renu Vaid: Sir, in that case will our understanding be right that okay at a standalone level we have been able to maintain our broad equipment orders, our business margins at approximately at double digit levels, but at the consol level when we look including the construction portion of the business as well which is a part of the EPC contract, margins are lower than double digit?

M. S. Unnikrishnan: In such orders it would be. This is a strategy for the company to make an entry into larger EPC. The first time we have done a work like that. There are constraints from both the sides not from our side, even from the customer, but let me clarify to you one point, supplies are virtually over. There is hardly 4% or 5% only to be completed related to the supply building. The rest of all is over. Construction also is almost, I would say other than the peripheral for the power plant construction is 75%, 80%, and 85% is all completed. So, it is not substantial going to be happening here afterwards but yes there are lot of learning's from that.

Renu Vaid: Sir, as we move overall as we are basically targeting one to two EPC every quarter, which definitely at this point of time into smaller megawatt size captive power segment of the market, but the EPC cost, which are associated with respect to the commissioning and the construction book will be taken at the instrumentation of subsidiary level so?

M. S. Unnikrishnan: Those who are following the same pattern that we had earlier. In the smaller ones of 10, 20, 30, 40, 50 megawatt, we had been doing in and did earlier so those there are no change in that pattern.

Renu Vaid: But relatively the risk on the EPC portion of their margins would be taken hit at the subsidiary levels itself?

M. S. Unnikrishnan: May not be, because we were making profits on this subsidiary earlier, not that we were not making money earlier. We have been earning good money in that subsidiary in the construction also. There is one more factor, which one has to be taking in, between say 2009 and 2012, the labor costs, thanks to NAREGA they call it, I believe, it has shot up the construction cost almost by 250% and out of our availability. So, that is also there. I am sure there are companies having major construction arms than what Thermax is having, the pain they are undergoing is already understood by us also when we discuss with them so that is one of the reasons. Now when I quote for a new one, a project, certainly I will be considering the current cost.

Renu Vaid: Probably yes from next year onwards once these mega orders and the old orders are not there in execution, one could expect the margins at consol level improving?

M. S. Unnikrishnan: That is what I have mentioned about that I will continue having strain on that subsidiary specifically for maybe two more quarters, could even spell over to third, but there is nothing beyond that.

Renu Vaid: That is from my side. Thank you so much and all the best.

Moderator: Thank you. We have the next follow-up question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Sir, just want more clarity on this MND that you are looking at which segment that you are looking for this MND activity?

M. S. Unnikrishnan: I do not think we are looking at. We are always looking forward to good acquisitions. Specifically, there is nothing planned about, but since you asked about it, our global footprint expansion programs are more for our product businesses, not for the project businesses. So, product means you will find that is heating well we already picked up two companies you would have seen. Last quarter also we picked up a very small one. Then second is for technology acquisition in which environment area predominantly the water & waste water equivalent of or air pollution control equivalent.

Madan Gopal: Second you said Reliance, the orders might come in some time later, but what will be our scope in the project and what can be approximate value of our scope to be total refinery for such expansion projects?

M. S. Unnikrishnan: For the size, we are planning for it could be anywhere between a 500 and 650 Crores kind of size is practical. All this will depend upon last moment, as to if they decide that entire electrical and instrumentation, you want to procure for the plant a single package and the boiler package or heater package is only mechanical portion, then the value can come down. There are factors, which can have the value justification taken, but my opinion is for the expansion they are planning for from our past experience it can be this is the size that could be practical.

Madan Gopal: In our past experience what kind of success rate we had when such good big projects have come?

M. S. Unnikrishnan: We had in some case of full success also, some cases 50-50 is also there. I will never predict that as an order. If somebody asked about an enquiry, I know enquiry is a certainty order is something, which is not with the 100% predictability.

Madan Gopal: Thanks and wish you all the best.

Moderator: Thank you. We have the next followup question from the line of Srinivas Rao from HDFC Mutual Fund. Please go ahead.

Srinivas Rao: If I understood correctly, you are expecting more demand from below 15 megawatt captive power projects. So, what kind of market share you have in this segment currently and how different are margins in this segment given the lower ticket size?

M. S. Unnikrishnan: Currently, in this market we are only supplying the heating products and the cooling products or maybe small work treatment plants, there we have a 25% plus percentage 25% to 30% market share for the current offerings. In the captive power ours will going to be evolved in. First of all our prediction based on our understanding may happen or may not happen so already there is a probability theory in that. We retain normally a 25% plus percentage market share for captive power in the country so that should be the kind of numbers we should be expecting.

Srinivas Rao: We are already active in EPC as well right sir in this segment?

M. S. Unnikrishnan: That is right. It is already have a session, specific strategic business unit only focused on to the area.

Srinivas Rao: On margin?

M. S. Unnikrishnan: Margins will depend upon. If there is too much of competition you are in the middle of maybe 5% - 6% equivalent but if you are only limited number of players where the customer is very particular about the quality then you can ask for your premium. That is the way to look.

Srinivas Rao: I was just looking at more from the fact that these are going to be lower ticket size?

M. S. Unnikrishnan: In any case they will make the money not in the EPC alone. I make the boiler I will be making the air pollution control for him, I will be making overtreatment for him. When I consolidate all put together of course it will be a double digit. It is going to be in the case for a pure EPC player who does not have any manufacturing at all.

Srinivas Rao: The next question is based on the JNNURM updated, a new JNNURM happening there?

M. S. Unnikrishnan: The papers are ready with the government. They have not released it to say that they are going to ahead with the part II. We had been hearing, I think Water Resource Minister is changing, so with that things should happen. There are many proposals pending with the JNNURM right now for clearance. I think JNNURM will get cleared because it has got a political outlook also onto that. The election is expected in 2014, well any new projects initiated, all of them will have the inaugural ceremony conducted prior to elections so normally some of them will happen in the next year. I think one more tranche is going to come out next year.

Srinivas Rao: The next question is on what kind of traction are you seeing on the ONM side sir?

M. S. Unnikrishnan: I would say, no major changes. We have booked four more orders in the current quarter small ones, not our own EPC. It is EPC done by somebody else with small capacities of 15, 20, 25 megawatts that we have picked up.

Srinivas Rao: So what is the megawatt under ONM sir right now for you?

M. S. Unnikrishnan: More than 1000 megawatts. Exact numbers I have not carried this time. Normally I declare it also, but this time I did not carry because it become a routine, but there was four more orders which got picked up in the current quarter.

Srinivas Rao: Thank you.

Moderator: Thank you. We will take the last question from the line of Pankaj Sharma from UBS India. Please go ahead.

Pankaj Sharma: Good morning. When you were saying that some of the orders which you were picking at below double digit margins and if we look at the percentage in terms of the breakup between raw material, staff cost and other costs, it is like 65% to 70% is raw material cost. So, like when you talk about internal efficiency, primarily it is because of lower material cost, you have managed in these orders that are why your margins are higher, like I just a bit more clarity on that would be helpful?

M. S. Unnikrishnan: The main item where it can make a difference from the time of booking the order and when you execute it is the material cost, because others where the cost reductions are already managed by the company in cost control related to manufacturing, manpower of various operating expenses, which are already factored in while you are picking the order itself. Post order, what you are able to manage is predominantly the material cost reduction, which will come on two counts; the bill of material itself can be substantially re-engineered. That is the ingenuity and capability of engineering, number one. Second is the negotiations and maybe sourcing with different kinds of suppliers, outside India suppliers all put together.

Pankaj Sharma: Thank you very much.

Moderator: Thank you. I would now like to hand the floor back to Mr. Nirav Dhanraj Vasa for closing comments. Over to you Sir.

Nirav Dhanraj Vasa: I would like to thank the management for giving us the opportunity to host the conference call. I also like to thank the participants for attending the call. I hope it was useful.

Moderator: Thank you Sir. Ladies and gentlemen, on behalf of SBI Caps Securities Limited that concludes this conference call. Thank you for joining. You may now disconnect your lines. Thank you.