

Thermax Limited

Conference Call

30th May 2007

Moderator: Good morning ladies and gentlemen. I'm Sherley, moderator for this conference. Welcome to the conference call to discuss the Q4FY07 results of Thermax Limited. We have with us today Mr. Prakash Kulkarni, Managing Director, Mr. M. S. Unnikrishnan, Managing Director-Designate, and Mr. Gopal Mahadevan Chief Financial Officer representing Thermax. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Priyanko Panja.

Priyanko Panja: Welcome. Good morning everybody. I extend apologies for a mild delay in starting the call. I would initially hand over the floor to Prakash and Mr. Unnikrishnan, Gopal Mahadevan. Prakash would give us an initial intro into the results as well as his comments on the outlook and we will do the Q&A. Prakash, over to you.

Prakash Kulkarni: Yeah. Good morning Priyanko. Good morning all the participants and a very good morning to everyone. I have with me here our Managing Director designate, Mr. M. S. Unnikrishnan, who will be taking over from me as of 1st July. I also have our CFO, Gopal Mahadevan and myself. Just to begin, I think you must have seen the results; results are I would say reasonably good. We have announced about 48% growth in the revenue. The revenues have increased from about 1,498 last year to 2,210, which is about 48% growth. The operating margins have also improved from, earlier year it was 13.1 to 13.9. The profit before tax from 192 to 290, which is 51% jump, and a profit after tax, which is our net profit, is 123 to 187, so it is about 52% growth. For the quarter was also good, I think as all of us are aware that 4th quarter in Engineering Industry is generally the large quarter, so naturally the income has gone from 469 last year to 804, about 72% growth. The operating margins, however, have fallen a little, maybe about little less than a percent point for this particular quarter. The profit has jumped from 68 crores to 114 crores, and profit after tax from 42 crores to 69.7 crores. I think if you see the highlight of the thing is besides the good growth in top line at all the places, we have this year the export. If at all we talk about Rs.40 as dollar value, it has crossed \$100 million, which is a mark by itself. So export is about Rs.400 crore for fiscal year '06-'07. I think going forward, we have already given the guideline that looking at the orders on hand and the market scenario, we expect the growth to be more than 40% for FY'07-'08. On the margins I think we have definitely achieved reasonably good margins. We would like to see that the margins are maintained. So I think the direction would be maintaining the margins and growing by 40%. I think, rest of the thing I would answer the questions, rather than me only talking. Is that okay Priyanko?

Priyanko Panja: Yes sir. We will take the questions now shall we?

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

Our first question comes from Mr. Sumit Agarwal of HSBC.

Sumit Agarwal: Hello sir.

Prakash Kulkarni: Hello, how are you?

Sumit Agarwal: Fine sir. Congratulations on a good set of numbers.

Prakash Kulkarni: Thank you.

Sumit Agarwal: Sir just wanted to know, what is the status of the suit that has been filed against four of your employees. Are the employees still with Thermax or what's the...

Prakash Kulkarni: Okay, I think if you talk about, good that has been (inaudible), I thought that it's a two year old scenario. Okay I think since all of you are interested, if you go through our balance sheet of last year '05-'06, if you open page #26, under chemical dividend para #3, I think we have already made a disclosure that during the year, in US, one of the competitor has filed a suit against four of its ex-employees, who have joined Thermax team. Okay, for allegedly pilferage of data and has made Thermax etc, etc, etc. Just read through that. So for order of merit, transparency and governance, we have already done, that's why it's a matter of a fact which is there for the last two years. That's the statement #1, I would like all of you to record #1. #2, is I don't think that there is any truth in what they have said, so the litigation is going on and it will take some more time, maybe this should be the calendar year in which this litigation, we should see the end of it. As a matter of fact, as the discoveries are going on, Purolite, which is the party who has filed a suit has repeatedly failed to provide any evidence that any of its information has been used by Thermax in any which way. Because the discovery processes are going on, I think if at all some of you may be aware, at the moment, there is nothing less than about 100,000 pages of discoveries have been taken place. With 100,000 pages of discoveries with answered questions, it is a technique, which possibly the US companies when they are faced with competition, this is the best thing which they use to drag you into the court and keep extending the time, so that I think your attention is diverted. 100,000 pages of discoveries and the questioning of various employees from either side, Purolite has repeatedly failed to provide any evidence that any of its information has been used by Thermax in any which way. So this is the stand, yes, I think one has to face if you have to really go into the legalistic, but lucrative market like US, I think these are some of the expected things, which have to be faced and we are very sure that we will face it, at the end we will be winner.

Sumit Agarwal: Sir, what would be the litigation cost that Thermax would be bearing for...

Prakash Kulkarni: I think litigation cost should be around 7 to Rs.8 crore as accumulated as of today and is being charged to the Profit and Loss account. More important as far as you are concerned, the company does not envisage any serious financial liability arising from this litigation. As a matter of fact, the latest picture, which is as of day-before-yesterday, the lawyers were asked by the Board of Directors to present whatever is the latest situation, and they have also opined that as the case and the discoveries are going on, I think company does not envisage any serious financial liability arising out of this litigation.

Sumit Agarwal: Okay, sir I just wanted to know how do you see the potential from the municipal waste management system and can you give some...

Prakash Kulkarni: I think municipal waste management is definitely a huge subject in itself. It has a huge potential for producing the power, which is done in western countries, all over, whether it is also in Japan and other thing, but I think the kind of refuse which we have, as I keep saying that in India everything is picked up, there is nothing waste, right? As a matter of fact what is leftover is all the garbage, which is having a lot of moisture, and therefore difficult to burn. And to that extent really the incineration method will be frightfully expensive, because it has to be supported by the fossil fuel, which we anyway import up to 90%. And therefore many other methods if could be found economically more viable.

Sumit Agarwal: Sir, do you see Thermax playing any role in terms of your environmental divisions, playing roles in the municipal waste management?

Prakash Kulkarni: Yeah, I think Unni, why don't you take it over?

M. S. Unnikrishnan: Yeah, the technology which will be applicable to India is either secured landfill or second one is refuse derived fuel to be combusted. It is at a very infancy stage in the country. We are participating in the second one, that's the RDF. We have ready products created within the company, which can incinerate the RDF, or for landfill, I don't think there is any role going to be played by any engineering company. It will be more of civil construction. And I don't think in India we will have a substantial growth in the municipal waste energy market going to grow. In niche places where there is maybe a substantially a large income available for the corporation to spend for it, it may happen, it would be one or two corporations, not many of them in the country.

Sumit Agarwal: Okay sir. Sir, also just wanted to know, can you give more details in terms of what is the status of your Vadodara factory and what is the final CAPEX that you are looking at...

Prakash Kulkarni: I think our CAPEX numbers haven't changed substantially. They are about 175 crores as reported. I think the plant would be commissioned in a phased manner starting with July, so in the second quarter of this fiscal year, third quarter of this fiscal year and the fourth quarter of this fiscal year. So the entire Rs.175 crore of thing will be commissioned by end of March '08.

Sumit Agarwal: Okay, sir coming to your Cogen business can you give us the order, who is the supplier for your turbine, and who is the technological supplier for the boilers?

Prakash Kulkarni: I think boilers are supplied by (not sure), which is our Boiler and Heater Group, I think if I say that we are the best boiler makers of the country, and the boilers of various designs whether it is coal fired AFBC, that is Atmospheric fluid based or coal fired CFBCs, we are the people who supply. At the same time, the turbines are sometimes imported, sometimes we are taking it indigenously also from BHEL.

Sumit Agarwal: Okay, sir few maintenance questions. Can you give me the order backlog and the order in booking for the full year based both on the parent as well as the consolidated?

Prakash Kulkarni: I think order backlog has grown by about 78%. Last year it was 1,555, it has gone to 2,768. On a consolidated basis, it is roughly about 3,100, that's the rounded number, it is around 3,099.5, but it is 3,100 crores.

Sumit Agarwal: And what about the order inflows?

Prakash Kulkarni: Yeah I think order booking was about 3,320 crores, which is roughly 58% more.

Sumit Agarwal: This is for the parent or the consolidated?

Prakash Kulkarni: It is for the parent company, which is Thermax.

Sumit Agarwal: Okay, and sir what would be the, out of this 2,700 crores, what would be the Cogen business?

Prakash Kulkarni: I think Cogen business is roughly about, if you talk about the order backlog it is roughly 925 as the backlog.

Sumit Agarwal: Okay sir, thanks a lot sir.

Prakash Kulkarni: Thank you.

Sumit Agarwal: If I have further queries I will give you a call.

Moderator: Our next question comes from Mr. Manish from Bajaj Alliance.

Manish: Good morning sir, can you throw some light on what's happening with ME Engineering Limited UK. Last year you had some problems with that company.

Prakash Kulkarni: I think ME Engineering is all buried in the second quarter as I keep saying. There is nothing that we know, what you are talking about ME Engineering. There is nothing, I think we have given the company to the liquidators and therefore there is... we have made a full provision as are required, and we believe that as a matter of fact we as a prudent and conservative company, we have made all the provisions, as a matter of fact in this quarter perhaps, some of the provisions, Rs.4 crore of provisions are reversed, mainly because they are no more required to be done.

Manish: Okay, thank you sir.

Prakash Kulkarni: Yeah.

Moderator: Our next question comes from Ms. Deepal of Citigroup.

Deepal: Hello sir, good morning, great set of numbers.

Prakash Kulkarni: Thank you.

Deepal: Sir a few questions following from Sumit's question earlier. On a consolidated basis, if you can give me a state of the order backlog in terms of the different divisions. That's number 1, and then I want to discuss a little more in detail about the Water Treatment division of Thermax in terms of the outlook and the kind of projects that Thermax is doing and competitor analysis etc.

Prakash Kulkarni: Okay, now what we are talking about, is I would try and give you the Energy and Environmental Segment rather than for the every business segments.

Deepal: Okay.

Prakash Kulkarni: Now order balance if you talk about typically as I said, 2,700 plus, that is 2,760 or 3,770 is the total order backlog, out of which around 2500 is on the Energy segment and 300 is on to the Environmental segment.

Deepal: And sir, on a consolidated basis?

Prakash Kulkarni: On a consolidated basis, total order backlog for the full year is about 3,100 crores, and I think Energy is around 2800 out of that.

Deepal: Okay sir, in terms of the Water Treatment division of the company, what kind of outlook that you see going forward, what are the kind of projects are you bidding for, and what kind of competitors do you see in the market?

Prakash Kulkarni: I think water treatment division is growing definitely last year also it has grown by about 50% and we feel a good potential for it to grow further. As we said earlier we are also trying to give a new direction to that business wherein it is not only a big project, which we do, we also do a good amount of product business, which is good and healthy for that particular business.

Deepal: And in terms of any foreign competitors coming in sir?

Prakash Kulkarni: I think water is all flooded with all the foreign competitors and we have to swim through.

Deepal: Okay and sir just following from the same, what was the CAPEX then this year in terms of the actual numbers of the consolidated basis?

Gopal Mahadevan: Its about 80 crores has been the CAPEX for this year and going forward I believe that most of the capitalization will happen next year with respect to the FY'07-'08.

Deepal: So it will be 175 less 80 crores that went down this year.

Gopal Mahadevan: Yeah, but we have also further capexs that we have planned. Well, I am not in a position to divulge outlook for the next year. We expect that capexs numbers would be a little more than what we have just mentioned.

Deepal: All right, okay. And sir in terms of the numbers on the balance sheet, if you can just give me the working capital numbers, if you can, on the consolidated basis?

Gopal Mahadevan: Well, instead of giving the working capital number, what you guys will all be interested in, is about the nearly 600 crores of cash that we have as on the end of the year. So we have as usual a negative working capital and our investments in cash and cash equivalent should be something about 600 crores.

Deepal: And what will be the yield on that?

Gopal Mahadevan: Yield would continuously vary, because these are dependent on how we deploy the money, so if I take an annual yield for '06-'07, which would be totally different from the deployment that I have done in the last quarter. So you can rest assured that the yields that we fetch on the investments are best in the market, if you were to consider the conservative policy that the company has.

Prakash Kulkarni: Having said this, assuming that the company by policy would not invest in the equity market, and therefore the yield would be definitely known by and large whatever you can do in the debt market.

Deepal: All right, okay sir. Thank you so much. I will come back if I have more questions.

Prakash Kulkarni: Sure, thank you.

Moderator: Our next question comes from Mr. Bhavin Shah of Enam Securities.

Bhavin Shah: Sir, just one clarification, in the press release the order backlog is mentioned at 3,672 crores and we mentioned around 3,100 crores. So just want some clarification on this front?

Gopal Mahadevan: 3672 crores is the consolidated number if I may just clarify.

Bhavin Shah: Okay, 3,100 crores was mentioned...

Gopal Mahadevan: That is the order intake, 3672 crores.

Bhavin Shah: Okay sir. Sir if you could highlight on the revenue breakup within the Process Heat, Energy Division, Absorption Cooling?

Prakash Kulkarni: Again I would talk about on the revenue side, that's Energy and Environment kind of a thing, if that is okay. I think Energy Segment has about 1,681 YTD and Environment Segment is about 455. I think it is little difficult to get this kind of information, shall we give it as an Energy Environment, because that's the public domain information. So further grading I think, since we are talking about the power that's the only thing which everybody is interested, so we give that as a separate, it is roughly about 500 crores.

Bhavin Shah: Okay, the second thing sir, if you could highlight in terms of the industry outlook, Cethar Vessels or BHEL, they have gone ahead and said that we are expanding capacity or...

Prakash Kulkarni: Yeah, I think everybody is expanding the capacity, I think that when there is a bigger market, there will be more investment taking place, so everybody is expanding, BHEL is expanding as you said, TL is expanding. So there is big market, so to that extent think we will all participate in the same market.

Bhavin Shah: Sir, going ahead, with the capacity expansion, would we want to target only Indian market, or are we looking at project basis, projects in the Middle East or...

Prakash Kulkarni: I think yes, I think I will just say that we are first of all crossed a major mark of achieving \$100 million worth of exports, and that is also, it is an increase of about 30% over last year. So there is a focused attention that to grow the export also minimum by 25%, so that will continue. I think you have asked me some scenario, but that is something to do with the competition. May I give you some more information on the really investing? There are roughly about 8 industries vertical, which account for roughly about 90% of the domestic order booking and 83%

of our sales that has taken place in '06-'07. Now, if you talk about these 8 industries, I think outlook seems to be by and large buoyant. So to that extent, I do not see any great worry about it, - these segments being cement, chemicals, refinery, petrochemicals, power generation, ferrous metals, sugar, and textile, and food processing. Out of all these, perhaps sugar is the only thing which will possibly not see great investment in '07-'08 and '08-'09 perhaps, it may again pick up. Having said this, one doesn't know what would happen at the investment in Maharashtra Sugars because there also now, because of the shortage of electricity, there is some progressive action taken, and then I think there could be some investment, which will lead to good business for us. As we are going forward we see Pharma growing by about 15%, steel by 20%, cement by 9%, refinery by about 9%. So I don't see that there is a great concern as far as the business growth is concerned. The concern as I always kept saying will be on not the capacity, or not the expansion, but the people by themselves.

Bhavin Shah: Sir, in the last conference you mentioned that about some 8 to 9 projects are running behind schedule, so have you booked any losses on account of that, because that's the reason why the margins are lower?

Prakash Kulkarni: Yeah, I think it may be a combination of that. As a matter of fact, as you rightly guessed that, if at all I have to give you the fair and true picture of the entire balance sheet, whenever we find that we are likely to have some kind of a reduction into the proceeds, I think that kind of provisions are always made as a conservative thing, and what we have seen is that year over year it gets again added back, so it is a right thing and write back kind of action which keeps taking place. But all these things have been provided. That could be also one of the reasons for the margins little bit dropping, but major reason is also the material costs which has gone up and the product mix that has gone up. As you know, in process business every job doesn't have the same kind of margins, some are with a good margin, some are with a normal margin, some are with a less margin, depending upon the position we have to play that game. And depending upon what is the revenue recognized in that quarter, the margins could differ and that is also the reason. So, I think there are three reasons, material costs, then the product mix, and lastly of course whatever which is provided is provided.

Bhavin Shah: Sir last thing, if you could highlight about the progress of the 300 crore plus, the last two projects we had got couple of quarters back. Are they running on schedule?

Prakash Kulkarni: Yeah I think Reliance, which we talked about is our first project, I think that is absolutely in full swing and which is by and large on time, I don't see that's a problem. I think the other project which is another 400 crores, it is I think we have just not even finished one third of the time. So to that extent it is, of course as you know that up to 75% of the time all that, there is no worry about it. So if at all we talk about the big project which we got in April, we are almost about 14 months apart and I think that project is on schedule.

Bhavin Shah: Okay sir. Thank you very much sir.

Prakash Kulkarni: Thank you.

Moderator: I request the participants to press * and 1 for your questions. Our next question comes from Ms. Aparna of Sahara Mutual Fund.

Aparna: Congratulations on good set of numbers sir. Hello?

Prakash Kulkarni: Yes. Thank you very much.

Aparna: Yeah. You just mentioned that we have cash of around 600 crores, are we looking at some inorganic growth or are we content only with organic growth?

Prakash Kulkarni: I think we are talking about both. I think its not that organic growth is definitely there, export growth will take place, and also we would like to see at the best time this inorganic growth takes place. Now then since Unni is going to take over, I will ask Unni to answer this question more appropriately.

Unnikrishnan: Currently, we are looking more at growing the business organically. Any opportunity coming our way for inorganic growth from outside India will be looked at very seriously, but I'd rather say that since we already have substantial expansion programs and growth plans for our business without inorganic growth, you may not hear about an inorganic growth for some time to come.

Aparna: Okay and this is for Mr. Kulkarni. You have always been transparent and forthright, I hope we don't miss you in next few con calls.

Prakash Kulkarni: I think it is nothing to do with the person, it is something to do with the value system of the company and I can 100% vouch that Unni would be as transparent as I was, because also he couldn't have become Managing Director unless and until he inherits the value system and he inherits the same value system. That's very, very important if at all somebody has to be Managing Director of this company.

Aparna: Okay, then all the best for your future fund plans sir.

Prakash Kulkarni: Thank you madam.

Moderator: Our next question comes from Mr. Abhishek of SSKI Securities.

Abhishek: Sir, good morning sir. Congratulations on an excellent set of numbers.

Prakash Kulkarni: Thank you.

Abhishek: Sir, what was the primary reason for the material cost going up, as a percentage of total sales?

Prakash Kulkarni: I think it is basically a mix, which possibly as there are some projects would have different material cost, and they must have progressed in this 4th quarter, so that's the one thing. Second thing also there are some steel revision, which has taken place and therefore the short duration job must have got hit because of that. That's the second, yeah. So to that extent these are the two basic reasons for the 4th quarter, the margins dropping.

Abhishek: Sir, but typically in the 2nd and the 4th quarter, the margins are much better because you deliver more the products, like the boilers and all these things, so but it didn't happen this quarter. What was the reason sir?

Prakash Kulkarni: No that's what I am saying; actually, let me give an example, okay. There are some jobs I would say gross margins of 20%, some jobs could be a gross margin of 15%, some jobs will be having a gross margin of 22%. Now assuming that the job in the 4th quarter with a 15% gross margin moves up, naturally it will definitely erode some of the margins, which are there as overall. So that is one reason. Second as I talked about is the material cost wherein there is a steel price increase which has happened. So to that extent these are some of the reasons. Also perhaps, I think in our 4th quarter also, no I think its our... is there any hit because of the dollar parity also in the 4th quarter?

Gopal Mahadevan: Because the appreciation of the rupee happened in the (inaudible) not significant.

Prakash Kulkarni: Okay, good.

Abhishek: Sir in the PBIT segment wise, in other segment there is a loss of 10.7 crores, what is it attributable to?

Gopal Mahadevan: See, these are predominantly on account of this inter divisional adjustments that are happening, so these are result of the consolidation that happens between the holding and the subsidiary company and the inter divisional adjustments.

Abhishek: Okay, sir, but going forward what is your, how do you plan to hedge against the appreciating currency or raw material price increase?

Prakash Kulkarni: I think raw material price increase as I keep saying, there is definitely the escalation, which is provided, contingencies are provided. Having said this, I think on the foreign exchange.

Gopal Mahadevan: On the foreign exchange fund, actually our strategy is going to be different for imports and exports. Overall we are net exporter and we are ensuring two things, to ensure that in the international market, we are as price competitive as our international competitors are and we look at it as a strategy that as far as the imports are concerned, we would need to take a different view and as far as exports are concerned we take a slightly different view and the instrument that we might be using going forward will be different.

Abhishek: So, going forward you might be using some of the FOREX instruments to hedge your exports?

Gopal Mahadevan: Beg your pardon?

Abhishek: Going forward you will be using some of the hedging instruments for your recovery?

Gopal Mahadevan: Already we are hedging our foreign currency exposures both on the import and exports. So, it is not that we are leaving it open at all. So, we look at it, one on a net basis and then we look at the open exposures which need to cover, so we are taking cover as well. But what we are saying is we might go in for other instruments as well if required to ensure that we are protecting our foreign currency exposure even better.

Abhishek: Okay sir, thank you.

Moderator: Our next question comes from Mr. Anthony Wilkinson from CRI.

Anthony: Yes, thank you very much for your time today. My question and apologies if you have mentioned this already, the Purolite US water treatment company, could you just give us an update on the situation there?

Prakash Kulkarni: Could you repeat your question please.

Anthony: The US water treatment company, Purolite as I understand has launched legal action against Thermax, but you have countered with your own motion, I just wanted to, if you give me an update on that?

Prakash Kulkarni: Yeah, I think I would repeat one more time, I think, if you see this is a two year old story. It is just flashed for whatever good reason, which perhaps the paper as well as Purolite knows the best. If you go through our FY05-'06 balance sheet, under management discussions and analysis on page 26, under chemical division para number three, we have clearly stated this particular issue that it reads like the following – “During the year in US one of the competitor has filed a suit against four of its ex-employees who have joined Thermax team for alleged pilferage of data and has made Thermax and other officials as a co-defendant, etc, etc,” - you can read that. So, number one point which I would like to highlight over here is that though possibly you come to know

through the newspaper media, which is possibly much older and much the way it is presented is perhaps questionable. We in our value system, that particular thing has appeared in the last year's balance sheet, so that's point number one. Number two is the, as it is stated that a discovery process is a huge process that you would be aware is what is the discovery process in US, it is going on for last one and a half year. There are as I said, more than 100,000 pages of document now generated because of discovery, but in all these 100,000 pages of document, Purolite has repeatedly failed to provide any evidence that any of its information has been used by Thermax in any which way. I would repeat one more time that Purolite has repeatedly failed to provide any evidence that any of its information has been used by Thermax any which way. We believe, I think that would be a strategy of a competition just to keep us at bay and try to see that our plans do not succeed and this is a legal way of going forward. I think we are prepared for that and we are defending the thing. More important is that whatever expenditures on the fighting the case through lawyers and other things are already accounted for, that in the balance sheet, which is roughly about Rs.8 crore. Having said this I think the latest picture which is as of 24th of May, which the lawyers and our President from there has sent it can make us to lead to the conclusion that company does not envisage any serious financial liability arising from this litigation. So this is the most important thing, which I would like to leave with you. Hope I have answered your question.

Anthony: Yeah, that's very clear, thanks.

Moderator: Our next question comes from Mr. Saurav from Sundaram BNP.

Saurav: Congratulations sir, on a good set of numbers. This is regarding your Chinese plans on Absorption Chillers and we just want to understand that what kind of numbers you are looking for from that operations, what kind of growth you are looking for, any order booking which has happened?

Prakash Kulkarni: Yeah at the moment whatever the order booking is happening we are routing it through Thermax Limited, because I think that factory will take some more time. As I said that factory will be up and running only in the last quarter of this fiscal year, that is in January - March. We have made the plan as I said to make about 300 units in a phased manner. So I think depending upon our order booking plan and other things, this year we should be able to I think, Unni, I think would you like to talk about it?

Unnikrishnan: The current year our local order booking plan is approximately US \$1.7 million, but this will be manufactured in India and sent from India. We expect the factory to be ready by June 2008 and start rolling out the machines from there. In the third year of operation of the factory we expect to have a turnover of \$10 million to come from that particular unit. We also have plans of exporting part of the machines manufactured from China plant to the rest of the world also.

Saurav: Okay, thanks a lot sir.

Moderator: A follow up question comes from Ms. Deepal of Citigroup.

Deepal: Hello sir. Just to discuss about this slow down in the sugar sector, if you could tell us what percentage of your order backlog in the Cogen division is still this sector and going forward where do you see that coming, I mean have you seen a significant drop in order booking and any visibility on that front?

Prakash Kulkarni: I think let me just give you some little more background on sugar sector. Sugar sector does not finalize the job on an EPC basis. In fact, where there are zero order intake for our power business. Generally the tendency is that to buy boiler separately, turbine separately and put up the entire thing by themselves by appointment of the consulting engineer. And therefore there is not likely to be any dent as far as our power business is concerned.

Deepal: Okay and sir one more question, I mean, in terms of your future plans for boiler and heater business, I remember you mentioned something about looking into entering into sub-critical range of boilers, any decision on that front, any talks for technology tie ups, etc?

Prakash Kulkarni: I think, let me put it this way, as I said that we will always aim to do some thing more and more. Naturally, whenever we are, as I said last time, we believe that we could be the best people to really upgrade ourselves in that area, so our thought process is going on. As and when we really take a decision and really have something, I would be the first person to tell you and I can assure you in my absence when Unni takes over, he will also come and talk to you about that. But at the moment there is no information, which is worth sharing.

Deepal: All right, thank you so much sir.

Moderator: Our next question comes from Mr. Atul Kumar from Quantum Mutual Fund.

Atul Kumar: Good morning sir.

Prakash Kulkarni: Good morning, Atul.

Atul Kumar: My question is related to your Cogen business, what could be the order book in terms of megawatt related to the Cogen and what is the kind of turnover we have done in terms of megawatt for the year gone by?

Prakash Kulkarni: Let me put it this way, turnover is definitely difficult to talk about in megawatt, for the simple reason that as the job proceeds, the revenue gets recognized and therefore, as a order intake, we can say yes, whether we have got 265, 300 megawatt kind of a thing. But order execution, if at all you want to really talk about, then we need to talk about how many megawatt of units we have commissioned. But that doesn't give you any insight to the revenue which is recognized. Yeah, this year we have booked orders worth 265 as I said, 265 megawatts.

Atul Kumar: 265 megawatts order book and what would be the kind of outstanding from...

Prakash Kulkarni: As much as that

Atul Kumar: 265 megawatts?

Prakash Kulkarni: As much as that, because I think there was an order backlog, which again add orders and invoiced, so to that extent the backlog is by and large this thing.

Atul Kumar: Okay, my second question is on what could be the kind of impact of the interest rates, etc, which are rising, because primarily if I see your order backlog from the last quarter basis, it has not increased very much?

Prakash Kulkarni: Yeah, I think there are many, many issues which are there, which are uncertainties, you asked only the interest. There are two, three things; number one is the dollar - rupee parity which is changing. So that's a concern because we are next exporter. Yes I know that there is hedging, etc available, but that's one concern, which we are addressing it, so that it has least or insignificant impact on our operation, but I think that is one thing. Second thing what you have just now talked about, the interest rates. Yeah, I think one has to be watchful. At the moment as you know that we are not using the monies from the bank, which is the negative working capital.

Atul Kumar: My question was mainly...

Prakash Kulkarni: Yeah, sorry what was your question?

Atul Kumar: I wanted to understand that...

Prakash Kulkarni: Yeah, what would be the issue with our customers, I think that would be definitely a point to be considered. I think the investment picture may start slowing down for us, I do not know. But at the moment there is no indication to that effect.

Atul Kumar: Okay sir, you mean to say that the order and enquiries are still continuing?

Prakash Kulkarni: Yeah, enquiries flow and the order bookings flow continue.

Atul Kumar: Okay fine, thank you very much.

Moderator: At this moment I hand over the floor to Mr. Priyanko Panja.

Priyanko Panja: Yeah, I got a couple of questions Prakash and Unni. Let me ask this to you Unni, in terms of margin outlook going forward, given the fact that we are already up the curve after two, three years and also the competitors are getting very aggressive, what is the scenario looking like on an EBITDA front, on a standalone basis and on a consolidated basis with ME Engineering already behind, should we be also looking out for significant margin improvement like the way we have seen in 2007 over 2006?

Unnikrishnan: Yeah, Priyanko, first of all the total ME Engineering losses absorbed in the balance sheet is not going to make a substantial difference, so it might make a minor difference when that cost is not going to be taken in the current year. In the kind of business that we are in, there are limitations for the margins. So the best that we would try for is maintaining the margins and marginal improvements is our expectation.

Priyanko Panja: Okay, so in terms of the backlog that we have, we are looking at marginal improvement on the EBITDA side in terms of expectations?

Unnikrishnan: It will be in any case not inferior than what it is produced currently. We will ensure that it is maintained or bettered. But betterment can't be in substantial terms.

Priyanko Panja: That brings me to your status as a net exporter, Mr. Mahadevan, I would like to know is, are we getting the re pricing to the extent that rupee is appreciating and especially given the fact that Q1FY08 has also seen significant appreciation of the rupee?

Gopal Mahadevan: Okay, I will handle it in two parts. One is on existing contracts; we have a process by which we do build in contingencies. These kinds of contingencies are built into the existing contracts that flow through before we had this steep appreciation that happened in the month of April. As far as going forward is concerned, we do see what is the net exposure or the net down set that could be happening because of the appreciation after factoring in our imports and we are attempting in most segments to ensure that we are able to have a pass through on. But this is absolutely a wait and watch thing because we need to understand how we can appreciate, but we have our nose to the ground and we would want to ensure as a company and a team the rupee appreciation does not adversely impact the profitability.

Priyanko Panja: Well, and any significant reason that you can attribute to the tax rate that we have seen for the company?

Gopal Mahadevan: There are no significant reasons, I would only say that yeah, we need to be, and next year possibly we would see a better tax rate coming in, effective tax rate coming in with all the capitalization. That is predominantly the main reason. Of course, you know, in the real tax rate you need to factor in the kind of provisions that write backs that flow into the P&L, some of which have taxation, some of which don't.

Priyanko Panja: Okay, Prakash, in terms of our segmental breakup, we have had still energy segment providing far more amount of things on environment where we already have started focusing on environment as such, when would we start seeing the balance swinging more towards environment over energy?

Prakash Kulkarni: I think to answer negatively, at least not in two to three years. Because I think, no let me put it this way, if you take the business in which we are, typically water business is the business which has grown as I said earlier 50% or more. Will it grow another 50%, answer is all yes, I mean it will grow. But because that business is not so big as compared to the overall other businesses, the percentages will still be in favor of energy business, fact number one. Number two, if you take any of our equipment, we are not in maybe the municipal corporation water treatment, wherein in there are big value job, we are in the industrial thing. Now if you take a key industrial scenario, if you take a boiler and energy and environment as a split, generally it varies between 80-20 or 70-30 kind of, for example, if you have the equipment which are generating steam or heat or whatever it is, compared to that the pollution control, then chemical used or maybe the water treatment, it doesn't go more that 25% in any case and to that extent to change this radically unless we do different kind of business, it maybe little difficult.

Unnikrishnan: Priyanko, I want to add some more points, in a more philosophical light. A developing country needs more energy and they spend more money on energy, after you have been developed you start spending more on environment. We are at a cross road currently where development is a must and environment can be compromised as possibly the way industry is thinking, not that Thermax is thinking that way, which many people buy environment equipment, we are ready to sell.

Priyanko Panja: Understood, and negative working capital, lots of cash, what do we intend to do with that?

Prakash Kulkarni: I think the answer remains the same. The only way we can do is to up the dividend, what else.

Priyanko Panja: Fantastic. Shirley, do we have any one last question that we can take?

Moderator: Next question comes from Mr. Salim of Amruth Capitals.

Salim: My question has already been answered.

Prakash Kulkarni: Thank you.

Priyanko Panja: Anybody else in the queue ready?

Moderator: Yes sir, we have one participant Mr. Vimal Shah from HSBC.

Vimal Shah: Morning to all of you, great results. Just wanted to ask what could be the key growth drivers, I mean on the ground, what are the key drivers in terms of different division, A, the CAPEX is continuing to be unabated by the corporate sector and you rightly mentioned energy would be the leading division, but from a macro level, does it mean that in terms of a tripod of growing, would it be that we would need to rejuvenate our geographical expansions, basically the exports and where you mention that you are already looking at big plans in the Middle East, so this would re cement the growth and hence your broad vision and guidance that you always mention of 30%, 35% growth?

Prakash Kulkarni: Yeah, I think if you see last year, that is '06-'07, we have grown our export at about 30%. Now what happens is that, domestic is so huge that though the export is also growing, it doesn't catch the attention, but I think it is growing, I think we also have a definitive plan that export must at least grow by 25%. That's the mandate. So, I would like to believe that we will not do any thing which is, export is not given a proper attention, and it will grow. Same is domestic, but we ultimately, now that we are putting up more capacities, we have recruited more number of people; it should be possible to really address both the markets.

Vimal Shah: Correct. Sir, my question to you is time and again for two people also asked to you that, how are we going to use the cash? Is it the valuations are deterrent in terms of acquisition, because we see lot of acquisition happening, not only small ticket but also very large ticket, so, A, is it dearth of opportunity, B, is it a dearth of valuation and C, is it a dearth of the segment, so which of these is really hindering us to, because possibly it is hurting the full potential otherwise?

Prakash Kulkarni: Yeah, I agree with you. I think I will ask Unni to feed this question.

Unnikrishnan: In the segments that we are in currently, both energy and environment, the valuations have gone through the roof in the past 24 months in the global market. It is very clear as to the markets that we would like to have an acquisition done. We have had occasions of discussing taking it up to a particular level, but it will be a dis-service to the shareholders at this juncture to buy companies, which are topping in the energy segment at multiples of 8 and 10. That is one of the reasons.

Vimal Shah: No, does it mean that with the key thrust of markets in China and India predominantly towards energy, possibly it would not update some time in the future, so does it mean that right now we are not looking at any scenario of closing in, in acquiring within these segments any acquisition?

Unnikrishnan: No that I won't foreclose. Certainly we are open. There are discussions, we do get offers, we also are on the lookout certainly, but we have not come across anything which is worthwhile closing.

Vimal Shah: Correct. Sir, my last two questions, one pertaining to the boiler division and the other divisions, can you just give us a sense of the capacity utilization and also the Baroda factory expansion, it would come on stream somewhere in the last quarter of this year, right?

Unnikrishnan: No, progressively it will start coming into stream from July onwards and by March it will be fully operational for the larger project business, that's the boilers and heaters. And the secondary plant which we announced to have also boiler product factory over there for the processing divisions.

Vimal Shah: So, both small boiler and the large boilers?

Unnikrishnan: The large boiler one will be fully operational by March 2008 and the succeeding quarter, June we should be ready with our boiler products group also, that manufacturing commencing from there.

Vimal Shah: Okay, the peak turnover one can hope to achieve here?

Unnikrishnan: In this manufacturing facility or are you...

Vimal Shah: Yeah, this manufacturing.

Unnikrishnan: The current one. Are you talking about our existing or you are talking about...

Vimal Shah: No, Baroda.

Unnikrishnan: Baroda, the product side should be able to do approximately at 300 crores from the product factory and the project can even take up to 1,500 to 2,000 crores. See there it depends upon the product mix that we get plus what all, see the manufacturing comprises of only 30% of our total turnover in the large boiler business, rest of it is a project, purchased item, constructed item. Whereas in the product, I agree with you almost 100% is manufactured from within the factory.

Vimal Shah: Okay, just to ask you one more question, overall growth would be, Mr. Kulkarni can you just give some guidance that...

Prakash Kulkarni: We have given the guideline that for fiscal year '07-'08 we expect a growth more than 40%, that is 40% is what we have given the guideline.

Vimal Shah: Right, this is consolidated?

Prakash Kulkarni: Yeah, either way, no problem.

Vimal Shah: Great sir, great, thank you so much.

Priyanko Panja: Okay, thanks Prakash, congratulations on a job very well done, and this is the last time we are hosting you in the call. All the best to Unni and Mr. Mahadevan and thanks everybody for your participation.

Prakash Kulkarni: Thank you, Priyanko.

Unnikrishnan: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.