

BHEL

Q4FY11 Post Result Conference Call Transcript

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Date: May 23, 2011

Operator

Ladies and gentlemen, good day and welcome to the BHEL Q4 and FY'11 Earnings Conference Call hosted by Prabhudas Lilladher. As a reminder, all participant 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. Please note that this conference is being recorded. Joining us on this call today from Prabhudas Lilladher are Ms. Amisha Vora and Mr. Dilip Bhat Joint Managing Director along with Mr. Kunal Sheth from Prabhudas Lilladher.

I would now like to hand the conference over to Mr. Kunal Sheth. Thank you and over to you sir.

Kunal Sheth

Thank you, Manisha. On behalf of Prabhudas Lilladher I would like to welcome Mr. B.P. Rao, Chairman and Managing Director for BHEL on the call. I would request you sir to give us some opening remarks on the results and then we will open the floor for our Q&A session.

B. Prasada Rao, Chairman & Managing Director

Thank you. Good afternoon friends. A very warm welcome to all of you. India's industrial production grew at 7.3% y-o-y, a much faster pace than anticipated in March, 2011 on the back of a pickup in capital goods, consumer durables and electricity. The growth was in line with the movement in key leading indicators like PMI, exports and core sector output.

Capital goods sector grew by 12.9% in March from (-)18.2% in February halting three consecutive months of decline. For FY11, capital goods sector grew by 9.3%, significantly lower than the average of 39% in FY2010. Under the capital goods, turbines and broilers showed significant momentum, indicative of some activity in the power sector.

Overall the economy is expected to grow favorably, while inflation may remain above comfort-levels. Risks to growth exist from persistence of current elevated crude oil prices.

On the back of strong order book and accelerated execution of orders, we have been able to sustain growth momentum. In spite of various challenges facing power sector in recent times and heightened competition, total orders booked during the year were ₹ 60,476 Crore, out of which power sector contributed orders of ₹ 46,393 Crore aggregating to about 15,071 MW.

During the year, we were able to win 7 nos of Boilers and 9 nos of TGs with supercritical parameters. With this we have total of 14 TGs and 14 SGs in our supercritical basket.

Major orders booked in IV Qtr in Power Sector include: 2X500 MW WBPDC / Sagardighi, 2x250 MW BSEB / Barauni, 2x660 MW NTPC / Mouda (Bulk), 3x660 MW Bajaj Hindusthan / Lalitpur, 750 MW PPCL / Bamnoui CCPP, 1x600 MW KWPC / Avantha Expn #2, 2x700 MW NPCIL / KAPP 3&4.

In Industry Sector business segment, we booked orders of worth ₹ 11,374 Crore despite subdued industrial activity in the country.

On exports front, we booked ₹ 3,738 Crore of orders from 24 countries. With these orders, BHEL has an order book of ₹ 1,64,145 Crore as on 31st March 2011. 80% of these are accounted for by Power Sector, 13% are accounted for by Industry Sector and balance 7% are accounted for by International Operations.

Looking at Q4FY11 and FY11 financial results:

The company has changed the accounting policy on Provision for warranties in respect of AS-7(R) construction contracts during the year. As against creation of provision for warranties @2.5% of contract value on trial operation, the company has revised it that company provides warranty cost at 2.5% of the revenue progressively as and when it recognizes the revenue and maintain the same through the warranty period. This is against the earlier policy of deferring warranty provision and corresponding revenue till the completion of Trail Operation. The impact due to change in the accounting policy for the year 2010-11 is increase in turnover by ₹ 2772.79 crore, Provision for Contractual Obligation by ₹ 2077.31 Crore and PBT by ₹ 695.48 Crore.

The company has modified the Accounting Policy on Employee Benefits during the year in respect of leave liability. As against the policy of creating provision for these leaves on accrual basis, the company changed it to actuarial valuation basis treating the same as "other Long Term Benefits". The impact due to this change is increase in PBT by ₹ 240.75 Crore during 2010-11.

During the year the cranes used at the project sites have been classified under "General Plant & Machinery" as against the earlier practice of "Erection Equipment". Accordingly the

depreciation rate has been changed based on a review of their useful life, from 20% to 8% pa, with retrospective effect. The impact due to the above change is decrease in depreciation by ₹ 80.62 Crore (₹ 49.03 crore pertains to earlier years) and increase in PBT by ₹ 46.80 Crore.

With this, Turnover for IV Qtr. 2010-11 is ₹ 18,605 crore, a 32.2% increase over that of IV Qtr. 2009-10. Cumulative turnover of the company up to IV Qtr. 2010-11 is ₹ 43,337 crore, a 26.9% increase y-o-y basis.

Profit Before Tax for IV Qtr. is placed at ₹ 4288 crore, a 48% increase over that of IV Qtr 2009-10. Cumulative PBT upto IV Qtr. 2010-11 is ₹ 9006 crore a 36.6% increase y-o-y basis.

Profit After Tax for IV Qtr. is placed at ₹ 2798 crore, a 46.5% increase over that of IV Qtr 2009-10. Cumulative PAT up to IV Qtr. 2010-11 is ₹ 6011 crore, a 39.4% increase y-o-y basis over to corresponding figure of last year.

I thank you all once again for joining this conference call. We will take the questions now.

Madan Gopal

Sir, I request you to give some more clarity on the nature in which this accounting policy has changed and has impacted because I see the revenue has increased by ₹ 2,772 crores because of this change in provision for contractual obligations. While you have increased your provision by only 2,072 crores. So, why there is the difference between the amounts that has been added to the revenue on the provision that has been increased? Is that, you have created more provision in some of the projects, so that we are reversing it now? Or why is that difference?

B. Prasada Rao

See, this difference is due to the company's volatile operations. The top-line is not only the actual trial operation achievement but also the pending trial operation achievement. As per earlier practice the revenue was not being recognized though the activities are completed. And we have kept 2.5% only till the end, i.e. till the trial operation is actually completed. But now, the recognition occurs as and when a part of the revenue is recognized. We also recognize the 2.5% of that portion and provide that as the provision because trial operation is not complete. So, during the year a number of trial operations have been completed. So that difference is due to that.

Analyst

Okay. Sir can you give some outlook on the order flows that we can expect in FY12 can we show a growth this year or will it be flat? And which are the sector that you see orders coming stronger?

Corporate Participant

You see in power sector, today number of issues like land, coal linkage and other clearances are coming up. Still we have booked above 15,000 MW and about 60,000 crores of orders. Now going forward, looking at the pipeline of projects, we expect about 16,000 to 17,000 MW order finalization in this year which will be a marginal improvement on the orders received over the last year.

Analyst

Okay. Thanks for taking my question.

Thank you. The next question is from the line of Rajesh Panjwani from the CLSA. Please go ahead.

Corporate Participant

Yes, Rajesh

Rajesh Panjwani

Good afternoon sir.

Corporate Participant

Good afternoon.

Rajesh Panjwani

Sir, if you look at fourth quarter material cost as a percentage of sales there has been quite a sharp drop. And other expenses have gone up pretty sharply in the fourth quarter. So can you please throw some light on what is the reason for these two pretty sharp movements in the fourth quarter in these two cost items?

Corporate Participant

Yes, basically on the material cost, we have been working on number of initiatives for cost reduction and localization. All this has resulted in a very good material content reduction. Now as far the other expense are concerned probably you are referring to the provisions. The provisions have gone up because of accounting policy changes.

Analyst

Is it that basically whatever change in the policy for provisions has been made, that has boosted the revenues, but the cost part of that has gone into provision, the other than going into the respective cost item, let's say the material cost and employee cost and all that, what is the reason?

Corporate Participant

See, in the provisions of 2.5% there is no material content in the revenue. The material content is already accounted for.

Analyst

For the corresponding costs, right?

Corporate Participant

No. The material cost is already accounted for. For example in a particular material the component cost of turbine might cost about Rs. 100. Earlier out of that 2.5%, we were not recognizing and keeping it. Because in case if something happens in main operation we will utilize that. But now we are recognizing Rs. 100 and Rs. 2.5 is kept under provision so material content is fully recognised for 97.5. So, therefore the 2.5% has nothing special within content.

Analyst

Okay. So, basically which means that one of reasons why your material cost is unusually lower in the last quarter as well as your other expense are higher, because of this issue, because while your revenues are going up.

Corporate Participant

No, if you look, as a percentage material costs have got no relation with provisions. The material consumption is normally compared with the gross turnover. The turnover is **one** that could effect the material percentage. But when we look at it with effect to this policy change, there is a 1.3% reduction in the overall material costs.

Analyst

If you remove the effect of this volume?

Corporate Participant

Yes.

Analyst

So, for the full year there is 1.3% reduction in the material costs.

Corporate Participant

That's right.

Analyst

Okay. But what it shows in the - it is almost 400 basis points, so some of it is because of the policy change. What is the outlook on material cost as % of Sales going forward?

Corporate Participant

Commodity prices are increasing. So there will definitely be pressure on our costs. But we have taken a number of steps in the company. For example, imported technologies are going to be more localized during this year than last year. Other cost cutting exercises like design- to-cost, lean manufacturing are all continuously being done in our products. So we expect to maintain the kind of material consumption that we achieved last year.

Analyst

So you don't expect an increase in material cost as a percentage of sales.

Corporate Participant

At this point of time I am not expecting that.

Analyst

Okay. And what about the employee cost sir?

Corporate Participant

One year back in 2009-10, employee cost was around 15.3% or so. Now last year it came down to about 12% and even if you remove the effect of this policy changes. It might hover around 12.8% or so. So this volume growth has definitely giving us the benefit on personal payments and that is also is one of the factors responsible for good profits.

Analyst

In terms of absolute terms, what kind of growth would you expect this year in employee cost - sir?

Corporate Participant

Normal increases should happen. May be around ten percent or so. I think today ₹ 5,400 crores is our staff cost. We expect it to be a little bit below 6,000 crores.

Analyst

Below 6,000 crores

Corporate Participant

Yeah!

Analyst

Okay, fine. Thanks a lot.

Operator

Thank you. The next question is from the line of Atul Tiwari from City Group. Please go ahead.

Atul Tiwari

Sir, as far as the MOU which you sign with Ministry of Heavy Industries is concerned, what are the targets for our gross sales for FY12 based on the base level that is an excellent basis?

B. Prasada Rao

See MOU reflects our strategic plan target which is around ₹ 45,000 crores. That is our gross sales target in MOU. But then our internal targets are much higher than that. We have always achieved more than this. So if you look at 43,337 figure that we have achieved this year and as per our plan the turnover increase comes about roughly 40,000 and odd. We have been achieving 20% growth. The company is working towards the 50,000 target. We will be targeting 50,000 plus this year.

Analyst

Okay, so ₹ 45,000 crores could be gross sales at the base target?

B. Prasada Rao

Yeah! That's right.

Analyst

Okay and the excellent number is ₹ 50,000 crores, is that the right

B. Prasada Rao

No, the internal targets are more important for us.

Analyst

Ok. Sir in response to an earlier question, you expect finalization of 15 to 16 GW of orders, so is that your share or the total market size.

B. Prasada Rao

That is our share

Analyst

Okay and sir CapEx expectation for FY12?

B. Prasada Rao

It is ₹ 1,400 crores for this year as part of the 20,000 MW expansion plan.

Analyst

Okay. ₹ 1,400 crores in FY11

B. Prasada Rao

Yes!

Analyst

And FY12

B. Prasada Rao

For FY11 also the figure was 1,713 crores

Analyst

Okay and sir, as on date, what is the gross block number for FY11? If you can share that number?

B. Prasada Rao

Yes! I will. ₹ 8050 crores as on 31st March 2011 and Capital WIP ₹ 1,762 crores

Analyst

Thanks a lot

Corporate Participant

Thank you.

Operator

Thank you. The next question is from the line of Venugopal Garre from Credit Suisse. Please go ahead.

Venugopal Garre

Hi thanks for taking my question. Sir firstly I want to understand your policy with regards to booking projects in order backlog. Do we wait for financial closure? And number two, if some projects do not have any coal linkages but you might have got the letter of intent. So do you still book that contract?

Corporate Participant

We normally don't take any orders in our order book unless advance is paid to us. That means unless the financial closure happens and environmental clearances happen we will not be able to take any projects and there are no projects with us based on LOI where advance is not paid.

Analyst

And sir with respect to coal linkage is it essential for the project to have coal linkage before if you actually book the contract even if you have got an advance, could that have any impact?

Corporate Participant

Normally no customers place an order without coal linkage because we need to know what kind of coal he is going to use to design equipment.

Analyst

Yeah. So we would not have any orders in our backlog that do not have coal linkage, right?

Corporate Participant

Yes!

Analyst

Okay Sir and the second question is more pertaining to the NTPC bulk tenders. Now that we have been competitively bidding for the orders which I am aware of. But we do have a policy where even if you are not L1 but if we match L1 price you'll be getting a certain portion of the order. Now, my question pertains to the fact that does this continue into the 9x800 megawatt tender and future tenders of NTPC. Is it just for the initial 2 bulk tenders such as 11x650 and 9x800?

B. Prasada Rao

It is only for the initial bulk tenders.

Analyst

Thereafter, you will basically, you have to compete with....

B. Prasada Rao

Yeah! We have been competing. This particular initiative that has been taken by government is only to award good number of orders to parties to see that the technology is fully indigenized. If only one or two orders are available, then it is not possible. That was the ideas which started bulk tender. So it is applicable only to these two bulk tenders. We have been completing otherwise in NTPC tenders for the other jobs.

Analyst

Sir, my last question is with regard to two points. Firstly, I wanted to understand the pricing trends from the market recent bids that you would have probably, competitively bid. How are you seeing the pricing and secondly in terms of EPC mix of our future order inflows over the next 12 to 24 months. Do, you see that substantially increasing compared to what we would have won in the past few years?

B. Prasada Rao

The EPC portion is around one thirds of our projects. We go on EPC basis if there is a requirement. I expect similar trend to continue. We would like to increase it also because we are adding up resources. What was your second question?

Analyst

Sir it was regarding pricing trends in the market just want to get a flavor of what kind of pricing you see in the recent bids that you would have quoted? I don't want the exact price, but I wanted to see some trend point of view if you are seeing any pressure?

Corporate Participant

Pricing has been facing competitive pressures. So we need to work on the cost. Particularly super critical technologies which are now getting indigenized more and more. We are able to offer stiff competition. Overall pricing pressures are definitely there.

Analyst

Sir just one last question on the accounting side. Now that we have made accounting changes on provision side for warranties. How does that impact our next years numbers, had we not changed this would have been lower than a similar amount, right or is it the wrong way to look at it?

Corporate Participant

No, it is a wrong way to look at it. The next year figures will be the same whatever figures we have given now. The effect of change has been only a few crores. I expect may be 2.5% of those projects which have been deferred to later year. So it doesn't matter much. It's only a one time adjustment.

Analyst

So you think that the ₹ 695 crore of PBT does not pertain to FY11. It pertains to all the contracts which are ongoing.

Corporate Participant

That's right.

Analyst

So for next year the impact would be just ₹ 50-60 crores. Just to give an idea, I don't want exact number?

Corporate Participant

It could be in that range maybe below ₹ 100 crores.

Analyst

Okay. Fair enough, sir. Thank you so much sir.

Operator

Thank you. The next question is from the line of Renu Baid from BNK Securities. Please go ahead.

Renu Baid

Good evening, sir.

Corporate Participant

Good evening.

Renu Baid

Sir first question would on the lines that you have mentioned- that the provisions relating to warranty obligation for prior periods, will it be possible for you to share the total provisioning we've done for the current year under this accounting policy change. How much proportion would be attributable to the previous years? I'm not probably for FY11, so would it be 50% or higher than that?

Corporate Participant

I will ask the finance to give you the breakup and let you know.

Analyst

There is a broad rough cut percentage to have a better understanding of current year performance on a like-to-like basis.

Corporate Participant

30 to 40% will be in the current year.

Corporate Participant

We don't have any exact figures here. It would approximately be 30 to 40% for the current year and 60% could be from the previous year.

Analyst

Okay. So, we could have seen our actual adjusted part could have been close to about ₹ 5,500 crore plus and sales approach to ₹ 39,000 - 40,000 crores.

Corporate Participant

5,500 - that's about 2,700 out of that we are able to take out 46.

Corporate Participant

₹ 695 crores in case of profit, what we have said due to the accounting policy change.

Analyst

Right. I think it's just adjusted for you approximately to 50 to 60 being for the prior year. So, actually the PBT level was at close to 40 and 42

Corporate Participant

This reflects to the sales of ₹ 2,700 crore.

Analyst

Right. ₹ 1800 crore could be for --.

Corporate Participant

For the previous year period.

Analyst

And accordingly at the EBITDA level close to ₹ 700 crore of prior period. Based on two third of the same ratio

Corporate Participant

In fact there is only just a minute I will ask my finance man. In fact, 693 crores above 470 crores previous year. About ₹ 470 crores out of ₹ 695 crore which is the previous year and roughly about ₹ 200 and odd crores will be the current year.

Analyst

My second question would be sir, that we have seen in terms of the cost level that have been very well contained but if we see the way we hear in media and we are seeing lots of sensitization around coal linkages, coal availability and land acquisition, do you think the execution pace will face some hurdles in terms of completing projects on ground or do you think that the projects we have in the order book will not be much impacted.

Corporate Participant

No. See since there is a large order book of ₹ 1,64,145 crores, we have the flexibility to plan. For example if I am planning for ₹ 50,000 crores and my kitty for the plan is big, we can select assured projects. But as you said, one or two projects can delay for one or other reasons.

Analyst

Right

Analyst

Right Sir, at least we will not have any surprises in terms of execution in next year.

Corporate Participant

Yeah!

Analyst

Sure and Sir my last question I just need some update from you in respect to the JV agreements and how has been the progress in terms of placement of order and financial closures?

Corporate Participant

You are talking about which JV's

Analyst

The JV for SEB's, for power equipment, etc

Corporate Participant

Yeah. Karnataka

Analyst

Right

Corporate Participant

You know for Karnataka all three sets have been ordered. And other JV's are still in advance stages. Udangudi Project in Tamilnadu is waiting for the coal linkage and environmental clearances. Overall they are ready. And in Latur and MPGCL projects, land acquisition is in process. These three are in the advanced stages. Others are still in the preliminary stages.

Analyst

Probably we can expect orders from one to two JV's during current financial year

Corporate Participant

Yeah it will come up to the order placement stage.

Analyst

Order placement could be coming in from those sides

Corporate Participant

Yes.

Analyst

And sir just one small query. There was news flashe today afternoon regarding likely offer for sales by the government. So is there, would you have any details or things are not yet decided?

Corporate Participant

The government asked for opinion of the Board on 5% disinvestment. The Board has said yes to government and while doing so the Board has recommended that there should be stock split. Board has been thinking of opportunity like 1:5 ratio stock split. The fact will have to be decided on all the accounts. What they will do on the stock split or not has to be discussed with the government.

Analyst

Right. Sir last question. The last couple of months there was a certain development in terms of global consolidation in the power equipment business, we have seen some arrangement between Shanghai electric as well as the global technology partner Alstom for boilers. As we understand we have an exclusive arrangement up to 2020 for boilers for particular technology. Will it have any likely impact?

Corporate Participant

That's right, we have an exclusive arrangement.

Analyst

So would you be able to comment in terms of will it have an likely impact or probably it will still take about a year discussions how will it work ?

Corporate Participant

Alstom chief executive did talk to me on that and he has assured me that the arrangement between us will not get affected in any manner.

Analyst

Okay. So at least they would not be competing directly with us on the boilers segment?

B. Prasada Rao

The agreement prevents that and it is valid till 2020. It is an agreement which is filed with the Government of India. So, I think we all are bound by this.

Analyst

Correct.

B. Prasada Rao

For commitment made earlier.

Analyst

Sir, from the other perspective if we look at, now Alstom facilities will also have access for Shanghai works in china. Can we also potentially look at strategy where we at a future date if economical source certain components from their plants and which in turn can help us much more competitive in terms of price levels?

B. Prasada Rao

Yeah, all these strategies I cannot discuss here.

Analyst

Yeah, can you have these possibilities as well to be more competitive, then if it's from - JV as well?

B. Prasada Rao

Yeah, yeah. Once you exploit all the opportunities.

Analyst

Sure. Thank you so much sir, that's it from my side and all the best for the year to come.

B. Prasada Rao

Thank you.

Analyst

Thank you.

Operator

Thank you. The next question is from the line of Sumit Poddar from Birla Sun Life Insurance. Please go ahead.

Sumit Poddar

Yes sir. Good afternoon.

B. Prasada Rao

Good afternoon.

Analyst

Just wanted to have a feel on why so many accounting changes in the year and what's the thought process behind that?

B. Prasada Rao

We are streamlining most of these policies for lining up for IFRS

Analyst

Okay.

B. Prasada Rao

For IFRS, we are totally prepared to implement it. In fact the earlier date given to us was 1, April 2011. So we've been preparing ourselves. And some of such inconsistencies emerged in various discussions. So after taking expert opinion and also the international practices, we have taken this decision consciously.

Analyst

Because I mean if that has propped up the overall profits for this year, actually we are moving from a conservative stand to much more aggressive stand.

B. Prasada Rao

We should go for the right stand. I don't say conservative or aggressive. We have done it very very carefully after taking into account the experts' opinion and international accounting standards. It has been discussed at length in the various Board level committees. Only after all concerns were addressed, then only this has been implemented.

Analyst

So this is more to align towards the IFRS?

Corporate Participant

That's right.

Analyst

And sir what would be your guidance on the margin and the PAT growth for the next year?

Corporate Participant

We don't give future guidance for margins. You should understand that volumes are growing. Our manpower costs are largely fixed since we have 10 year of agreement with 2007 as base year. We will have normal annual increases. We are integrating the new technologies and last year is an indication to you for performance in the material cost. So these are the two major elements of the cost. So these must give you an indication but I can't give you any guidance on margins.

Analyst

And from a direction prospective sir materiel cost I mean given the fact that commodity prices are going up I mean in terms of managing the material cost, how comfortable you are to contain the cost pressures?

Corporate Participant

If you look at our operations during last 3-4 years, material prices were going up. But we have been able to manage these kinds of shocks. I think this is due to the long-term arrangements we have in place with the material suppliers. There are special prices which we work out during this kind of phase also. At the same time we have number of initiatives like material cost reduction as design to cost, lean manufacturing in the company and focus

on indigenization, localization. We also look for sourcing materials from cheaper sources like we have opened office in China. We are looking at more and more things to be competitively sourced. So we've been able to maintain our material contents and also reduce some of the product costs. Company has a very big focus on these kinds of initiatives. And at the top of it we are also working on the research and development. Our expenses on the R&D have been very high. During last two years we have done very good R&D developments which also help in reducing our costs. Some of the products we have totally indigenized which were being totally imported earlier. So, all this ultimately leads to maintaining our competitiveness.

Analyst

Sure Sir! other expenses for the quarter actually seems to be extremely high but what could be the annual run rate that we could see on the other expenses side.

Corporate Participant

Other expenses as I explained to you earlier, are because of the provisions.

Analyst

Right

Corporate Participant

Otherwise if you remove that and see it is the normal increase only.

Analyst

Okay. So if we exclude those provisions probably that will be normal going rate but the provision will be there in the next year.

Corporate Participant

That's right.

Analyst

Thanks. And Sir from the strategic standpoint we were looking for many other segments like railways and nuclear I want update on that side which could be the kicker for the growth may be like from 2014 onward if you could update as on that side.

Corporate Participant

I can give more details on the growth little later. Since you mentioned about two-three segments, I will first tell you on that. On the nuclear front, we have already received two orders for 700 megawatts which is the result of our Joint venture with NPCIL and Alstom though the JV is officially yet to come in place. But then orders have already been placed for two units. We expect totally eight units. We also expect that they can even go beyond as imported technologies are going to get delayed. This will be one which will come to the rescue and NPCIL has got good plans to set up the large megawatt units in number of places like Kakrapara and you know even in Tamil Nadu. So therefore we have lined up for this. Where we are also going to increase our capacity further in nuclear is at Bhopal. Haver, earlier we were doing 236 megawatts and 540 megawatts and now we want to scale it up to 700 megawatt. So nuclear is definitely happening.

The Transportation segment, we have got some orders. But Railways have totally slowed down their projected additions. The new factories that they have contemplated in Bihar and West Bengal which we expected to get finalized last year haven't been finalized yet. Going forward if they do not go for foreign parties' factories and instead head for a change then that will be a very good opportunity. We are increasing our capacity for locomotives in Jhansi where today we have capacity to manufacture 50 locomotives a year.

And we are scaling up to initially to 75 and further to 100. Railways have indicated that they have plan to at least source about 200 locomotives per year from us. Particularly BHEL has been named in their Vision document.

We have good plans for Transmission also. We have introduced our own development of 765 kV transformers and 145 kV GIS. These are all initiatives in transmission. We have received a major order in transmission last year for HVDC project in north east and Agra i.e. 800kV project. We are working with ABB on this.

Similarly in the Water and the Solar we have announced the tie ups with GE as well as Abengoa of Spain for solar thermal. We see that number of projects are picking up in solar. And we have received good number of orders from India Bulls, Karnataka Power Corporation. In fact Karnataka is going to place another order with us for 5 MW portable type plant. So, renewable energy segment, water segment and the transmission and transportation segments are going to be the growth areas and we are very much focused on that.

Analyst

Right. Great sir. Thanks and all the best.

Corporate Participant

Thank you.

Operator

Thank you. The next question is from the line of Inderjeet Singh Bhatia from Macquarie. Please go ahead.

Inderjeet Singh Bhatia

Thanks a lot for taking my question. What is the percentage of revenues coming from supercritical sets at this point of time? And how do you expect that proportion to change in the next year or next couple of years?

Corporate Participant

See, I can give you an indication. If you look at the orders that we've received last year, roughly about 45% are from super critical segment which was around 10% in the previous year. So orders are increasing day by day and we fairly expect 60% orders to come from super critical segment.

Analyst

Okay.

Corporate Participant

Yeah.

Analyst

And the question here is that if you look at the proportion of super critical and EPC kind of projects we continue to increase as per your indications. And outsourcing content in both of these especially EPC and super critical at least initially would be higher. How do you expect to maintain your raw material cost at these kinds of levels? Can you just throw some light on that?

Corporate Participant

For super critical segment our outsourcing will come down gradually as we localize i.e. as we start manufacturing more and more within the company. Therefore only the raw material will be sourced but the value addition will be more in the company as the technology is absorbed in the company. Now, as far as the BOP is concerned with respect to the EPC orders, that is going to be only addition. In the EPC orders, the company will do BTG and the BOP will be outsourced.

Analyst

Okay, okay. Second one is kind of book keeping question. What is the total order book in the megawatt terms at this point of time?

Corporate Participant

65,000 megawatts

Analyst

65,000 megawatts

Analyst

Okay. And another thing is, when do you expect the government to finalize things on the XIIIth plan and kind of go ahead in terms of ordering out - on that? Sales plan is nearly done.

Corporate Participant

They have done large part of ordering. We expect that there will be more and more order finalisation irrespective of whichever plan is made. Because all the projects are nowadays taking more time on account of environmental clearances and construction. Particularly the private sector is not concerned with any plan target. They would go whenever they have got the requirement as well as the finances. And so we are saying that XIII plan size could be cleared mainly after one or two years, but then by that time lot of ordering could be done. And the initial indications are 1.5 lacs megawatt for XIIIth plan, this figure is yet to be firmed up.

Analyst

Okay. Sir, this is the total, not the coal based.

Corporate Participant

Yes

Analyst

Okay, okay. One last question from my side is that now you have been growing at almost around 20 odd percent to 25% for sometime now and looking to want to grow even more that what kind of relating to FY12. In terms of manpower addition, if you look at net addition has been below 5% or so. Can we sustain that or we need to look for higher number of people, and we are hearing that you are taking retired people as consultants?

Corporate Participant

That's right.

Retired people being taken as consultants are very very small and that too for small duration, just because the talent required for special areas are not easily available. So, we will continue with them. And as far as your question on the manpower is concerned, we have the program of recruitment roughly 4000 people this year including engineers, supervisors and workers. So our plan has been to have around 50,000 people by end of 2012. Beyond that we will look at recruitment depending upon the retirement profile as well as the growth for next five years.

Analyst

Okay, what is the net employee at this point of time?

B. Prasada Rao

46,748

Analyst

Okay, okay. But then if you are looking at manpower to grow at 10% and then we also have inflation which is running high, how do the staff costs remain to grow?

B. Prasada Rao

I didn't mention 10%; I said 50,000 is our target and beyond that we will look at it. The 4,000 addition for the year will probably net out at 50,000. So going forward, we have to decide what we will do depending on the growth profile and depending on the requirement.

Analyst

Okay. Thanks a lot. Thank you.

Operator

Yes, Mr. Puri, go ahead.

Abhishek Puri

Good afternoon, Sir. In view of the provisioning that we have done the accounting policy that we've changed. Just wanted to understand for the fourth quarter how would the growth numbers look like because if I am doing the mathematics of the fourth quarter I

think the top-line is increasing by about 15.5% and bottom line is increasing by about 30%, would I be correct?

B. Prasada Rao

You are right, but if you look at the second and third quarters. Our growth rate has been much higher than the earlier year. So, quarter-to-quarter if you look at it, you will know it doesn't give you proper indications, particularly we have long lead products. So, I would suggest you to look at our year-over-year that should be an indication for you.

Analyst

Okay.

B. Prasada Rao

Quarter-to-quarter will never be giving indication since we' are not the commodity producer, quarter-on-quarter is also very, very short time duration for us.

Analyst

Right, right. But just to understand, the top-line or execution on the operational front has slowed down a bit, would it be right?

B. Prasada Rao

No, no it is not so. It is not correct. The thing is, you keep working for almost seven to eight months and then the turbine gets dispatched. You'll get the turnover figure in that month. That doesn't mean that the previous six months you are not working on anything.

Analyst

Fair enough. Sir, one of the other questions was emerged on one of the statements that you made. That is looking at higher localization of the imported material that we are taking currently.

B. Prasada Rao

Yeah, imported technologies, I must put it that way. For localization of imported technologies, material could be from internal or material could still be bought from outside.

Analyst

Any indication in the boiler and turbine generator separately? How much can we manufacture in house and how much we'll have to outsource?

B. Prasada Rao

I don't think I'll be able to give any figure like that?

Analyst

Okay. But having said that, I think 14 sets we have received for the super critical technology. Initially we mentioned about technology transfer agreement, after about 8 to 10 orders are complete indigenization process will be done?

Corporate Participant

Yes. That's right.

Analyst

So in terms of the costing for the future sets, it should be better going forward?

Corporate Participant

Yeah it can be inferred, I will leave it to your imagination.

Analyst

Sure. Just one last question I think regarding the non-compete agreement

Corporate Participant

You must yourself study the kind of the price at which we have booked the order for Bajaj i.e. the latest order- what we have done. And compare it to earlier orders what we have booked for supercritical sets.

Analyst

Sir looking at these pricing trends one would tend to assume that our pricing has come down probably because of the competitive regime, but it is?

Corporate Participant

Pardon me.

Analyst

Costing is internal whereas pricing is because of the market?

Corporate Participant

That's right but then it has some relationship with the costing also.

Analyst

Absolutely so should you mean to say that we are maintaining our margin proposition what we were maintaining earlier?

Corporate Participant

That's what is the company always strives for.

Analyst

Fair enough. Just one last comment on the – Alstom - Shanghai JV that they have done.

Corporate Participant

Yeah.

Analyst

With a non-complete clause whether Shanghai Electric will supply technology into India?

Corporate Participant

No, because technology cannot be coming to India.

Analyst

Can Alstom get that technology into India into EPC route?

Corporate Participant

See it is like this. If in EPC route they want to bid, they will have to take boilers from us.

Analyst

Right

Corporate Participant

They have to take from us.

Analyst

Okay, they will have to take from us

Corporate Participant

Yes.

Analyst

And they cannot source it from any of the manufacturer which is already in China?

Corporate Participant

No they cannot.

Analyst

So JV should be positive for us. This could give higher business for us going forward.

Corporate Participant

That's right. I think earlier somebody was also mentioning

Analyst

I just wanted to reconfirm.

Corporate Participant

Yeah.

Analyst

Thank you so much. And all the very best.

Corporate Participant

Thank you Mr. Puri.

Operator

Thank you. The next question is from the line of Bhavin Vithlani from Enam. Please go ahead.

Bhavin Vithlani

Good evening sir.

Corporate Participant

Good evening.

Bhavin Vithlani

The question is more on the industrial division. Actually if I see the order inflow for the FY11 has actually declined by 20%. Two questions on this. One is could you give us the break up between captive power plant transmission, transportation and the other industrial product business for current year as well as the last year and what is your outlook toward the growth on the industrial business for the next year.

Corporate Participant

Yeah it's like this. Before I give you any break-up, Captive power segment is the major segment of industry segment for us. Now more and more players in captive power are becoming utility players. So the unit ratings are going up. They are becoming part of the power segment. So the customers are getting to power segment that's why it looks like going down. But it is not so. The captive power customers are going for bigger sets. And our concentration typically is on those high end costumers. We are not going to those customers like below 30 MW etc. And those customers are turning towards us like Adhunik for example which had taken smaller sets from us earlier are now going towards bigger sets. Similarly the other customers have now grown from 150 megawatt to 270 megawatt sets. So these are all things happening in the segment and that's why otherwise other segments have remained at almost same level. In the rail transportation, transmission and renewable we have added little more, but in figures it will not be that much. Solar PV per megawatt is around 14 - 15 crores. So it will not give you much in the financial terms. Overall, all segments are almost compared to the year 2009-10. Only the captive power sector has moved to the utility power sector.

Bhavin Vithlani

Okay. And on the captive power plant business, more questions; which are the user industries where you have seen increased traction and you believe there is traction going forward. As far as I understand metal, oil and gas are one of the two key user industries for BHEL.

Corporate Participant

That's right, refineries and the metels like steel and aluminum are the industries which are going for a big size plants like Hindalco has taken from us 12 sets of 150 MW. In metals we have been working for SAIL, Nalco and some private steel producers. We are also working for number of refineries. You will see – Paradip, Bharat-Oman refineries, HPCL are coming

up with BHEL captive power plans. So, this is the main segment and Chennai Petroleum Corporation is also the customer.

Analyst

My question is more towards the outlook for the next two years.

Corporate Participant

Yeah.

Analyst

What we understand is large part of the Greenfield CapEx for oil and gas and metals behind us and majority of the projects, Greenfield projects which are yet to see the stream are facing problems such as environmental clearance, Land acquisition etc. What is your outlook towards the Captive power plant segment for the next year?

B. Prasada Rao

Yeah, with all this happening, the sector could have grown faster- but then we expect that we will maintain the kind of 20- 25% share as we are having today in the total business of BHEL which contributes towards the industry segment and captive power being a part of it. We've said that we're going to contribute to that. We still find that we'll be able to get projects in 150 megawatt and the 125megawatt range. Again there is a pipeline which are we were discussing during last year that we are current continuing. These could have probably happened last year but for the problems what we just mentioned. They are getting postponed to this year and these projects could result into orders this year.

Analyst

Okay. And if you can help me with the break-up between Captive power plant transmission, transportation and other industrial products? The order intake break-up for current year as well as last year?

B. Prasada Rao

If you can be in touch with Mr. Krishna Shankar, he will give you the details.

Analyst

No problem, fine. Next question is for the export segment. We have actually seen growth slowing down to single-digits over the last year. Could you share your outlook towards the

export segment because and it is basically inline with whatever disruptions we've seen in the Middle East.

B. Prasada Rao

So, you are probably comparing with respect to the company's total order book. That's why you are saying single digit growth. This is because the domestic segment is growing faster than export segment. The market is totally in India today. But having said that whatever is happening in Africa, South East Asia and Gulf, we are trying to see that how much we can get out of these markets. But then as you know, there are lot of issues in these country's for execution. There are some blocks, but then, wherever we are working, except Libya, all other places are not affecting us. Sudan, Yemen, Libya, Syria our projects are not affected. We are able to go ahead with the execution. We expect that some of the projects in Nigeria, Congo and some of these countries where we have already bid for the project and we expect ordering will happen this year.

So I expect the similar kind of figure in exports. It may not grow as much as other segments are growing, but maintain the kind of order booking what we are doing currently in order to maintain or grow little bit on this.

Analyst

And the last question is on the balance sheet, we see net working capital days increasing from 7 to 24 and it is primarily getting contributed from decrease in the liability. So is this decrease in liability primarily a decrease in the advances? And has the terms of creating advances change towards previous years?

Corporate Participant

I'll ask Mr. Sankaran from Finance to respond

Corporate Participant

About the current liabilities, provisions have only increased.

Analyst

I am actually speaking in terms of actually base of raw material.

Corporate Participant

We are holding about ₹ 10,900 crores of inventory.

Analyst

In the current liabilities, it has been proportional.

Corporate Participant

Outstanding in quarters have increased.

Analyst

Okay, can you actually help me with the number the advances of crores?

Corporate Participant

Just a minute, he is giving you

Analyst

Meanwhile sir, can you throw more light on terms of payment, are you witnessing any change. The proportion of advances which you were receiving earlier? Has there has been any change in that?

Corporate Participant

No not much change. There will be some minor changes but I don't see, overall it has remained same. We are not seeing much change in that.

Analyst

Okay. These were my questions sir. Thank you so much.

Corporate Participant

I think get in touch with latter

Analyst

Sure. Thank you so much sir.

Corporate Participant

Just a minute be on the line?

Analyst

Yes.

Corporate Participant

From the customer, advances are ₹ 20,400 crores and creditors is about ₹ 9,600 crores.

Operator

Thank you. The next question is from the line of Nikhil Salvi from IDFC Securities. Please go ahead.

Nikhil Salvi

Sir just a couple of questions.

Corporate Participant

Yes Nikhil

Nikhil Salvi

Sir one thing on the PBT impact of the change in accounting with respect to warranty provisions. Now the impact mentioned in the provisional result is ₹ 414 crores. And increasing PBT which is mentioned in this time ₹ 695 crores. So could you help me reconfirm that sir.

Corporate Participant

No increase in turnover due to this policy change has gone up 2773

Nikhil Salvi

Okay.

Corporate Participant

So that is crores. Provision has therefore to be about 281 crores.

Nikhil Salvi

So sir again continuing with this we had a number of 44 crore in terms of PBT impact at the December 10 quarter.

Corporate Participant

Yeah. It is not actually like that. Actually at the time of third quarter we've been looking over various alternatives on how to refine this. So what was indicated at the time of third quarter is only an indicative number. But in the fourth quarter we got the final decision and we have done it. So, that will not give an indication if you compare third quarter and fourth quarter.

Analyst

Sir, the entire differences cannot be attributed?

Corporate Participant

Yeah, it cannot be attributed.

Analyst

Okay, sir. Sir, can you again, with respect to the change in accounting policy for employee benefits and differentiation.

Corporate Participant

Yeah.

Analyst

So, now the figures given here would they pertain to the FY11 the full year provided in fourth quarter?

Corporate Participant

Yeah, it is for the full year.

Analyst

Okay, sir. So what could be the impact for Q4?

Corporate Participant

Q4, alone?

Analyst

Yeah.

Analyst

Can we separate prior period from previous financial year FY11 and prior period? Can we separate that sir?

Corporate Participant

This cannot be done like this because there is a positive change. When we change the policy, we don't consider as a prior period item.

Analyst

Okay. But sir this was done in Q4. So as on December 10 this policy

Corporate Participant

Correct. If you want to spread it, you can take one fourth for each quarter because more of impact will be same

Analyst

Right. But these are the employee leave benefits are changing from actuarial to actual. So difficult to give you what is the prior period and all that.

Corporate Participant

Yeah. That's right.

Analyst

Okay sir. That answers my question. Thank you.

Operator

Thank you. The next question is from the line of Devang Patel from Avendus Capital. Please go ahead.

Devang Patel

Sir, - in NBFC, can you give us some of that - progressing?

Corporate Participant

Yeah. We have looked at initial working on that. The Board has suggested some changes in the last meeting and those changes are for incorporation by the consultatnt. We will discuss again probably next month in the Board.

Analyst

Okay. Sir, take last question, would you have a quick number of how many megawatts will be completed in synchronize next year?

Corporate Participant

We have a plant to do about 12,000 megawatts next year for synchronization capacity addition

Analyst

Sir, and in terms of completion?

Corporate Participant

Yeah. That's what is 12,000 megawatt.

Analyst

Fine sir. Thank you so much.

Operator

Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor back to the management for closing comments. Please go ahead, sir.

Corporate Participant

Thank you very much everyone.

Corporate Participant

Thank you.

Operator

Thank you gentlemen of the Management. Thank you Mr. Sheth. Ladies and gentlemen, on behalf of Prabhudas Lilladher, that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.

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