"BHEL 3rd Quarter Post Results Conference Call"

January 21, 2011

Management Representative

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Moderator Ladies and gentlemen good evening and thank you for standing by. This is Vivian, the moderator for this conference call today. We welcome you to the 3rd Quarter post results conference call of BHEL hosted by BNP Paribas Securities India. We have with us today Mr. B. Prasada Rao, Chairman and Managing Director, BHEL and we have Mr. Lakshminarayan Ganti, Senior Analyst Capital Goods from BNP Paribas Securities India. At this moment all participants are in the listen-only mode. Later we will conduct a question and answer session, at that time if you have a question you may please press * and 1. I would now like to turn the conference over to Mr. Lakshminarayan Ganti. Thank you and over to you sir.

Lakshminarayan Ganti Thank you operator. Good evening everyone. On behalf of BNP Paribas Securities India, I welcome you all to the 3rd Quarter fiscal year 2011 earnings conference call for BHEL. We have with us Mr. B. Prasada Rao, Chairman and Managing Director and the entire senior management team. Firstly, Mr. B. Prasada Rao will give a brief on the results and after that we can take questions. And I would apologize for the late start. This is due to some unforeseen reasons. Over to you sir.

B. Prasada Rao Thank you Mr. Ganti. Good evening friends. A very warm welcome to all of you. First of all let me apologize for the inconvenience caused to you by rescheduling this conference due to some unavoidable circumstances.

The industrial production during November 2010 grew by just 2.7% due to the festival season and base affect. Off late various investors have expressed concerns about the volatility in growth of capital goods sector in recent months. If you see, the capital goods sector has grown by a healthy 20% in the last five years. Out of the last 16 months the sector has posted a healthy double digit growth in 13 months. Though it has grown by 12.8% only in November 2010 the decline in index during the month is not a cause of concern and is primarily due to high base affect. The order book position of major capital goods manufacturers is very healthy. I expect the sector to grow and stabilize in the coming months.

In case of our company BHEL also, order book position is very strong. As on December 2010 we have an order book of ₹ 157,611 crores. In Q3 FY11 itself we received orders worth about ₹ 12,200 crores out of which power sector contributed to about ₹ 7877 crores aggregating to 3300 MW. With this the total for the year we have received orders for power sector about 8921 MW. Industry sector contributed about ₹ 2735 crores aggregating into 618 MW and ₹ 1980 crores about 692 MW was from exports.

The following major orders were received in power sector:

The 5X270 MW Nasik Phase II from India Bulls for about ₹ 2875 crores; 5X270 MW Amravati Phase II for Elena Power for about ₹ 2883 crores; 1X600MW Rayalseema Unit No. 6 from APGenco for ₹ 1445 crores. In the industry sector the major orders include 66 sets of EMU Electrics from Indian Railways worth ₹ 98 crores; One number SRGM (Naval Gun) from Goa Shipyard for ₹ 47 crores; Three nos. turbo blower packages from SAIL for about ₹ 255 crores; 11 nos. of 700 HP diesel-electric shunting locomotives from JSW Steel for ₹ 35 crores and four orders of solar power projects worth about ₹ 98 crores.

In the export market we have got the order for 672 MW Marib Phase-II gas turbine power project from Yemen for ₹ 1976 crores which is single largest export order for GT based power projects.

Recently various investors have expressed their concerns to me about the competitiveness of BHEL in the changing domestic business environment. Therefore, I would like to assure you that BHEL is fully geared up to sustain its past performance credentials. Performance of our equipment is at par with global standards. With specific reference to Chinese suppliers, our performance edge is driven by lower auxiliary power consumption, boiler efficiency leading to lower design heat rate, and better PLF. Our customers are increasingly realizing the long term benefits of BHEL sets. This is evident from various orders we have won from IPPs in the recent past. Apart from these factors we are also focusing on our R&D for reducing import content in our supercritical sets and increasing the vendor base. In fact in R&D we are recognized as the highest R&D spender and we have got recently an award also for this purpose.

We are also planning to manufacture the critical inputs like CRGO steel in joint venture with SAIL and deployment of our cash reserves in more productive application areas through NBFCs. These initiatives will help us in reducing cost and maintain margin levels.

As you all are aware, we have been taking lot of initiatives for accelerating the pace of project execution. In FY11 till date we have commissioned projects worth 4258 MW in the utility segment alone which is more than what we did in the whole of last year. Another 875 MW projects have been synchronized and are waiting for the other inputs from customers for capacity addition. We are aggressively working on our capacity expansion program, ramping up our manpower particularly at sites, strengthening project management systems in the company and taking various site capability enhancement measures. You will see remarkable improvements in our execution capabilities in the coming quarters.

With reference to sustainability of our top line growth as your all are aware, we have been taking various initiatives in joint venture mode to expand our industry portfolios, be it solar, nuclear, transportation, water management or transmission. I would like to inform you that last week we have signed a joint working arrangement for solar thermal power plants with Abengoa Spain, who are the world leaders in this. These diversification strategies will enable our industry sector business to enhance its shares substantially in the coming years. With this I am confident and assure you that the growth story of BHEL is intact.

Now, coming to the Q 3FY11 financial results:

The turnover for 3rd Quarter of 2010-11 is ₹ 9271 crores a 26% increase over the 3rd Quarter of 2009-2010. Cumulative turnover up to 3rd Quarter 2010-2011 is ₹ 24,732 crores, a 23% increase over that of ₹ 20,083 crores achieved up to 3rd Quarter of 2009-2010. Profit before tax for 3rd Quarter is placed at ₹ 2066 crores. Cumulative profits before tax up to 3rd Quarter 2010-11 is ₹ 4718 crores which is an increase of 28% compared to the achievement up to 3rd Quarter 2009-2010. Profit after tax for 3rd Quarter is placed at ₹ 1,403 crores and cumulative up to 3rd Quarter 2010-11 is ₹ 3213 crores which is an improvement of 34% over the corresponding figure of last year.

So, I thank you once again for joining this conference call. Now we can take questions. Thank you.

Moderator Thank you. The first question is from the line of Abhijeet Bhandari from Macquarie Securities. Please go ahead.

Inderjeet Hi this is Inderjeet from Macquarie. First question from my side is can you please explain this mechanics of the change in accounting norm and its net impact?

B. Prasada Rao **A**s per our practice, normally 2.5% of the contract revenue is recognized on completion of the trial operation with creation of a corresponding provision for warranty obligation. Now during recent reviews we observed that from contract-to-contract this is varying from about 1% to about 5%; 1% in some cases and 5% some contracts. So this anomaly has been corrected in this quarter to ensure that for all contracts only 2.5% of revenue is deferred till the completion of trial operation with the corresponding warranty provision. So the impact of this on all ongoing contracts is net increase of turnover of ₹ 444 crores and the corresponding increase in PBT and PAT is ₹ 88 crores and ₹ 60 crores respectively for this.

Inderjeet Okay. Now what we can understand is clearly there are certain revenues which were not recognized while you were making extra provisions so those have been reversed. But what are the associated costs with it and why these cost have been booked and which heads they have been booked?

B. Prasada Rao I will request my finance head here to explain this.

Sankaran The cost has been booked under various heads. It is not restricted to any particular head. It is booked under various heads.

Inderjeet Okay. But any broad….would raw materials have the bulk of….

Sankaran No. It is uniform because the profit is 20% which you would have observed. This is our normal gross margin. So it has been uniformly distributed everywhere.

Inderjeet Second question is this quarter has seen a very smart improvement in gross margins. Can you share any particular reason for this? What is the likelihood of these kinds of good growth margins sustaining and what could be the gross margins or raw material cost on a full year basis this year and next year?

B. Prasada Rao See, while I will not be able to give you any future guidance but I can tell you what has happened this year. This quarter basically we have been working on material cost reductions. I have been mentioning in my earlier conferences and elsewhere that we have been doing some integrated operations improvement initiatives, like design to cost, lean manufacturing and all. And coupled with that the better buying practices and some of the long-term contracts we have put in place with some of our material suppliers, we have achieved this kind of lower material consumption. And of course, going forward, commodity prices are now going up so we will have to watch that. Wherever there is a pass-through, therefore, it will not be much of an effect on us but whenever we do not have a pass-through we need to see how to control material cost to maintain these kinds of margins.

Inderjeet Okay but say assuming the material prices are to remain where they are today, what could be the full year cost? I know raw material is clearly an unknown but assuming raw material don't change what could be the full year of raw material cost or the percentage of sales?

B. Prasada Rao Right now if you look at our last year performance, last year the material cost has been around 59-60% or so. And I think it should remain in the same range.

Inderjeet Okay. But despite very good improvement in this quarter do you think….

B. Prasada Rao I cannot give you guideline on that based on this quarter's performance.

Inderjeet Another thing is if you could address the question on the HR issues and also hint at what kind of manpower you are adding and that will lead to what kind of a staff cost for the full year basis. The question on staff cost is to understand the entire issue about provisioning, everything is already done with it or not.

B. Prasada Rao See as far as manpower is concerned and we have been saying that we are taking about 4000 people a year. For last three years we have taken about 12000 people in all the three categories and we continue to do that kind of induction this year as well as next year. And with this I expect we end up with about 50,000 people by 2012 and today we have about 46,000 people. So in fact there are net wastages also. In five years' time we are inducting roughly about 20,000 people and about 12,000 people are on the way out, wastages. So the manpower will remain around 50,000 numbers and looking at the future plans we feel as of now this will be the right kind of manpower for us. If you look at the manpower costs, as percentage of the sales, it is coming down. You must understand one thing, the kind of wage agreement we have put in place is valid for the next 10 years. And it is now going to be only normal increases which are going to happen in the staff cost. So, when the top-line is growing at almost 20% we expect that staff cost will further come down as a percentage of sales.

Inderjeet Okay. Do you want to share a number as to what would be the staff cost be for the full year?

B. Prasada Rao We are roughly around 14.2% or so and I expect it to come down in the coming years. I cannot give you the exact figure but it will be on the decline.

Inderjeet Okay, thanks a lot.

Moderator Thank you. The next question is from the line of Rudesh Chedda from M.K. Global. Please go ahead.

Rudesh Chedda Just on your order inflow guidance side at about ₹ 60,000 crore, should we keep that guidance intact and since the implied number is higher at about ₹ 27,000 crores where do you think should the order inflow come in the Quarter 4 in terms of projects?

B. Prasada Rao The order received till now has been around ₹ 36,000 crores similar to last financial year also. I am still maintaining these guidance for the whole year. Since there are a number of projects which are in the pipeline though there are some delays which are happening in the finalizations but I expect that all these things will fructify before March 2011. And as I mentioned in my earlier call about 9,000 MW orders we have already received in current year. Last year in total we received about 16,000 MW of orders. I expect about 8,000 to 9,000 MW further orders this year. It should be slightly better than last year in the power segment definitely. So I maintain the guidance.

Rudesh Chedda Okay. The most important head of the material side of what is the policy in terms of managing the material cost considering the fact that it shot up substantially over the last couple of months. And what is the nature of fixed and variable price contracts at this juncture in the system with you?

B. Prasada Rao Well, we have a mix of contracts. Roughly you can say about 50:50 fixed and variable, where the cost is passed through and where the cost is firm. Secondly, yes, as I mentioned in the earlier question that we have been doing certain initiatives like lean manufacturing and they have already been showing up some results. And going forward these are continuous exercises all over our manufacturing plants. Add to this is our securing supplies through long-term contracts. These all are giving us good results in terms of the material cost controls. So I expect that all these things will continue and even though the material prices are going up, we are working on the kind of results which has already shown in the 3rd Quarter.

Rudesh Chedda Okay. In the raw material sourcing side based on whatever policy we follow, should it have a near-term impact or the impact in case the material prices are higher would be more towards the next year?

B. Prasada Rao The materials whatever we induct now will be used only in the next year operations.

Rudesh Chedda Okay. Lastly on that accounting change, is the impact one-time in nature for the Quarter 3?

B. Prasada Rao That’s all. It will get regularized in the next quarters. We will follow this policy now in general.

Rudesh Chedda So for this quarter you have done it with retrospective effect and henceforth it will be the last normal quarter?

B. Prasada Rao The imbalance has been corrected.

Rudesh Chedda Okay, many thanks to you and all the best to you sir.

Moderator Thank you. The next question is from the line of Venkatesh B from Citigroup. Please go ahead.

Venkatesh B Sir firstly this is once again related to this accounting treatment. Now the revenues are higher by around ₹ 444 crores and the impact on the PBT level is around ₹ 88 crores, right?

B. Prasada Rao Yes, that’s right.

Venkatesh B So in between the costs which have been booked is around ₹ 356 crores. Can you tell us how much is there in raw material cost because we just want to figure out if this had not happened what would have been the raw material cost as a percentage of sales in this quarter? What is the amount in the raw material cost?

B. Prasada Rao I will request Mr. Sankaran, our Finance Head to talk about that.

Sankaran Actually see, these are all corrections of the earlier period. So the material content in this could be around 50%.

Venkatesh B Okay so 50% of the ₹ 356 crores would be in the raw material cost?

Sankaran Yes!

Venkatesh B Okay sir. The second question is regarding the staff cost once again. The reason I am asking is in the nine-months your staff cost has been around ₹ 39 billion. Now, if I go by the same run rate we should be doing ₹ 52 billion or ₹ 53 billion. But I assume 4th Quarter staff cost are usually higher around ₹ 17 or ₹ 18 billion. So would it be reasonable that full year staff cost would be somewhere around ₹ 58 billion to ₹ 60 billion?

Sankaran No, it will be around ₹ 56 to ₹ 57 billion.

B. Prasada Rao Okay, thank you. Now moving on to the raw material side sir. Now given that raw material costs are going up, now how many quarters of raw material inventory do you have? Do you have it for one quarter or for the next three quarters?

B. Prasada Rao It is like this. It varies from product-to-product. We have long-cycle products, short cycle products. So by and large normally overall if you take an average of six months or so could be arrived at once the material enters the shop.

Venkatesh B Yeah, I will just finish this question. These two orders which you have won of around 1,320 MW now since you are the lowest bidder will you get both the orders or will it be shared between you and BGR, the two orders?

B. Prasada Rao Well, we should get both the orders. We will have to see what the customer decides.

Venkatesh B But it is up to the decision of the customer, right sir?

B. Prasada Rao See as per the tender condition, he has a choice. But then when the reference is used he may have a difficulty in doing that, but we are trying to get both.

Venkatesh B Okay. All the best for the future.

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

Venugopal Garre Sir, on the accounting norms again, we wanted to ask one thing, this ₹ 444 crores impact is actually pertaining to how many of the past quarters? Is there any way to measure that?

B. Prasada Rao It is a cumulative effect, so it will be on all the ongoing projects so it could be from last year and also.

Venugopal Garre Okay. Sir again just to get a sense is it some review that we do it on an annual basis? Are there any other such accounting norms that we are currently reviewing.

B. Prasada Rao No, we are not reviewing. We have been noticing this earlier. Earlier the differences have been very small so we were not worried but once we saw that it has started happening in many of the contracts then we thought this is the right time we should correct it. So that is how this has come. There is no other major review. Our accounting policies are same.

Venugopal Garre Okay. Sir secondly I wanted to understand on these state joint ventures that we have a couple of them. Could you talk a bit more in terms of progress and more specifically we would like to understand how many of these JVs, or MoUs convert to JVs finally start getting EPC orders this year, so how many could actually convert to EPC orders this year?

B. Prasada Rao See this year the Karnataka one has happened. The orders have been placed on us for 2X 800 MW sets for Yeramarus and 1X800 MW for Edlapur project for the Karnataka joint venture. So the other joint venture, Tamil Nadu is in the final stages. Now they are getting the coal linkages. JV has already been established, there is a board also for this JV Company and we are waiting for some of these clearances. The financial closure is not a problem. But I do not expect that in this financial year it is going to happen. Maybe the early part of the next financial year the ordering could happen on BHEL. Now there are other two ventures where we have just registered them as company in Maharashtra and it is a gas-based project. So there all the clearances are likely to come very fast and again this will also go to the next financial year. Now the fourth one, we have already signed the agreement but then we are now inducting a strategic partner in MP Khandwa project. So that is still in initial stages.

Venugopal Garre And we had something in Andhra and West Bengal that we are planning, right?

B. Prasada Rao Yeah we are planning that but the agreement is not yet signed.

Venugopal Garre So if I were to summarize what you are saying all of these are actually for the next year. There is nothing which will convert in 4Q?

B. Prasada Rao That’s right, except the Karnataka which has been already done.

Venugopal Garre Sir again on the NTPC tenders the 11 sets of 660 the bulk tender, I want to understand from you that if the price bids get opened in February normally should this notification come by this year or will it again spilled over to next year?

B. Prasada Rao We expect it to happen this year.

Venugopal Garre And similarly for the other one, the 9X800 MW tender what are the timelines for that? Is it going to be somewhere in the end of next year or May-June of this calendar year?

B. Prasada Rao See now that NTPC will also be under time pressure to do it quickly and I expect it will happen by the end of 2nd Quarter of next year.

Venugopal Garre Okay, thank you so much sir. If any other questions I will queue back, thanks.

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

Atul Tiwari I have a question on order inflow outlook. Given that we are very close to end of FY11 and you obviously would have some sense of how the order inflows are likely to pan out in FY12 so if you could give your thoughts on whether it is going to be same as this year or more than that, that would be helpful?

B. Prasada Rao See there is a potential that we can even cross the last year figure. Since the time available is upto 31st March. It is only the decision-making in some of the projects which is pending. We have already finalized the entire offers from BHEL for many projects and negotiated everything and kept ready. They (customers) have to only decide how fast they will be able to finalize these orders.

Atul Tiwari Sir my question is about orders inflows for FY12. So you are saying that it could be higher than…..

B. Prasada Rao Are you talking of next year?

Atul Tiwari Yes, FY12 basically.

B. Prasada Rao FY12 definitely we are expecting much more than this year.

Atul Tiwari So how much more could it be, 10%, 15%?

B. Prasada Rao Well, we will be announcing when we know the next year targets for us.

Atul Tiwari Okay. But the possibility of FY12 order inflows being lower that this year is not there?

B. Prasada Rao No. I do not expect it because a number of projects are in the pipeline.

Atul Tiwari Okay. And any major orders for 4th Quarter of this year that you are bidding for or you have won and not announced, 4Q of FY11?

B. Prasada Rao If I have not announced, then I cannot announce.

Atul Tiwari Okay, thank you.

Moderator Thank you. The next question is from the line of Lokesh Garg from Kotak Securities, please go ahead.

Lokesh Garg Sir I wanted to ask you that over the past plan periods we have observed that the last year of the plan period typically has an accelerated revenue growth versus the prior years of the plan period possibly because of deadlines, pressure on clients also.

Would you expect something similar to happen this year or would you expect that this year would be more even and we should expect something like 18-20% growth rate that we have been seeing from the company since the last few quarters at least.

B. Prasada Rao I would not like to give any future guidance but then you have to infer. Normally 4th Quarter is definitely a quarter in which, as you said rightly, that clients will have pressures to achieve their targets and things like that. Naturally 4th Quarter is always a high growth quarter.

Lokesh Garg Actually I am not asking about quarterly, I am asking about FY12 being last year of the plan, would that lead to an accelerated revenue booking?

B. Prasada Rao See the projects as per the schedules they will happen. One cannot go beyond the scheduled because a number of inputs are to be ready for the project. Preponement slightly is possible but then preponement to a large extent may not be possible because they will have to get the land, they will have to construct, and then engineering inputs should be available for the design and equipment. So, it will go as per the schedule of the project.

Lokesh Garg Sure. Sir my next question relates to order booking again which has been asked before in the call also. I wanted to take your subjective perspective that at least the way we perceive it, some of the largest utilities in the country, just taking few names without having any value judgment on that, which is let us say Reliance Power, Adani, maybe Sterlite and all that, do not seem to be relying on BHEL as a vendor. Now does that worry you going forward because they seem to be going fine with their current vendors and it is unlikely that they will have too much of diversity in their equipment base because otherwise that will be difficult for them to maintain and all that.

B. Prasada Rao No there are other sides also you must see. As there are other vendors who are relying only on BHEL equipment and they are repeatedly coming back to BHEL. So this is something which one has to take a call on that. The customer Reliance, probably prefers the Chinese equipment because I do not know the kind of projects and the kind of commitments what they have made with Chinese. When they will get realized, I do not have any idea on that. But then I would restrict myself to comments I have on the customers who are coming with us and customers who are discussing with us now vis-à-vis Chinese equipment, about the performance, the lifetime costs they are considering and with all these things I am seeing an encouraging picture for us.

Lokesh Garg Sure, my last question actually relates to the fact that NTPC obviously has been a very credible and stable customer and are among the largest as well. Although it is an opportunity in the near term but incrementally if you see over the period of time NTPC orders are getting split up into mostly half-half with BHEL getting half and other people also getting other half. Now, does that worry you that other people are getting entry into this large customer of yours?

B. Prasada Rao Well, if you are referring to bulk tender, yeah, bulk tender is designed like that. BHEL cannot get 100% for the equipment in that. So, when the pie is becoming larger as long as you maintain your reasonable share in that it should not worry you because it will ensure the company growth as projected by the company. For example, for this planned period we projected our growth between 20% to 25% and I think we are achieving that. And similar growth is expected even from the 12th plan.

Lokesh Garg Sure thanks a lot sir. These are my questions.

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

Renu Baid Sir I have two small queries. One, I would like to have your views in terms of what is the shape on the strategic plan for the 12th Plan period, BHEL strategic plan for growth. So if you have a management sort of an input to share it would be beneficial for all the investors.

B. Prasada Rao No, it is too premature, we have not yet finalized this. We are discussing in the company and we have to finalize that. I will be able to share it with you sometime in the end of 1st Quarter.

Renu Baid Okay sir. And second thing with respect to the provisions if Mr. Sankaran can probably share with us the details of provisions done in the current quarter and how the balance has looked for the nine month period, contractual obligations and all that?

Sankaran Apart from normal provisioning only two provisions which I would like to share with you. One is provision for liquidated damages we have created close to ₹ 100 crores during the quarter. The other things are only normal.

Renu Baid And what would be the average in the overall closing balance for liquidation damages or warranty obligations as in total creation during the nine month period.

Sankaran Nine months period it is close to ₹ 244 crores.

Renu Baid Okay alright. Sir you have earlier mentioned that in the KPCL JV we have already booked orders for two units.

Sankaran Three units.

Renu Baid Okay three have been booked on that?

Sankaran Yeah

Renu Baid Okay, I think I missed on that number. That's it, most of my queries are already done. Thank you so much and all the best for the year to come.

Moderator Thank you. The next question is from the line of Harshad Shukla from KR Choksey Securities. Please go ahead.

Harshad Shukla Sir my question is on the material supplier. If you would be able to tell us who are your key material suppliers and you said that you have long-term contracts also. Can you quantify in terms of number of months what that long-term defines?

B. Prasada Rao Long-term is even up to 2 years. For example, with SAIL we have a long term MoU for 24 months. And the other suppliers, particularly the copper suppliers, the aluminum suppliers, we have with national companies agreements where we pick up at any point of time and staggered deliveries are accepted by them. So the basic raw material suppliers are all long-term suppliers.

Harshad Shukla Okay and the cost has already been locked up through these contracts?

B. Prasada Rao No, quarterly it is decided.

Harshad Shukla Okay. Sir, there is one more question on the NTPC bulk tendering. Sir do you think that 11 units 660 MW bulk-tendering would get delayed because of the court case filed by the Ansaldo to review its disqualification.

B. Prasada Rao No, they have already given a directive that price bids should be submitted after 3rd and NTPC has given a date of 4th February for price bid submission so they will open it on that day itself and they have sufficient time after that to finalize.

Harshad Shukla Okay, you mean that NTPC has reverted the disqualification of Ansaldo?

B. Prasada Rao You see, NTPC has been directed that they should not delay the bids beyond 3rd February and NTPC has already notified to us by 4th February, please submit your bids.

Harshad Shukla Okay, that's all from my side. Thank you for taking my questions sir.

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

Bhavin Vatlani Sir, I have three questions. First is on the raw material front. Is there any change in the product mix vis-à-vis higher proportion of products or lower proportion of EPC or is it due to some high margin projects being completed during the current quarter or is it a structural change where because of the efficiency is carried out by BHEL, which you highlighted earlier, so that your raw material cost would continue in this pattern?

B. Prasada Rao See going forward I cannot give you any guidance but then I can tell you that the mix on the contracts-wise EPC for the earlier quarter, and this quarter also, there is not much of change, EPC versus BTG projects. From earlier years if you consider maybe two years previously EPC content would have come down because earlier we have been doing more EPC contracts and now it has come down. Again it may go up because some of the contracts we are now taking are EPC jobs. But in the last two quarters there is no great change in the mix. And at any point of time in the contracts that are under execution there will be contracts with high margin, lower margin, medium margin, it is a mix of contracts. It is not just one or two contracts which would change this. Because across our units we are dealing with power generation, industry sector, and international sector contracts, all these will be a mix. So at any point of time an average of all that you can take.

Bhavin Vatlani But if you actually look at the raw material to sales for the current quarter it is much lower than the prior quarter average.

B. Prasada Rao Yeah that's true. So some of the initiatives plus some of the mix of these contracts could have related. But very difficult to pin point to that.

Bhavin Vatlani But you highlighted that material cost should be in the region of 59% to 60%?

B. Prasada Rao That's right. That was the last year average. Annually if you look at, these three quarters it is in that range.

Bhavin Vatlani So you imply to say that the current quarter's material cost to sales is not a trend to look at but from next quarter onwards it will revert back to 59% to 60%.

B. Prasada Rao I am not saying that, you are saying that.

Bhavin Vatlani Because you guided for the full year at 59% to 60%.

B. Prasada Rao That is what I am saying, 59% to 60% was last year average. You will have to see. I do not want to give any future guidance on this, particularly next quarter being the last quarter which adds to the annual. I would not like to and normally the company policy is not to give any future guidance.

Bhavin Vatlani Okay. Sir this number which you highlighted earlier 59% to 60% was last year and you have not given any indication for current year?

B. Prasada Rao Yes

Bhavin Vatlani Second if you can help me with the order inflows for Q3 and nine months because I missed that numbers.

B. Prasada Rao For nine months is about 8921 MW which is in the power segment alone.

Bhavin Vatlani In terms of power, industry and exports?

B. Prasada Rao See, in Q3 alone we received orders worth about ₹ 12,200 crores out of which power sector is ₹ 7,877 crores for 3300 MW, industry sector is ₹ 2735 crores for about 618 MW and ₹ 1980 crores which is about 692 MW for exports.

Bhavin Vatlani Same for the nine months sir?

B. Prasada Rao For nine months, power segment is 8921 MW about ₹ 28,127 crores, industry sector is ₹ 6924 crores about 1292 MW and international operations about 752 MW at ₹ 2148 crores.

Bhavin Vatlani Okay. So of the existing order book also if you can help break between power industry and exports and megawatts as well.

B. Prasada Rao I do not have that right now, you can contact Mr. Shankar later on, he will give it to you. I do not have the data readily with me.

Bhavin Vatlani Fair enough. And sir for the current quarter we may have also witnessed a certain inflation with respect to the DA. Would you believe that next year 15% odd increase in and absolute staff cost is a possibility?

B. Prasada Rao Very high you are saying.

Bhavin Vatlani 10% odd increase would be a fair enough assumption or 15% is a fair assumption for the next year?

B. Prasada Rao No, I do not think we will need to give you these kinds of things because whatever you fit into your model you fit in, but we should not give you these things.

Bhavin Vatlani Fair enough. One last question with respect to the industry and as you highlighted loads of measures have been taken by the company with respect to T&D. Now after the joint venture for the 765 kV ultra high voltage could we expect the current tenders which the PGCIL has placed, BHEL also could be one amongst the winners in the tenders or it will take a while before BHEL starts getting the order?

B. Prasada Rao No, we are already bidding jointly in these tenders with the joint venture partner.

Bhavin Vatlani Okay, so my understanding about this joint venture is the entire manufacturing will be by BHEL and the joint venture will hold the technology and design engineering? Is my understanding correct?

B. Prasada Rao That's right.

Bhavin Vatlani Thank you so much.

Moderator Thank you. The next question is from the line of Aditya Bharitia from CLSA. Please go ahead.

Aditya Bharitia Basically I wanted to get a sense of the impact of change in accounting policy on your profits.

B. Prasada Rao Yeah, we have said that on profit before tax level it is ₹ 88 crores and on PAT it is ₹ 60 crores.

Aditya Bharitia Why is it that more costs are getting booked this quarter because I would have thought that got booked on an actual basis, i.e., as and when they were incurred the costs were getting booked but revenues were booked on a percentage of completion method?

B. Prasada Rao I will request Mr. Sankaran to take this.

Sankaran This percentage completion is dependent on the estimated cost and actual cost. So any variation in any of these parameters will affect the cost also.

Aditya Bharitia Which is the parameter that got impacted?

Sankaran Both estimated cost to complete as well as the actual cost incurred both the things will get affected. So that will have an impact on the cost also.

Aditya Bharitia So basically earlier we were over estimating the estimated cost, is my understanding correct?

Sankaran Yeah, you are right.

Aditya Bharitia Okay fine. And other expenditure this quarter has increased sharply to around ₹ 790 crores. Is there any particular reason for that?

Sankaran This already we have clarified to an earlier question that provision ₹ 100 crores was created on account of certain LDs.

Aditya Bharitia Okay fine, thank you sir.

Moderator Thank you. The next question is from the line of Shashikiran from Standard Chartered. Please go ahead.

Shashikiran My question relates to your JV with Nuclear Power Corporation and Alstom. Can you let me know what is the status; there are some reports that there would be orders for some NPCL coming in but keeping the media reports aside, what is the nature of this JV and what are the products that you are looking at from this JV?

B. Prasada Rao Yeah, this JV is for catering to 700 MW turbo generator sets suitable for Nuclear Power Corporation. And this is for the reactor what they have developed for this. And this JV is going to be a marketing and technology JV. And the equipment manufacturing will be done at BHEL and some parts could come from Alstom for this.

Shashikiran Okay, so what is the timeframe?

B. Prasada Rao We are already talking to NPCL for two sets. Even while this JV is being formed they are also parallely taking up two sets. Probably they could finalize by end of this financial year when JV is under approval by government.

Shashikiran Okay. So have you already factored this in your order book?

B. Prasada Rao No, it is expected.

Shashikiran Okay. I mean your projections for this year or for the next year have you factored this already?

B. Prasada Rao Yes.

Shashikiran Okay and my second question might be the repetition. You had mentioned three major customers in this particular quarter who had ordered. One was India Bull and the other was Rayalaseema. Could you tell me which was the third one and the quantum order size.

B. Prasada Rao See both are India Bulls, Elena Power, Amravati and Nasik both are India Bulls and the third order is from APGENCO.

Shashikiran Okay. So the capacity for this Rayalaseema is catered in 10 units?

B. Prasada Rao 1X600

Shashikiran And what is the order size of all these three units?

B. Prasada Rao This 5X270 MW Nasik from India Bulls is ₹ 2875 crores and another 5X270 MW Amravati is ₹ 2883 crores and the 600 MW Rayalaseema is ₹ 1445 crores.

Shashikiran Okay. Fine sir thanks a lot.

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

Devang Patel Sir my first question was on staff agreement that we have. I heard you earlier said we have an agreement for 10 years. So could you just clarify that?

B. Prasada Rao That is right, it is for 10 years.

Devang Patel So how does the agreement work? We will not be making any provisions in the near term for the next round of increases then?

B. Prasada Rao That's right.

Devang Patel Okay. The other question was what kind of capacity are we scheduled to complete by this year and next year and do you think the capability of other BOP suppliers has deteriorated in any way in the last three months which may constrain your targets?

B. Prasada Rao First of all the capacity-wise we have said 15,000 MW was completed in March 2010. And going forward we are doing 20,000 MW by March 2012. For that all the equipment has been ordered and the equipment will start coming from somewhere in the beginning of next year and it will get commissioned progressively may be from December to March next year.

Devang Patel Sir my question was actually on what capacity will you be commissioning for utilities?

B. Prasada Rao See we have a target of doing around 10,000 MW this year. And as you said about BOP suppliers, in three months there is nothing like deterioration. In fact, during three months there are efforts to improve the BOP supplies.

Devang Patel Okay. Sir and next year could you give a sense of what capacity you would be commissioning?

B. Prasada Rao Our target is 12,000 MW which is given to us by the Ministry of Power.

Devang Patel Okay. Are we largely on track to do this?

B. Prasada Rao Yes we are largely on track subject to, of course inputs from the other agencies whenever it is required.

Devang Patel Okay. And sir lastly could we have the figure of net current assets and cash for the quarter ending?

B. Prasada Rao Just a minute I will ask Mr. Sankaran.

Sankaran See our net current asset is about ₹ 14,100 crores and within that the cash is close to ₹ 8,000 crores.

B. Prasada Rao Fine sir, thank you so much.

Moderator Thank you. The next question is from the line of Vinod Chari from RBS. Please go ahead.

Vinod Chari I had a question on competition. I guess one of the reasons why private IPPs are going to the Chinese vendor is probably easier Chinese financing. Now BHEL has also stated intentions of starting an NBFC.

B. Prasada Rao That's right.

Vinod Chari Could you tell me how significant is the Chinese financing angle for these IPPs to go to them and what is exactly BHEL's plan in terms of the NBFC to counter this?

B. Prasada Rao See NBFC is going to serve 2 to 3 purposes for us. One is that our cash which is available will start getting better returns and secondly, it will leverage for our own equipment sales. So already the consultant has worked on a draft report and given to us. The company is studying it we will probably discuss it in the board, we will take a decision by end of this financial year on this NBFC.

Vinod Chari On the Chinese financing, is one of the reasons BHEL is losing some of the private IPPs?

B. Prasada Rao I am not very sure about it. Only in recent times Reliance has gone and signed with some Chinese bank giving some financing packages but it is not the general trend. I have not seen that.

Vinod Chari Okay. Sir second question I had is on the bulk tendering. Now that you, BGR and L&T are shortlisted for the bulk tendering and the fact that BGR has been knocked out of both the Rajasthan projects, do you see a rather aggressive bidding coming in from some of these players for the bulk tender, now that the boiler price which are not yet submitted?

B. Prasada Rao People will be aggressive definitely. In a competitive bid aggressiveness will be there.

Vinod Chari Yeah, I guess anybody would want this kind of an order.

B. Prasada Rao Yeah! but then there are constrains. For example, in the case of BGR he has to get the equipment from Japan and Japanese Yen is always a disadvantage factor. So there are a number of factors which have to be taken into account.

Vinod Chari But we expect pricing to be more aggressive than the Rajasthan kind of pricing?

B. Prasada Rao I do not know, I cannot guess anything there.

Vinod Chari Okay sir, thanks a lot. All the best for the remaining part of the year.

Moderator Thank you. The next question is from the line of Sachin Trevedi from UTI Mutual Fund. Please go ahead.

Sachin Trevedi Although to some extent you have addressed on the commissioning front but some of the talks with the private IPPs the reason they place for not ordering on BHEL is that they say that BHEL does not have commissioning capacity. Although they will have the needed capacity on production side but commissioning they have very limited capacity. So generally wanted to know what are the steps that we have taken to ensure that, that has been addressed because it is also being said by them or their side that why the duty should not be imposed on the equipment side.

B. Prasada Rao Maybe I need to address those customers to elate that feeling. We have been catering to the commissioning. In commissioning there was never a problem and we are only adding resources. As I had said the need in commissioning is only manpower which is needed. And we are recruiting our own engineers; roughly about 1000 engineers every year. Last three years we have recruited 3000 engineers and going forward another 2000 engineers will be in place. In addition, I am going for horizontal recruitments so that experienced people are also coming into the company. So commissioning will not be a problem at all. Definitely I will address this with the customers and take your positive feedback on this. The other thing what you mentioned about is the duty. Duty yes, we have been taking up with the government. In fact, I had flagged this issue again with the new Minister who has taken over and I expect that they will seriously look at it during budget time.

Sachin Trevedi Sir and on the delivery schedule, if you can share with us what is that you have been offering to your customer for sub and super critical sets.

B. Prasada Rao See normally we try to meet whatever is the requirement. Otherwise generally for 500 MW sets it will take around between 36 to 39 months and 660 MW sets we have given from 42-44 months. So it depends upon the project progress at site and other things.

Sachin Trevedi Is it possible for us to further reduce this super critical delivery schedule?

B. Prasada Rao Yeah we are working towards the super critical but the thing is that project sites also take so much time to go ahead with the civil works and construction works. In fact in many places those inputs are not available. Our manufacturing capacity is geared up to meet that kind of delivery schedules.

Sachin Trevedi So one year down the line is it possible for us to offer 36 month delivery schedule for super critical sets?

B. Prasada Rao 36 months maybe aggressive but it may come down to about 39 or so.

Sachin Trevedi Okay. Sir other questions which I had was with respect to the gas based power plants. Just wanted to understand because the large orders, say from Reliance or Lanco, have gone directly to GE. So one is, what is our understanding probably with

GE and do we feel our ability to deliver is somewhere lacking or we need to do something more on the technology front?

B. Prasada Rao It is not like that. The agreement provides that they can directly address some of the private customers. So using that provision they have gone to them. We discussed that opportunity before. And in this segment they wanted to address directly so we have said okay. The agreement provides for that.

Sachin Trevedi To that extent we are at a disadvantage.

B. Prasada Rao No, we do not call it as a disadvantage because these kinds of give and takes will happen. Someone else would have taken. It's a give and take. You have to do it.

Sachin Trevedi Okay sir thanks a lot. Thank you for taking my questions.

B. Prasada Rao Thank you. Last question please.

Moderator Sure sir. Thank you. The last question is from the line of Mr. Kamlesh Kotak from Asian Markets. Please go ahead.

Kamlesh Kotak I wanted your view on two points. One is what is the outlook on the industrial order. Is it really happening on the ground level and if happening which sectors are showing the tractions?

B. Prasada Rao In our industry segment as you know, consists of the CPP segment first. In CPP segment the units sizes are increasing. More and more they are going towards bigger size sets. People who have been earlier taking 60 MW are moving to 150 MW sets. People who have been taking 150 MW sets are moving towards 270 MW. I am seeing a gradual shift towards bigger size sets. So that is the trend in the CPP segment and on the other equipment front, like compressors or motors or transformers going to industry, the trend is continuing. There is a good market. Market growth is there. The requirements are there. Now coming to other segments in transmission side also things are happening. The high voltage transmission segment is also happening beyond 765 KV and above and the third segment is transportation. I expect transportation is going to be another major growth area. And BHEL is well placed in transportation and we have been in dialogue with railways and recently we have also received a major order for the IGBT based inverter systems which we have developed on our own. So transportation definitely is a major growth area for the country as well as for the company. And renewable is again picking up now. This is another area and renewable solar PV projects are getting finalized and we are now addressing the solar thermal segment with the agreement what we have now signed in Solar. Going forward in another one or two years it is going to become a major segment of business.

Kamlesh Kotak So the CPP orders are coming from which industries particularly?

B. Prasada Rao CPP orders are coming from various customers, like sugar plants. Some of the private steel producers like Bhushan Steel are also coming up. And there are some players who are becoming IPPs. They do not want to be in CPP segment. So there are also small IPPs with 2X150 MW or 2X270 MW plants.

Kamlesh Kotak And lastly regarding our JV for BOP with NTPC. When are you seeing the NTPC tendering for BOP is happening and how are we positioned to capitalize on that in terms of the orders that is going to come in?

B. Prasada Rao We are already giving some orders on nomination basis to this company just to initially pop-up. So NTPC is also doing that for NBPPL. They have announced which they are going to give and they have actually geared up for that. So the joint venture is also trying to put in collaboration for manufacturing some of these BOP equipments. They have started the construction activity at the plant coming up at Mannavaram and I expect in about two years time this will be totally operational.

Kamlesh Kotak So the next round of orders which will come from NTPC following this BTG tendering which will happen, when do you see that actually announced by NTPC?

B. Prasada Rao BOP portion of this 660 MW bulk tender?

Kamlesh Kotak Yes sir.

B. Prasada Rao Yeah that should happen immediately otherwise the projects will not happen. They have to match the project schedules. BOP tenders also have to happen immediately.

Kamlesh Kotak Alright sir. Okay, thank you very much sir.

Moderator Thank you. Ladies and gentlemen that was the last question. I would like to hand the conference over to Mr. Lakshminarayan Ganti for closing comments.

Lakshminarayan Ganti Let me thank Mr. B. Prasada Rao and his senior management team of BHEL for coming on this call and answering all our questions. On behalf of everyone, wish you all the very best sir, for the future and thank you all participants.

B. Prasada Rao Thank you Mr. Ganti and all the participants.

Moderator Thank you. Ladies and gentlemen on behalf of BNP Paribas Securities India that concludes the conference. Thank you for joining us. You may now disconnect your lines. Thank you.