



“BHEL 1QFY12 Post Results Conference Call”

July 26, 2011

Management Representative

Mr. B. Prasada Rao, Chairman & Managing Director, BHEL

Mr. P.K. Bajpai, Director Finance, BHEL

Mr. O.P. Bhutani, Director of Engineering, Research and Development, BHEL

B&K Representative & Moderator

Ms. Renu Baid, Vice President - Research



Moderator: Ladies and gentlemen good day and welcome to the BHEL Q1 FY12 post results conference call hosted by Batlivala & Karani Securities. As a reminder for the duration of this conference 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. Should you need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Ms. Renu Baid, Vice President Research at Batlivala & Karani Securities. Thank you and over to you.

Renu Baid: Thank you Melissa. Good evening everyone. On behalf of B&K Securities, I would like to welcome Mr. B.P. Rao, Chairman and Managing Director BHEL, Mr. P.K. Bajpai, Director Finance and Mr. W.V.K. Krishna Shankar, Executive Director, Planning and Development for the Q1FY12 post results conference call. I would like to congratulate Mr. Rao and the management of BHEL for managing a reasonably good performance despite challenging and tough business environment. With these words, I would like to invite Mr. B.P. Rao to begin the discussion with the key highlights of the quarter followed by Q&A session. Sir, thank you so much.

B.P. Rao: Thank you. I am B.P. Rao, CMD BHEL. I have with me Mr. O.P. Bhutani, Director of Engineering, Research and Development and Mr. P.K. Bajpai, Director Finance in addition to Mr. Krishna Shankar, Executive Director Corporate Planning and also Mr. D. Sankaran, General Manager Finance and Mr. Prakash, General Manger Coordination. India's industrial production recorded a 5.6% growth during May 2011 due to poor performance by Mining and Manufacturing sector. Core Industrial sector recorded a growth of 5.3% attributed to better performance from Crude, Electricity and Fertilizer sector. Cement, Steel, Refinery products and Natural Gas sectors saw a drop in production growth. Capital Goods sector growth dipped to 5.9% from 7.3% in Apr 2011.

There are serious concerns on India's growth momentum. Rising cost of capital, commodity prices and governance issues are preventing investors from huge investments particularly in infrastructure sector. However, even in such scenario, I expect country to grow at least 8% in the current financial year. Driven by huge capacity additions and strong order backlog, production of capital goods is expected to grow at a healthy pace in FY12.

Power sector is also plagued with sector specific issues like coal linkages, losses of state utilities and land issues. I firmly believe that all these issues are short term in nature, and government is fully aware about their sensitivity to the India's growth story. We have started seeing initiatives from government to resolve them. The recent resolution by the Power Ministry to cut distribution losses during State Power Ministers' meeting is a positive move. I am expecting resolution of coal linkages issue also very soon.

The prevailing business environment has had its impact on our order receipts also during the first quarter of FY 2011-12. We have letters of intent in hand for around 1500 to 2000 megawatts of



orders but due to lack of customer advances, we are not reporting them as firm orders. In industry sector we booked orders worth about ₹ 2190 Crores corresponding to 544 megawatts. Major orders from the industry sector are the ONGC Petro Additions, OPAL, a 4x6 frame GT combined cycle project worth about ₹ 930 Crores. The first order for the 280 TPH CFBC boiler from Kohinoor Power. The 76-megawatt STG, steam turbine generator set from Bellary for JSW steels, Punjab State Transmission Corporation Limited's 20 numbers 100 MVA transformers worth about 100 Crores and 85 sets of 25 kilowatts ACMU electrics worth about 125 Crores and 5 megawatts solar PV project for Karnataka worth about 65 Crores.

Total order book during the first quarter was about ₹ 2471 Crores. We are confident of improvement as we have a strong visibility of orders. Once NTPC receives a clearance from the Honorable Supreme Court, the boiler orders for the 11x660 megawatt, NTPC, DVC bulk tender would be decided. Technical discussions have also been completed on the 9x800 megawatt NTPC bulk order and we expect this to be finalized by the end of the third quarter. Issue of coal linkages for the 2x660 megawatt Rajasthan order has been resolved. We are as you know the lowest bidder here. Overall we are comfortable with our order inflow prospects.

On execution front, we continue to enhance pace. During the quarter, we commissioned 1275 MW of projects. 2250 MW of projects have been synchronized and are waiting for capacity addition.

I am also glad to share with you that BHEL has been ranked the ninth most innovative company in the world out of 100 companies by the renowned US Business Magazine Forbes. Significantly, BHEL is the only Indian engineering company on the list in the first 10 and is ranked much higher than the similar multinational companies in the power equipment field.

Now I am very happy to share with you the financial results for the first quarter. The turnover for the first quarter of 2011-12 is ₹ 7431 Crores against ₹ 6753 Crores during the last year's first quarter, a 10% increase. The turnover could have been further higher by about ₹ 600 to ₹ 700 Crores but for problems of port clearances. Due to introduction of the new system for clearance of goods at ports like Mumbai cargo port and JNPT container port, the ports were closed for almost six weeks. Because of this some of the imported components from our collaborators got delayed. There was also non-rating of some projects where customer inputs were to be given to us and the clearances did not come in time. In the export projects, the vessels could not be placed in time. However, all the issues are behind us now. The profit before tax for the first quarter for 2011-12 is placed at ₹ 1182 Crores, an 18.5% year-over-year growth. Profit after tax for first quarter 2011-2012 is placed at ₹ 816 Crores against ₹ 668 Crores during the first quarter of 2010-2011, a 22% increase. I thank you all once again for joining in this conference call. We will take the questions now.

Moderator:

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



Venugopal Gare: In your opening remarks you mentioned about some issues with respect to deliveries etc., is that the reason why the sales growth in this quarter at about 10% is much lower than what we used to report in the past several quarters?

B.P. Rao: Here I would like to explain our position. In companies like ours, the lead-time of the product is much higher and runs for more than 12 months, some time some products go up to even 24 months. Quarter-to-quarter, as I have been always mentioned in my conferences, is slightly an aberration. It will not give you a correct picture. However, if you see at the Jawaharlal Nehru Port was closed for introduction of new systems for about six weeks. There was no clearance for any consignments and our bought-out items and imports were stuck in that process. Similarly because of a ship not getting placed in time, the equipment went after the 30th of June. Hence, we could not take that in the first quarter turnover, whereas all the work has been done. So similarly there are issues like some of the imported components from our collaborators didn't arrive on time and they have come in the first week of July. So these are all aberrations. You must not look at quarter to quarter. This I have been requesting all of you when you analyze because we are not a process industry where time is directly proportional to the output, and it is not so here. The entire product could have been manufactured but then just for one small activity not happening, it could not have been dispatched. So these kinds of issues will come up because the entire turnover will come in one lump on the particular day when that thing gets dispatched, whereas the work is done for the entire period, so these aberrations are there in this kind of industry. I think you will have to understand and then go as per that.

Venugopal Gare: Secondly, a very small question on the other income side. There is a substantial increase in this quarter, y-o-y increase of ₹ 80 to ₹ 90 Crores odd, is it more because of interest rates slowing up and you getting much higher rates in your balance?

B.P. Rao: That is right.

Venugopal Gare: There is no one-off per se in this other income.

B.P. Rao: No.

Venugopal Gare: Sir, if I would just lastly ask one question with respect to your joint ventures with various state utilities. Wanted to understand firstly, which of these you expect to convert to orders this year depending on the progress of those MOUs and JVs and secondly, within that I wanted to ask that from a balance sheet point of view, how many more MOUs and JVs potentially that you could sign or do you think what you have on plate is more than enough for the next few years?

B.P. Rao: First of all for your first question, I expect that Udangudi will come up. As you know that in Karnataka we have already signed JV, order has been placed, financing has been tied-up and the order is under execution. So there is no issue on that. Now JV with Tamil Nadu, Udangudi Power Corporation is in the advance stage. This year I expect that the order will be finalized by third quarter or fourth quarter. In addition to that we have two more joint ventures particularly for the power plants; one is in Latur and another is in MP. These two could take some time. Right now



in Latur, the land acquisition process is going on and in MP for Dada Dhuniwale project, we are now trying to induct a strategic partner and once this process is complete then we will go ahead aggressively on that. We have two more joint ventures and we have plans to go ahead and sign some more joint ventures. We are actively discussing with Orissa, AP, Government of Tripura and I expect out of these opportunities at least two of three will happen this year.

Moderator: The next question is from the line of Venkatesh Balasubramaniam from Citi Investment Research. Please go ahead.

Venkatesh: You mentioned your total order booking in this quarter was ₹ 2471 Crores and out of that around ₹ 2190 Crores were the industry orders, so the remaining are basically the international orders?

B.P. Rao: They are some small orders from power sector.

Venkatesh: After your full year results are over and we had read some press interviews, where you had mentioned that there is a possibility that you could grow your order inflows this year by around 10% vis-à-vis last year. Now given that we understand that the order inflows are lumpy in nature but given that the first quarter has been weak and now you have had another 50 basis point RBI rate hike, outlook on coal does not look too good and there are problems in the infrastructure sector as you said, do you think there is a possibility that we could actually end up the order inflows for the full year actually de-growing by 10%.

B.P. Rao: It is very difficult to say. I will tell you our order pipeline as I mentioned in my opening remarks. First quarter itself we had about almost 2000 megawatt in our hand as letters of intent. We did not take some orders because the advance is yet to come. Unless the advance comes the order does not get confirmed and we also do not start work on those projects. We have a very big pipeline of orders and in fact roughly 9000 megawatts are in the advanced stages. Last mile activities are getting over with respect to coal linkages and financial closures. Now they are all waiting for the meeting of EGOM to happen for some of these allocations to happen. But the meeting is repeatedly getting postponed. So at this point of time I am still hopeful about the guidance which I gave in last quarter results. I am still hopeful that we would be able to maintain, provided we are able to get out of this situation in a reasonable period may be within three to four months time. Now it is beyond me to guess when it is going to happen.

Venkatesh: Sir just related to the same question you also mentioned about this one of the Rajasthan orders getting a coal linkage, that was Suratgarh and Chhabra, now are you expecting one of those orders in the near term like in very soon?

B.P. Rao: Yes, that is right.

Venkatesh: Are you still expecting both orders to go to you, or one will go to BGR?

B.P. Rao: Naturally, I expect both of the orders because in both I am L1.



- Venkatesh:** Sir my second question is, usually after the end of the year you sign an MOU with the Ministry of Heavy Industries, where you have a base level and an excellent level sales target. Now usually those numbers are put up on your website but this time around it has not been put up, so can you please share that base level and excellent level targets for the current year for sales?
- B.P. Rao:** If I remember correctly it is about ₹ 45,000 Crores topline at the excellent level. Small difference will be there, baseline will not be much different.
- Venkatesh:** You are expecting to achieve something like ₹ 50,000 Crores right Sir?
- B.P. Rao:** Yes, definitely I am still focused on that and I still expect that we will be able to meet that kind of projection at the end of the year.
- Venkatesh:** Your capital employed for the company has gone up slightly. If you see over the last two to three years the receivable days have been inching up from say 200 days to 210, last year it was 240 days, do you once again have some amount of receivables buildup in this particular quarter?
- B.P. Rao:** One reason probably could be that because our major orders have not come from the power sector in the first quarter so, there could not have been an advance in that. That could be one reason for the net capital employed to increase but then I will request Mr. Bajpai to clarify that point.
- P.K. Bajpai:** Since we did not have adequate as expected order inflow, there is some shortfall in our advances. So the liability side has reduced and our execution of projects is continuing. So we have debtors at a level where we were and advances have come down. That has lead to a small increase in this quarter.
- Venkatesh:** What do you expect your wage bill to be this year. I was asking because in the first quarter it has gone down on a yoy basis, now your wage bill, how much do you expect it to be this year?
- P.K. Bajpai:** Wage bill year to year will be 3% more. Plus we are adding about 3000 people. So year-to-year there will be an impact of 3 plus.
- Venkatesh:** Last year Sir, your total staff cost was around ₹ 5400 Crores.
- P.K. Bajpai:** We hope ₹ 6000 crores approximately is what it is going to be.
- Moderator:** The next question is from the line of Aditya Bhartia from CLSA. Please go ahead.
- Aditya Bhartia:** Good evening Sir. Another question on the employee cost. Given that employee cost were down sharply this quarter has there been any provision write back, gratuity provisions being written back or something of that kind?
- B.P. Rao:** You are comparing with respect to the first quarter of the last year?



- Aditya Bhartia:** Yes, first quarter last year.
- B.P. Rao:** Compared to last year to this quarter, last year there was one particular one-time payment, that is not there this time.
- Aditya Bhartia:** Sir you mean to say first quarter last year, you had a one-time payment . You were contemplating setting up NBFC, what is the progress on that front and if you could help us understand the rationale once again?
- B. P. Rao:** NBFC is basically from the point of view of the deploying our extra cash resources to get more returns and also at the same time leverage that to get more business for the company. That was the objective in going for NBFC. We have appointed a consultant and we have discussed twice at the board level and board has taken a view that we will wait for a few more months for this, before we formally go ahead and launch it.
- Aditya Bhartia:** On the macro level, over the last couple of years, we have seen 20 to 25 gigawatts of order placements in the industry. With the coal shortages, do you think our capacity additions in India could slowdown a bit?
- B. P. Rao:** Well I feel that all these problems of coal shortage and environmental clearance are short-term in nature. If we all believe that India has to grow at 8 to 9% GDP, power cannot be left behind, it has to happen. Power generation has to go up by nearly 7 to 8%, taking the elasticity factor as 0.9. Therefore power capacity additions have to happen. If you are revising the GDP growth downwards to a large extent then that could affect the power capacity additions. Therefore all these issues which are coming in our way, the land, the environment and the coal, I feel they are only temporary and the government is very serious about sorting out those issues. Number of representations have gone to the government, the investments have come down, so they are also seeing the problem and I am sure that there will be some solution at the end of the day.
- Moderator:** The next question is from the line of Abhishek Puri from Deutsche Equities. Please go ahead.
- Abhishek Puri:** Most of the questions are answered, just two of them, one on industrial side, we have seen the profitability going up at 93%, whereas the topline has increased by 98%, so is there any one off project execution or some good margin projects which have been executed?
- B. P. Rao:** The second point is right, what you mentioned, that is why quarter-to-quarter comparison I feel it is an aberration for long cycle projects like ours. Good margin projects have definitely happened, we have also gone into details of it and we found that there are projects of good margins. Most of their turnover has come in the first quarter that is the reason for slightly higher profitability which the industry sector is showing. The second reason is that industry sector customers are moving for higher rating sets like 250 megawatts. It is now the order of the day for industry sector customers to order minimum 150 to 250 MW. We have also moved in their line. So those products definitely have a better margin. Competition is less, so there are better margins for us also.



- Abhishek Puri:** If I understood correctly this is again for the power generation equipment only?
- B. P. Rao:** Naturally CPP segment.
- Abhishek Puri:** Secondly we read in the newspapers, Karnataka has stopped many of their state projects because of lack of coal linkages; Bellary plant and one of the other projects have been put on hold at this point in time. Are we booking any revenues currently?
- B. P. Rao:** No project from Karnataka is on hold with us.
- Abhishek Puri:** This is as per media reports only.
- B. P. Rao:** No, they might be having coal availability problems for the existing power plants, but the new projects they have never put any hold on that. They are executing.
- Abhishek Puri:** Lastly on JVs that we have done like Forgemasters and any progress on them?
- B. P. Rao:** Forgemasters is a technology collaboration agreement basically. That is for our CFFP plant and definitely the technology is coming and we are implementing the new processes and there is a better recovery rate in our foundry forge plant. We also need investments in a big way in CFFP to catch up with the higher size forgings.
- Abhishek Puri:** One of the interesting points that you have made in your initial comments that the collaborator actually delayed imported equipment supply. Are we seeing that our collaborators are having higher bookings at this point in time or is it because of some transportation issues?
- B. P. Rao:** Not because of lack of capacity or anything. Basically they wait for sufficient volume to supply. This is a delay by about a few weeks. There is no capacity issue.
- Moderator:** The next question is from the line of Madanagopal Ramu from Sundaram Mutual Fund. Please go ahead.
- Madanagopal:** The first question; you mentioned 9000 megawatt of project is in advance stages and waiting for the clearances and all, you are including in this NTPC in Rajasthan order?
- B. P. Rao:** Of course.
- Madanagopal:** Is there any other projects other than these which are in the advanced stages waiting for coal linkage or something which we might be discussing with the developer?
- B. P. Rao:** There are number of projects from DB power, VISA Power and Tatas.
- Madanagopal:** If you can quantify it, you are having another 10,000 megawatt?



B. P. Rao: In Singrauli there is a project of 2x600 MW, there are similar projects which total to about 9000 megawatts.

Madanagopal: So another 9000 megawatt pipeline is there?

B. P. Rao: We have finalized everything with the customers. They are waiting for completion of various requirements like coal linkage and after that they have to go for financial closure.

Madanagopal: Sorry if I am repeating, the power margins have come at 16.5% is it due to only lower execution or higher depreciation which has lead to this kind of lower PBIT margin?

B. P. Rao: It is only the mix of contracts which have happened in the quarter that is all.

Madanagopal: So you expect the margins to go up?

B. P. Rao: Usual margins will be there, whatever you have been seeing earlier.

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

Bhavin Vithlani: Good evening Sir. Apart from the power could you help us more on the spares and services business? What proportion does it contribute and what is your outlook on the same. Secondly we hear from the transmission and distribution equipment manufacturers, may be order flow for the current year is likely to look up significantly. If you can throw more light on that and what proportion of your business has been T&D and what can it likely become over the next couple of years given the uptake in the business segment. And third question is on the NTPC bulk tenders of 800 megawatt, wherein there was a media article where NTPC has claimed that because of the issues with respect to coal linkages, these orders can be postponed to next year. Could you throw more light on these issues?

B. P. Rao: On the bulk tender as far as we know NTPC has not said anything about the coal linkage problem. Probably the environmental clearances could be an issue for some of the projects in Raghunathpur for 660 megawatt TG. Environmental clearance is expected any time. Otherwise they have not told us anything about the 800 megawatt sets.

About your second question, the revenue from Power Sector which includes spares and services roughly, varies between 20-25% of our total revenues. Now in that there is a big segment also called R&M, Renovation and Modernization. In R&M segment, I am seeing that going forward the projects may or may not happen because of the kind of issues involved. In R&M, because of the uncertainties involved in bringing back the machine to rated capacity there is no point in attacking only the boiler turbine and generator. You also have to attack the entire balance of plant and entire project then only the desired output will come. But this way the cost economics may not work. So R&M segment could be a bit subdued going forward but spares and services business as population of our machines is going up and we expect to maintain the kind of revenues what others had said as mentioned by you.



- Bhavin Vithlani:** Could you break this spares and R&M into different parts, it can help.
- B. P. Rao:** It could be about 10% from R&M.
- Bhavin Vithlani:** And the last question was on the transmission distribution equipment?
- B. P. Rao:** In Transmission & Distribution, we are not in the distribution segment. Of course, we are in the sub-transmission segment along with transmission segment with transformers and switchgear products above 220 KV. As you know that we have increased our capacities to 45,000 MVA at both our Jhansi plant and the Bhopal plant. We have also signed MOU with Toshiba for forming JVC for catering to the higher voltages 765 KV and beyond. Parallely we are also working on our own developments. In terms of switchgears, GIS and transformers through this joint venture which we expect to put in place by this year we will be able to address the entire higher voltage transmission segment 765 KV and above, not only for the Indian market but the entire global market. So that is the kind of scenario. Yes, what you said is right that the transmission market is looking up since it has been persistently lagging behind. Currently numbers of projects are happening. As you know recently, we had got the HVDC project, North East Agra. This is a major 6000 megawatts transmission project. Similarly now we expect the 1200 KV. Where number of 1200 KV equipments are there. So the grid would also get upgraded to 1200 KV grid and again India is going to probably lead the world in forming that kind of a grid. So transmission side, yes the business prospects are really looking up.
- Bhavin Vithlani:** Could you tell us the proportion contribution from transmission business currently? What do you expect it could be over the next three to four years?
- B. P. Rao:** Today it contributes to about 5 to 6% of the total revenues in the company and going forward, as you know the company is finalizing a strategic plan and by October and November we will be able to give you a more concrete picture on what are the kind of plans the company has in transmission, what kind of revenues we can expect.
- Moderator:** Thank you. The next question is from the line of Dharendra Tiwari from Motilal Oswal Securities. Please go ahead.
- Dharendra Tiwari:** Just two, three small questions, one is progress on 15 to 20 gigawatt capacity expansion? Number two, what is the target for commissioning capacity in FY12 and if you could tell us any major development in the railway segment?
- B. P. Rao:** The 15,000 to 20,000 megawatt capacity expansion plan is on target. We are going ahead and by March 2012, we can expect to complete that. Now the other thing is commissioning target for this year is 12,000 megawatts from BHEL side and out of that we have already done about 1275 MW capacity addition and another 2250 megawatt has been synchronized by us and kept ready for capacity addition. As and when the inputs from the others are available that will also get added. On the railway transportation business segment, still the decisions are not happening on the railway factories. What we have put in place with respect to Dankuni factory is an agreement



with Alstom. We are waiting for the government to announce the date for bid submission and we are ready to submit a bid. Similarly at the Bihar factory for diesel electric locomotive, we are ready here also. We have put in place all the details with the GE and as you know we are jointly quoting with GE in this. Meanwhile for the traditional locos which we are doing in our own plant at Jhansi, we are increasing the capacity from a level of about 50 to 75 immediately and later on we want to further take it up to 100. As you know the railways have named BHEL as their potential source in their vision document and that they would like to source up to 200 locomotives per year by 2020.

Moderator: The next question is from the line of Pankaj Sharma from UBS Securities. Please go ahead.

Pankaj Sharma: Once you achieve that 20,000 megawatt capacity target, what is the steady state delivery you are expecting in megawatt terms? What kind of capacity utilization you expect for new sets and what kind of capacity utilization for R&M and its spares?

B. P. Rao: These capacities are all interchangeable. There is nothing specially required for R&M separately or a new set separately. Same machines will work either for the new set or for R&M. Depending on the orders what we have, we will utilize the facilities accordingly, even between thermal, hydro, gas and nuclear, we can exchange these facilities without any problems. They are all basically machines, though we have earmarked the capacity like 2500 for hydro and about 12,000 for thermal and gas together and for smaller sets another 2000 megawatts and gas turbines another 200 MW. Like that we have demarcated the capacity but then all these capacities could be interchangeably used, depending upon what is the market requirement.

Pankaj Sharma: I understand that fully because you can depending on the kind of orders you have, you would change this, but as you said that 20-25% contribution comes from your spares and R&M, do you think that as you are seeing this R&M could decline in future, do you think that the new sets delivery would increase and your R&M and spares contribution would come down?

B. P. Rao: Spares will definitely keep on increasing as the population of the machine is going up. Now in case of R&M, basically the project viability will have to be carefully seen by the customers. We need to look at the kind of money what customers are spending and the kind of power they are going to get out of it. Whether they go for R&M or not but the potential for R&M is really good because at least 30,000 megawatt of our plants are above 30-35 years old. So when the new capacities are becoming difficult to come up and land acquisitions are becoming a problem, they will definitely try to maximize the use of facility and make the equipment work solely through R&M. So, I expect the kind of business profile what we are maintaining today on R&M, we could continue to maintain.

Pankaj Sharma: Just one last thing, there is a small decline in the tax rate this quarter, any specific reason for that?

P.K. Bajpai: This quarter we have section 35 (2) AB ₹ 51 Crores credit for R&D expenditure that has given us a leverage in tax.



- P.K. Bajpai:** 51 Crores is tax expense under section 35 2 (AB), that is the advantage.
- Moderator:** The next question is from the line of Abhishek Bhandari from Macquarie Securities. Please go ahead.
- Abhishek Bhandari:** I just have one question, is there any update on your FPO?
- P.K. Bajpai:** As far as FPO is concerned Department of Disinvestment is the lead agency. They are steering the process, they have a plan which is sometime in October end or earlier. We are gearing up for it. Appointment of BRLM and legal counsels is through. DRHP is the route that we will follow. We are in synch with DOD. If everything is in place, it should come by the end of October or middle of November. That is the timeline they have right now.
- Moderator:** Thank you. The next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.
- Sandeep Tulsian:** We have read in some newspapers, that we have introduced Usance LC for IPPs, wherein we are giving them a grace period for payment. I think we have relaxed the payment term for the private power play developers. Could you just elaborate a little more on what are the payment terms for this Usance letter of credit?
- BP Rao:** I do not think that impression is right, but Mr Bajpai will explain that. We have not relaxed anything from company's side.
- P.K. Bajpai:** There are some customers who have trusted BHEL. They have gone out of the way to switch over from Chinese, they came to us. We needed some kind of an accommodation to adjust with them within their constraints for financial closure and these are one of the adjustments we have done. We also give them options for direct payment or Usance LC.
- Sandeep Tulsian:** Secondly sir the hearing for the NTPC case with Gammon Ansaldo was scheduled to start from July 20, so do we have any update on the same?
- BP Rao:** Actually two days ago it was scheduled for but then probably they could not take up in the sequence of cases before the court. I am not very sure what has happened yesterday.
- Sandeep Tulsian:** Last year just want to know, what is our CapEx started for the current year?
- O.P. Bhutani:** CapEx for the current year is about Rs 1200 Crores.
- Moderator:** Thank you. The next question is from the line of Viral Shah from PUG Securities. Please go ahead.
- Viral Shah:** Basically a lot of these state MOUs that we are closely working with these orders, you are saying will finalize in this year right. On the other hand when we meet Coal India they say, there was shortage of track to supply coal. So, one question is that with lack of coal availability, gas



availability, how do you think these power plants will come up on time? The second factor is the by the time these plants do start coming up considering that your execution cycle is almost 36 months, we will be landing into 2014 whereby most of the other manufactures like L&T, Thermax, Hitachi, BGR would be ready with their domestic manufacturing capacities, plus the elections would be on for the existing government. So a lot of the decision-making gets delayed by six months, so how do you plan your next three to four years strategy for growth?

BP Rao: See the next three to four years strategy does not come from those orders, which are going to be booked later. It will come from the existing orders. Our order book today is about 1,60,000 Crores approximately and the orders will be received this year and next to next year. The growth will come from them because the turnover cycle is almost three years, but your specific question on the coal linkage is for the joint venture project. It is the same for any other projects. But here state governments are interested in the project because we are helping them to setup these plants and many times state governments reallocate from the already allocated sources for their hub. For example if you take Karnataka, it has been able to reallocate whatever has been in the allocation they have got and they found surpluses are available and from there they allocated the coal for these projects. Similarly you know, these projects have to also to apply for coal linkages as any other project, and whatever happens to other projects, will happen to these projects also.

Viral Shah: So which means that if other projects are getting delayed, even these projects could get potentially get delayed?

BP Rao: If you heard me earlier that if you all believe that India has to grow at 8% to 9% per annum; power sector has to grow at 7% to 8% per annum. If you all believe that India cannot grow at 8%-9% per GDP, you want to revise it downwards then you also need to revise power sector downwards. If that is so, if you need that process to go, then one has to put in place all these mechanisms, which are today in a confusion that coal linkages, environment clearances, land approvals etc. All that facts we have to put together and I am sure that government is definitely looking at these things and they will come out with proper policy guidelines for this. If that happens only then this power sector has a future otherwise it will be in the same way as it was doing five-six years back.

Viral Shah: Sir in one of the interviews in the earlier part of this year, you were saying that we are looking at a 10% growth in your order book in FY12, would you still hold the same stand?

BP Rao: I have answered the question already, I am still holding on to that guidelines because I mentioned that I have about 9000 Megawatts in the pipeline which is in the last stage and beyond that also we have a bigger pipeline and if these issues are sorted out in a reasonable period of time, yes I am still looking at that kind of figure.

Viral Shah: This includes or does not include the NTPC bulk tenders?

BP Rao: Of course it includes.



- Moderator:** Thank you. The next question is from the line of Prashant Jain from HDFC Asset Management. Please go ahead.
- Prashant Jain** Just wanted to know the status of NTPC BHEL JV, is there any change in the business plan of this JV?
- BP Rao:** There is no change in the business plan. We have put a new MD there now. It is going in the phase one as planned with the balance of plant equipments. We have already put in place two collaboration agreements, one for coal handling plant with a company called DMW USA and for ash handling plant with a company called UCC (United Conveyor Corporation) for ash handling systems. The construction activities are on at Mannavaram site and we are on course now.
- Prashant Jain** In terms of order inflows, how is it sir for that JV?
- BP Rao:** There are already three projects they are doing, one is the Namrup project and the OTPC gas turbine project they are doing and recently we are doing the order for Monarchack Neepco order for the balance of plant equipment. So three orders they are executing today. Financially all of this will be put at around Rs 500 Crores or so.
- Prashant Jain** When will they start bidding for the EPC project Sir?
- BP Rao:** They are ready to bid any time. They have already bid for the EPC project of NTPC. They are recruiting manpower also.
- Prashant Jain** So in the EPC, BHEL will be the supplier for BTG?
- BP Rao:** Yes.
- Moderator:** Thank you. The next question is from the line of Sagar Tanna from Kotak. Please go ahead.
- Sagar Tanna:** Do you see any project deferment by any of your existing customer or has any of the project being put on hold in recent times?
- BP Rao:** There will always such projects. During last 30 years there were projects where customer orders and due to some problem or the other, projects do go on hold. And there are such projects now also but all these things are manageable because the reservoir of orders is big with us. So if one project is not coming through, the other project we will quickly plan and see that in our growth is not affected.
- Sagar Tanna:** Do you see any increase in projects being deferred or put on hold?
- BP Rao:** These kinds of the holds are almost at the same level. They were there earlier and they are now also and almost at the same level.



- Sagar Tanna:** Sir my second question is you answered about capacity expansion to 20000 Megawatt, do you have any plans to increase the capacity to 25000 Megawatts?
- BP Rao:** Right now we do not have any plan.
- Sagar Tanna:** What would prompt you to increase capacity?
- BP Rao:** All these problems are at the back and the plant sizes are increased to good numbers, to justify the 25000 MW.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Emkay Global Financial Services Limited. Please go ahead.
- Moderator:** Thank you. The next question is from the line of Nidhi Agrawal from Sharekhan. Please go ahead.
- Nidhi Agrawal:** Just if you can share the broad working capital numbers, debtors, inventory and creditors?
- P.K. Bajpai:** Debtors are about ₹ 30,500 and the inventory is ₹ 11,850 and the working capital is ₹ 14,200.
- Nidhi Agrawal:** Sir this increase in stock is mainly on an account of this delay in the report and any other reserves or this there any one of item in this quarter?
- P.K. Bajpai:** See one is the creditors inflow of orders. Second is most of our projects are in the final stages of the closure, so debtors in terms of not due, that is, deferred tax have increased. Inventory is in the normal course for the growth.
- Moderator:** Thank you. The next question is from the line of Parthiv Patel from Premji Investments. Please go ahead.
- Parthiv Patel:** Sir, I just wanted to know the credible breakup in terms of the supercritical and the subcritical segment?
- BP Rao:** In financial terms I can only give you that. There are 14 sets supercritical we have today, both SG and PG packages and the others of course. I cannot give you the numbers.
- Parthiv Patel:** I also want to know the outlook on the supercritical excluding the outside NTPC?
- BP Rao:** Customers go for supercritical now because if you look at coal linkage, the coal linkage formula gives more weightage for the supercritical technology. So more and more customers will go towards supercritical.
- Moderator:** Thank you. The next question is from the line of Aditya Bhartia from CLSA. Please go ahead.



- Aditya Bhartia:** Just a follow up question, other expenditure this quarter had gone up sharply, just wanted to understand basically one off over there?
- P.K. Bajpai:** This is because we had to do some provisioning for our contractual obligation.
- Aditya Bhartia:** How much would that be sir, if you could give us some idea?
- P.K. Bajpai:** Rs 114 Crores.
- Moderator:** Thank you. The next question is from the line of Hemant Thakkar from Angel Broking. Please go ahead.
- Hemant Thakkar:** I just missed out the order inflow numbers, so can you please share that if you do not mind, the order intake for the quarter?
- BP Rao:** Rs 2471 Crores. Total order intake in the first quarter.
- Hemant Thakkar:** I believe the industry segment constitutes Rs 2190 Crore?
- BP Rao:** The total orders are Rs 2471 Crores for the Q1.
- Hemant Thakkar:** This includes the total order intake right?
- BP Rao:** Rs 2471 crore is total orders received during the Q1, out of that for industry sector it is Rs 2190 crore.
- Hemant Thakkar:** Just a quick follow up on the working capital data you mentioned ₹ 14200 crore. I just missed out on the corresponding item, can you once again on the working capital side?
- P.K. Bajpai:** Working capital numbers of the last year's first quarter are ₹ 10700 crore, working capital.
- Moderator:** Thank you. The next question is from the line of Pankaj Sharma from UBS Securities. Please go ahead.
- Pankaj Sharma:** On the industrial orders the current run rate in this quarter has been quite good, so do you expect any significant better performance in FY12 versus FY11 in terms of order inflow for industry?
- BP Rao:** Again we have to see that postponed orders from last year could have come, like in power sector it happens. I do not think there is an indication for any growth that way in this. So we expect, all the constraints what we have discussed till now that the power sector are also equally applicable to the industry sector. Other than BTG segment if you look at the other segment except for transmission, the transportation also there were a number of issues; railways have been postponing the tenders. So, I do not expect that there will be very, very substantial growth in that. Probably all activities could happen and next year it can fructify into orders. The point what I am trying to make is this not an indication that industry is going to grow so much.



- Moderator:** The next question is from the line of Bhavin Vitlani from Enam Securities. Please go ahead
- Bhavin Vitlani:** Could you help us with the breakup of the order book on industry power and exports?
- BP Rao:** Orders outstanding from the power sector is ₹ 126861 Crores. Industry sector is ₹ 22047 Crores. International operations ₹ 10731 Crores and total is ₹ 159639 Crores, all these figures are as of June 30, 2011.
- Bhavin Vitlani:** Also what would be the outstanding Megawatts in the power order book?
- BP Rao:** Approximately 60 gigawatts.. It is very difficult to give you exact figure because part could have been dispatched , part of it could be under process. So that is why it is very difficult to give you the exact figure on this. But it will be approximately in the range of 60 GW.
- Bhavin Vitlani:** Also if you can help us in the order backlog numbers in terms of spares for O&M?
- BP Rao:** We do not readily have the figure.
- Bhavin Vitlani:** Lastly on the industry sector, since we have seen better margin profile and as you highlighted that it was because of better job, could we expect that because as you highlighted the proposition of higher Megawatts has been increasing; that the margin profile of the industry sector can be looking up for the current year as well as next year?
- BP Rao:** We do not know, the margins depend upon the mix of the projects, which gets executed at that point of time. It so happen probably that the good margin projects have come in the first quarter that is why it is showing up a little bit, but otherwise average is to whatever we have been doing in the past.
- Bhavin Vitlani:** Last question is of the order book breakup, could you help us with fixed price orders and variable price orders?
- BP Rao:** Approximately 50-50.
- Moderator:** The last question is from the line of Rahul Agarwal from Anand Rathi Securities. Please go ahead.
- Rahul Agarwal:** Sir you said CapEx for this year is Rs 1200 Crores, if you could help me in terms of breakup in which areas would these money would be spent in terms of segment, or in terms of capacity expansion or things like that?
- BP Rao:** As I told you these all are catering for the entire 20,000 Megawatts plans. It will also go to some reconditioning of the machines what we do in the shop but these machines are going to be used for anything what we produce. There will be a separate capacity for thermal, as I explained to you earlier and a separate capacity for gas. This money could go into all the facilities and all the business segments will get benefit out of this capacity.



Rahul Agarwal: So majorly this is going to for that expansion to 20 GW right?

BP Rao: That is right.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Ms. Renu Baid for closing comments. Please go ahead.

Renu Baid: Thank you so much ladies and gentlemen. I wish to thank the management of BHEL, represented by Mr. BP Rao, Mr. P.K. Bajpai, Mr. Krishna Shankar, Mr. O.P. Bhutani all of them for taking time out for the call. Sir, wish you all the best for the year as well for the future and have a good time.

BP Rao: Thank you, Ms. Renu.

Moderator: Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities that concludes this conference call. ■