# “BHEL Q4 & FY10 Earnings Conference Call” transcript

May 26, 2010

**Moderator** Ladies and gentlemen good evening and welcome to the BHEL Q4 & FY10 Earnings Conference Call, hosted by Edelweiss Securities. As a reminder, for the duration of this conference all participants' lines will be in the listen only mode. 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 touch-tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Rahul Gajare from Edelweiss Securities, thank you and over to you sir.

**Rahul Gajare** Thank you Melissa. I would like to welcome all participants on behalf of Edelweiss Securities to the Q4 and FY10 results of BHEL. From the management we have with us Mr. B.P. Rao, Chairman and Managing Director and Mr. C.S. Verma. Director Finance. We will have opening remarks from Mr. Rao after which we will have the question and answer session. Thank you and over to you Mr. Rao.

**B Prasada Rao** Thank you, good afternoon friends. I am B.P. Rao. CMD, BHEL, and I have with me Mr. C.S. Verma, our Director Finance. A very warm welcome to all of you. Indian economic recovery underway since 2009 is becoming broad based, spurred by rebound in both domestic demands and exports as reflected in the industrial output for March 2010, which has grown by 13.5% despite monetary tightening and a partial roll back of stimulus package. The growth is largely driven by manufacturing; this was the sixth straight month of double-digit growth 14.3% for March. Capital goods are also on the growth trajectory. Though in percentage terms it decreased due to the fading low based effect. In absolute terms, in March 2010, capital goods posted highest index figure of 648.1 for 2009-10. Industrial output as per the index for industrial production for the year 2009-10 stood at 10.4% as against 2.8% in 2008-09. Supported by strong order book and accelerated execution BHEL has maintained its growth momentum in the fourth quarter of 2009-10 also. Total orders booked up to the fourth quarter has been INR 59,037 crore, out of which power sector contributed orders of INR 41,982 crores aggregating to about 16,489 megawatts. In fact we have booked around INR 22,606 crores worth orders in the fourth quarter alone. During the year independent power producers reposed their confidence in BHEL by placing, all time high orders. Out of the total orders of 16,489 megawatt for power plant equipment received during the year, the orders received from IPPs alone accounted for 14,689 megawatts; which constituted nearly 90% by total order booked by BHEL power sector. In financial terms, orders amount to INR 33,787 crores more than threefold increase over the previous year. Some major orders in the fourth quarter included the 2x250 MW Bhavnagar CFBC, 2x195 MW Muzaffarpur Stage 2 , 1x600 MW Jhabua Power Ltd, 2x210 MW Surana Power Ltd Raichur, 1x250 MW DPL Durgapur Unit 8, 2x270 MW AINL Matrishri Usha Jayaswal Phase 2.

BHEL industrial sector business segment also registered a very high growth of 40% in order book with order inflow of INR 14,366 crores in fiscal year 2009-10. This increase further reinforces the company's focus on balanced growth through expansion of activities in the segments of industry, transportation, transmission, oil and gas etc, in addition to its core area of power.

In the international market we have received orders worth INR 3,571 crores till fourth quarter. We received an order for 1200 megawatt hydroelectric projects for Bhutan which is a largest ever hydro project. With these orders, BHEL has an order book of INR 1,44,312 crores as of 31st March 2010. 81% of these orders are accounted for by power sector, 13% are accounted for by industrial sector and balance 6% are accounted for by international operations. In 2009-10, we have developed capability to deliver 15,000 megawatt power equipments per annum and further augment capacity to 20,000 megawatt is on its way for completion in March 2012. Our capex during 2009-10 was INR 1,767 crores, the highest ever.

Looking at the fourth quarter financial results the turnover for fourth quarter, 2009-10 was INR 14,007 crores, a 27% increase over that of the fourth quarter of 2008-09. Cumulative turnover of the company up to fourth quarter 2009-10 is INR 34,154 crores, a 22% increase year-on-year basis. PBT for fourth quarter is placed at INR 2,899 crores, a 38% increase over that of fourth quarter of 2008-09. Cumulative PBT up to fourth quarter 2009-10 is INR 6,591 a 36% increase year-on-year basis. PAT for fourth quarter is placed at INR 1909 crores, a 42% increase over fourth quarter of 2008-09. Cumulative PAT up to fourth quarter 2009-10 is INR 4311 crores, a 37% increase year-over-year basis over to corresponding figure from last year. Raw material cost as percentage of turnover net of excise duty for financial year 2009-10 has been 59.81% against 62.6% in 2008-09. And all time high dividend of 233% was declared for the year 2009-10 which includes the 110% interim dividend which was decided earlier. The wage revision settlement with all employees has been finalized during the year. I thank you all once again for joining this conference call. We will take the questions now.

**Rahul Gajare** Melissa we can now start the question and answer session.

**Moderator** Thank you. Ladies and gentlemen we will now begin with the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touch-tone telephone. If you wish to remove yourself from the questioning queue, you may press * and 2. Participants are requested to use handsets while asking your question. Anyone who has a question may press * and 1 at this time. The first question is from the line of Abhishek Bhandari from Macquarie Securities, please go ahead.

**Indrajeet** Hi thanks for taking my question. Indrajeet from Macquarie. Few questions from my side. The first one is can you explain what exactly happened in the wage settlement because there were certain incremental provisions done and how much of those provisions relate to arrears and not to this year and second what is the reason for a sharp increase in other expenses in this quarter?

**B Prasada Rao** I would request Mr. Verma to provide you with details, please.

**CS Verma** Wage revision is complete now and there is no additional provision required to be created now onwards. The personal payment in the year 2009-10 is coming to INR 5,153 crore and this payment was INR 4,113 crore in 2008-09. I hope this answers your question.

**Indrajeet** No, in the INR 5100 crores is there any arrears which were paid which are not related to fiscal year FY10?

**CS Verma** No, see the payment is different thing. This is the total expenses which pertain to the year '09-'10.

**Indrajeet** Okay. Are there any provisions made for the order in cost associated with previous year wages which were provided in this current fiscal year?

**CS Verma** No.

**Indrajeet** Okay so this is a base-

**CS Verma** Yes this is the total payment made during the year which pertains to 2009-10.

**Indrajeet** Okay so is there, what is the likely wage cost next year?

**CS Verma** We do not disclose of the figures but you can roughly take about 10% to 15% increase in the personnel payment for next year.

**Indrajeet** And the reason for the other expenses being so high in the last quarter?

**CS Verma** We will provide you the break up as you want the figures for the quarter alone.

**Indrajeet** Okay third question is, what is your outlook now in terms of revenue growth and order inflow, especially on order inflow given that the competition is now going to be significant especially from the new domestic players so what is the sense on that both revenues and order inflows this year?

**B Prasada Rao** Though we resist from giving the future indications but then you can look at our website and get an indication of the MOU targets that we have signed. It talks of about INR 38,000 target for revenue at budget level. Also we have indicated that excellent level would be INR 39,500 crores of revenues. Now, your main question on the orders for this year and about the competitive situation that is changing. BHEL has a number of natural advantages that must be understood. BHEL has in the past 40-50 years been absorbing a number of technologies and set up various facilities to produce not just the main products or boilers, turbine and generator but we have also been producing a number of auxiliaries for these main products. In addition, we are also producing our own C&I system. So the kind of depth of products which have at BHEL for power plant are very much on the high side and none of these new players who are coming in or establishing any facilities are matching this that is the number one point. The second point is that our capacity expansion is almost brown field expansions. We have set up facilities recovered cost earlier and these are now being expanded further with brown field investments. If you look at for the same megawatt, the kind of investments which the other players are making are much higher than BHEL so that gives an advantage to BHEL. With all these things we are well placed for facing the competition. We expect to maintain our leadership and I look at a similar kind of order inflows like what we have booked in last two years for this year also.

**Indrajeet** Okay one last question from my side because recently you have booked an order from the JV project, the Karnataka government is that because last two years BHEL has rejected from taking any EPC orders and we have just booked the large EPC order again. So, we will start going to be again new area of growth again for BHEL?

**B Prasada Rao** No it is like this. We have not stopped taking EPC orders. You are right that we have reduced our intake of complete EPC orders but now and then we do take the EPC orders. Particularly when it is a strategic reason for us to take the order we take. As you know, some of these things are outsourced like BOP items. They will completely go out even for some of the EPC work. We do mix up various strategies, so we will be able to still include these kind of EPC projects.

**Indrajeet** Okay thanks a lot I will come back with more questions.

**B Prasada Rao** Thank you.

**Moderator** Thank you. Before we move onto the next question participants are requested to limit their questions to two per participants during the initial round. The next question is from the line of Rajesh Panjwani from CLSA, please go ahead.

**Rajesh Panjwani** Hello.

**B Prasada Rao** Hello Mr. Rajesh how are you?

**Rajesh Panjwani** I am fine sir how are you?

**B Prasada Rao** I am fine thank you.

**Rajesh Panjwani** Great thanks sir. Two questions from my side, first question is on balance sheet, the debtor levels have gone up from 58% of sales to close to 64% of sales so what is the reason for the sharp increase in the debtor levels they have gone up by all fairly substantially almost a billion dollars and second is related to what are the advances from the customers, what are the numbers this year compare to last year. The second question is on, I know given that you have expanded your capacity this year at the end of last year, so I understand that you do not give specific revenue guidance but if you look at the MOU signed before you had declared the results for this year and the base would have been the MOU for last year and you beat that numbers so can we expect the growth which you achieved last year somewhere close to that being achieved this year also as far as revenues are concerned?

**B Prasada Rao** Well, as I mentioned earlier we will not be able to give you any indications for future but it is up to you to judge. As far as the debtors is concern, I will request Mr. Verma to give you details.

**CS Verma** The debtors as of the end of the year is at INR 20,689 crores and this consist of collectable debtors of about INR 12,000 crores and deferred debt of about INR 10,000 crores. Debtors in number of days of turnover is about 221 days, last year this was 208 days. Why debtors have gone up is because about 40% of the turnover has been achieved in the last quarter of financial year. Now, since this turnover booking of 40% has been done in the last quarter, it takes time to realizes payments which are milestone related payments. We have to build the debtors and we have to get the money. Of late in some orders which have been received by BHEL the payment terms are different compared to the orders which we were receiving earlier. Here the payment terms are not from the dispatch of the equipment but on achievement of certain milestones. So that is why the debtors have gone up slightly. As far as the bank balance and customer advances at the end of the financial year is concerned, the cash and bank balance is about INR 9500 crore at the end of 2009-10. This includes short-term investment of INR 8,925 crore and cash at bank balances of INR 865 crore. And advances on customers pending settlement as at the end of the year is INR 19,190 crores.

**Rajesh Panjwani** Yes thank you. Can you give us age wise breakup of the debtors also?

**CS Verma** I will provide you during the course of the call.

**Rajesh Panjwani** Okay fine thanks.

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

**Venkatesh B** Yes sir congratulations on a good set of numbers.

**B Prasada Rao** Thank you.

**Venkatesh B** Couple of questions from me. Recently announced KPCL order, now is this order a part of the fourth quarter order inflow or is it a first quarter of current year orders?

**B Prasada Rao** This is a current year order and is a first quarter order. This order is just for BTG alone. It is not EPC that was the impression which was taken earlier. This is just a BTG order.

**Venkatesh B** Okay so this is a financial year ‘11 order?

**B Prasada Rao** Yes.

**Venkatesh B** And you said we should, you think you can do order inflows which are similar to the last two years, so I guess we are basically talking about roughly around INR 60,000 crores of orders this year also?

**B Prasada Rao** Yes we expect that.

**Venkatesh B** Okay sir. My final question is now two to three quarters back you had good low cost raw material inventory, which was supposed to carry forward for at least a couple of quarters this year. Now, what is the current status, I mean do you have good low cost raw material inventory for two quarters or given that recently with the Europe crisis I think raw material prices have also once again started falling, so is it possible that you could have, may be another 100 or 200 basis points kind of improvement in raw material cost this year also?

**B Prasada Rao** We work towards containing material consumption material cost and I will not be able to give you any future guideline but you can take it that the company is working for that. Last year we have improved material consumption by more than 2.5%. So, continuous efforts are on in this direction. Material prices are as you said rightly and the trend is good. We will see what happens in future.

**Venkatesh B** Okay sir thank you very much and all the very best.

**B Prasada Rao** Thank you.

**Moderator** Thank you. The next question is from the line of Renu Baid from B&K Securities, please go ahead.

**Renu Baid** Good evening sir.

**B Prasada Rao** Good evening.

**Renu Baid** Sir my first query is regarding the wage bill. In the press note we have mentioned that we have provided for close to 553 crores on account of superannuation benefits with respect to different wage revision that we have had on a retrospective basis beginning fourth quarter FY07. So, is this amount basically accounted in the wage expenses itself of 150 crores?

**C S Verma** You are talking about pension scheme?

**Renu Baid** Yes sir.

**C S Verma** Yes, INR 453 crores is accounted for the year 2009-10. So the figure of INR 5153 crores includes INR 453 crores?

**Renu Baid** Sure, that means in case excluding the retrospective effect the wage bill would have been close to INR 4800-4900 crores?

**C S Verma** Yes.

**Renu Baid** And when we talk of another 10-15% increase that means for wage bill for FY11 we are looking at something around INR 5300 crore around number of that level?

**C S Verma** One can assume like that.

**Renu Baid** Okay and sir my second question would be regarding, we have already seen 15 gigawatt now been commissioned, if you could just give us details on what was the shop floor production details for the entire financial year FY10 the growth in shop floor production?

**B Prasada Rao** This year like '09-'10, I do not have the exact figures here but 12,000 to 13,000 megawatt equipment has been produced by us and going forward we have targeted beyond 15,000 megawatt for this year. The actual manufacturing activity could be in the range of 16,000 to 17,000 megawatt for 2010-11 so these capacities are fully operational and we are utilizing them.

**Renu Baid** And sir one more thing, like just adjust for retrospective effect or the prior period expenses that you have provided on the pension scheme provisioning. We have on a full year basis than close to 19.5% EBITDA margins. So given the kind of operating leverage that we expect in next year and almost flattish employee expenses. Will it be right to assume that we will definitely maintain these margins and could not also see close to 50-60 basis point improvement in the operating margins?

**B Prasada Rao** No that is your assumption. We would not like to give you any future guidance on this.

**Renu Baid** Okay. All right sir that should all be from my side, in case I have some queries then will get back to you again, thank you so much.

**B Prasada Rao** Thank you.

**Moderator** Thank you. The next question is from the line of Yogesh Patil from Canara Robeco, please go ahead.

**Yogesh Patil** Yes good evening sir.

**B Prasada Rao** Good evening.

**Yogesh Patil** Sir regarding the previous question BHEL imports were almost 1/3rd of their cost in euro, and I guess euro has depreciated almost 10% in last two quarters and sir does it we have 50% variable price contracts, so does these contracts consider forex transaction of broad based structure actually?

**B Prasada Rao** See in contracts basically you know we structure them. Foreign exchange variation is covered. For other contracts there could be total PVC or there could be a fixed price contracts also for the Indian portion. But normally FE variation is covered.

**Yogesh Patil** Sir most of the twelfth plan orders– apart from power sector where do you see growth let us take industrial, what are the plans for your industrial business and there was a news two three months back that defense in a big way so what is the scope of work and quantum of work do we see in future?

**B Prasada Rao** See first of all growth will come from all the segments of the company's business. Growth is definitely big from the power sector itself because the bulk tenders are happening in immediate term and supercritical orders are going to happen. Nuclear is going to happen and so power sector definitely is going to provide the biggest opportunities. In addition, the company has a strategy of balancing growth from other segments to avoid excess dependence on one segment, This is essential for the company. Power transmission segment is another segment which the company is concentrating on. Transportation segment is another important segment. In transportation segment we see very good growth opportunities. The Indian Railways is going in for special purpose vehicle and PPP mode for setting up new factories in Bihar and also in West Bengal and BHEL is very much there participating in some of the tenders which are already on. We will be participating in future tenders as well. The conventional loco which we produce at Jhansi with the electrics from Bhopal is also seeing a growth and you know last year we have received 150 locomotive orders in addition to earlier order book of 50 locomotive. Going forward we expect that the railways is going to increase their sourcing for BHEL up to about 100 locomotives per year. We are also expanding our capacities at Jhansi. So the transportation segment is going to witness a big growth. Now coming to the defense, we have been doing naval guns and we are also doing integrated platform management systems for naval applications and we are talking to various other arms of defense both army as well as air force. We are discussing other areas even with navy. It will be premature to talk about it right now. However, we are definitely pursuing a number of initiatives.

**Yogesh Patil** What kind of revenues we are looking for?

**B Prasada Rao** Well the revenues in related term that not be much the defense takes a long time to fructify.

**Yogesh Patil** How your vendor base going?

**B Prasada Rao** Vendor base has increased in fact in last year. We have added about 1,100 vendors to our vendor list of about 25,000 vendors so it has further gone up to about 26,000 vendors.

**Yogesh Patil** There is no issue matching with our capacity?

**B Prasada Rao** There are no issues. Some of the sources of inputs like castings forgings which are sourced from abroad have almost remained same as there are two or three vendor. Therefore, we have taken an initiative in our own foundry and forge plant. We have signed a collaboration agreement with Sheffield Forgemasters and we are investing there.

**Yogesh Patil** Sir the super critical boilers like pressure part leading outsource to others or we are planning for manufacturing?

**B Prasada Rao** The first super critical boilers are being manufactured right now. Pressure parts normally we manufacture within the company. We do not outsource that as this is where the technology lies. So critical to the product, critical to the quality and critical technology components, we do not normally give outside.

**Yogesh Patil** Okay thank you very much.

**B Prasada Rao** Thank you.

**Moderator** Thank you. The next question is from the line of Abhishek Puri from JM Financial, please go ahead.

**Abhishek Puri** Sir good evening and congratulations for good set of results.

**B Prasada Rao** Good evening Abhishek how are you?

**Abhishek Puri** I am doing fine sir. How are you?

**B Prasada Rao** I am fine thank you.

**Abhishek Puri** Sir first of all regarding the CapEx plan in financial year '11?

**B Prasada Rao** Capex plan is INR 1000 crores for '10-'11. This is the cash outflow on capex.

**Abhishek Puri** So, does this amount carry certain funding for the KPCL projects since the project has already been ordered and certain advances or initial payments will be done?

**B Prasada Rao** That is right that is done, yes.

**Abhishek Puri** How much would be that amount sir?

**B Prasada Rao** I do not have that readily now.

**Abhishek Puri** That is fine sir. Sir, secondly regarding the strategy I mean our strategy has worked well in terms of doing the JVs with SEBs and we have started getting the orders. Since we have got about 8 to 9 orders for the super critical sets will this suffice for the technology transfer obligation which we have either with Siemens and with Alstom?

**B Prasada Rao** Yeah normally with these sets we should be able to absorb the technology.

**Abhishek Puri** So is it true that if we are bid for the NTPC bulk tender now the import contents will reduce significantly there or will be import?

**B Prasada Rao** Sometimes it depends on the business decision which you will have to take depending on the delivery periods that the customers demand. So it is not always based on the technology only and certain capability. It is a kind of strategy which we need to have with respect to the share of work of collaborators or with respect to the deliveries, if customer wants early deliveries then you may have to get some parts from abroad. But at the end of the day you need to be competitive to get the orders. So you have to have a fine balance between the two.

**Abhishek Puri** Okay sir just last point, when are the price bid is expected to be submitted for the bulk tenders for NTPC?

**B Prasada Rao** We are yet to have a clear indication that because technical evaluation is still going on.

**Abhishek Puri** When do you expect the ordering to happen for bulk tender?

**B Prasada Rao** I expect that it may go to the beginning of third quarter.

**Abhishek Puri** Right sir I will come back for more questions thank you.

**Moderator** Thank you. The next question is from the line of Akshay Soni from Morgan Stanley please go ahead.

**Akshay Soni** Yes hi sir, congratulations on a good quarter.

**B Prasada Rao** Thank you.

**Akshay Soni** Just one simple thing, I wanted to find out what proportion of your orders are now fixed price and what is covered by price variation clauses and what is really happening over the last year in terms of order signing have you seen, any significant differentials in terms of what proportion is fixed and what proportion is covered.

**B Prasada Rao** See as I mentioned earlier you can almost take it as a 50-50. 50% could be the orders with fixed price and 50% orders could be with PVC.

**Akshay Soni** Thank you very much.

**Moderator** Thank you. The next question is from the Akshen Thakkar from Enam Securities please go a head.

**Bhavin** Good evening sir this is Bhavin here, congratulation for grate set of numbers.

**B Prasada Rao** Thank you.

**Bhavin** I have three broad questions first is which you can help out what was the order pipeline in the beginning of fiscal year 2010 and how do you are see the order pipeline in the beginning of fiscal year 2011 are we seeing a significant jump in the order pipe line.

**B Prasada Rao** Well you know we expect the order pipeline to include bulk tender opportunity. However, technical scrutiny is still taking time. We expect the $12^{th}$ Plan projects ordering to continue in this year. So most of the projects could be finalized. Therefore, a similar kind of pipeline is existing. That is why I said we may repeat the kind of performance that we had in the past two years.

**Bhavin** So if we put a probability that could we show a 15-20% growth in the order inflow in terms of megawatt so would you 50% probability or 90% probability.

**B Prasada Rao** I think you are putting this question to me as you would make an assumption to do your analysis, I will not be able to give you any answer to that.

**Bhavin** Okay fine. The second question is more also in line with the same. Now with the one of the gas dispute behind us, are we seeing incremental order enquiries for the gas based project and how are we placed in terms of the competitive landscape for the gas-based projects?

**B Prasada Rao** In immediate term the effect of this settlement of the price is yet to show in the number of enquiries. Otherwise there are enquiries which we are quoting and which are under discussion with number of customers and yes you said rightly the gas-based projects probably will go through with some assurance which is coming about the prices of gas. Projects could happen and we are ready. We are already giving the turbines; we are producing now. This year we will be delivering about 3 turbines from our own shop and going forward we look forward to more orders because we have now a separate shop for this. In the advance turbine category definitely the projects are going to out.

**Bhavin** Sir NTPC mentioned that there is a 75000 megawatt which they would like to award so because earlier the 2600 megawatt was negotiated with BHEL so are we seeing a same order getting finalized this year?

**B Prasada Rao** You are talking about which order?

**Bhavin** The Kawas and Gandhar 1300 megawatt each.

**B Prasada Rao** That is yet to be awarded. We have not heard anything from NTPC on that.

**Bhavin** The last question is more on the liquidated damages front because now we understand speaking with some of the private developers that BHEL is now started quoting around 36 months so what is the contract for the liquidated done in this?

**B Prasada Rao** So 36 months is for 500 megawatt sets. 600 megawatt set can go anywhere between 40 to 42 months for the first unit of the project. So liquidate damages are almost same as the earlier level we have not seen anything. It will be within 5-10% range.

**Bhavin** Okay and this 36 months delivery for 500 megawatt has it shrunk significantly versus last one or two years?

**B Prasada Rao** No. We have done earlier in 35-36 months.

**Bhavin** Okay one last question this is more for the JV which we have singed for the high voltage transmissions with Toshiba…

**B Prasada Rao** We have singed a MoU but JV is yet to be in place. We are working on the JV agreement.

**Bhavin** Sir if my reading is right the manufacturing will be done by BHEL and only the designing and engineering will be done by JV?

**B Prasada Rao** That is right. The factory is in Bhopal. We may use it for producing some of this high voltage 760 kV and 400 kV transformers.

**Bhavin** So how fast do we expect that because higher kV tendering is now up in a big way. So how fast do you expect that this will be up and running and we can start bidding for higher kV range tenders?

**B Prasada Rao** See as far as bidding is concerned, we have started already on a joint bid basis. Both the activities are going in parallel. So joint venture is coming up, we will also bid in parallel.

**Bhavin** Okay thanks alright. Thank you so much and that is my question and all the best for the future.

**B Prasada Rao** Thank you.

**Moderator** Thank you. The next question is from the line of Kamlesh Kotak from Asian Market Securities, please go ahead sir.

**Kamlesh Kotak** Hello. Good evening sir. Sir just wanted to understand can you throw some light on the kind of Chinese and the government spend had that is the first thing.

**B Prasada Rao** You must have known from the media that government constituted a committee under the chairmanship of Mr. Arun Maira of the Planning Commission and the committee report has been submitted. There was a meeting scheduled to be taken by cabinet secretary two days back and but was postponed in last minute. There is a recommendation from the Planning Commission that because of the disadvantages faced by Indian manufacturers vis-à-vis import equipments whether from China or from anywhere else, calls for imposing some kind of safeguard duty. This is the recommendation from the Planning Commission. Power Ministry has recommended that any kind of duty must be only after March 2012. So we take it that there is a kind of agreement in the Power Ministry level also that is a disadvantage. Only the time for implementation is being shifted. So we are also waiting for outcome of this. However, we have been competing very well with Chinese because the kind of the models we have introduced, the 600 megawatt and 150 megawatt in the lower range and the existing sets of 250 going up to 270 MW and 500 going up to 525 MW and the kind of heat rates we are offering vis-à-vis the Chinese equipment. That is why you have seen in the last year that most of the IPPs have come back to BHEL and 90% orders have been received from IPPs.

**Kamlesh Kotak** Okay. And secondly sir could you enlighten us about the upcoming tender of NTPC which is now going to be of 800 megawatt size so are we equipped with the kind of infrastructure and technology to get to that particular market sir.

**B Prasada Rao** Yes we are ready with 800 megawatts. As you know, we have technology tie ups again with Siemens and Alstom for that. We have already received 800 megawatts sets for Krishnapatnam steam generator and that is being manufactured at our Trichy plant. We are fully geared up and we have the facilities, technology and people are being trained and we are fully prepared.

**Moderator** Thank you. The next question is from Madana Gopal from Centrum Broking, please go ahead sir.

**Madana Gopal** Good evening sir. Sir most of the question had been answered just one question on what could be the order size often 100 unit locomotive which you mentioned like 100 units of locomotive what would be the order size of that.

**B Prasada Rao** Well it could be in the range of INR 600-700 crores.

**Madana Gopal** Okay yeah. Thank you very much.

**Moderator** Thank you. The next question is from the line of Nidhi Agrawal from Sharekhan. Please go ahead.

**Nidhi Agarwal** Thanks for taking my question. Sir this industry segment is there any subsidiary which has made losses in this year? Because in consolidate and standalone results there is decrease in PBIT of the industries segment.

**B Prasada Rao** In the consolidated results?

**Nidhi Agarwal** Yeah.

**B Prasada Rao** Okay see when we have consolidated there is a 8 crores loss at PBT level and INR 9 crores loss at PAT level.

**Nidhi Agarwal** That is for which subsidiary sir?

**B Prasada Rao** BHPV, Bharat Heavy Plates and Vessels which is a 100% subsidiary of BHEL

**Nidhi Agarwal** Okay sir. And sir in terms of capacity utilization what can be the capex utilization in next two years for the subcritical and supercritical if you can give that breakup?

**B Prasada Rao** See the capacity is the same for the subcritical and supercritical. It is more than 100%. I told earlier in the call that the capacity is 15000 MW and we are planning to produce roughly about 16,000 to 17,000.

**Nidhi Agarwal** Is there any threshold really that you are putting for the BTG orders in the future or any of the rising competition from Korea and China?

**B Prasada Rao** I did not get you.

**Nidhi Agarwal** I mean you would not take orders below from EBITDA margin of…

**B Prasada Rao** There is no such thing in a competitive situation; Of course we will have to make money at the end of the day.

**Nidhi Agarwal** Okay sir. Thanks a lot.

**Moderator** Thank you. The next question is from the line of Venkatesh B. from Citi Group, please go ahead.

**Venkatesh B.** Sir my questions have been answered. Thank you.

**Moderator** Thank you. The next question is a follow up from the line of Abhishek Bhandari from Macquarie Securities, please go ahead.

**Indrajeet** Thanks again for taking my question. Couple of from my side Indrajeet here. When do you expect to have something around say 80-90% indigenization in the supercritical manufacturing or kind of timeline that you are looking at.

**B Prasada Rao** Indigenization achievement depends on many factors. First of all the material should be available in the country. None of the Supercritical materials are available in the country so we have to keep on importing these materials like thick plates or CRGO steel or high purity copper or alloy steels and as you go towards higher technologies the import content increases because of these materials. It keeps going up because in the country there is no production of these materials or even if they are produced, they are produced in a very little quantity. But as part of new technology absorption we will be able to absorb the complete technology within the first two phases itself and we will be ready to produce. The second thing as I mentioned earlier, the strategy of keeping in mind the interest of the collaborators also. So therefore if you have to share some work with them to keep them as per the terms agreed earlier so we may have to give them some work. So capability wise capability we have fully with us.

**Indrajeet** So the raw material might still be imported but machining and value addition…

**B Prasada Rao** That can be done by us. Fully it can be done by us.

**Indrajeet** Recently there was a also a news article saying that you along with ABB India had won a pretty large HVDC order. Can you kind of just confirm that and what would be your scope of work in that tender?

**B Prasada Rao** Order has not been awarded yet. We are placed at L1 in the tender and this is the major project of HVDC line from North East states to Agra; a First 800 kilowatts DC line in India and probably the second line in the world. We are working with ABB and the order is expected may be after two to three months. We will have to see how they will evaluate and where we will land up in that.

**Indrajeet** In case you win and eventually get the order what would be your scope of work?

**B Prasada Rao** We will be doing the Thyristor valves, the HVDC transformers and some of the capacitors and the system design and some of the balance of plant equipment.

**Abhishek Bhandari** Okay and final question if Mr. Verma could just throw some light on the other expenses? Other expenses kind of went up to something like 1300 odd crores in Quarter 4 or even on a full year perspective 2800 crores, what was the significant item which moved the costs in this year?

**CS Verma** In Quarter 4 our total expenses has gone up compared to Q4 on like-to-like by INR 112 crores. The reason is that we have changed provisioning policy for LD and additional impact is coming to about of INR 124 crores in Q4 of the year 2009-10. Then there is a slight increase in the indirect material which was INR 162 crore last year and this year it is INR 167 crores. Power and fuel was INR 78 crores last year and this is INR 89 crore this year and there is a provisioning for the pension which is again INR 443 crores.

**Abhishek Bhandari** Okay so provision of pension is actually in the other expenses not in the staff cost?

**CS Verma** Yes it is a provision.

**Abhishek Bhandari** And sir this INR 453 crores pension, how much of that again would be recurring and is it all one-time.

**CS Verma** On an equal basis we will have to make additional incremental provision every year.

**Abhishek Bhandari** How much would be that any rough cut….

**CS Verma** About INR 120 crores every year on incremental basis.

**Abhishek Bhandari** Okay thanks a lot.

**Moderator** Thank you. The next question is from the line of Sachin Trivedi from UTI Mutual Fund, please go ahead.

**Sachin Trivedi** Hello. Sir my question has been answered. Thank you.

**Moderator** Thank you. The next question is from the line of Ankush Mahajan from KC Securities Private Limited, please go ahead.

**Ankush Mahajan** Hello sir, most of the question has been answered sir. Thanks sir.

**B Prasada Rao** Thank you Mr. Mahajan.

**Moderator** Thank you. The next question is from the line from Kunal Sheth from Prabhudas Liladhar, please go ahead.

**Kunal Sheth** Good evening sir. Sir APC order would constitute what part of our current order book? We

**B Prasada Rao** Well I don't have a ready picture may be about 30%.

**Kunal Sheth** And sir could you give us some sense of what percentage of 12 plan order already would have been tendered out?

**B Prasada Rao** About 62,000 MW have already been finalized.

**Kunal Sheth** Sir out of the plan of about 1 lakh megawatts.

**B Prasada Rao** 1 lakh is the size of the 12$^{th}$ Plan I think they have placed orders worth about 62,000 megawatts and BHEL has taken about 33,000 MW in that and others about 29,000.

**Kunal Sheth** Okay and could you give us some sense of how the private order pipeline is looking because this year we had significant orders from the private side but in FY11 what is that pipeline looking like?

**B Prasada Rao** Well there are number of projects in the pipeline but it all depends upon the clearances, the coal linkages and environmental clearances.

**Kunal Sheth** Could you give us some sense of some of the major projects you might be talking to on working with?

**B Prasada Rao** I think at this stage it is not right on my part to give those names.

**Kunal Sheth** Okay sir thank you so much.

**Moderator** Thank you. The next question is from the line of Harish Bihani from India Bulls Institution, please go ahead.

**Harish Bihani** Good evening sir.

**B Prasada Rao** Good evening Mr. Harish.

**Harish Bihani** Sir my question pertains to the strategic sourcing in value engineering exercise that BHEL had initiated over the last couple of years. If you could give us some anecdotal evidence of how this particular entire initiative have panned out over the last couple of years, what kind of savings rate have we achieved and also what would be the likely savings over the next couple of years and also if you could conspire some numbers that would be great sir.

**B Prasada Rao** The kind of material consumption figures what you are looking at is the result of these kind of exercises. Also the throughput increase what has happened in terms of megawatt produced versus capacity, we started design to cost and lean manufacturing at Bhopal about three years back and one cycle has been completed for transformers, switchgear, and the motor products. Later on we extended to other products at Bhopal and also at Hyderabad. The steam turbine, pulverizes compressors all these products have been covered in this and subsequently this year we are now taking up at our Trichy unit and Ranipet unit and these have really helped us in the controlling the material consumptions. Therefore, the material cost and also increased the throughputs of various shops by adopting this lean manufacturing. We have seen advantages of these things and we are now taking it across the company. Earlier we have taken the help of Mc Kinsey as consultants in this respect. Now we are doing it on our own and number of people has been trained in this area. So this is in summary about this particular initiative.

**Harish Bihani** Is there any way we can quantify this number if possible sir?

**B Prasada Rao** It is difficult to isolate the effect of this and say that this much is due to this. Percent shows up in the overall results mentioned.

**Harish Bihani** Right sir. Thank you for answering my question sir.

**B Prasada Rao** Thank you.

**Moderator** Thank you. The next question is from the line of Patricia Coutts from AGF, please go ahead.

**Patricia Coutts** Hi good evening I am calling from AGF in Canada, could you please tell me about your current capacity utilization and since you added capacity recently, can you just talk about how these capacities utilization may evolved in next couple of years and I apologize if this question has been asked already but I was connected a little late.

**B Prasada Rao** Welcome. I mentioned earlier. However, I can repeat for you that our capacity utilization during the 2009-2010 has been more than 100% and going forward in the year 2010-2011 also for the increased capacity of 15000 megawatt production capacity, the capacity utilization is going to be again more than 100%. As you know that we have substantial orders in hand. These orders will ensure us utilization in this capacities very well and we do not have any issue on the capacity utilization.

**Patricia Coutts** Excellent. If I may ask a follow up question? Could you provide us an insight with regards to your expectations with regards to return on invested capital, as we have seen tremendous improvement and sustainability of the ROIC and within that what is your best guess out of floor as to which we should be referring to in the next two to three years. In addition to that it would related to the ROIC as well in answering an earlier question you talked about other segments of your business you would like to improve or I would be very much appreciate if you can give us an idea as to what the impact of those businesses ROICs will be in the overall company's ROIC? Thank you.

**B Prasada Rao** The ROIC figures as such as you must have been seeing our results that the ROCE for the year 2009-10 has been about 45% and we do not see any reason why that should go down in future. Second, the businesses that we are adding in majority cases are not really new businesses. These are really increase of activities in the same growth areas that we have been projecting already like the major growth is going to come from power sector and the private sector orders. In both the number of megawatts we are going to execute is going to go up and in fact going forward when the volumes grow, the volume affect also starts coming as we have now completed our wage revision. The fixed costs are taken care off and only the further investments, what we are doing are only a brown field expansion. We are not spending too much of CAPEX on that. So with that I do not see any reason for the ROCE to come down in future, but I cannot give you exact figure.

**Patricia Coutts** So is it fair to say that 45% is the minimum levels that is management will set their eyes on in the next two to three years.

**B Prasada Rao** That is right.

**Patricia Coutts** Okay. Thank you very much. I appreciate it.

**B Prasada Rao** Thank you.

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

**Venugopal Garre** Hello. Thanks for taking my question. I just wanted to check what is the current number of employees that we have and how many do we intend to add this year and also that given that new domestic competitors are setting up manufacturing basis, do we see a risk of losing out good employees to them and what steps are we taking or do we intend to take to tied over a potential turnover of employees?

**B Prasada Rao** BHEL traditionally had very less turnover of manpower. The manpower has been very highly committed and in spite of the opportunities being provided by the economy, the turnover has been less, particularly in experienced categories. Whatever turnover happens, happens in the initial period when an officer joins and in the first three to four years only. After that we have practically nil or a very few people leaving us and most of them you know stick us. You know the kind of commitments they have to the company is very great. That way we are blessed with such kind of manpower. So today we have about 46,233 people, and going forward we have a plan to recruit 4,000 people a year till the end of 2012. We expect to have around 50,000 by 2011-12 with us after taking care of the wastages.

**Venugopal Garre** Thanks sir. My second question is regard to the capacity expansion from 15 to 20 gigawatt per annum just wanted to understand have we already started the process of expansion are we still…

**B Prasada Rao** We already started it and the commitments have been partially made and we will be completing our commitments in another two to three months' time so that the equipments start to get delivered and commissioned by March 2012.

**Venugopal Garre** So this is also a brown field expansion.

**B Prasada Rao** Yes.

**Venugopal Garre** And sir my last question is earlier you have indicated the kind of scope of order for HVDC tender, just wanted to understand would this comprised roughly 50% of the order value or is it much smaller portion of the order value?

**B Prasada Rao** By the tender specifically itself it is consists one for Indian partner so we would be probably doing about 30-40% of the total orders.

**Venugopal Garre** Okay thank you so much sir.

**B Prasada Rao** Just a moment please. We would like to provide two small clarifications before we close the call our Director – Finance, Mr. C. S. Verma, will provide these two clarifications.

**CS Verma** It is regarding the debtors you wanted to ask about the debtors as on 31st March 2010. Amount of the debtors is 22,190 crore of which the debtors more than six months is 11,340 crore and debtors less than 6 months amounts to 10,850 crore and the provisioning against the debtors as on date is 1,502 crore and the net debtors which we have shown in the balance sheet is 20,688 crore at the end of the year. About the pension provisioning it is being reflected in schedule 11 of balance sheet under the heading retirement benefit.

**Moderator** Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor back to Mr. Rahul Gajare for closing comments, please go ahead sir.

**Rahul Gajare** Thank you Mellissa. I would like to thank the management of BHEL for giving us opportunity to host the call and all the participants on the call. Also I wish the management all the very best for the next quarter and the year. Thank you very much sir.

**B Prasada Rao** Thank you.

**Moderator** Thank you gentlemen of the management, thank you Mr. Gajare. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.