



“BHEL Q2 FY11 Earnings Conference Call”

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Management Representative

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Moderator: Ladies and gentlemen good day and welcome to BHEL Q2 FY11 Results Conference Call hosted by IIFL. As a reminder for the duration of the conference all participants' 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 please signal an operator by pressing "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Gopal Ritolia of IIFL. Thank you and over to you, Sir.

Gopal Ritolia: Welcome everybody to BHEL Q2 earnings call. We have with us today Mr. B.P. Rao, BHEL's Chairman and Managing Director. I hand over the floor to you Sir for opening remarks, which would be followed by Q&A.

B Prasada Rao: Thank you Mr Gopal. Good afternoon friends. A very warm welcome to all of you. Industrial production during August 2010 grew by just 5.6% due to broad based underperformance across the sectors. These results were mainly due to slow growth of 3.7% in infrastructure sector. Manufacturing sector grew by 5.9% compared to 10.6% a year back. Capital Goods output shrunk by 2.6% compared to growth of 9.2% in previous year and strong growth in June by 72%. Hence Industrial picture looks soft. But, all major capital goods manufacturers have strong order book indicating healthy demand. Further investments continue to grow at good pace. All these will drive production growth in coming months. Overall, Indian economic activity remains robust due to broad based growth supported by better monsoon, strong domestic consumption and government's continued thrust on infrastructure development.

With strong order book, BHEL continues to focus on project execution. This is reflected in healthy turnover growth in Sept 2010 quarter. During the 2nd quarter, we have booked orders of ₹ 13506 out of which Power Sector contributed orders of ₹ 11024 crore aggregating to 2821 MW, Industry Sector contributed ₹ 2597 crore aggregating to 430 MW and remaining from exports.

In Power Sector, we have received following five major orders:



21 MW TSECL / Rokhia # 9 – GTG (₹77 Core), 100 MW NEEPCO / Monarchak (₹ 405 Crore), 2X600 MW Visa Power Ltd / Raigarh (₹2665 Crore), 1X800 MW RPCL / Edlapur TPS (₹3601 Crore), 1X700 MW KPCL / Bellary # 3 (₹3700 Crore). We have also received few major orders after 30th Sept 2010. These are 5X270 MW IRL (IndiaBulls) / Nasik Ph II (₹2875 Crore), 5X270 MW IRL (India Bulls) / Amravati Ph II (₹2893 Crore), 1X600 MW APGENCO / Rayalseema # 6 (Stg IV) (₹ 1445 Crore)

Major orders received in Industry Sector include 3x150 MW BTG from Indian Power Corp, Haldia, 2x30 MW STG from ONGC Petro Additions, 2x67.5 MW STG from Bhubaneshwar Power Pvt Ltd. and 30 sets of IGBT based 3 phase drive propulsion equipments for electric locos from Indian Railways.

In export markets, we have got order for 2 nos of Fr-6B Gas Turbine for Sulaimaniyah Power Plant Iraq. BHEL has successfully made an entry into a new country – Yemen by securing an order for 5 nos. motors from National Cement Company, Yemen. Further we have synchronized 50 MW for Oman Refinery Company, Oman and 150 MW at Western Mountain, Libya both Gas Turbine Generator based Power Plants. With these orders, BHEL has an order book of ₹ 1,53,737 Crore as on 30th Sept 2010.

Looking at the Qtr 2 FY11 financial results: Turnover for II Qtr. 2010-11 is ₹ 8708 crore, a 26% increase over that of II Qtr. 2009-10. Cumulative turnover upto II Qtr. 2010-11 is ₹ 15461 crore, a 22% increase over that of ₹ 12702 crore achieved upto II Qtr. 2009-10. Profit Before Tax for II Qtr. is placed at ₹ 1654 crore. Cumulative PBT upto II Qtr. 2010-11 is ₹ 2652 crore which is an increase of 29.5% compared to the achievement upto II Qtr. 2009-10. Profit After Tax for II Qtr. is placed at ₹ 1142 crore. Cumulative PAT upto II Qtr. 2010-11 is ₹ 1810 crore which is an improvement of 36 % over to corresponding figure of last year.

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

Moderator:

Thank you Mr. Rao. Ladies and gentlemen, we will now begin the question and answer session. The first question is from line of Venugopal Gare from Credit Suisse. Please go ahead.



Venugopal Gare: Sir, I just wanted to check this quarter has been very strong in terms of revenue growth. It is more than 25%. For the medium-term with the kind of capacity that we have, are we comfortable with 25% odd growth rate over the next few quarters and secondly at the same time we have the ₹ 50000 Crores as our target for FY12. Sir for the next plan essentially the strategic planning that we do, do you have any initial take in terms of what number we would like to achieve by in the year FY12?

B Prasada Rao: See we normally do not give the forward indications. You must judge by yourself the kind of order book what we have, kind of projects what we are executing and the kind of revenues and the growth we are achieving. So this is what I could say and we are definitely targeting a kind of figure that we mentioned about ₹ 50,000 Crores for FY12. Definitely our strategy plan target has been about ₹ 45,000 Crores revenue, but I am definitely sure that we will cross that.

Venugopal Gare: Anything for other next plan, in terms of initial...?

B Prasada Rao: No, we are currently doing the next five years plan exercise and then we will come out, may be by the middle of next year about the projections for next five years.

Venugopal Gare: The second question is that I wanted to check going forward with the state joint ventures that we are having we will probably see a lot of these orders coming in the EPC format rather than just in equipment order. So at this point in time, is there any number you can share in terms of proportion of order backlog, which is the EPC sort of a format.

B Prasada Rao: Right now I do not have the breakup of this 1,53,000 Crores what I mentioned as the order book. Roughly about 30% you can take it as EPC on this.

Venugopal Gare: Sir any update on the Toshiba MOU when do we expect to start bidding for this 765 KV T&D projects is it something that is expected in this current year?

B Prasada Rao: Definitely. You will see that we are already working on a few tenders with them jointly and you will see the bids being placed in the market for this 765 KV and above voltage tenders. We will have a joint venture agreement with



them, so I expect that all this should mature in the first quarter of next calendar year.

Venugopal Gare: Thank you so much.

Moderator: Thank you. The next question is from line of Indrajeet from Maquarie Capital. Please go ahead.

Indrajeet: This is Indrajeet here from Maquarie. There are a couple of questions from my side. One is you had a very strong improvement in margins in this quarter primarily lead by raw material cost being lower. Can you give some sense on how this is likely to pan out in the next six months or eighteen months or so? Second is you listed a number of orders, which you have bagged post September 30. Can you give me the value of the total orders?

B Prasada Rao: Approximately it is about 6500-7000 Crores the new orders, which have come after September 30. The question in which you mentioned about the forward indications we normally do not give such indications. The indications are that the material prices are rising in the market so we will have to look at what will happen in the third & fourth quarters. But we also have the existing stocks with us, which will be more or less consumed in the next two quarter. So it is the mix of some coming from the new materials and some comes from the stock so I would not be able to give any indication on that.

Indrajeet: Because at the start of year BHEL talked about maintaining the raw material costs at the same level as last year given that the prices have been extremely volatile does there look a possibility or can you actually end up improving?

B Prasada Rao: There are continuous exercises in the company for optimizing the material cost. Even if there is an increase in the material cost the entire thing is not reflected in the consumption figures so we keep doing these exercises continuously like design to cost, lean manufacturing and design optimization etc to improve the total material content in product. So these things sometimes balance out. At the end of the year I still look forward to the target, but there could be minor increases.



Indrajeet: One final question recently some of these private power developers have started to play very large size tenders, which can spread out over the next five year or ten years and the apparent pricing that we have seen is extremely low. Any kind of comment that you would like to make on that or are you worried with this kind of a trend, but companies are booking five or ten year contracts?

B Prasada Rao: No, we are not worried basically when we do the bid in those kinds of contracts we do take into account the long terms projections for cost as such. So though at times it becomes difficult to really project during that kind of periods, we try to look at ourselves from the point of view of foreign exchange rate variations wherever imports are involved and even for the materials to be bought. We do firm up the prices based on estimations. Lot of work is done before we commit any kind of prices.

Indrajeet: You are actually kind of participated in these bids?

B Prasada Rao: The bulk tender is what we have participated in.

Indrajeet: No, in the tenders, which have been placed or the orders, which have been placed by LANCO and Reliance Power to these Chinese players. Did you partner...?

B Prasada Rao: There was no bidding on that.

Indrajeet: We were negotiating, but do you want to comment because the pricing seems to be at ₹ 1.5 Crores per mega watts, which is significantly lower than...?

B Prasada Rao: We will have to see the pricing after the contract is executed. And when the contract really comes up. It will be too premature for me to react on the kind of news, which is appearing today. But one cannot make out the real indication in this. Often I find that even some of the plants, which are ordered to Chinese at a discount of 20% when these projects are completed there are lot of extra claims and project duration was also not as what they contracted. In fact some of these Chinese projects have not been completed on time and number of months delay has happened. We have a lot of doubts on this and I do not see at the end of the day all those things maturing, but then yes, these kinds of things are there, so



we need to tighten ourselves and we are aware of it and we are consciously working towards optimizing all our input cost.

Indrajeet: Thanks a lot. I will come back if I have any question.

Moderator: The next question is from line of Venkatesh D from Citi. Please go ahead.

Venkatesh D: Sir you said that you have booked around ₹ 13,500 Crores of orders in this quarter, so I guess till the second half you have done say around ₹ 24,000 Crores after that you booked another ₹ 65,00-75,00 Crores amount of orders, which takes the tally to almost like ₹ 30,000 Crores or so. So are you still sticking by only a ₹ 60,000 Crores kind of an inflow for the current year, is it not possible that we do more like ₹ 70,000 Crores this year. Because generally the second half is much better and the bulk bids order should also coming in the second half?

B Prasada Rao: You are right Mr. Venkatesh. You know it is definitely possible to go upwards to the ₹ 60,000 Crore target what we mentioned but again it all depends upon the kind of schedules to finalize the order. These orders, for example in bulk was supposed to be finalized last year first quarter and TG could be finalized in the third quarter and the boilers to go even fourth quarter. So there is lot of uncertainty in some of these orders or these inquiries are getting matured into orders, so we will have to keep that the kind of caution at the back of our mind before we announce the target we can achieve.

Venkatesh D: So it is better to work with the ₹ 60,000 Crores number rather than a ₹ 70,000 Crores number?

B Prasada Rao: That is right. That is why our indication has been that we will be able to book similar kind of orders because ₹ 60,000 Crores is also quite a large number.

Venkatesh D: Now the second question is that LANCO and Reliance Power has placed 36 sets of 660 megawatts and LANCO has placed 16 sets of 660 megawatts over the next 10 years or so. These are like massive orders. We are not disputing the pricing but given that these orders have already gone out and this could in a way make other private sector IPPs also place block orders because if we give block orders generally you tend to get a discount. Would it be a logical



conclusion to make that may be the current year is the peak in flows in terms of inflows that BHEL will see and going beyond ₹ 60,000 Crores is going to be near-to-impossible over the next three to four years?

B Prasada Rao: I do not know. I cannot find anything on this cost saving option. It is not so because the requirement for power is quite large in our country and we want to have 100,000 megawatts coming up in next plan period; 150,000 megawatts each coming in the next two five year plans. I am not sure about the kind of delivery schedules and the project requirements coming up. As I hear it is only the commitment that is being made and therefore there is the room for everybody in that. I do not subscribe to your opinion about peaking of orders for BHEL in this year. I do not at all agree with you on that, if that is so then we should not even increase our capacity. We are increasing our capacity to 20,000 megawatts indicating to you the confidence we have. There is room for more number of players to come but that is not a worry at all for us. The depth of the product we have in BHEL, the kind of resources that we have, the kind of reach we have, the kind of performance which the BHEL products are exhibiting in the field, all these indications we must take into account before coming to any conclusion like this.

Venkatesh D: Sir my last question is on the NTPC DVC bid. What were the L1 bid, L2 bid, and the L3 bid we have some data, which is available but if you could share with us what was the L1 bid and how much higher you were and finally will you be getting only four sets or will you be getting six set. You expect JSW Toshiba to match the L1?

B Prasada Rao: You want to predict something on the future. I do not know really today. I have the same data what you have. We are positioned as L2 as you know. Pricing has to be evaluated based on the loadings based on CIF content and the performance parameters to arrive at final prices. I do not know what the third party JSW Toshiba is doing whether they are going to take the order or not. So it depends upon all these things.

Venkatesh D: But if they do not match the bid then you will have to get those two sets also or will it go to Bharat Forge?

B Prasada Rao: As per the tender conditions it is BHEL, which has to get.



- Venkatesh D:** What was the lowest bid was it around 13 million per megawatts?
- B Prasada Rao:** I do not have the figure here.
- Venkatesh D:** Thank you very much and all the very best for the future.
- Moderator:** Thank you. The next question is from line of Renu Baid from B&K Securities. Please go ahead.
- Renu Baid:** Sir, just two small queries, one is basically on the numbers. Just request if you can share the operating expenses, the saving of the operating leverage and what has been the change in provision at the end of Q2?
- B Prasada Rao:** I would request my General Manager, Finance who is with me to respond on this. I do not have the exact figure.
- D. Sankaran:** Hello, I am Sankaran. Good afternoon. Actually the deduction in other expenses is mainly due to net provisions going down as compared to the corresponding period of the previous year.
- Renu Baid:** Sir would do have the broad numbers?
- D. Sankaran:** In broad numbers, the reduction is about 70-80 Crores.
- Moderator:** Thank you. The next question is from the line of Lakshmi Narayan Ganti from BNP Paribas. Please go ahead.
- L Narayan Ganti:** Congrats on very good numbers. It could have been even better if not for wage cost; actually we thought they would be lower. So my first question is, if you can tell us how wage cost will behave this year? We thought there would be no major increase, but we saw some 16-17% increase. So, that is the first question. My second question is, if you can kindly update us on the JVs that you have, not only the utility JVs but also the MoUs or tie-ups that you have for nuclear as well as forgings and so on. If you could give us some update there.
- B Prasada Rao:** Yes. The first question, Mr. Sankaran will respond a little later. First let me deal with the second question what you have on joint ventures. Now the MoU what we have signed with Toshiba, I just mentioned to an earlier speaker that we are now in the final stages of finalizing the joint venture agreements with



Toshiba for the transmission joint venture and I expect that by first quarter of next calendar year we will have the agreements in place. As far as the nuclear JV is concerned with Alstom, it is under the approval by the Department of Atomic Energy and the Government of India. This is a tripartite joint venture for the 700 megawatt turbo-generator sets and we are already discussing with Nuclear Power Corporation for two such sets orders and this order also I am expecting that they will be finalizing it may be during third quarter. So coming to the other utility JVs, of course you know that Karnataka has placed orders on us for 3x800 megawatt sets. The Tamil Nadu Udangudi Power Corporation is in advanced stages of getting the environmental clearance and once that is available they will also start talking to us on the orders for our equipment. The Maharashtra JV and Latur that has been approved by the Maharashtra cabinet very recently we are just signing the joint venture agreement and the Madhya Pradesh Dada Dhuniwale Khandwa Power Corporation, that also we are just finalizing the shareholder agreements and that will also be coming into existence may be by end of this quarter. Now with all these four joint ventures, there are new joint ventures also that we are discussing with Gujarat and West Bengal and also Punjab has just initiated the discussions. AP also, I have just initiated discussion. So with this I feel that sometime next year, probably this will take a solid shape and then we will start working on that.

Now the other thing what we announced was the non-banking finance company, we are in the process of appointing a consultant for that and once the consultant is appointed and proposes his scheme how to go about the whole thing, then we will take subsequent actions on that. I think I have covered all the areas and another joint venture is in the transportation area, which we have bid for the factory at Dankuni along with Alstom. This is a factory, which is going to produce the propulsion systems for the 7000 HP locomotives required by Indian Railway. We are also bidding for the Diesel electric locomotive factory in partnership with GE and the bid will be placed sometime during next month. I believe the bids have been extended very recently.

L Narayan Ganti: Prasad, one small follow up on this. The T&D JV that you have with Toshiba, would that be housed under a separate manufacturing facility or would you continue to do it at your own existing...?



- B Prasada Rao:** See, in most of these JVs, underlying principles will be that BHEL facilities will be used to maximum extent. It does not make sense to invest for another factory and put another investment to cater to those JV requirements. As much as possible, it will be generated within BHEL, for example 765 KV transformers will be produced within BHEL under the technology from Toshiba and will be marketed by the JV, both for Indian market as well as for the export market. So that is the principle we are going to follow.
- L Narayan Ganti:** Perfect and my question on wage cost?
- Sankaran:** The staff cost for the year as a whole will be around ₹ 5200 - 5300 Crores.
- L Narayan Ganti:** So, effectively we are looking at the same roughly ₹ 1250-1300 Crores
- D. Sankaran:** More or less same.
- L Narayan Ganti:** Except for the last quarter when bonus will probably be paid.
- D. Sankaran:** DA increase and those things will be there, so it could be around ₹ 5300 Crores.
- L Narayan Ganti:** So, how much would be the manpower additions, how many people would you add this year?
- B Prasada Rao:** This year, totally the manpower additions will be around 4000, as per the plan and I do not know how many have already joined in this. About 960 have already joined us and another 3000 will be joining us during the next half.
- L Narayan Ganti:** Thank you sir.
- Moderator:** Thank you. We have the line for Renu Baid connected. Ms. Baid, please go ahead.
- Renu Baid:** Sir, I am very sorry for that interruption.
- B Prasada Rao:** You were asking about the provisions?
- Renu Baid:** Yes sir.



- B Prasada Rao:** Mr. Sankaran will give you the answer.
- Renu Baid:** Thank you so much sir.
- Sankaran:** There is reduction of around ₹ 30 Crores to ₹ 40 Crores on account of this as compared to the previous period.
- Renu Baid:** Okay, and so the entire reduction that you have seen at 7.6% is it purely because of lower provisions?
- D. Sankaran:** Main reason for this reduction is on account of provisions.
- Renu Baid:** The second question is regarding the indigenization for the supercritical projects. We have already seen, I think after the NTPC order that we receive will only cross the milestone for minimum 10 to 12 units for supercritical boilers and turbines. So, in your view what will be the impact of this on our profitability cost structure?
- B Prasada Rao:** Well Renu, there will definitely be material percentage savings with respect to the indigenization and it is going to be much cost effective, but I cannot give you a number at this point in time.
- Renu Baid:** But sir, will that mean from now on every subsequent order that we take on supercritical side, incrementally our profitability in cost savings will definitely be higher than what you have booked till now?
- B Prasada Rao:** Well it depends on the execution cycle for that and also the delivery requirements. So that much time availability for really indigenizing it and finding out a local suppliers and developing them, so there is a lot of cycle time involved in that for the component portion.
- Renu Baid:** And any update on the HVDC project where we were L1 along with ABB?
- B Prasada Rao:** Yes, that is still being under evaluation by Power Grid and they wanted to go for a snap bid and revise the bid, but then we have stopped them from going for a rebidding on that. Particularly, our partner ABB has been much more active in this and we are having discussions with them to sort out whatever information they require on this.



- Renu Baid:** Sir just to gauge what is the incremental impact of the capacity addition; can you share with us what has been the shortfall or production improvement in Q2 megawatt or in percentage terms?
- B Prasada Rao:** Well actually quarter-to-quarter we have to give you...
- Renu Baid:** On a half yearly basis?
- B Prasada Rao:** Even on a half yearly basis is difficult for us, we will be able to tell you on year-end, and you will come to know. See we have a plan to go up about 17,000 megawatt or so and we will be able to do it. Last year also if you look at we have done 11,000 and odd megawatt actual production in terms of megawatt capacity.
- Renu Baid:** Sure sir, I think broadly that is it from my side. Thank you so much and all the best for the year to come.
- Moderator:** Thank you. The next question is from the line of Abhishek Puri from JM Financial. Please go ahead.
- Abhishek Puri:** Sir, I have two or three questions. First, I just wanted to understand your JVs that you have at this stage. Would that be going the BTG or the EPC way? I think first two orders have been on the EPC way?
- B Prasada Rao:** See it is actually not just BTG or EPC, it is BTG plus some EPC portion also we have taken in that. It is not a complete EPC.
- Abhishek Puri:** Some EPC would mean that some portions of the BOP plant or....
- B Prasada Rao:** Yes, something related to boiler turbine, some BOP and some related civil works we have taken.
- Abhishek Puri:** From an investor point of view we are getting the average realization as 4 Crores per megawatt. So, how much can apportion for the BTG part as well as the BOP part in that case?
- B Prasada Rao:** Well I do not think I will have ready information on that kind of thing.



Abhishek Puri: I will take out that information later, but just continuing with the same question I think the way NTPC is splitting their tenders into boiler and turbine as per the recommendation of Ministry of Power, would you expect the SEBs also going the same way, would they be splitting tenders going forward or is it likely to be a main plant package plus BOP package separately?

B Prasada Rao: Well, I do not expect SEBs to go that way, but of course ultimately it is their decision, but then NTPC has a lot of expertise built up in this segment, they can integrate the boiler and turbo-generator, they play a very interfacing role, which I doubt whether SEBs are really geared up for playing that kind of a role. In my opinion, I think they will be going for BTG and EPC that is the maximum which they are going to do. I am not very sure whether they will do, may be some Gencos can probably do it when they are equipped, by and large most of the state Gencos will do BTG.

Abhishek Puri: It is a fair point. Sir, just last thing, whether we had any gas-turbine deliveries in the remaining part of this year and any increase in major outsourcing for probably a supercritical at year-end, which we have?

B Prasada Rao: No, today whatever outsourcing we have already done, there is no increase at all in outsourcing of supercritical. Gas turbine, we have deliveries in the next six months. We have delivered for Bawana one gas turbine, and we are delivering for Gujarat's Pipavav project one more and we will also be delivering for the ONGC Tripura project.

Abhishek Puri: ONGC Tripura would also come in the coming quarters?

B.P Rao: In this financial year.

Abhishek Puri: I think that is all from my side. Thank you so much and all the very best for the rest of the year.

Moderator: Thank you. The next question is from the line of Madan Gopal from Sundaram. Please go ahead.

Madan Gopal: Sir, my first question, are we the lowest bidder in the Nabinagar project in the NTPCs or bulk tender?



- B Prasada Rao:** I do not know that as of now. Overall figures I have not got. You are talking about the bulk tender?
- Madan Gopal:** Yes, bulk tender Nabinagar project, which has three units. The second question is, we heard from the market that NTPC has called for the electrostatic precipitator bulk tender also. Is it true?
- B Prasada Rao:** They are expected to call, but I am not sure whether that tender has come out.
- Madan Gopal:** Sir, what could be the size of this entire order?
- B Prasada Rao:** No idea really, right now I do not have any idea based on the specs that they have put in the tender, it is sought on EPC basis or it is just ESP Equipment only, it depends on that.
- Madan Gopal:** Sir, have you got any new inquires for the gas turbine that we are bidding for?
- B Prasada Rao:** Yes, we are bidding for Iran and I am expecting NTPC to come out with their tender shortly.
- Madan Gopal:** Sir you spoke about so many MoUs or JVs you are tying up with the state power state power utilities, what will be the aggregate capacity of these?
- B Prasada Rao:** See each state will have minimum of 2x800 megawatt, and some states like AP and all are planning for even bigger plants, 5x800 megawatt are being planned by AP.
- Madan Gopal:** Sir, on the boiler order for NTPC it would be split between two people right?
- B Prasada Rao:** There are four bidders now.
- Madan Gopal:** But the award would be only for L1 and L2.
- B Prasada Rao:** As per the scheme I think it was probably L1 and L2. Earlier there were only two bidders but now there are four players.
- Madan Gopal:** So there is no revision in the guidelines right as of now?
- B Prasada Rao:** Right now there is no revision.



- Madan Gopal:** Thank you very much for taking my questions.
- Moderator:** Thank you. The next question is from the line of Lokesh Garg from Kotak. Please go ahead.
- Lokesh Garg:** Sir I just wanted to ask you on public sector ordering activity because we have seen in FY10 BHEL order inflow primarily came from private sector, which actually is a good thing, but just added to that in H1 also we have seen lots of private sector orders coming through, so are you seeing a bit of a slowdown from public sector ordering activity or is that something else that is happening?
- B Prasada Rao:** Last year it was peculiar, as a number of projects which were there and bulk tender of an NTPC could not get finalized. But all that definitely is going to happen this year, so I would expect a kind of an equal share between both private sector and public sector this year.
- Lokesh Garg:** Because basically last year may be public sector ordered only 1500 to 2000 megawatt on BHEL and this year also apart from Bellary order that you announced there was nothing much from the public sector?
- B Prasada Rao:** Why Bellary, also take the Yeramarus and Edlapur also they are also public sector, the KPCL and BHEL joint venture entities.
- Lokesh Garg:** Okay which is the Raichur project?
- B Prasada Rao:** It is 1x700 megawatt that is. Bellari 3 is the project.
- Lokesh Garg:** My next question is related to the employee cost, is there any one of in employee cost in the first two quarters?
- B Prasada Rao:** First quarter there is a one off item about 80 Crores.
- Lokesh Garg:** Apart from that there is no more? Basically my question relates to the fact that Q4 employee cost is usually relatively higher and in that case this run rate of ₹ 12-13 billion each quarter if it sustains then the total number could actually exceed ₹ 54-55 billion is that possible?
- B Prasada Rao:** We have already given an indication it could be around ₹ 5300 Crores.



- Lokesh Garg:** Okay and only one of has been ₹ 80 Crores in Q1.
- B Prasada Rao:** Yes.
- Lokesh Garg:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Akshen Thakkar from Enam Securities. Please go ahead.
- Akshen Thakkar:** I just had a couple of questions firstly your take on the proposed custom duty, which now the Ministry of Finance is saying that they will not to be levied?
- B Prasada Rao:** This is a recommendation given by the Planning Commission supported by the Committee of Secretaries so I think it will be discussed at some point in time in the cabinet. Definitely different ministries have different opinion I think they will have to take a call on that.
- Lokesh Garg:** But some of your peers have been indicating that these might be now taken up only in first second year of 2012 span, if that happens do you see any adverse impact on new in terms of market share?
- B Prasada Rao:** We are not dependent on only that particular custom duty. We have been working, and we have been winning orders, so if it comes it is good and it is going to create a level playing field and without that also we have been winning orders. We are working continuously to improve our costs and position ourselves with respect to not only the cost but also performance of equipment. As a company we are also balancing our portfolio, we are getting into transportation in a big way, so that way number of steps are being taken by the company, if it comes it is good, I expect the cabinet to take a view on this.
- Lokesh Garg:** Sir if you could just give some colour on what do you expect for the industry segment over the next five years, right now it is a relatively smaller portion of your revenues let us say three to five years out from now given the kind of JV that you have signed in the kind of other initiatives that you are talking about how do you see this segment to panning out over the next five years?
- B Prasada Rao:** Industries have been always around there 25% to 30% and industry sector has to grow. Power sector has been growing and industry also has to grow to match



up and keep it. To remain at 25% to 30% it has to grow. Number of initiatives has been explained in my earlier interactions; Transmission, transportation, renewable energy etc. We are concentrating on the product segment of both transformers, compressors. We have recently signed collaboration with GE Oil and Gas for the new range of compressors, which are going to be manufactured in Hyderabad with matching requirements coming up in the oil and gas and fertilizer segments. So all these initiatives will see industry sector to remain at 25%-30% in three to five years time. Power sector is growing very fast with all these initiatives therefore I expect industry sector also to maintain the kind of growth which we have been experiencing in the last one or two years.

Lokesh Garg: All right thank you Sir.

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

Pankaj Sharma: Two questions, one is on the replacement demand because some of the sets India is operating currently would be very old, should you see that in near future let us say 2012 span or so there could be a demand for the replacement of these sets and there could be an overall increase in the demand for capital goods or BTG equipments?

B Prasada Rao: Yes this has been there always, renovation, modernization has been on the agenda for a number of power plants, but then the pace at which they are able to take up these projects has always been limited. There are a few reasons for it, one is that the standard question or the dilemma that whether to go for a new plant or to renovate the existing plant. The cost almost come to 50%-60% of the new plant cost, so this aspect has to be kept in mind. The other thing is to arrange finances for such R&M activity is also becoming an issue since newer capacity will come up but then the existing capacity will be revised, but then I think at least some of the jobs will come, we are doing a big job in Obra UP. We have recently commissioned the first set and we are going ahead with other sets. We have been working, our marketing guys are very active on this, and we have been working for various customers in developing these project ideas. We also do the RLA study for them and tell them that this is the kind of thing which do not happen to the power plant. These are the aspects, which are to be improved. So these are continuous activities and yes as we go along more and



more power plants will become older and older and therefore there will be a big market for this, but then the factor is basically the economics, what will be the best option for them.

Pankaj Sharma: The second question would be on this NTPC bulk tendering, do you expect that these orders should be placed by the end of this financial year?

B Prasada Rao: I expect the current tenders the 660-megawatt both the turbo generator as well as the boiler will get finalized by this financial year.

Pankaj Sharma: How about the next phase which NTPC is thinking and planning?

B Prasada Rao: That is the 800-megawatt bulk tender, which they said they will be issuing.

Pankaj Sharma: Thank you Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Indrajeet from Macquarie Capital. Please go ahead.

Indrajeet: Thanks for taking question again. This is Indrajeet here. My question relates to gas turbine business that BHEL is planning to do in the next two to three quarters, how large a portion of this is outsourced or is it completely being manufactured in India?

B Prasada Rao: These are being manufactured at Hyderabad plant, but by sourcing components from GE.

Indrajeet: Second is just to get a sense what is in pipeline like after the bulk tender how much projects are you bidding at this point of time in terms of megawatt both public and private put together?

B Prasada Rao: All the tenders, which are there out we will be bidding, I do not have any readymade figures but I can tell you that we will not miss any tender.

Indrajeet: Thanks a lot.

Moderator: Thank you. The next question is from the line of Sumit Agarwal from MetLife. Please go ahead.



Sumit Agarwal: Sir I just wanted to know your view on the industry as well as the export business, how do you see these two segments of the business going forward over the next five years?

B Prasada Rao: Industry business as I just mentioned to another speaker that the share of industry in our operations which is in the range of 25%-30%. We need to maintain that to have a balanced portfolio and therefore we are taking a number of initiatives in the segment and I expect that with these initiatives we would be able to maintain this kind of a share. Now coming to exports which is about 8%-10% of our revenues, again here export needs a lot of efforts compared to domestic marketing and we have a number of tenders in the offering and we have participated in a number of countries particularly African region is offering a number of opportunities and we are there and I expect a big breakthrough in the next one or two quarters on export tenders and we will again hear and we will remain in the range of this since our revenues are also growing every year to maintain that kind of growth in the export sector also, that means we will remain around again 10% or so in the total revenues.

Sumit Agarwal: Just wanted to check with you in terms of your indigenization for the supercritical projects, when and by what time period can we see full indigenization happening?

B Prasada Rao: I do not know what you mean by indigenization really. Concept wise I must tell you, there are number of things which are not available in our country. We will have to keep on importing them. It can be a raw material like boiler plates or electrical grade steel or some P-91 material, alloy steel. These will continuously be imported. The imports can never be zero in this. So there will be some minimal import contents which will continue and it all depends on the economics of indigenization. For some components it may not be possible for us to pass the cost over it. It is may not be worthwhile to indigenize depending upon the parts which are used. Therefore some other parts we will keep on taking from Alstom or from Siemens as we go along since it will not be worthwhile to indigenize them. The maximum possible indigenization we will be doing; by the time we complete eight to ten sets.

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



- Akshay Soni:** Just wanted to find out two things one any changes in your CapEx plans and what is the CapEx that has been done in the first half?
- B Prasada Rao:** There is no change in the CapEx plans. We are expecting that we will be doing some ₹ 1500 to 1600 Crores this year and we are on track to do that and again next year also we have a similar plan of about ₹ 1400 Crores for completing the 20,000 megawatt expansion plan and we are on track.
- Akshay Soni:** In the first half how much could have we been done?
- B Prasada Rao:** Right now I have no figure here, but most of it will happen in the second half because the equipment makers will start deliveries.
- Akshay Soni:** Does this 1500 to 1600 and the 1400 next year also include your JV, the investments you will be making in that?
- B Prasada Rao:** No this would not include the JVs. Most of the figures will not include the JV investment.
- Akshay Soni:** One last question, I know that you would not have competitive information on what others bid for the contract, but in your case in terms of the TG would you be able to share what you have bid on per megawatt basis...?
- B Prasada Rao:** Let the tender be decided then we will be able to share it. The capital expenditure till second quarter has been ₹ 526 Crores.
- Akshay Soni:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Harish Biyani from Indiabulls Securities. Please go ahead.
- Harish Biyani:** Sir my question pertains to the strategic initiative taken by BHEL on the design to cost, lean manufacturing. Which are the plants to have already completed these initiatives that is one. What is the kind of benefit that we have already availed and over the next couple of years according to your understanding what is the kind of benefit that we can avail from all these initiatives and RM cost?



B Prasada Rao: First of all let me tell you these initiatives are continuing initiatives. There is nothing called completion of this. You complete one cycle and start the second cycle. First cycle we have done in Bhopal, Hyderabad, Trichy, Bangalore and we are doing right now in Haridwar. So these are continuous exercises. The second cycle is starting in Bhopal and the kind of benefits differs from product to product in the material cost levels. Again here the products also keep on changing from period-to-period. Therefore that is why the second cycle requirement comes in. So any figure I give here will be misleading totally. It could be true in one case and need not be true in another case, so therefore I would not like to comment. This gets reflected in the total material cost consumption what we have over the years, though the material prices have been raising, we have been able to maintain the kind of material and inventory figures that must give you any indication that these initiatives are yielding results.

Harish Biyani: So given over the next couple of years whatever the raw material movements could be up or down, given these initiatives do we expect that will be able to maintain our RM cost to sales or even some decline in RM cost the sales going ahead?

B Prasada Rao: I cannot predict any such thing. It depends upon the actual material cost increases which you are able to put it back, then I can predict this. All these exercises are really to contain the cost and position ourselves competitively in the market basically.

Harish Biyani: Just one housekeeping question is on the tax rate, if I look at the second quarter and the first half tax rate was low versus last year any particular runtime item over there?

D. Sankaran: In the second quarter we have taken that weighted reduction for R&D expenditure, which gives a higher 200% reduction, which is the reason for this difference.

Harish Biyani: Thank you for answering my question.

Moderator: Thank you. Ladies and gentlemen we would be taking the last question. The last question is from the line of Nirav Vasa from SBI Caps. Please go ahead.



Nirav Vasa: My query pertains to a defense business, can you just throw some light on the expansion plans that you have for your defense vertical?

B Prasada Rao: In Defense business, we are doing the Naval guns. These are manufactured these at our Haridwar plant. We are nominated by Ministry of Defense to select a bigger gun along with the Navy. The Indian Navy team and we are in the process of selection of a bigger gun and this will be a very good business going forward in the future. In addition to this we are also discussing with Ministry of Defense a number of other areas which I would not like to discuss because of competition in these areas. But yes, in defense we have big plans going forward in future. However it all depends upon the speed at which the Ministry of Defense is able to take some of these decisions.

Nirav Vasa: Sir are you targeting any orders which would be coming down in the future under offset clause post big defense deals which are signed up?

B Prasada Rao: Not in the present deals what they have signed like helicopter and all that, not in that.

Nirav Vasa: Thank you very much.

Moderator: Thank you Sir. Ladies and gentlemen I would now like to hand the conference over to Mr. Gopal Ritolia for closing comments. Mr. Rao would you like to provide any closing comments.

B Prasada Rao: Well I do not have any more comments. Thank you very much everyone.

Moderator: Thank you Sir. Ladies and gentlemen on behalf of IIFL we thank you for joining us. This concludes the conference and you may now disconnect your lines.

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