



“BHEL Q1 FY11 Earnings Conference Call”

July 23, 2010

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MR. SHIRISH RANE



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Moderator: Ladies and gentlemen good evening and welcome to the Q1 FY11 earnings call for BHEL hosted by IDFC Securities Limited. As a reminder for the duration of this conference call, all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by entering * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Shirish Rane of IDFC, thank you and over to you Mr. Rane.

Shirish Rane: Good evening everybody. Welcome to BHEL's first quarter FY11 earnings call. We have today with us Mr. BP Rao, Chairman of BHEL and he would be giving a brief of the results and after that, we will open the floor for question and answers and I would like to apologize for the delay caused in the start of the conference call, it was due to some unavoidable circumstances,. Over to you sir.

BP Rao: Good evening everybody. Let me first apologize for the delay. I regret the inconvenience caused to all of you. Along with me, I have the General Manager of Finance of Corporate Office, Mr. Sankaran; the Executive Director, Corporate Planning, Mr. Krishna Shankar; and Mr. Prakash Chand, GM of CMD's office. I would like to first give you an overview of the first quarter results. A very warm welcome to you all.

The industrial activity seems to be in consolidation phase with manufacturing growing at 12.3% and capital goods sector at 34.3%. The 11.5% growth in the IIP figures during May 10 though lower compared to the revised 16.5% of April 10 is largely a statistical phenomenon. The positive growth recorded by 15 out of 17 industries indicates that the industrial activity is broad based and also strengthens the prospect of sustainable growth. Further, significant growth in the capital goods, and stable performance of intermediate goods augers well for the overall industrial activity going ahead. All the major companies in capital goods sector particularly BHEL have enough orders to generate revenues for at least next 3 years. This indicates robust demand for capital goods which will translate into a healthy sales growth for the industry in the coming quarters. Supported by a strong order book and accelerated execution, BHEL has maintained its growth momentum in the first quarter of 2010-11 also. We have booked orders for about ₹10,824 crores during first quarter out of which, the power sector contributed to around ₹ 9226 crores aggregating to about 2800 megawatts, the industry sector contributed to ₹ 1592 crores aggregating to 244 megawatts and remaining from exports.

In the power sector, we have received two major orders during the first quarter like 2 x 800 MW from Raichur Power Corporation worth around ₹ 6300 crores which is also our joint venture; 26% stakes being held by BHEL. It is the first composite order including boiler, turbine, and generator for 800 MW set. The other order is 2 x 600 MW for Jhangir-Champa from Dainik Bhaskar Power amounting to around ₹ 2665 crores. Two major orders received from industry sector include 20 MW cogen plant from Maruti Suzuki and 49 MW captive power plant for the GSPS Kakinada project from EIL. In international segment also for the first time, BHEL has secured an order from Yemen which is the new territory for us for supply of 5 number slip ring



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HT induction motors. With these orders, BHEL has an order book of ₹ 1,48,000 crores as on June 30th, 2010.

Now coming to the first quarter results, turnover for first quarter 2011 is at ₹ 6753 crores, a 16.6% increase over the first quarter 2009-10. Profit before tax for first quarter is placed at ₹ 998 crores, a 38.8% increase over the first quarter of 2009-10. Profit after tax for the quarter it placed at ₹ 668 crores, a 42% year-on-year increase. I thank you all once again for joining this conference call. We can start the questions now.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Venugopal Gare of Credit Suisse. Please go ahead.

Venugopal Gare: Good evening sir and thanks for taking my question. Sir I just wanted to check on the financial side, our sales growth has been around 16.6% YoY as you mentioned. If I look at the past quarter, trends have been slower than what we have delivered. So should we be reading this as a quarter specific issue or is it the sort of trend that you should expect in terms of growth rate going forward and again on the financial cost side, I just wanted to check our employee expense has gone up by over 20% YoY. So is this led by some new employee adds or is it the normal wage growth because ideally it should not have been that sort of a increase?

BP Rao: As far as the second question is concerned, the personal payment as percentage of turnover was 14.7% for 2008-09. It is 15.1% for 2009-10. So in all likelihood, for FY1011 it is going to be less because our top-line is growing. So it is just a quarter-to-quarter, this you cannot compare. Some payments like bonus payments could happen in the first quarter, these could get delayed due to various reasons in different years. So we should not compare quarter-to-quarter; year-to-year is the correct comparison as far as the personal payments are concerned.

Venugopal Gare: On the sales growth side, if you can elaborate?

BP Rao: Sales growth side, it is just a quarterly phenomenon. If you really look, the base figures are going up, so you should not just look at percentage growth. Last year we have done ₹ 34,154 crores, in the current year we have set target of 16% growth as you can see in our website. So we are in line with the target. In fact I expect that it is going to cross this target as we have done in the past years. So this is just a quarter-to-quarter figure.

Venugopal Gare: Sir my second question is regarding the various JVs and MoUs that we have been sort of signing in the last few months. Specifically I wanted to understand an update on the MoU with Toshiba for the T&D venture, NTPC JV as well as the licensing agreement with GE for the compressors and if you can give a quick update on the State Joint Ventures that we have been doing for power equipment of the power utilities if there is any further new addition to the JV?

BP Rao: It is like this, as far as the Toshiba joint venture is concerned, we are currently finalizing the definitive documents and we expect that the agreements will be finalized around September and then onwards we will go for the approval process. As far as the NTPC-BHEL joint venture is



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concerned, already this company has got two orders given by us for the balance-of-plant equipment, one for Namrup and one for the ONGC Tripura Power Corporation and the company is executing these orders and also they have parallely started the construction activity at a site near Tirupati which is to be formally inaugurated by Prime Minister at any point of time. The technology agreement for compressors, that we have signed, is basically to enable us to qualify for certain higher end jobs which are coming up now. This is the range of new compressors we are adding to our existing product range and this will qualify us and also we will receive new technology from GE for this. That will enable us to address some of the enquiries in the gas segment. Coming to the Joint Ventures with States, we have signed four agreements, one with Karnataka, Tamil Nadu- Raichur Power Corporation and Udangudi Power Corporation; another with MAHAGENCO, Latur Power Corporation, and with Madhya Pradesh for Khandwa project. Some more are in the offing. We are also discussing with West Bengal and Andhra Pradesh. These can also happen probably in the second or third quarters. As far as these joint ventures are concerned, the Raichur power corporation is in advance stage. They have already placed orders on us for 2x800 MW as informed earlier and the other Udangudi Power Corporation which is in Tamil Nadu is in the advance stages of taking various clearances. So we expect finalization of the orders in third or fourth quarter. For other joint ventures Latur and Khandwa projects, we are pursuing for the initial activities of land acquisition and after that we will be applying for coal linkages and environmental clearances.

Venugopal Gare:

Sir just one last question on the macro side. Of the 78 gigawatt that you are planning for the 11th plan essentially from the government. What in your view would be the country we able to add as per your experience and do you see a possibility of upward revision of the 100 gigawatt target for the 12th plan?

BP Rao:

My take is that out of this 78,000 MW, 62,000 MW is going to definitely happen and there is a possibility of another 7000-8000 MW getting added to that if everything goes well. Coming to the next plan period, the 100,000 MW plan, there could be an upward revision, but definitely there will not be any downward revision, it is my take.

Venugopal Gare:

Thank you very much sir, I will get back if I have any questions.

Moderator:

Thank you Mr. Gare. Our next question is from the line of Srinivas Rao of HDFC Mutual Fund, please go ahead.

Srinivas Rao:

Good evening Sir. Sir can you tell us the pipeline of projects to be finalized over the next 12-24 months in terms of MW?

BP Rao:

Well, there are very good number of projects, but I cannot list out all that here due to various reasons as you know, strategic reasons.

Srinivas Rao:

Aggregate number would be what sir?



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- BP Rao:** Well you can see a repeat performance. We are looking at somewhere around 16,000 MW for the entire year. These are the new orders for us.
- Srinivas Rao:** And sir the second question is can you tell us what will be the likely revenue from supercritical projects in the current year?
- BP Rao:** Yes the projects of APGENCO where we are supplying steam generators for 800 MW sets, Jaiprakash, 3x660 MW and 2x660 MW NTPC Barh projects. These will be generating revenues for us in this year, but I cannot give you exact figure how much is to be from there.
- Srinivas Rao:** And sir finally if I see your last year numbers, the orders from SSBG or the spares business is very low, can you tell us what was the reason and what is the outlook going forward?
- BP Rao:** Spares business also includes R&M component. R&M jobs are actually not happening. These are getting delayed in finalization due to various reasons like performance and financing. Many a times the cost of R&M works come higher than or nearly equal to the new plant. Therefore there is always a question of whether to go for it or not. We are not finding R&M business really taking shape the way it was originally envisaged but the spares business is definitely on increase and we have no issue on that.
- Srinivas Rao:** Okay thank you and all the best sir.
- Moderator:** Thank you Mr. Rao. Our next question is from the line of Rajesh Panjwani of CLSA. Please go ahead.
- Rajesh Panjwani:** Good evening sir, my first question is on the material cost. In the first quarter, you have shown a substantial decline in material cost. I understand, it is primarily also because of the high base effect last year, but year as a whole how do you see material cost as a percentage of sales compared to last year?
- BP Rao:** We expect that somewhere around this. For the whole year also, we are targeting the material consumption on similar lines. The kind of savings we achieved in the first quarter, we expect to maintain in the coming quarters too.
- Rajesh Panjwani:** So you would see material cost target at the same level as the first quarter as a percentage of sales?
- BP Rao:** That is right.
- Rajesh Panjwani:** And is this partly due to weak Euro?
- BP Rao:** There are many reasons for it. Weak euro, the effect of that is not much on this because we have always factored in euros in our revenues also. But the basic reason is we have been able to totally indigenize the new technology and definitely the raw material price there will be subdued. If you look at the steel prices, they have been down and so a mixture of these factors have contributed



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to this and our own optimization with designs which we have been carrying out for the last 2-3 years have also started giving results. So combining all these factors have given this kind of a reduction.

Rajesh Panjwani:

And sir some investors show concern on the impact of supercritical orders on your overall margins. So what would you say would be the impact of supercritical on the margins. My understanding is that initially for the first couple of years, the share of supercritical will be a bit low so the impact will not be high, but once the share of supercritical increases, would there be any impact on the margins?

BP Rao:

You must understand first of all our volumes are growing and they are mixed up of supercritical, subcritical, industry products and other segments of business. We are just beginning and by the time supercritical becomes large portion, we would have jobbed technology very well into our streams and indigenize many of the components. Therefore I don't expect any effect of that in overall results. It will be minor.

Rajesh Panjwani:

And sir in terms of you mentioned that you have increased indigenization recently as well as project optimization which had some bearing on the material cost. Is there further room for that, or can you give any specific products or components which you have indigenized recently?

BP Rao:

See the cost optimization exercise what we have done is in all the products from transmission area, particularly in the transformers, switchgears and bushings etc. and also on the industrial products like the smaller steam turbines, the generators and the pulverizers in addition to some of the boiler components. These have already started giving us results and now the same exercise is being carried out in other product areas. We are introducing the lean manufacturing practices in some of the units. So all this is giving us decreased throughput time with the same resources and therefore the volumes go up without adding much of the additional investments or additional facilities. There is always a scope to improve on that, so we are pushing all those initiatives.

Rajesh Panjwani:

My last question is on the manpower front, you have been aggressively hiring for the last couple of years, given the capacity addition. When is your manpower hiring going to in a way reduce, so that at some point of time we will say that, okay you have hired enough people and you no longer need more people. When will we see that?

BP Rao:

We have said that very clearly for 5 years we are going to do this. Three years we have completed, so current year and next year also we are going to do this kind of induction and as you know that we are expanding our capacity further to 20,000 MW which will be in place by 2012. So we are going to look at this only after 2012 and I must also tell you here at this stage that we are initiating the next strategic plan exercise this year and we will be looking at many of these aspects. When we are ready with the new corporate plan for next 5 years from 2012, some of these things are going to be more clear.

Rajesh Panjwani:

Okay, thanks a lot sir.



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- Moderator:** Thank you Mr. Panjwani. Our next question is from the line of Renu Baid of B&K Securities. Please go ahead.
- Renu Baid:** Good evening sir. Congratulations for the good set of results. Sir, two broad queries. First would be going to share, what was the kind of shop floor production or improvement at the shop floor level in terms of efficiencies or throughput that we have seen in the current quarter compared to last year?
- BP Rao:** The shop production contribution is about 43.4% in the turnover.
- Renu Baid:** Okay, what has been the change or I would say delta that we have seen coming with some new capacity like do we expect most of the contribution of the newer capacity to come largely beginning second quarter and the remaining half of the current year?
- BP Rao:** It will come up, you will start seeing visibly maybe in third and fourth quarters.
- Renu Baid:** Largely in the second half of the year?
- BP Rao:** Yes.
- Renu Baid:** So that will actually improve the bottlenecks that we have at the internal plant level today.
- BP Rao:** That is right, but then if you look at the last year production also, by outsourcing some of the non-critical components we have tried to reach 10000 MW capacity. Actually we have done around 11000 MW. Even in the current year, the execution will be more than 15000 MW; it will be around 16,000-17,000 MW. Since we have had to match project delivery schedules, so deliveries are in tune with that.
- Renu Baid:** So basically the contribution from the new capacity addition that we have had will largely come in second half?
- BP Rao:** That is right.
- Renu Baid:** Second query I just wanted to understand more on the staff expense front, let me understand there are quarterly variabilities, but on a full year basis if we compared to last year as we discussed in last concall also overall we expect the staff expense to increase more than 10-15% or do we expect the wage bill to be in excess of ₹ 5400 crores for the current year?
- BP Rao:** As a percentage of sales, it will remain lesser than last year actual this much I can tell you.
- Renu Baid:** Okay, since you have already concluded the wage agreement generally we have seen after conclusion, the wage increase is in line say 10-12% not more than that?



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- BP Rao:** No, there have been normal increases only on account of annual increments and personal benefits etc. So, it comes to normally about 7 to 8% annually, it will not be that high and moreover as our top-line is growing, the overall percentage will be less than last year.
- Renu Baid:** In fact even if you look at the mix, if we have more retirees coming through and more freshers, so the average salary levels will also be different that will help to bring down the average cost?
- BP Rao:** Exactly, you said it.
- Renu Baid:** There is more clarification on that like we have seen that after the recent wage revision with respect to gratuity terms, there has been increase from ₹ 3.5 to close to ₹ 10 lakh per person. So do we see the impact of that coming significantly in terms of the wage expenses also, excluding the normal wage hikes and increments?
- BP Rao:** We have already provided for this on actuarial basis. Therefore you will not see any shocks in the accounts. For first quarter also for example, the relevant portion of that has already been provided for.
- Renu Baid:** Roughly what portion of the entire wage bill of the ₹ 1340 crores would have been towards gratuity, would that number be available?
- BP Rao:** It is about ₹ 68 crores for the quarter.
- Renu Baid:** Okay sir, I think that should good from my side. In case I have more queries, I will definitely get back to you.
- Moderator:** Thank you Ms. Baid. Our next question is from the line of Venkatesh B of Citi Group. Please go ahead.
- Venkatesh B:** Congratulations on a very good set of number sir. Couple of questions. Firstly I actually joined the call a little late, can you just give me the order inflow number in the quarter?
- BP Rao:** It is ₹ 10,824 crores.
- Venkatesh B:** Firstly, how many more quarters do you think you still have low cost inventory which can carry over for another how many quarters? Any quarter continue for all the four quarters of this year? Do you have low cost inventory?
- BP Rao:** No, it is not that way. We use only some part of the previous inventory. For example, we have a MoU with SAIL. We do not keep too much of stock with us, only for two quarters it will be with us. As and when material is required, we will go and pick up from the stockyards and every quarter we finalize prices with SAIL. Similarly there are other materials which also we buy normally in about 5 to 6 months time. Therefore I do not see that procured material will be lying with us for longer time.



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- Venkatesh B:** Sir, the second question is you are expanding to 20,000 MW in 2012, have you ever thought about expanding it further to 25,000 MW may be cutting your prices by 5 to 10% and may be putting a few of these new people out of business who are coming in?
- BP Rao:** We thought over it, but then we also have to look at the market, the kind of capacities that are expected to come. So after going to 20,000 MW, we are going to look whether 20 has to become 30 or 25 or whatever. We will take a call depending on market developments. As per the present indications, there is only 100,000 MW which is going to happen in the 12th plan. The other players are also coming up. We will have to look at all these parameters and decide what should be the capacity we should be going for.
- Venkatesh B:** But will the government in anyway constrain you from increasing your capacity like you have 55% market share today. What after 2012 you decide I want 70% of the market that is why I am increasing my capacity to 30,000 MW. Will the government prevent you from doing that in any way because they have to encourage other people also?
- BP Rao:** Not at all. This is basically a company's decision.
- Venkatesh B:** Okay, sir one last question. You booked the KPCL order in the first quarter, how many more SEB JV orders do you expect to get this year to book in the current year?
- BP Rao:** I expect at least minimum two JV orders to come in this financial year.
- Venkatesh B:** Okay, all the very best sir.
- Moderator:** Thank you. Our next question is from the line of Lakshmi Narayana from BNP Paribas. Please go ahead.
- Lakshmi Narayana:** Good evening sir. Congrats on good set of numbers. First question is can you tell us that obviously you have expanded to 15,000 MW and earlier participant in the call when they asked about growth rates, you said that probably we are looking some thing 16 to 17% or something like that. Now you also indicated that the second half is when you start seeing the benefits of your expanded capacity. So why would not you see more growth than that or are you being just conservative?
- BP Rao:** You must look at the kind of delivery, what we can do. It depends on two-three factors. One is the kind of deliveries which are required by various projects. The project deliveries and the progress at sites also dictate the rate at which we can deliver. Second thing is our own capacity and third thing is the flow of inputs for which we depend on outside country sources. So all the three dictate the kind of turnover which can happen in a year. Keeping all this in view, I talked about 16%-17% growth. Further the base itself is increasing, so the percentage is a misnomer. In percent terms, growth may not be that high, but there will be substantial gain in absolute numbers. So the base effect starts kicking in as we start growing. You must look at that way.



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Lakshmi Narayana: Okay sir, second question is obviously when you are expanding from 15,000 to 20,000 MW, you have said that the market probably can absorb 10,000 MW for 5 years, it is 20 per annum or 25. Now given the fact that in the future may be we could see more of nuclear or who knows even other alternatives to thermal, are you taking care to ensure that your next round of capacity expansion which is 15GW to 20GW is in some ways more fungible than what you have done recently. Are you saying that if the technology worth a shift to other forms you are not caught off guard or with excess capacity in thermal?

BP Rao: I don't know if you have understood our equipment industry with the kind of facilities what we have. The manufacturing industry like us will have generic facilities; the same facilities could be used to produce thermal, hydro, gas, or nuclear equipments. So if you look at our history or the current scenario also, the nuclear plants set up in India are up to about 5000 MW out of which 80% have been contributed by BHEL on the conventional island. We are suppliers to nuclear industry also. It is not something which is going to be new for us. We have facilities to produce nuclear equipments also. So this 20,000 MW itself or 15,000 MW itself has an inbuilt capability even if the technology shifts to some other technology. In fact if you look, the power plants were not happening in the decade of 90s. The same facilities were used to produce equipment for industries and that is how company maintained its balanced growth. So that is the basic strength of this company. The skills as well as the facilities are usable for any of these manufacturing activities in most of the engineering segment.

Lakshmi Narayana: Okay sir, the question really was, when you expanded in 2006 or 2007 when you embarked on your expansion from 6.5-10, not all of it was thermal sir. So that was the reason why I was.

BP Rao: Yes, see the facilities are same. If units have to produce the hydro equipment, the facility required is same, horizontal boring machine and same vertical or horizontal drilling machine. So we don't have that kind of risk. If my hydro facility is not loaded in a particular year, I can use the facilities to produce thermal equipment or nuclear equipment. It is not an issue.

Lakshmi Narayana: Okay sir that answers. Thanks a lot.

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

Pankaj Sharma: Sir good evening. Sir two questions. One is on your order inflow like compared to last year, do you expect a significant change in your order inflow this year and second question is when you talk about this order inflow, do you include the bulk tender ordering for NTPC as well?

BP Rao: Yes, I am looking at similar kind of order inflow as it was in last 2 years. Looking at tenders in pipeline, we expect that kind of thing can happen again this year unless some unforeseen thing happens and project finalization gets delayed too much, but otherwise there is no reason why we should not be able to repeat the same kind of performance. Now coming to this bulk tender, yes we are expecting that the bulk tender both for boilers and turbo generator sets will be finalized in this year.



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- Pankaj Sharma:** Okay sir and what should you expect in terms of your share in that?
- BP Rao:** Well, see whatever is there, definite share is the minimum thing whatever is specified in the scheme itself. So beyond that it is the tender, one has to see after the tender results are announced.
- Pankaj Sharma:** Okay, thank you very much.
- Moderator:** Thank you Mr. Sharma. Our next question is from the line of Manish Chogule of Bajaj Allianz Life Insurance. Please go ahead.
- Manish Chogule:** Thank you for the opportunity. Sir you already touched upon my question. As you mentioned in the 12th 5 -year plan of 100 GW, there could be an upward revision to that number. Is it possible for you to quantify to what extent it could be revised upwards, if any?
- BP Rao:** No it is not possible because I don't plan these projects.
- Manish Chogule:** I understand but you are in talks, that is why?
- BP Rao:** Thing is that today it is indicated as only 100,000 MW. I have not come across any serious projections on this beyond 100,000 MW.
- Manish Chogule:** Thank you very much.
- Moderator:** Thank you Mr. Chogule. Our next question is from the line of Abhishek Puri of JM Financial. Please go ahead.
- Abhishek Puri:** Good evening sir and congratulation for good set of results. Sir Just three questions from my side. First, regarding the supercritical units, what is the current delivery timelines that BHEL would be offering?
- BP Rao:** We are offering around 46 months to 52 months for a 660 MW and about 48 months to 54 months for 800 MW.
- Abhishek Puri:** So 46 months will be for the synchronization period.
- BP Rao:** That is right.
- Abhishek Puri:** Considering the slackness which is happening in the global capacity addition, are the timelines for the components which you buy directly. Are the timelines shrinking currently?
- BP Rao:** No we are not finding that these suppliers are affected by that in any manner; the forging suppliers and casting suppliers are not affected. In fact their loading seems to be in the same way as it was earlier. So we are not getting much better, but there are marginal reductions only we are finding, but not much.



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- Abhishek Puri:** On that behalf, I think are we going ahead with our casting and forging JV?
- BP Rao:** No there is no JV for Casting and forging. We never said that there will be a JV. We signed the technology agreement with Sheffield Forgemasters and their teams have visited us and the technology flow has started happening. We will also be investing on this plant. Currently the technology assessment is going on and some of the existing processes are also being looked at and we are trying to improve recovery rates in our casting and forging. In the second phase, we will look at increasing the capacities and also the sizes of these forgings.
- Abhishek Puri:** Okay, so as of now the size of forgings will not be increased?
- BP Rao:** No, not in the first phase because we need to invest and there is investment lead time for that.
- Abhishek Puri:** So what will be the likely investment in the lead time which we will be looking at?
- BP Rao:** The technology has to be properly understood. It has just started flowing. Then only we will be able to work out the kind of machinery required for that and then we will come back with the investment.
- Abhishek Puri:** But offhand it will take about 3-4 years from now?
- BP Rao:** No, it won't be that long. May be end of current year itself, we will start the process of the investment sanctions and all that.
- Abhishek Puri:** Sir secondly regarding the percentage import component for the supercritical units since you have already received close to 7 or 8 units, so the further units which you will bid for, will the percentage component reduce while you bid for the new units now?
- BP Rao:** Yes we expect to reduce that.
- Abhishek Puri:** Will it come down substantially like you mentioned earlier, that the first few units will be having 70-80 % of import component in certain cases.
- BP Rao:** Abhishek as you understand this is very sensitive information which I will not be able to give you because there are future tenders.
- Abhishek Puri:** Fair enough. Sir just the last question regarding the wind turbine JV which we are looking at or expression of the intents which we have floated earlier, any progress on that?
- BP Rao:** Yes, it has progressed well and we are almost in the final stages. There were few issues between us and the prospective collaborators. We are just ironing out those issues. I should be able to finalize this at any time in next 3-4 weeks.
- Abhishek Puri:** Okay. So you have decided on a collaborator, but you will announce after 3-4 weeks.



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BP Rao: That is right.

Abhishek Puri: Thank you so much and all the very best sir.

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

Akshay Soni: Hi Sir, congratulations on a great quarter. Just a follow up question from something that has been asked earlier. In response to one of the questions, you have said that you would be looking to maintain the gains in raw material cost that you had in the first quarter, second quarter, and the full year. Now just wanted to understand when you were talking about that, does that mean that you were looking at raw material being the same proportion of sales for the full year as it was in the first quarter or the same kind of margin gains in terms of about 300-400 basis points over the full year?

BP Rao: Actually, our material cost in 2009-10 was about 60% and if you look at this year first quarter it is around 59.5%. So you can roughly say the same percentage level will continue that is about 0.5 to 1% less then compared to last year.

Akshay Soni: Alright 0.5 to 1% lower in the full year as a proportion of sales. Thank you very much.

Moderator: Thank you Mr. Soni. Our next question is from the line of Fatima Pacha of ICICI Prudential. Please go ahead.

Fatima Pacha: Hello Sir. Sir I just wanted to ask you question a little long term I guess lot of people on the street are worried after 2012 or 2013, what will BHEL's future be, if you could just generally address this concern in terms of which other industries or opportunities you can capture and how much have you invested so far or you intend to invest in the next 2 years so that in 2013 you know power industry per se little more saturated., if we could look at these kind of revenues in FY13 and FY14?

BP Rao: First query on what are all the businesses we are looking at seriously. As you know for the transmission business particularly the high voltage 765 kV and 1200 kV, we have signed MOU with Toshiba. We are discussing to continue the manufacturing in the existing shops of BHEL. That is the particular area where I expect growth to come from. Other area is transportation particularly railway transportation business for which we do manufacturing at our Jhansi plant. Today we are doing about 50 locomotives a year and this is expected to go up to a level of 100 initially and then even to 200 as per the Railways' own vision 2020 document. It is possible that 200 will come after 10 years, but initially it will go up to about 100 at least and we are also looking at other segments of the transportation. I have stated earlier that we have quoted for a job of setting up a manufacturing unit in Dankuni for producing 100 number propulsion systems per year. Of course the business in that segment would be based on the success in that bid and in addition to that, we are also participating the bids for the locomotive factories in Bihar, both Madhepura and Marhora. For the diesel factory, we are partnering with GE, this also we have



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announced earlier and for electric loco factory, we are working with various alternatives and we will be finalizing the partner for that also. We will be there in business for these locomotives and the other segment we are looking at in transportation is the metro segment. Here also we are discussing with other parties and how we can leverage our strength in this as an equipment supplier to one of the foreign metro technology leaders.

Fatima Pacha:

Sir what part of the metro can you actually supply if you could just elaborate on this?

BP Rao:

Propulsion systems for Kolkata metro has been totally supplied by us. Our strength is basically in the IGBT based control systems, which is a part of the propulsion systems; we also make traction motors, traction transformers, alternators. So this is our core area and we can also produce the locomotives completely. We can give 5000 HP locomotive and even EMUs from Jhansi plant. In EMU segment also, we contribute the propulsion systems. The EMU itself could also be built by us. So these are the segments in transportation. The other business segment we are looking at is the renewables. We have signed MOU with BEL for solar PV. We are currently in the technology selection phase for this venture and we have almost come to a conclusion. We will be shortly going ahead and finalizing the investments required. So that is another area. We are also working on wind energy segment which we will introduce in one of the units. We are going to announce the partner shortly in about 3 to 4 weeks' time. The other business which we are looking at is water desalination. Water is going to be a big business and we are already present in a small way. We want to increase our activities in this segment. Then we are also looking at some of the systems which are required particularly when imported coal is coming in a big way to the country what we call as fuel-gas desulfurization since imported coal has higher sulfur content. So we are looking at FGD systems as one of the areas to produce equipments. Like this, we have number of areas. But first of all in power utility segment itself where I do not expect any led down because if country's GDP has to grow at around 8% to 9%, the power has to grow almost at the same rate. Therefore the power capacity additions for the foreseeable future including even nuclear is going to happen. Even the gas segment is going to get revived. In the immediate future say next 1 or 2 years, the gas-based projects are also going to come for which we are well equipped. So I can see a very good growth is possible for this company in the long term.

Fatima Pacha:

Definitely Sir, could you tell me how much you intend to spend, how much have you spent so far in these JVs or set up capacities and in technology agreement and how much you intend to spend 2012 on these initiatives?

BP Rao:

Readily I do not have these investment figures handy in various JVs, but we have enough reserves to take care of requirements.

Fatima Pacha:

I just wanted to know because if you are telling that you are going to invest ₹ 5000 crores, then I realize that may be the opportunity in 2013 will be ₹ 10,000 crores from that, I just wanted to know the level of investments so that I can proportionally come to know the



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- BP Rao:** The 15,000 to 20,000 MW is not going to cost us ₹ 5000 crores. The 15,000-20,000 MW is going to cost us somewhere around ₹ 1600 crores.
- Fatima Pacha:** No, I am talking about non-utility related initiatives?
- BP Rao:** In the current year for example, the capital expenditure has been around ₹ 400 crores.
- Fatima Pacha:** So we are not setting up any new capacity for these initiatives that you are talking about right now?
- BP Rao:** As I mentioned earlier to one of the questions, the facilities what we are setting up can really cater to any kind of products like this. Engineering products can be manufactured in any one of these facilities.
- Fatima Pacha:** Okay, you do not need set up additional capacities.
- BP Rao:** Therefore if at all there is going to be business in all segments together at one time, then we can look at setting up separate exclusive facilities for them also.
- Fatima Pacha:** Okay Sir, thanks a lot.
- Moderator:** Thank you Ms. Pacha. Our next question is from the line of Bhavin Vithlani of Enam Securities. Please go ahead.
- Bhavin Vithlani:** Good evening Sir and congratulations for great set of numbers. Sir my question pertains to the industry segment as we are discussing with the previous participant, last year we did roughly ₹8000 odd crores of industrial segment revenue. Could you help me get the breakup within the industry what is captive power plant, transmission, transportation, rough cut number also would help and over a 3-year period, would you believe that the revenues of ₹ 8000 crores can be 2x of what we had reported last year and/or what is the proportion of the revenues of industry segment we are looking at over the next 3 years or so?
- BP Rao:** Last year, industry segment order booking itself was around ₹ 14,000 crores against ₹ 10,000 crores in the previous year. So there was a 40% growth and that is going to convert into revenues at some point of time. So that kind of growth is possible in the industry segment. Since power sector is also growing percentage of revenues may not really reflect. But If you look at the absolute figures, there is a growth and minimum 20-24% can be possible.
- Bhavin Vithlani:** Would it be possible to repeat last year's performance of order bookings for industry division in the current year as well?
- BP Rao:** I would say that it is possible but it depends on the number of projects happening particularly in the private segment. So how many people will go with the kind of industrial activity which will happen in the country, it depends on all that. We are seeing buoyancy in activity and if it will



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continue, yes, new capacities will be coming up. Therefore those new capacities will require power plants.

Bhavin Vithlani: So, 30 to 40% growth in the new order booking for industry division in the current year as well if I am getting it right?

BP Rao: I am only saying it is possible, but with a rider that the private sector projects happen because the capacities whatever they have set up have to be utilized, then only they will go for new capacities. So if the industrial activities are up in the country, then it is going to get reflected in the new capacities coming up. I cannot predict the future so that is what I am saying. We have a target to do that, but it is dependent on many of these factors.

Bhavin Vithlani: If you can help across in breakup of the ₹ 14,000 crores of the order received last year in terms of captive power plants, transmission, and transportation segment; a rough cut breakup also would help?

BP Rao: On a broad level, I have got about ₹ 8000 crores from captive power segment, ₹ 39 crores from transportation segment, ₹ 2000 crores from the transmission products and balance are the other products like mechanical, electrical, motors, compressors and things like that, this is the approximate figure.

Bhavin Vithlani: Sir my second question pertains to margins may be on the longer term perspective. As we understand speaking to some of the industry experts that the margins in the supercritical are better vis-à-vis the subcritical as we go higher odd on the technology, the margins get better because complexity increases. Is my understanding right or am I missing something?

BP Rao: No. Margins are basically a factor of competition in the market. So I do not see that ultimately I agree that supercritical is a complex technology compared to subcritical. Once you start producing one item, then it becomes a regular one of the established products. So it is only the way you produce it. So there is nothing much after that once you do that. Only the first time it is difficult, then onwards the margins become factor of market.

Bhavin Vithlani: Okay. On the similar lines, would you believe that given that BHEL has higher level of integration vis-à-vis the other competitors which we have been announced, would you believe that BHEL has about 10% to 15% cost advantage vis-à-vis the other?

BP Rao: I cannot put any value like that, but it definitely gives me an advantage over others. I can play it around depending on the competitive situation.

Bhavin Vithlani: But is my understanding correct given the level of vertical integration BHEL has a natural advantage of cost?

BP Rao: Yes, very much. It is not only the cost, it is the kind of control I have on delivery, the way we size the plants and of course technical advantages.



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- Bhavin Vithlani:** Sir my last question is on the order inflow guidance for the current year as you highlighted that if the industry grows as per expectation, the order inflow growth in the industry can be as robust as last year and we are expecting about 16-17,000 MW of order inflows for the power segments. So if I do this math reverse way, then there should be about 15% odd growth in the order inflows for this current fiscal, however, the guidance is for a flat growth in the rupees?
- BP Rao:** There are number of things which you must understand. We will have to look at finalization of the projects. Currently it all depends on coal linkages which have become problem today. The environmental clearances are pending for various projects. They are taking longer times compared to what it used to take earlier. So it is subject to many factors. Further unless the financial closure happens, we do not accept the order though they may be finalized with us. In fact I have few orders with me which are already finalized but then I am not accepting the orders because these linkages are not there and the financial closers have not happened. It is not that with the reverse calculations you can show a 50% growth in that kind of scenario. I wish that kind of thing happens. That is why ₹ 60,000 crore itself what we have done in last 2 years is really a very, I should say excellent performance that way because the execution is still in the range of about ₹ 40,000-50,000 crores. Therefore ₹ 60,000 crores order intake is really an excellent figure. On optimistic side, suppose all these things coal linkages, environmental clearance happen tomorrow, yes what you said is possible, but then it does not happen that way.
- Bhavin Vithlani:** Okay. Sir let us say in that case, if our order inflows are flattened at about ₹ 60,000 crores for current year as well, then wouldn't our revenue growth or the revenue booking in the fiscal year 2013 be impacted in terms of the growth like the 15-17% growth what we have been targeting.
- BP Rao:** The fiscal year 2013-14?
- Bhavin Vithlani:** No, fiscal year 2012-13, the current order booking can take us to about 15-17% growth in the revenue booking for 2 years, however, if the order flows get flattened.....
- BP Rao:** Order flows this year and next year also, they are for 2012-13.
- Bhavin Vithlani:** So are we confident that the revenue growth for next 3-4 years would be in the range of 15-20%?
- BP Rao:** I cannot give you percentage figure. You have to consider the base effect.
- Bhavin Vithlani:** Yes sir! that is precisely my question that given the base impact would the percentage growth in the revenues....
- BP Rao:** We do not speculate something for future. I would not like to do that particularly in a public forum like this.
- Bhavin Vithlani:** Okay fine sir. Thank you so much for taking my questions and wish you all best for future.



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- Moderator:** Thank you Mr. Vithlani. Our next question is from the line of Pranav Gokhale of Religare Asset Management. Please go ahead.
- Pranav Gokhale:** Hello Sir, I have this question, just a confirmation in terms of your CAPEX. When you go to 15 GW or 20 GW, so when will that happen actually, the CAPEX thing and when will it actually start in terms of productions?
- BP Rao:** 15 MW has already happened on 31st March, 2010.
- Pranav Gokhale:** Sir, from 15 GW to 20 GW.
- BP Rao:** By March 2012.
- Moderator:** Our next question is from the line of Dharendra Tiwari of Motilal Oswal. Please go ahead.
- Dharendra Tiwari:** Very good set of numbers sir. Lot of questions has been asked and most of the answers have been given. Just one question about gas based power project. Last couple of deals have gone to Alstom and Siemens though they are repeat orders, but they have gone to them. While we are doing very well on thermal and probably hydro also, what is that which will make BHEL to be more successful in gas based power projects, which is likely to grow in future, may be a little faster?
- BP Rao:** As you rightly mentioned that there are those repeat orders which have gone. We have not lost any order in gas. If you look at our earlier orders probably, we have got Bawana, Pragati Power, Pipavav and and the ONGC Tripura. So we have not lost any orders in gas. These two projects which have gone are basically repeat orders. As the gas projects are now coming up, we are well geared up to meet those requirements and some of them could be repeat orders for us also.
- Dharendra Tiwari:** Is Kawas-Gandhar of NTPC being revised?
- BP Rao:** That is what I also read reports that they were revised.
- Dharendra Tiwari:** And secondly the last question was about the construction of the expansion from 15-20 GW, have you started construction of that facility or still it is....
- BP Rao:** No there is not much of construction activity in this. Basically we are adding facilities and most of the facilities have been already ordered and therefore that is why we are comfortably saying that by March 2012, we will have these facilities commissioned in our plants. There may be minor civil construction work which we have already ordered and they are already under execution.
- Dharendra Tiwari:** And it will cost just about ₹ 1600 crores as you said.
- BP Rao:** Yes, ₹ 1600 crores we are investing for that.



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Dhirendra Tiwari: Thank you very much and all the best for future.

Moderator: Thank you Mr. Tiwari. Ladies and Gentlemen due to time constraints that was the last question and now I hand the conference over to Mr. Shirish Rane. Please go ahead sir.

Shirish Rane: Thank you everybody for participating on the call and a very special thank you to Mr. Rao and Mr. Krishna Shankar. Thank you sir.

BP Rao: Thank you very much and again I apologize for the delay.

Moderator: Thank you Mr. Rane, thank you gentlemen on the management team. Ladies and gentlemen on behalf of IDFC Securities Limited that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.

