

# BHEL

## Q2FY10 Post Result Conference Call Transcript

### Representative:

Mr. B.P. Rao - Chairman & Managing Director  
Mr. C.S. Verma - Director (Finance)

### PL Rep.:

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### Moderator - Marina

Ladies and gentlemen, good evening and welcome to the Q2FY10 Post Results Conference Call of BHEL hosted by Prabhudas Lilladher. As a reminder all participants' will be in a 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 this conference call, please signal an operator by pressing "\*" and then "0" on your touchtone phone. Joining us on the call today from Prabhudas Lilladher are Ms. Amisha Vora and Mr. Dilip Bhat (Joint Managing Directors) along with Mr. Apurva Patel. I would now like to hand the conference over to Mr. Apurva Patel. Thank you and over to you Mr. Patel.

### Mr. Apurva Patel - Prabhudas Lilladher

Thank you Marina. Good evening everyone, I would like to welcome Mr. Rao, CMD and Mr. Verma, Director (Finance) and Mr. Krishna Shankar onto the call. We will start with the management giving us a brief on the numbers and then open the floor for Q&A session. Over to you sir.

### Mr. B. P. Rao, CMD - BHEL

Good afternoon friends. I am B. P. Rao, CMD - BHEL. I have with me Mr. C. S. Verma our Director (Finance). It is my great privilege to greet all of you for the first time after taking over as CMD, BHEL with effect from 1st. October. A very warm welcome to all of you. The trickle down effect of the Government's stimulus package has resulted in the industrial output to grow the most in 22 months to 10.4% in August 2009 indicating signs of turnaround in the domestic market. Manufacturing which accounts for about 80% of the industrial output has also exhibited a good growth of 10.2% in the month of August as against 1.7% in the same month last year. Coming to BHEL, BHEL has continued its trend of good performance in the second quarter of 2009-10. The orders booked upto the second quarter have been Rs. 20,425 crores aggregating to about 8,024 mega watts. Infact we have booked around Rs. 8,000 crores worth orders in the second quarter alone. Infact another happy thing to announce on this occasion is I just received 3 x 660 megawatts super critical order from Jai Prakash Associates just a day before.

In the power segment up to second quarter we have booked, total orders worth Rs. 13,090 crores equivalent to 6,059 mega watts, 78% coming from private sector. Major orders booked in second quarter and the power sector included 1x270MW BTG from Adhunik Power, 1 x 500 MW SG + TG for Vallur Phase 2 of NTPC, 160 MW for Ramgarh, 1 x 700 MW steam generators for Nuclear Power Corporation. The good news is that NTPC has announced the bulk tenders for 11 x 660 MW super critical sets. In the industry sector we have booked orders worth Rs. 6786 crores cumulatively this year upto second quarter. Major orders received in the second quarter include 2 x 80 MW BTG set from Sterlite Tuticorin, 150 numbers electric locomotives from Indian Railways. In the international markets we have received orders worth Rs. 947 crores in second quarter, major export orders received in second quarter include 1 Fr.9E gas turbine generator set from PDO, Oman, 1 Fr.6B gas turbine generator set from Iraq, 18 sets of well head equipments from Oman. With these orders we have an order book of Rs. 1,25,885 crores as of 30th September 2009. 82% of these orders are accounted for by power sector and about 12% by industry and balance by exports. We are on track to reach the turnover of Rs.

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32,000crs which is our MoU excellent target for the current year. In respect of JVs to leverage our super critical equipment sale we have signed an MOU with MAHAGENCO for setting up 2 x 660 MW plant or a gas base plant at Latur.

Now coming to the second quarter financial results, the turnover for second quarter in 2009-10 is Rs. 6908 crores, a 19.3% increase over that of second quarter of 2008-09. Cumulative turnover upto second quarter 2009-10 is Rs. 12,702 crores, a 21% increase over that of Rs. 10,492 crores achieved upto second quarter 2008-09. Now if you consider this net of exchange duty and service tax which has been continuously going down. For example last year we had an excise duty of 16%, currently the excise duty applicable is 8%. Similarly service tax has gone down from 12% to 10% so the growth is much more impressive. If you consider that net of service, net of ED and service tax, the growth is 24% for the second quarter alone and 26% upto second quarter compared to last year. Profit Before Tax for second quarter is placed at Rs. 1329 crores. Cumulative Profit Before Tax upto second quarter of 2009-10 is Rs. 2,048 crores which is an increase of 33.7% compared to the achievement upto second quarter of 2008-09.

Profit After Tax for second quarter is placed at Rs. 858 crores. Cumulative PAT upto second quarter 2009-10 is Rs. 1328 crores which is an improvement of 32.8% over the corresponding figure of last year. Raw material cost as a percentage of gross turnover net of excise duty for second quarter has been 58.3% as against 62.8% in the corresponding period last year. Infact upto second quarter 2009-10 it was 60.7% against 60.9% achieved in the similar period last year. We expect the year to end with a figure of around 60% as far as the material cost is concerned. I thank you all once again for joining this conference call, we will take any questions now.

#### Moderator - Marina

Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. At this time if you would like to ask a question please press "\*" and then "1" on your touchtone phone. If you decide you want to withdraw your question from the questioning queue please press "\*" and then "2" to remove yourself from the queue. Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press "\*" and then "1".

The first question is from the line of Mr. Venkatesh B from CITI Group. Please go ahead.

#### Mr. Venkatesh B - CITI Group

Sir congratulations on a good set of numbers. My first question is on your excellent target which is around Rs. 320 billion. When you have this MoU, when you sign this MoU of 320 billion you have to send MoU for gross sales or is it an MoU for net sales?

#### Mr. B. P. Rao, CMD - BHEL

It is for gross sales.

#### Mr. Venkatesh B - CITI Group

It includes the excise duty?

#### Mr. B. P. Rao, CMD - BHEL

Yes.

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Mr. Venkatesh B - CITI Group

Now the second question is at the end of the first quarter the management had indicated that BHEL would be targeting to book Rs. 55,000 crores of orders and in the first half it has been only around Rs. 20,000 crores. Are you still confident that you can book Rs. 35,000 crores of orders in the second half?

Mr. B. P. Rao, CMD - BHEL

Yeah we are well on our way to achieve that figure, number of orders are in the final stages and some formalities are pending so we have not been able to take those orders in our account but we are well on our way to achieve the target.

Mr. Venkatesh B - CITI Group

Yes sir primarily because there was this order of around 600 MW which you were supposed to announce on the private sector which you are expecting immediately after the private, after the first quarter results but it has been almost a quarter and you have still not announced it that's why I was asking you this question?

Mr. B. P. Rao, CMD - BHEL

But the formalities have to be completed still.

Mr. Venkatesh B - CITI Group

Sir my final question is on margins now given that in another 1-2 years the portion of super critical orders which you will be executing will be much higher than what you are executing now where margins should be technically much lower. Secondly the fact also that clearly it is very obvious that there is a lot of domestic manufacturers who are ramping up capacity especially somebody like Larsen & Toubro who has clearly indicated that they are targeting EBITDA margins of only 13%. Do you believe that over the next 3-4 years or 4-5 years you will also have to substantially reduce prices and your margins will go towards that 14-15%?

Mr. B. P. Rao, CMD - BHEL

Super critical will form only 10-20% of the total operations. We have still the subcritical sets and the other segments of market for us like industry sector and the export segment. So I don't expect that the super critical execution will bring down the margins so much. In initial stages it could affect but only for super critical sets. But as a percentage if you look at and the total operations it do not make much difference.

Mr. Venkatesh B - CITI Group

Yes sir but what about in the next 4-5 years when there is a player like L&T whose targeting only 13-14% margins, obviously the pricing of his sets will be much lower than that of BHEL. So wouldn't BHEL or L&T, BHEL will also be forced to reduce prices and your margins will structurally go down over the next 4-5 years?

Mr. B. P. Rao, CMD - BHEL

Mr. Venkatesh I think we have an advantage over all these new companies. We are an integrated manufacturer. We manufacture almost all the equipment required for the power plant under BHEL's roof. The boiler & its auxiliaries, turbine & its auxiliaries, generator, control instrumentation systems. And these we have been doing for sometime so

therefore we have absorbed these technologies quite well. So therefore we have a natural edge over everybody else on this. Import content for these new sets therefore will get limited to only where we don't have this capacity available here or we need to necessarily take it from our collaborators. So as a percentage it will be quite less.

**Mr. Venkatesh B - CITI Group**

Sir one final question, some of the equipments which were set up by Dongfang in Sagardighi that had failed and also some equipment in Yamuna Nagar has failed. We have read press reports that BHEL's engineers were called to look into the sets, is there any truth to that? And on the related question over the last 3 months how has Chinese competition been. Has it been much lower or how is the scenario changed over last 3-6 months?

**Mr. B. P. Rao, CMD - BHEL**

While Chinese are still there in the market and they are competing and we have been competing with them and as far as your first question is concerned we have not been called by anybody to look at that.

**Mr. Venkatesh B - CITI Group**

Ok sir. Thank you very much and all the very best.

**Mr. B. P. Rao, CMD - BHEL**

Thanks.

**Moderator - Marina**

Thank you. Ladies and gentlemen in order to ensure that the management is able to address questions from all the participants please limit your questions to 2 per participant.

The next question is from the line of Ms. Aparna Shankar from SBI Mutual Fund. Please go ahead.

**Ms. Aparna Shankar - SBI Mutual Fund**

Good evening sir. Very good set of numbers, congratulations on that.

**Mr. B. P. Rao, CMD - BHEL**

Thank you.

**Ms. Aparna Shankar - SBI Mutual Fund**

For the benefit of everybody I would request you to read the order intake numbers for the first half and for this quarter please?

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Mr. B. P. Rao, CMD - BHEL

Upto the second quarter we have total orders book of Rs. 20,425 crores and in only second quarter it was Rs. 8,017 crores.

Ms. Aparna Shankar - SBI Mutual Fund

And out of this power is?

Mr. B. P. Rao, CMD - BHEL

Power is Rs. 13,090 crores and Rs. 6,786 crores for industry sector and Rs. 947 crores international.

Ms. Aparna Shankar - SBI Mutual Fund

How much sir?

Mr. B. P. Rao, CMD - BHEL

Rs. 947 crores.

Ms. Aparna Shankar - SBI Mutual Fund

Sir in this quarter we have seen a huge reduction in the raw material cost, any specific reasons, I mean what parameters you would attribute it to?

Mr. B. P. Rao, CMD - BHEL

If you remember in last year before the global slowdown started, the commodity prices started going up and after the slowdown these commodity prices have substantially come down. So these materials have now started coming into the stream and after the working capital cycle now they started getting to the despatch cycle. So therefore that's gets into the consumption which are substantially at lower prices. So therefore the material consumption has come down.

Ms. Aparna Shankar - SBI Mutual Fund

When we were aware I mean that BHEL had to import some gas turbines and airlifting so did that cost have come into this quarter or will it be flowing to the next quarter?

Mr. CS Verma, Director (Finance) - BHEL

That is in the first quarter. Everything was accounted in the first quarter, that time the material cost in the first quarter was 63.6% because there were 2 gas turbines power for Pragati, where materials constituted 96-98%. If you exclude these 2 extraordinary items in the first quarter, then even in the first quarter the material percent was about 60% which in the second quarter it is 58.36% but there is no GT involved in the second quarter.

Ms. Aparna Shankar - SBI Mutual Fund

And your staff cost is little low than last quarter?

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Mr. B. P. Rao, CMD - BHEL

No, the staff cost is...

Mr. CS Verma, Director (Finance) - BHEL

It is not lower, no, no, Madam if you see the provision and all that, last year 2008-09, the total provisions which has been made is Rs. 1729 crores which includes the provisioning for gratuity of Rs. 661 crores and our normal provisioning was 30%. This year 2009-10 our normal provisioning remains the same as 30%, if you see for 2009-10 we are providing in every quarter around Rs. 358 crores which is at 2008-09 was roughly about Rs. 434 crores but that included Rs. 661 crores which was made as one time provision in the last quarter only. If we exclude that Rs. 661 crores one time provision then the total provisioning was Rs. 1068 crores which was roughly about Rs. 260 crores per quarter. Against that this year it is Rs. 358 crores per quarter.

Ms. Aparna Shankar - SBI Mutual Fund

So in this quarter how much is towards provisioning?

Mr. Verma, Director (Finance) - BHEL

Rs. 358 crores.

Ms. Aparna Shankar - SBI Mutual Fund

So for the full year your guidance of Rs. 4500 crores...?

Mr. Verma, Director (Finance) - BHEL

Wage provisions of Rs. 1435 crores this year as a whole.

Ms. Aparna Shankar - SBI Mutual Fund

Including the provisioning?

Mr. Verma, Director (Finance) - BHEL

Inclusive of provisioning, reversal of PF on leave encashment and enhanced provision for PIP and other incentive schemes also.

Ms. Aparna Shankar - SBI Mutual Fund

No, my question is that total employee cost you were guiding for Rs. 4500 crores for the full year FY `10. Do we see any downward revision from that?

Mr. B. P. Rao, CMD - BHEL

No, no, there won't be any downward revision from that.

Ms. Aparna Shankar - SBI Mutual Fund

Ok. Thanks a lot sir.

Moderator - Marina

Thank you Ms. Shankar. The next question is from the line of Mr. Abhishek Puri from JM Financial. Please go ahead.

Moderator - Marina

Mr. Puri your line is unmated if you have a question please go ahead.

Mr. Abhishek Puri - JM Financial

Hello.

Mr. B. P. Rao, CMD - BHEL

Yes Mr. Abhishek.

Mr. Abhishek Puri - JM Financial

Sir congratulations for good set of results.

Mr. B. P. Rao, CMD - BHEL

Thank you.

Mr. Abhishek Puri - JM Financial

Sir 3 questions, first regarding the Jai Prakash orders which you mentioned, could you tell us the value of the order?

Mr. B. P. Rao, CMD - BHEL

This is roughly Rs. 5560 crores which is 3 x 660 MW super critical.

Mr. Abhishek Puri - JM Financial

And for the BTG?

Mr. B. P. Rao, CMD - BHEL

Yeah.

Mr. Verma, Director (Finance) - BHEL

BTG plus some scope is there, it is not exactly BTG but some electricals is there.

**Mr. Abhishek Puri - JM Financial**

Sir secondly regarding the gas turbine deliveries again I think ONGC Tripura deliveries have to be done this year as well?

**Mr. B. P. Rao, CMD - BHEL**

Yeah ONGC Tripura, delivery will be next year but the logistics they give that's what we have to start despatching somewhere around March.

**Mr. Abhishek Puri - JM Financial**

Fourth quarter?

**Mr. B. P. Rao, CMD - BHEL**

Yeah.

**Mr. Abhishek Puri - JM Financial**

Despatches will start and the imported machines will come somewhere in fourth quarter itself?

**Mr. B. P. Rao, CMD - BHEL**

Yes.

**Mr. Abhishek Puri - JM Financial**

And sir the third thing was on broader question on super critical versus sub critical the existing facilities which we have both for boilers and turbines, do they have fundable capacity. Can we use the same facilities for manufacturing the super critical?

**Mr. B. P. Rao, CMD - BHEL**

Yes, yes, very much. The same facilities can be used whether it is horizontal boring machine or it is gantry boring and drilling machine or it is vertical laid, horizontal laid, the same facilities are used for super critical and subcritical.

**Mr. Abhishek Puri - JM Financial**

Sir this costing will be lower than the other competitors in that case because our equipments are depreciated and similar assembly lines have been there for years altogether?

Mr. B. P. Rao, CMD - BHEL

Yeah it is not only that plus the brownfield expansion.

Mr. Abhishek Puri - JM Financial

I will come back with further questions. Thank you.

Mr. B. P. Rao, CMD - BHEL

Yeah.

Moderator - Marina

Thank you Mr. Puri. The next question is from the line of Mr. Yogesh Patil from Canara Robecco Mutual Fund. Please go ahead.

Mr. Yogesh Patil - Canara Robecco Mutual Fund

Good evening sir.

Mr. B. P. Rao, CMD - BHEL

Good evening.

Mr. Yogesh Patil - Canara Robecco Mutual Fund

Sir I have 2 questions. Are we getting any kind of benefits because of the excise duty and sales tax?

Mr. B. P. Rao, CMD - BHEL

Yeah excise duty is based on the cost...

Mr. Yogesh Patil - Canara Robecco Mutual Fund

And employee cost as a percentage of sales when we expect that it will stabilize or it will remain in same range in future?

Mr. Verma, Director (Finance) - BHEL

As soon as the wage settlement is done you come through exact percentage and once it is settled it is going to be the normal, DA increase only will happen. And as long as we increase the members, for example 1300 people increased in the second quarter as compared to the second quarter last year. As we announced, we have an induction programme of roughly about 20,000 people in 5 years and there is going to be retirements of 10,000 people. So we will be stabilizing the manpower of about 50,000 by 2012.

**Mr. Yogesh Patil - Canara Robecco Mutual Fund**

What is the progress on capacity additions?

**Mr. Verma, Director (Finance) - BHEL**

CAPEX additions is on track and mostly it will be done as we announced by December, 1-2 facilities should go upto March.

**Mr. Yogesh Patil - Canara Robecco Mutual Fund**

Sir because of the capacity additions how much revenue can be added next year?

**Mr. Verma, Director (Finance) - BHEL**

It is not due to the capacity and the revenues. It is based on the project deliveries, delivery schedules and the revenue will be as per that.

**Mr. Yogesh Patil - Canara Robecco Mutual Fund**

Ok. Thank you very much sir.

**Mr. Verma, Director (Finance) - BHEL**

Thank you.

**Moderator - Marina**

Thank you Mr. Patil. The next question is from the line of Mr. Sumeet Aggarwal from HSBC. Please go ahead.

**Mr. Sumeet Aggarwal - HSBC**

Sir just wanted to, sir you have signed various MoUs with Maha Genco and the Tamil Nadu State, when do you see some concrete progress in terms of orders getting finalized and those sites where you can get the order?

**Mr. B. P. Rao, CMD - BHEL**

We expect for our Tamil Nadu and Karnataka order finalization during this year, Maha Genco could be next year.

**Mr. Sumeet Aggarwal - HSBC**

Also sir just wanted to get your views in terms of when can we expect a final wage settlement to happen because currently we are still providing, there can be scope of higher provisioning during the final wage settlement?

**Mr. B. P. Rao, CMD - BHEL**

Wage negotiations is a long long process but we are trying to expedite it. We have given an internal target of 3 months but it can go to little bit beyond that also. I expect by the end of this financial year we will be having an agreement in place.

Mr. Sumeet Aggarwal - HSBC

Sir coming back to my earlier question about your T&N and Karnataka, is there any arrangement you get the order or it would be bid out on a competitive basis that your competitor can also bid and if they quote lower they get it?

Mr. B. P. Rao, CMD - BHEL

No, no, it is like this. We have given equity only to leverage our equipment sale. So therefore, it will not come on a competitive bid basis. We will have to benchmark a price to a competitive price.

Mr. Sumeet Aggarwal - HSBC

That means the order definitely comes to you but it is the price that would be decided?

Mr. B. P. Rao, CMD - BHEL

Yeah.

Mr. Sumeet Aggarwal - HSBC

Also sir just wanted to check your Rs. 550 billion of order inflows that you are guiding does it also include the NTPC bulk order. Have you factored that thing because I think it would get shifted for the next year?

Mr. B. P. Rao, CMD - BHEL

It could get shifted to next year for the finalization.

Mr. Sumeet Aggarwal - HSBC

So does that order was included in guidance of 550bn?

Mr. B. P. Rao, CMD - BHEL

No, it doesn't.

Mr. Puneet Aggarwal - HSBC

Thanks. Thanks a lot from my side.

Mr. B. P. Rao, CMD - BHEL

Thank you.

Moderator - Marina

Thank you Mr. Aggarwal. The next question is from the line of Mr. Shirish Rane from IDFC SSKI. Please go ahead.

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Mr. Shirish Rane - IDFC SSKI

Good evening sir.

Mr. B. P. Rao, CMD - BHEL

Good evening.

Mr. Shirish Rane - IDFC SSKI

Sir 3 questions, first in the press release you have said that there is a reduction in net provisions which is also contributed to the margins expansions. Can you elaborate on the exact nature of this reduction in provisions?

Mr. B. P. Rao, CMD - BHEL

Mr. Verma will respond

Mr. Verma, Director (Finance) - BHEL

For the only second quarter, the provision in the second quarter, the amount of the provision created is Rs. 129 crores. The provisions withdrawn is Rs. 47 crores and net provision created is Rs. 82 crores in the second quarter of the current financial year. On Year To Year basis last year, I think in the second quarter, the creation of provision was Rs. 133 crores, there was a withdrawal of Rs. 44 crores, net creation Rs. 89 crores. The second quarter alone there is absolutely no difference except the difference of about Rs. 7 crores on a Year to Year basis. But if we go upto the second quarter then upto the second quarter yes there is a difference there. The difference is coming, upto the second quarter the net creation last year was Rs. 229 crores, the amount created was Rs. 305 crores. Withdrawn was Rs. 75 crores, net creation of Rs. 229 crores. This year upto second quarter creation is Rs. 207 crores, withdrawal is Rs. 167 crores, net creation is only Rs. 40 crores. On a Year To Year basis I guess Rs. 229 crores, this year it is Rs. 40 crores. But for second quarter alone it is only Rs. 7 crores net.

Mr. Shirish Rane - IDFC SSKI

So essentially it is more on the first half basis where the reduction has happened?

Mr. Verma, Director (Finance) - BHEL

Yeah.

Mr. Shirish Rane - IDFC SSKI

Sir the second question of bulk ordering of super critical equipment what is the final modality. Is it like the L1 gets 6 boilers and L2 gets 5 boilers or is there some different modality? And the same thing for turbines what is the final...?

Mr. B. P. Rao, CMD - BHEL

Boilers it is 6 + 5 and for turbines it is 5 + 4 + 2.

Mr. Shirish Rane - IDFC SSKI

Sir and finally there was article stating that the equipment which was sent to Pipava for the GSPL got sort of in the river or the bridge collapsed and there was some sort of damage to the equipment. How far it is true and who bears the cost of it. Do we have to bear or how does it work from there?

Mr. B. P. Rao, CMD - BHEL

It is true that the turbine fell in the river and the cost will be bourned by the insurance. So insurance will be bearing the cost.

Mr. Shirish Rane - IDFC SSKI

But would we have to sort of redo the turbine or we will have to supply separately. How does the modality for that would work?

Mr. B. P. Rao, CMD - BHEL

The turbine is now being lifted, we are awarding a contract for lifting the turbine from the river and after it is lifted we have to examine what kind of damage happened. And yeah it will lead to servicing and repairs. It has to be done before the turbine is put out for commissioning.

Mr. Shirish Rane - IDFC SSKI

So would there be any liquidated damages from the client because I assume this will take, I mean the thing will get delayed?

Mr. B. P. Rao, CMD - BHEL

Yeah it could be but it is beyond our control. So it is like the act of God, we will be fighting on that.

Mr. Shirish Rane - IDFC SSKI

Sir one small clarification on this entire wage provision. Has the officer grade settlement for wages has been that concluded or that also is pending right now?

Mr. B. P. Rao, CMD - BHEL

Officer as also supervisors, it has been as per the Government guidelines and this has already been approved by the Government and ready for implementation.

Mr. Shirish Rane - IDFC SSKI

So only the labour is pending right now?

Mr. B. P. Rao, CMD - BHEL

Yes.

Mr. Shirish Rane - IDFC SSKI

And so the provision is mainly on that account?

Mr. B. P. Rao, CMD - BHEL

Yeah provision is for the entire thing because we have not started implementing the officers and supervisors wages.

Mr. Shirish Rane - IDFC SSKI

So because it is not implemented you are providing on both accounts.

Mr. B. P. Rao, CMD - BHEL

Yes.

Mr. Shirish Rane - IDFC SSKI

Ok sir. Thank you very much sir.

Moderator - Marina

Thank you Mr. Rane. The next question is from the line of Mr. Soumesh Agarwal from Macquarie Capital. Please go ahead.

Mr. Inderjeet Bhatia - Macquarie Capital

Hi this is Inderjeet Bhatia from Macquarie. Congratulations on good set of numbers.

Mr. B. P. Rao, CMD - BHEL

Thank you Mr. Bhatia.

Mr. Inderjeet Bhatia - Macquarie Capital

I just wanted to have more clarification on this capacity addition. You said few facilities will go into March. What are the key capacities which are ready, which capacities would go into March in terms of completion?

Mr. B. P. Rao, CMD - BHEL

No, it is only minor facilities that will not affect the capacity as such. Infact we will have the capacity of 15000 by December `09, there will be few facilities that may go to March. They will not affect the overall capacity at all.

Mr. Inderjeet Bhatia - Macquarie Capital

So the key capacities like Trichi, have they already completed?

Mr. B. P. Rao, CMD - BHEL

Trichi have already been completed, infact we are ready for inauguration by the PM at any time.

Mr. Inderjeet Bhatia - Macquarie Capital

And the second thing is the BHEL-NTPC JV, there have been talks about it for some time. So the initial 5000 whatever capacity is being talked about what exactly is the road map in the initial 3 years. Is there any equipment manufacturing also included initially?

Mr. B. P. Rao, CMD - BHEL

No initially we want NTPC JV to take care of the BOP requirements that is where we need to have more capacity in the country. So we want this company to take up both EPC and BOP requirements for various projects. From our side we will be pushing for that.

Mr. Inderjeet Bhatia - Macquarie Capital

And capacity expansion from 15 giga watt to 20 giga watt at BHEL. Is that incremental 5 giga watt to again pure thermal or is that mixed?

Mr. B. P. Rao, CMD - BHEL

It is thermal and gas.

Mr. Inderjeet Bhatia - Macquarie Capital

So with the gas the technology transfer agreement with GE?

Mr. B. P. Rao, CMD - BHEL

GE we have already in place the technology transfer agreement?

Mr. Inderjeet Bhatia - Macquarie Capital

Thank you.

Mr. B. P. Rao, CMD - BHEL

Thank you.

Moderator - Marina

Thank you Mr. Bhatia. The next question is from the line of Mr. Lokesh Garg from Kotak Securities. Please go ahead.

Mr. Lokesh Garg - Kotak Securities

Hi sir. Good afternoon. Just continuing this question of capacity addition. This 10-15 say is on track but is there progress that you are having different for 15-20 in terms of identification of vendors, sites and scope and all that?

Mr. B. P. Rao, CMD - BHEL

Yeah infact 15-20,000 is going much faster than, this 15,000 what we have done one year back. 20,000 would be in place possibly by December 2011. We have already identified facilities, some of the machines have been already ordered and some are in the offing probably completing ordering by this financial year for the entire 20,000 mega watts.

Mr. Lokesh Garg - Kotak Securities

Sir along with this the generation capacity addition, annual report and previously BHEL has mentioned about capacity addition and transmission segment which is essentially transformer capacity from 20,000 mva to 45,000 mva. What is progress in that, what is your status? Are you bidding for higher end of PGCIL order activity in terms of 765 class?

Mr. B. P. Rao, CMD - BHEL

The capacity addition in Bhopal as such is concerned we have completed. Infact the shop is getting ready by the end of October we will announce this. As far as the bidding is concerned for higher voltage segment it is not dependent on our capacity, it is based on the technology what we have. So here we have not been able to participate because we are not qualified in the 765 kv segment and we are looking for technology tie-ups in this segment.

Mr. Lokesh Garg - Kotak Securities

Ok but the capacity of 45000mva is through but you are not having technology tie-up?

Mr. B. P. Rao, CMD - BHEL

Not entire 45000 MVA. The capacity to come up at Bhopal is complete. The capacity at Jhansi is under progress. And this Jhansi capacity we expect by next year, next June it will be ready.

Mr. Lokesh Garg - Kotak Securities

Do you feel there is a delay because country has already moved to 765 kind of capacity addition while BHEL is still vying to look for partners to enter the space. So in that sense do you feel disappointed?

Mr. B. P. Rao, CMD - BHEL

Yeah in case of transformers yes, we did not have the technology on time with us and therefore we are late in that. Even in the 400 kv segment the history was like that in the past but then the BHEL came from behind and became the market leader in that. So we are sure that, we are already talking to various people and probably shortly we have the qualification requirements will be waiting and joint bidding we have already trying to do for limited tenders.

Mr. Lokesh Garg - Kotak Securities

Sir my other question relates to probably extends that has been discussed in the call earlier which is essentially supported having lower margins initially versus subcritical. My point was what kind of margins do you expect on initial 2-3 units of subcritical and atleast by end of say 8-9 unit which could be achievable in 3-4 years by which time actually the super critical actually scales up in the new mix. What would be your margins expectations from that segment of business?

**Mr. B. P. Rao, CMD - BHEL**

It is difficult to give you any figure for subcritical separately like that but normally initially, initial few sets, about 2-3 sets, super critical sets probably will have more import content. But later on once we start indigenising and designs and more and more of content will be localized therefore the margins will come back to the normal levels. So it is very difficult to give you any figure on this.

**Mr. Lokesh Garg - Kotak Securities**

Sir could we have the figures other way round which is could we have rough understanding of import content on first 2-3 units and import content on 8-10 units on rough percentage basis?

**Mr. B. P. Rao, CMD - BHEL**

Right now I am not ready to give you these figures. I don't have readily.

**Mr. Lokesh Garg - Kotak Securities**

My last question actually relates to annual reports figure which is essentially liquidated damages reflected in contingent liabilities, this figure was Rs. 1300 crores in the end of FY `09 versus something like Rs. 800 crores at the end of FY `08. Just wanted to understand what is this, what kind of implications that the sharp increase in this number has?

**Mr. B. P. Rao, CMD - BHEL**

I would request Mr. Verma to discuss this.

**Mr. Verma, Director (Finance) - BHEL**

Contingent liabilities we have to provide if otherwise we are not getting as per our regular policy for providing for LD and bad debts which is a very dynamic situation at that time. We provide for liability if any payment has been withheld, we cannot make a provision because this is not covered as per our LD policy of the company, then this will in the contingent liability. And contingent liability figure is finally at the end of the year, not quarterwise.

**Mr. Lokesh Garg - Kotak Securities**

Ok. Thanks a lot.

Moderator - Marina

Thank you Mr. Garg. The next question is from the line of Mr. Anand Vyas from Anagram Capital. Please go ahead.

Mr. Anand Vyas - Anagram Capital

Sir one question, the NTPC bulk order when it is expected to come out?

Mr. B. P. Rao, CMD - BHEL

The tender is already out on 18th.

Mr. Anand Vyas - Anagram Capital

When you expect this to be awarded, yesterday L&T was telling it will be delayed?

Mr. B. P. Rao, CMD - BHEL

They have elaborate process of evaluation, they need to look at all the players and their capabilities from the country because manufacturing is one of the conditions, local manufacturing is one of the conditions in this bid. So they need to look at the facilities of all the players in the market whoever is going to bid for it, evaluation will take time. Evaluate them and ask for the second part of the bid. So that's why we expect that this is going to go to next financial year.

Mr. Anand Vyas - Anagram Capital

Ok. Thank you sir.

Moderator - Marina

Thank you Mr. Vyas. The next question is from the line of Mr. Dharendra Tiwari from B&K Securities. Please go ahead.

Mr. Dharendra Tiwari - B&K Securities

Hello. Good afternoon sir.

Mr. B. P. Rao, CMD - BHEL

Good afternoon Mr. Tiwari how are you?

Mr. Dharendra Tiwari - B&K Securities

Fine sir. How are you?

Mr. B. P. Rao, CMD - BHEL

I am fine, thank you.

Mr. Dharendra Tiwari - B&K Securities

Congrats again for becoming the Chairman of BHEL.

Mr. B. P. Rao, CMD - BHEL

Thank you, Mr. Tiwari.

Mr. Dharendra Tiwari - B&K Securities

Recently we have been hearing about a reduction in shop floor production from the factory. So this was a very specific question with respect to that, 25% is higher than actually the shop floor production. In first quarter I think is 12%. So the first half....?

Mr. B. P. Rao, CMD - BHEL

Infact Mr. Tiwari, the short production is up in second quarter, even in the first quarter it was not so low, I will give you the figures. Shop production in the first half year has been 47.47% which last year on a Year To Year basis was only 46.6%. So it is up by 1% in the first half in the current financial year.

Mr. Dharendra Tiwari - B&K Securities

There has been improvement in the first half?

Mr. B. P. Rao, CMD - BHEL

Yes.

Mr. Dharendra Tiwari - B&K Securities

You say that with the conditioning of capacity in the third quarter, maybe fourth quarter one can expect in FY `11 over improvement in shop floor production which will help improve profitability?

Mr. B. P. Rao, CMD - BHEL

The shop floor production as I mentioned earlier, the manufacturing capacity has not become a constraint at all in the company. If you think that we are doing subcontracting, outsourcing only because we don't have facility that is not right. So only those things which we don't do normally in our factories, it is better to outsource such components. Outsourcing will continue, like all our structures and what we get done through ancillaries will continue to do it.

Mr. Dharendra Tiwari - B&K Securities

Any product which you are earlier making in-house is not being outsourced?

Mr. B. P. Rao, CMD - BHEL

No, we are not outsourcing.

Mr. Dharendra Tiwari - B&K Securities

That means it will be continuing in terms of the value addition for the future also?

**Mr. B. P. Rao, CMD - BHEL**

Yeah.

**Mr. Dharendra Tiwari - B&K Securities**

Secondly the figure is the annual report mainly for liquidated damages and contractual obligations for the year so far?

**Mr. B. P. Rao, CMD - BHEL**

Contractual obligations? I would request Mr. Verma to give you this.

**Mr. Verma, Director (Finance) - BHEL**

Second quarter alone the contractual obligations figure are the provisions which have been created is Rs. 37 crores, loss making contracts Rs. 48 crores, debt Rs. 35 crores, liquidity damages and other minor adjustments Rs. 3 crores so the total creation have been Rs. 139 crores. The provisions which have been withdrawn is contractual obligation Rs. 30.72 crores, debt 804, liquidity damages Rs. 5.82 crores, other miscellaneous withdrawal is Rs. 47 crores and net provision, net creation of provision is Rs. 82.23 crores.

**Mr. Dharendra Tiwari - B&K Securities**

Thank you very much and all the best for the second also.

**Mr. B. P. Rao, CMD - BHEL**

Thank you very much.

**Moderator - Marina**

Thank you Mr. Tiwari. The next question is from the line of Mr. Sachin Trivedi from UTI Mutual Fund. Please go ahead.

**Mr. Sachin Trivedi - UTI Mutual Fund**

Hello.

**Mr. B. P. Rao, CMD - BHEL**

Yes please.

**Mr. Sachin Trivedi - UTI Mutual Fund**

Sir congratulations on good set of numbers and for your role as a CMD also.

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Mr. B. P. Rao, CMD - BHEL

Thank you.

Mr. Sachin Trivedi - UTI Mutual Fund

My first question is regarding the raw material benefits which we have already started receiving it. So for the full year how much reduction in raw material to sales ratio is what we are expecting?

Mr. B. P. Rao, CMD - BHEL

Our earlier Chairman has already given an indication, it will be about 200 basis points.

Mr. Sachin Trivedi - UTI Mutual Fund

There has been force and guidance, there has been some increase in certain raw material component also. So do we still stick to that savings?

Mr. B. P. Rao, CMD - BHEL

Yes, the net only is given.

Mr. Sachin Trivedi - UTI Mutual Fund

Ok. So the earlier guidance of 20-25% revenue growth and 30-35% profitability growth stands?

Mr. B. P. Rao, CMD - BHEL

Yeah you can say but normally we avoid giving any future statements.

Mr. Sachin Trivedi - UTI Mutual Fund

Sir my next question is with respect to the earlier candidate which talked about the provision, contingent provision. With respect to 1-2 specific names and if you can share these names possible?

Mr. Verma, Director (Finance) - BHEL

No, we don't share the names at this stage when we prepare the figures for the year as a whole only that time it is disclosed but it is only in general. I mean having a policy duly approved by the Board and we create a provision, it is a continuous process.

Mr. Sachin Trivedi - UTI Mutual Fund

Because it has been observed that since '07 there has been a sharp increase from Rs. 250-300 crores to Rs. 1300 crores. Sir if you can atleast share the current position of that Rs. 600 crores. Is it still staying or...?

**Mr. Verma, Director (Finance) - BHEL**

For the quarter two, I told you that only for LD the creation is only Rs. 6 crores and LD withdrawal is about Rs. 5.82 crores. So virtually there is not net of creation except for a few lacs. Contractual obligation is also like that, net creation is Rs. 37 crores, withdrawal is Rs. 30 crores, it is roughly about Rs. 7 crores net creation.

**Mr. Sachin Trivedi - UTI Mutual Fund**

And sir my last question with respect to the personal cost. In June quarter, compared to June quarter, September quarter we have a lower personal cost so what could be the reason for that?

**Mr. B. P. Rao, CMD - BHEL**

How are you saying that? Our cost is actually for the June quarter, second quarter is coming to Rs. 1068 crores.

**Mr. Sachin Trivedi - UTI Mutual Fund**

And June `09 atleast my number shows Rs. 1114 crores.

**Mr. B. P. Rao, CMD - BHEL**

So it is at same level, how is it less?

**Mr. Sachin Trivedi - UTI Mutual Fund**

Sir it is atleast less by Rs. 50-60 crores, so...?

**Mr. B. P. Rao, CMD - BHEL**

First quarter we have to see how much was the staff cost but...

**Mr. Sachin Trivedi - UTI Mutual Fund**

Ok fine, that's it.

**Moderator - Marina**

Thank you Mr. Trivedi. The next question is from the line of Mr. Vinay Pandit from IFCI Financial Services. Please go ahead.

**Mr. Vinay Pandit - IFCI Financial Services**

Hi, good evening sir, this is Vinay. I was just going through your order inflows, you received approximately Rs. 8400 crores orders in this quarter. It looks to be the lowest amongst the last 12 quarters. What's your view on that and where do you think the orders in the coming quarters can come in from?

**Mr. B. P. Rao, CMD - BHEL**

As I said earlier that the number of orders have been finalized and they are only in the final stage of formalities. So we have not been able to close those formalities in time. They could not be announced. I announced that yesterday only I received an order for Rs. 5560 crores of 3 x 660 MWJai Prakash. We have been talking about it and this could have been taken to second quarter. The formalities took time and we received only yesterday. Similarly a number of orders which I cannot give you the names now but there are good number of orders which are in the final stages and therefore we expect that, we will be able to close them maybe during third quarter.

**Mr. Vinay Pandit - IFCI Financial Services**

Sir my second question is I was just going through the cabinet committee infrastructure recommendation that had come for the 11 units of NTPC. Now one statement that I was reading in that is that the committee is looking at the phase manufacturing programme established in the country with new manufacturers in addition to BHEL. So what I understand is the Government's intent is to establish more players along with BHEL.

**Mr. B. P. Rao, CMD - BHEL**

That is true.

**Mr. Vinay Pandit - IFCI Financial Services**

So what is the potential order that BHEL could look at bagging out of these 11 units?

**Mr. B. P. Rao, CMD - BHEL**

If you have read that scheme clearly, BHEL is sure of getting atleast 5 boilers and 4 turbines. If you are L1 we will get the maximum numbers that is 6 and 5, that's the best of potential.

**Mr. Vinay Pandit - IFCI Financial Services**

Ok sir. That's it from my side sir. Thanks.

**Moderator - Marina**

Thank you Mr. Pandit. The next question is from the line of Mr. Madan Gopal from Centrum. Please go ahead.

**Mr. Madan Gopal - Centrum**

Good evening sir.

**Mr. B. P. Rao, CMD - BHEL**

Good evening.

**Mr. Madan Gopal - Centrum**

Sir congratulations for good set of numbers. I just wanted some Balance Sheet numbers relating to gross fixed assets and capital, you are possible to assure it?

**Mr. B. P. Rao, CMD - BHEL**

No, we don't give.....

**Mr. Madan Gopal - Centrum**

Sir my second question is I went through your Balance Sheet, I found that Trichi's capacity has been increased to 43,500 metric tonnes. With the new plant coming in Trichi what do you think the total capacity would go to?

**Mr. B. P. Rao, CMD - BHEL**

This will be in MW terms, it will be 10,000+, Trichi alone.

**Mr. Madan Gopal - Centrum**

In metric tonnes it won't be possible sir?

**Mr. B. P. Rao, CMD - BHEL**

It will be difficult, tonnage doesn't really make sense because tonnage will come from outside also, outsource also. So what is important is. MW.

**Mr. Madan Gopal - Centrum**

Sir when you said 60% is the raw material cost for the full year as a guidance, this is on gross sales or on the net sales?

**Mr. B. P. Rao, CMD - BHEL**

This is on the gross sales.

**Mr. Madan Gopal - Centrum**

Ok sir. Thank you sir.

**Moderator - Marina**

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

**Mr. Bhavin Vithlani - Enam Securities**

Congratulations on the good set of numbers and congratulations on the new Chairmanship.

Mr. B. P. Rao, CMD - BHEL

Thank you.

Mr. Bhavin Vithlani - Enam Securities

Sir just couple of clarifications, if you can help me out with the stages of the 500 MW sets which the NTPC and the other SEBs who are ordering, typically the Vallur and the UP part. By when do you expect this finalization?

Mr. B. P. Rao, CMD - BHEL

Vallur order is already with us but what exactly you want in that?

Mr. Bhavin Vithlani - Enam Securities

You will be announcing that in the third quarter?

Mr. B. P. Rao, CMD - BHEL

Vallur we already announced in second quarter.

Mr. Bhavin Vithlani - Enam Securities

Because it was not there in the press release.

Mr. B. P. Rao, CMD - BHEL

I mentioned in my first initial speech the major orders booked in second quarter includes Adhunik Power, Vallur 500 of NTPC, Ramgarh and Nuclear Power Corporation, these are the major orders.

Mr. Bhavin Vithlani - Enam Securities

In the last conference call you mentioned that, the earlier Chairman mentioned of 6 x 660 MW expected during the current fiscal. Now you have already got 3 so would you believe that you are on track to get another 3 sir?

Mr. B. P. Rao, CMD - BHEL

Yeah I think so.

Mr. Bhavin Vithlani - Enam Securities

You are confident about achieving the Rs. 55,000 crores or maybe like always the history have been over achieving the target of Rs. 55,000 crores?

Mr. B. P. Rao, CMD - BHEL

We avoid giving guidance. Since the figures are already with you, I am saying that we are on track, we are on the way to achieve that.

Mr. Bhavin Vithlani - Enam Securities

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Second is with respect to the expansion could you just explain about the casting, forging expansion which you were contemplating typically, the rotors and the casings. Are we also expanding in the current 15,000 MW or that this expansion would be in the part of 15-20?

**Mr. B. P. Rao, CMD - BHEL**

No, the castings and forgings are not included in this 15,000 or 15,000-20,000. So it is a separate, as you understand it is vertical integration basically. The input for the turbine, turbine casings as well as for the rotors. So this is, we are right now in the process of selecting a technology partner or inducting new technology into this plant. And improve the recovery rate in these castings and forgings and also take up higher casings & forgings. There will be investment also in the, new investment also in this plant which will be bringing a new press and all sorts of forging facilities.

**Mr. Bhavin Vithlani - Enam Securities**

By when do you expect the facilities would be operational?

**Mr. B. P. Rao, CMD - BHEL**

This facility is today not a constraint for us because we are outsourcing many of these rotors and castings. So it doesn't create any problem for us but however since you want this facility alone, it will take about 2 years for us to put facilities in its place.

**Mr. Bhavin Vithlani - Enam Securities**

Because as I understand last year there were some constraint because of the global surge with a long waiting period so has the situation improved by now and then we are getting deliveries on time?

**Mr. B. P. Rao, CMD - BHEL**

There is a lot of improvement in the situation, number of parties quoting for the forgings have become more.

**Mr. Bhavin Vithlani - Enam Securities**

Ok so the capacity within the outside industry has increased so would that help significantly in our execution?

**Mr. B. P. Rao, CMD - BHEL**

It will help to a large extent in the execution.

**Mr. Bhavin Vithlani - Enam Securities**

Would that mean that the kind of growth you are forecasting in this year we can actually replicate or even better next fiscal as well?

Mr. B. P. Rao, CMD - BHEL

The kind of power capacity additions if you look at 11<sup>th</sup> Plan till now, there is additional 35,000 to be done but then we are almost more than doubling in this 5 year plan. And there is a bigger plan still for the 12<sup>th</sup> Plan coming up. So all this is possible only because of the kind of improvements seen not only our capacity expansion but even the outside one.

Mr. Bhavin Vithlani - Enam Securities

Sir if you could just throw some light on what is the execution period that we are currently quoting for newer orders in let's say 660 super critical or some of our sub critical orders?

Mr. B. P. Rao, CMD - BHEL

660 MW plant could be anywhere between 39 to 45 months.

Mr. Bhavin Vithlani - Enam Securities

And for sub critical?

Mr. B. P. Rao, CMD - BHEL

Sub critical is about 36 months to 39 months.

Mr. Bhavin Vithlani - Enam Securities

Sir just this is significantly lower than what you are quoting because last time when we had asked this question you were saying that it was about 54 months for super critical...

Mr. B. P. Rao, CMD - BHEL

That is for 800 mega watts.

Mr. Bhavin Vithlani - Enam Securities

For 660 we can do in 39 months?

Mr. B. P. Rao, CMD - BHEL

For 660 MW we are giving around 42-44 months.

Mr. Bhavin Vithlani - Enam Securities

Fine sir. Thank you very much.

Moderator - Marina

Thank you Mr. Vithlani. Ladies and gentlemen due to time constraints we will take the last question. The last question comes from the line of Mr. Atul Tiwari from Citigroup. Please go ahead.

Mr. Atul Tiwari - Citigroup

Thanks for taking my question. Sir my first question is on the capacity, what is your current capacity utilization in percentage terms?

**Mr. B. P. Rao, CMD - BHEL**

All our capacities are being fully utilized.

**Mr. Atul Tiwari - Citigroup**

So currently you are operating at 100% capacity?

**Mr. B. P. Rao, CMD - BHEL**

Yeah.

**Mr. Atul Tiwari - Citigroup**

Sir then would it be safe to assume that as you just mentioned all

15,000 MW comes online in December, from January you will be operating at 15,000 MW capacity at 100%?

**Mr. B. P. Rao, CMD - BHEL**

Yeah more or less.

**Mr. Atul Tiwari - Citigroup**

So basically in the last quarter we could see the full impact of 15,000 mega watts?

**Mr. B. P. Rao, CMD - BHEL**

It has already been factored in the projections what we have given.

**Mr. Atul Tiwari - Citigroup**

Sir what is your CAPEX in FY10 and how much you have done in first half so far?

**Mr. B. P. Rao, CMD - BHEL**

I don't have exact figures right now but I think the, total CAPEX in this year is planned about Rs. 1200 crores, out of that Rs. 400-500 crores will happen upto first half.

**Mr. Atul Tiwari - Citigroup**

Sir in terms of order inflows you just mentioned that a number of orders are in different stages of final negotiations or formalities. Sir what will be the total quantum of these orders?

**Mr. B. P. Rao, CMD - BHEL**

I won't be able to give you the figures in this, right now it is not possible for me to give.

**Mr. Atul Tiwari - Citigroup**

Ok sir, not a problem. Thank you sir.

**Moderator - Marina**

Thank you Mr. Tiwari. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Patel for closing comments.

**Mr. Apurva Patel - Prabhudas Lilladher**

Thank you. Thank you everyone and thank you Mr. Rao and Mr. Verma for taking time out and all the very best to you for future quarters sir.

**Mr. B. P. Rao, CMD - BHEL**

Thank you.

**Mr. Verma, Director (Finance) - BHEL**

Thank you.

**Moderator - Marina**

Thank you Mr. Patel, thank you gentlemen of the management. On behalf of Prabhudas Lilladher that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

END.