

## “BHEL – FY09 Flash Results Conference Call Transcript

### **BHEL Management Rep:**

Mr K. Ravi Kumar – Chairman and Managing Director

Mr C. S. Verma – Director, Finance

### **Batlivala & Karani Securities India Pvt. Ltd. Rep.:**

Mr Dhirendra Tiwari – Director, Research

Ms Renu Baid – Asst. Vice President, Research

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### **Moderator:**

Good afternoon ladies and gentlemen and welcome to the **Bharat Heavy Electricals Ltd.** FY09 provisional results conference call hosted by **Batlivala & Karani Securities India Pvt. Ltd.** As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should assistance during this conference, please signal an Moderator by pressing \* and then 0 on your touchtone phone. Please note that due to time constraint, the conference will last for 45 minutes. Participants are requested to limit their question to one-per-participant at the initial round of question-and-answer. I would now like to hand the conference over to Mr. Dhirendra Tiwari of B&K Securities. Thank you, and over to you, Mr. Tiwari.

### **Dhirendra Tiwari:**

Thank you Marina. Good afternoon everyone. To begin with, on behalf of B&K Securities, I would now like to welcome **Mr. K. Ravi Kumar, Chairman and Managing Director**, BHEL, and **Mr. C. S. Verma, Director - Finance**, BHEL. I would like to congratulate Mr. Ravi Kumar and Mr. Verma for a very strong performance in FY09, that has brought several accolades to the company during the year. With these notes, I would like to invite Mr. Ravi Kumar to begin the discussion about the key highlights of the year. Sir, thank you very much.

### **K. Ravi Kumar:**

Thank you for giving this opportunity. I am Ravi Kumar, CMD, BHEL, and I have with me Mr. C. S. Verma, our Director of Finance. A very warm welcome to all of you. Globally the year 2008/09 was an year of financial turmoil and our country's GDP growth projection for 2008/09 range from 5% to 7%. As a capital goods manufacturer, BHEL has emerged with a good performance in '08/'09. We have released our provisional results for 2008/'09 on 2nd April, 2009. Most of you would have seen them on our website and heard my press briefings. Focus this year was on strategic alliances for leveraging equipment sales and strengthening the supply chain, pursuing inorganic growth and embarking on green initiatives. BHEL has continued its trend of good performance and managed a record order book of 59,700 Crore aggregating to about 17,000 megawatts while operating under very difficult conditions, that I mentioned earlier. Year-on-year on

cumulative basis, this is the 19% jump if you compare to achievement last year. 22% of orders, that is Rs.13,317 Crores, are from private sector.

Power sector orders were Rs. 47,177 Crores covering utility and the spares business. Major orders in power sector included orders for 800 megawatt and 660 megawatt supercritical boiler and turbines; 700 megawatt steam generators from Nuclear Power Corporation, 13 numbers of 500 megawatt and eight numbers of 600 megawatt which is a new design that we have introduced, and seven numbers of 250- 270 megawatt, again a new design from GVK, Bina, RRVNL and MSDCL. Industry sector has seen an order book of 10,254 Crores, a growth of 30% over the previous year. The major order was for 6 x 150 megawatt BTG Package from Hindalco. In International market, we have received orders worth Rs.3,265 Crores, an increase of 41%.

With these orders, BHEL has an outstanding order book of Rs.1,17,400 Crores to be executed in 2009/10 and beyond. 84% of these orders are from power sector, 10% from industry and 6% from exports. Manufacturing capacity expansion to 15,000 megawatts during this current year is proceeding apace and we have taken an inprincipal decision to go ahead with 20,000 megawatt expansion. Overall, the turnover has increased to Rs.27,505 Crores, 29% of growth over that of previous year. Profit before tax to Rs.4,530 Crores, a 21% increase if provision for wage revision is not counted otherwise year-on-year it is a 2% increase. Profit after tax is Rs.3,039 Crores, a 25% increase if provision for wages is not counted otherwise year-on-year it is a 6% increase. Provision for wage was reassessed in light of the new government directive and also because of the increase in gratuity and in the current year, it is Rs.1,728 Crores. R&D expenditure was Rs.650 Crores, an increase of 40% over the previous year. Capital expenditure was Rs.1,106 Crores, 52% increase over previous year. Our raw material costs have increased. It is about 62.25% against 57.2% last year. We expect to do well in '09/'10. And I thank you once again for joining this conference call. We will take your questions now. Thank you.

**Moderator:**

Thank you, sir. We will now begin the question-and-answer. At this time, if you would like to ask a question, please press \* and then 1 on your touchtone phone. If you want to withdraw your question from the questioning queue, please press \* and then 2 to remove yourself from the queue. Please use only handsets while asking your question. The first question is from the line of Mr. Venkatesh B. from Citigroup. Please go ahead.

**Venkatesh B.**

Yes sir. I had a few questions. Firstly, what was your total wage bill in the current year and what do you expect it to be in the next year? What were the exact provisions you made in the fourth quarter? And the second question is, what do

you think will be the targeted capacity by India in the 12th Plan and how much has already been ordered and how much have you picked up? And the last question is, you know what would be the breakup of this 12th Plan target between state central and private capacity?

**K. Ravi Kumar:** In the last conference call I had given the breakup of 12th Plan, how much orders are coming and all that. See, for wage provision the first question what you asked, in '07/'08, our wage bill was Rs.3,146 crore which is about 14.7%. If you take the wage bill alone in '08/'09, it is Rs.4,192 crore, that is 15.2% of the total turnover. The wage provision is, if you see, the total provision is Rs.1,907 Crores from 01/01/07 to 31/03/09 less provided up to 31/03/08 which is Rs.594 Crores. So, for the year '08/'09 we indicated Rs.1,313 Crores towards wage provision. And now additional gratuity we have provided Rs. 661 Crores. The total wage provision as adjusted was Rs.1,729 Crores. Does it answer your question?

**Venkatesh B.:** Sir, what will be the wage bill in the next year, sir, expected?

**K. Ravi Kumar:** Next year, there will not be any provision. We have covered totally. So the wage bill will be at the same order of whatever is there in the last year and we are expecting the wage bill to be around --

**C. S. Verma:** See, this will be around Rs.4,500 Crores. That is Rs.4192 Crores in '08/'09 and normal increase in DA pay and some other normal allowances.

**Venkatesh B.:** Okay. Sir, but a certain portion of that provision of Rs.1,907 Crores, some of that portion is also a part of the current year, sir?

**C. S. Verma:** Yeah, we have taken Rs.4,192 crore for the current year as a whole. So, what we are saying is this is a base year now, this base provision, base personal payment for the year 2008/09. Now increase in next year will be over this and there will be only normal increase in DA and all these.

**Venkatesh B.:** Okay, so you say that it will not be, total wage bill next year will not be more than Rs.4,500 Crores?

**C. S. Verma:** Yeah, this is what is expected.

**Venkatesh B.:** Okay, but will there be some more provisions for that?

**C. S. Verma:** No, we have made all provisions of all the wage arrears. In fact, we have been very, very conservative. We have also announced our gratuity limit from Rs.3.5 to 10 Lakhs on the basis of actuarial evaluation. We have made provision for gratuity also which is 645 Crores. Those amendments in the gratuity act are yet to take place. But as a matter of conservatism we have already made all necessary provisions towards the wage increase and gratuity in the current year itself. In fact, if you take a step back, if you remove this wage bill, I mean

provision of the wage revision and if you remove that, last year, we received one-time interest income, if you remove that Rs. 250 Crores and we compared like to like, our growth in profit, it is coming at 27% before tax and after tax, it is coming to 30%.

**Venkatesh B.:** Okay. Sir, and what about the 12th Plan, if you could give some details, is it going to be 100 giga watts or so? How much has been awarded and how much has BHEL picked up?

**K. Ravi Kumar:** Yeah, they are telling it is about 95,000 MW. It has been given by the Power Ministry. The thermal is about 70,000 megawatts, the hydro is about 20,000 megawatts and nuclear is about 8,000 megawatts. The total is around 95,000 megawatts. And if you see the public sector is about 55,000 MW and private sector is about 40,000 MW.

**Venkatesh B.:** Okay, sir. And how much has already been ordered and how much have you already picked up?

**K. Ravi Kumar:** Our market share is roughly around 60% to 65% and I think about 10,000 megawatt has already been ordered.

**Venkatesh B.:** Okay, sir. And I had asked one more question about this thing, yeah, what would be your gross block and cash balance at the end of the year, sir?

**K. Ravi Kumar:** As far as the gross block is concerned, it is Rs.5,220 Crores at the end of the year, that is you know provisional result. And the net block is around Rs.1,452 Crores.

**Venkatesh B.:** Sir, the cash balance, sir?

**C. S. Verma:** That will be roughly about Rs.10,000 Crore.

**Venkatesh B.:** Okay, sir. Sir, one last question. Sir, there have been quite a few interviews of yours where you know it says that you are expecting sales growth of around 20% to 25% and profit growth of 25% to 30%. If you could throw some more light because there are some confusing numbers also which are coming out, which are saying that only 23% growth it's also giving a number of 37.5 billion, so if you could just clarify what exactly would be your guidance for sales growth and profit growth for the current year?

**K. Ravi Kumar:** Conservatively, for the current year, it will be 20%. That's what we are aiming, 20% growth in sales, that's what we are aiming. But normally, we end up, you know, it will be anywhere, last time we told 25% to 30%, we ended up nearer 30%. So it will be, now around 20% growth. But if wage provision is not there and the material cost remains same, correspondingly you know 20% will give us a

profit of 25% growth. But for that, the material cost should remain same as of today.

**Venkatesh B.:** Okay, sir. So, you would say 20% to 25% and profit growth of 25% to 30%?

**K. Ravi Kumar:** 20% is conservative; we will take 20% only as of today, 20% growth in sales and 25% increase in profit, that's what we are expecting.

**Venkatesh B.:** And your raw material cost, how much do you think it will go down by?

**K. Ravi Kumar:** We are expecting it should go down by at least 2% actually and wage bill should go down, to that extent.

**Venkatesh B.:** Sir, you did a Capex of around 11 billion this year. How much do you expect to do next year, sir?

**K. Ravi Kumar:** It's about Rs.1200 Crores we should be able to spend next year.

**Venkatesh B.:** Okay. Sir, and you have already given an order inflow guidance of around 500 billion, what I was wondering is what do you think, I mean post FY10 and FY11 and FY12, can we continue to do Rs.500-600 billion of order inflows?

**K. Ravi Kumar:** No. We have given, Rs. 50,000 crores, of which industry sector will be around Rs.10,000 and Rs.4,000 crore of exports so Rs.35,000 crore will be the power sector which we are expecting.

**Venkatesh B.:** No, sir, I was asking about what do you think post FY10, order inflows will start slowing down or you know you can continue to maintain Rs.50,000 to 60,000 Crores of order inflows even in '11 and '12?

**K. Ravi Kumar:** Now, it is very difficult to give a guidance on that actually. But this year, we are expecting Rs.50,000 Crores worth of orders.

**Venkatesh B.:** Okay, sir. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Mr. Atul Tiwari from Citigroup. Please go ahead.

**Atul Tiwari:** Yeah, hello, Good afternoon sir. Sir, I have a question on NTPC-DVC tender, when is it likely to be awarded? These are bulk orders?

**K. Ravi Kumar:** Bulk ordering, there is totally about 11 units there, which we are expecting in the second quarter of this financial year. The tender should be out but we are likely to get during the financial year only. But it takes about six months for closing the order.

**Atul Tiwari:** Okay. And sir, from these 11 orders, how much you are likely to get, any guidance on that?

**K. Ravi Kumar:** Yeah, if you are L1, we'll get six, if you are not L1, we'll get five.

- Atul Tiwari:** Okay. And sir, in 12th Plan that you just discussed what is the breakup between supercritical and subcritical on thermal side?
- K. Ravi Kumar:** No, it is very difficult to say right now. But see, there is a tendency to go for supercritical but when they see the attractive cost for subcritical, most of the tenders land up in giving some subcritical option. So, you know there is a tendency to go for supercritical, but still, subcritical is cost effective.
- Atul Tiwari:** Okay, sir, so we cannot say, you know, even rough breakup or something at this point?
- K. Ravi Kumar:** It would be very difficult to say because 12th Plan is still long away.
- Atul Tiwari:** Okay, sir, thank you, thanks a lot.
- Moderator:** Thank you, Mr. Tiwari. The next question is from the line of Mr. Somesh Agarwal from Macquarie Capital. Please go ahead.
- Inderjeet:** Hello, this is Inderjeet from Macquarie. A couple of questions from my side. You mentioned that on raw material side, you will be able to reduce the cost by 2% points, now can you give me sense as to what is your inventory level at this point of time? Have you already tied up your steel cost or something like that? And why do you believe that something like 2% basis points you can cut down on the raw material?
- K. Ravi Kumar:** See, as far as our inventory is concerned, it is around Rs.7,470 Crores. But see, as far as the steel material is concerned, we buy steel for projects on the spot only. But other you know for our P11, P91 materials, they are stored for nine months. But as far as the other ordinary steel is concerned, we buy immediately. So, to that extent, there will be reduction. So, that's how we are expecting some 200 basis points down next year.
- Inderjeet:** Okay. In the quarter four, was there any impact of the lower steel prices?
- K. Ravi Kumar:** No, there was no impact. The material costs have remained quite high because maximum prices were there in August, so it was about nine months' inventory we have you know for imported materials and indigenous materials were there seven months. So, there wasn't much reduction as far as the material costs are concerned in the last quarter.
- Inderjeet:** Okay. So, by which quarter do you expect this benefit to start coming through?
- K. Ravi Kumar:** I think it should come from second quarter onwards. The first quarter, we will see some small dips but from second quarter onwards, there should be improvement.
- Inderjeet:** Okay. Second question regarding the capacity expansion, you said that the capacity expansion is on track, but would the capacity come in phases? Would

there be some decent price capacity available say in next one to two months or so in this fiscal?

**K. Ravi Kumar:** Yeah, from June onwards, we are expecting some capacity increase but the real effect would come from January next year.

**Inderjeet:** Okay, but how much would be available by June onwards?

**K. Ravi Kumar:** No, it is not in terms of megawatt. In certain areas, some machines will be there. You know it is very difficult to tell what megawatt will be added but in some actions, yes, some increase will be there.

**Inderjeet:** Okay, 20%-25% increase is possible in --

**K. Ravi Kumar:** No, I can't quantify that. It's very difficult to quantify. So, January, we will have 15,000 MW but progressively it is being done. But some actions we will have new machines.

**Inderjeet:** Okay. And last question from my side, in terms of other expenses, how were the other expenses for the full year, FY09?

**K. Ravi Kumar:** We can give you the data a little later.

**Inderjeet:** No problem. Thank you.

**Moderator:** Thank you, Mr. Inderjeet. The next question is from the line of Mr. Sunil Kumar from Birla Sunlife. Please go ahead.

**Sunil Kumar:** Yeah. Sir, most of my questions have been answered. I just wanted to check on the domestic competition, you had made a comment that you expect higher competition this year. Sir, is it possible to maintain the market share or do you see some pressure there?

**K. Ravi Kumar:** No, I do not think in the next two years, there will be competition. But once we are at 20,000 megawatts level, our cost will come down. To that extent, we will be a major player. In subcritical, we do not have much competition as of today. Only in 660 megawatt supercritical, we have got competition from Chinese. But other than that, we don't have competition at all as of today also. So, I think in next three years, we do not expect much competition in subcritical areas.

**Sunil Kumar:** Right sir, thanks.

**Moderator:** Thank you, Mr. Kumar. The next question is from the line from Ms. Shilpa Krishnan from JP Morgan. Please go ahead.

**Shilpa Krishnan:** Yeah, good afternoon. I just have one question. Could you just throw light on the working capital situation? It was minus 500 Crores as of March '08, what is the position as of today and what is the breakup?

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- K. Ravi Kumar:** The working capital as of today is about --
- C. S. Verma:** See, this will be roughly about 12 to 15 days of turnover as at the end of the financial year, i.e.net working capital.
- Shilpa Krishnan:** Net cash?
- C. S. Verma:** Net working capital.
- Shilpa Krishnan:** Okay, and this includes the cash, right?
- C. S. Verma:** I will let you know
- Shilpa Krishnan:** Okay, and within that, could you also discuss how individual items have moved? For instance, how are the debtors positioned and loans and advances and so on?
- K. Ravi Kumar:** As far as debtors are concerned, you know we have maintained the number of days of turnover. But in absolute value it has not come down. But last year also, it was 208 days of sales and this year also it is about 208 to 209 days. And as far as inventory is concerned, it was 99 days last year and this year also it is 99 days of sales.
- Shilpa Krishnan:** Okay, and advances from customers?
- C. S. Verma:** We will tell you.
- Shilpa Krishnan:** Okay, not a problem. Thank you.
- Moderator:** Thank you, Ms. Krishnan. The next question is from the line of Mr. Nikunj Doshi from Envision Capital. Please go ahead.
- Manish:** Yeah, this is Manish here. Can you clarify on this incremental requirement for wage provision which was done? What was the directive from the government? What has changed to, which led towards increasing provision?
- K. Ravi Kumar:** See, there are three components of that. One is you know gratuity has been increased from Rs.3.5 Lakhs to 10 Lakhs. That provision is around Rs.661 Crores. Then, based on turnover, we have kept the provisions at about Rs.1,068 Crores. And also, we have kept for this recent addition of DA, that is you know DA merger with basic pay, that also we have provided. So the total provision we have got is around Rs.1,728 Crores during this financial year.
- Manish:** So, this was basically government has increased further from what it was earlier announced in November?
- K. Ravi Kumar:** Yeah, that also we have provided.
- Manish:** And this is applicable to all central and public sector units?

- K. Ravi Kumar:** Yeah.
- Manish:** Okay, thanks a lot.
- Moderator:** Thank you, Mr. Doshi. The next question is from the line of Mr. Abhishek Puri from JM Financial. Please go ahead.
- Abhishek Puri:** Sir, very good afternoon. Sir, first of all, the guidance which you are giving on 20% growth in sales, does it collaborate to the MoU which you have signed for the excellent rating at 32,000 Crores?
- K. Ravi Kumar:** You know we always exceed the turnover excellent rating. This year, the excellent rating was Rs.27,000 Crores and we have got to Rs.27,505 crore. So we should be able to see 20%. That's what we are aiming at next year.
- Abhishek Puri:** Sir, if I take 25%, that means you will be doing a top line of about 34,500 Crores?
- K. Ravi Kumar:** Yeah.
- Abhishek Puri:** Would that be possible?
- K. Ravi Kumar:** There are chances but 20% is the guidance which we are giving.
- Abhishek Puri:** Okay. And secondly, I was going through some articles of BHEL Tiruchirapalli, we have the install capacity of about 1,08,000 metric tons and we have not added any capacity there for past four-five years, and there is a target of doing 4,50,000 metric tons in next year. Considering the current credit crunch which we are going through, do you think vendors will be in a position to help you outsource much more than earlier?
- K. Ravi Kumar:** See, as far as the Trichy unit is concerned, we have got a lot of automated machines already, and even the 15,000 megawatt capacity which we are planning by December, the Trichy unit will come a little earlier. We are expecting it to be there in October, we are expecting around that time. But as far as outsourcing is concerned, if you see our model, we give all the materials, only the fabrication is being done by them. So, it does not involve much working capital. We give almost everything to them. Only the consumables and the labor is being provided by them. So I do not think there is much difficulty in getting that type of output from Trichy. We do not foresee any problem at all. But only thing what we are facing in projects is some items are not available. You know some subcontractor failing and all that. That's the only problem we are facing. But other than that, in terms of volume, we do not feel any problem during next financial year.
- Abhishek Puri:** Okay. Is that also because, I continue from the previous question also asked by one of the colleagues I think, it was on the partial addition of new capacities, so the new machines have already come in at Trichy?

- K. Ravi Kumar:** Yeah, the new machines have already come. Some automated welding machines, we have already got. Some four machines we have got for pressure panel welding. We are also ready with the civil work for the new plant and three bays of existing plants also we have expanded. I think something will come definitely in the steam related area.
- Abhishek Puri:** So, it should be before December?
- K. Ravi Kumar:** Yeah.
- Abhishek Puri:** Okay, thank you so much, sir.
- Moderator:** Thank you, Mr. Puri. The next question is from the line of Mr. Shrinivas Rao from HDFC Mutual Fund. Please go ahead.
- Shrinivas Rao:** Yeah, hello sir. First question is on this space in R&M business, what was its contribution in last year, sir?
- K. Ravi Kumar:** Last year, we had booked around Rs.2,750 Crores worth orders and it is 100% of the market share we have got in R&M.
- Shrinivas Rao:** Okay, and how is it looking like for this year and next year, sir?
- K. Ravi Kumar:** This year we have planned Rs.3,750 crore order booking.
- Shrinivas Rao:** Okay. And sir, the second question is on the composition of business in terms of EPC versus BTG only. Remember last year you were saying that EPC share would go up because two years back you have taken more EPC business. Can you elaborate on that, sir, how will that shift say in FY010 versus FY09?
- K. Ravi Kumar:** As far as the EPC is concerned, you know it has come to now 30% and you know BTG jobs are around 70%. But in EPC, this main problem we are facing is the margin on the outsourced item. So, though the order booking and the sales are high, the composition of turnover because we were outsourcing the BOP and civil, so the margins are around 10% only. So, that's why you know we are having some problems in margin. If you see, our construction turnover is about Rs.5,500 Crores during this financial year. So that is also contributing to lower margins during this financial year.
- Shrinivas Rao:** Exactly sir. So, what will this be in FY10, construction turnover to your overall number?
- K. Ravi Kumar:** I think it should be in line with the growth. We are expecting 20% growth in construction business.
- Shrinivas Rao:** So, the construction business will not go faster than the BTG business in FY10?
- K. Ravi Kumar:** No I don't think it will be similar.

- Shrinivas Rao:** Also, sir, can you tell us what is happening in BOP side. We keep seeing so many orders in BTG but you know BOP, some people say that many things are still pending. Can you tell us?
- K Ravi Kumar:** Yeah that is true. Whether it is customer or us, there are certain problems in the BOP vendor area but what we have now done is at times we are splitting the packages to civil, electrical and mechanical. We are outsourcing only the mechanical. The civil is being done by the main contractor and the electrical is being done by us departmentally. So to that extent we are able to improve our margins in packaging and also we are able to do little things faster in the new jobs.
- Shrinivas Rao:** Okay sir thank you. All the best.
- Moderator:** Thank you Mr. Rao. The next question is from the line of Mr. Anupam Tiwari from Reliance Mutual Fund, please go ahead.
- Anupam Tiwari:** Sir good evening. Recently in some news items it was mentioned that BHEL management expressed a concern over the Chinese competition and to the extent that BHEL may have a serious business problem if government does not do to safeguard the industry. Do you think it was true expression of your intentions?
- K Ravi Kumar:** No. I told you the recent failure of Chinese equipments during the press conference. In sub-critical area, lot of people who have gone to Chinese have come back to us. So we have also developed 600 megawatt and 270 megawatt sizes. So a lot of private sector orders this year have come. We have received about four 600 megawatt sets from private sector. Those who are going to Chinese have come back to us. And definitely the market for sub-critical is almost with us right today. Not many are going. Our market share is increasing. As far as the super-critical is concerned, Chinese are not there in 800 megawatt. Only in the 660 megawatt segment the Chinese are there but there are also other issues that I don't want to elaborate right now.
- Anupam Tiwari:** So you feel this is a competition which can be tackled properly by BHEL?
- K Ravi Kumar:** Yeah, we are quite confident we will be able to take up Chinese competition.
- Anupam Tiwari:** No such script as was reported in that news item.
- K Ravi Kumar:** In terms of Chinese competition, you know we had some problem when 300 and 600 megawatt sizes were introduced, but now we do not have that problem.
- Anupam Tiwari:** One more thing sir, in the next order intake figure that you are indicating can you please indicate how much could be in your envisagement and your planning how much would be private orders and how much would be public utilities order?

- K Ravi Kumar:** The industrial sector orders are mostly private, that's about Rs.10,000 Crores order which is private. At Rs.50,000 Crores level, we are expecting Rs. 4000 Crores from international order booking. So out of Rs. 35,000 Crores in power sector about Rs. 3500 Crores is from R&M, that is of course R&M is from government sector only and the rest is about Rs. 31,500 Crores which we are expecting from government and private agencies and I think 35% will come from private and 65% will come from public I mean government departments.
- Anupam Tiwari:** Last thing sir, you were also mentioning that BHEL wants to make some fresh inroads into this oil rigs business. Has there been any speed up on that?
- K Ravi Kumar:** As far as onshore oil rigs is concerned, we have got an R&M order form ONGC and OIL also recently but as far as the off shore rigs are concerned our ports are very shallow so it has to be located in somewhere outside the country. So I do not think there is much we are thinking on that line.
- Anupam Tiwari:** Thank you sir. Best of luck.
- Moderator:** Thank you Mr. Tiwari. The next question is from the line of Kirti Dalvin from Enam, please go ahead.
- Kirti Dalvi:** Very good afternoon sir. Just wanted to check this 4x600 megawatt order which we received from Jindal Power, is a part of our power sector order?
- K Ravi Kumar:** It is a part of power sector order.
- Kirti Dalvi:** Okay and sir second question is would it be possible to get the total investment made by BHEL in FY09 in all our JVs as of today.
- K Ravi Kumar:** See as far as the last year is concerned, the investments in JVs is around only Rs.10 Crores. Not much we have done because we have put only the equity capital. As far as our capital investments in the units are concerned we have invested Rs.1106 during this year which I think we have declared.
- Kirti Dalvi:** Or even total investment including JVs?
- K Ravi Kumar:** In JVs we have not invested much because you know it is a very nascent stage as of today.
- C. S. Verma:** Towards JVs we have given only the initial capital of Rs. 5 crores in two JVs which are yet to pick up, so JV investment will come only really this year.
- Kirti Dalvi:** So what is a planned investment in JV this year?
- C. S. Verma:** It depends how JVs are progressing because in the power JVs as you know our stake of equity is approximately 26%. But 26% cannot be invested in just one year. The implementation period is about three years. So this would be spread over a period of three years. Our TNEB JV or KPCL JV and our JV with NTPC

we have made some initial investment this year and I mean last financial year. And some investment will be taken up this year also. Total investment committed is about Rs.100 Crores in the NTPC JV.

**Kirti Dalvi:** Okay, okay. And sir just a rough idea if you could give us EBITDA for FY09?

**K Ravi Kumar:** See right now it will be difficult because you know how the JV progresses is, what is important you know, how --

**Kirti Dalvi:** Taking about FY09 EBITDA sir, operating profit.

**K Ravi Kumar:** Okay. EBITDA year on year increases is about 2.6% after the wage revision.

**Kirti Dalvi:** Okay, thanks a lot sir.

**C. S. Verma:** Earlier, there were questions about miscellaneous expenses and the working capital, we have got the details.

**C. S. Verma:** Miscellaneous expenses for the year 2008-09 was Rs.1322 Crores and this figure was Rs.1155 Crores as of last year. 2007-08. This year the Working capital increase is Rs.1073 Crores but this is including the cash and bank balance. Cash and bank balance as at the end of financial year is Rs.10,120 Crores. Advance to some customers which are outstanding as at end of the year is Rs.15,110 Crores, compared to Rs.11,395 Crores in earlier year.

**Moderator:** Thank you Ms. Dalvi. The next question is from the line of Mr. Bhavin Vithlani from Enam Securities, please go ahead.

**Bhavin Vithlani:** Good afternoon sir and congratulations for great set of numbers. Sir my question pertains into the industry division, we are targeting a flat increase in order inflows next year, could you throw more light what was the proportion of T&D and Captive Power Plant in the current fiscal and what we are targeting next year? And what brings us to surprise as given the current macroeconomic environment which are the industries where we believe that order flows are more coming in and where the order flow slackening has started?

**K Ravi Kumar:** As far as this year is concerned it is about Rs.10,000 Crores total order book in industrial sector. This consists of transportation, oil rigs, captive power plants and transmission. So the transmission is about Rs.2000 Crores and the captive power plants are around Rs.4500 to 5000 Crores and rest is on transportation and also on oil rigs and others. So these are the total areas where we are working. And next year also we are quite confident we will be able to keep the Rs.10,000 crores because you know we are getting one order from 150 locomotives from railways and all the sectors are okay and we are quite confident that we will be able to repeat the performance next year.

- Bhavin Vithlani:** Okay. Sir, could you just throw more light into the captive power plant business is roughly 50%, which industries are the ones we would have inquiries and which could basically translate into an order inflow, just for the information that what we hear is metal and the cement industry not likely to go into the fray of CAPEX.
- K Ravi Kumar:** Normally industrial sector consists of metal and cement and others. Last year we have got order for 6x150 MW and 2x150 MW from aluminum industry and this year also we are expecting the same you know about Rs.4500 crores to Rs.5000 crores in captive power business. We are not increasing the order book position but definitely we are going ahead well in transportation segment. In Railways we are trying to get maximum orders.
- Bhavin Vithlani:** Okay. Sir, what would be the order value of the 150 locomotive?
- K Ravi Kumar:** Yeah we are having discussions on various terms so I do not want to give the figure right now.
- Bhavin Vithlani:** Okay fair enough. And sir last question pertaining to the MOU which you have on the website, if I check across the gross margins there is a marginal dip in the gross margins vis-à-vis the MOU flashed on the website last year, I am comparing the MOU target versus the MOU. If you can give us sir like to like comparison with 31,000 crores and 6427 crores gross margin what is the actual achieved gross margin this year, vis-à-vis we are targeting an increase next year?
- K Ravi Kumar:** As I told earlier, you know this time we have provided everything. See, we thought we will be providing next year the actual gratuity. Also in the wage revision you know recently the DA merger with pay, but this year itself we have provided. So to that extent it will give some relief to work as far as wages are concerned. But as far as our gross margin is concerned we have given guidance of Rs.6427 in the MOU with the government.
- Bhavin Vithlani:** Okay. We are not expecting a dip because the MOU if I compare MOU versus the MOU because I do not have the actual gross margins data for the FY09, so comparing that I see a dip in the gross margins.
- C. S. Verma:** No, you cannot compare MOU versus MOU when we are having the actual figure for the current year and we have already gone on record that we have to make additional provision for the wage revision, gratuity, which we had never envisaged at that time of the MOU, which we signed MOU for the last year.
- Bhavin Vithlani:** Right, so what is the actual gross margin number for FY09?
- C. S. Verma:** Gross margin number is Rs.4887 crore.
- Bhavin Vithlani:** Okay, yeah thank you very much.

**Moderator:** Thank you Mr. Vithlani. The next question is from the line of Mr. Lokesh Garg from Kotak Securities. Please go ahead.

**Lokesh Garg:** Hi sir, good afternoon. Sir just wanted to check around this number of 20% growth in sales on which you kind of subjected some confidence as well as 25% profit growth and I am trying to kind of put this fact together with what Mr. Verma had to say on the call which is 2% decline in raw material cost likely and also absence of employee provisions in FY10. Now if I put these two things together they do not actually come together because 20% revenue growth and 25% PAT growth implies an EBITDA margin expansion of only of the order of maybe 50 to 100 basis points versus what is being you know guided on the other side of cost reductions likely to be achieved from raw materials and employee provisions. So just wanted to reconcile these two things.

**K Ravi Kumar:** You know, normally the margins are same 30%, sales growth should result in 20% profit but if you see the raw materials, there are two types of raw material. One is complete bought out and another is raw material per se, another is imported raw material. So the effect of all the things together you know we are telling that it will be a 25% growth that is what we are expecting. But if the material cost remains same only and certain raw materials we have already ordered, all the things put together we want to be a little conservative on the estimates and it is a conservative figure only. But definitely we will be able to achieve this and normally we achieve you know as I said 20% growth if we achieve then it will go to 25% growth in profits. But definitely we will achieve what we are telling. 20% hike in sales and 25% growth in profits but you know the material cost may not be same throughout the year, so all those things put together we must have some cushion on these.

**C. S. Verma:** Let me supplement. Material cost this year is 62.25% but for next year we just said that 2% but our internal target is much more than 2%. We are quite hopeful that when we are going to achieve 20% growth in turnover, the profit margin should go up by around 25%.

**Moderator:** Thank you Mr. Garg. The next question is from the line of Mr. Madan Gopal from Centrum Broking, please go ahead.

**Madan Gopal:** Good afternoon sir, this is Madan here. Sir, I just wanted to understand how many months of raw material we have ordered for any rough fair estimation?

**K Ravi Kumar:** Our inventory as I told you know, we have already gave the inventory figure. It is around –

**Madan Gopal:** You said two to three months.

**K Ravi Kumar:** Yeah it is about 99 days of turnover.

- Madan Gopal:** Okay superb. Are we in the process of ordering some more or
- K Ravi Kumar:** Yeah, it is about Rs.7471 Crores or about 99 days of turnover only. So some of them will be used in the first quarter, some of them will be used in second, third and fourth quarters also. See because we store long delivery items, so to that extent you know there will be as I said from say second quarter onwards we are expecting there will be a dip.
- Madan Gopal:** Sir my second question is on Nuclear Power Corporation, the joint venture which we have established with GE Hitachi, what is your outlook on that and what kind of counter flow you are expecting from that particular space?
- K Ravi Kumar:** See that is a long shot. But we are expecting definitely a 8x700 megawatt order during this financial year. We have already got 4x 700 MWe steam generators and L&T has got 4x700 MWe as far as the steam generator is concerned. And we are expecting 8x700 megawatt during this financial year.
- Moderator:** Thank you Mr. Gopal. The next question is from the line of Mr. Sachin Trivedi from UTI Mutual Fund, please go ahead.
- Sachin Trivedi:** Yeah, afternoon sir. My question is regarding the growth rate that we are speaking about, is it fair to assume that generally we have 40%-45% of revenue is coming in fourth quarter. Will that trend continue in the next year or it will not or there will be some other trend?
- K Ravi Kumar:** Our idea is to get less than 40% in the last quarter, so we are reducing a year by year and next year we are planning around 38% in the last quarter.
- Sachin Trivedi:** Okay, and the margin expansion that we are speaking about, will that margin expansion be there in all the quarters or it will be majorly in the fourth quarter? How do you see the margin expansion?
- K Ravi Kumar:** Margin expansion will take quarter to quarter it will be like that. From the second quarter onwards we expect dip in material cost but definitely wage revision is not there from the first quarter onwards so there will be some benefit in the first quarter but the material cost will come down from second quarter onwards.
- Sachin Trivedi:** Okay, so the margin expansion in 200 or 300 basis points will be seen only in Q2, Q3 and Q4?
- K Ravi Kumar:** Yeah.
- Sachin Trivedi:** Okay, sir my one more question is regarding the 20,000 megawatt of capacity that we want to set up. Now we said, sometime back you just mentioned that the 12th plan capacity edition is close to 1 lakh megawatt and we are planning a capacity of 20,000 megawatt from that. So obviously our market share will no be

100% in that case, if I look year on year basis. So what is the strategy and why we are expanding in such a –

**K Ravi Kumar:** As far as 20,000 megawatt is concerned if you see 2500 megawatt actually goes to the Hydel, so that gives say about 17,500 megawatt and 1000 megawatt goes to R&M and spares which will bring it down to 16,500 megawatts. Export will be 1,500 megawatts. So actually for the new plants it will be about 14,000 to 15,000 megawatt per annum. So that gives about 70,000 megawatts during the financial year, during the five years period.

**Sachin Trivedi:** In that case are we over committing any capital for future or do we see post five-year plan there will be further growth or are we targeting any other particular market.?

**K Ravi Kumar:** See today we are outsourcing lot of items. Yeah our outsourcing is very high so we want to produce something internally. That picture can always be changed and see the demand is only 70,000 as far as the new projects are concerned, I mean the capacity is only 70,000 during the 12th plan what we are building. So 70,000 means 70% order book but 70% market share. If you take 1 lakh megawatt be 70% market share but definitely we are getting 50% market share and the 10% should be used for peak and also for you know making more value added.

**Sachin Trivedi:** Sir one final question, would you like to comment on the likely competition because now L&T has come in and a lot other players are planning to come into this market. And from that how do you see the competition going forward?

**K Ravi Kumar:** Once we are going to 20,000 megawatt I do not think there is much competition because the scale of manufacture will give us a cost benefit. So to that extent we will be able to beat the competition. But we are assuming only 50% market share during that 12th plan.

**Sachin Trivedi:** Okay, thanks a lot sir. Thanks for the time.

**K Ravi Kumar:** Thank you much.

**Moderator:** Thank you sir. Would you like to add a few closing comments?

**Dhirendra Tiwari:** Yes. Thank you very much ladies and gentlemen. This is a 45-minute call so we have to now close because of time constraint. I wish to thank you Mr. Ravi Kumar and Mr. Verma for taking out your times. Wish you all the best for future and have a good time sir. Thank you very much.

**C. S. Verma:** Thank you very much.

**Investors/Earnings Conference Call**

*06 April 2009, 03:30 pm IST*

**Moderator:**

Thank you very much. On behalf of Batlivala and Karani Securities India Pvt. Ltd. that concludes this conference. Thank you for joining us and you may now disconnect your lines.