

Bharat Heavy Electricals Ltd.

Q3FY09 Post Results Conference Call Transcript

BHEL Management Rep:

Mr. K. Ravikumar, Chairman & Managing Director

Mr. C. S. Verma, Director/Finance

Religare Capital Markets Limited Rep:

Mr. Kunal Sheth +91 22 6766 3476

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Moderator: Ladies and gentlemen, good morning. This is Rochelle, the Chorus Call Conference operator. Welcome to the Q3FY2009 earnings conference call of BHEL hosted by Religare Capital Markets Limited. As a reminder for the duration of this presentation all participants' lines are in the listen-only mode and this conference is being recorded. After the presentation there will be an opportunity for you to ask questions. Should anyone need assistance during this conference all, they may signal an operator by pressing * and then 0 on their telephone. At this time I would like to hand the proceedings over to Mr. Kunal Sheth, Capital Good Analyst at Religare Capital Markets, thank you and over to you Mr. Sheth.

Kunal Sheth: Thank you Rochelle, good morning ladies and gentleman. On behalf of Religare Capital Markets I would like to welcome you all to the Q3FY2009 earnings calls for BHEL. From the BHEL Management we have with us Mr. K. Ravikumar, Chairman and Managing Director and we have Mr. C. S. Verma, Director of Finance. I would like to thank the BHEL Management for giving us this opportunity. Now I would like to handover the floor to Mr. K. Ravikumar for his opening remarks. And then we can open the floor for questions, over to you sir.

K. Ravikumar: Thank you, I am K. Ravikumar, CMD BHEL and I have with me Mr. C. S. Verma, our Director – Finance and very warm welcome to all of you. We have just announced the 3rd Quarter results. If you see the 3rd Quarter, there is a surge in order bookings, order books up to the 3rd Quarter has been around 44,088 Crores. This corresponds to 13670 megawatt. In fact we have booked orders around 15,107 Crores during the 3rd Quarter which is higher by 5% higher than the previous quarter. Year-on-year there is 26.5% jump.

I am also glad to announce that we have received a big order from TNEB yesterday, NLC-TNEB joint venture and it is about 3200 Crores and also two orders from NTPC. Total orders we have received yesterday is about 7000 Crores. The orders which are booked during the 3rd Quarter includes 1x600 megawatt Katachia, 2x660 megawatt Barh Stage II order for super critical STG, 2x500 MW at Mauda, 2x600 Malwa, and 4x600 Jindal. In the industry sector we have also booked order 3x80 megawatt Shriram OPC. Bulk order for shunt reactors, bulk order for transformers, two numbers of recycle compressors and one number with gas compressor, four numbers of 700 HP shunting loco from a Essar and Supply of ACS and IPMS from Mazgaon Dock.

In the international markets we have received orders of 3169 Crores till 3rd Quarter. With this orders up to 31st December, 2008, we have an outstanding order book of 113,584 Crores. 84% of this is accounted by power sector and 9% by industry and balance by exports. In the last quarter also we are expecting a huge order book and we may end the year at 120,000 Crores order in the order backlogs. In the past three months period BHEL-TNEB have floated JV companies for 2x800 megawatts. We are also floated joint venture with KPCL. And we are also in talks with Gujarat and Madhya Pradesh for establishing joint ventures. We are increasing the capacity to 15,000 megawatt by 2009 and we are expanding it to 20,000 megawatt by 2011. We are on track to reach a turnover of 27,000 Crores by 2008/2009 and we are aiming at 25% to 30% growth and we would like to have it at 30% by end of the year as far as possible.

Looking at 3rd Quarter result if you see the turnover was Rs 6445 crore at 17% increase over 3rd Quarter of 2007/2008. Cumulative turnover up to 3rd Quarter was Rs 16,936 Crore a 25% increase over Rs 13,504 Crore achieve the 3rd Quarter of 2007/2008. Profit before tax for 3rd Quarter is placed at Rs 1223 Crores. Cumulative PBT up to Q3 2008/2009 was Rs 2754 Crores. If we exclude the impact of IT refund in 2007/2008 data on a year on basis it is about 11% increase. Profit after tax is placed at Rs 791 Crores. Cumulative PAT up to Q3 2008/2009 is Rs 1791 Crores which is an improvement of 2% over what is achieved in 3rd Quarter of 2007/2008 excluding the impact of IT refunds in 2007/2008 the increase is 11%. Provision of wage revision was reassessed during the year at Rs 1907 Crores for the period 01/01/2007 to 31/03/2009. Rs 594 Crores was provided in 31/03/2008 of that balance Rs 1313 Crores have been provided during the financial year, Rs 839 Crores has been provided over the 3rd Quarter of 2008/2009.

Of course there is a problem with raw material cost as you all know that we have an inventory of 3 to 4 months for indigenous materials and 6 months for imported material. Prices during August-September were highest, so the raw material which is being used for production in 3rd Quarter. Raw material cost has a percentage of gross turnover net of ED after 3rd Quarter estimate is 61.31% against 58.2% in the corresponding period last year. We expect the year end figure to be around 60%. I thank all of you for joining this conference call. We will take the questions now, thank you.

Moderator:

Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. At this time if you have a question please press * and then 1 on your touchtone telephone. To withdraw questions from the queue you may press * and 2. Participants are requested to use only handsets while asking a question. Anyone who has a question may press * and 1 at this time. Our first question is from the line of Venkatesh Balasubramaniam of Citigroup, please go ahead.

Venkatesh Balasubramaniam: Sir, congratulations on a good set of numbers, I had a few inter-related questions. What was the exact wage provision made in the 1st Quarter, 2nd Quarter and 3rd Quarter respectively? And what will be your wage bill for the full year current year and the next year sir?

- C. S. Verma:** I am Verma, I am answering your query, I am talking of the additional provision for wage revision, I am not talking about the normal staff cost. The total provision for the year as a whole for the year 2008-2009 to be made is 1313 Crores.
- Venkatesh Balasubramaniam:** Yes sir exactly I was asking this extra wage provision with 839 Crores can you break it up between 1st Quarter, 2nd Quarter, and 3rd Quarter.
- C. S. Verma:** Quarter 1 we have provided Rs 328 Crores, Quarter 2 we had provided Rs 219 Crores and Quarter 3 we have provided Rs 292 Crores that means up to Quarter 3 we already provided Rs 839 Crores. Now balance is Rs 474 Crores. Now again end of the year we will reassess that, whether this provision is adequate or the more or less is required, in fact now the recommendations have come, we have to reassess and there are chances that even this much of provision may not be required in the 4th Quarter.
- Venkatesh Balasubramaniam:** Okay sir. Sir and what is the expected wage bill for the current year and the next year?
- K. Ravikumar:** See as far as the provisions are concerned for the wage bill it will be over by this year i.e. Rs 1313 Crores. There may not be any provision required because we will be finalizing the whole deal by April. So as far as the normal wage increase is concerned it is normally 8% to 10% but if you actually the ask the wage bills...
- C S. Verma:** you know for the year 2007/2008 it is Rs 3145 Crores. For the year 2008/2009 this will be somewhere about 4300 to 4500 Crores.
- Venkatesh Balasubramaniam:** Okay sir, sir the next question is, in this current quarter, the sales growth has been... the gross sales growth has been only 17%, are you facing execution challenges in this you know currently and anyway you have given what you are trying to achieve for the full year but are you facing execution challenges? And secondly what kind of sales growth is possible in the next year?
- K. Ravikumar:** As far as sales growth is concerned we had given guidance, it will be between 25% to 30%. If you see the the work- in-progress is quite high during December, it is around Rs 500 Crores, to be exact it is around Rs 643 Crores against (-129) Crores last year. So higher WIP means more production in the 4th Quarter. So we are not facing any execution problem and we are online to give a growth of 25% to 30%. There were some power cuts and rains during the 3rd Quarter in Trichy that is now resolved because the Tamil Nadu Electricity Board has freed us from power cuts for both Ranipet and Trichy units. And we have a good inventory of raw materials; I do not think there will be any pressure on executing orders.
- Venkatesh Balasubramaniam:** Sir this 27,000 Crores top-line which you mentioned for a full year that's like roughly 26%, 25.4% growth, is 30% little too tough to do in the current year or is it like there is an outside chance that we might do that?
- K. Ravikumar:** There is a good chance that we may do that, it will be between 25% to 30% but more likely it will be closer to 30% that's what we are expecting.

Venkatesh Balasubramaniam: Okay sir, sir the last two questions are, sir what is the kind of order inflows that you expect next year and what is your CAPEX for the current year and the next year?

K. Ravikumar: As far as you know the orders are concerned we have already told that we are planning to take the capacity to 15,000 megawatt by this financial year and 20,000 megawatt by 2011 as far as the growth is concerned. If you see the order book as such, this year will be a record year. Last year we did annual order book of Rs 50,000 Crores and this year we are planning close to Rs 60,000 Crores. Next year it will be in-between Rs 50,000 to Rs 60,000 Crores that is what we are expecting.

Venkatesh Balasubramaniam: Okay thank you sir and last one what is your CAPEX expectation this year and next year, capital expenditure?

C. S. Verma: See this by 2009 as we have committed our capacity will go up to 15,000 megawatt and for the 5 year as a whole our CAPEX is Rs 4200 Crores. Individually yes, we will send you the details.

Venkatesh Balasubramaniam: Okay thank you very much sir, and all the very best.

C. S. Verma: Thank you.

K. Ravikumar: Thank you.

Moderator: Thank you Mr. Balasubramaniam, ladies and gentleman before we take the next question we would like to request participants to limit their questions to two during the initial round of question and answer. Our next question is from the line of Aparna Shanker of SBI Mutual Fund, please go ahead.

Aparna Shanker: Hello, sir what is the cash on the books as of December end?

C. S. Verma: Well this is about Rs 8000 Crores.

Aparna Shanker: Okay, but then in this quarter we are seeing a lower other incomes so what could have been the reason for that sir?

C. S. Verma: One second I will give you the breakup of the other income, one second. Can you go ahead with the next question I will give you in just one minute?

Aparna Shanker: Yeah and the impact of the lower material cost we have not seen completely in this quarter. And I think in the last quarter we had mentioned that maybe for the half year we will see a 200 basis points dips improvement in the margins in the six months' time. So what is your take on this, I mean for the full year how it could be?

K. Ravikumar: Actually you know there is a lag between the actual price decrease and the actual consumption of materials. As I said you, time in transit for consuming the raw materials to conversions it takes about four months for indigenous materials and six months for

imported materials. In June, July, and August the prices were highest. If you see there was a 40% jump in steel materials' prices. So that has got reflected during this quarter. And definitely we will see some improvement in the 4th Quarter but still it will be higher than last year by about 1.5%.

Aparna Shanker:

Okay, but I mean for our working capital, are we holding hands for our partners or associates or the contractors to expedite the exhibition?

K. Ravikumar:

Yeah we are quite talking to them and we are advancing a lot of money also so that the execution pressures are not there. I do not think we have any cash flow problems and we can give it to our sub-vendors as to increase the order execution.

Aparna Shanker:

Yeah my last question is on the interest cost, we have seen close to Rs 18 Crores of interest cost in this quarter, what could be the reason sir?

C. S. Verma:

there was temporary mismatch we had taken somewhat temporary borrowing from the bank which had been repaid also. So as of now again there is no borrowing from the any bank. And let me give the detail of the other income, I am telling you the other operating income and other non-operating income. And it is not lower, see at the end of quarter ended the 31st December, 2008, this is a Rs 306 Crores and on a year-to-year basis the corresponding figure was Rs 265 Crores, the breakup is lease rental is Rs 11 Crores, interest income is Rs 180 Crores, and the miscellaneous income is Rs 116 Crores, this mix up of Rs 306 Crores at the end of December 2008. Okay thanks a lot sir. I am through.

Moderator:

Thank you Ms. Shanker. Our next question is from the line of Abhishek Tyagi of CLSA, please go ahead.

Rajesh Panjwani:

Good morning sir, Rajesh Panjwani here, sir my first question was can you, if I heard you correctly you said that for the full year as far as material cost is concerned, we are likely to end at around 60%, right.

K. Ravikumar:

Yeah.

Rajesh Panjwani:

Sir and last quarter you had given this number at 58% to 59% so has there been some change in the view, why this has been increased to 60%?

K. Ravikumar:

No, Actually you know the materials which are coming now are what was procured in July, August and all that. And also what has happened for the 11th plan we have placed order for all the raw materials for casting and forging, which are long lead item. So there is a material inventory which is going up and we have to take care of the execution. See the second point is for certain projects we are now getting finished assemblies. Even our pressure parts are getting assembled outside, because the execution is coming 30% and our capacity will be available only from 2009 December. So there are definitely some finished assemblies we are getting. And we are also air freighting certain materials. So

there is a question of about 1% and so at the end we are expecting the material cost would be around 60% today.

Rajesh Panjwani: And this is compared to what was the number sir last year?

K. Ravikumar: Last year I think it was some 57%.

Rajesh Panjwani: 57%.

C. S. Verma: No, no 58%.

K. Ravikumar: 58% last year and it is going to some 60%.

Rajesh Panjwani: So basically the benefits of the decline in middle cost we will see only in the next year FY2010, not in...

K. Ravikumar: Yeah we will see it only in FY2010, it will be coming down slightly to 59% to 60%. In February and March we will see some reduction in material cost.

C. S. Verma: The impact will start coming toward the end of the current financial year but the full impact will come only in the next financial year.

Rajesh Panjwani: Okay but last year also in 4th Quarter your material cost had gone down sharply and you know if you look in the 4th quarter also YOY basis probably it will still be up, because the benefit will come fully in only the full year next year.

K. Ravikumar: Yes.

Rajesh Panjwani: And sir, you mentioned this wage bill of Rs.43 to Rs.45 billion does this include the potential one off gratuity provisions also?

K. Ravikumar: See we have worked out, we are expecting the wage rise to be around 30% to 32% only so though we are providing 40% wage revisions, the worker are also telling that they want 2 wage revisions during the tenure so there will be a reduction. So overall provisions for wage will be less, the difference we will take care in gratuity.

Rajesh Panjwani: Okay thanks sir.

Moderator: Thank you Mr. Tyagi. Our next question is from the line of Nainesh Rajani of Tata Mutual Fund, please go ahead.

Nainesh Rajani: Good morning sir, few questions in FY2010 you did mention that you would expect your order inflows of around Rs.50,000 Crores next year as well, can you just tell us from where do you expecting this orders, do you think the 12th plan orders would start coming in from next year sir?

K. Ravikumar: Yeah we are expecting certain orders from state electricity board for which we are already discussing. The second thing we are expecting a bulk order which government has cleared that is 11 numbers of 660 megawatt of which we are assured of 6 numbers, if we are L1, and if we are not L1 it is about 5 numbers that we are quite confident on getting that actually.

Nainesh Rajani: Okay so these orders it is what would help you to get some 50,000 of order book next year is what you are saying, right sir?

K. Ravikumar: Yeah.

Nainesh Rajani: Sir second thing was on your execution this quarter, someone mentioned that execution was bit slow, just wanted to understand to achieve a 25% to 30% sales growth, you would have to execute much more than what you have executed in the first 9 months, do you see that and you also mentioned that the growth would be closer to 30% than to 25%, so do you see that Q4 could be substantially higher, would be ramped up, would the sales figures be ramped up in Q4, sir?

K. Ravikumar: Yeah if you see, Work in Progress is about 650 Crores, which will be converted. Secondly you know imported assemblies are also coming that should increase the turnover. So we are quite confident, it will be between 27,000 to 28,000 Crores at the end of the financial year.

Nainesh Rajani: Alright sir, sir my last question could be related to your wage bill, you did mention for FY2009 your total wage bill would be between Rs. 4,300 to Rs.4,500 Crores, this would include the Rs.1300 Crores.

C. S. Verma: Yes.

Nainesh Rajani: So next year going forward there would not be any extra provision, so...

C. S. Verma: No, no.

Nainesh Rajani: Alright so that is all I wanted to know, thanks a lot and all the very best.

C. S. Verma: Thank you.

Moderator: Thank you Mr. Rajani. Our next question is from the line of Sunil Kumar of Birla Sun Life Insurance, please go ahead.

Sunil Kumar: Yeah morning sir, sir just wanted to check on execution you mentioned that you are not facing any execution problems, but has there been an instance in the last quarter that customers have not been able to take delivery from you, because of some issues at their end or you have restricted the delivery because they have not been able to pay you?

K. Ravikumar: There is no, I mean there is not much of that. There were some clearances; you know environment clearance in one project we could not get. So that is going in January. So for example in Sikka and Ukai, we could not get environment clearance. So we have produce that, that is going to turnover this year, but if you see the WIP is about 650 Crores I think that is going to be converted in January and February to finished goods. So that will give us some relief in the last quarter. And we are quite confident we have worked out with all the units and regions that we will cross 27,000 Crores definitely.

Sunil Kumar: Okay, sure and sir next year FY2010 obviously then our margins will be substantially up actually because you would not have addition wage revisions next year. And material also you are expecting material cost to improve actually?

K. Ravikumar: Yeah definitely the margins will be much better next financial year.

Sunil Kumar: Right and sir, any outlook on next financial year revenues, how much can be done?

K. Ravikumar: We are working the budget exercise actually so I think next month if we have a call we can definitely tell you on that, we are working the budget exercise it will be completed by February, going by the order book there must be a good growth definitely.

Sunil Kumar: Right, thank you, thank you so much sir, all the best.

K. Ravikumar: Thank you.

Moderator: Thank you Mr. Kumar. Our next question is from the line of Bhavin Vithlani of Enam Securities, please go ahead.

Bhavin Vithlani: Yeah, congratulation for good set of numbers, my questions pertains to mainly the material prices, as you mentioned that some of it has already been procured that the prices have come down, our customers also know that, has there been instances where power ministry coming to BHEL and asking for a price reduction NTPC and other state electricity boards.

K. Ravikumar: No, there is no question on that actually, but as I said last time you know if we want very big order, definitely we have to match with Chinese prices. So to that extent there has been a small drop which we are seeing but it is not much because if you see the dollar cost, because Chinese imports were in dollar. So to that extent we had a benefit about 25% to 30%, if you see the rupee has depreciated against the dollar between Rs 49 to Rs 50. So that has helped us a lot and we are able to procure orders from even the private customers. On this there is no problem, but the only problem is coming in EPC contract, see in EPC contract what we are manufacturing the value addition and profit is quite high. And if you see, for the Balance of Plant and civil works the value addition and profit will be a little less. So if you see last year we booked lot of EPC contracts. And this year we have booked only boiler turbine contract, we have booked 15,000 megawatt for I mean we have 15% increase in more order book in terms of megawatt, but if you see the order

value have gone up by only 25%. So to that extent we are looking for more boiler turbine orders so the value addition will be more.

Bhavin Vithlani: And sir my question is pertaining to the existing order like for instance NTPC would have placed an order with BHEL, have they come to us and saying that you know your prices have come down, could you reduce the prices, please.

K. Ravikumar: No as far as NTPC is concerned all are PVC contract so if they, on the day of procurement if the price is less, we will get less also, all the contracts in NTPC have a price variation clause for materials.

Bhavin Vithlani: So it is escalation as well as de-escalation?

K. Ravikumar: Yes, yes, it has escalations and de-escalations but only advantage is that if the limit has already come by the time you know about receipt of the order which is of already 10%. So we do not expect much de-escalation to come, because at the zero date of the contract if you see whatever we are getting even today it is the zero date for calculating escalation if it is December 2006 or December 2007 actually, December 2007. So we get 13 months PVC. So in NTPC contract that's a basic advantage, it is on that date of tender.

Bhavin Vithlani: Okay so for next year then could we expect that there could be at least 100 basis point reductions in our raw material cost to sales?

K. Ravikumar: Yeah definitely we are targeting something like 58% again you know from 60%.

Bhavin Vithlani: Okay at 200 basis point reduction in the material. And sir, in the start of the call, I missed, you mentioned about order inflow numbers for nine months and the quarter in terms of megawatt and rupees million, if you could repeat that please?

K. Ravikumar: Yeah as far as outstanding order book is concerned it is 113,584 Crores as on 31st December. And I am glad to announce that we have received order of 7000 Crores yesterday, it is you know one project from Tamil Nadu and two projects from NTPC. As far as order book during the financial year is concerned, we have received orders to the extent of 44,088 and the megawatt is 13,670 megawatt.

Bhavin Vithlani: And if you could breakup the order inflow and backlog breakup between power industry and ...

K. Ravikumar: The power sector order is about 84% in that backlog, 9% is the industrial, balance is from international operations

C. S. Verma: You see in the value terms order received for power sector is 35,511, industry is 6,155, and international operations is about 3169, so this gives us 44,088 that is a incremental order received up till first nine months of the current financial year.

Bhavin Vithlani: Okay sir last question pertains to sir there were some media reports stating that Reliance Industry has canceled the order of gas based project to BHEL, so is this information correct?

K. Ravikumar: Yeah that information is correct and this is for Nagothane Project, but we have diverted all of the materials to Hazira because we have received 10 sets orders. Now ONGC has placed order for two more sets, so if you see there are 10 sets of.

Bhavin Vithlani: Sir are we witnessing similar amount of trend in our industry segment because of current financial crisis and our margins pressure could be there in industry which actually could leverage some benefits of power sector?

K. Ravikumar: No, not like that if you see the outstanding order the industry sector order is only 9% whereas 84% of orders are from power sector and 7% orders are from international operations. If you take a breakup of 113,584 Crores, 95,776 is from power sector, 10,345 from industry sector, and 7463 from international operations. So I do not think that it will be, you know we always consider that 5% of orders may not materialize, some clearances may not come, when we calculate turnover or fix up the budget, we always take care of 5%.

Bhavin Vithlani: Okay, one final last question, if I go by the segment PBIT margins in power segments PBIT margins have dropped significantly and there is a significant increase in the unallocated income, sir could you explain the breakup of it.

K. Ravikumar: As far as the power sector is concerned I explained to you, last time we have booked lot of EPC order which are getting executed now. See the civil and balance of Plant orders are fully outsourced, so we get only 10% to 12% margin on that actually, I mean we are doing only the engineering the rest of it is totally outsourced. So to that extent we are feeling the pressure in power projects when there is a EPC contract, all the DVC contracts that we got and are getting executed today are EPC contracts where the BTG portion will have higher value added and profit whereas civil and Balance of Plant portion will reduced margin.

Bhavin Vithlani: No sir my question is actually if I look by the segment in results, the un-allocable expenditure will increase from some like 78 Crores to 305 Crores, so have there been any changes in the classification of segment wise margins.

C. S. Verma: No, not in this quarter.

Bhavin Vithlani: Okay sir, thank you.

Moderator: Thank you Mr. Vithlani. Our next question is from the line of Somesh Agarwal of Macquarie, please go ahead.

Indrajit: Hi this is Indrajit from Macquarie, just two things one, can you explain what is this value of production net of excise duty and service tax that you have in the press release.

K. Ravikumar: No actually the turnover, we have already mentioned it is Rs16,936.22 Crores. See actually there is an addition and deletion with respect to WIP and finished good that is about Rs 979.35 Crores and export incentives are Rs 18.9 Crores. And the value of production is Rs 17934.47 Crores. And excise duty is Rs 1305 Crores and gross turnover, net of excise is Rs 16629 Crores for last up to 3rd Quarter.

Indrajit: Rs 16,629 Crores is a turnover.

K. Ravikumar: Gross turnover net of excise.

Indrajit: But you have booked 15,694 as revenues as net sales, so is that difference is the revenues that you will book in Quarter 4.

C. S. Verma: Yeah it is the WIP.

K. Ravikumar: That is the WIP.

Indrajit: That is WIP, thousand odd Crores, okay. And another small question is Rs 27,000 Crores plus guidance that you have given, that includes the impact of lower excise duty in the...

K. Ravikumar: Yeah that is for, that lower excise duty it is already taken care, otherwise our growth would have been much higher.

Indrajit: Okay thank you, thanks a lot.

Moderator: Thank you Mr. Agarwal. Our next question is from the line of Manish Chougule of Bajaj Allianz, please go ahead.

Pradeep: Hi this is Pradeep here sir. Sir just wanted to understand regarding our CAPEX increasing capacity from 10000MW to 15000MW what we understood from the annual report when you increased from 6000 to 10000 megawatt the major CAPEX was in terms of hydro turbine gen-sets TEs as well as thermal TEs only and in terms of boilers we have not expanded to that extent. So what can be the picture from when we go from 10000 to 15000 megawatts?

K. Ravikumar: As far as you know 10000MW is concerned 2500 megawatt is from hydro, but when we find the total order book we are finding most of the orders are coming from the thermal sector. So when we are going from 10000 to 15000 it will be mostly only in the thermal sector and it will not be in the hydro sector. So the new additions are only in the thermal sector and if you see our Trichy plant it is going to be the world's biggest plant as far as boiler production is concerned.

Pradeep: Okay sir second question regarding, there were some media report suggesting some LD claims being made by Punjab Electricity Board for particular a 250 megawatt if I am not mistaken Lehra Mohabbat is there any truth in it and have they officially made any claim.

K. Ravikumar: They have not made any official claims, we will discuss normally all the LD difference with customer. We have got from NTPC for Talcher, Simhadri. It takes some times to convince them that what is their problem. They have changed the seismic zone during the course of the contract. So we have to redesign right from scratch and the quality of water was totally different we had to put a new DM system. All these things when we discuss with them I think we will come to a fair settlement with them.

Pradeep: Okay thank you sir.

Moderator: Thank you. Our next question is from the line of Lokesh Garg of Kotak Securities. Please go ahead.

Lokesh Garg: Hi sir, couple of questions, first thing that I wanted to ask you is when we look at company's results particularly the depreciation number compared to last year or even compared to last 2 or 3 years sir the amount of depreciation on a quarterly basis has gone up by only Rs 10 Crores when compared to last year and about Rs 20 Crores when compared to 2 years or 3 years ago. If the company is committing so much capital and if capital is committed to CAPEX why is it not reflecting in depreciation right now for last 2 years?

C. S. Verma: Yeah this is in a capital WIP and when we draw the accounts for the year as a whole and to our current financial year I think only then we will be in a position to appreciate the true picture.

Lokesh Garg: Yes so for large amount of CAPEX that has gone in is actually being into CWIP as of now.

C. S. Verma: Yes.

K. Ravikumar: If you see when we increased from 6000 to 10000MW we have only added the balancing capabilities. We have moved from 2 shifts to 3 shifts and also balancing machines only have been added. It is hardly Rs 1200 Crore odd of CAPEX was there, but from 10000 to 15000MW and 15000 to 20000MW we will be spending something close to Rs 10000 Crores.

Lokesh Garg: Why I am asking this question, because our understanding was that the capacity addition for BHEL is like addition of various tool machines and all that which essentially means that all of those could have been capitalized in a progressive manner versus...

K. Ravikumar: Yeah the machines they are all coming only in December 2009 see the first expansion has already taken place the total investment was only Rs 1200 Crores the next expenditure is going to come only from December 2009 to March 2010.

Lokesh Garg: Sir the other question is related to this 4% EXCISE duty cut which government announced as part of stimulus package. Is it likely to yield any benefit to BHEL or is that likely to be mostly passed to the utilities who have placed orders.

K. Ravikumar: It is passed through utilities directly because you know we do not make profit on duties, duties when it goes up we get reimbursed from customers and it goes down, we refund it to the customers.

Lokesh Garg: Irrespective of whether it is a fixed priced order or a duty plus orders anything.

K. Ravikumar: Yeah.

Lokesh Garg: Sir my third question is related to capital cost of project by how much would you expect capital cost of project to come down with this decline in commodities as well as EXCISE duty benefit now.

K. Ravikumar: No, see the EPC cost of any thermal plant was around Rs 4.6 Crores that is the EPC cost within the plant boundary; Rs 4.9 Crores including the peripherals and all that including the land cost and other things. It is expect to come down by 5% to 6%.

Lokesh Garg: 5% to 6% only irrespective of about 30% to 40% decline in commodities.

K. Ravikumar: Yeah because you know at the end of day it will be 5% to 6% only.

Lokesh Garg: Sir my other question is related to this cancellation of orders by Reliance at Nagothane usually we take comfort in the fact that engineering companies have advance against their orders so that the approved orders are safe. In this case because of this cancellation did you confiscate the advance that was given to you?

K. Ravikumar: No we are not confiscating the advance, see but we have to see what the expenditures we have incurred in that are, we have to discuss with them and then finalize.

Lokesh Garg: Okay thanks a lot, this were all my questions.

Moderator: Thank you. Our next question is from the line of Srinivas Rao of HDFC Mutual Fund. Please go ahead. Excuse me Mr. Rao your line has been un-muted if you have a question please go ahead.

Srinivas Rao: Yeah hello.

K. Ravikumar: Hello.

Srinivas Rao: Sir my first question is what will be the wage bill in FY2010.

K. Ravikumar: FY2010 the increased provision is Rs 1313 Crores whereas the wage bill will be close to Rs 4500 Crores.

Srinivas Rao: For 2010 sir.

C. S. Verma: Yeah 2010 see that, 4500 Crores plus some normal increase that you can expect it.

K. Ravikumar: But it will be around 8%.

Srinivas Rao: 8% I thought it will be lower than that that is what I am trying to understand.

K. Ravikumar: No we are adding manpower also so it will be around 8%.

Srinivas Rao: Okay and sir second question is could you tell us what is the outlook for the industry and international business in terms of orders given the current situations for the next 12 months or so.

K. Ravikumar: See in industry segments we are going big way in transportation, we have signed a joint venture with General Electric for diesel locomotive. , order for 50 locomotives we have got for Jhansi and another 150 locomotives we are getting additionally from railways we are already in discussions. As far as the capital power plants are concerned we are concentrating on the lower segments, one big order we are expecting from Bokaro next year for industry segment. IO we are making all our efforts we are trying to push the order book and EPC contract we are trying to have coal based EPC plants, we are tying up with so many people to have that. If you see on transmission side we are trying to have a joint venture which we will be announcing in the 1st Quarter of next year either with the Japanese firm or a European firm, that will be a big diversification it will consist of 220 KV of GIS, 400 KV GIS, 765 KV transformers HBCI everything together.

Srinivas Rao: Okay so sir from transportation what kind of order intake are you looking from this JV ...

K. Ravikumar: See actually we have quoted for Madhavpura tender along with the GE; we have 24% equity and a 50-50 joint venture for feeding this assembly plant. So if we are successful I think it will open up a big avenue for us in transportation.

Srinivas Rao: Okay and on the international business given you have a very high order book and does it make sense to focus on international business.

K. Ravikumar: Wherever we are giving aide for example you know Myanmar, Congo and all this places, where our India is giving aide we will concentrate so that we can get good returns on these jobs and we have also got one order from Oman for rate contract type of thing for supply of gas turbines, and we are expecting in a big way, at least three turbine orders by 2009 March.

Srinivas Rao: Okay and generally how are margins sir in international business versus the domestic.

K. Ravikumar: On transformers it is not quite high, but in our gas turbines this will be quite high.

Srinivas Rao: Better than domestic

K. Ravikumar: Okay, okay thank you.

Moderator: Thank you Mr. Rao. Our next question is from the line of Vineet Sambre of DSP BlackRock, please go ahead.

Vineet Sambre: Good morning sir, sir you know given the current situation where most probably Chinese capacity now you know remains ideal, you are seeing the competitions from the Chinese player will intensify.

K. Ravikumar: As of today there is a problem of performance of Chinese machines. And they cannot quote for 565 super heat and 593 reheat turbines. So most of the specifications are coming on 565, 593 super critical. So they cannot quote for this jobs because their collaboration does not, I mean permit them to quote in India. So we do not feel much impact as of now but we have to see after year down if they reduce the price, because there is an over 25% advantage due to dollar appreciation with respect to rupee, but we cannot say if they dump materials after the years and there will again be a competition.

Vineet Sambre: Sir and just one clarification on your order book currently what will be the proportion of you know BTG in the current order book and what will be the proportion of EPC.

K. Ravikumar: You know last year EPC was more, this year we have tried to reduce the EPC content actually because we are not adding value to it. Of 40 EPC and 60 BTG this year what we have booked around 30 EPC and 70 BTG.

Vineet Sambre: Okay, that's all from my side, thank you.

K. Ravikumar: Thank you.

Moderator: Thank you Mr. Sambre. Our next question is from the line of Sumit Kishore of JP Morgan, please go ahead.

Shilpa Krishnan: Good morning this is Shilpa Krishnan here. My first question is pertaining to your working capital, sir could you give us closer insight into what your customers are telling you, are LCs getting honored? What are your vendors telling you? And that to what extent you are extending liberal terms to your vendors? And how is it respecting quantitatively in your working capital position?

K. Ravikumar: See our working capital for power sector is to be negative actually but this year it has become and turned a little positive, we are having certain terms from customers there is a pressure on working capitals and on inventory also, we are quite building up inventory basically to deliver on times. So there is a build up of inventory as well as also the terms also, little different from what we use to get. There is a pressure on working capitals that we have to manage. But definitely by year end there will be a good position, the collectable debtors have come down, in terms of volumes it has come down. So that, we will make lot of efforts to see that the working capital for power sector is negative.

C. S. Verma: Let me further continue see the collectible debtor as a number of days of turnover which was 135 days of turnover beginning of the financial year, end of the 3rd Quarter, it is 122

days of turnover. And capital employed as on now, as at the end of December 2008 is Rs 10,068 Crores and this consist of net working capital of Rs 2,338 Crores, investments of about Rs 7,000 Crores and net block about Rs 1,100 Crores.

Shilpa Krishnan: Okay is that an improvement YOY.

C. S. Verma: Improvement in the sense that beginning of the current year the total capital required was Rs 7362 Crores which has gone up to Rs 10068 Crores end of the 3rd Quarter.

Shilpa Krishnan: Okay, got it, sir also how would you correlate with the cash balance because you said that you have some Rs 8000 Crores of cash, going by your order flows of Rs 440 billion on this ideally if you have received a 10% advance, should not your cash balances have gone up during the course of the year.

K. Ravikumar: No, since the entire working capital, we are funding in house, you know at the beginning of current financial year, we were having a minus networking capital, now which has gone plus Rs 2338 Crores end of the 3rd Quarter.

Shilpa Krishnan: Right, right, okay got it. Sir my second question is how do you view these new electricity regulations where the CERC is talking about certain stringent guidelines for setting up power projects based on which utilities where you get greater returns, do you see that causing any structural change to the contracts, the type of contracts, these utilities enter with you, greater emphasis on damages and greater enforceability of damages.

K. Ravikumar: No as far as the technical parameters are concerned, our turbines are exceeding the CERC limits, there is no problem. So that will help us in getting more orders to that extent and that will be a better thing. And NTPC they are getting better returns expecting you know CERC regulations they are getting better returns. So I think it is a positive development as far as the CERC guidelines are concerned, but definitely there will be pressures for executing projects on time that pressure we are always having. We are trying to have supply chain management, we want to invest a big way on the supplies that somehow you know we are not still able to announce, the casting forging venture and the expansion of facilities in SSTEP. So that if we can do it by March then that will be a real great achievement.

Shilpa Krishnan: Okay, thank you so much.

Moderator: Thank you Ms. Krishnan. Our next question is from the line of Sachin Trivedi of UTI Mutual Fund, please go ahead.

Sachin Trivedi: Hello, yeah hi sir, sir just a few clarification, you said that this year we will see the raw material in terms of sales will go up by 1.5% right.

K. Ravikumar: Yeah.

Sachin Trivedi: Okay sir my next question is with respect to the working capital cycles that the earlier participant was asking, I just wanted to understand the advances we get from customer, how do we adjust that when we book the revenue.

K. Ravikumar: Actually the advances are adjusted in the each bill, suppose we get a 15% advance or 10% advance, in each running bill it will be adjusted.

Sachin Trivedi: Okay but the entire amount gets adjusted or only partial...

K. Ravikumar: Only in the end of the project.

Sachin Trivedi: Okay so assuming you get a Rs.100 of order for which we get Rs.15 of advances, so when you execute say Rs.20 sir how much of that is...

C. S. Verma: Proportionately only...

K. Ravikumar: It will be proportionately it will be adjusted.

Sachin Trivedi: Okay and in terms of accounting for us, do we account for profit immediately or even at what percentage level we account for profits.

K. Ravikumar: Profit is against like, that is on the cash flow, profits are always calculated on the ...

C. S. Verma: See we are having a different balance of profit you cannot confuse the profit with the cash flow position....

K. Ravikumar: And normally this is only a cash flow.

Sachin Trivedi: No, no, I am saying, when we account for say 20% of revenue booking, do we account for proportionate profit also or only after achieving 20% to 30% of revenue booking we account for profits.

K. Ravikumar: We are following AS7.

C. S. Verma: All the contracts are AS7 and we go as per the AS7 accounting.

Sachin Trivedi: Okay, okay, sir and my last question is on the nuclear arena, where do we stand and are we looking out for any tie ups going forward.

K. Ravikumar: As far as nuclear is concerned we have 50-50 joint venture with NPCIL. And we are finalizing technology arrangements probably by March when we can announce the 700MW, 1000MW and 1600MW conventional side of the power plant. And secondly you know on the 700 megawatt we have made an indigenous design on the steam generators for which we have quoted for 8 jobs to L&T. And regarding the reactors we are having talks with big parties but L&T has already entered into MOU, we are little lagging but we will be able to catch it up, I think.

Sachin Trivedi: Okay, okay but we are looking like L&T has tied up with two three players, we are also looking out for such tie ups.

K. Ravikumar: Yeah definitely.

Sachin Trivedi: And such tie ups will be in each geography like say in US, in Europe or it will be only one particular player.

K. Ravikumar: No it will be with various players because the states are coming from different players.

Sachin Trivedi: Okay, okay agree sir, thanks a lot.

K. Ravikumar: Thank you.

Moderator: Thank you Mr. Trivedi. Our next question is from the line of Abhishek Puri of JM Financials, please go ahead.

Abhishek Puri: Good morning sir.

Moderator: Mr. Puri, could you please increase the volume on your phone, we cannot hear you very clearly, please, thank you.

Abhishek Puri: Hello.

K. Ravikumar: Yeah good morning.

Abhishek Puri: Sir good morning, sir first of all congratulations to Mr. Ravikumar for the Inertia Award and Mr. Verma for Top Anchor Award.

C. S. Verma: Thank you.

K. Ravikumar: Thank you.

Abhishek Puri: Sir just wanted your perspective on the other expenditure side that has gone up significantly, we believe it is contractual obligation provision has been higher.

K. Ravikumar: No. The other expenses include insurance as well the transport you know, freight charges and this is being put in other expenses. So from Rs 719 Crore it has gone up to Rs 849 Crore. It mostly relates to turnover.

Abhishek Puri: Okay. So there is no one off kind of thing in that.

K. Ravikumar: No not like that actually.

C. S. Verma: In fact provision if you see that net addition of the provision for the quarter it is only Rs 24.73 Crores.

Abhishek Puri: Okay.

C. S. Verma: Yeah.

Abhishek Puri: And sir my other question would be on the operational side of the business, for one of the Bar II packages for power transformers I guess BHEL had quoted 30% lower than the L2 bidder. And the other bidders like ABB, Areva, and Crompton had backed out from the bid so any specific reasons why how come the bid was so low in that tender?

K. Ravikumar: We have to see that, we have not completely gone into that, because it is a separate package you know we have got TG and boiler packages, it is still not decided; we will have a look at that actually. I will give you information on this later.

Abhishek Puri: Okay sir. And last question would be on we were given comments from the Chairman of RGPPL Ratnagiri they had said that the GE machines are not functioning properly and the similar failures are seen in UK as well for the GE machines of advanced gas turbine which I believe you are also importing from GE over, for your 5 or 6 tenders which you have?

K. Ravikumar: Yeah we have extensive discussions. Yesterday also we had discussions with Mr. Immelt and also we went to US and met Mr. John Rice. The machines, which we are getting is 9FA+e this is a modified version of Ratnagiri and throughout the world there are no problems in these machines, we have collected full data.

Abhishek Puri: Okay.

K. Ravikumar: Ratnagiri if you see is more of maintenance as well as the second stage layer of compressors which are coming out actually. So they might have problems in the first few machines which were supplied to Ratnagiri or it might be maintenance problems, but I do not foresee any problem in our machines, they are 9FA+e machines and they are working very well throughout the world.

Abhishek Puri: Okay but they had quoted that these machines are not working fine in UK as well.

K. Ravikumar: But these are the first generation 9FA machines what we are getting is an improved version of 9FA, 9FA+e where the second stage blade grouting has been changed I do not think any problem will be there but when it comes we will solve it.

Abhishek Puri: Alright sir thank you so much.

Moderator: Thank you Mr. Puri. Our next question is from the line of Dhaval Doshi of Aviva Life Insurance. Please go ahead.

Dhaval Doshi: Hello sir. Thank you my questions have been answered.

Moderator: Thank you Mr. Doshi. Our next question is from the line of Suhas Hari of UBS Securities. Please go ahead.

Suhas Hari: Good morning sir. I have just one question, what can we expect for execution in 2010.

K. Ravikumar: 2009/2010.

Suhas Hari: Yes sir.

K. Ravikumar: 2009/2010 we have given a guidance of 25% growth over last year that is about 27000 Crores sales and we are aiming at 28000 but 27000 is certainty.

Suhas Hari: This is for 200_.....

K. Ravikumar: 2008/2009.

Suhas Hari: For 2009/2010.

K. Ravikumar: 2009/2010 we are still working I think if you ask after a month we will be able to tell you.

Suhas Hari: Okay sir. And secondly on your wage cost you had mentioned that would be about 4300 to 4500.

K. Ravikumar: Yeah.

Suhas Hari: But is there, there is a huge variation of 200 Crores, it might be closer to what 4300 or 4500.

K. Ravikumar: See we are having a wage negotiation with workers and as I told you there is a small problem with the wage negotiation they want 5 years instead of 10 years actually. So the wage increase has to be moderated accordingly. So how far we will effectively deal with them depends on our negotiation skills.

Suhas Hari: Okay and for next year the increase will be on top of the 4300 Crores or 4500.

K. Ravikumar: Yeah that will be on that 4300 and we do not expect much growth, it will be around 7% which is normal and we are adding 2000 manpower every year.

Suhas Hari: Yeah related to that you know you had mentioned on I think on the television that you know the expected profit growth for this year could be 10% to 12%.

K. Ravikumar: Yeah.

Suhas Hari: That is after considering all these provisions and everything...

K. Ravikumar: Yeah, with all the provisions it should be a double digit I think it should be.

Suhas Hari: Okay. Thank you very much.

K. Ravikumar: Thank you.

K. Ravikumar: Sorry for interrupting, can we have only the last question.

Moderator: Sure sir. Thank you Mr. Hari. Our last question is from the line of Renu Baid of B&K Securities. Please go ahead.

Dhirendra Tiwari: Good afternoon this is Dhirendra Tiwari. Very good set of numbers, congratulations. I have a point of view about the wage bill. If you look at last year your wage bill was Rs 3146 Crores which included Rs 737 Crores of provisioning and Rs 2400 Crores of regular bill. Now if you look at even say 10% to 12% growth on the regular bill and add to Rs 1313 Crores which we were provisioning, this year your wage bill should not in any case exceed Rs.4000 Crores that is a point of view that how do you really get to Rs 4300 odd Crores. Again just to repeat because the first 9 months your wage bill excluding provisioning has been a growth of 7%, even if you look at 10% growth on Rs 2400 Crores last year that is something like...

K. Ravikumar: Rs 2640 Crore.

Dhirendra Tiwari: So I mean if you add on to that Rs 1313 Crores I do not think your wage bill should be crossing, in any case Rs 4000 Crores.

C. S. Verma: When I am saying the wage bill we do not only mean the wage bill we mean that total staff cost.

Dhirendra Tiwari: Right.

C. S. Verma: So what I had said is the audited figure for the year ended 31st March 2008 is Rs 3145 Crore this is staff cost, this is not only wage bill. Now the wage provision for the current year is Rs 1300 Crores. So this we have to add, so this would be somewhere about Rs 4400 Crore. But again this depends what is the wage negotiation as Chairman has said is going to be which will take place in the next one month or two months time but before the end of the current financial year. So this is how we are expecting and this should be somewhere between Rs 4300 to Rs 4500 Crores as staff cost.

Dhirendra Tiwari: Yeah I mean that is the point sir actually again coming back to the same point Rs 3145 Crores is total staff cost last year which included provision pertaining to 2nd pay commission which amounts to 737 Crores ...

C. S. Verma: No that included 594 Crores.

Dhirendra Tiwari: Yeah there was ad-hoc payment of 198 Crores.

C. S. Verma: See add-hoc payment is again the provision.

Dhirendra Tiwari:

Right even if I look at 10% growth on something like a wage bill, staff cost excluding your provisioning I would still not get something, a figure which is higher than Rs.4000 Crores. And the trend for 9 months also suggests the same thing. So that was my question, my point of view was that, is there something which you might be expecting additional to come in 4th Quarter and as you said that probably that should be on the lower side, there should not be additional provisioning required in the 4th Quarter. My senses is that probably you know Rs 4000-4100 Crore could be the wage bill and one could look at you know 8% to 10% growth than what you probably looking at FY09 wage bill should be actually the wage bill for FY10 that basically our calculation, you are much more knowledgeable on that, so that would be in which you were looking at, just wanted some clarification on that...

C. S. Verma:

No as we have said as far as the additional wage provision is concerned Rs 1313 Crore is a figure as of now for the year as a whole up till December 2008. We have already provided Rs 839 Crore. The 474 Crores is yet to be provided in the 4th Quarter but again this is ad hoc amount and we are expecting this wage negotiation which are going on we are expecting that this will be finalized before the end of current financial year. So as we are saying as of now we are having around 40% provision which may be revised because workers are demanding freezing for 5 year and we are saying 10 years. If we freeze for 5 year then we have to moderate our wage provision also. So we are expecting that in the last quarter the additional provision may come down than what we have provided.

Dhirendra Tiwari:

Right. And just another point before end up sir, what is your outlook on three things, the rollout for the 12th 5 year project, second is the 3 JVs or 2 JVs that you have formed, and thirdly what is the outlook on project size from SEB because they have been very aggressive in recent time putting order to you. Of course one can expect some kind of cash flow related problems with the SEB given the turmoil in the world. So if you could just give me some idea about these three things as to what we can expect on these?

K. Ravikumar:

As far as our orders are concerned mostly the orders are from state boards and central board. As far as NTPC is concerned they are tied up, as far as DVC is concerned they are tied up, as far as the state boards are concerned all the projects have been financially closed then only we are getting the orders. But if there are problems with REC and PFC we will have problem but all the funds are mostly coming from REC, PFC and IAFCL. So I do not think these companies are in any way, and that government will give them some definitely, the state government finance is not much in a bad shape. If you see the deficit the central government's deficit is more, state government's deficits are not very high.

Dhirendra Tiwari:

So overall good outlook continues for the next 2 to 3 years.

K. Ravikumar:

Yeah definitely and we will be definitely diversifying into industry segment also and also in transportation. I think that should also help us in the next 2 years.

Dhirendra Tiwari: Thank you sir, all the best and we believe we will do pretty well next year also. Thank you sir.

C. S. Verma: Thank you.

K. Ravikumar: Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the conference over to Mr. Kunal Sheth for the closing comments.

Kunal Sheth: Thank you. On behalf of Religare Capital Markets we would like to thank all the participants on the call. And I would also like to thank management of BHEL for taking their time out and would like to wish them best of luck for the coming quarters. Thank you.

C. S. Verma: Thank you very much.

K. Ravikumar: Thank you.

Moderator: Thank you gentlemen of the management. Thank you Mr.Sheth, ladies and gentlemen on behalf of Religare Capital Markets Limited that concludes this afternoon's conference call. Thank you for choosing the Chorus Call Conferencing Facility and you may now disconnect your lines. Thank you.

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