

**Bharat Heavy Electricals Ltd.**  
**1Q FY10 Investors/Earnings Conference Call**  
(July 23, 2009)

**Moderator:** Good evening ladies and gentleman, thank you for standing by. This is Fatima the moderator for your conference call today. Welcome to the conference call to the management of BHEL hosted by Kotak Institutional Equities. At this moment, all participants are in a listen only mode. Later, we will conduct the question and answer session, at that time if you have a question, please press \* and 1. I would now like to turn the conference to Mr. Lokesh Garg from Kotak Institutional Equity to introduce the management of BHEL. Please go ahead sir.

**Lokesh Garg:** Thanks Fatima, good evening everybody. I, on behalf of Kotak Institutional Equity invite you to the conference call of BHEL for discussing 1Q FY10 results. We have with us Mr. K. Ravi Kumar, Chairman and Managing Director of BHEL and Mr. C. S. Verma, Director Finance of BHEL. I would now request, Mr. Ravi Kumar to share the initial perspective about the results post which we can open the conference for questions from participants.

**K. Ravi Kumar:** Thank you, good evening friends. I am Ravi Kumar, CMD, BHEL, and I have with me Mr. C. S. Verma, our Director of Finance and also Mr. Krishna Shankar. A very warm welcome to all of you. Direction setting in the domestic economy is evident from the recently released economic survey and the union budget. I am happy to inform that despite a difficult business environment affecting the industry, BHEL has been able to ensure sustained growth leveraging its core competency & inherent strengths.

If you see the first quarter of this financial year, we have booked orders of 12,400 Crores aggregating about 4760 Megawatts in Power and Industry Sector. You will be happy to know that these orders mostly are from private sector. They include 1 x 600 Megawatt from Avantha Group, 2 x 600 Megawatts from JITPL, 2 x 525 Megawatt from MPCL, Malibrahmani, Angul, 1 x 70 Megawatts from IEPL Bela Thermal Power Proj., and 1 x 270 Megawatts from Adhunik Power.

In the Industry Sector, we have got 6 x150 Megawatt BTG from Hindalco Aditya Aluminium, 2 x 150 Megawatt from OPG Power Gujarat Pvt. Ltd., 20 Megawatt gas turbine based co-gen plant for COCL and also for Barauni Refinery. If you see, almost 90% orders are from private sector. We have also negotiated certain orders with government sector which will be coming in the second quarter.

In the international market, we have also received orders worth 375 Crores. As per the rate contract with PDO, Oman, we have received two Frame-9E GTG orders. This is the first order taken by BHEL as part of the prestigious 6 year price agreement for 126 Megawatt gas turbine packages. With these orders, BHEL has an outstanding order book of Rs.1,24,400 Crores. Of these 83% are accounted by power sector, 11% by industry and 6% by exports. In respect of JVs to leverage our super critical equipment sale, we have formed a joint venture with Raichur Power Corporation, KPCL, for setting up three 3x 800 Megawatt at Raichur.

As you know as part of organic expansion, we are expanding our capacity to 15,000 Megawatt during the financial year, of course which includes thermal, hydel, nuclear and also the spares. The board has further approved expansion of the capacity to 20,000 Megawatt per annum by 2011-12.

We are on track to reach a turnover of Rs. 32,000 Crores in 2009-2010. We are expecting a growth of 25% in sales and also profit for which guidance was given as 25 to 30%. Looking at first quarter results, turnover has increased to Rs.5,794 crore, that is about 23% growth year-on-year basis. If

you leave the excise duty it is 30% growth. Profit of before tax is Rs.719 Crores, 22% year-on-year growth and PAT was 471 Crores. Raw material cost as a percentage of turnover has risen in first quarter, mainly on account of three gas turbines which we have given for Bawana and Hazira. These are 9FA gas turbines. Otherwise the material cost is around 60.8%. I thank you once again for joining this conference call and let me open up the session for your questions. Thank you.

**Moderator:** Certainly sir. Ladies and gentleman, we will now begin the question and answer session. If you have a question, please press \* and 1 on your push button phone and await the turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the # key. Participants are requested to restrict their questions to two at a time. We have our first question from Mr. Rajesh. Mr. Rajesh, please go ahead.

**Rajesh:** Good afternoon sir, this is Rajesh Panjwani from CLSA. My first question sir is on material cost, basically you have said in another interview that you expect the material cost to start coming down from the second quarter, so just wanted to get a sense for the full year, where do you see material cost as a percentage of sales compared to last year full year and what will be the impact of the gas as well as super critical projects on the material cost this year and next year?

**K. Ravi Kumar:** As far as the first quarter is concerned, the shop production has increased by only 12% where as purchase resold increased by 78%. I told basically that we got three gas turbines where we do not add value and one is for immediate installation at site. So if you leave that, the overall cost of raw materials is coming to 63.6% and if you leave the gas turbines, it is coming to 60.8% in the first quarter. We are still using the inventory in the first two months, that we purchased in August. From September onwards, there was a reduction in material cost and that will be reflected in second, third and fourth quarters. Also if the shop production goes up, then it is possible to reduce the material cost by at least 200 basis points compared to what we gave last year.

**Rajesh:** 200 basis points, sir but you mentioned that the shop production was up only 12% in the first quarter, any particular reason for that and how do you see that in a full year?

**K. Ravi Kumar:** No actually as I told, 9FA assemblies for three gas turbines are to be delivered in the first quarter for two Commonwealth Projects coming up at Bawana and Hazira. While these three gas turbines have to be delivered, the rest of it you know some of them will be assembled at Hyderabad unit, where value addition will be there. Here it has gone directly to site so that to that extent there is no value addition. So it is comparable that without these you know it came down to 60.8% but it will go down further definitely in the next three quarters.

**Rajesh:** Okay sir. Sir, the second question is on the employ cost level. You know, last year we had not only the wage increase but also some prior period provisions on the wage cost, so this year still the employ cost have gone up sharply, now just wanted to get what is your estimate for the full year total employ cost?

**K. Ravi Kumar:** Director Finance will reply this.

**C. S. Verma:** In the first quarter of the current financial year, the total employ cost is coming to Rs.1113 Crores, last year on a year-to-year basis, last year first quarter this was Rs.895 Crores. Now in this quarter, the employ cost has gone up by Rs. 219 Crores. The reason is that last year, there was a reversal of provident fund on the leave encashment which was reversed and we have to reverse the position because the provident fund on the leave encashment policy was withdrawn by the government. Rs.51 Crores is the impact, I mean we have taken, we have reversed the entry last

year in the first quarter, which cannot be done because now that we are not providing any PF on the leave encashment.

If you see the wage provision, we are continuing at the rate of 25%. This year for the year 2009-10, our total wage provision is Rs.1435 Crores. On the basis of this, for one quarter, 25%, we have taken 358 Crores. Last year, the wage provision for the first quarter was about 328 Crores, so there is an increase of 30 Crores. Then there was our incentive scheme to the employs, there have been some changes announced by the government, so this year we are providing in the first quarter Rs.120 Crore, last year in the first quarter, we have provided Rs.81 Crores, so there is an increase of 39 Crores, and then there is the normal increase in the wage cost I mean increase in the manpower, number of employs and all that is Rs.99 Crores. So this is how our wage bill has gone up by Rs.219 Crores in the first quarter of the current year compared to the first quarter of the last year.

**Rajesh:** So, in this normalized quarter which we are going to see recur in the coming quarters and so the full year should be around 4500 Crores is that reachable?

**K. Ravi Kumar:** Yeah, it should be in that range yeah.

**Rajesh:** Okay fine sir, I will come back for more questions sir. Thanks.

**Moderator:** Thank you sir for this question. We have our next question from Mr. Rabindra Naik from Systmatics Shares, please go ahead sir.

**Rabindra Naik:** Thank you for taking my question sir. I just want to know in the recent budget that government has actually given 100 to 200% rise in the R&D cost, so whether you are taking into consideration for the tax provision in this year, because this quarter, the tax provision as the percentage of PBT has come at 35%, so whether you are considering for the provision in the coming quarters?

**K. Ravi Kumar:** See that as far the tax provision is concerned, each and every such a scheme has to be approved by Department of Science and Technology. We are running around 150 such schemes. So, we are looking to the provision whether all such small schemes will require approval of DIST. If they are to be approved, only then we can avail this benefit which have been announced in the union budget. So we are still examining whether all the schemes can be approved by DIST or whether they are going to frame some other guideline for the approval of the schemes which are intended for R&D.

**Rabindra Naik:** Okay, thank you very much sir.

**Moderator:** Thank you sir for this question. We have the next question from Mr. Venkatesh from City Group. Mr. Venkatesh, please go ahead.

**Mr. Venkatesh:** Yes sir, just a clarification on the staff cost. Has there been any further fresh provisions in this quarter on the staff cost, I understand last year there was wage provision, so automatically, your wage cost have to go up this year but is there any more specific provisions which you have made this quarter, because I read some interview where Mr. Ravi Kumar had mentioned that you made 100 Crores to 100 to 150 Crores of provision.

**C. S. Verma:** The provision will continue but there is no arrear of the provision that we have made here. I had explained it in my answer to earlier question that the provision is that the rate of 25%. Last year also it was 25%, this year also it is 25% for the current year for the year as a whole. We are

expecting at the rate of 25%, Rs.1435 crores so on the basis of this in the one quarter, the provision will come to Rs.358 Crores which we have provided.

**Mr. Venkatesh:** Okay sir, we just missed out what was that 39 Crore component which you mentioned?

**C. S. Verma:** See Rs. 39 Crore is our incentive scheme. There have been some changes. We make payment that the bonus and incentives to the employs. Their have been some changes which have been announced by the government. So last year in respect of the incentive scheme, we have made a provision of Rs.81 Crores, this year it is Rs.120 Crores, so that increase of Rs.39 Crores in respect of the incentives to be paid to the employs.

**Mr. Venkatesh:** Sir, you have a guidance of 25 to 30% profit growth. Now, this guidance is based on last year's MOU numbers, on top of that you are talking about growth or are you telling that this is 30% growth is the growth you are expecting on last year's reported profit.

**K Ravi Kumar:** This is on last year reported profit for the guidance we have given. So it will be on last year's reported profit. We are expecting 20 to 25% growth in sales and we are expecting that 25% will be achieved. 25% to 30% growth in profit, which depends on you know how effectively we negotiate and also how the materials are going to behave during the financial year, that is why we are not upgrading that but I am sure the sales growth will be 25%.

**Mr. Venkatesh:** Sir, and the sales numbers which you said you are on track to do 32,000 Crores of sales this year. I guess you are talking at the net sale's level, right, or is it at the gross sales level?

**K Ravi Kumar:** No that is at the net sales level. It is about 25% growth over last year that is Rs.28,000 crore we have said so it will come to something like Rs.34 to 35,000 crore, though our MOU says it is about Rs.32,000 crore. I said the MOU figure because that is the only official figure which is available to us. This is only a guidance. I am just telling, going by the current operations, see it will go to 25%, that is what I am expecting.

**Mr. Venkatesh:** Okay, so basically you are telling net sales last year was around 26,000 Crores, so this year net sales should be around 32,000 Crores, that is the guidance, which is 25% growth.

**K Ravi Kumar:** Correct, you can take it like that actually.

**K Ravi Kumar:** Yeah Rs.28,033 crore was last year. Rs.28,033 Crores will become Rs.32,000 Crores this year as per the MOU which was signed with the government.

**Mr. Venkatesh:** Okay sir. Now, how is your capacity ramp up going up, is it on schedule to move to 15,000 and secondly why is the value add on gas turbines much lower, are you just buying the gas turbine from someone else and just supplying it, are you not manufacturing your own gas turbines and if you are buying it out whom are you buying it from?

**K. Ravi Kumar:** First question regarding the capacity expansion, it is already taking place. It is not that that we are going to get on the last day that 15,000 Megawatt. It will be the machines will be added serially. It is only a manufacturing capacity. You know raw materials we are importing. What we are telling is that we will be on schedule as far as the end date is concerned that is during the financial year but that does not mean that 15,000 Megawatt will come in one day, it will be added during the year, that is number one. As far as gas turbines are concerned, if you see our agreement with General electric, up to Frame 9E, we are manufacturing all the components. There is a phased

manufacturing program. 9E is about 150 Megawatts, 6B, 6FA are also there. This is a new gas turbine 9FA gas turbine which we are getting from GE. This is only a gas turbine, and there are associated civil works, there will be inlet air filter, exhaust panels and also the combined cycle portion of it, HRSG and also the steam turbine and civil work and balance of plant. So it is hardly about 15% what we are importing. What I told you was in the first quarter we have imported the three gas turbines but this also has got a phased manufacturing program. It will be you know taken as a kit and will be assembled. At that time, even on the gas turbine, there will be some value addition.

**Mr. Venkatesh:** Okay, sir one last question from my side. When your capacity moves to 15,000 Megawatts and finally to 20,000 Megawatts, portion of that is basically super critical, I mean or you can make supercritical in the sub critical capacity also?

**K. Ravi Kumar:** As far as manufacturing is concerned, the supercritical and the sub critical are same. See in the manufacturing only in respect of the material there is a change and the in the case of boiler, it is the thermohydraulic calculations are different and also there is a spiral water wall which we have to make which we have made for Silchar project earlier. As far as turbine is concerned, the IP and LP are same, only in the HP turbine there is a material difference. So the manufacturing capacity wise, there is no change between super critical and sub critical, as far as the BTG and the ESP is concerned.

**Mr. Venkatesh:** Thank you very much sir and all the best.

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

**Moderator:** Thank you sir for the question. We have our next question from Mr. Abhishek from J M Financial. Mr. Abhishek, please go ahead.

**Mr. Abhishek:** Sir, good afternoon. I just want small query on the gas turbines which we are procuring from GE, is it at a technology transfer agreement or?

**K. Ravi Kumar:** It is under transfer of technology agreement. There is a phased manufacturing program, the first of the turbines will be imported, second will be a Kit, third will be with the other components and fourth will be with the compressor components. So it is a phased manufacturing program and testing. Our test bed is ready for 9FA which has been already been inaugurated at Hyderabad.

**Mr. Abhishek:** Okay, from which turbine will we start manufacturing or there will be 100% indigenization of a gas turbine in India?

**K. Ravi Kumar:** No, I do not think 100% is possible because you know the compressor parts have to be imported. The volume of manufacture does not permit us to have this type of thing you know. See the number of gas turbines are so small, we cannot have manufacture of compressor parts. That is a very critical manufacturing area, so other than that we will manufacture everything.

**Mr. Abhishek:** Okay, under the technology transfer thing.

**K. Ravi Kumar:** Yeah.

**Mr. Abhishek:** Just one small query regarding the other expenses, are the gross sales have gone up by 23% whereas other expenses on an absolute level have come down by about 100 Crores.

**K. Ravi Kumar:** Yeah.

**Mr. Abhishek:** Any reason, why it had come down?

**C. S. Verma:** We are having the breakup of the miscellaneous expenses. They had gone up by Rs.100 Crore, not Rs.100 Crore or about Rs.87 Crore. Last year first quarter was Rs.230 Crores, this year it is Rs.317 Crore. Miscellaneous expenses I am talking about.

**Mr. Abhishek:** Okay, I think the other expenses which I have from the press.

**C. S. Verma:** Yeah, correction, we just here it is given as Rs 420 Crore instead of Rs 527 Crore. We will look in to it and come back to you.

**Mr. Abhishek:** Okay, fine.

**Moderator:** Thank you sir. We have our next question from Mr. Madan Gopal from Centrum. Mr. Madan, please go ahead.

**Madan Gopal:** Good evening sir.

**K. Ravi Kumar:** Good evening.

**Madan Gopal:** Sir, my first question is on what kind of employee count currently we have and how much additionally we are planning for the year.

**C. S. Verma:** Every year we want to add something like 1500 people, there is a retirement of about 2000 people and we are recruiting about 3500 to 4000, so there will be net addition of 1500 to 2000 people year-on-year, that is up to 2011-12 we have planned.

**Madan Gopal:** Okay, sir my second question is that how much is the cash and debt in the book if debt is not there, how much is the cash in the book right now?

**C. S. Verma:** See, we do not disclose these figures, when we declare the quarterly results.

**Madan Gopal:** Okay.

**C. S. Verma:** Yeah. We are having sufficient cash in the banks.

**Madan Gopal:** Sir, I might have missed out in the initial part of the presentation, how much of order has come from power and industry segment of the total Rs. 12,000 Crores?

**K. Ravi Kumar:** As far as the power sector is concerned, it has got about Rs 8450 Crores and the industry sector has got Rs 3710 Crores, and the international segment Rs 375 Crore.

**Madan Gopal:** Okay, sir when we spoke about wage revision for the last year, we spoke about some arrears which were there last year which has not happened this year. Can you guide me like what is the amount of arrear which you provided last year in the total wage amount of Rs 3900 Crore which we had any rough cut number.

**K. Ravi Kumar:** Both Rs 1935 Crore, you know for the whole year it was around Rs 1900 Crore, if I am correct.

**Madan Gopal:** It was the arrear amount.

**K. Ravi Kumar:** Both for gratuity and arrears.

**C. S. Verma:** See gratuity was about Rs 670 Crores and then the normal 25% wage provision was Rs 328 Crores per quarter.

**Madan Gopal:** Okay, sir. Thank you sir. If there are any more questions, I will come back later.

**C.S. Verma:** Thank you. Regarding other expenses, there was a query by Mr. Abhishek, now the reply is that last year there was a net creation of provision in the last year first quarter, there was a net creation of provision by Rs 140 Crores. This year, there is a net withdrawal of the provision by Rs 41 Crores in the first quarter, so that means that there is Rs 100 Crores saving in the first quarter in respect of provisions and these provision relate to contractual obligation, doubtful debt and liquidated damages. Is it alright.

**Moderator:** Yes sir. We have our next question from Grushma from Invision Capital. Grushma please go ahead.

**Grushma:** Hello sir. Grushma from Invision Capital. Yeah, sir I wanted to know about the recent directive from CEA, you know there was an issue with Shanghai boiler, sir you know this can you as we understand the issue?

**K. Ravi Kumar:** In this context, our collaborator Ms. Alstom has informed us that they are not supposed to sell the super critical technology in India. So we have taken up with our government through our ministry to power ministry that is a technical issue

**Grushma:** Okay, so, it is pertaining to which project or anything?

**K. Ravi Kumar:** No, it is not, it is in general that they cannot supply their product with this technology to India as per their agreement. We are not complacent on that. We have to beat them on price and quality and then take on the Chinese competition.

**Grushma:** Any particular projects that would be affected?

**K. Ravi Kumar:** No, I do not know actually.

**Grushma:** Fine, thank you sir.

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

**Moderator:** Thank you mam. We have our next question from Renu from B&K Securities. Please go ahead.

**Renu:** Good evening sir and congratulations for the good set of numbers. I just wanted to know as we see the 15 Gigawatt of incremental capacity coming on stream towards the end of the current financial year, how do you feel the supercritical boilers were coming ahead specially with the

completion of say the drum column for Barh II, so can you share with us the status of other super critical projects like AP Genco and others which are there in line?

**K. Ravi Kumar:** Yeah, we have got two boiler and turbine packages for Barh and the boiler package for Krishnapatnam and further 5 x 800 Megawatts two units at Udangudi and three units at Raichur. We are contributing 26% equity and this will come on joint venture mode. Recently we have quoted for certain tenders from Jaiprakash Industries and also from Maharashtra Electricity Board. In the bulk tender we have to be L1 or to match L1, so that we can get fixed number of orders. So, I think we are quite confident that we will get further on this and you know, we have to come to a price, where we can beat the Chinese also.

**Renu:** Sure, but sir do you think that with this 15 Gigawatt of capacity, we will be able to simultaneously work on 8 to 10 units, or do you think, we need to phase out these orders?

**K. Ravi Kumar:** No, if you see, the manufacturing technology for 600, or 660 or 800 MW are same. We have received 4 x 600 MW from Jindal and 2 x 600 MW from Jindal Photo Films Limited, and we are expecting another 6 x 600 Megawatt order shortly probably next week. So if you see, we have to advance zero dates and we have to manufacture. You know one disadvantage is that if all the zero dates are same, then we have to purchase more. We said, we have to outsource more and we have to outsource materials. So that is why finished assembly are being imported. So there is a small problem when zero dates are same. You know the value addition goes slightly down. We can make as many numbers as possible definitely but there is no problem as such.

**Renu:** Sure, that means you can definitely work on about 8 to 10 supercritical units at the same time and indigenize the cost and the components then?

**K. Ravi Kumar:** Almost 12 numbers we can work at a time and we are quite confident and at the same time, the indigenization as I told you, we are only manufacturing. The engineering is coming from Alstom and Siemens so to that extent I do not think there will be any problem or there will not be any issue.

**Renu:** Sure. Thank you so much sir, that is all from my side. Thank you.

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

**Moderator:** Thank you mam for the question. Ladies and gentleman for any further question, please press \* and 1. Ladies and gentleman, to ask the question please press \* and 1. We have our next question from Mr. Atul from City Group. Mr. Atul, please go ahead.

**Atul:** Yeah, thank you sir, thanks for opportunity to ask the question. Sir, I have two questions from your margins. Sir in some of the recent orders that you have announced, I mean if we do a very rough kind of calculation, your realization say in per Megawatt you know seems to be coming down, so that is it you know some kind of trend and you know in which you are bidding at the lower rates and will it affect your margins going ahead when these are orders get executed?

**K. Ravi Kumar:** Larger the volume of sales, the overheads are expected to come down. That is what we are passing on to customer. So what we have Yuan against Dollar is when the dollar was Rs 40, they are quoting in dollars, now it has gone to Rs 50, so to that extent, the Chinese are able to overcome and secondly if you see the cost of manufacture for 500 to 600 Megawatt set, only the cost of material is going up by 8%, though the capacity of this is 12%, so though the Megawatt is going to 20%, so cost per Megawatt for our 270 and 525 and 600 Megawatt set are less. In 270, we

get 4% advantage, in 525 we get about 3% advantage and in 600 we are getting 8% advantage, so that way we are passing on to customers.

**Atul:** Okay sir, and sir, my second question was regarding the margins on your super critical and sub critical set, what would be the indicative margins on them especially the super critical when you start manufacturing there at the operating level and how will that compared to you in the current margins on the sub critical set?

**K. Ravi Kumar:** As far as margins are concerned, we are maintaining our margins in both subcritical and supercritical segments, but we are not getting all the orders in super critical segments basically because of the import content. There is an import content of about 30% on finished goods. I mean finished assembly we have to get around 30% in the first 10 to 15 sets, so to that extent, there is a small issue on that but other than that we are protecting our margin as far as possible.

**Atul:** So, would it be fair to say that they will get the same margin or like you know just directionally how much the margins will be lower, when you start you know the production of supercritical sets compared to sub critical, there could be some rough indication also?

**K. Ravi Kumar:** As of today, you know our cost, our prices are quite high compared to the advantage what they are getting in supercritical and that is one issue which we are facing. Now I believe that fact that we have to reduce the cost to help the customers but we are protecting some of margin as far as possible. Today if you are to match Chinese prices what they are offering then we have to indigenise completely then only it is possible.

**Atul:** Okay sir, thank you.

**Moderator:** Thank you sir for the question. We have a next question from Mr. Madan Gopal from Centrum. Mr. Madan please go ahead.

**Madan Gopal:** Sir my question has already been answered on the margin on supercritical, just missed out on your total number of employees as of today. Can you kindly repeat it sir?

**K. Ravi Kumar:** I think it is about 45,666, around 45,700.

**Madan Gopal:** Okay sir. 45,700. You said that you have got entire 90% of the order from private sector. The NTPC and NHPC were supposed to give lot of orders for the year. What do you see there? Is there any possibility of increase in public sector order book from next quarter or like to be postponed because bulk order have already postponed to last quarter of this year. What do you see from this side?

**K. Ravi Kumar:** We are negotiating some orders from NHPC as well as from NTPC. I think in some of the projects the prices have also been settled. With the Rajasthan government, gas turbine order and also from NTPC one 500 megawatt order. We have already settled the prices. We are declaring the order only when advance comes.

**Madan Gopal:** Thank you sir.

**Moderator:** Thank you sir. We have a next question from Mr. Indrajeet from Mac Quarie. Mr. Indrajeet please go ahead.

**Indrajeet:** Thank you for taking the question. First is the Bawana project that's up to my understanding its 6X215MW if I am right are there any more gas turbines which are likely to be imported this year? On that one, related to that if these three gas turbines are not there in quarter 1 can you give me comparable cost of materials in Q1 FY10 and Q1 FY09?

**K. Ravi Kumar:** Yes I have told that 63.66% is with flange-to-flange gas turbine import and 60.8% without gas turbine actually.

**Indrajeet:** And what are the comparable numbers last year?

**K. Ravi Kumar:** This year it is 63.6% with gas turbine and 60.8% without gas turbine. Last year on the whole it was 62.59% and we are quite confident we will come to 60.59% at the end of the year.

**Indrajeet:** The second question is repetition but you said about Rs 32,000 crore as net sells even if you leave the MoU aside, that's one and you still be able to maintain staff cost at Rs 4500 crore for the full year. Am I right?

**K. Ravi Kumar:** Yes that's what we told. Rs 32,000 Crore is MoU figure. That is the official figure but the guidance is 25% growth over the last year.

**Indrajeet:** On net sales and Rs 4500 crore on the staff cost side? Okay one more question is this 6x600 megawatt order that you talked about. What stage this is in? Have you finalized order in all the 6 units or it still being negotiated, advance paid not paid any status on that?

**K. Ravi Kumar:** No we book it when advance comes. That I am very clear. Would have booked the order once the advance comes, negotiated.

**Indrajeet:** When is it likely to be finalized?

**K. Ravi Kumar:** In another 10 days' time.

**Indrajeet:** Okay another 10 days time. Lastly my question is in terms of this raw material itself, at what kind of price level you think that you will be able to achieve this 200 basis on margin improvement? My question is if steel prices go back again like 10% what is the sense you have on that front?

**K. Ravi Kumar:** It will affect only next year because our inventory is 9 months mostly. I think we should be fairly confident that whatever material we are inducting from July onwards, we should be able to save money and slowly it will come down and we are expecting 60.8% or 60.59% by end of this financial year.

**Indrajeet:** Thank you.

**Moderator:** Thank you sir. We have a next question from Supriya from Kotak Security. Ms. Supriya please go ahead.

**Supriya:** Good evening sir. I would like to ask any updates on bulk tendering process and what's happening on that front?

**K. Ravi Kumar:** Bulk tendering, we are expecting it in September. The order may come in March or April. It may come in last quarter or in the first quarter of the next year.

**Supriya:** And sir any update on why the other expenses were less for this quarter?

**K. Ravi Kumar:** It is for the provisions. Last year there was a provision and this year there is a negative provision for some customers has paid money back last 5 % which we provided.

**Supriya:** And could you quantify that amount, your comparable last year?

**C. S. Verma:** Last year our net addition in the provision was Rs 140 crore. This year net withdrawal is coming Rs 42 crore. And these provisions they relate to contractual obligations, withheld doubtful debt and liquidity damages.

**Supriya:** Yes sir that all thank you.

**Moderator:** Thank you ma'am. We have a next question from Mr. Atul Kumar from Quantum A M C. Mr. Atul please go ahead.

**Dalpat Shah:** Sir this is Dalpat Shah. Sir my question is what is the percentage in your order book on EPC side and BTG side?

**K. Ravi Kumar:** I think the number is slightly coming down. It is 37% on EPC.

**Dalpat Shah:** When the delivery of BTG will be due?

**K. Ravi Kumar:** You know it depends on the Megawatt size. Depends on the target of commissioning and also on manufacture. The delivery will depend on what size of unit we are having. Normally for 250 Megawatt it is about 32 months and 500 Megawatts it is about 39 months.

**Dalpat Shah:** Thank you very much sir.

**Moderator:** Thank you sir. We have a next question from. Mr. Bhavin from Enam. Mr. Bhavin please go ahead.

**Bhavin:** Good evening sir and thank you for taking my question. Sir one question is we hear a lot of global economic meltdown has led to spare capacity with some of the component supplier globally which were more critical, had this led to any improvement in our project execution time line and if that then are we quoting better delivery schedules on account of this?

**K. Ravi Kumar:** Basically there are lot of other issues for the project to be completed. Not only is it on the BTG package ,it is on civil works and also on various Balance of plant like coal handling, ash handling and also on the water systems, DM plants, the air conditioning ventilation system, the fire fighting system, etc. So there is a small problem even though there is a meltdown, these are all not very high technology intensive. It is low technology and also low price margin. So not many players are coming in. So that is putting restraint on commissioning the projects.

**Bhavin:** Okay sir what we understood is previously there was some bottleneck in LP and HP casting forging so have that situation improved now?

**K. Ravi Kumar:** Yes we had some problem because furnace with one overseas manufacturer had broken down but now it is coming up. Now we are expecting almost all the raw forgings, etc., machining it in out works so to that extent there is a small action. Secondly we are enlarging the

vendor base and also we are going ahead with our collaboration with UK-based Sheffield Forgemasters International Ltd. for manufacture of other heavy weight forgings and castings.

**Bhavin:** But would that lead to an improvement in the execution cycle and if yes then by what proportion?

**K. Ravi Kumar:** No as far as the BTG supply is concerned it will improve but overall the projects cycle is being determined by so many complex factors in India. Unless that is solved I don't think the project cycle will be able to improve.

**Bhavin:** Okay sir and one last question is we have significant vendor base in outsource of order so we are expanding our capacity significantly so could you update on how is the capacity improvement on the vendor base is going ahead? And would there be any bottleneck going forward in case our manufacturing capacity is expanded but at the vendor level would be a bottleneck?

**K. Ravi Kumar:** I don't think so because there are lots of new vendors we are developing. Not only we want to reduce the transport cost so we are developing vendors in central India and also in west India and also in east India. So that material need not be carried down south. Today most of our boilers vendors are in south. We are expanding the vendor base and also in case of Haridwar we are also expanding the vendor base. So to that extent I don't think there is a real constraint. We are not feeling right now but perhaps when the real order execution is there we have to see that.

**Bhavin:** Okay and in case of the private sector orders which we have received in the current quarter was there any competition with Chinese and was the pricing difference between us and Chinese?

**K. Ravi Kumar:** As we told we have not reduced the price per se but between 250 and 270 Megawatts though it is 8% increase in over megawatt, the actual increase is only 4%. So if you see 500 and 600 Megawatts though our costing comes about 12% more per Megawatt is coming about 20% is additional 300 Megawatt. So there is automatic reduction of 8%. That is one thing and second thing is as far as Chinese are concerned they are quoting in dollar. Today thanks to dollar rate of Rs 48 we are a little better off than last year.

**Bhavin:** Sir are there any instances where the customer is saying that can you give us vendor financing, we need a longer term of payment cycle?

**K. Ravi Kumar:** No I don't think. All are financially closed and all the banks are lending and I don't think we have any problem as far as the private sector is concerned. We are not having such problems as of today.

**Bhavin:** Thank you very much for taking my questions.

**Moderator:** Thank you sir for the questions. We have a next question from Mr. Charnjeet from BNP Paribas. Mr. Charnjeet please go ahead.

**Laxminarayan Ganti:** Good evening sir, this is Laxminarayan Ganti from BNP. Few questions. First on your capacity obviously if you see your Trichy plant, boiler capacity was around 0.3 million ton or 3 lac million ton at the end of the fiscal 08. We don't have the latest numbers. Post your capacity expansion where do you think this 3 lac million ton of boiler processing capacity go up to? That is sub question, second question is obviously we are hearing a lot of contradictory opinions on the territorial licensing agreements, that the original vendors like Siemens-Alstom have with Chinese and could you give us what your view is whether the Chinese can participate in the supercritical

market going forward, even in the government space and second is if you could update us about current licenses that you have with your own partner Siemens-Alstom. We heard that they were up for renewal. These were the two questions sir.

**K. Ravi Kumar:** Actually first question regarding whether Chinese can, second question regarding what Chinese can market in India so of course whatever Alstom has given that they cannot market. It doesn't mean they cannot give 565<sup>0</sup> or 595<sup>0</sup>. To that extent there is 565<sup>0</sup> superheat and 595<sup>0</sup> Reheat that I don't think Chinese have developed. So to that extent we will be better as well as 800 Megawatts. As far as 565<sup>0</sup> and 593<sup>0</sup> are concerned that's going to be main stay of Indian business. But we may 540, 546, 550 Megawatt there is a kind of competition. As on date we don't face that. As I told these issues will be there but at the same time we should gear up to meet the Chinese competition rather than sitting. There may be some IPR issue or something like that. But we are preparing ourselves to beat the competition. We have beaten them in subcritical and we should be able in beating only one 660. 545, 530 we have to beat them. First question what you asked regarding the capacity at Trichy 3 lacs ton yes it is going to 4.5 lacs ton but there are lot of vendor who are coming for pressure parts as well as in other areas some outsourcing we will do and reach that 15000 Megawatt.

**Laxminarayan:** Sorry sir if I got you right you are saying 3 lac ton will go up to 4.50 lac ton that is by fiscal 10 end or....

**K. Ravi Kumar:** There is no limitation on that. This is only a manufacturing capacity. These uses are being carried by so many sub vendors also. So it not necessary that we should process every thing but depending on the load we will take decisions on whether we will do it inside or we will outsource.

**Laxminarayan:** One obvious concern that keeps coming up is the fact this you will be getting all these orders and most of the commercial operation date of these projects will be very tight for you to unless you expand your capacity significantly. So the 10 to 15 Gigawatt expansions we were wondering what that would do to your most critical bottleneck which is Trichy plant. So if you can just tell us little bit about that.

**K. Ravi Kumar:** There are two items. If you see, one is on the structures we are 100% outsourcing. That we are developing new vendors across the country in west and also in the central India. So to that extent we are doing vendor development. And so that the transportation cost also can be minimized. As far as the second thing what you are asking regarding the pressure parts, we are already increasing our capacity and also piping. We are putting one more press of 8000 tons which will be available by February but to that extent lot of things will be manufactured inside and there are lot of suppliers who can give. So there will be competitor as well as supply of the pressure parts.

**Laxminarayan:** Thank you sir my questions have been answered.

**Moderator:** Thank you sir. We have a next question from Mr. Akshen Thakkar from Enam. Please go ahead.

**Akshen:** Sir most of my questions have been answered. I just had one question. You were guiding now for an order intake of about 550 billion. Firstly if you could just break that up into power, industry, and exports. How do we expect our orders to be?

**K. Ravi Kumar:** It will be 75 and 25. 75% will be power and 25% will be made up by the industry and IO that's what we are expecting.

**Akshen:** Correct me if I am wrong but you seem to be indicating that you will be getting the 550 billion even if you do not get the negotiated order. Is the understanding correct?

**K. Ravi Kumar:** We are looking at about eight 660 Megawatts during the financial year. So whether it comes through bulk order or through tendering we are expecting some eight supercritical units during the financial year.

**Akshen:** Eight you are expecting for getting 550 of which you are saying 6 will come in the next 10 days.

**K. Ravi Kumar:** No that is 600 megawatts. Eight will be in subcritical actually.

**Akshen:** So okay alright. Any outlook on how the intake, etc., could be in the coming years because some media statement attributed to you seem to be suggesting that we can do another 550 billion in FY11 also?

**K. Ravi Kumar:** It is too premature. We will give a guidance as the year goes by.

**Akshen:** Okay that's the question I have thank you.

**Moderator:** Thank for the question. We have a next question from Mr. Pranav Gokhale from Religare AMC. Please go ahead sir.

**Pranav Ghokhale:** I just wanted to have the clarity on the territorial licensing agreement which was asked before. For our licenses when do the licensing terms actually expire and when do we have to re-negotiate for?

**K. Ravi Kumar:** On 30<sup>th</sup> July we are signing with Siemens AG for a 15 year renewal agreement. So I think it is getting renewed there. And with Alstom we have a 10-year agreement. I think three years are over so we have a long agreement with them. All the axillaries have also been tied up. I think we will be one of the companies who have tied up for everything boiler- boiler axillaries, turbine-turbine axillaries and that should stand us in good stead. I think we should be able to get more orders because of this.

**Pranav Ghokhale:** And do these agreements also provide for supercritical technology?

**K. Ravi Kumar:** Yes it is also for ultrasupercritical technology.

**Pranav Ghokhale:** And is it spanning only in India or can you build for projects outside?

**K. Ravi Kumar:** No only restricted. It is restricted to certain countries.

**Pranav Ghokhale:** So if you have to go for international contracts you may not actually take that?

**K. Ravi Kumar:** We may acquire some company.

**Pranav Ghokhale:** Okay and just one more question on the overall process. What's steps are kind of taken to reduce the delivery times because we constantly hear about people complaining that deliveries issue, timely delivery. Could you please elaborate us to what was the delivery schedules

may be for a 250 Megawatts and what are steps taken to ensure that delivery time is reduced or crunched?

**K. Ravi Kumar:** As I told there are about 1 lac component in every boiler and there are lots of systems which go into a project. If you pick a boiler turbine supply alone, which we are enhancing I mean there is a constraint but we are expanding in a big way. But as far as the other systems are concerned though they are low technology, low price, low margins we have to either go for them or do it. That decision has to be taken by the company and we are still debating on that issue. And once the decision is taken then we can probably compress the time.

**Pranav Ghokhale:** Thank you sir.

**Moderator:** Thank you sir. We have a next question from Mr. Rabindra Naik from Systemactic Shares. Please go ahead sir.

**Rabindra Naik:** Thank you for taking my question. I want to know what is the outlook on the acquisition that you are planning and how it will be going to be pan out for the BHEL?

**K. Ravi Kumar:** We have taken certain steps in acquisitions. We wanted to pursue acquisitions only for technology sake and as far as the power segments are concerned we are going ahead with collaboration route. Almost we are finalized for next 10 years to collaboration route. I don't think for power equipment will go for acquisition unless of course we want to export in a big way by establishing new facilities. But definitely for certain areas like oil rigs or something like that and if some acquisition comes we are keen. And also to enhance our capacity or technology we are interested. We don't want per se to invest only for sake of return.

**Rabindra Naik:** Can you please give me ballpark figure on what kind of investment you are looking at acquisition? What kind of expenditure you are looking at for the acquisition? Just a bit minimum and maximum type.

**K. Ravi Kumar:** Our own JVs whether it is acquisition or a JV route. We are planning to invest of around Rs 10,000 crore totally in all our organic expansion and also on inorganic expansion. The inorganic expansion will be the JV mode. Either it will be through M&A the route or from the JV route.

**Rabindra Naik:** Sir another thing you are guiding with top order of around Rs 32,000 crore in this year and you are also saying that raw material cost is going to come down by 200 basis point. So if I am correct that the raw material, last year it was 59% of the total net sells. It will come down to 57% if I am correct and another thing the other expenditure which is expected to come down also in the range of 8% of net sales. So that gives me a net profit of around if the net is going to grow up around 50 more than 50%. If it is wrong then can you please correct me on that?

**K. Ravi Kumar:** Yes on the material side last year it was 62.6%. To be precise it was 62.59% so 200 basis points will give you only 60.59%. To that extent only 2% you are saying and for some old provisions will not be there but any we have to give increased employee compensation for that will be around 14-15%. So it will all depend on the mix actually. What mix you have whether it is purchase re-sold, whether it is manufacture in-house, how much you manufacture in-house. Straightaway it will not give you a good indication as far as the net profit is concerned. That's we have said that you can be rest assured the top line will be around Rs 32,000 Crore.

**Rabindra Naik:** Your raw material cost would be in the range of 58%. If it is around 20,000....

**K. Ravi Kumar:** Not 58% it will be 60.59%.

**Rabindra Naik:** Okay sir. Thank you.

**Moderator:** Thank you sir. We have a next question from Mr. Sumit from HSBC. Please go ahead.

**Sumit:** Sir I just wanted to understand or know more about the status of your BHEL-NTPC JV. Also just wanted to know have you transferred few of the orders to those JV? And also wanted to understand and know more about what's happening on the Bharat Heavy Plate & Vessel that you acquired, what are the capacity expansions plans out there?

**K. Ravi Kumar:** As far as the NTPC- BHEL Joint Venture is concerned we have already located four places for putting up our Balance of Plant Facility for manufacture of coal handling, ash handling and all that. Then we have given one project you know fixed rate gas based project that is a normal project we have given and also for OTPCL project we have given the Balance of plant and civil. And NTPC is also giving one project for initial studies and later for installing. So these are the steps taken as far as the NTPC-BHEL joint venture is concerned. As far as the BHPV is concerned there was some problem because of their old association in testing and blacklisted by Engineers India and all that. We are trying to remove these obstacles. We are putting cash also to improve the performance. The affect will be seen only in the next financial year.

**Sumit:** Sir also just wanted to know when would be this NTPC- BHEL JV will look at manufacturing the BTG. Is there any business plan?

**K. Ravi Kumar:** We are going to 20,000 Megawatts. If we become an international player and if the country needs more then we will ask NTPC-BHEL joint venture to manufacture the BTG.

**Sumit:** Sir what about your foray into the nuclear power equipment side as there were few news report about you and Areva signing some sort of agreements?

**K. Ravi Kumar:** I think I have announced that we have got already order for 8 sets of steam generators for 700 Megawatts. We are almost closing the deal on 700 Megawatts in this next quarter. We are in talks with Toshiba, Hitachi, GE, and also with Areva for nuclear because it will not come from a single party. So we should have a combination arrangement and then we should be able to look at the reactor and nuclear instrumentation we are talking to GE on that.

**Sumit:** Okay sir one more question, what is the delivery state, time sense that you are talking for a say 660 or 600 Megawatts?

**K. Ravi Kumar:** 45 months as far as 660 Megawatts is concerned. 600 Megawatts subcritical we are giving in 42 months.

**Sumit:** And also sir just wanted to know that you said that 30% of the supercritical contents would be imported. So does this means that there you would not be earning significant margins there because it's all imported so it is almost a quarter. So again I just wanted to understand how you would be able to maintain your margins of the supercritical projects in line with the subcritical where you already absorbed all the technologies and its almost 100% indigenized.

**K. Ravi Kumar:** That's what I was telling you. Per megawatts cost of supercritical is still higher. So until the import content comes down the price will be higher but we will not sacrifice our margins.

**Sumit:** Thanks a lot sir.

**Krishna Shankar:** Thank you we will take the last question please.

**Moderator:** We have a last question from Mr. Ashutosh Garud from Techno Shares.

**Ashutosh:** Just wanted to understand in the last conference call you had mentioned that you have around 10,000 Megawatts of 12<sup>th</sup> five year plans orders have been already ordered. So just wanted to understand if the entire 11 plan orders of 78,500 Megawatts are done with the ordering aspects and how is the schedule going ahead for the 12<sup>th</sup> five year plan?

**K. Ravi Kumar:** As far as the 11<sup>th</sup> plan is concerned now we cannot get any order which can be included in the 11<sup>th</sup> plan excepting the gas turbine projects. We are still getting some gas turbine projects on 9E gas turbine combine cycle. We are negotiating with Rajasthan that can come during the 11<sup>th</sup> plan also. Some of the open cycle turbines it can come, some of small turbines can come but any big order of 250 or 500 or 600 Megawatts cannot come during this plan. So whatever order we are booking now it will be going till the 12<sup>th</sup> plan.

**Ashutosh:** No I am not asking about the execution aspect, I am asking whether the plants 78,500 Megawatts have been already ordered because 10,000 megawatts has already started for the 12<sup>th</sup> five year plant. So is that we are.....

**K. Ravi Kumar:** Yes 78,500 Megawatts has already been ordered.

**Ashutosh:** So you mean to say these will be executed in 12<sup>th</sup> five year plans. Thank a lot.

**Moderator:** Thank you sir for the question.

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

**Lokesh Garg:** Thank sir we on behalf of Kotak Institutional Equities and participants thank BHEL management for attending the call and prospective on results and other developments. We also thank the participants for attending the call. Thank a lot everybody.

**K. Ravi Kumar:** Thank you very much for your nice questions and also educating us in a way. Thank you very much.

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

**Moderator:** Ladies and gentleman, this concludes the conference for today. We thank you for your participation and for using Tata Indicom Conferencing services. You can please disconnect your lines now thank you and have a great day.

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