

Bharat Heavy Electricals Limited
III Qtr. 2009-10: Analyst/Earnings Conference Call
(January 21, 2010)

Moderator: Good evening ladies and gentleman, thank you for standing by. This is Manoj, the moderator for your conference call today. We welcome you to the third quarter post results conference call of BHEL posted by BNP Paribas Securities India. We have with us today Mr. B. Prasada Rao, CMD; Mr. C.S. Verma, Director Finance, BHEL; and we have Mr. Lakshminarayana Ganti, Senior Analyst, Capital Goods from BNP Paribas Securities India. At this moment, all participants are in a listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1. I would now like to turn the conference over to Mr. Lakshminarayana Ganti. Please go ahead sir.

Lakshminarayana Ganti: Good evening everyone. On behalf of BNP Paribas Securities India, I welcome Mr. B. Prasada Rao, CMD, BHEL; Mr. C. S. Verma, Director Finance; Mr. W. V. K. Krishna Shankar, General Manager, Corporate Planning; and I would request CMD BHEL to give us a brief on the numbers after which we will open it up for Q and A. You can go ahead, sir.

B. Prasada Rao: Thank you Mr. Ganti. Good evening friends. I am B. Prasada Rao, CMD BHEL and I have with me Mr. C.S. Verma, our Director Finance. Very warm welcome to all of you.

As you all know, India's industrial production rose to a 25-month high of 11.7% year-on-year in November 2009 supported by 12.7% growth in the manufacturing sector. The main drivers of growth were consumer durables at 37.3%, intermediate goods 19.4%, and capital goods at 12.2% to which we belong to. In part, the growth was also contributed by a lower statistical base. The growth in power generation at 3.3% and consumer non-durables at 3.1% is still quite subdued. Supported by strong order book and excellent execution in our company, BHEL has maintained its growth momentum into the third quarter of 2009-10 also. The orders booked up to the third quarter have been Rs.36,425 crores aggregating to about 14,990 megawatts. In fact, we have booked around Rs.16,000 crores worth of orders in the third quarter alone.

In power sector up to third quarter, we have booked total orders worth Rs.28425 crores equivalent to 12479 megawatts. Major orders booked in the third quarter in the power sector included Rs. 5564 crore order for 3 x 660 megawatt Bara project at Prayagraj, PGCL Jaypee Group; Rs.2889 crore order for 5 x 270 megawatt Elena PIL at Amaravati which is the India Bulls project; Rs. 2486 crore order for 2 x 600 megawatt at Pipavav Energy Private Limited; Rs.2889 crore order another 5 x 270 megawatt Elena PIL at Nashik which is again another India Bulls projects. In the industry segment, we have booked orders worth about Rs.7557 crores cumulatively this year up to the end of third quarter. This includes 1965 megawatts equivalent of Captive Power Plant orders.

In the international markets, we have received orders worth about 967 crores till third quarter. This includes 546 megawatt equivalent orders. With these orders, BHEL has a total order book of Rs.1,34,000 crores as of 31st December, 2009. 84% of these are accounted by power sector and about 11% by industry sector and balance by exports. We are on track to reach a turn over of 32000 crores in 2009-10.

Now, coming to the third quarter financial results, the turn over for third quarter 2009-10 is Rs. 7381 crores, a 15% increase over that of third quarter 2008-09. Cumulative turn over up to third quarter 2009-10 is Rs. 20083 crores at 18.6% increase year-on-year basis. Profit before Tax for third quarter is placed at Rs.1644 crores. Cumulative profit before tax up to third quarter 2009-10 is Rs. 3692 crores which is an

increase of 34% compared to the achievement up to third quarter 2008-09. Profit after tax for third quarter is placed at Rs.1073 crores. Cumulative PAT up to third quarter 2009-10 is Rs.2402 crores which is an improvement of 34% over the corresponding figure of last year. Raw material cost as a percentage of gross turnover net of excise duty for third quarter has been 58.84% as against 61.86% in the corresponding period last year. In fact up to third quarter 2009-10, it was 60.02 per against 61% in similar period last year.

With these, I thank you once again for joining this conference call. We will take the questions now.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your pushbutton phone and await your 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 the number of questions to two at a time. Our first question comes from Mr. Rajesh Panjwani, CLSA, Hong Kong. Please go ahead sir.

Rajesh Panjwani: Good evening sir. My first question is, I could not get properly the material cost numbers which you shared. So, if you can share the material cost numbers again as well as your outlook for the fourth quarter and next year on material costs especially given the environment of sharp rise in metal prices, and the second question is regarding the recent news articles about the government banning the import of supercritical units for Ultra Mega power projects. Can you throw some light on that?

B. Prasada Rao: Thank you Mr. Rajesh. Regarding Raw material costs, I am reading out again. The raw material cost as a percentage of gross turnover net of excise duty for third quarter has been 58.84% as against 61.86% in the corresponding period of last year. Up to third quarter, it was 60.02% against 61.32% achieved in the corresponding period of last year. On the material costs we expect that the same trend we continue. I would not be able to give you exact figure but you can expect that the similar trends will continue.

Rajesh Panjwani: But sir in the next year should not the material costs go up given the sharp rise in all the metal prices?

B. Prasada Rao: Our raw material cycle as you know, will go on for about first 6 to 9 months. May be in the last quarter it could affect us next year. I am coming to the news item on the banning of equipments. Well this is a move which government has taken keeping in mind the kind of support which is required for these plans to run uninterruptedly. They wanted the local manufacturing facilities for the equipment supply. This is a move which definitely goes very well for all the indigenous equipment manufacturers. I can say this much as you all know that it is going to definitely help the indigenous equipment manufacturers.

Rajesh Panjwani: Is it confirmed sir, now?

B. Prasada Rao: Like you I have also seen the news and we are also waiting for the formal orders.

Rajesh Panjwani: Okay fine, thanks a lot sir.

Moderator: Thank you for your question Mr. Panjwani. Our next question comes from Renu Ved from BNP Securities. Please go ahead.

Renu Ved: Good evening sir and congratulations for the strong set of numbers.

B. Prasada Rao: Thank you so much.

Renu Ved: I have two queries. First coming would be in terms of the status of the capacity expansion from 10 to 15 gigawatts and now whether all the machine shops have been almost commercialized and we expect the stabilization to happen by March, and second would be on what kind of shop floor production rise has been there in third quarter and 9 months cumulatively?

B. Prasada Rao: Our capacity addition is on target and we are going to stabilize it around 15,000 megawatt by end for this financial year by March 2010. As far as the production is concerned, we just added capacity of roughly less than 6000 megawatt in this year for our utility sets at Haridwar, we are doing a figure of roughly 7000 megawatts. Similarly in the industry also which are doing at Hyderabad again it is a capacity of 1239 megawatts, will be doing around 1500 megawatts. So, all the capacitors are fully being used. In fact we are also utilizing some of the capacities available outside.

Renu Ved: So, overall what has been the increase in shop floor production YOY terms?

B. Prasada Rao: For in terms of megawatts?

Renu Ved: In terms of absolute rupees like last quarter, we had about 37% increase.

B. Prasada Rao: About the shop production, upto third quarter 2008-2009, it was RS.7948 crores and upto third quarter 2009-10, it is Rs.10013 crores, so there is a 26% increase in the shop production.

Renu Ved: sure and the case while we are seeing the entire 15 gigawatt getting fully being available in financial year 2011, what kind of improvement in productivity can be expect in the next financial year from the current levels?

B. Prasada Rao: We are having all the orders to utilize the full capacity as we are expecting all that to be utilized. We are presently working on our budget for next year and may be after when I come back for the year-end results, we will able to tell you the exact figures.

Renu Ved: And sir second question is in terms of progress of work on the joint ventures with electricity boards, we were expecting orders from TNEB, Karnataka in the current financial year. So, do you see these orders coming through in the next couple of months or is higher likelihood of these orders being bunched up in financial year 2011 with other NTPC bulk tenders?

B. Prasada Rao: We expect at least one of the joint ventures to finalize the orders for these supercritical sets this year before the end of March and the rest of them will go to next year.

Renu Ved: But more or less, other regulatory approvals in terms of environmental clearances, fuel linkages the JVs are....

B. Prasada Rao: Yes, they are expected to be in place by end of this year particularly for two joint ventures.

Renu Ved: Okay, alright and thank you from side. We will get back to you if have some more queries.

Moderator: Thank you for your question Ms. Renu. Our next question comes from Mr. Venkatesh from CITI Group. Please go ahead sir.

Mr. Venkatesh: Good evening sir and congratulations on a very good set of numbers.

B. Prasada Rao: Good evening Mr. Venkatesh.

Mr. Venkatesh: Yes sir, as of the first 9 months you booked roughly around 36000 crores of orders in this year, so are you confident that your 55000 crores target will be met easily?

B. Prasada Rao: Yes, we are expecting to touch that figure.

Mr. Venkatesh: Okay and I guess you should also be confident given that a lot of these joint ventures..?

B. Prasada Rao: Sorry for interruption. If you look, out of this 36,000 crores, 16,000 crores have come in the third quarter alone. So, the order placement gets accelerated towards the end of the year.

Mr. Venkatesh: Okay sir and given that all these state electricity board orders where you have JVs are going to come through in the next year, I guess even next year 55000 crores is not like very difficult task and given that you will have the NTPC bulk tender order also next year, so I guess would that be a fair statement to make?

B. Prasada Rao: You can make the statement, but however, we will come back with actual workings may be by the end of this year when we announce the budgets.

Mr. Venkatesh: I guess, this year you have had a tremendous margin improvement, given that you had an inventory of your raw material cost inventory and secondly given that the staff costs have more or less benign and your sales growth has been decent. Now, next year onwards, I guess certain portion of the supercritical orders will start coming in your sales, even though it might come through, it might not be a significant component. So, is it possible to continue to maintain whatever margins you are making this year, next year also?

B. Prasada Rao: On margins normally we do not give a guideline, but your statements appear to me logical. I can only tell you this.

Mr. Venkatesh: Sir, my last and final question, post 2012, you will have 20000 megawatts, Larsen has 4000 and is talking about increasing it to 6000, either some of these guys will come up Toshiba JSW or Bharat Forge, Alstom, I guess even Thermax is adding capacity now and your next plan target anyway is roughly around 100 gigawatts or so, what is the target and how does that 30-40 gigawatts has already been ordered out? Now, do you see potential problems post FY12 and what are the steps you are taking to address the fact that you do not lose significant market share at that point in time or are do you expect that the plan target itself will be revised upwards?

B. Prasada Rao: BHEL has a natural advantage over the competitors, being in existence for last 40-45 years that is one point. The next point is that BHEL's product profile if you look at, the entire chain of equipments, our power plants are made in BHEL in various units and number of technologies have been implemented by this company, well absorbed by this company. We manufacture boiler not only the main product, but its auxiliaries fully. Similarly, turbine and its auxiliaries, generator and its auxiliaries, control instrumentation systems we make. Electrostatic precipitators we make. So, this gives a lot of depth for the company to maintain its ability to compete in the market. Similarly, if you look at the kind of service

network what BHEL has got and established over a period, all over the country we can reach any customer within no time. Recent example is Srisailem hydropower station which was under water since October 2. We started attending to that unit from 6th of October and all the units have been commissioned in the last 6 weeks. This was a record. So, this is a kind of service capability which BHEL has established. So, these are all some of the advantages or you can say the early mover advantages the company has and the company also continuously works on many of the cost improvement initiatives like design to cost, lean manufacturing and these kinds of initiatives and it has been a continuous exercise. So, therefore yes competition will be there and we need to face the competition. We have been facing competition right from middle of 1970s both internationally as well as in the domestic market, and we have been winning, our record of winning international competitor bids is a high percentage. So, all these strengths of the company should make the company get a fair market share.

Mr. Venkatesh: Sir, the reason I asked this is because I saw one of the presentations which BHEL had made in this recent international conclave where you obviously have a 45000 crore kind of a top-line target for 2012, but in that conclave presentation, there was a target of roughly around 91000 crore by 2017 kind of a target. Now, to get that kind of a target obviously the market size has to expand significantly. As of now, I guess in an year, roughly around 15000 to 20000 megawatts are ordered out, but given that your capacity itself will be 20000 megawatts by the end of 12th plan and in another 10000-15000 megawatts of other people, domestic people, the Chinese are not be in a rush to go away from India even that in China, progressively capacity additions are only going to slow down, so how are you..?

B. Prasada Rao: All that what you said is true. All the sets are there. I also expect Chinese to improve and come back with vengeance. It is not that BHEL is depending only on power. We are looking at other segments of business in which we are present in a big way like transportation, transmission, renewable energy. We are looking at in forming special purpose vehicles for addressing some of these businesses. The Rs.91,000 crore figure what you have seen the target for 2016-17. This was the result of the strategic plan exercise which we have done in 2007. So probably these will get revised upwards as we go along. In fact, I am expecting that this 45000 crore turnover is shown for 2011-12 will get revised upwards, by the time we come to that year.

Mr. Venkatesh: Okay. All the very best sir for the future.

B. Prasada Rao: Thank you so much.

Moderator: Thank for your question Mr. Venkatesh. Our next question comes from Mr. Dharendra Tiwari from Ambedkar Private Limited. Please go ahead sir.

B. Prasada Rao: Hello Mr. Tiwari, how are you?

Dhirendra Tiwari: Good, how are you sir?

B. Prasada Rao: I am fine. Thank you.

Dhirendra Tiwari: One the data point basically in the first 3 years of the planned total awards is close to 17000 plus megawatt that means the market has gone to nearly 25000 megawatt per year. Now, do you think that market really expanding in the very significant way next 4-5 years to approximately 40000 megawatt given the shortage that we take care of the capacity that we will think built-up. Point number two is in the short term, are you think some delay in the finalization of private sector contract that were expected about 3-4 months ago and final question is about wage settlement even it is finally happening do you see any change in the provisioning that is made sir?

B. Prasada Rao: The last question first, the wages have been settled and we are going to pay the arrears and the new salaries will start getting paid from March 1 and we are not seeing any significant change in the provisions we are made. Again, I request Mr. Verma to answer to the question.

C. S. Verma: Last year, we had made total wage provisioning of 1729 crores which also consisted of provisions for the gratuity consisting of 661 crores. For the current year 09-10, our total provisioning is 1484 crores, of which for the first 3 quarters, we already provided 1113 crores. So, now this is a normal increase which will happen every year, so no additional provisioning will be required now onwards.

Dhirendra Tiwari: Okay.

B. Prasada Rao: Regarding your first question on the capacity addition which is likely to happen every year, I expect that you know market of roughly about 25000 to 30000 megawatt can happen. So, considering all the markets that is both industry and the power segments are concerned, so market will be there at least for next 5-year plan, we clearly see that this is going to happen. On the second question, can you repeat it please?

Dhirendra Tiwari: And some of the private sector contracts there were expected to.....

B. Prasada Rao: In the private sector, we have got number of contracts this year in fact most of the orders have come from private segment. Out of the 14000 megawatts, what we have said the orders that we have got roughly about 13000 and are these from private segment.

Dhirendra Tiwari: Few more you will be expecting in 3 to 6 months, the large.....

B. Prasada Rao: In this financial year itself we are expecting few more from private sector.

Dhirendra Tiwari: Okay, so that will add to your overall target of 55000 crores?

B. Prasada Rao: Yes.

Dhirendra Tiwari: Okay sir, thank you, all the best for the next one year as well. Thank you very much sir.

B. Prasada Rao: Thank you Mr. Tiwari.

Moderator: Thank you for your question Mr. Tiwari. Our next question comes from Mr. Venugopal from Credit Plus. Please go ahead sir.

Mr. Venugopal: Thanks for taking my question. I just want to understand as far as supercritical BTG sets are concerned, as we go ahead we would probably be wanting to indigenize that to a greater degree, but just wanted to understand at the optimum level of indigenization for a boiler and turbine, firstly would percentage of indigenization level will be very different from that for the subcritical sets and would that per se mean that structurally margins would be lower?

B. Prasada Rao: No, I do not expect at the mature stage the indigenization levels of supercritical could be as much as what we have done for subcritical sets, so the potential is there to indigenize completely.

Mr. Venugopal: Okay, sir my second question is just wanted to understand in your view how much of 12th plan orders of BTG would have been placed by now, just a board number and do you see an upward revision for the 100 gigawatt order for currents of target for the 12th plan?

B. Prasada Rao: Totally about 33000 megawatts have been ordered and out of these, about 55% orders have come to BHEL for the 12th plan. Another 70000 megawatt is still as per the plan itself to be finalized, so I expect it will be in the range of 100000 megawatt, the plan size.

Mr. Venugopal: You do not see any major scope of any upward revision for that number?

B. Prasada Rao: I do not see right now, but it could happen in the final years of the plan.

Mr. Venugopal: Okay, thank you so much.

Moderator: Thank you for your question Mr. Venu. Our next question comes from Ms. Shilpa Krishnan from JP Morgan. Please go ahead sir.

Shilpa Krishnan: Hello everybody. I just wanted to understand what is happening with your staff cost and other expenses, I can see that your staff costs have increased vis-à-vis the September quarter where as your other expenses have declined (**Inaudible**) could you just kindly tell me how you accounted for that?

B. Prasada Rao: I would request Mr. Verma to respond.

C. S. Verma: I do not agree that our staff costs have increased. The staff cost as a percentage of the turnover, last year it was 14.7%, this year 2009-10 we are expecting about 14.9% of the turnover and as the volume will go up and all the provisioning has been done in this financial year and next year since volume will be going up in the next year, we are expecting much lower than 14.9%, It could be in the range of 13.5%. So, I do not agree that the staff cost has gone up this year.

Shilpa Krishnan: Okay, my second question is to Mr. Verma what is that it seems it has gone up by 33%, I agree that on a percentage of sales basis not gone up that significantly, but nevertheless gone by 33% and given that your provision are lower on a YOY basis. Why are we still seeing such a steep increase in your staff costs that is my question?

C. S. Verma: As far as additional provisioning is concerned as I said a while ago that the additional provisioning which we had made in the year 2007-08 was 736 crores. In the year 2008-09 was 1729 crores which also included enhanced gratuity provision of 661 crores and now in the year 2009-10, it is 1484 crore for the year as a whole. Up to the first three quarters, we already provided 1113 crores and now this will be a normal increase because the ways the provisioning has been done and wage settlement has been finalized with the workers, so this will be a normal increase now onwards.

Shilpa Krishnan: Okay, so full year would you maintain that your staff costs will be in the range of around 4500 crores?

C. S. Verma: Yes, it should be around that.

Shilpa Krishnan: Okay, on the other hand, what I am seeing is that your other expenses had gone down vis-à-vis the second quarter of FY10, could you just throw some light on what has happened there and it has gone down vis-à-vis September quarter also?

C. S. Verma: In other expenditure, besides raw material, staff costs, excise duty depreciation, the other expenditure for the first three quarters this year has been 1535 crore, the same figure was 1621 crore for the corresponding period 9 months last year. So, there has been a decrease.

Shilpa Krishnan: Okay, not a problem. Thank you.

Moderator: Thank you for your question madam. Our next question comes from Mr. Lokesh Garg from Kotak Institutional. Please go ahead sir.

Lokesh Garg: Hi sir, good evening. My question actually relates to the technical alliances that you have with Alstom and Siemens. Now, I understand as you told earlier in the call that BHEL has certain inherent advantages of being present in the business in terms of scope and scale, but what I was comparing is that BHEL has only technology alliances while some of the same vendors have entered Equity JVs with other players in the market. In case of an equity stake obviously there is increased alignment of interest versus working with you where in they only get may be some royalty fees and some component outsourcing. so, in that case, should we take it as that the likelihood of indigenization is probably faster in case of Equity JVs and thus in cost efficiency terms they may actually achieve better efficiencies versus BHEL considering vendors would be more helpful to those considering they have direct equity stake in those?

B. Prasada Rao: I do not agree to that because the collaborators have equal interest in seeing that their technology is sold through us in here and basically, it comes from the volumes also. The kind of volumes what BHEL gives is much higher compared to any of the other players. So, I do not agree to that view and we do not find any problem in this.

Lokesh Garg: Sir, one thing which I wanted to ask you specifically is that we in the past have understood that Siemens is allowed to quote in competition to BHEL in case of orders in India. Is Alstom allowed to quote in competition to BHEL?

B. Prasada Rao: No, it is not allowed to quote.

Lokesh Garg: So, both Siemens and Alstom would have to tie down with BHEL.

B. Prasada Rao: They can't quote unless they take our permission.

Lokesh Garg: And is that restricted to a specific set of units or specific number of years or something like that?

B. Prasada Rao: No, there is no restriction like that.

Lokesh Garg: Sure, roughly I do not know whether it would be possible for you to kind of give us a number, but roughly let say out of 1000 megawatt or let say 800 megawatt unit that you get and you subsequently do business with Alstom. What kind of outsourcing could go to Alstom and what kind of money could Alstom make on that?

B. Prasada Rao: This depends on case to case basis. It depends on the delivery that is required by the customer. If we have to deliver the thing very fast before we are indigenizing it or the kind of availability of material, which we have to source from somewhere outside, it all depends on these kind of factors. Theoretically speaking, we can even supply right from the day 1 a completely indigenized unit provided we have the time and the materials are available.

Lokesh Garg: My next question is related to this NTPC bid. NTPC is likely to open tenders on January 28, as what we know. I believe those would only be technical tenders and financial tenders might get open much later on, but would you expect a severe tight competition or would you expect more or less the pricing dynamics that that we are seeing in supercritical sets right now to sustain?

B. Prasada Rao: No, I expect severe competition in this because they are differently in bulk unit numbers and some of the new companies are also looking at this opportunity and they want to probably establish themselves with this tender. So, definitely there will be competition.

Lokesh Garg: But the final price decision would come in much later, right?

B. Prasada Rao: Initially, there will be technical evaluation and also commercial evaluation. What I meant by commercial is they are going to go and have a look at the kind of facilities what they are establishing. They have to satisfy themselves that yes all the indigenous capabilities are going to come up where they want. All this will be certified by CEA somebody whom NTPC will constitute and after that only they will ask the price bids and a decision will be taken on that.

Lokesh Garg: Sure, thanks a lot sir.

B. Prasada Rao: Thank you.

Moderator: Thank you for your question Mr. Garg. Our next question comes from Mr. Akshay from Enam Securities. Please go ahead sir.

Mr. Akshay: Sir, most of my questions have been answered. I just had two questions. One is if you could just help me with some of your balance sheet figures in terms of what has been in the cash on the balance sheet, what has been the working capital, and what is the CAPEX plan for this current year?

B. Prasada Rao: I request Mr. Verma to respond.

C. S. Verma: No, but we do not disclose these figures when we declare these quarterly un-audited results. But I can only give you one indication that all parameters are favourable.

Mr. Akshay: And sir, also if you could just give some order pipeline that you see for the next quarter or probably for the next year, you seems to be pretty confident of achieving this 55000 crore orders assuming that you get some portion of the negotiated orders, do you think growth next year?

B. Prasada Rao: We are working on those figures and what exactly gets finalized in the next year we will have to see. So, we will be able to give you a good answer by the end of this financial year.

Mr. Akshay: Okay, thank you sir.

Moderator: Thank you for your question Mr. Akshay. Our next question comes from Mr. Madan from Centrum Broking. Please go ahead sir.

Mr. Madan: Good evening sir.

B. Prasada Rao: Good evening Mr. Madan.

Mr. Madan: Sir, my first question is on what is the CAPEX that has been planned for FY10 and FY11 and how much we have done so far in FY10 with respect to getting this 5000 megawatt on stream for both these years?

B. Prasada Rao: As we said, the 15000 megawatt the capability we are having and it will get stabilized by March this year. This year, 2009-10 we will have Rs.1800 crores CAPEX and for next year 2010-11, about Rs.1924 crores, this is our budget for next year.

Mr. Madan: Sir, out of this 1800 for the current year, how much would have been spent approximately so far?

B. Prasada Rao: Substantial portion would have been already over by this year.

Mr. Madan: Okay, my second question is on how much of provisions for contractual obligations has been provided for the first 9 months year-to-date?

B. Prasada Rao: I request Mr. Verma to give you the details please.

C. S. Verma: Total of creations of provisions for the first 3 quarters has been 307 crores and total withdrawal of the provisions has been 286 crores, so net-to-creation of for the first 3 quarters have been 21 crores. For the quarter 3 alone, the creation has been 99 crore and withdrawal has been 118 crore, the net-to-creation has been (-20 crore).

Mr. Madan: So do you see any reason this should go up in Q4 or this is..?

C. S. Verma: I do not think it will go up substantially.

Mr. Madan: Sir, my final question is on we read something back newspaper item saying that there is a possibility that a panel recommends subcritical projects in the future might be denied and the supercritical projects could be given some benefits to promote favorable climate condition. Is this news item to be ignored or is it something seriously looked by government to do something on this?

B. Prasada Rao: I do not know about the news item, but then the point what we are trying to make to everybody is that do not look at a particular technology as such. You look at the performance of the equipment and heat rate and the efficiency of the boiler. This is more important than the technology because with supercritical technology, Chinese sets give you the same efficiency as subcritical sets of 600 megawatts of BHEL. We are requesting everybody to look at performance of the equipment more than the technology as such.

Mr. Madan: Okay, but such a note has been put in by the panel and it is in discussion that is what you are saying?

B. Prasada Rao: Yes. We have already sent notes to CEA on this and CEA is looking into this.

Mr. Madan: Okay, thank you very much and best of luck.

B. Prasada Rao: Thank you.

Moderator: Thank you for your question Mr. Madan. Our next question comes from Mr. Pankaj Sharma from UBS Securities. Please go ahead sir.

Pankaj Sharma: Hi sir, good evening, this is Pankaj from UBS. Just quick question. If I had missed that, in the beginning you have told that there was an order inflow of 16000 crores, could you give me the broad breakup of these orders where as it come from and what is the size of these orders?

B. Prasada Rao: I read out in my initial speech.

Pankaj Sharma: Sir, I missed that, I am very sorry.

B. Prasada Rao: In the power sector, 5564 crores worth order from 3 x 660 megawatt of Bara project of Japjee Associates, 2889 crore order for 5x270 MW from India Bulls for the Elena PIL-Amravati project, 2486 crore order for 2 x 600 megawatt Pipavav Energy, another 2889 crore order for 5 x 270 megawatt Elena PIL-Nashik project; and in industry sector, we have received about 7557 crores, this consists about 1965 megawatts captive power plants and in international operations, we got about 967 crores, comprising about 546 megawatt equivalent orders. This is the total say about 36000, to be exact 36425 crores.

Pankaj Sharma: Okay sir, on this staff costs does it include any provisioning in this quarter and third quarter?

C. S. Verma: Provisioning total for the year is 1484. In the third quarter alone, we have provided 396 crore. This is the additional provisioning, but now that this will be a part of the total percentage costs. We have finalized all our wage agreements. Now onwards, there will be normal payments.

Pankaj Sharma: Okay sir, 396 crores with the approximate provision for this quarter, right?

C. S. Verma: No, the possibility is the exact provision.

Pankaj Sharma: Okay, fine thank you very much.

C. S. Verma: Thank you.

Moderator: Thank you for your question Mr. Sharma. Our next question comes from Mr. Kamlesh form Asian Market. Please go ahead sir.

Mr. Kamlesh: Good evening sir, I just wanted to understand company's proposed JV in terms of generation unit as well as nuclear as well as transmission particularly the 765 hand transformers, how you are looking at that market and what sort of JV are planning to have?

B. Prasada Rao: As you know, with the state generation companies we have to promote our 800 megawatt supercritical equipment. We have initiated to form a JV offering with about 26% equity from our side and we have signed with Tamil Nadu, we have signed with Karnataka, we have also signed with Mahagenco, and also Madhya Pradesh. First the projects probably from Karnataka will come up by the end of this year. We expect the order to be placed this quarter and followed by Tamil Nadu and like that. This is the where we are leveraging equity for our equipment sales. On the subject of nuclear, as you know we have signed an MoU with Nuclear Power Corporation for tie-ing up turbine technology equivalent to 700 megawatts. You already know that we have received the order for the 700 MWe steam generators. We are talking to the leaders in this as we have invited expression of interest. We will be finalizing a joint venture agreement by end of March.

Mr. Kamlesh: And what size of capacity we are looking at that, sir?

B. Prasada Rao: We are working on the details. It is too premature to come out with all these details. Similarly, we are also looking at transmission market particularly for the higher voltage segments where are talking to international players like Areva and Toshiba. Here also we expect to sign MoU shortly with one of the companies. May be by the first quarter of next year, we will have definitive agreements in place with the company with whom we will sign the agreement.

Mr. Kamlesh: Sir, this is going to be in the lines of the Alstom, Siemens, JV made, I mean for technology procurement or is it a joint venture or what it is going to be?

B. Prasada Rao: It is going to be a joint venture.

Mr. Kamlesh: Because, I think we have been talking since long for this T&D for high end but nothing actually has been transpired till now.

B. Prasada Rao: The process has been slow because responses also are very slow. People are working out and it takes time.

Mr. Kamlesh: And sir, out of the order book is just to understand are these all fixed-price contracts we generally have or?

B. Prasada Rao: We have a mix of contract. Some are with fixed price and some are with PVC formula.

Mr. Kamlesh: So as of now, what is the ballpark rough breakup of the two?

B. Prasada Rao: At any point of time approximately it is 50:50.

Mr. Kamlesh: Okay sir. Thank you.

B. Prasada Rao: Thank you.

Moderator: Thank you for your question Mr. Kamlesh. Our next question comes from Ms. Payal Pandya from _____ Financial. Please go ahead madam.

Payal Pandya: Hello.

B. Prasada Rao: yes, please.

Payal Pandya: Good evening sir, congratulations on your great set of numbers. Just a few questions. I just went through your first and second quarter results and the trend as in growth in net sales has been about 29% in the first quarter, then about 24 in the second, and during the third quarter, we have almost about 17 to 18%, so is there any particular reason why there is a slight slowdown in the net sales?

B. Prasada Rao: There is no particular reason and these kind of things appear when we are looking at snap shot at a particular point of time. So, this is the snap shot on December 31, 2009. Beyond this date number of products probably got despatched in the first week of January that has missed that December 31, date line, but otherwise, you have to look at it year-to-year basis that gives you a better comparison.

Payal Pandya: And your FY10 guideline was something around 31000, so as per that, you should be getting around 10800 or 10900 in the fourth quarter for the top-line?

B. Prasada Rao: I can only tell you at this point of time that we are not going to miss our targets.

Payal Pandya: Okay sir, thank you very much, that about it.

Moderator: Thank you for your question Ms. Payal. Our next question comes from Mr. Srinivas Rao from HDFC Mutual. Please go ahead sir.

Srinivas Rao: Good evening sir.

B. Prasada Rao: Good evening.

Srinivas Rao: My first question is BHEL's commissioning schedule for FY10 and FY11 in terms of megawatt added to target? Can you tell us what will be that?

B. Prasada Rao: See we have a target of adding about 6500 megawatt this year that is FY10 and out of these, we are sure to add about 5600 megawatts and if the other agencies help us, we will be on target for 6500 megawatts. Some of the hydro projects may not have water particularly. That could delay the commissioning of this capacity addition. Otherwise we are more or less on track for FY10. Coming to FY11, we have a target of roughly about 13000 order megawatts capacity to be added to the power generation target.

Srinivas Rao: On the nuclear power, you signed MoU with GE Hitachi, Is that anything else that you can share with at this point of time on this?

B. Prasada Rao: No, not much. The number of other formalities to be completed by these countries at country level, particularly the clause-810 and things like that. So, unless they happen, these things do not get accelerated.

Srinivas Rao: Next question is gas-based power plants. Can you tell us what will be your market share as of today and also how different is the profitability of this business versus your standard coal-based power plants?

B. Prasada Rao: Well, gas-based power plants also have similar margins I must say. I cannot give you exact figure, but then they also have similar margins as the coal-based plants. Many gas-based plants are not happening. But what ever is happening, we are getting most of the orders.

Srinivas Rao: Okay, in the last question is on this employee expenses to Mr. Verma, sir, what would be the recurring employee expenses in FY11, you were saying FY10 will be worth 4500 crores?

C. S. Verma: As a percentage of turnover this year it will be somewhere about 14.8%. 14.9%, next year onwards. If the volume goes up there will not be any additional provisioning required except 5% which is the normal increase on the staff cost of this year. So, next year, as a percentage of turnover it will be much less than 14.9%.

Srinivas Rao: Sir, actually it is not linked to turnover. It is increment.

C. S. Verma: Yes. In absolute terms whatever is the staff costs this year, we assume an increase of around 5% which is a normal increase of DA and other things.

Srinivas Rao: And then there is a net addition of employees?

C. S. Verma: That is why I am saying that you can safely assume around 5%.

Srinivas Rao: Okay, great sir, thanks a lot.

Moderator: Thank for your question Mr. Srinivas. Our next question comes from Mr. Sumit from HSBC. Please go ahead sir.

Mr. Sumit: Congrats for a good set of numbers. Just wanted to check or get your views in terms of the impact on pricing with the rising competition, one of the competitor, Larsen & Toubro has become quite competitive and has been winning few of the orders, do you see that the per unit cost of the project coming down?

B. Prasada Rao: There will be competitive pressures on the pricing, but then one thing you must remember. All orders are not won only on pricing. So you need to definitely differentiate yourself from the competitors. Price is one of the factors.

Mr. Sumit: Sir, I agree with you that apart from pricing, there are other factors also, but at the end of the day the state and the center utilities typically orders are placed on a L1 basis, so what would be average decline in the product prices over the last 6 months that you would have witnessed?

B. Prasada Rao: See the case-to-case basis it will be based on the competition. Nobody can predict that the prices will come down so much because of competition.

Mr. Sumit: Sir, I just wanted to check this Indiabull order that you have received. Earlier, it was placed to the Chinese vendor, correct me if I am wrong, was it right?

B. Prasada Rao: Yes, it was true.

Mr. Sumit: So, has that order been cancelled and given to you, any specific reason why was it done or something like that?

B. Prasada Rao: That is what we have to understand and the customer who has kind of placed order and paid advance has come back to BHEL to take BHEL sets. So, there must be something beyond that. It is basically the performance of the equipment.

Mr. Sumit: Sir, also can you give us some numbers or some data points in terms of the order that would have been finalized, however, because you have not received advance you have not booked in this quarter, what would be that quantum?

B. Prasada Rao: No, we would not be able to give you that figure.

Mr. Sumit: Okay, No problem, thanks a lot sir and best of luck for the next quarter.

B. Prasada Rao: Thank you.

Moderator: Thank you for your question Mr. Sumit. Our next question comes from Mr. Rajesh Panjwani from CLSA Hong Kong. Please go ahead sir.

Rajesh Panjwani: Sir, I think one thing which I am not understood fully, your sales target is it a gross sales target or a net sales target?

B. Prasada Rao: It is the net sales target.

Rajesh Panjwani: Fine sir, thank you sir.

Moderator: Our next question comes from Mr. Indrajeet Bhatia from Macquarie Capital. Please go ahead sir.

Indrajeet Bhatia: Thanks a lot for taking my question. At a point that you just raised about the other expenses being lower, can you just let us know the reasons why you think that these expenses have gone down?

C. S. Verma: One thing is that government has introduced is austerity measures and in turn we also introduced austerity measures. There is a 10% cut on the travel and various other miscellaneous expenditure. So we achieved some saving on the account of that. Secondly is that more efficient operations and containment of the expenditure.

Indrajeet Bhatia: Another thing in terms of these contingent liabilities, I am not sure whether this question is answered earlier, how much of the contingent liabilities have been booked in this fiscal year till 9 months?

C. S. Verma: That contingent liability total is about 2200 crore as of date.

Indrajeet Bhatia: And how much has been provided for in 9 months?

C. S. Verma: No. Provisions are as per the provisioning policy of the company

Indrajeet Bhatia: Thanks a lot.

Moderator: Thank you for your question Mr. Indrajeet. Sir, you want to conclude the call?

B. Prasada Rao: Yes, the call is concluded, please.

Moderator: Ladies and gentlemen, this concludes the conference for today. We thank you for your participation and for using Tata Indicom Conferencing Services. You may please disconnect your lines now. Thank you and have a great day.

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