"Bharat Heavy Electricals Limited Q4 FY-23 Earnings Conference Call"

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MANAGEMENT:
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Moderator: Ladies and gentlemen, good day and welcome to the Bharat Heavy Electricals Limited Q4 FY '23 Earnings Conference Call, hosted by Antique Stock Broking. As a reminder, all participants' lines will be in a listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note this conference call is being recorded.

I now hand the conference over to Mr. Dhirendra Tiwari from Antique Stock Broking. Thank you and over to you, sir.

Dhirendra Tiwari: Thank you very much. Good evening, ladies and gentlemen. On behalf of Antique Stock Broking Limited, I welcome you to Q4 FY '23 post-result conference call of BHEL. I am very glad to have with us today Dr. Nalin Shinghal, Chairman and Managing Director and BHEL's management team to discuss these results.

We will start with opening remarks from Dr. Shinghal, following which we will open the floor for Q&A. Over to you, sir.

Dr. Nalin Shinghal: Thank you, Mr. Tiwari. Good evening, everyone. I am Nalin Shinghal, CMD BHEL, and I have with me Smt. Renuka Gera, Director (Industrial Systems and Products) and Shri. Jai Prakash Srivastava, Director (Engineering, R&D) with additional charge of Director (Finance). A very warm welcome to all of you. And to start with, my apologies for the delay due to the board meeting getting extended.

As we are all aware, India is one of the fastest growing major economies in the world, with a growth rate of 7% in FY '23 and the IIP showing an increase of 5.1% over the last financial year. Even in FY '24, India's growth story is expected to remain resilient, with a forecasted growth of more than 6%. While the slowdown in the global economy and the geopolitical disturbances have had some impact on business, the continued expansion by domestic industry, as well as huge investment in the infrastructure sector, will provide major growth opportunities for your company, especially in our core areas of business, thermal power. Demand for new power plants has picked up with new tenders on the anvil.

Coming to BHEL's performance, the past financial year has been an eventful one for the company. After a gap of about three years, demand for coal-based thermal power plants has started picking-up due to increase in industrial activity leading to a huge demand for power. There has been a growth of 8.87% in the electricity generation in FY '23, which is expected to grow by another almost 8% in the current financial year. With the order for the 2x660 MW, NTPC Talcher, thermal power plant, BHEL has reasserted its market leadership position in the segment and is targeting other upcoming opportunities as well.

Being a market leader in the power equipment segment, the company is continuously working to achieve India's commitment of greening its power grid. As a cost-effective and quick solution for integrating renewables to the grid, BHEL is ready with flexible operation solutions for existing coal-based power plants. The company has achieved a significant milestone by successfully demonstrating the flexible operations at the 1x600 MW Raigad thermal power plant and received four more orders in this area.

In the hydro business, we have garnered orders of almost 1 GW. Nuclear business being cyclical in nature, no major package has been ordered by NPCIL during FY '23. However, the complete nuclear power generating segment may see some structural changes in coming times, which is likely to provide good business opportunities for BHEL. Expansion in core sectors like steel, refineries and cement are resulting in demand for capital goods, especially industrial motors, compressors and captive power. With BHEL's vast expertise in this segment, we are well placed to capitalize on these emerging opportunities.

In the transportation area, Indian Railways is pressing ahead with initiatives to upgrade, modernize and decarbonize the railway operations. Both freight and passenger segments are attracting sizable investments, translating into demand for electric locomotives, semi high-speed train sets of different configurations, etc. We have received orders for 22 WAG-9H locomotives, 90 sets of IGBT-based three-phase drive propulsion equipment for WAG-9, 16 sets of three-phase AC propulsion systems for Kolkata Metro, and propulsion equipment and other electrics for four Vande Bharat trains, amongst others.

I am happy to share that FY '24 for the transportation segment of BHEL has commenced on a winning note with a landmark order for 80 Vande Bharat train sets. This is the company's largest ever order of about INR 23,500 crores excluding GST and has been won in consortium with M/s. Titagarh Wagons Limited. During FY '23, the company has booked the highest ever orders in the defence sector, which also includes the order for 20 upgraded SRGMs from Indian Navy, which is the main gun on the Indian warships.

Our relentless focus on improving our order booking in high margin spares and services business resulted in BHEL booking its highest ever orders of over INR 3,800 crores in this area. These short-duration orders are likely to assist in improving the bottom line of the company in the next couple of years.

In line with BHEL's long-term focus on cleaner usage of coal, earlier the company had developed and demonstrated the country's first indigenous coal to methanol plant, utilizing BHEL's in-house developed PFBG technology, the only proven technology for gasification of high-ash Indian coals. Now, to commercialize this technology, BHEL has signed an MoU with Coal India Limited for a 2,000 tons per day coal to ammonium nitrate plant.

Further, work on the joint venture with CIL is progressing well. These efforts by BHEL are aligned with the National Coal Gasification Mission's objective of gasification of 100 million metric tons of coal by 2030. By supporting this target, BHEL will not only be commercializing our indigenously developed technology but will also be reducing the country's reliance on expensive hydrocarbon imports. BHEL is also exploring areas in the hydrogen value chain and is in discussion with various OEMs for partnerships.

Coming to the order booking performance for FY '23, we have booked orders worth INR 23,548 crores excluding taxes, which is the highest in the last five years. Out of this, the power sector is INR 13,353 crores and the industry segment is INR 9,537 crores and the remaining is from exports. It is to be noted that these figures are net of GST. It is also pertinent to note that the company's efforts in the Industry Sector have borne fruits and the order booking at INR 9,537 crores is the highest in 13 years. The share of Industry Sector is at its highest at 40% in the order booking in the last year.

Accordingly, the total outstanding order book as on 31, March 2023, stands at INR 91,336 crores net of taxes. The reporting of order book is being done without taxes for better understanding of all stakeholders and is in line with the revenue numbers being reported. It is to be noted that BHEL was in discussions with Indian Railways for finalization of the prestigious Vande Bharat train set order, which could only be finalized after the closure of the financial year. I am happy to say that with this order we have crossed the INR 1 lakh crores order book benchmark without taxes in the month of April 2023.

Some of the significant orders booked in FY ‘23 are, 2x660 MW EPC order of NTPC Talcher thermal power plant, 850 MW Ratle hydropower project for supply of turbines, generators and other auxiliaries. R&M of GSECL Ukai, TPS unit no. 3, Seven units of different ratings of STG packages for industrial customers totaling 383 MW, 22 numbers WAG-9H locomotives, supply of 20 nos. upgraded SRGMs, and supply of centrifugal compressors for refinery applications.

Coming to the financial performance, revenue for operations for FY ‘23 is at INR 23,365 crores as against INR 21,211 crores for the previous year, an increase of 10%. Further, seen from the revenue mix perspective, another significant achievement is that the spares business has recorded a growth of 25%-plus. Manpower productivity improved with the revenue per employee going up by 14% at INR 75 lakhs in FY ‘23 as against INR 66 lakhs in the last year. EBITDA at INR 1,231 crores has increased by about 11%. This was aided by the higher operational income and continued stringent budgetary control on administrative expenses in the midst of higher inflation. During the year, the company also received tax refunds totaling INR 266 crores which have helped in the bottom line as well as the net cash generation.

The PBT and PAT are also at stable levels at INR 450 crores and INR 448 crores respectively. As far as receivables and cash flows are concerned, the company's total receivables stand at INR 36,284 crores as on 31, March 2023, as against INR 33,168 crores in the previous year. The trade receivables are at INR 6,544 crores, as against INR 6,229 crores last year and the contract assets are at INR 29,740 crores, as against INR 26,940 crores last year.

Higher milestone achievements are due in FY ‘24 and FY ‘25 which should lead to better liquidation of contract assets and cash realization. Trade receivables are at 102 days of revenue from operations as against 107 days for FY ‘22. Though contract assets have seen an increase, however, overall receivables are at 567 days of revenue from operations as against 571 days in the last year.

Due to higher investment in contract assets, the company's cash position was under pressure. However, the company retained its debt-free status with closing positive cash and bank balance and has enough leverage to invest in capex and diversification initiatives.

Thank you all once again for joining this conference call. We will take questions now.

Moderator: Thank you very much, sir. We will now begin the question-and-answer-session. We take our first question from the line of Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: Good evening, sir. And thanks for the opportunity and congratulations on winning the largest railway tender in our history. My first question is on the thermal pipeline. What is the thermal pipeline looking at? Can you just put the number in GW terms? And what are the tenders which you expect to close in this fiscal?

Dr. Nalin Shinghal: Thank you, Mohit. Just coming to the thermal pipeline, we are looking at almost 3,700 MW where we are favorably placed. Another almost 6,000 MW is under bidding already. And almost 9,000 MW to be bid out which of course may go into the next year.

Mohit Kumar: Understood, sir. My second question is on the railway tender. Can you please explain the scope of BHEL? And the related question is, can you address the question – address the concern that how will you make money on the Vande Bharat tender given that we have reduced our initial tender value by 12%?

Dr. Nalin Shinghal: So as far as the scope is concerned, you see we are doing the electrics and the control systems and the bogies. And the mechanical part and the interiors are being done by our partner. Coming to second question, it is a challenging order for us, after the reduction that we have had to do in this. But I think we are confident that we will make it profitable. We need to execute it in a timely manner. And thereafter, the 35-year maintenance period is where profitability is expected to come in this order.

Mohit Kumar: To expect the profit, in the supply, the margin is really very low. Is that a fair assumption? And the most of the money will be made in the maintenance?

Dr. Nalin Shinghal: I wouldn't say that. But yes, it is challenging. So, you see we are working on our supply chain, we are working on our indigenization program and that is where we need to focus upon.

Mohit Kumar: Understood. My last question is on the coal gasification. There has been talk of getting 100 million tons, but on the ground, there is hardly any tender which is out in the public domain. Do you expect this first order, first tender from Coal India to happen in this fiscal?

Dr. Nalin Shinghal: That is what we are targeting for. You see there were tenders earlier, but then the basic issue was technology which was from International OEMs. But now with BHEL's coal gasification technology suited for high-ash Indian coal, we have advantage over foreign OEM's technology. So, we are looking at the first opportunity being available in the current fiscal and thereafter the subsequent ramp-up.

Mohit Kumar: Understood, sir. Thank you and all the best, sir. Thank you.

Dr. Nalin Shinghal: Thank you.

Moderator: Thank you. We take our next question from the line of Amit Shah from Antique Stock Broking. Please go ahead.

Amit Shah: Yes, hi, sir. Thanks for the opportunity and congrats on a good set of numbers. Firstly, my question is on the order backlog side, you suggested we have an order backlog of INR 1 lakh-odd crores. Any slow-moving orders in the order backlog at this point of time?

Secondly, whether you would like to provide any guidance for FY '24 with regards to what is the kind of revenue execution that we are targeting and what kind of margins that we will be looking out for? And thirdly, you suggested that the receivables and the contract assets on the books are somewhere around about 567-odd days. So, what is the target that we have in mind at the end of FY '24? So, yes, these are three questions from my side. Thank you.

Dr. Nalin Shinghal: Thank you, Amit. I would first like to say that we don't give any revenue or profit guidance. So, I'm sorry, I can't give that. If we come to the hold projects in order backlog, we have almost INR 17,000 crores in Power Sector and another about INR 290 crore in the Industry Sector and INR 560 crore in the exports. So again, for receivable and the contract assets, I would not like to give any target figures as to where we would like to be. But we have a dedicated team, on the job with activity-wise targets.

Amit Shah: And so, rest of the order backlog that we have, barring these non-moving orders, when do we expect the execution or what is the execution timeline for this order?

Dr. Nalin Shinghal: So if you look at the orders what we have on hand at the moment, like Talcher which is a fresh order, we are looking at almost about four years for that. The Vande Bharat would be about 6 years plus from the starting date. If you look at the naval guns orders in hand, it is about five to six years of delivery time. If you look at the old orders, a lot of them are coming for closure. And as far as the contract assets part of old thermal order is concerned, those should start getting realized soon. So, we are expecting in FY '24 as well as FY '25, quite a good numbers on the contract asset being realized.

Amit Shah: And lastly, sir, in this particular quarter, has there been any provision write-back that we have done and even for FY '23, if you can suggest what is the amount of provision write-back?

Dr. Nalin Shinghal: For FY23, we have a creation of INR 1,371 crores and a withdrawal of INR 2,366 crores. This is as compared to INR 1,249 crores creation and INR 3,125 crores withdrawal in the last year.

Amit Shah: Thanks a lot, sir. That's it from my side. Thanks for answering all the questions.

Moderator: Thank you. We take the next question from the line of Atul Tiwari from Citi. Please go ahead.

Atul Tiwari: Yes, sir. Thanks a lot. In this 3,700 MW of thermal pipeline, which projects they will we be?

Dr. Nalin Shinghal: So essentially it is thermal-plus-hydro. In thermal it is Singareni 800-MW and hydro - Dibang 2,880 MW. Then there are other smaller R&M orders.

Atul Tiwari: So, 2,880 is Dibang hydro. Okay.

Dr. Nalin Shinghal: 2,880 MW is Dibang hydro.

Atul Tiwari: Okay. And so, this 6,000 MW for which the bidding is going on, which are these projects? We have some list of that?

Dr. Nalin Shinghal: Yes, sure. So projects which are under bidding are Neyveli TPS II – 2x660, Yamuna Nagar TPS 1x800, Talabira 3x800, and Adani Bandhaura 2x800 which is a BTG. On the FGD side, Korba, Udangudi, Wanakbori are there. Total almost 8,000 MW of FGDs in bidding process.

Atul Tiwari: Okay, sir. Thank you. Thanks a lot.

Dr. Nalin Shinghal: Thank you, Atul.

Moderator: Thank you. We'll take the next question from the line of Nikhil Abhyankar from ICICI Securities. Please go ahead.

Nikhil Abhyankar: Thank you, sir. Thanks for the opportunity. So, what is the value of -- you just mentioned of the Dibang order. So, what is the value of this order?

Dr. Nalin Shinghal: Dibang would be about INR 2,600 crores-plus which is E&M scope.

Nikhil Abhyankar: Understood. And I just wanted to ask, during, in our Talcher bid, if we compare it with Lara, our Talcher bid was somewhere around 65 million per MW, while the Lara was somewhere around 80 million per MW. So, what was the difference? Was there a huge difference in scope of the project and everything? Can you just explain on that?

Dr. Nalin Shinghal: There are some differences in the scope, and technology difference also accounted in it.

Nikhil Abhyankar: I'm sorry, I could not hear you in between. Can you please repeat?

Dr. Nalin Shinghal: There are some differences in the scope. I wouldn't be able to give exact details right now. Also - Lara is 2x800 MW and Talcher is 2x660 MW. So unit size also has a contribution to the price.

Nikhil Abhyankar: Understood. And so largely we have got only one competitor in the domestic market so for the project that we have in 24 coming out of it, so how do you see the competition?

Dr. Nalin Shinghal: You said yourself we have one competitor in this market. And we are going ahead quite aggressively

Nikhil Abhyankar: Okay. And sir, I did not get your…

Dr. Nalin Shinghal: We are making all efforts to win…. but not compromising on the profitability, that also we have to keep in mind.

Nikhil Abhyankar: Understood. So just a final question on, sorry, this number that I missed in the opening remarks, trade receivables and contract assets. Can you just give again?

Dr. Nalin Shinghal: So, trade receivables is INR6,544 crores and contract assets is INR29,740 crores.

Nikhil Abhyankar: Yes, yes, I got that sir. I just wanted some more clarity on the industry segment's opportunity in the, let's say, in the next two years.

Dr. Nalin Shinghal: In the industry segment?

Nikhil Abhyankar: Yes.

Dr. Nalin Shinghal: In defense we are looking at more orders for the SRGMs, that is upgraded SRGMs. So that is a major area going forward.

Dr. Nalin Shinghal: Of course, the MOD is focusing on indigenization in a very major way. So, we are looking, working with them for various projects and which we still have to understand what will actually materialise, a lot of effort is going in. Because, as far as indigenization is concerned, we are very well placed to handle that. So those would be the major ones. Then of course, railways is again an important one going forward.

Dr. Nalin Shinghal: CFBC and captive power plants is another area that we are looking to, which is expected to grow in the coming years.

Nikhil Abhyankar: Okay, sir. That is all from my side. Thank you.

Dr. Nalin Shinghal: Thank you, Nikhil.

Moderator: Thank you. We take the next question from the line of Rahul Modi from Nippon India Asset Management. Please go ahead.

Rahul Modi: Good evening, sir. Thank you. Sir, one question which I had was, how do you see over the next two to three years, the revenue breakup between thermal and non-thermal segments going forward? In terms of percentage, do you see the non-thermal part getting bigger? That is one. Yes. Then I'll come back to the second one.

Dr. Nalin Shinghal: So, you see, as I already mentioned, in the last year ordering, we had almost 40% from industry segment. Current year, with the large number of thermal orders coming in, you would again expect thermal to be leading. But going forward, you see that this is a phenomenon which we expect to be there for the next maybe three, four, five years on the thermal side. But our ultimate objective is that the non-thermal business has to be built-up. So, the target is 50%, and then we have to move beyond that. Long term, we have to be looking at non-thermal. I think that is something which we are very clear about. And that is why we have seen the sort of diversification that we have worked with.

And you see, again, hydro and nuclear will be there from the power sector perspective, these will be two very major areas for the future, given the net-zero and sustainability targets that we have set for ourselves. And further as I mentioned, we are also looking at the hydrogen value chain.

Rahul Modi: In the nuclear, way that you mentioned, you have signed a MOU with NPCIL. Now the next two, three projects which they are looking to develop, which they are doing in the JV with NTPC, so do you see that to be mostly on nomination basis for the reactors?

Dr. Nalin Shinghal: No, there is no such provision in the MOU that we have signed. you see, there has been a major issue on the nuclear side with regard to the time that the projects have been taking , it's been under development and it's a developmental area. So, the focus is on -- reducing the gestation period, getting those projects on track, because that is something which is essential for the growth of nuclear, the way we need it to grow. The focus is there, and then we'll move forward with our relationship to see where else we can expand on that relationship. Geographically, functionally, there's a lot of in terms of scope, there's a lot of things that we can do.

Rahul Modi: Right. Sir, in terms of defense, as you mentioned that we're looking to grow bigger in terms of our pie, so any global technology tie-ups that you're looking at which will help us give that boost in the medium term?

Renuka Gera: We already have one technology tie-up with the Leonardo System, which is one of the leading players in the international arena in the naval guns, and for other areas also we are trying to tie-up with them. Then indigenous - since the major impetus from the government is on indigenization of the technologies, so I think we are focusing -- putting our main focus on indigenizing the components. Already government is coming out with many positive lists for indigenization. We are trying to attempt. And also, I think going forward, we'll be looking at the tie-ups, which we will not be able to discuss now.

Dr. Nalin Shinghal: That was Director IS -- Ms. Gera giving the answer.

Jai Prakash Srivastava But for opportunities which are coming, BHEL is sure to participate in this with partnership under discussions. Like air defense guns…

Dr. Nalin Shinghal: So, at the moment we cannot really give you any names, but there are a number of discussions which are on for partnerships. And we are also, in some areas, looking at our own development. So, both things are in progress.

Rahul Modi: Right, sir. Perfect. Thank you so much.

Dr. Nalin Shinghal: Thank you. Thank you, Rahul.

Moderator: Thank you. We'll take our next question from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia: Hi, sir. Thanks for the opportunity. I have a few questions on power side. So, contract assets you said you expect to reduce for fiscal '24, fiscal '25. I wanted to understand which plants are these. And currently as we speak on 31st March, the breakup between central, state, private for that at the total receivable level, contract asset-plus trade receivables?

Dr. Nalin Shinghal: So, if you look at the total debtors breakup between central and state and private on 31st March, its 39% central, 41% state, 14% private and 6% international customers. Sorry, what was the second part of your question?

Girish Achhipalia: Which are the plants would you expect to see a reduction on contract assets on based on the execution profile that you have for the next two years?

Dr. Nalin Shinghal: So, you see, one of the very major ones has been, Patratu has been a very major one where our contract assets, that's in fact a plant which has very adverse payment terms so that's where we are going to get a major chunk coming in. Then North Karanpura, Telangana, Bhusawal, Khurja, these are the major plants that we are looking at. And of course, Yadadri, which is the biggest thermal -- it's a 5x800, so it's our biggest project. So, these are all coming on line in the next couple of years.

Girish Achhipalia: In terms of provisions that you have made for revenue, which is already recognized and receivable sitting, like, what is the provision for doubtful debts at this stage and how much was booked in 31st March 2023, this year ending? New provisions I meant.

Dr. Nalin Shinghal: Provision creation I have already given a figure of INR1,371 crores and there has been a write-off of INR148 crores.

Girish Achhipalia: Okay. And these are provisions of all kinds, right? Not only towards receivables. These would be towards liquid damages and other things as well.

Dr. Nalin Shinghal: Yes, yes, this is complete.

Girish Achhipalia: Okay. Sir, you mentioned that there are slow-moving orders worth INR17,000 crores. Just wanted to understand which are these plants and what is the discussion right now with the -- about what is the status here?

Dr. Nalin Shinghal: So if you look at the projects on hold, we are looking, for example, so one major project, the biggest one which is on hold at the moment, you see, the Uppur -- the Tangedco, Uppur, which is the 2x800, where there was an NGT order which is then stayed by the Supreme Court and discussions are still on as to what is going to happen. Then Ramgarh Stage 4, there we are looking at revival, the discussions are on. So, if we look at -- so then if you are looking at the hydro side, we have the Palamuru Rangareddy project, which is where we are expecting the hold to be lifted towards the end of this current year. That is -- there are four different packages in that. So, all of them we are expecting to be lifted. That's almost 2,000 megawatts.

Girish Achhipalia: And then these 9 gigawatts which you expect to probably be ordered out in FY ‘26? Give us some color on…

Dr. Nalin Shinghal: Sorry, just to complete that, Raghunathpur, the revival is already completed. Please go on.

Girish Achhipalia: So, I was just asking this 9 gigawatt that you said that you expect to get ordered out in FY ‘26, can you provide us some details around what these plants are and when do you expect the tenders to come out?

Dr. Nalin Shinghal: Okay, so I have already mentioned about the ones where the bidding is in progress. If you are looking at the ones which are the forthcoming tenders, we are looking at Singrauli, NTPC Singrauli 2x800, MSPGCL Koradi, 2x660, GSECL Ukai 1x800, DVC Koderma 2x800, MPPGCL Satpura, 1x660, DVC Durgapur 1x800, NTPC Darlipali second stage 1x800, APGENCO Vijayawada FGD, 1x800, Santaldih FGD, 2x250. So, these are -- but these are where, the dates are given for the current year, but then we have seen in the past that those dates are not so sacrosanct unfortunately.

Girish Achhipalia: Fair enough. Now, sir, in terms of just trying to understand Patratu, the things were very different in terms of payment terms. How is the new tender payment terms looking like for you? And just a qualitative assessment, when you are bidding, sorry, executing the project which is 800 unit versus a 660 unit, what is the typical completion time frame? Is it like 48 months for both or 60 months for one and 48 for the other?

Dr. Nalin Shinghal: So, as far as the payment condition terms are concerned, after Patratu, they have reverted to the normal payment terms. For the execution timelines, we are looking at almost 48 months to 52 months for both, for the 660 as well as the 800.

Girish Achhipalia: And can you just remind us what are the normal payment terms, right? I mean, if you can just give any ballpark example for like how does it really play through in terms of execution versus cash flows?

Dr. Nalin Shinghal: So normal payment term would be about 10% advance, then between 50% to 60% on the supply dispatch, another 20% on the material receipt certificate being issued and milestone based about 10% to 20%.

Girish Achhipalia: And sir, the last question was on industrial part of the business. So, we've done a lot of areas that we're working on. I wanted to understand defense, like what's the opportunity here in terms of pipeline for the next one to two years? What are the bids that you would be interested in and if you're favorably placed in any of them?

Dr. Nalin Shinghal: Ms. Gera Director, Industry will give you the answer.

Renuka Gera: So, we are mainly going to focus on the guns, a business which we have been doing for almost three decades for Indian Navy. So, we already received a major order in the year ‘22-‘23. Going forward in ‘23-‘24 also, we see almost 20 more guns materializing, which will give us a business equivalent of INR3,500 crores to INR4,000 crores.

Apart from that, we are trying to address opportunities for air defense guns, which is already RFP is out. Then we are trying to enter into other areas, which I already said earlier, for indigenization. In many indigenization efforts, for example, marine gas turbines, etcetera. So, I think we are trying our best to get into even the tanks, the overall business of tanks for that matter.

J P Srivastava : Electric propulsion.

Renuka Gera: Electric propulsion, we already have a tie up. So as soon as we get a chance, we'll be putting our bid for that. I hope I have answered your query.

Girish Achhipalia: Yes. So just last bit on Vande Bharat. When does the execution start? And I think how would you be accounting for this project? Would it be like a JV, or would you be accounting? I mean, would we be accounting like a normal thing, but only your share of the business? And when does the execution revenue?

Renuka Gera: Yes. It is a JV consortium. Not a JV. It's a JV consortium.

Dr. Nalin Shinghal: It's a consortium. It's not a JV. It's a consortium based on which we are going. And the first train is to be supplied in 24 months.

Renuka Gera: And the second prototype in 26 months.

Girish Achhipalia: Okay. So, this year -- yes. So, can you break us a contract in terms of how much is a service portion? I believe you guys are 50% on the supply side and service side. Is it similar or is it different in terms of economic interest?

Dr. Nalin Shinghal: Slightly higher on the services side. It's almost equal on the supply and slightly higher on the services side.

Girish Achhipalia: And so, revenue recognition will start only in FY '26, not so much in FY '24 and FY '25, is that the way?

Dr. Nalin Shinghal: That's right. Yes, that's right.

Girish Achhipalia: Okay. Perfect, sir. Thank you so much.

Dr. Nalin Shinghal: Thank you. Thank you, Girish.

Moderator: Thank you. We'll take our next question from the line of Dhruv Muchhal from HDFC AMC. Please go ahead.

Dhruv Muchhal: Yes, sir. Thank you so much. In the opening remarks you mentioned about flexibilization of coal. You have done some pilots and they have been successful. If you can probably give some more details, what have we achieved here in terms of, say, probably, I mean, can we go now to 40% PLF in terms of coal? How is the ramp-up, ramp-down, parameters changed? And also, some sense on if, for example, a typical coal plant, a 1,000-megawatt coal plant has to go for your package, what would be the approximate cost to change the setup?

Dr. Nalin Shinghal: So, if you are looking at the ramp-up and the ramp-down, you see, up to 50 to 55%... technical parameter given is 2-3% up to 55% capacity. And after that 1% up to 40%. So, this is something we have already demonstrated. And if you're looking at the cost, you see, per set, the cost per set is roughly in the range of about INR3 crores per set, for that. INR3 crores, per unit.

Dhruv Muchhal: So typically, a 600-megawatt unit or any kind of unit, any size unit?

Dr. Nalin Shinghal: Yes, up to 600 MW...

Dhruv Muchhal: Okay. Yes. Sure, sir. And so, the second thing is, in the power sector right now, we are seeing some tightness in terms of supply. The government is also probably encouraging a few new plants. I'm just wondering, is there also a revival in the old plants, I mean, the old under construction assets that probably are half constructed or not seeing some success. We're not seeing some success and now seeing probably marginal incremental revival because, there is incremental more money to be made in the thermal sector, it seems right now. I'm just wondering, is there some incremental or marginal interest that you're seeing? Probably, some early signs? To revive some of these plants which were probably not getting completed?

Dr. Nalin Shinghal: If you are talking of projects under arbitration and hold, yes, there is an effort in some of these areas to get those units functioning. That process is on. But if you look at the big ones, like, of course, for example, Raghunathpur has already come back. And if you're looking at, but then the other example, of course, is Uppur, which is the biggest one, which is still not seeing the light of the day, which we're, despite so much money having gone in, it's still stuck. So, it's happening both ways.

Dhruv Muchhal: But nothing meaningful, which is changing in terms of the…

Dr. Nalin Shinghal: No, I wouldn't say that. You see, things have started moving because there was some for Raghunathpur, there was no movement for years now this movement has happened, others also we are seeing movement. So . I would say movement is certainly there.

Dhruv Muchhal: And also, sir, there's a lot of focus on pumped hydro now, the government has come out with large targets. I'm just wondering what is our opportunity size here? And I mean, do we have a play here, sir? And are you seeing some initial talks with some of the players who are probably trying to enter the segment?

Dr. Nalin Shinghal: So, we are looking at that area. And we have been in discussions and a number of discussions are on, but as yet, we are not in a position to report any success in that.

Dhruv Muchhal: But the tech that you supply for hydro in terms of the turbines and others will be similar that would be in pumped hydro because I believe it's just a reversible pump that you have to or it's very different?

Dr. Nalin Shinghal: Yes, you are right in that.

Jai Prakash Srivastava: We are working on it.

Dr. Nalin Shinghal: That's right.

Dhruv Muchhal: So, the opportunity remains for us, how it evolves, we will have to see.

Dr. Nalin Shinghal: So, we are in a number of discussions, as I already said. This is going forward we are looking at this, you see, because storage is a very major area when you are looking at renewable integration with the grid. Storage becomes a very important area. And pumped storage certainly has a very distinct advantage there. So, if we have already had hydro turbines, we have been supplying reversible turbines which are going in for pumped storage sort of systems. That's a major area going ahead.

Dhruv Muchhal: And sir, this last thing on contract assets, you mentioned the contract assets are large only primarily for the old orders. So, most of these plans that you mentioned, probably North Karanpura, Telangana, Yadadri, all these will probably be commissioned, say in FY '25-FY '26 last, probably Patratu will go for '26 -'27. They would be commissioned. So how should we look at the absolute amount of contract assets then? I mean, should we see a meaningful, meaningful reduction from this INR26,000 crores-NR29,000-odd crores?

Because I also understand there will be new orders. So, there will be some, I mean, something will go, something will come. So, I'm just trying to understand, where would this settle once, assuming, hypothetically assuming all these four, five orders are executed. Where would this contract asset settle at then? Approximate some broad range.

Dr. Nalin Shinghal: So, you see, Patratu, we are expecting, we are targeting '24 -'25 for the complete commissioning Karanpura again, within the next year is getting commissioned. Unit 1 is already commissioned. Unit 2 is going to get commissioned in this year and Unit 3 early in the next year. And so, most of these Power plants are in very advanced stages.

Dhruv Muchhal: So that's the point. So how does the contract asset settle then? I mean, where does the number settle?

Dr. Nalin Shinghal: I'm not able to give a specific number at this stage. But I think that will make a fairly significant dent in this number.

Dhruv Muchhal: Can we show more than half reduction? I mean, to just have a…

Dr. Nalin Shinghal: I wouldn't like to give any guidance on that. Sorry for that.

Dhruv Muchhal: Sure, sir. Thank you. Thank you so much.

Dr. Nalin Shinghal: Thank you, Dhruv. Thank you.

Moderator: Thank you. We take the next question from the line of Rahul Modi from Nippon India Asset Management. Please go ahead.

Rahul Modi: Thank you once again. So, one question which I had was, is there some directional thoughts on the BHEL's role in the green hydrogen system, which you mentioned that you would evaluate and foray into? So which part of the ecosystem do you want to be there and what can be the possible sizing if green hydrogen becomes viable and there in the system?

Dr. Nalin Shinghal: So, you see, we are looking at two major elements. One is the electrolyzer. And second is the storage. You know, the category-IV cylinders which are required for the hydrogen storage. These are two very major ones. Then in addition to that, there are requirements in the railways for fuel cell-based trains and for the smaller trains and things like that. So those are the other areas we are exploring.

Rahul Modi: Sure. And when do you see some kind of directional movement towards starting work on this?

Dr. Nalin Shinghal: So, we have recently signed an MOU with IGL also, which starts with the cylinders. So that's an area where we expect, we are still in the planning stage, but I think that's an area we would look to stay ahead because that's a very fast-moving area. Hydrogen, world over, is a very fast-moving area and we understand that, and we are working accordingly to stay ahead in this area.

Rahul Modi: Sure, sir. Thank you. And all the best.

Dr. Nalin Shinghal: Thank you. Thank you, Rahul. Thanks once again.

Moderator: Thank you. We take the next question from the line of Subhadip Mitra from Nuvama. Please go ahead.

Subhadip Mitra: Good evening and thank you for the opportunity. Sir, my question was with regard to your raw material cost as a percentage of sales. Where do you see that settling down at a normalized level?

Dr. Nalin Shinghal: You know, as you are already aware, we have gone up substantially. We are today at almost 72% as material costs as a percentage of sales, which has two elements to it. One is the escalation which has happened in the commodity rates and the other is the competitiveness of the rates at which the order has been procured,.

So going forward, you see this, when we are in our new bid, the revised commodity rates have been taken in and we are working to make sure that whatever we get can be done profitably. So, a lot of initiatives, we've mentioned that earlier about our cost optimization group, our procurement side, re-engineering certain things to bring down our cost.

So that's a very major initiative and I expect that in the coming year, these initiatives will kick in along with the, as the new orders come into play, these initiatives will also support us. So, I think that's going to be, both those things will come together to help us.

Subhadip Mitra: So, can one generally, estimate that maybe that number from a 72% odd can come down to probably somewhere around 65%-67%? Would that be a -- one can think about?

Dr. Nalin Shinghal: Those would all be guesses, so it's no point, giving, doing guesswork, but you know, 65 is almost where we started from and our objective would be to come back or to exceed, but then that's again a guess, what we can actually do. So, there's a lot of effort on, on these fronts.

Subhadip Mitra: Understood, understood. And secondly, on similar lines, is there like, I mean, since now you are bidding and there are large orders on the anvil, which, as they come on stream in terms of revenues would lead to operating leverage, would you hazard a guess or a target as to where would you see your normalized EBITDA margins going to? Is there some target number in mind?

Dr. Nalin Shinghal: No, again, you see, sorry, you know, we don't give any guidance on that front. I'm sorry for that.

Subhadip Mitra: Understood. Lastly, when we look at the CEA's draft NEP and the kind of thermal plans of additions that are talked about over there, I believe the number is anywhere between 17 to 20 gigawatts. Now, as you know, some of the numbers we've already talked about, but those in totality, which would still probably be somewhere around maybe 12 or 13 gigawatts, if I'm not mistaken.

So, the rest of those projects which are probably being planned off, are those a little remote in terms of are they still on the drawing board or do you feel that a lot of acceleration can happen in terms of ordering for those rest of the projects?

Dr. Nalin Shinghal: You see, just today we have seen the Chief Economic Advisor talking on the urgency to bring in generation capacity. And , Ministry of Power has taken a lot of steps on that. So, I think this is something which is going to speed up only. It cannot slow down. It is going to speed up, that imperative of, the economic growth targets will make sure that this has to speed up.

Subhadip Mitra: Understood. Thank you so much to answer.

Moderator: Thank you. We'll take the next question from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Sir, thank you for taking my questions. So, my first question is aligned with what Dhruv had also asked. So, for the last two years, we've been seeing that our provision write back is more than the provision that we are making. And historically, if you look at the last 10 years before that, as the top line grows, we make more provisions.

How should we look at this number going forward as your top line grows? Is it fair to assume that we'll be making more provision than we'll be writing back or is that going to be different? That would be my question number one.

Dr. Nalin Shinghal: You see, this is a recent phenomenon because we've actually worked with a very focused, teams which are working on provision clearance and a lot of cases, punch points, a lot of deliverables which were pending as well as settlements, various ways to achieve commercial settlements. A lot of effort has gone into that.

So, I think in the next few years, that effort should taper off, along with that, we are looking at much greater operational focus, ensuring the, project delivery in time. So, I think ultimately, our objective as a commercial organization has to be that there would be no net creation of provisions. I mean, that's the way we have to go for.

Pulkit Patni: Okay. So, let me say that should we assume more writebacks? Even I understand what you mean, but is there more scope of writeback in the future in the near term based on all provisions that you have?

Dr. Nalin Shinghal: There is still work to be done. As I mentioned, we have dedicated teams working on this very area, to understand, where we can get back the amounts that we have provisioned. You see, the provision creation is done as per the policies already there. So that job is done. But then we have to ensure that wherever possible, we can get that money back. That effort is still on, and it will continue for at least the next few years. I think I would expect that to continue.

Pulkit Patni: Understood, sir. So, my second question is, as I look at our employee costs, again, for a decade, we've been in the same range. But now as we are looking at diversifying, wanting to do more in railways, in other segments, how should we look at this number in terms of capability building? and parallelly, is there a capex number that you want to guide for, for the same capability building in segments other than power?

Dr. Nalin Shinghal: So, you see, what's happened is that the employee cost, while the cost itself had been going up, but at the same time, we have had a huge attrition in terms of natural attrition, retirement. So even the last year, we had almost a thousand plus.

And you see, the recruitment was done at a stage where we were targeting some very major growth in thermal, they were huge forecasts for the sort of way the thermal was going to go and accordingly where we would be going. So that was one trend. But as you rightfully said, going forward, we are changing, we are going towards new technology areas, we are looking at scaling. So, I would say that the objective has to be to improve our turnover per employee.

And with that, we should be able to retain or even reduce the cost. Our recruitments are, we are at the very minimum that we require, some lateral induction will be there, but at the bottom level, ET, that sort of recruitment will be there. Focus will be on re-skilling. That's a very major area because all our people have to contribute and as the industry changes, that becomes a very important area for us.

When you talked of the capital part of it, we are identifying across the company, we are taking up the initiative to look at where we need machines to be replaced, old machines, where performance has gone down, tolerances have gone down, but which are required for the future. So accordingly, a capex strategy is being put into place. So that is one part of it.

The second part of the capex is when we are looking at these JVs, when we are looking at as we mentioned about the coal gasification, that sort of capex is the second part that we will have to be doing. if you look at, for example, defense, if you are looking at , the upgraded SRGM, we already have a major capex in progress there, which has to deal with the new sort of technologies that we are going to have to do there.

Pulkit Patni: Any capex numbers that you would want to guide on?

Dr. Nalin Shinghal: No, I wouldn't be giving any numbers at this stage.

Pulkit Patni: Thank you Sir, that's it from my side

Dr. Nalin Shinghal: Thank you Pulkit

Moderator: Thank you. We take the next question from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia: Yes, sir. Thanks for the opportunity. Sir, on industrial orders for fiscal 24, which segments are you looking at from a new order perspective? You closed this year at I think close to INR9,500 crores. So, in FY24, is there any specific segments you expect the bids to get concluded?

Dr. Nalin Shinghal: Director, IS has already mentioned, you know, that the guns, for example, that's the one major chunk that is specifically being looked at for the current year.

Renuka Gera: We have started, kick-started this year with Vande Bharat order.

Renuka Gera: Vande Bharat, of course, is the major one which has already come.

Renuka Gera: More than 15,000 crores for us. *(Including taxes)*

Girish Achhipalia: And then if I directionally look at industrial margins at a segment level versus power, industrial margins obviously have been lower. I wanted to understand, is there, you know, how is the mix likely to impact these margins going forward, given the different sectors that you are targeting within industrials? Qualitatively, you know, would it be right to assume a lower margin next year as you ramp up some of these initiatives? Or qualitatively, would you say that some of the new orders that have come through are actually higher margin? I'm not referring to Vande Bharat alone. I'm just referring to the entire thing. How the mix would play out in FY24-25 on margins versus FY23 for industrial margins?

Dr. Nalin Shinghal: So, if you look at, you know, FY23, the power sector, the margin was 8% while industry sector was 9%. So, industry sector actually has been higher. We actually have to see as we go ahead, you know, depending on what sort of competition is there in each of the segments that we are working on.– and how effectively, you know, the cost cutting that we are looking at, both these things will come together to determine the terms of margins. But we are certainly looking at higher margins in the coming year than we have had in the recent two years.

Girish Achhipalia: So just a clarification, amongst the different set of orders that you have are bidding in industrial, what kind of subcontracting are you looking at? Are there any specific orders that you would definitely subcontract and take help from the private sector vendors? Or is it going to be all in-house? Can you help us some qualitative comments around how much of it is in-house, which type of contracts, like guns and all you've been doing for long? But other than guns, you know, the other areas that you are looking at, and maybe some of the upcoming like coal gasification is also in-house technology. So, I wanted to understand the element of subcontracting that can come through going forward in the industrial part.

Dr. Nalin Shinghal: You see, we always have to do a lot of procurement from vendors. That will continue to happen. And we have a laid down policy for buy versus make decision. Whatever we can make ourselves and is financially viable in the commercial interest of the company, we will make ourselves. And anything which is where we can buy it cheaper or faster to meet the customer requirement, we'll do that. I think that's the broad parameter within which we function. Going forward, I think we should stay at almost the same sort of thing with, of course, Make in India.

You see, as even as you go into Make in India now, there are a lot of MSMEs which do a lot of work for us. So, our subcontracting ecosystem, we have a very, very major subcontracting ecosystem. And we have to leverage both of them. I mean, there are jobs, if we do them in-house, we'll be totally economically unviable. So those things will have to be outsourced, will have to be done through our partners, through MSMEs.

Renuka Gera: Particularly the services, the civil works, the erection & commissioning.

Dr. Nalin Shinghal: Civil works, project sites, that all will continue to get outsourced.

Girish Achhipalia: My last question was on your hesitance to give guidance for revenues. Now I understand during COVID it was impossible. And even last year, you didn't. But what's stopping you back now for fiscal 24? Like, is there a specific reason that you don't want to give a guidance? Just wanted to understand that.

Dr. Nalin Shinghal: I think, you know, actually it's not a reluctance in that sense. You need to understand basically that a lot of that becomes speculative. So, I would be giving you something which is hard fact, which is on paper. And I would certainly not like to give something which can become speculative because then what I say and what happens could differ significantly, you know, that. So as a company, that's a policy decision that we have taken that we will not give revenue guidance.

Girish Achhipalia: Earlier we were having these MOUs, right, with the ministry. Is that a practice which is already stopped by the ministry also?

Dr. Nalin Shinghal: No, that continues. That is done every year.

Girish Achhipalia: So, we could say that number, right? Because that would be anyways that you would have committed to the government.

Dr. Nalin Shinghal: That is actually not yet signed. And also, you see that figure is a figure which is worked on a standard methodology.

Girish Achhipalia: This is based on execution across contracts, right? So, I just wanted to understand if you have, you know, anyways, MOU with the government, we could use that number to at least know what direction we are heading.

Dr. Nalin Shinghal: You know, the MOU with the government, yes, certainly we can give you that number. But you can also make that number out yourself because we know that it's parameterized. So, it's a certain percentage of your highest ever revenue or your highest ever figure. There is a parameter to that, you know. So, you can actually get the policy circular and get those figures, work out the figures yourself even if we don't give those to you.

Girish Achhipalia: Absolutely. That's why I wanted to understand why you would not give. Okay. Anyways, I'll take it offline.

Dr. Nalin Shinghal: So, you know, the point really is that while you can take those parameters and say this is the target you have, but then if we commit something, that's a different situation. That's really what it's all about.

Girish Achhipalia: Okay. Thank you. Thank you.

Dr. Nalin Shinghal: Thank you, Girish.

Moderator: Thank you. We'll take the next question from the line of Abhineet Anand from MK Global Financial Services. Please go ahead.

Abhineet Anand: Yes, I just wanted to know whether this Raghunathpur has, you know, been added in your order or because you said that this slow-moving order has already been revised. So has it come back in our order or is it still there?

Dr. Nalin Shinghal: No, it was already there. So, it was an on hold project, which is now a live project.

Abhineet Anand: So, your 17,000 crores of power, slow moving doesn't include that, right?

Dr. Nalin Shinghal: No, that doesn't include it.

Abhineet Anand: Okay. Second is that in case of Uppur, which is another long one, how does, let's assume when it's, when, you know, the customer, this project, let's assume goes live sometime in future, how does the contract that you said with the customer negotiate again or how is it, how does it work?.

Dr. Nalin Shinghal: So, we will need to renegotiate. So, once it comes, if it comes to that stage, because, you know, the cost would have changed, a lot of parameters would have changed. So that the renegotiation would certainly be required.

Abhineet Anand: So, what happened in Raghunathpur, can you let us know? Because that is some example which has reverted back, right?

Dr. Nalin Shinghal: So yes, Raghunathpur got revived as per the contract terms. There were some bits built in there which we were able to use, and we get it revived. That revival has already happened.

Abhineet Anand: So, I just wanted to know, is it that the earlier price or is it an increased price and if it is an increase, what, I mean, what is that some, any flavor on that?

Dr. Nalin Shinghal: No, it is as per the contractual provisions. So, there are already some escalation factors based on the contract and accordingly it has been done.

Abhineet Anand: Okay. And lastly, this tax refund of 266, that's for the quarter?

Dr. Nalin Shinghal: No, that is for the year. In the quarter we haven't had any refunds.

Abhineet Anand: But where does that reside? In the tax part only or other income?

Dr. Nalin Shinghal: So out of the 266, 106 is the interest which is part of the other income and 160 goes into the tax reversal.

Abhineet Anand: Okay. Thank you. That was my question.

Dr. Nalin Shinghal: Thank you, Abhineet.

Moderator: Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. I would now like to hand the conference over to Mr. Dhirendra Tiwari from Antique Stock Broking for closing comments. Over to you, sir.

Dhirendra Tiwari: Thank you very much. On behalf of Antique, I thank Dr. Shinghal and the management team of BHEL and for giving us the opportunity to host the call. Thank you very much. I also thank all the participants for participating in the call. Before I close, may I request Dr. Shinghal to give any closing remarks?

Dr. Nalin Shinghal: Thank you, Mr. Tiwari. And thank you, ladies and gentlemen, for your patient hearing and an interactive question and answer session. And thank you very much for your interest in BHEL. Goodbye. Thank you.

Dhirendra Tiwari: Thank you, sir. Thank you very much. Now we can close the call.

Moderator: Thank you very much. So, ladies and gentlemen, on behalf of Antique Stock Broking, that concludes today's call. This concludes this conference. Thank you for joining with us. You may now disconnect your lines. Thank you.