"Bharat Heavy Electricals Limited Q1 FY20 Earnings Conference Call"

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BHEL REPRESENTATIVES: **DR. NALIN SHINGHAL – CMD**
MR. D. BANDYOPADHYAY – DIRECTOR, HR
MR. SUBODH GUPTA – DIRECTOR FINANCE
MR. MANOJ VARMA – DIRECTOR, POWER
MR. S. BALAKRISHNAN – DIRECTOR, INDUSTRIAL SYSTEMS & PRODUCTS
MR. KAMALESH DAS – DIRECTOR ENG. AND R&D

MODERATOR: **MS. RENU BAID – IIFL SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the BHEL Q1 FY20 Earnings Conference Call hosted by IIFL Capital Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Renu Baid from IIFL. Thank you and over to you mam.

Renu Baid: Thank you Zaid. Good evening everyone. On behalf of IIFL, I would like to welcome you to the 1Q FY20 earnings call of BHEL. Today, we have with us from the management; Dr. Nalin Shinghal, CMD, Mr. Subodh Gupta, Director Finance and the entire team of BHEL. Just a brief introduction about Dr. Shinghal; he has recently joined as CMD of BHEL and prior to BHEL, he has a rich and diverse experience of working in private sector, public sector as well as with government organizations like Indian railways, Container Corporation, IRCTC and Central Electronics. He is a BTech electrical engineering from IIT Delhi and PGDBM from IIM Calcutta. He has been a Common Wealth scholar and a PhD in Transport Economics from University of Leeds, UK. In his prior stint, he has been turnaround specialist turning a loss making company into profit making company for almost 6 years. Without taking much time, I would now hand over the call to Mr. Shinghal for his opening remarks. Thereafter, we can continue the Q&A. Over to you, Dr. Shinghal.

Nalin Shinghal: Thank you, Ms. Baid. Good afternoon friends. I am Nalin Shinghal - CMD, BHEL and I have with me Shri. D. Bandyopadhyay - Director, HR; Shri. Subodh Gupta - Director Finance; Shri. S. Balakrishnan - Director, Industrial Systems & Products; Shri. Manoj Varma - Director Power and Shri. Kamalesh Das - Director Engineering and Research & Development. A very warm welcome to all of you.

Dear friends, after achieving universal household electrification, the government is targeting 24/7 electricity supply. As a result, initial signs of demand growth are visible. During Q1 FY20 itself, demand for electricity has grown at a rate of 7% against 5% in Q1 FY19 as per CEA. We are hopeful of seeing the beginning of a new growth cycle in the power sector due to improvement in demand, fuel availability and efforts for improved financial health of discoms. For achieving the vision of India becoming $5 trillion economy by 2025, continuous and dependable power to industry is an imperative. Coal-based generation will certainly be required to be ramped up to balance the intermittency of generation from renewables. We therefore believe that new ordering for coal-based power plants should shortly pickup. The union budget has increased CAPEX allocation for railways, defence, renewables as well as urban infrastructure to double digits. Given that some of these are our focus areas of growth in our nonpower business, this is very encouraging for us.

Coming to events specific to BHEL, as you may be aware, BHEL along with NTPC and IGCAR is developing the Advanced Ultra Super Critical technology, AUSC for the new generation high efficiency and low emission thermal power plant. Towards operationalizing the technology, BHEL and NTPC have signed an MOU for forming a JV company to set up 1 x 800 megawatt technology demonstration power plant based on AUSC technology at NTPC Sipat, Chhattisgarh which will be installed by BHEL. The AUSC plant is designed to be the most efficient power plant in the world resulting in 20% lower CO2 emissions. The plant shall create market readiness for future fleet of coal-based power plants in India. BHEL and CONCOR have signed an agreement for jointly setting up rail-based logistics terminal at Haridwar. In addition to meeting BHEL's own requirements, the terminal will also cater to the large number of industries located in the neighbouring SIIDCUL as well as other industrial clusters in the vicinity of the terminal.

BHEL is proud to contribute to India's space mission by supplying propellant tanks, batteries and solar panels to ISRO for the prestigious Chandrayaan 2 projects powering both the orbiter and the lander. Similar supplies have been made earlier for missions like Chandrayaan 1 and Mangalyaan. BHEL has been supplying lithium-ion batteries to ISRO for almost two decades. In fact, all Indian satellites have used BHEL-assembled batteries. As a backward integration, BHEL has now established a facility at Bangalore for manufacturing space grade lithium-ion cells based on ISRO technology. With this, BHEL would be meeting indigenously the lithium-ion cell requirements of batteries for large vehicles and satellites of ISRO. Besides space applications, this technology has potential for meeting defence requirements like naval ships, aircraft, missiles, torpedoes and combat vehicles.

During Q1 FY20, we booked orders worth 3892 crores, out of which power segment is 1913 cores and industry is 1976 crores. Industry sector has shown an increase of about 25% compared to Q1 FY19. Some of the significant orders received in this quarter are FGD package order 3 x 660 megawatt Nabinagar STPP from Nabinagar Power Generation Company Limited in Bihar. Another FGD package order for 4 x 250 megawatt Nabinagar TPS from Bharatiya Rail Bijilee Company in Bihar. Primary side and secondary side election packages for 2 x 1000 megawatt Kudankulam Nuclear Power Plant, 25 WAG-7 electric locos with regenerative braking and multiple orders for solar PV power plants amounting to 360 megawatts.

Additionally, we are favourably placed in many tenders including 2 x 660 megawatt NTPC Talcher, 1 x 800 megawatt SCCL Adilabad, numerous FGD and boiler modification order from NTPC and at JV and spares for many projects, etc. With this, the total order book as on 30th June 2019, stands at 1,07,806 crores out of which the power sector is 85,789 crores and industry sector 11,959 crores and 10,058 crores is from exports.

Coming to the financial performance, the company has registered a turnover of 4410 crores during Q1 of the current financial year. PBT and PAT for the quarter stand at Rs. 344 crores loss and PAT minus 216 crores respectively. Some of the factors that have impacted the turnover in this quarter are some projects where dispatches have been delayed due to reason such as land constraints at some sites and local unrest at one site. In a few cases, dispatches could not be made due to delay in customer clearances. The company is putting greater focus on execution of projects where arresting delays will yield faster realization of cash. In addition, delay realization of orders where we were L1 for long is also contributing factor.

In respect of debtors, there is an increase of 30% in cash collection during this quarter vis-a-vis Q1 FY19. Collectable trade receivables have come down by about 5% to 15,188 crores during the first quarter. Thank you all once again for joining this conference call. We will now take the questions. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. First question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir, while you spoke about some of the issues that have impacted execution, sir I just want to understand a little better because we did see our executable order backlog going up quite sharply after Telangana orders had received approvals, but since then we haven't really seen that translating into revenue, so it is not a matter only of this quarter, but in last 3 or 4 quarters, revenue growth has been fairly muted and then in this particular quarter, we have seen revenue decline. Sir what exactly are the stumbling blocks and how do you see that getting addressed over the next few quarters?

Manoj Varma: In fact, the execution of power projects in some of the sites at Telangana and TANGEDCO have been affected due to certain clearances of land which were in the process and besides that certain clearances of dispatches also have affected, in fact the topline of the plant turnover during this quarter and certain clearances and acceptance of material regarding their acceptance by the consultants have also contributed to the factor. So, this we are taking care right now in the quarter 2 and I hope these things will now come back to the normalcy in second quarter.

Aditya Bhartia: And when we speak about normalcy, what kind of growth are we anticipating, may be if you could give some guidance about how you are seeing it panning out over the course of the year?

Manoj Varma: No, we cannot forecast right now, but we hope to improve and come back to the targeted figures which we are predicting for the quarter 2.

Aditya Bhartia: My next question is on capital employed which appears to have risen both in power as well as industry segments, how exactly have we seen debtor numbers going up because you indicated that collectable receivables have come down and also if you could share cash balance and debt balance as on June 30th that would be helpful?

Subodh Gupta: Actually if you look at the segment assets power sector, the increase is mainly because of inventory increase as turnover has not happened, but if you look at the production level, the production was to the tune of 5000 crores. So, the turnover could not happen due to customer clearances and the results has already told by CMD, so ultimately that inventory built up is already there with us, so that will happen in the subsequent quarter. That is one of the major reasons for increased capital employed.

Aditya Bhartia: And if you could share the numbers relating to debtor's cash balance and debt balance?

Subodh Gupta: Yes, the collectable trade receivables have come down as it was 15,945 crores at the year beginning and it is at the level of 15,188 crores almost with a reduction of 5%. Last year if you look at the collectable number, but debtor increased was to the tune of almost when we had done a turnover of 5700 crore last quarter, the turnover of the debtor was 2385 crores, so the increase was 7% last year in Q1 18-19. Now this time, there is a reduction in debtor in Q1 19-20 because of two reasons, first there is an improvement in cash collections by 31% as compared to the quarter 1 of 18-19 and secondly, the turnover has also not happened. Because of that some impact is there on debtor.

Aditya Bhartia: And what is the component of deferred debtors?

Subodh Gupta: Component of deferred debtors, contract assets you can take it around 22,662 as on 30th June.

Moderator: Thank you. Next question is from the line of Abhishek Puri from Axis Capital. Please go ahead.

Abhishek Puri: Sir, two questions, one if you can elaborate a bit on the unbilled revenues part which you said 22,000 cores and so total debtors outstanding including the collectable plus unbilled is about 38,000 crores, is that number correct?

Subodh Gupta: The total debtors are around 37,851. Basically, from last year onwards we have classified the debtors into two categories, one is trade receivables which is due for collection from customers which has come down to the level of 15,188 down by 5% as compared to the opening balance. Second is contract assets what we now call is contract assets as per new IndAS 115 which is 22,662 which includes two elements, one is deferred, the deferred is 18,718 and the valuation adjustments and others which are unbilled revenues 3944, so both are unbilled basically. Unless you complete the milestones and the related events, this 22,662 does not become due to customers, so that is why they have been classified as contract assets.

Abhishek Puri: And in terms of the revenues that you have booked obviously is below your breakeven level and which is why we have seen EBITDA at loss on your…..

Subodh Gupta: Our parameters got affected is mainly because of the topline and this is there as compared to the last quarter by almost 1700 crores, more than 1300 crores, so the EBITDA number has also gone down because of that reason only. Segmental also got affected, so mainly it is the topline.

Abhishek Puri: So, would we be achieving that full year number, of 33,000 crores base case scenario?

Subodh Gupta: Basically that is our MOU number, 33,000 crores is the MOU number. Certainly, we will be working towards that number but now what would happen in this quarter certainly, we are reviewing those numbers and we will come back to you.

Abhishek Puri: And my second question is on the order inflow pipeline, if you can talk about some of the projects which are due for bidding or to be finalized in the next few months or quarters?

Manoj Varma: In the power sector, we are hoping to get the MoEF clearance for Sagardighi, 1 x 800 and likewise for Talcher also we are expecting a clearance from the government of Odisha with same rating and then the tenders which are in the offing are Lara, Singrauli, Talabira and Singareni Collieries Limited, so they will be giving a huge market potential of which we are targeting most of the orders, like we have been performing in the last two fiscal years.

Abhishek Puri: And the Cuddalore one, Neyveli Lignite?

Manoj Varma: Yes, Neyveli Lignite Talabira is also there, 3 x 800.

Nalin Shinghal: Actually, that is also one of the reasons where delay in power sector orders is there anticipated orders, whatever orders we were anticipating in quarter 4 of last year, even in quarter 1 also this year, though it did not happen, so some of the turnovers also planned from those numbers, so that could not be achieved that is also one of the reasons.

Manoj Varma: One more I will like to supplement, this NPCL is targeting this fleet mode of orders to be given for this 700 megawatt, so those were targeted in the quarter 4 of last fiscal are now getting dragged to 2 to 3 of current year, so these shifts are affecting the order inflows which we are opening that by end of this fiscal year, they will add to the order book substantially.

Abhishek Puri: If I may ask one more on the industry segment, you have a very strong order book, but the industrial revenues have also declined, so why is that the reason?

S. Balakrishnan: I am Balakrishnan, I would like to respond to this. The order book of industry sector last year, it was around 1591 crores in Q1 and this has gone to 1978 crores in this year, so there is an upward jump of almost 24% as CMD had told in his opening remarks also. The dip in the turnover is basically on three accounts as was explained by my colleagues also, basically there are some reasons which are attributed to customer, some to our tenders and some of course minor internal reasons have also been there, so basically the issue was with respect to the customer clearances and in some cases our imported equipments which have to come majorly from the modules which were to come from China and secondly, the equipments from Strukton, the Netherlands for our transportation segment. There has been a delay in that, so they couldn't come in the Q1 and hence there has been a deficit turnover. They are progressively coming now and we are sure to make it up over the second quarter.

Moderator: Thank you. Next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Can you give more colour on what is the status of the problems which have resulted in slow dispatch? Have they been resolved now?

Manoj Varma: As far as it is a power sector segment, certain issues as far as the consultants observations were there, they are on the verge of almost getting cleared. The land encumbrances in case of TANGEDCO which has been recent decision from court of law, that is also getting resolved to the customer only and despite this, certain local agitations were there in some of the sites because of this land, so those things are also being pursued by the respective customers. I think these things should finally get consolidated and improved in the current months.

Puneet Gulati: In Q2, do you think all these would be resolved or can this spill over to Q3?

Nalin Shinghal: We are always optimistic; we hope in that way. We are trying to get them done.

Puneet Gulati: Secondly, you also mentioned some orders where were L1, is it possible to get more colour on why they have been delayed, Lara, Singrauli, what stage are they in now?

Manoj Varma: No, those bids have been submitted to the customer and they are taking certain time for evaluation. Certain technical bids have been submitted, certain clearances are being evaluated, so they will come down by 22-23, we are quite hopeful on those things.

Puneet Gulati: Lastly, can you share what is the net cash balance on your balance sheet for Q1?

Subodh Gupta: Cash balance actually if you see, we don't give the number. That numbers are breakup of all the assets we will give in the quarter 2 only, balance sheet breakup. There, we will give only segment assets and liability. My colleague can answer greatly on this number later on after this concall.

Puneet Gulati: Lastly, will it be possible to comment on the nature of profitability in the FGD projects that you have won?

Manoj Varma: As far as the FGD orders are there, we have already got 23,000 megawatt of orders for FGD and emission control equipments of which we are already proceeding right now in the Delhi NCR region with one of the prestigious orders and likewise certain clearances are also in the offering from other customers. It is almost consolidating to 41 sets. Roughly, almost 19 gigawatt orders also getting now in the pipeline where we are L1 and orders also equally expected. Further another 30 gigawatt market potential is also there for which tenders will be floated and we hope that this year only they will be consolidated and we are quite hopeful to have major chunk of these orders.

Puneet Gulati: So, how many gigawatt has been allotted so far in the system?

Manoj Varma: It is almost 40 gigawatts right now, of this 25 gigawatt is with us.

Puneet Gulati: Out of 40, 23 is with you, another 19 gigawatts you said is in L1 stage and then 30 more is likely to come to the market?

Manoj Varma: They are in the NIT stages.

Puneet Gulati: Do you think the profitability of these orders would be at par with what you are currently otherwise running ex of this Q1?

Manoj Varma: We are making a dent in the market of emission control and I think with the order book we have we are already leading the segments and equally put on consolidation basis, it will be earning us quite a good revenue from these orders also and there will be earning on that.

Puneet Gulati: And the profit as well, EBITDA?

Nalin Shinghal: Yes, profit also we can calculate subsequently, right now we cannot forecast.

Moderator: Thank you. Next question is from the line of Sumit Kishore of JP Morgan. Please go ahead.

Sumit Kishore: My first question is again focusing on customer clearances being one of the issues which were impediment to execution, what is the nature of the clearances you are talking about, are the cash flow issues the customers are facing because of which the projects are getting delayed as well?

Manoj Varma: You will appreciate that the market of late has been focusing on very crucial terms of payments for the orders which we are executing and there will be in the offing also, so the cash liquidity precisely, right now the segment which we are focusing is on the state utilities which are already having a stress of revenue generation from their previous supply chain management of generation companies and disforms. So, likewise the clearances if I mean to say is, earlier we were piling up all this equipments in a row at the sides and then going on erecting and commissioning these things, but now the customers have become more specific and smart and they want only in the sequentiality basis, so what all outturn is also pending what we mentioned around 5000 crores of which 44 has been declared as the topline, so those things are also not getting cleared by customers to be sent to sites and besides this even the sequential items which we are dispatching, those payments are also getting delayed, so capital workability is also becoming a criteria right now. From that point of view, customers are practically holding these things, so these clearances are really becoming little tight corner.

Sumit Kishore: Basically given that more than 50% of the order backlog is from state government projects and there are execution delays cost because of the sequence in which they are accepting the equipment, would it be fair to say that original targets on growth should be tempered to that extent given this elongation or was that part of that your MOU sort of guidance of Rs. 330 billion for the full year?

Subodh Gupta: No, I will put it this way, rather the kitty of orders executable which we are having, if certain stresses are coming on such accounts, it would have been more comfortable for us to have the order inflow which we were expecting in the first 3 quarters of this calendar year, so it would have given us more freedom and operateability to pick up those things and start parallelly on those orders also. Since those are not happening and order finalizations are taking some more time at the end of the customers, this freedom is little getting suffocation for the process of our execution.

Nalin Shinghal: And if I may add to that one of the records completion time has been a state order.

Manoj Varma: Yes, that is Kothagudem 1x800.

Nalin Shinghal: So, which has been achieved in record time.

Manoj Varma: 46 months of capacity addition.

Nalin Shinghal: So, it is a mix bag really.

Sumit Kishore: And for the nuclear sets which are expected for award this year, what would be the addressable opportunity for BHEL there, in value terms?

Manoj Varma: We are targeting almost 50% plus of the total kitty which they are going to float likely by Q3 of this current fiscal.

Sumit Kishore: And what could potentially be the rupee billion opportunity for BHEL there?

Manoj Varma: We are targeting roughly 5000 plus on that account.

Sumit Kishore: And finally my last question is on the employee cost where we saw a slight increase on a year-on-year basis, I just wanted to check on a full-year basis, you still expect the employee cost to come off?

Subodh Gupta: We have already said also this year, last year employee cost was around 6300 crores, this year we are expecting closer to 6,000 crores. It will not exceed 6,000, it should be less than that number. It was the number what we have reported in quarter 1 of 19-20. You see the increase is just marginal, there is just 2% increase of the number, so even after absorbing the impact of wages also, so increases are not that much. Basically, our manpower reduction is absorbing the increase in the wages.

Moderator: Thank you. The next question is from the line of Koundinya Nimmagadda from JM Financial. Please go ahead.

Koundinya Nimmagadda: Sir, just a couple of data points, is there any Forex loss or gain in the current quarter?

Subodh Gupta: Yes, there is a gain of almost 48 crores. Last quarter it was 85 crores.

Koundinya Nimmagadda: Order book and order inflow numbers for segments, I missed that, if you can provide them again, I will be grateful?

Subodh Gupta: 3,892 crores is the total order book which is 50% from power sector and 50% from industry sector in Q1.

Koundinya Nimmagadda: 3892 crores is the order inflow number sir?

Subodh Gupta: Yes, for the quarter 1.

Koundinya Nimmagadda: And what is the order book from power sector sir, currently?

Subodh Gupta: Currently, the order book from the power sector is 85,789 crores cumulative 86,000 crores.

Moderator: Thank you. Next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: The question which I had was more related to the current employee strength and how much revenues in the base case scenario can be supported. The aim was to get a sense that beyond what revenue line would you start thinking of actually adding employees?

Nalin Shinghal: We are actually having an attrition of about 1500 per annum and we are at the same time also taking on new employees. I think this process will continue for some time. Effectively, what it results is that we have a reduced employee cost overall because the entry-level employee would be at a lower cost also and will not happen with the same number, the numbers will be lower in any case.

Aditya Mongia: No that I understand. I am just saying in an optimistic scenario that the ordering from the power sector starts growing, at what kind of revenue then would you start thinking of adding employees in a meaning manner?

D. Bandyopadhyay: Yes, there we have got lot of flexibility in operation with regard to man power, we are recruiting executives to the tune of 150 per annum gradually, but at the same time as CMD has already told that there is reduction of total manpower around 1500 to 1600 per annum. If we require for short-term project, any number of manpower we can recruit through fixed tenure appointment or we can go for other lateral recruitment also, that is manpower increase in executive state level will not be an issue and for the worker level there is always offloading outsourcing of manpower which is cheaper than regular manpower of BHEL, so we want to optimize this manpower since our topline is little restricted at this point of time based on the total economy, so at this moment if this condition prevails, it will always contain the manpower cost in various corrective measures.

Aditya Mongia: Sir, second question was on the interest cost that is on the Q-on-Q basis gone up, just wanted to get a sense that are there issues on the payable front also that you are facing right now where we will have to support your vendor that is leading to some deterioration working capital also?

Subodh Gupta: Certainly, there is a pressure of working capital because of the cash flow reason. If you see the last year quarter 4 of 18-19, there the borrowing was 2500 crores, so right now the level of borrowing is almost to the tune of by the end of June it is 4000 crores, so there is an increase of 1500 crores in borrowing in this quarter one itself, so that has caused a stress on the interest cost and that is mainly because of the stringent payment terms as director power has already told you that even customer is now asking more, they are becoming more stringent in terms of execution. They are asking for sequential executions, so that is also one of the reasons causing a stress on working capital.

Manoj Varma: Fund constraint, liquidity is a concern, for general concern overall if you look at the industry, it is the major concern right now.

Aditya Mongia: Sir, last question from my side, you have obviously talked about a lot of issues related to projects wherein execution is being impacted. Could you quantify as to what share of backlog is getting impacted because of the specific issues and where execution is taking a hit right now?

Manoj Varma: We could have improved on this topline to the extent of another 10 to 12% had these things were not been there, so that could have been the amount I can say as of now.

Aditya Mongia: Sir, why I am basically asking this question is that let us say 3 to 4 years back when you were seeing this similar kind of quantum of power sector revenues, the executable order backlog was very different and much lower than where we are today and which is I just thought to get a sense from you as to if you could quantify a number of slow moving orders in the backlog?

Manoj Varma: I think it is as of now, it is just a temporary phase with all our efforts with customers and various agencies concerned we are trying to, so I think the things will be much better in the next quarter.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Couple of questions from my end, in this quarter the other expenses has been pretty lean, so what was the movement of provisions seen in this particular quarter, any write backs?

Subodh Gupta: Renu, when we look at the provision, as compared to the last quarter, the provision has gone down. The reduction in other expenses what you see, it is mainly because of reduction in provision. Last time, the net provisions were 309 crores, quarter 1Q 18-19, now this time it is 164 basically mainly because of withdrawal. More withdrawal has happened in the current quarter. Mainly, we have recovered the money, even the debt money we have recovered from the private customers, so it is because of that reason that there is an improvement in the net provision.

Renu Baid: Any particular accounts you want to highlight from where we are seeing the collection of the old written off receivables?

Subodh Gupta: No, I would not like to highlight the account at the moment, but certainly that recovery has happened and that has given us benefit in provision we are targeting and we are even targeting more recoveries in the current year.

Renu Baid: And sir, how has been the mix of the receivables across state, private and central sectors?

Subodh Gupta: Renu, it is basically 50% state utilities, central PSU 32%, private customer 12% and 6% exports as on March 19. Now as on 30th June, it is state 49%, central PSU is 33%, private customers 12% and exports 6%.

Renu Baid: Second question is on the inflow side, as in we understand some of the orders including Talcher 1x800 MW also has been now in the pipeline almost for a year, so if you could help us a bit more granularity in terms of where exactly are these projects stuck, what is holding back them to be converted to LOAs from the L1 level and any particular timeline that you can assign to these inflows. Also given the higher share of inflows slipping from FY19 to FY20 and existing pipeline of FY20 projects, do we see a significantly large potential order inflow coming in, basically averaging out the gap that we saw last year?

Manoj Varma: We will take the first part of the question, what we were apprehending precisely two orders of Sagardighi which is still now rightly on the verge of clearance from MoEF, so if that comes through I think what we met the customer recently also they have indicated another two months or three months likely, so we are quite hopeful by Q3, it should be coming early by Q3 and as regards, Talcher what we are talking it is in fact, the customer has got the clearances through their board and it is right now the state is to give certain clearances which we are again hopeful in next 2 months also, it should be getting through, so I am quite hopeful that by Q3 start or mid, this order should be there in our kitty. As regards the various opportunities which I had mentioned, Lara, Singrauli, Talabira and Singareni Collieries and NPCL which is our major chunk to the extent of high digit potential, so these are also possibly getting finalized in Q3 or Q4 surely, so if those come through the order book closing, we will be having a quite a good potential.

Renu Baid: Right because at the end of last financial year, we almost had 14,000 crores of L1s from power sector alone, so broadly is it safe to assume that probably if this year things fall in place, you could have 50,000 crores kind of order?

Manoj Varma: Everything is going optimistic Renu, we will be crossing that figure definitely.

Renu Baid: Sir, everything going realistic, let us not look at optimistic, right?

Manoj Varma: I think I can correct it, realistic could be the better word.

Renu Baid: And my last question here would be on the execution, given that there has been slippage in revenues, including client led constraints as well as milestone based headwinds, do you foresee that the full year MOU guidance could be at risk or you still think it is fairly within the comfort zone of clocking the 31 to 32,000 crores of gross revenues for the year?

Subodh Gupta: Our report card by virtue of the MOU signed with the government of India on behalf of DHI and last two years we have been on excellent level, so I think this year also we should be repeating or excelling the performance. I think we should be there in that range.

Moderator: Thank you. Next question is from the line of Inderjeet Bhatia from Macquerie. Please go ahead.

Inderjeet Bhatia: My first question is on the gross margin side, this quarter we have seen, though year-on-year kind of significant reduction in gross margin, what is the right number in terms of raw material cost to work with for the year?

Subodh Gupta: Right now, the percentage of turnover is 59.1% in Q1, so it is marginal increase over last year, 58.2, it has gone up to 59.1.

Inderjeet Bhatia: So, should we work with the similar number for the year or is there a scope for reduction from here on?

Subodh Gupta: It depends, again we have already told you it depends on the mix of turnover. If the shop turnover happens more, then the material consumption will be lower. It depends on the mix of turnover.

Inderjeet Bhatia: Secondly, on this order inflow, do all the projects where we are currently L1 have all clearances in place except to say the board clearance to get ahead and place the order or give the notice to proceed?

Manoj Varma: We can say broadly yes and some are in the pipeline activities which should also get through shortly.

Inderjeet Bhatia: As there are no environmental clearance issues with any of these things, because in the past we have seen the timelines to convert our L1 orders into kind of being almost like 18 months to 24 months in some of the cases?

Manoj Varma: Sagardighi, we have already narrated, it is already in that same board and these things are beyond our stretch. We can only pursue the process and support the process outside, so these things should be getting through.

Inderjeet Bhatia: Just last thing is that apart from this L1 order that you already have, what do you see in the pipeline? Are there any fresh bridge which are kind of being floated, RSBs being floated or likely to be floated and what do you think would be the size of that?

GK Haedoo: There is a quite good potential during the current year, almost 16 gigawatts roughly. Out of that we are expecting some 8 to 10 gigawatt will be finalized during the current year. Some of the projects have already been narrated by director power and CMD earlier like Talcher, then Singareni, Kurja, Talabira, Singrauli, Lara, and we are expecting further some of the tenders like Koradi expansion, may be in the third quarter also. Similarly, there are certain projects which are coming into hydro sector also like Teesta IV that NIT will be provided in Q2 or may be Q3 most probably.

Manoj Varma: And further to that there are also electrical projects amounting to 6 sets of 700 megawatt TG sets and of course there are another 10 sets of of steam generator in nuclear sector, so with this there is quite a bit good potential and if you see further NIT to be floated is to the tune of around 2000 megawatt and almost 14000 megawatt NIT has already been floated in the sector.

Moderator: Thank you very much. The next question is a follow-up from the line of Koundinya Nimmagadda from JM Financial. Please go ahead.

Koundinya Nimmagadda: Sir, my first question is on the FGD side, what will be the cost for megawatt approximately because we see a huge variation between orders, so just trying to get a sense on why there will be a huge variation, what are the drivers here?

Manoj Varma: Basically, the cost of FGD varies based on the configuration of the projects, location of the project and layout of the projects. Now if there is multiple units, the cost of FGD per megawatt will go down as compared to single unit. If you have seen the variation during various tenders, whatever has been floated from last month to last 3, definitely there has been increase in the price level and presently it is varying from almost 0.65 to almost, even more than 1 crore in all the projects, whatever NTPC has floated very recently particularly with the single unit.

Koundinya Nimmagadda: Sir, my second question may be a bit long shot now, but still I am just trying to understand, you said that we are into manufacturing of lithium-ion batteries for space and ISRO and other related stuff, I am just trying to understand recently there were some news article which was saying government is also planning to put some 1 billion towards battery storage plans and all, so just trying to understand, are we targeting this area as a potential opportunity going ahead or what is your sense on this?

S. Balakrishnan: Yes, we are targeting this area going ahead as well, so ISRO is the different category and these are the larger numbers for the range of applications which are of lower stringency.

Koundinya Nimmagadda: Sir, does our existing skill set, will that be enough to execute these orders or what is our plan? Like are we going to enter into JV with some other entity? How does it work sir?

S. Balakrishnan: We are still exploring the various options for that. The government policy is asking for having a tie up with party who much be having at least 1 gigawatt who should have already supplied 1 gigawatt of batteries, so it will be because of this size no OEM is available in India, we definitely will have to have a tie.

Moderator: Thank you. Next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: On the FGD side, we have seen NTPC is going for partial re-entering or price renegotiation instead of awarding all the projects of lot 2, so how should we look at this? Are we seeing sign that the equipment suppliers are not being aggressive enough and have probably increased the price levels, but customer is still not probably happy with that? How one should read it in terms of the phenomenon of again and again retendering from the customers as supplies is not being as competitive on the prices side?

Manoj Varma: The NITs which have been annulled and now they are taking to their board for reconsideration of the base price, it was not up to the market level and which possibly they will revise those upwards and then again come back with the same quotes in the new tenders, so that time people will be there to bid for this. As of now, they were quite low.

Renu Baid: And what could be the cumulative quantum which would come in the subsequent lot?

Manoj Varma: I told you in fact roughly 30 gigawatt potential is there in the current financial year which we are hoping as of now.

Renu Baid: Second question is on the working capital side, as liquidity in current environment has been pretty sticky, are we seeing pressures on our suppliers or contractors which is putting indirect pressure on our payable and working capital and could this also be a potential headwind on execution or this has broadly been managed evenly out?

Subodh Gupta: I am talking this is the issue across the sectors and we are working on ways of how we can assist our contractors, also into our own working capital situation by realizing our existing dues, so I think there is something we will have to work together to handle. We have worked out on almost the past receivables also which has definitely added to more than 30% of our cash inflow on like-to-like basis of last year and we are putting all requests and all measures to push customers also, so that these funds are released enabling us to maintain our capital work flow without affecting our vendors to the extent possible.

Renu Baid: So, have you seen creditor cycle shrinking because of this or it has been broadly intact?

Manoj Varma: No, creditors pricing we are maintaining within the specified range of whatever has been, for the BOPs, so broadly we have interacted with them in a recent meeting also, so there we have not indicated such pressure, definitely they want certain more comforts, but once we get these cash realizations from customers we will put them to more comfort and so that they can deliver much better in their cases.

Renu Baid: And sir, my last question is on the railway side, at least among the other ministries, where post elections we have seen lot of push coming through on electrification and other projects, so from that perspective, how should we look in terms of the order pipeline building up for us in the rail portfolio including the regenerative sets, EPC projects and other electrical equipment side. And any insights on the high speed corridor with respect to the JV that we have with the Japanese partner and by when can we expect translation of business from that venture?

S. Balakrishnan: Railways basically is a very important for us and we are expanding our business in the railway and last year as we had told in the concall as well that the first electrification order was secured by us and there are 5 more tenders in the pipeline, the second one is, the NIT is already issued and we are going to address it shortly, maybe I think within a month time that tender will come into picture and we are one of the parties who could participate, almost 500 have been shortlisted for 5 more tenders, so we are one of them, so there will be 5 electrification tenders, in which we will be participating and first one is what I am telling will happen in as of one month's time and with regard to the other areas, like the regenerative loco with regenerative system, we have already secured an order and we will be further pursuing those orders and we are hopeful to get the order shortly for manufacture of 75 locomotives and it is in the final stages and we can expect the order may be within a month's time. Besides this, the high-speed rail is the one and the stainless steel coaches for the metros are two things for which we have a collaboration with KHI and we will be pursuing this with them. There have been few meetings with National High-Speed Railways and the tender is expected in this year in which we will be participating with KHI and in this about 25% of local content has to be there, so we are hopeful to get 25% charter. This will be almost 6 rigs that will have to be done indigenously out of the total 24 rigs. So, that will have to be done indigenously.

Moderator: Thank you. We have the next question which is a follow-up from the line of Inderjeet Bhatia from Macquerie. Please go ahead.

Inderjeet Bhatia: Just one last question, in terms of again sorted to hope of these L1 orders, but is financial closure already in place for all these projects?

Manoj Varma: Yes, we are taking on the financial closures also and we have in fact a dedicated team working on this recently which we have just constituted, so this used to be taken care.

Inderjeet Bhatia: No, I am saying financial closure from the customer point of view?

Manoj Varma: Most of the projects have already been financially closed. Like you know Talcher, there is only one approval awaited from the Odisha government and which is likely to be taken in the next agency meeting, high-level meeting including the chief secretary of the state and we hope that clearance will be received within the month of August in the meeting, so definitely after that it will be only the statement of the order.

Inderjeet Bhatia: And one last thing is given our cash balance, is there any discussions with the government or your parent ministry regarding the larger dividend payout or another buyback on that if you could just throw some light?

Subodh Gupta: I think there is no such thing at the moment.

Nalin Shinghal: At the moment, there is no such thing.

Moderator: Thank you. Ladies and gentlemen, we will take the last question which is from the line of Bharat Subramanian from Bank of America Merrill Lynch. Please go ahead.

Bharat Subramanian: Sir, as of March 2019, we had a cash balance of around 7500 crores. If that is the cash position available, then why are we increasing the debt to fund our working capital needs right now?

Subodh Gupta: It was basically if you look at the cash balance, it was not 7500 crores, net of borrowing it was closer to 5000 crores, 5046 crores it was the number. Now because basically one, this is leveraging what we are doing from the market as I have told the borrowing what we have done up to Q1 is 4000 crores increasing borrowing to the tune of 1500 crores.

Bharat Subramanian: Sure sir, same thing, you had 7500 crores of cash and 2500 crores of debt as of March 2019 that brings to the 5000 crore number that you are mentioning, if you have the net cash of 5000 crores as of March 2019, why have we borrowed additional 1500 crores between March to June to fund our?

Subodh Gupta: This is basically what we are doing the arbitrage. Whatever money we have kept Rs. 500 crore, most of that was in the form of FD, we are borrowing through short-term commercial papers.

Bharat Subramanian: Sir, may I ask what is the rate of the borrowing right now?

Subodh Gupta: The interest rate is much better in FD as compared to the short-term borrowings in commercial papers. There it is around 6%, there we are having an interest of 8%.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Ms. Renu Baid for closing remarks. Over to you ma'am.

Renu Baid: Thank you everyone. On behalf of IIFL, I would like to thank the management for giving us the opportunity to host the call and the participants who present and thereafter I request Mr. Shinghal for his closing remarks if any. Thank you and over to you sir.

Nalin Shinghal: Thank you, ladies and gentlemen for your patient hearing and very interactive question and answer session. Going forward, the priority of the company would be firstly to focus on timely execution of projects and for improvement of cash flow for projects which have earlier been closed as well as for the new projects that we are doing at the moment. Secondly, we are also looking at launching quality first initiative across the organization for improvement in quality of products and services. Then we are looking at another initiative on the HR front for HR excellence project initiative across the company and in addition to that diversification and upgradation of our products range for existing areas as well as new growth areas. So, these are the major areas we are looking as we go forward and with these, we aim at sustain profitability and growth of the company. I would like to conclude by sharing with you that timely execution and quality will be the keystones and though difficulties remain, we shall be finding our ways to work around them to attain the best solution. Thank you very much. Good bye.

Moderator: Thank you very much members of management. Ladies and gentlemen, on behalf of IIFL Capital Limited, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.