



Bharat Heavy Electricals Limited

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“Bharat Heavy Electricals Limited Q2 FY-23 Earnings Conference Call”

November 11, 2022

MANAGEMENT:

- DR. NALIN SHINGHAL – CHAIRMAN & MANAGING DIRECTOR
- SMT. RENUKA GERA – DIRECTOR, INDUSTRIAL SYSTEMS & PRODUCTS
- SHRI. UPINDER SINGH MATHARU – DIRECTOR, POWER, WITH ADDITIONAL CHARGE OF DIRECTOR (HR)
- SHRI. JAI PRAKASH SRIVASTAVA – DIRECTOR (ENGINEERING AND R&D)

Moderator:	Ladies and gentlemen, good day and welcome to Bharat Heavy Electricals Limited Q2 FY23 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Modi from ICICI securities. Thank you and over to you, sir.
Rahul Modi:	Thank you, Aman. Good evening everyone. On behalf of ICICI Securities, I would like to welcome you all to the Q2 FY23 Earnings Conference Call of Bharat Heavy Electricals Limited, BHEL. Today we have with us from the company Dr. Nalin Shinghal – Chairman and Managing Director along with the senior management team. We will start the call with opening remarks on the results by Dr. Shinghal, post which we will have a Q&A session. I would like to now hand over the call to Dr. Shinghal for his opening remarks. Thank you and over to you sir.
Dr. Nalin Shinghal:	<p>Thank you Rahul. Good evening everyone.</p> <p>I am Nalin Shinghal – CMD, BHEL. And I have with me Smt. Renuka Gera – Director (Industrial Systems & Products); Shri. Upinder Singh Matharu – Director (Power) with Additional charge of Director (HR); and Shri. Jai Prakash Srivastava – Director (Engineering and R&D).</p> <p>A very warm welcome to all of you</p> <p>The Indian economy is expected to be amongst the fastest growing major world economies in the current year, despite impact of geopolitical conflict, increasing inflation and subsequent monetary tightening by central banks across the world. Ordering for thermal coal-based power plants is showing signs of revival after a gap of four years. With increased focus on energy security across the world, especially after the Russia-Ukraine war, the need for thermal power as a reliable and affordable source of power has become obvious. With the order for 2x660 MW NTPC Talcher, BHEL has asserted its market leadership position in the segment and is targeting the other upcoming opportunities which are now visible. BHEL is focusing on becoming the market leader for providing flexible operation solutions for thermal power plants, which is a key requirement for integrating renewable sources of power generation with the grid. We have achieved a significant milestone in this direction by successfully demonstrating the same at the 1x600 MW Raigad thermal power plant and have already received two more orders in this arena.</p> <p>Government’s thrust on CAPEX is presenting opportunities across core sectors like transportation, steel, refineries, defence, etc. and BHEL is looking forward to capitalize on the same. In the transportation segment, we have received orders for 22 WAG-9H locomotives from Indian railways, 90 sets of IGBT based 3-phase drive propulsion equipment for WAG-9 locomotives from CLW, and 35 sets of IGBT based composite converters for 3-phase WAP-5 locomotives from BLW, amongst</p>

	<p>other orders. In the transmission segment, we have one order for execution of 400 KV Neemuch new substation, and extension of 400 KV Chittorgarh substation, and 400 KV Mandsaur substation from Neemuch Transmission Limited, along with interconnecting transformers of various ratings from PGCIL. Similarly, various orders for compressors have also been received from both private and public sector customers for refinery segment.</p> <p>In this changing business landscape BHEL has reviewed its corporate strategy and has identified cost competitiveness and timely and high-quality delivery to be the cornerstone for BHEL in the short and medium term, with core engineering and technical prowess as a key element for long term sustainable growth. The recently developed corporate strategy plan 2022-27, therefore focuses on turning around the company with initiatives focused on cost effectiveness and enhanced revenue from value added services, as well as increased market share in conventional areas. Further, the company is targeting to diversify into multiple allied businesses and is building capabilities for the same through both in-house development as well as partnerships for sustained growth and profitability. BHEL, being a pioneer in gasification of high-ash Indian coal in the country, is now working towards developing new markets for coal to chemicals. We have entered into strategic MoUs with Coal India Limited and Neyveli Lignite Corporation India Limited for setting up coal & lignite-based gasification plants. Under these MoUs, BHEL will jointly set up a coal to ammonium nitrate project with Coal India Limited based on gasification of high ash Indian coal, and a lignite-based gasification pilot plant with NLCIL for power generation, utilizing BHELs indigenously developed Pressurized Fluidized Bed Gasification technology. This is a major step towards meeting the national coal gasification mission target of 100 million metric tonnes and provides twin benefits of commercialization of indigenous technology as well as substituting high-cost energy inputs. Internally, the company is further streamlining its operations and improving systems and efficiencies to deliver quality products and projects within customer timelines. Amidst increased input costs, both material and manpower, the company is giving impetus to optimizing both fixed and variable costs through design optimization as well as budgetary control.</p> <p>As regards order booking performance during Q2, upto Q2 FY23, we have booked orders worth Rs. 14,511 Cr including taxes and duties, out of which the power segment is Rs. 11,174 Cr, industry segment is Rs. 3,155 Cr and the remaining is from exports. The total outstanding order book as on 30th September 2022 stands at Rs. 1,06,376 Cr out of which the power sector is Rs. 88,973 Cr, industry sector is Rs.12,677 Cr and Rs. 4,726 Cr is from international operations. In addition to the above, we are favorably placed in the 1x800 MW NTTPs Vijayawada FGD order and a number of spares and services orders. In captive segment, we are placed favorably in CPCL - 4x34 MW GTG and 4x125 TPH HRSG and a 3x165 utility boiler. Currently, tendering is underway for 3x800 MW NLCIL Talabira thermal power project, 2x660 MW Neyveli thermal power station – stage-2, 12x240 MW Dibang hydroelectric project and tenders for FGDs of around 15 GW are in various stages of</p>
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	<p>tendering. In the transportation segment, sizeable orders for electric locomotives and train-sets are under tendering.</p> <p>Coming to financial performance, revenue from operations for 2nd quarter FY22-23 is Rs. 5,203 Cr as against Rs. 5,112 Cr during the 2nd quarter FY21-22. The revenue numbers could have been better, but for the lower opening order book available for execution. The H1 numbers stand at Rs. 9,875 Cr versus Rs. 8,014 Cr last year, indicating a growth of about 23%. Loss before tax for the 2nd quarter FY22-23 is placed at Rs. 201 Cr as against a loss of Rs. 88 Cr in the corresponding period in the last year. Loss before tax for H1 stands at Rs. 456 Cr as against loss of Rs. 681 Cr last year. However, there is a positive profit after tax at Rs. 10 Cr in Q2/22-23 as against loss of Rs. 67 Cr in the corresponding period last year. In Q2/22-23 the company though has a marginal negative EBITDA and loss at PBT level. However, PAT is positive due to tax refunds during H1/22-23. Interest income of Rs. 106 Cr has been received on tax refunds and the same is accounted as other income.</p> <p>Our cost reduction drive continues and the manufacturing administrative and S&D expenses in H1 as a percentage of revenues have come down to about 7.2% from about 7.8% last year. This saving of 60 basis points is coming on top of the 200 basis point reduction achieved in the previous financial year. The total receivables are at Rs. 33,718 Cr as against Rs. 33,168 Cr at the end of March'22 and Rs. 13,903 Cr at the end of Q1/22-23. The cash collection ratios have also shown an improvement with current year H1 billing liquidation at 73% vis-à-vis 68% in the corresponding period of the last year.</p> <p>Thank you all once again for joining this conference call. We will take questions now.</p>
Moderator:	<p>Thank you very much. We will now begin the Q&A session. Anyone who wishes to ask the question may press “*” & “1” on their touchtone telephone. If you wish to remove yourself from the question queue, you may press “*” & “2”. Participants are requested to use handsets for asking the question. Ladies & Gentleman, we will wait for a moment while the questions are being lined up. The first question is from the line of Deepak Krishnan from Macquarie. Please go ahead.</p>
Deepak Krishnan:	<p>I just wanted to check on the order inflow pipeline why you indicated two projects are under tendering, do you expect them to be bid out by FY23 itself and just maybe from a longer term pipeline one year out, how do you see the tendering pipeline especially for the power sector?</p>
Dr. Nalin Shinghal:	<p>The Talabira project we are expecting to be completed in the current FY.</p>
U S Matharu:	<p>I am U S Matharu, Director Power with Additional Charge of Director (HR). Talabira tender is already out for which technical bid has been submitted by the bidders and BHEL. So, a financial bid is yet to be invited and we hope that within this financial year, financial bid submission will happen and it may reach a maturity. And there is another tender of 2x660 MW lignite based Neyveli Stage-2, that tender is also out and its bid submission is due now.</p>
Dr. Nalin Shinghal:	<p>So, that I don't think will come in the current year?</p>
U S Matharu:	<p>That maybe in the first quarter of FY24.</p>

Deepak Krishnan:	Any long-term pipeline, say one or two year.....
U S Matharu:	Based on the state utilities interest in setting up plants where the old power plants have been abandoned, they'll be setting up new power plants. We are already in discussion with Haryana, Gujarat and DVC. Close to some 4.6 GW of tenders are expected to be there in the next financial year.
Deepak Krishnan:	And sir maybe just one follow up questions, on profitability we still see that at EBITDA level the company is still reporting losses. And you had indicated a couple of quarters ago that probably you require Rs. 30,000 Cr on an annual basis to break-even, so are those two factors still there and do you see some improvement in profitability with execution bringing up?
Dr. Nalin Shinghal:	You see what has happened is, material costs have continued to rise while a lot of efforts have gone in, but in the last year and post this change in the geopolitical situation, steel prices, copper prices, fuel has all gone up. So, that has what has really affected us quite badly. With the turnovers going up we are trying to make efforts on cost optimization and improvement in turnover, we are looking to attack that, of course the old order being on a very competitive basis that continues to be an issue for us. But as the ordering picks up, we should be able to do better on this.
Deepak Krishnan:	Sure. Maybe just one last question from my side, any net provision created or withdrawn this quarter and any FX gain that was reported in this particular quarter just few data points.
Dr. Nalin Shinghal:	So, the net provisions in this, we have creation of Rs. 238 Cr, withdrawal of Rs. 378 Cr and net withdrawal of provision of Rs. 118 Cr. (including write-off of about Rs. 22 Cr)
Deepak Krishnan:	Sure. Any foreign exchange gain in this quarter or 1H, any foreign exchange gain in 1H, we see some gain on the cash flow.
Dr. Nalin Shinghal:	We have a gain of Rs. 20 Cr in this quarter.
Moderator:	Thank you. The next question is from the line of Mohit Kumar from DAM Capital. Please go ahead.
Mohit Kumar:	My first question is on the NTPC and Adani, the EPC order. I believe that NTPC is talking about more EPC orders, especially Lara, Singrauli and Talabira and Darlipalli. Are you hearing something on the same and secondly on the Adani, order 1.6 GW are we trying to, are you bidding for it?
U S Matharu:	Regarding NTPC, the tenders for Singrauli and Lara which were, these tenders were there earlier and were annulled but we are hopeful that these tenders are again being placed in market and maybe in the first quarter of FY24 these tenders should be out. Regarding Adani, Bhandora there because there was a sudden change in the parameters. So, due to this implication we are awaiting the next decision from Adani in this regard. The tender is already out.
Mohit Kumar:	Understood. Secondly sir given that, there is a lack of competition now and are we expecting better pricing given the large lifecycle and we suffer from higher competition especially in FGD, are you expecting better pricing in the coming orders for the power plants and FGD now?
U S Matharu:	Actually, if you look at the pricing which comparing with earlier set of orders lot one, lot two orders of NTPC, the pricing is better now and it is significantly better than the ones which were bid earlier, but still it will be very competitive at this stage also, though the price level has increased significantly from the earlier levels.

Dr. Nalin Shinghal:	And also, we are moving towards more favorable payment terms as well.
Mohit Kumar:	How is the tender term changed sir for the EPC contract is better now, for FGD and the power plant?
Dr. Nalin Shinghal:	In the interim period we have shifted to a fairly adverse set of payment terms, but if you look at Talcher, the terms have come back to more or less to our earlier terms. If you look at something like Patratu or FGD orders, the term had become quite adverse in that stage, which had caused a huge stress on our liquidity as well.
Moderator:	Thank you. The next question is from the line of Atul Tiwari from Citi. Please go ahead.
Atul Tiwari:	Sir this Rs. 14,500 Cr of order inflow was for the first half right or was it for the second quarter?
Dr. Nalin Shinghal:	This is the first half.
Atul Tiwari:	Okay. And sir how much was it in the second quarter?
Dr. Nalin Shinghal:	The second quarter is Rs. 12,004 Cr in which Talcher is one of the very major contributors in the second quarter.
Atul Tiwari:	Okay. And how much of this is Talcher in this Rs. 12,000 Cr?
Dr. Nalin Shinghal:	Rs. 7,407 is Talcher, it's excluding taxes.
Atul Tiwari:	Sorry, this is excluding taxes, okay.
Dr. Nalin Shinghal:	Sorry this is Rs. 8,740 Cr including taxes.
Atul Tiwari:	Okay including. So, in Rs. 12,000 Cr, Rs. 8,740 Cr is included or Rs. 7,407 Cr is included?
Dr. Nalin Shinghal:	Rs. 8,740 Cr in Rs. 12,000 Cr
Atul Tiwari:	Okay. So, it Rs. 8,740 Cr including taxes. And sir what is the execution timeline as per the EPC contract for the quarter?
U S Matharu:	For Talcher the execution timeline is 48 months.
Dr. Nalin Shinghal:	For unit one and for unit two there is another additional six months.
U S Matharu:	48 months and 54 months.
Atul Tiwari:	Okay. And then my second question is on the cash flows and the balance sheet. So, in the first half operating cash flows have been negative against the positive cash flow in the last year first half. So, do we expect ultimately to breakeven on the cash flow basis, on operating cash flow basis this year?
Dr. Nalin Shinghal:	We are making all efforts in that direction, we have faced problems on certain states delaying the payment but a lot of effort has gone into that direction. So, that entire effort is there that we should improve the cash flow in the second half.
Atul Tiwari:	Okay. And sir how much is the net debt as of the quarter end?
Dr. Nalin Shinghal:	Net debt at the end of the quarter would be Rs. 5,680 Cr.
Atul Tiwari:	Okay. And just broadly speaking, say for example in this Talcher, how many bidders participated and if you could share what was the difference between your bid and the next higher bid?
Dr. Nalin Shinghal:	So, there were two bidders BHEL and L&T and the difference.
U S Matharu:	Including the loading it was close to around Rs. 1000 Cr.
Dr. Nalin Shinghal:	Including the technical loading it would come to almost Rs. 1000 Cr.
Moderator:	Thank you. Our next question is from the line of Nikhil Abhyankar from DAM Capital. Please go ahead.

Nikhil Abhyankar:	The CAPEX plan by the railways till FY26 is around 3.1 trillion only for the rolling stock. So, what kind of outlook do we have for the railway orders in the medium term and also can you throw some light on the defence orders as well, as there is more focus on indigenous equipments and everything from the government?
Dr. Nalin Shinghal:	So, railways is a very serious segment for us and you are aware earlier we had got a first order for the train-set, Vande Bharat train-sets for the 4 train sets and going ahead there are three more tenders in the pipeline & one is opening very shortly. So, we are working with collaboration with other players to bid for the orders and we are very seriously making effort to get into this business in a full-fledged way.
Nikhil Abhyankar:	Any estimate as to the targeted order inflow for it for railway segment?
Dr. Nalin Shinghal:	I don't think I'd be in a position to give you any estimates on the same because we are seriously bidding for all the three trainset orders as well as the Loco orders, we are going for that but I don't think we can give you a number as to what we will be able to get.
Nikhil Abhyankar:	And the outlook on defence?
Dr. Nalin Shinghal:	Defence we have already got us for the, you are aware we have been a major supplier for the SRGM super rapid gun mount which is the main gun on ships. So, we are now going to upgraded SRGM. So, we've already got the order for the first two and then the entire order over the next four or five years is expected to be almost 50 guns. So, that process is still on, and we are the sole supplier there. Then we are also looking at a number of other areas in the defence we are working on the marine gas turbine we are looking at some of the development and some of the strategy projects. So, there are a number of other projects that we are looking at on the defence front, on the developmental aspect air defence guns. So, that we have, that is one of the major segments for us for the future.
Nikhil Abhyankar:	Okay. And sir the order the Rs. 14,500 Cr which you announced it is the orders that we have already received. Can you give us some value of all the tenders that we are L1 right now?
Dr. Nalin Shinghal:	All the tenders that we are L1 right now!
Dr. Nalin Shinghal:	So, the major one of course, you are already aware the major one which has already come through which was Talcher but as of now what is all there in the pipeline is the Vijayawada FGD and Ukai unit three and unit five, this is the R&M. In addition to that, of course in CPCL as I've already mentioned, we are favorably placed in the 4x34 MW GTG and the 4x125 TPH HRSG and 3x165 TPH utility boiler.
Nikhil Abhyankar:	Okay. Sir the value of it can I get?
Dr. Nalin Shinghal:	Value, I don't have at the moment.
Dr. Nalin Shinghal:	For Vijayawada, Ukai it's about Rs. 300 Cr, for the captive power we don't have.
Dr. Nalin Shinghal:	About a Rs. 1,000 Cr, is the figure where we are an L1 in industry sector.
Nikhil Abhyankar:	Understood. And just a final question sir, what is the executable order book right now say in H2 23 and FY24.
Dr. Nalin Shinghal:	So, our executable order book is Rs. 80,426 Cr including taxes.
Moderator:	Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni:	Sir, just one question, in line with the executable order book question that somebody asked previously. Sir, currently the impact of COVID on execution has gone, we are sitting with almost a lakh crore or order book Rs. 80,000 Cr executable, why the top line is still not where it can be, doing Rs. 5,000 Cr of top line on a Rs. 80,000 Cr order book still seems quite low. So, are you facing any challenges still in terms of execution, how should we look at the ramp up of this now that you've got one larger order, if you could highlight, a little bit on that?
Dr. Nalin Shinghal:	So, Pulkit, if you look at the opening order book, in fact and the percentage execution during the year, the execution during the year, the percentage of the opening order book we are almost at a record level in the last year. And in the current year again, the Q1, that entire the COVID effect which was there in Q1 last year however, went away in the current year, which resulted in a substantial improvement on the execution front. So, I don't think that is correct, if you look at the way the order book has panned out over the years, the percentage execution is actually going up and, we also, if we had mentioned in the last con call and during the previous year we are execution in the past year has been at almost at record level. If you look at the physical execution.
Pulkit Patni:	Yes, sir. So, basically what I'm coming to is that for us to get to a Rs. 30,000 Cr kind of a top line on back with this rate of execution, I don't know how do we get there. So, just trying to understand, what is like, the even with the new orders that you won what is the kind of best-case top line we are looking at say in FY24, if we were to look at that?
Dr. Nalin Shinghal:	So, I would not be in a position to give any revenue guidance that also for the year ahead, for the next year, but let me say that the new orders that we are receiving this year, almost a year and a half, 18 to 24 months is the time when the actual execution and turnovers will start coming, substantial execution and turnover will start coming from those orders. So, these would start panning out towards the second part of FY24. And then, whatever further orders, you see we are looking at a strong..., while today the numbers, orders in the pipeline or the tender in the pipeline are not that much as compared to what is required. If you look at the \$5 trillion economy and if you look at what projections are coming under the draft NEP. So, from that perspective, we should be expecting almost four to 5000 MW of ordering in the next four to five years. And that you'll see the discussions are on a lot of those, orders are likely to start becoming visible in the coming year those tenders, as Mr. Matharu had already mentioned.
Pulkit Patni:	Fair point sir, so four to five GW each year is what we can build in for the industry.
Dr. Nalin Shinghal:	We should be looking over the next four to five years because if you're looking at the total energy requirements, so from that perspective, there is a total of almost 15 to 16 GW that would be required over the next almost four to five years.
U S Matharu:	I need to add on this, actually, the CEA projection has been 28 GW, in the market but tenders are yet to be opened by most of states utilities as well as Gencos, so looking at the age of the plants also, there is a significant chunk of power plants which will be more than 30 years old, close to some 27 GW. So, many of them are around 28 GW plants above 30 years of age and for which some plan has already been given by CEA, but tender is not happening at that pace.

Dr. Nalin Shinghal:	But we expect that situation to change in the coming year you see as this, as you have already seen in the current year the shortages and the issues which have come up so that is gradually picking up pace.
Moderator:	Thank you. The next question is from the line of Lavina Quadros from Jefferies. Please go ahead.
Lavina Quadros:	Sir, just wanted to understand outside of the core BTG business, right, you explain the orders in the trains, you explain the orders in the defence part of it. Any other areas on the MoU side or let's say strategic use of your facilities or something else that is looking very optimistic, according to you that could fructify over the next 12, 18 months?
Dr. Nalin Shinghal:	So, one major area which I mentioned, also is the coal gasification. So, under this National Mission on coal gasification, we're looking, the target is 100 million tonnes by 2030. And the fact that we have indigenous technology which is a commercially proved technology for gasification of the high-ash Indian coals, that puts us in a fairly good position on the gasification front. And we are targeting that we have a team on mission mode working on the technical side, looking at the detailed development of the commercial plant. So, that is one major thing we expect to come through in the near future, then going ahead, of course nuclear is going to be another major area on the energy front because as we look at our net zero target, so we'll have to look at that for the longer term. And another area, of course would be carbon capture, that is another upcoming area because now we see that coal is imperative. So, mitigation will have to be done to carbon capture. So, that is would be the next area that we would need to look at. On that front, of course, you're aware of the AUSC developments that we have made and we are now looking at our first technology demonstration plant for the AUSC and to you see if you look at from the perspective of replacement of the, as Mr. Matharu mentioned, almost 28,000 MW of plants are over 30 years old, which are subcritical. So, replacement of those with AUSC would make a significant impact on our emissions also. So, these are the sort of thing that we expect to become visible in the near future.
Lavina Quadros:	Sir, coal gasification, any quantification of the overall opportunity, overall BHEL is one part of it but let's say what could be other parts.
Dr. Nalin Shinghal:	As I said it's 100 million tonnes, the coal gasification mission to 100 million tonnes by 2030. So, the numbers are quite substantial there.
Moderator:	Thank you. The next question is from the line of Abhineet Anand from Emkay Global. Please go ahead.
Abhineet Anand:	Sir from the Rs. 81,000 Cr executable order book based on clients schedule, what could be a broad number for the execution this year sir?
Dr. Nalin Shinghal:	I don't think we will give a specific number on that.
Abhineet Anand:	Just a color at least, may not be an exact number, but maybe something will help us because execution is something very difficult to predict. So, was hoping some broader numbers from you guys would be very helpful.
Dr. Nalin Shinghal:	Abhineet, I don't think we will give you any specific numbers on that.

Abhineet Anand:	Okay, no issues. Secondly, on the payment terms, can you restate what's the exact payment terms of let say Talcher EPC contract that we have had?
Dr. Nalin Shinghal:	Sorry, can you repeat that please?
Abhineet Anand:	Payment terms for Talcher.
U S Matharu:	I'll try to respond to this, exact payment terms for Talcher I will not be able to say right now. But these are more or less similar to the payment terms that we used to have earlier for most of the power plant order that we had, like there was certain change in case of Patratu or some FGD orders, where payments, majority of payments were backloaded and they were packed with the milestones and we can realize only once those milestones are achieved. But for Talcher, payment terms are almost restored to the earlier pattern, that a significant payment is received upon the dispatch close to some 60%, 65% around 60%. It has come back to a previous kind of payment regime.
Abhineet Anand:	Okay. And at the end, but we'll still have for performance guaranteed so we'll still have the 10% left right?
U S Matharu:	Payments related to the completion of performance guarantee test and trial operations those will continue to remain on the same pattern.
Abhineet Anand:	Okay. Secondly, sir mentioned about interest income as a tax refund as part of other income what is that amount?
Dr. Nalin Shinghal:	So, there is a Rs. 160 Cr tax refund and Rs. 106 Cr interest.
Abhineet Anand:	So, that number is Rs. 106 Cr, so the tax part, negative tax part which is way part of P&L is being shown. And lastly, from me you told about the 15 GW FGD opportunity, can you just give some timeline to it?
U S Matharu:	Actually, the timeline, which CEA has given in a document, in which they are mentioning about 28 GW, to be set up in a timeline of FY22 to FY27. And further beyond that also, they have given a plan of around 30 GW, so it's totaling to around 45 GW in total. But the tender, that we are seeing visible, in the coming year, close to some 4.5 - 4.6 GW. And based on the indication that we get from different utilities as well as some utilities like NTPC, in time about two to three years close to some 16 GW tenders would be there in the market.
Abhineet Anand:	I will just repeat what I understood because there was some, not so clear, noise, so 4.5 GW is something which can be near term and over the next two, three years 16 GW can be expected, is that right?
U S Matharu:	That's right. These may be the tenders that will be out in the market.
Moderator:	Thank you. The next question is from the line of Aashna Manaktala from ICICI Securities. Please go ahead.
Aashna Manaktala:	Sir, I wanted to ask you about, what is the proportion of a top line coming from spares and service, maybe you can give the Q2 number or one for H1 as well?
Dr. Nalin Shinghal:	Just one minute Aashna, I'll just give you the number. Roughly about 12% or so, we're looking at Rs. 1,100 Cr out of Rs. 9,400 Cr, so that's roughly about 12%.
Aashna Manaktala:	And sir, how are we looking at spare and service number to go forward in the coming year?

Dr. Nalin Shinghal:	This is an area where we are actually trying to ramp up this number because we have now taken up entering into long-term spare and service agreements with various customers. So, which would speed up the ordering cycle and would also give us a bigger share, that the complete ordering for those units would come to us, so, with that we and of course this other, the AMA to speed up, we have also started a process of advance manufacturing action to reduce our cycle time, and that along with the flexibilization order, that should help us ramp up this number in the coming years.
Aashna Manaktala:	Okay sir. And sir last year we won a large order from nuclear side. So, going forward, what is the opportunity that we are looking for and how often can we expect a similar large order like the TG Island which we had won in FY22?
Dr. Nalin Shinghal:	So, nuclear has been quite cyclic, as of now we don't have any projections on that. But then there is, you see from imperative of the net zero, this is something which will go up and there is now focus on SMRs, small modular reactors, also to replace the old thermal sets also. So, that's another direction which it is taking. So, nuclear should be going up.
Aashna Manaktala:	Okay, sir any opportunity size or size of the order you want to mention about?
Dr. Nalin Shinghal:	No, at this stage it's too premature to actually talk of any numbers, but that's an area that growth becomes inevitable.
Aashna Manaktala:	Okay. And sir, now coming to the overall fixed cost as you mentioned that other expenses have come down to around 7.2% of the revenue and even our employee costs has been quite stable over the past couple of years. So, going forward what are the cost measures that we are taking to control our expenses and how further we can control the expenses going forward?
Dr. Nalin Shinghal:	So, in fact there is a huge effort which is already gone over the last few years in this area, we are reaching an almost an optimal level as far as rather the fixed cost part is concerned, while we are still making efforts, but the major efforts now will go into areas of cost optimization, your material costs and review of the basically design to cost initiative, that is the way we will need to go ahead.
Aashna Manaktala:	Okay. And sir one last question on diversification strategies, are we also looking at electrolyzer manufacturing?
Dr. Nalin Shinghal:	So, we had set up hydrogen business group, which is looking at fuel cells and electrolyzers but we are not in a stage to actually say anything very firm in that yet.
Moderator:	Thank you. The next question is from the line of Harsh Shah from Jefferies. Please go ahead.
Harsh Shah:	Can you just provide the split of the receivables for the quarter?
Dr. Nalin Shinghal:	So, we have a total outstanding of Rs. 33,718 Cr with contract assets Rs. 27,094 Cr and trade receivables at Rs. 6,624 Cr.
Harsh Shah:	And the breakup between the centre, state?
Dr. Nalin Shinghal:	Central would be 37%, state 42%, private 14% and international 7%.
Harsh Shah:	And lastly on the 2Q order book number it would be great if you could just repeat the number I just missed it
Dr. Nalin Shinghal:	The Q2 order book?
Harsh Shah:	Yes.

Dr. Nalin Shinghal:	So, if you look at the order booking for Q2 the total is Rs. 12,004 Cr of which power sector is Rs. 9,600 Cr, industry sector is Rs. 2,286 Cr and international operations with Rs. 118 Cr.
Moderator:	Thank you. The next question is from the line of Sumit Kishore from Axis Capital. Please go ahead.
Sumit Kishore:	My question is that, with the increase in raw material cost that we have seen, what is the new capital cost for a fully built thermal power plant today including emission reduction CAPEX, in a rupees crore per MW, if you could give us some sense?
U S Matharu:	It will vary on the configuration, so if it is a single unit that may be varying between Rs. 7-8 Cr per MW and if it is a multiple unit configuration where the units can have a common setup for two units, then it may be ranging between six to seven Cr. Of course, it will depend upon the kind of scope that is built in the EPC contract.
Dr. Nalin Shinghal:	So, specifically if you look at the Talcher order it comes to almost Rs. 6.6 Cr per MW. So, that could be a figure to look at.
Sumit Kishore:	So, at Rs. 6.6 crore we know that BHEL in the past has made the +40% gross margin which is now hovering around 30%. So, I'm just trying to also get a sense from you that this particular bid that you have made would be sort of helping you get your gross margins back to earlier level. So, because of competitive pressures and the new reality where orders are limited, you have to sacrifice pricing also to some extent given the difference between L&T and you was only Rs. 1000 odd Cr on this contract.
Dr. Nalin Shinghal:	So, you see we would be looking at a mix of, specifically for Talcher of course we are looking at improved margins over what we have had in the previous years, and as the ordering picks up those margins should then stabilize at the moment you see even though a lot is visible, but the real orders have not yet happened so this is the only one which has happened after four years. So, you can well appreciate that it has been a competitive order coming after four years the first order has to be at a competitive order. But that situation should change over a period.
Sumit Kishore:	And given the opportunities that you're looking at coal gasification, carbon capture is there any CAPEX that you will need to do, to sort of bring your manufacturing capacities or recondition them to the new growth areas, so what would be your CAPEX for FY23, FY24?
Dr. Nalin Shinghal:	So, the FY23-24 CAPEX is still to be worked out, but we are now looking at significant manufacturing CAPEX because we are essentially a manufacturing company and going ahead we have to stay in the field with modern facilities. So, that is going to result in higher CAPEX in the coming years.
Sumit Kishore:	But, you would have some budgeted plan, right, for this?
Dr. Nalin Shinghal:	Not yet, we will have it once we are at it in the process. So, once our budget is complete those figures will get frozen.
Sumit Kishore:	Okay. And just to understand for coal gasification what is the thumb rule on CAPEX of 1 million tonne of coal to be gasified and what is the CAPEX for the plant that needs to be set up?
Dr. Nalin Shinghal:	It's a little early for that, because for the first plant still the engineering is going on. Now, that first plant will be at a certain level where we are also looking at some sort of a PLI or a viability gap sort

	of funding to be to be there. And as the numbers pick up, it will stabilize so, it's a little bit early to give a specific figure.
Moderator:	Thank you. Next question is from line of Deepak Krishnan from Macquarie. Please go ahead.
Deepak Krishnan:	I just wanted to understand in your current order book, how is it split between fixed and variable price contract?
Dr. Nalin Shinghal:	Fixed and sorry, can you repeat that?
Deepak Krishnan:	So, how much of your order book is fixed price contracts where you cannot pass the cost to customer, how much of it is variable where you are linked to a WPI index?
Dr. Nalin Shinghal:	So, almost 50:50 sort of break-up is there but going ahead, the PVC will be, we expect PVCs to become more of a norm. The Talcher also has a PVC built in and going ahead ordering will largely, that era of fixed price contract, people have understood the repercussions of fixed price contracts on the execution. So, that is changing.
Deepak Krishnan:	Sure, sir maybe just one follow up questions, if we look at the draft CEA it says that the fossil fuel-based power plants go from about 236 GW to 274 GW that's roughly about close to the 43 GW of gross addition. But if you take the 25 GW that's under construction does this implies about 17-GW incremental capacity over next 10 years. So, just wanted to reconcile this CEA number with your number of about 4-5 GW incremental capacity addition?
Dr. Nalin Shinghal:	So, you see, this is the total increase that you're looking at but at the same time what we had mentioned was, about 28 GW of plant over 30 years old, which will need to be and which are lower efficiency, higher pollution. So, they will need to be replaced so that number will add on.
Deepak Krishnan:	Sure sir, okay. And maybe just on payment conditions, how are we, we still about 42% of receivables coming from state to state provincially now I understand it's largely Andhra, Telangana and Tamil Nadu. But are we seeing any improvement in payment dispatches from those states or how comfortable are we, in FGDs as well as conventional power, of participating in state-based orders and their payment terms?
Dr. Nalin Shinghal:	Over the longer term we are actually looking at improvement. However, as you seen further when we told you the Q2 figures there has been fall back because there's some specific issues which have arisen over some funding issues to a couple of states. But, over the longer period that the issue, a lot of issues that got sorted out TANGEDCO and TSGENCO and those places, so we expect this phase to stabilize.
Moderator:	Thank you. The next question is from the line of Aazeb Parbatani from Omkara Capital. Please go ahead.
Aazeb Parbatani:	There are two specific questions, I want to understand first that, in terms of the EBITDA level, when we are going to see the stability in the upcoming years, or in the upcoming time, where BHEL see that from this time we are going to have a stable EBITDA, at least in a positive side. And secondly, when I see the BHEL, now you are coming into the new businesses. So, next couple of years, where the BHEL sees itself in terms of the business segment also, because it's a long time, our financials are extremely volatile, and we are not able to generate a very strong margin. So, what's the focus

	of the management of the BHEL going forward, if you can at least share with the people on the call and these are very normal questions to answer.
Dr. Nalin Shinghal:	Thank you. If you look at from the top line perspective, and the business perspective we are, as you already mentioned, we are looking at diversification and some very strong area that we are looking at are coal gasification, AISC, nuclear, and then of course, defence and railways. If you're looking at the bottom line and EBITDA perspective today, there is a lag typically between when the order is, when we are making an effort let's say technology development, getting the order and actual turnovers happening against those orders. So, as I mentioned earlier in the current year as well as in the short-term we are facing challenges on account of the competitiveness of the previous orders. As the new order execution picks up that should reduce and we should be able to improve on both the top line and the bottom line.
Aazeb Parbatani:	So, can you give some timeline in that at least tentative one because FY23 I understand we are just six months to over, next six months we will complete with FY23 with these new orders, at least by FY24, mid of FY24, mid of FY25, because every PSU vertical is doing good in your thing. So, I just want to understand means in terms of BHEL, there is something that one should get a very firefighting sight that from this year onwards, we are going to improve this, improve this, but we are not coming up to that level to be very honest, and other PSU players are extremely doing good, though I can understand your comparison is not possible, but at least tentative timeline, when you can share with the people on the call, because it's very confident move you have to give to the investors that from this timeline we are going to be there, something like that if you can share.
Dr. Nalin Shinghal:	So, you see I'm not sharing any specific timelines, any specific target and timeline in that sense, but I would repeat a couple of things which I've said earlier. So, on the one you see the entire issue on execution front, our shift from turnover centric to project centric operation. Now, that has stabilized and which is why I said the last year, we mentioned earlier, our execution has been on a record front and if you look at a percentage of the order book on hand again, that has been on a record front. So, that is one sort of data point, the second as I said again, was the old orders are competitive they will take another year, two years to complete and we have to complete we cannot afford to leave, if there are losses, whatever is there, we have to complete those orders. The new orders are coming in and as I have already said, they would take a year, 12 months to 18 months to 24 months for that execution to come in and start contributing to the top and the bottom lines. So, between those parameters you can see what's happening. I wouldn't go beyond that to give a specific timeline when topline would stabilize or when EBITDA would stabilize. But there was a parameter we are working with and let me assure you though we may not be giving you specific numbers and the same but the figures, we are seeing, and especially the execution figures, we are seeing and order booking figures, you're seeing and the diversification you are seeing, is an outcome of a very serious effort on all these fronts.
Moderator:	Thank you. The next question is from the line of Abhineet Anand from Emkay Global. Please go ahead.

Abhineet Anand:	So, this un-executable order book stands around Rs. 25, 000 Cr, right, because one lakhs six and 81 is the difference. So, what are these projects and why is it still in the book, I want to understand that.
Dr. Nalin Shinghal:	I'll request Mr. Matharu to take that.
U S Matharu:	So, if you look at the projects which are under hold, close to some 19,000 MW of orders are under hold. So, some of the projects which don't have any hope of revival are under liquidation or are under NCLT like RattanIndia, VISA Power. Besides that, we have hope of revival of some projects like Uppur of TANGEDCO of 2 units of 800 MW and Damodar Valley Corporation Raghunathpur also, these are expected to be revived and beside, there is a long list I wouldn't be able to take all the names. So, this figure in terms of MW is coming close to 19,000 MW.
Abhineet Anand:	Just to understand if the contract is under liquidation or NCLT, has that been removed from the book?
U S Matharu:	No, it has not been removed.....
Dr. Nalin Shinghal:	The issue is that commercial settlements are pending in a lot of these cases. So, once those settlements are done then there will be the time. So, there'll be two types of things here you see, one is where we are expecting revivals. And the other is where NCLT case is going on or other proceedings are there, where arbitrations are on where settlement is pending, you see that will close when the complete this item finishes really.
Abhineet Anand:	So, is it possible to just bifurcate the amount in the two buckets that you have said, because expecting on revival part is something which is crucial, which can add to our order book in coming years.
Dr. Nalin Shinghal:	We can share that separately, we have that information we are happy to share, we'll share that separately.
Moderator:	Ladies and gentlemen, that would be our last question for today. I now hand the conference back to the management for the closing remarks. Thank you and over to you.
Dr. Nalin Shinghal:	Thank you for your patient hearing and an interactive Q&A session. And thank you very much for your interest in BHEL and Goodbye.
Moderator:	Thank you very much. Ladies and gentlemen on behalf of ICICI Securities that concludes today's call. Thank you all for joining us and you may now disconnect your lines. Thank you.