



BHEL Q3 FY13 Earnings Conference Call

February 1, 2013

MANAGEMENT FROM BHEL

MR. B. PRASADA RAO – CHAIRMAN & MANAGING DIRECTOR

MR. P.K. BAJPAI – DIRECTOR FINANCE

MODERATOR

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February 1, 2013

Moderator

Ladies and gentlemen good day and welcome to the Q3 FY13 Earnings Conference Call of BHEL hosted by Standard Chartered Securities. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference please signal an operator by pressing '*' and then '0' on your touch tone phone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Lakshminarayana Ganti from Standard Chartered Securities. Please go ahead.

Lakshminarayana Ganti

Good afternoon everyone on behalf of Standard Chartered Securities, I welcome you all to the 3rd quarter Earnings Conference Call of BHEL. We have Mr. B Prasada Rao – Chairman and Managing Director of BHEL, Mr. P.K. Bajpai – Director of Finance and Mr. W.V.K. Krishna Shankar – ED, Corporate Planning. I will request the management now for a few opening remarks and then we can have Q&A.

B Prasada Rao

Good afternoon friends. Before I give my formal opening remarks, I am B Prasada Rao, CMD BHEL. I have with me Mr. P. K Bajpai, Director Finance, Mr. Krishna Shankar, Executive Director of Corporate Planning and Development Mr. Rakesh Mathur, Executive Director Power Sector Marketing, Mr. Gopalakrishnan, our Specialist Marketing, Mr. Vaidyanathan, General Manager Finance. A very warm welcome to all of you. I would like to inform friends that today we have received a formal letter recognizing BHEL as a "Maharatna" company. This is a recognition which has come to BHEL after showing consistent record on earnings and it also gives some extra delegation to the boards in some of the mergers and acquisitions opportunities and some of the other board level decisions which we can take now while earlier they were to be referred to the Ministry. Having said that I would like to talk about today's subject.

Indian economy is still experiencing sluggish growth. However, there are some signs of the slowdown leveling off. Industrial activity remains weak reflecting subdued manufacturing, deceleration in electricity generation and contraction in mining activity, while industrial production slowed to year-on-year increase of just 1% in April to November 2012. The seasonally adjusted 3 monthly moving average of the IIP points to some pickup year-over-year in money supply. Growth fell to 12.9% by mid-January and remained below the indicative trajectory of 14% , which essentially reflected the deceleration of growth in aggregate deposits and moderation economic activity. Some of the measures undertaken by the government since mid-September including setting up of the Cabinet Committee on Investment have lifted business sentiment somewhat to improve the investment but it will take some more time to reverse the investment slowdown and re-initiate the growth. In the recent monetary policy review, RBI has revised the baseline projection of GDP growth for 2012-13 from the previous 5.8% to 5.5%. Some efforts are being taken to provide an appropriate interest-rate environment to support growth and manage liquidity, to ensure adequate flow of credit to the productive sectors of the economy but we will continue to have challenging times in the short-term. Indian power sector which contributes to almost 76% to top line is passing through toughest phase in the recent times. Issues like coal linkages, land acquisition, environment clearances and fund constraints continued to adversely affect the power sector business environment and new

projects taking off is getting limited to central and state sectors. Even 800 MW mega power projects under the bulk tendering of NTPC, which have been approved by the Cabinet and where the bidding process have been completed almost a year ago, are yet to be ordered. Just yesterday we have received the notice of the award of 3X360 MW Nabinagar boiler package which is also a part of the above bulk tender. Fund constraints in the power sector has affected many ongoing power projects and the project developers are not in a position to release payments to the suppliers. A number of private developers have put on hold their projects which have already been ordered. In some cases BHEL has been forced to suspend work due to mounting dues from these project developers but this is expected to be a short-term phenomena. The situation is improving off late and payments have been released in some of the projects. Our pace of project execution remains healthy up to 3rd quarter. We have done about 5384 MW commissioning which includes 1700 MW synchronized and awaiting capacity addition. By the end of the year we expect to touch more than last year's capacity addition. Total orders booked in the last four months period up to January 13th 2013 were Rs. 6051 crores, consisting of Rs. 3969 crores of power sector, Rs. 1472 crores from industry sector and Rs. 727 crores from exports. In the current year till now we have received total orders of around Rs. 15,000 crores amounting to 5337 MW. In fact you will see in the results that are put in December it was Rs. 10,000 crores and in the last one month up to yesterday including the Nabinagar order, it went to up to Rs. 15,000 crores. Now major orders booked during the year includes, as I earlier informed to you in the other quarters, the Ramgarh Combined Cycle Plant for the Rajasthan Rajya Vidyut Nigam Limited, the NTPC Vindhyachal 1X500 MW TG&SG package, the DVC Raghunathpur 2X660 MW TG package, the 2X700 MW Rawatbhata Nuclear Power Station from NPCIL this includes the turbo generator package including control and instrumentation package for the turbine island secondary cycle system and 3X660 MW Nabinagar boiler package which has come yesterday. 4X 180 MW MEM package for the Mangdechhu Hydroelectric Project Authority Bhutan, which is an export order. This is subsequent to the Punatsangchhu 1200 MW order which has come in the first quarter. The electrostatic separator packages for the NTPC Mouda and Sholapur projects, the renovation and modernization package for upgradation of the control & instrumentation systems for the units IV and V of the NTPC Farraka Power Station, 3X57 Hydro MW NTPC Lata Tapovan project, core handling package for the NTPC Meja, refurbishment upgradation of drilling rigs for ONGC, supply, erection and commissioning of 19.5 MW for NALCO Damanjodi and seven number IGBT based traction converter systems from Indian Railways, 28 sets of traction electrics again from Railways and the V 94.2 gas turbine-based power station from GECOL Libya for the Western Mountain project.

You would be aware that BHEL has already been placed at L1 in case of the Odisha Power Generation Power Corporation projects Unit-III and IV 2X 660 MW Odisha. We have also emerged as the lowest bidder in both the Rajasthan bids that is Suratgarh 2X660 MW and Chhabra 2X660 MW for the second time demonstrating that the company maintains its competitive edge. At the moment an additional 1800 MW worth bids are under evaluation and further eight sets of 660 MW, that totals to roughly 5300 MW are in the offing and about 7000 MW till March 13th 2013. All this are from predominantly central and state sectors. In international operations we have commissioned the 2X100 MW Nam Chien hydro project unit

I at Vietnam, modernization and upgrading of the 2X 5 MW Warsaw power plant at Kazakhstan and 12 MW STG set at Finnncha Sugar factory in Ethiopia. We also launched the Shell BHEL enterprise frame agreement which qualifies BHEL for supplying frame five, frame six and frame 9E gas turbine generators to Shell in over 40 countries worldwide up to a period of five years with the unique distinction which Shell has given to any company. With these orders BHEL has the order book of Rs 1, 13,771 crores as of 31st December 2012 and 79% of these are accounted by power sector, 13% are accounted by industry sector and balance 8% is accounted for by the international operations.

Now coming to the financial results – As you have already seen the turnover up to 3rd quarter 2013 is Rs. 10,540 crores against Rs.11,071 crores during the 3rd quarter of 11-12. Turnover up to 3rd quarter FY 12-13 is Rs. 30,290 crores against Rs. 29,260 crores up to 3rd quarter FY 11-12, a 3.5% increase. Profit before tax for the 3rd quarter FY 12-13 is at Rs. 1696 crores against Rs. 2076 crores during the 3rd quarter of FY 11-12. Profit before tax up to 3rd quarter FY 12-13 is Rs. 4184 crores against Rs. 5238 crores up to 3rd quarter FY 11-12. Profit after tax for 3rd quarter FY 12-13 is placed at Rs. 1182 crores against Rs. 1433 crores during 2nd quarter of FY 11-12. Profit after tax up to 3rd quarter FY 12-13 is Rs. 3377 crores against Rs. 3660 crores up to 3rd quarter FY 11-12. I thank you all once again for joining this conference call we will not take the questions.

Moderator	We will now begin the question and answer session. The first question is from the line of Nirav Dhanraj Vasa from SBI Cap Securities. Please go ahead.
Nirav Dhanraj Vasa	My first question pertains to the order inflow. You informed as per my understanding in the first six-month order inflow was Rs. 8717 crores, am I right?
B Prasada Rao	Yes, that is right.
Nirav Dhanraj Vasa	And for the nine months it is Rs. 15,000 crores?
B Prasada Rao	Not for the nine months. Up to January 13, it is 10 months you can say.
Nirav Dhanraj Vasa	Effectively can you tell me what are the December ended numbers?
B Prasada Rao	December end was Rs. 10,693 crores.
Nirav Dhanraj Vasa	Can I have a breakup of that in terms of industrial and export and power?
B Prasada Rao	Rs. 6701 crores for power sector, industry sector Rs. 3091 crores and international operations Rs. 978 crores. Now you have to remove Rs. 77 crores out of that as there are intersectoral orders also, so Rs. 10,693 crores is the total.
Nirav Dhanraj Vasa	My second query pertains to your bid that you have placed, in which you are L1 that is the Suratgarh and Chhabra project. Just wanted to know what was the competitive intensity in that particular project especially after it was put after it was rebid?

- B Prasada Rao** Initially in the first time there were 2 bidders that is BHEL and BGR and the second time there were four bidders, that is BHEL, L&T, BGR and Alstom.
- Nirav Dhanraj Vasa** Would it be possible for you to give some comment on terms of pricing at which it was done in terms of megawatts, at which we won?
- B Prasada Rao** No it is not yet won that is why I'm not able to give you a figure. We are placed at L1, so we are in the process of finalization of the orders with them.
- Nirav Dhanraj Vasa** So are you expecting to get the LOI in this financial year itself?
- B Prasada Rao** Yes. We are expecting this well before March
- Nirav Dhanraj Vasa** In the first nine months what was the revenues from spares?
- B Prasada Rao** You please get in touch with Mr. Krishna Shankar. He will give you this figure later. I do not have it ready here.
- Moderator** Thank you. The next question is from the line of Venkatesh Balasubramaniam from Citigroup Global Markets. Please go ahead.
- V Balasubramaniam** Firstly in your 3rd quarter other income was slightly on the higher side Rs. 332 crores vis-à-vis Rs. 130 crores in the 2nd quarter. So do we have any one-off items in this particular number?
- PK Bajpai** Mainly on account of exchange rate variation which is helping us there.
- V Balasubramaniam** This amount even in the 1st quarter on your FOREX receivables you had a gain of almost Rs. 135 crores, so can you quantify the quantum in the 3rd quarter?
- PK Bajpai** I think it is Rs. 179 crores and partly it is because of extra receipts on freight, this is translational gain and some of it because of higher billing on freight and insurance.
- V Balasubramaniam** The other thing is why has on a quarter-on-quarter bases your other expenses gone up from Rs. 1048 crores to Rs. 1412 crores any particular reason why it has gone up so much?
- PK Bajpai** It is gone up because of inflationary pressure as all sundry items have gone up marginally and normally provisions do go up as you enter the 3rd and 4th quarter because they are milestone linked and most of the milestones happen in these quarters.
- PK Bajpai** The main factor contributing to this, as per accounting policy after a trial operation is complete after three years and the money is still not collected from the customer, it is provided for immediately. Because of this you are seeing that.
- V Balasubramaniam** The other question is you said that till December 31st 2012, you had orders roughly of Rs. 10,693 crores or something like that?

- PK Bajpai** That is right.
- V Balasubramaniam** But in the first till January 31st maybe you won another Rs. 50,000 crores or so of order?
- B Prasada Rao** Rs 5000 crores
- V Balasubramaniam** And you said that the key differences is this 3X660 order. Now 3X660 is 1980 MW and the pricing there was roughly around Rs. 1.4 crores, so you should have got order of only Rs. 2300 crores, how come you won Rs. 5000 crores? Is there some other order you have won?
- B Prasada Rao** I mentioned all the orders, the Rs. 2880 crores is Nabinagar and then we have got Mangdechhu export order from Bhutan which is roughly Rs. 750 crores. There are other small product orders which have come in the industry sector segment. So all that put together roughly comes to Rs. 5000 crores during this month.
- V Balasubramaniam** My last and final question now. I guess in the 2nd quarter you had said that there were certain clients who are not making payments on time so you have stopped dispatches. Now apparently in the month of November or December, the Central Electricity Authority put out to monitor the projects. So they put that, you have stopped dispatches to India Bulls Power, Amravati and Nasik phase 1 and it also said that at Amravati phase II and Nasik phase II no work is happening but then over the weekend they changed the status and said that everything is back to normal. So is everything back to normal and especially is phase II project going to take off or that order will have to be removed from your backlog?
- B Prasada Rao** No, it is not so. Customer has not removed the order, definitely. The picture is like this. India Bulls Phase I is going on at Amravati, Nasik three units are going on, at two units work is slow. Now coming to phase II in Amravati and Nasik; customer has taken some of the equipments from us, later on they said that it will get delayed. However they have not officially told us anything. We have put on hold the supplies to these projects because we are not getting our payments. Now they are talking to us. We are trying to sort out the problem amicably.
- V Balasubramaniam** Is their problem in any other project? What about the Visa Power one where I think Larsen and Toubro has actually filed a case in the court that they are not getting payment. You are supplying the BTG, so are you not having problems in that project in Visa Power?
- B Prasada Rao** Visa Power we have stopped supplying long back. We have supplied initially a few things and afterwards we have stopped the supplies. Now customer is coming and talking to us to revive and once he makes payments to us and then we will revive the project.
- V Balasubramaniam** Thank you and all the best. I hope things improve in the sector going forward.
- B Prasada Rao** I think I'm also seeing that, probably we have touched the lowest point and things should improve from here.

Moderator Thank you. The next question is from the line of Renu Baid from B&K Securities. Please go ahead.

Renu Biad We have seen a first time the sales dropping on a quarterly basis after so many years. So how do you perceive the ongoing problem that you are seeing in the power sector and the environmental of structural clearances or the payment issues? Will we be able to beat the overall excellent rating guidance by typical margins of 5% to 10%, the way we have been doing it for the last few years or you think there could be some risk to that?

B Prasada Rao As I mentioned power sector is bogged down with all these issues of coal linkages and the other environmental clearances and even with PPA, Power Purchase Agreements not coming in time. So the projects which have been entered into, got into a kind of a slowdown. I am not seeing that any project will get cancelled in the process because some of the activities are going on and they continue to get money from wherever they can organize and trying to somehow see that these projects are completed. But I am now seeing with the CCI coming into existence, some of these projects have been already discussed in the first meeting of CCI probably day before yesterday and there are also positive signals which are coming. Even the fuel supply agreements are getting signed. Even some 6-7 states have already agreed to restructure their distribution companies and further they are going to discuss on 5th of February 2013 at the Power Minister's conference these restructuring of the distribution companies in their own states and some other states are raising the tariffs. All these are positive indications for improving the power sector and everybody at the end of the day realized that without power capacity addition not happening we can't expect GDP growth, the rates at which the country is planning. I'm also seeing changes on the ground. For example today we are submitting offers worth of another 6000 MW before the end of this year and further there is another 7000 MW for which tenders are already there and we need to submit offer in the first five-six months of the next year. So as all these are happening in the state sector and the central sector mostly and private sector definitely has taken a backseat in this since the projects they have started must complete first. That is why I feel at this point of time that we have probably touched the bottom most and things must improve on the order book front. As far as your comment on the margins is concerned it is directly related to the top line and you are seeing the top line once it is affected due to these kind of slowdowns, those orders what we have, we have orders worth about Rs. 1,13,000 crores even today as we mentioned and these orders really picking off the kind of executive portion is getting delayed that is why the top line is also not expected to come in the manner as it was coming earlier, so otherwise if these problems are removed, growth is immediately possible because as you know our capacity is 20,000 MW and our manpower is ramped up. So there is no issue on any of the actions to be taken by the company as such.

Renu Biad But in the near term this could probably as and till we see the finalization of these fresh orders, we could see probably the next few quarters being more bumpy?

B Prasada Rao Normally I don't give any anticipated figures but in the case of orders I can give you what I am expecting by end of March. Probably will have a total order receipts of Rs. 25,000 to Rs.

30,000 crores. We are expecting the Rajasthan order is at least one of the project that will be finalized and Orissa Power Generation project is getting finalized. And we are also expecting the order what may have won already in the last year which is yet to be placed by NTPC Odisha projects. Out of that at least one project site they are changing to Gadawara in MP and that project we are expecting to be finalized and 1X500 MW Unchahar project. NTPC is going to give it to us on nominations bases for total EPC and all these things will definitely give us a good top line for the next year at least. With this kind of scenario the execution will become faster and all of that will give us the revenues.

Renu Biad So essentially when we started the year, things were looking more challenging and probably in the last 2-3 months you have seen a visible improvement in terms of the macro indicators, the structural problems which have been there?

B Prasada Rao That is right for the power sector at least.

Renu Biad Second question probably from the LD side. If you can just give some clarification with respect to what were the details of provisioning in the 3rd Quarter YTD with respect for warranty obligations and bad debt provisions created and added during the quarter?

PK Bajpai There is a provision for contractual obligation of Rs 145 crores, doubtful debt is Rs 108 crores, and LD is Rs 190 crores.

Renu Baid And this was created during 3rd quarter or YTD?

PK Bajpai For the quarter. There are certain creations, certain withdrawals. This is the net impact.

Renu Baid Okay this is the net impact. And sir what would be the net impact for the 9 months?

PK Bajpai For 9 months, contractual obligation is Rs 539 crores , doubtful debt is Rs 133 crores, and LD is Rs 240 crores.

Renu Baid Just before closing, Mr. Rao can you throw some light in terms of non power sector. There were initiatives on which you were working on the transportation side as well as transmission side of the business. So have you seen any traction movement there or probably things continue to be slightly slower on that part of the business?

B Prasada Rao In Transportation there seems to be some movement and railways is now serious in deciding some of the investment decisions. We are expecting some developments to happen shortly and we will announce it probably during the 4th quarter and as far as the orders are concerned we keep getting few orders whatever we are supplying to their commercial systems or for their own factories, both in terms of motors, traction transformers and IGBT based inverter systems. We continue to get all these orders. Similarly on the transmission side off course, it is still affected. We have seen less activities in new sub stations this year. Again they are also bogged down with forest clearances, environmental clearances, number of other issues. And the market itself has

been a bit subdued. But otherwise as the generation sector picks up, I expect transmission should also pick up in the same manner.

Renu Baid

Okay that's good. And just before closing, I just wanted to clarify on the 3rd quarter order intake number you mentioned till December. It was about Rs 10,693 crores of which Rs 8,713 crores was in first half. So essentially Rs 1980 crores of net inflows in 3rd quarter that we have seen.

B Prasada Rao

Yes that's right.

Moderator

Thank you. The next question is from the line of Rajesh Panjwani from CLSA. Please go ahead.

Rajesh Panjwani

Two questions. First is, you mentioned that there has been a slowdown in revenues because of your policy of not supplying equipments to players who are not making payments in time which I think is obviously good move but it is having an impact on revenues now. Do you see that drag continue for the next couple of quarters before things stabilize, that is one. Second you mentioned that you have stopped supplies to VISA Power. Now if you stop supplies to a project, does it remain in the order back log as a project and for the amount of supplies which have already been made is there any provision which requires to be made?

B Prasada Rao

As far as your first question is concerned, as I mentioned in my opening remarks already that the payments are now starting to improve. In fact our cash collections this year has been roughly 18% more than last year by now. So there is a lot of improvement in that. Taking some of these measures of strictly controlling dispatches with respect to cash inflows, any company will have to do that. I am seeing there is improvement because of these kinds of steps and also at the same time customers are also able to organize their own financing closures and are able to get the loans and whatever they are tied up with the banks or other financial institutions. And another step we are taking is now we are tying up with the bankers and the financing institutions directly so that the payment directly comes to us. So we get the priority in terms of payments to be given for the equipments. So this will improve. The scenario is improving and I expect the impact of that on the revenue should come down but however, you call it a policy but it is a measure which any company will have to take and that's what we have done. The second question what you asked about, unless the customer cancels the contract or pushes on hold, we will not take it over from the order book. It is there in the order book. Customers have paid advance for it. And we have supplied the material, and that material will be there as a turnover and no need to provide for it because advance sometimes cover it either fully or some section it will cover. So there is no issue on that front and we don't expect that to go bad. Because we know that investment, something happened in the place there and therefore he also cannot abandon the project and that's why it can get delayed.

Rajesh Panjwani

And sir which are the other projects other from VISA Power and India bulls which either your stock supplies or?

B Prasada Rao

There are no major projects that way. Yes, there are some smaller activities. We always do this. For example some of the projects which are in the final stages of commissioning and where we

have outstanding where we do ask them to pay and we tell them that unless the payment is made by so and so client we will not be able to carry out the activity and that's exactly because of our cash requirements and also what we need to pay to our contractors.

Moderator

Thank you. The next question is from Lokesh Garg from Kotak securities. Please go ahead.

Lokesh Garg

Sir just wanted to ask you as the power sector has gone through lot of issues one would have expected that industrial sector could help considering the breadth of activity that BHEL conducts there. However, versus something like a Rs 10,000 crores type order inflows annually for last 4 years which is between 2009 – 12, BHEL's order inflow seems to be much lower than that kind of number this year running. In which case industrial really hasn't helped us in spite of all its breadth right?

B Prasada Rao

See the industry is experiencing much bigger slowdown. All the industries whether it is steel, cement, fertilizer, all these industries are experiencing a much bigger slow down. You are seeing the effect of that in IIP. Industrial Index Production has gone down so much. Unless the capacities are fully utilized they will not go for investments. It is an investment. As you know the business of BHEL comes from the extra investments which are made by these industries for their capacity expansions. So industry slowdown is much bigger in the country and therefore business which come out of it, for example the captive power segment where there is no industry which is going for captive power segment today. Firstly, coal allocation is a problem and secondly the industry expansion activity itself has come to a halt. So what do we do with the captive power? So there are no new projects, in fact in the captive power segment not many new projects have come in the last one year. And similarly even on the equipments sales, what we normally supply as motors and transformers and some of the mechanical equipment like compressors, the markets have been very subdued for these products.

Lokesh Garg

Sure sir, incrementally is this changing based on whatever is said on transportation defense transmission? Is that likely to change in the near term?

B Prasada Rao

Transmission is also down because they are also bogged down with all the clearances. In Transportation we are maintaining the kind of orders we have been receiving in the past and in fact it is better this year. As far as railways requirements are concerned we have submitted new bid for the metro segment as we have been saying that BHEL has tied up with Hitachi. We have quoted a job for DMRC. Metro is going to be new business lines for us and based on the success of this tender or in the subsequent tenders we are going to set up, probably new manufacturing facilities for production of these equipments required for the metro segment. So transportation segment has a much bigger potential. However, the other segment there has been a subdued activity. Even in defense there is not much of activity. Defense takes a long time for any decisions to be taken and so no measures. We are expecting some minor orders in defense sector but no major peaks are happening this year.

Lokesh Garg

My next question relates to the Rajasthan tender. Essentially, earlier calls in the sector seems to suggest that BHEL is better priced in that tender for Suratgarh and Chhabra may be of the order

of somewhere around Rs.54 – 55 billion for an EPC of 1320 megawatt. Now I only wanted to question that earlier BHEL's price seemed higher than this and this seems to be the priced which is almost equivalent to or lower than subcritical tenders of the size. Considering these 2 things, is the BHEL strategy right now of begin somehow take the order so that at least we can cover large proportion of cost and may not be as much margin accretive if it is so?

B Prasada Rao

See first of all it is a mega project. And therefore you have to compare with its equivalent. Second thing is earlier specifications and present specifications there is a difference. There is a lowering of specification also and secondly from our side we have progressed a lot in indigenization. So, all these factors definitely help us in giving a better quote.

Lokesh Garg

So essentially you are saying that in spite of lower price points to start with, BHEL could actually aim to make margins which are comparable to current margins for BHEL?

B Prasada Rao

That is always the effort which the company makes. In fact if you look at our 3rd quarter results, we have kept the material cost much lower than the last year 3rd quarter even with a price variation clause. So we have taken into account all that. This is not a fixed price contract. There is a price variation clause also built in to the contract. So you have to evaluate on like to like basis, then only you will know the exact comparison with respect to sub critical or the other projects which are in the market.

Lokesh Garg

Other thing which I wanted to ask you is what is the cash position of the company as of now. If you can share that?

PK Bajpai

We had an opening balance of Rs 6000 crore plus and till 3rd quarter there has been net deficit of both operations and non operations is about Rs 3000 crore plus. So as on 31st of December we had a net cash of Rs 3500 crore. It also depends on the advance accretion. If it improves in last quarter which we are hoping we would be again getting back to the original position.

Moderator

Thank you. The next question is from the line of Shirish Rane from IDFC securities. Please go ahead.

Shirish Rane

Just wanted to know whether we bid for the NMDC order for captive power plants. Or we have stopped bidding for the captive power plant orders?

B Prasada Rao

We are bidding for captive power plant orders wherever opportunity is, we have not stopped.

Shirish Rane

Because somebody else won the order and we were told that there was quite a large difference between their bid and our bid, so that's why I was wondering.

B Prasada Rao

I think your information seems to be totally wrong. Nobody has finalized any order from NMDC. In fact NMDC is still thinking of where to set up this plant.

Shirish Rane

Sir the second point was on the cash balance, I didn't get the number is it Rs 3500 crores?

- PK Bajpai** It is approximately Rs 3500 crores only as on 31st December.
- Moderator** Thank you. The next question is from the line of Akshay Soni from Credit Suisse. Please go ahead.
- Akshay Soni** This is Akshay from Morgan Stanley. My questions have been answered, thank you.
- Moderator** Thank you. The next question is from the line of Pritesh Chedda from Emkay Global financial services. Please go ahead.
- Pritesh Chedda** You mentioned about the 1800 megawatt probably tendering. If you could tell us which are those projects?
- B Prasada Rao** We don't give the tender name since it is very sensitive information to the market. You can separately talk to Mr. Shankar and take if you need.
- Pritesh Chedda** And in the project wins of 5337 megawatt I could only note down the bigger names which is 3x660 NTPC Nabinagar. Which are the other ones, the key ones?
- B Prasada Rao** DVC Raghunathpur 2x660 TG package, NTPC Vindhyachal 1x500 TG and SG packages; 2x700 megawatt TG NPCIL as a TG and CCA package; Mangdechhu Hydroelectric Project, Bhutan 4x180 megawatt, the Electrostatic Precipitator Packages for the NTPC Mauda and Sholapur projects; NTPC Lata Tapovan 3x57 megawatt hydro project; and then coal handling plant package for NTPC Meja. These are the major ones.
- Pritesh Chedda** And there was Ramgarh Rajasthan?
- B Prasada Rao** That is also there yes.
- Pritesh Chedda** That was what size sir?
- B Prasada Rao** 160 megawatt BTG package
- Pritesh Chedda** And this is my last question, if you could give us the working capital figures?
- PK Bajpai** Approximately Rs 21,000 crores
- Pritesh Chedda** And so this is inventory & debtors?
- PK Bajpai** This is net working capital.
- Pritesh Chedda** Okay if you can give us the inventory, debtor and liabilities figure?
- PK Bajpai** I may not have them directly but inventory is almost at same level. There is slight reduction in debtors, there is reduction in collectible part. There is an improvement but major liquidation of

orders and slow down in order receipt has led to current liability reduction and which has led to the working capital.

Pritesh Chedda In inventory there is a reduction versus last year. Debtors there is a reduction?

PK Bajpai There is a reduction in the part which is collectible.

Pritesh Chedda And what comes down is the advances figure?

PK Bajpai What comes down is advances. Working capital is a little increased because of that.

Pritesh Chedda And total is at about Rs 21,000 crores.

PK Bajpai Yes.

Pritesh Chedda Lastly, I just want to check the NTPC bulk tender orders which we booked in the beginning of the year and what has come of NTPC Nabinagar today. When will the critical revenue booking of these orders start in your opinion?

B Prasada Rao Well, I think next year the last quarter onwards probably it can start for Nabinagar. But there is Darlipali and Gadawara. Darlipali is getting converted to Gadawara in MP and the order will come, I am expecting, by end of March. So once it comes again probably the revenues and portion of that we can start by end of next year.

Pritesh Chedda And the third one?

B Prasada Rao Third one, we don't know when the order will come

Moderator Thank you. The next question is from the line of Charanjit Singh from Axis capital. Please go ahead.

Bhavin This is Bhavin from Axis capital. Just harping on the point of Suratgarh and Chhabra bit that is around 4 crores per megawatt. What could be the proportion of BTG and BOP in this Rs 5400 crores?

B Prasada Rao How do you expect us to give that information? This is very competitive sensitive information.

Bhavin And what was the difference between L1 and L2 in this bid?

B Prasada Rao I believe 3% it is.

Bhavin And beside the 1800 megawatt under tendering, if I am not mistaken you highlighted there are few sets of 800 megawatt each of 5300 megawatt where tenders will be placed in the first half of FY14?

- B Prasada Rao** That's right.
- Bhavin** Are you seeing any possibility of any of these players moving out and pricing in the industry moving in the near term?
- B Prasada Rao** Well we don't have any confirmed reports. I also have the same information what you people have from the media. That's all. I don't have any extra information on that?
- Bhavin** But do you believe the pricing in the industry will improve in the next 1 year?
- B Prasada Rao** This is not sustainable so it has to improve.
- Bhavin** And the orders have been taken BHEL will make same margin as they have been making now?
- B Prasada Rao** See the company will always try to strive to maintain the margins. That's what I said.
- Bhavin** But are these margins better or worse than the current ones, the new orders which have been coming in the last.....
- B Prasada Rao** As I told you we will not give you any future indications. It is not in my hands. Normally as a company policy we don't give any future guidance.
- Bhavin** Last 2 confirmations, you said the order inflow for current year will be between Rs 25,000 – 30,000 crores.
- B Prasada Rao** That is the approximate figure yes.
- Bhavin** And how do you see Fiscal '14 going forward?
- B Prasada Rao** Fiscal '14 should improve. As I said that, I think, probably currently we are at the bottommost point of this economic cycle and particularly in the power sector and I am also seeing that seems to improve from now onwards. So Fiscal '14 should be better.
- Bhavin** Rs 35-40,000 crores of order inflow, would that be safe assumption?
- B Prasada Rao** Again you are asking me the views of future figures. I cannot give you.
- Moderator** Thank you. The next question is from the line of Ankit Babel from Shubhkam ventures. Please go ahead.
- Ankit Babel** Sir my first question is on Rajasthan SEB contract. Now is there a clause in the document that out of the 2 order only one would be awarded to one player and second order would be awarded to L2 if it matches the L1, is there a clause?
- B Prasada Rao** I believe so. The tender says that.

- Ankit Babel** Okay so that clause is there. Out of the current order book, how much is slow moving sir?
- B Prasada Rao** There is nothing called slow moving. As I mentioned it depends on the payments what they make. The moment he pays, tomorrow or day after tomorrow it starts moving. So we don't classify something like this. So I don't have any figure for that.
- Moderator** Thank you. The next question is from the line Sumit Kishore from JP Morgan. Please go ahead.
- Sumit Kishore** I have a couple of questions. The first question is on your capacity utilization currently. Could you comment on this versus the 20 gigawatt of capacity that you have, at what levels are you working at currently?
- B Prasada Rao** Normally the capacity utilization we look at it in end of year because these are all long lead items. Some things will be in process. It doesn't give you a quarterly indication because the deciding time itself is very large.
- Sumit Babel** For the 9 months period?
- B Prasada Rao** Approximately, we are almost at 70 – 80% of the capacity utilization level I can only tell you that but exact figures I can only tell you on end of the year.
- Sumit Babel** My second question is specifically on your Trichy plant. Due to electricity cuts that we have been reading about in the state of Tamil Nadu and your supplier also reeling under that stress plus the balance sheet pressures as well, have you faced any kind of execution slowdown in Trichy on account of that, which is a significant portion of your top-line?
- B Prasada Rao** Two things we have done here. First of all our Trichy plant itself is not experiencing any power cuts. We have taken exemption from the Tamil Nadu government. So our plant is getting all the power what is needed. Yes, our suppliers around Trichy and Tamil Nadu got affected. So we have shifted these orders outside Tamil Nadu. So our supplies have not been affected. We have planned well in advance all these steps. So the supplies from Trichy plant are not affected due to any power cuts imposed by Tamil Nadu government.
- Sumit Kishore** So you have shifted orders outside Tamil Nadu?
- B Prasada Rao** Yes wherever was required to be shifted because certain people were not able to organize auxiliary power supply. And whoever was affected, we had to shift keeping in mind the project schedules.
- Moderator** Thank you. The next question is from the line of Chokalingam Narayanan from Deutsche Bank. Please go ahead.
- Abhishek Puri** This is Abhishek Puri from Deutsche. Sir two questions, first one your order pipeline. Are there any orders which are in the negotiated pipeline as well?

- B Prasada Rao** I mentioned Unchahar. This is coming on a kind of nomination basis to us but then as you understand nominated basis doesn't mean anything and everything you get in price, it's a benchmark to competitive price. Unchahar is coming to us on a total EPC basis on nominated basis from NTPC.
- Abhishek Puri** Any of the state projects which you think are coming up?
- B Prasada Rao** In future there could be but right now there is nothing on the cards. You are talking about nomination basis?
- Abhishek Puri** Yes.
- B Prasada Rao** It's on competitive bidding basis only.
- Abhishek Puri** Any of the projects in the JVs we were working on with the states?
- B Prasada Rao** NPCIL could go for a tender and the 3rd project for Karnataka could also go for a tender or go for a finalization. But all that I expect to happen next financial year.
- Abhishek Puri** That is next financial year '14.
- B Prasada Rao** Yes.
- Abhishek Puri** Sir my next question is, some other competitors of yours have been talking about higher captive power orders. Do you see similar kind of increase in the enquiries that are coming to you?
- B Prasada Rao** That is very small segment rating. It is not in that segment in which we would like it to be. It is up to 20 megawatt, 25 megawatt kind of segment it is. We are not seeing many activities in the 80 megawatt – 100 megawatt, 150 megawatt kind of market.
- Abhishek Puri** So it's all below 100 megawatt?
- B Prasada Rao** Much below. Below even 60 may be below even 40.
- Moderator** Thank you. The next question is from Harish Bihani from CIMB securities please go ahead.
- Harish Bihani** Sir basically you mentioned in previous calls you want to have a proportion of your industry backlog as well as order inflow increasing over the years because right now power is 70 – 75% of your overall order inflow and order back logs. With this regard where are you planning to invest in terms of new areas in the industry segment where you can grow?
- B Prasada Rao** I mentioned partly about transportation and both in the conventional as well as metro segment there is going to be good growth and transportation at some point of time could even become size of the power sector though it is slightly far away. But it has a potential to become that kind of segment for BHEL. In fact the development activity what we have taken for IGBT basis

inverters and position ourselves very competitively with respect to competition from abroad and some of the Indian companies and we are placed very well in that segment. Similarly in a metro segment we have now submitted bid for DMRC tender and we are also going to be in the race for all the other cities which are going in for metro lines and similarly even the monorail, we are going to be in that segment. And we are also talking to railways for their own plans for setting up factories for 3 phase locomotives and also high speed locomotives. So these are all actions on the cards for improving the transportation segment. Similarly transmission segment is also experiencing today a sort of slowdown. In fact much more than the power sector. Otherwise whenever the economy starts picking we have to take up the transmission again in a big way. In High voltage DC segment, we are already executing a big project between North Eastern and Agra, a major project and a tie up with ABB is in place for that. And we would like to take it forward because number of other HVDCs projects that are going to come in the country particularly between south India and north India where bulk power transmission is required. And similarly we have plans in the renewables. Renewables, we have said that we will set up a manufacturing facility because volumes again is more important here but we are seeking some help from the government in this because we are wanting to set up a totally integrated facility where we can produce the polysilicon and solar cells and a modern facility. But unless there is a protection given to the Indian manufacturer, there is no point in setting up these things because most of the module making facilities in the country set up by other industries have been idle and all the equipment is coming from China. And like US, if there is a safeguard duty which is put on the Chinese imports, we are all expecting such move in India also. Unless this is done, the domestic manufacturers will not get the opportunity to manufacture. But renewables have got a big potential. And we are also looking at wind. Wind has a major re-entry for us again and we are working out strategy for that. In defense, we have been nominated, as I have been mentioning in past, by ministry of defense for manufacturing of certain type of guns. One type of gun we have already manufactured for Indian navy. Bigger size gun 127 mm gun and also a smaller size gun 30 mm gun for both we have been nominated by Indian navy as the manufacturer in the country but when defense related activities go on, they take a very long time. And there are other areas also we are talking to defense where we can be of help to ministry of defense. So defense we have big plans. Then in nuclear, we have lined up investment and we are just waiting for cabinet approval for the joint venture with Alstom, ourselves and Nuclear Power Corporation. We are also talking to all the other foreign nuclear players, where we can be partner. In fact they are talking to us very actively where they can partner with us for the competitive advantage both in nuclear island and conventional power island. So these are the initiatives which are in place for the industry segment and related sectors.

Harish Bihani

My question came in specifically from a business standard article where they have quoted you saying that you couldn't bear Rs 500 – 600 crores on solo manufacturing which could go up to as much as Rs 2000 crores. So where are we in terms of spending on this particular area and as we understand reading Indian and other journals that there is an over capacity in this particular area. And which could be a cause of concern for investors also with regard to wind. It could be a cause of concern for investors if you are investing.



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- B Prasada Rao** I have sought certain protections from the government and unless they are in place we will not start investing in this.
- Harish Bihani** So there nothing on the anvil at this point?
- B Prasada Rao** No we are yet to get a board approval for that. We are also working on with various states and various incentives which they can give us and we have been negotiating with states because they want us to come and set up the plant in their states. So we are negotiating with them. The kind of incentives they can offer to us so that our product becomes much more competitive.
- Harish Bihani** And sir in terms of any technology that we want to acquire or we want to have a JV with somebody for future growth? Are we thinking, obviously we will be thinking about it, but are we talking to somebody in advance stage on this particular issue?
- B Prasada Rao** We are definitely discussing all these areas as we mentioned. But this is not the right time for me to come out with all those steps.
- Moderator** Thank you. Sir would you like to give any closing comments?
- B Prasada Rao** I don't have any further comments. I think I have clarified in my opening remarks and most of the points are clear. Thank you for interesting questions and I wish to see you again after the 4th quarter results. Thank you.
- Moderator** Thank you. On behalf of Standard Chartered Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.
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