Bharat Heavy Electricals Limited

Q3FY14 Earnings Conference Call

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MODERATOR: **MR. SATYAM AGARWAL – ANALYST**
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Moderator Ladies and gentlemen good day and welcome to the Bharat Heavy Electricals Limited Q3 FY14 Earnings Conference call hosted by Motilal Oswal Securities Limited. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Satyam Agarwal of Motilal Oswal Securities. Thank you and over to you, sir.

Satyam Agarwal Good evening everyone. On behalf of Motilal Oswal Securities we welcome you all to 3Q FY14 post results conference call of BHEL. Representing the management are Mr. B. Prasad Rao – Chairman & Managing Director; Mr. P. K. Bajpai – Director, Finance and other senior members of the team. May I please request the management to give some opening remarks related to 3Q FY14 quarter after which we can open the floor for Q&A session.

B Prasada Rao Well, thank you Mr. Satyam. Good afternoon friends. I am B. Prasada Rao – CMD, BHEL. With me I have Mr. P. K. Bajpai – Director- Finance and Mr. W.V.K. Krishna Shankar – Director (IS&P) and also have senior colleagues of mine as and when necessarily they will intervene to clarify a point.

A very warm welcome to all of you. Dear friends, we are seeing initial signs of rebuilding of confidence among businesses and industry. Reserve Bank also in its latest assessment has indicated a gradual recovery. CCI is actively addressing project hurdles is definitely positive on the industry front and there are some green shoots that are emerging in terms of macro environment also. Some 17 GW of projects particularly from State and Central utilities are in various stages of finalization. Further, various initiatives from government like allocation of 14 Coal blocks to PSUs, signing of FSAs by Coal India, bail-out package for state discoms and coal price 'pass-through' will help in revival process. Activity at State and Central Gencos is picking up. So, I think that things are moving in the right direction, but it will take at least 12-18 months for industry to see a visible impact.

Coming to operations of BHEL, total capacity addition achieved up to Dec 2013 was 3,176 MW. Another 2,820 MW is ready for capacity addition mainly waiting for completion of activities from customer end. In captive segment, we have commissioned 1,262.7 MW of projects. Therefore total capacity commissioned and synchronized adds to 7,258.7 MW.

Total orders booked up to Q3FY14 were Rs 11,666 crore consisting of Rs 7953 crore from Power sector, Rs 3719 crore from Industry Sector and balance from exports. In terms of MW, it corresponds to 2280 MW consisting of 1500 MW from Power sector and 780 MW from Industry. Major orders received in Power Sector during Q3 are BTG pckg for 1x500 MW NTPC Unchahar TPP; SG & TG Pckg for Neyveli 2x500 MW TPP; ESP packg for NTPC Gadarwara 2x800 MW; ESP packg for NTPC Lara 2x800 MW.

In Industry Sector, major orders are 5 MW Solar PV Plant from NEEPCO, Monarchak, Tripura; 96 MLD Raw Water Treatment plant from OPAL Dahej; 2 nos of BFP turbine and 1 no HP process turbine for BPCL Kochi; and the super rapid gun mounts from Pipavav Shipyard for about Rs. 270 crores. Highest order for development of 15 megawatts SPV plant for NTPC Singrauli and also for 85 numbers three phase Freight Loco Transformers worth about Rs. 100 crores.

With these orders, BHEL has an order book of Rs. 100600 crore as on 31st Dec 2013. 83% of these are accounted for by Power Sector, 10% are accounted for by Industry Sector and balance 7% are accounted for by International Operations.

We have also emerged lowest bidder in 3x660 MW EPC tender from NTPC for North Karanpura project against stiff international competition. With this tender, we are seeing utilities seeking higher efficient machines with operating parameters beyond the conventional supercritical parameters e.g NTPC in this tender of North karanpura has allowed bidder to quote operating parameters up to 600/600 deg Cent (MS/HRH temp) and pressure as 270 ata.

While BHEL has received order for 208MW EM package from PSEB for Shahpurkandi HEP in Jan’14, we are favorably placed in more than 2GW of tenders other than North Karanpura.

To give fillip in promoting Renewable power generation envisaged by the government, an MOU has been signed among BHEL, SECI, SSL, POWERGRID, SJVN & REIL.for formation of a Jv company for setting up of a 4000 MW Ultra Mega solar Power project at Sambhar, Rajasthan recently.

Looking at Q3FY14 financial results:

With this, Turnover for 3rd Qtr 2013-14 is Rs 8920 crore, against Rs 10540 crore during 3rd Qtr. of 2012-13. With this turnover up to 3rd Qtr is Rs 24906 crore against Rs 30290 up to 3rd Qtr 2012-13. Profit before Tax for 3rd Qtr. 2013-14 is placed at Rs 1003 crore, against Rs 1696 crore during 3rd Qtr. of 2012-13. With this PBT up to 3rd Qtr is Rs 2318 crore against Rs 4819 up to 3rd Qtr 2012-13. Profit after Tax for 3rd Qtr. 2013-14 is placed at Rs 695 crore, against Rs 1182 crore during 3rd Qtr. of 2012-13. With this PAT up to 3rd Qtr is Rs 1616 crore against Rs 3377 up to 3rd Qtr 2012-13. I thank you all once again for joining this conference call. We will take the questions now.

Moderator Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Venugopal Garre of Barclays. Please go ahead.

Venugopal Garre Sir, firstly in terms of execution on the sale side I just wanted to check are we still grappling with slow moving orders in terms of execution and how do we see that getting resolved going forward because sales essentially have been sort of not so good now even on a quarter-on-quarter basis so usually December should have seen uptake. So what is the current situation in terms of execution?

B Prasada Rao Yeah, there are projects whose execution is slow because of their own problems, the customer side problems. No problem from BHEL side. There are issues from the customer side whether in terms of clearances, in terms of payments and in terms of opening up LCs. So therefore the dispatches are getting held up, the site activity is getting held up. So this is basically coming from their own ability to clear our dues.

So execution is definitely still not picked up from the project authority side except for the projects from NTPC and these kind of public sector projects but most of the private sector projects like Jaiprakash associates and even the Bajaj to some extent; Monnet Power and these kind of projects are still going very slow.

Venugopal Garre And sir, if you could also give us an idea of receivables which are due for more than 12 months. There have been some press reports about heavy industry’s ministry saying that it should be looked as bad debt. Of course there is a legal thing going on today but could you give us the number and how do you think that will get resolved going forward?

B Prasada Rao I will ask my ED-Receivables to give you that figure but I must tell you that the press report what has appeared I have asked the secretary and secretary denied giving any such information and it is not correct reporting and anybody can write off those kind of figures what is mentioned there and it is not in tune with any of the accounting policies. There are lot of options and which are to be exhausted much before that. In fact the same press cutting also reported about my statement there and therefore it is not correct what has been reflected there.

But I will ask my ED-Receivables to give you the position on overall first of all on debtors and I must tell you in overall debtors there has been an improvement in terms of cash like if you look at the total debtors opening balance at the end of third quarter the collectable debtors have been brought down by 4% in the opening balance. We have been collecting more than before the net billing being made during 2013-14 your collected cash equivalent to almost 109% net billing made during 2013-14. The cash collected as a percentage of sales continues to improve during the last two years. We have already collected almost 95% of the sales effected during the current year.

So even as part of the turnover also it improved quite a lot. 62% opening balance and the collectable debtors net of withheld have already been liquidated during the first nine months. So 60% of the current year addition of collectable debts have already been collected so it is not correct to say that there is a lot of increase in the debtors and I expect that as things go forward because of many of these clearances which are happening for example CCI has cleared some of these projects which have been held up earlier. With that the projects are moving and we also expect therefore some of these things will get resolved as you go forward and that will not only improve the cash situation for us but also will improve the execution speed going forward.

B Prasada Rao And I will now handover to Mr. Mittal who is our ED-Renewables who will give you the figures what you wanted.

Mr. Mittal After CMD has already briefed that yes, we are making minor improvements every year on our debtors position what the trends we had observed during 2011-12 going up debtors by almost 30% during the last three years we have arrested those increasing trend and during 2012-13 the total debtors increased only 12% and this year we have been able to contain that increase and we are almost at the same level as the opening level. To come to the particular point that you are asking that how much is the more than year old. Now more than one year old is around 50% of the total collectable debts of around Rs. 21,000 crores and we are hopeful that with the present progress what we are maintaining we would be able to liquidate some substantial current year billing because currently we are at around 109% of current year billing.

So we are definitely improving on these positions and you will appreciate that with this marginal improvements in these circumstances in what we, the power sector, are going through and the banks are reluctant to release the debt portion unless and until that matching equity is there. So we are finding all sorts of difficulties not only in execution but in the divestment of funds. So what our management has decided that we are even keeping cost and coordination with the financial institutions and wherever we are now making dispatches that is where the funds are getting continuously disbursed from these financial institutions.

B Prasada Rao So Mr. Venugopal, the point what probably Mr. Mittal is trying to focus is that there is a lot of management focus now on this and that is why I think earlier also I have shared with some of you that we are taking very serious actions on those projects and customers who are not paying us by applying them so therefore there is an indirect pressure on them for performance in terms of liquidating our outstandings.

Moderator Thank you. Our next question is from Abhishek Tyagi of CLSA. Please go ahead.

Abhishek Tyagi Sir, my question is regarding the 17 gigawatt pipeline you mentioned that you expect over the next 12 to 18 months will get finalized. If you can give some more details with respect to which are these projects if you can help us with that?

B Prasada Rao See some of the projects I will be able to share. See first of all I mentioned about North Karanpura roughly about 3200 megawatts where BHEL is already placed as L1. The Darlipali SG package 2x800 megawatts we are already placed as L1. And Raghunathpur 2x660 megawatt the electrical BOP package we have been placed as L1 and the Pranhita Hydro 6x196 megawatts although we have been announced as L1 and there are other private sector projects I would not share here the names but then where we are already negotiating actively because this is the kind of there is no bidding here.

There is a kind of one-to-one relationship marketing and there are other projects for which tenders roughly about 4500 megawatts. Tenders which are already submitted are being pursued. Right now Tamil Nadu projects; Ennore, Udangudi and there is Raghunathpur ESP Package; Jinbhuvish BTG package for 2x300 megawatts and Tanda of NTPC TG package where the final bidding is tomorrow and even so all these projects we are expecting that they will get finalized before March. And there are some another 9,400 megawatts for which tenders are likely to be by March. The decisions for this probably will go to next year.

Abhishek Tyagi So sir, out of the 17 you are saying 9,000 will get finalized by March or expected to be finalized by March, is that so sir?

B Prasada Rao No, I am saying roughly about 7700 will get finalized by March.

Abhishek Tyagi Sir, has there been any major order cancellations during the quarter?

B Prasada Rao No.

Abhishek Tyagi And sir, last in the quarter call you mentioned that Bajaj and Monnet project have started to move. Sir has there been any improvement in the Abhijeet, Visa corporate power and India bulls Phase 2 projects for Nasik and Amaravati sir is there any improvement in those project as well during the last time?

B Prasada Rao Phase 2 of Indiabulls; Abhijeet also is not moving. Bajaj is moving but it is not at the expected speed I must say in the cash flow. So we are pushing them for cash but otherwise Bajaj will move I know that Bajaj will move and lot of work has been already done there. But otherwise the projects what you mentioned about Visa and all that have not moved.

Abhishek Tyagi And sir, you have mentioned the JPA project, Jaiprakash also is moving slow which is this project sir which you mentioned that?

B Prasada Rao That is Bara.

Abhishek Tyagi Okays so that is also moving very slowly, is it?

B Prasada Rao Yes.

Moderator Thank you. Our next question is from Aditya Bhartia of Espirito Santo. Please go ahead.

Aditya Bhartia Sir, some of the new entrants seem to have abandoned their plans for setting up BTG equipment manufacturing capacity while some others seem to be moving slow. So in this context do you expect pricing or realizations to be improving in the next couple of years?

B Prasada Rao Naturally what you are saying is logically correct but then it all depends on the market revival basically. The power sector market revives and the number of megawatts what used to happen 10-11 and before if it reaches those levels then definitely there will be better pricing possibility.

Aditya Bhartia And sir, the pricing that we have seen in the last couple of tenders is it possible to share what kind of gross margins are likely?

B Prasada Rao See nobody will be able to share those kind of data what you are asking let me be frank but the thing is that you have to look at the cost see we have to focus on cost therefore even if you look at our own operating results you have noticed that the last three years there has been a continuous reduction in the cost of materials vis-à-vis the sales and this is inspite of the fact that the sale prices are going down per megawatt. So in fact if you look at 2011-12 we were almost at 60.5% or so the materials and that has come down in 2012-13 to almost about 58.7 or so and further it has come down by another almost nearly 0.5 I am talking about up to quarter three and up to Q3 by 0.5% Q3 in 2013-14 so there is a continuous focus on cost. So therefore in line with the market prices we need to work on these kind of cost and there is a continuous effort in the company to do that and to be able to maintain the kind of margins to at least work towards in the direction but definitely there is a pricing pressure in the market today.

Aditya Bhartia And lastly sir, could you please discuss the outlook for various sub-sectors of the industry segment?

B Prasada Rao Well, the industry segment if you look at the captive power segment which is a major segment for us except for one or two I think may be in January one STG set we could finalize for Tamil Nadu for one of the projects being done by Gammon and for the ultimate customer is… and otherwise captive power segment not much is happening and the other major segments are transmission and transportation. In transmission yes, there are sub-stations which are happening and where we have been competing transformers and sub-stations particularly and here we have been able to maintain our share.

But transportation is one thing which has been a disappointment in the sense that the decision making in Railways is getting delayed though we are favorably placed for number of things I am just waiting for the files to be signed and the decisions to be taken and as it is a government department as you know files to go up to the minister level and we are seeing that there is a slowness in the entire decision making process. Otherwise see our favorable place for locomotive order and I am just waiting for that order and also the Bhilwara factory what we have signed an MOU with Railways and we have thrashed out everything in investment levels, pricing levels everything and the final acceptance as wanted by Railways have been given but the decision making on that front we are just waiting for it. So therefore there is kind of an investment decision getting delayed in Railways but otherwise Railways do require this as all of us know a lot of requirement is there in Railways and if only these things happen fast so I expect all these things probably will get revived as we go forward.

Now on the renewable front there is a lot of activity and we have been able to get good orders now with respect to our capacity. In fact our capacity is only 30 megawatt as on date and we have got much bigger orders than this and we are now this major initiative what we have taken now for the ultra-mega project where BHEL is going to be an equity partner to the extent of 26% coupled with the major manufacturing facility. So we have tied up the manufacturing facilities I mean the output going in to their particular plant.

So that way this is the major plant manufacturing facility coming up. Also the renewable project which is identified this mega project that will supply to this particular project. So that way and also I expect the kind of volumes which were 500 megawatt is the capacity of this plant so I expect that their competitiveness therefore in the economies of scale will improve and we are also thinking of vertically integrating the whole plant right from silicon wafers up to the module so this will give us an edge over everybody else on this. So this plant as you know that we have already said that we are going to set up this plant.

So this is the broadly the front on the industry sector and in water front also we have already announced two, three orders we have received on the water treatment systems and these are required for the captive power plants and the main utility power plants and these water plants till now we have been sourcing from outside now they will be manufactured within the company.

Moderator Thank you. Our next question is from Amit Sinha of Macquarie. Please go ahead.

Inderjeet This is Inderjeet here from Macquarie. My first question is actually on the revenue run rate now in some of the earlier comments it seems to be that the management focus at this point of time is more on booking or recovering debtors rather than chasing revenues. So what kind of broad revenue numbers that we are looking out for say FY14 and FY15? Could we work with this 15% decline even for the full year?

B Prasada Rao Well, again see you are asking me a question which I will not be able to answer today because we are going in to elections now and after elections we will have to look at what kind of atmosphere which is going to prevail and if all that is positive assuming that the numbers could be positive. So the execution speed it depends on the execution speed. See as I have mentioned we have got about 100,600 crores order and all these orders can become suddenly active and we can start delivering through those things.

See the focus has been yes, while debtors have to be recovered and the focus is definitely on that but then focus is also on revenue where our customers are paying us like all the NTPC kind of customers and we are concentrating in execution of those projects also. So there is the balancing game which goes on always and yes, even in those projects where the cash is a problem we are applying all kinds of pressures on them by carrying out some activity or not carrying out particular activity and seeing they are able to pay us at the end of the day. Or give priority to BHEL’s payments. So there are number of steps. So it is a balancing act which goes on and the process we try to maximize both turnover sides as well as on the cash side.

Inderjeet Sir, in this quarter we had a fairly sharp improvement on the raw material cost side is there any specific reason that you would want to highlight that it happened?

B Prasada Rao See particularly localization is a major initiative where we had to depend on the contractual conditions we will have to buy a few imported items and also technology absorption speed of that. And based on that our localization efforts which go on. Second thing the expanding vendor base always and also seeing that wherever we are buying on single vendor basis or a two vendor basis increasing the number of vendors there. So the number of such steps and design optimization itself is one more step. So as I mentioned in the previous meeting the design to cost and lean manufacturing there the initiatives which company has always been perusing constantly. So cost reduction is always a focus irrespective of what is happening to the revenues. Cost optimization is always a focus area and that have been showing up this kind of figures what we have been seeing.

Inderjeet Sir, based on the current order backlog that we have and assuming raw material cost do not change materially significantly from here. What should be the raw material cost as a percentage of sales we should looked at on a full year basis rather than looking at on quarterly basis?

B Prasada Rao Well, it depends upon whether SAIL is going to announce or steel sector is going to announce what kind of price increases?

Inderjeet So let us assume prices not change. Let us assume raw material prices do not change that you can control?

B Prasada Rao There could be reduction if nothing is changing and only reduction happens our focus is definitely reducing the cost. So it could show up either it remains same or in a reduction. I think what you want to put up in your model do not ask me that question I think you can yourself do that estimation.

Inderjeet May be let me ask it in a different way. In the last couple of years you have seen a significant reduction on pricing because of the competition do you think that is now fully reflected in to our revenue line or we still have some old orders where pricing used to be much better than what happened in the last two years or so?

B Prasada Rao I think you can take it as probably it is already getting reflected. Because this price reduction has start happening from almost from 2010-11 onwards. So currently we are in to it.

Moderator Thank you. Our next question is from Renu Baid of Batlivala & Karani Securities. Please go ahead.

Renu Baid Sir, one question I think the previous participant was also trying to ask the same thing the impact of competition on the margins. So if you broadly look at the way the competitive pressures have been there in the last 12 to 18 months our gross margins going ahead should be able to absorb these expenses the way it is trending at the current levels without significant down side. Is that a fair statement to say or probably there could be negative surprises as we see more EPC projects getting executed with lower gross margins?

B Prasada Rao No, it is not that. See it is basically if you have noticed in our kind of company the fixed costs are there below the materials the volumes definitely will show up. Volume increase will definitely give a better leverage for the bottom line. So that is what has happened in the past to now. The volume has come down so therefore there is that much more reduction in the bottom line.

Renu Baid That I completely understand.

B Prasada Rao Key is the market growth. See we can absorb these in a competitive cost because our volumes are high. When we are a 20,000 megawatt player our one of the objectives has been that the unit cost therefore should be most competitive than anybody else. And the kind of depth what we have in the entire power plant product chain is something which I do not think anybody can match us in India or even from abroad. So we manufacture everything required for that so we have a lot of strategic pricing we can do and therefore lot of value addition can happen within the company. So these are the two factors which will always come up. Third is our own experience the kind of technological issues which are coming up today in these equipments.

I just mentioned about North Karanpura the kind of parameters which have been asked for and that has given us a quantitative advantage in terms of loading. We are able to give at a 600 degrees Celsius both main steam as well as reheat temperatures and at 270 ATA. So these are the kind of things which and if you take R&M area; R&M area I do not think any of our competitors can even attempt an R&M area. R&M is something which you need to understand the entire dynamics of a power plant and the Obra Power Plant where we have taken up an order along with the Power Machines Russian company and when they walked out the whole thing and the entire thing came on us and we have reengineered the product and reverse-engineered the product and we have now seen that two, three months back I think we have given the press release also there we have gone ahead and beyond the expectation of the customer we have achieved the rating. So these kind of strengths which are there inherent in the company because of its own experience the kind of volumes we have now grown to that will give us the bottom line at the end of the day. The strategic edge as well as the bottom line.

Renu Baid Absolutely and coming back to sir, as in basically when we look from the business mix moving in favor of higher EPC projects compared to BTG. On that front what extent you think our industry sector which has the capabilities to do many of the BOP packages will add significant cost efficiencies and help us to be more competitive. So do you think that is also meaningfully scaling up and we are seeing contribution from those segments and those divisions as well?

B Prasada Rao Yeah, some of the BOP products which are financially viable for us we are taking up. As I mentioned about this water systems and coal handling, ash handling we have already taken up as an engineering contribution and de-packaging from our side. We are attempting some more such balance of plant systems like fire fighting systems where we are also finding the number of vendors are very few in the country and who are dictating almost the terms. So therefore such items are being on priority by us and taking up on our own these kind of things and definitely those things will give us again both because we have seen in coal handling ash handling when we took up that and de-package we were able to make some definitely good money out of that. So in that process that not only improved our competitiveness but also improved our bottom-lines. So similarly in other balance of plant equipment also we are expecting that we will be able to take up. But more than all that industry sector is going to depend upon the transportation growth. Transportation is something major growth area we have identified and there is a potential and there is unsatisfied demand in the country. And therefore we are concentrating and we are well placed to meet those requirements.

Renu Baid Right, let us see how Indian Railways behave because they have a different -

B Prasada Rao Not only Indian Railways we are in to Metro systems also we have been pursuing and we will see at the end DFC (Dedicate Freight Corridor) also will be another area.

Renu Baid Just sir, my second question following up on the other expenses side sequentially also we have seen some reduction on the other expenses. So have we seen any reduction in the provisions the write-backs. So will it be possible for Mr. Bajpai to briefly share our net provision impact in the third quarter in terms of opening added and closing balances?

PK Bajpai There were provision on account of BHPV merger in last quarter and that is the only significant aberration that is there. This quarter we do not have any such provision. We have our normal operations and cumulatively there is a lesser turnover so contractual obligations provisions are correspondingly reduced.

Renu Baid But overall cumulatively for the nine months the provisions which includes warranty obligations doubtful debts has that reduced?

PK Bajpai Overall for the nine months provisions like-to-like have reduced. For the quarter it is less by 146 up to the quarter it is less by 370. If you take out BHPV aberration then I think it is at the same level.

Renu Baid Okay flattish then?

PK Bajpai Flattish.

Renu Baid And just one more small bookkeeping question. On the other income side in this quarter there is no FOREX gain involved of the Rs. 291 crores?

PK Bajpai It is about Rs. 160 crores odd is the interest, it is exchange rate variation.

Renu Baid Okay Rs. 160 crores is interest and rest is exchange rate variation?

PK Bajpai No, Rs. 160 crores interest is more than ERV. Rs. 161 crores I think is the interest. Rs. 80 crores is the ERV balance.

Moderator Thank you. Our next question is from Pawan Parakh of Dolat Capital. Please go ahead.

Pawan Parakh Sir, you mentioned there is a pipeline of something like 17 gigawatt of orders something to be awarded in FY13 and the others we expect the tenders to be floated by the end of FY13. Based on the visibility of the pipeline what is your guidance or expectation on the year end order book for FY14?

B Prasada Rao No, I do not give any forward guideline for that I only mentioned that out of this about 3200 megawatts could be finalized and 4500 megawatts there is a likelihood so we do not know. How the election code of conduct will come and how that will affect so I am not able to give any future indication and we do not normally give.

Pawan Parakh And secondly, you have also indicated that there are some slow moving orders of Indiabulls phase-2 Abhijeet amongst others. Could you just quantify of these pending orders what would these constitute as a percentage of your outstanding order book?

B Prasada Rao Roughly about 20% to 24% I think the total order value.

Pawan Parakh And thirdly sir what is the CAPEX that we have done in nine months and what is the plan ahead?

B Prasada Rao CAPEX will be about Rs. 1000 crores or even less than that this year.

Pawan Parakh What is the plan for the fourth quarter and FY15?

B Prasada Rao No, Rs. 1000 crores is up to financial year I said. Total financial year about Rs. 1000 crores.

Pawan Parakh And FY15?

B Prasada Rao FY15 we are yet to work out.

Pawan Parakh So the CAPEX related to transportation business the CAPEX related to Solar business all expected in FY15, right?

B Prasada Rao Not necessarily fully. It goes on the project progress.

Moderator Thank you. Our next question is from Ashutosh Adsare of Sharekhan. Please go ahead.

Sanjeev Sir, this is Sanjeev here from Sharekhan. I have two questions. First thing I would like to know our plan regarding employee additions because we have been reading that we do not plan to add significant employees and that is one of our major fixed cost. At the same time we also know that there are couple of people who will be retiring. So on a net-net basis what could be the impact on our employee cost as going forward in the next two years?

B Prasada Rao See certainly there is no major induction plan in the company except for only one unit where we have problems in the last employment recruitment plan in the last four, five years we could not recruit anybody and that plan needed and we have gone ahead and they will be coming on the board by end of this financial year in one of the plants at Hyderabad. But otherwise we do not have any recruitment plan and we will only be inducting the minimum number of new engineering trainees as we go along to keep on seeing that the young blood always flows in to the company. So otherwise we do not have any major induction plan.

Ashutosh Adsare Sir, on the net-net basis?

B Prasada Rao There may be a reduction only therefore.

Ashutosh Adsare Any rough numbers that you have walked out like what could be the reduction in percentage term?

B Prasada Rao Right now I do not have any numbers with me.

Management On a broad basis we can tell you for the twelfth 5 year plan there will be retirements equivalent to about 11,000 people in the company in all probability we will not be recruiting that much. So at the end of the twelfth 5 year plan they would be a reduction in manpower compared to what it was at the end of the eleventh 5 year plan.

B Prasada Rao See, all these will be calibrated as the business situation develops.

Ashutosh Adsare Sir, the next question is we have been reading about the crossholding possibilities within our entities PSUs like NTPC and BHEL. Is there any information that you can share with us which we have officially received or any clarity on that part if at all?

B Prasada Rao No, we have not received any information from the ministry or disinvestment ministry.

Moderator Thank you. Our next question is from Sumit Kishore of JP Morgan. Please go ahead.

Deepika Mundra This is Deepika Mundra from JP Morgan. I just have two questions. Sir, firstly would it be possible for you to give a break up of your order book in terms of NTPC and state orders and private orders?

B Prasada Rao Well, I think you can be in touch with my marketing people later I do not know whether they have readily. I think Mr. Venkat Krishnan our ED-Power Sector, Marketing will be able to give you if you can contact him little later. I do not have that readily with me.

Deepika Mundra And sir secondly, would you mind repeating the 3.2 gigawatt of orders that BHEL has L1 currently?

B Prasada Rao Yeah, that is Darlipali 2x800 megawatt NTPC and 3x600 North Karanpura EPC project and 2x660 megawatt Raghunathpur that is EPC this is electrical BOP and 6x196 megawatt Pranhita Hydro Project this Andhra Pradesh lift irrigation scheme that is.

Moderator Thank you. Our next question is from Harish Bihani of CIMB. Please go ahead.

Harish Bihani Sir, can you please share the absolute working capital number including unbilled debt and cash number till nine months?

PK Bajpai Working capital is Rs. 26,284 crores.

Harish Bihani Sorry debtors including unbilled?

PK Bajpai Debtors would be Rs. 43,428 crores.

Harish Bihani And debt and cash?

PK Bajpai This is including unbilled so take out Rs. 4,000 crores out of this for unbilled.

Harish Bihani Okay sir, and debt in cash?

PK Bajpai Cash should be about Rs. 5,152 crores to be precise.

Harish Bihani And sir, cash number?

PK Bajpai This is the cash.

Harish Bihani And the debt number, sir?

PK Bajpai Creditor it should be about Rs. 10,000 crores.

Harish Bihani And my second question is on the solar plant CAPEX that we have can you share the absolute CAPEX number that we would be spending and how much we would have spent so far this particular year and we would spend next year and also there was some comment on water CAPEX that we would do what would that be exactly and how much would be the CAPEX like?

B Prasada Rao First of all I have not mentioned anything about CAPEX for water there is no CAPEX for water. Second thing is on PV the CAPEX we are yet to freeze that figure because we have applied for the National Clean Energy Fund where we would have funding in that. So based on the amount sanctioned we will be freezing that but this year there is no expenditure on the PV plant. It will only start next year.

Harish Bihani So the Rs. 1,000 crores CAPEX that we have done so far this year it would be primarily be maintenance CAPEX for power or is it something?

B Prasada Rao Maintenance and some of the previous payments used to happen this year all that.

Harish Bihani And sir, lastly the plans on UMPP and various other places where you are trying to form a JV and trying to take a stake. In terms of capital allocation because given that we are an equipment company and one of the investor concerns is that if we are going and enquiring stakes in various ventures like these what the thought process like in terms of investing in UMPP and also on solar plant per se if you look at the base rate of investing in solar plant worldwide it is not been that great for company so what is your thought on that?

B Prasada Rao See first of all on the UMPP front the objective of the investment is to really get the business for BHEL the equipment business then only the investment is done. So it is only to leverage that equipment sales for us. So UMPP being a 4,000 megawatt company and at a certain point of time we can even exit that. So it is the same philosophy as we entered our joint ventures in the past for the power generation companies in Karnataka and all that what we have mentioned earlier. Now on the PV side basically the reason to get in to that is also because of this load for the new plant what we are going to bring up to construct. But here again there is going to be a viability gap funding which will be coming from the National Clean Energy Fund for the Solar ultra mega project also. So it is not that way comparable directly to that all whatever is viability gap funding it will come from Government of India.

Moderator Thank you. The next question is from Ashish Shah of IDFC. Please go ahead.

Ashish Shah Just wanted clarity on the FOREX variations we talked about I could not get the numbers. So can you just repeat them?

PK Bajpai Up to the quarter it is Rs. 659 crores for the quarter it is Rs. 80 crores.

Ashish Shah So Rs. 80 crores is what we are saying would be include the --?

PK Bajpai For the quarter 3; for the year is Rs. 659 crores.

Ashish Shah And this is what will figure in the operating expenses?

PK Bajpai It is roughly almost yes, it is figuring in operating it is roughly 55% is your translation, 45% is transaction.

Ashish Shah This is a loss, right?

PK Bajpai No, this is a gain.

Moderator Thank you. Our next question is from Ankit Babel of Subhkam Ventures. Please go ahead.

Ankit Babel My first question is what is your view on this Odisha and Tamil Nadu UMPP when these are expected to open and when do you expect tendering to happen?

B Prasada Rao Well, as of now they have announced end of February is the tender submission date and 26th February to be precise. So well, it can go in to next year for deciding it will not definitely will not get decided this financial year and it will go to even may be it will go beyond the election period I should say probably the new Government time only it will come.

Ankit Babel Okay so bids would open this February that who has won the UMPP?

B Prasada Rao There are being submitted I do not know when it will be opened. The submission date is 26th February that is what they have told us.

Ankit Babel And sir, my second question is about your industrial segment now margins in that segment has improved sequentially and our EBIT level it is around 14%. Now it used to be around 20% in the past. I understand that on account of slowdown but what could be the long term sustainable margins in this segment what they should work on?

B Prasada Rao It is basically in the market again the volumes only will dictate the market here also. See if I want to sell more motors or more transformers that much more fixed cost will get divided the margins will improve based on the volumes. So market revival and market growth is the most important factors.

Ankit Babel And sir, lastly you mentioned that 3,200 megawatt worth of orders you are currently L1 and do you expect this to come in this quarter?

B Prasada Rao We are expecting that by end of March this should come to us.

Ankit Babel And these are about pure equipment orders or it is on the EPC basis?

B Prasada Rao They are EPC, North Karanpura is an EPC project and the others are equipment projects.

Ankit Babel So this would be total of around Rs. 5000 crores to Rs. 6000 crores approximately?

B Prasada Rao It will be more than that but I will give you the figures later as and when it comes. It is not right on my part to give you figures so this will get finalized as we discuss with them in details.

Ankit Babel Because sir, the fourth quarter is generally the best quarter for the company in terms of order inflow and we are already in the month of February. So what kind of inflows are we expecting this quarter so that we will get some idea about the year?

B Prasada Rao I cannot give you that figure. I just now mentioned to other question also that we do not give these guidelines.

Ankit Babel Okay, I just thought that since we are already in the month of February?

B Prasada Rao Enough I have told you I think from this you have to guess.

Ankit Babel So already this 3,200 megawatt you are expecting that is it?

B Prasada Rao See nobody can predict the future if something falls in my lap I do not know. So this is what we have placed L1 therefore we are expecting that yes, these things can come.

Moderator Thank you. Our next question is from Bhargav Buddhadev of Ambit Capital. Please go ahead.

Bhargav Buddhadev Sir, out of this 17 gigawatt of pipeline what could be the share of private sector?

B Prasada Rao Well, the private is less not very much.

Bhargav Buddhadev In terms of any number which you can assign?

B Prasada Rao Except I think 600 megawatt I am finding as the private sector out of this but I am not finding more. Just a minute I will give you some approximate figure I can give you. I think roughly about 1000 megawatt will come from private sector that is all.

Bhargav Buddhadev And sir, in terms of as your customers look at these falling peak deficit numbers and increasing power back downs from SEBs are not they getting worried in terms of are not they losing confidence that once they set up their power plants would there be a buyer basically given the rising power back downs and falling power deficits?

B Prasada Rao See this worry is definitely there in long term unless the distribution reforms happen the power sector will never gain. What will come in the market will only be temporary and go back. But then the government companies will take a longer look at these things. The private companies definitely will look at these kind of things more and more precisely whereas the government companies will have a longer objective of providing power to people in the state governments and also the central utilities. So yes, this has to be sorted out and with the hope that that problem will get sorted out only these investments are happening particularly in the central and state sectors. That worry is there definitely for everybody.

Bhargav Buddhadev Moreover you have the opinion that this is just tangent in nature?

B Prasada Rao See all of us ultimately have to be optimistic if we believe that this country cannot grow at 8% to 9% GDP for which power is required which is a minimum requirement which is imperative for this country and if you go below that you know what is going to happen to the country and if you all believe that then we are gone. So we will have to therefore have with the objective that yes, we have to make this growth happen and I hope that this kind of a positive attitude will be there everywhere whether it is industry or whether it is in the governments and the policies have to be formulated to suit that.

Yes, current problems we are going through because of this I do not know I call sometimes too much of democracy but yes, we will have to go through these adjustments I think in a democratic process all these things become bit slow and I only wish that things will change and there are signs of changing at least. See for example if North Karanpura project which was the first project which has cleared by the CCI when it was formed and it has taken almost 6 to 8 months for the project to get realized. So it happened at the end of the day I mean though there is a delay. So CCA have given some positive fillip to some other projects happening. So similarly the other things also will happen I think slowly and somebody comes and gives it a push a very big push to these things. And it will happen I think and all of us are hoping that.

Bhargav Buddhadev And sir, lastly would have any sense on what could be the number on the long term PPAs which these SEBs might come out with?

B Prasada Rao Number of what the tariff rate you mean?

Bhargav Buddhadev Yeah sir, basically recently we saw UP coming out with 6,000 megawatts; Tamil Nadu coming up with 2,000 megawatts. Do you have any sense on what could be that number I mean given the SCB restructuring has already happened for those hostage what could be the new tenders?

B Prasada Rao See if you look at the unsatisfied demand it is much bigger than that. In fact in the industry is suffering totally because of this or power unavailability in many of the states. So therefore whatever has come is peanuts and there is a lot of more potential is there and that kind of a thing only will drive the demand for even capacity addition in the generation. So I expect much more things will come. What has come out is only peanuts.

Moderator Thank you. Our next question is from Alok Ramachandran of SBICAP Securities. Please go ahead.

Alok Ramachandran I want to know whether this North Karanpura project and for Tanda the investment approval from NTPC board has been completed or it is still pending?

B Prasada Rao I think it is over. North Karanpura definitely it is over I know; Tanda also probably the investment approved is over but then the other placement and all after the tender is evaluated that will again go to their board.

Alok Ramachandran And regarding the Darlipali project you are L1 right now?

B Prasada Rao Yeah, Darlipali SG.

Alok Ramachandran So considering then it is a revised configured for this from the earlier 800 megawatt plant, right?

B Prasada Rao No, it is the same thing. It was rebid and it is yet to be finalized.

Alok Ramachandran So after the rebidding you are L1 right now is that correct?

B Prasada Rao No, see this boiler package which you call it as SG package means steam generator package we were originally as L1. That will not be in rebid. Rebidding was done only for TG package.

Alok Ramachandran So that means currently you are getting this boiler package in your order book, right?

B Prasada Rao No, it is not at order they have not yet released the order.

Alok Ramachandran And sir, regarding this Rajasthan plant if you can give us Rajasthan based solar plant you are planning you have mentioned in the opening remark also. So when we should start booking revenue or something that orders from this project?

B Prasada Rao No, see it will take the four years for this project to come up.

Management First of all the land is identified, now we are going through the process of approvals for viable-gap funding. See what we have announced is 1,000 megawatt for the first phase will come in three years time.

Alok Ramachandran What could be the project cost in total can you the year we want to throw?

B Prasada Rao I think some details we will be able to give little later after we account this viability gap funding.

Alok Ramachandran And sir, can you please tell us what is the budgeted sales on EBITDA premium for next year in FY15?

B Prasada Rao We are yet to work out the budget.

Moderator Thank you. Ladies and gentlemen that was our last question. I now hand the floor back to Mr. Satyam Agarwal for closing comments.

Satyam Agarwal We are very thankful to the management for giving us the opportunity to host this conference call. Sir, would you like to give some closing remarks?

B Prasada Rao No, I do not I think the questions have been so detailed given all the points so we are all looking at the revival of the economy, growth in the GDP. Industrial revival so that is all we are waiting for it.

Satyam Agarwal Sure sir, thank you very much sir.

Moderator Thank you. Ladies and gentlemen on behalf of Motilal Oswal Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.