



Bharat Heavy Electricals Limited
Q3FY15 Results Conference Call

February 12, 2015

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MR. P. K. BAJPAI - DIRECTOR (FINANCE)
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MODERATOR: MR. HARISH BIHANI – KOTAK SECURITIES LIMITED



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Moderator: Ladies and gentlemen, good day and welcome to the BHEL Q3 FY 2015 Results Conference Call, hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing ‘*then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Harish Bihani from Kotak Securities. Thank you and over to you Sir!

Harish Bihani: We welcome you all to BHEL 3Q FY 2015 Earnings Call, representing BHEL today in the call are Mr. B. P. Rao – Chairman & Managing Director; Mr. P. K. Bajpai – Director, Finance; Mr. Atul Sobti – Director, Power and Mr. W. V. K. Krishna Shankar – Director, Industrial Systems & Products. I now hand over the call to Mr. Rao for his opening remarks post which we will open the floor for Q&A. Over to you Sir!

B. Prasada Rao: Thank you Mr. Harish. Good evening to all of you. I am B. P. Rao, CMD, BHEL. With me I have Mr. P. K. Bajpai – Director, Finance; Mr. Krishna Shankar – Director, (Industrial Systems & Products); Mr. Atul Sobti – Director (Power) and other senior executives from marketing and finance functions.

Dear friends, government is taking lot of initiatives to revive Indian economy. Focus on improving ease-of-doing business, 24x7 power supply, ‘Make-in-India’, domestic production of defence equipment, DFC, smart cities, Urban transportation, Railways modernization, focus on water management, and aggressive targets for Renewable are bound to revive Industry capex revival and subsequent demand for capital goods in the country. We are looking forward to the ensuing budget and hope to see more measures by the government to give a boost up to the investment cycle.

Upcoming e-auction for allocation of coal blocks, increase in gas prices, proposed pooling of fuel prices of imported and domestic fuel are likely to improve fuel availability for existing power projects. Further, we are seeing lot of activity in defence area. Overall, business sentiments are positive and we are hopeful of recovery at our end also in near future.

Coming to operations of BHEL, we have done capacity addition of 2,199 MW in utility segment. Another 2,590 MW has been synchronized awaiting inputs from customers. During the quarter, we have also completed successful Renovation and Modernisation of 110 MW Unit at Muzaffarpur Thermal Power Station and with this its working life has been extended by 15-20 years. Second module of the 2x363.3 MW gas-based Combined Cycle Power Plant (CCPP) of ONGC Thermal Power Corporation in Palatana, Tripura was also commissioned. Country’s first indigenously built 800 MW steam generator unit successfully completed trial run at Krishanapatnam and COD has been declared. Total orders booked up to third quarter stands at Rs 20,719 crore consisting of Rs 17,392 crore from Power sector, Rs 3,684 crore from Industry Sector and balance from exports. This corresponds to 3,364 MW of power projects and 218.5 MW in industry sector.



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Major orders received during the quarter in power sector include: 800 MW EPC order from Telangana State for Kothagudam TPS; 4x111 MW HEP Vishnugad Pipalkoti; ESP package for 2x800MW Darlipali Supercritical TPP; In industry sector, major orders received are: 765kV/400kV Substation at Agra from PGCIL; 1 MW Solar PV plant for ONGC Rajahmundry; 2x36 MW STG sets from Sarda Energy & Minerals Chattisgarh; 1x50 MW STG set from ISGEC Heavy Engg for Spectrum Coal & Power Chattisgarh; In export markets, we have also received orders for supply of ESP package from Turkey and; wellheads & X-mas trees from Myanmar, both first time. With these orders, BHEL has an order book of Rs.1,03,984 crore as on 31st Dec 2014. 85% of these are accounted for by Power Sector, 7% are accounted for by Industry Sector and 8% are accounted for by International Operations.

Looking at Q3FY15 financial results

Turnover upto 3rd Qtr 2014-15 is Rs. 17952 crore against Rs 24906 crore during similar period of 2013-14. Profit before Tax up to 3rd Qtr. 2014-15 is placed at Rs 761 crore against Rs 2318 crore during 9M of 2013-14. Profit after Tax up to 3rd Qtr. 2014-15 is placed at Rs 531 crore against Rs 1616 crore during 9M of 2013-14.

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. We have first question from the line of Renu Baid from B&K Securities. Please go ahead.

Renu Baid: Good evening Sir. Sir my first question is on the execution side of though last quarter you had highlighted that because of the entire coal issues there would be a bit of a sluggishness on the sales and billing but, how does the outlook look that we have not seen QoQ any material traction on billing and sales. So when do you expect this entire process of execution improvement in the current environment?

B. Prasada Rao: Well we are yet to see that traction on execution because those standard projects are yet to get revived. Basically the main reason has been the coal block allocation. The auction process which is on now particularly for the public sectors and also for some of the private sectors and except for those five mines which High Court has put a stop as all other things are expected to happen. In fact today, probably they were suppose to make public the list of people who have bid for it.

Renu Baid: Yes the sectoral bid results.

B. Prasada Rao: Yes, because they would have made it public today and if that is moving at this speed, the targets announced earlier was by end of February they would be able to finalize but it looks doubtful to me and it may go on up to the end of the financial year and unless that happens as you know that the coal block allocations have roughly put about 50000 MW projects under various states of execution by us almost to a standstill, so unless the visibility is there on the coal linkage, we do not expect the projects to start and if there is a visibility then the execution will start and the



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lenders will start lending it and probably the customers will start accepting equipment from us. Otherwise I am still not seeing any progress on this front, so if the whole thing happens by end of this financial year then probably we will see some improvement in the first quarter onwards from next year onwards, next year first quarter onwards, but otherwise some of the private players like one or two projects have started moving. Last time also I mentioned about Jaiprakash Associates as well as the Lalitpur Power and these two projects have been going on we are trying to see that we commission these plants at the earliest and for some of the these few projects which have moved, but otherwise by and large, largely traction has not yet happened.

Renu Baid: Probably at best case you might something happening after June?

B. Prasada Rao: Well see suppose by March if they finalized then something can start immediately visible from April onwards, because still once they assure that yes this particular block they are going to get the coal, the longer duration projects particular will start happening immediately because by the time they should be ready with the plant by the time the coal comes so then they will be able to utilize it better.

Renu Baid: Sir my second question is the fact focus has been more on collection and controlling the receivables and debtors, how has the progress been in terms of our collection efforts and what is the status at the end of December broadly?

P. K. Bajpai: From an opening level of about Rs 44122 cr in Apr'14 we have come down to Rs 41082 cr in Dec'14 that is net debtors.

Renu Baid: How much is due for collection on this?

P. K. Bajpai: The due for collection should be almost 19924.

Renu Baid: One more book keeping question Sir in the current quarter in other expenses we did see a sharp jump which I guess should be on account of provisions so if you could share some details on account of YTD increase in provisions segment wise?

P. K. Bajpai: The provisions have not increased.

Renu Baid: So any particular reason for jump or sequentially has been compared to first half a sharp jump in other expenses?

P. K. Bajpai: Cumulative, see for provisions it all depends which quarter but if you look at cumulative vis-à-vis last year, provisions are not more, they have come down from 1189 to 365 because volume of operations has reduced. So one major component which is contractual obligation has come down and has not increased.

Renu Baid: Last question has there been any forex gain or loss element in the current quarter?

P. K. Bajpai: There is an element of loss.



- Renu Baid:** What is that if you can be share?
- P. K. Bajpai:** It all depends what is the reference point in the quarter we are minus -19.
- Renu Baid:** -19 Crores is the change or the absolute.
- P. K. Bajpai:** It is an absolute number depends what reference you take if you take last year will be 700 if you takes last quarter it that say for the quarter are -19.
- Renu Baid:** YTD?
- P. K. Bajpai:** I will give you this later.
- Renu Baid:** My last question if Mr. Rao could also elaborate on the non-power initiatives that we have been working first on the solar PV facility where we are expecting capital subsidy from government and second on the recent defence submarine MOU where we have entered with HSL?
- B. Prasada Rao:** Yes.
- Renu Baid:** Thank you and that is the last question from my side.
- B. Prasada Rao:** On the solar PV facility as you know the proposal has been cleared by the Committee of Secretaries and we are just waiting for the Cabinet Committee to take up anytime and with this we have supposed to set up a 480 megawatt manufacturing facility and that is the status and secondly what you asked about the submarine- yes we have signed our MoU with Hindustan Shipyard which is under the Defence minister and the Mishra Dhatu Nigam Limited and ourselves we are trying to bid for the domestic submarines because they have made sure defence has part on the Make in India program is trying to indigenize some of these equipments and this is one of the moves in our defence area but otherwise in defence there are many other initiatives which the company is taking as you know that we are already making the 76mm naval guns and we have been nominated for the 127mm and the 30mm guns and they are already in the bidding stage and the bids are being evaluated by the Ministry of defence and we have sometime next year probably they could finalize these orders and similarly there are many other new areas which we would pursuing in defence under the Make in India initiative.
- Renu Baid:** Sir what is the capex for solar facility which is proposed?
- B. Prasada Rao:** Pardon me.
- Renu Baid:** What is the proposed capex capital expenditure for the solar PV facility?
- B. Prasada Rao:** Solar PV facility will be roughly about 2400 Crores or so but this will be 40% of that will be coming from the capital subsidy also.
- Renu Baid:** Thank you Sir and all the best in the coming years.



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- Moderator:** Thank you. Next question is from the line of Venkatesh Balasubramanian from Citi Research. Please go ahead.
- Venkatesh B:** Sir my first question is you have been the lowest bidder on Udangudi and Tuticorin orders for almost one year why are these orders not coming and when will it come?
- B. Prasada Rao:** The Tuticorin order for example customers are already committed with us. They are waiting for the clearance on the Tamil Nadu Electric Regulatory Commission. There are some clearances which we need to take from there and any time we are expecting the order from them and we also expect therefore immediately with us.
- Venkatesh B:** So you are expecting in the fourth quarter sir this Tuticorin?
- B. Prasada Rao:** yes we are expecting. We have been expecting for some time that is why I am unable to say really, because we do not know we do not have control on these kinds of events which are in the hands of government agencies they have to announce some of this, otherwise there is no other hurdle for that. Udangudi, yes Udangudi we are L1 definitely and you know that the earlier case against us and the court verdict is expected anytime but then the Tamil Nadu GENCO has taken a stand at unless they get the court judgment they would not finalize that. They opened the bid four months back and we expect that the judgment also can happen anytime now and in fact I am expecting that by end of February the judgment will be given and we are definitely hopeful that it will be now favour and therefore afterwards only they will go ahead and finalized the Udangudi order.
- Venkatesh B:** Are there any other orders you are already L1 in?
- B. Prasada Rao:** Yes there are some hydroelectric project Pipalkoti we are already lowest in that and there again we are expecting that any time this could be finalized and there is another one in Pranhita this another pump storage scheme actually with Navayuga this could be one lift irrigation scheme actually and yes we are also finalizing some orders with the Telengana Janpur. There is another project with NTPC Raman there also we are L1.
- Venkatesh B:** Sir what will be the total value of the projects where you are L1?
- B. Prasada Rao:** Values could change but approximately and you can take it as including Udangudi it will be around about between 8000 and 9000 Crores.
- Venkatesh B:** Sir this Manuguru also is expected in fourth quarter right? Manuguru 1080 MW?
- B. Prasada Rao:** Yes we are expecting.
- Venkatesh B:** What is the preparedness for orders beyond Manuguru out of the remaining 4 gigawatts is there any likelihood that one of those could come this year or the remaining 4 gigawatts is for next year?



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- B. Prasada Rao:** One more also we are expecting the 1200 MW 2x600 at Nalgonda. See Telengana as a client is yet to find out the land and take clearances and that is why it is taking some time otherwise we could have finalized all the 6000 MW by end of March but that is the only reason and still it is happening very fast I must say compared to many other electricity boards because we signed the MoU in October in the first half they comes to us in December and the second half we are expecting now in February, third order in March and so they are working very fast because they need power very fast and so yes I expect roughly about 50% from the 6000 MW will be finalized this year and balance 3000 MW could go to next year fourth quarter.
- Venkatesh B:** So it almost seems that you are L1 in 90 billion and another 2x600 Nalgonda and this Manuguru all these put together there is a possibility that fourth quarter you could have inflows upwards of almost 200 to 250 billion 20000 Crores to 25000 Crores, am I right sir if everything falls into places and comes on time?
- B. Prasada Rao:** See it like this I would not like to do any forward looking statements, whatever you deduce from whatever information I have told it is up to you.
- Venkatesh B:** Now the second question is on this you mentioned that around 15000 MW of projects are at various stages are at standstill what will be the rupees corers value for this, which is at standstill?
- B. Prasada Rao:** It will be very difficult to give you a value because the various stages of execution this will be there but it would be anywhere between 30000 and 40000 Crores, but my colleagues correct me about 23000 to 24000 Crores so it will be quite at various stages of executions now it will be difficult to estimate exactly.
- Venkatesh B:** But is there a possibility see you are expecting that post the coal auction execution will start but it is possible that some of these companies might not win any coal mine in the coal auction then what happens?
- B. Prasada Rao:** See restructuring also can happen. The projects can be taken over by others. There are already some projects which are already being looked up by some of the companies like NTPC or Adani or Reliance and things like that so this kind of restructurings are expected to happen, consolidation will happen, because where some money has been spent and some project has come up nobody would like to leave that thing just like that know.
- Venkatesh B:** Sir lastly any expectation on this Khargone, Katwa and Barethi all these things were supposed to happen by the end of this year but what NTPC is saying that they do not have environmental clearance in any of these projects?
- B. Prasada Rao:** That is right so we do not expect any of the projects to get finalized this year.
- Venkatesh B:** Thank you very much Sir.
- Moderator:** Thank you. Next question is from the line of Chockalingam Narayanan from Deutsche Equities. Please go ahead.



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- Chockalingam N:** Thanks for the opportunity. Just wanted to understand on this Telangana projects the sense of funding how this project getting funded and does BHEL have to play any role in that?
- B. Prasada Rao:** No we are not playing any role in funding. This is being tied-up with both PFC and REC totally by the state.
- Chockalingam N:** By the state.
- B. Prasada Rao:** Yes Telangana, GENCO itself is tying up, I do not think Telangana has been got any funding problems.
- Chockalingam N:** The receivables you mentioned it has come down I do not know if I heard you right it come down from 42000 to 36000 odd Crores is that the right?
- B. Prasada Rao:** 44122 to 41082 and the net after provision is 36616.
- Chockalingam N:** So for the nine month it is come down by roughly about 1000 odd Crores.
- B. Prasada Rao:** Yes.
- Chokkalingam N:** Thank you.
- Moderator:** Thank you. We have next question is from the line of Amit Sinha from Macquarie. Please go ahead.
- Amit Sinha:** Thanks for the opportunity. Sir our gross margin has improved around 200 basis points both on sequential as well as on YoY basis what are the reasons for this is the soft commodity prices helping us?
- B. Prasada Rao:** Definitely the material cost if you look at there is a saving of nearly 1.3% or so and that has definitely helped us and the soft commodity prices therefore is one of the major factors. Second thing I think there are some savings on our employee cost also because we have lost about nearly 2000 people in the first nine months this year and we have not filled them up the manpower cost so therefore all this and also the continuous efforts localization and also the material cost and the other cost reeducation always helps us.
- Amit Sinha:** So what is the total employee strength at this point of time?
- B. Prasada Rao:** 45572.
- Amit Sinha:** That is it from my side. Thanks.
- Moderator:** Thank you. Next question is from the line of Sanjeev Kumar Panda from Sharekhan. Please go ahead.



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- Sanjeev K Panda:** Sir in your segmental if I look at there is other unallocable expenditure that has come down significantly lower just for a book keeping and for my knowledge like if you can just throw some light what hell happened there?
- B. Prasada Rao:** Wherever it is clearly identifiable they have allocated there so that. Normally when we look at two segments there is a component of direct orders which unit takes the small value orders for product sales and some of the small service jobs they do not get allocated so you can only infer that component probably has come down that is all.
- Sanjeev K Panda:** Sir the solar PV that you are talking about what kind of opportunity that we see and the kind of competition that we assume because that is a large area and very attractive area at this point of time and we believe there is lot of people are getting and aspire to get into it. Can you throw some light how are the market and how the scenario is because at the same time we have been listening about global PV prices coming down and international competition is extremely high. Can you throw some light on that part and the profitability that the management is assuming in that business?
- B. Prasada Rao:** The basic reason why we went for capital subsidy scheme is because we want to produce the entire value chain in so that to get that sort of value out of the production that is both the materials in the solar cell as well as the module, all the three. In addition to that some of the balance of plants hardware also we are trying, we have developed actually the inverter and we are trying to manufacture that also so with this we will have control on the entire manufacturing of the total solar PV system. Now having said that, yes right from the beginning kept a target price which is definitely compared to Chinese it is a very, very aggressive price from Chinese so therefore we will have to withstand that is the reason that we are working out this scale of 480 MW. In fact it is all enough that we have to remain at 480 MW we will have to increase further the scale then only we will be able to complete on volumes and the market is developing very fast. In fact not many Indian manufactures are there today right from this material level only more people are at the module level and a very few people at the cell level so most of the hardware is being imported today in fact even the EXIM US funding which is going to happen I am not very sure how much of that hardware can come in because of the issue of price for this. The cost comes down of the PV power therefore it depend up on the investment. So definitely yes but then market is very big- As you know that Government of India is taking lot of initiatives including the state government in fact there is going to be a conference on REinvest where they are asking all the public sectors and other companies to commit on the kind of megawatt generation what they are going to do in solar PV so all these augur very well for really scaling up the generation from PV and there are talks of about the renewable power obligations being made mandatory so with all these things there will be increase in the deployment of PV and therefore it is a good market therefore for the Indian manufacturers and we are trying to make use of that opportunity.
- Sanjeev K Panda:** Sir last question from my side is as we are close to ending the year initially we talked about some megawatt kind of target inflow what is the visibility on that for this year?



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- B. Prasada Rao:** See initially when I talk about there is a 15000 MW total market size I talked about these are the kind of projects which were there in the drawing board and which could get finalized during the year but though all 15000 are not happening but somewhere near 12000 to 13000 MW is what is happening now if you look at the first Q1, Q2, up to Q3 roughly about 7000 MW orders have been finalized, out of that we got about 3800 MW. I expect further another 6000 to 7000 MW orders could get finalized in the last quarter and there again our expectation out of that is roughly about somewhere it would be at about for about 4000 MW is what we are anticipating out of that. So yes reasonably it has come true but had there been a little more traction on coal block allocations and things like that probably more projects could have come and the most of the projects as they are coming up in the government sector the village are also there in decision making. Now for example earlier about the Tuticorin project though it is a private sector project the project is waiting for almost six months for getting a clearance from the regulatory commission there so this kind of delays are happening otherwise more for this could have finalized this year.
- Sanjeev K Panda:** Thank you Sir. That is it from my side.
- Moderator:** Thank you. We have next question from the line of Sachin Dinesh Trivedi from UTI Asset Management. Please go ahead.
- Sachin Dinesh T:** Sir just one clarification in case of this Telengana order that we have got the MOU that we have signed with the state is it possible to know the source of fuel in this space.
- B. Prasada Rao:** This is mostly imported.
- Sachin Dinesh T:** The entire...?
- B. Prasada Rao:** Yes, entire thing is imported and they will change over as and when they get the linkage that is why we are offering our fuel flexible boiler where it can start with 100% imported coal and mix it with the Indian coal as and when it is available in what are proportion is available that flexibilities we provided by our boiler.
- Sachin Dinesh T:** Sir as you just mentioned that may be 12 to 13 gigawatt of capacity will get ordered this year but going forward in FY 2016-2017 what kind of visibility do we have on the market side.
- B. Prasada Rao:** Well I think we will have to look at the progress of this coal block allocations. So it depends market activation will happen from there and also some of the reforms, the distribution reforms some of the states now we are seeing that most of the states are going for revising the tariffs so if these kind of things happen quickly then there could be more projects happening.
- Sachin Dinesh T:** Sir is it possible that may be for one, one and a half year there can be some lull or reduction in the market size and later on maybe in 2017-18 market actually will bounce back is it possible because there are no fresh linkages getting awarded then all the blocks are getting awarded only for the projects where the progress has been done.



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- B. Prasada Rao:** No but if you look at the coal ministers statement the coal projection is going to doubled in the next five years from 490 million tonnes to he says 1 billion tonnes and it is going to be made in five years time, so where the all that coal will go, see precisely the situation of blackout should not come that is why if they have to pursue Make in India and at the same time they have to increase the growth rate, the power is main component. It cannot be that it can be lull sometime and later on pick up then India is going to miss these opportunities I do not think the government will plan in that manner. There will be some minimum capacity addition of which kind of like this year I think probably the least which is going to happen probably it may in the reviving cycle. Last two years has been bad now it is reviving and 13000 – 14000 MW is getting ordered and from here I feel it will only pick up because one must understand that power plant once it is ordered it will take four years minimum to for the project to come online.
- Sachin Dinesh T:** So we have seen enough preparedness set of clients and largely and the NTPC or some of the SEBs where they are already at the planning stage versus capacity country?
- B. Prasada Rao:** Yes NTPC has plans yes what you say is right.
- Sachin Dinesh T:** Thank you.
- Moderator:** Thank you. We have next question from the line of Girish Nair from BNP Paribas Securities. Please go ahead.
- Girish Nair:** Thanks a lot for taking my question. Most of my questions have been answered but still I wanted to understand what is the case that is pending in the Madras High Court against the Ennore SEZ could you elaborate on that and basically also want to see would there be in the worst case the risk of any cancelation of this order?
- B. Prasada Rao:** No. There cannot be any cancelation of the order. See this is basically I think Chinese company trying to claim that BHEL has delayed may be some projects somewhere and they were trying to what had make them disqualify BHEL on that ground. It is not possible there, all evidence have been given and there is enough proof given to them. There is nothing like that and they cannot disqualify us or anybody else and there is no such condition also. All arguments are all over actually. In fact our Ennore project has been already started by us the execution has been already started so there is no question of going back on that and we are waiting for the Udangudi to get that also to come to us.
- Girish Nair:** Secondly if you look at other expenses as a percentage of sales that has gone up to about 20% this quarter versus about 15% last year. Is there any particular reason for this spike or is it that expenses are kind of confident and the sales have fallen?
- B. Prasada Rao:** Some portion definitely is because of that but let me see, what the number that you are referring to?
- Girish Nair:** Sir in terms of just hang on I let you know?



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- B. Prasada Rao:** 1647 to 1609 it has come down actually percentage because topline has comparable.
- Girish Nair:** Yes I said the percentage of topline if you look at the...
- B. Prasada Rao:** Percentage of topline is fixed expenses basically.
- Girish Nair:** So is there any specific item there because if you look at it is 1212 Crores this quarter and last quarter that is second quarter it is only 823 Crores for the same level of sales.
- B. Prasada Rao:** See it has components which has fixed cost like security we have CISF security whether we have turnover or not that is the major chunk. We have contracts that is where we have time related cost of making payments, rents, rates, taxes so all the time related cost whether the turnover is there or not they are a significant component and they remain there.
- Girish Nair:** Additional question on the gross margin if that the gross margins have improved sequentially from 43% to 45% so the question was if let us say the sales rebound significantly can we see this gross margin sustain at these levels especially because even now the percentage of EPC contracts will increase again it sustain at these levels at 45% assuming that the raw material cost remain at these levels?
- B. Prasada Rao:** Definitely the volumes grow, the fixed will get divided and therefore the margins will improve. You are seeing that when the volumes are very high in the three four years back.
- Girish Nair:** It is more of the gross margins that we are talking about we have variable costs so you are saying that it can sustain?
- B. Prasada Rao:** Pardon.
- Girish Nair:** You are saying that the gross margins can sustain at these 45% that you have achieved this quarter?
- B. Prasada Rao:** This is sustainable. If the topline is pursued topline growth definitely it can be sustain there. In fact this question you must see the previous year's data it will be evident for you.
- Girish Nair:** Thanks a lot for taking my questions. Thanks.
- Moderator:** Thank you. We have next question from the line of Charanjit Singh from Axis Capital. Please go ahead.
- Charanjit Singh:** Sir in the beginning of the call if you talk about from the defense order where we are participating for specifically for the naval gun and how large as this opportunity for sub marine segment you are looking at and the next one will be on the nuclear side well since we have seen some agreements going through in the nuclear front to be see any orders emerging from that segment for BHEL?



B. Prasada Rao: See on the nuclear front, because of the present US things will be, I do not see anything which is happening immediately on that ground but there is an indigenous nuclear program which is going on and we are participants of that and we are serving Nuclear Power Corporation and that continuous. We are working with them for about eight projects with Nuclear Power Corporation and as and when they order more projects on those same technologies we will be with them and the foreign technologies I do not expect at least for sometime that to fructify because there are lot of issues in that other than the nuclear supplier liability issue the one hand to look at the economics effect what is the cost of setting up such plant for cost per megawatt and the kind of technologies which are yet to be proven in some cases, some cases proven technology but then very, very costly so there are number of issues one use to look at and there is a fine print for one should look at insurance pool which has been suggested. Whether that is enough or not so there are number of issues like that so that will take some time now your question on the submarines and the defence thing, see submarines is too early for me to tell you any figure as such because we are still in the beginning of the projects we are working on that and our contribution could be in the submarine right from starting from the hull itself to some of the thermal magnet motorbikes, generators and power packs and as there are number of such powers and systems controls so there could be a number of so it depends on the scope of work ultimately we undertake vis-à-vis other partners. So therefore all that as we looked at now these guns as we already mentioned that we are already in the bidding stage. There the bids are being evaluated by the Minister of Defence and I expect sometime next year this could get finalized.

Charanjit Singh: What will be the value of this order for that?

B. Prasada Rao: Well again the way they divide the order, the each gun would cost somewhere around I do not think let me not hazard any guess on this, this is the 127mm gun so I am not sure how much it will be but they will require at least three four guns a year depending on the ship program the number of ships that what they manufacture so I think may be in the next discussion when I have with you may be there will be more clarity on this.

Charanjit Singh: Sir just last question on the pipeline for the power generation side on thermal as well as hydro so we have seen like earlier also the question has been asked so what do you think the both the pipeline going forward in FY 2016 if you factor in this coal issue getting sorted out and on the hydro front also we have two orders which you told that we are in the pipeline do we see any further orders getting finalized in FY 2016?

B. Prasada Rao: Well FY 2015-16 I feel should have a similar kind it is not better than this year a similar kind of megawatts finalization you can see because in that kind of things minimum does not happened then the country is going to face blackouts so that cannot be a sort it now at this point of time then there is a movement in all sites to have smart cities to have Make in India and all these things which we have to sustain then you need power and we need to take call the actions necessary. I agree that there are lot of constrains which are not so easy to solve like there are power is being a confront subject the states have to come on board with respect to distribution reforms and so therefore much minimum of the size will happen if not better than this and now hydro side if you come to there could be minimum 2000 to 3000 MW kind of projects we are



today seeing on the ground they could get finalized they may not get completed but they could get finalized.

Charanjit Singh: That is all from my side. Thanks a lot for answering my questions.

Moderator: Thank you. We have next question from the line of Venkatesh Balasubramanian from Citi Research. Please go ahead.

Venkatesh B: Sir what kind of capacity utilization you must be working at something like 50% capacity utilization currently right sir on the power side.

B. Prasada Rao: Approximately yes.

Venkatesh B: Sir one question which we have always wondered is there not a large enough export market that you could actually target because there are certain fixed cost you have now even if some of these orders are picked up at lower margins there could be better capacity utilization now or are there like your technology partners prevent you from bidding in certain markets?

B. Prasada Rao: You are partly right. We have some license restrictions where we cannot participate but those markets are not active today I must tell you that those markets are already saturated markets but the most important thing which happens is there are two three issues which come as constraints to us one is the financing issue. The Africa particularly where the market is big today the competitive in terms of financing are not available to us. In fact we have been pleading with the government to improve the capacity as EXIM banks to be able to offer loans at competitive rates of interest second is to at least provide interest subvention to us we have been representing let us hope something happens in the budget on this particular point because Finance Ministry has accepted our suggestion on this, incur subvention on this. So this becomes a major constraint though we stand alone. You are right that we have not lost any order for the sake of competitiveness. We have been able to project ourselves to be competitive in the export markets but these are all the constraints. The second issue is the qualification issue many of these non-tariff barriers I call them as non-tariff barriers they put them they rate them that they will say that if you have to supply 700 MW at our 600 MW set they will say other than the country in which you are residing and you must have supplied one somewhere else outside your country. So these kind of conditions are put in and that prevents from participation in some of these jobs unless you get the first job till then you will not get qualified for the second job so these are all the issues otherwise yes there is a market at least for some of the things like South East Asia and Africa and some of the Gulf countries and there are some markets which are risky also like they are very, very uncertain like Syria, like Yemen and there uncertainties are may be in Libya for example Libya has been a good market to us but then today we do not do anything today there because the Libya is politically very, very unstable today.

Venkatesh B: Sir on a related note, there were newspaper articles which suggested that there was this you are trying to work on some 3000 Crores kind of order in Russia and then you had given some clarification if you could throw some light on that particular order and also something in



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Bangladesh where initially they were not allowing you to bid and then because you had to supply one order outside India or something like that was there and where some clarification came because NTPC is setting up that project so can you just throw highlight on that Bangladesh and that Russia opportunity?

B. Prasada Rao: See wherever it is being set up by Indian companies we are working through the Indian government as well as Indian companies to see that we get qualified. Yes we must have seen the statement recently where the NTPC Chairman that he has been able to work with Bangladesh Electricity Board that they qualify BHEL in this so that is one positive development on that side. Russia yes we have been working all these countries we keep working on the opportunities available but then Russia went into their own issues afterwards and therefore the project is slightly on a backburner now.

Venkatesh B: Thank you very much.

Moderator: Thank you. We have next question from the line of Harish Bihani from Kotak Securities. Please go ahead.

Harish Bihani: Sir on the slow moving order side if you recall a couple of quarters back you had given the places where projects are slow moving so it was Abhijeet Group if I have to remember correctly then there was Indiabulls Group two projects Amravathi and Nasik phase II, Surana Power, Monnet Power, Visa Power, then Ideal Energy, RVUNL Ramgarh, plus we also got some basically from other places like say for example DVC Ragunathpur NTPC Nabinagar and Bongaigaon then APGENCO Kakati and Rayalseema. So broadly will these be the projects where we have issues and the coal blocks or other availability things would improve further?

B. Prasada Rao: Broadly these are the projects but the APGENCO projects have improved now. There actually the problem was the BOP contract was not working and they have been able to find somebody else and trying to push the project and even on NTPC side yes DVC Ragunathpur is still a problem. Bongaigaon is moving. NTPC Bongaigaon is we are trying to in fact trying to see whether we can commission this year itself, but other privates in the projects are all yes they are all slow moving or some are not moving.

Harish Bihani: So typically in the first nine-months about 60% of the sales coming in the first nine-month and 40% so looking at the runrate of the first nine-month, the fourth quarter also looks like and given the constraint that we have that we have already highlighted on the project side the fourth quarter also looks potentially could be very, very weak. Would that be a correct understanding Sir or because the first three quarters have been weak and things might improve tightly so fourth quarter versus in the first nine-month could be slightly better?

B. Prasada Rao: You are questioning and you are answering both so yes both are possible or situation could be in between so about anyhow as I mentioned already that I would not like to give any forward guidance so yes these are all the issues we need to overcome.



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- Harish Bihani:** Sir last question is basically on the staff cost if you look at quarter-on-quarter there is a reduction of 200 Crores. Is there any one time that we should be aware of because the employee reduction would have happened over a period and the staff cost would not come down so sharply in a quarter?
- B. Prasada Rao:** Good number of employees have come down 2000 employees have come down actually but quarter-to-quarter.
- P. K. Bajpai:** 47525 to 45572 is what the reduction of manpower is and in specific quarters you have some bonus and CERC related expenses they also keep getting reduced if your manpower is reducing. These are the impacts.
- B. Prasada Rao:** 2000 numbers is a good number. It is a very good number.
- Harish Bihani:** Thank you so much.
- Moderator:** Thank you. We have next question from the line of Renu Baid from B&K Securities. Please go ahead.
- Renu Baid:** Just couple of questions back from my side. One is would it be possible for us to share our order book mix in terms of customer largely private and public and what proportion of that would be fixed price?
- B. Prasada Rao:** I do not think I can give you that right now.
- Renu Baid:** Any broad rough cut indication of fixed price projects in the total order book would it be like 30% - 40% or lower than that?
- B. Prasada Rao:** Right now because the orders are mostly from the government sectors, they will have price variation and some of the private sector orders could be on competitive basis when you say that could be fixed price contracts. It is safe to take 50-50 at it is point, I am not able to guess it, I do not have the data right now.
- Renu Baid:** Second is on the railways of the loco side if you can also help us give little more insight in terms of we were setting up a facility at Bhilwara and some projects and loco orders were expected so any traction on that side and how do we say the railway part of the vertical scaling up?
- B. Prasada Rao:** Nothing, there is no traction on that. Basically the Bhilwara facility we do not know what railways is going to do about it. They have not indicated what they are going to do. There is no traction at all on railway side. Their ordering has not picked up and we have been in constant dialogue with railways at the highest level and we are trying to get that order for our own Jhansi plant for the locomotives. We have one order for the executive based drawings that is the only thing for us but I expect things to improve because there is lot of delegation which has been given down from the ministry level to the executing authorities so I expect that decision making



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could be faster now and with that something could happen but till now there is no traction on the railway side.

Renu Baid: That is it from my side. Thank you and all the best.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand over the floor back to Mr. Harish Bihani for his closing comments. Over to you Sir!

Harish Bihani: Thank you all for participating in the call. Thank you to BHEL's management for giving us an opportunity to host this call. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Kotak Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.
