



“BHEL Q1 FY14 Earnings Conference Call”

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MODERATOR: MR. KUNAL SHETH, PRABHUDAS LILLADHER PVT LTD

– **MODERATOR**

- Ladies and gentlemen, good day and welcome to the BHEL Q1FY14 Earnings Conference Call hosted by Prabhudas Lilladher Private Limited. As a reminder, all participants lined up 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 any assistance during the conference call, please signal an operator by pressing * then 0 on your touch tone type phone. Please know that this conference call is being recorded. I now hand the conference over to Mr. Kunal Sheth. Thank you and over to you sir.

– **MR. KUNAL SHETH – Prabhudas Lilladher Private Limited**

- Thank you. I would like to welcome the management of BHEL on the call and also would like to thank them for giving us this opportunity. From the management we have Mr. B. P. Rao – Chairman & Managing Director, Mr. P. K. Bajpai – Director Finance, Mr. Krishna Shankar, Director Industry Sector and the entire BHEL team. Sir I would request you to give us some opening remarks and then we can open the floor for a Q&A sir?

– **MR. B.P. RAO – Chairman & MD**

- Well, good afternoon friends. I am B. Prasada Rao, CMD BHEL. With me I have Mr. P. K. Bajpai, Director Finance, and Mr. Krishna Shankar, Director Industry Sector along with other senior officials. A very warm welcome to all of you. India's macro environment is at cross roads so it has advanced from short capital outflows to a very deep and rupee depreciation high cost of capital etc. IMF in its World Economic Outlook (July update) has also cited new risks to world growth, a possibility of a longer growth slowdown in emerging market economy especially given the risks of lower potential growth, slowing credit and possibility of tighter financial conditions. A close look at the industrial production numbers substantiates a slow down risk and on a year on year basis, IIP growth has fallen from 8.2% in 2010-11 to 1.1% in 2012-13. High interest rate, inflation, declining consumption demand and no new investment are collectively pulling down production index. The worst performer capital goods has contracted to about -6.1% in 2012-13 from 7.4% in 2010-11. In May IIP contracted by 1.6%, the lowest factory output in 11 months versus 1.9% in April. Manufacturing and mining sectors, both exhibited negative growth of -2% and -5.7% respectively with the only exception to electricity generation which grew at a robust rate of 6.2% in May. Capital growth opened its innings with a negative growth like in the previous year exhibiting a negative growth right from the month of April. It grew at (-)2.4% for the month of May 2013. It seems that negative sentiments have already crept into businesses which will make recovery even harder.

- Government has been taking several initiatives in recent past which are well crafted to assist economic recovery particularly in power sector. 14 coal blocks with reserves of 8311 MT and associated capacity of 32 GW are allocated to power sector. 13 projects including 10 transmission, 1 hydro and 2 thermal projects entailing investment of Rs 33,000 crore have been cleared by Cabinet Committee on Investments. I am optimistic and confident that hard times will soon be over, good times will come.
- Coming to the operations of BHEL, project commissioning remains healthy. Total Orders received during the first quarter were of Rs 1469 crores and consisting of Rs 818 crores from the power sector and of Rs 648 crores from the industry sector, and balance were exports. We also received the letter of intent for 4 units of 120 Megawatts of boiler packages from Jindal Power Limited, for various thermal projects in Africa. We have an order book of Rs 1,08,600 crores as on 30th June 2013. 82% of these orders are accounted by power sector, 10% by industry sector, and balance 8% are accounted by the international operations.
- Looking at the financial results of the first quarter, the turnover for first quarter 2013-14 is 6671.2 crores against 8740.93 crores during the first quarter of last year i.e. 2012-13. Profit before tax in first quarter 2013-14 is placed at 668.5 crores against 1334.55 crores during the first quarter of 2012-13. Profit after tax for the first quarter of 2013-14 is placed at 464.43 crores against 920.9 crores during the first quarter of 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. Anyone who wishes to ask a question may press * and 1 on their touch tone telephone. If you wish to remove yourself from the question queue, you may press * and then 2. Participants are also requested to limit their questions to 2 per participant. Time permitting you may come back in the queue for follow up question. Anyone who has a question at this time may press * and 1.
- The first question is from Aditya Bhartia of Espirito Santo. Please go ahead.
- **MR. ADITYA BHARTIA - Espirito Santo**
- Hello, good afternoon sir.
- **MR. B.P. RAO – Chairman & MD**
- Good afternoon.

– **MR. ADITYA BHARTIA - Espirito Santo**

- Sir what is the reason for such a sharp drop in revenues this quarter? Has it got to do more with difficulty in collecting money from customers or are there some non-moving audits in our audit backlog?

– **MR. B.P. RAO – Chairman & MD**

- See there are enough number of reasons for this. The project execution is becoming slower because of the customers' inability to organize resources, i.e. the cash. Other thing is basically the clearances which they require are also not in place. So the execution is becoming slower. Whereas on our side everything is geared up to meet the challenges, in terms of localization, in terms of signing of more vendors, in terms of capacity. However on the customer's side, the issues of cash, issues of clearances are all coming in the way. In fact in projects like Bajaj Hindustan, Surana Power, Monet, Abhijit Industries some of their projects, where these kinds of problems are existing. In fact this year we had to take a tough call on this, to suspend supplies to some of the customers on account of non-payment of our dues. So these have resulted in a bit of top line reduction.

– **MR. ADITYA BHARTIA - Espirito Santo**

- Ok. And sir after you have taken such steps and you are kind of delaying execution of these projects, are you seeing the tendency of customers to start paying, or are they still holding back the payment?

– **MR. B. P. RAO – Chairman & MD**

- No, there are improvements. In fact some of the customers, for whom we have taken these kinds of actions, have improved. In fact the payments are improved and therefore we have restarted those projects. And for some of these projects we have now taken these actions very recently and though it is affecting our top line, but we need to have the cash in hand for our working capital needs also at the same time. We need to pay our vendors and our contractors to carry out the work. So with all these things keeping in view, we had to come to a difficult decision of suspending activities, and re-mobilization will also cost, we have indicated all that to customers, and as per contract we are going to deal with.

– **MR. ADITYA BHARTIA - Espirito Santo**

- I understand sir. And lastly sir was there any order cancellation this quarter?

– **MR. B. P. RAO – Chairman & MD**

- Well there is only one order which was booked sometime in 2010-11 in Iraq, that was of Rs 1200 crores. And that order the customer has now indicated that he is

no longer interested in proceeding with the order because it is not getting executed in the last 2 years. We have been waiting for the clearance for the start of execution but he has not started yet so we have almost taken a decision not to pursue that. Because it was a 2 years old order at that time and the customer has also agreed to drop that.

– **MR. ADITYA BHARTIA - Espirito Santo**

– Ok. Thanks a lot sir.

– **MR. B. P. RAO – Chairman & MD**

– Thank you.

– **MODERATOR**

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

– **MR. ABHISHEK TYAGI – CLSA**

– Hi sir. Good afternoon. Sir couple of questions, just a continuation from the earlier participant. Sir what proportion of slow moving orders would be there in our overall order book right now? You know like the ones you have mentioned like Bajaj, Abhijit, Monet. But these will be like what percentage of your existing backlog?

– **MR. B. P. RAO – Chairman & MD**

– See the existing backlog is over Rs 1,08,600 cr and we have 2-3 orders in industries like IPCL, Haldia, Kohinoor Power, Lokmangal Agro, and Bajaj. See I don't expect Bajaj to remain as a slow moving thing because the indication from the customers is basically from the sector that they will be able to come back and you know give us let's say the cash resources to carry out. So at this point of time this may be slow moving, but I don't think this is going to remain like that. So that way there has been this direct situation where every month you will have to monitor and see. I can't give you a figure like that because of this reason.

– **MR. ABHISHEK TYAGI – CLSA**

– No problem sir.

– **MR. B. P. RAO – Chairman & MD**

– In fact at the management level there is also monitoring almost every month. What orders are becoming active, what orders are becoming sure, and we have been there in the picture. So I expect for example Bajaj, which is a major contract

out of the entire list, what I mentioned to you, he is likely to come back by September this year because the customer has indicated to us.

– **MR. ABHISHEK TYAGI – CLSA**

– Ok. And sir regarding two reasons which you have mentioned. One that there is you know finances have been a problem you know with some of the IPPs, and the second that clearances was also a problem. So is that related more with the public sector orders which you have got that the clearances are not there and that's why you cannot proceed with the revenue recognition?

– **MR. B. P. RAO – Chairman & MD**

– No, see, when I say clearances received it is not just only the statutory clearances, some where our consignments are not getting unloaded, that is why we are not able to proceed with the execution. And there are land issues coming in some of the public sector side also. And where the local villagers are coming and obstructing some of the work. These kinds of issues. And these have been always there, and particularly in this quarter that has affected our top line performance. That is why I have mentioned the reason. But these things will get sorted out over a period of time.

– **MR. ABHISHEK TYAGI – CLSA**

– Ok. Sir just one more question, this was regarding the two large locomotive factories for which the RFQs were issued in May. One for diesel and one for the electrical one in Madhepura and Marora. Sir what is the progress regarding that and whether BHEL would be eligible for bidding for these and with any partners?

– **MR. B.P. RAO – Chairman & MD**

– Yeah we have tied up with GE as you know for a diesel locomotive factory and for electrical locomotive factory also we are with GE and we are also exploring with other people. But then still these RFPs are not formed up. Still the railways have not announced very clearly when is the last date when they are going to issue these RFPs. They have not yet issued, they have only mentioned the intentions.

– **MR. ABHISHEK TYAGI – CLSA**

– Ok, ok sir. Thanks a lot sir. Thank you.

– **MODERATOR**

- Thank you, our next question is from Venugopal Garre of Barclays. Please go ahead.
- **MR. VENUGOPAL GARRE - Barclays**
- Hi sir, I just wanted to check, regarding with certain orders you mentioned that you have to cut supplies, payment issues, do we have adequate covers in case some of these receivables actually don't come through for any reason? Do we have enough advances which will offset those receivables or is it likely that there is still a chance of certain write-offs in those projects?
- **MR. B. P. RAO – Chairman & MD**
- Well first of all we don't see any such requirements at all. To answer your question, our contracts do cover this. Secondly I don't see any, because customers have already spent a lot of money. Like Bajaj if you take, he has already spent roughly about 50% of the project cost on developing this project itself. So this is a temporary problem and this will come back. So I don't see that there is any danger of these orders ultimately going away.
- **MR. VENUGOPAL GARRE - Barclays**
- Sir could you also give us the total receivables number this quarter end as well as the cash balances?
- **MR. B. P. RAO – Chairman & MD**
- I would request Director Finance to take this.
- **MR. P. K. BAJPAI - Director Finance**
- Receivables are at the level of Rs 41000 plus crores and cash is Rs 6400 crore plus.
- **MR. B. P. RAO – Chairman & MD**
- I wanted to clarify here, receivables when we say, you know this Rs 41000 cr has, the collectibles are only 19,000. The 22,000 is what you call deferred debt. They are not due for collection today because they are milestone related payment, and only after certain activities are completed, these payments are realizable. So clearly speaking, 19000 is our net debtors as of now collectible.
- **MR. VENUGOPAL GARRE - Barclays**

- And sir my last question. If you could give us an idea about order prospects for this year. I mean either in terms of megawatt bidding pipeline or in terms of the specific projects where you think you have a good chance of winning.
- **MR. B. P. RAO – Chairman & MD**
- Yeah. See I think I mentioned in the conference call when I had for the fourth quarter results of last year on May 23rd, you know I mentioned that the picture is like this. In the year 2011-12, total orders finalized in the country were roughly 4000-5000 Megawatts. And we received roughly about 3000 Megawatts. Last year out of 11000 Megawatts finalized, we got about 8000 Megawatts orders. This year what I am seeing the trend is that almost 15000 Megawatts tenders are likely to be finalized and we expect to book around 11000 MW approximately out of this.
- **MR. VENUGOPAL GARRE - Barclays**
- Ok this is very helpful sir. Thanks a lot.
- **MODERATOR**
- Thank you. Our next question is from Nirav Vasa of Motilal Oswal Securities. Please go ahead.
- **MR. NIRAV VASA – Motilal Oswal Securities Ltd.**
- Thank you very much sir. This question pertains to the debtors numbers that you informed. Out of the 41000 crores of debtors that we have, 22000 crores is the amount that you generated into milestone payment.
- **MR. B.P. RAO – Chairman & MD**
- Yeah this is deferred payment.
- **MR. NIRAV VASA – Motilal Oswal Securities Ltd.**
- If my understanding is right, this 22000 crores will be your retention money and all? Or retention money is part of this 22000 crores?
- **MR. B. P. RAO – Chairman & MD**
- The retention money?
- **MR. NIRAV VASA – Motilal Oswal Securities Ltd.**
- Yes.

- **MR. B. P. RAO – Chairman & MD**
- I don't know what you mean by retention money.
- **MR. NIRAV VASA – Motilal Oswal Securities Ltd.**
- Sir, certain part of your money is always kept by the customer and once the project is commissioned.
- **MR. B. P. RAO – Chairman & MD**
- That's what it means. Before that for example, when I bill Rs.100 today, second portion becomes payable only after the commissioning of the project for example.
- **MR. NIRAV VASA – Motilal Oswal Securities Ltd.**
- Exactly. So this 22000 crores is a milestone payment right?
- **MR. B. P. RAO – Chairman & MD**
- Yes the whole thing is like that. The payment is not due immediately now. It is due only after completion of milestones.
- **MR. NIRAV VASA – Motilal Oswal Securities Ltd.**
- Ok, sir second question pertains to the new growth initiatives you are tasking in the power segment. Sir you have invited bids from the consultants and the marketing agents to market BHEL's equipment across new geographies. So will it be possible to help me with some update on that as to what state we have reached there?
- **MR. B.P. RAO – Chairman & MD**
- Yes see this is for our external markets, where we need to have the help of a local person, to deal with the legal situations there and to advise us on various other aspects of the local market conditions before we bid. And such things we have done in Egypt recently where we see opportunities. and also in Africa where we are actively pursuing a number of opportunities. So for such requirements we turn out for such agencies.
- **MR. NIRAV VASA – Motilal Oswal Securities Ltd.**
- So effectively marketing would be done mainly by our in-house teams. They will only be facilitating in how to put our bid. Am I right in it?
- **MR. B. P. RAO – Chairman & MD**

- Yes that's right. Marketing will be done by our own team situated here in Delhi and also our local offices abroad. But these people will be helpful in telling us the local conditions for them, the local legal conditions which they are aware of what exactly you know the legal provisions are there, we need to examine certain labor rules there. So these are all the things which these people will assist us and also we will coordinate with the customers and the consultants and the other agencies involved in seeing that our bid is submitted on time and the bid conforms to the requirements and things like that. Local agencies will help us in that perspective.
- **MR. NIRAV VASA – Motilal Oswal Securities Ltd.**
- Ok. My last question pertains to the order backlog that we have. Would it be possible for you to give a break up of that order back log in terms of industry, power and international orders please?
- **MR. B. P. RAO – Chairman & MD**
- Sure, sure. One second. Yeah power sector is 89417 crores.
- **MR. NIRAV VASA – Motilal Oswal Securities Ltd.**
- 89417.
- **MR. B. P. RAO – Chairman & MD**
- Yeah. Industry sector 10883 crores. And international operations 8392 crores.
- **MR. NIRAV VASA – Motilal Oswal Securities Ltd.**
- Thank you very much sir, my queries have been answered.
- **MR. B. P. RAO – Chairman & MD**
- Thank you.
- **MODERATOR**
- Thank you. Our next question is from Renu Baid of B&K Securities. Please go ahead.
- **MS. RENU BAID - B&K Securities**
- Good evening sir. Sir my first question is coming slightly back on the execution side though you have elaborated a bit. It's been almost last 3 quarters where we have seen sales being slightly behind the expected timelines because of cash flow constraints of customers and our concerns and a more conservative

approach to execution. So given this stance and the current order book, what do you think will be outlook for overall sales for the year? Do you think it will be possible for us to report at least flattish sales or there could be likely concerns in terms of pick up and sales and execution in the coming quarters?

– **MR. B. P. RAO – Chairman & MD**

- Well at this point of time it is very difficult to put it because as I mentioned just now to another question, it is a very dynamic situation, every month the situation is changing and some contracts where they are paying and suddenly it becomes slowdown and some contracts where they are not paying and may become active. So every month we are reviewing that way. There could be a flattish ultimately at the end of the year sales. At this point of time I can only say that much and we will see as we go along.

– **MS. RENU BAID - B&K Securities**

- Sure. Right and sir on this if you could elaborate a bit on the NTPC bulk tenders which we received early last year and throughout the mid of the year. Have the execution of those projects picked up and if you could broadly elaborate how is the status of the various boiler and the turbine orders that we received there?

– **MR. B. P. RAO – Chairman & MD**

- Yeah NTPC, for the 650 Megawatt whatever we have received, for that the execution has already started. And the basic engineering work has started and despite this problem we will start kicking in from maybe the last quarter of this year for the boiler side. Coming on the turbine side, it could be slightly later because turbine is required one year or 15 months before the commissioning date. So turbine will start coming in later. But otherwise execution front is going on. But all orders are not yet confirmed. One or two orders are yet to be started. For example the Darlipalli projects we are still debating, waiting to see whether that will go for a re-bid or..... Because as you know one of the party who has part of the bid was out of the project. So they are debating whether who will....we are discussing with NTPC on that. And similarly, the other one has been changed to Gadarwara in MP which we have reported already. And Gadarwada project is already with us and we have started the execution already. So all other projects are going on of NTPC. There is no issue now.

– **MS. RENU BAID - B&K Securities**

- Sure sir. Also recently we saw that a very nice report coming out of our CEA which compared the Chinese as well as BHEL sets. I think we definitely found the report very useful giving a very detailed assessment between BHEL and Chinese

set. But what concerns us there is today given the current environment the competitive environment has moved between Chinese versus BHEL to a more domestic driven competitive landscape. And one of your peers who was struggling to get orders recently has apparently negotiated a super critical BTG order with JSPL at an all time low pricing. So what is your view on the pricing front? As in do you think after the NTPC pricing, this pricing will set as new low benchmark? So does this concern you your customer pressurizes in terms of further price aggression? What's your overall view on pricing for the BTG set at this point of time?

– **MR. B. P. RAO – Chairman & MD**

- See there will be a mixed reaction to this because if you look at some of the projects all the domestic bidders are not able to bid. For example there were two bids Tamil Nadu has announced, both for Ennore as well as Udangudi. And we see only 3 Chinese players and BHEL there. Nobody from our sector has quoted for this. See that way the pricing pressures will depend upon where they are participating, they are very selectively participating in the bids. That is one. Secondly having seen not only the pricing but on our own we have lot of operation improvement activities, in fact you know looking at the current quarter results, cost with what we have done last year and we had a 4% less material consumption. This is partly set off by commodity prices. But then it is more than half contributed by the cost savings that the company has achieved in the localisations and various other measures like increasing the vendor base and optimization of designs. So this activity goes on in the company. We have no dearth of resources in terms of the engineering manpower to be deployed in this kind of jobs and also as I used to mention earlier, the volume advantage is with us. So, competition wise we are able to face competition very effectively. There are no issues on that. Though the prices will be under pressure because of the domestic competition and we welcome that. In fact BHEL has been facing competition from the mid-seventies.

– **MS. RENU BAID - B&K Securities**

- Right, sir this is my last question to close this. In the other income we had seen a very sharp increase in current quarter. Last year same quarter also we had a forex gain impact of almost if I remember it was 148 crores last year. So in current quarter was there any forex gain impact or any one time item which grew the other income very high?

– **MR. B. P. RAO – Chairman & MD**

- Forex gain Mr. Bajpai will take.

- **MR. P. K. BAJPAI – Director Finance**
- It is again forex gain from 140 this year it has become 325.
- **MS. RENU BAID - B&K Securities**
- 325? So that's a substantial jump on that side.
- **MR. P. K. BAJPAI – Director Finance**
- Quite substantial.
- **MS. RENU BAID - B&K Securities**
- And at the beginning of the call I missed the order intake number. Was it 1469 crores?
- **MR. P. K. BAJPAI – Director Finance**
- Yeah that's right.
- **MS. RENU BAID - B&K Securities**
- And in terms of Megawatt what was the number?
- **MR. P. K. BAJPAI – Director Finance**
- This is not for any Megawatt set you know. This is basically for spares and services.
- **MS. RENU BAID - B&K Securities**
- Sure.
- **MODERATOR**
- Thank you. Ladies and gentlemen may we please request you to limit your questions to 2 per participant so everybody gets an equal opportunity to ask their questions? We will take our next question from Venkatesh B. of Citibank. Please go ahead.
- **MR. VENKATESH B. – Citibank**
- Good afternoon sir.
- **MR. B. P. RAO – Chairman & MD**

- Good afternoon.
- **MR. VENKATESH B. – Citibank**
- Sir my first question is now what we understand is recently you know one of your competitors Thermax won a 17 billion order from Reliance Industries for CFBC Boilers, 9 sets. And we have believed that you people were not allowed to bid. And can you please explain what exactly happened? Why you were not allowed to bid in that order?
- **MR. B. P. RAO – Chairman & MD**
- See we have not bid for this project; it is not that we were not allowed to bid. We have not bid for this project. Since we have some bad experiences in the execution of CFBC projects we do not want to aggressively bid in this segment. And, we are in the process of improving our own technology base on this and we are also sourcing some technologies for this. Once we have done with this then only we will start aggressively bidding for this project.
- **MR. VENKATESH B. – Citibank**
- Sir is it true that your technology partner Lurgi is no longer with you and that is why you couldn't bid?
- **MR. B. P. RAO – Chairman & MD**
- No, Lurgi, already we have absorbed the technology from Lurgi. But then they don't have specific technologies for what we call as coal set technologies. They are not in this segment. So that technology is much more competitive compared to the other technologies. So that's why we did not want to quote in that.
- **MR. VENKATESH B. – Citibank**
- So who are the kind of partners you are actually looking forward to? Because there is a release on your website which says that you know I think it is dated September 2012 which says that we are looking for partners in the CFBC boilers. So who are the kinds of partners who you are talking to on this side?
- **MR. B. P. RAO – Chairman & MD**
- Well if it is of any help to you I can give you the information. We are discussing with Alstom, we are discussing with Foster wheeler. You know they are the two leading players in the field.
- **MR. VENKATESH B. – Citibank**

- Ok. Sir any other particular reason? Because over if we see over the last one year or so, Thermax has been winning quite a lot of these captive power plant orders which are coming from some of these government companies. Now I would have normally assumed that they will not be able to compete with BHEL on prices and given that we have large orders, ideally why are we not bidding aggressively and winning these orders? Is there something which is holding you back from bidding aggressively?
- **MR. B. P. RAO – Chairman & MD**
- Yeah as I told you this is basically a CFBC plant. CFBC technology is at a lower range, technology as I mentioned earlier. And that technology is not very strong with whatever we have. So we are looking at strengthening ourselves, and once we are ready we will start bidding for that.
- **MR. VENKATESH B. – Citibank**
- Ok. Sir my final question, now what I understand is that it looks like a very much possible reality that India's GDP growth could actually slow down to like 5% to 6% in the next 3-4 years. And we are facing a slowdown, a very big slowdown. Now the entire organization of BHEL is perhaps geared for a 7% to 8% kind of GDP growth which is perhaps the reason why you have expanded capacity to around 20,000 Megawatts. Now 20 Gigawatts. It's possible now that in the next couple of years your facilities might not be utilized fully so how do you plan to tackle that. And further you were also planning at one point in time hiring people to take it up to around 50,000 people. It is possible that in another year or so there might be a little too many people in the organization. So what are the steps you are thinking about maybe 2-3 years down the line? I mean you have some planning going on?
- **MR. B. P. RAO – Chairman & MD**
- First of all you know you are assuming too many things and asking me the answers for that. I don't agree with your assumptions first of all. India cannot be adding only at 5% GDP growth rate for the next 4 years to be assumed. Power sector has to grow at least 100 GW which is the plan for next 5 years and that has to happen then only we will be able to have a reasonable growth in the country. Today you know that power cuts are there up to 12-13 hours in some parts of the country. So that cannot happen. So these particular 1 or 2 years, yes. We are having these problems; there are also elections which are in the offing. It could further get slowed down due to the policies. But once the election is over we should expect that it has to improve, the market has to improve. Definitely. But however, we have taken actions, it's not that people recruitment of 48000 today we are, I don't know you may not be aware, but about 12000 people are

going to retire in another 5 years. And this kind of a preparation in an organization has to happen much in advance because we cannot generate overnight these people with experience unless they have worked for 4-5 years in a company they cannot start contributing positively. So in fact this has happened sometime in 2002-2003, when the whole power sector market started booming, the company was not ready with its capacity and a lot of orders went to Chinese and others. In fact that's how....so we are today, as a company, are ready in all respects to take on the challenges. I for one don't believe that this slowdown is going to continue forever. Not at least for the time whatever you are mentioning. This is a one or two years period and yes after that in fact the boom is going to happen so suddenly which we feel in the company that we should be ready in all respects to take that boom. I mentioned that we are looking at diversification areas. As transportation is a major growth area. We are only looking at decision making in the railways. Speed is a constraint for us, the speed at which they go. For deciding some of these things.

- We are working on the Bhilwara factory. After a lot of efforts we have got the Bhilwara factory on a nomination basis. And this factory we are expecting it to take off shortly. And once that happens then this will be a major source for revenue. I have no idea on this because the way it is going on I am not sure when they will come up. But Bhilwara factory will definitely come up and this we are going to take out. And surely we have in defense for example. Today we have a lot of opportunities for the domestic companies and we are already actively engaged with the Ministry of Defense in taking up a number of areas in the defense area. So facilities established will not go waste. In fact they are basically general facilities. They are not dedicated facilities to a particular product. We are engineering and manufacturing company by character. So all these facilities will never go underutilized. It will get utilized, if not for power sector, it could be for the other sectors. So I don't have any issues. Next one or two years yes we will have to go through those pains and whatever in fact these two years also all of you now that the only slowdown because we are domestically driven economy totally. Not dependent so much on exports. Putting a lot of policy initiatives we could have probably done well. However so it is all within us. Forcing us. So that makes me believe that our coming back to high growth path is in our hands. We can make it so I don't expect it is going to prolong for such a long time as you are mentioning. However we take this kind of aberrations which can come in with respect to diversification in water business, transportation business, and the defense business. So these are all....and also solar is another area where we are seeing that there is a lot of growth and we want to enter into those areas where no Indian company has entered into. So these are all plans which are for the company.

- **MR. VENKATESH B. – Citibank**

- Thank you very much for that detailed answer sir and my best wishes.
- **MR. B. P. RAO – Chairman & MD**
- Thank you.
- **MODERATOR**
- Thank you. Our next question is from Ankit Babel of Subhkam Ventures. Please go ahead.
- **MR. ANKIT BABEL – Subhkam Ventures.**
- Good afternoon sir.
- **MR. B. P. RAO – Chairman & MD**
- Good afternoon.
- **MR. ANKIT BABEL – Subhkam Ventures.**
- Sir my first question is in spite of lower sales, why our capital employed has increased both sequentially and on a net basis.
- **MR. B. P. RAO – Chairman & MD**
- I would request finance to take this.
- **MR. P. K. BAJPAI - Director Finance**
- It is because of debtors.
- **MR. ANKIT BABEL – Subhkam Ventures.**
- But the billing has been lower on a Y on Y basis, so haven't we realized money from our receivables?
- **MR. P. K. BAJPAI - Director Finance**
- Component, so it's just not the billing part alone that goes to debtors, it's the revenue which is recognized. Part of it is billed, part of it is deferred tax.
- **MR. ANKIT BABEL – Subhkam Ventures.**
- Ok sir you had already given the breakup of your receivables. Out of that 19000 crores which is your main receivables how much out of this 19000 would be due more than 12 months? Receivables more than 12 months?
- **MR. P. K. BAJPAI - Director Finance**

- It should be about 7000 cr.
- **MR. ANKIT BABEL – Subhkam Ventures.**
- 7000 crores is due more than 12 months. So any particular reason because we don't give so much of credit to you know the customers. So why is it due more than 12 months sir?
- **MR. P. K. BAJPAI - Director Finance**
- When you are executing long cycle projects, settling issues, sorting out things, getting your project approval, getting them accepted, these all take a lot of time and we are trying to cut short these times and we are working on it. But that's how the market is. It takes time.
- **MR. ANKIT BABEL – Subhkam Ventures.**
- Ok, but you are reasonably confident that there won't be any bad debts out of these 7000 crores?
- **MR. B. P. RAO – Chairman & MD**
- No, no, this is not today. This kind of a situation was there for so many years. This is not an aberration today or anything like that.
- **MR. ANKIT BABEL – Subhkam Ventures.**
- Ok my second question is on your industrial segment. Now I agree we are going through an economic slowdown. But the decline in the revenue and the decline in the profitability has been very sharp. So what's the outlook on that sir? Say going forward in the remaining three quarters do you feel that here you will recover the lost sales in the sense that you are at least sure of slightest growth in this and the margins will be based at 18-19%.
- **MR. B. P. RAO – Chairman & MD**
- Yeah see the industry sector as you know consists of the maximum of captive power segment. Now the captive power segment, particularly the thermal segment, there the coal allocations have almost totally disappeared. So in the captive power segment not many projects are happening. Some of the gas projects are happening like for example we have received an order for from BPCL for the gas turbines. And these are the only few projects we are seeing that are happening. Otherwise coal based projects are totally absent. In addition it also consists of the product market like motors, transformers and independent products what we sell, that is a considerable challenge. But all over again because of the slowdown in the Indian economy, industry products also are not

happening. That's the reason you are seeing a steep slowdown in our turnover also.

– **MR. ANKIT BABEL – Subhkam Ventures.**

– So do we believe that the same situation will remain for the next 3 quarters also? Because economic environment is not improving at least till the next year, or till pre-elections.

– **MR. B. P. RAO – Chairman & MD**

– In captive core segment the scenario could remain as it is but in the product segment things could improve because you are seeing these are short projects of 2 months and 4 months. You can deliver the projects. So, the situation can change in that.

– **MR. ANKIT BABEL – Subhkam Ventures.**

– And sir lastly I just missed that part, in spite of a lower sales growth in the economy or a decline in this quarter, you still believe that you will end the year with a fattish kind of a growth including power and industry. That's what you meant to say?

– **MR. B. P. RAO – Chairman & MD**

– That's right.

– **MR. ANKIT BABEL – Subhkam Ventures.**

– And what about the margin outlook sir?

– **MR. B. P. RAO – Chairman & MD**

– Margin outlook we don't give as you know. We don't give forward outlook.

– **MODERATOR**

– Thank you very much. Ladies and gentlemen, may we please request you to limit your questions to 2 per participants. Our next question is from Ashutosh Adsare of Sharekhan. Please go ahead.

– **MR. ASHUTOSH ADSARE – Sharekhan**

– Sir my questions are answered. Thank you, thanks a lot.

– **MODERATOR**

- Thank you. Participants if your questions have been answered, you may press * and 2 to withdraw yourself from the question queue. We will take our next question from Amit Sinha of Macquarie. Please go ahead.
- **MR. INDRAJIT – Macquarie**
- Hello sir this is Indrajeet here. Thanks for giving me the opportunity to ask the questions. Now regarding order backlog we have close to Rs 1,10,000 crores and given that BHEL is I would say geared up to execute a much larger so the past is not an issue. But what do you think is the normalized duration of this order backlog assuming that there are all these approvals in place how much time will it take to kind of complete the current order backlog.
- **MR. B. P. RAO – Chairman & MD**
- Well you know we have to follow the project schedule whatever we have agreed.
- **MR. INDRAJIT – Macquarie**
- What will be the average project schedule at this point in time?
- **MR. B. P. RAO – Chairman & MD**
- For 660 Megawatts it is roughly about 40-42 months. So, that will have to follow because other systems also have to come up at the same time. This is work which is to be completed. So it is not that you know you can accelerate that and do it faster. So we will have to follow the project schedule. So that is you.....
- **MR. INDRAJIT - Macquarie**
- Would it be reasonable to assume that the project schedule given that the mix of new projects and some of the old projects but the order backlog schedule would be anywhere between 2 and half years to 3 years?
- **MR. B. P. RAO – Chairman & MD**
- That's right, 2 and half years to 3 years.
- **MR. INDRAJIT – Macquarie**
- Ok. Now you also mentioned that in your earlier comment that there are 12000 people retiring in the next 3-4 years. Are there any plans to partially fill some of these positions or will kind of let go of these employees.
- **MR. B. P. RAO – Chairman & MD**
- There is no blanket decision like that. We look at it on a case to case basis and from which area they have retired and whether there is any need to fill. But few of

the officers we keep continuously taking, what we call engineer trainees to have a particular flow of engineer trainees otherwise we will end up like in 2003-2004 when we had to resort to massive recruitments when suddenly there was a dearth of manpower. That situation we don't want to get into. And so that will be on a case to case basis. We will look at each unit, each product area and the level of people.

– **MR. INDRAJIT – Macquarie**

– Ok. And the last question is on the Tamil Nadu bid which has come out; there is also a financing component to it. So how is BHEL looking at that? Has BHEL tied up with an NBFC plan for that?

– **MR. B. P. RAO – Chairman & MD**

– We have tied up with REC in Udangudi bid.

– **MR. INDRAJIT – Macquarie**

– Ok so would there be any part of our balance sheet which would be deployed for this order or REC would take care of.....

– **MR. B. P. RAO – Chairman & MD**

– Not at all. Entire thing is with REC.

– **MR. INDRAJIT – Macquarie**

– So in that case would it be safe to assume that we should be one of the front runners to get that order because competition is entirely Chinese and given that it's a state government order they should be achieved.

– **MR. B. P. RAO – Chairman & MD**

– Yes we should achieve that but in the market you don't know what happens. Till the thing is in your hands people don't say that it is yours.

– **MR. INDRAJIT – Macquarie**

– Sure. Thanks a lot sir.

– **MODERATOR**

– Thank you. Our next question is from Shubhdeep Mitra of JM Financial. Please go ahead.

– **MR. SHUBHDEEP MITRA – J.M. Financial**

- Good afternoon sir. Most of my questions are already answered. Just one question here. You mentioned that there were some LOIs that we have received from Jindal power for some orders in Africa. Is it possible to understand what would be the size of these orders in terms of Megawatts?
- **MR. B. P. RAO – Chairman & MD**
- This is a 170 Megawatt set. For four sets, we have received the order.
- **MR. SHUBHDEEP MITRA – J.M. Financial**
- So 170 into 4.
- **MR. B. P. RAO – Chairman & MD**
- Yeah 4x170 MW.
- **MR. SHUBHDEEP MITRA – J.M. Financial**
- Ok understood. Perfect sir, that's all from my side.
- **MODERATOR**
- Thank you. Our next question is from Ashish Shah of IDFC Securities. Please go ahead.
- **MR. ASHISH SHAH – IDFC Securities**
- Good afternoon sir. Could you give me the working capital position as on June 30th?
- **MR. P. K. BAJPAI – Director Finance**
- Yeah it is about 25000 crores.
- **MR. ASHISH SHAH – IDFC Securities**
- 25000 crores?
- **MR. P. K. BAJPAI – Director Finance**
- Yes.
- **MR. ASHISH SHAH – IDFC Securities**
- Also have there been any extra provisions made in the quarter for any issues that would have been overdue?
- **MR. P. K. BAJPAI – Director finance**

- It has been a mixed bag. We have had some withdrawals from contractual obligations, some were doubtful debt. So for the first quarter there is nothing very significant. There is a small increase in the growth.
- **MR. ASHISH SHAH – IDFC Securities**
- Sir could you just give me the year on year increase? This quarter compared to the same quarter last year?
- **MR. P. K. BAJPAI – Director Finance**
- 214 to 237 minor increase of about 23 crores.
- **MR. ASHISH SHAH – IDFC Securities**
- Thank you sir.
- **MODERATOR**
- Thank you. Our next question is from Nirav Vasa of Motilal Oswal Securities. Please go ahead.
- **MR. NIRAV VASA – Motilal Oswal Securities**
- Sir my question pertains to the bid that you have put in TANGEDCO with REC. Can I please request you to elaborate a bit more on it because what my understanding is for that particular bid the customer has asked for vendor finance and if I am reading the tender document right and I quote “debt financing for the project includes interest during construction and financing an integrated part of project specification”. So the interest cost for this particular project once if you are able to get it will be borne by REC completely?
- **MR. B. P. RAO – Chairman & MD**
- Yes.
- **MR. NIRAV VASA – Motilal Oswal Securities**
- Ok sir, thank you very much.
- **MODERATOR**
- Thank you. Our next question is from Akshay Soni of Morgan Stanley. Please go ahead.
- **MR. AKSHAY SONI - Morgan Stanley**

- Hi sir, thank you. Just wanted to find out about the cash and debt positions. My apologies if you have already given it. I just joined a little bit late.
- **MR. P. K. BAJPAI – Director Finance**
- Cash is about 6400 to 6500 with us and debt is for more than 41000.
- **MR. AKSHAY SONI - Morgan Stanley**
- 6400 to 6500 and 41000. Great. And just also wanted to get an idea, again I apologize if you have referred to it already. What's really giving you the confidence that over the next 9 months, I know it's a small quarter, but what's giving you the confidence that in the next 9 months you will be able to pull things back enough to end up with a flattish number on revenues? Is there something big coming up in terms of execution which didn't happen this quarter etc. or whatever else you think will change and will drive a better number?
- **MR. B. P. RAO – Chairman & MD**
- See it's like this. I have not said that I am confident. I only said that the situation is very dynamic. Month to month I have to monitor. But you know at the end of the day I felt that probably we can end up with like you said but I cannot say it right now at this point of time because this is a very dynamic situation. The projects; some are coming in, some are going out, depending on their execution, their ability to mobilize the resources and give us the payments. It depends on that. So big projects like Bajaj for example you know we are expecting by September they will make it alright and we will be able to start execution again so that we have time to even make up for whatever has happened in the first quarter. So that is the kind of you know.....if it happens like that yes we will be able to take it forward.
- **MR. AKSHAY SONI - Morgan Stanley**
- Understood sir. Thank you very much.
- **MODERATOR**
- Thank you. And our next question is from Abhishek Tyagi of CLSA. Please go ahead.
- **MR. ABHISHEK TYAGI – CLSA**
- Sir this is Rajesh Panwani here. Sir you mentioned at the beginning of the call about the macro situation which continues to be quite challenging. In that scenario what are the steps you are taking primarily on a cost side which is more in your control to an extent to ensure that the margins are protected.

– **MR. B. P. RAO – Chairman & MD**

- Yeah I mentioned before the materials is a major cost for us and that's where in fact the first quarter shows up that we have reduction of almost 4%. Partly is coming out of the commodity price easing out but mostly is coming out from optimization designs and vendor base increase and some of the low cost outsourcing also what we have been doing. And the technology localization initiatives. And we continue doing the other activities as well go along. And on the other expenditures also we have been tightening the belt unless otherwise absolutely required; we have been observing very discipline in that, cost discipline. And as we go along we will see how things develop.

– **MR. RAJEHS PANWANI – CLSA**

- Ok sir, in the employees numbers front you mentioned that you know that there are employees you are hiring as well. So overall what kind of change in the employee numbers do you see in the next 2-3 years?

– **MR. B. P. RAO – Chairman & MD**

- Well employees depends on the economy picking up in 3-4 years. So otherwise we are not going to go a big way for recruitments. We will only look at the areas from where the people are retiring from and see whether they need to increase the manpower there again or bring back the numbers in that particular project at that point of time. So otherwise we do not have any big recruitment plans this year. We have already done last year and this year also we are not doing any big recruitment, except for a few officers we are continuously taking. Even those numbers have been cut down this year. So we will see as we go forward.

– **MODERATOR**

- Thank you. Our next question is from Girish Nair of BNP Paribas Securities. Please go ahead.

– **MR. GIRISH NAIR - BNP Paribas Securities**

- Good evening sir.

– **MR. B. P. RAO – Chairman & MD**

- Good evening.

– **MR. GIRISH NAIR - BNP Paribas Securities**

- Sir I'm sorry if this question has been covered but I just joined late. Apologies for that. I just want to know that the other expenses have been shorter in this quarter

with about 15% of sales this quarter versus 12% in Q1 and 13.2 % of sales in Q4. So just wanted to know the reason.

– **MR. B. P. RAO – Chairman & MD**

– Yeah I request finance to take this.

– **MR. P. K. BAJPAI – Director Finance**

– Other expenses are not shorter.

– **MR. B. P. RAO – Chairman & MD**

– I don't know from where you got the figures. Positive numbers are there at least.

– **MR. P. K. BAJPAI – Director Finance**

– It has come down by 24 crores.

– **MR. B. P. RAO – Chairman & MD**

– Yeah I don't think there is any increase in that.

– **MR. GIRISH NAIR - BNP Paribas Securities**

– Ok. Sir I will take it up there. Secondly I just wanted to know are the deliveries at the Haridwar facility affected by the Uttarakhand flood? I know probably the plant may not be affected but the infrastructure around? Or is there nothing anywhere near?

– **MR. B. P. RAO – Chairman & MD**

– I don't think there is any effect of Uttarakhand on our Haridwar plant. You know our sourcing is from other side of the Uttarakhand.

– **MR. GIRISH NAIR - BNP Paribas Securities**

– And finally just wanted to know the number of employees as of 30th June?

– **MR. B. P. RAO – Chairman & MD**

– 47650.

– **MR. GIRISH NAIR - BNP Paribas Securities**

– Ok thank you very much sir. Thanks a lot.

– **MODERATOR**

- Thank you. Our next question is from Pawan Parakh of Emkay Global. Please go ahead.
- **MR. PAWAN PARAKH – Emkay Global**
- Hi sir this is Pawan here. Can you hear me sir?
- **MR. B. P. RAO – Chairman & MD**
- Yes, yes.
- **MR. PAWAN PARAKH – Emkay Global**
- Sir my question is on the order book given that your orders have dried up significantly and is sequential decline in the order book. Considering the current situation where do you see your order book ending as of this financial year? That is FY14?
- **MR. B. P. RAO – Chairman & MD**
- See normally we don't give any forward indications. But you have seen the last two years as I mentioned earlier. But 2011-12 it was only 3000 Megawatts orders. So last year we have booked about 8000 Megawatts orders. So this year I am expecting that it will end up to somewhere around 10-11 thousand Megawatts orders out of the 15000 Megawatts which are going to be tendered out during the year.
- **MR. PAWAN PARAKH – Emkay Global**
- Ok, ok. And sir once again this is on the top line. I think you would have explained it earlier in the call but I think there are a couple of people who joined late. So can you explain that in this quarter revenues have been lower. Is there any specific order on which execution has been slow or all the execution has been on schedule?
- **MR. B. P. RAO – Chairman & MD**
- Yeah I think I have explained in detail in the beginning of this call itself. See there are certain projects where the customers are not able to pay us; they are not able to mobilize financial resources due to whatever reason it is. And also some of the projects where some of the execution difficulties are there in terms of some clearances and in terms of some of the constraints in the project site. So it's like some place villagers are coming in between and disturbing the work and these kinds of things. Therefore the project execution work has been affected. And these projects are as I mentioned Bajaj Hindustan, Monet, Surana and some of the Abhijit projects etc. so these are the reasons for the project that affect our

dispatches. In fact some of the products have been manufactured and kept but we could not dispatch because of these reasons. So this is the reason why the top line was affected in the first quarter. And we expect that some of these customers will come back and improve their cash flows and some of the clearance problems are also getting sorted out. But we see going forward it is a very dynamic situation and some people who are today probably good players could probably get out....because we have seen in the past. So this is the kind of thing. That's why the top line is affected. But going forward, we will see it is very dynamic. Every month we need to look at this kind of situation.

– **MR. PAWAN PARAKH – Emkay Global**

– Alright. So sir when we are looking for a flat Y on Y growth for FY14, we are actually executing these things to turn favorable for us?

– **MR. B. P. RAO – Chairman & MD**

– Well that's what I meant....when I said probably we will end up with flat sales is that it is based on this kind of assumption only.

– **MR. PAWAN PARAKH – Emkay Global**

– Ok. Thanks a lot sir, best of luck from my side.

– **MODERATOR**

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

– **MR. AMIT SINHA – Macquarie**

– Thanks sir. Regarding this 11000 Megawatts ordering that you are talking about and 15000 Megawatt opportunity size, could you just enlist some of the large opportunities which are there in the market at this point of time?

– **MR. B. P. RAO – Chairman & MD**

– Yeah. The current bidder has withdrawn from NTPC Darlipalli tender, so we can come up. Neyveli 2x500 Megawatts, there we are already L1. And Singaji 2x660 Megawatts, Tamil Nadu SEB projects, Udangudi and Ennore. So these are some of the major projects. Andhra Pradesh is coming up with 3x800 Megawatts.

– **MR. AMIT SINHA – Macquarie**

– And this Andhra project is on EPC basis or is it on a...

– **MR. B. P. RAO – Chairman & MD**

– EPC basis as of now.

- **MR. AMIT SINHA – Macquarie**
 - Ok. Thanks a lot sir.
 - **MODERATOR**
 - Thank you very much. Ladies and gentlemen that was our last question. I would now like to hand the floor back to the management for closing comments.
 - **MR. B. P. RAO – Chairman & MD**
 - Well I don't have any closing comments; I think I have adequately answered all the queries. I think in that all the comments have been given. And we will see how things improve as we go along. Situation is very dynamic at this point of time in terms of the project, what we have. And both in terms of order booking as well as order execution. Both are developing situations. We have to see every month on month basis.
 - **MODERATOR**
 - Thank you very much sir. Ladies and gentlemen on behalf of Prabhudas Lilladher Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your line.
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