"BHEL Q1 FY16 Earnings Conference Call"

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<u>MANAGEMENT</u>

MR. B. PRASADA RAO – CMD, BHEL
MR. WVK KRISHNA SHANKAR – DIRECTOR, IS&P, BHEL
MR. ATUL SOBTI – DIRECTOR, POWER & FINANCE, BHEL

<u>MODERATOR</u>

MR. DHIRENDRA TIWARI – ANTIQUE STOCK BROKING

Moderator: Ladies and gentlemen good day and welcome to the Bharat Heavy Electricals Limited Q1 FY16 Earnings Conference Call hosted by Antique Stock Broking. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhirendra Tiwari from Antique Stock Broking. Thank you and over to you sir.

Dhirendra Tiwari: Thank you. Good evening ladies and gentlemen. On behalf of Antique Stock Broking Limited I welcome you to Q1 FY16 Post-Result Conference Call of BHEL. We are glad to have with us today Mr. B. P. Rao – Chairman and Managing Director, BHEL, Mr. Atul Sobti – Director Power and Finance, BHEL and Mr. Krishna Shankar – Director, Industry. Thank you sir for giving us the opportunity to host the call. With this I would now invite Mr. B. P. Rao to give the views on the results and the outlook. Thank you sir and all yours.

B. P. Rao: Thank you Mr Dhirendra, Good evening friends,

I am B. Prasada Rao, CMD BHEL. With me, I have Mr W V K Krishna Shankar, Director (IS&P), Mr Atul Sobti, Director (Power & Finance), Mr GK Hedaoo, GM Incharge (Power Sector Marketing) and Mr SK Sahni, GM (Finance). A very warm welcome to all of you.

Dear friends, economy is showing signs of recovery with index of industrial production (IIP) remaining in positive territory since beginning of current financial year. Wherein manufacturing sector has made some contribution. We expect industrial activity will continue to improve on the back of higher investment spending by the government. In power sector, there is a visible improvement in fuel supplies. Coal production is gradually increasing. During Apr-Jul 2015, Coal India has registered growth of 10.5% in coal production and growth of 8.1% in offtake. Gas pooling is renewing interest of developers in reviving gas based power plants. We are seeing developers swiftly getting various regulatory clearances. We are already L1 in about 5GW tenders and another 15GW or more tenders are in pipeline, there is a lot of tendering activity going on particularly from Central & State sector. We are expecting revival of some of the stranded projects due to favorable developments on financing side and pick up in consolidation. Government is working hard to make UMPPs a reality. In fact we expect that the first UMPP may come within this financial year. Under Solar PV segment also, lot of traction is there. It offers immense opportunities to BHEL. Defence and rail transportation is picking up. Government is going to finalize few major orders under 'Make in India' initiative. BHEL may be beneficiary to some of them. Overall, things are moving in a promising direction though it is not of the required pace as we would have liked. Because of the very nature of infrastructure sector it takes time to see impact on the corporate balance sheets.

Coming to Operations at BHEL, we commissioned/ synchronized 2640 MW of utility power projects. Another 191 MW of captive power projects have been synchronized which also includes 11 MW of Solar PV plants. During the period April- June 2015, BHEL secured orders worth nearly Rs. 20,000 crore from its diversified business segments covering both domestic and international markets. This corresponds to 4,111 MW of projects. Power Sector contributed Rs 18374 crore, Industry sector Rs 1006 crore and Exports Rs 37 crore to the order book. Major orders received are: 5x800 MW Yadadri Supercritical Thermal Power Plant on EPC basis from Telangana; Power Cycle Piping Pkg for 3x660 MW NTPC Barh Stg-I; 212 nos of traction alternators & 36 nos of traction motors from Diesel Locomotive Works, Varanasi; 1x60 MW STG supply for DCM Shriram Ltd; 50 MW Solar PV plant from NTPC Anantpur on EPC basis; 1 MW Grid connected canal top Solar PV plant at Lasari from AP. The company ended the year with an order book of Rs. 116200 Crore.

Looking at Q1FY16 Financial Results- Turnover for I Qtr. 2015-16 was Rs. 4501 crore, against Rs.5277 crore in I Qtr. 2014-15; Profit Before Tax and Profit after Tax for I Qtr. are placed at Rs. 37 crore and Rs. 34 crore respectively. The market conditions have affected the operations adversely resulting in decrease of 14.71% in turnover for the quarter over corresponding period of last year. The decrease in PBT as compared to the corresponding period of last year is Rs. 209 crores which is mainly due to lower level of operations, this is compensated by increase in other income mainly exchange rate variation and savings in other costs as compared to the corresponding period of the last year.

I thank you all once again for joining this conference call. We will take the questions now.

Moderator: Thank you very much sir. Our first question is from the line of Venugopal Garre from Barclays. Please go ahead.

Venugopal Garre: One question on bidding based orders especially on the pricing front because some of your competitors have the view that pricing in general has been very aggressive and there are very few bids that have been player positions of L1, L2 have been discovered recently. So is it something subscribe to or you think there is nothing much of a change that you seeing on the pricing front?

B. P. Rao: Pricing front, prices have been slightly aggressive definitely, but then it depends on the volumes. See we have 20,000 MW capacity and if I'm able to use large portion of that capacity my per unit prices can be more aggressive than anybody else because the competitors' capacities have been very low.

Venugopal Garre: I also wanted to know, the slow-moving projects we all know, you have defined that quite well over the last 1 to 2 years but I just wanted to know receivables pending on account of just slow-moving projects what would that quantum be in any progress on recovery on that?

B. P. Rao: On this stranded projects worth about nearly 10,000 MW the dues were about Rs. 3,340 crores, I do not see much movement during the quarter on this.

Venugopal Garre: If you could highlight the FX, the exchange at variation that you said in other income how much that would be?

B. P. Rao: I will ask my Finance Director to speak on this.

Atul Sobti: The exchange variation impact was Rs. 171 crores.

Venugopal Garre: That is a positive number 171 plus?

Atul Sobti: Yes.

Moderator: Thank you. Our next question is from the line of Venkatesh Balasubramniam from Citi Research. Please go ahead.

Venkatesh B: What was the total orders that you won in the first quarter and what is the value of your 5 GW L1 position in Rupees crores?

B. P. Rao: The value of the orders I have mentioned already. It is total orders was Rs.19,688 crores and out of that power sector has been Rs. 18,645 crores, industrial sector is Rs. 1382 crores, international operations is Rs. 37 crores. Now there will be inter-sectoral orders and if you total up that you may not get 19,688 because there are inter-sectoral orders there will be adjustments so it'll be removed so that way 19,688 has been a total.

Venkatesh B: What is the value of L1 position?

B. P. Rao: Right now I would not like to give that information very clearly but in megawatt terms I can tell you roughly about 4300 MW are L1. What the orders received till date has been about roughly 4000 MW and another 4300 MW we have positioned as L1.

Venkatesh B: What have you removed from this because what we were aware of is you are L1 in 2640 in Barethi, around 660 MW Bhusawal, 250 MW Rourkela, 1001 GW PakalDul, Tuticorin 525 this adds up to around 5075 MW.

B. P. Rao: Those orders are almost finalized, only thing is we have not announced because some advances and all have not come.

Venkatesh B: You said 4300 but this adds up to 5075.

B. P. Rao: There are so many orders but we do not add as in the L1 position orders because they are almost finalized orders like Tuticorin is finalized orderon us. Pranahita is almost a finalized order on us. It is on a negotiated basis. It is not on a bidding basis. So that is why we do not add that figure but you can add that safely. Rourkela for example we are the only bidder there 250 MW, you can add that. And that will come up to another 1200 MW.

Venkatesh B: So it is actually 1200 MW plus 4.3 GW.

B. P. Rao: That is right.

Venkatesh B: Why did your sales decline in the first quarter, we started FY 14 also with a similar backlog, so what exactly happened why did your sales decline and will you be able to at least do maximum sales in FY 16 as it did in FY 15?

B. P. Rao: We are not seeing the traction in terms of execution of the projects; many of the projects are struggling to get clearances, to get land fully into their control. So they are not able to give clearances for us to dispatch our equipment. In fact most of our equipments are ready in our shops but we're not able to dispatch. For example even for our export jobs because civil works are delayed they are not able to accept our mechanical equipment in Hydro jobs like in Bhutan. So these are some of the reasons for the top-line coming down but I expect that all these constraints to be over by about third-quarter I expect the traction will be there from these projects and not only these projects but also for Telangana projects the traction will start happening from third quarter.

Venkatesh B: Can you actually give us what exactly is the status on Manuguru, Kothagudem and this latest order in terms of environmental clearance and land, are both these things available for these three orders?

B. P. Rao: Kothagudem they are available, clearance are available, Nalagonda is expected any time.

Venkatesh B: Do you expect to do as much sales in FY16 as in FY15 or you expect it to decline?

B. P. Rao: You know our policy normally we do not give any projections for future.

Venkatesh B: There was a news article which suggested that you have signed an MOU in Ghana for a 400MW power plant for around $ 400 million with a sole group, is this an order that you're expecting in the current year?

B. P. Rao: No it will take time I am not able to give any time frame for that because it has to be linked with LOC sanctioning by the government of India and Ghana has to take it up, so it is still a longer term.

Moderator: Thank you. Our next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: My first question is on the gross margins, we understand that sales did not pick up in the current quarter but if you look at the contribution margins you are at 59.7% which was still if you compare it was lower on YoY basis. What was the key reason was it just pure in terms of execution or any other key factors impacting because it has been approximately 330 basis points lower?

B. P. Rao: It is basically the top-line. Suppose the top-line has been equal to last year first quarter there would have been similar amount of profit at the bottom. This whole thing would have been added to the bottom line.

Renu Baid: But in terms of material margins has the mix is been very different with respect to….

B. P. Rao: Yes mix is also different. In fact we budgeted higher materials because the low margins mix of the project which have happened this quarter, however it is more than last year's material consumption.

Renu Baid: So for the full year we should still be broadly around 57 or 58% of sales or you think it could be slightly higher?

B. P. Rao: Quarter to quarter comparison of this material is not a correct indicator for us.

Renu Baid: I am looking for full year perspective, last year for the full year 57%...

B. P. Rao: I cannot give you a figure right now but it should be in the same range.

Renu Baid: We do not expect any deterioration on that?

B. P. Rao: No I do not expect.

Renu Baid: You mentioned that in terms ofForex loss and other income was an increase of 171 crores, so was this an addition of the 50 crores Forex gain which was already sitting in the first quarter last year or is it the absolute Forex gain amount?

Atul Sobti: 171 is the absolute gain.

Renu Baid: Thirdly, coming on the defense side you mentioned that probably you expect by the end of this year you should be probably well-placed in one of the segments, so were you referring to the shipyard order summary in order or any other key segments where we are likely to expect some more order traction in the defense space?

B. P. Rao: Defense we are talking to them in big manner with respect to naval guns, shipyard also is there. Submarines also is there, but submarines will take some time, by the time they finalize that I don't think this year they'll be able to finalize that, but the naval guns is something which could get finalized this year. In addition to that we are also into transportation in a big way. Railways tenders we are participating for 15 sets of train sets, high-speed train sets we are participating in that along with partnership of Kawasaki and Toshiba and the entire "Make in India" portion of that will be done by BHEL.

Renu Baid: So entire 13 sets would be done through our existing facilities.

B. P. Rao: Yes, but we may require some investment that is marginal investment but will be doing with our own facilities.

Renu Baid: This transportation order by when are you expecting it to be finalized by Feb-March or it could be….

B. P. Rao: Yes around that time, before that we will not see that.

Renu Baid: Would it be possible to give some insight on what could be the potential size of this naval guns to our orders or in terms of the size of defense?

B. P. Rao: It is a bit of sensitive information right now I should not give that, right time I'll provide this information.

Renu Baid: You have already shared reasonably strong order inflow numbers both existing and L1 and you also mentioned that you're expecting execution to pick up somewhere in the second half of the year from Telangana. So broadly in this backdrop you think the bulk of the problems of BHEL are behind both with respect to execution headwinds and profitability issues because of negative operating leverages?

B. P. Rao: These are all my expectations but on the execution front except Telangana other places I do not know what will happen because there are still lots of uncertainties. The kind of issues what we faced in the first quarter we never expected that we will face them. Similar problems if they persist even after all that, so I cannot be predicting that the whole thing will happen, but Telangana Project definitely there will be a traction from third-quarter particularly the Manuguru project because that has to be commissioned in 24 months' time and we're already 6 months and lot of equipment is ready in our factories.

Renu Baid: Probably the worst performance that we have seen in the current quarter should not be repeated again?

B. P. Rao: Well we wish, we are also wishing the same thing.

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

Inderjeet: This is Inderjeet here. My question is again related to Telangana. The bigger order 5x800 MW can you just share what is the status in terms of approvals there?

B. P. Rao: The QR is through and the external hearing is required, the social hearing is required, that is happening right now and after that the clearance is expected to come. So that's why in a month or so we expect the clearance for that.

Inderjeet: Is environment impact study that is already done?

B. P. Rao: The study is done; there is a public hearing which has to happen.

Inderjeet: In terms of Manugura there were reports that the expert appraisal committee had rejected approval and the special case was supposed to be put up with Ministry of Power because it is a subcritical unit.

B. P. Rao: There was no rejection, there was an objection raised but then before August 15 the orders are finalized, they are going to regularize all this also.

Inderjeet: In a typically power order be it from other state electricity boards or NTPC at what stage do we actually start work on these projects, so what all approvals we need, so we are assuming that all those things would have to be in place for you to start work on even Telangana orders?

B. P. Rao: Typically after these orders are received by us with the proper advance and all that it will take between 9 to 10 months for revenues to start kicking in. If you're looking for the answer that is a straightforward answer.

Inderjeet: In terms of more on approvals what are the boxes need to be taken…

B. P. Rao: Mainly the environmental approval, possession of the land and water connections. Water can happen even later but at least the land should be available so that we will be able to start the work and engineering work will start anyhow without any of these things but the physical dispatch which can happen after land is identified and environmental clearance is given.

Inderjeet: The question I'm asking is that other than engineering do we really start to make investments in actually manufacturing equipment till all clearances are in place or we can start that working in anticipation of these clearances.?

B. P. Rao: We start the work only when the advance is received.

Inderjeet: The second question is on the order inflow pipeline, now given that we already are close to 9 odd GW even more either received or finalized, what more prospects are we looking at in the second half of this fiscal year?

B. P. Rao: Totally I have been mentioning in the past also 15,000 to 20,000 MW totally this year will be the market size so roughly about till date about 6000 and odd MW have been finalized and the balance 13,000 to 14,000 MW could get finalized before March.

Moderator: Thank you. Our next question is from the line of Bhavin Vithlani from Axis Capital. Please go ahead.

Bhavin Vithlani: Some housekeeping questions. We saw on a sequential basis versus March quarter the employee expenses have jumped significantly could you help is on this?

B. P. Rao: It has not actually jumped but I will ask my GM Finance to explain. You have seen a lesser manpower expenses in fourth-quarter vis-a-vis the current year first-quarter so the phenomena will explain the provision what we provide for and typically the bonuses what we paid, two bonuses we paid during the year and at what points of time it comes, my General Manager Finance will explain.

S.K. Sahni: Provision related to personnel payments, in first three quarters are reflected in staff expenses only while at year end these are shifted to Provisions. At the year end we come to know what is the likely actual expenditure which we have to incur. So in last quarter of the financial year the staff expenses get reduced which in the last quarter of the financial year 2014-15 was Rs.

915 crores. If you compare quarter-to-quarter, Q1 of 2015-16 and Q1 of 2014-2015 it gets reduced by Rs. 115 crores because of reduction in manpower which is approximately 2800 reduction in manpower.

Bhavin Vithlani: So for the current year as a whole what is the likely employee expense number? Last year we had about Rs. 5450 crores as employee expenses how much is likely to be for the current year?

B. P. Rao: Again we do not want to give any figure right now for the fourth quarter because we will have to see we will look at what kind of provisions we will have to make but generally the trend you know what happens when 2200 people go down proportionately it will reflect in the staff cost compared to last year.

Bhavin Vithlani: Could you give us the breakup of the order backlog power, industry, and international?

B. P. Rao: The power sector end of quarter is 101220, industry sector is 6830, and international operations 8155, total is 116205.

Bhavin Vithlani: If you can give us the little color on the outside of the orders where you are L1 if you could highlight some of the projects where you believe the bidding is in advanced stages and you're confident of them getting awarded this year?

B. P. Rao: It will affect the competitive position unnecessarily for us. So I think such questions should be avoided.

Moderator: Thank you. Our next question is from the line of Charanjit Singh from Batliwala and Karani Securities. Please go ahead.

Charanjit Singh: In this Telangana order specifically like what is the kind of advances which you would have got and how is the payment schedule for this first order which you will be executing in the near term?

B. P. Rao: Nalagonda order we were yet to get the advance, so we have not started any work on that which is a major order. Manuguru and Kothagodem we have got the order and we have got the advances.

Charanjit Singh: How is the financial tie-up for these projects?

B. P. Rao: PFC and REC are funding totally.

Charanjit Singh: 100% PFC and RAC funding.

B. P. Rao: Yes.

Charanjit Singh: We have also talked about in the past about this investment in our solar PV plant,how is that investment going on?

B. P. Rao: We have not yet started that investment because the project is still under consideration with government because we have asked for the NCEF subsidy to be available for the National Clean Energy Fund 40% capital subsidy is available under that. It is in advanced stage of approval, we are expecting it approved at any point of time and once it comes then we'll start.

Charanjit Singh: On the export markets are you expecting any pickup in any of the regions larger orders which you might be a negotiation process?

B. P. Rao: We are looking at some of the orders in Kazakhstan and also in Africa some countries. Timelines, I'm not able to put any timeline for that because these orders do take long times normally because some projects are linked up with LOC sanctioning. For example this Bangladesh project is coming up in a big manner and where we're going to participate and there is a line of credit which government of India is going to sanction for all Indian bidders and we are going to use that package to bid for the Bangladesh project. Except Bangladesh project I do not see any major things probably Kazakhstan or Belarus these kinds of small things could happen.

Charanjit Singh: What could be the quantum of this Bangladesh order?

B. P. Rao: Today we cannot say 2x660 MW, so value cannot be shared right now because we have not even worked on the estimates.

Charanjit Singh: In terms of pricing for the material of super critical size how much decline or kind of movement you have seen year-on-year and what do you see the trend going forward?

B. P. Rao: I do not have any readymade figures, but then last year to this year if you compare the prices have been almost stable or they are really trying to slightly trend up only. The trend is upwards.

Charanjit Singh: The reason would be because of increasing pipeline.

B. P. Rao: Yes people are selective; we have seen that all the bidders are not participating in all the tenders.

Moderator: Thank you. Our next question is from the line of Lokesh Garg from Credit Suisse. Please go ahead.

Lokesh Garg: On the railway side there is another tender which was supposed to be submitted in August which was for locomotives in both electrical and diesel what progress has happened on that? Has the tender got submitted and any decision is expected any soon?

B. P. Rao: No, that is still under evaluation process.

Lokesh Garg: Evaluation meaning tender submitted but under evaluation.

B. P. Rao: Yes. That is the electric one.

Lokesh Garg: So the financial bids have got submitted essentially that is what you are saying?

B. P. Rao: Not yet, financial bids have not yet been submitted. Financial bids have not yet been submitted.

Lokesh Garg: By the way you're saying it seems the diesel one is even further far behind.

B. P. Rao: That is right. Sorry, Mr. Shankar is clarifying, please listen to that.

Krishna Shankar: Diesel one is ahead and the electric one is slightly behind.

Lokesh Garg: This year obviously looks good in terms of power ordering activity and that there are lots of tenders which are L1, someone tenders which are on verge of some decision as well but do you see this kind of markets sustaining for the next year as well given the kind of activity that you must already be seeing at client organizations?

B. P. Rao: The public sector, the Central and State sectors the activity will definitely continue, in fact they are more and more trying to depend on their own power stations than buying the power out because they are not able to buy power. Of course all this can be said once the distribution reforms are to be also kicked in at the same time, so coal auctions are happening on one side with all these things we should sustain at least, I feel that for next year also it will be of the same kind of about 15,000 to 20,000 MW of the market could be there for next year also. On that only any increase can happen so it can become higher figure from 2017-2018 onwards.

Moderator: Thank you. Our next question is from the line of Ashutosh Narkar from HSBC. Please go ahead.

Ashutosh Narkar: Two questions, one on your order book, if you could give us you said that roughly around 10 GW of orders is slow-moving, what is the equivalent amount in the order book if you can give that. Second, of the recent orders which we have won not in 2015 and 2014 between say 2012 and 2013 a very ballpark guidance if you could give how much of that has already started going into execution and are these orders part of this 10 GW?

B. P. Rao: 10 GW order are roughly around 25,000 crores the order value, roughly 24,000 crores. That is the value of the standard projects. Second question is very difficult for me to answer because I don't have the ready data, but those 12-13 projects which have come they are under execution, I should say some of those projects are under execution but then they are slow moving. As I said the land issues are all coming up and the clearance issues are coming up, they are getting clearances very slowly so that is why top-line we are not able to increase it because the supplies we are constrained to supply in that kind of environment, otherwise the orders are moving but they are moving slowly.

Ashutosh Narkar: Would it be fair to assume that you have been talking to most of your customers, these orders again will start moving or at least come into our top-line during FY 17?

B. P. Rao: They are in the top-line, this 4500 has those orders in top-line, but not to the extent we would have liked it to be because many of the equipments is already manufactured by us.

Ashutosh Narkar: The impact of pricing what we have seen is little bit more aggression in the market and you have kind of agreed to that. How do we see our margins over FY17 and 18 once the ordering picks up would we be able to move up to around 10-11% margins or that would be really difficult given the kind of pricing we have seen in the past 2-3 years?

B. P. Rao: I cannot give any future projection of margins, first of all I'm not giving any future projections of my sales turnover itself but having said that I have been always saying that we have 20,000 MW capacity, the volumes will dictate the margins for us, the top-line will dictate the margins.

Ashutosh Narkar: If I may ask one last question connected to this we must have had some benefits come in from raw material price fall how, what is that level of cushion which we have on the old projects if so when these come into execution?

B. P. Rao: Normally we cannot measure like that because whenever we have the financial figures with us they are a mix of both old projects and new projects, I cannot give you separately figures for the old projects but on the average we are roughly about 58-59% of our material cost is around in that range.

Moderator: Thank you. Our next question is from the line of Ankit Fitkariwala from Jefferies. Please go ahead.

Ankit Fitkariwala: On the L1 orders that you have said can you give a project-wise breakup or any details there?

B. P. Rao: I think somebody read that out from your side only. Barethi NTPC and we are L1 4x660 MW, Bhusawal Mahagenco 1x660 MW we are L1, PakalDul Hydroelectric project 1000 MW that is another project is likely to be finalized. Pranahita Chevella is another order 696 MW, Tuticorin 1x525 MW this we have already received the token advance, Rourkela we are the only bidder for 1x250 MW so these are some of the orders out of this.

Moderator: Thank you. Our next question is from the line of Dhanajay Mishra from Sunidhi Securities. Please go ahead.

Dhannajay Mishra: This 4300 MW projects we have all the clearances are in place for these projects or we have to wait once the order is actually announced, so we have to wait for all the clearance is for these projects also?

B. P. Rao: Infact the process is going on right now that is why they have not ordered like Barethi for example anomaly clearance they are waiting for that is why it cannot be converted into order yet. So the process is on, on all these projects, clearances.

Dhannajay Mishra: What is your outlook in the industry segment because at least there we are not seeing any de-growth so what is your outlook in terms of T&D and all that?

Krishna Shankar: In T&D space there are some small orders for the substations otherwise they're also it is muted. Especially in the 765 kV range there are positive developments but the overall pace is still slow. There is a great emphasis is on the transmission sector.

Dhannajay Mishra: We are hearing lot of good news from T&D players so their order book….

B. P. Rao: Products for example, our transformer products are fully booked for next two years. Product business is good in transmission but then big projects we are not seeing many such projects. That is why Mr. Shankar is saying that it is muted.

Krishna Shankar: The HVDC project which is under tendering stage. Champa Kurukshetra.

Dhannajay Mishra: Are we also bidding for solar projects right now?

B. P. Rao: Yes.

Dhannajay Mishra: What is the pipeline in the solar projects for next 12 to 18 months?

B. P. Rao: We are targeting roughly about 100 MW projects to be done this year, manufactured this year by us.

Dhannajay Mishra: I am talking about bidding for solar projects.

B. P. Rao: For putting up as a developer?

Dhannajay Mishra: No, this is you're doing is a developer?

B. P. Rao: No we are not developers, we are equipments suppliers. We build projects on EPC basis for a developer.

Dhannajay Mishra: So we are equipments suppliers?

B. P. Rao: That is right.

Dhannajay Mishra: For 100 MW for this year and what could be the next year target?

B. P. Rao: We expect a good jump in that it could be even double because of the big program which government of India has.

Dhannajay Mishra: What could be the size of this 100 MW in terms of equipment value?

B. P. Rao: This will normally be around six crores per MW, 6 to 7 crores per MW.

Dhannajay Mishra: So equipments we are supplying?

B. P. Rao: Yes, for total EPC.

Moderator: Thank you. Our next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: We have got 4.5 GW in L1, 4.5 GW already we have won and you mentioned that right now the objective is to make sure that 20 GW of capacity is full. At what stage during the year do we sort of look at prices again in terms of bidding, beyond what point does operating leverage start really kicking in from your order inflow perspective?

B. P. Rao: These orders are continuous orders, not at any point of time we stop looking at anything. We look at all the projects equally to put a winning bid and depending on the capacity utilization the margins will get decided by that volumes.

Pulkit Patni: That is why I'm trying to understand the current order book clearly will get us more in terms of utilizationbut beyond a point one can pick and choose in terms of what you want to bid for.

B. P. Rao: I do not think such situation is there in the market in the near future. The total market size is 15 to 20,000 MW, there are 4-5 players in the market though I have about 70% market share roughly and we are not in that kind of position that we can pick and choose.

Pulkit Patni: Even if we win 13-14 GW of the order in this particular year on optimistic side still in terms of pricing, competition is going to continue in your view?

B. P. Rao: Yes.

Pulkit Patni: The second question is more about the Telangana order, there was news flow regarding some of the private sector players trying to raise it with across various…..

B. P. Rao: You must ask those private players why they are raising that.

Pulkit Patni: I am trying to understand and this is what my understanding is, correct me if I am wrong, that most of the other states have got a transparency at because of which there had to have an open bid system which is not the case in Telangana because it's a new state formed, so I am just trying to understand, can other states also give out projects on a nominated or a negotiated basis?

B. P. Rao: This is nowhere first of all written that negotiated by orders cannot be finalized by anybody. Anybody can finalize, NTPC also a number of times have finalized on negotiated basis orders on BHEL. CVC does not prevent anybody to place order on a nomination basis it is only certain process has to be followed for it. Here in Telangana since you raised the question though it is not the subject of discussion today, I will answer you that Telangana's requirement was that they don't have a coal linkage. They want to start with the imported coal later on when they get the indigenous coal the equipment should be able to take the indigenous coal, that kind of equipment only BHEL could offer which is called Fuel Flexible Boiler. That is the most important reason why Telangana came to BHEL. Once they know that only BHEL can cater to it they did not go for tendering and also Telangana was in a hurry to get the orders, if they go for the tender it will take almost 6 months to one year anywhere in between. They have seen that people go to courts after that and with all those they have seen that it will take lot of time. So they wanted to save that time. We were offering prices also benchmarked to recent international competitive bid. So we have been able to easily convince and they got convinced on the pricing. So pricing there is no extra pricing or any pricing which unfortunately these news items are reporting in a manner as if BHEL is not in India. It is not correct, whereas a private sector can finalize number of orders on nomination basis for example Alstom has got order Ratle Hydro project on nomination basis from GVK though we are L1; we have given offer lower than what the Alstom price, even then GVK has gone ahead and placed order on Alstom. Similarly for Angul 2x700 MW it is an order which is private player Nuziveedu Seeds has finalized the order just on nomination basis, he was talking to us. So nobody talks about these things. L&T has cut an order from JP on nomination basis for Nigri project. So they can do anything they like because we are just in public sector this hue and cry is raised. Therefore, I do not agree with their view at all, this is defeatist attitude, because they are not able to get any opportunity to participate in the big tender and we have been able to offer very competitive deliveries like 800MW to be commissioned in three years is a record. Nobody is able to offer this kind of delivery because we have got a capacity of 20,000 MW we are able to offer this kind of a delivery. Third thing is none of these players are available in all the tenders, if you look at all the tenders somebody or the other will not be participating. First of all if it is a difficult region like north-east they will not participate. It is only NTPC and BHEL which have to be present. All these things are not taken into account and only hue and cry is raised saying that Telangana is placing order on BHEL on nomination basis. So it is not fair when they talk like this.

Moderator: Thank you. Our next question is from the line of Mayur Patel from DSP Blackrock. Please go ahead.

Mayur Patel: I want to understand more long-term rather medium-term trend, so in terms of ordering like you sounded very positive saying that 15-20GW of market this year, given the kind of details you gave on the call looks very much possible. So my only question was how should we understand in the next 3 to 4 years trajectory in terms of per annum ordering like we started in FY15 with a commentary saying 15 GW market but the market ended much lower almost half of that and some part of that has bunched up in this year, though Telangana is a very big positive development, but I want to understand from next year onwards for next 3-4 years inyour view is it going to be a 10 GW market or 20 GW market or based on your thinking what do you think would be the market opportunity?

B. P. Rao: This year and next year I put the market at a level of 15,000 to 20,000 MW, these two years beyond that to say whether it is going to be more than 20,000 MW I am not able to say that because the number of other initiatives which need to be put in place. First of all is the distribution reforms because if you have seen today there are capacities which are going underutilized because there is no buyer for power. Demand for power is not there on the power exchange. On one side you have big shortages of power, industry is getting closed down, people are not getting dues, and power cuts are there. So there is an imbalance, one needs to correct all these things, unfortunately in this country the power is a concurrent subject both central and state governments have to deal with it and being run by different governments in the states as well as the Centre so all of them are not talking in the same language. There has to be power reform which has to happen in the distribution segment where the tariffs have to be properly aligned to the various consumer segments and then to an extent they should also be raised to cover the costs. These kind of issues are there, one need to manage all these issues and put those reforms in place then it really has to take off because on one side we are talking of “Make in India” where manufacturing is being given the focus and manufacturing is something which needs lot of power and without the power sector happening, all these objectives cannot be achieved. So country has to willingly look at these things at some point of time and I expect that yes the rulers of the country and the government must be definitely bothered about these issues and if not today there will be solutions tomorrow and we are positive that after two years the market should pick up, much more than this level of 15,000 to 20,000 MW because we need more than that in this country.

Mayur Patel: You think that even next year 15-20 GW market is a more feasible number or it is a more ambitious number?

B. P. Rao: More or less possible number like in this year it could be possible next year also it is possible. But all these reforms definitely if you have to start they will take time to get to the ground then to create a demand. So that is why I am saying that two years hence only the market could be much bigger.

Mayur Patel: You have L1 positions in 4300 MW, and another 1000-1200 MW of you said almost finalized orders. Can you give us some timelines when do you expect given the different stages of clearances these orders would come through, is it next six months, next one year..

B. P. Rao: Yes.

Mayur Patel: You expect next six months these orders to get converted, the entire 5000 MW.

B. P. Rao: Yes that is right.

Mayur Patel: On this Telengana you said Q3 you expect the execution to start, am I right?

B. P. Rao: That is right. Quarter 3 onwards the traction will happen and particularly on the Manuguru project, because that is a delivery period of 24 months, we already are crossing six months in that therefore that project will need traction unless otherwise it is done it cannot be commissioned in 24 months and Telangana side also customer is also getting ready for that kind of situation.

Moderator: Thank you. Our next question is from the line of Deepika Mundra from JP Morgan. Please go ahead.

Deepika Mundra: My first question was regarding the 15 GW pipeline that you mentioned, are you including the UMPP also?

B. P. Rao: No. We are not including UMPP.

Deepika Mundra: In this 15 GW how much NTPC projects are you including and which ones?

B. P. Rao: Barethi is definitely there. Pudimadaka is there another 4000 MW and NTPC Ramagundam project is also there.

Deepika Mundra: What about Vizag and Bilhour. I think those are some projects that you had stated that could get awarded probably in this year FY16, any update on that?

B. P. Rao: Vizag there is no movement. There is no movement on these projects.

Deepika Mundra: And Bilhour also?

B. P. Rao: No movement.

Moderator: Thank you. Our next question is from the line of Amar Kedia from Nomura. Please go ahead.

Amar Kedia: What is the current order backlog in megawatt terms for the power sector that you have?

B. P. Rao: As of now the orders which are available for execution are almost more than 50,000 MW. 50,000 MW is the order under execution out of that 10,000 MW if you exclude which are under hold then it will be 40,000 MW.

Amar Kedia: Regarding this 10,000 MW of stranded assets if I understand correctly you mentioned that roughly 25,000 crores is the remaining value over there and about 3340 crores is the receivables outstanding against these same projects…

B. P. Rao: 24,000 crores is the value of the project, the contract value of the project, balance remaining value.

Amar Kedia: And 3340 is the receivables outstanding against whatever has already been executed on these projects.

B. P. Rao: Correct.

Amar Kedia: Is there any revenue at all that has already been booked and the customer has paid on these same projects?

B. P. Rao: Yes, this is somewhere in between these projects have been stopped. So after we have received payments also after they were stopped only this accumulated 3340 crores.

Amar Kedia: Basically what I'm trying to come to is that you have an overall receivables of roughly about 36,000-37,000 crores as of March 2015, now out of that the stranded assets related receivables are only 3340 crores. What is the reason and why they have been seeing these kinds of very high receivables continuing for the last two years and while stranded is only 3000 odd?

B. P. Rao: No out of that if you really look at deferred debts, they are milestone related payments which are about 20,000 crores out of that 37,000 crores, balance are being paid, balance payments is there, normal level payments only, normal level outstanding only.

Amar Kedia: But if you see in terms of the receivables days we are now going beyond 400 days that is much above normal cycle for you also.

B. P. Rao: That is adding the deferred debts. Basically if you see in the collectable is of the order of 20,000 only. The figures which you are mentioning includes the deferred debts also but collectable is of the order of 20,000 to 21,000 crores.

Amar Kedia: What do you mean when you say deferred debt?

B. P. Rao: Deferred debt means we have to complete certain works after that only this particular amount will come due for collection and payable.

Amar Kedia: Do you see any risk in terms of, is there any constraint from the customer side to execute these projects which is why this 20,000 has been there or is it just the normal course of business for you?

B. P. Rao: It is a normal course of business.

Amar Kedia: For Telengana, media articles suggest that there is another 5 to 6 GW of projects that they are looking for and I am not sure about the timeline for those projects but do you think those projects also will be on a negotiated basis or for that tender will be done?

B. P. Rao: They are basically on the hydro side, the lift irrigation projects basically that 5000 MW. We do not know today how they will do it. There is no announcement from Telangana side, but we know that they are lift irrigation projects.

Moderator: Thank you. Our next question is from the line of Pranav Gokhale from Religare Investco. Please go ahead.

Pranav Gokhale: For the pay commission related provisions have you already started making these provisions in FY15.

B. P. Rao: No it will not because it is due only on 1.1.2017.

Pranav Gokhale: You are not making any sort of provisions.

B. P. Rao: No.

Pranav Gokhale: If I look at your Annual Report of 2014 because that is what I have in front of me, the provision number which you have in your Annual Report this is what I am referring to is 2014, it shows that a provision of 947 others is created. So what is that for, the net number in P&L is 873 crores what is that others provisioning pertaining to?

S.K. Sahni: We have as far as accounting standards we have to maintain other types of provisions also these are nothing relating the staff cost. These are related to our operations for which we have made the provisions etc.

Pranav Gokhale: 2013 that number was a small number 47 odd crores which has gone to 873 crores.

S.K. Sahni: Yes, that is as part of accounting only, under AS statutory obligation is there where we have to make certain provisions like contractual obligations, certain provisions we have to make that is that provision, it is not the staff provisions.

Pranav Gokhale: They are contractual obligations which are being separately…

S.K. Sahni: Which are separately there.The others is with respect to operation of the projects.

Pranav Gokhale: There is a miscellaneous expenditure of 1000 odd crores in the numbers which was 900 odd crores, what is that nature of the business, the number is 1027 which is 994 crores what is the nature of this 1000 crores.

B. P. Rao: Miscellaneous expenditure is basically cost of insurance, the cost of freight and other things then also our travel expenses.

Pranav Gokhale: In your other expenses head in your annual report…

B. P. Rao: Travel expenses, insurance expenses, suppose if I have to make some royalty payments to my collaborators that will come in that, advertisements or some selling expenses, insurance.

Pranav Gokhale: That is what I'm trying to understand, insurance is a separate head which is given, travel is different, liquidated damages charge is different, apart from that there is 1027 crores number. The royalty number is also different.

S.K. Sahni: We were giving a break up to 3135, if you take out this selling expenses and insurance is extra, then we have the rent on non-residential, rates and taxes, etc., rent residential, travelling and conveyance will be different, then selling expenses, conveyance reimbursement, publicity and relation expenses, office expenses, these are the some of the expenses, payment to security agencies, these type of various expenses are there.

Pranav Gokhale: So these are inherently fixed costs, right?

S.K. Sahni: Fixed costs, yes. And turnover of 40,000-50,000 this expenses have got to be there only, it's not that….

Pranav Gokhale: I know turnover is going down, that is why this number looks more pronounced now. Anyway, thank you sir.

Moderator: Ladies and gentlemen, that was the last question. Due to time constraints I now hand the conference over to Mr. Dhirendra Tiwari for closing comments, over to you sir. T

Dhirendra Tiwari: Thank you ladies and gentlemen, I take this opportunity to thank Mr. B. P. Rao, Mr. Sobti, Mr. Krishna Shankar, and the whole team for taking out time for this call. Thank you very much and have a very nice evening.

Moderator: Thank you very much members of management and Mr. Tiwari. Ladies and gentlemen, on behalf of Antique Stock Broking that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.