"Bharat Heavy Electricals Limited Q1 FY-18 Post-Results Conference Call"

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MODERATORS: **MR. CHARANJIT SINGH – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the BHEL Q1 FY18 Post-Results Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Charanjit Singh from Batlivala & Karani Securities. Thank you and over to you, Mr. Singh.

Charanjit Singh: Thank you, Karuna. Good afternoon everyone and welcome to the Q1 FY18 Post Results Earnings conference call for BHEL. I would like to welcome the management of BHEL today who are represented by Mr. Atul Sobti – Chairman & Managing Director and Mr. T. Chockalingam – Director-Finance.

Now I would like to handover the floor to Mr. Sobti for his opening remarks thereafter we will open the floor for the question and answer session. Over to you, sir.

Atul Sobti: Thank you Charanjit. Good afternoon everybody. Friends, I am Atul Sobti – CMD, BHEL. I have with me Mr. T. Chockalingam – Director-Finance; Mr. Amitabh Mathur, our Director-Industry Sector; Mr. Akhil Joshi – Director-Power; Mr. Subrata Biswas who is our Director-Engineering and Mr. D. Bandyopadhyay, who is our Director-Human Resources.

We also have Mr. Dipankar Guin who is our Executive Director-Corporate Strategic Management; Mr. G. K. Hedaoo, who is the Executive Director-Power Sector Marketing and Mr. Vaidyanathan, our Executive Director-Corporate Finance and Mr. S. K. Sahni – General Manager in Charge-Corporate Finance.

A very warm welcome to all of you. Friends, we remain in the challenging time but the development in two most important problems that is state of the banking and the sector particularly power are encouraging. First, swift action from regulators for bankruptcy proceedings against major defaulters is good. RBI's recent policy rate cut also gives some comfort to the interest burden of the standard assets.

Government is making all out efforts for revival of the standard assets. Next, Indian power sector is under transformation for decades. We have lived with the AT&C losses of 26% to 27%, a gap of Rs.0.80 per unit in the cost of supply and recovery. Lack of power access to 25 to 30 crore of people and emission issues.

Today because of various reforms measures taken by Government of India we are seeing improvement in all these parameters. AT&C losses have come down to 23%. ACS ERR gap which is average cost of supply to average revenue realized of Rs. 0.50 per unit and is gradually reducing and it is now Rs. 0.46.

More and more states are promising 24x7 power within the visible time frame implementation of our mission norms and replacement of old sets will increasingly make power clean. Once we connect all these dots, this spot for a silent revolution which is happening in Indian power sector where will be moving from a free power to quality power and for all. So two important structural aspects are falling in order and this augurs well for future investments.

Draft National Energy Policy of Niti Aayog also implicitly acknowledges continued reliance on the coal based power. This will enhance focus on clean cold technology where BHEL has an edge because of our continued trust on R&D. So we may have challenges in short term but the long term growth story of the sector is intact and promising.

Now from short to medium terms prospective. Opportunities for replacement of the old thermal sets with new super critical sets is converting into an actual orders. The requirements for production systems to meet emission normal are also materializing. Coming to the events specific to BHEL I am pleased to share with you that company has entered in to technology for our vision with Kawasaki Heavy Industries Limited Japan for manufacturing metro coaches.

The agreement has been signed in the backdrop of our honorable Prime Minister's Make in India initiative and will enable BHEL to manufacture coaches indigenously. Our strategy of converting non-executable orders into executable ones is fetching the results.

After making 2x660 megawatts a new SEZ and 4x270 megawatts Bhadradri executable clearance for 5x800 megawatts Yadadri is also expected soon.

Moving to operations. BHEL in the first quarter of 2017-18 we commissioned or synchronized over 2,000 megawatts of power projects. We had an order inflow of close to Rs. 1,800 crores during the quarter one. Some of the major order received is boiler modification of TANGEDCO, NSPCL Rourkela. 1236 traction motors, 96 sets of transformers and 66 sets of IGBT-based complete propulsion systems for Indian Railways. Order for transformers from Kerala SEB.

Order for STG package from Shree Cement. Manufacturing and supply of strategic equipment's from Defence. EPC of 15 megawatts and 5 megawatts Solar PV plant from Gujarat Alkalies and Himachal Pradesh Power Corporation Limited. With this the total order outstanding as on 30 June 2017 stands at Rs. 101,380 crores constituting 79% from power and balance from industry and international operations.

Now coming specifically to the quarter one results which all of you would have seen, turnover of quarter one is Rs. 5,607 crores which is very close to that which was achieved on like-to-like basis in the last year. However, the profit before tax and profit after tax for quarter one which is placed at Rs. 108 crores and Rs. 81 crores respectively compared to Rs. 97 crores and Rs. 78 crores of last year.

Board has also recommended issue of bonus shares by capitalization of its free reserves in their issue of one bonus share for every two existing shares. Thank you all once again for joining the conference call. We will take the questions now. Thank you very much.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

Abhishek Puri: Sir, two things. First on the industry segment, we started the year with a higher carry forward order, so why is there been a decline in Q1 revenues? And with this kind of performance in Q1 would we be able to achieve our full year target of Rs. 31,000 crores excellent target rating that we have given in the MoU? That is one. And secondly, what is the status of the future orders like Udangudi and where we were L1. And some of the media articles also suggested that the Patratu bid is quite aggressive and a couple of competitors made comments that BHEL will not be able to make money in this bid. So what is your take on that?

Atul Sobti: Okay. So I will first start about the Udangudi project, Patratu project and we will go back to the third question that is on the industry sector revenue. Udangudi project as you know we are quite favorably placed in this particular project. However, at this point of time if this matter is sub judice and matter is being discussed in the High Court of Tamil Nadu and this came up for discussion last week also. Unfortunately, discussion could not be held and we are hopeful that discussions would be held in the month of August itself and the final outcome will be declared on that particular project.

But this project is definitely on and let us hope that final decision will be taken shortly during the current month itself. Coming to the Patratu. Patratu in fact we have participated in this particular tender, based on our own cost estimates, based on our own execution capabilities and we are quite confident that we will be able to execute this project as per our own estimates. But one point I would like to add here for your formation that BHEL is already executing almost ten numbers of BTGs of 800 megawatts. In addition to that there are two numbers of 800 megawatts SG packages also for NTPC, Telangana.

So it makes almost 12 numbers for the SG and 10 numbers of TGs and majority of these projects are in the initial stages itself. It will definitely give us economies of scale in procurement execution. So this is the situation in case of these 800 megawatts, we are confident that we will be able to execute competitively.

So coming to the industry sector segment. Industry sector segment in fact we have not, I do agree that as against Rs. 1,386 crores of the segment revenues in 2016-17 we have come to Rs. 1,271 crores. But it is a very marginal decrease. One of the reason was basically the railways some of the orders which we were expecting in this particular quarter, those orders have got shifted to the next quarter especially in the solar area. I am sure that in the second quarter the situation will definitely improve and what you call segment revenue from industry segment will improve further.

Moderator: Thank you. Next question is from the line of Venkatesh Balasubramaniam from Citi Research. Please go ahead.

Venkatesh B: My first question is in this quarter we have seen that the effective tax rate has gone to 25% versus 19.4% last year. And I think last year's full year tax rate was 21% and you had said that this was because of R&D benefit and so we were continuing to project our number using the 21% tax rate numbers. But do you think there is a reason to increase it to 25% now?

Atul Sobti: I will request Mr. Vaidyanathan and Mr. Chockalingam to respond to this.

T. Chockalingam: Our income tax on R&D expenditure has been reduced; the expenditure has been reduced from 200% to 150%. Greater deduction on R&D expenditure.

Vaidyanathan: From 2017-18 the R&D weighted deduction is 150% against 200% what we were getting up to last year and this will be up to 2020 after which it will become 100%.

Venkatesh B: Okay so you are basically telling it is better to use this 25% tax rate and make projections, am I correct and that should increase further in the next year?

Vaidyanathan: Yes.

Atul Sobti: Anyway we have taken it with the Government of India for reconsidering or revisiting this weighted deduction which was 200% which I think they are considering it.

T. Chockalingam: Spent on indigenous R&D will be more.

Venkatesh B: Sir, the next question is your fourth quarter interest cost was Rs. 310 crores, in the current quarter interest cost is I think Rs. 66 crores. At the end of the financial year 2017 the total debt on your books is only Rs. 89 crores. So how come these kinds of numbers are coming, why are the interest cost numbers so high in the fourth quarter of this year and the first quarter of this year why is it high? And also, what is the reason for other income being so high in the first quarter? Is there a big Forex gain or export receivables or something like that?

Atul Sobti: If you talk of the other income, other income has definitely gone up and you are talking of 2016-17 to 2017-18, it has gone up substantially in the Q1 like-to-like basis. Primarily yes, exchange variation is also there which has gone up substantially because of the Euro gain. And interest almost remains stagnant at same level, but now the interest cost Mr. Vaidyanathan you just.

Vaidyanathan: The interest cost is because of the unwinding of provisions for contractual obligations and long-term obligations. Means this is in line with IndAS requirement.

T. Chockalingam: Anyway, the other clarification on this in the last quarter last year.

Venkatesh B: Okay sir is it something got to do something like this that in the fourth quarter and the interest cost have gone up because earlier there were certain numbers is that shown as a part of provisions, but now they are becoming a part of the interest cost. Has it got something to do with that? So what will be this quantum sir in the fourth quarter and in the current quarter which was earlier part of provisions but which is showing up in interest costs?

Vaidyanathan: No, actually it is like this. This is on a long-term obligation where we are discounting the provisions. For example, contractual obligations provision is spread over a period of till the end of the contract. Now this is getting discounted, so that is this discounting which is getting reflected in the interest cost. This is taking the time value of money.

Venkatesh B: Okay has it got anything to do with this expect credit loss and ECL and all those things something to do with?

Vaidyanathan: No, this has got nothing to do with that.

T. Chockalingam: This interest is not now.

Vaidyanathan: ECL is separate.

Venkatesh B: Okay sir and what exactly is the provision you have made for staff cost in the current quarter?

Atul Sobti: Close to Rs. 250 crores.

Venkatesh B: It is lower than the fourth quarter number of Rs. 287 crores, is it?

Vaidyanathan: Because of some retirements have taken place during the quarter.

Moderator: Thank you. Next question is from the line of Aimee Truesdale from Jupiter Asset Management. Please go ahead. As there is no response we move to the next question from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir, has there been any preface on some of the slow-moving orders which you have been highlighting in last few conference calls, especially the Telangana Government order?

Atul Sobti: Yeah, I will tell you. In fact, as I mentioned last time also, last financial year there was almost Rs. 12,000 crores of the orders which was slow moving were converted into executable orders. This year now three orders which we are trying which are expected revival shortly one is of course from the Telangana Government that is 5 X 800 megawatts. Already environment clearance has been received by them and they are in the final stages of giving the clearance to us.

Discussions are on our team is already there. Second project which is 10 x 40 megawatt of Maheshwar Hydro Project is there where Power Finance Corporation has taken over the project and all our earlier dues have been cleared by them. We are awaiting the go ahead from them. There is a third project is there, which a private sector project is there where SBICAP has already issued expression of interest for taking over 51% equity and in that project also progress is good as I understand. So these are the three projects which we are expecting to get revived shortly. Other projects we are working.

Aditya Bhartia: Okay sure sir. And sir, on gross margins that is something that you have managed very well and kept material costs under control in last few quarters?

Atul Sobti: Material costs has gone down by almost 2%.

Aditya Bhartia: Correct but with material prices going up, is there a risk that gross margins could come under pressure?

Atul Sobti: I will not say but we are trying our best that it does not go up and majority of the material in fact for the current financial year has already been ordered.

Aditya Bhartia: Okay and lastly sir, on working capital, if you could help us with the quantum of debtors and if we are seeing a reduction out there?

Vaidyanathan: Debtors is almost at the same level of previous year. That is something around Rs. 32,000 crores net.

Atul Sobti: Basically if you take on 30 June 2017 this is almost Rs. 32,439 crores which are at the same order which was three months back.

Moderator: Thank you. Next question is from the line of Renu Baid from India Infoline. Please go ahead.

Renu Baid: Sir, my first question is if you look at the other expenses also last year we had some provision write back so if you can help us what was the increase in provisions for the current quarter?

Atul Sobti: Sure. Other expenses if you take the provisions last time in the 2016-17 there was a withdrawal of the provisions, net withdrawal if you talk about net provisions was minus Rs. 205 crores, this time Rs. 239 crores plus is there primarily because of the Rs. 250 crores of the additional provisions which we have made for wage revision.

Renu Baid: Right, so excluding wage revisions still we continue to see net withdrawal of provisions from contracts sub divisions and bad debts otherwise?

Atul Sobti: Yes.

Renu Baid: Okay. And second sir if we look at the staff expenses, the employee expenses they have still not declined meaningfully just 2% decline YoY at about Rs. 1,400 crores. So we were expecting with people retirements coming over the absolute employee base to reduce by about 5% to 7%. So do we expect this kind of cost base to sustain on a quarter-on-quarter basis or the number should be lower for the entire year?

Atul Sobti: On quarter-to-quarter basis you would have seen there is a reduction of 2%, averaging Rs. 1,436 crore of the payment in 2016-17 first quarter. This year it is Rs. 1,409 crores, there is a reduction of 2%. And although the staff cost the staff numbers of the employees has gone down in the last financial year almost 2,000 plus, 2000 numbers plus. But the main reason is because of the revision in DA as well as what you call other normal increments. This has been only 2% reduction.

Renu Baid: So for the full year this number should be closer to Rs. 5,600 crores, Rs. 5,700 crores?

Vaidyanathan: Depending on the DA levels.

Atul Sobti: Without wage revision we should not have that order.

Renu Baid: Okay sure. Sir, second question if we see NTPC bulk tender has been out for SOx and NOx. So what is our expectations with respect to this order and what is your understanding on the margin profile, how will you be looking at this order?

Atul Sobti: You rightly mentioned, basically first I will talk about the FGD which you are saying that NTPC has floated tenders for almost 22 projects, 49 units totaling to 29,000 megawatts. And in addition to that NLC has also floated and we will definitely be targeting many of these orders for which the tenders have been floated. But if you talk about the Nox reduction level, we already received a boiler modification order close to Rs. 750 crores in the recent past and further almost Rs. 1,500 crores boiler modification orders we are expecting from many projects which are under execution by us. FTD we are definitely we will like to have a major chunk of this, we are ready for it.

Renu Baid: And then do you see competition being significantly higher for these projects?

Atul Sobti: Competition is expected definitely because in the previous conference also many people had participated.

Renu Baid: Sir, on the industry sector side, have we seen any of our solar projects getting pushed back from customers because of issues with the developers and the agency there? So or you see probably all the solar projects in the backlog are moving as expected?

Amitabh Mathur: This is Amitabh Mathur. In our case see there have been certain CPA agreements which has most come about and particularly for NTPC tenders. So to that extent our participation for

NTPC jobs is becoming a little difficult. But we are winning whatever tenders are being floated and we are very competitive both in the rooftop as well as in the ground mounted. But the total volume is not there so much. The entire volume as a market is not taken out.

Atul Sobti: But the point is that whatsoever orders are with us, none of the orders have gone back. Every order is being executed.

Renu Baid: So we have not essentially seen any impact on our existing order book. I am just clarifying on the solar project. On the existing orders that we have in the solar space, we do not see any headwinds on the execution?

Atul Sobti: No, we do not. I mean this is a very simple technology there is not much delay. If the land is available we only have to mount the modules and it gets erected. So there is nothing in terms of execution challenge. Yes, the total volume has to come and at the cost which we want.

Moderator: Thank you. Next question is from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: Sir, my first question. I just wanted to understand can you give us quantify the FX or the exchange rate variation which is sitting in other income and if you could tell us the wage provision that you plan for this year because if something you would have already planned for what will be the full year wage provision which will be of course in other expense, but that I wanted to know. And basically your R&D expense plans for this year? What will be the total R&D expense that you are going to do this year? That is my first data question.

Atul Sobti: Okay first exchange variation. Exchange variation the positive impact which has taken place in 2017-18 is Rs. 213 crores and the difference as compared to the last quarter is Rs. 180 crores. This is the first question. Second thing the wage revision provision which we have provided is Rs. 250 crores per quarter and we hope that same average will continue for the depending upon the what you call depending upon the present situation or if any changes take place in whatsoever wage agreement has been announced it should be of the same order on the quarterly basis. What was the other question?

Venugopal Garre: R&D expenses in your plan?

Atul Sobti: About Rs. 900 crores.

Venugopal Garre: Sir, does this R&D expense also factor in the grand and stock which you get from government if at all for any ultra-super critical or any such R&D that you need to do?

Atul Sobti: No, this will pertain to our portion only. Advance that are super critical as I had mentioned last time also the total outlay is Rs. 50 crores, Rs. 54 crores. Out of that we are spending Rs. 270 crores. So we will get the Rs. 270 crores benefit in our R&D expenditure not the total.

Venugopal Garre: Okay got it, sir. Second question is on the Kawasaki venture that you are planning for Metro coaches. Now could you outline the investments required and where this facility planned and what is exactly is the plan in terms of indigenization levels and when you expect first revenues to trickle in etcetera. Anything around this would be great since it looks like an interesting venture for you in the long term?

Atul Sobti: It is a very interesting venture in the long term. But at the moment we are formulating the project report. We have got two, three options in mind that where these will be manufactured. But definitely components are going to be manufactured at the moment at Jhansi plant, at our Bhopal plant and Bangalore plant. Main two things become very important for this Metro coaches. One is the bogie which will be manufactured at one place and there will be coaches. These are two things which will be most important places to manufacture.

We are working out that which place it is; we will be taking the decision in the next one month or two months' time. Regarding the investment levels we are still working it out. But investment levels will not be very high; the reason is we are not going to go for the green field investments. We are going to go for the brown field expansion.

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

Bhavin Vithlani: A few questions. If you could give us the status update on the L1 projects that we have, you gave update on the Tamil Nadu projects, the UP and the Maharashtra project. The second thing is if you could give us an outlook of what are the tenders that are there in the market and how do you see the competitive scenario going ahead and when do we expect these tenders to finalize. And lastly a bit of a data points if you could give details on the debtors what will be retention money out of this and why is the retention money sticky, when do we expect the receivables level to improve from here on?

Atul Sobti: Okay. I will respond to the first question regarding the tenders where we are favorably placed. There are close to 5,000 megawatts or 5 gigawatts orders where we are well placed. One is NTPC Patratu is there that is 3x800 megawatts we are expecting the final easy clearance and then they will place the order. Coming to MAHAGENCO-Bhusawal is there 1 x 660 there also I mean we had lot of discussions with Maharashtra and this project is also started moving. We hope that a decision will be taken shortly.

The third project in fact is the Panki which is 1 x 650 megawatts for which the environment clearance has come only recently and this government of Uttar Pradesh is now working out when to place the order. Then Udangudi I mentioned in my response in the beginning itself that is 2x650 megawatt and I mean the matter is sub-judice and hopefully the decision will be taken on this particular project in the month of August. It is going to come for discussions in the Honorable High Court in the month of August. Then there is another project there is the NTPC Kahalgaon ESP Retrofit is also there, 4 x 210 megawatts there also we are well placed.

Now coming to the what you call tenders the prospects for the what you call which are going to be which have been announced one is the NTPC Talcher is there, which is 2x650 megawatts that has already been announced. Then there is the Pakal Dul project which is in Jammu and Kashmir, hydro project long back it was there and finally it was cancelled that is 4 x 250 megawatt. Then there are certain small hydro projects are there, Polavaram 12 x 80 megawatts, Iru is there 4 x 156 megawatts, Loktak is there 2 x 33 megawatts, Chilla R&M is there and Ramganga GP R&M projects even if you take in to account there is a good pipeline available there.

We are expecting the tenders shortly from NLC Neyveli as well as from NTPC, Singrauli in the near future and there are two-three projects which are going on is the Tehri Hydro the THDC project Khurja that project also environment clearance has come that tender may also come shortly. In addition to that as you know that NPCIL Gorakhpur is progressing into 700 megawatts. These are the projects which are in pipeline and I gave you the overview of the projects where we are favorably placed. Coming specifically to sundry debtors so I will hand it over to Vaidyanathan to explain that.

Vaidyanathan: The total sundry debtor is around Rs. 32,000 crores for this quarter net, out of which the collectible portion is Rs. 13,400 crores and Rs. 19,400 crores is on the deferred debts which are linked to completion of milestone activities. The debts which are more than one year in this collectible is Rs. 6,400 crores. As far as deferred debts are concerned, these are linked to completion of milestone activities and as and when these milestone activities are completed we will be able to realize these debts.

Bhavin Vithlani: Sir, if you could dwell a bit deeper on the deferred debt because we have seen our revenues fall over the last three years and we have seen our commissioning going up. So a deeper color into this would be more helpful because it will help us project how the debtors move going forward?

Vaidyanathan: Actually there has been a bunching of several projects which are coming towards the completion stage now. So we expect that as they are coming towards close towards the end of the project these could be realized within a span of one to two years.

Bhavin Vithlani: Okay so by the end of this fiscal year do we expect that the total debtors number could be in the same ball park or could be reasonably lower than the Rs. 32,000 crores?

Vaidyanathan: Yeah, we are targeting a reduction, we are trying to see how much we can, and the efforts are there for reduction.

Bhavin Vithlani: Okay so could the number of Rs. 27,000 crores, Rs. 28,000 crores is possible by the end of the fiscal?

Vaidyanathan: I would not like to hazard a guess on that, but anyway if you would like to take Rs. 31,000 crores, Rs. 32,000 crores what we have given maybe at present we are hovering over the same thing.

Atul Sobti: We will be targeting to these numbers definitely. We have made focus groups for these efforts.

Bhavin Vithlani: Okay sir out of this is there any debtors who are there from the private sector which are stuck and hence they are sticky?

Vaidyanathan: We have already provided.

Atul Sobti: The projects which were on hold after formulating the policy for majority of the cases already provisions have been made.

Bhavin Vithlani: Understand sir, lastly if you could dwell a bit on the Yadadri project because you mentioned EC has been received, so what is holding back the project to move to executable now?

Atul Sobti: I think now finally that EC has been received. There is a system that from here the environment clearance goes to the Pollution Control Board, then Pollution Control Board gives the clearance to the State Government, then the State Government has to place the order or state clearance to us. We are waiting for that. We are in dialogue with them then we will finalize.

Moderator: Thank you. Next question is from the line of Inderjeet Bhatia from Macquarie Capital Securities. Please go ahead.

Inderjeet Bhatia: My question is on this non-power segment that to all the businesses that you are looking to kind of enter be it solar, or be it defense, is there a ball park number in terms of what kind of investments we would want to do there over the next couple of years or two, three years' time?

Atul Sobti: As such investment, we already made investment to the tune of Rs. 200 crores at our Bangalore plant while making the brown field expansion for the solar. I think similar investment could come if we further increase our capacity at that particular place. Then in the defense area as of now our facilities are sufficient to manufacture what is being foreseen. But there could be certain investment at our Hyderabad plant. But I will not be able to give you the figures that how much investment would be there for manufacture of certain components there. Third investment of course in the new areas which I was discussing is in the metro coaches. That investment we are working out. This is the third kind of investment which will take place. Any other investment?

Vaidyanathan: Yeah, in the defense we have a production agency for 30 mm as well as 127 mm guns. So once these things get, 30 mm it is likely to happen, maybe we are targeting it this year. So there some investment will be there at the Haridwar plant.

Inderjeet Bhatia: But all put together it does not look like that we are going to cross Rs. 1,000 crores in terms of investment, right?

Vaidyanathan: We have a lot of capacity within our own selves.

Atul Sobti: Our main approach is utilize the existing facility because even the power segment, majority of facilities which we have they are general purpose. A few facilities are there which are specific to the power projects. We like to utilize those facilities, in fact that is the strategy which we are adopting also to address the non-power or non-coal based business also. Utilize our existing facilities, to the maximum possible. That is the reason otherwise we would not have expanded our capacity from 26 megawatts to 226 megawatts of the modules by just spending Rs. 180 crores to Rs. 200 crores. So that is our capital investment we like to reduce by going for the brown field expansions.

Inderjeet Bhatia: Last question is based on the pipeline that you shared there is actually only one thermal power project which is out there for bidding some of the new ones could actually go out into bidding in FY19. Are we confident that we can meet our last year numbers of order inflows this year?

Atul Sobti: Last year number definitely 100% we will exceed that.

Inderjeet Bhatia: Okay and in terms of our revenue target Rs. 31,000 crores which is the MoU excellent we feel confident about that?

Atul Sobti: Yeah Rs. 30,000 crores is very good, Rs. 31,000 crores is excellent. We will strive for that. What you call now these three projects which I mentioned lot will depend on these projects also when these get. But what we are trying to do we are trying to whatsoever orders are available we are trying to execute expeditiously. In fact the other day I had a meeting with the Honorable Chief Minister of Telangana, he wants whatsoever orders are there they should be executed much faster and they are ready to pay the money for that also. We are working in that direction but we will be trying to achieve the targets which have been set for us.

Moderator: Thank you. The next question is from the line of Nitin Arora from Aviva Life Insurance. Please go ahead.

Nitin Arora: Just one question which was asked by the previous participant. The provision which now you create for the long-term obligation on a contractual basis which you are now accounting in your interest cost, can you share a number how much you got which actually moved from your other expenditure to interest, how much was that amount in FY17 and how much is in the Q1 FY18? That would be helpful.

Vaidyanathan: It is around Rs. 60 crores.

Nitin Arora: That is for FY17?

Vaidyanathan: Yeah, for the first quarter, for this quarter it is Rs. 60 crores.

Nitin Arora: And how much was that for FY17 of the total because the interest cost was Rs. 350 crores?

Vaidyanathan: Around Rs. 310 crores.

Nitin Arora: So ideally just one thing, ideally it should be a part of your provisioning only just because of the Ind-AS it has come down and your EBITDA margins starts looking up for the last year and for the Q1 FY18. Got it.

Moderator: Thank you. The next question is from the line of Vaibhav Jain from Credit Suisse. Please go ahead. As there is no response we move to the next question that is from the line of Lavina Quadros from Jefferies. Please go ahead.

Rahul: Rahul this side from Jefferies. Sir, just wanted to know in the other expenses, we have started taking this employee expense provision which is of Rs. 250 crores as you have mentioned. Just wanted to know why we are taking it in other expenses and not in the employee benefit expenses?

Vaidyanathan: After finalization of the wage revision when we know the actual exact amount it will be taken to the employee head and it will be removed from provision.

Atul Sobti: So these are not been expenditurized so far. These are still in the provision stage. Depending on what kind of wage revision takes place this is our assessment that the reason provision has been made and it is going to, then it will go to the natural and after that.

Moderator: Thank you. The next question is from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: My question is in relation to the Patratu bid for 3x800 megawatts project. Could you please elaborate on what is the scope of the project was and I am asking this because the implied pricing works out to around Rs. 48 million a megawatt. I wanted to understand what all it includes and does it include the emission reduction equipment as well?

Management: It is an EPC contract within the plan boundary and it does include the emission control equipment particularly FGD and SDR like the last level at 100 and soft level to 100.

Sumit Kishore: Okay so media reports indicated that your bid was at Rs. 116 billion. So the implied pricing is Rs. 48 million a megawatt. So should we understand that this is the new normal now for the industry that you can deliver a thermal power project with emission control equipment at a costing of Rs.48 million a megawatt?

Management: It will not depend on the scope and other terms and conditions of the contract.

Atul Sobti: See it cannot be straight away it depends on a lot of things where the price variation clause is there or not, what are the conditions, what is the background of what you call customer is there, what exactly is the scope, what is the condition of the site. All the total final cost is decided taking all these factors into consideration. And we have arrived at a figure taking all these into account. There cannot be what you call a ball park figure that for each project it will be same. Depending upon all these conditions the price will be decided.

Sumit Kishore: I understand; however the scope of the project is inclusive of the entire turnkey execution of the project?

Atul Sobti: Yes, within the plant boundary.

Moderator: Thank you. The next question is from the line of Venkateh Balasubramaniam from Citi Research. Please go ahead.

Venkatesh B: Sir, this is more of a generic industry kind of a question. I still remember that when we had major coal based super critical ordering and the 600 megawatts that ordering had started in India. At that point in time there was severe Chinese competition, we were coming and cutting prices and taking orders. At that point in time BHEL had gone to the government and said that you should be putting import duty as they are dumping equipment into India.

And it took the government at least two to three years to come to a decision that some kind of duties need to be put to prevent dumping and to encourage domestic companies like BHEL and by then a big set of the orders had already gone to the Chinese. Now it is observed that a similar thing is happening in solar also. Last year we added I think almost I think 5,500 megawatts of solar capacity it is expected around 10,000 megawatts will be added this year and all the solar panel, everything all the orders have gone to the Chinese. So have you made any representation to the government and are they even open to listening to you?

Atul Sobti: Very good point you have made. First, I echo your sentiments firstly for the thermal power project. In fact I myself mentioned we are close to 50,000 megawatt of the power plants having been ordered on Chinese and trailing almost Rs. 1 lakh crores to Rs. 1.5 lakh crores of the precious foreign exchange outflow from the currency. In many of those projects are even languishing today. This is the reality but their past is past. Coming to the solar module, we are already discussing with the various government officials at a very high level and they are definitely going into our suggestions and hopefully things will happen in that regard.

Venkatesh B: But I think this is the right time to maybe ratchet it up a little more when the Indian army is facing off with them in Doklam this might be a very good time to again put pressure on the Government to stop importing panels from China. I mean we can, cannot this work be done in India I mean for example cannot BHEL add a manufacturing capacity over the next six months to one year in India and deliver this for the country. Is it possible?

Atul Sobti: We agree with you and the Indian capacity is definitely available manufacturing capacity. Unfortunately people had stopped expanding especially because all these Chinese, Taiwanese all those people who are dumping their modules at a very low prices, lower than our material cost. Everybody has to do its bit, we are doing our best. I think we need you to support people like you also, that something has to be done in this regard and I am very positive that Government of India will do something in this regard.

Moderator: Thank you. The next question is from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

Abhishek Puri: Sir, I just wanted to understand in your revenue target of Rs. 30,000 crores have you considered the Yadadri revenue booking?

Atul Sobti: Yeah, so certain portion has been booked in there. But we are now in this project we will start moving whatever projections are there that hopefully will come.

Abhishek Puri: And secondly, the executable order book is obviously higher this year versus last year. So should it be easier for you to cross this target of Rs. 30,000 crores revenue or do we need certain clearances of certain projects before it can really move on? Or it rather critical in terms of the clearance?

Atul Sobti: Good point you asked. You like to add something else or should I respond?

Abhishek Puri: Please, yeah.

Atul Sobti: As of now as I mentioned we have the executable orders as on 30 June. Not executable total order booking of Rs. 101,380 crores. Out of that Rs. 61,800 crores are executable and almost Rs. 39,000 crores are slow moving I will say. I will not say non-executable they are the slow moving. If you compare it with the situation about a year back; a year back our executable orders or clear orders were only Rs. 57,000 crores.

So almost 8% to 10% increase is there. And if you take Yadadri in to your account then substantial jump is there. Definitely it will have a very positive impact in the next financial year that is what you call 2018-19. 2017-18 it has been unfortunate that these what you call these projects have got ordering has got delayed, clearance has got delayed. Normally what happens that the initial five to six months it takes lot of time in ordering etc. and the turnover starts coming late.

But we have already in these projects also which I mentioned in Himadri and other projects we already done advanced engineering and I am confident that these will add to the revenue in the current financial year also. But substantial turnover from these executions because today as I mentioned our clear orders are Rs. 61,800 crores which is close to Rs. 62,000 crores. If we add these Rs. 18,000 crores order which also get the clearance. Then it will be Rs. 80,000 crores. In the next financial year hopefully should be good and our endeavor will be to maximize the revenue from these products in the current financial year also.

Abhishek Puri: Secondly, what will be your current capacity utilization in your synchronization plan for the next three years or FY18-19-20 if you have?

Atul Sobti: Capacity utilization if you say it is almost half our capacity is getting utilized, less than half. If we talk of the 20,000 megawatts of the total capacity. But if you are talking of the capacity addition program at the moment almost close to 6,000 megawatts is the target. I do not have the exact figure it is 6,000 megawatts is the target. But we are definitely going to exceed that particular target.

Abhishek Puri: Okay but you have added about 16 gigawatts and 10 gigawatts over the last couple of years so the bunching of our capacity has already happened. So should not the debtors start to come down now because you have already added those to synchronize those capacities you should start recovering within one year's time frame?

Atul Sobti: Yes, that is what our objective also. That is the reason we have created a special group project closing synergy group has been created for closing of these projects and I am quite hopeful that these will come down. Over the years it will come down.

And if you see our debtors they have been reducing over the years. Last year we were Rs. 31,863 crores this is against Rs. 33,557 crores the previous year and before that it was Rs. 35,603 crores. So roughly more than Rs. 1,000 crores to Rs. 2,000 crores roughly we are reducing every year.

Abhishek Puri: Okay and is there any projects which is due for cancellation like the Rattan Power project which you have mentioned I think phase 2?

Atul Sobti: There are two, three projects which are likely to be cancelled. I will tell you. Rattan Power, Nasik is likely to be cancelled. Then which in fact and second project is which are likely to be cancelled is Rattan Amravati. These are the two projects which are likely to be cancelled.

Abhishek Puri: So only these two and the value will be about Rs. 6,300 crores?

Atul Sobti: Approximately that only. We have already made provisions for that. These are the two projects. Another project is that Visa Power is there but this is we have issued the termination notice and this is the third project. We do not know whether it will be restarted or not. But this is a very I mean small investment again getting in to that particular project.

Abhishek Puri: So overall value will be about Rs. 8,500 crores from the current order book?

Atul Sobti: This thing it will be close to around Rs. 500 crores or so. But in any case we have already made the provisions. Only order book will get affected. That too from that I was talking about from the slow-moving orders.

Moderator: Thank you. The next question is from the line of Jayakanth Kasthuri from Dolat Capital. Please go ahead.

Jayakanth Kasthuri: I have just a small question. What would be like the CAPEX for this current financial year?

Atul Sobti: It is close to Rs. 300 crores.

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

Bhavin Vithlani: Sir, could you help me what is the contribution from the spare and the services for the quarter and for last year FY17?

Atul Sobti: We will provide you these figures offline.

Bhavin Vithlani: No problem, sir. Is it in the ballpark of Rs. 5,000 crores?

Atul Sobti: Yes, if we take inventory space in to accounts it will be close to I think closer to Rs.2000 - 3,000 crores.

Bhavin Vithlani: Are we seeing because your commissioning has bunched up and we are seeing increasing commissioning, are we seeing increased contribution from the spares and revenues business?

Atul Sobti: You see our target of order book being itself in the space so we are targeting close to Rs. 5,000 crores. Let us see how much we will achieve. But if you see the last year, last year in O&M spares also we achieved an order booking of close to Rs. 2,700 crores. And this year we want to substantial jump into that. I am talking of only O&M spares. Last year was Rs. 2,700 crores which itself was a big jump from Rs. 1,818 crores in 2015-16. I will repeat the numbers again. In 2015-16 our order booking from the O&M space were Rs. 1,818 crores which has gone up to Rs. 2,686 crores last year and we expect I think close to Rs. 4,000 crores. We are targeting that. Let us see.

Bhavin Vithlani: And sir, you mentioned about a few projects which are the L1. Is it possible to share a ballpark value of the projects wherein BHEL is L1?

Atul Sobti: It is I think Rs. 25,000 crores plus approximately.

Moderator: Thank you. The next question is from the line of Mohit Pandey from Citi. Please go ahead.

Mohit Pandey: Just one question. Within the order inflow of Rs. 1,800 crores what was the split between the power and the industry segments?

Atul Sobti: In the power sector, out of this Rs. 1,800 crores it was almost 50:50. 50% came from the power and 50% balance came from the industry.

Moderator: Thank you. The next question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram: Most of my questions have been answered. Just wanted to understand was there any impact due to GST in our execution in our margins or do you foresee anything in the next quarters?

Atul Sobti: There is not much of impact. In fact what has happened we were quite ready for in advance. We had opened a GST cell at all our manufacturing plants. We had conducted lot of training programs for our employees, for our vendors also. As such there is no such impact. Of course in quarter 1 figure which I mentioned very marginal impact was there with small vendors for the bought-out items.

Because they were waiting that what is going to affect so they refused to supply in during the last week of June. So that has impacted. Now we have already discussed with them and that should happen in the coming two, three months. As such on our business there is not much of impact is there. We are ready for it.

Renjith Sivaram: Okay and sir, regarding this nuclear opportunity if we understand like per megawatt what will be the size of orders we can expect, what is our opportunity in the nuclear?

Atul Sobti: No, I will not be able to assert any guess on that number. Because that will depend on the scope also. Earlier it was given only on the equipment supply basis now we are talking on EPC basis also. So let us see that. Let the scope be clear then we will come to that figure.

Renjith Sivaram: But our scope is largely in the TG Island or will it be?

Atul Sobti: It is TG Island, now we are trying to switch over from equipment supply to the EPC complete for the TG Island. And in the primary side also we are seeing that whether we can do much more than what we are doing today.

Renjith Sivaram: But will we be there in the reactor?

Atul Sobti: That is what I am saying. In the reactor side also we are supplying certain components and we want to enhance our offering in that area also. But not the fuel work side, not the reactor what you call installation or making.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to handover the conference to Charanjit Singh from B&K Securities for his closing comments. Over to you, sir.

Charanjit Singh: We would like to thank the management for spending their precious time for the call and giving us the opportunity to host this conference call. Over to you, sir for any closing remarks.

Atul Sobti: Okay some closing remarks I would like to make. Ladies and gentlemen, as I mentioned during our discussions also that Indian economy is expected to move to a higher trajectory from FY18 onwards. I am sure that this will revive the investment in infrastructure sector and which is definitely perquisite for the sustained performance.

As of now what we are doing as I mentioned during the reply to many questions our major focus is the conversion of the non-executable orders into executable orders where we are getting some success also and more success are expected. And the tenders where we are favorably placed converting into the actual orders. These are the two priorities we are taking into forward.

As we move forward our strategy is of business diversification which we have discussed and harnessing the new opportunities even in the core sector like emission norms and services definitely will start showing impact on our balance sheet. Thank you very much.

Charanjit Singh: Thank you, sir.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Batlivala & Karani Securities India Private Limited, that concludes today’s conference call. Thank you for joining us and you may now disconnect your lines.