



“BHEL Q4 & FY13 Earnings Conference Call”

May 23, 2013

MANAGEMENT: **MR. B. PRASADA RAO – CMD, BHEL**
MR. P.K. BAJPAI – DIRECTOR, FINANCE, BHEL

MODERATOR: **MR. GIRISH NAIR – ASSOCIATE DIRECTOR, POWER, UTILITIES, CAPITAL GOODS, BNP PARIBAS SECURITIES**



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Moderator

Ladies and gentlemen good day and welcome to the Q4 FY13 Earnings Conference Call of BHEL hosted by BNP Paribas Securities. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference please signal an operator by pressing '*' and then '0' on your touch tone phone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Girish Nair from BNP Paribas Securities. Thank you. And over to you sir.

Girish Nair:

Thanks, Mohsin. Good evening, everybody. We are privileged to host the leadership team of BHEL for a conference call to discuss BHEL's FY13 results. We have with us Mr. B Prasada Rao – Chairman and M.D. of BHEL; and Mr. P.K. Bajpai – Director, Finance. I will start by requesting Mr. Rao to start the call with his opening remarks, which will be followed by the Q&A session. Over to you sir.

B. Prasada Rao:

Good evening, friends. I am B. Prasada Rao – CMD, BHEL. With me I have Mr. P.K. Bajpai – Director, Finance and Mr. Krishna Shankar – Executive Director, Planning & Development; Mr. Vaidyanathan – General Manager, Corporate Finance; and Mr. Gopalakrishnan – Specialist in Marketing. A very warm welcome to all of you. □ IIP grew 2.5% in Mar'13 against 0.5% in Feb'13. For FY13 however, IIP grew at 1%, the lowest since FY92. Manufacturing production grew 3.2% in Mar'13, following 1.9% growth in Feb'13. Electricity production was up 3.5%, following a sharp contraction in Feb'13. Mining, on the other hand, continued to contract for the sixth straight month in Mar'13.

Electrical machinery shows sharp traction. Electrical machinery, which has 2% weight in IIP, grew 65% in Mar'13, following 73% growth in Feb'13. Capital goods production, which contracted in 16 out of the past 21 months, grew 6.9% in Mar'13. A host of infrastructural bottlenecks related to power shortages, mining ban in many states and delays in commissioning large projects are key headwinds for recovery in industrial production.

We are currently operating in a difficult business environment. But we believe, India's worst economic slowdown in a decade has bottomed out. Growth is expected to pick up and business prospects could improve.

On 8th April 2013, we had declared our unaudited (flash) results for the year 2012-13 and I am sure most of you would have looked at them. Post audit there are very minor improvements.

Our pace of project execution remains healthy. During FY13, company has synchronized/ commissioned all time high 10,340 MW of power plant equipment including 9328 MW utility, 703 MW captive/ industrial sets in the country and 309 MW in overseas markets.

We have commissioned India's first indigenously manufactured subcritical set of 600MW rating on EPC basis at North Chennai.



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With this, BHEL contributes 66% to the coal based thermal installed capacity in the country. 70% of the country's total generation of 691.4 Billion Units from Thermal Utility Sets is contributed by these BHEL sets. This performance of BHEL equipments is our key competitive edge since it enables our customers have lower life cycle cost of the power plants.

Total orders booked during the year FY13 were Rs 31,650 Crore, out of which power sector contributed orders of Rs 25,560 Crore aggregating to about 7,791 MW.

In Industry Sector business segment, we booked orders of worth Rs 4,086 Crore despite subdued industrial activity in the country.

In International Business, our performance was severely affected by unforeseen turmoil in our target markets. Under such circumstances, we were able to secure orders worth Rs 2,004 crore corresponding to 1,760 MW.

With these orders, BHEL has an order book of Rs 1,15,160 Crore as on 31st March 2013. 81% of these are accounted for by Power Sector, 10% are accounted for by Industry Sector and balance is accounted for by International Operations.

Looking at Q4FY13 and FY13 financial results:

Turnover for IV Qtr. 2012-13 was Rs.19,867 crore, a 2% decrease over that of Rs.20,250 crore in IV Qtr. 2011-12. Cumulative turnover of the company up to IV Qtr. 2012-13 is Rs.50,157 crore which is an increase of 1% over that of Rs.49,510 crore achieved in 2011-12. Profit Before Tax for IV Qtr. is placed at Rs.4614 crore, a 8.8% decrease over that achieved in IV Qtr 2011-12. Cumulative PBT upto IV Qtr. 2012-13 is Rs.9,432 crore. Profit After Tax for IV Qtr. is placed at Rs.3,238 crore, a 4% decrease over that achieved in IV Qtr 2011-12. Cumulative PAT up to IV Qtr. 2012-13 is Rs.6,615 crore. The note worthy achievement has been that we have managed to control our direct material cost at 57.7% compared to 59% achieved in 2011-12. Further Inventory could be reduced to 86 days of turnover compared to 100 days of turnover achieved in 2011-12.

I thank you all once again for joining this conference call. Now, we will take the questions.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Venkatesh Balasubramaniam from Citi Research. Please go ahead.

V Balasubramaniam: Firstly, what is your sales target for FY14, both your internal target and the MoU which you have signed, the base and the excellent levels?

B. Prasada Rao: The target has always been to do more than the previous year, but then it depends upon the progress of the project. As you know in most of these projects we have a contribution of mostly (BTG) Boiler, Turbine, Generator content, which is 50% approx and is in our control. So it depends on execution. We are trying to increase share of EPC projects now. As I



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mentioned Rs 1,15,000 crores approximately is our order book at the end of 31st March, and we will be striving hard to deliver as much as possible. We have 20,000 MW capacity for equipment delivery. We have done 10,000 MW of commissioning last year which we will try to exceed.

V Balasubramaniam: But if you could share the numbers, your MoU targets at the base level and the excellent levels?

B. Prasada Rao: The future guidance we normally do not give for these kinds of things as you know.

V Balasubramaniam: But this is till last year I think whenever you signed the MoU with the Ministry of Heavy Industries you used to put it up on your website. So I am not asking for your internal target. I am asking for the base and the excellent level....

B. Prasada Rao: This particular thing, we are not giving now.

V Balasubramaniam: Your staff cost in the current year FY14, will it be higher than the previous year or there could be a decline?

B. Prasada Rao: In terms of increments and the kind of promotions and other what will happen, there will be a minor increase in the staff cost, but compared to the sales, if sales go down then it becomes very prominent, but otherwise if there is a reasonable growth in sales then staff costs are in control. Like for example, it was around 11% before last year and this year it has slightly went up because the turnover has not gone up in proportion of the cost of manpower.

V Balasubramaniam: So what you are saying is last year it was roughly around say 5,750 crores, this time it should be something like 6,000 crores. Would that be reasonable?

B. Prasada Rao: It depends on. I will have to look at what is the kind of wastages which are going to happen in terms of retirement. So I can give you the figure later, I am not ready with the figure now.

V Balasubramaniam: Your raw materials as a percentage of sales which you have improved in FY13, do you think there is a possibility to improve it next year also?

B. Prasada Rao: It is the contribution of many factors that take place in commodity markets. As per today's price per ton, yes there is a good chance of that, but then I do not know how it will go forward. And on our side, we keep on doing design optimization, and localization. There is a lot of scope for further localization of the new technologies. So, there is a good possibility.

V Balasubramaniam: What is likely CAPEX in FY14 and what was your gross block end FY13?

P.K. Bajpai: We would be investing about Rs 1,000 crores CAPEX this year. So our gross block should go up.

- V Balasubramaniam:** What was your gross block end of FY13?
- P.K. Bajpai:** I think it was Rs 10,783 crore which should have capital WIP of about Rs 900 odd crores.
- Moderator:** Thank you. The next question is from the line of Venugopal Garre from Barclays. Please go ahead.
- Venugopal Garre:** When I look at the balance sheet, receivables have increased quite sharply in this year. I just wanted to know what are the key issues that you are facing on the ground; is it the clients are delaying payments, and working capital for this current year, do you think you will be able to maintain at current levels or we see the further expansion?
- P.K. Bajpai:** If we look at the absolute figures last year that is '12-13 I am talking of, the cash collection went up. We have collected about 15% more than the previous year, but operations of the company are also going up. A number of projects happening and the kind of deferred billing in accounting practice has come in now. Last year if you remember there was a accounting change where we are recognizing in the income but the payment is not due at. So these kind of deferred billing has also gone up. So that is why you will see that the receivables appear to be high but if you really look at out of the 39,000 or so the total receivables, and roughly about 19,000 are the collectables out of that. And about 20,000 are deferred billing in this. So as the company activity goes up and more and more projects are coming up, unless those milestones are achieved, some of these deferred billing will not be in the region of collection. So that is the reason actually. The activities of number of projects have gone up in the last 2, 3 years...
- Venugopal Garre:** But your revenues are largely flattish, so I was wondering is there any....
- P.K. Bajpai:** Revenue depends upon what exactly you do because the milestones are yet to be achieved for those. So till the milestones are achieved they will be in the deferred billing category only. So that means the money is not collectable at the end of the day.
- Venugopal Garre:** And secondly, for this year especially in terms of what you are seeing in terms of bids, what is your outlook in terms of order inflows? I do not want specific guidance more in terms of commentary.
- B. Prasada Rao:** What I feel is if you look at our order book '12-13 that has gone up from the previous year. And on the ground I am seeing that some of the projects have started happening, particularly in the state sector and the central sector. Again, I am seeing that last year most of the orders have happened in that segment. And again I am seeing this year also there are a number of tenders which are happening in the state and central sectors. And as I mentioned in my initial remarks also, probably the bottoming out is over, so more and more projects must only grow now is what I feel, so it should be better than even previous year, that is my take.
- Venugopal Garre:** And I just wanted to know if you could give us an update on your joint venture? There has been some press reporting that you would want to exit a few of them...



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- B. Prasada Rao:** I do not know the press reports. From where they have come? I have also seen some papers reporting. They are totally baseless, I totally deny that. It is not a cash crunch or anything due to which joint ventures are cut, it is not at all, the cash requirement for joint venture today is so little, and we can easily manage that compared to our cash surplus.
- Venugopal Garre:** For the fact that you do not have debt or limited debt?
- B. Prasada Rao:** I can leverage much more.
- Venugopal Garre:** But within that, I just wanted to know the investment side, I do not see any increase in investments on a YoY basis.
- B. Prasada Rao:** These projects are all again waiting for coal block allocation, land clearances, the environmental clearances.
- Venugopal Garre:** What about the KPCL JV? That we have already booked in ...
- B. Prasada Rao:** That is going on very well. In fact...
- Venugopal Garre:** Any incremental money being put by you in that?
- B. Prasada Rao:** Money has also been put in that, but that cannot be in thousands of crore.
- Venugopal Garre:** But that is in progress as per your schedule, right?
- B. Prasada Rao:** Yeah, it is better than our expectations.
- Moderator:** Thank you. The next question is from the line of Abhishek Tyagi from CLSA. Please go ahead.
- Rajesh:** This Rajesh here from CLSA. First question is on other expenses. So while revenues have been flat, other expenses have gone up by almost 15%. So first, if you can give us a breakup of the provisions within that? And also why other expenses are up? And given that revenues will be flat to down going forward, what kind of trend do you expect in other expenses in the next year? So do you think the other expenses would be flat, continue to go up/go down next year?
- P.K. Bajpai:** The major component of other expenses is Power and Fuel; it has gone up marginally from Rs 476 crores to Rs 519 crores. The indirect materials, special toolings required for our new designs and supercritical, they have gone up from Rs 563 to Rs 583 crores. Then we have had some write-offs for which we had done provisioning earlier, they also figure in the other expenses. This year we had significant write-offs, some Rs 280 odd crores. The impact of that is there. Because of increase in the minimum wages, there has been an impact on temporary employees and contract employees to the extent of about Rs 90 crores, these are the major heads.



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- Rajesh:** This Rs 280 crores write-off provision is on account of what?
- P.K. Bajpai:** It is because of certain jobs which we executed and as per our accounting policy we provided for. Internally, we keep pursuing with the customer and finally when it is totally non-recoverable we remove it from our books. So while there is no liability it appears in the other expenses.
- Rajesh:** What about provisions for liquidated damages, etc.?
- P.K. Bajpai:** That we are doing as per our policy. They continue to....
- Rajesh:** Can you give us the numbers? Because if I look at the overall other expenses, they are up around Rs 900 crores compared to last year.
- P.K. Bajpai:** The overall is about Rs 160 odd crores and that is because we have sorted out some of the very old issues and there are certain agreements on old NTPC jobs. Then most of it is because of the contractual obligations reasons. This year as you may be seeing we have done a lot of commissioning and there is a robust turnover. The normal increase is there.
- Rajesh:** Can you give us the details of contractual obligations and liquidated damages provisions?
- P.K. Bajpai:** During the year contractual obligations are net Rs 1,142 crores, doubtful debts are net Rs 193 crores, LD net Rs 183 crores.
- Rajesh:** How much it is compared to last year?
- P.K. Bajpai:** Up means there is something which is withdrawn, so net impact is so much.
- Rajesh:** What is the figure for LDs again?
- P.K. Bajpai:** The net figure for LD is Rs 183 crore.
- Rajesh:** What do you expect the trend to be in the next year given that we know what the industry situation is? So revenues are not going to go up, may go down...
- B. Prasada Rao:** Rajesh, as I mentioned in the other question, the revenues I am not giving any guideline, because it depends on....
- Rajesh:** We know what the industry situation is. So this time without the revenue growth there was a 15% growth in other expenses. So going forward,
- B. Prasada Rao:** Rajesh, that is not my statement, it is your statement.



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- Rajesh:** Yeah, it is my statement, but what I am saying is the fact for last year is that revenues were flat and other expenses are up by 15%. So going forward what can we expect?
- B. Prasada Rao:** I cannot give this projection because these are all day-to-day situation, things will happen. And as I said in the beginning, future guidelines I am not giving.
- Rajesh:** But in terms of provisions, as director-finance earlier said, that there were some one-off issues with NTPC which was sorted out ...
- B. Prasada Rao:** Contractual obligations will depend upon the turnover what we do. 2.5% as you know that we provide, we take as revenue and also provide in the provisions. Similarly, the projects whatever get completed and if there is an LD which is charged by the customer is levyable, that we take into account. So these are all dynamic situations and I would not be able to predict a figure today on that.
- Rajesh:** Were the provision writebacks less than last year?
- B. Prasada Rao:** Details if you want to know, you can sit down with our GM Finance, I do not have all these details readily.
- Moderator:** Thank you. The next question is from the line of Lakshminarayanan Ganti from Standard Chartered Securities. Please go ahead.
- L Ganti:** My first question is, in the previous conference call you had talked about say 6,000 MW immediate tenders and then another 7,000 MW. So roughly 13,000-15,000 MW worth the project opportunities that you talked about.
- B. Prasada Rao:** I have not given any figure first of all for these many megawatts projects are going to happen because in today situation I do not think anybody can guess what kind of megawatts will happen. What I predict is that since things are happening, mostly in the central sector and the state sector, in my opinion, the bottoming is already over and we are seeing an improvement over last year that is what I mentioned. And last year we booked around 7,700 MW.
- L Ganti:** On the ground compared to where you were at the beginning of the year, because you do have a strong backlog, in terms of converting that, is there any improvement in terms of projects moving faster?
- B. Prasada Rao:** I think the project execution pace if you say that and it is same as almost last year. Last year also we did roughly about 19,000 MW of manufacturing and about 10,000 MW of commissioning happened. So I am seeing a similar thing or even better than that.
- L Ganti:** Apart from the BTG large order, would you be targeting say the BoP side? I know you are trying to do EPC projects also. How is the pipeline for that looks like, say BoP contract?



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- B. Prasada Rao:** Today, more and more EPC projects are coming up, and in fact, we are also driving the market, we have also educated the customers that EPC is a better option for them and in fact, 5-6 years back it was BHEL which has driven the BTG kind of division, but now we are driving for EPC and some of the customers are willing to give the complete responsibility to one agency because they have been saying that most of the times the projects are delayed because the balance of plant equipment, and the civil works and these kinds of activities. For example, if you take the Suratgarh order, what we have taken is on total EPC basis. And currently, the projects have given us BTG in the past. They are also considering giving the balance of plant and EPC to us. So there is a trend of customers moving towards total EPC.
- L Ganti:** Could you put a number to it say 10 GW worth of EPC projects that are on the anvil or anything that is like that, so just we understand the size of the opportunity, can you hazard a guess.
- B. Prasada Rao:** At least I can tell about our history, roughly we used to take about 20% of the projects as EPC projects and balance 80% used to be BTG projects there. The EPC content of this total number of projects is going up now. For example, I am seeing roughly out of the tenders which are probably going to happen about EPC projects are almost 50%.
- L Ganti:** So when you say EPC includes including BOP also?
- B. Prasada Rao:** That is right. BoP, civil work, BTG, everything.
- Moderator:** Thank you. The next question is from the line of Renu Baid from Batliwala & Karani Securities. Please go ahead.
- Renu Baid:** I have a couple of questions. My first question is more on the book-keeping side. We had seen in the third quarter there was some element of FOREX gain as well. So just wanted to check, whether in fourth quarter or for the overall year was there any FOREX M-to-M impact in the P&L?
- P.K. Bajpai:** There has been a FOREX gain for the year. Do you want the exact numbers of the gain?
- Renu Baid:** At least the broad numbers if you can share?
- P.K. Bajpai:** We have had interest income dip and that has been partly made up by the FOREX gain.
- P.K. Bajpai:** So dip of about Rs 200 odd crores of interest income has been partly made up by the FOREX gain to the extent of Rs 44 crores.
- Renu Baid:** Yes, the demand environment had remained subdued for the last 2-3 years and which is definitely improving. But in the current environment, definitely competition is also there. So as a company, Power sector is one where we are definitely market leaders and are looking to further increase and strengthen the market share. But apart from that, have we seen a

meaningful progress on the other business initiatives which we are working on, the transportation, the transmission size, urban infrastructure, railways transportation?

B. Prasada Rao:

As far as the other businesses are concerned, in railways transportation, we have growth in the business over the previous year. You must have heard we have announced factory being set up at Bhilwara for production of mainland EMUs for the Indian Railways and this is going to have about 400 coaches per year manufacturing capacity and this will be having a turnover of roughly about Rs 2000 crores. We have already selected the site and we are going ahead with the preparatory activities for investment there.

Renu Baid:

When is the commissioning for this factory expected?

B. Prasada Rao:

Factory will be ready in about 24 months time for production. And we are also finding that the renewable is definitely another area where things are picking up, but we are carefully evaluating our alternatives in view of prices which are in the market particularly being driven by Chinese equipments. So we are cautiously going on that. But there is going to be definitely a big demand for this. So we are also working with the Government of India to get some viability gap funding in terms of our own investments for increasing the capacity here. So this is another area where the company would like to pursue but then of course looking at the financials and the probabilities, we will definitely be cautious on that. The third area is the water. Water management is another area where requirement is there as part of the BoP items itself and even now also we are buying all these systems. We have a technology today where we will try to manufacture the entire system within the company. This is another area where we expect that BHEL's value addition to a power front will go up. And as you know that coal handling and ash handling, we are doing through our joint venture, NBPPL, that is also now becoming active and the plant is almost in the first phase of the construction and we are expecting some orders now for coal handling and ash handling for the particular joint venture and that will also contribute to our chain. So all this will definitely add to the basket of BHEL's revenues and we expect that the revenues other than the traditional equipment will also add.

Renu Baid:

But overall the scale up on the industry, these are non-core business segments which have been identified. Have we set any broad target that we will target ex-billion rupees or ex-billion dollars of sales in the next....?

B. Prasada Rao:

There are target set for each of these areas. The company works at detail targets.

Renu Baid:

But any broad target which you can share with the investors, long-term, medium-term at least 4-5 years?

B. Prasada Rao:

They are not mature enough yet, we are looking and relooking at these kind of targets, at the right time we will definitely share with the investors.

- Renu Baid:** Though in the current year we had seen overall sales were flattish in the power space overall, but definitely with 20 GW of capacity and increasing the commissioning numbers, if you can share broadly at a shop floor level, production level, how has been the traction there, have we seen some improvement in terms of shop floor productivity and activity in terms of lower outsourcing and more of domestic in-house manufacturing work?
- B. Prasada Rao:** Yeah, that is visible from the value addition what you look at. The kind of facilities established and manufacturing all the products into the company, definitely the value is being added by the company's resources. In fact, if you look at even the size wise, in '11-12 we produced roughly about 16,000 MW equipment and last year 19,000 MW of equipment. So that way there is an increase in production and therefore value addition. And similarly, this year also I am expecting that we will fully utilize our capacity that is 20,000 MW and that will improve the value addition for the company. And that is where the competitor comes for us, the whole value chain is under the control of BHEL and we would be able to definitely leverage that for better position in the competitive market.
- Renu Baid:** So the entire supercritical the value chain with subcontractors is that ready as well?
- B. Prasada Rao:** Yes, yes, supercritical, already we have established.
- Renu Baid:** So that should reflect in terms of a material cost composition going ahead?
- B. Prasada Rao:** Yeah, partly it has already reflected last year.
- Moderator:** Thank you. The next question is from the line of Lokesh Garg from Kotak Securities. Please go ahead.
- Lokesh Garg:** In a way my question relates to this question on supercritical value chain. This is just an observation, want your feedback on this, essentially BHEL announced an order in 4Q on Gadarwara Plant. So essentially the thought process was that subsequent to that order we have also seen an announcement from Alstom saying that BHEL has placed an order worth Rs.7 billion on them for this one. Now essentially we are relating the two things together and are wondering as to whether in spite of 5 years since the critical business we are dependent to almost one-fourth order value on Alstom sourcing basically.
- B. Prasada Rao:** It is not technical dependence, it is basically utilizing those facilities also. We are using Alstom's facilities also, because our capacity is X and the schedules are such, if we need to deliver more than that in particular time. But technically, we do not depend on them. We have the complete technology with us, we have the complete control over the technology. And in addition to that, supercritical technology has got a very peculiar characteristic that the production happens more at the plant and not at the site. Most of the value addition happens at the manufacturing plant unlike subcritical technologies. In subcritical, more used to happen at the site. So, this has to be corrected at the manufacturing site itself. That increases the value addition at the plant.



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- Lokesh Garg:** But essentially our observation was that a very large proportion of supercritical orders that we have won, have actually been ordered out to Alstom. So it is not a specific order issue, it is actually a continued....
- B. Prasada Rao:** Your question seems to be not right, because it is not a very large portion, it is a very, very small portion. Wherever we find that our facilities will not be able to meet the schedules as required by the customer, there only we give it to outside.
- Lokesh Garg:** This specific order was 7 billion, I think your value in the order must have been about 24 billion or so?
- B. Prasada Rao:** Much, much higher, that particular thing will be a combination of 2, 3 projects.
- Lokesh Garg:** Second thing I wanted to ask you was on NTPC bulk tender order. We presume that they are now under a execution phase, some data points coming through. We are not worried about BHEL execution but we are wondering whether some of the other vendors who have not basically committed capacities and all that. Obviously, you know the vendors who have not sort of established capacity. So in which case are you seeing that, that is acting as a stumbling block in your execution also and what is NTPC doing about it?
- B. Prasada Rao:** No, we do not have any such issues. Our very clear demarcation is there on the scope of supply, on the projects awarded to us and projects awarded to them and that is in no way obstructing our work or vice versa.
- Lokesh Garg:** So basically you are not facing any issues in projects like Solapur, Nabinagar or Lara?
- B. Prasada Rao:** On that respect we do not have issues. Normal issues will be there.
- Lokesh Garg:** You are seeing the counterpart boiler and turbine vendors respectively delivering their portion of business?
- B. Prasada Rao:** No, I am not concerned with it. I do my job and come out.
- Lokesh Garg:** Yeah but practically plan would not go through in case...
- B. Prasada Rao:** That will go through if the customers' responsibility is to integrate that. Very clear demarcation is there. Customer has defined that very clearly.
- Lokesh Garg:** But at this point you are not seeing any issue, but later on it might come up basically?
- B. Prasada Rao:** I do not know. It is up to the customer. Probably you can ask this question to NTPC.
- Moderator:** Thank you. The next question is from the line of Prerna Jhavar from Emkay Global. Please go ahead.

- Pritesh:** This is Pritesh. Just a couple of questions; one, just wanted to understand, have we started executing the supercritical tenders? And second, in the revenue if you can give some color on what could be the contribution to revenue from supercritical projects?
- B. Prasada Rao:** Supercritical execution has started definitely much earlier, even 2011-12 itself it started, in fact, the first unit of supercritical is going to be commissioned probably in June-July; the first one at Barh in Bihar, NTPC project, so that is totally done by us and the other side, Krishnapatnam is also getting commissioned this year in Andhra Pradesh. So these are all the projects we are already executing.
- Pritesh:** And the extent in the revenue could be?
- B. Prasada Rao:** Actually, separately we do not measure that. I can only hazard a guess on this. The problem is boiler goes at one point of time, the turbine goes at another point of time for the same project. So therefore, difficult. Could be say 25% or something like that last year.
- Pritesh:** 25% of the Power business revenue?
- B. Prasada Rao:** That is right.
- Pritesh:** With respect to the CAPEX, last year we incurred about Rs 900 crore, this year we are incurring about Rs 1,000 crore. Just wanted to understand if you could bifurcate this number in terms of how much actually you would continue to spend on an annual basis on the BTG facilities which obviously already constructed and how much typically lands up in new business initiatives and the industry part? So the focus here is, does a large component actually lands up getting into the BTG facility upkeep?
- B. Prasada Rao:** No, that will not be much. The BTG facility upkeep, normally what we call as modernization of the existing facilities, is in the order of about Rs 100 crores. Beyond that it will be for a particular scheme. For example, here, substantial portion of that would be going towards our nuclear facility at Bhopal and some portion of that will go to the new facilities we are setting up at Bhilwara, the railway transportation factory, some other transportation facilities. So these are all we have identified. But on the BTG thing, we have almost completed everything.
- Pritesh:** So should one say that a couple of hundred crores is what typically goes up in terms of maintenance for the BTG facility?
- B. Prasada Rao:** About Rs 100 crores.
- Pritesh:** What could be the Spares revenues for fiscal '13? And what kind of growth would you have recorded on that?
- B. Prasada Rao:** About Rs 3,000 crores is Spares business we have done last year.



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- Moderator:** Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.
- Pulkit Patni:** Can you give a little bit of idea about some of the future orders? And concept of life cycle cost in the bidding document? So is there a kind of change that you are seeing in terms of some of the new projects where life cycle cost of a project had been given more importance?
- B. Prasada Rao:** That is right. In fact, as I mentioned, customers are more and more realizing not only giving one point responsibility by giving the total EPC job, but while awarding the contract, they are also looking at more and more on the life cycle cost. They are taking into account the heat rates of the machines, they are taking into account the boiler efficiencies, for the kind of coal they are certifying and even other auxiliary power consumption for all the balance of plant equipment, all these are being evaluated and factored in, in the valuation. There is a lot of loading which happens if the parameters are not in line with the best. So it is more and more happening now. In fact, I will tell you. The recent order what we received from Odisha Power Generation Corporation has factored in very, very nicely all these aspects. In fact that is one which we have won in the month of March. So more and more customers are doing this but this is a very good trend because ultimately the specific consumption of fuel is important for an operator to be able to compete for the power tariff at the end of the day and best availability of the equipment, all that matters for them in deciding the final price per unit.
- Pulkit Patni:** And you are seeing this even in some of the future contracts?
- B. Prasada Rao:** That is right. It is more and more happening, more and more customers are doing this.
- Pulkit Patni:** One book-keeping question. Looking at the staff cost, year-on-year basis in this particular quarter, there has been a slight decline and largely flat. So can you just touch upon what is the total number of employee retirement that has happened or net of additions or both the numbers if you have?
- P.K. Bajpai:** If you look at it for the whole year, the number has in fact reduced by about little less than 1,000 people, but costs have gone up because of the DA; DA rate has gone up substantially last year.
- B. Prasada Rao:** Inflation has been high.
- P.K. Bajpai:** 14.5%, it has gone up in DA. And another thing is last year we had some advantage of as you know, leave actuarial valuation based on 25 days instead of ...
- B. Prasada Rao:** That was in the year 11-12 actually.
- P.K. Bajpai:** So that was a wrong base, so the total impact is about Rs 400 crores; Rs 200 crores because of the increase in DA component and about Rs 180 crores because of the last year comfort of actuarial valuation.

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

Bhavin Vithlani: First if you can help me break up the orders from the industry sector on transmission, transportation and others, if that is possible? My next question is on the renovation and modernization. We keep reading CEA documents on that. How do you see the opportunity in renovation and modernization because BHEL has a significant installed base and it could be a big beneficiary if this actually kicks in a big way?

B. Prasada Rao: R&M almost goes on case-to-case basis. If there are sufficient power plants, where the balance of plant is still in a good condition, then R&M for BTG will work. Otherwise R&M you need to consider for the entire plant. In fact, in some of the projects in the past when it was done, the problem was the balance of the plant was not touched. The boiler turbine generator was touched and the R&M was done, though there was an improvement with respect to this, but then the total plant efficiency could not be improved because the balance of plant remained same. So, one has to look on a case-to-case basis. There are a few projects that are now being executed and which are in the offing and they are such projects where they found that ultimately, yes, these kind of things are possible. But, if they have to look at the entire plant modernization one has to look at the cost economics of it. Whether that will be really giving you a good benefit what you wanted to achieve. Nowadays technologies are different, supercritical technologies have come in, and suppose if there is a power plant where there are four or five 200 MW units, maybe it would make sense for somebody to remove all the units and put a new 660 MW set or 800 MW set with supercritical technologies, which will definitely give an advantage over the fuel consumption and the efficiencies also. So, these are aspects only to evaluate. So, though our installed base is quite good, we have a good number of projects also in R&M coming up, I still feel that it goes on a case-to-case basis.

Bhavin Vithlani: Of the order inflow, or the order backlog, if you can help us, how much would be R&M, how do you see in the next one or two years, order inflows from the R&M sector.

B. Prasada Rao: I don't have these figures readily. At a later point in time, you can get in touch with Mr. Shankar, he will give you this.

Bhavin Vithlani: And the last is, if you can give us your view on the captive power industry. Are you seeing an activity improving on the captive power side?

B. Prasada Rao: No, I am not. The captive power segment is definitely affected. In fact, last year itself, if you look at, the captive power segment has the major impact on the industrial sector order booking. Because, if you look at the coal allocation policy, the coal is getting allocated to bigger units and that too supercritical technologies. The small units 150 MW or below don't get any priorities in coal allocation. They will have to wait for the coal to be either bought through e-auctions or something else, I think 50,000 tonnes or something like that has been, the total allocation for the captive plants in the country. So, that is why the activity in captive power

plants has come down in the recent past, coupled with that the industry has slowed down. Therefore the capacity expansion of the industry is also not happening. So, both have pulled the entire segment down, and may be if the industry picks up, then probably industry will find a way of organizing themselves for the coal.

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

Sumit Kishore: The first question I have is on your segment in the PBIT margins, from the full year numbers it appears that in your power segment, you have managed to maintain almost a flat PBIT margin, which is a very good outcome and most of the decline has actually happened in the industry segment. Could you give more qualitative color on what trends are you seeing in the industry segment on pricing and something on those lines?

B. Prasada Rao: The industry segment as I just mentioned, in answer to another questions, the new capacities are not coming up. So, the market size has shrunk and there are many vendors chasing that market. So there is very high competitiveness that is one. Secondly in power segment we have done well in the sense the technology localization, and you have seen the kind of material consumption figures, as I mentioned in the initial talk, we have brought material consumption down by about 1.5% from the last year to this year. That is '11-12 to '12-13. That has really maintained the power sector profitability and I expect that this kind of initiatives the company is taking in terms of design to cost, or localizations of the imported technologies, all that will help us in maintaining our competitiveness. But the industry sector, it has become very, very competitive market now. The volumes have also come down, so all this will affect the profitability at the end of the day.

Sumit Kishore: Okay, just to follow-up, how would you describe the capacity utilization of your boiler and TG manufacturing facility at Trichy and Haridwar.

B. Prasada Rao: 98% to be exact.

Sumit Kishore: Okay, we also went through the plant wise results, which come out post your provisional results, and it appears that Haridwar reported almost 20% growth in top-line and Trichy had a growth of low single digit growth, but both these plants had a 12 to 15% decline in their reported order backlog over last year, so in light of this, in FY14, do you expect that these plants can maintain 98% capacity utilization.

B. Prasada Rao: The current order what we have is Rs 1,15,000 crores, which is roughly about 62 GW or so, so we have enough orders to keep our plants occupied fully.

Sumit Kishore: Though the order backlog to the revenue ratio has become slightly adverse as compared to what it was last year or the year before that, even then you can maintain that pace of execution.



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- B. Prasada Rao:** That is right, pace of execution has no relationship with the order backlog, it only depends on the project progress, and we are seeing that on the ground all these projects are happening, whatever has been ordered and therefore we need to deliver the equipment.
- Moderator:** The next question is from the line of Ashish Shah from IBFC Securities, please go ahead.
- Ashish Shah:** First question, have you booked any gain on the sale of our stake in Udangudi.
- P.K. Bajpai:** Yes, there is gain, which I think is Rs 30 crores.
- Ashish Shah:** And it would be part of other income, right.
- PKBajpai:** Yes, it is part of other income.
- Ashish Shah:** Sure, secondly, the tax rate for the quarter appears very low, you know the effective tax rate for the quarter has been about 29.8% and even for the full year the tax rate appears quite low, so any particular thing we should be knowing about this.
- P.K. Bajpai:** Because of sustained expenditure on R&D, we get tax break and also provisions are now permitted as a tax expense.
- Ashish Shah:** Okay, basically, the quarter's tax rate being lower is a reflection of the provisions also being higher this quarter, so is that the right way to look at it. Okay, basically, the quarter's tax rate being lower is a reflection of the provisions also being higher this quarter, so is that the right way to look at it.
- P.K. Bajpai:** Yes.
- Ashish Shah:** On a steady ongoing basis, what is the effective tax rate one should look at for BHEL, let us say in FY14.
- P.K. Bajpai:** It is a combination of government policies and the exact numbers, but whatever is the country's tax rate, if you take a very long term average, it will work to that.
- B. Prasada Rao:** But one thing is that, R&D we are utilizing in a big way, R&D expenses have been quite high, 2.5% of our sales is going on R&D, and that is definitely giving us an advantage in terms of utilizing the incentives is being provided by Government of India in this.
- Moderator:** The next question is from the line of Amit Sinha from Macquarie, please go ahead.
- Inderjeet:** Hi Sir, this is Inderjeet here from Macquarie, my question is actually related to what Sumit was asking earlier, given that the order book has declined around 20 odd percent, you are still talking about utilization levels remaining fairly high, is there a situation ideally over a longer period of time if your order book declines, we should see a decline in revenues, so is there

going to be a situation that we see a gradual decline in revenues to kind of stabilize at lower levels or we continue to execute existing projects and then we suddenly when after a point when order book declines below a threshold limit we will see a very sharp decline in revenues. How do you see this kind of playing out in the next two to three years?

B. Prasada Rao: I don't know, I can't predict the future, but I can only tell you this much, three years back if you remember, if you are all covering the sector, you used to ask the question, that your order book backlog is increasing, why are you not able to deliver. You were asking this question to me at that time. Now, I am delivering more, you are asking me the question that you are not having enough backlog orders now.

Inderjeet: No it is not a question about delivery; the question is we are not able to kind of get enough of orders to replace the revenues. This equation cannot sustain for ever.

B. Prasada Rao: It is not that, it is not our inability to get the orders, it is basically the market.

Inderjeet: It is more of a market situation.

B. Prasada Rao: If the market continues to shrink like this, definitely there cannot be turnover more than the orders at some point of time. So that goes without saying. The country cannot grow at 7 or 8% GDP, and if it can grow only at 5% or less than that then the power capacity additions will be like this only, and if the power capacity additions are going to be like this, then we will have to look for some other areas other than even what I am talking of today. We don't expect that because the kind of requirements which are there for the country and the 12th plan target which the country has set for itself, we feel that the market will not be like this.

Inderjeet: One last question is that, on this manpower thing, you talked about net reduction of 1000 odd employees, what should be, we look at in FY14, would the manpower remain flat, year on year.

B. Prasada Rao: Manpower could only slightly go down only. Because our new additions, probably you know, will not be as much as the wastages.

Moderator: Ladies and gentlemen, due to time constraints, only one last question can be taken. The last question is from the line of Harish Bihani from CIMB, India, please go ahead.

Harish Bihani: Sir, can you help us with the number for advance received from customers in this particular year.

B. Prasada Rao: I would request my Director Finance to take this.

P.K. Bajpai: I will hazard a guess, it is around Rs 3000 crores, but I am not having number for sure.

Harish Bihani: Sir, last year, it was somewhere around Rs 20,000 crores.

- P.K. Bajpai:** No, no. Outstanding advances is one thing, advances which are yet to be liquidated is one thing, and that number last year was probably Rs 19,000 crore this year it is Rs 16,000 crore, so there is net decrease in advances of Rs 6000 crores on a turnover of Rs 50,000 crore and accretion is Rs 3000 crore. So there is always, some advances get liquidated, and the balances are outstanding advances. That is what you pick up from the current liabilities
- Harish Bihani:** So it is Rs 16,000 crores in the balance sheet.
- P.K. Bajpai:** It has come down from Rs 19,000 crore to Rs 16,000 crore and that is what is making our capital employed look more, one of the reasons.
- Harish Bihani:** Sir, on the debtors' side, one of the earlier participants had asked this question, your debtors' is now 300 days of sales. In previous two to three years before this, it was around 220 days of sales, which is a big cause of concern for investors, because this has been going up steadily, even though you have been executing and execution has happened at a good pace, but the levels of debtors is really cause of concern, so the thing is that both on the qualitative and on the quantitative side, where do you want this to get settled finally, in the next say one or two years.
- B. Prasada Rao:** Well, we would like it to be settled at the least number of days, but the rationale of the thing, you must understand one thing, and this is a combination of factors here for this. One, as a mentioned, I explained earlier, the number of projects happening now have gone up, the physical number itself, and our accounting policies have also changed in between, that the realization of revenue, some portion, which is about 2.5% of our sales where, is also provided, and it does not immediately result into cash. The third thing is the deferred billing, the deferred billing goes up, and deferred billing is also going up for want of all the milestones to be completed, then only it becomes collectable, because of the number of projects happening more and more, that is also getting accumulated. Now, the other major thing is, the current situation in the market, that also we must not forget, it is not that all the customers do not have the kind of cash that they used to have earlier, and everybody has a problem, liquidity problem at the end of the day, and therefore we are also struggling to recover some of the dues, but concerted efforts last year have improved our collections last year, as I mentioned earlier about 15% more than the cash collections that we have done, but still, yes, there is room for going up further and we are pursuing with all the customers, we are using all the methods to do that, in fact you must have heard in the recent past about four months back we said, we are not going to service those customers who are not going to pay us and we have used all sort of means to recover our money and we will continue to do that and we will continue to strive to improve that.
- Harish Bihani:** Okay, but given the current situation whatever is there in the market, the number of days of sales will likely hover around similar levels in FY14, is that the correct understanding.
- B. Prasada Rao:** I don't know, again, I would not like to hazard any guess for future.



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Moderator: Thank you, Ladies and gentlemen, that was the last question, I would now like to hand over the floor back to the management for closing comments.

B. Prasada Rao: No other comments now, I think we have answered through questions all the points.

Moderator: Thank you, on behalf of BNP Paribas Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.
