Bharat Heavy Electricals Limited

Q4 & FY2014 Earnings Conference Call

May 29, 2014

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MR. WVK KRISHNA SHANKAR – DIRECTOR (IS&P) BHEL
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MODERATOR: **MR. RAVIKIRAN SURANA – ASSISTANT VICE PRESIDENT INSTITUTIONAL EQUITY RES., TATA SECURITIES LIMITED**

Moderator: Ladies and gentlemen good day and welcome to BHEL Q4 FY 2014 Earnings conference call hosted by Tata Securities. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ravikiran Surana from Tata Securities. Thank you and over to you!

Ravikiran Surana: Good evening everyone. On behalf of Tata Securities, we welcome you all to the Q4 FY 2014 results conference call of BHEL. Representing the management are B. Prasada Rao, Chairman and Managing Director, MR. P. K. Bajpai, Director Finance and other senior members of the management team. I would now request Mr. B.P. Rao to begin the discussion with some opening remarks after which we will begin the Q&A session; over to you Sir!

B. Prasada Rao: Thank you Mr Ravikiran, Good evening friends, I am B. Prasada Rao, CMD BHEL. With me, I have Mr P. K. Bajpai, Director (Finance), Mr W V K Krishna Shankar, Director (IS&P) and Mr Atul Sobti, Director (Power). A very warm welcome to all of you.

Dear friends, Country has new government in place. Whole industry is upbeat with new vigor and enthusiasm. As per the initial indications, govt. will be according high priority to infrastructure development. Industry is hopeful of more energetic revival of power sector with likely initiatives for resolving issues of non-performing assets, financial health of discoms and fuel availability. Over all, we are hopeful of improvement in investment climate. Another area worth mentioning is Transportation. In recent years, BHEL has been putting in lot of efforts to accelerate growth in its transportation business area. Now, we are hopeful that long awaited modernization of Indian Railways as per their Vision 2020 will pick up stream which will give us good opportunities. We are seeing initial signs of pickup in the economy. RBI also projects a modest recovery in 2014-15. All this bodes well for new momentum of growth at BHEL. Therefore, we are upbeat with our future prospects.

Coming to operations of BHEL, the Company has achieved highest ever commissioning/synchronization of 13,452 MW of power plant equipment in domestic and international markets in 2013-14. This is an increase of 30% over the previous year. This includes 11,266 MW utility, 1,698 MW captive/industrial sets in the country and 488 MW in overseas markets. BHEL secured orders worth Rs. **28,007** crore from its diversified business segments covering both domestic and international markets. Orders in industrial segment at Rs**.5,007** cr. witnessed a 23% jump; Spares & Services at Rs**.3,433** cr. saw a jump of 19% and International segment at Rs**.2,567** cr. witnessed a jump of 28% in 2013-14. However, the number of new power projects that came up during the year were only 6,210 MW-down for the third consecutive year from a level of 25,168 MW during 2010-11. Despite severe market shrinkage and stiff competition in Power Sector with only fewer projects getting finalized, BHEL increased its market share from 68% to 72% on the strength of highest ever Mega EPC order worth Rs. 7900 crore for 3 x 660 MW Supercitical units from NTPC for North Karanpura. This further strengthened Company's market leadership position. The company ended the year with an order book of Rs. **1,01,566** Crore. We have signed MoU with SECI, PGCIL, SJVNL, SSL, and REIL for setting up a 4000 MW Ultra Mega Solar Power Project at Sambhar, Rajasthan and planning to set up an integrated manufacturing facility for 480 MW Solar PV systems (Wafers-Cells-Modules) in Maharashtra. On 3rd March, 2014, the Government of India divested 4.66% of the total paid up capital of the Company through Block Trade on the floor of the stock exchange [BSE Limited] to Life Insurance Corporation of India. Consequently, the equity shareholding of the Government of India in BHEL was reduced to 63.06%.

Looking at Q4 and FY14 financial results:

Turnover for IV Qtr. 2013-14 was Rs.15,432 crore, a 22% decrease over that of Rs.19, 867 crore in IV Qtr. 2012-13. Cumulative turnover of the company up to IV Qtr. 2013-14 is Rs.40,338 crore. Profit Before Tax for IV Qtr. is placed at Rs.2,696 crore, a 42% decrease over that achieved in IV Qtr 2012-13. Cumulative PBT up-to IV Qtr. 2013-14 is Rs.5,014 crore. Profit after Tax for IV Qtr. is placed at Rs.1,845 crore, a 43% decrease over that achieved in IV Qtr 2012-13. Cumulative PAT up to IV Qtr. 2013-14 is Rs.3,461 crore.

The rising trend in debtors has been arrested in this year. In fact the increase in collectable debtors have been brought down by 2% only from 12% increase during 2012-2013 and on an average 30% increase during previous three years.

BHEL has collected cash equivalent to little more than 100% net billing made during 2013-2014. This has generated cash surplus for operations of more than Rs. 2852 Crores after a gap of four years. I thank you all once again for joining this conference call. We will take the questions now.

Moderator: Thank you very much Sir. We will now begin the question and answer session. We have our first question from Jay Kakkad from Standard Chartered Securities. Please go ahead.

Jay Kakkad: Good evening Sir. Two questions, one is, I just want your opinion on how our industrial segment is moving especially in the areas of Railways? You mentioned about renewables, MOU on solar side, any other breakthrough there. Just want your opinion on what are your targets on industrial segment over the next three to five years?

B. Prasada Rao: See, the industrial segment as you know, consists of the captive power as one of the major segments in addition to Transportation, Transmission, Water and Renewable businesses including the Defence. In Transportation, we already have made plans for investment. In fact as you know, we have been announcing that in Transportation we have signed MoU with Railways for setting up MEMU factory in Rajasthan. In addition to that we are also expanding our capacity for locomotives at Jhansi and though there were delays in decision making at Railways, but we are expecting things to move fast in new government environment, we are hearing a positive statement about Railways going in for modernization in a big way in addition to the Dedicated Freight Corridor projects. So we expect that this segment will grow and we are organizing ourselves for that.

Historically transmission capacity addition lags behind generation capacity addition. But now transmission is trying to catch up and we are finding that the business demand for transmission equipment and systems is quite good. In the coming years it is going to improve further. In fact we are already executing a major high voltage DC transmission project between North East and Agra. Further between Champa to Kurukshetra, another HVDC transmission project~~s~~ has been finalized and we are bidding for it. So, we are expecting that the transmission segment is going to be another growth area for BHEL.

Now, the renewables, as I mentioned that we have signed an MOU for setting up an ultra mega solar power project. In addition we are also planning an integrated manufacturing facility. Now we have applied for all the concessions available under the Government of India schemes for improving the viability of this investment. We are also setting up for the first time in India, silicon ingots manufacturing facility as part of this total set up. This proposal has already received the Maharashtra Government concessions and also the inter-ministerial group in the central government has already cleared the project in principle for getting the 40% capital subsidy. This will go for the CCEA approval in the coming months and we are hopeful that once the government clears this, we would be able to go ahead and undertake investment for this project. Our basic intent is to create scale in manufacturing to position ourselves for competing in the segment in a much more effective manner and the market is also going to grow as new projects are coming up. In fact ultra mega projects have been already conceived by MNRE in the Ladakh and Kargil regions in J&K. We already have signed MOU with J&K Government.

In addition to that, the public sector undertakings are going to go for the solar projects in a big manner, in fact Indian Railways have announced yesterday only. All the stations and platforms will be equipped with solar systems. In fact the Government of India will be able to reserve it for the domestic industry. At the moment it is for the government buying. So all these auger very well for this segment and I expect that the segment will grow much faster than what is being expected now. So we are lining up for that and the water segment, as I already said in the last teleconference that we have already started getting some orders in this and we expect that this segment also will grow.

Jay Kakkad: Just an add on to this, any progress on MOUs for setting up coaches factory, also any progress on the CPCB technology tie up that we were planning to do in this segment, in the captive boiler segment?

B. Prasada Rao: Probably you are meaning CFBC boilers. In this area we are looking for technology transfer and we are almost in the final stages of negotiation. The first part of the question, Railways, unfortunately in the last one to two years no major decisions has happened and therefore this project is lying with them for a decision. We expect now that after the new government actively gets involved in the Railways, there will be much more activity.

Jay Kakkad: I was referring to MOU for the coaches factory for which you had invited global bidders?

B. Prasada Rao: Yes, that will be depending upon Railways finalizing the initial factory itself. Our finalization of the bids will be subject to that first.

Jay Kakkad: The second question is that on the receivable side how do you see things panning out? Because receivables this year has not decreased in the proportion of sales. So do you see increased confidence in customers paying up faster income in coming quarters?

B. Prasada Rao: Yes. The trend is towards betterment. Though there is a small improvement than last year. So we are also finding that these projects, except for a few projects which are perennially in problems, will happen. Last time I mentioned about Bajaj Hindustan and JP and all these projects and these projects where they are trying to, like CDR they have gone into and for example in JP, he has already sold some other projects to raise money for these projects and therefore we expect that all these things will improve while we go forward and company also will be applying some pressure on these customers through other means available to the company even in some cases, have issued legal notices to these companies so that they are under pressure making these payments.

Jay Kakkad: Thanks.

Moderator: Thank you. The next question is from the line of Venugopal Garre from Barclays. Please go ahead.

Venugopal Garre: Sir firstly, this receivable question, just wanted to know. I think in the previous quarters too you had highlighted the amount of current receivables which is due for more than 12 months, essentially related to the problem projects; could you just highlight the amount?

B. Prasada Rao: I will ask Mr. Mittal to just give you figures for more than 12 months.

S. C. Mittal: Good evening. This is Mittal here. More than one year old is now out of Rs. 22,800 Crores what we have the total collectable there, so only Rs.12,316 Crores comes from the last year and the balance around 10,000 is from the one year and before.

Venugopal Garre: Rs.10000 Crores is basically more than 12 months due. Sir, one more small thing here. What will be Forex gain number for the full year?

B. Prasada Rao: Mr. Bajpai will take this.

P. K. Bajpai: It is about Rs. **659** Crores.

Venugopal Garre: My second question is related to primarily the investments that you are looking at in the various divisions that you spoke about, transportation, solar, etc. Could you just quantify that in terms of the investment amounts you would have to do this year or may be in the next two to three years that you would have committed towards such expansions in the manufacturing side and also apart of that also investments in your joint ventures in the utility side, including any investments in solar, UMPP and stuff which you were thinking of doing?

B. Prasada Rao: The actual cash flows could happen only beyond this year on these investments particularly for these joint ventures of solar and even the manufacturing facility because we need to do a lot of ground work after the approvals come. We need to do a lot of engineering work and commit this expenditure. The cash flows will happen next year and beyond. For example, in the solar UMPP project, we envisage roughly Rs. 2700 Crores as total investment of which 40% will come from the Government of India. There are other things where we are yet to freeze the figures like Transmission. We have invested in the locomotive expansion at Jhansi but that is at incremental investment only but whereas if the factory has to come up at Bhilwara, that we are envisaging roughly about Rs.800 Crores investment but that will happen only when the commitments are made by Railways. Off take of coaches per year and the price is agreed between us, but, all that investments cash flows will happen only next year or even later.

Venuagopal Garre: Sir, one last question. This Alstom globally is under sale to either GE or Siemens. Does it in any way impact our technology collaboration of the supercritical side with them, do we again re-negotiate?

B. Prasada Rao: No, it is totally assignable. There is no effect on us.

Venuagopal Garre: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Espirito Santo. Please go ahead.

Aditya Bhartia: Good evening. Sir, how do you see the order pipeline and what is the value of orders that you would expect in FY 2015?

B. Prasada Rao: Though I do not give a future guidance but however I can tell you today tenders for roughly about 16000 MW mostly in EPC segments from government sector both states and the central are on the drawing board. These 16000 MW will get finalized definitely during this year because already work has happened in this. They are either in the stage of bids opened or tenders already issued or where technical decisions are going on or it is about to be issued. So they will certainly get finalized this year but balance projects probably we will have to wait and watch what new government is going to take initiatives on this in terms of solving this coal puzzle, the environmental linkages and the land issues, how they are going to address those issues and my sense of that is basically they are going to do it fast because that is what indications are there, all positive indications everywhere and therefore we expect may be in another three months, we will have some clarity on when it is going to happen and in what way it is going to happen and depending on that the markets will take shape. That is why we are not able to give any clear idea, for this year particularly.

Aditya Bhartia: Sir, employee cost fell in Q4 both on a year-on-year and quarter-on-quarter basis. Was there any particular reason for the same and how do you expect it to move going forward?

B. Prasada Rao: Earlier quarters had a component of BHPV merger, cost of employees, so that is why there is an appearance of reduction in this, and certain provisions of employee liabilities on retired medical scheme and gratuity etc., have come, they are based on the actuarial weight.

Aditya Bhartia: If I compare it with Q4 of last two years, actually the employee cost is still lower. So are there any provisions which got reversed in this particular quarter?

B. Prasada Rao: We have an overall reduction of about 1900 people, 1000 people have been added because of BHPV that was one time jump in this year. So this quarter the reduction of manpower is reflected in the final quarter only, because we provide the liabilities for the total employees and there is a reduction in that. Net reduction is about 870 people. After absorbing BHPV 1000 people which are in earlier quarters, this year's employee cost will have that kind.

Aditya Bhartia: Do you expect number of employees to keep going down over the next two or three years until you get the visibilities of order inflows again ramping up?

B. Prasada Rao: We cannot say for next two three years but definitely this year there will be a reduction and as I said depending on how the market is going to develop based on that we will have our own plans afterwards.

Aditya Bhartia: Lastly Sir, are you seeing any pickup in execution in slow moving orders that we have discussed in the last two conference calls?

B. Prasada Rao: Situation is practically same as of third quarter in the slow moving orders. The only thing we are seeing that there is an activity on those customers' side where they are trying to organize the resources and we are also in touch with the bankers and who are really arranging those finances. They all are working on that. So that is the positive indication we get. Therefore we expect that all these projects will start becoming fast moving projects in the coming days.

Aditya Bhartia: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Renu Baid from B&K. Please go ahead.

Renu Baid: Good evening Sir. We have already seen because of relative slower decision making towards the month of March there was slightly lower order finalization for the year. So essentially if we look at the order pipeline where we are already L1 or well placed, what would be that quantum and would it be fair to assume that next year we will be having 10 gigawatt plus of order intake given that the market is likely to be 15 gigawatts to 16 gigawatts?

B. Prasada Rao: I do not want to say on it. You will have to estimate that figure. I announced my market share. We improved last year to 72%. So we will continue to do that effort. So whatever tenders come we will put our best foot forward and my observation is basically because the election code of conduct which was already prevalent and many of the projects are coming in the government sector did not get finalized. So those orders will get finalized now and most of the orders will come from state and central sectors except for one or two private projects.

Renu Baid: But would you like to put any number or value to that pipeline where we are already well placed?

B. Prasada Rao: Roughly about, you can say, 3000 megawatts or so we are well placed.

Renu Baid: Sir, also will it be possible for you to give some flavour in terms of how at the factory level, the shop floor level the production has been compared to last year and what would be our outlook in terms of ramp up of shop floor production in the next coming 12 – 18 months given that execution and slow moving orders will pick up?

B. Prasada Rao: In shop floor, the first step what we have done is, we have reduced our outsourcing. So we are trying to maximize value addition in the company as much as possible in the current situation, but as the things move forward and if things really pick up fast, we will again go back to the model what we were doing earlier but we have an enhanced capacity also this time. This 20,000 megawatts capacity what we have till fully exhausted we will not go out for those critical equipments at least.

Renu Baid: Overall if someone has to look at from a perspective of that, probably the worst for the power sector is behind and things will hopefully start moving in the positive direction. What would be your view in terms of ramp up happening in the other elite sectors? You have broadly indicated numbers as in what is happening on the transportation side of the business but would it possible for you to scale up something on the numbers side, how can the transportation vertical ramp up in terms of numbers, how was it for 2014 and how can it scale up in the next two to three years?

B. Prasada Rao: All these positive steps from the government will take time to revive the economy. For capital goods companies the revenue visibility will happen only in next year and afterwards. This year it will not have any effect in revenue side. The order booking has to happen this year. I am also expecting particularly the industry segment to get also revived where the basic industries will start investing. Therefore there will be demand for motors, there will be demand for transformers, loose products what we call. Our units like Bhopal will be loaded with that kind of products, switchgear and this kind of product sale happens, but actual capacity expansions will start happening only after ~~when~~ we utilize the existing one. Because we have lot of unutilized capacity as of now and any revival of economic activity must ensure existing capacities get utilized. Then we will start thinking of any new investments. They will also have to look at their surpluses what they generate and afterwards only they will start looking at the investments. So these investments will probably, that will generate business for companies like ours, capital goods companies.

Renu Baid: But what I was trying to hint at is, within the transportation vertical, there have been large orders which were postponed for last four to five years?

B. Prasada Rao: That can give us some kind of revenue immediately, but if they happen in the next three months or so.

Renu Baid: Even if they happen in the next 18 months and not three months, but they will start coming up in the pipeline probably year down the line then?

B. Prasada Rao: If the order gets finalized after 18 months, the revenue of that will come beyond that.

Renu Baid: But are we seeing traction in those orders moving with the ministries?

B. Prasada Rao: In transportation it should happen much earlier than 18 months. That is what I am seeing.

Renu Baid: Sir, what is the targeted capex number for financial year 2015?

B. Prasada Rao: We have budgeted about Rs. 980 Crores but this is subject to many other projects taking off.

Renu Baid: Sir that is all from my side. Thank you and all the best.

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

Amit Sinha: Good evening. Thanks for taking the question. My first question is what is the rough proportion of EPC and BTG mix in our order book?

B. Prasada Rao: They are all old orders, the new orders are all EPC orders, around 25% will be EPC orders in the current order book.

Amit Sinha: Secondly on the margin front. Our margin came down significantly in the financial year FY 2014. What is the outlook, I understand you do not give any guidance but what is the outlook going forward given our current order book?

B. Prasada Rao: It depends on the revenue growth actually. Last year the revenue has been less by about 20% from the previous year. So that has affected the margins. Since fixed costs are there; so margins depends on the revenue growth. I can only tell you that much, I do not give any other guidance.

Amit Sinha: Sir in the order pipeline which you mentioned 15-16 gigawatt of orders, do you include UMPP orders?

B. Prasada Rao: No, we do not include UMPPs. UMPPs are in addition to that. Yes, good point, let me clarify UMPPs are not included in that.

Amit Sinha: That is it from my side. Thanks.

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

Venkatesh B: Good evening Sir. Sir my first question is basically some numbers which I wanted. One is, what was the total provisions in the profit and loss statement, I think this number was Rs.1565 Crores in FY 2014 and second part of the first question is, what is the advances, for customers in the balance sheet? What was the gross block and the capital work in progress in the balance sheet?

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

P. K. Bajpai: Provision, you are right, last year it was Rs. 1566 Crores, this year it is Rs. 2259 Crores.

Venkatesh B: Yes, Sir, both tangible and intangible put together?

P. K. Bajpai: Tangible is Rs. 5335 Crores and if you want deferred tax assets separately it is Rs.1968 Crores and non-current investments are Rs. 420 Crores. Capital WIP is included in Rs. 5335 Crores, it is Rs. **642** Crores.

Venkatesh B: Sir, the second question is, I guess in another two to three years, the ten year staff cost increase will have to be effected again. Usually when do you start making provisions for it? Is it like you start making provisions for it from financial year 2016 or will you start making provisions from the current year onwards?

P. K. Bajpai: It will be applicable from 1st January, 2017 and based on estimates or guidelines, by that time lot of clarity will be there. We will keep proportionating provisions as accounts are finalized.

Venkatesh B: But it will start from only financial year 2016, right?

P. K. Bajpai: One quarter of 2016-2017 and there onwards it will be proportionate.

Venkatesh B: Sir what was the total number of employees at the end of the year?

B. Prasada Rao: It was 47525.

Venkatesh B: Sir, the last question from my side. Now, there is talk about this 4 gigawatt solar order. Now what is the modality? Is this going to be executed in the subsidiary or it will be in the BHEL standalone, what could be the size of the order?

B. Prasada Rao: It is SPV, I mentioned that we have our equity about 26% in that.

Venkatesh B: What will be the potential value of order that BHEL could get from this?

B. Prasada Rao: Entire Solar PV order. First 1000 MW has been agreed that it will be given on nomination basis to BHEL. The decision on balance 3000 MW is pending. Phase 1 will be for 1000 MW out of 4000 MW.

Venkatesh B: Sir, on a per megawatt basis, how much will be the value that this could be potentially?

B. Prasada Rao: We are yet to decide that, we are yet to come to that.

Venkatesh B: Some broad numbers sir, I am not asking for an exact number?

B. Prasada Rao: It will be in line with the market value. It cannot be more because we will have to sell the power ultimately.

Venkatesh B: Thank you very much Sir and all the best.

Moderator: Thank you. The next question is from the line of Jignesh Navin Patel from Emkay Global. Please go ahead.

Ritesh: This is Ritesh here. Just few confirmations, the order inflow for FY 2014 which you gave the number was?

P. K. Bajpai: Rs.28007 Crores

Ritesh: Second, with respect to the employee cost, there was a dearness allowance related hike in January. How about that hike in the impact on the employee cost? With respect to the employee cost and the dearness allowance hike, which was proposed in around January February there is no effect on account of that?

B. Prasada Rao: No, it has not come through. The overall impact for the whole year is about Rs.180 Crores. So, that is why last quarter there is not much jump in employee cost.

Ritesh: So, if that comes through it gets implemented or reflected in FY 2015?

B. Prasada Rao: We are led by government industrial pattern, so this is linked to the cost of living index. What the Government of India announces, that is only for the central government employees.

Ritesh: Lastly Sir, in the provisional figures, the provision figures that you gave, could you give us the figure also for liquidated damages which would have been provided for?

P. K. Bajpai: Rs. **698** Crores creation

Ritesh: Lastly the megawatt which you said which was finalized for ordering in FY 2014 was 6210 megawatts in which your share was 72%?

B. Prasada Rao: That is right. Actually that 72% do not go by the megawatt because some of these jobs are not in megawatt, like boiler orders we do not count in megawatts. Nowadays the packages are becoming different; so better to go by the financial values.

Ritesh: Then the value which was given by you was Rs.7900 Crores?

B. Prasada Rao: Rs.7900 Crores is one particular order value.

Ritesh: Many thanks to you and all the best to you Sir.

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

Ashutosh Narkar: In your opening remarks, you said, that you are seeing early signs of improvement in the market, if you could elaborate on that? The second question was if you could just explain the increase in other non-current assets from around 88 billion to 118 billion during the second half of this year?

B. Prasada Rao: As far as the first question is concerned, what I have been saying is basically there is a positive sentiment and positive statements coming from the government talking about the infrastructure both during the elections and after. The government is making statements that they are going to revive the power sector and I am seeing some trends for example, yesterday I have seen the announcement by Tamil Nadu that they are going to give power, there will not be any power cuts in Tamil Nadu state and about some 3000 megawatts of power which they are tied up for buying from outside in addition to commissioning some of the plants in Tamil Nadu. So these are all some of the positive indications to the sector. They will have to look at even the distribution reforms first and then look at the other three issues of resources like coal, environmental and land problems, if these three issues are also addressed, so that is why I said we will have to wait and watch how these are going to be addressed but however the entire sector is upbeat about the whole thing and we are expecting that yes, this government will take certain decisions to go forward and the economy will revive and power sector being a major part of the infrastructure will also get the adequate attention. That is what when I said in the beginning that things are looking up. Now I will request Director Finance to talk about assets.

P. Bajpai: Non-current assets increases is mainly because of advance tax and deferred tax.

Ashutosh Narkar: Sir, just one last question was yesterday one of your competitors said that NTPC is not likely to order out any major orders in the next two to three quarters. So our 16 gigawatt power expectation, is it excluding the NTPC orders?

B. Prasada Rao: No, it is not correct. I do not know who is the competitor who said that. They have very active tenders, like Katwa for example. They have tailored out and the technical evaluation is right now going on. So NTPC’s Khargone is another contract. These two contracts they will find, I know how NTPC is serious about it and in fact Katwa, if you look at they have really fast tracked the whole project. So, I think these two projects are there in the 16000 megawatts from NTPC.

Ashutosh Narkar: Thank you.

Moderator: Thank you. The next question is from the line of Girish Nair from BNP Paribas Securities. Please go ahead.

Girish Nair: Thanks for taking my question. Sir I just wanted to understand, in your provisional results that were declared on April 5, the provisional profit after tax were Rs.3228 Crores for FY 2014 and today the reported profit was Rs.3460 Crores. So I just wanted to understand could you help us understand the increase of about Rs. 232 Crores from the last recorded sales?

B. Prasada Rao: That was a flash figure which has been compiled without taking much time, within a day or two but things which were not recognized earlier have been put in place after auditing. We went by conservative estimates in the beginning and now after auditing the entire thing has come out, like for example, PVC could be something, details are not there but this kind of small variations do happen between the flash results and actual audited results.

Girish Nair: Sure Sir and is there any particular major item that caused this difference?

B. Prasada Rao: No, it is spread over small items everywhere from all the units.

P. K. Bajpai: There are certain pluses and there are certain minuses. Luckily minuses are more. So there is a saving in certain LDA expenses, other expenses. There is quite a good saving. There are some insurance claims that have been realized so savings have offset more than expenses.

Girish Nair: My second question is sir if you look at the solar PV the market is set with a global overcapacity and US has challenged the domestic manufacturing clause that India has put in place for solar PV in WTO. So would you be waiting for ruling in the WTO before you start investing or is it simply a case of the government giving you the necessary clearances and you are going and investing in the solar PV manufacturing plant?

B. Prasada Rao: See, if you believe that the market is going to be there in India for this solar PV development which is true that the government initiatives are all indicating that. There is no reason why we should wait till US or somebody tell us. The moment these concessions are available to us as what we have asked we will invest. In fact we have time to position ourselves more competitively. See competition will be there. We are not afraid of competition. Let there be capacities from the US or whatever it is but government steps are also there to reserve these domestic capacities but unfortunately if you look at the 750 megawatt tender which has happened where there is a 50% reservation with the domestic sector and unfortunately there is nobody who can manufacture 350 megawatt of cells in the country today and this is the way we are giving away the opportunity because we are not ready and more and more such things will happen.

Like for example, MNRE is thinking of a tender for the PSUs alone where there is a lot of land available with PSUs where solar PV systems can be setup and by WTO rules they can reserve this for the entire domestic industry. So there WTO cannot question that. So there are ways and means. Secondly, our mega plants are there in the solar PV segment. In fact the 20000 megawatt Jawaharalal Nehru Solar Machine is going to be upgraded. We know that there was already a proposal which could not go through the earlier government because the time was not available to them and this government is concentrating on this. In fact there are already statements that probably they may slowdown some of the nuclear power plants which are to happen from outside the country and they may encourage both renewables and the hydro segment in a big manner. So that way there is a big market developing in India and we should be ready in time and the way we have also made up our investment plans is for really getting economies of scale. Today in India there is no big size manufacturers. So we are trying to really do that and like our 20,000 megawatt capacity in manufacturing power equipment, we are also going to see how to scale up this and unless you scale up and achieve those economies of scale, we will not be able to compete at the global level.

Girish Nair: Thank you. That is all I have. Thanks a lot for taking my questions.

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

Ankit Fitkariwala: Good evening Sir. I just wanted to know regarding the order book. What is the slow moving order in terms of megawatt as well as in terms of value?

B. Prasada Rao: See, out of the 100,000 Crore what is there today approximately about 14,000 is slow moving in Crores.

Ankit Fitkariwala: In terms of megawatt Sir?

B. Prasada Rao: It amounts to about 9000 megawatts.

Ankit Fitkariwala: Sir one book keeping question. In terms of order book of 100,000 Crore can you give the break up in the two segments?

B. Prasada Rao: Industry and power you mean?

Ankit Fitkariwala: The cumulative figure as well once more, sorry Sir.

B. Prasada Rao: Power is Rs.83812 Crores, industry is Rs.8616 Crores and international operations Rs.9138 Crores.

Ankit Fitkariwala: Thanks a lot Sir.

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

Bhavin Vitlani: Sir this is Bhavin Vitlani. A few housekeeping questions; if you can give us the number of contractual obligations in doubtful debt and freight for the full year?

B. Prasada Rao: I think this information readily we do not have. Can you get in touch with Mr. Vaidyanathan, General Manager Corporate Finance?

S. Vaidyanathan: See, there is a net creation of contractual obligation. There is some creation there is vacation. Only thing I can tell you there is a net creation.

B. Prasada Rao: Number is not readily available with me but there is a net creation.

Bhavin Vitlani: For the next year you said the capex target is about Rs.960 odd Crores, couple of other details if you can say that BHEL had few joint ventures for power plants. When would the investments begin and what would be the quantum of that?

B. Prasada Rao: See, we are already going ahead with the Karnataka joint venture and we already contributed roughly about Rs.331 Crores in that joint venture and this 800megawatts project is under execution. In fact we are expecting that the first unit of that will come on stream by the end of this financial year and for the third set for YeEdlapur project also the company has asked us to go ahead with engineering. So we will be inducting our equity in that as the project progresses. So that joint venture is already in place and is happening. If you are talking of only power joint ventures, the other two three joint ventures which are there, which are going slow, like Latur Power we have decided to wind up that and we have also decided that the Dada Dhuniwale in MP that also probably more or less we are committed to close that will not go through because the land itself has been in dispute there. Karnataka JV is going on well and we expect we will go ahead with some more joint ventures as we have proposed to number of customers, as and when they will come I will inform you.

Bhavin Vitlani: For Karnataka and Edlapur, what would be the investment budget for fiscal 2014-2015 and 2015-2016?

B. Prasada Rao: As part of our equity?

Bhavin Vitlani: Yes, BHEL's equity contribution for fiscal 2015 and fiscal 2016. Or if you could say what is the capex in that and we could then estimate?

B. Prasada Rao: Capex will be roughly about Rs.3600 Crores in Edlapur and 30% of that would be equity and on that our percent will be 26%.

Bhavin Vitlani: For the other Karnataka joint venture?

B. Prasada Rao: Edlapur is Karnataka only, the second joint venture I said Rs. 331 Crores we have already given.

Bhavin Vitlani: The last housekeeping question, if you can give us details for customer advances for March 2014?

B. Prasada Rao: We do not have it readily.

Bhavin Vitlani: The bulk of the other current liabilities would be customer advances?

P. K. Bajpai: Yes, bulk of other current liabilities is customer advances.

Bhavin Vitlani: That answers my question. Thank you so much.

Moderator: Thank you. The next question is from the line of Sachin Dinesh Trivedi from UTI Murual Fund. Please go ahead.

Sachin Dinesh Trivedi: This quarter as well as for the year we have seen that the gross profit margin or otherwise the raw material to sales ratio has gone up and also somewhere in the call you mentioned that the share of

EPC is increasing in our overall revenue. So just wanting a sense that where do you see that raw material to sales ratio as far as trend is concerned, where will it go in next two to three years?

B. Prasada Rao: Raw material to sales ratio has remained same, if you look at previous year to this year.

Sachin Dinesh Trivedi: So as per the way I put the numbers it has may be increased by 1% - 1.2% so just broad way what I want to know is where do you see that going in? Will it remain stable or will it increase because the EPC proportion will increase, how will you put it?

B. Prasada Rao: No, as I had mentioned earlier, EPC is over and above the BTG. EPC is a strategy for getting BTG. So in BTG revenues, whatever is the material cost that material cost will be on those lines as what you have seen. In EPC revenues, yes, the content will be more of EPC portion. Today we have 25%, I cannot foresee anything now because it depends, in the revenue what kind of mix will come from EPC and what kind of mix will come from BTG, depends on that.

Sachin Dinesh Trivedi: So, increasingly as you also said that most of the tenders are may be in EPC form. So do you see the proportion of EPC in our overall revenue will go up?

B. Prasada Rao: No, the growth of turnover is also important. Volume growth is important. You have seen that the basic reason for reduction in the profitability of the year 2013-2014 is because the revenues have come down. So over and above the BTG segment, the EPC revenue also will give a visibility of revenue growth. So that way it is an incremental growth. So, incremental cost also will come. It is an extra value addition. If I am adding X value addition today with the resources, the same resources adding some marginal extra value it is good ultimately for the profitability.

Sachin Dinesh Trivedi: Just sir in the pure BTG business is there a further scope for us to cut cost just as a trend-wise basis?

B. Prasada Rao: It is always possible. In fact if you look at the trend of the material cost to gross turnover, there is always improvement over previous year and that exercise will continue as we are able to source more and more locally and when we are out of this JDU requirements of companies like NTPC, the entire thing will be manufactured by us and in addition to that our cost improvement initiatives are always there like I always mention about Design-to-Cost & lean manufacturing initiatives. It is a continuous exercise in the company. We keep on doing it and it gives a lot of returns in terms of material savings.

Sachin Dinesh Trivedi: Will you put any number to this kind of saving in terms of percentage, it may not be necessarily one or two years but going forward is there any?

B. Prasada Rao: I cannot put any numbers. You have to look at the trend and take the number for your model.

Sachin Dinesh Trivedi: The second question is the coal based plant at the country level?

B. Prasada Rao: To your earlier question, one point, I think our Director Finance was suggesting, see though the sales price realization has come down in the last two years, you have seen that the material percentages remained the same or improved. So that much is the reduction in the cost which is being done. We are meeting from the cost reduction. Those kinds of competitive prices we are now able to give because of that.

Sachin Dinesh Trivedi: So basically you are saying that if the competition is challenging by lower realization through our internal efficiencies we are trying to meet that?

B. Prasada Rao: Definitely yes.

Sachin Dinesh Trivedi: Sir, other question is that generally when we see that the coal based plant at the country level, the capacity utilization for just the coal base plant is really low at around 66% - 67% or may be correct me if my numbers are wrong and next year in FY 2014 we have added may be more than 20 gigawatt of capacity. Next year we are expecting may be 40 gigawatt of capacity will be added. So, given the situation it looks like the capacity utilization for coal based plant will take time to improve. In that case do you think that in next two to three years, or four years the market size, which is around 15 – 16 gigawatts, last year was 6 or 7 gigawatts will that be more than 15-16 gigawatt in next two to three years or four years?

B. Prasada Rao: No, you have to look at the economic growth of the country. If there is no economic growth, if all the industries are closed down naturally the capacity utilization of the coal based plants will be low because there is no electricity consumed. Today there is no demand, in fact, for the electricity. The electricity rates have fallen. That is one of the reasons why the projects have not taken off or even abandoned in between. So there is a need for distribution reforms. At least I do not assume that the country will not grow at 7%-8% per annum and if that grows at 7%-8% per annum this coal based generation capacity which is not being used today will be just like that, it will be filled up. If that is the case none of the projects will be planned but I do not think that is true. If you grow continuously at 7% - 8%, a power project will take five years to come on stream. So you will have to start investing but only thing is you need conducive environment and therefore if there are kick start reforms in the whole sector and economy and everything has to happen simultaneously of course. You cannot keep on doing in power sector and not do other things. So if you have to achieve that 8% growth rate in GDP, if that has to happen power is required.

Sachin Dinesh Trivedi: I agree but Sir the other point which I wanted to just put here is that where do you see the capacity addition incrementally, will it be coal based share of the coal will keep increasing or it will go down?

B. Prasada Rao: No, coal will remain around 60%. Coal is going to be the mainstay for us for another 25-30 years. All these renewables or whatever it is going to add the balance. Fortunately there is a talk of hydro sector revival and Arunachal Pradesh is being targeted from the strategic point also from the government. So hydro mix which has gone down in the recent decades, that has to be brought to the healthier mix of 30% with respect to coal.

Sachin Dinesh Trivedi: Sir last question on the solar we said we are putting up a domestic manufacturing capacity. Does it need us to tie up with some technology partner or how do we go about it?

B. Prasada Rao: We do need a technology but then it will not be in the traditional form as what we have been doing it till now. This will come through the process equipments which we are going to buy and tie up, capital equipment for production of these wafers and silicon and cell**.** So, it will mostly be coming through that.

Sachin Dinesh Trivedi: Thanks.

Moderator: Thank you. The next question is from the line of Deepak Agrawal from Elara Capital. Please go ahead.

Deepak Agrawal: Good evening Sir. First can you comment on how the pricing environment likely to be in the next couple of years versus what we have seen in the past two years that we have seen some kind of erosion that has happened, so how do you see this thing panning out? I was asking on the pricing environment. How do you see the pricing environment panning out, over the next couple of years versus what we saw in the last two years where we had a good quantum of erosion?

B. Prasada Rao: Now that the whatever happened on the price with all these, current competition is in place. I expect this kind of situation to continue like this and when the demand goes up to the level of 25000 – 30000 megawatts, there could be some better prices coming in the market because the capacities of many other people are limited in this.

Deepak Agrawal: So the prices are more likely to remain stable for the current year is what you expect before going up?

B. Prasada Rao: Yes, that is right. In the market levels if you go up, certain megawatts as it will happen in 10 or 11 MW before then the price levels could be better.

Deepak Agrawal: Secondly, as you were mentioning in the opening comments your focus is definitely there to diversify from the power segment. So in the next two three years, how do you see the ideal mix between the industry and power business, where would you like to be in terms of your order intake in topline?

B. Prasada Rao: It cannot happen in two three years time. It will take about four to five years' time but we would like to see ideally 60-40 kind of mix, power being 60 and 40 being other businesses but it will not happen overnight.

Deepak Agrawal: So to that extent we can see more of upside on the margins in the long run, because industry being slightly on the higher margins versus that of the power segment?

B. Prasada Rao: Well, margin is a factor of so many things as you know. It need not be competition. It is the market size, technologies and your abilities to differentiate. See, you have to only look at, I have been continuously mentioning in these conferences that the kind of capacities what we have, the kind of skills, we are a 50-year old company. We are in the Golden Jubilee Year of the company and the kind of skills what we have established in the company and the kind of total coverage what we can do for a power plant and we can also leverage the same skills and facilities for the other segments which are again Engineering and Manufacturing segments like Defence, or even Transportation, we have a lot of opportunities which can be catered by the company. There are very few companies in the country which can cater to such a wide variety of engineered products. So that is the competitive advantage which the company will have and the company is strengthening only in those directions by training and retraining manpower, exposing the people to the high technology areas, in fact India is going to move towards high value added manufacturing. That is where the future is and the government is also talking of really improving the manufacturing contribution of the GDP and that is where our niche area is. So we must and we have already mastered some of these high technology and high value added manufacturing areas. So we will only grow in them further. So that way we need to equip ourselves in these areas.

Deepak Agrawal: Thank you. That is it from my side. Thanks a lot.

Moderator: Ladies and gentlemen, due to time constraints, no further questions can be taken. I now hand the conference over to Mr. Ravikiran Surana. Over to you sir!

Ravikiran Surana: On behalf of Tata Securities, I would like to thank BHEL management for giving us this opportunity to host this call. Sir, would you like to make any closing comments?

B. Prasada Rao: I think I have covered almost all the points. Your questions have been very exhaustive, so all angles have been covered. We all are putting our hopes on the new government which has come in and their actions and initiatives in the next three months will really give us an indication how these sectors are going to be revived and we are optimistic about it.

Moderator: On behalf of Tata Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.