



“BHEL Q4FY15 Earnings Conference Call”

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MODERATOR: **MR. AMIT MAHAWAR – EDELWEISS SECURITIES LTD**

Moderator: Ladies and gentlemen good day and welcome to the BHEL Q4FY15 earnings conference call hosted by Edelweiss Securities. As a reminder, all participant 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 the 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. Amit Mahawar of Edelweiss Securities. Thank you and over to you sir.

Amit Mahawar: Good evening everybody. On behalf of Edelweiss Securities I welcome you all to BHEL's fourth quarter and fiscal 15 results conference call. We have with us today the management of BHEL represented by Mr. B Prasada Rao, Chairman and Managing Director, Mr. P.K Bajpai, Director of Finance, Mr. Atul Sobti, Director of Power and Mr. Krishna Shankar, Director of Industry. Without further delay, I would like to transfer the call to the management for opening remark post which the floor will be open for a Q&A session. Over to you sir. Thank you.

Prasada Rao: Good evening friends. Mr. Bajpai is yet to join us. In his place we have Mr. Sahni, General Manager and Mr. Vaidyanathan, General Manager (Corporate Finance). Mr. Sobti and Mr. Krishna Shankar are with me. A very warm welcome to all of you. Dear friends, the government has made good progress, putting in place building blocks needed to regain India's growth momentum. Initial steps at improving transparency and as in ease of doing business such as faster environmental clearances, allocation of coal blocks through auctions, improving efficiency of the goods and the labor market are setting up the platform for next up cycle in business. This is visible in the domestic economic activity with the strengthening of IIP and PMI in the Q4FY15. Project monitoring group under the cabinet secretariat has not only cleared more projects but are also making sure they take off. All issues have been resolved in 248 projects worth about Rs. 8.9 trillion with around half of them in coal and power sector as on date. India's coal production has surged by 11% in the first 45 days of 2015-2016. Further many of our projects which are on the slow moving path are seeing movement. We are also seeing a lot of activity on ordering front. Good amount of tenders are under process particularly from central and state sectors. Overall, we are upbeat with the way things are shaping up.

Coming to the operations at BHEL: We commissioned or synchronized 11,941 MW of projects in the year 2014-2015 which includes 10,230 megawatts for utility assets, 1,392 megawatts for the captive industrial assets in the country and about 319 megawatts in overseas markets. With this BHEL had joined the elite club of international companies having installed over 150 GW of power generating equipment. Moreover it is heartening to note that during the first 3 years of the 12th plan, we have added 26,091 MW to country's installed capacity of power generation, more than 25,385 MW added during the entire level plan period. The significant among them include the, first indigenously manufactured 660 MW supercritical thermal set commissioned at NTPC Barh, first indigenously manufactured 800 MW supercritical boiler commissioned at Krishnapatanam and 736 MW of hydro projects commissioned during the year which is the highest of the last 10 years in India. Significantly all the hydro projects commissioned in the last year during the country are commissioned by BHEL. During the year 2014-2015, BHEL secured orders worth about 30,814 crores which is 10% higher than the previous year from its diversified

business segments covering both domestic and international markets. This corresponds to 5,256 MW of projects. Power sector contributed to 24,873 crores, industry sector 6,201 crores and exports at 720 crores to order book.

Despite stiff competition in power sector, BHEL maintained its leadership with market share of 72% second year in succession. We were awarded country's first ever 800 MW EPC order from GSECL Wanakbori. EPC order for country's first 9FB Advanced Class Gas Turbine from KPCL for Yelahanka Combined Cycle Power Project of 370 MW. The second largest single order worth 7,688 crores for 2 x 660 MW Ennore SEZ from TANGEDCO. We also signed MOU with the newly formed Telangana state for 6,000 MW of power projects and received two significant EPC orders from TSGENCO, Telangana for 1 x 800 MW Kothagudem and 4 x 270 MW, that is about 1,080 MW for Manuguru project.

During the year, BHEL has also signed MOU with Hindustan shipyard Limited and Midhani and formed a consortium for P75 I submarines, a stepping stone towards indigenous submarine building program. The company ended the year with an order book of 1,01,018 crores. Looking at the quarter 4 of FY15, turnover for fourth quarter 2014-2015 was 12,955 crores. A 15.8% decrease over that of 15,432 crores in the fourth quarter of 2013-2014. Cumulative turnover of the company up to fourth quarter 2014-2015 is 30,947 crores. Profit before tax for fourth quarter is placed at 1,379 crores, a 48.9% decrease over that achieved in fourth quarter 2013-2014. Cumulative PBT up to fourth quarter 2014-2015 is Rs. 2,140 crores. Profit after tax for fourth quarter is placed at Rs. 888 crores, a 51.8% decrease over that achieved in the fourth quarter of 2013-2014. Cumulative PAT up to fourth quarter 2014-2015 is Rs. 1,419 crores. Thank you all once again for joining this conference call. We will take questions now.

Moderator: Thank you very much sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Renu Baid from Batlivala and Karani Securities. Please go ahead.

Renu Baid: Sir my question, a little more on the book keeping side. If we look at the fourth quarter numbers, we have seen a sharp drop in the staff expenses, about 30% Y-o-Y. Also any exceptional item to that for staff expenses being at 915 crores and simultaneously other income is also relatively lower at just 16 crores. So any exceptional items in both these heads?

Prasada Rao: I will do the overall figures and details will be given by Mr. Vaidyanathan. The employment remuneration expenses have come down by about 500 crores approximately because the staff's numbers also have come down. So at the end of the year, we are 44,908 people vis-à-vis 47,525 people at the end of last year. The other thing you asked about the other income, that I will ask Mr. Vaidyanathan to tell you details.

Renu Baid: Sure. But in staff expenses, reduction is purely because of lower headcount or any other serial kind of benefit?

- Vaidyanathan:** Actually at year end, we transfer some of these two provisions. If you see that, over Q3 the provisions have gone up and the staff cost has reduced and as far as other income is concerned, we had an exchange variation gain of 8 crores for Q3 and in fourth quarter there is 367 crores in exchange variation loss. So that is why the other income has come down.
- Renu Baid:** And also coming back on the staff side. What is the quantum of provision which has been there under others related to staff because of which the staff billing or the expenses in the fourth quarter are substantially lower?
- Vaidyanathan:** Yes, these are all actual related expenses. You must be seeing that the figure of 186 crores there. So these are the expenses which are getting transferred which are on accrual basis.
- Renu Baid:** So probably next year as in, had we just adjusted that then probably it would have been 200 crores higher than the current levels?
- Vaidyanathan:** Yes.
- Renu Baid:** So still it would be lower on a sequential basis because of a lower head count.
- Vaidyanathan:** Yes. It is actually coming down also because of the staff's number reduction and the number of employees to the extent of 2,617.
- Renu Baid:** So then probably which would mean that next year as we look forward, the staff expenses, if inflation is not significantly higher, the staff expenses in financial 2016-2017 should be lower Y-o-Y, am I right?
- Prasada Rao:** Yes that is only a future thing. As you know we do not give any future guidance. So whatever happens happens depending on inflation and depending up on, we will have some new, the recruitment will start because we are seeing an up cycle, particularly at the officers levels, Engineer trainees, we have started taking few numbers. So that also will start adding but then in the experienced manpower, roughly about 2,200 people are retiring every year. Next year also we will have some such figure. So higher numbers will be going out and very small numbers will be coming in. But expensive manpower will be going out and people at the lower level will be coming in. So that also definitely will show its effect on employee expenses.
- Renu Baid:** Sir my second question is on the execution side. As you have been mentioning for the last 2-3 quarters that all the constraints remained, so what is your outlook now that the billing or the pace of execution on the projects especially on recently won orders, should that improve substantially or meaningfully in the next 6-9 months or the headwinds are likely to continue for the current financial year as well?
- Prasada Rao:** For all the stranded projects, the projects are continuing to be in hold nature because the issues are yet to be sorted out. The coal auctions are happening but it has to result in to ultimately project moving forward. But new projects as you rightly said, new orders definitely will have visibility particularly we have accepted deliveries in 24 months and 36 months which is much

lesser than the earlier cycle times and these new orders will definitely find its place in the revenue. To what extent, we will have to look at the project schedules for that.

Renu Baid: And what proportion of the current order book would comprise of these stranded or stuck up projects today? Approximately, in terms of rupees gross?

Prasada Rao: Actually in terms of financial numbers it is about 25,000 crores.

Moderator: Thank you. Our next question is from the line of Venkatesh Balasubramaniam from Citigroup. Please go ahead.

Venkatesh B: The first question what I had was just rechecking what you have already mentioned. You said in the fourth quarter around 186 crores which should have been in staff costs have got transferred to provisions correct?

Prasada Rao: Yes.

Venkatesh B: So the correct way to look at it if I have to do a like to like is, last year staff costs was 5,934 crores, against that it has to 186 crores plus 5,450 crores which you have reported. Correct sir?

Vaidyanathan: No. this is actually the thing which is shifting from staff cost to provisioning. So this is on what we are reporting 5,450 and 5,934 are on like-to-like basis.

Venkatesh B: What is the total provisions in the current year sir? Last year I think it was 2,259 crores.

Vaidyanathan: 1,604.

Venkatesh B: Can you just repeat the breakup of the total order backlog and the order backlog at the end of the year and also segment wise where you won the order, can you just please repeat those numbers?

Prasada Rao: The order outstanding as on 31st March is 1,01,018 crores, so to that Power sector contributes about 85,886 crores, Industry sector is 6,954, International Operations is 8,178.

Venkatesh B: Sir I was actually asking you about the breakup of the order inflows. I think you had 30,814 crores. What is the breakup there?

Prasada Rao: Yes 30,814 is total. 24,873 is Power sector, 6,201 is Industry sector and International Operations is 720 crores. Now you must note that in the industry sector order book, the internal orders, the sectoral orders, the Power sector orders in common with Industry sector is about 980 crores. So when you total up you should remove this 980.

Venkatesh B: Just some flavor on the, what kind of L1 position you are in currently and also how much orders do you expect from Telangana in the current year? I guess there was an expectation that the Nalgonda order will come in the fourth quarter but I guess it has slipped over to the next year

and also we hear news reports that you are the lowest bidder in the NTPC Barethi order. So can you please clarify on these points?

Prasada Rao: So you know all that. So NTPC Barethi, yes we are L1 and also in Bhusawal, MAHAGENCO we are also L1 in that. So yes you have heard rightly and also Telangana, Nalgonda order is shifted to first quarter this year and also Pakal Dul where we have been already placed as L1 is also getting delayed in finalization of the order. Another order was Tuticorin, SCPC power and here also we are placed as L1.

Venkatesh B: So you are expecting all these things to come through in the first quarter sir?

Prasada Rao: We are expecting first quarter and maybe some may go to second quarter also. Like Rourkela also we are the only bidder. 250 MW, 1 x 250 megawatts EPC basis. We are the only sole bidder there and we can with a bit of luck, get that in first quarter also.

Venkatesh B: So in terms of rupees crores, what will be the total L1 position sir?

Prasada Rao: I think that is not right for me to announce it before the order is received. There could be changes in that depending on the scope of work.

Venkatesh B: Sir, some kind of an idea. Not an exact idea. You could actually give us a low-ball number approximately. Is it like 100 billion?

Prasada Rao: That is not right on my part to do that. So let us not talk about the numbers. These are all the orders which are there and you know the configurations. 1 x 250 MW is Rourkela EPC and Barethi is 4 x 660 MW, Bhusawal is 1 x 660 MW, Pakal Dul is 1000 MW. This is a hydro job.

Venkatesh B: What is the kind of market size you are seeing in the current year? Where you think bidding can happen and if you could throw some light in terms of who are the people who are ordering this in the current year?

Prasada Rao: I already mentioned in my initial talk. It is basically the state and public sectors, central and state sectors where most of the projects are coming up except for one or two exceptions which are there. After experiencing a slowdown in the power sector in the last three years, now I am expecting that this year there is a visibility of tenders worth 20,000 MW plus and this will include the Telangana orders also where nomination basis plus tenders inclusive 20,000 MW plus. This is the total market size I am talking about.

Venkatesh B: Now my last and final question sir, this stranded projects which you said of around 250 billion, now this number was similar number at the start of the year also. Now I guess it should be the same number because they have been stranded for the last one year and if you actually see your backlog, your backlog is basically flat on a YoY basis.

Prasada Rao: We had two categories of orders. The stranded projects and the slow moving projects. Last time also I mentioned this to you. Out of this some of the slow moving projects have really started

moving. Like for example Jaypee Bara project and also Lalitpur 3 x 660 MW projects. These projects are now being executed very fast and this year we are expecting commissioning of these two projects. So that way the slow moving projects have become really normal projects and the stranded projects which are held up due to either coal linkage problem or environmental clearance problem or land issue which has to be acquired, they have remained as stranded projects.

Venkatesh B: So you are telling, out of the two categories, stranded remains the same and slow moving has started moving. So technically this year you should do more sales than last year.

Prasada Rao: I am not very sure about that statement because it depends up on, the slow moving are only these two projects basically, Jaypee and Lalitpur as I mentioned. So the new orders which has come now will move at a slow pace in the initial stage.

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

Indrajeet: Hi sir this is Indrajeet here. My question is this continuation of the stranded project, now is there, because the bids were submitted many years back, is there any kind of mobilization that we have done on the side? Is there any cost that we have to bear or the equipment cost would have changed on the ground. So is there any mechanism that we can pass through any incremental cost to these customers as and when these projects start?

Prasada Rao: Definitely all these things we will be discussed once the project starts moving. The point is that the discussions of such issues will be done when the project starts moving. But now it is completely a dead activity. Everybody is waiting for some decisions to happen. Some restructuring to happen or some of the coal linkages to happens. So once that happens, then we will relook at this condition adjusting supply which is already there and how much more we need to repair them or refurbish them and what else is required to be supplied and what is our carrying cost that we have in the inventory which is lying with us on their behalf. So all these things we'll start negotiating with the customers once the project starts moving.

Indrajeet: Are there any cost that we have to bear at this point of time and how that is being accounted? Is it passed through P&L or we are not taking provisions on those costs?

Prasada Rao: No, those costs, whatever costs are being incurred on those projects are passing through P&L but there is no cost being incurred as of now on those projects.

Indrajeet: Second is in terms of, as you said there is 20 GW of projects likely to be ordered including the nomination basis which is a significantly better number compared to last 2-3 years. In some of the recent bids that you have submitted or where you are L1, have you witnessed any early signs of pricing improvement or given that there is decent line up of orders or pricing continues to be fairly tough?

Prasada Rao: Pricing basically depends up on the competition intensity there. So project to project it differs. So I cannot say yes or no to this because some projects there is definitely an improvement, some

projects still continue to be in the same kind of aggressive competition being where many bidders are there. So accordingly as per the market we also play and there are significant number of nomination based orders also as I mentioned. So all this in total has to be better realization.

Indrajeet: Last question is on the Telangana orders. Basically we will now, by the time we get into end of Q1 would have bagged 2 orders. What is the state of preparedness from the state side for these orders to be executed or it will take some time for us to kind of mobilize and start working on it?

Prasada Rao: No, the state is fairly ready to accept executions of these projects. For example this Manuguru and Kothagudem what we have started executing last year and the state is fairly ready and except for small hiccups but that is usually there in any project and even the other project which we are talking of, the Nalgonda Damaracherla, and that also fairly the state is getting ready to, because they are in a need for power. So you understand the state is fully cooperating with us in providing all the inputs necessary.

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

Girish Nair: Firstly I wanted to know what was the quantum of long term trade receivables, this is the deferred debt number as of March ending?

Vaidyanathan: We are around 17,000 crores.

Girish Nair: And secondly I would just want to check what is the reported numbers that you reported today, it was higher than the flash results.

Vaidyanathan: As far as the bottom line is concerned, yes.

Girish Nair: Yes, so what were the key changes there?

Prasada Rao: Basically the material costs what we accounted was approximate figures at that time. Now the exact amounts have come because that result was announced within a day of the year closure. Within 2-3 days of the year closure and that will be approximate. To that extent there will be variation and it was a better figure afterwards, in fact material consumption has remained at 58% which is almost same as last year. So this is the point which I always talk to you people that even when the prices realization is under stress, but then we work back on the cost targets and we try to contain the costs and therefore constantly for the last 3 years we have been able to maintain whatever is the sales realization, the material cost is 58%.

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

Bhavan: Good evening sir, this is Bhavan here. I had two questions. One in which you can help the breakup of the 25,000 crores of stranded projects and name of these projects also would do?

Prasada Rao: The names are definitely there. There is this Surana Power, Monnet Power, then Dainik Bhaskar 2 x 660 MW, then Rajasthan Rajya Vidyut Nigam Limited, Ramgarh combined cycle projects, Maheshwar hydro projects, Abhijeet Chandwa phase1, phase2, then this Indiabulls Rattan India Private Limited, name is changed now. Rattan India Power Limited phase 2, these are some of the projects.

Bhavan: If you can help us with what is the total receivables including the unbilled revenues and how of this is due for greater than 1 year?

26:57 Management The total at gross level is 42,717 receivables.

Prasada Rao: You are asking about stranded projects or you are asking for total?

Bhavan: I was asking for total receivables and of these receivables, how much is due greater than 1 year?

Prasada Rao: 42,717 is the total receivables. Out of that deferred debts is 17,000, more than 1 year.

Bhavan: The last question is again details of the total order backlog of 85,000 crores in the power sector, how much would be EPC and how much would be pure equipment and also if you could help us, would it be fair to assume that the reputed margins on the EPC projects will be lower versus the equipment margin?

Prasada Rao: No, I think I have explained this concept a number of times. If BTG projects are giving you say x% and with same resources if you are taking more jobs, which may give you a delta x percentage, in total $x + \text{delta } x$ is more than x. This question is coming to me every time. We are not adding separate resources for executing EPC projects. EPC projects are also being executed by the same 45,000 people, 44,000 people or so. So it is basically taking EPC projects as two dimensions to us. One is, in the work when it is coming down, it adds to the top line because top line growth is very important and all others are fixed cost for us. Second thing is, it is also a strategy to get orders for our equipment. So therefore we do not look at this in that manner at all.

Bhavan: So out of the 85,000 crores of power order backlog, how much would be EPC?

Prasada Rao: 47% is EPC and balance is BTG. But in the future it will be more of EPC.

Bhavan: Is that a strategic decision or is it more of a change in the market dynamics?

Prasada Rao: It is a strategic decision and therefore we have to also work with the market to see that the market is forced to do this. In fact if we look at 5-6 years back, BHEL had the capacity constraints. We worked with the customers to see that the packages are separated and we worked for getting more of BTG orders. But then when our capacities went up and when we also recruited our manpower, we started working in the reverse. Because in a contracting market, when the number of MW to be finalized every year is coming down, you have to increase your value contribution in the MW, so therefore we started working on total EPC concepts. In fact we have driven the

concept in the market, that EPC basis will have these advantages. So in fact as you said it is both ways. That is why a customer also wanted at the right time and we also wanted to push the EPC concept.

Moderator: Thank you. Our next question is from the line of Akshay Soni from Morgan Stanley. Please go ahead.

Akshay Soni: Just wanted to get a perspective of, one, the submarine bid that you are doing. What would be your part in that if you are to actually getting an order under that? And secondly on the solar side, just wanted to know what the developments are, whether there has been any movement forward?

Prasada Rao: Now on the submarine side we will have contributions in terms of all the equipment which goes inside the submarine including permanent magnet machines, the power systems, the compressors, a whole lot of mechanical equipment which goes inside that and also in the fabrication of the hull itself. We have taken the help of, because shipyard is necessary for hosting that submarine and therefore we have taken the help of Hindustan Shipyard in this and Midhani is required for material sourcing. That is how this combination has evolved and BHEL will have the maximum value addition compared to other two partners in this. Now coming back to solar status, we are doing this year about 100 MW of projects and our manufacturing activity in capacity expansion, the project is under cabinet approval because we applied for 40% capital subsidy under NCFscheme and it has come to a final stage and we expect approval at any point of time. Then we will start immediately the project implementation.

Akshay Soni: I understood sir. So it is still that 2700 crores including the 1000 crores subsidy that you were taking about?

Prasada Rao: That is right.

Akshay Soni: And when would you think that you might have some kind of perspective on, when could you see a decision possibly if you would hazard a guess on the time frame?

Prasada Rao: In another quarter there should be addition on this, could be even earlier than that because it is in the final stages

Moderator: Thank you. Next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

Ashutosh Narkar: Hi sir this is Ashutosh Narkar. Two small questions. One is, if you can throw some light on this 20 GW of order perspective one which you have. Second one is in terms of your receivable of 17,000 crores which comes from stranded or slow moving order. At what time do we start looking at proving for this or you think that there is no hurry to do that as yet and the third one is in terms of your defense orders effectively if you get the order for the submarine. What kind of a margin do we tend to look at? Would we be able to do something like 15%-18% which most other guys are doing?

- Prasada Rao:** Last question first. There is no starting of offer itself. We are already talking on margins on that. So I do not think I can talk about any margin on that product right now. Now coming to this 20 GW market what you are saying, now these are mostly happening in the central and state sectors as I mentioned and roughly about 4,000 MW or so in Telangana and Tuticorin is 525 MW where we are already L1. Bareilly is 4 x 660 MW, that is a NTPC customer. That is again we are L1. Rourkela is 1 x 250 MW where we are the only sole bidder. Pakal Dul hydroelectric project is 1000 MW. Bhusawal is 1 x 660 MW for the MAHAGENCO project. So NTPC Tanda is another 266 MW. Krishnapatanam and Vijayawada in APGENCO will go for 800 MW at each, 2 x 800 MW. The Bahr, stage 1 NTPC which has been awarded earlier to Russians, there is no work progressing which they have tendered out for the balance work to be completed. That will be another job. In terms of MW, of course how much MW we have to take we do not know but the stage 1 is 3 x 660 MW which they have awarded to Russians. There are some other jobs. There is about 600 MW, Hyderabad for the Singareni Collieries 3rd unit. NTPC's Pudimadaka project which is a bigger project which is 4 x 1000 MW. So a number of projects are lined up. On this Udangudi, the project which was cancelled and that is another opportunity that is opening up once again, 2 x 660 MW. So there are roughly like this about 20,000 MW plus.
- Ashutosh Narkar:** And the last question in terms of your receivable cycle of 17,000 crores which is from the slow moving orders.
- Prasada Rao:** 17,000 crores is deferred debts actually. These are not collectables. They are not for stranded projects.
- Moderator:** Thank you. We have the next question from the line of Lokesh Garg from Credit Suisse. Please go ahead.
- Lokesh Garg:** Sir, basically requesting clarification on employee cost number. I know it has been discussed a little before also. What you said was basically at FY14 full year and FY15 full year employee cost numbers are on the same basis.
- Prasada Rao:** That is right.
- Lokesh Garg:** 5,933 and 5,450. So that is roughly about 10% decline. Now even if you take employee decline of 2,000 odd employees, that is about 5% decline. So to that extent obviously we should not be building in per employee cost decline right. So what is happening out here?
- Prasada Rao:** Here the manpower which is going out will be high cost manpower. The manpower which is going to come in will be the entry level. So even though some numbers will be filled in for the wastages, it will not be at the same cost. So in my opinion the employee cost is expected to further go down till the inflation remains the same.
- Lokesh Garg:** Ok this is 5,450 is on the same basis, then 915 should also be on the same basis right?
- Prasada Rao:** What is 915?

Vaidyanathan: 915 is for the quarter. For the quarter as I have already explained, something from Q3, from after Q3 to Q4 on yearend basis we transfer something to provision from personal payments, which is on accrual basis.

Lokesh Garg: Ok and I think other income you have already explained which is a Forex loss of 300 something.

Prasada Rao: Yes.

Moderator: Thank you. Next question is from the line of Abhinav Sharma from HDFC Securities. Please go ahead.

Abhinav Sharma: Sir I have a question on staff related expenses only. When do we start providing for the 7th pay commission?

Prasada Rao: From the day it is due, which is 1st January 2017. So in that year, the year 2016-2017 last quarter onwards we will have to start providing for it.

Abhinav Sharma: Has there been any discussion so far on 7th pay commission?

Prasada Rao: Not yet.

Abhinav Sharma: Would it be fair to assume that next year our employee cost may even be lower than this year's number?

Prasada Rao: We cannot say that right now because I do not want to give any futuristic figures. That is why. I do not know what is the inflation going to be. What kind of DA increases will be there?

Abhinav Sharma: But how many people will be retiring approximately?

Prasada Rao: That I will tell. About 2,200 people are approximately retiring and about 300-400 engineers we will take.

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

Sumit Kishore: My first question is once again on the total trade receivables that you gave us, 42,717 crores. What percentage or what exact crore number is related to the stranded projects that we discussed?

Prasada Rao: I think 3,360 or so is the amount towards stranded projects.

Sumit Kishore: 3,360 crores?

Prasada Rao: Yes.

- Sumit Kishore:** So basically when we say that about Rs. 250 billion is the unexecuted portion of these stranded projects where 3,360 crores has been booked.
- Prasada Rao:** That is right.
- Sumit Kishore:** Sir the second question is on, do you see a pipeline of nuclear power projects that you will get awarded in FY16 and FY17 from, based on indigenous technology as well any project with foreign collaboration and what would be BHEL's role and potential addressable market there?
- Prasada Rao:** Yes, we do see some nuclear projects like Gorakhpur Fatehabad, the 2 x 700 MW. This could be one which can happen and I am not very sure about the foreign technology based things. At the most globally the Areva thing could happen. There is an outside chance but...
- Sumit Kishore:** Sorry. Which one?
- Prasada Rao:** Areva, that Jaitapur one. But I am not very sure. I cannot tell out any guess on that because a lot of issues to be sorted out before that. In fact the supply liability clause is still not very clear to anybody and Jaitapur also public issue is also there. So I am not very sure when it will happen. If at all if any foreign technology thing will happen, other than Russians, only Jaitapur can happen.
- Sumit Kishore:** Kudankulam?
- Prasada Rao:** Other than that, only Jaitapur can happen.
- Sumit Kishore:** Understand and on your balance sheet, your other current liabilities at the end of FY15 have gone down to 9,123 crores from 11,444 crores in FY14. That is mainly on account of lower advances received from customers on the order inflows or is there any other reason as well?
- Prasada Rao:** Yes, lower advances received.
- Sumit Kishore:** Ok and trade receivables are flattish. So basically that remains stable.
- Prasada Rao:** Yes. That is right.
- Moderator:** Thank you. We have the next follow up question from the line of Renu Baid from Bativala and Karani Securities. Please go ahead.
- Renu Baid:** One would be, if you can just share little more details on what is happening on the railway loco factory orders which were, there were talks that they have been coming back for tendering and technical qualifications. So any development which we see in the railway segment of the business again?
- Prasada Rao:** Yes. The railways have come out with proposals for setting up those high speed locomotive factories in Bihar and both the diesel and electric and the bidding can happen at any time. The

bidding date is now getting postponed. Otherwise the original dates they announced was probably June and now it has gone to August. I am expecting that these two projects have got revived and we are trying to bid in both the projects. One with GE, the diesel electric as you already know that we have tied up with GE. The second one we are now partnering with somebody. We are examining the partners and we will be there in both the bids as soon as it happens.

Renu Baid: Any likelihood sir or probably would you like to hazard a guess that can one expect one of these orders to be finalized by the end of the year?

Prasada Rao: Well we are all working with the same hope.

Renu Baid: And sir second, usually the way we discuss for yearend provisions, if you can just share the total value of provision and how was it led across the key 2 or 3 categories and what was the amount added and deducted?

Vaidyanathan: We will give you the break of 1,604 Crores. Contractual obligation is 479, provision for doubtful debts is 496, liquidated damages 443 and others is 186.

Renu Baid: This largely includes the staff portion.

Vaidyanathan: Yes.

Renu Baid: Okay and sir net as in now, any in terms of provisions created for the year. What was the value?

Vaidyanathan: Actually this is the net figure what I told you, created and withdrawn both are there. 3,307 was created and withdrawn was 1,702.

Renu Baid: That is it from my side and just wanted to reconfirm a number which you had answered earlier. The breakup of the current power sector order book in terms of EPC and BTG. The EPC was 47% or 37%?

Vaidyanathan: 47%

Moderator: Thank you. We have the next follow up question from the line of Venkatesh Balasubramaniam from Citigroup. Please go ahead.

Venkatesh B: Sir, couple of data points. Can you tell me what was the interest income in FY15? I think it was 631 crores in FY14.

Vaidyanathan: Just a second. Interest income is 841.

Venkatesh B: What were the advances from the customers in the current year sir?

Vaidyanathan: 1,450 crores.

Venkatesh B: I think this was 14,662 crores last year sir.

Prasada Rao: The advances cannot be that much.

Venkatesh B: Sir in the balance sheet, I am talking about in the balance sheet.

Prasada Rao: That is outstanding I think. Advance outstanding over the year.

Venkatesh B: Yes, I am asking you the outstanding advance year.

Prasada Rao: You want outstanding advance?

Venkatesh B: Yes.

Vaidyanathan: Around 11,000.

Venkatesh B: One last number. What was the capital work in progress sir?

Prasada Rao: 500 crores.

Venkatesh B: Given that you are expecting your staff cost to come down in the current year. Can we expect that?

Prasada Rao: I am not saying that, you are all saying that. Yes.

Venkatesh B: No, if margins remain the same, rather if inflation remains at the same level, staff cost should come down and even if you do normal sales I think this year margin should be improving?

Prasada Rao: I cannot give you any future indication. That is your reduction.

Moderator: Thank you. Next question is from the line of Salil Utagi from Systematix Shares and stocks. Please go ahead.

Salil Utagi: Sir, just wanted to ask how is the ordering scenario in solar PV side?

Krishna Shankar: In this year, chairman has said we are targeting about 100 MW. As on date we have already received orders worth of 51 MW.

Salil Utagi: What would be the value of this?

Krishna Shankar: About 340 plus.

Salil Utagi: Sir who are basically giving these order? Who are these players?

Krishna Shankar: This is the major one obviously NTPC.

Salil Utagi: Any private players or SEBs?

Krishna Shankar: Not in this.

Salil Utagi: Is the scenario improving?

Krishna Shankar: Yes, there are others under way.

Salil Utagi: We have lot of projects coming up from private sector side.

Krishna Shankar: Yes.

Salil Utagi: Are you bidding for that?

Krishna Shankar: We will be bidding. Yes.

Moderator: Thank you. We have the next follow up question from the line of Charanjit Singh from Axis Capital. Please go ahead.

Charanjit Singh: Can you help us with the revenue contribution from transmission and distribution and how do you see that over the next 2-3 years?

Prasada Rao: I am afraid, I do not think I may have the information right now but one thing I can tell you generally the transmission definitely is expanding and even the HVDC projects also, our new project is likely to be finalized this year and otherwise also normally substations wise, the 765 KV and 400 KV substations and there is a lot of activity happening on that. Further Mr. Shankar will add.

Krishna Shankar: I can only give you the transmission business group turnover, which is roughly about 550 crores.

Prasada Rao: No, but that is not all transmission business. It includes a lot of product turnover from Bhopal and Jhansi and electronics division. So I do not have readily all the figures.

Krishna Shankar: So this would be system phase and that would be the product phase.

Charanjit Singh: So of the 6,000 odd crores of order flows in the industry segment, about 500 odd crores is T&D and can it become like a meaningfully...?

Prasada Rao: No, it will be more than 500 crores. In the 6,200, more than 500 crores will be transmission because there are product sales which will be there through our RODs. All the transformer orders are separately booked as products. What Mr. Shankar talked about is the transmission system sales there.

Krishna Shankar: If it is in order book side, it is about 1500 crores.

- Prasada Rao:** Yes, about 1500 crores you can say approximately.
- Charanjit Singh:** And as you highlighted about the HVDC projects coming up, how large can this segment become and what is the contribution of BHEL within the HVDC. Can BHEL now, after the ABB order on a standalone basis go and take orders for the HVDC project?
- Prasada Rao:** No. Still it is not possible because the qualification requirements are still not met. The HVDC control system is a thing which one should manufacture. We do not manufacture that. So we are manufacturing the transformers and some of the basic low level controls but the basic HVDC controls we still do not manufacture. So therefore we need qualification to hold somebody's hands like ABB or Siemens or anybody else. But HVDC projects we have, in a project roughly up to about 40% will be our share.
- Charanjit Singh:** And a related question on T&D. We have seen significant movement towards the gas insulated substation, if you can highlight about BHEL technology preparedness and the market opportunity in this segment?
- Prasada Rao:** Various voltage segments, if we look at GIS, 33 KV we are fully offering and we have a good market share at 33 KV. 145 KV and 400 KV, we have just developed these systems and they are under field trials and as soon as the field trials are over we will be able to market on our own and beyond that, 765 KV we need to develop that. So till then 765 KV we have to move into GIS mode and by the time the market moves to GIS mode, we will be ready with the product.
- Charanjit Singh:** Sir is BHEL doing on a standalone basis through their own R&D or are looking through partners.
- Prasada Rao:** Till now we have done only through our own R&D.
- Moderator:** Thank you. Participants, That was the last question. I will now hand the floor back to the management for any closing comments. Thank you and over to you.
- Prasada Rao:** It is okay. I think I have said everything initially as well as through questions and answers. I do not have anything further to add.
- Moderator:** Thank you sir. Ladies and gentlemen, on behalf of Edelweiss Securities, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.
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