



“BHEL Q2FY13 Results Conference Call”

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

MODERATOR: MR. PRAKASH GAURAV GOEL – ANALYST
ICICI SECURITIES

Moderator

Ladies and gentlemen good day and welcome to the Q2FY13 results conference call of BHEL hosted by ICICI Securities Limited. As a reminder for the duration of this conference, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Prakash Goel of ICICI Securities, thank you and over to you sir.

Prakash Gaurav Goel

On behalf of ICICI Securities, I welcome you all to the conference call of BHEL second quarter FY13. From the management side we have Mr. B. Prasada Rao, Chairman and Managing Director, BHEL, Mr. PK Bajpai, Director (Finance), Mr. W.V.K. Krishna Shankar, Executive Director, Corporate Planning to highlight the performance of this quarter and discuss the outlook of the company. I thank BHEL's management for this opportunity. Firstly, management will highlight the quarter's performance in brief and then we will open the floor for the Q&A, over to you sir.

B. Prasada Rao

I am B.P. Rao, CMD BHEL. With me I have with me Mr. PK Bajpai, Director (Finance), Mr. Krishna Shankar, Executive Director, Corporate Planning and also Mr. Vaidyanathan, General Manager Finance. As you all know, the index of industrial production for August 2012 registered a growth of 2.7% against -0.2% growth recorded in July 12. Manufacturing grew only by about 2.9%. Capital goods grew over 8.8% on m-o-m basis. There have been a string of announcements by the government in the recent month followed by bold policy decisions to give a new lease of life to industry. With reference to power sector, financial restricting of loss making state DISCOMs, with focus on performance incentives is a step in right direction, but we are waiting for its implementation. Coal production and imports have increased in August 2012. Production of capital goods is also expected to grow significantly in the remaining month of 2012-13. In spite of these positives, the power sector continues to witness a dampened sentiment. In general, order finalizations have slowed down even though there are number of tenders in the offing at this point of time. Cash flow problems, law and order situation in certain cases along with certain customers reigning in their implementation pace is putting pressure on the execution front. Even in the industrial business segment, the slowdown in investments in varieties of sectors like cement, paper, metallurgical industries etc. has also dampened the demand for industrial product business both in mechanical and electrical products. Our pace of project execution remains very healthy. In fact unlike many years, the highest ever first half performance in project commissioning, up to second quarter we have done about 3500 MWs of the projects which have been commissions and out of which about 1500 MWs have been synchronized and waiting for a capacity addition due to inputs from the customer. The total orders booked during the second quarter of FY13 was Rs. 3153 crores consisting of Rs 1942 crores of power sector, Rs 1216 crores from industrial sector and balance from exports. In MW terms, the second quarter saw an inflow of 1423 MW of orders. Up to Q2FY13, we have received total orders of Rs 8717 crores amounting to 4393 MWs. In MW terms, the order booking has exceeded the 2011-12 full year booking of 3934 MWs by 11.7%. Major orders booked during the quarter are 2x700 MW Rawatbhata Nuclear Power Station from NPCIL. This includes the turbine generator, the C&I packages for the Turbine Island secondary cycle systems. Order for 44 set of traction electrics for MEMU from railway

board, 220 KV substation at Pusauli from Bihar State Electricity board, auto transformers and shunt reactors in the 765 KV, 400 KV and 220 KV segment from MEIL Cobra, that is the joint venture of Mega engineering and Cobra for UP Transmission and upgradation. With this we have made an entry into highly competitive 765 KV ultra high voltage segment hitherto dominated by foreign players. Generator transformers in the ICTs and shunt reactors in the 765 KV segment from Bajaj Hindustan, Lalitpur, UP. In international operations, we have signed an MoU with the Ministry of Energy and Industry of Kazakhstan for the turnkey execution of 100 MW hydropower plant at Zeravshan river, Kazakhstan. In addition, we also signed a 5-year enterprise framework agreement with M/s Shell for supply of gas turbine packages to select Shell locations in Asia Pacific, Middle East, Central Asia, Eastern Europe and Africa. With these orders BHEL has an order worth of Rs. 1,22,300 crores as of 30th September 2012. About 79% of these are accounted by power sector, 13% are accounted by industry sector and balance 8% are accounted for by international operations. Now in spite of the slowing execution of the projects by power developers, lesser new orders in the power and industrial sectors, in spite of all these the company has managed a growth over the previous year. The turnover of the second quarter 2012-13 is Rs. 19750 crores against Rs. 18189 crores up to second quarter of 2011-12, an 8.6% increase. The growth would have been further higher had this slowdown which is there in the execution projects by power developers, but in some other projects have been normal in the usual manner. The turnover for the second quarter itself was Rs. 11009 crores against Rs. 10758 crores of second quarter of 2011-12, at 2.36% increase. Profit before tax up to second quarter 2012-13 is at Rs. 3123 crores against Rs. 3163 crores up to second quarter of 2011-12. If we recall that the profit of Rs. 3163 crores of second quarter of 2011-12 included an extraordinary income of reduction of leave liability amounting to Rs. 166 crores. Hence against the adjusted PBT of Rs. 2997 crores the current quarter increases 4.2%. Profit before tax for second quarter 2012-13 is at Rs. 1788 crores against Rs. 1981 crores during second quarter of 2011-12. On the similar lines, the adjusted PBT for the quarter would be Rs 1815 crore, indicating a marginal reduction of 1.5%. Profit after tax up to second quarter 2012-13 is placed at Rs. 2195 crores against Rs. 2228 up to second quarter of 2011-12. Again on the same lines after adjusting for leave liability, the growth is 3.8%. The profit after tax for second quarter 2012-13 is placed at Rs. 1274 crores against Rs. 1412 crores during second quarter of 2011-12. On similar lines, the adjusted PAT for the quarter will be Rs. 1300 crores indicating a marginal reduction of around 2%.

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

Moderator

Thank you very much sir. We will now begin with the question and answer session. We have the first question from the line of Aditya Bhartia from CLSA, please go ahead.

Rajesh Panjwani

My first question is if you look segment wise revenue trend, the power business revenues are actually up at a decent cliff, whereas industry division revenues are down over 30% YOY, so what is the discrepancy between the two segments. Is it attributable to certain specific project in the industry and the other thing is how do you see this going forward, does it get resolved in the coming quarters or for both power and industry segments do you see the trend continuing or it getting rectified? And last question is, was there any order cancellation during second

quarter because if we look at the order inflow numbers and the revenue numbers and the order backlog that doesn't seem to tally?

B. Prasada Rao

I understand your questions; I think most of the people have these questions in their minds. First of all, about the power sector and the industrial sector, industry sector has a lot of short cycle orders. I have mentioned in my opening remarks also. The industrial slowdown which is there in the cement and metallurgical and the other industries, has affected the order booking during the year and also execution during the year. Normally, the industrial products like mechanical and electrical products which are motors, transformers, compressors, and valves have lesser cycle times and we turnaround them very fast, so during the year itself we booked orders and executed that. So the content of that has come down this year because new capacities are not getting added in these industries due to slowdown in the industry in general. Second thing you also mentioned, quarter to quarter will not give correct picture because of the long lead times that we have in the power sector projects, so things do get dispatched in the particular quarter they appear in the turnover. So it gets evened out over a period of a year, so you will get the real trends over a year. Definitely the industrial sector is affected because of this phenomenon of short cycle orders not coming as much as we anticipated. The second thing about the order cancellations that you mentioned, there are no order cancellations, whatever order cancellations were there, we have announced last year itself and that was around Rs. 5800 crores or so. The order book already takes in account those order cancellations of last year. So there are some valuation adjustments which have happened due to the exchange rate fluctuations and only that has been affected in the quarter. That is why you see some difference in the figures and they do not tally.

Rajesh Panjwani

The other income has also fallen sharply which I believe is because of the decline in cash balance itself and interest income associated with that. Do you see both the revenue trend which we saw in the second quarter as well as the other income trend to be similar to second quarter going forward?

B. Prasada Rao

The other income is basically the advances which we used to get from the new orders and that used to get invested and used to give us interest. Those kind of cash surplus are not there now and up to now this quarter it is not there. We will have to see as we go along in the next six months what is going to happen for the new orders and therefore the advances in the new orders.

Rajesh Panjwani

The revenue trend?

B. Prasada Rao

Well, I would not like to give any future revenue trend as per the practice of the company but all these constraints are definitely there. The power developers because of the issues from their side relating to getting ready with the balance of plant systems and also their ability to arrange finances are slowing down. In fact our top-line this quarter itself could have been further higher had we were able to dispatch some of the items which are ready in the factories. But for the payments which are not coming from the customers, we are not dispatching those items. There is a trend of slowdown in their execution capabilities; our top-line is affected due to that. We are expecting that there will be some positive trends. At least this is what we have been

told by the customers and we expect if those things are sorted out, it should come back to the previous trends.

Rajesh Panjwani

Sorry to harp on this issue, but it is kind of important. So far as we see the power division revenues that doesn't seem to be a major impact of the trends you spoke about, but would you expect that to be reflected in the coming quarters that power developers themselves are slowing down?

B. Prasada Rao

I told you just now that the top-line could have been further higher had these constraints not been there.

Moderator

The next question is from the line of Amit Sinha from Macquarie, please go ahead.

Indrajeet

A couple of questions, first is if you look at year on year order backlog, which is down from Rs. 1,60,000 crores now down to Rs. 1,22,000 crores, so obviously kind of a significant decline there. Till what time BHEL can hold on to a stable revenue kind of a trend and when do you think that the lower order book will start to reflect in terms of revenues?

B. Prasada Rao

The market trend is still like that. The new order finalizations are not there in the market particularly in the power sector; however I am seeing that about 10,000 to 13,000 MWs tenders are right now on and most of them are in the government sector, both from state and central sectors. Therefore, there is a good chance of at least a large percentage of these things getting finalized this year, with the kind of initiatives which are being taken. In fact during recent PSU heads meet I had with the PM, this point was discussed and he had instructed the Planning Commission to play an integrating role in getting clearances quickly. PM was also concerned about the capacities which are established in the country by the domestic manufacturers for producing this kind of equipment and also the likely effect it will have after 2 to 3 years once the new generation capacities will not come up. Therefore he has expressed his concern and given the task to the Planning Commission Deputy Chairman. And with all these things I am hopeful that there could be a change but then we will have to wait and watch.

Indrajeet

Actually the second question is something related to that you touched about in terms of new order finalization. If I recollect in Q1 you talked about that there could be an indicative or Rs 50,000 odd crores kind of an order in flow this year depending on the orders, which are coming through does that look still a possibility or you might have to work with the much lower number at least for this year and relative to that is there has been talk about CEA further tightening the qualification norms for the new project especially for the EPC ones. Can you throw some light on as to what exactly, any other changes have been recommended by CEA and how does that impact the competitive landscape going ahead especially in this new EPC bids?

Krishna Shankar

About the order booking as such what I mentioned previously also on several occasions is that, in this year, there could be an order finalization of between 10 to 15,000 MW. Now that we are attacking all the orders on EPC basis, so these kind of revenues are possible provided all these orders are finalized. Now, in the first quarter itself about 3000 MW roughly the Rajasthan tender has been retendered. So the whole thing got shifted to third and fourth quarters. So these

kind of things definitely can shock you which is unexpected. So subject to finalization of these orders now which are there in the offing right from this month end to end of next month, there are about 10,000 MW, bids are being submitted and further by December another 4000-5000 MW bids are being asked for. Most of them have the linkages except for the NTPC tender. There is a potential for really getting some orders realized by the end of the year. So if that happen the kind of guideline what we gave earlier is possible to be achieved. Now, second thing about CEA guidelines what you had mentioned. We have been taking up with the CEA about the performance standards, which they have notified earlier for implementation of those standards. In terms of heat rates and efficiencies, which have been notified earlier they have to be implemented. CERC is also coming up with new bidding guidelines. I will be able to present you repercussions of all these things in a better manner once all aspects are very clear to us, but otherwise these are the aspects today. In fact if the performance standards are tightened we are happy with it and we would like such a thing to happen because most of the imported sets as you know are not meeting this kind of requirement. We have been insisting with CEA for this kind of performance standards notification as well as implementation issues, so we will be very happy. Historically for our equipment PLF and the operating availabilities are much higher compared to any other sets, and our sets do produce much more power compared to the other generating sets. So these are all positive factors for us, it will help us only and whatever guidelines are coming they are better for the market.

Amit Sinha Just one more thing on this, correct my understanding that one foreign player can participate only through one company and especially that holds true for Alstom because your technology is based on Alstom and Alstom also has a presence directly so in that kind, is there a conflict here and how would you be qualified into this bids or would...?.

B. Prasada Rao You are talking of a particular case. All of us know about it and that is a peculiar condition, which has been put only in that particular tender and both of us are working out to resolve the situation, and in fact the tender has been postponed twice only because of this.

Moderator Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel Yes sir, good evening. My first question is that historically BHEL used to get some preference in some PSU orders like what we have witnessed in bulk tendering also that you know in spite of whatever bid you place, you are considered to be L1 or L2, just wanted to understand how long this preference is available to BHEL?

B. Prasada Rao It is available only in that tender. Only for that particular tender there was a separate approval which NTPC has taken from the cabinet. Nowhere else BHEL gets any preference.

Ankit Babel So none of the SEB orders in going forward you will get that preference?

B. Prasada Rao No preference.

- Ankit Babel** Second is, how is the power availability in that Trichy plant because we have been reading that there have been some massive power cuts so has it impacted your execution and are we resorting to some alternative measure?
- B. Prasada Rao** First of all, we have our own auxiliary power supply, so we have no issue, but even otherwise also we have taken the matter with the Tamil Nadu Electricity Board and they have given a special exemption to our factories in Tamil Nadu. There is 10% power cut imposed only for the name sake because they need to be in line with the other cuts what they are imposing, but otherwise there is a big cut there, as the industry is closed almost for three days in a week, but BHEL has been exempted from that because their own projects will get affected.
- Ankit Babel** But the same is applicable to your subcontractors also.
- B. Prasada Rao** Well, on subcontractors it is applicable, but they have organized their own auxiliary power. Some of them do suffer with this and they are streamlining the production for the available power. On those days when power is available, they work round the clock.
- Ankit Babel** I was just wondering that you know on account of this, if the cost of production for a subcontractors increase, they will pass it on to you so I was just wondering how you are managing that situation.
- B. Prasada Rao** Ultimately, he has to compete and win the orders like we compete in the market and take the job, they also have to compete and take the job.
- Ankit Babel** Last question is on your receivables and your margins in power segment, first one receivables is that in the first quarter of this year, you had mentioned that your total receivables were around Rs 36,000 crores and this quarter in your balance sheet it is mentioned it is Rs 26,000 crores so has it come down by Rs 10,000 crores sequentially.
- PK Bajpai** It is not Rs 26,000 crores.
- Ankit Babel** Sir, in results which you have declared in the advertisement in the balance sheet it is written that trade receivables at Rs 26,269 crores.
- PK Bajpai** See, there is a classification of current and noncurrent and you have got to add both of them. if You add both of them, then only they would become comparable and. It will be close to what we had last year.
- Ankit Babel** Okay sir, this other noncurrent assets of Rs 10,000 crores has to be added to this trade receivable.
- PK Bajpai** I had to get the actual number.
- Ankit Babel** Okay, your margins in power segment in this quarter have improved a lot to 19%, so it is just one half, or there has been certain.

- PK Bajpai** There has been a component of estimated costs in terms of our imports for super critical components. Suddenly there is a relief in imports and that is getting reflected in power sector.
- Ankit Babel** So, is it just one off or it will sustain sir?
- PK Bajpai** Quarter-to-quarter, you cannot take as guideline because we have long lead products so better you look at it on a year to year basis not on quarter-to-quarter.
- Ankit Babel** Okay, any FOREX losses was there in this quarter.
- PK Bajpai** There was a gain in quarter one, because of the receivables being translation.
- Ankit Babel** Yes that was around Rs 130 to 140 crores.
- PK Bajpai** That has got neutralized in this quarter.
- Ankit Babel** No FOREX loss, because sequentially your other income has declined to a larger extent from Rs 366 crores to Rs 131 crores.
- PK Bajpai** That is predominantly because of the interest component of about Rs 160 crores and what was the gain in first quarter has got neutralized in second quarter in terms of exchange rate translation.
- Moderator** Thank you. The next question is from the line of Venkatesh Balasubramaniam from Citi research, please go ahead.
- V Balasubramaniam** Sir, can you just repeat those numbers for order inflows in this quarter, if I have got it correct, Rs 3153 crores is the inflows part of that Rs 1952 crores is power and Rs 1216 crore is industrial, is there any mistake in that.
- PK Bajpai** There is no mistake, but balance is from exports.
- V Balasubramaniam** Sir, but if I calculate the balance number, it comes as a negative number that is why I am asking. 1952 plus 1216 is more than 3153.
- PK Bajpai** Power sector was Rs 1942 crore, industry sector was Rs 1216 crore, international operations Rs 15 crores, that adds up to Rs 3173 crore. There is an inter-sector adjustment of Rs 20 crores. Total comes to Rs 3153 crores.
- V Balasubramaniam** Sir my second question is we can understand why the other income came down, but why has other operational income fallen so much from Rs 247 crores to Rs 162 crores. Operational income, which is a part of your sales I guess.
- PK Bajpai** No, that is a part of scrap sales and export incentive and there is a decline in export incentives, scrap sale has gone up and these are the major components. Other operational income has only two components. Export incentives are coming down and there is a reason for that.

- V Balasubramaniam** Sir, what are your advances from customers' number at the end of second half?
- PK Bajpai** Tough question, I don't have that number, we will give you later.
- Moderator** Thank you. The next question is from the line of Sumit Kishore from J. P. Morgan, please go ahead.
- Sumit Kishore** As per BHEL presentation, which has been posted on your website, for 12th Plan and beyond above 118 GW of orders have already been awarded, just wanted to get your views, given that 12th Plan side is pegged at around 75 GW, are these orders for the 13th plan, the balance 118 minus 75 and again as of Planning Commission numbers, it appears that 13th plan is also going to be 93 GW of which roughly 65 to 70 GW is going to be coal based, so is a significant portion of 13th plan ordering also behind us.
- B. Prasada Rao** It is like this. Whatever ordering has been done is more than the target what they have announced for the 12th plan, but ordering has been done much more than that prior to even announcing that figure; however looking into the probability of some of the projects not happening, they have put a figure of 78,000 MW as the 12th plan size, but adding the short fall of last plan period, I think they are talking about 89,000 MW - 90,000 MW. So in fact if you look at the 113 GW or so the orders which have been placed, in fact many of the orders are just on paper. So you will have to look carefully at all these orders and see really how much of these orders, which are really taking off in that; 10,000 MW or so which is placed on Chinese supplier by a private company and all that. There is nothing on the ground. So some of these things you have to carefully analyze project by project and see how much are really the orders, which are placed.
- Sumit Kishore** Even the framework orders on the Chinese equipment supplies have been included in this number.
- B. Prasada Rao** Yes that has been included.
- Moderator** Thank you. The next question is from the line of Renu Baid from B&K Securities, please go ahead.
- Renu Baid** My first question is with respect to the balance sheet that we have shown as in the first half, although on the receivable side picture definitely looks better off, but overall working capital seems to have increased especially given the fact that payables have seen a sharp drop, at the same time short-term borrowings has come into the books, so what would be your comment on that given is it because of increased support to the vendors and the suppliers and the incremental working capital loan that we have seen coming on books is now that likely to be a sustainable feature for our books.
- PK Bajpai** In the totality, there is a marginal increase in our working capital and capital employed, predominantly because of rise in inventory as our Chairman mentioned, there has been a slow down, we are required to hold inventory both in WIP and finished goods till we get our receivables positions tightened from our customers. One reason is the inventory which is

impacting my working capital and the another reason is I am not able to get the comfort of advances from the customer as it was available earlier that has impacted both my cash balances and part of working capital from creditor side. So overall impact is about Rs 2000 crores on the working capital, we are focused on it. Things would be better by the end of the year.

Renu Baid

Generally, we have not seen BHEL books having normal short-term borrowings.

PK Bajpai

That is because we want to take arbitrage of interest differential between cheaper borrowing available in PFC and buyers credit as compared to what we earn on the....

Renu Baid

The support to vendors and suppliers will continue with shorter payment cycle for them.

PK Bajpai

Payment cycle is fixed. We have 45 days for our site operation construction, 90 days for the supplies, there is a component of import where we are importing by LC. Lot of imports have come because of the Chinese and Europe slow down. They have become very competitive in supply and there I am required to pay by LCs. They have got their time cycles and we are supporting them. This borrowing is short-term, as soon as we are able to further improve our receivables, this would be sorted out.

Renu Baid

Second would just like some elaboration on BHEL's plan in the transportation sector, recently we have seen apart from DMRC talks about expanding its presence into the metro rail segment as well, the MRTS segment, if Mr. Rao, can just elaborate what has been the key progress in this area and when can we expect this segment kick starting in terms of business for us?

B. Prasada Rao

In the transportation segment, number of efforts are being put by the company and one segment is metro segment. In metro segment we have tied up with Hitachi and both of us have bid together for the DMRC tender. DMRC tender is now being evaluated and we have been aggressive in our bidding and we expect that in another month's time by the end of December probably, we will have a clear picture on who is the winner in this bid. Based on that, we will progress in relationship with Hitachi. Even otherwise, we will go ahead with Hitachi because there are a number of other cities which will go for metro. So metro has been identified as a focused business segment for the company and we are making all efforts to see that this becomes a regular portfolio for us. In addition to that of course, our traditional business with Indian Railways is on the same lines; however, Indian Railways have not gone ahead in the manner in which they were supposed to go for putting up factories and also expanding their locomotives. However, we are expecting that with the current change in the ministry and all that there will be some impetus on that because they need a lot of locomotives and also electrics. And we have also given them newly developed IGBT-based systems both in the EMU segment as well as in the loco segment and this will be another revenue stream for us. This has been a development by us based on the tie-up with the international company and we have been able to position ourselves very competitively in this segment among the established players like Bombardier, Alstom and others. We have been able to get an initial order based on the development. And we are also investing for expansion of the capacities at Jhansi and Bhopal plants for increasing the number of locomotives. Today we are producing say 50 locomotives per year, we are increasing it to 75. In fact, Railways have a plan to shift to complete three phase locomotives and leave out the conventional locomotive to BHEL. And we

are also starting the production of three phase locomotives along with Railways though going by numbers as what Railways will do themselves but we will slowly ramp up the three phase locomotives also and Railways will probably switch to complete three phase locomotives by about 2020 and we will be ready with our capacities by then for the complete capacity to be catering to only three phase locomotives. Railways give us only the conventional locomotives to us and most probably they will stop production in another one or two years' time.

Renu Baid For capacity expansion, Railways loco side, have we earmarked any particular amount in terms of CAPEX dedicated for the segment?

B. Prasada Rao Yes, we have already sanctioned about Rs 200 crores for the 50 locomotives for Jhansi plant and we will be taking it to 75 locomotives per year this year and that will be with another Rs 150 crores and further we will work out.

Renu Baid But any acquisition plans for technology in this space...?

B. Prasada Rao Right now we do not have any opportunities waiting for us in this space. We are on our own.

Moderator Thank you. We have the next question from the line of Lokesh Garg from Kotak Securities. Please go ahead.

Lokesh Garg On the pipeline that you are mentioning just want to ask you what sort of competition are you seeing as to whether this competition is very similar in character to what we faced in bulk tender?

B. Prasada Rao The competition could be in the same fashion. Yes, I do not know what kind of aggressive posture these competitors will take. But otherwise the competition we have to expect it to be in the same manner.

Lokesh Garg Basically apart from BHEL and L&T which are known players now. Who others are you seeing in the bids these days?

B. Prasada Rao There could be BGR, there could be Toshiba with the TG sets. If there is a TG opportunity separately if it is tendered out and there could be opportunities for Bharat Forge-Alstom also to participate.

Lokesh Garg Other question that I wanted to ask you is that you mentioned slower execution by project developers. Now that could be in general slow execution or phenomena wherein they are progressing with the Phase I or one unit and not progressing with their second unit or second phase. So, is that a generic slower execution or is that mostly a phase wise decision making?

B. Prasada Rao There are both actually. First of all, they would like to have revenues coming out of the first units and then invest that. They are having financial problems; arrangement of the finance and also the confidence which they need to give to the financiers in developing the projects and completion of the projects and their ability to generate revenues. So there are both kinds of customers. There are some projects where the general execution is slow and there are projects

where they are going for first unit and there is a bit of slowdown in second unit but that also is progressing but not at the pace at which we normally do.

Lokesh Garg

One question which I wanted to ask, although you had said that we should not look at things on a quarterly basis and you are right there. But a whole lot of sort of flat turnover that we are seeing in this quarter is originating from the industry segment as has been commented earlier. But in 2QFY12 there was a very sharp spike in industry segment execution wherein the 2Q number was roughly double of the 1Q number and possibly on back of some specific deliveries that you made in that quarter. So is that a valid reason for one to at least partially attribute this kind of decline that you have seen in industrials in this quarter?

B. Prasada Rao

No, as I mentioned basically the short-term orders were not there in the market which we used to have normally. There is a constant order flows which will happen without one noticing it in all these industrial products; mechanical and electrical. That is the basic reason actually.

Lokesh Garg

So it is not based on any specific delivery that you made last year which would have spiked up the last year's turnover, as I am trying to sort of

B. Prasada Rao

If you look at the industry turnover as such in our operations has been always between 25 to 30%. That has been our trend. Probably at one point of time the power sector registered very high growth it touched probably 80%, then industry sector has become 20%. But otherwise it has been in that range and I think it is broadly in that range. And this slowdown is only because of this particular segment which is not happening.

Lokesh Garg

Last question from my side, basically the debtors' number I am seeing from 1HFY12 to 1HFY13 basically September to September balance sheet has gone up by about 20% while turnover is sort of up 7% if you look at it on 1H basis. So basically there are delays in payments that you are seeing from all across.

B. Prasada Rao

Yes, that is right. The customers have difficulties in arranging payment. In fact, that is one reason why our top-line as I mentioned in my opening remarks that we have deliberately stopped dispatches for some of the projects to put pressure on the customers to make payments to us and that is the reason. And that has affected the top-line but then I think in the longer-term there is a good step. We are finding that some of the customers have therefore been trying to organize quickly their finances required for our payments.

Moderator

Thank you. The next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Sandeep Tulsian

I would like to ask you regarding the balance of bulk tenders basically the three projects which are remaining, Darlipali, Gajmara and Nabinagar, if you could give this status on each of these projects and by when do you expect to close this project in your order book?

B. Prasada Rao

NTPC has been indicating to us probably Darlipali will be coming by end of December and also Nabinagar they will be able to sort out the land issues there by December. I should take it through a pinch of salt these days because I have seen a number of dates coming and going and

they have not been able to sort out the issues. Gajmara project particularly may need a very high level effort. Now, with the change in the ministry probably I expect the new minister to take up very strongly with the Orissa government for allocation of land to NTPC and maybe that could happen, otherwise we are worried about that project. In fact, even I have decided to go and meet the Orissa Chief Minister for really helping NTPC in this aspect so that we help ourselves, so that is the status today.

Sandeep Tulsian So probably Darlipali we expect to close by end of FY13 but Nabinagar and Gajmara, we are not very sure...?

B. Prasada Rao No, Nabinagar and Darlipali will come earlier. Gajmara will get shifted.

Sandeep Tulsian Secondly, on the exports side, as you know last year we had not received any large orders on the export front and this year we have booked one order close to Rs 1000 crores. So, based on the current pipeline and enquiries what kind of an inflow number do you expect for full year FY13 from exports, excluding the order of Rs 1000 crores which we have already booked?

B. Prasada Rao Normally, I do not give any future indication, however we have a few orders which we are negotiating and they could fructify in the next two quarters. This year performance will be better than last year performance.

Sandeep Tulsian If you could highlight probably which geographies you are targeting in this orders enquiries are from.....

B. Prasada Rao It will be damaging to my company. So let me not say anything on that.

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

Bhavin Chheda This is Bhavin from Enam. One, I missed the order flow numbers for the first half. If you can give us the order flow numbers for the first half?

Krishna Shankar In the first half of the year we have received orders worth Rs 8717 crores. This comprises of power sector about Rs 5739 crores, industry sector is about Rs 2049 crores, and international operations are Rs 975 crores. This adds up to Rs 8763 crores. There is an intersectoral adjustment of Rs 45 crore. So that gives you the balance of Rs 8717 crores.

Bhavin Chheda The second question pertains to the industry sector in particular, captive power segment. Given that the country is reeling under the power shortage and we are seeing most of the industries were impacted by power shortages, are you seeing any increased inventory for people setting up captive power while I understand your order inflow momentum has not been good but specific commentary based on the enquiries what BHEL has been negotiating for now?

B. Prasada Rao No, captives power segment has been generally subdued. As I just mentioned, basically there is an industrial slowdown. There are no new capacities being planned immediately. The power required further also will not be planned. So that is how it is. It is basically subdued today.

- Bhavin Chheda** We are not seeing the enquiry levels also not picking up?
- B. Prasada Rao** Yes, that is right.
- Bhavin Chheda** Lastly, you said something about Electrical segment. I missed out about the maiden order on 765 KV. Could you repeat on that?
- B. Prasada Rao** This is an order from a joint venture of Megha Engineering and Cobra for UP Transmission Upgradation. It involves 400 kV and 220 kV as total package. It is a major order for us in the segment which we have got for the first time after the 765 kV transformer has been developed by us. This as you know is a total in-house development which has been done by us.
- Bhavin Chheda** What would be the value of the orders?
- B. Prasada Rao** It is roughly about Rs 220 crores or so.
- Bhavin Chheda** And the order for the locos which we have got in the 44 sets, what will be the value of those?
- B. Prasada Rao** You can talk to Mr. Shankar. Later he will give you.
- Moderator** Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.
- Pulkit Patni** I have a couple of them. The first is when you spoke about slow moving orders, can you give a sense of what proportion of the order book would you classify as slow moving or where customers are facing problem who are not accepting orders at the moment?
- B. Prasada Rao** There are certain orders I would not like to mention the names. I have not talked to them before mentioning their names, but some of the projects particularly in Hydro segment and in the Thermal and Gas projects also, some are slow moving, particularly, from private sector. They are not able to organize the kind of finances and also they do not have probably some of the clearances what they need. So these are the orders where execution is getting slowed down. However, as I replied to another question, wherever there are multiple units, they are going for implementing the first unit, probably the plan is that they generate revenues from the first unit and then invest in second unit. And in second unit, slow execution is going on but then not to the extent what we would have desired or what would be normal execution period. I would not be able to give you any figure on this.
- Pulkit Patni** My second question is last time you mentioned talking about the Chinese suppliers that in terms of the differential in cost because of imposition of duty would not be very significant but you would get more clarity over a period. Do you have any sort of ballpark number as to what is the kind of differential because of this duty imposition now...?
- B. Prasada Rao** Approximately it will be around 4.7% we get.
- Moderator** Thank you. The next question is from the line of Harshit Vaid from Ambit Capital. Please go ahead.

- Bhargav Buddhadev** This is Bhargav Buddhadev. You highlighted the certain valuation adjustments on account of currency movement in the order backlog. Can you just elaborate on that?
- B. Prasada Rao** The orders which you are asking?
- Bhargav Buddhadev** Yes.
- PK Bajpai** Some of the orders they are in dollars and we translate them depending on the exchange rate prevailing on the date of closure of accounts. Off late, dollar has weakened against rupee. Rupee has appreciated. That has led to some reduction in the orders.
- Bhargav Buddhadev** So this is not the average rate for the quarter but this is the
- PK Bajpai** On the date of finalizing the accounts, 30th September in this case. What you have to do is some depreciation that has happened between 30th June and 30th September.
- Bhargav Buddhadev** Any sense of what could be the share of such orders?
- PK Bajpai** No, I would not have that idea. Domestic orders have some payments, which are in dollars and export orders have.....
- B. Prasada Rao** Even in the domestic orders we have import content. We protect ourselves by quoting the prices in foreign currency. Normally the tender allows for quoting in three currencies and we make use of that so that we insulate ourselves from exchange rate variation through price variation clause. Therefore the valuation adjustment of that is the effect of this.
- Bhargav Buddhadev** And in terms of, you highlighted about 10000 to 15000 MW of new orders coming up for tendering. Is it possible for you to name some of them?
- B. Prasada Rao** Rajasthan tender itself which has been retendered. Then there is Maharashtra which is going for 660 MW set and Neyveli is going for 2x500 MW set, NTPC themselves have 2x660 MW and there are three projects like that and AP is going for 3x500 MW set, these are some of the projects.
- Bhargav Buddhadev** On that customs duty would you still consider Chinese a threat in terms of these orders as well or you think that for these orders Chinese would not be able to compete with you, meaning that even for these orders would there be that import duty impact?
- B. Prasada Rao** Yes. Some of these orders have import duty impact definitely. Only some of them have been exempted. So if you look at the Chinese off late, their participation has been very limited. Not only that our prices have become much more competitive vis-à-vis Chinese; the bulk tender prices you have seen. So I do not think there is any threat from Chinese now.
- Moderator** Thank you. We will take the final question from the line of Ashish Shah from IDFC Securities Limited. Please go ahead.

Ashish Shah Just one clarification. You said that exchange gain benefit that was there in Q1 would have got negated this time. So do you mean to say that the other income reported is net of some kind of an exchange loss and if yes....

PK Bajpai If you look at other income for first quarter you would find that other income was little more. If you look at up to the quarter we had a gain of about Rs 81 crore in the first quarter that has got neutralized roughly.

Ashish Shah That Rs 51 crores gain has got negated in Q2?

PK Bajpai Rs 81 crores of gain in Q1 has got negated in Q2. So up to the quarter you will not find that.

Moderator Thank you. I would now like to hand the conference over to the management for closing comments.

B. Prasada Rao Only one clarification to everybody is that whatever I said about slowdown in the orders it is also there in international segment. For example, in Syria and Yemen, because of the situation in these countries, there is a slowdown of our execution activity. So had that been normal, our top-line would have been much higher. So this is something which I wanted to give as additional information to all the people. But otherwise, thank you very much and we will meet you again in the next quarter.

Moderator Thank you. Over to you, Mr. Goel.

Prakash Gaurav Goel: Thanks a lot sir for giving us this opportunity. Thank you everyone and this call is over now.

B. Prasada Rao Thank you.

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