



“BHEL Q2 FY14 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Bharat Heavy Electricals Limited Q2 FY14 Results Conference Call hosted by Batlivala & Karani Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Renu Baid from Batlivala & Karani Securities. Thank you. And over to you, Ms. Baid.

Renu Baid: Thank you, Mallika. Good evening, everyone. On behalf of B&K Securities I would like to welcome Mr. B.P. Rao – Chairman and Managing Director, BHEL; Mr. P.K. Bajpai – Director, Finance and the senior management of BHEL with us for the 2Q FY14 post results conference call. I would invite Mr. B.P. Rao to begin the discussions with key highlights of the quarter followed by Q&A session. Thank you very much sir. Over to you.

B. Prasada Rao: Thank you. Good evening, friends. First of all, let me apologize for the delay as we have started the conference an hour later. I am B. Prasada Rao – CMD BHEL. With me I have Mr. Bajpai – Director Finance, and Mr. Krishna Shankar – Director, Industrial Systems and Products and the other marketing and finance team with me.

As far as the overall scenario is concerned, the country as you all know, the Infrastructure sector output rose an annual 8% in September, driven by robust performances in coal, electricity and cement sectors, accelerating from the previous month's 3.7%. In September 2013, the sector notched up a growth of 8.3%. IIP also jumped to 2.6% in July, after recording a slump of (-1.8%) last month. Manufacturing sector index jumped 3% against last month slump of (-1.7%). So overall it may be the first sign of recovery. There is also credit growth among industries and this is an encouraging sign. We are seeing improvement in sentiments particularly in the Power sector which I will explain little later, with various initiatives taken by the government in recent months like revival of large stalled projects as cleared by the Cabinet Committee on Investment – Allocation of 14 coal blocks to PSUs; Signing of FSAs; Bailout package for Discoms; and Implementation of price pass-through for coal; Tenders for some 50,000 MW of Power projects are in various stages of finalization. Further, we are seeing a lot of backroom activity taking place in respect of XIIIth plan projects for which ordering is expected to start in FY15. Therefore, I am expecting buoyancy investment and overall activity in the next 6-12 months.

Coming to the operations of BHEL for the second quarter of FY14, pace of project execution remains healthy. Up to second quarter we have commissioned and synchronized around 4,764 MW. And currently, this figure stands at around 6,000 MW. The total orders booked up to Q 2FY14 were 4,470 crores, consisting of 1,700 crores from Power sector and 2,725 crores from industrial sector and balance from exports showing the industry's size of recovery. Major orders in Power sector are from our Spares and Services group. In industry sector, major orders are 7 sets of 90 MW STGs, 4 are at Hazira and 3 at Dahej, with the condensing STG from Reliance Utilities and Power Private Limited. 2X400kV substation at Anikadavu and

Thapagundu from Tamil Nadu Transmission Company. 76X62 super rapid gun mounts for Pipavav Shipyard and 3 frame six gas turbine generators were the BPCL Kochi refinery. With these orders, BHEL order book of 1,02,300 crores as of 30th September 2013. 81% of these are accounted by Power sector; 11% are accounted by industry sector and balance 8% are accounted by international operations.

We also won subsequently after the second quarter is closed 2,569 crores worth steam generator package contract from Neyveli Lignite Corporation for the 2X500 MW Lignite-fired Power project. Significantly, these steam generators will be the highest rating, pulverized lignite-fired steam generators in the country. The order for the 2X500 MW STG package for this project is also expected shortly, there we have been placed L1.

We are also finalizing some of the projects, for example, for the NTPC Unchahar the 500 MW project, the BTG package, all the terms and conditions have been finalized, and it is ready for awarding on BHEL. Similarly, the other projects, the SG package for the 2X800 MW NTPC Darlipali project which have been allotted in the bulk tender, it is ready for now allocation by placing order on BHEL along with the TG package has already tendered. There are other 6 sets of 116 MW for Pranahita Lift Irrigation Scheme and where we are already placed as L1 and this is in A.P. There are another 3 major projects totaling to 2445 MW, we are in the final stages of negotiations with the customers and they are also waiting for some of the clearances. So these projects we are already favorably placed. We are also the lowest bidder in the 206 MW Shahpur Kandi Hydro project for the PSPCL and in the 2X800 MW ESP package for NTPC Lara. We expect the orders for these shortly.

Looking at the financials for the Q2, the turnover for the second quarter '13-14 is Rs.9,316 crores against 11,009 crores during second quarter of the previous year. Up to second quarter the turnover is 50,987 crores against 90,750 crores up to second quarter of last year. The profit before tax for second quarter 2013-14 is placed at Rs.646 crores against Rs.1788 crores during second quarter of 2012-13. With this the PBT up to second quarter is Rs.1350 crores against Rs.3123 crores up to second quarter last year. The profit after tax similarly for second quarter 2013-14 is placed at Rs.456 crores against Rs.1274 crores during second quarter of '12-13. With this PAT up to second quarter is 921 crores against 2195 crores up to second quarter of last year. With the merger of BHPV with BHEL it has now become the 17th manufacture unit of BHEL and has been named as (HPVP) Heavy Pressure Plates and Vessel Plant. The effect of this merger has been considered in the financial results. I thank you all once again for joining this conference call. We will take the questions now.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Venugopal G from Barclays. Please go ahead.

Venugopal G:

Sir, firstly I just wanted to understand in this quarter on the other expense side there has been a substantial increase. What would be the reason for that? And similarly in other income, there has been a substantial increase. Are there any FOREX gains in this quarter?

- P.K. Bajpai:** There is a FOREX gain of about 500 crores in this quarter; 200 crores is because of transaction gain and balance is out of translation. And as far as expenses are concerned there has been some provisioning, and that provisioning is on account of completion of specified period as per our policy.
- Venugopal G:** Secondly, is it possible to give a breakup of the provisioning, I mean something...?
- P.K. Bajpai:** Do you want provisioning region wise or?
- Venugopal G:** Any large item if you could just highlight that?
- P.K. Bajpai:** Large item is out of 500 odd crores, 300 is on account of bad doubtful debt and balance is on account of contractual obligation and LD.
- Venugopal G:** My second question is the amalgamation of Bharat Heavy Plates & Vessels. How do we look at that from a point of view of this quarter? I note that in the notes item you have given 191 crores as the PBT impact for the first six months. Now, what is the impact for this quarter and which line items would we basically be seeing the impact?
- P.K. Bajpai:** BHPV was mainly doing interunit turnover. So the bulk of the job, once it is merged, their interunit turnover get wiped out and what they have done for external customers is a minor amount which gets reflected. So on merger if we remove BHPV we have an impact of about 17 crores on turnover. That is on the top line. As far as on merger they are entitled for certain benefits as per merger scheme and various line items of those benefits are like if the debtors were there and as per our policy they have to be provided for, they are eligible for provision, there are certain entitlements of workers, all that put together they have given us a hit of 191 crores.
- B. Prasada Rao:** To clarify further, the BHPV workers are in a particular level and they have to be brought online with the BHEL policies and BHEL rules and regulations. So for example, actuarial valuations of the terminal benefits will have to be right from the day we have taken over that is in 2008 to till date that has to be valued and provided now. So this 191 crores consist of all that. It is kind of a one-time hit and that is the provision which has been done. That is included in the 191 crores.
- Venugopal G:** So I mean it will be featuring in various line items; some in personal expense, some in other expense, some in raw materials, right?
- B. Prasada Rao:** Yeah, yeah, that is right.
- Venugopal G:** And this 190 crores, is it this quarter impact in terms of how you booked it or is it for the first six months that you have essentially...?
- P.K. Bajpai:** This is based on merger for the six months as the merged balance sheet. Now onwards it is a part of BHEL.

Venugopal G: So specifically for this quarter, is it the same amount, 190 crores for September quarter?

P.K. Bajpai: Yes.

Venugopal G: Is there any PAT level difference or is it the same at the PAT level?

P.K. Bajpai: Their accumulated losses have been absorbed and adjusted in our reserves and surplus, the amount should be little less than 200 crores.

Moderator: Thank you. The next question is from the line of Abhishek Tyagi from CLSA. Please go ahead.

Abhishek Tyagi: Sir, a couple of questions regarding some of the slow moving orders which were there in the backlog, which you had highlighted in the 1Q call as well regarding Surana, Abhijit, Visa, Bajaj, Corporate Power, and Monet. What is the progress regarding this? Have the things improved vis-à-vis the first quarter-end?

B. Prasada Rao: Some of these orders, like Bajaj, started moving and you mentioned, Abhijit, Surana still not moving, they have financial constraints, they are yet to come out of that and Monet and Bajaj are also moving now, already we are executing these projects now in a normal manner, Visa is also still not moving.

Abhishek Tyagi: And second phase of Indiabulls Nasik and Amravati?

B. Prasada Rao: Second phase is still not clear; Indiabulls are still keeping it on hold, they will come back to us on this.

Abhishek Tyagi: And sir, just to be clear on this BHPV merger, so this 191 crores is a one-time impact now. From now on, there would not be any such large impact on the reported financial, is that so?

P.K. Bajpai: Your interpretation is correct.

Abhishek Tyagi: And sir, this Industry Division segment, there is a negative EBIT. So what are the reasons for that actually?

B. Prasada Rao: No, no, actually, what has happened is that the entire BHPV thing has been put on the industry sector segment, probably we should have presented the accounts separately but then if we remove the effect of that it is 11 percentage in industry sector, the segmental results if you look at, maybe that correction into next time when such extraordinary items is presented like this. Since the unit majorly caters to industry segment, but then I think we will deal with it a little bit differently in the actual accounts, it is nothing to do with the industry currently. It is a merger process, it is a one-time extraordinary item coming in like this and maybe we would present it separately...

- Abhishek Tyagi:** There were some media articles regarding BHEL taking legal actions against certain developers for non-payment. So what is the status there?
- B. Prasada Rao:** Please do not ask me questions on some news items appearing in the paper. They may not have any basic. We have taken tough actions against the customers who are not paying us, by suspending supplies, by suspending activity and by taking up with the government, our own ministry is taking up with the customers directly and state government projects are also in that category, state government, central government also it has been taken up very strongly.
- Moderator:** Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.
- Ankit Babel:** My question is on CCI. There has been lot of media reports that CCI has cleared a lot of Power projects. Just wanted to understand has equipment orders pertaining to those projects already placed or they are yet to be placed?
- B. Prasada Rao:** Some are placed on us, already we are executing like Jindal for example, the project execution was getting stalled but otherwise order was already with us. But there are one or two new projects, Tilaiya for example, a new project, it has been cleared. So that ordering will happen. So both kinds of projects are there.
- Ankit Babel:** So other than Jindal, are there any other projects for which BHEL has already bagged the equipment orders and those projects are now cleared by CCI which will be beneficial to you? Basically in a nutshell, I just wanted to understand how BHEL will get benefited with CCI clearing?
- B. Prasada Rao:** Some of the projects like FSA signed for Gehua Power for example, this is something which an order is already with us. So that will get benefited. The Pragyaraj project for example, we are already executing this project, Jaypee, Bara project is being executed by us. And there are some new projects probably for the DVC which is yet to be ordered, they have to yet to go for a tender. DVC Raghunathpur is ordered on us, we are executing the project, FSA was signed on 22nd August. And DB Power which is also another one, which is in the list of clearing and we are already executing this project.
- Ankit Babel:** So do you feel that this CCI clearing so many projects will help you in executing the orders or there are other bottlenecks still left which you believe will become...?
- B. Prasada Rao:** That is a trigger for many of the clearances. These clearances will definitely act in a positive manner for getting other clearance also for them, for example, financial closure. When the project is waiting for FSA fuel linkage, then financial closure can happen quickly and the project can take off. Definitely, there is a movement because of this.
- Ankit Babel:** So would you feel to revise your expectations that more than 10,000 MW worth of projects can be tendered in this year?

- B. Prasada Rao:** We are expecting from now onwards till about March there will be about 15,000 MW tenders could get finalized if everything go well, because all these projects are in kind of a final. About 5,000 MW as I mentioned earlier is already in the final stages and where we are also favorably placed. Another 10,000 MW are getting tendered and roughly about 3,000 MW or so, the tenders, we are submitting this month itself. So therefore I expect by March 10,000 MW could be finalization on that.
- Ankit Babel:** When you talk about finalization, you believe actual orders will also be placed before March or it will only...?
- B. Prasada Rao:** That is right.
- Ankit Babel:** And you are not including any UMPP into this?
- B. Prasada Rao:** No, UMPP is not added in this. UMPP would be in addition if at all it happens. I do not know whether it will happen. For example, Udangudi there are two projects; Ennore, there is a project, there is in Tamil Nadu one more Cheyyur.
- Ankit Babel:** So out of this 25,000 MW, how much you expect to get orders?
- B. Prasada Rao:** Right now it is a very sensitive information. I would not like to talk about anything more.
- Ankit Babel:** And all these orders would be placed on an EPC basis or it would be a...?
- B. Prasada Rao:** Mixture is there for both.
- Moderator:** Thank you. The next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.
- Ashish Shah:** First question, whether there was any significant FOREX impact last year, which we should keep in mind while comparing the results either in other income or in other expenses?
- P.K. Bajpai:** Last year by and large currency was stable. So if there was anything it was minor. So everything in this year as against first quarter there has been an increase. So for the year there are significant changes in exchange rate. So I do not think last year would be very relevant.
- Ashish Shah:** Also if you can dwell a minute on what exactly is the driver for such large FOREX gain?
- P.K. Bajpai:** The driver is that we have significant amount of deferred debts in our overseas projects and they are translated to the exchange rate applicable and all the gains are accounted for as translation gains. Major component is the deferred debts, there are other debts also, they all get translated.
- Ashish Shah:** I just have a request if you can go through the projects for your L1?

- B. Prasada Rao:** I announced one or two projects, but I would not like to talk about all the projects at this time because they are in the stages of evaluation. I mentioned about NTPC project Unchahar, this is being placed on us and the NTPC Darlipali project I said we are already L1 in the bulk tender and it is now getting finalized along with the TG package they have already issued a tender, so we expect that this will get finalized. I mentioned about the A.P. project which is called Pranahita, this is a lift irrigation scheme 6X116 MW. And there are other three projects roughly about 2,500 MW.
- Moderator:** Thank you. The next question is from the line of Sanjeev Panda from Sharekhan. Please go ahead.
- Sanjeev Panda:** Sir, could you please throw some light on the receivable part as last time we discussed that 41,000 crores includes retention money and how much is it this time?
- B. Prasada Rao:** As of September end, the total debtors are 42,668, out of that the collectables are 20,776 crores vis-à-vis the opening balance of 42,295 the collectable and 43,271 crores of total.
- Sanjeev Panda:** Just to confirm, BHPV whatever loss or impact that we took this time, it is not going to be a continuation basis. Basically I am trying to understand how the company is doing and how it is likely to in the profitability?
- B. Prasada Rao:** This is a one-time, I think as explained by Director, Finance earlier. Company is going through modernization process. The entire machinery is being replaced. So it will be an initial year. It will not come up to the level of BHEL units immediately but then we expect that as the economy revives also, the industry segment will revive. Because it caters mostly to the petroleum and oil sector as well as some of the captive power segment. So it will also depend upon the revival of this, otherwise also we are going to make some of the supercritical parts also in this facility.
- Sanjeev Panda:** Basically, going forward will it be accretive to our earnings?
- B. Prasada Rao:** Yes, yes, it will be. That is the factor which has led to this particular unit takeover by BHEL because this is going to add to our facilities; and secondly, it has a port-based facility which we do not have anywhere else. So in future we may even consider taking bigger products there for the final assembly and ship it over the sea to reach to various stations because today we have a problem to transport it either from Haridwar or from Hyderabad, we lose a lot of time and money on this. So all these advantages we are expecting that this unit will bring us.
- Moderator:** Thank you. The next question is from the line of Sumit Kishore from JP Morgan. Please go ahead.
- Sumit Kishore:** My first question is to understand the composition of margins for the quarter better. You mentioned Rs.5 billion of FX gain in the quarter. Is it all part of other income?
- P.K. Bajpai:** Yes, it is.

- Sumit Kishore:** If you could please categorize the one-off hit related to BHPV into how much was in staff cost and how much was in other expenses?
- P.K. Bajpai:** Bulk of it is staff cost.
- Sumit Kishore:** And the provision of 5 billion is of course entirely in other expenses?
- P.K. Bajpai:** Yes.
- Sumit Kishore:** My second question is on the balance sheet. The debtors outstanding for the period exceeding six months as of FY-13 as per your annual report was 116.3 billion. What is the number at the end of 1H FY-14?
- P.K. Bajpai:** Breakup more than six months we do not have. We will give you later.
- Sumit Kishore:** Similarly, if we could also get the breakup of the doubtful trade receivables, which are part of non-current assets. This number was 24 billion as of March 30.
- P.K. Bajpai:** That is also the same.
- Moderator:** Thank you. The next question is from the line of Vaishnavi G from Citigroup. Please go ahead.
- Venkatesh:** This is actually Venkatesh from Citi. The first question is again on that BHPV number. So basically what you are trying to say that there is roughly 208 crores of BHPV numbers which are a part of this 1,612 crores numbers, right, in the staff cost?
- P.K. Bajpai:** About 145 crores you can say is because of BHPV in the total staff cost.
- Venkatesh:** Around 50 crores or so in other expenses?
- P.K. Bajpai:** I have a feeling about 20 crores is some provisions against their debtors and certain excise liabilities and sales tax, it would not be significant.
- Venkatesh:** There is nothing in the raw material cost and the depreciation cost?
- P.K. Bajpai:** Depreciation, they have a net asset of about 4 crores, there would not be any significant. When it is getting merged with the balance sheet of size of 30,000 crores, BHPV assets are almost highly depreciated, there is hardly any depreciation to be made. When we inject a fresh investment as CMD has just now mentioned there will be some depreciation. As of now, they are only a nominal book.
- Venkatesh:** Coming back to that earlier question which some other participant asked about the FOREX gain and also the other expenses, 500 crores FOREX gain basically means that if ex-FOREX gain underlying number in other income is a loss, is it? Because it is only 497 crores. So I cannot reconcile that because other income number is 497 crores and you are saying...

P.K. Bajpai: You are looking at for the quarter I think?

Venkatesh: Yes sir.

P.K. Bajpai: No, no, what we are talking is up to the quarter...

Venkatesh: Can you just give the FOREX gain for the second quarter?

P.K. Bajpai: For the second quarter it is 497 crores, you are right.

Venkatesh: So that is what. I am not understanding. Other income number is 497 crores. If I remove the FOREX gain in this quarter, is there nothing in the other income?

P.K. Bajpai: When I am talking of FOREX gain I was talking for the half yearly which was about 538 and that is where the problem is, and corresponding figure for the second quarter was 496 last year, other recoveries is (-14), so you are right.

Venkatesh: And you also mentioned a list of projects where you are L1 or you are expecting orders shortly. I understand you do not want to list all of them, but is there a possibility if you can give us a total value of orders where you are either the lowest bidder or you are expecting orders shortly?

B. Prasada Rao: Values are more sensitive.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda: What is the commissioning and synchronization target for current year, what your thoughts? 6,000 MW is what you said until October. What it should be for full year?

B. Prasada Rao: 9,300 MW is the whole year target for us as defined by Ministry of Power. This is what is called capacity addition. The synchronization in our scope of work what we have done. Out of that roughly about 50% is capacity added. But the thing is that other systems to be commissioned by other agencies are not ready yet. So the capacity addition will be declared only when they are able to commission their systems, but our portion of work we have completed. So we need to complete another 3,300 MW to achieve the target but we are expecting that we will exceed the target actually.

Pritesh Chheda: I will just confirm the number, this is versus 10,500 MW last year?

B. Prasada Rao: That was 10500 MW all the segmental included. What I gave you the figure is only Power sector. The Industry sector also there will be some more megawatts which will be coming up....

Pritesh Chheda: In addition to this 9,000?

- B. Prasada Rao:** Yeah, in addition to this. But like-to-like if you compare we are almost equal to last year in Power sector.
- Pritesh Chheda:** I am asking this question with respect to the provisions that you make. There is anomalies which come up every quarter. So if this is the number which means the provisioning absolute number vis-à-vis last year should not change?
- B. Prasada Rao:** I do not know. The provisioning depends upon various factors. Commissioning is one event but where provisioning happens as we dispatch items also as per the contract, the billing schedule whatever is there, whenever we dispatch an item that much revenues realized, at the same time there is something which goes into provisioning.
- Pritesh Chheda:** Can you give us the H1 provision numbers vis-à-vis H1 of last year?
- P.K. Bajpai:** H1 provision numbers are 603 last year and this year 1062.
- Pritesh Chheda:** Out of this 1,062 crores, 500 crores in your opinion would have come up in Q2 itself?
- P.K. Bajpai:** Almost, 470.
- Pritesh Chheda:** And this would include provision on contractual obligation, doubtful debtors, liquidated damages, all of those typically what we do?
- P.K. Bajpai:** Yes.
- Pritesh Chheda:** Secondly, I just want to ask in the balance sheet, the other non-current asset reduction of 2,000 crores roughly, what is to do with that, if you could explain that?
- P.K. Bajpai:** Reduction of advances.
- Moderator:** Thank you. The next question is from the line of Girish Nair from BNP Paribas Securities. Please go ahead.
- Girish Nair:** Sir, I just wanted to know two questions; first one is could you give us the number of employees post the BHPV amalgamation in BHEL as of September 30?
- B. Prasada Rao:** 1100 getting added to the number.
- Girish Nair:** So what is the number for BHEL standalone?
- B. Prasada Rao:** At the end of 30th September BHEL standalone number is 46781 and BHPV 1079 gets added. So total today is 47860.
- Girish Nair:** Second question is, last year you had announced a frame contract that you have signed with Shell and there was quite a lot of potential. Have you started receiving orders from Shell? If

not, when do you reckon these will materialize and what could be the opportunity size that you see on an annual basis, what sort of orders can we expect?

B. Prasada Rao: Actually, there is a slowdown in the global economies as you know. But however Shell we are expecting the first order in the last quarter of this year from those MoUs, One 9-E based machine, gas turbine based plant.

Girish Nair: But can you quantify what sort of business you can get from Shell on an annual basis?

B. Prasada Rao: No, it depends on the scope when they give. This is just a rate contract what we have signed but then the scope would differ from project-to-project.

P.K. Bajpai: A clarification, that reduction in non-current assets is because of other assets...

B. Prasada Rao: So the Emkay Global gentleman can make note of this answer.

Moderator: Thank you. The next question is from the line of Sanjeev Z from Kotak Securities. Please go ahead.

Sanjeev Z: I wanted your thoughts regarding the pricing environment because we understand that manufacturers are offering around 5% to 10% discount on main plant equipment. So in view of the upcoming capacities where we would look at bidding, what do you think of the pricing side?

B. Prasada Rao: This cannot be talked in general; it depends on the situation-to-situation because in some tenders the competitive intensity could be higher, in some tenders the competitive intensity could be lower, but definitely competition will dictate the kind of aggressiveness one needs to have in the price. But at the same time the scope of the contract could be different, there are some certain advantages which one will get particularly BHEL side, we have special capabilities, like for example, this Neyveli tender, it is something which only BHEL can do this job. So this kind of competitive advantages are there, technical advantages are there with BHEL and some of the R&M jobs for example, where only BHEL can do this, and if it is a subcritical job again BHEL is the only local company, all these joint ventures which are there they deal with only supercritical sets. So situation-to-situation it differs. So the strategy for pricing will be decided on a case-to-case basis.

Sanjeev Z: Just one more question regarding Tilaiya UMPP, I believe the developer of the project could have placed order with the Chinese companies or this project could come up for bidding for Indian manufacturers as well?

B. Prasada Rao: That was only an MoU which was signed long back by the developer with Chinese, but as far as I know that they have not finalized anything with them, in fact, as you know, CEA has come out with a report on Chinese equipment comparing it to BHEL sets which has clearly brought out the advantages of BHEL sets in terms of heat rate, in terms of auxiliary power, as well as the fuel oil consumption, and this offering has huge advantage to others, if you really quantify

for the 8,800 MW what they have compared the performance in terms of coal plus the fuel savings because of the higher efficiency itself is substantial, it is roughly about 1500-2000 crores annually and this is the kind of advantage one developer will get. So they are looking at these options and in fact we are also discussing with the developer on this.

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

Abhinav Sharma Just to clarify on this other income part, what we are saying is that in this quarter we have had a FOREX gain of around Rs. 500 crores and our net other income say for example from treasury is negative.

P.K. Bajpai Up to the quarter other income is Rs. 1,036 as against Rs. 497 earlier. Increase of 539 is because of increase in interest and dividend income of 12. Exchange variation is 542. Other recoveries are (-14), net is 539 difference vis-à-vis last H1.

Abhinav Sharma On our balance sheet we have seen that our payables have been coming down, but our receivables have not come down. So can you tell us what could be the reason?

B. Prasada Rao: Receivables as you know that we have been saying that very clearly earlier also that there are difficulties, the customers are facing in terms of their financial closures in getting the money released from their financiers based on the progress, they do not have some of these clearances. So that is all creating a problem in terms of slowdown in payment. And in fact this has happened with some of the state government customers also that the cash flows they do not have and that has created a problem. So receivables therefore have gone up. However, in the first 6 months as I have mentioned in the earlier part, there is a reduction from the opening balance. We have been able to contain that and also improve upon that from the opening balance, and as of September there is a 7% decrease in the collectable dues. This is what is the receivables status. Payables of course they depend upon the contract what we have and the kind of execution of the project.

Abhinav Sharma So basically we are not able to leverage our supplier base in terms of increasing payable cycles?

B. Prasada Rao: To the larger extent, it is also done. We have been able to do it, but then the execution megawatt system has come down. So therefore the dues also will be less. Major reason is that. The capacity utilization is coming down so that is why the less orders are being executed so there will not be any suppliers for that.

Moderator Next question is from the line of Akshay Soni from Morgan Stanley. Please go ahead.

Akshay Soni Two questions from my side. I am really sorry to hop on the FOREX and the treasury, but just if I could have the number for this quarter for FOREX gain for Q2?

B. Prasada Rao: Q2, 365 crores.

- Akshay Soni** Second question is on that 5 GW you already said you are fairly well placed, but on the 15 GW pipeline that you were talking about finalizing till March, one, what people are you seeing in competition? And two, what is the level of aggression? So have some players dropped out in terms of bidding, people you were seeing last year not being seen this year or are there some people who you are seeing now, who you were not seeing earlier, Europeans etc., whatever?
- B. Prasada Rao:** First of all I have not seen so much of competition from abroad, let me tell you that, very few, it depends again on case-to-case. And some of these small players are really selecting only some projects they are participating; they are not participating in all the tenders. But whereas BHEL, the capacity wise, whether sub critical or super critical and we have all the capabilities and manufacturing capacity also, so we are not leaving any order which is available for bidding. So therefore it is competitive intensities depending on the situation. Tender-to-tender it is being decided. In fact, we have not seen any Chinese taking any orders in the recent past. In fact, we have seen that we have been able to even beat some of the Chinese players and the previous orders itself they are still executing and that maybe substantial capacities are still to be commissioned by them. Competitive intensity will remain. For example, BGR has not been participating in any of the tenders of late, in fact they have withdrawn the Darlipali project in Odisha, they have withdrawn from the NTPC bid itself. That is how NTPC is going for a rebidding of the project. So this is the scenario right now. And naturally consolidation of the industry will happen as the market is shrinking, and once the market picks up again, probably some of these players will become active whoever is remaining.
- Moderator** Thank you. Next question is from the line of Charanjeet Singh from Axis Capital. Please go ahead.
- Bhavin** This is Bhavin here. From the provisioning number, the number which you said for the current quarter, what was it in the second quarter of fiscal '13?
- P.K. Bajpai** As against 135 of last year, this year it is 661.
- Bhavin** You gave a number of Rs. 470 crores in second quarter current year?
- P.K. Bajpai** For the current year, it should be 661 minus 237.
- Bhavin** How much do you believe this is nonrecurring where there was a report in maybe one of the accounts where you have provided for and now this will not be recurring?
- P.K. Bajpai** No, this is an ongoing phenomenon we will keep providing taking up with the customers, some new projects will get into this position where we have to provide and some will get settled from the past. So this is net impact of incremental provision and withdrawn. It will continue like this. There would be certain provisions, there would be withdrawals. We have provided for certain obligations in 500 MW for NTPC. Those issues will get settled. They will get withdrawn. So it will continue. Net impact would be that some will get provided, some will get withdrawn, and finally customer will settle.

- B. Prasada Rao:** As per the accounting practices abundant precaution, it has to be provided, so it is provided. But then the actual activity when it happens, it gets withdrawn, and maybe some new projects will come in that. By the time, based on the time elapsed, because as per some other policies, after a certain period of time we need to provide for it as per our accounting policy as you know.
- Bhavin** In the last quarter conference call you highlighted some 8000 odd crores of receivables is overdue greater than one year. Is that number steady in this quarter as well?
- P.K. Bajpai** It should be steady because if you look at our collectables from the current billing, our collection rate has improved. So I recon it should be steady.
- Bhavin** One last question on the Transportation segment, can you throw some light on the PPV projects on the railways, diesel and electric locos, when can you expect the bidding to come from?
- B. Prasada Rao:** For diesel right now the RFQs have been called and we expect RMP will be called in about 3 to 4 months' time, and as you know that we are working with GE in this case as earlier also announced by us and only foreign bidders have qualified as you know and Indian parties we associate ourselves with the GE. Electrical thing I do not have any timescale right now. Not yet announced by the railways. So we will have to wait and watch whether this will go through and we have to remember also at the same time that the elections are due in the month of May, before that whether the government will be able to go through this or they would like to do it afterwards, I do not know, but right now the timescale which we gather from Railways is roughly about 3 to 4 months' time.
- Bhavin** Clarification again, 365 crores is foreign exchange gain this quarter?
- P.K. Bajpai** Correct.
- Moderator** Thank you. Next question is from the line of Sachin Maniar from CIMB. Please go ahead.
- Harish Bihani** Harish Bihani from CIMB. My question is again on BHPV. If I look at the turnover in this particular year in first half it is just about 17 crores Vs almost like 243 crores which we had last year and the projection for this year was somewhere around 380 crores. I wanted to understand why it was so low in the first half? That is the first question. And related is since the turnover was low, the staff cost in overall was high and that led to PBT loss. But you had also mentioned in one of the documents that there would be an additional provisioning of almost like 400 crores related to prior period item which does not seem to have come in this particular quarter. So will it come in the next quarter in terms of legal cases or some service tax related stuff, is it going to come in the latter half of the year?
- B. Prasada Rao:** You are talking about BHPV, let me tell you the first point what you mentioned about this 17 crores; 17 crores is the net turnover, but lot of work they do for BHEL units that is not shown

separately as BHPV turnover, it gets cancelled out when we total up for the corporation as you know. The second portion you talked about the...

P.K. Bajpai: Last year it was separate entity, so their turnover was...

B. Prasada Rao: That was as a separate company. So last year all that was shown as that company. But in the consolidation you will see that last year results also it will get netted out. So it is not the right comparison that way.

Harish Bihani All the one time liability related...

P.K. Bajpai All the one time liabilities have been taken care of. There would be no further liability on account of excise, sales tax claims. We have fully provided when we have merged it. So there is no further incremental liability on account of any contingent issues of BHPV. It has been brought at par with BHEL policies of provisioning. Wherever there is a likelihood of liability materializing, we have taken care of and provided.

Harish Bihani On the raw materials, I had missed the first question; there is nothing one time in terms of that RM call which has shot up in this particular quarter?

P.K. Bajpai That is because of the product mix in Power sector. This year turnover mix is such that we have a little extra turnover coming from the Power sector where the costs are higher. Similarly, mix is such that in some of our units like BAP, EDN the PV turnover is higher. So for the quarter material cost has gone up.

Harish Bihani The trend could continue for the remaining...

P.K. Bajpai No, as the turnover of the Power sector picks up in Haridwar, Hyderabad and Trichy it will reverse.

B. Prasada Rao: But overall if you look up compared to last year the same time and now, there is more than 1% saving in the materials.

Moderator Ladies and gentlemen, due to paucity of time, that was the last question. I now hand over the conference over to Ms. Renu Baid for her closing comments.

Renu Baid Thank you everyone for making yourself available for this call this late in the evening especially the management of BHEL, Mr. B.P. Rao, Mr. Bajpai and everyone for giving us the opportunity to host the call as well as being present. Mr. Rao, would you like to make any closing comments, you are most welcome and then we will close the call?

B. Prasada Rao I only want to apologize once again for the postponement of the call and make you wait and I am sorry about that because of our occupancies we were unable to do it. But otherwise, I think, we have told you all the facts and figures and our impressions about the market situations which is likely to be in the near future. Thank you.

Renu Baid All the best and thank you so much, hopefully next year we see the markets turning around for power equipment. Thank you very much sir, thank you everyone.

Moderator Thank you very much. Ladies and gentlemen, on behalf of Batlivala & Karani Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.
