



“BHEL Q2FY15 Results Conference Call”

November 14, 2014

MANAGEMENT: **MR. B. PRASADA RAO – CMD**
MR. P. K. BAJPAI – DIRECTOR (FINANCE)
MR. KRISHNA SHANKAR – DIRECTOR (IS&P)
MR. ATUL SOBTI – DIRECTOR (POWER)
BHARAT HEAVY ELECTRICALS LIMITED

MODERATOR: **MR. SATISH KUMAR – DIRECTOR**
STANDARD CHARTERED SECURITIES



Moderator: Ladies and gentlemen, good day and welcome to the BHEL Q2FY15 results conference call hosted by Standard Chartered Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, 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. Satish Kumar from Standard Chartered Securities. Thank you and over to you.

Satish Kumar: Hi, good evening everyone. On behalf of Standard Chartered Securities, we welcome you all to the 2Q post results conference call of BHEL. From the management team, we have with us Mr. B. P. Rao – Chairman & Managing Director; Mr. P. K. Bajpai – Director, Finance; Mr. Krishna Shankar – Director, Industrials; Mr. Atul Sobti – Director, Power. After the opening remarks from the management, we will have a Q&A session. I will now hand over floor to Mr. Rao for his opening remarks.

B. P. Rao: Well, thank you Mr. Satish. Good evening friends. I am B. P. Rao, CMD, BHEL. With me I have Mr. P. K. Bajpai – Director, Finance; Mr. WVK Krishna Shankar – Director, Industrial Systems & Products; Mr. Atul Sobti – Director, Power and other senior executives from marketing and finance functions. A very warm welcome to all of you.

Dear friends, after two years of sluggish growth, the Indian economy seems to be getting back on track, with GDP growth projected to touch 5.5-6.0 per cent this fiscal from below 5 per cent in the previous two years. We are seeing some momentum in industrial activity in recent months.

As per CMIE, new investment announcement during the quarter ended September 2014 at Rs 2.5 trillion recorded a growth of 125 per cent over its year ago level. It is the highest investment value recorded in the past nine quarters. 538 new projects were announced. Power sector attracted the highest investment followed by the transport, infrastructure & services sector. 84 new power projects with investments worth Rs. 1.1 trillion were announced. On the ground also, ~~lot~~ many tenders and orders are getting in shape. Private sector is showing renewed interest as evident from new projects, consolidation activity and traction in outstanding payments. With digitization, clearances of projects are picking the pace. Ministry of Environment, Forests & Climate Change has issued a circular delinking grant of environment clearance from prerequisite of complete land acquisition. This would help taking off of infrastructure projects. Now, there is a visibility in resolution of coal issues.

Overall, we are upbeat with the emerging scenario. Nevertheless, capital goods manufacturing being late-cycle business will see some visible improvement only after few quarters.



Coming to operations of BHEL, we have done capacity addition of 1167 MW in utility segment and 631 MW in captive segment up to Sept 2014. Another 2103 MW has been synchronized, awaiting inputs from customers.

Total orders booked up to second quarter stands at Rs 14,078 crore vis-à-vis Rs 4470 crore last year. It consists of Rs 12,111 crore from Power sector, Rs 2,248 crore from Industry Sector and balance from exports. This corresponds to 2,215.5 MW of power projects and 95.5 MW in industry sector.

Major orders received in power sector include: India's first ever EPC contract for 1x800 MW rating Supercritical Power Project from Gujarat State Electricity Corporation Ltd at Wanakbori for Rs 3,536 crore; 2x660 MW coal-fired supercritical thermal power project at Ennore SEZ from TANGEDCO on EPC basis worth Rs.7,800 crore won by BHEL against International Competitive Bidding; In industry sector, major orders received are: 20 MW Grid connected Solar PV plant at Manamunda site on EPC basis from Green Energy Development Corporation of Odisha Ltd; 10 MW SPV power plant each on EPC basis from KPCL & NLC; 3 MW Grid connected solar power plant each from DNHPDCL, OPCL; 30 MW STG for Emami & 18 MW STG for Wonder Cement; Orders for Transformers of various ratings from Gujarat Energy Transmission Corporation, CLW, RRVPNL, UPRVUNL; 400 kV Substation Extn pkg including supply of Shunt Reactors from PGCIL.

With these orders, BHEL has an order book of Rs.1,03,700 crore as on 30th Sept 2014. 85% of these are accounted for by Power Sector, 7.5% are accounted by Industry Sector and International Operations each.

Additionally, in view of current coal situation in the country, BHEL has developed new fuel flexible supercritical boilers which can operate and maintain steam generation in the extreme cases of 100% specified Indian coal as well as 100% specified imported coal. This design will ensure continuous running of the Unit at rated capacity for different types of Indian or imported coal either individually or in combination. This has substantially enhanced competitive edge of BHEL particularly in Indian market.

Looking at Q2FY15 financial results: Turnover upto 2nd Qtr 2014-15 is Rs 11,597 crore, against Rs 15,987 crore during first half of 2013-14. Profit before Tax up to 2nd Qtr. 2014-15 is placed at Rs 455 crore against Rs 1315 crore during 2nd Qtr. of 2013-14. Profit after Tax up to 2nd Qtr. 2014-15 is placed at Rs 318 crore, against Rs 921 crore during 2nd Qtr. of 2013-14.

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

Moderator:

Thank you very much sir. We will now begin the question and answer session. We have the first question from the line of Sumit Kishore from JP Morgan. Please go ahead.



Sumit Kishore: Sir my first question is on the order opportunities on the anvil for you for the balance two quarters of FY15 and also in case you have started forming some sort of an outlook for FY16 as well on order inflows for BTG and EPC. Could you just please share them?

B. P. Rao: I would not like to give any future indications of the company as such, but I will still give you what is happening in the market. Now for the first half as you have seen, almost about nearly 5,000 MW have been finalized. I have mentioned in my first quarter teleconference call about tenders for 15,000 MW which are likely to happen during the entire year and I stick to that and I am seeing there are number of tenders which are in advance stages of finalization. So all this will amount to about 15,000 MW. In addition to the orders what we are likely to get on almost on one-to-one basis from states like Telangana or Andhra or Karnataka or some other states, we have been working with them. So this will be the total market about 15,000 MW. But this 15,000 MW is total market size this year.

Sumit Kishore: Any specific projects that are on the anvil that are in the stage of tendering that you can disclose at this point?

B. P. Rao: Some of the projects, we are already placed lowest like Pakaldul hydroelectric project for the electromechanical equipment with Patel Engineering being the main supplier. This is a 1,000 MW project. We are already placed as L1 on that. The order is yet to be released. It is under clearance by the Environment Ministry and once that is done, J&K government has recently accorded tax exemption also for this project. So with all these things, ordering for project is expected to happen at any time now and there are other projects like you all know that Udangudi in Tamil Nadu. This information is in the public domain that we are L1 in Udangudi and which is similar project like Ennore and we have received the letter of intent for Tuticorin, it is a 1 x 525 MW, but we are yet to get the order. So we are just waiting for that. It is only formality which is pending and the verdict of Tamil Nadu Regulatory Commission is awaited by them for some dispute for the power purchase agreement with TNRC. So otherwise, these orders are almost finalized, but then it is a matter of time to get into our fold. So there are other orders which are like tenders going to happen like NTPC tenders. You know that Khargone and Barethi, they are the two NTPC major tenders which are to happen and MAHAGENCO Bhusawal is likely to happen as a tender. Other than that, we are working with Telangana for about 6,000 MW project and here again substantial portion of that should come this year on a one-to-one basis.

Sumit Kishore: And secondly on the overall receivable position that is there as of September quarter. Could you please comment on it and how it has moved for receivables beyond one year and so on?

B. P. Rao: I will just request Director Finance to respond to this.

P. K. Bajpai: This marginal decline in our receivables as you can see in our quarterly results from a level of 39,952, it has come down to 36,629 and we are optimistic to sort out some of those deferred items. This year, we are targeting a substantial portion out of opening balance.



- B. P. Rao:** In fact we are seeing positive momentum in payments, in fact some of the customers like Jaiprakash Associates and Lalitpur power projects, we have received our payments and therefore we have started work on these projects otherwise were on hold. So there is some traction in these projects getting through and we hope that this trend will continue.
- Sumit Kishore:** And sir very last question. In the annual report of Power Grid, the total provisions net had increased from 1,565 crores to 2,258 crores. In that, there was others provision which had increased from 47 crores to 873 crores. What is this sharp increase in other provisions?
- B. P. Rao:** You are talking of Power Grid you said?
- Sumit Kishore:** Sorry, I said BHEL.
- B. P. Rao:** We would not have this figure handy available with us.
- Sumit Kishore:** So there is a sharp increase in other provisions which is not coming out clearly from the annual report.
- B. P. Rao:** We do not have that figure.
- Moderator:** Thank you. We have the next question from the line of Mayur Patel from DSP Blackrock. Please go ahead.
- Mayur Patel:** You have been giving a good amount of visibility for this year's ordering overall market of 15,000 MW. I have two questions. First on, can you give us some indication of what is your expectation of the market in FY16?
- B. P. Rao:** No, it only should increase from here. Once this coal issues are going to be sorted out which we are seeing that from December onwards, this auction process will start and by February they will complete that. Even if it extends up to March, next year onwards it only should improve and already there is a realization that power generation has to happen, otherwise Make in India and all these things will not happen. Particularly, manufacturing focus of the country needs more power. It is not like information technology earlier which has bailed the country out for the GDP growth and now it is going to depend more on manufacturing and which needs power. So we are seeing that there are lot of projects which are on the planning stage and all that will start happening once there is a confidence that yes, there is a fuel linkage. In fact I have been hearing Minister for Power stating that in another 2-3 years' time, you must reach a position of exporting coal to other countries. So that means they have plans for really putting Coal India into a traction mode where the production has to go up in coal and our own initiatives also at this point of time that by providing a flexibility in boilers that they can use in fact any kind of coal in any mix like imported versus indigenized should provide the kind of flexibility for the customers so they can now plan a project without getting so much worried about whether they get indigenous coal or imported coal. So these kind of initiatives will definitely push everything forward and we expect that the power sector will further improve.



- Mayur Patel:** Sir, but there was Mr. Piyush Goyal attended one of the investor conferences recently and he made very clear and specific statements. I will just mention maybe it would be interesting to take your comments on that like he said that there is no need of big bang capacity addition in generation. We can fix the current problems, these may not be the exact words, but this is what I understand. We can fix the problems in the power sector and increase the power supply by 50% over next 2-3 years' time or say 3-4 years' time by fixing the fuel supply problem and the T&D side constraints.
- B. P. Rao:** Probably, he was referring to the capacities which are available today, not getting used because of the coal shortage and those things will get used, but that much power is available but then the country needs more power than that. So I do not believe that capacity addition will not happen. It may not ~~be~~ reach into the earlier levels of 30,000 MW a year, but then it will slowly inch up to that in another 3-4 years' time. So suppose this year if it is 15,000 MW market, that can slowly inch up in about 3-4 years time, it can double. My take is power is required and yes, there are issues which need to be sorted out. If the distribution company issues are also sorted out, it will definitely give fillip to power sector.
- Mayur Patel:** So given this background and your such a bullish view on the capacity additions, so is it fair to assume, you think that the UMPPs would pick up in a big way or next say 2 years time?
- B. P. Rao:** I am not very sure about UMPP model as such because the bidding conditions have changed. The standard bidding documents have been issued. There are issues in that which the conditions of handing the assets back to the state in which the power plant is coming up and all these issues need debate. And you know that recently all the private sector power producers have announced that they are not going to bid for it. So there are issues in that. I do not know that model will come, but then how power will come. Power is needed. See otherwise, we can forget about the growth of 7-8% for the country. Either we have to compromise on that and then compromise on various other issues. But I am seeing the government is working towards that. They want "Make in India" more, manufacturing contributions, GDP more and all this cannot happen without power.
- Moderator:** Thank you. We have next question from the line of Venugopal Garre from Barclays. Please go ahead.
- Venugopal Garre:** I just wanted to know, I think follow-up on the same questions on the order opportunity over the next few years. At this juncture, we all understand private sector balance sheets have issue, I think we all can see that. States in general have balance sheet issues. So in that perspective, since we have a very good balance sheet, do we see opportunities where we could actually invest in some of these power plants going forward? Is that a thought process? More so if you look at this UMPP, all the private players pulled lot of the UMPP because of course lot of procedural issues, pretty large project etc. So what is your thought process in terms of investing in these plants along with some of these companies in the initial stage and may be exiting after 5-6 years.



B. P. Rao: See, we have already announced a stated strategy of the company that we have been taking equity to the extent of 26% in some of the projects if that leverages to get orders for the company. We have done that in Karnataka and that project as you all know that it is going on, already 2 x 800 MW project is going on. One more project of 1 x 800, already it is signed but then it is yet to take off. We expect that also to take off now. And therefore this model is working. We have proposed this to many other states, in fact to Andhra, to state of Pondicherry, to state of Gujarat, to state of Uttar Pradesh. So we have suggested, in fact seriously they are working on the proposals. In fact in the past we offered, but then nothing much happened in last 2-3 years but then again there is a renewed interest in this. So yes, BHEL is investing to the extent that it leverages the business for the main power plant equipment for us, but not for just simply for power generation in competition to NTPC as somebody else. We do not want to become competitors to our own customers in that sense. Our core strength is engineering and manufacturing. So we will be there, but then to the extent required to leverage that business, to aid that business; yes, we look at investing to partly in this.

Venugopal Garre: Great sir. Sir secondly if you could also outline the opportunity that you are seeing in the industrial division more specifically CPPs, T&D as well as the rail side of things?

B. P. Rao: Here again, in Railways particularly, we are very happy that performing minister has come there and with that, we expect that lot of things which are pending in railways for long time will start happening and Railways will start investing. They are modernizing the railways. They are going to introduce the high speed rails. They all had these plans for years now and they will now start taking shape as per our expectations. You know that we have signed an MoU with Railways for a factory at Bhilwara for producing the EMUs and all these were almost at standstill because decisions were not coming forward. And now we expect that all these things will revive. So transportation is something in which we have touched the lowest now. The only way is to go up from here and with the initiatives of new minister, we have had already an initial talk with the honorable minister and there are lot of opportunities in this and coupled with that the government's focus on Make In India will definitely provide good opportunity for companies like ours in this. Now coming to transmission & distribution, yes, investments continue to happen in transmission distribution. As the honorable Power Minister said that he needs to sort out the T&D losses and to reduce that and improve the transmission infrastructure. In fact today many of the power stations, their inability to transfer power, for example, between the Southern India and Northern India, the grid capacity is not enough even though they are connected with the 760 KV substation at Raichur and that capacity is still limited. There is a lot of potential where South India needs power from the Northern Indian power stations. So these networks will also be strengthened. There are number of HVDC projects, high voltage DC transmission for links that are also being contemplated by Power Grid and all these will provide business opportunities for companies like ours.

Venugopal Garre: And sir captive power, CPPs?

B. P. Rao: Captive power for some time remain muted because we are not seeing many projects coming up in the near future because industry does not have surplus capital to invest. And secondly, the coal



issue is still uncertain there. We are not clear how this particular segment will be served with their requirements of coal. So unless there is clarity on that, the investments will not happen. So we expect that for few quarters, probably they will be subdued.

Moderator: Thank you. We have the next question from the line of Renu Baid from B&K Securities. Please go ahead.

Renu Baid: Sir, first I wanted to mention and appreciate that your current year's annual report has been very detailed and elaborate. Especially I think there has been some change in terms of a) you have spoken and discussed about industry and company. So would just like to appreciate the management for incorporating and improving the quality there.

B. P. Rao: Thank you.

Renu Baid: And sir now coming back to results. First half despite lot of headwinds, execution has still been weak. So what is your outlook that okay first half has been relatively weaker and we already see that at least in short term, there could be some hiccups because of the coal reallocation issues happening. So what is your view? Would you think that execution on projects will improve and we will be able to meaningfully cap the decline in sales for current year? So what is your outlook there?

B. P. Rao: The projects which are stuck particularly due to the cancellation of coal blocks and unless the coal blocks are reallocated, I do not think those projects will really take off. There are projects in that which have been at 10% completion stage or even up to about 90% completion stage. They are ~~in~~ at the verge of completion, but they got halted because of these issues & uncertainties. Now I am not very sure that till there is clarity on this coal block allocations, whether they will restart. Some people will restart definitely who have a long-term outlook, but many of the people I am not finding particularly in the private sector, they are not starting those projects till they have reasonable-assurance that yes, they are going to get particular amount of coal.

Renu Baid: Sir what would be the proportion of these orders in our current order book. Earlier you had mentioned approximately 12,000 crores worth of orders are slow moving or which have been affected because of x number of clearances.

B. P. Rao: The same number is still there. They are the projects which are slow moving and they are still slow moving. Out of that, 1 or 2 projects have come out of it like Jaiprakash Associates and Lalitpur Power as I mentioned earlier that this is roughly about 3,000 MW or so which has come out of that slow list. But then, the coal block cancellations if you look at, total 214 coal blocks and about 89 coal blocks correspond to power in that and in that, roughly about 10,000 MW we have already commissioned that. The projects which are linked to about 20 coal blocks and another 14 blocks are there. BHEL is associated in 42 coal blocks which are cancelled out of the 89 blocks and of these 42, about 20 blocks, about 10,000 MW we have already completed, but the projects have been already there and they are affected because of the coal linkage problem. So there are another 14 blocks where we are under execution which is about almost 15,000 MW



and this is in various stages of completion. So some have been completed almost 90%, some have been completed in the middle, some are probably in the beginning and these things like that. So that is the figure which I told you in the 12,000 MW. Now out of the 14,088 MW, the JP and Lalitpur has come out. So the balance 8 blocks is about 12,000 MW where they were in ordering stage. So they are affected because of clarity issue. So that is the picture on this. So there will be execution issues going forward. At least a few projects like this we expect them to come off. There are issues which are not linked to coal block allocation itself. There are issues of the environmental clearances, consent to operate somewhere customer has not got or somewhere the financing issues or there where the lending issues. So these issues are also getting sorted out at the same time and those projects will start moving. So we expect though on hold, issues of execution will still continue, but then we will have to see, wait and watch.

Renu Baid: But in your view, the best case may be it might next 9 months or maybe next 12 months, the entire slow moving order should be addressed or probably it could take slightly longer time?

B. P. Rao: Yes, it should be less than 9 months. I feel by end of this financial year, we should have clarity on this.

Renu Baid: So beginning next year, probably things will get back to normalized operations?

B. P. Rao: I expect so.

Renu Baid: And also sir, if broadly we look at from a margin and growth perspective there have been constraints, but we did see an impact in terms of our gross margins also coming under pressure in this current quarter. So was it purely because of the execution mix or probably EPC projects are affecting the gross margin mix also here?

B. P. Rao: It is basically volume only. See if you look at the material cost even, the material cost there is a more than 1.5% savings compared to last year. So we have been able to control effectively all the costs. The manpower cost which is there which is we will have to continue, but the manpower has also come down by almost 1500 people in the first 6 months of this year itself and we have not added anybody in that period. So that is where we are trying to keep the cost under control and the gross margin squeeze is only because of the top-line, that is the volume growth.

Renu Baid: And just an elaboration if Mr. Bajpai can help. In the others segment, what was the status of provisions, any write backs or net increase if you can just share this number?

P. K. Bajpai: There is a decrease of about 103 crores in other segment vis-à-vis last quarter.

Renu Baid: Okay, 103 crores in decline in provisions?

P. K. Bajpai: The other provisions, others, there is a decrease. Overall provisions have reduced in this quarter and I think, others should be about major contributor in reduction.

B. P. Rao: Which is 90 crores is provision reduction.



- Renu Baid:** Sir can you just share those details in terms of opening provisions, opening balance what was added and what was provided and then..
- P. K. Bajpai:** I do have number if you are interested.
- Renu Baid:** Yes definitely. That is helpful if you can share those details.
- P. K. Bajpai:** Provisions which have added are 605 crores. Do you want a breakup of this or a gross number is adequate.
- Renu Baid:** The breakup, LDs or the contractual obligation.
- P. K. Bajpai:** LD is 83 added, Contractual obligation is 294 added and doubtful debt is 164, rest is others. Similarly, withdrawn is doubtful debts 181, contractual obligation 199, LD is 54, rest others, net impact is 10 crores.
- Renu Baid:** In other income, we did see some decline. So apart from the fact that interest income would have been lower, was there any FOREX element or absence of FOREX element which resulted in the declining other income.
- P. K. Bajpai:** Other income has in fact increased in terms of interest income by 151 crores, but there is a steep decline in exchange variation.
- Renu Baid:** Okay. So this 151 crores increase is on YoY basis?
- P. K. Bajpai:** No, Q2-to-Q2.
- Renu Baid:** Yes, as of last year 2Q and current year 2Q?
- P. K. Bajpai:** Current year Q2, right.
- Renu Baid:** Okay because first quarter, we had a FOREX gain of 51 crores, 1Q 2015. So for the first half FOREX gain, what is the number?
- P. K. Bajpai:** (-27)
- Renu Baid:** So there was a FOREX loss of 27 then.
- P. K. Bajpai:** That is why I told you there is an interest income gain, there is a loss in exchange variation. That is why you said other income seems to be coming down.
- Moderator:** Thank you. We have the next question from the line of Venkatesh Balasubramaniam from Citi Group. Please go ahead.



- Venkatesh B:** My question is regarding your Ennore SEZ project. Now if you actually compare that one with the North Karanpura project, both are EPC projects but it seems like the Ennore SEZ project has a realization per megawatt of 5.9 crore which is 50% higher than that of the North Karanpura project? What is so special about the Ennore SEZ project is my first question sir?
- B. P. Rao:** See, it is like this. It is not a like-to-like comparison. First of all, taxes are included in this Ennore project. Not only that, other than this taxes and these things, the scope is also different. See the coal handling plant, the length of the coal handling plant will be different from project to project there. So similarly the structural could be different. So this is not one-to-one. You see that the plant is coming up on ash pond, piling is required, so this will costs more there, so it is not one-to-one comparison.
- Venkatesh B:** Sir you mentioned something about PVC, what is PVC?
- B. P. Rao:** Price variation clause.
- Venkatesh B:** Okay, sir and this Ennore SEZ also what we understand, is not there that BHEL will be financing this project in somewhere, is there an element of that?
- B. P. Rao:** No, we are not financing. The Power Finance Corporation is financing this year.
- Venkatesh B:** Okay, so sir you are bid in consortium with Power Finance Corporation.
- B. P. Rao:** Financing portion they have given and we have given the power plant.
- Venkatesh B:** And the Udangudi will be also very similar to this, correct sir?
- B. P. Rao:** That is right.
- Venkatesh B:** Sir, can you also tell us what is the size of these projects which you mentioned Khargone, Barethi, Bhusawal, and out of the Telengana 6 gigawatt of projects, how much is likely to come in the current year?
- B. P. Rao:** We are expecting all that 6 gigawatt should come, but I do not know at this point of time because they will have to do a lot of land clearances and all that they need to take, but substantial portions that will come during this current year. Now this Khargone is 2 x 660 NTPC project and Barethi is 4 x 660, Bhusawal is 1 x 660 EPC and the Bhusawal is EPC tender, Khargone is EPC tender, Barethi is a main plant plus balance of plant separate.
- Moderator:** Thank you. We have the next question from line of Bhavin Vithlani from Axis Capital. Please go ahead.
- Bhavin Vithlani:** Sir, my first question is on 100% variation between the imported coal and the domestic coal boilers that we spoke about in last conference call. If you can help us understand that are these the PC boilers or CFBC boilers?



- B. P. Rao:** This will be PC boilers.
- Bhavin Vithlani:** Sir my second question is a continuing question to the earlier question on the Ennore SEZ. Again, I am looking at the press release that it says that it includes debt financing. If you can help us understand that the interest during construction, is it part of that value of the contract?
- B. P. Rao:** No. The total financing portion is with PFC only. Our value is only for the power plant.
- Bhavin Vithlani:** So the entire value is for the power plant and IDC is completely different?
- B. P. Rao:** Yes.
- Bhavin Vithlani:** Okay and secondly in such kind of projects, if at all there is a delay in the construction, will BHEL have some protection on such type of projects?
- B. P. Rao:** Yes, there is a price variation clause (PVC) in that,. I will leave it to the Marketing Manager. The details he will tell you, Mr. Gopalakrishnan.
- Gopalakrishnan:** As far as the funding is concerned, that is going to be directly between TANGENDCO and the PFC. We have only facilitated so that will be treated separately and our portion will be treated separately.
- Bhavin Vithlani:** Sir, my question was on the.
- Gopalakrishnan:** As far as protection is concerned, we have the normal standard clauses only as far as for delays or anything and the financing portion is not added to our account.
- Bhavin Vithlani:** And the main reason of the increase in the project cost is because the piling work is significantly large because there is a coal handling.
- Gopalakrishnan:** One of the things is that.
- B.P.Rao:** There are other scope divisions, variations like seawater intake system is also included. So two projects cannot be compared on a like-to-like basis. It is difficult to compare. It has got much more scope than what normally a standard EPC contains.
- Bhavin Vithlani:** Okay, fair and that clarifies. Last question is I actually missed the provisions, part of it. So in the last year, it was highlighted the total provisions for LD, bad debts, contractual obligation, net was about 470 crores. Our net creation in the other expenses, what is that number in the current quarter?
- P. K. Bajpai:** You are asking for the last year actuals for the year or last quarter?
- Bhavin Vithlani:** Last year, previous quarter, September quarter.



- P. K. Bajpai:** You are asking for the September quarter?
- Bhavin Vithlani:** Current quarter, comparison for the current quarter.
- P. K. Bajpai:** So you want to know what is the provisions during the quarter?
- Bhavin Vithlani:** Yes.
- P. K. Bajpai:** Okay. For the quarter, provision is (-40).
- Bhavin Vithlani:** Okay and the comparable number was positive 470 crores last year.
- P. K. Bajpai:** (+662)
- Bhavin Vithlani:** (+662) of September of 2013 quarter.
- P. K. Bajpai:** Yes.
- Bhavin Vithlani:** And what is the number for first half?
- P. K. Bajpai:** First half is cumulatively is 11 crores as against 899 of previous year. So there is a substantial decline in provisioning.
- Bhavin Vithlani:** Any specific reason why there is a significant decline? That was my last question.
- P. K. Bajpai:** Partly because of the operations coming down, contractual obligations have come down and there is significant withdrawal based on the timings. See after a reasonable period, our obligations of the customer get over and there is a withdrawal. So from project-to-project, it is reviewed and the withdrawals are much more this year.
- Moderator:** Thank you. We have the next question from the line of Harish Biyani from Kotak Securities. Please go ahead.
- Harish Biyani:** Sir, my first question is on the 6 GW Telengana project. Now of that, about 1,080 MW which is Manuguru, this is the state project. So this is where you will need all the state is going to place the order to you and the remaining about 4.5 GW is going to be placed by NTPC.
- B. P. Rao:** No. We have never said that. NTPC 4,000 MW is a different thing. This 6,000 MW is between BHEL and Telengana government, there is an understanding.
- Harish Biyani:** No. So if we look at the statement made by the Telengana government, they are talking about the 1 GW Manuguru. Apart from that if we go to the website of the Telengana government and the Telengana Power Company, we would see that the remaining 4 GW they are talking about placing it to NTPC and so is there any other 4 GW is my question which they intent to you.



- B. P. Rao:** Yes, there is. Our thing is not clashing with NTPC. NTPC 4,000 is different from 6,000.
- Harish Biyani:** So have they identified the land and other operational things?
- B. P. Rao:** Places are identified. They are in the process of delineating that land for this.
- Harish Biyani:** Okay and sir, the second question is on the Ennore project which you recently received. Now first is the mega power project status has not been received for this particular project. Which means your cost is upwards of 15% for this project? Is the understanding correct?
- B. P. Rao:** See, the mega power project is accorded by Government of India. In August '11 or so, they have already frozen the list of projects which will qualify for mega status and after that they are not qualifying anything and Ennore does not come within that.
- Harish Biyani:** So which is why your cost is higher.
- B. P. Rao:** Yes. All the taxes and duties will be included in that front.
- Harish Biyani:** Sir second question which is typically coming to us is that why would companies like Larsen & Toubro or other companies which are there in the market, they would not want to go and tie-up with the financier and bid for such a big order. And related is that the consortium with Trishe Energy which was there, there was some case in the High Court. Has that been sorted out?
- B. P. Rao:** Yes, that is between TANGEDCO and Trishe. We have nothing to do with it and we understand that the things are also sorted out. And secondly your question of L&T, I think you should ask that question to L&T, not to us why they did not quote.
- Harish Biyani:** So no other companies are quoting which is why there is a slight kind of understanding gap if I may say that, that why would certain other companies....
- B. P. Rao:** You should ask them? I do not know why they have not quoted.
- Harish Biyani:** Sure sir. I will do that.
- Moderator:** Thank you. We have the next question from the line of Lokesh Garg from Credit Suisse. Please go ahead.
- Lokesh Garg:** One good thing which we noticed in the result is that on a YoY basis at least the employee costs have remained largely flat which basically means that inflation related increases have been sort of borne in or rather hedged by the number of employees actually leaving the active service of the organization because of retirement. Could you share those number or could you share a broader outlook on how of this would move?
- B. P. Rao:** The employee number as of 30th September is 46,015 vis-à-vis at the end of March this year, we had 47,525 people. So 1500 people have retired in this last six months and we have actually in



the total five years roughly about 10,000 to 11,000 people retiring. So out of that, already we have passed about one year now. In the next four years, there will be another 8,000 odd people retiring.

Lokesh Garg: Yes, so this is 4-5% retiral every year if we sort of split that out...

B. P. Rao: Yes, that is right. About 2000 and odd, yes.

Lokesh Garg: Related to this, there is another dynamic that might play out which is the employee cost increase related to 7th Pay Commission, so that will come from 1st January, 2017, right?

B. P. Rao: Yes, it is due from 1st January, 2017, but we do not know when it will happen.

Lokesh Garg: Any outlook on that right now or is it sort of...

B. P. Rao: No, nothing unless government sets the minimum guidelines for that.

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

Inderjeet Singh Bhatia: My first question is actually on the industrial segment and we noticed that some of the CPP orders booked in this quarter which are in that less than 50 MW or around 50 MW range. So can you just elaborate on the strategy on those type of projects and the kind of pricing that we are seeing in it and how does given that our equipments would be typically structured to take on at least 250 MW or even higher boilers and turbines? How do we justify the cost on that side?

B. P. Rao: No, see we have received 30 MW & 18 MW STG equipment is what I have said in September. Probably you are referring to that. So why do you believe that we will not be able to compete and I think your question looks like that we cannot. Our product profile, captive power segment is done at different units and we have those kinds of machines and to take care of this small turbines and we are quite strong in this. Actually in the peak, we had a market share of roughly about 60% in this segment and almost about 10,000 to 12,000MW we used to add every year on captive segment itself earlier. We are quite strong in the STG segment to that our own turbines and generators and we have separate groups dealing with this.

Inderjeet Singh Bhatia: Now our understanding was that in the last few years as the market on the larger sets of boilers and turbines was very strong, BHEL kind of focused more on that sector.

B. P. Rao: We have different unit focusing on different segments. The Haridwar unit focuses on the larger MW size equipment whereas the Hyderabad, we have dedicated facility to cater to this captive power segment.

Inderjeet Singh Bhatia: My last question is on the margin for the industrial segment in our press release. If I look at either on a quarterly basis or the first 6 months basis, the industrial segment margins are



significantly lower than the power margins. Is it something more one-off kind of a nature or is that the structural margin that we are currently operating in the industrial segment?

B. P. Rao: See, I think a number of times this was explained that the industry is more of a product market where product is sold, it is not a system sale or a project sale, it is more of a product market like except for probably some of the captive power projects, all other segments of that we are manufacturing, motor selling, transformer selling, switchgear selling. So it is a product market where the margins tend to be low because of the very high competition in the segment. Our value addition is also not that way the technical value addition or engineering value addition is low. Once the product is designed, it just gets manufactured where as in a project, there is a lot of value addition with respect to engineering content. Engineering content is more. So it provides the high value addition for us. So it is the structure of the market. Therefore it is like that.

Inderjeet Singh Bhatia: So can you just give us the breakup of the order backlog between power and industry?

B. P. Rao: See 1,03,699Cr is the total orders as of 30th September, 2014 orders outstanding. Out of that; 87,727, 85% is power sector, 7,765 crores which is 7.5% is industry sector, and 8,207 crores which is 7.5% again is international operations.

Moderator: Thank you. We have the next question from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Most of them have been answered, just one. Could you highlight this 6,000 MW Telangana orders. What would be the exact nature in terms of negotiation? When you say one-on-one, would there be nobody else even invited to show interest in this. How Telangana Government would do price discoveries what I am trying to understand?

B. P. Rao: That onus is on us to prove it there is a right price to Telangana government. We will be benchmarking with respect to some of the tenders which are competitively decided. Then, we will be justifying the entire price and these orders are on total EPC basis. So the onus is on us and there will be tough negotiation with the Telangana Genco people on this.

Pulkit Patni: But there is no scope for anybody other than BHEL to get it is what I am trying to understand sir?

B. P. Rao: As of now, it does not appear because they have signed an MoU with us.

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

Ankit Fitkariwala: Can you please give the breakup for order flow, I probably missed it at this time.

B. P. Rao: You want the actual orders?

Ankit Fitkariwala: Order flow.



- B. P. Rao:** Orders outstanding as of now.
- Ankit Fitkariwala:** Orders booked in this quarter?
- B. P. Rao:** In this quarter 14,078 crores.
- Ankit Fitkariwala:** And sir the breakup.
- B. P. Rao:** That is 12,111 crores from Power sector, 2,248 crores from Industry sector, and balance are from exports.
- Moderator:** Thank you. We have the next question from the line of Ashutosh Narkar from HSBC. Please go ahead.
- Ashutosh Narkar:** Sir just a question on the competitive intensity like is the current pricing sufficient enough for we to make incremental margins of anywhere between around 12-13% one. If not, what is the kind of pricing you anticipate over the next 2-3 years and if the current intensity continues to remain, do you think even it is possible for us to make anywhere between around 7 to 8% margins.
- B. P. Rao:** See as the market improves, I expect there will be easing-off on the competitive intensity because the capacities of some of the competitors are limited actually. If you look at their capacities, they are 3,000-4000 MW companies. We have a 20,000 MW capacity. So, therefore as the market improves, I expect that intensity and competition should be easing out. So even the margins are something which I cannot predict. It has to be based on case-to-case basis, based on in a particular tender like in Tamil Nadu, there was no bid from anybody else, only we versus Chinese. And like that I do not know what is going to happen in each case. It depends on that.
- Ashutosh Narkar:** Alright, and the second question is just a follow-up on the one which might have been asked. What happens if there is litigation against the Telangana government because they did not go through a process of price discovery? Does that the entire project come under press?
- B. P. Rao:** Is there a possibility for that?
- Ashutosh Narkar:** I am asking you.
- B. P. Rao:** I do not know because Telangana government did the due diligence before they sign the MoU with us.
- Ashutosh Narkar:** So it is allowed under that.
- B. P. Rao:** It is almost like government-to-government transaction. We are a government company. In fact the Telangana government wants the power very quickly, therefore they want to do it quickly. If they do go for a tendering, they lose one year. In fact, there are examples in the past. There are negotiated basis orders they have given to us by the government companies like NTPC also has



done it and there is no question of any litigation because of that. It is not the first time government is doing. A number of cases are there.

Moderator: Thank you. Ladies and gentlemen due to time constraints, no further questions can be taken. I now hand the floor back to Mr. Satish Kumar. Over to you.

Sathish Kumar: Yes, on behalf of Standard Chartered Securities, we thank the management for taking timeout for the call. We thank the participants for dialing in. May I request the management for the closing remarks?

B. P. Rao: Of course I think we have covered almost all the subjects. There is nothing else as such detailed questions have been asked. So I think we have shared everything.

Satish Kumar: Thank you so much sir. I will close the call then.

B. P. Rao: Thank you Satish.

Moderator: Thank you. On behalf of Standard Chartered Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.