



Bharat Heavy Electricals Limited
Q2 FY16 Earnings Conference Call

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MANAGEMENT

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MODERATOR

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Moderator: Ladies and gentlemen, good day and welcome to Bharat Heavy Electricals Limited Q2 FY16 Earnings Conference Call hosted by Motilal Oswal Securities Limited. As a reminder, all participants' 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 the conference call, please signal an operator by pressing '*' then '0' on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankur Sharma of Motilal Oswal Securities. Thank you and over to you, sir.

Ankur Sharma: Good afternoon ladies and gentlemen and welcome to the Q2 16 post results Earnings Call of BHEL. I would like to welcome the management of BHEL today who are represented by Mr. B. P. Rao – Chairman & Managing Director; Mr. Atul Sobti – Director-Power & Finance and Mr. Amitabh Mathur – Director-Industry.

I shall now handover the floor to the management for opening remarks and then we can have the Q&A. Over to you, sir.

B P Rao: I am B. Prasada Rao – CMD, BHEL. With me, I have Mr. Atul Sobti – Director-Power and Finance; Mr. Amitabh Mathur – Director-Industrial Systems & Products; Mr. Vaidyanathan – General Manager In Charge – Corporate Finance. Also, I have Mr. Hedao – the Head of Power Sector Marketing.

A very warm welcome to all of you. Dear friends, the index of industrial production grew 6.4% in August compared to 4.1% in July and 0.5% in August last year. In terms of industries, 15 out of the 22 industry groups in the manufacturing sector posted growth indicating a broad based recovery. These are indeed positive signs but with nascent signs of recovery in investment. We need to perhaps wait for few more quarters for sizeable investment in infrastructure. As government has expressed on many occasions that reforms of Discoms are on top of the agenda, we believe that it can give certain boost to the industry.

In fact, as per the morning news today, the cabinet has approved the Uday scheme, rescue package for Discoms. In fact, this is a major reform in the power sector. I consider this as a very big milestone for the power sector reforms and I believe, revival of the power sector will happen from this.

This is going to be a very, very important step for companies like ours. For many of the projects there is a potential to revive and coupled with the restructuring because of the bankruptcy code, that will be a very, very important step for the projects which are stuck up to come back online.

Coming to the power sector, core production is gradually increasing. There is a lot of tendering activity going on particularly from central and state sectors. I will give you shortly after this a brief overview of the current orders in the pipeline. We are already L1 in about 8.3 Gigawatt of tenders and are targeting another 3 Gigawatt in the current financial year. Under solar

PV segment, also lot of traction is there. It offers seamless opportunities to BHEL as we are gearing ourselves to improve our capacity and capability in this segment.

Indian railways is also strictly moving to finalize long awaited new locomotive manufacturing factories where we have interest Alstom is placed in L1 for setting up factory at Madhepura for manufacturing electric locomotives of type 12,000 HP. Similarly, GE is placed at L1 for setting up a 4,500 HP and 6,000 HP diesel electric locomotives factory at Marhowra. BHEL is jointly working with Alstom and GE for both factories respectively.

Consortium of BHEL Kawasaki heavy industries and Toshiba Corporation have technically qualified for supply and maintenance of semi-high speed EMU train sets. Overall revival in this sector and the economy is on track but taking time.

Coming to operations at BHEL. We have commissioned 2730 megawatts of utility power projects. Another 650 megawatts of power projects are being synchronized and are ready for capacity addition. Additionally, we have also commissioned 10 megawatts of solar PV plant for the Neyveli Lignite Corporation. During 15-16 up to quarter 2, BHEL has already secured orders worth nearly Rs. 22,038 crores from its diversified business segments covering both domestic and international markets. This corresponds to 4,111 megawatts of projects. Power sector contributed to Rs. 19,786 crores. Industry sector Rs. 2,202 crores and the rest from exports.

This is against the order inflow of Rs. 14,078 crores during the first half of 2014-15. Major orders received from second quarter of FY 2016 include extension of 765 KV Chittorgarh substation from Power grid Corporation. Electrostatic Precipitator Package for the 2x660 megawatt Tanda Thermal Power Project; two numbers of Super Rapid gun mounts from Ministry of Defence, IGBT based complete proportion equipment from CLW; 765 KV and 400 KV Banaskanthanew substation of Powergrid; 81 numbers of 6,531 MEA transformers from CLW.

The company ended the quarter with an order book of Rs. 112,362 crores. Beyond September, we have two major orders. In fact, we are just received today 1x800 megawatt BTG for Andhra Pradesh AP Genco project at Krishnapatnam and 1x800 megawatt BTG for again AP Genco for Vijayawada. Total amounting to nearly Rs. 4,600 crores further.

Looking at Second quarter of financial year 16 financial year results, Turnover for second Quarter 2015-16 was Rs. 6,193 crores against Rs. 6,319 crores in the second quarter of 2014-15. Turnover up to second quarter 15-16 was Rs. 10,694 crores.

Profit Before Tax and Profit After Tax for Second quarter are placed at minus Rs. 330 crores and minus 205 crores respectively. Profit before tax and profit after tax up to second quarter are placed at minus Rs. 293 crores and minus Rs. 171 crores respectively.

I thank you all once again for joining this conference call.

Now let me give you an overall picture since most of you will have this question about the pipeline of orders. As I already mentioned our total orders received upto September are about Rs. 22,000 crores and till date is Rs. 23,652 crores plus this Rs. 4,600 crores.

Now orders where we are favorably placed is roughly about 9,675 megawatts for which in 8,300 megawatts we are L1 and about 1375 megawatts we are at negotiating orders. These orders are on nomination basis, which will be roughly equivalent to Rs. 24,500 crores.

Further we have pursuing orders worth about Rs. 4,000 crores for our 16 megawatts of projects where we are favorably placed. Now total business therefore I have been always saying that this year will see an order finalization of roughly about 15,000 megawatts plus. Now that is going at this point of time. My estimates for that is roughly about 22,000 megawatts, much more than 15,000 megawatts.

And we ourselves are looking at an order pipeline of for about roughly 17,000 megawatts compared to what orders including the orders whatever we have received till date.

So this is the particularly on the order book projection. So first time after the slowdown has started we are looking at a positively good order book compared to the last year. If you look at last three years, the highest ever order book received in the last three years was Rs. 30,000 crores last year. However, this year we have already reached the figure of almost Rs. 27,000 crores by today and in the next four months whatever figures I have just explained we expect to cross Rs. 50,000 crores in this order book. So I am seeing for the first time that there are good number of orders coming this year and projects getting finalized.

So all these probably with the hope that the power sector is getting now the reforms, so the major reform has started so expect that other things also will be in place. The bankruptcy code once it is in place probably the revival of the stranded projects will happen and more and more the power purchase agreements will be signed that will be the real pulling point for the entire sector to start happening on the upfront. That is on the generation of transmission side.

Now I will take your questions, please.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer session.

Our first question is from the line of Venugopal Garre of Barclays. Please go ahead.

Venugopal Garre:

Sir firstly on the order inflow front, just wanted to know the Ennore SEZ order, which was cancelled post that High Court ruling; has that been removed from the order backlog or because it does not look like it has been?

B P Rao:

For your information Ennore is not canceled, Ennore is put on hold. It is not canceled and we have taken up already in the Supreme Court and the body language till now looks positive towards us. So it is only put on hold.

- Venugopal Garre:** Okay, thanks for the clarification. Secondly, on the Telangana orders, since these are large in size, that is the reason I wanted to know, has execution commenced on these orders.
- B P Rao:** Execution commenced on the Manuguru 4x270MW and also on 1x800MW Kothagudem. But for the 5x800MW Bhadradi, the execution is yet to start. We are waiting for the advance.
- Venugopal Garre:** And lastly, this quarter the raw material expenses as a percentage of sales have increased quite a bit compared to past trends. What would be the key driver for that?
- B P Rao:** I will ask Mr. Sobti, Director-Finance to reply to this.
- Atul Sobti:** There are basically two reasons. One is definitely that the market is quite competitive and realization as compared to the last year is lower. Then the second point is that because of the requirement of joint deed of agreement as well as the more composition of supercritical contract more imports have taken place because of which material content has gone up.
- Venugopal Garre:** So this will be broadly the trend the import content and the realization.
- B P Rao:** Not necessarily, once the more indigenization is taking place in the supercritical jobs, so definitely this material content will go down in the near future.
- Moderator:** Our next question is from the line of Renu Baid of IIFL Institutional Equities. Please go ahead.
- Renu Baid:** Sir, just understanding a little more closely on the material cost of the lower gross margins, I mean we have been executing projects with JDUs for the last few years. So what specifically impacted in this particular quarter almost a 10-percentage point increase for RM to sales?
- B P Rao:** Actually during this quarter more turnover has come from projects with JDU. Particularly the buying of the items from the collaborators. It has come at one go in this quarter. Rest I will ask Mr. Sobti to better explain.
- Renu Baid:** And also if you can just throw one more number? So this is what would be approximately the proportion of say revenue or the execution mix related to this JDU related sales, so that we can have a better perspective on ?
- Atul Sobti:** That is what I was going to tell you. Last year the composition of the supercritical projects and many of them required the JDU was 55% of the power sector segment. And in the current half year it has gone up to 65%. So total 10% increase is there in the supercritical segment where majority of the cases we have to give the JDU.
- Renu Baid:** But in second quarter in specific what was this number approximately? Because this is the quarter, where we took the maximum hit on the material cost front?
- Atul Sobti:** Second quarter almost I mean this particular 65% will continue in the coming quarter also.

- Renu Baid:** Okay, so then in that case, would it be right to say that from typical 55%, 57% of sales, our RM now would be ranging closer to 60% of 400 to 500 basis point increase?
- B P Rao:** Well, our company is doing an exercise now on that, we will not be able to give you any future indications on this. As per our policy, we will not give you anything on this. However, sales realization is coming in. The supercritical projects are going up as percentages as we go along. And the JDU projects are also and therefore JDU projects are there in all the years. And the supercritical content once it goes up, JDU projects also will go up. So this is the indication we can give from there. Normally we are not in the habit of giving future indications.
- Renu Baid:** And just one more understanding on this number sir. Typically the share of JDU portion in the order value is generally not more than 10%, 15% if I am right?
- B P Rao:** It will be more than that.
- Renu Baid:** Okay, the sourcing under the JDU agreement would be higher than 15% of the projections.
- B P Rao:** Yes.
- Renu Baid:** Okay and second sir, you mentioned with respect to the projects where you are well placed, that is approximately you mentioned Rs. 24,000 crores of incremental orders and 1,600 megawatt of projects where you are persuading. So first, you can give a little more details with respect to the name of these orders and likely value and on both the orders, of APGenco, which you just mentioned in the call today I guess they would be MOU based orders?
- B P Rao:** Yes, they are nomination-based orders.
- Renu Baid:** And what would be the value of individual orders both Krishnapatnam and Vijayawada separately?
- B P Rao:** Both are same, 2,300 Crores.
- Atul Sobti:** 2,300 Crore approximately, both are the same price.
- Renu Baid:** Right and the rest of the orders, which you mentioned apart from the L1, the two new orders what would be the name of these projects?
- BP Rao:** We are already placed L1 in NTPC Karimnagar for HD package. We are also L1 in NTPC Bareilly 4x660. We are again L1 in NTPC Pudukkottai 4x1000 megawatts for the DG package. We are in L1 in Bhusawal, Mahagenco 1x650, and we are again L1 in 1000 megawatts Pakal Dul hydroelectric project.
- Renu Baid:** And the 1,600 megawatt of projects, which you said you are persuading on a negotiated basis, would it be possible to share the details?

- BP Rao:** At this point of time, I would not like to give the names, because since it may affect our competitive position, so let it come.
- Renu Baid:** Sure, but you have a reasonable amount of confidence that most of these L1 orders where you are well placed will be converted to Form LOAs before March?
- BP Rao:** We believe that so because so much of activity has gone in these things should get converted. Because they are already these are all, we have been placed L1 substantially three, four months back for almost all of them.
- Moderator:** Thank you. Our next question is from the line of Mayur Patel of DSP Blackrock. Please go ahead.
- Mayur Patel:** Can you just update us on the proportion of slow moving orders in the Rs. 1.1 trillion order book?
- B P Rao:** Roughly about Rs. 37,000 crores is the slow moving plus projects, which have not started, where the start date is yet to come like Bhadradi as I mentioned just now. And also the projects were standard projects; projects which are on hold, standard projects and the projects where the start date is still not there. About Rs. 37,000 crores in this total Rs. 1.1 crores.
- Mayur Patel:** You have seen any improvement in any of these slow moving projects?
- B P Rao:** We are yet to see the slow moving project improvements. I am expecting now that with the Discom Reforms which have been announced today, that will have an effect on this and also coupled with the bankruptcy code, and that will have an effect on the movement of these things. But otherwise the projects where the start date is not announced, where they are waiting for some clearances like one of the clearances like Barethi, and also Bhadradi that will come I expect them to come in another two, three months'time.
- Mayur Patel:** And on the Manuguru and the other projects in Telangana sir, I remember there was some environmental clearance issue or sub critical and versus supercritical?
- B P Rao:** That has not affected our execution. Customer has asked us to go and execute that.
- Mayur Patel:** So despite that issue is still open.
- B P Rao:** Yes, we are going ahead.
- Mayur Patel:** You are going ahead.
- B P Rao:** Only Manuguru in that case.
- Mayur Patel:** Okay so pending that resolution you are continuing with the execution?

- B P Rao:** Yes.
- Mayur Patel:** Sir, one more thing. Sorry repeating the same question. On this JDU factor can you just explain what has earlier also you were doing some supercritical execution, but the raw material cost was never this high. So what has changed over the period that suddenly there is a big jump in raw material cost as a percentage of sales?
- Atul Sobti:** As I explained earlier, there are two factors. One is the realization; price realization as compared to the last year is lower because of the competitive atmosphere. And the second thing the JDU because the supercritical composition in the overall power sector turnover has gone up from 55% to 65% this particular year. So because of that also.
- Mayur Patel;** 55% to 65%?
- Atul Sobti:** 55% to 65%, so definitely when we import versus when we manufacture here, there is a lot of difference and that has affected the material content.
- B P Rao:** They are the major factors. There are other factors like the entire CRGO steel for example. CRGO steel prices have gone up by almost 50% compared to last year. The trend of general commodities may be other way, but then particularly this kind of special type of materials like CRGO steel only few people are making this product in the world. So the cost has gone up by 50% almost. So these are some of the things, reasons.
- Mayur Patel:** So sir, going forward incrementally your order book will have more and more proportion of supercritical only?
- B P Rao:** Yes, that is right.
- Mayur Patel:** So is it fair to assume that this material cost is it going to be very difficult to reduce or you think that very quickly the indigenization process would happen which can arrest this increase?
- B P Rao:** Yes, we can arrest this thing, one is by reducing the import content more and more indigenization. Second thing is that JDU, JDU we are working with the government and really removing this condition of joint need of undertaking. And once the government accepts that and NTPC is told about it, we expect that that will substantially bring down the cost of materials.
- Mayur Patel:** So as per the agreement is there any date for the expiry of this JDU agreement?
- B P Rao:** No, there is no date.
- Mayur Patel:** Okay so unless government agrees and NTPC agrees you will have to continue.
- B P Rao:** Because this is against Make In India principal as such. So we have been taking up this issue with the government.

- Mayur Patel:** So in a supercritical order, but in a JDU agreement what proportion of the total order is imported?
- B P Rao:** I cannot give you the figure because it varies from project to project.
- Mayur Patel:** Okay sir, because honestly the order inflow trend has been very impressive and that is something very commendable but the kind of?
- B P Rao:** See our major strategy has been to increase the volumes and realizing that the sales price realizations are coming down as Mr. Sobti has told one of the reasons for the apparent material percentage increase for a lower sale price that is also one of the reasons. So therefore, our game is to increase the volumes and that is why we are concentrating on getting a major market share. Our market share till now has been about 78% in the market this year. And we will maintain we expect to maintain roughly about 80% in the market share by the end of the year. And that is our game plan.
- Mayur Patel:** Sir, but given the kind of execution trend we are seeing, like you said you are bidding very aggressively, to get the market share. So problem is the big order book which you have, we do not have any idea or any means to predict what kind of margins in future these orders when it goes under execution, whether the kind of aggressive bidding, how it will reflect?
- B P Rao:** No, at the same time parallelly, we are also working on the costs. The entire focus on Design to Cost as I kept on saying in the earlier conferences. Also we have a focus on cost reduction in the company and in line with the sale price realization, we are also talking to the various suppliers and renegotiating the prices wherever we have longterm contracts. So the commodity prices have been low this year particularly and so we are taking advantage of all that. Therefore, we expect that on the cost side also we will cut the costs. And we are not for example adding any manpower or fixed costs if you look at, because our fixed costs are 20,000 megawatt capacity utilization therefore it is very important for us. That is again another reason for volume increase. At the sametime we are not adding any manpower. And wherever we can cut down the cost we are cutting down.
- Mayur Patel:** Sir, is there any internal estimate or analysis of the moving order book, means out of 1.1, if you remove Rs. 37,000 crores the remaining order book, what kind of expected margins at gross level or contribution level, anything of that sort?
- B P Rao:** We do not talk about future what is expected margins and all that as a policy.
- Mayur Patel:** Fine sir, just last question. If you can give me in the current order book what is the percentage of orders under the JDU?
- B P Rao:** Maybe you can contact offline or Mr. Hedao he will tell you that. I do not have the figure right now here.

- Moderator:** Thank you. Our next question is from the line of Venkatesh Balasubramaniam of City Research. Please go ahead.
- Venkatesh B:** Sir, can you elaborate a little what exactly you mean by a JDU contract? Is it these the bulk tenders which you won a few years back, is that what you are referring to in terms of JDU contract?
- B P Rao:** No, it is different. Mr. Sobti will explain.
- Atul Sobti:** This is a joint deed of undertaking. As per that, the customer ask us to give a joint undertaking from our collaborator like we have the collaboration for the steam turbine and generator with Siemens and for the boilers we have with Alstom. So they also have to give an undertaking and guarantee for the performance of the equipment. Although on our own, we are capable of giving this guarantee, but they want a counter guarantee from the collaborators. So in turn when they give the guarantee, they also want to have some part of the business. So naturally then we negotiate with them that how much part of the business can be given to them. Of course, if you manufacture in India as CMD was explaining under the Make In India that works out to be much cheaper as compared to when we import from them.
- Venkatesh B:** So in a way what you mean by JDU you were basically talking about the kind of royalty right, you are giving?
- Atul Sobti:** No, it is not a royalty.
- B P Rao:** No it is a guarantee. Guarantee which has to be given by the collaborator in addition to our own guarantee from here. The customer wants the guarantee to be given by the foreign party. In case of other companies, this problem will not be there because they are all joint ventures. In case of BHEL, we have collaborators. So if the collaborators have to give a guarantee, then they will ask for their own pound of flesh. Because their shops are empty today. And they do not have any jobs in their shops. So they will put a condition that unless you take some job from me, I will not give guarantee. So this is a necessary condition even to participate in the bid. Otherwise, you will be disqualified even from bid participation.
- Venkatesh B:** So is this is the case overall the last two to three years, is it like every supercritical order you have won, there has been this joint deed has been asked by the client or is it only with specific counter parties that like NTPC asked for this, but the state government does not ask for it? Can you please explain that?
- B P Rao:** Yes, that is right. See this mainly NTPC condition but it is not only limited to NTPC it is copied by others also but there are customers who do not want this also. So we have given them the price advantage in those cases. So every customer is not like that. But most of the cases are JDU.
- Venkatesh B:** So who does not ask for this sir, for example?

B P Rao: For example, Bajaj we have not given.

Venkatesh B: Okay. So but all the Central Government and State government orders you have given this, right?

B P Rao: Most of them, yes.

Venkatesh B: Okay and can you just repeat the order inflow in the first half sir, I think I missed that number.

B P Rao: So we have up to September, it was Rs. 22,038 crores and after that two orders we announced today that is Rs. 4,600 crores.

Venkatesh B: Okay Rs. 22,038 crores?

B P Rao: About Rs. 4600 crores.

Venkatesh B: And sir, can you also share what is the total receivables on the book sir, long term, short term everything put together and also the advances from customers?

Management: I will ask Mr. Vaidyanathan to give you the answer.

Vaidyanathan: Rs. 37,248 crores is the receivables both long term and short term put together. And advances what we have received in the current year is Rs. 299 crores.

Moderator: Our next question is from the line of Bhavin Vithlani of Axis Capital. Please go ahead.

Bhavin Vithlani: My question is on the employee cost. We saw it dipping in the March quarter at about Rs. 900 odd crores and then we are seeing about Rs. 1,500 crores in the last couple of quarters. Could you guide us what is the number that we should be looking at?

B P Rao: It is a flat figure. See though employee numbers are coming down as you noted, the employee cost has probably remained flat compared to last year's compared to first quarter for example. But compared to last year suppose if you had taken the normal employee cost increases which has happens to be between 8% to 10% the cost would have gone up substantially. But then it has become flattish only because the number of people have retired.

Bhavin Vithlani: And so whole of last year actually specifically fourth quarter it dipped to Rs. 900 crores and then we are seeing a trend of Rs. 1,500 crores?

B P Rao: Some kind of payments like this bonus and plant performance what we pay that comes particularly in the second quarter it comes.

Bhavin Vithlani: So for the year as a whole would it be lower than last year?

B P Rao: It could be flattish I think maximum.

- Bhavin Vithlani:** Second is for this first quarter and the second quarter if you could give us what was the provisions in the first half?
- B P Rao:** Just a minute I will ask Mr. Vaidyanathan to give you this.
- Vaidyanathan:** The net provision for this quarter is Rs. 249 crores consisting of contractual obligation of Rs. 67 crores, liquidity damages of Rs. 288 crores, doubtful debts of Rs. 72 crores and withdrawals of Rs. 179 crores.
- Bhavin Vithlani:** And first half numbers?
- Vaidyanathan:** First half actually first half is not a published figure so I am not able to give you that now, I will give you that at a later time.
- Bhavin Vithlani:** And for the year as a whole as we move forward, do you believe that the share of JDU comes down because incrementally the orders that we have won in the recent past the customers like Telangana and AP are not asking for JDU and as the execution improves the margins can improve?
- B P Rao:** See Telangana substantially it will come year, next to next year in the revenue. And so I mean that will not be much turnover will not happen, much revenue will not happen from those orders this year.
- Vaidyanathan:** In the Quarter 1 absolute figure for provisions is Rs. 39 crores.
- Bhavin Vithlani:** Sir, my question was that now since you have an established supercritical boiler and a turbine, which is running, you need not give a JDU because you have a proof of pudding. So incrementally are the customers accepting that they are not requiring the JDU?
- Atul Sobti:** We are pursuing with the customers that the JDU is not a requirement and wherever possible we are taking the orders on without JDU basis. Because we are capable of producing this without JDU also for both turbines and generators as well as steam generators. But it becomes a tender condition then we have to meet the JDU requirements. Otherwise we are capable on our own to produce it in-house.
- Bhavin Vithlani:** Okay so for this NTPC Bareilly and Karimnagar also we have to give the JDU only?
- Atul Sobti:** Yes.
- Moderator:** Thank you. Our next question is from the line of Renjith Sivaram of Batlivala & Karani Securities. Please go ahead.
- Charanjit Singh:** This is Charanjit here from B&K. Sir, on this JDU perspective what could be the pushback in terms of, for example we need to have a installed boiler which should have been running for

certain years, those kind of clauses are generally introduced by NTPC and the other agencies. So what could be the pushback, which could come from NTPC if we have to remove this JDU?

Atul Sobti: That depends on the project-to-project requirements. Normally they are asking over the 2 years operation requirement. And I think after the commissioning of this Barh projects and Lalitpur in the near future after about a year's time it will be possible that we will be able to meet the requirement without JDU also.

Charanjit Singh: Okay so in next one-years' time, then we will be able to meet that requirement?

B P Rao: Yes, we can meet the requirement today itself, because Barh has already commissioned, and Bajaj also commissioned not Bajaj, Lalitpur one unit has already been commissioned. But in case of Barh we have complete with that one year time period also. Krishnapatnam boiler has also been commissioned more than one year now. So we can easily meet the kind of conditions but then their willingness to remove that condition is the one which is now they have taken up the matter with the government.

Charanjit Singh: And sir, on the indigenization so we are fully indigenized or there are still some components which are left to be indigenized. What is the level?

B P Rao: Indigenization capability wise, we have got right from the first job itself. But if the job requires something to be imported we will have to import or something some part is not technically viable to be made here, that we will have to go for importing.

Charanjit Singh: Okay sir and sir on this aspect of this loss in this quarter, so you had also mentioned that there has been a realization hit which has happened in the recent tender. So if you can please help us understand how much realization hit has been there or what have been the trend?

B P Rao: It will vary from contract to contract. It is basically the aggressive pricing which has happened in the market for the bids.

Charanjit Singh: But sir, if you can just on an average quantify like how much the realization would have come down?

B P Rao: Well, if I am able to do it; it will be good for your model but unfortunately I cannot do that on the average.

Charanjit Singh: Okay sir and so the last thing is now what is happening sir on the industrial segment front? Are we seeing some offtake from the railways like you have mentioned like we are pre-qualified for the medium speed railways. So if you can just give some more color on that?

B P Rao: In railways for example lot of things are happening but then to fructify that into real order book, it will take some time. We are expecting of course we have got the major order for the Mahrowra and Madhepura will take some time. By the time we finalize the contract itself it will take time. But there are other things like you know we mentioned about the EMUs. EMU

could happen much faster but then I am not seeing that happening before the end of this financial year. But the conventional equipment, yes they are reviving the ordering now and we are expecting that some of the IGBT based control system converters they are ordering now on us and with these kind of things will be taken, but big things will happen only next year.

Moderator: Our next question is from the line of Sanjeev Panda of Sharekhan. Please go ahead.

Sanjeev Panda: It would be very nice if you could share the order book and order inflow data based on power and industry separately; I could not just get the numbers?

B P Rao: The orders received till 30th September is Rs. 19,786 crores for the power sector, Rs. 2,202 crores for the industry sector. And about Rs. 50 crores for the international operations. That is roughly about Rs. 22,038 crores. Subsequently in the last one month we got about Rs. 4,600 crores in the power sector. This is the orders received, yes.

Moderator: The next question is from the line of Harish Bihani of Kotak Securities. Please go ahead.

Harish Bihani: Sir, correct me if I am wrong but when we had signed the technology transfer agreement with Alstom and Siemens, we had a certain contract, which required certain number of units to be given to them in terms of ascertain imported content which we had to import from Siemens and Alstom?

B P Rao: There is no such agreement.

Harish Bihani: So there was no 10 sets or a 12 sets which was initially agreed to and then post that you had overall imported content requirement is going to come down was our understanding?

B P Rao: No, it is basically like this. Technology transfer agreement only contains technology transfer. There is something what is called a business share agreement, agreement is only for a few items in the initial years. That is only now contract to contract if there is JDU requirement then we will have to go for them. And on a case-to-case basis we discuss now and agree upon if there is anything which is required to be bought from them.

Harish Bihani: So when the initial contract was signed there was no clause, which said that after a certain number of units that we have installed or procured from them, the overall imported content that we would procure for them would come down. There was no such contract?

B P Rao: There was no such contract, technology collaboration agreements will not have any such clause.

Harish Bihani: And now incrementally wherever JDU is there?

B P Rao: It is only the requirement is coming only because of JDU. JDU is a thing, which has come later. And because of JDU that we will have to go, when you go back to the collaborator for

asking them to guarantee to our customer, that is when he will put such conditions, you take this equipment otherwise how will I guarantee.

Harish Bihani:

Okay, so incrementally which means that with the market overall tough market where we have taken a large market share but the realization is down, and the JDU proportion may remain constant or may increase somewhat overall gross realization might look pretty weak in the medium term? Will that be a broadly correct understanding without getting into the numbers?

B P Rao:

You have a hypothesis you want me to say yes or no. it is not possible like that generally it will not be like that. So I explained to you a number of times, every contract will not have a JDU. The job will not ask for a JDU. Secondly, even if they ask for it, we are working with government particularly for NTPC jobs to remove this condition of JDU. Second thing is the sale price realization, which will play as per the market. In some orders it will be much lower; some orders it will be very good. So for example we have almost more than 50% of the orders we have finalized through negotiation basis. So therefore there no such compulsions for us, price realizations are normal. And also we are working on the costs on our side, to reduce the cost. So the margin is a factor of both sales price as well as the cost.

Harish Bihani:

Sir, any indicative, qualitative or quantitative number on the cost reduction that could happen in the next one to two years?

B P Rao:

No, I cannot give you any figure like that. It is a continuous exercise.

Harish Bihani:

And my last question is on the balance sheet wherein the debtors have broadly remained constant, in absolute terms. So when do we likely see a decline in the debtors number?

B P Rao:

I expect that see this bankruptcy code once when it comes the restructuring starts happening. Now as you know a substantial portion of this is with the standard projects. Now standard projects that money will come only when the projects start moving. The projects will start moving once this bankruptcy code take place and the restructuring happens. So majority of the money I expect maybe by the end of this year probably it will start, I do not know, it is like anybody's guess that when the restructuring can get completed. Some of the projects could happen this year, some of the projects will go to next year. But positive movements are there in this direction. So we are happy in that reforms are happening. The bankruptcy code is coming in place. So all this will mobilize. In addition to that, some of the customers like this Telangana and other customers they are good paymasters. We have no problem; they are linked to direct payments from the PFC or REC so we have no issues from there. So I expect here afterwards there should be an improvement only in the debtor's performance.

Harish Bihani:

So how much is debtors more than one year?

B P Rao:

Right now Mr. Vaidyanathan does not have the figure but we can tell you later on. Please contact Mr. Vaidyanathan, he will give you this.

Moderator:

Our next question is from the line of Amit Sinha of Macquarie. Please go ahead.

- Amit Sinha:** Sir in our current order book what is the proportion of supercritical orders?
- B P Rao:** You are talking of the current year or you are talking of the total?
- Amit Sinha:** No, total order book?
- B P Rao:** While they are taking out the figure, I would like to take leave for now. Because I have to leave for another Parliamentary Committee meeting. So thank you very much friends and my Directors will continue here for some more time till your conference completes. Thank you so much.
- Atul Sobti:** Almost 50% orders are the supercritical orders, which are under execution at the moment.
- Amit Sinha:** Okay and sir you have highlighted that from execution point of view, FY15 was around 55% supercritical. This year you are seeing almost 65% supercritical can you just go back two, three years back maybe FY14 and FY13 what would be that number roughly?
- Atul Sobti:** Figures are not available but it was much lower. It would be 30%, 40% or so.
- Amit Sinha:** And is it fair to assume that the slow moving orders would be mostly subcritical?
- Atul Sobti:** Just one minute, you asked for the figures. At the moment almost Yes I rightly told you that supercritical orders of the order of almost 45%. Almost 45% of the thermal orders, yes.
- Amit Sinha:** Okay but the execution is higher because probably?
- Atul Sobti:** Because now this subcritical orders are coming to end. Because they are now in the last phase of the execution.
- Amit Sinha:** And a rough estimate of what can be this number maybe for the next year or so, would it certainly go over 75%?
- Atul Sobti:** Not necessarily. It will be of the order of around two-thirds only. But exact figures are not available at the moment with us. Because those we are still working out the budget figures, which will be finalized in the month of December then we will come to know.
- Moderator:** We will take the next question from the line of Girish Nair of BNP Paribas. Please go ahead.
- Girish Nair:** Firstly, I wanted to know the other expenses has spiked to about Rs. 1,020 crores. What will be the reason?
- Atul Sobti:** Mr. Vaidyanathan will explain this.

Vaidyanathan: Yes, there is provision of Rs. 209 crores this quarter as compared to Rs. 39 crores in the previous quarter and these provisions are as per the company's policies. These are normal provisions.

Girish Nair: What are the reason for that provision, any particular?

Atul Sobti: There is a policy for making the provisions, and we just follow that provisions for the projects which are under execution or have been executed. Based on that the provisions have been made.

Girish Nair: Sure and sir, could you help me with the number of employees that you had at the end of September 30th?

Atul Sobti: 43,273.

Girish Nair: And finally, I wanted to know how much is your stake I mean in these two railway plants one is one by GE and the other one by Alstom. In each of them, what is the stake in the JV or consortium whatever you call it?

Atul Sobti: Still those details are being worked out, we are under discussion with GE and Alstom. Exact figures are still not available. After once we finalize the business plan with them, then we will be able to know.

Girish Nair: Okay, so nothing has been finalized yet. But you are in negotiations with them to finalize the deal.

Atul Sobti: Yes true.

Moderator: Our next question is from the line of Sumit Kishore of JP Morgan. Please go ahead.

Sumit Kishore: My first question is related to the 5x800 megawatt Yadadri project in Telangana. Has it achieved environmental clearance?

Atul Sobti: It is yet to get the environmental clearance but we are expecting it shortly. So and we have not got the advance and zero date will start only after the receipt of the environmental clearance by them. But we are hopeful that it will be coming shortly.

Sumit Kishore: Okay and now what percentage of your order book is for EPC turnkey projects?

Atul Sobti: You want to know the total, which are under execution?

Sumit Kishore: Yes, total percentage of the order book, which is EPC turnkey project?

Atul Sobti: Just a minute, almost 40% orders are EPC projects.

- Sumit Kishore:** Okay and if I combine what you have said earlier, that about Rs. 370 billion of projects are slow moving and I assume none of the slow moving projects fall under the JDU category. So is it reasonable to assume that for the projects, which are under execution right now, more than 70%, 75% are super Critical projects?
- Atul Sobti:** Projects which are out of that this Rs. 37 billion what you are saying. There are certain projects, which comes under the JDU category including the Ennore also. Yes Ennore is also under JDU that comes under that category.
- Sumit Kishore:** Okay and you are including the Yadadri project also in that category, the Telangana project?
- Atul Sobti:** No, that we are not including in that. As far as that is not under, these are the projects, which are under hold.
- Moderator:** Our next question is from the line of Chinmay Gandre of Future Generali. Please go ahead.
- Alok R:** Hi sir, this is Alok Ramachandran here. Just one small query. What is the proportion of NTPC's orders as a percentage of your current order book of Rs. 112,000 crores and secondly in the debtor's break up how much proportion of this is related to the Rs. 37,000 crores of slow moving orders. And also there was in the recent times or some few banks have actually one of the leading bank has sold an asset in the power sector primarily one particular group to what you say, to a distressed company. So what is the status of that particular project in your order book and it is understood that it is a part of BHEL's order book as well?
- Atul Sobti:** In the last there was some break in that, what was you saying the last question?
- Alok R:** So one of the leading banks had sold the loans from a particular group to a distressed company so what was the status regarding that?
- Atul Sobti:** Okay, so there are three questions you asked. First was regarding the NTPC composition. I do not have the readily available figure but I do not think it will be more than 15% or 20%. But exact figures Mr. **Hedaoo** can give you later on. That we can work out. Second question was?
- Alok R:** In the debtors' break of the entire debtors?
- Atul Sobti:** No, debtors' break in the percentage of these distressed project is less than 10% in the order of 10%.
- Alok R:** Less than 10%?
- Atul Sobti:** Around 10%, 10% of the total debtors or something. And the third question which you asked, definitely we know that which project you are referring to. I mean these projects in fact people have taken the haircut now let us see that how the things start moving. Because without BHEL, none of these projects can be completed. If you are sure and whosoever will take over these projects they will come to BHEL for completion of projects.

- Alok R:** So has that particular project been actually, is there any particular due from this particular project for you?
- Atul Sobti:** Yes, there are dues from this project.
- Alok R:** Yes there are dues. And how much proportion of dues of the execution has been actually been received by you guys or it has not been received?
- Atul Sobti:** Those figures are not readily available with us at the moment.
- Moderator:** Our next question is from the line of Dhananjay Mishra, of Sunidhi Securities. Please go ahead.
- Dhananjay Mishra:** Sir, just one clarification. You mentioned 45% of our thermal order books is supercritical. Then within this supercritical JDU clause related order is 65% right?
- Atul Sobti:** No, not necessarily. Within this 65% I never said, I said the orders which are under execution during the current financial year of the thermal projects out of that 65% are supercritical. But out of those supercritical of 45% how much is JDU that figures we will have to work it out. That figures are not readily available with us.
- Dhananjay Mishra:** So as of now we must be admitting about??
- Atul Sobti:** As of now the projects which are under execution thermal project 45% of supercritical. Now the point, which you are asking that out of this supercritical how much percentage JDU, those figures we will work it out. Those figures are not available. That offline you can find out from Mr. Hedao.
- Dhananjay Mishra:** Sir, in slow moving order what percentage is supercritical?
- Atul Sobti:** There are projects basically one is at Raghunathpur and other is Ennore. And in case of both the projects in fact Raghunathpur also we are expecting some movement. It is a DVC project and some discussions are going on with NTPC and the other project is Ennore. We are quite hopeful that hold will get lifted and we will start execution in that project.
- Moderator:** Our next question is from the line of Renu Baid of IIFL Institutional Equities. Please go ahead.
- Renu Baid:** No sir, I think my question has been answered. Just but if you can help to clarify on one part. These slow moving orders, which you mentioned of Rs. 37,000 crores, they include Ennore SEZ the order which has been put on hold as well as Raghunathpur, right?
- Atul Sobti:** Ennore is included there, Raghunathpur is also included there.
- Renu Baid:** And these orders have been recently added to the slow moving bucket?

Atul Sobti: Yes, Ennore has been added, Raghunathpur was earlier there.

Moderator: Thank you very much. Our next question is from Girish Nair of BNP Paribas. Please go ahead.

Girish Nair: Yes sir. I have one follow up question. Sir, out of the total order backlog how many projects are there for which you have recognized the orders but not yet been paid the advance? You mentioned Yadadri as one of the projects which other projects on which we have not yet received the advance?

Atul Sobti: Basically out of the projects which are under execution, only Yadadri is one project where advance has not been received.

Girish Nair: Okay so all others you have received advances?

Atul Sobti: All others we have received advances, but there are certain projects in the Rs. 37,000 crores where the zero date is yet to start, there we have not received the advance. There are more projects are there. Like Edlapur is there in Karnataka, there in fact zero date is yet to start, but advances is yet come.

Girish Nair: Okay any other projects where zero date has not started?

Atul Sobti: There are three projects only at the moment. Anyway, figures also you can take. Yelahanka is there, that also will come. Two, three projects are there. Specific details are not available readily at the moment.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to Mr. Ankur Sharma for closing remarks. Over to you, sir.

Ankur Sharma: Sir, would you have any closing remarks to make?

Atul Sobti: No, it is okay. Thanks for all the support. We know that this half yearly has been a difficult period for BHEL; this particular financial year. But we are hopeful that now the orders will start flowing and certain standard projects will start moving. And let us hope for the best for the coming period for BHEL and for the economy as a whole.

Ankur Sharma: Okay sir, thank you so much for giving us the opportunity to host this call. I would like to thank all the participants on the call as well.

Moderator: Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Securities Limited that concludes this conference. Thank you for joining us, you may disconnect your lines.
