



“Bharat Heavy Electricals Limited Q1 FY15 Earnings Conference Call”

August 12, 2014

**BHEL
MANAGEMENT**

**MR. B. PRASADA RAO – CMD
MR. P. K. BAJPAI – DIRECTOR (FINANCE)
MR. WVK KRISHNA SHANKAR – DIRECTOR (IS&P)
MR. ATUL SOBTI – DIRECTOR (POWER)**

MODERATOR

MR. GOPAL RITOLIA – IIFL INSTITUTIONAL EQUITIES

Moderator

Ladies and gentlemen good day and welcome to the BHEL Q1 FY15 Earnings Conference call hosted by IIFL Institutional Equities. As a reminder all participants' 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 the conference call, please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gopal Ritolia from IIFL Institutional Equities. Thank you and over to you, Mr. Ritolia.

Gopal Ritolia

Welcome everybody to the 1Q FY15 Earnings call of BHEL. Today we have with us Mr. B. Prasada Rao – Chairman & Managing Director and Mr. P. K. Bajpai – Director- Finance to discuss the 1Q numbers and outlook going forward. This would be followed by a Q&A. I now hand over to the management.

B. Prasada Rao

Thank you Mr. Gopal. Good evening friends. I am B. Prasada Rao – CMD, BHEL. With me I have Mr. P. K. Bajpai – Director-Finance and Mr. Krishna Shankar – Director – IS&P; Mr. Sobti – Director-Power. A very warm welcome to all of you.

Dear friends, we are seeing initial signs of rebuilding of confidence among businesses and industry. Prospects for revival of economy have improved as indicated from firming up of export growth, pick-up in industrial activity, unlocking of stalled projects, and initiatives taken by RBI. Infrastructure sector is expected to see new investments catapulting the revival of industry capex cycle. But power plant equipment manufacturing is late-cycle business which tends to lag the general economy both in downturn and recovery. For equipment manufacturers like BHEL, the effect of this cyclicity is compounded as our products normally have comparatively longer production lead times. But, overall sentiments in Power Sector in particular, are positive. Union budget has also addressed some of industry concerns with proposals like strengthening of sub-transmission and distribution networks and segregation of agricultural feeders, allocation of Rs 500 Cr for developing Ultra Mega Solar power projects, Rs 100 Cr for preparatory work on 'Ultra modern Supercritical coal based power technology'. Concerted efforts are being made to expeditiously resolve issues relating to environmental and forest clearances and to bridge gap of indigenous coal availability through coal imports.

In power sector, currently, we are favorably placed for about 4,000 megawatts of projects both from thermal and hydro segments, though in the first four months there is not a single project which has been finalized. Another 4,000 megawatt are under various stages of evaluation. It is expected that in the next eight months, say, up to March'15, about 15,000 to 17,000 megawatts of power projects will get finalized. We are therefore optimistic of regaining growth momentum in the near future.

Coming to operations of BHEL, we have done capacity addition of 1099 MW in utility segment up to June 2014. Another 2103 MW has been synchronized awaiting inputs from customers.

Total orders booked during first quarter stands at Rs 1120 crore consisting of Rs 308 crore from Power sector, Rs 819 crore from Industry Sector and balance from exports. In Power Sector orders are mainly for spares & services. In industry sector, major orders received are: 22 nos. Auto Transformers from RRVUNL; 130 nos 3 phase Traction Motors from DLW; 10 MW SPV power plant on EPC basis with 3 yrs O&M from KPCL; 3 MW Grid connected SPV power plant from DNH Power Distribution; 10 MW grid interactive solar PV plant from NLC; 3 MW Solar PV plant from OPCL. With these orders, BHEL has an order book of Rs. 97,400 crore as on 30th June 2014. 82% of these are accounted for by Power Sector, 9% are accounted by Industry Sector and International Operations each.

Looking at Q1FY15 financial results: Turnover for 1st Qtr 2014-15 is Rs 5277 crore, against Rs 6671 crore during 1st Qtr. of 2013-14. Profit before Tax for 1st Qtr. 2014-15 is placed at Rs 246 crore, against Rs 669 crore during 1st Qtr. of 2013-14. Profit after Tax for 1st Qtr. 2014-15 is placed at Rs 194 crore, against Rs 465 crore during 1st Qtr. of 2013-14. I thank you all once again for joining this conference call. We will take the questions now.

Moderator Thank you. We will now begin the question and answer session. The first question is from the line of Abhishek Tyagi from CLSA. Please go ahead.

Abhishek Tyagi Sir, couple of questions. First just wanted to clarify is there any one off expenses which have been booked during the quarter or everything is on a regular business expenses which have been booked?

B. Prasada Rao Everything is normal expenses.

Abhishek Tyagi And sir, has there been any order cancellations which you have done during the quarter some of the slow moving or non-moving orders have you removed the backlog?

B. Prasada Rao No, no order cancellations.

Abhishek Tyagi And sir, just last question was regarding this there has been some media articles about this corporate power plant in which BHEL might be looking to take an equity stake. If you can perhaps explain if there is more to be read in to that?

B. Prasada Rao No, there is no such move by BHEL.

Moderator Thank you very much. The next question is from the line of Aditya Bhartia from Espirito Santo. Please go ahead.

Aditya Bhartia Sir, do you expect a pickup in execution pace over the next few quarters and are there any particular orders wherein you are seeing execution pace picking up?

B. Prasada Rao Yes, we do see a pickup of execution cycle, particularly some of the slow moving projects like Lalitpur, the Monnet project and even the Bara project and in fact we have been now offering to speed up the execution of even those projects which are normally going on. Also we have

requested the customers to arrange for inputs from their side and be ready with the cash flows so that we could even expeditiously commission those projects. So, we are approaching customers and telling them that we can do faster than what has been agreed earlier. So that way all these will improve the execution cycle going forward.

Aditya Bhartia

But the customers agreeing to this kind of an arrangement?

B. Prasada Rao

Yes, there are some customers who want this kind of expedition definitely and there are particularly the new states like Telangana and Andhra Pradesh where there is a requirement of power very quickly. Also, those states where there are some projects which we are already executing, they are asking us to speed up. There are some new projects which have been contemplated where they want shorter deliveries. So we are gearing up to offer shorter delivery even for the new projects.

Aditya Bhartia

And sir, so far we have seen that material cost has been kept under control despite intensely competitive scenario in the last few years. So do you see a risk of that moving up or do you think that increasing localization is hitting the company controlling?

B. Prasada Rao

The localization still has a lot of scope and we see that material cost can be kept under control with those kind of efforts. As I have been mentioning to you, Design to cost initiatives is a continuous exercise in the company and therefore all these exercises coupled with better buying will help us in keeping the cost under control.

Aditya Bhartia

And lastly sir, can you please share with us the balance sheet numbers for debtors are customer advances at the end of first quarter?

B. Prasada Rao

I am just requesting finance to give the data.

P K Bajpai

For the quarter, there is no balance sheet prepared as such but debtors are at the same level as they were. There is a slight reduction from Rs 44,122 cr to Rs 42,657 cr.

B. Prasada Rao

There is a 3.3% reduction from the opening balance in the debtors. Collectable debts have been reduced by 6% from the opening balance.

Moderator

Thank you very much. The next question is from the line of Renu Baid from Batlivala & Karani. Please go ahead.

Renu Baid

Sir, my first question is in the current quarter I know it is not right to look on a quarterly basis but there has been a sharp reduction in RM to sales to 51% levels. So any particular one off or special event or the mix which has helped to reduce it?

B. Prasada Rao

I think raw material to sales is not 51%, it is around 56.77% compared to last year. It is almost same as the last year first quarter.

- Renu Baid** But otherwise broadly we still maintain that the gross margins or the raw material to sales compared to last year should be reduced in current year?
- B. Prasada Rao** I did not get you? It is the same as the last year, as I mentioned. First quarter of last year we had 56.51 or so and this has been 56.7% now.
- Renu Baid** And sir, second thing on the staff expenses side like I know on a YOY basis the BHPV impact would be there on the staff cost in the current quarter but overall where we were at the end of fourth quarter we were guiding for almost lower staff expenses in FY15. Do you think it would be still achievable given these slightly higher number in 1Q? What is your outlook on this side?
- B. Prasada Rao** It is basically coming from the numbers coming down by the end of the year.
- P K Bajpai** DA effect due to merger of BHPV was not there last year. In the first quarter you will have some impact because BHPV got merged sometime in August. For the year it will even out.
- Renu Baid** Okay, for the year still we maintain that staff expenses should be lower in absolute terms?
- P K Bajpai** It should be at the same level.
- B. Prasada Rao** We will come back to you on that because certain expenses will not be clear to us just now.
- Renu Baid** And third thing sir, on the CAPEX side if you can just elaborate little more in terms of how is the outlook for the railways Bhilwara facility and the solar UMMPs? So what is the kind of cash commitments you think we will have to make this year and overall progress on both these initiatives?
- B. Prasada Rao** See, this railways Bhilwara factory is going very slow and we do not know what will happen there ultimately because the new government's thinking on that is not clear to us yet. Now coming to the ultra-mega solar project in Rajasthan, what is likely to change is probably the place and all that also will be decided. So I do not expect any CAPEX during the current year on these two projects.
- Renu Baid** But we were contemplating a potential of set up a factory for on solar side for equipments so?
- B. Prasada Rao** Yes, that is under approval of CCEA right now for capital subsidy under national clean energy fund. It is already approved by the committee of secretaries.
- Renu Baid** So sir, what is this amount of CAPEX for this new factory?
- B. Prasada Rao** It will be around Rs. 2,700 crores. Out of that, about Rs. 1,000 crores will be from the subsidy but we are not expecting any CAPEX to happen again even from that this year.

Renu Baid

And essentially after the likely as in putting a ban in terms of imports on the local sourcing or sorry the import side we think we should be able to benefit in this segment of the market on the solar panels and the PVs?

B. Prasada Rao

There is no ban and nobody has put any ban on any imports or even the safeguard duty has not come up on the solar cells.

Renu Baid

Okay but on the EVA sheets and other allied materials that has been?

B. Prasada Rao

No, there is no ban.

Moderator

Thank you very much. The next question is from the line of Amit Sinha from Macquarie. Please go ahead.

Inderjeet

This is Inderjeet here from Macquarie. My first question is regarding some opening remarks which the Chairman made about the order pipeline for the year. If you could kind of give little bit more idea on that as to what are the projects which are well placed and what would be the value of that and what are the key projects we are looking out in terms of bidding for the year and if you could also add some comments on what kind of price points you have seen because I think the last bid that we won on EPC basis the pricing came down to around Rs. 4 crores megawatt. So how should we look at the pricing environment?

B. Prasada Rao

See it is like this. As I mentioned, for the total year, in the first four months, not a single project has been finalized and we are seeing that there are quality tenders approximately for about 8,000 to 9,000 megawatts which are under various stages. Out of this, for about 4,000 megawatts we are placed favorably. And the other balance 4,000 megawatts is under evaluation. Now in addition to that, we are expecting further another 8,000 megawatts to 9,000 megawatts to get finalized during the year because tender submission is going to happen sometime in September- October.

And therefore we expect that all that will be finalized before end of the financial year. Now some of these projects where the tenders are already being processed today are Ennore 2x660 megawatt EPC where we are already placed as L1 and the customer is processing this. Similarly there is a hydro project- Pranhita-Chavella, this is a pumped lift irrigation scheme, there again we are favorably placed and in Tuticorin, there is a 1x525 megawatt BTG project where we are favorably placed again and in Pakaldul hydroelectric project, about 1,000 megawatts - we have our consortium with Patel which has emerged as L1 so we are waiting for the PIB clearance. Vishnugad-Pipalkoti also about 4x111 megawatts we have emerged as L1 and there are number of other projects like this. The other projects are under processing at various stages. This is Udangudi again in Tamil Nadu, NTPC's Katwa project where we have to submit the tender sometime in September.

Then there are other projects like Bajoli Holi, another hydro project, New Ganderbal and NTPC's Khargone tender is there. Again NTPC's Barethi tender is there 4x660 megawatt. Khargone is an EPC job. Kothagudem TGenco 800 megawatt; it is an EPC job. So there are a

number of such projects which are lined up. And all these amounts to roughly about 16,000 to 17,000 megawatts and we expect that all these will get finalized and as you observed most of it is all in the state sector.

So as far as you know, you mentioned about the pricing. Yes, pricing is definitely going to be aggressive it will be under pressure however we have been working on our cost as I mentioned. We have also been seeing this kind of pricing for last 2-3 years since the market has shrunk and the same kind of pricing I expect it to continue.

Inderjeet

One last question is on this staff cost given that we had a pretty sharp increase in DA announcement by the government which was implemented from Q1 and we will have the BHPV merger. Can you run through what is the basic logic behind kind of a flattish or slightly lower staff cost for the year compared to FY14?

B. Prasada Rao

These are the number of retirements which are there in the company and we are not adding many people.

Inderjeet

Can you just give us some idea as to what percentage of people would retire this year?

B. Prasada Rao

About 2,200 people are retiring covering various categories. In first quarter, about 729 people have already left.

Moderator

Thank you very much. The next question is from the line of Ankit Fitkariwala from Jefferies. Please go ahead.

Ankit Fitkariwala

First of all I just like to confirm one data as in the order flow from industry segment was how much can you please give that?

B. Prasada Rao

Rs. 819 crores.

Ankit Fitkariwala

And my second question would be on turnover if you can give some guidance what will be the full year numbers in terms of the growth or just if you can help something there?

B. Prasada Rao

Well, you know the practice- we do not give any guidance on this.

Ankit Fitkariwala

Sir, just a sense in terms of because the market is improving so?

B. Prasada Rao

Yes, I expect that the execution will improve going forward. As you know our opening order book was Rs. 101,566 crores and at the first quarter end also, we have given a figure of Rs. 97,400 crores or so. Now out of these orders if you remove orders which are beyond this year which are new orders and are potentially available for execution. So the execution pickup will definitely help the turnover for the year. I would be able to tell you only that much but I would not be able to give you any future guidance on this.

Moderator

Thank you very much. The next question is from the line of Ashutosh Narkar from HSBC. Please go ahead.

Ashutosh Narkar

Sir, if you could just highlight the fact that our margins have been coming down assuming that the pricing remains where it is in the market given that industry is sub 50% utilization. Do you think we will be able to earn at least a 10% margin on the incremental orders? That is one. And the second is if you could give us some idea about what would be the slow moving orders on the current order book?

B. Prasada Rao

See regarding margins, if you look at last year our margins and net profit by turnover ratio and compare with our peers, we have been better. So even with reduced margins, we still have a lot of room to play and cover the ground. The basic issue for the company is the volume growth. The top line growth is important for us. You know that we have the fixed cost; the manpower is almost a fixed cost for us. And that is why you have been seeing that when the topline is less, the bottom line goes down by much higher proportion.

So topline growth is essential for the company. And the 16,000-17,000 megawatts what I am now saying and with our increased market share last year, our market share went up from 68% to 72%. So maintaining market share and the market size therefore is important for us. So that is what we have been trying to do. And the capacity of 20,000 megawatts should help us in delivering project faster which is one of our aims. In fact the new states where the power is required very fast, we are trying to deliver things faster than what we were doing earlier and we are also coming out with an announcement for a new boiler which is going to cater to both the imported as well as indigenous coal at the same time which eliminates the need to change boiler. Right from 100% imported coal to 100% indigenous coal, the boiler can take any type of coal.

In fact you will see shortly an announcement for that because we have targeted this project almost 1.5 years back and we have come out with a product now and this is going to be helpful in the current situation in the country where the Indigenous coal linkage is an issue. We have foreseen this kind of requirement and now we are ready to offer this boiler to any customer. So all this will allow us to maintain our market share the way we have been doing and earn that topline. Further, we have put a control on the employee intake now. It only depends up on the growth of the company as and when the growth is seen then only we are going to again open for recruitment.

So these initiatives will help the company to keep up the required margins. And there is a continuous exercise on the cost, the material cost. There is a lot of scope still for localization because we still buy few things from collaborators in the current projects depending on the JDU requirements with the customers. JDU requirements are going to go shortly because of the super critical plant already commissioned and under operation now. And with this requirement gone, we are free to do anything what we want and that will give us further leverage to reduce the material cost. So these are some of the initiatives and I hope I have answered your question on this?

- Ashutosh Narkar** Just when you talked about the new set of boilers would this help you earn or will this earn better margins at the product level?
- B. Prasada Rao** It will increase the marketability of the system. We will be differentiating ourselves with respect to competition.
- Ashutosh Narkar** And the last question sir was in terms of the slow moving orders in your order book?
- B. Prasada Rao** Yes, slow moving orders is roughly about Rs. 12,000 crores.
- Moderator** Thank you very much. The next question is from the line of Charanjit Singh from Axis Capital. Please go ahead.
- Bhavin** This is Bhavin. Coming back to the question you highlighted earlier you were saying that you are going to announce the boiler which can take 100% domestic and 100% imported coal. If you can elaborate a little further what is the rating these will be sub critical of?
- B. Prasada Rao** This is for super critical boilers.
- Bhavin** So 660 megawatt?
- B. Prasada Rao** Yes, 660 megawatt or 800 megawatt or 700 megawatt also.
- Bhavin** This is the one through boilers technology or these will be the CFBC technology?
- B. Prasada Rao** No, once-through
- Bhavin** The second question is you highlighted that after a particular point in time you will not be required to buy certain equipments from your collaborators what is the time frame after which you would not be required to buy the equipment from the collaborators?
- B. Prasada Rao** By the end of this year, we are finishing that period. One year after the commissioning of the first set.
- Bhavin** So how much savings will that bring for BHEL in terms of?
- B. Prasada Rao** Depends on the number of projects where the JDU is applicable, so I cannot quantify that.
- Bhavin** And a follow up on the earlier question. On the 100% domestic and 100% imported coal boiler is there a technology collaborator or it is?
- B. Prasada Rao** No, it is our own.
- Bhavin** If you can help us some data points on for the quarter what was the provision for LDs and others?

- P K Bajpai** Net provision is Rs. 51 crores. This is including all the withdrawal, additional provision, for LD for contractual obligation.
- Bhavin** And the same number were Rs. 592 crores last year?
- P K Bajpai** Rs. 237 crores last year first quarter; this year it is Rs. 51 crores.
- Bhavin** And one last question is when you bid for the project what is the criteria you used for your product. When you look at the gross contribution margins, EBITDA margins or the pricing is as against competition so we are price takers more than we decide the prices?
- B. Prasada Rao** No, I did not understand your question kindly repeat?
- Bhavin** So for an example when we are bidding for a particular project see our cost is hypothetically Rs. 3.9 crores so we are expecting say 20% margin on our cost and we bid or the pricing is completely market determined?
- B. Prasada Rao** Come on my friend, you want me to talk about this in open forum? You want me to announce my bidding strategy?
- Moderator** Thank you. The next question is from the line of Akshay Soni from Morgan Stanley. Please go ahead.
- Akshay Soni** Just a data management question. Would you kindly get me our cash and debt for the end of the quarter if you could please?
- B. Prasada Rao** I think cash was from an opening of Rs. 11,000 crores we have gone down by about Rs. 700 crores up to the quarter. We had an opening balance of Rs. (+11,000) crores so Rs. 10,000 crores will be the end of the quarter.
- Akshay Soni** And what would the debt number be?
- B. Prasada Rao** Debtors ,as we told earlier is Rs. 42,657 crores.
- Akshay Soni** I am asking for the debt not the debtors?
- B. Prasada Rao** Debt is nil. In this Rs. 11,000 crores; Rs. 3,000 crores is debt it is a short term borrowing against the export credit.
- Moderator** Thank you very much. The next question is from the line of Sumit Kishore from JP Morgan. Please go ahead.
- Sumit Kishore** My first question is once again in relation to provision for liquidated damages. There were newspaper reports mentioning that Andhra Pradesh has imposed LDs on BHEL for delay in executing 2x800 megawatt Damodaram Sanjeevaiah Thermal Power plant in Krishnapatnam

and there was a separate news article mentioning that TN would also ask for LDs in relation to a delayed North Chennai plant. Is there any merit in these news items?

B. Prasada Rao Andhra has paid us money; I can only answer you that way. See there is nothing like that and North Chennai has never said that.

Sumit Kishore Okay, so they are going to be LDs for these South Indian outlines?

B. Prasada Rao As of now there is no LD in any of these projects. In fact Andhra has paid also us money.

Sumit Kishore Sir, in the past you used to give a MOU target on sales for the year. Is that something that you can share publicly at this point?

B. Prasada Rao I see the MOU has become a very complicated document. That is why there are so many ifs and buts it has to be understood well. That is why we stopped sharing of this document. There are lot of ifs and buts in that, would not be able to follow that. MOU has become almost an internal document between us and our ministry now. That is why there is no need for that.

Sumit Kishore And for the order backlog of Rs. 974 billion that you have at the end of June quarter what would be the mix between state, center and private even ballpark numbers would be very helpful.

B. Prasada Rao Most of it will be from state. I think it is better not to guess it but if you can talk to, say, Mr. Rawal in our corporate planning, he will give you this exact figure of private and public.

Sumit Kishore And for the 20% decline that you saw in sales on an year-on-year basis in first quarter was of a base of last year where it had declined 23%, 24%. So I clearly understand that there are execution issues but could you explain in a little more granularly I thought that the execution was a tad weaker than what we were all expecting?

B. Prasada Rao See the execution is basically depending up on the customer's readiness to accept. Customers are not able to accept the deliveries because in their projects, there are lots of activities at stand still and they are not able to organize their cash and therefore they are not able to even give us the work fronts. some other projects where the activities are yet to start, some of the new orders and there are projects which are on hold either we have put a hold or they have put a hold so some of the projects like these are going for restructuring like Abhijeet Power. Somebody has asked me a question private power projects and like there is no activity going on there so that it is completely stand still so like that.

These are all- it is not from the company's side; from company side, we are ready to execute both on their site as well as the manufacturing activity. But all the constraints are coming from the project side basically. And therefore it is not allowing us to execute some of the projects. Unless we are assured of payments we cannot dispatch the equipment from the factory. So these are all the constraints we have. That is why the numbers are coming down due to this kind of issues. But I am seeing, that some other projects are coming out of these issues, thanks

to the new government's initiatives. Some of the projects are getting revived, there is a cell in the cabinet secretariat which is trying to sort out those issues what they have with their bankers, project financiers and the other departmental problems like environmental clearances etcetera.

And one-by-one they are sorting out the issues and we are seeing that there is a kind of opening up of these projects. So some of the projects will definitely take off there could be some projects which could take longer time than what one would expect. So these are the reasons specifically, it is not from the company side. From the company side, we are fully geared up.

Sumit Kishore

Sir, all the reasons that you described are limited to the Rs. 12,000 crores of slow moving order book is that right?

B. Prasada Rao

No, there are some orders which have not yet started I have not included that in this.

Moderator

Thank you very much. The next question is from the line of Girish Nair from BNP Paribas. Please go ahead.

Girish Nair

First question is there were press reports about the government pushing for there is about 25 gigawatt of thermal capacity in the state sector which are old which are approaching end of life. So the government is thinking of replacing these with super critical equipment. What you see as the opportunity I mean how long do you think it will take for this 25 gigawatt towards the opportunity to materialize and secondly would there be any road blocks considering will some states oppose it do you see some constraints on capital availability for these states or something? I mean some more color on this opportunity and what road blocks you could see and how long it will take for this to materialize?

B. Prasada Rao

Yes, there is a capacity of (+25,000) megawatts which is old and which needs to be either replaced or renovated. Now in these projects particularly for those sets which are smaller sets like 60 megawatts, 110 megawatts, these sets will have to be replaced with new technologies and they are also quite old they are old generation sets also. Now the question is the availability of the resource for that. I think for some of the projects, they are getting some funding from outside also but there are projects which are in the range of 210 and even some of the 500 megawatt sets which are in the initial 500 megawatt sets which could be also falling in to this category. But then I expect that they will go more for renovation modernization than completely replacing it because the cost of replacement will be higher much higher than renovation modernization.

So probably it will be deciding on case-to-case basis depending upon the efficiency which they will try to get by replacing it, the extra efficiency they get and the justification for the extra investment. So one has to work out really the cost involved and secondly it is not enough only the main equipment is replaced one has to look at the condition of the balance of plant of equipment also in these projects. So one has to therefore assess the total cost of replacement vis-à-vis renovation modernization whichever is beneficial. But it definitely makes the case for 60 megawatts and 110 megawatts replacement. It makes better sense to go for new technology where higher efficiency will come in particularly when we have shortage of coal and all that.

- Girish Nair** And the second question I have is if you take the you said that there are certain projects that are up for tendering and among them the thermal ones. Do you think that the developers have already got visibility on coal supplies and this should enable them to order all of this in this year or you think it will be delayed?
- B. Prasada Rao** No, all the names I mentioned for the projects-16,000, 17,000MW out of that if you remove 2,500 MW as the hydro projects, all of them have already lined up all that. Only after that they have gone for tendering. This is mainly state sector and NTPC.
- Girish Nair** And lastly, just could you I just missed the power order intake number out of the Rs. 1,120 crores order intake that you have?
- B. Prasada Rao** First quarter?
- Girish Nair** Yes.
- B. Prasada Rao** Rs. 308 crores.
- Girish Nair** Sir, Rs. 308 crores was power sector; Rs. 819 crores was in industrial?
- B. Prasada Rao** That is right balance is exports.
- Moderator** Thank you very much. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.
- Ankit Babel** Sir, I have one question. You mentioned that around 14,000 to 17,000 worth of megawatt CAPEX just are expected to get finalized in this current Fiscal year. Now just wanted to understand by finalization what you mean do you believe that the orders would be awarded to the suppliers who got the 17,000 megawatt or you just read in a bidding would be done in the tenders would be opened and not awarding?
- B. Prasada Rao** No, see already out of this 16,000, 17,000 megawatts; 8,000 to 9,000 megawatts are already tendered. I am talking about really awarding of that order to a particular supplier.
- Ankit Babel** And sir, out of this 17,000 megawatt how much would be NTPC?
- B. Prasada Rao** NTPC would be around 4x660 Barethi project; and 2x660 Khargone project; and Katwa is another 2x660. So, three NTPC projects.
- Ankit Babel** So around 5000 megawatts you expect from NTPC?
- B. Prasada Rao** Yes, that is true.
- Ankit Babel** Because in the recent analyst meet which NTPC conducted their management mentioned that they feel that only 4,000 megawatt worth of orders would be tendered this year?

- B. Prasada Rao** No, there the tenders which are already on.
- Moderator** Thank you very much. The next question is from the line of Ankur Sharma from Phillip Capital. Please go ahead.
- Ankur Sharma** Sir, now we have given to understand that quite a few of the new projects which are coming up in the power sector are being ordered out of EPC basis so firstly apart from yourself and L&T who are the other players who could possibly do this job; number one? And number two, is they are only limited players who can actually do such kind of jobs on an overall EPC basis would not you expect pricing therefore to also start moving up?
- B. Prasada Rao** Well, what you say is that likely I am not saying that but there are other suppliers also, it is not only two of us. It is like Doosan can also organize an EPC player consortium and can also come and participate. Chinese can also participate in EPC, for example, our competitor in Tamil Nadu is a Chinese company. In EPC business they have tied up with somebody else. So it could be a consortium, so do not expect that only two players will be there. But yes, the pricing could improve as we go forward.
- Ankur Sharma** The reason I am asking this because what we understand is that Chinese player as well as they are when they are initially come in to India they had tried on an EPC basis but I think visas seem to be a bit problem for them and then of course even the local labor is sort of big issue for them as well. So what I would tend to believe is that the Chinese at least would want to keep away from the EPC kind of jobs which already leaves you, L&T and may be Doosan I think will also bid for one of the jobs recently so would that?
- B. Prasada Rao** But Chinese will participate in the tenders, that is the reality.
- Ankur Sharma** So but still I think in a best case it will still be limited about three to four players?
- B. Prasada Rao** you can say, serious players are three and the others could only come on consortium basis or they may or they may not come.
- Ankur Sharma** And sir, just slightly on a different angle why you know guy like NTPC want to move towards the EPC kind of a model because they historically have been doing it on by stating the packages so just kind of trying to understand why would they want to kind of move towards an EPC model?
- B. Prasada Rao** Well, you see they have not tried that concept till now. They have already done it in North Karanpura, for example, on entire EPC basis. They have given Katwa on EPC basis. See they are also finding that probably by giving responsibility to one company, they will be able to manage it better than dealing with so many agencies. Certainly, NTPC has the capability to somehow manage themselves the entire project by giving BTG separately and BOP separately. But they have tried this and probably they would like to and as per my discussion with NTPC it comes out that they are trying this model.

We have organized and because we handle number of projects we have handled on those contractors and BOP suppliers and all that in a much better fashion than NTPC does because NTPC has few projects only whereas we have a number of projects and therefore we are able to manage those contractors and BOP suppliers better than probably they are. So that is what they have seen in one or two projects. So that is why they have come on an EPC basis to us.

Ankur Sharma

And sir, just my last question on your debtors what we have been hearing over the past two to three quarterly con calls is that your slow moving orders are come down and of course the government is taking a lot of steps to make sure this stalled projects actually start moving again. So would it be a fair assumption that your debtors number should actually start coming down is where either your money has got stuck, where projects are not moving or where projects are starting?

B. Prasada Rao

See eventually that will happen. For example NTPC has announced that they are looking at almost 8,000 megawatts of some of these stressed projects to be taken over by them. So if there is a case, the project will start moving and in that case the payments and all that will get settled before such an event happens. So I am seeing that as a very positive thing particularly for us because some of the stalled projects what we are dealing with are on their examination. So these kinds of things will definitely help moving towards a better realization of the payments.

Moderator

Thank you very much. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni

Firstly, in your opening remarks you mentioned that there is 1100 megawatt which is synchronized already but this 2100 megawatt which could be synchronized pending client issues could you just specify what exactly this 2100 megawatt is?

B. Prasada Rao

No, what I meant was 1100 megawatt is capacity addition. See there is a stage called synchronization before commissioning. After synchronization it goes for the entire full load trial. See if the rated capacity is 660 megawatt it has to be running for 72 hours minimum at 660 megawatt then only it is declared as capacity added. So these are the two events which will happen. Now for the 1100 megawatt the full capacity has been demonstrated by us. now what I said , this 2100 megawatts is synchronized which means it is commissioned by us. Now we cannot give full load unless all the balance of plant systems are ready and the coal can be fetched at that full level for running at full load for 72 hours continuously . So for that the inputs are required from various project authorities. they are all BTG projects, even in EPC projects we require the fuel from them. So it will wait for those inputs to be organized, they may not have been ready in different cases for different reasons and that means we completed our work, our responsibility is almost over but we need to only show it now running for three continuous days but that cannot be demonstrated unless all the inputs are available to us. Somewhere it could be water, somewhere it could be fuel; somewhere it could be something else so these are all somewhere transmission system may not be there so we cannot therefore take it to full load. So this is what we call as COD, the commercial operation of the unit.

Pulkit Patni

Fair point sir, but from our perspective our revenue has been recognized in these projects?

B. Prasada Rao

Yes, to the extent that up to synchronization whatever is the revenue we recognized. Then there will be some amount which will be linked to the milestone achievement of capacity addition and also the commercial operation. So that milestone achievement payment is pending.

Pulkit Patni

Sir, my second question is you mentioned that you have seen some pick up in execution at Lalitpur; at Monnet and at Bara. Could you specify when you said pick up in execution what exactly does it mean is work already commenced or we have just seen initial signs or we have started communication with the client again could you be a little more specific about these ones we just want to get a better sense of revenue recognition over the next few quarters?

B. Prasada Rao

No, for these projects what you have said; I said these are going to pickup- I mean they have not picked up. They will be picking up the execution now. Now out of that, when I say that picking up means that he would have paid us some money whatever is outstanding in some of these projects and he will mobilize all the inputs there so that we can start carrying out the activity. So once that kind of activity restarts, the material starts moving out from the plant. So picking up means this is the kind of activity. If my contractors are working at site and if they get paid then they will ramp up the manpower, then we will start executing in a manner which is required. So that is the kind of pickup when I say.

Pulkit Patni

So sir, if I was to conclude we are seeing actual on the ground movement we are seeing in certain cases rather than just a sentiment change would that be a fair assessment?

B. Prasada Rao

Yes, when I say that pick up it has to be actually so that my execution can start therefore the revenues will come.

Moderator

Thank you very much. The next question is from the line of Harish Bihani from CIMB Securities. Please go ahead.

Harish Bihani

Sir, again on the RM cost if you look at the absolute number there is a decline by almost about 29% versus sales decline of 20%. So as a percentage to sale there is a decline in RM cost. Can you explain that please?

B. Prasada Rao

No, you want to compare with gross turnover actually. Do not look at just sales. The accretion and discretion of WIP also will be there. So if there is an accretion in to WIP the material of that also will get added to the material cost. If it is a decrease in to WIP that material has been already accounted in the earlier period whatever it is. So those extents you will have to compare what we call as gross turnover minus excise duty. So no there is content of material so gross turnover if you take that is turnover plus accretion and discretion of WIP and then the material cost or that you will have to see. Whatever I say the percentage we compare over that.

Harish Bihani

So you are not looking at the change in the inventory basically work-in-progress?

B. Prasada Rao

We are looking at it. What you said was you are not looking in to that.

- Harish Bihani** No sir, if I look at both the numbers then there is a decline of about 28% versus net sales decline of 20%?
- B. Prasada Rao** Again you have not followed. See you are comparing only with respect to sales. You should look at sales minus or plus WIP. There is an accretion to WIP of Rs. 604 crores. So material is there in that.
- Harish Bihani** Sir secondly, again on the tax rate if you look the tax rate is about 22% for the quarter so anything specific over there?
- P K Bajpai** There is an income tax benefit under 35 AB for R&D expenditure, etc., that is extra this year. That is why effective tax rate is less.
- Harish Bihani** There is an additional R&D benefit of about Rs. 35 crores?
- P K Bajpai** No, it is not about Rs. 35 crores because I do not know the numbers but effective tax rate has come down because of more benefit under 35 (2AB) section which gives you more than 100% deduction and that is the only reason.
- Harish Bihani** And sir, one generic question which most people have is basically on the margin that you have booking in the new orders so basically there is some industry experts who think that with the current environment and the orders book in the last one, one-and-half years we would barely make about single digit or upper lower double digit margins. Is that the correct assessment?
- B. Prasada Rao** See the margins normally we do not give you but then you know you have the data for last year. I mentioned in the earlier question that last year, our net profit-to-turnover is 9%. If you look at the market with the comparable companies we still are on higher side. That is you know you will have to go with the market.
- Moderator** Thank you very much. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.
- Ankit Babel** Sir, I just have one follow up. Can you just give the breakup of your other income in terms of income from interest or any foreign exchange came along?
- P K Bajpai** Other income comprises of interest income which is Rs. 254 crores which is about Rs. 90 crores more than corresponding quarter of last year. The exchange variation has come down from about Rs. 325 crores odd there is a decline. There was a more exchange variation gain in comparable quarter last year.
- Ankit Babel** How much was in this year first quarter?
- P K Bajpai** Rs. 51 crores. last year it was I think Rs. 325 crores. There is a deduction of about Rs. 275 crores in exchange. That is one reason why I mean if you compare with the last year there is a steep decline in our profitability. One of the major reason and then other income is recovery

from suppliers and other Rs. 43 crores, not part of this we do not know. These are three major hits.

Moderator

Thank you very much. The next question is from the line of Abhinav Sharma from HDFC Securities. Please go ahead.

Abhinav Sharma

Sir, my question is on our industrial segment margins. Sir, what could be the reason for such a sharp decline is there any specific segment we are facing margin pressure or is it a general negative decline across the segments?

B. Prasada Rao

See it is basically the business slow down in the industry segment. If you remember the industry segment consists of projects as well as products for us. The segment is called industrial systems and products. The project portion has come down now because the captive power segment is the project segment and you know the issues of coal where Coal India decided that the e-Auction what they have been doing that as the quantum has come down. So therefore there are no opportunities for this segment today right now for anybody to have any incentive to set up any plant there. So this project business has come down for us. And only the product business is there. Product business is typically very highly competitive and we compete with even small companies. So therefore the margins are less in that.

Abhinav Sharma

Which are those products sir, it is like motor, transformer?

B. Prasada Rao

Yes the product shares are insulators, for example there are mixed products where it faces competition from Chinese. Our motors for example, here again it faces competition from many of the countries. Transformers for example so these are all the loose products what we sell.

Moderator

Thank you very much. The next question is a follow up question from the line of Ankit Fitkariwala from Jefferies. Please go ahead.

Ankit Fitkariwala

Sorry sir, it is a follow up on the last question. You were trying to explain the other income decrease. So you gave three reasons. Can you please repeat that and the exchange variation number also?

P K Bajpai

Exchange variation was Rs. 325.57 crores it has come down to Rs. 50.82 crores. This is compared to last year quarter one like-to-like.

B. Prasada Rao

Rs. 50.82 crores this quarter and last year first quarter was Rs. 325 crores.

Ankit Fitkariwala

And sir, the other two reasons for the other income coming in for?

B. Prasada Rao

Then other income in interest income has increased like-to-like from Rs. 159.85 crores to Rs. 253.85 crores. That is an increase in interest income. Then third is recovery from suppliers and others that has come down from Rs. 53 crores to Rs. 43 crores. That will balance out.



*Bharat Heavy Electricals Limited
August 12, 2014*

Moderator Thank you very much. As there are no further questions, I would now like to hand the floor over to Mr. Ritolia for closing comments. Over to you, sir.

Gopal Ritolia I would like to thank the BHEL management for taking time out for the call. Thanks everybody for joining the call.

B. Prasada Rao Thank you.

Moderator Thank you very much. Ladies and gentlemen, on behalf of IIFL Institutional Equities that concludes this conference call. Thank you for joining us; you may now disconnect your lines.
