"Bharat Heavy Electricals Limited Q2FY20 Earnings Conference Call"

November 13, 2019

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Moderator: Ladies and gentlemen, good day and welcome to BHEL Earning Conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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. Abhineet Anand from SBICAP Securities. Thank you and over to you!

Abhineet Anand: Thanks. Good evening everyone. Welcome to Q2 FY2020 conference call of BHEL. From the management we have Dr. Nalin Shinghal, CMD, BHEL, Mr. Subodh Gupta, Director, Finance, Mr. Manoj Varma, Director, Power, Mr. Kamalesh Das, Director, ~~of~~ Engineering and Mr. Anil Kapoor, Director, HR. I will hand over to the management for opening remarks, post which we can have Q&A. Over to you, Sir!

Nalin Shinghal: Thank you, Mr. Anand. Good evening, friends. I am Nalin Shinghal, CMD, BHEL and I have with me Shri. Subodh Gupta, Director, Finance; Shri. Manoj Varma, Director, Power; Shri. Kamalesh Das, Director, Engineering and R&D; and Shri. Anil Kapoor, Director, HR. A very warm welcome.

Dear friends, capacity expansion continues to be driven by the Union government in the area of thermal as well as nuclear power, railways, etc. In addition to the ordering that has been seen in the first half of the financial year, various major tenders are expected to be finalized in the coming months. Ordering in emission control equipment in this year is also picking up with significant ordering expected from utilities in the near term. Railway transportation and water management business are gaining traction with the continued focus of the government. We are targeting to enhance our business in these areas.

Coming to events specific to BHEL. Efforts towards enhancing our performance have been given a new thrust. In the immediate context, we are concentrating on various aspects of project execution. Through concentrated efforts in the recent past, cash collection is showing improvement. More initiatives are being put in place to improve the working capital position, including strategies to control material costs. We are also looking at ways to improve the existing performance management systems to make them better linked to the company's overall performance. Diversification strategies are being nuanced to ensure more avenues of future sales. With the combination of strategies, addressing both the immediate as well as long-term prospects, we are confident of not only overall improvement in the company's performance, but also building business for the future.

I would like to share with you some important milestones of the previous quarter. At our ESD in Bangalore plant, after commissioning of the lithium-ion cell line, trial runs have been completed and prototype development is in progress for ensuring commencement of commercial production in the fourth quarter of this year. In the Railway segment, which is one of the major diversification areas for us, the second and third series rakes of AC EMU have been made operational in the last quarter in the Mumbai Suburban Railway Services. Ten more rakes are under production. Incidentally, the first rake, which started operation in December 2017, has clocked more than 2.3 lakh kilometers in operation.

During Q2 FY2020, we booked orders worth Rs.7404 Crores out of which power segment is Rs.5619 Crores, industry segment is Rs.1346 Crores and export is Rs.439 Crores. Major orders received in the power segments were FGD packages for NPGCL Nabinagar and BRBCL Nabinagar and primary and secondary erection package for Kudankulam nuclear power plant. In the industry segment, major contributions are from Solar and Transportation segments. With this, the total order book as on September 30, 2019, stands at Rs.108603 Crores, out of which the power sector is Rs.87924 Crores, industry sector is Rs.11205 Crores and Rs.9474 Crores is from export projects. In beginning October, we received order for steam turbine generator package for 2 x 660 megawatt THCDIL Khurja project worth Rs.1575 Crores.

We are favourably placed in tenders, including 2 x 660 megawatt NTPC Talcher and 1 x 800 megawatt SCCL Adilabad project, numerous FGD projects and many tenders in spares and services segments. Tendering is underway for 2 x 800 megawatt NTPC Singrauli, 2 x 800 megawatt NTPC Lara and 3 x 800 megawatt NLC Talabira projects. Tenders for FGD for more than 20 gigawatts mostly from government utilities are also in process. In nuclear segment, tenders are active for fleet mode procurement of TG Island package on EPC basis for 6 x 700 megawatt PHWR reactors and 40 numbers of steam generators for 10 x 700 megawatt PHWR reactor.

Coming to the financial performance. Pace of execution is picking up. During the quarter, the company registered a turnover of Rs.6029 Crores, showing an improvement of 37% over Q1 FY2020. Though there are pressures on material costs due to changes in product mix, but our constant focus on controlling costs such as containing miscellaneous expenses, etc, has enabled us to post profits in this quarter. EBT and PAT for the quarter stand at Rs.165 Crores and Rs.119 Crores, respectively. As a percentage of turnover, this stands at 2.7% and 2% compared to minus 7.8% and minus 4.9% in the previous quarter.

Cash collection is one of the major operational priorities, which is now showing good results. There is a double-digit growth in cash in-flows, which stand at Rs.12204 Crores for the first quarter of the year compared to Rs.11088 Crores in H1 2018-2019. Thank you all once again for joining this conference call. We will take the questions now.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. First question is from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: Thanks for the opportunity. Sir, my first question is on execution. If we look at execution growth on a year-on-year basis, there has been a decline once again. Given that for the full year, we have started out expecting a growth of almost 10%, where are we in terms of the top line growth for the full year in terms of the MoU target that you have? What are the factors that are holding down execution?

Nalin Shinghal: We cannot give a forecast on the year-end position, but as of now, as I have already mentioned, there is a substantial growth as far as Q2 is concerned, because Q1 was really a quarter of concern for us and so significant efforts have been made for improvement there. So you already have the Q2 figures which have come out now.

Sumit Kishore: Okay and have the factors, which had depressed execution in Q1, been addressed in terms of delays at the customer end, tight liquidity, land availability issues, etc?

Nalin Shinghal: We are in the process of addressing those. I cannot say that they have been fully addressed, but you see that the results are showing largely what efforts have been made to tighten up this whole execution process. The land delays, yes, they are certainly still continuing. Would you like to add any more?

Manoj Varma: So actually what CMD is telling, now we have to also make a balance between execution vis-a-vis cash, because cash is also one of the reasons. We are taking positions also with some customers, at some places, some projects. So that is also, it is not that there are issues in execution. But at the same time, cash has been considered the most important factor now. As you also know, the working capital position of the company. So with the efforts what we have made, we are able to grow on cash collection. So we are managing cash vis-a-vis execution. So there has to be optimum mix and balance of the both.

Sumit Kishore: Sure and coming to working capital, could you please tell us what is the position on the deferred debt as well as current receivables, we can see have reduced. What is the position on deferred debt?

Subodh Gupta: The contract assets have increased.

Nalin Shinghal: The contract assets have increased from Rs.22297 Crores to Rs.23566 Crores, but the trade receivables have come down from Rs.15945 Crores to Rs.14043 Crores and that too more of out of that, even current has gone down substantially, it is more than 20%. The current trade receivable as on March 31, 2019, it was Rs.12010 Crores. Now as on September 30, 2019, it is Rs.9153 Crores. So a very big number in reduction we have achieved in current trade receivables. Contract assets, because of the deferred payment terms we have with the customers, it is one of the major reasons that is going up. Otherwise, as far as current trade receivables are concerned, we are focusing towards the collection and that is why it is coming down also.

Sumit Kishore: Sure. My last question is, what is the value of orders that you are favorably placed as of now? And on gross margins, the dip that happened in Q2 FY2020, what caused, due to what factors?

Nalin Shinghal: BHEL is favorably placed in tenders with total of almost Rs.21000 Crores. Are you asking about the material cost increase or what?

Sumit Kishore: Yes. The gross margin dipped, so the material cost increased.

Nalin Shinghal: So material cost increase. Basically, the material cost increase, basically, we have already told you also, it depends on the type of products we are executing. If there are various types of turnovers what we recognize, shop and bought outs and civil, secondly, margins whatever orders we are getting, those are all competitive orders. So certainly, we cannot have that kind of margin levels we used as in the past. So because of that also, that is one of the reasons for material cost going up. Though in absolute terms, it is not going up because the denominator is down, so percentage seems to be higher. Otherwise, as far as material cost is concerned, we are making all-out efforts to contain it within the estimates. But because the competitive forces are putting up in a pressure, the gross margins are coming down.

Kamalesh Das: To go further, we are also looking at, from the engineering perspective, how to reduce material cost as well as our procurement processes. These are two areas we are focusing on in the material costs.

Sumit Kishore: Thank you.

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

Aditya Bhartia: Good evening Sir, other expenses have fallen quite sharply this quarter. What has that been on account of, and it would be great if you could share the quantum of provisions and forex income or loss that we have booked in this quarter?

Subodh Gupta: Okay. If I give you the breakup of other expenses, you may note it down. As compared to the Q2 of 2018-2019, you are talking with respect to Q2?

Aditya Bhartia: Yes.

Yogesh R. Chhabra: So Q2 2019-2020, it is Rs.924 Crores vis-a-vis Q2 of 2018-2019 Rs.1003 Crores. So there is a reduction of Rs.79 Crores, almost 8% against the provision. In Q2 2019-2020, the net provision creation is Rs.88 Crores vis-a-vis Rs.824 Crores in Q2 of 2018-2019. So there is a reduction of almost Rs.736 Crores. This is up to Q2. Sorry, this is not for Q2, this is up to

Q2,. So Rs.924 Crores, Q2 2019-2020, last up to Rs.1003 Crores, other expenses minus Rs.79 Crores, provisions Rs.88 Crores, Rs.824 Crores last, minus Rs.736 Crores, Power & Fuel Rs 230 Crores this quarter, this year. Last year, it was Rs.235 Crores, indirect material Rs.168 Crores and just one major this is despite the that ERV gain, up to this quarter, we had only Rs.90 Crores, though it was Rs.360 Crores last year, so there is reduction in ERV gain by Rs.270 Crores. So after absorbing all these impacts, we are able to manage through middle line.

Aditya Bhartia: Okay, understood and this provision reduction that we have seen would be largely on account of earlier provisions that we were creating in respect of employee expenses?

Subodh Gupta: Now basically, as you know, there is a group called PCSG group in the company, Project Closure Synergy Group. So they are making all out efforts to get the money, what we have already provided in the books. So it is because of those efforts, this withdrawal is happening and the withdrawal quantum is much better compared to last quarter's number of withdrawal. If we look at the LD withdrawal, what we have already quoted in the books, so the LD withdrawal is about Rs.250 Crores more as compared to the Q2 of last year. It is up to Q2 of last year, H1.

Aditya Bhartia: Okay. Understood, Sir and given that, earlier you have mentioned about retention money going up. Is it fair to assume that contract assets will continue rising over the foreseeable future as well?

Nalin Shinghal: Possibly, yes.

Subodh Gupta: Well, we are making specific efforts to convert contract assets into trade receivables, so there will be both pressures for the efforts to convert them as well as this retention money in those areas. So overall, we should look at the decline as we have to complete our execution.

Aditya Bhartia: Understood Sir. Thanks.

Moderator: Thank you very much. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Good evening Sir. I have two questions. First is on FGD. What is the status of lot four and lot five of NTPC FGD projects and do you see any traction in state utilities awarding FGD and can you throw some light on the private sector capex on the FGD side?

Nalin Shinghal: Mr. Manoj Varma will answer that.

Manoj Varma: Good evening. FGD projects, which are issued in the tender from NTPC. Bid has already been submitted for this lot 4 and lot 5. Now the price bid will be opened by them and they will conduct the RA on this.

Mohit Kumar: When do you think all this to happen?

Manoj Varma: Yes, this will happen in the month of December most probably. First lot 4 will happen in the month of November end and lot 5 may happen in the month of December.

Mohit Kumar: What about the state utilities and private sector?

Manoj Varma: State utilities are not coming up to that extent, what the central utilities are coming. Basically, the total 161 GW of FGD business what it was projected by CEA, out of which most of these projects have been finalized only by the central utilities. State utilities have now come up with some of the tenders like SCCL and maybe other of RVNL, but it is not going the way it was supposed to because out of 50-60 gigawatts, whatever has been ordered, it is mainly from the central utilities. So state utilities have now come up with tenders.

Mohit Kumar: And Sir, do we expect the Singrauli, Talabira and the Adilabad to happen by end of FY2020?

Manoj Varma: Definitely. It should happen by end of FY2020. Indications what we get is they going to be finalized by Q4 of current financial year.

Mohit Kumar: Okay. My last question is, what is exposure to state PSU in terms of receivables? And what is to TANGEDCO and TSGENCO in particularly?

Nalin Shinghal: The exposure to TANGEDCO, including the contract assets, is around Rs.6000 Crores.

Mohit Kumar: And Sir, TSGENCO?

Nalin Shinghal: TSGENCO, it is Rs.3800 Crores.

Mohit Kumar: Thank you Sir. Got it.

Moderator: Thank you very much. Next question is from the line of Ajinkya Bhat from Macquarie. Please go ahead.

Inderjeet: Yes, this is Inderjeet here. Thanks for the opportunity. A couple of questions from my side. One is, now in the new bids that you are putting in, is this whole cash being kind of more important for you? Is that also a parameter which is guiding it? Or the working capital norms on these new contracts are kind of similar to what we kind of went into a couple of years back?

Nalin Shinghal: We are closely looking at the terms and conditions of the contract when we are bidding. Basically, taking holistic view of the tender when we bid for it.

Inderjeet: Second question is, there have been kind of some media reports about government selling a part of the stake to a strategic investor. Is there any kind of comment on that? And another thing is, is there any discussion with the ministry around kind of using the tools like VRS for our employee strength, the way BSNL is kind of looking at? Any comments on that will be appreciated.

Nalin Shinghal: We have also read the media reports about a number of things, but that is all I would like to comment on.

Inderjeet: Okay. Anything on the VRS side? Any plans or any discussions or early stage of discussions with the government?

Nalin Shinghal: We will come back as and when something happens.

Inderjeet: Okay. Thank you.

Moderator: Thank you very much. The next question is from the line of Abhishek Puri from Axis Capital. Please go ahead.

Abhishek Puri: Thank you for the opportunity. Sir, two questions. One, if you can elaborate on the order inflow number that you have mentioned, Rs.7400 Crores? Is it for the first half or for the quarter?

Nalin Shinghal: This is for the quarter, Q2 FY2020, Rs.7400 Crores.

Abhishek Puri: Okay. That is one. Second, I think we have been carrying this order favorably placed book for some time, SCCL and both Talcher have been there in the books of more than four quarters, and we have been talking about it. When do we expect to finalize these and the subsequent tenders also that you have spoken about Singrauli, Lara and Talabira?

Manoj Varma: NTPC also, they have also got it board approved, and they have been requesting the state government of Odisha also. Recently, we also had a talk with the state government officials. So we are quite hopeful that Talcher should come out in the next month-and-a-half or two months max and Lara, Singrauli also we are hoping of course we were given indications that it will happen by Q2, but now, I think it will slip into Q3 also. But definitely this fiscal, it will happen. That is what we are hopeful.

Abhishek Puri: Okay and the Talabira one, Sir?

Manoj Varma: Talabira also, we have been in talks with NLC, so that also we are likely to see the light of the day during this fiscal.

Abhishek Puri: But has the financial bid been submitted here, for Talabira?

Manoj Varma: Not yet.

Abhishek Puri: Okay. My second question is on, if I look at the results, the power sales have been declining for the last two quarters by a large double digit, whereas on the other hand, we are building up significant inventory. What is that buildup related to? Are we delaying the supplies where the payment has not come through? Or what exactly is that?

Nalin Shinghal: We are also taking a call in cases where we are having problems and payment issues. We do not want our receivables to go up further. At the same time, I think decline is also as we have in the beginning itself, the decline is really linked to availability, the legal issues and land issues. So decline is largely linked to that.

Kamalesh Das: I will like to the supplement what CMD Sir was telling that the projects, which have been under execution, there had been certain issues of cash realization. So there we have taken certain stands and we have seen that these things should get converted to cash realizations and post that also, we are trying to see that the out turn on the shop capacities are happening simultaneously, but as far as the dispatches to projects are concerned, that we are taking a conscious call, so material dispatches will happen only once the requirement at sites is happening. So those two things we are trying to balance out. So the power sales, you as of now, may see some decline, but these are going to pick up by the end of the fiscal once we are executing the projects.

Abhishek Puri: Why I am asking this Sir because our debt levels are now close to Rs.5000 Crores almost similar to the cash level Rs.6800 Crores. So will we continue taking debt and building up inventory like this? Or how are we going to balance? This is what my concern is.

Kamalesh Das: No, there are 2 ways that while we are focusing on the shop capacity utilization and the requirement of projects in the offing, we are also taking calls on pushing our request and preferably seeking audience from customer at all levels to see that the cash realization also happens so this may be a temporary phase, but it will definitely improve.

Abhishek Puri: Okay, great and lastly, if you can give the breakup on the receivables as to how much is pending from the central utilities, private sector? And where the recovery has come through in the last 6 months, which was good to see?

Nalin Shinghal: State utilities around Rs.17816 Crores is from state utilities, which is pending, including contract debts. Central PSUs, Rs.12339 Crores. Private customers, Rs.4380 Crores. Exports, Rs.3074 Crores so put together all 4 is Rs.37609 Crores.

Abhishek Puri: Thank you so much and all the very best Sir.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: I just have two questions left. A, what would be the expectation on the gross margin on an annualized basis. We understand on a quarterly basis we tend to be volatile. But given then, on an average, during the first half, we have had 40% kind of gross margin from billing margin so for full year, do you think broadly we should be in similar range or numbers could see some deterioration or improvement?

Nalin Shinghal: We would not like to give any forecast at this stage.

Renu Baid: Okay. Largely based on the kind of execution mix, which is planned, so would it be similar to last year's level? Or there would be continued pressures that we have seen during the first half of the year, a, given the commodity prices also have behind.

Nalin Shinghal: I would repeat my reply that we are not going to give any comments.

Renu Baid: No problem and just Sir, just a simple clarification as a second question of though there have been news reports regarding strategic sale, etc, there have also been a lot of media reports regarding divestment of further non-core assets of BHEL, non-core businesses of BHEL, which essentially includes water, transportation and so. And transportation has been one of our flagship segments that we're trying to diversify and build up new revenue stream. So is there any update or any activity where the company is involved? Or these are just media speculations from your end? What would be your comments on this, Sir?

Nalin Shinghal: I would say we are actively looking at ramping up transportation business as well as water business as well as defense business. These are areas we are actively looking to ramp up. And of course, we are also reading a lot of media reports. That is all I would like to say.

Renu Baid: Okay. But there have been no such discussions with DIPAM or anyone from the government and ministries?

Nalin Shinghal: No.

Moderator: Thank you. The next question is from the line of Koundinya Nimmagadda from JM Financial. Please go ahead.

K Nimmagadda: Sir, if you can help us remind us in 2Q FY2019, your depreciation expense was a little lower vis-a-vis the quarterly run rate. Can you help us understand what happened?

Subodh Gupta Actually last year, Q2, the company had aligned its depreciation rate with the Companies Act. Since it happened in last year's Q2, the difference with respect to Q1 as well as Q2 was impacted in Q2 of last year. So it was a lower number. You would be seeing a lower number. This is the normalized rate of depreciation for the current year, what we're seeing now.

K Nimmagadda: Okay. Understood, Sir. Sir, maybe can you help us understand what happened to other expenses? And what would the run rate be like? Because this quarter, we are seeing it at low levels, but will that continue going ahead? Or will we revert back to normalized level that we have been seeing in the past? I am asking about other expenses, Sir, which have come off...

Nalin Shinghal: The breakup of other expenses?

K Nimmagadda: Yes, Sir.

Nalin Shinghal: Or something specific you asked?

K Nimmagadda: Sir, I was asking about the breakup. I mean, my call got disconnected, unfortunately, when you were explaining that.

Yogesh R. Chhabra: Sir, I will share the H1 numbers with you. Currently, you will be seeing in the results, the numbers are Rs.1318 Crores for the current year and last year it was Rs. 1,871 Crores. You would be seeing in the results. I will give you the breakup of that. The breakup for the current year is Rs. 1,318 includes Rs. 924 Crores of other expenses, miscellaneous expenses; provisions are Rs. 88 Crores, power and fuel is Rs. 230 Crores, indirect material is Rs. 166 Crores, and the ERV gain, which is netted off from these expenses is Rs. 90 Crores this H1. And on a comparable basis for the last year, here are the numbers, the total is Rs. 1,871 Crores. The breakup is Rs. 1,003 Crores for other expenses. So there is a saving of Rs. 79 Crores in that administrative expenses. The provisions were Rs. 824 Crores in H1 of last year. Power and fuel was Rs. 235 Crores. Indirect material was Rs. 168 Crores. And last year, the company had a significant gain of Rs. 359 Crores last year H1.

K Nimmagadda: Understood. Sir, you spoke of reduction in admin expenses. So is it something that you are going to continue? Or will we revert back to the levels that we have seen earlier?

Subodh Gupta: Now there's a focused cost reduction group, and all out efforts are being made to contain all the material costs over its all other expenses. So it is because of that other expenses, we have seen a reduction of more than 8%. It has come down from the last year of Rs. 1,003 to

Rs. 924 Crores that is continuing. And I expect this to continue in the forthcoming quarters also.

K Nimmagadda: Understood. Sir, again, on the raw material cost, sorry for asking it, again. So do you mean there has been a spike in the current quarter? I understand it could be a quarterly thing. So where do you see this going? I mean will the spike that we have seen currently, will it continue going ahead of the costs? Can we see a reduction on this number?

Nalin Shinghal: As I've already said, we are not giving any forecast, but we are focusing in reduction of cost through design as well as through the procurement methods. However, that said, this reduction is largely likely to happen in the coming years. That will take some time to reflect in the figures.

Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Just wanted some clarification on your strategy. So what you are saying is, essentially, you will still continue to produce to keep the shop running, keep it in inventory and not sell it to the customers. So your receivables will not build up, but inventory will build up. Is my understanding broadly, right?

Nalin Shinghal: No, that is not what we are saying really. What we are saying was that there is a focus on getting our execution status streamlined. So for the next some period, we still expect this to happen. But ultimately, when the execution gets streamlined, this entire process will be streamlined and this inventory balances will also go down. This is what we expect.

Puneet Gulati: Okay. But what is really holding back getting your payments on time? Or is it more a contract structuring issue?

Manoj Varma: Precisely, since major contribution of our revenue vis-a-vis is coming from the state utilities, what we gather from the market and possibly would have been endorsed to you also from some forums. But they are also struggling for funds. Besides the funding from PFC, whatever funds they have to put as per contract TOPs, there they are struggling. So that is why linking up their own funds, either through government guarantee bonds or on borrowings from other agencies, they are unable to pay us on time. So that is why we have taken a conscious decision to regulate the supplies, enabling the funds flow also of the company to be streamlined.

Puneet Gulati: Okay. And will these receivables that you described, is there any significant project completion that you anticipate which can help unlock a decent amount of receivables?

Manoj Varma: Yes. In TANGEDCO, we are hopeful of one project which we should be getting through this fiscal only, that is March ending. So there, we are almost on the verge of nearing finishing stage. There, we hope that in the next 2 months the position of realization will be better. And 1 or 2 projects of TSGENCO also we are targeting. So I think in the next 2 months, we should be in a little better position.

Puneet Gulati: Okay. But have they been communicating that you have almost Rs. 10,000 Crores receivables from them that they will pay up whatever is left? Or will there still be more after you deliver these projects?

Nalin Shinghal: They are also equally concerned. We are also making persistent efforts.

Moderator: Thank you. The next question is from the line of Girish from Morgan Stanley. Please go ahead.

Girish Achhipalia: I had a couple of questions. First one, power sales have obviously been declining. So you have articulated the fact that you have been trying to manage the cash balance. Can you quantify, in your backlog, how many such projects are actually slow-moving because of this cash flow mismatch issue?

Manoj Varma: No. I in fact informed you, we are having right now 3 major clienteles, of which 2 are state gencos and 1 is definitely the central utility. So we are getting audience, and we started this approach. But state utilities, more assurance is required and the results are yet to flow in from them.

Girish Achhipalia: So would it be fair to say that 30%, 40% of your state orders would be slow moving then?

Manoj Varma: They are not slow moving. They are only regulated as of now.

Girish Achhipalia: I mean -- what I mean regulated by yourself. So you are actually executing slower, that will be about 30%, 40% of your state orders?

Manoj Varma: I would not say it in percentage terms, but definitely, it is only to manage the fund flow, cash in, and cash out.

Girish Achhipalia: Okay. And the second question I had was in terms of industrial business. I thought that there will be some operating leverage, but it doesn't appear to be. So the margins despite a 20%-plus growth have actually compressed again. So is there something which is low-margin that is being executed here or...

Nalin Shinghal: You are talking about industrial vertical.

Girish Achhipalia: Yes, in Q2, the margins are lower for the industrial?

Subodh Gupta: It is not reflected, you will see. Historically, the industry sector has had lower margins. Newer business areas are low-margin areas. And specifically, yes, solar has been fairly low margin. That industry itself, you know the industry status. That is one of the industries.

Moderator: Thank you. The next question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram: Sir when we look at your H1, the breakup you had given, the provisions, you had mentioned that it has reduced from Rs. 824 Crores last year to Rs. 88 Crores this year. So what was it for this quarter in terms of provisions? Was there any write-back this quarter?

Subodh Gupta: The write-back has basically net provision for the quarter is minus Rs. 76 Crores, which was Rs. 515 Crores was the net creation last year Q2.

Renjith Sivaram: Yes.

Subodh Gupta: Q2 is minus Rs. 76 Crores this year. And last year, it was Rs. 515 Crores plus.

Renjith Sivaram: Okay. So that has been the major reason for this reduction in other expenditure for the quarter.

Subodh Gupta: Last year, creation was more as compared to the current year. Creation was to the tune of Rs. 1,100 Crores last year in Q2. This year, it is Rs. 550 Crores. Because of the lower creation, the net is minus Rs. 76 Crores.

Renjith Sivaram: Okay. And Sir, when I look at your revenue, the first 2 quarters was a decline. So are we relooking at our full year MOU guidance? Like, what is the kind of full year target that we will be having in mind?

Subodh Gupta: Certainly, the target is still with us, that whatever MOU target is there. So we are working towards the target now. Let us see what happens.

Renjith Sivaram: And also, like, in your L1 position, you have this couple of projects which have been continuing for, like this Talcher. So where do you see that? Because we hear from NTPC that there are certain environmental relation, there are certain protests in Orissa regarding that land and the work to be started there. So what do you hear? What is the sense that you get in terms of these issues?

Manoj Varma: As of now, it is Board approved by NTPC also. They are also looking for the optimism. We are also equally hoping that same thing. Already, the government at central level is also requesting for pushing more power projects in Orissa. Now state government may be working out certain strategies. And we definitely as on today also are hopeful that this will get through by this fiscal year-end.

Renjith Sivaram: Okay. And lastly, in your receivables, what is the breakup of the collectibles and the others?

Subodh Gupta: I think you can take the detailed breakup from Mr. Yogesh from Corporate Finance. You can be in touch with him. The detailed figures can be taken.

Moderator: Thank you. The next question is from the line of Deepak Krishnan from Goldman Sachs. Please go ahead.

Pulkit Patni: This is Pulkit from Goldman Sachs. Most of my questions are answered. One bookkeeping question. Can you highlight what is the foreign exchange gain/loss that has been booked in this quarter?

Subodh Gupta: Gain around Rs. 90 Crores upto the quarter, the gain is Rs. 42 Crores in the current quarter.

Pulkit Patni: Rs. 42 Crores in the current quarter?

Subodh Gupta: Vis-a-vis Rs. 274 Crores Q2 2018-2019.

Pulkit Patni: Rs. 274 Crores. Okay, makes sense.

Subodh Gupta: So despite that, the bottom line is this Rs. 165 Crores, Q2.

Moderator: Thank you. The next question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: Sir, my questions have been answered.

Moderator: Thank you. The next question is from the line of Girish from Morgan Stanley. Please go ahead.

Girish Achhipalia: On the backlog side of the power portfolio of around Rs. 88,000 Crores, how much is state orders that are pending to be executed?

Manoj Varma: State must be around Rs. 35,000 Crores.

Subodh Gupta: Rs. 30,000 Crores,- Rs. 35,000 Crores. I think that will be the figure, around Rs. 30,000 Crores.

Girish Achhipalia: And the rest would be NTPC?

Manoj Varma: Yes, broadly, NTPC, which is contributing some 50% of that.

Girish Achhipalia: Sir, the second question. On the industrial side, solar and railway would be what proportion of the total Rs. 11,000 Crores order book?

Subodh Gupta: You just note down the breakup. The total industry sector order book up to Q2 is Rs. 3,322 Crores. Rs. 3,322, the orders what we have received in the last 6 months. Out of that, renewable is Rs. 1,560 Crores. Transportation is Rs. 616 Crores.

Girish Achhipalia: Sorry, I was referring to the order book which is pending to be executed. I just want some color on the order book.

Subodh Gupta: Are you asking about the order book.

Girish Achhipalia: Yes, Sir.

Nalin Shinghal: Around that, the number is not available. We can furnish you the number later on separately.

Moderator: Thank you. The next question is from the line of Abhineet Anand from SBICAP Securities. Please go ahead.

Abhineet Anand: In the opening remarks, CMD Sir did mention about the lithium-ion production and all. If you can elaborate on the same, it would be great?

Nalin Shinghal: We've said that the facility for space-grade lithium ion cells and batteries, which has gone into production, and we are supplying to ISRO. And we are further looking at tie-ups for going into commercial grade as well. Going ahead, that is what we will also be looking at.

Abhineet Anand: I mean government is looking into any lithium-ion battery facility, I understand, in India. Are we going to play some role in that?

Nalin Shinghal: We plan to. There are a number of incentives with a number of teams are coming out, and we plan to be a part of this.

Moderator: Thank you. Next question is from the line of Ajinkya Bhat from Macquarie. Please go ahead.

Ajinkya Bhat: Apart from these apart from the NTPC, a couple of these tenders, what is the pipeline looking like you see what potentially would get ordered in FY2021?

Nalin Shinghal: FY2021, you mean?

Ajinkya Bhat: Yes. Apart from these known ones, the Singrauli, Talabira, Lara, these kind of orders, apart from that, what is there in the pipeline?

Manoj Varma: One is Adilabad Singareni Collieries, that is also mentioned in 2021. Then Talabira you have already mentioned. And NLC we are looking for 2 orders of 660. And then Koradi Mahagenco, that is also likely to come. Then some of the revamping brownfield projects are also in the offing. And then nuclear, we are hoping for a fleet mode of 6 units of 700-megawatt each, that is roughly going to be a potential of more than Rs. 12,000 Crores in one go. We are hoping, what we understand though NPCIL has planned it for this year only, but their earlier date of May has now been deferred for November end opening. The tender has already been bid by the parties. So there also, we are quite hopeful. There are only 2 parties as of now who have bid including BHEL. And SG package including 12 steam generators. So that also will go to next year only.

Manoj Varma: The market looks to be good, as has been performing in the last 2 to 3 years, roughly 8 to 10 gigawatt, we are hopeful that next year also it will be there.

Ajinkya Bhat: Okay. Sir, can you give us some update on the progress on the Bangladesh order?

Manoj Varma: Bangladesh, of course, there were certain delays. We are trying to arrest them. And we hope to meet the deadline of February 2021 for Unit 1.

Ajinkya Bhat: But have we started work there?

Manoj Varma: Work is already going on.

Nalin Shinghal: Yes, the work is in full swing.

Moderator: Thank you. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Sir, what is your L1 order as of now? And what is the breakup between industrial and power segment. And secondly, is there any large industrial order which is in the horizon where you are participating?

Nalin Shinghal: As already mentioned, the tenders where we are definitely placed totaling to about Rs. 21,000 Crores, of which about Rs. 16,000 Crores is power sector.

Mohit Kumar: Sir, is there any large opportunity in the industrial side going into the next H2?

Nalin Shinghal: Sorry, could you come again, please?

Mohit Kumar: Sir, is there any large opportunity side in industrial which can come up in H2 FY2020.

Nalin Shinghal: We are looking at orders from ISRO for launch vehicle tankages as well as for WAG-9 locos. These are some of the large ones that we are looking, in addition to various SPV power plants from NTPC as well as PGCIL transformer orders.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing remarks. Over to you, team

Nalin Shinghal: Thank you, ladies and gentlemen, for your patient hearing and an interactive question-and-answer session and for your interest in BHEL. Goodbye.

Moderator: Thank you. Ladies and gentlemen on gentlemen, on behalf of SBICAP Securities, this concludes this conference call. Thank you for joining us. You may now disconnect your lines.