"Bharat Heavy Electricals Limited Q3 FY-20 Earnings Conference Call"

February 11, 2020

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Moderator: Ladies and gentlemen, good day and welcome to the BHEL Q3 FY20 Earnings Conference Call hosted by Antique Stock Broking. 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 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. Dhirendra Tiwari from Antique Stock Broking Thank you and over to you.

Dhirendra Tiwari: Good evening, ladies and gentlemen. Welcome to 3Q FY20 Results conference call of BHEL. To discuss results, I am pleased to have with us today Dr. Nalin Shinghal – CMD, BHEL and Mr. Subodh Gupta – Director-Finance, BHEL along with the senior members of the management team.

Now I invite Dr. Shinghal to give his initial remarks following which we will have the question-answer session. Over to you, sir.

Nalin Shinghal: Thank you, Mr. Tiwari. Good evening, ladies and gentlemen. I am Nalin Shinghal – CMD, BHEL and I have with me Shri Subodh Gupta – Director-Finance; Shri S. Balakrishnan – Director-Industrial Systems & Products; Shri Manoj Varma – Director-Power; Shri Kamalesh Das – Director-Engineering & R&D; and Shri Anil Kapoor – Director-HR.

A very warm welcome to all of you. Friends, as we are aware our country has set for itself the target of becoming a $5 trillion economy by 2024-25. Towards this end, the report of the task force on national infrastructure pipeline has been released recently. The report envisages a total investment pipeline of Rs. 102 lakh crores over the next 5 years. The infrastructure investments are projected to increase from a level of Rs. 13 lakh crores in FY '20 to Rs. 19 lakh crores to Rs. 20 lakh crores in FY '22. And thereafter, Rs. 12 lakh crores to Rs. 13 lakh crores per annum for the period FY '23 to '25. Renewed commitment for investments in Infrastructure Sector is encouraging.

Specifically, in the Power Sector, focus of the government on raising the per capita consumption from 1,181 kilowatt hours to 1,616 kilowatt hours per annum, lowering of AT&C losses, and proposed reforms like open access and distribution, regular tariff revisions, extensive smart metering by 2025, et cetera, are truly transformative initiatives, which have the potential to reignite investment in the sector.

As per the NIP document, total power generation capacity is expected to touch 619 GW by 2025, with 50% contribution from thermal and 39% contribution from renewables. Investments in the conventional sector are envisaged to be driven by public sector, and in renewables by the private sector.

These targets have been reflected in the Union Budget also. Some of the new initiatives targeted at Power Sector include the reform program ADITYA, to encourage installation of smart meters across all discoms, separation of wire and content business, 15% concessional tax rate for new power companies in generation business, shutdown of older plants not meeting emission norms and a 48% increase in MNRE budget. This implies sizable investment in Power Sector, which is expected to give a fresh impetus to the sector.

Coming to the events specific to BHEL,

We are making good progress in the transformation initiatives taken up in the recent past, and the year 2020 has been declared as a year of transformation in the company to successfully address immediate business challenges arising out of changes in the environment and readying itself for sustainable growth in the long term.

Mission 'Quality First' has been launched across the company. An integrated project management system is under commissioning for real-time project monitoring. e-office system is being deployed for speeding up processing. A number of initiatives are also being implemented for ensuring cost reduction through optimization and design, and improvement in procurement practices.

For driving long-term growth, the services of a reputed consultant have been engaged for identification of new growth opportunities and their subsequent implementation road map.

Defence is a major growth area for the future. And in this direction, we have signed MoU with a Russian defense company and also with BEL during the Defence Expo last week, which opened up new opportunities in the Defence Sector. A number of other new business initiatives are also being taken up actively.

Our employees are our biggest assets and drivers for the future growth and success of the company. For enhancing employee engagement, performance planning and measurement system has been revamped to bring about improved alignment of individual and organizational performance. The internal communication across all levels is being strengthened, and steps have been taken to improve productivity in our manufacturing units.

Up to Q3 FY '20, we booked orders worth Rs. 17,244 crores, out of which Power segment is Rs. 10,775 crores and Industry Rs. 5,550 crores and Exports Rs. 919 crores. Major orders received in Power segment were 2x660 Megawatt TG package for THDCIL Khurja project and FGD packages for 3x660 megawatt NPGCL Nabinagar STPP; 4x250 megawatts BRBCL, Nabinagar; Korba STPS Stage 1, 2 and 3; Ramagundam STPS Stage 1 and 2; 2x250 megawatt Bhilai expansion, et cetera.

In the Industry segment, major orders are 75 numbers WAG-9H electric locomotives with AMC; 25 numbers 5,000 HP electric locos type WAG-77 with regenerative breaking; 77 sets of IGBT-based electric propulsion equipment with AMC for electric locos; EPC and O&M for 3 years for 100 megawatt floating solar PV power project at Ramagundam, Telangana; 200 megawatt SPV project at Raghanesda-I &II Solar Parks on EPC basis; 75 Megawatt solar PV project at Dhuvaran on EPC basis; 50 Megawatt solar PV at Osmanabad on EPC basis with 10 years O&M.

A noteworthy entry into Aerospace business has been made by securing an order for ISRO launch vehicle aluminum alloy tankages in January 2020.

The total order book as of December 31, 2019, stands at Rs. 107,654 crores, out of which the Power Sector is Rs. 87,215 crores; Industry Sector is Rs. 11,710 crores and Rs. 8,729 crores is from the export projects.

In addition to the above, we are favorably placed in 2x660 megawatt NTPC Talcher main plant package and many orders for FGD and boiler modifications.

Tendering is underway for 2x800 Megawatt NTPC Singrauli and 2x800 Megawatt NTPC Lara. Tenders for FGD for around 27 Gigawatt, mostly from government utilities, are in advanced stage of ordering.

Coming to the financial performance:

Turnover for third quarter 2019-'20 is Rs. 5,458 crores as against Rs. 7,116 crores during third quarter of 2018- '19. Turnover up to Q3 FY '20 stands at Rs. 15,897 crores as against Rs. 19,513 crores during the corresponding period last year.

Profit before tax for third quarter 2019-'20 is placed at Rs. 226 crores as against Rs. 275 crores in the corresponding period last year. Profit after tax for third quarter 2019-'20 is placed at Rs. 159 crores as against Rs. 192 crores during third quarter of 2018-'19.

Despite the lower turnover, cash collections against dispatches are up by 8% during the first 9 months of the year, i.e. from Rs. 15,997 crores up till December 2018 to Rs. 17,285 crores up till December 2019.

Thank you all once again for joining this call. We will take questions now.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Mohit Kumar from IDFC. Please go ahead.

Mohit Kumar: Sir, first question, the revenue has declined QoQ despite having a large order book. Sir, how do you expect Q4 to pan out and something you can talk about FY '21? And what is the reason behind this decline?

Nalin Shinghal: See, if you look at the opening order book, there is a decline in our opening order book from the previous year. And largely, the revenues are related to that. So it is linked to the overall status of the Power Sector essentially.

And as far as FY '21 is concerned, we are looking at a number of new projects ordering to happen, and the pipeline, as mentioned by the NIP, so we are hopeful that, that ordering will improve.

Mohit Kumar: QoQ, Q3 revenue has declined compared to Q2. So we are expecting some pickup in, right, in Q4?

Subodh Gupta: Shall I answer? Actually, I am Subodh Gupta – Director of Finance. If you look at the revenue of Q3 last year Rs. 7116 crores was the number last year. It has gone down to Rs. 5,458 crores in terms of turnover. So the reason for reduction mainly is bought-outs. Certain bought-outs were required last year, which are not required contractually this year. So sometimes, this kind of mismatch happens.

Sometimes things are not required contractually. So revenue may change accordingly. So it is basically because of that reason mainly. Basically, there are 2 types of turnover we have earlier explained, in-house and bought-outs. So this time, shop production was more than the bought-outs and bought-outs were not required contractually at this time.

And one more important thing, as we have said, the revenue has gone down only if you compare up to Q3 of last year and Q3 of this year. It is down almost by Rs. 3,600 crores. Major reasons are the availability of opening executable order book. As CMD has already explained you, last year, when we started the year '18-'19, executable order book was Rs. 98,628 crores. This year, opening executable order book is Rs. 86,953 crores.

So if you see the execution of the current year and as of last year in terms of percentage, it is almost at the level of 21- 22%. So much of that execution performance depends on the opening order book of the company. Because whatever order comes during the year, they do not get immediately converted into the top line, only 5% of that gets converted into top line. That is the scenario. So that is the major reason.

And some of the things are there, customer has put hold on certain BOPs also, like Yadadri, Udangudi. Even Sagardighi order, it is a part of order book, but we do not have any clearances.

And further slow progress by civil contactors is also another reason because we are now into a completely 100% EPC business. So that is also one of the challenging reason.

Mohit Kumar: Sir, there are 4 orders?

Subodh Gupta: In any case, we have ensured that with the lower number also, of the top line, we are ensuring that at least we must maintain some healthy bottom line. This number has gone down this year, but certainly, improvements are expected to happen in future.

Mohit Kumar: Coming on the orders, sir, the order inflow, there was NTPC Talcher, which I suppose, I think, a high level gain?

Subodh Gupta: Talcher, we did not receive. Adilabad, and there was Tanzania order, Kilwa international order. We were expecting those orders to come in the current year, but they did not come.

Mohit Kumar: Sir, do you expect any of the order, NTPC Talcher, Adilabad, Singrauli, or Lara to be finalized before March '20?

Subodh Gupta: Lara, probably yes. Now Director Power will throw light on this.

Manoj Kumar Varma: Good evening, I am Manoj from BHEL. Indeed, regarding the NTPC Talcher, which you are asking, Talcher was pending with the Government of Orissa for clearance, which they have cleared in the 1st week of January. Now it is to be formally issued to BHEL through NTPC. And they are likely to put up to their Board for clearance. We hope it should be done by end of this fiscal year.

With regards to Lara, Singrauli, 2x660 Megawatts for both the projects, these were indicated for Q3 by the ultimate central utility. But for certain reasons, it has been getting deferred month-over-month fourth time in a row consecutively and now it is scheduled for February 14 for issuance of the NIT. So we are hopeful, if it happens on February 14, things will be in progress.

But definitely, it will not get converted to confirmed order book this fiscal, which we were speculating in the Q3. But I will not be able to give you for what reasons, but ultimate customer has yet to take a decision on issuance of NIT.

As regards Adilabad, we had been in touch with their apex management also since September. They have been informing that these things are likely to happen despite the fact that it was identified in March '18. But yet the decisions are to be taken by the SCCL for Adilabad, 1x800.

So in a nutshell, what all optimistic potentials were there in the market during Q2, Q3 and we were harping for a better opening on 1st of April '20, they have been but for certain reasons, beyond our stretch, have been getting deferred. So this is the status of all these 4.

Besides this, we are still hoping for 3x800 MW Talabira project and 2x660 MW NLC. So those are yet to happen. So put together, this is a big kitty of roughly Rs. 40,000 crores, which is only taking a backseat month-over-month.

Mohit Kumar: The last question, sir, is there any update on the Lot 4, Lot 5 tender of NTPC?

Manoj Kumar Varma: FGD, you are talking, I suppose?

Mohit Kumar: Yes, FGD.

Manoj Kumar Varma: Yes, they are in progress.

Mohit Kumar: When do we expect it to be finalized?

Manoj Kumar Varma: Possibly, we are quite optimistic for next month, but I cannot assure you on behalf of customer. It may slip to April also.

Moderator: Thank you. Next question is from the line of Abhishek Puri from Axis Capital. Please go ahead.

Abhishek Puri: Our full year excellent MoU target was about Rs. 30,000 crores. So are we confident of achieving it now? Or will it be pushed back, given that first 9 months we have seen a massive decline in top line in the revenues?

Nalin Shinghal: Well, we do not really give any revenue guidance, but the efforts are on. Let us see where we reach.

Abhishek Puri: Okay. Sir, on the other expenses part has gone down quite drastically. So what have we done in terms of cost reductions or provisions number, if you can provide?

Subodh Gupta: Means you want the number of provisions?

Abhishek Puri: Yes, sir.

Subodh Gupta: You want the breakup of other expenses for the Q3 or up to Q3?

Abhishek Puri: For Q3 specifically and efforts from the company to reduce that?

Subodh Gupta:: See for Q3, the financial results, what you are seeing is, last year, it was Rs. 1,230 crores, and this year, the number is Rs. 379 crores. There are multiple factors which are contributing to this reduction. One is the provisions part, which we have a much lower creation this time and better withdrawals basically. So for Q3 last year, it was Rs. 286 crores. This time, it is minus Rs. 187 crores.

The other expenses, the miscellaneous expenses, which administrative costs we are incurring, that is Rs. 486 crores last year, Rs. 465 crores this year.

Other things would be basically power and fuel and indirect metals, which also are down by Rs. 15 crores each. Then, we have an yearly gain basically of Rs. 138 crores this year due to depreciation of INR versus Euro.

Abhishek Puri: Rs. 138 crores in Q3?

Management: Yes.

Abhishek Puri: Okay. And lastly, in terms of the collections that you mentioned, could you repeat the numbers for receivable and other current assets?

Subodh Gupta: Basically, if you look at the trade receivables, at the beginning of the year, in the current year, the trade receivables were Rs. 15,945 crores. Now by the end of December, it is Rs. 14,311 crores. So down by almost 10%.

Abhishek Puri: And the other current asset and cash number also, please?

Subodh Gupta: In the contract assets you are talking?

Abhishek Puri: Yes, sir.

Subodh Gupta: Contract asset at the beginning was Rs. 22,297 crores. Now it is Rs. 23,755 crores. So the total debtors at the end of the quarter 3 is around Rs. 38,065 crores.

Abhishek Puri: And the cash balance?

Subodh Gupta: Cash balance, actually, we do not share the number. It is not published, actually. But it is more than Rs. 1,200 crores. But the deficit is much lower as compared to last year. Last year, up to Q3, the deficit was more than Rs. 6,000 crores. This time, it is around Rs. 3,800 crores. So there is a 40% improvement in on cash outflow front also.

You see one of the reasons why we have not done top line also, now let me make you clear also. Earlier, the turnover practices to take revenue, some things were pushed on sites, which were not required contractually or sequentially. That is the fact. So this year, we have taken a policy on things which are required contractually. So that is also some kind of EPC excellence we are bringing on the projects. So that is also part of that thing. So some kind of revenue we miss on. But in long run, this is going to benefit the organization.

Moderator: Thank you. Next question is from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: My first question is on the net cash position as of the December quarter end. So did the Rs. 12 billion number that you gave, was it the net cash position adjusted for the debt?

Subodh Gupta: It is a net cash position.

Sumit Kishore: Okay. My second question is on the gross margin performance for the first 9 months where we have seen a decline of close to about 200 basis points. I mean we know that the top line has been weak. There is a higher mix of EPC in execution. But where do you see this gross margin settling? Is this the new normal?

Subodh Gupta: If you look at the EBITDA of the current quarter 3, it is around 8.6%, highest in last 4 to 6 quarters of the past. So certainly, at the EBITDA level, we are trying to improve. But certainly, gross margins, the margins which you are talking at the gross level after, basically, it is due to increase in our material costs. Depleting margins is one of the major reason. The price levels are not that we were getting in past.

Sumit Kishore: So yes, because EBITDA margin has also been a function of what you have done in terms of provisions, the year we gain, et cetera. But the question is, so is the gross margin level of third quarter FY '20 is a more sustainable number?

Subodh Gupta: Yes, certainly. But I did not get how are you defining the gross margin?

Sumit Kishore: Sir, basically, after the material costs, the contribution margin?

Subodh Gupta: In terms of material costs, in terms of what is the value additions?

Sumit Kishore: Yes. I mean after the raw material costs, what is the contribution margin?

Subodh Gupta: Certainly, this quarter, material cost has gone up. From the past, it was 64%, now it has gone to 66%. So some increase is there in the material cost. But certainly, something is likely to improve in Q4.

Sumit Kishore: Okay. But it is also reflective of the pricing that you have on the residual order backlog?

Subodh Gupta: It is better than pricing strategy in the market. How pricing is done by our competitors also. So pricing, certainly, is a challenge and concern for everyone, for us, for others also. So the same level of margins, which we used to operate at '11-'12, '12-'13, we cannot just have that same level of margins today. Certainly, margin is a concern.

Sumit Kishore: And what would be the composition of receivables that you have, state utility, central and private?

Subodh Gupta: Okay. Private is 12%, state is 48%, CPSE 32%, export is 9%.

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

Ajinkya Bhat: Sir, I have two questions. The first one is regarding a particular statement made by the honorable Finance Minister during her budget speech, where she mentioned that the old inefficient power plants can actually be shut down and the land can be put to alternative use. What is your view on this statement?

Do you see this as potentially negative for BHEL's future prospects? Because it seems that there is perhaps a realization within the government that given where the PLFs are currently, maybe it is better to shut down some capacities. Would you look at it that way? Or would you look at it with some different light? Could you please explain?

Nalin Shinghal: Well, if you look at the national infrastructure policy, which talks of total 619 gigawatt with 50% contribution from thermal, that means the overall thermal would be going up. And with the shutting down of the lower efficiency and polluting power plants, that should create demand for brownfield power plants to be set up. So we expect that in conjunction with the $5 trillion target that will increase the market that we have.

Manoj Kumar Varma: Indeed, this potential is roughly 48-Gigawatt, where already the government has started activities, and we have also won bids in this case of Patratu 3x800, Panki also. Then Bhusawal is there. So that way, these projects will be and Wanakbori is there. So all these projects are happening. And furthermore, it will improve. So this will be a market potential for us also.

Ajinkya Bhat: Okay. And sir, the second question is more about the fungibility of your manufacturing capacity. So you have spoken about you getting more orders on the locomotive side. You talked about an order from ISRO. You have signed an MoU with Bharat Electronics. So you are clearly trying to diversify.

Now my question is that in order for you to ramp up these diverse set of businesses, are the current manufacturing facilities fungible enough that they themselves can take up these new products? Or would you have to do more CAPEX and the existing power equipment manufacturing capacity still remains idle given where the ordering scenario is?

Nalin Shinghal: So you see, what is happening is that a lot of these capacities would be utilized, let us say, for our capacities for larger motors may be required and utilized for smaller motors for traction for railways, but there would certainly be new equipment required. And we are going in for aggressive CAPEX expenditures projects for specialized facilities for things like ISRO, for defense requirements, for railways requirements, for nuclear requirements, for solar as well. So a lot of capacity expansion is taking place.

And I think it will be a mix. So some old equipment, which is not going to be utilized, will have to phased out at some stage. But ultimately, a large amount of our existing equipments will continue to be utilized with additional facilities being put into place.

And when we are putting in facilities, we have, for example, for the advanced ultra-supercritical power plant project that we are doing, we are putting some of the latest state-of-the-art facilities are coming into place in conjunction with existing facilities. So it is a mix that we need to work on.

Ajinkya Bhat: Sir, any CAPEX plan that you have put in place? I mean, even if you do not want to give guidance for the next year, even if over 5 years, what is the total quantum that you would expect? Some guidance would be.

Nalin Shinghal: Number of projects are coming into place; I would not put a figure to it.

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

Puneet Gulati: Can you give some sense of what would your 9-month cash flows being from operations?

Subodh Gupta: Last up to Q3 '18-'19, the net cash flow inflow from operations, up to last year, it was Rs. 6,073 crores.

Puneet Gulati: Yes. And this year?

Subodh Gupta: This year, it is Rs. 2,920 crores. So down by almost Rs. 3,000 crores.

Puneet Gulati: Yes. So this I thought was a negative number for the first half. So it has become from minus Rs. 2,200 crores, a positive Rs. 2,920 crores in 9 months?

Subodh Gupta: No it is a minus number also.

Puneet Gulati: Okay. So it is a negative cash flow. So Rs. 2,200 crores is?

Subodh Gupta: No, overall what I am just trying to compare because cash flow I am comparing for 9 months, what was the position 9 months in '18-'19? What is the position 9 months this year? So last year, 9 months, it was Rs. 6,073 crores deficit was there. This year, it is Rs. 2,920 crores. So it is down by almost more than Rs. 3,000 crores.. So there is improvement by Rs. 3,000 crores almost.

Puneet Gulati: And what would be your CAPEX so far?

Subodh Gupta: CAPEX around Rs. 300 crores so far, but we are expecting to be closer to around maybe Rs. 350 crores, Rs. 400 crores.

Puneet Gulati: Okay. 9 months CAPEX, okay. Secondly, in terms of receivables, are you facing any difficulty in getting any payments from states?

Subodh Gupta: Certainly, sir. And we need your support also, if we can. TSGENCO, TANGEDCO.

Puneet Gulati: So how old will these be now?

Subodh Gupta: Basically, they are paying, but slow-paying customer. I am not saying they do not pay, but they take their own time. Processing time is very high and, ultimately, because of the stringent payment terms more is into contract assets, more is in deferred payment terms and collectible money is much lower. But still, they take their own time. And our entire team is there, we are following up.

You see, what is the major stance the CMD has shared in the beginning that there is an improvement in cash collection by 8% over last year, while we had done a major turnover of Rs. 20,000 crores. This year, turnover is down by Rs. 4,000 crores. But despite there is a growth in cash collection.

So cash collection efforts are going in all the areas of business. So we are aggressively targeting cash. And that is cash is also one of the reasons that we are lower on performance also. We are just targeting those where we get cash. Cash has also become a factor for our execution.

Puneet Gulati: And when you gave the breakup of receivable between private, state CPSUs, should we also account for, sorry, the receivable plus contract assets?

Subodh Gupta: Yes, I gave in its entirety. Yes, it is put together, all put together, everything.

Puneet Gulati: And lastly, are you seeing any tendering activity on the coal, thermal power side in the international market? And if you can give some color there?

Manoj Kumar Varma: No. We are only exploring right now. As of now, only one contract is going on with Bangladesh. We have been in dialogues with a few prospective persons for tie-up in gas projects also, precisely in Bangladesh.

Puneet Gulati: Okay. So it is only Bangladesh, which you are exploring right now?

Nalin Shinghal: Yes. Africa also is on the anvil. We are working on those things, but it is too premature to comment on that.

Moderator: Thank you very much. The next question is from the line of Atul Tiwari from Citi Research. Please go ahead.

Atul Tiwari: Sir, out of this order book of Rs. 1 lakh 7 thousand crores, how much is slow moving or where the EC is not in place?

Subodh Gupta: Executable is Rs. 87,495 crores.

Atul Tiwari: And sir, what is the quantum of L1 orders, where you are favorably placed?

Manoj Kumar Varma: No, these are all L1 orders. Favorably place this further.

Atul Tiwari: Okay. So what is the quantum of L1 orders? I mean, which is not part of your order book, but where you have emerged as a clear winner?

Nalin Shinghal: Rs. 13,000 crores is where we are favorably placed. That include Rs. 10,500 crores in the power sector, another about Rs. 900 crores in the industry sector and about almost Rs. 1,900 crores in the international.

Atul Tiwari: Okay. And what is holding back the award for you of this order, I mean, because the bids have been invited. So this should come rather quickly or it can get delayed a lot?

Manoj Kumar Varma: So like Talcher, for example, has now been in that state for 17 months which we discussed earlier so. So some happen faster, some happen later.

Atul Tiwari: Okay. What is the quantum of Talcher in that Rs. 13,000 crores?

Manoj Kumar Varma: Rs. 6,300 crores.

Atul Tiwari: Rs. 6,300 crores. And any other major chunky orders in that apart from Talcher?

Manoj Kumar Varma: FGDs are about Rs. 4,200 crores, that is as a major, but that is the number of orders.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Fund Management. Please go ahead.

Bhavin Vithlani: My question is regarding the comment by the Director Finance. What are the measures that you are taking, so that you see a more sequential delivery and the measures to improve the execution from the current levels of 42 months? Because that is one area that we see that you could actually save on the cost and consequently improve on the profitability?

Manoj Kumar Varma: So execution is a very major focus area for us. And as I mentioned, already we are commissioning integrated project management software for centralized monitoring so that you are real-time monitoring a project, so that we are able to take corrective action in time in case of any delays. In addition to that, we are looking at advance planning, pre-engineering, so that we are on the ground much earlier, and we are able to start work on the ground in time.

And we are also looking to compress our execution time substantially on that. And another of the area that we face today is, of course, EPC because the business is now coming all, earlier the business was on the BTG basis, now it is coming into EPC entirely. Where we know, not just for us, for anybody in the business, execution is a challenge.

So a number of efforts are being made to improve the execution in those areas, including developing our own engineering capabilities, tie-ups with various majors.

So I think these are a whole range of efforts which are going on for improvement in execution, along with efforts for improvement in design for reducing costs for redesign, for reduction in costs as well as procurement efficiencies. So these are various efforts that are on.

Bhavin Vithlani: Would it be fair to say that you can achieve a 36-month cycle from the 42-month cycle, which will help you improve your profitability as well as cash flow?

Subodh Gupta: Well, I would not give an exact number now, but yes, we are looking at improving from the previous cycles.

Bhavin Vithlani: A bookkeeping question. Can you help us with what is the total order flow from the FGD in the fiscal year currently? You mentioned Rs. 4,200 crores is L1, so what is the orders book in this financial year from FGD? And what is the outstanding order book from FGD?

Manoj Kumar Varma: Roughly around Rs. 5,800 crores is the current level of order book and another favorably placed is Rs. 4,000 crores.

Bhavin Vithlani: And what is the fresh order wins in 9 months?

Manoj Kumar Varma: Sorry? This is current year fresh orders.

Bhavin Vithlani: Rs. 5,800 crores is the fresh orders?

Manoj Kumar Varma: And another Rs. 4,000 crores, we are placed favorably on FGD, sir.

Bhavin Vithlani: And what is the outstanding order book?

Manoj Kumar Varma: FGD total outstanding order book?

Subodh Gupta: Around Rs. 9,000 crores.

Manoj Kumar Varma: About Rs. 9,000 crores in general that we are looking at.

Bhavin Vithlani: Secondly, are you actually seeing a case in where some of these projects where they are at a stage of execution, where you see a buildup and, consequently, we will see an improvement in the cash flow cycle, maybe in '21 or '22? Consequently, the negative cash that we are seeing generation that changes to positive.

Nalin Shinghal: So you see one of the efforts is to convert the contract assets into receivables. So as we go into the question about sequential, as we improve the execution, a lot of that bucket of contract assets will come into receivables and then convert to cash.

Bhavin Vithlani: My last question is on the tax. We see you are booking almost 29%, 30% tax. If you can give us a view on, would we be moving to the new tax regime of 25%? And why have not we still moved to that?

Subodh Gupta: We are yet to take a view on this. We have not taken a final view, but still some time is left. So we will let you know the position what we will do in the quarter 4.

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

Mohit Kumar: Sir, one clarification. Raichur Power Corporation Limited, where we had invested Rs. 6.6 billion, has it become profitable in the current financial year?

Subodh Gupta: Actually, the Government of Karnataka, KPCL, they are taking a view to start this Raichur Power at the cost of solar power plant generation. So we have reinstated unit 1 last week and talks are on. And they have indicated about the coal availability and then sustainability of this. So once it becomes operating, in next 2-3 months, the status of operations will be optimistic on those fronts.

Mohit Kumar: Okay. So what is the net worth of the company? And what is at present?

Subodh Gupta: I think that off-hand, I am not remembering. We will share it separately with you.

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

Renjith Sivaram: Yes. Of the Rs. 38,000 crores of receivables, I just missed out, you told SEBs are 48% and private 12%, the rest are exports and PSUs?

Subodh Gupta: You want the break up?

Renjith Sivaram: Yes.

Subodh Gupta: Out of Rs. 38,000 crores, 12% is private; 48% state; 32% is CPSE, central utilities; and 9% is export.

Renjith Sivaram: And the provisions, minus Rs. 187 crores is the provision withdrawal this quarter, right?

Subodh Gupta: Less creation and withdrawals also happened.

Renjith Sivaram: So what is the net provision withdrawal?

Subodh Gupta: This year, the creation is lower as compared to the last year. If you will see, at the year-end, from the annual report, creation is much lower as compared to the last year. That is one reason. And secondly, withdrawal also has happened, so that has given the benefit both in terms of that.

Renjith Sivaram: Okay. So for this quarter, when we look at Q3, there is a huge decline in the other expenditure, so just want to?

Subodh Gupta: Mainly because of provisions, mainly because of provisions withdrawal.

Renjith Sivaram: So if you can quantify that, what will be the number?

Subodh Gupta: Yes, Rs. 286 crores was the Q3 '18-'19, net creation of provision last year. This year, there is a withdrawal of minus Rs. 187 crores.

Renjith Sivaram: This is for 9 months or?

Subodh Gupta: No, for 3 months.

Renjith Sivaram: 3 months and there was an ERV gain of Rs. 138 crores.

Subodh Gupta: Yes, Mr. Renjith, for 9 months, it is Rs. 98 crores minus is there. And last year, it was Rs. 960 crores plus. And I can give you the breakup also if you want. Creation was Rs. 2,348 crores and Rs. 1,388 crores. And current year 9 months is Rs. 1,506 crores creation and Rs. 1,604 crores withdrawal. So minus Rs. 98 crores is the net number for 9 months.

Renjith Sivaram: And sir, one more. Just wanted to look at, we always have an MoU target in terms of revenue while we start the year. So Rs. 38,000 crores in terms of revenue was the one which we were looking at. So given the current scenario, what is the current target, which we will be aiming at? Just to get some clarity on that.

Subodh Gupta: Just now CMD has already replied to this question. Rs. 33,000 crores, what is there in the MoU, so we are working towards that. But certainly, we cannot share right now what is the position.

Renjith Sivaram: And in terms of order intake, what will be the target, which we will be working for the full year?

Subodh Gupta: For the full year, around Rs. 34,000 crores.

Renjith Sivaram: Okay. And that implies finalization of NTPC Talcher, the Rs. 4,200 crores of FGD and some of the things, one of the Singrauli and Lara. Is that the correct understanding?

Manoj Kumar Varma: I think we replied. We are being given to understand from the ultimate customers that this will be finalized. But as of now, it appears it will take time. Talcher is included in this Rs. 34,000 crores.

Renjith Sivaram: And sir, in terms of the gross margins, so what will be the number or directionally, if you can comment like what kind of gross margin should we be aiming at, given the current order book that we have in our hand?

Manoj Kumar Varma: Gross margin on the current order book, I do not know we can give you the future guidance. We have not even worked it out. We will see and we will share the numbers separately to you.

Moderator: Thank you. We have a follow-up question the line of Bhavin Vithlani from SBI Funds Management. Please go ahead.

Bhavin Vithlani: Could you highlight what is the employee headcount currently? I mean, what do you see as a retiral in this year and the next couple of years?

Anil Kapoor: 34,500.

Bhavin Vithlani: And what should we be looking at the retirals in this year and next year?

Anil Kapoor: Retiral, every year, I am expecting a retirement of almost 1,500 to 1,600 employees in the next 2, 3 years.

Bhavin Vithlani: Sure. Also in your view, what is the total fixed cost on an annualized basis? And do you see a headroom to?

Subodh Gupta: If you look at the total expenses of BHEL, if you add personal payment and other expenses, excluding provisions, 75% of that is around fixed cost, 25% is variable.

Bhavin Vithlani: Okay. Sir, do you see a headroom to reduce the fixed cost like?

Subodh Gupta: Certainly, we are working towards that. Something we cannot share with you today. We have done something within the Board. But next time, we will get some good news also. The management is geared up. We also know this is one of the challenge of the company that high fixed overheads, sustainability is not there, particularly, when the order book is not happening from the market. This is some concern area for us. Certainly, we are working towards that.

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

Pulkit Patni: Sir, this is Pulkit from Goldman. Sir, you mentioned regarding revenue recognition that one of the reasons why our revenue is lower is because we are a lot more focused on booking revenue where the receivable is certain, and we do not want to just book revenue for the sake of it.

Now if we look at your receivables, the total number of Rs. 38,000 crores that you discussed, would you be able to quantify what part of that receivable would have elements of that aggressive revenue booking, which we think could be doubtful in terms of receivable, given that we are doing up this cleaning up exercise?

Subodh Gupta: The money is not doubtful in terms of receivable as such. But something has gone, say, 6 months before, or 4 months before, 5 months before, something because, ultimately, top line is a concern for every company. So ultimately, for top line, if we do not have any of the order books for our execution, something we have taken from that portion also.

But this year, now the target is very clear in view of the cash challenges. There is a concern raised by all of you people that rising debtor cash is, there is cash deficit. Debtors are going up, so we have taken a position that we will not do such type of aggressive turnovers, which could ultimately will not bring cash, but it will add to debtors. This is very clear.

Pulkit Patni: Sir, likewise, what I want to ask was that if this practice was being done earlier, in your receivable, there would be some of these debtors?

Manoj Kumar Varma: 10%, 15%. You see our receivables are Rs. 38,000 crores, I will say around Rs. 4,000 crores is such an amount, which customer will pay. It is not doubtful, but it will take time. It may take 1 year, 5 months, 6 months, something like that. There will be delayed collection on that amount, but money is not bad.

Pulkit Patni: Sure, sir. So that is it. Sir, one more question. Sir, also, from a technology perspective, is there anything else because you mentioned about this long-term plans that we are implementing? Anything else that we are doing in order to sort of focus on newer technologies, et cetera, and what are we doing in terms of training our manpower on the same count, given that I mean, we have acknowledged now that thermal power, obviously, the growth is not what it used to be. So just to highlight the future of the company after 5 years, anything specific that we are working on in terms of technology and in terms of manpower training?

Kamalesh Das: See I am Kamalesh Das. I am Director, E, R&D. As our CMD narrated you that we are venturing into a lot of new areas and he also mentioned that mission quality first. So in that mission quality, we have adopted a part of training also. Now advanced ultra-supercritical is one area where we are venturing in the next 2, 3 years. And in that connection, we have already signed a JV with NTPC, it will be Rs. 10,000 crores project.

And there will be definitely a lot of new material in the turbine, boiler and all these areas. So we have already arranged specialized training to take up those jobs in that AUSC aspect.

Similarly, in solar area, in defense area, all new product area, we have identified the people, and we are giving them, imparting them proper training to ready for the future.

Pulkit Patni: Sir, 1 last question. As a public sector enterprise, if we have to look at doing something like voluntary retirement of employees or something, is there any special approvals that we require? Or just a Board approval is something that will be good enough?

Nalin Shinghal: There is a laid-down process for that, which is governed by the DPE guidelines, et cetera, which have to be taken up.

Pulkit Patni: Okay, sir. Because you spoke about fixed cost reduction, I thought that could be one of the ways.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Dhirendra Tiwari from Antique Finance for closing remarks. Over to you, sir.

Dhirendra Tiwari: Thank you, Dr. Shinghal and the BHEL management team for giving us the opportunity to host the call. Thank you very much and thanks for the participants. Have a very good evening today.

Nalin Shinghal: Thank you, Mr. Tiwari. To close I would like to say that this is a year of consolidation for us and we will come out from this as a diversified multi products engineering company with strengths in quality as well as execution. Going forward it is only going to be positive.

Moderator: Thank you very much, members of management. Ladies and gentlemen, on behalf of Antique Finance, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.