Bharat Heavy Electricals Limited
Q1FY22 Earnings Conference Call

July 30, 2021

Management:	**Dr. Nalin Shinghal – Chairman and Managing Director** **Mr. Subodh Gupta - Director, Finance** **Mr. Kamalesh Das – Director, Engineering, R&D** **Mr. Anil Kapoor - Director, HR** **Mr. Renuka Gera – Director, Industrial Systems and Products**
Analyst:	**Mr. Mohit Kumar - DAM Capital**

Moderator: Ladies and gentlemen, good day and welcome to Q1 FY2022 earnings conference call of BHEL hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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. Mohit Kumar from DAM Capital. Thank you and over to you Sir!

Mohit Kumar: Thanks Rutuja. Good evening to all of you. On behalf of DAM Capital, we welcome all the participants to the Q1 FY2022 earnings call of BHEL. We have with us Dr. Nalin Shinghal, CMD, Mr. Subodh Gupta, Director, Finance, Mr. Kamalesh Das, Director of Engineering and R&D, Mr. Anil Kapoor, Director, HR, and Mrs. Renuka Gera BHEL Director Industrial Systems and Products. Will start with opening remarks from the management to be followed by Q&A. Over to you, Sir!

Nalin Shinghal: Thank you Mohit! Good evening everyone. A very warm welcome to all of you. I hope you and your families are healthy and safe in these difficult times. The second wave of COVID wreaked havoc all around as well as badly impacted the rebounding economy, post the first wave of recovery. I am happy to share that during the second wave of COVID, your company has supplemented nation's efforts in combating the pandemic related challenges. Amidst the oxygen crisis faced by the country during this time, BHEL worked on a war footing to address the oxygen demand through its various manufacturing facilities across the country. BHEL supplied over 85,000 cylinders of medical oxygen from its Bhopal and Haridwar manufacturing plants by diverting industrial oxygen from production activities and setting up infrastructure as well as logistics for filling oxygen cylinders from the then existing 200/300 cylinders per day to reach almost 4,000 cylinders per day. Even a 40-year-old oxygen plant at Hyderabad unit, which was shut down for over a decade, was revived for this purpose. BHEL has developed 500 LPM & 1000 LPM medical Oxygen Plants based on CSIR IIP PVSA technology and the first order for the same has been delivered in June 2021. The pilot plant was manufactured within a record time of under 40 days of signing of Technology Transfer Agreement, showcasing BHEL's engineering prowess. In keeping with its ethos of a caring employer and a responsible corporate citizen, BHEL has introduced a Scheme for extending Financial, Medical and Housing Assistance to families of employees who succumbed to COVID 19. We have started the current financial year with a resolute plan for ensuring best performance from day 1 itself for which efforts regarding material preparedness, etc., were initiated in Q4 of last year. However, despite our efforts to stay ahead, the second wave of COVID caused widespread disruption and caused a setback in the first Quarter. Post second wave, we have intensified our efforts to minimize disruption on account of any future waves of COVID through an aggressive vaccination campaign covering not just employees but families as well as contract workers at manufacturing units and project sites. This along with ongoing efforts to recoup manpower at site should ensure improved performance in coming quarters. This will also be assisted by the Govt's focus on increased capex in infrastructure sectors as well as PLI scheme, etc. We are resolutely focusing on leveraging all opportunities in existing business as well as for diversification. In the existing business, efforts are being made for revamp of business model for spares & services business for BHEL as well non-BHEL equipment. The company is working on a number of growth and diversification initiatives including collaboration with a global OEM for leveraging opportunities in urban rail transportation; enhancing business through engagement with ISRO in aerospace sector; leveraging our EPC capabilities to execute complete turnkey projects for refineries and petrochemical projects, and through Production-linked incentive (PLI) schemes. Our recent efforts have already started bearing results. BHEL has maintained its leadership in the Nuclear sector and emerged L1 bidder in NPCIL tender for 6x700 MW Turbine Island package worth Rs 10,800 Cr. The company has already won orders from NPCIL under its Fleet procurement mode for the supply of Reactor Header Assemblies as well as Steam Generators for 700 MWe Pressurized Heavy Water Reactors (PHWRs), to be set up at four locations in the country. With the execution of the order for Sulphur Recovery Unit (525 TPD) from IOCL Paradip, BHEL will establish itself as an LSTK player for Process packages in upcoming opportunities in the Downstream Oil & Gas sector. The Company is also developing propulsion electrics, for 9000 HP WAG-9H locomotives of Indian Railways. In our pursuit towards taking up Engg services as a separate business vertical, BHEL has won its first large Pure Design order worth Rs 85 Crore from Indian Navy. To support its diversification and expansion efforts, the company has taken a number of initiatives towards strengthening its business processes, revamping project execution, creating a digital enabled organization as well as further improving service & quality standards. A major exercise is currently underway to optimize costs, through design optimization of major products and packages, and through improving procurement efficiencies for which a dedicated Cost Optimization group has been formed. The company has also taken-up developmental efforts in futuristic areas such as Additive manufacturing, Hydrogen Economy, Industry 4.0, Upstream Solar PV value chain, Coal to Methanol, among others. A dedicated Hydrogen Business Group has already been set up to identify and develop opportunities in the Hydrogen Value chain. As part of AatmaNirbhar Bharat initiative to make India self-reliant, we have identified various high value items imported by both BHEL as well as other capital goods companies. In this regard, imports and outsourced items worth more than Rs. 1,200 Crores have been identified for indigenization and in-house manufacturing. Advanced level deliberations are also underway with other organizations in Public and Private sectors in areas such as Oil & Gas, Steel, Defence, Mining, Shipping and Transportation, for indigenous development of items being imported by these organizations. I am happy to share that BHEL is already executing several developmental orders for the same.

Coming to the financial performance,

The topline in Q1 FY22 has improved significantly at Rs. 2,724 cr., up by 44% from the lower base of Rs. 1,897 Cr. in Q1 FY21, despite the second wave of COVID. While on one hand the company is trying to enhance the volume of operations, on the other hand, the breakeven point is being attempted to be brought down by various cost reduction measures. As a result, the company has made a post-tax loss of Rs. 445 cr. in Q1 FY22 as against a loss of Rs. 897 cr. in Q1 FY21. The losses were limited to less than 50% over same period of previous year, due to higher volumes as well as significant cost control & cost reduction efforts. The gross operating margins are however depressed on account of the surge in metal prices leading to higher material cost and also change in composition of turnover, with civil turnover constituting about 22% in current year as against 6% last year. The current period EBIDTA loss of Rs. 399 cr. is lower by about 59% as compared to the corresponding period of the previous year despite non-productive expenses of about Rs 276 cr. during partial lockdown period. But for these expenses, the EBIDTA loss level would be Rs. 123 cr. The lower losses are also aided by net withdrawal of provisions to the extent of Rs. 185 cr. in Q1FY22 due to the improved quality of receivables in the Company's balance sheet as against a net creation for this period is Rs 38 cr. The Company had net cash & bank balance of Rs. 1,623 cr. at the end of Q1FY22, as compared to the opening balance of Rs. 1,868 cr. This is a marked improvement over the Q1FY21 balance of Rs. 1,168 cr. The cash deficit in Q1FY22 is the lowest cash deficit witnessed in the first quarter of any of the last 10 years. The receivables are also at reduced levels with a reduction of about Rs. 500 cr. achieved in the contract assets as against the previous year end figure. For Q1/21-22 – Trade Receivables are 7,336 cr. and Contract Assets are Rs 23,550 cr., and the Total Debtors are Rs. 30,885 cr. At the start of FY 21-22, Trade Receivables were 7,213 cr., Contract Assets were 24,079 cr., Total Debtors were 31,292 cr. Order booking has been impacted due delay in order finalization due to budget cuts, extension of live tenders, and delay in announcement of new orders. Up to Q1 FY22, we booked orders worth Rs 3,253 crores, out of which power segment is Rs 2,502 crores, industry segment is Rs 694 crores and remaining is from exports. The total order book as on 30th June 2021 stood at Rs 1,02,098 crores, out of which power sector is Rs 84,586 crores, industry sector Rs 11,187 crores and, Rs. 6,325 Crores is for International Operations. In addition to the above, we are favorably placed in the 2x660 MW NTPC Talcher main plant package, and a number of orders for FGD, and boiler modifications. Tendering is underway for 3x800 MW Talabira TPS of NLC India Ltd., 2x800 MW NTPC Singrauli, and 2x800 MW NTPC Lara Thermal power plant. Besides these, tenders for FGD for around 30 GW, are in various stages of tendering. We are confident that with our various initiatives for consolidation of existing operations and diversification efforts in new growth areas, we will be able to overcome the current challenges. Further, our foray in the futuristic emerging technologies will aid in building a New India. Thank you all once again for joining this Conference Call. We will take the questions now.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Gaurav Birmiwal from Credit Suisse. Please go ahead.

Gaurav Birmiwal: Thanks for giving me the opportunity. Sir can you throw some color on any progress that happened on the expression of interest that we floated in May last year?

Nalin Shinghal: There actually as I mentioned, we have taken up certain manufacturing orders for import substitution. We have number of orders there and a couple of offers are in progress which will be coming out in coming months.

Gaurav Birmiwal: Okay. Thank you Sir.

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

Ajinkya Bhat: Thanks for the opportunity. Sir my question is the diversification efforts that you are doing on Oil and Gas, Defence as well as the expression of interest to get various global OEMs etc. When you do all these diversifications, is there any common thread that binds these efforts together in the sense that in terms of say BHEL existing capability? Is it the availability of design talent or is it precision engineering or is it flexible assembly line, is there any common thread that essentially binds all these operations and makes you confident that you can easily enter and succeed in all these diverse areas. If you can throw some light on that please.

Nalin Shinghal: So really the common thread is that we are looking at being an engineering organization rather than being a power sector organization. We are looking at being a large engineering organization with multi-faceted capabilities. And for example, hydrogen is the future of energy. So, while we have been a major player in energy area and that (energy mix) is changing. So, from that perspective as well as looking at manufacturing in the hydrogen economy, that is the area that we are looking at. Then let's take additive manufacturing again from the manufacturing perspective, this again is the most significant change which is going to happen in the manufacturing sector in the years to come. And that is why we are already exploring how we can occupy a place in this sector as an organization which can actually set up an enabling ecosystem for the same. Similarly, when we talk of Industry 4.0 that is related to our power sector experience where we are looking at 'Remote Monitoring Diagnostic System' for power sector which can be further expanded into the range of process industries. Railways, we are already working in; defence, we are already working in. So essentially, all these are in one sense or other related to our ongoing businesses. So, there is a lot of synergy in what we are looking at.

Ajinkya Bhat: Okay, one more question. When you floated the expression of interest for global OEMs or even in your opening remarks you talked about making an oxygen manufacturing plant after the technology transfer etc., so if we are going to manufacture something for others through technology transfer and probably a part of business task to work like a subcontractor for somebody else then I think being the lowest cost producer is the key to success. Right now from BHEL perspective I think high employee cost base is something that has always been a hindrance to profitability. Is there any thought process about how to utilize the existing talent pool and how much scale up do you think will have to happen to actually become profitable at the EBITDA level?

Nalin Shinghal: So, we are not really looking at being a subcontractor. However, that said, being a low cost (supplier) will continue to be the most important driving factor across (businesses) for any growth which is why we have set up the 'Cost Optimization Cell'. So, as of now we are looking to almost 70% of our cost as material cost, so that is the major thrust (area). On the employee front and on the other expenses front, we have already made substantial inroads. Specifically, on the employee (front) and the breakeven (level), again if you look at it qualitatively, this entire ramp up in multiple areas that we are talking about, is related to that. And if you are looking at breakeven levels, Rs.30000 Crores is a sort of breakeven point that we are looking at.

Ajinkya Bhat: Okay, understood Sir. Thanks a lot for your time and all the best.

Moderator: Thank you very much. The next question is from the line of Ankur Deora from BofA Securities Ltd. Please go ahead.

Ankur Deora: Thank you for the opportunity. Good evening to all of you. My first question is actually what you talked about a little bit now as far as the growth from the other non-power segment. Could you shed some light as to what are your key focus for the coming two to three years perspective and targets as to what sort of revenue mix will they be bringing about for the organization?

Nalin Shinghal: Non-power (segment) has already gone up from 20% to 30% in the recent years. And so Railways, Defence, Aerospace, they remain the most important immediate (focus) areas. And then, what I mentioned was the futuristic areas, there is a lot (of focus).

Ankur Deora: Sorry I lost you there in the middle, what did you say as to what was the increase.

Nalin Shinghal: So our non-power mix has already increased from 20% to almost 30% in the recent years and going forward the immediate areas that we are looking at are Railways, Defence, Aerospace. These are the most important areas that we are looking at, going forward. We mentioned about EPC in Downstream Oil & Gas, that is another area, (where) there is lot of synergy and it is non-power.

Ankur Deora: The second question was land monetization plan. Could you elaborate a little bit on that about its organization purpose?

Nalin Shinghal: Land monetization is something we are not really looking at as an organization because in any case a lot of land is on 'Right-To-Use' basis in various states. So, that is not something that we are at present, as an organization, looking at in any major way.

Ankur Deora: Thank you.

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

Sumit Kishore: Thank you for reinstating the Concall after a gap of four quarters. My first question is what is the order book right now of 1.02 lakhs order backlog. And what is the number after excluding the GST related inflation in the order book.

Nalin Shinghal: Rs.70,826 Crs is the executable order excluding GST and freight. And, what was the other thing you were asking?

Sumit Kishore: Second question what is the gross margin impact of the Atmanirbhar Bharat focus and the import restrictions from China, so what is your gross margin impact due to import restrictions from China in the procurement sector and what is the sustainable gross margin for this Rs.70,826 Crores of the backlog.

Nalin Shinghal: So, I think we would not like to give the specific figure on this. If you look at the immediate impact in the past year, there has been an impact. But over the long period, I think this would rather help us because we know (during) this entire 'Make in India' initiative we have ramped up our own capabilities and production. So I think, there are number of areas where we can go, in the long-term, this should be something positive for us.

Sumit Kishore: Long-term how many years, four years, five years or something happening in one to two years?

Nalin Shinghal: Certainly, by next year or so things should start happening.

Sumit Kishore: The TG Island contract from NPCIL what is the timeline expected and what is holding back that contract specifically because you have been declared L1 sometime right now?

Nalin Shinghal: So the price bids were opened in March and their internal processes for award of contractor is on. So, we expect that to be finalized soon. The time line for that is about I think 54 months or so. We will give you an exact figure.

Sumit Kishore: The time line is three to four months?

Nalin Shinghal: No, about 54 months.

Sumit Kishore: 54 months is the execution timeline. In terms of award?

Nalin Shinghal: Award as I said, we would expect that to happen in the next month or so.

Sumit Kishore: There was a provision for doubtful debtor of 18 billion rupees in FY21. Since we did not have a call then, can you explain what that was for and what is the doubtful debtor in Q1 FY22 or what is the total provision in Q1 FY22?

Nalin Shinghal: Director (Finance), Mr. Gupta will answer that.

Subodh Gupta: There is a Withdrawal of almost Rs.185 Crores in Q1, if you see the Provisions Withdrawal. So, there is no new Net Creation. There is a Net Withdrawal of almost Rs.185 Crores. As far as debtors are concerned, you are asking the numbers?

Sumit Kishore: The doubtful debtors in FY21 was about 18 billion rupees. And that is disclosed in your presentation last time. And there is no presentation shared this time. Please continue the practice of sharing presentation.

Nalin Shinghal: Don't worry it will be shared. The results have been sent today so the presentation is also going to be shared. That will be there on our website.

Sumit Kishore: What was the provision for FY21 in billion rupees, doubtful debtors?

Nalin Shinghal: Are you talking about some provisions we have created additionally in the year 2021?

Sumit Kishore: Yes sir.

Subodh Gupta: That basically you know, it was a concern always raised by investors, even by DPE. Comprehensive review of debtors needs to be done by the company. So, in the process of review, we have identified certain debtors which are doubtful in nature in the future. We thought to provide it last year itself. So, ultimately, we provided it, prudently and conservatively in FY2021. But we are making an attempt to realize those whatever we have already provided in the book. Provision does not mean it is written off. So, efforts will still continue in the current year as well in the future year. But yes, conservatively whatever prudently we thought for improving the quality of receivables in the balance sheet, we have provided. So that was the major provision which has given a big hit in the bottom line last year in FY2021.

Sumit Kishore: Finally, Railway, Defence, and Aerospace have been revenue line items for BHEL over the last 10 months. So what is going to change in the next couple of years because I have been hearing I have been covering this for over 12 to 13 years. So what is going to change in the next one to two years?

Nalin Shinghal: So looking at that, for example, Railway as we already mentioned, we are in the process of finalizing a partnership for propulsion in a much bigger way. Then there are multiple opportunities in the Railways going ahead in the Signaling side, in Metro side which we are again exploring. And Aerospace we are looking at tankages to start with, for PSLV. And thereafter, we are also exploring other opportunities maybe even possibly looking at integration at some stage. So then Defence, Navy has been a major area that we have worked with. So the SRGM which we are manufacturing, now we are going into an upgraded SRGM for which substantial orders are also expected to be in the market. Besides that, we have a made a tie up with Zorya for Marine GT. So these are the various new things which are happening with which we expect the scenario to change compared to what you have been hearing about in the last few years. As I mentioned, this engineering order which has happened, so you are looking at now pure engineering also. So we are working very closely actually to meet the requirements of various sectors.

Sumit Kishore: Thank you so much for answering all my questions and wish you all the very best.

Nalin Shinghal: Thank you.

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

Bhavin Vithlani: Thank you for the opportunity. Could you give us a highlight about the projects where BHEL has been the lowest bidder, what is the status on that. What is holding up considering that BHEL would have submitted its price bid long ago. What happens to pricing on those projects?

Nalin Shinghal: So the biggest one where we are L1, as I mentioned, NPCIL which has opened in March this year itself. There of course, the pricing holds as this is the current price value, it is with in the bid validity period. Talcher is the longer one where there have been local issues between the State Government and the power producer. Earlier it was delayed on environmental clearances. That also I think now it is coming into the final stages. So I think within the next few months we should be seeing some progress on that. We have been looking at the pricing there. I think the pricing will still hold. These are the two major ones where we are L1.

Bhavin Vithlani: Could you give us an update on the order prospects which you expect to get finalized in the current financial year?

Nalin Shinghal: We have already indicated the orders where we are L1. We have already said that NPCIL, we are looking to have it coming in the next month or so. Talcher also we are looking at. Besides that, of course we do not actually give guidance on what we are expecting. But these are ones which are visible.

Bhavin Vithlani: Actually I was looking for projects where tenders are expected to be opened or tenders are opened which can get finalized probably in FY22 fiscal?

Nalin Shinghal: So, Talabira is the most major one which is in the pipeline. Besides that, for the FGD there are a number of tenders which are going to be finalized in the coming time. Singrauli and Lara have been in the pipeline, but we do not really have great clarity as to what is going to happen on that.

Bhavin Vithlani: Just last question from my side. You did mention about hydrogen, if you could talk more about electrolyzer and area given the prowess in manufacturing. Can BHEL get into this? Do you have a continuing dialogue with any of the partners on technology side? Any update on that will be useful, that is my last question?

Nalin Shinghal: I will request Mr. Das, Director Engineering and R&D to take that.

Kamalesh Das: It is a good question. As our CMD has already briefed that we are venturing into this hydrogen economy. Actually there are three - four verticals in the hydrogen economy, if you look at it. One is Electrolyzer, as you said very rightly. So yes, Electrolyzer we are trying to pitch in with some global OEM for tie-up for electrolyzer manufacturing. Also there is a very good opportunity for Fuel Cell Battery manufacturing which can be given to any automobile industry for any mobile or any static application also. And in that area we have already developed up to 5 kilowatt very successfully compact Fuel Cell. And now in this year here we will be definitely coming out with the 25 kilowatt Cell also which can be used as a module and ramped up to 200 kilowatt cells in a very compacted manner with a high charge density. And there will be a definite business in future within the country also in coming few years. So these are few areas we are attacking together and as you know that after all this thing like Electrolyzer and all, the major requirement will be green hydrogen. So, we have already developed a capability in our R&D at Hyderabad to generate green hydrogen. That technology has been already established. And all these solar power can be (used for generating) hydrogen. And then there is another very big area which will be coming up in the future in the country, that is, Hydrogen storage. So, hydrogen storage tank is a very important area where, as our CMD already briefed, there is a technology available. So, we are getting into those areas also. So, totally it is a bundle in the hydrogen economy in a business to be targeted by BHEL in the future.

Bhavin Vithlani: Thank you so much for taking my questions, best wishes.

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

Abhineet Anand: Just wanted to know on this PLI scheme that has come up, one on solar manufacturing and other on ACC. How is BHEL looking to participate in this? Because, this is like energy, we were in for the last several years?

Nalin Shinghal: So, on solar, again we are exploring various technology options. You see now with this issue of Basic Customs Duty kicking in, that is becoming quite interesting. So we are working in that area. Advanced Chemistry Cells, also is an area of interest for us and we are looking at tie ups in that area.

Abhineet Anand: So, basically in the PLI scheme BHEL will be participating?

Nalin Shinghal: We are considering that at the moment, quite positively.

Abhineet Anand: Thanks, that was my question.

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

Girish Achhipalia: Sir, all my questions were answered. Just one on receivables break up you provide in state, central and private. And what kind of reduction do you anticipate realistically in this year?

Nalin Shinghal: Receivables breakup and what further did you say?

Girish Achhipalia: What kind of reduction are you anticipating this year in receivables?

Nalin Shinghal: So, between the centre and state you are looking at the receivable break up between this. So as on June 30, 2021, state utilities are 43%, central PSUs is 36%, private customers is 13% and exports 8%. Target means the number of receivables at the year end?

Girish Achhipalia: Yes, target of Net Receivables in the year end?

Nalin Shinghal: Director (Finance) will answer that.

Subodh Gupta: It will depend basically on two things, one-the Turnover, the top line. You know what topline we are likely to achieve. Though we have kept a good target for the current year 2021-2022 that is one. And secondly cash collection to billing ratio certainly improved in the last year as CMD has told in opening remarks. The project-centric approach and the sequential supplies and all those things are going only whatever is required at project sites. And that has certainly helped in improving our cash collection. That is the reason you know we have even the lowest deficit of cash in the last 10 years. Even when BHEL had a topline of Rs 50000 Crores, the deficit was in the order of Rs 900 Crores. Deficit story is not a new to BHEL. It was always there. But only in the current year, the first time we could manage with the little deficit despite a dip in turnover, debtors have also not gone up. So those are better control, things are in control. But certainly debtors will depend on the turnover what you will achieve at the year end.

Nalin Shinghal: I think we would not give any specific guidance on that. A specific number, we cannot be giving at this time.

Subodh Gupta: But certainly we are working towards improving this ratio in terms of number of days. That I can tell you.

Girish Achhipalia: Can I ask the revenue guidance because I may have missed the MoU that you usually sign at the beginning of the year. So good conditions, mixed condition, if you can just highlight what is the revenue that you are targeting?

Nalin Shinghal: MoU has not yet been signed. There have been some changes that are happening. So that will be released as and when that MoU gets signed.

Girish Achhipalia: But any indication on the topline this year?

Nalin Shinghal: I think it will be little early to give without MoU because that is the government's process for finalizing this target.

Moderator: Thank you. The next question is from the line of Harsh Patel from Alpha Alternatives. Please go ahead.

Harsh Patel: Thank you. You mentioned that your breakeven is around 30000 Crores. Do you see a possibility of that happening over the next one or two years? As special shareholders we have not seen profits last two years. So we are curious to know your thoughts on. Do you see path to profitability in the next one or two years?

Nalin Shinghal: Well that has to be our objective. We cannot forever be looking in the red. However, that said at this point we you would not like to be giving any specific figures, but that is certainly our target. We do not want to continue to be showing red bottom line.

Harsh Patel: The second question is on the land monetization which is the question asked before. As you said lot of your land is Right-to-use land. Does that mean the land is not in your name and you will not be able to sell it if you want to? Can you please explain what exactly you meant by Right-to-use land?

Nalin Shinghal: So what happens is that when you are an older PSU which were set up on the land banks in the 60s, at that time all transfers were with the Right-to-use. So yes what you said is right, we can utilize those land banks for our purposes related to our operations and diversification and even our residential and all that. But we cannot sell them off directly by ourselves. If it has to be monetized, then there is a long process which will involve the state government as well.

Harsh Patel: Understood. My last question, how do you see the progress on employee cost for the next two years?

Subodh Gupta: I would like to say, that cost is the lowest what we have reported in 2021-2022, the lowest in last four quarter was the Q1. Already there is a reduction of more than 15% in employee cost. If we look at the employee cost 2018-2019, it was 1564 Cr. Now it is 1357 Cr. So certainly, there is a better control of employee cost. But there are certain things which keeps on increasing like DA increase or some offset is happening because of retirement. So we are ensuring that whatever minimization can be done in this particular employee cost, happens this year. So I think it will not exceed the last year level. It will remain range bound only in the range of 5200 Cr to 5300 Cr, something like that.

Nalin Shinghal: We are not expecting any major increases happening there. So that is what I think ~~that~~ is the answer to your question.

Harsh Patel: Got it. Thank you very much.

Moderator: Thank you. The next question is from the line of Meet Vora from Dam Capital. Please go ahead.

Meet Vora: Thanks. My first question was regarding the FGD orders. So I wanted to know the expected prospect for FGD orders in 2022 and 2023 and plus I wanted to also know on the Talcher what is the status, how soon can we expect it to be finalized?

Nalin Shinghal: Talcher as I said earlier, it is coming into the final stage. The environmental clearances have been achieved. Between state government and NTPC also, there have been a lot of movement. We are hoping that it gets finalized at least in this year.

On the FGD, now with the change in the deadlines, those private sectors - they are still not visible clearly. There is no clarity there. However, there are 30 GW which are expected to be, as I mentioned which is expected to be in the tendering process. So, this includes some which have already happened. So there have been about four or five which have been closed in the last few months. And others which were expected to come up shortly. We have been favorably placed L1 in the Sipat FGD which was the 2x500 MW where the bidding was completed in June. Then another one which has been in the pipeline sometimes for which the bidding was completed in the last year, almost a year ago. This is the Sri Singaji Stage-II. This is what we have at the moment.

Meet Vora: Yes sure thanks.

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

Bhavin Vithlani: Thank you for the opportunity again. Sir followup on the FGD of the previous participant. Of the executable order book of about Rs.71,000 Crores, what will be the FGD in that Rs.71,000 Crores?

Nalin Shinghal: So we are looking at approximately Rs.10,000 Crores about 15% of the order book.

Bhavin Vithlani: Sure. In FGD there was certain components that you were anticipating to import from China. If you could throw light on the execution price. Have we been able to indigenize this and will it have any impact on execution of those?

Nalin Shinghal: So there were a number of components, which we have a major share of that we have been able to indigenize. However, some items like Gypsum Dewatering and there are a couple of items, which are still a bit of a challenge. But I think the process is going on for indigenization of those as well, but I think most of them are now under control.

Bhavin Vithlani: Understand that. The second question again receivables as a follow-up. if you can give guidance over a two-year basis, the receivables are continuously running much higher than the revenues run rate. And also an update on the sequential execution which was focused once when you joined? If you give us an update on the progress that we have been able to achieve on the sequential execution and its consequent impact on the receivables. What has been the progress so far and how do you expect it to improve over the next one to two years?

Nalin Shinghal: So as far as the sequential execution part is concerned, I think that has been the most important success we have achieved in the recent past and that has reflected actually in the quality of the receivables as well as the fact that now for the last year we managed to get 83% of our total billing converted. So that actually shows the quality of sequential dispatch as well as focus on project execution. That also has resulted in reduction in cost for damages and transportation, etc., the cash outflows. Some of the cash outflows are getting controlled. So, the entire focus today in the execution is project-centric and that has helped us on the cash front. As regards to the receivables this is something which we are trying to bring under control which is why in fact as the Director Finance just mentioned, we did a detailed review and that is what has resulted in that Rs.1800 Crores provisioning. Beside that there is another initiative on PG Tests and project closures. So those are multiple efforts which are on to bring that also under control.

Subodh Gupta: I want to add one more point in addition to what CMD has just said. Even if you look at the MoU target of 2020-2021 in terms of receivables and number of days at 'Very Good' level - it was 140 days, given to BHEL. Though it was a tough target, we achieved almost 134 days. So it was the lowest. Very good scale we have achieved last year of the target given by DPE. Second thing whatever trade receivable we have reported this year in this quarter at the end of Q1 is the lowest in the last twenty-five quarters. So certainly, continuously there is an improvement in the quality of receivables, that is one part. Wherever we feel prudently that the money is not coming or it will not come, we are providing it also appropriately in the books. And third, the focus straightway is on the cash collection. Even we are taking position also wherever it is required. To some customer also last year we took strong position - with our state customers or even central customers also. If money will not come, we will not supply. So whatever receivables are there, mainly it is because of the payment terms. As you know, we have discussed in the past also. The payment terms what we have in these tenders - basically these were all zero-deviation tenders. So because of that adverse payments terms in those projects, indirectly we are funding all these projects; whether it's a Patratu or TANGEDCO projects. Most of the projects we are funding indirectly. That is why it is affecting cash badly. That is why we have divided these into two categories from the last two years - Receivables and Contract Assets. so if you see the receivables they are going down continuously. There is a downward trend in the receivables.

Nalin Shinghal: If I can add to that - what we saw in the cash surplus in the last year and the lowest cash deficit in Q1FY22, which is the lowest cash deficit witnessed in the first quarter of any of the last 10 years, that is all an indicator of this effort.

Bhavin Vithlani: Thank you so much for taking my questions.

Moderator: Thank you. The next question is from the line of Sumeet from Axis Capital. Please go ahead.

Sumeet: Thanks for the opportunity. Sumeet here from Axis. Sir NTPC outlined their 60 GW green target by 2032 and they kept their 132 GW target overall unchanged. So essentially the thermal target went down by 30 GW over the last three to four months this thing happened. And this was the sixth straight quarter of EBITDA loss and you yourself mentioned that you need revenue levels of close to Rs.300 billion to get to green again as far as the bottom line is concerned. So how basically you will resolve this existential crisis for BHEL at your current size, even though you have really scaled down your size?

Nalin Shinghal: I think the focus is more on scaling up the revenue rather than scaling down. So at one end we are looking at the top lines growing. At the second end we are looking at material cost. We are looking at manpower cost. We are looking at miscellaneous expenses. It is a multipronged effort and I think we are targeting and attacking all the elements. So we are confident that we will succeed.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to Mr Mohit Kumar for closing comments.

Mohit Kumar: Thanks to the management for having this conference call and giving us an opportunity to host the call. Thank you all for logging in. Do you like to make any closing remarks Sir.

Nalin Shinghal: Thank you Mohit and thank you everyone for your patient hearing and interactive question and answers session. Thank you very much.

Moderator: Thank you. On behalf of Dam Capital Advisors Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.