



**Bharat Heavy Electricals Limited**  
**Q1FY21 Earnings Conference Call**

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**MR. SUBODH GUPTA – DIRECTOR, FINANCE**  
**MR. S. BALAKRISHNAN – DIRECTOR, IS&P**  
**MR. MANOJ VARMA – DIRECTOR, POWER**  
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**MODERATOR:** **MR. KUNAL SHETH – B&K SECURITIES**

**Moderator:** Ladies and Gentlemen, good day and welcome to the Bharat Heavy Electrical Limited Q1 FY '21 Earnings Conference Call, hosted by Batlivala & Karani Securities India Private 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 call, please signal for an operator by pressing '\*' followed by '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kunal Seth from B&K Securities. Thank you and over to you, sir.

**Kunal Sheth:** Thank you, Raymond. And I would like to welcome the management of BHEL on the call. And thank them for giving us this opportunity. From the management we have Dr. Nalin Shinghal – CMD, BHEL; Mr. Subodh Gupta – Director, Finance; Mr. S. Balakrishnan – Director, Industrial Systems & Products; Mr. Manoj Varma – Director-Power; Mr. Kamalash Das – Director, Engineering, Research & Development; and Mr. Anil Kapoor – Director, HR.

Sir, I would request you to give us opening remarks. Post which, we will open the floor for any questions-and-answer session. Over to you, sir

**Nalin Shinghal:** We continue to pass through very challenging and difficult times due to COVID-19. I hope you and your family members are safe and healthy. We are all aware of the impact of the COVID-19 on the business environment during this period. The complete lockdown during the month of April'20 and part of May 2020 and partial lockdown thereafter has affected most business operations. Further the migration of labour has also affected the operations at project sites. The impact on the overall economy is visible with India's GDP falling by 23.9% in April-June quarter putting severe stress on finances of government and private sector alike. The industry wide phenomenon is also reflected in the fact that the average IIP for Capital Goods sector in Q1 20-21 is lower by 64% compared to the similar period in last year. Amidst this, we have been facing further difficulty in collections as well as conversion of live tenders into orders. Even though uncertainty has become the new normal, the economy is now gradually coming back to pre-covid levels. The government has been introducing multiple measures to support an early revival. Capacity utilization levels in various industries like Oil & Gas, and steel are already at par with pre-COVID-19 levels. Cement and power are catching up. In power specifically, we are seeing a U-shape recovery, from negative of 25% in early April to positive level now. Daily freight traffic of Railways is also showing gradual year on year improvement. Clearly, things have started improving. The policy support from government for Aatmnirbhar Bharat is very encouraging. We are already seeing lot of interest, among Indian manufacturers, for localization of critical components, which can become a significant opportunity for us going forward. The ongoing pandemic has delayed the capex cycle in the Indian industry. However, the AatmaNirbhar Bharat initiative coupled with the economic recovery will help revive the capex. Coming to events specific to BHEL, We are using these times to improve our systems & efficiencies. Efforts are on to optimise costs and capability building through in-house R&D and tie-ups with global OEM's for latest technologies. The Expression of Interest (EOI) which was floated by BHEL inviting Global OEMs to leverage on BHEL facilities & capabilities for setting up manufacturing base in India,

has received an excellent response. Under this EOI, BHEL has signed three MoU's with international majors in the fields of Maglev Train projects, Marine gas turbines for defence applications and Armoured Trucks equipped with smart technologies. Further discussions are on with several companies and these are expected to see significant traction in the coming months. Additionally, second stage EOIs have also been floated for technologies such as Metro Propulsion System, Railways Signaling, Track Machines for Railways as well as Air Defence Guns for collaborating for specific technologies and increase BHEL's range and competitiveness in upcoming tenders. Major global OEM's have participated in these EOI's and senior teams are working to close them quickly. Under the AtmaNirbhar Bharat initiative, BHEL has taken a three pronged approach for maximum utilisation of the current opportunities and ensuring significant contribution to the national objective.

These are: In-house development and manufacture of items currently being bought out/ imported by the company; In-house development and manufacture of major items in the country's engineering imports basket.; Working with global OEM's for manufacturing items for India as well as for exports, i.e., 'Make in India, Make for the World'

For this, the company has formed a new business group – the “Make in India Business Development Group”. BHEL has also organized a workshop under the aegis of Department of Heavy Industry, for promoting collaborations between PSUs- private industry as well as R&D institutions & academia for development and manufacture of critical items for helping manufacturers to disentangle their supply chains from imports. In follow up to this workshop, BHEL is already engaged with interested parties/ industry associations for taking this forward. All these activities are also expected to boost the capacity utilisation of the company in times to come. Order booking has been hugely impacted due to a tendency to postpone investment due to COVID-19 related demand contraction. Up to Q1FY21, we booked orders worth Rs 1485 crores, out of which power segment is Rs 982 crores, industry segment Rs 444 crores and remaining from exports. Major orders received in power segment include FGD package from 2x500 MW NTPC Tuticorin. In industry segment, major orders received during the quarter are: Supply of standalone Turbines of 40MW for SMP Power generation limited; Supply of GT driven Natural Gas Compressor for GAIL Gandhar; Supply of Steam Turbine driven Recycle Gas Compressor, and Motor with VFD driven Wet Gas Compressor for HRRL refinery, Barmer, Rajasthan; Design and development of Pump Module for Liquid Cooling System of LCA Mark-2, for DRDO - Aeronautical Development Agency. The total order book as on 30th June 2020 stood at Rs 1,08,126 crores, out of which power sector is Rs 86,603 crores, industry sector Rs 13,447 crores and, Rs. 8,076 Crores is for International Operations. In addition to the above, we are favourably placed in the 2x660 MW NTPC Talcher main plant package, Fleet Mode Procurement of 12 nos. Steam Generators and reactor headers for 700 MWe PHWR Reactors by NPCIL, and a number of orders for FGD, and boiler modifications. Tendering is underway for 2x800 MW NTPC Singrauli, 2x800 MW NTPC Lara and 2X660 MW PENCH Thermal power plant. Tenders for FGD for around 30 GW, are in various stages of ordering. Coming to the financial performance: Turnover for 1st Qtr. 2020-21 is Rs 1897 crore, against Rs 4410 Crore during 1st Qtr. of 2019-20. Profit Before Tax for 1st Qtr. 2020-21 is placed at negative Rs 1196 crore as against negative Rs 344 Crore in the corresponding period last year. It may be noted that a major part of the loss is due to

fixed expenses incurred during the period, i.e., non-productive expenses for which no corresponding revenue has accrued to the company. Nearly 70% of the above loss is on account of such non-productive expenses, but for which the loss in Q1 FY 20-21 would have been nearly at last year's level. Stringent budgetary control measures have been put into place to ensure that bare minimum expenses, based on zero based budgeting, are incurred. Profit After Tax for 1st Qtr. 2020-21 is placed at negative Rs 897 crore, against negative Rs 216 Crore during 1st Qtr. 2019-20. The company has been making strenuous efforts to bring focus on project completion and cash conservations – and these efforts are starting to show results. As a result of this Operating cash deficit has sharply reduced to Rs 523 Crore as against Rs 2175 Crore in the corresponding period last year. Cash collection as a percentage to net billing during the first quarter of FY 20-21 has reached a peak of 133%, compared to 114% achieved in the entire FY 19-20. Receivables have reduced due to focus on project completions and timely billing. The total receivables at the end of Q1 FY 20-21 are Rs 35,332 Crore compared to Rs 37,850 Crore at the end of Q1 FY 19-20. While the outlook continues to be tough, various initiatives taken in recent times, including New Growth Areas, Make In India, Collaborative Manufacturing, improvement in operational and execution efficiencies through implementation of IT based solutions for project monitoring, improving quality through Quality First initiative, HR initiatives and Treasury operations for reducing finance costs are expected to lay the foundation for a strong and growing BHEL for years to come. 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 the question and answer session. The first question is from the line of Mohit Kumar from Citi Research. Please go ahead.

**Mohit Kumar:** Two questions. First, of course, it has been a tough quarter and the environment remains bad, how do you see the execution in Q2 and the rest of the year? That is the first question. Secondly, sir, is it possible to give the breakup of the receivables between contract assets and the trade receivables? And corresponding number for inventory cash and payables?

**Nalin Shinghal:** As far as the execution is concerned, a lot of improvement we are seeing happening in Q2 and we expect continuous improvement as the labor availability at the sites continues to go up. So, by Q3 onwards we expect a much better performance and normalization This is the state we are expecting. And as regards the contract assets, I will ask Director Finance to give you the details.

**Subodh Gupta:** The total debtors as on 30 June 2020 are Rs. 35,332 crores, out of which trade receivables are Rs. 11,836 crores, which is down by almost Rs. 3,000 crores compared to Q1 of last year. And the contract asset is Rs. 23,496 crores. So, total is Rs. 35,332 crores as far as total debtors are concerned. As CMD has already told, quarter one last year, the total debtors were Rs. 37,850 crores, so down by almost Rs. 2,500 crores due to various initiatives taken by the company. Regarding inventory, inventory at the end of the quarter is Rs. 8,649 crores net of provisions as compared to Rs. 8,905 crores at March ending 2020.

**Mohit Kumar:** And sir, cash?

**Subodh Gupta:** Cash balance is around Rs. 1,168 crores at the end of quarter one. The deficit is Rs. 317 crores in Q1.

**Mohit Kumar:** Understood, sir. Sir, one more question if I may squeeze in, sir. Sir, you did touch upon the EOI assigned with the three major MOUs. Is it possible to give some commentary on when do you expect something material to take off, something which will add to our revenue? And/or maybe something which you believe most likely can be done in next one-year horizon?

**Nalin Shinghal:** So next one year is a marketing horizon that we are essentially looking at. But then besides this, you see, there are several other short-term interests, what I said are major ones. But there are several shorter ones which will fructify, but they will be much smaller ones, much smaller volumes and sizes. But they will fructify in the current year, but these ones will take time to go through the complete marketing phases and getting orders and working on those.

**Mohit Kumar:** Is it something that PLI scheme which can help us?

**Nalin Shinghal:** Sorry?

**Mohit Kumar:** Is there something in the product linked incentive scheme which you are looking forward to tap?

**Nalin Shinghal:** I don't think there are any such incentives available now. But I think we will need to be working on those areas also to see what sort of this thing can be entertained, incentives can be taken.

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

**Atul Tiwari:** Sir, my question is again on the MOUs that you signed, the three of them. So, what is the next step, do these MOUs get converted into JVs or manufacturing order on you? And what is the quantum of investment that the partners have committed? And any idea on when we can see the revenues coming through from these MOUs?

**Nalin Shinghal:** I would request Director Industrial Systems to take that.

**S. Balakrishnan:** Yes, I would like to respond on this. Basically, the MOUs what we are signing is with the industrial giants of their fields. And this is a very preliminary MOU and we will be having more rounds of discussion to address the opportunity. They mainly pertained to defense and transportation segment. Transportation, of course can come a little early, but defense proposals will take some more time. And in some cases, it may require some CAPEX also, some investments in our existing factories. It all depends on how the negotiations and talks go forward and how much of the technology transfer they can give. And we do have a lot of facilities available with us, so we will try to minimize the effect. And to the extent possible, we will try to manufacture in-house.

**Atul Tiwari:** Okay. Sir, but as of now, I mean, whatever discussions you have had with these partners, are these the partners committing some investment also or the discussions on commitment of investment or transfer of technology are still going on and will fructify later?

**Nalin Shinghal:** Primarily, I think the questions are around technology. There would be some in terms of, if they end up in JV formation, they would result in investments also. But major focus I think will be on technology.

**Atul Tiwari:** Okay. And sir, my last question is on this cash deficit, so fair to assume that this was probably funded by working capital borrowing. So, would it be possible to share the gross debt on the balance sheet as on first quarter?

**Subodh Gupta:** Right now, there is not a material change in the gross debt what we have reported as on March 2020, but it is more than Rs. 5,000 crores as on date, the debt is more than Rs. 5,000 crores as on date. But if you see the net cash bank balance after reviewing this gross debt, this is around Rs. 1,168 crores on date.

**Atul Tiwari:** So, Rs. 1,168 crores are the cash or net cash?

**Subodh Gupta:** Net cash, I am talking about net cash. It is Rs. 1,168 crores. At the end of March, it was Rs. 1,485 crores. So that deficit what has happened in quarter one is just Rs. 317 crores.

**Moderator:** Thank you. The next question is from the line of Sumit Kishore from JPMorgan. Please go ahead.

**Sumit Kishore:** My first question is, what was the procurement from China in your raw material cost in the last fiscal? And how has shift away from China worked so far? What is the likely impact as you look to shift your procurement away from that geography over the next one year, and given that most of the contracts are already midway as far as execution is concerned? That's my first question.

**Nalin Shinghal:** Can you just repeat the last bit of your question.

**Sumit Kishore:** Yes, sir. So, I was asking that what is the likely impact, if at all for BHEL, as you look to shift your procurement away from China, what was being procured from China? What was the total raw material cost which was from China in the last financial year? You had spoken about this very briefly after the fourth quarter result also, that the supply chain disruption in China and Europe had impacted your numbers. But now given the geopolitical situation, what is the likely impact?

**Nalin Shinghal:** So, the overall import from China in the last year was in the range of about Rs. 2,000 crores. Going forward, you see in our current basket the major items where we are reliant on China is components for our FGD projects as well as for the air-cooled condensers. And in addition to that, the solar modules for our solar power plant projects. So, for the FGD, we have taken up a major initiative for development and manufacture of those items in-house, and we are looking at the same thing for the ACC. So, what's happening is, you see where the orders are already in place and work is in progress, that is continuing. However, where orders are yet to be placed, we are taking up the developmental work. For solar, we are shifting to our domestic manufacturers, domestic procurement of panels for solar power plants. That's how we are looking at going ahead with this.

**Sumit Kishore:** Okay. Sir, my second question is, while you mentioned that the Lara, Singrauli and Pench are likely to be in tendering, but what we hear from NTPC is that Lara and Singrauli are not up for

award, at least in financial year 2021. And Pench, I am assuming is Adani Pench project. So, what is likely to get awarded this year? Are we still waiting on for that Orissa project of NTPC and what is the status there?

**Nalin Shinghal:** Talcher we are looking forward to in the current year, that we expect that to come through. The others that you mentioned will take time, Lara, Singrauli, Pench will certainly take time.

**Sumit Kishore:** Fair enough. And once again it was Make in India six years back, it is Aatmanirbhar Bharat now, I mean, nothing has really changed, what BHEL could have done six years back it is talking about now. So, maglev, marine gas turbines, armored trucks, what is it that BHEL is going to be doing in all these three? And how much timeframe are we looking at? Because nothing is going to happen overnight, you are going to set up a manufacturing facility. So, are we talking about you know actual hard revenue coming in? And what is BHEL's share, a foreign technology partner is not going to give margins on a platter to BHEL.

**Nalin Shinghal:** That point is totally appreciated. Going forward, certainly for example, when you look at the marine gas turbine, we will start off looking at the maintenance and services for the existing fleet and thereafter go into taking up manufacturing in phases, and ultimately with an objective of the transfer of technology. As I mentioned for the other areas, like FGDs, ACCs, all these now we have taken up a huge initiative for in-house development and manufacturing. In fact, if I may add, then even we are examining our entire basket of bought out items to review and see how much of that we can manufacture ourselves. So that process is also on and which will show us the results over a period.

**Sumit Kishore:** Sure. And just to clarify on the previous question, the cash amount was Rs. 1,168 crores, but you were having a net debt, because the debt was Rs. 5,000 crores. So, there is no net cash in the company, there is a net debt?

**Subodh Gupta:** No, it is net cash, the number I told you it was net cash. I will give you the specific number. The gross cash and bank balance are Rs. 5,795 crores and the borrowings against that is just... no, wait a minute. Okay, the gross balance is Rs. 6,064 crores, borrowings are Rs. 4,896 crores, the net balance is Rs. 1,168 crores.

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

**Ajinkya Bhat:** Sir, just one question, on the other expenses in this quarter, considering that this is significantly down in this quarter, can you tell us the number on what is the provision withdrawal, new provision creation, etc.?

**Subodh Gupta:** Okay. The creation in quarter one is Rs. 230 crores withdraw is Rs. 192 crores. So, the net is Rs. 38 crores. The net provision number is Rs. 38 crores, in quarter one the creation is Rs. 230 crores while the withdrawal is Rs. 192 crores. As compared to quarter one of 2019-2020 when the creation was Rs. 552 crores, withdrawal was Rs. 378 crores, and the net was Rs. 164 crores. So, this time a benefit of Rs. 126 crores have happened is compared to the quarter of one of 2019-2020.

- Moderator:** Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.
- Bhavin Vithlani:** First question is more of a data question. What is the executable order book on the total order book of Rs 1,08,000 crores? And if you could break this into power industry exports, and if he could also give detail of what is the FGD number in this.
- Subodh Gupta:** Executable order book number as on 30th June is Rs. 87,967 crores. Non-executable order book is Rs. 20,159 crores. So, the total order book is Rs. 1,08,126 crores. Out of which, the power sector is Rs. 86,603 crores, Rs. 13,447 crores are the industry sector, Rs. 8,076 crores are international business.
- Bhavin Vithlani:** And what is the FGD portion of the order book currently?
- Subodh Gupta:** FGD must be around Rs. 14,500 crores.
- Bhavin Vithlani:** The second question is, we were observing that the employee cost has jumped 24% sequentially as against the March quarter. If you could just explain this, it will be useful.
- Subodh Gupta:** If we compare with the quarter one of last year's, basically some adjustments, actuarial valuation gains happened in the quarter four of last year. That's why that number appears to be lower on quarter four, but if you will compare with a quarter one of 2019-2020, it is lower by almost Rs. 72 crores. So certainly, valuation and actual gains and all those losses, generally we value it more accurately at the end of quarter four, so that's why the gap is visible. Otherwise, you see in totality, there is a downward trend in personal payment. In 2018-2019 it was Rs. 5,500 crores, in 2019-2020 it was Rs. 5,400 crores. So, the reduction is happening each quarter. The gap is basically because of actuarial gains which has happened in quarter four of 2019-2020.
- Bhavin Vithlani:** Sure. The last question from my side is, NTPC CMD in the analyst meet mentioned about focusing on renewables rather than thermal. And even the Honorable Minister of Power also spoke about that incrementally the capacity addition called to be on the renewable space. So, in light of this where thermal is actually seeing disruption, if you could highlight what are the measures that we are taking on the cost side, considering that we have a 20 gigawatt capacity and now utilizing that seems to be distant, it will be useful to understand on the cost side the structural measures that we are taking.
- Subodh Gupta:** First I would like to answer, I think rest of the questions can be answered. First, I would like to talk on the capacity of 20 gigawatt. We are reviewing our capacities in terms of the manpower also, 2,000 people are retiring every year, so that is also one part we are looking at what is the real capacities of BHEL that we have taken to the Board also. So, that is one part. It's not that substantial reduction will be there, but some reduction certainly will happen on those capacities what we have declared earlier, that is a point.
- Nalin Shinghal:** Let me add a little to that. So, you see, while there is no doubt that this is a steady decline, we see in the power sector market. But the CEA's own forecasts are talking about 80,000 megawatts to



90,000 megawatts over the next 10 years. So, that amounts to about 8,000 megawatt to 9,000 megawatts per annum on an average, which will also be matched with this requirements of when we are talking about \$5 trillion economy, the power requirements will actually continue to go up even though we are seeing a short term downtrend which is there at this point in time. So, over the long-term basis, that requirement will be there, and the base loads will have to be met by thermal till batteries come to match the thermal costs, which seems to be some time away even yet.

The second point is that, you see, to deal with this downtrend we are looking at two aspects actually, one, diversification away into the various areas that we talked about, we talked about EPC in oil and gas, we are talking of expansion in the railways and defense. And at the same time, in the power sector itself, we are looking at your higher efficiency power plants, we are looking at Industry 4.0 solutions for the maintenance of existing power plants. Then we are looking at the emission control equipment. The various areas within the thermal sector which will continue to have requirements for times to come. And then coming back to the capacities, you see, what I mentioned about the Make in India group and these various efforts which are going on, they are actually targeted at utilization of those capacities, so we are trying to generate alternate business for those capacity that we already have, which may also of course, include certain other investment that we may need to make, balancing investment or other types of investments, reskilling and things like that. But ultimately, we are looking to fill up our basket with all these areas.

- Moderator:** Thank you. The next question is from Renjith Sivaram from ICICI Securities. Please go ahead.
- Renjith Sivaram:** Sir, just wanted to speak to you regarding these receivables, you generally give the breakup SEB, PSU, private and export. So, how is that?
- Subodh Gupta:** Yes, of the total receivables as on 30th June, customer segment wise distribution is 48% state, 33% of central, 12% private customers and 7% exports.
- Renjith Sivaram:** Okay. And how much is the collectibles and others?
- Subodh Gupta:** The collectible is Rs. 11,836 crores are collectible, and the rest of things is others.
- Renjith Sivaram:** Okay. And retention amount in that?
- Subodh Gupta:** Retention amount is almost Rs. 15,400 crores.
- Renjith Sivaram:** Okay. So, compared to Q4, retention has come down a bit?
- Subodh Gupta:** Yes.
- Renjith Sivaram:** Okay. And sir, there has been some news articles mentioning regarding some partnership with Rheinmetall. So, just wanted to check with you, is there any thoughts or some strategic plans towards that?
- Nalin Shinghal:** Partnership in what name did you say?

- Renjith Sivaram:** Rheinmetall.
- Nalin Shinghal:** So, there are some discussions still on, you see this was one of the areas we are discussing under an EOI. They are all very preliminary stage; these are not things to be talked about at this point till they come to some sort of firm decision.
- Renjith Sivaram:** Okay. And sir lastly, there is a lot of opportunity when you look at the commercial airspace and companies like Airbus, Boeing and those multinationals are looking at private public partnering in India. So, in that context, are we also actively looking at it, because this can be a potential large opportunity for us also, given the kind of demand the airlines travelling will have in the country. So, are we also looking at that space?
- Nalin Shinghal:** So, aerospace segment we are looking at, I wouldn't yet like to get into very specifics, but yes, there are various options we are exploring and, in that area, but very preliminary stages yet.
- Moderator:** Thank you. The next question is from the line of Dhruv Muchhal from HDFC Mutual Fund. Please go ahead.
- Dhruv Muchhal:** Sir, when you mentioned retention amount of Rs. 15,400 crores, what will this mean? Does it mean that the projects are completed, and you have retained this amount and it will be given probably after a year or so in typically contractual terms?
- Subodh Gupta:** No, these projects are yet to be completed, these are the amounts. Once the milestone and trial operation and performance guarantee tests are over only these amounts will become due. But we have already considered the revenue for these also as per the accounting standards. So, this is not actually due for payment, that's why we call them as contract assets and unbilled revenue. So, this will become due only when these related milestones are over. So this much of amount if you see the trend of the company for the last 10 years, almost Rs. 15,600 crores of money are always lying under retention. So, this is permanent, sometimes some amount gets liquidated, some gets added. So ultimately this always remains in the same range. So, there is nothing to worry on this front, this money will come certainly once the milestones are completed.
- Dhruv Muchhal:** Got it. Sir, typically what we think of as retention is that once a project is complete there is a 5% kind of retention for guarantees and all those things, I mean, typically it happens after one year you get that payment. This is not that kind of amount, this is something else, right?
- Subodh Gupta:** Yes, this is not that kind of amount. It is retention because you are using calling this retention for our terminology's deferred payment or a milestone deferred payment. But there is no retention like that. Basically, these are the amount due when the trial operation and the performance guarantee tests are done. So, there is nothing like that retention will be released after one year of everything is over. We don't have a retention in our payment terms.
- Dhruv Muchhal:** Sir, coming to the China's dependence. Now, in one of the earlier questions you mentioned that we depend for about Rs. 2,000 odd crores in terms of raw material costs. But sir, in our 4Q numbers, we had a significant impact, as you had mentioned earlier, that was because of the supply

chain issue and I understand that was largely because of China. So, sir, how do I reconcile this? I mean, Rs. 2,000 crores seem a very small number on your total raw material cost. So, what's the data?

**Nalin Shinghal:** Let me put it this way. If there is Rs. 15 crores locomotive to go out and there is a Rs. 1 lakh component which must come from China, that Rs. 15 crores are stuck.

**Dhruv Muchhal:** Okay, that way. Got it. Understood. And in terms of the progress on site, is it possible to share in terms of probably some numerical way that probably what is the labor availability at most of our sites where you are executing projects, if you track it on that basis? Just to understand what is the level of operations and how fast are we ramping up? Say, probably by the end of August what was the number where this labor availability was at 50% or 70%, something of that sort?

**Manoj Varma:** See, the labor at the sites was around 60% plus by end of August, during the pre-COVID times that had gone down to 16%. So that way revamping has been done, most of the NTPC projects it's ranging around 90% plus as of now. And by October end or November, we are hoping that we will be back to square one by 100% what we had before COVID.

**Dhruv Muchhal:** Got it. And sir, last question, if I may. Probably I am not very sure that if you share this kind of data, now the order book that we have are largely power assets. Now power assets have a steady execution phase, I mean, you also are largely understood in terms of when this project must be commissioned, in terms of timelines you would be knowing that. So sir, is it possible to share the order books time scaling, I mean, by when, say for example, in one year it will be 20% consumed, the current order book, by end of first year it will be 20% consumed, by the end of second year it will be 40%. So, scaling is it possible to understand, because that will help us understand how this order book moves over the next three, four years.

**Subodh Gupta:** Typically, you can look at a three years' span for the entire order book. And it is balanced maybe a little bit 10%, 15% up or down, because it's a mix. And let me just add, the China figure, Rs. 2,000 crores what we said was a different figure, imports from China is Rs. 1,000 crores last year, Rs. 2,000 crores were a different figure in terms of what our current outstanding orders are.

**Dhruv Muchhal:** Sir, coming to the earlier question, you mentioned three years of execution. Now I am just wondering based on three years of execution, I mean, the annual execution comes to about Rs. 30,000 crores, Rs. 40,000 crores, so is that a fair number to assume in terms of execution for the next two, three years? Because that number then does not reconcile with what you have been doing for the last two, three years. So that was the worry, I mean, that was the question.

**Nalin Shinghal:** So, for that you will need to look at the executable order book first. And then when you are looking at a gross figure, you will have to look at a net figure net of the GST which matches with what we are talking about.

**Dhruv Muchhal:** Okay. So, this order book number includes the GST amount also?

**Subodh Gupta:** The gross number includes the GST.

**Dhruv Muchhal:** Okay. The executable gross order book number will include GST, okay. So, I reduce about 15% odd from this number, 15% to 12% and that may be...

**Subodh Gupta:** Rs. 76,000 crores are excluding GST, the executable is in that range.

**Dhruv Muchhal:** Rs. 76,000 crores you mentioned?

**Subodh Gupta:** Yes, about the range of Rs. 75,000 crores.

**Dhruv Muchhal:** So, this I could assume over a three to four-year period?

**Subodh Gupta:** Yes, that's about it. Yes.

**Dhruv Muchhal:** Got it. And sir just one last thing, if I break up the receivables, the total receivables including contractual assets into non-current and current, as you report, sir the non-current portion is about 60% of the total amount. So, that means they are due after one year. So, I mean, I am just trying to understand these receivables are not due yet, they will be due once the project execution happens, the milestone is reached, the contractual assets get converted to a receivable amount and then you receive it, right? Because a large portion of that is in the non-current portion.

**Subodh Gupta:** Yes, true. That is true. This is because of the payment terms, the kind of payment terms we got in the recent orders, it is because of that this non-current portion is now becoming heavier. And that is also one of the major reasons for the company going into cash deficit, it is not that because of the internal inefficiencies the company is in cash deficit, but it is because now the customer is, you must know the payment terms of Patratu. When I used to take the order of NTPC Patratu, where that advance is 5% and 30% is against dispatches, and rest 50% payment comes against the completion of project related milestones, so these are the types of orders which are available in the market. And expectations, even the customer is expecting indirectly to BHEL that we must fund their project. So that is the reason why the company is into cash deficit. Ultimately, now these are the only orders, and these are all zero deficit tenders, we cannot take any decision also. So, these whatever best orders are there in the market, we are trying to work out best. And we are indirectly funding these projects, that's why the non-current portion is going up. Otherwise, it is not that because of the inefficiency or other reasons the cash deficit is there. It is because we are funding. Had we not been funding these orders and working as we were working before pre-GST regime, basically if we look at the company's cash deficit, the non-current is going up, there are two reasons mainly. One, the GST outflow after GST it has increased, pre-GST tax paid was 9%, average tax rate, now it has gone to 17%, almost doubled. So, outflow has happened from company side, but my money got blocked into contract assets and the debtors. So, that is one part. And second, the payment terms. So, the payment terms have also made the things difficult. But ultimately, this cycle, because in the long run it is going to improve, probably the improvement should happen from next year onwards on the cash front.

**Dhruv Muchhal:** Got it. So, sir, basically the movement will be like this, non-current contractual assets will move to current contractual assets, and then they will have to be trade receivables?

**Subodh Gupta:** Yes.

**Dhruv Muchhal:** Okay. And sir, just one last question is on the trade receivables the non-current portion. In your annual report you mentioned that, that amount is about Rs. 5,700 crores, you mentioned that that is relating...

**Subodh Gupta:** Rs. 5,270 crores are non-current.

**Dhruv Muchhal:** Yes. Sir, you mentioned there are some settlement dues also, I mean, I am just reading the statements where you mentioned there are some settlement dues or contractual dues which are yet to be settled. And based on those settlements, that amount will be decided. So are there any, I am just wondering...

**Subodh Gupta:** There the projects are on hold, certain are in legal issues. So, once that legal and arbitration issues are over, and mostly that should be in favor of the company. That's why we have put those debtors of Rs. 5,000 crores into non-current category. Because once the issue is under litigation or arbitration, it is difficult to say whether it's a current or non-current. So, by the time suppose if it gets settled earlier also, the money can come this year also, but while making the books what we have done we have taken more conservatively and put it into non-current category.

**Dhruv Muchhal:** Got it. So, sir, of this Rs. 5,700 crores, how much will be private?

**Subodh Gupta:** Private, approximately right now I don't have the number, I will tell my Corporate Finance, you can take the number later from him. I don't have the breakup right of the Rs. 5,270 crores what is the private, but private should be around maybe 20%, 25% should be private.

**Dhruv Muchhal:** And the rest would be, say, central and state government, but the amount there is disputed or something, I mean, there are some settlements which have yet to be done, right?

**Subodh Gupta:** Yes.

**Dhruv Muchhal:** Otherwise, I mean, our trading receivable for you will always be current unless it is some dispute or the project as well?

**Subodh Gupta:** Yes, yes, yes.

**Moderator:** Thank you. The next question is from Renu Baid from IIFL Capital. Please go ahead.

**Renu Baid:** Probably I joined a bit late, so please excuse me in case if I repeat the question. The first question is, can you help us provide some update on the technology transfer agreement that we have with erstwhile Alstom and GE now? I guess, that is expiring in October 2020. So where are the discussions? Are we looking for an extension with expanded scope for technologies? Or you think the journey with GE was so far until year end?

**Nalin Shinghal:** Discussions are on, we have still to work out looking at our overall portfolio how we want to take it forward, those discussions have been on. So not yet finalized.

**Renu Baid:** Right. But then in your view it should be finalized by October, because otherwise for a lot of contracts or projects, as in there is a bit of discontinuity in terms of the agreement or the...

**Nalin Shinghal:** No, we will ensure that there no discontinuity, we are conscious of that so we will ensure that.

**Renu Baid:** Right. I mean, my question was more specific because in the last couple of quarters we have heard from them that there have been lot of delays of payments not only for some of the supplies which we have been doing in terms of commercial agreements, but also for the royalty payments there have been delays to GE for which they had temporarily suspended the project activities as well. So has the business now been back to normal with them? Or still there have been a lot of hiccups or issues in terms of payments or discrepancies?

**Nalin Shinghal:** There has been issues from both sides, but I think that has been mostly settled.

**Renu Baid:** Okay. Sure. And secondly, if I recollect, in the last 6 to 12 months we have been very aggressively chasing retention and pending payments from some of the private sector players, stuck projects as well as where the money was stuck and you are expecting some cash receipts as well. So, can you throw some light in terms of what is the status of cash collections from all these private sector players where the money got stuck, and have we been able to reduce the receivables or collection from them?

**Subodh Gupta:** You asking for the quarter one? Right now, I don't have that number you know how much has come from those contracts. This number I will have Yogesh to give you, you take from Yogesh, we will give you this number.

**Renu Baid:** Sure. And my last question is, we mentioned about a lot of initiatives, I mean, you have been speaking about Make in India side and diversification. Would you, in your perspective over the next 12, 18 months, do you perceive any of these initiatives to materialize and crystallize in terms of commercial business for us? Or in your view, some of these decisions could still be a little more long stretched in terms of converting to commercial business activities?

**Nalin Shinghal:** So, as I said earlier, you see what's happening is there will be small bits and pieces which are already materializing, but those are too small to talk about. But the very big ones will certainly take time, and there will be some in between. But there are several issues, number of things in the basket. So that mix will go ahead.

**Renu Baid:** As in, could you share as in which segments which could commercialize and which segments from a business perspective could be slightly more long drawn, probably defend could be bit more long drawn on new venture. So, as in, would there be certain examples or more details that you would have.

**Nalin Shinghal:** See, what would happen quickly is things like contract manufacturing, which could be for various segments, things where we are using our capacities for contract manufacturing for various people. Those would come very quickly. Then we have already started sort of going out and bidding in EPC in oil and gas, we are already in the process of bidding, so which is a part of the NGA. And we have made some bids for the railway. Of course, defense is a different story. but these two are already happening. But then, again, when it converts to an order, and when actually order converts into turnover, that of course will certainly take time.

**Renu Baid:** So probably contract manufacturing could come a bit earlier maybe by the end of this financial year or early next year, but the other initiatives could take a bit more time?

**Nalin Shinghal:** So, as I said, small bits in that have already started. But by the end of the year we will certainly have much more sizeable sort of numbers in that.

**Renu Baid:** Right. And there were some media speculations also, the government wants India to start **0:50:33.4** manufacturing in terms of solar PV cells and wafers and components there. BHEL's name was thrown up across a lot of media articles. So, would you want to share any of your initiatives where BHEL could take a lead in terms of being one of the component suppliers for Make in India in the solar panel components, which would be your wafers and another material?

**Nalin Shinghal:** No, it is still too early to say, we are looking at several options. Of course, something like for example, inverters, PCUs, we are already looking at that we will come into that very quickly. But the larger sort of thing that you are talking about, that is going to take time, we are still evaluating, because viability is an issue, we are trying to work on that, that's a major area to work on. Investments are huge, viabilities are issue, so that will take time.

**Moderator:** Thank you. We take the next question from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

**Pulkit Patni:** Sir, in continuation with one of the previous participants, I mean, even if some of these MOUs go through, eventually what we will be doing will be contract manufacturing for them. Is there a plan of technology transfer from any of those eventually? And if not, then can you just highlight that to move away from being just a power equipment manufacturer, any specific R&D expenditure or anything else that we are doing?

I mean, my question is more from a medium-term perspective, what is the company doing for internal skill building so that our move away from power equipment could garner us a bigger market share of the industrial piece. Could you just talk about how we look at the next few years in terms of both technology transfer and in terms of internal R&D ability?

**Nalin Shinghal:** So, there are two, three different things. You see, contract manufacturing they are talking about, that's a totally separate thing which I said that are smaller opportunities, this is a different basket, we have a large number, we have almost 70 responses against the EOI. And maybe half of them will fall into the range of contract manufacturing and that sort of stuff which we are already moving

on, but they are very small numbers, the quantities, the sizes. So, the big ones are we talked about the MOU, there the bigger ones we are looking at technology transfer in all of them, which will happen in phases obviously. So, that will take much more time. And the other thing that as I already mentioned is that we are looking at in-house development for the entire range of items we are today buying out. So, in that we are evaluating what are the items which we can manufacture ourselves. So, that is the major effort which we have already taken up.

**Pulkit Patni:** So, if that is the case, then could you also guide what could be our CAPEX for the next two to three years? Because I assume for manufacturing some of those items which today you are buying out, we will need to incur some additional capital expenditure, is that right?

**Nalin Shinghal:** That's right. So, they are coming in different bits and pieces, and I think maybe in the next few months we will get a better handle on the numbers. So, for each item there is some CAPEX involved, some cases, of course, there is very little, but in others there are. But there are several of them, so they are to be collated together.

**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. In the annual report, you had mentioned that there is a significant focus on spares and services as a business segment. So, if you could just highlight a bit more on this, the order inflow was about Rs. 3,100 crores, but if you could highlight what was it as a part of the revenue and in the total BHEL fleet what is our wallet share like, if the plants are 100, what is the spares that we are actually servicing, what is the spare that customer is buying from outside agencies? So, how much can we scale this Rs. 3,100 crores order flow up to?

**Nalin Shinghal:** So, now the revenue is in the range of 11% or 12%. But going forward, you see, we are looking at a couple of specific initiatives, one, as I said Industry 4.0 solutions for the power industry. So, that is an entirely new sort of area that we are building up. Second, we are looking at providing spares and services for non-OEMs, there are a lot of non-OEM plants where they are left high and dry in the current situation. So, that's a major initiative that we have taken up. And of course, we are strengthening our own offering to where we will be providing spares, we are strengthening that offering also.

**Bhavin Vithlani:** So, how large can this revenue potential be over the next three years?

**Nalin Shinghal:** I don't think I would like to engage in that crystal ball gazing now. But yes, it is expected to multiply as a percentage.

**Bhavin Vithlani:** Sure. And just one last question from my side. This was discussed in the previous quarter's earnings call where you had mentioned about retention money or the money which is due where plants are completed but PG test is pending. And there is a serious effort which has been underway to liquidate this where the plants are already been completed. So, if you could highlight what's that number in terms of receivables where PG test is pending but the plants are completed? And a



connected question is, we have been seeing roughly Rs. 4,000 crores of receivables from the private sector for now many years. So, if you could just highlight the ECL policy on this?

**Nalin Shinghal:**

So, the total in terms of value is about Rs. 1,400 crores to Rs. 1,500 crores are the sort of figure that we are looking at, and we have planned out how within the year or so the maximum what we can do. There are some plants, of course, where there are issues, major intervention required, that will take longer. But the other one will largely get done in the current year. Sorry, what was the second question?

**Bhavin Vithlani:**

Roughly Rs. 4,000-odd crores are the receivables from the private sector which has been there for a few years now. Just wanted to get your thought process on this, what are these receivables and our ECL policy on other receivables.

**Nalin Shinghal:**

So, private sector, you see, a lot of them have now gone into the legal route. So that will take its due course. Where we could do some settlements, have been made in the recent past, but where that was not happening, we have taken a legal route.

**Subodh Gupta:**

As far as ECL provisioning is concerned on the private customer, that is being taken care of in provisioning. So even that private sector money is also being considered for ECL, but we are not providing that money unless that arbitration legal route is over. So that is the policy of the company that we don't provide unless we have a clarity where we are going to get the money or not. So, arbitration, most of the private customers are under arbitration right now, what CMD has told you. But as far as ECL provisioning are concerned, certainly it is being done every year.

**Moderator:**

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

**Abhishek Puri:**

Sir, on the cost control, which somebody asked earlier, can you please elaborate a few things which you are doing apart from 2,000 people that are retiring that you mentioned, given that we have Rs. 8,000 crores, Rs. 8,500 crores cash, fixed cost, and Rs. 20,000 crores, Rs. 25,000 crore turnovers are required to even breakeven here.

And second question is in terms of FGD business, our gross margins have been reduced from 40% to almost 34% in the last two, three quarters since you started doing FGD. So, how are the margins in that business? And is there any reason apart from FGD that has led to this decline in margins?

**Nalin Shinghal:**

So, as far as the cost reduction front is concerned, we have taken steps on multiple fronts. The biggest cost for us is the material cost, which is amounting to 66% in the previous year. And there we have taken on initiative in terms of design as well as in terms of procurement costs. So, of course, those initiatives will take time to bear fruit.

**Subodh Gupta:**

So, if you look at the other expenses, Abhishek, the quarter one is just Rs. 360 crores, and last quarter 2019-2020 it was Rs. 740 crores, in quarter four of 2019-2020. If you compare any of the numbers, this is the lowest number of other expenses in any of the quarters in last 10 years. So, there is the lowest level of other expenses. I can give you a breakup also, if you want. Provisions

are also down, power and fuel consumption, other expenses of manufacturing, selling, administrative, each line item is down. So, the stringent budgetary control measures have been put in place, that is also affecting. And COVID is also one of the reason, I know that other expenses have gone down because the top-line has gone down so basically now most of the expenses we have just basically correlated with the top-line, if the top-line is there then only these expenses will be allowed to be incurred. So that is the reason, but certainly efforts are being made on middle line. And even last year if you see 2019-2020 also, we could restrict our loss to the level of Rs. 62 crores, that happened because of the control on other expenses. So other expenses we will target very seriously. Secondly, there are certain challenges in this material costs. Yes, FGD is a competitive business, the margins which you can expect from the normal thermal business cannot be from FGC business, it's a competitive thing for everyone, not only for BHEL. So still we are working it out how much best we can earn from FGD also.

**Nalin Shinghal:**

And again, in FGD there is a specific effort on for cost reduction through in-house production and redesign in our production, a lot of specific effort has been put in for FGD projects because there we are seeing very tight situation there, so we are making that specific effort there.

**Abhishek Puri:**

Helpful, sir. Secondly, in terms of the spares business, this has been a focus area as per your annual report and various comments earlier. So why our FY '20 orders lower than at FY '19? I mean, this is about Rs. 3,089 crores if I am not mistaken. And what can lead to an increase in this business? As we have heard from Ministry of Power also, they are looking to shut old projects of 30 gigawatts to 40 gigawatts. Can this business really grow for us in a meaningful way is what I am trying to understand. Rs. 3,900 crores were reduced to almost Rs. 3,089 odd crores. So, almost Rs. 700 crores, Rs. 800 crores reduction in SSPG orders influence, and this is a very high margin business.

**Nalin Shinghal:**

So, what the question is, I think, Abhishek, in 2018-2019 it was Rs. 3,800 crores spares order, it has come down to Rs. 3,100 crores, you are talking about that?

**Abhishek Puri:**

That's right.

**Subodh Gupta:**

So, it has gone on here. But if you see even in the earlier years also, in 2014-2015, 2015-2016, 2016-2017, 2017-2018, this level used to be always Rs. 2,500 crores, Rs. 2,400 crores. So, even that number, even if it is lower than 2018-2019, still it is much better than the number of much earlier year. So, it is almost, at least it has crossed Rs. 3,000 crores. But because of some reasons some orders were to be finalized in quarter four of last year, that could not be concluded. I think that's the reason. It depends on the combination of order. But you see on that front, I have already mentioned some of the initiatives that are being taken, because that is something, we must look at in a major way going ahead. And I have already mentioned about the initiative in terms of the spares for the non-OEM spares, as well as specific efforts to improve our offering to the OEMs also. Because some of our OEMs are also going in for procurement from other sources. So, there also we are making efforts to see how we can get that business. And of course, services along with the spares, that I already mentioned the other areas we are looking at.

**Moderator:** Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

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

**Moderator:** Thank you very much. On behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

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