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Conference Call Transcript

BGR Energy Systems

Q1FY10 Results

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Corporate Participants

Mr. Rathinam
Director, (Finance)

Mr. Ramesh Kumar
President, (Corporate)

Questions and Answers

Moderator: Ladies and gentlemen, good morning and welcome to BGR Energy's Q1FY10 results conference call hosted by Edelweiss Securities. As a reminder, for the duration of this conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing * and then 0 on your touch-tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Misal Singh from Edelweiss. Thank you and over to you sir.

Misal Singh: Thanks Melissa. Good morning everybody. I welcome you all on behalf of Edelweiss Securities to the BGR Energy Q1FY10 results conference call. I have with me Mr. Rathinam, Director Finance; Mr. Ramesh Kumar, President Corporate; and Mr. Easwar Kumar, CFO, of BGR Energy. I request the management to make initial comments on results, following which we will take the question and answers. Over to you sir.

S. Rathinam: Thank you Misal. I welcome all of you to maiden conference call of BGR Energy Systems. I am Rathinam, Director Finance I hope all of you are aware of our business. We do business in two segments, one is capital goods, another is EPC contracting. We are engaged in power sector as well as in the oil & gas sector. And we have gone public in December 2007 and we have achieved good growth especially in the bottom line.The gross revenue of the EPC segment is inline with our estimate and the billing is generally based on the contract schedule and billing schedule agreed with customers.

There is a drop in the turnover and this is mainly on account of the lower turnoverin the capital goods segment-. in the environment engineering business and the air fin coolers business. The oil & gas division too has seen a contraction in revenue on account of the delay in conversion of one of the projects, overseas projects, viz KOMOR project, into another new project called as Akas, Al-Mansuria project. This has been recently finalised and the company has made an announcement yesterday. This is the main reason for the drop in the business of oil & gas division.

The air-fin cooler division manufactures heat exchangers and this division also saw a drop in turnover because of some change of scope of orders received from domestic customers and these orders are now under discussion and likely to be converted into a new order. As of now, three orders approximately around INR 60 crore have been delayed in the past three to six months. And these three orders are likely to be converted into a neworder and negotiations are underway.

The environmental engineering division which carries on the business of supplying deaerators and also the water treatment and affluent treatment plants to power projects was mostly engaged in internal orders which were being executed by the power project division and on account of which it did not pick up /accept orders from outside market. This is the reason the drop in the capital goods segment in 1st quarter. The EBIDTA margin has witnessed a significant improvement thanks to the softening of raw material prices and also the reduction of excise duty and the lowering of interest rates in the Q1 On account of all these factors the profitability of EPC contracts which we have secured in the last year namely the Rajasthan Electricity Board Kalisindh project and Tamil Nadu electricity board's Mettur project have shown improvement in respect of the EBIDTA margin as well as PAT margin compared to original estimates. These two contracts contributed about half of the contracting income during Q1 and thequarter-on-quarter basis EBIDTA has gone up approximately 36% and the profit-after-tax at INR 20 Crores has seen a growth of 17%. The EPS has also grown at similar percentage.

I would like to give you the sales breakup in terms of segment. The turnover of capital goods segment was INR 17 crores and margin was around 16% at the EBIDTA level. In the contract segment the turnover was about INR 147 crores and the margin was around 17%. In the contract segment itself we are dealing with EPC contracts as well as BOP contracts and the BOP contracts' turnover was around INR 147 crores and the margin was around 10%. You would see that the margin in the EPC contract was higher than on BOP contracts mainly because BOP contracts were secured two years ago and EPC contracts were secured last year when raw material prices were at their peak. We have assumed higher raw material cost and when it came to actual execution metal prices have fallen and we were able to capture the benefit of falling commodity prices. This is the main highlight of our quarter 1 performance.

On the balance sheet side, that we have about INR 970 crores of cash and deposits. And the working capital borrowing was INR 770 crores and the networth also has gone up to INR 580 crores and the ratios are comfortable and the leveraging is not very high.W are comfortable with our borrowing limits and all our projects are funded projects.

We have tied up large working capital, bank guarantee ,L/c's etc. and also fund-based working capital.Our contracts with Dongfang, China, for the import of BTG for the two EPC contracts is satisfactory. Now the LCs have been opened we have already made the advance payment.The contracts are intact and we hope to get the first lot of consignment from China from September/October onwards. In the first two quarters it will mainly be indigenous material, From 4th quarter onwards we will also have materials flow from Chinese suppliers and we hope to achieve around 50% growth compared to the previous year's figures during the current year . For the next year 2010/2011 we will have about 30% to 40% growth on the top-line and we hope to sustain our EBIDTA margin around 12%. Right now it is 13% plus compared to 10.16% in the previous year. So the 13% plus may stabilize around 12% to 13% going forward in the current year as well as in the next year.

These are the highlights and if there are questions we would welcome you to raise your questions. Our CFO Mr. Easwar Kumar will handle questions on the numbers. I will handover to Mr. Easwar Kumar. If there are any questions on the business I would like to answer and if there are any questions on foreign collaborations and tie-ups Mr. Ramesh Kumar will clarify your doubts. Thank you very much, I will handover to Mr. Easwar Kumar.

P.R. Easwar Kumar: Good morning everybody I am Easwar here from the management team of BGR Energy.

Misal Singh: Melissa, this is Misal here, I think we can take questions now.

Moderator: Ladies and gentlemen we will now begin with the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touch-tone telephone. If you decide you wish to remove yourself from the questioning queue you may press * and 2. Participants are requested to use handsets while asking a question. Anyone who has a question may press * and 1 at this time. The first question is from the line of Shalabh Agarwal from Sundaram BNP. Please go ahead.

Shalabh Agarwal: Good morning sir.

S. Rathinam: Good morning.

Shalabh Agarwal: Thank you for taking my questions. Just on the opening remarks you know I missed couple of numbers that were given, one is on the two projects that we are doing Rajasthan and Tamil Nadu what has been the recognition in the top-line?

P.R. Easwar Kumar: We have recognized about INR 150 crores turnover from EPC contracts.

Shalabh Agarwal: So almost half has come from the EPC?

P. R. Easwar Kumar: Correct.

Shalabh Agarwal: And the other half you are saying has come from BOP?

P. R. Easwar Kumar: That is right.

Shalabh Agarwal: Okay. And this is the first quarter that we have started recognizing from Rajasthan and Tamil Nadu?

P. R. Easwar Kumar: We had already recognized in the, last year in Jhalawar and Mettur.

Shalab Agarwal: Okay. So I was just wondering because these are bigger projects and we have just started recognizing, the expectation on the top-line was much higher and it seems that the recognition has not really happened to that extent because we have grown by just 1% year-on-year. And when last year these projects were not there so just wanted to understand what lead to that just 1% growth on the top-line?

P. R. Easwar Kumar: Yeah basically the difference between EPC contract and BOP is that in the BOP contract normally the revenue recognition starts off within the second or third month.. And as soon as we get the contract we are ready to do the job. But in case of an EPC contract it takes substantial time for engineering documents, approvals, so initial seven to eight months recognition of revenue is limited. And also BTG components have to start coming in.

Shalab Agarwal: So this is seven to eight months is from?

P. R. Easwar Kumar: From the month of July/August last year, we have got the contract in June/July of 2008

Shalab Agarwal: From the date of the LOA.

P. R. Easwar Kumar: Yes.

Shalab Agarwal: Okay.

P. R. Easwar Kumar: So going forward there will be more recognition of revenue in the current year from the two projects but the basic reason is the initial six to eight months the revenue recognition in EPC contracts is lesser as compared to a BOP contract.

Shalab Agarwal: Okay. So going forward we will see good portion of the revenue coming in?

P. R. Easwar Kumar: From Q3 onwards.

Shalab Agarwal: But sir if development happens as per schedule then how would the revenue be split up across the entire four years or three years of the execution broadly for these projects?

P. R. Easwar Kumar: Broadly for both these projects we expect about INR 2,000 crores recognition of revenue in FY/2010 from both these projects and about another INR 2,500 crores in FY2011 and the balance in FY2012.

Shalab Agarwal: Okay. And sir the BOP project in Chandrapur that we have got, what is the status on that**?** Have we started doing the engineering and basic detailed engineering work?

P. R. Easwar Kumar: Not yet. We will just start it in the next week or 10 days time. We have got the contract, and the contract documents are being studied and made ready. And in another two weeks time we should be starting off with the survey work at Chandrapur site and start off the project.

Shalab Agarwal: Okay. So sir currently from the execution side, the kind of teams that we have, how many projects can we handle at a time currently?

P. R. Easwar Kumar: Currently we can handle about seven projects.

Shalab Agarwal: Okay. So is there leeway still left in terms of getting new projects before the earlier ones get finished?

S. Rathinam: I am Rathinam again back on the call. At present we have manpower to handle about seven projects. And we have seven projects at the moment, but out of the seven projects the latest two projectsin the early stage.. Two weeks ago we got the Chandrapur order. The Vijaywada project is 97-98% completed and on the Kakatiya project we are about 85-90% completed. These two projects are in completion stage and one project is at an early stage. So we can definitely pick up one or two more orders with the existing manpower and we also plan to recruit about 400 to 500 manpower during the current year…

Shalab Agarwal: How many sir?

S. Rathinam: 400 to 500 and that was the addition which happened last year also. We added 400 to 500 man power last year, similar manpower we will add this year also. So with the additional manpower we can handle another two to three projects as well. So we are gradually building up manpower and we are also building up our order book.

Shalab Agarwal: Okay. So when you say manpower how many currently we have?

S. Rathiman: We have 1,500 people, out of which about 1,000 employees are power projects related employees and out of 1,500 about 40% are in design engineering and the balance in various other activities like purchasing, contracts management, quality management, site construction etc.

Shalab Agarwal: So more of the project management skills that would be developed?

S. Rathinam: Yes. And also we will have some more people in the design engineering also because we have to do design engineering parallely for many projects. So we will be adding manpower across all departments.

Shalab Agarwal: Sure. Sir just one last question if you can also highlight in terms of which are the other projects on BOP side which you are currently looking at in the pipeline?

S. Rathinam: We have three more projects which in the tendering stage in India, Orissa, Madhya Pradesh, another one is in Chhattisgarh.

Shalab Agarwal: Which in MP sir?

S. Rathinam: MP is the Malwa project, in Chhattisgarh Marwa project and we are also discussing with the IPP in Andhra Pradesh for a possible conversion of a BOP contract into an EPC contract.

Shalab Agarwal: Okay. Where is this IPP?

S. Rathinam: This is called Konaseema Gas Power Company and there is already a BOP contract with us and the gas was not allotted to the company till six months ago .The first was constructed by L&T was waiting for gas for sometime but about six months back the project got gas allocation and the first unit has been commissioned, already it is generating. This is a 420 megawatt power project. And the second phase of the project, the balance of plant was earlier discussed with us. Now the project owner is discussing the entire EPC contract with us.

Shalab Agarwal: So what is the size of the second phase?

S. Rathinam: This will be two times 420 megawatt.

Shalab Agarwal: 420 megawatt, 210x2.

S. Rathinam: No, 420x2.

Shalab Agarwal: Oh 420, the second phase will be 420x2.

S. Rathinam: 420x2, the first phase was 420x1. So these are the three contracts which are under discussion now.

Shalab Agarwal: And this Malwa and Marwa are both for BOP, right?

S. Rathinam: Both for BOP, 2x500 megawatts.

Shalab Agarwal: Both of them.

S. Rathinam: Both of them, like the Maharashtra one which we have recently secured, both of them are 2x500 megawatts.

Shalab Agarwal: Okay. And sir in the competition which are the other players who are offering a similar integrated BOP services?

S. Rathinam: L&T is a qualified contractor., TATA Project is a qualified contractor.

Shalab Agarwal: L&T, who is your second one?

S. Rathinam: L&T, TATA Projects, and in one or two states, Punj Lloyd also is qualified to bid and Reliance Infrastructure Projects is also qualified, but they concentrate more on their own projects.

Shalab Agarwal: Okay. Thank you sir, I have some more questions, I will come back in the queue again, thank you.

Moderator: Thank you Mr. Agarwal. The next question is from the line of Piyush Harlalka from HSBC. Please go ahead.

Piyush Harlalka: Yes sir, good morning.

P. R. Easwar Kumar: Good morning.

Piyush Harlalka: Sir just wanted to understand your balance sheet structure. Like you have said that the working capital loan is around INR 770 crores, which was around INR 710 crores at the beginning of the year. And that cash and deposits is worth INR 950 crores. Sir, I wanted to understand why we are keeping such a huge cash balance in our books?

P. R. Easwar Kumar: That cash and bank balance consist of three parts, one is the IPO fund.

Piyush Harlalka: Yeah, how much is still there?

P. R. Easwar Kumar: INR 320 crores. And margin money on LC, BGs which we have funds, that is about INR 500 crores so for the balance is only the free cash.

Piyush Harlalka: What is the end use of these INR 320 crores of IPO funds?

P. R. Easwar Kumar: It was for three purpose, basically for setting up of manufacturing facilities and margin money for working capital.

Piyush Harlalka: But you have already given INR 500 crores from margin money so do we need to get further?

P. R. Easwar Kumar: As and when future contracts come in, we need to provide margin money for especially bank guarantees and LCs that we need to open the bank guarantees on LC we need to give 7.5% to 10% as margin money. To have that type of cash reserves so that whenever a new contract comes and you bid for a large contract you could provide that type of working capital money.

Piyush Harlalka: Do we have any term loans for any fixed capital expenditure?

P. R. Easwar Kumar: That is a very small loan, less then INR 20 crores which is basically for purchase of some construction equipment.

Piyush Harlalka: In the beginning of the year what was our total net current assets?

P. R. Easwar Kumar: Net current in the beginning of the year.

Piyush Harlalka: Yes.

P. R. Easwar Kumar: INR 1,300 crores.

Piyush Harlalka: Was the total net current assets?

P. R. Easwar Kumar: Yes.

Piyush Harlalka: And out of this cash was how much, cash and deposits and everything?

P. R. Easwar Kumar: One thing, I am talking to 20th June, 2009.

Piyush Harlalka: Yeah March 2009.

P. R. Easwar Kumar: March 2009 the net current asset was INR 1,246 crores.

Piyush Harlalka: Okay and how much of cash in this?

P. R. Easwar Kumar: Okay, 610 was cash.

Piyush Harlalka: That is cash and deposit and everything.

P. R. Easwar Kumar: Yes.

Piyush Harlalka: Okay, but our cash has increased from INR 610 crores to INR 950 crores in one quarter.

P. R. Easwar Kumar: Like I said we have received a third advance from RRVUNL which is 5% advance money which was received during this quarter so that was not fully utilized and that is close to about INR 250 crores. This will get adjusted in future billing as and when we make.

Piyush Harlalka: Where do we see our working capital requirement going forward?

P. R. Easwar Kumar: Presently it is about INR 770 crores but for the year ending it should touch about INR 1,000 crores.

Piyush Harlalka: And sir what is the effective rate of interest?

P. R. Easwar Kumar: It is close to 11% now.

Piyush Harlalka: 11%.

P. R. Easwar Kumar: Yeah.

Piyush Harlalka: Okay. And sir in the growth outlook you said 35% to 40% in the current year?

P. R. Easwar Kumar: Yes.

Piyush Harlalka: So this will be primarily coming from the EPC business?

P. R. Easwar Kumar: That is right.

Piyush Harlalka: In the revenue breakup was also provided for like how much in 2010 and how much in 2011 and how much in the 2012, in the two big EPC projects that we are having both Rajasthan and Tamil Nadu.

P. R. Easwar Kumar: Correct.

Piyush Harlalka: So what was the breakup, can you just repeat it …?

P. R. Easwar Kumar: At 2010/2011, it will be close to INR 2,000 crores.

Piyush Harlalka: INR 2,000 crores in the current fiscal year.

P. R. Easwar Kumar: Yes.

Piyush Harlalka: Okay.

P. R. Easwar Kumar: And you want for the next year also 2010/2011?

Piyush Harlalka: Yeah 2010/2011 INR 2,500 crores.

P. R. Easwar Kumar: That is right.

Piyush Harlalka: Okay. In the current status, bulk of our order book is in these two projects.

P. R. Easwar Kumar: Yes.

Piyush Harlalka: So if any slippage happens in either of these projects in terms of execution, change in plans or everything, the entire revenue growth and margins on PAT growth will go for a toss.

P. R. Easwar Kumar: All the necessary approvals for the projects are available. We have already started work. And term loan funding, work capital funding everything is in place. So we do not really expect any delay in any of the work that is being executed. And we have already placed the BTG order, we have opened their letter of credit, and supplies are expected to start coming in September onwards.

Piyush Harlalka: And sir BTG like, this is also included in your entire order book component?

P. R. Easwar Kumar: Yeah

Piyush Harlalka: So will we make 12% to 13% margin on that bought out component as well?

P. R. Easwar Kumar: See the recognition of revenue is on a % of completion.

Piyush Harlalka: That is I agree, but what I wanted to do is that we will be earning 12% to 13% that is your margin guidance that you have given, on those bought out components as well?

P. R. Easwar Kumar: That is what I am saying, see we do not bill the bought out component as such. It is the revenue recognition for the entire project so that 12% to 13% is for the project. So even if the BTG is being supplied that revenue will get recognized.

Piyush Harlalka: Yeah the revenue will get recognized and that is what I am asking. So if you are saying 12% to 13% margin in the entire revenue booking that means you are earning this margin on that bought out component as well. So will we be making this margin on that BTG portion as well?

P. R. Easwar Kumar: On the contract, I think that you have to make a difference between the way the revenue is recognized, it is not the bought out is not billed as an item and the revenue is not recognized on that basis. Revenue is recognized as per the Accounting Standard 7 of the Institute of Chartered Accountants. This is recognized based on the cost incurred.

Piyush Harlalka: But for the BTG you will be incurring the cost.

P. R. Easwar Kumar: Correct, so once I incur the cost the revenue automatically get recognized.

Piyush Harlalka: Yeah sure, thanks.

Moderator: Thank you. The next question is from the line of Sachin Relekar from Tata Mutual Funds. Please go ahead.

Sachin Relekar: Yeah good morning sir.

P. R. Easwar Kumar: Good morning Mr. Sachin.

Sachin Relekar: Actually I just have question on raw materials. Basically you were mentioning your margins have improved because when you bid the prices were high and now they have come down so you are benefiting from that. My question is how much is raw material as a percentage of total value for an EPC order?

P. R. Easwar Kumar: We do not really work it out that way, because if there is a bought out component there are package orders placed on vendors. So it would be difficult to give a number on that.

Sachin Relekar: Okay. So I mean the commodities would be even part of manufactured items which you would be buying on…

P. R. Easwar Kumar: It is not that we only buy the commodity we also place package orders. So that benefit also gets recognized.

Sachin Relekar: The prices could come down with that, but how much benefit you see on a whole like because of raw material price have been fallen, like your EPC orders was at a certain price and now the current prices have been down from that level so how much ..?

P. R. Easwar Kumar: 2% to 3% reduction…

Sachin Relekar: Of EPC contract value…

P. R. Easwar Kumar: Yes.

Sachin Relekar: Okay. And which would be the major component impacting your margins in that, it should be steel or what?

P. R. Easwar Kumar: It should be steel, yes.

Sachin Relekar: Okay steel is the major party…..

P. R. Easwar Kumar: Yeah.

Sachin Relekar: Okay. And in oil and gas business like this manufacturing and other things apart from the project business, could you throw some light like how much is the order book and what kind of visibility is there?

P. R. Easwar Kumar: The present order book for the capital good segment, this is about INR 500 crores. And in the current year we would be recognizing something about INR 150 crores to INR 175 crores turnover from the capital goods segment. And the margins per se have not got impacted much. It is in the similar EBITDA levels of about 15%.

Sachin Relekar: But the order book is definitely lower compared to the previous year, but going forward with this new order of the oil & gas equipment it should be getting converted, we expect the revenues to go up in the current year.

P. R. Easwar Kumar: That has added INR 400 crores to your order book.

Sachin Relekar: That is right.

Sachin Relekar: So including that your order books stands at INR 500 crores.

P. R. Easwar Kumar: Yes, including that.

Sachin Relekar: Okay. And what kind of visibility is there on that business, I am saying the manufacturing as a whole, even oil & gas.

P. R. Easwar Kumar: Manufacturing is basically two categories, one is air-fin cooler division, where we manufacture air cooled heat exchangers and the other one is environmental engineering division where we manufacture deaerators test. In these two divisions, the present order book levels are about INR 70 to 75 crores and we are bidding for quite a few contracts in both the divisions. And we expect to retain last year's capitals goods turnover in the current year also.

Sachin Relekar: Okay, but and your IPO money which 300 Crores was there, was supposed to get invested in this manufacturing facilities, what is the timeline for that like over a what period of time this money will get deployed?

P. R. Easwar Kumar: Actually the initial plan was to put up manufacturing facilities in Bahrain and China and a project in SEZ. But taking into account the global financial situation we decided to go slow on that. Presently, we are planning to have some expansion at our existing factory so the plan is under formulation. In the next two to three months we should be able to finalize.

Sachin Relekar: Okay. So plan is still to get crystallized and how much money will go in and how much capacity expansion will be there?

P. R. Easwar Kumar: We have made some workings but we need to take shareholder's approval in case we want to use the funds for other purposes.

Sachin Relekar: Okay.

P. R. Easwar Kumar: So that has to be completed then only we will be able to share the information.

Sachin Relekar: Sure, sure. And about our JV for boilers manufacturing, I just want to know like what is the technological agreement? How much kind of royalty we will be sharing? What kind of arrangement you will have between your offshore partner and you?

P. R. Easwar Kumar: I will request Mr. Ramesh Kumar to take this call, he will answer you.

Sachin Relekar: Sure.

Ramesh Kumar: Good morning friends, Ramesh Kumar here.

Sachin Relekar: Good morning sir.

Ramesh Kumar: The collaboration agreement with Foster Wheeler is for both subcritical and supercritical boilers up to 1000 megawatt capacity. The range from 100 megawatt to 1000 megawatt. It is a 20 year licence agreement during which time they will transfer the technology, they will train our engineers and they will assist us in setting up the entire manufacturing facility. They will also ensure that boilers manufactured by us meet rated design performance and guaranteed performance of the boiler. This is a licence agreement and not a joint venture. As of now they are not investing in the boiler manufacturing infrastructure, but going forward as things stabilize there could be review of the decision

Sachin Relekar: Okay. So you said they are just transferring technology, so any royalty or something you have agreed to?

Ramesh Kumar: We are paying lump sum fee as well as royalty. Lump sum fee during initial period of the transfer of know how and royalty will be based on sales.

Sachin Relekar: So could you reveal that figures or …..

Ramesh Kumar: You know the proposal is before the government now, so until the government approval comes into my hand, it would not be appropriate to disclose. Given that it is confidential I would not be able to share that information.

Sachin Relekar: Sure, okay, okay sir thanks for answering my questions, thank you.

Moderator: Thank you Mr. Relekar. The next question is from the line of Kenin Jain from Voyager Investment. Please go ahead.

Kenin Jain: Good afternoon sir, sir just wanted to get some sense that you are guiding EBITDA margins, in the range of 12% to 13% so have we lock the raw material cost in anticipation and that is the reason we are so much confident on the margins.

Ramesh Kumar: I will handover to Mr. Easwar Kumar.

Kenin Jain: Sure.

P. R. Easwar Kumar: Good afternoon I am Easwar back here. We have already prepared our estimate and a budget for both Jhalawar and Mettur projects. And we have also placed quite a few orders. So cost is almost frozen.

Kenin Jain: So the cost is almost frozen is it?

P. R. Easwar Kumar: About 70% ordering has been completed so the balance 20% to 30% is still needs to be done.

Kenin Jain: So if I understand it rightly when the order was won in the last year, you did not freeze the raw material cost and when the raw material prices came down, at that time you have tried to frozen the raw material cost, even after then there is some 25% to 30% which is left open, is it right interpretation?

P. R. Easwar Kumar: See at the time of bidding for project, we get offers from vendors and then based on that we prepare our costing module and then submit the offer. Only after receipt of order from the customer, prices are frozen with vendors, because then we become a serious contender and then we call vendors for negotiations, then orders are placed. But normally there will definitely be a drop in prices compared to offers submitted at the time of preparing the costing and when we are award the contract.

Kenin Jain: But sir like if you take in other fashion like you are guiding 2000 Crores sales in this year from the EPC segment and 2500 in the year next. So for those sales whether you have frozen the raw material part with the suppliers?

P. R. Easwar Kumar: Yes.

Kenin Jain: I mean logically whether it would be right to presume that in this period of lull you should have locked in 100% of your RMC which you are going to consume for next three years because this was the time when most of the guys are believing that raw material would be at the lowest of their price cycle. So why you did not intend to lock the 100% of the RMC and you still left open say 20% to 25%.

P. R. Easwar Kumar: See these are all based on delivery requirements at site. But what happens is normally if I buy equipment and which is going to be installed at the end of the project, you know the guarantee parameters everything becomes a problem because the vendor will not be willing to give me guarantee for three years after I install the equipment. So these are projects which are getting completed 2.5 years down the line. So the ordering has to follow the delivery schedule. Definitely, we could take advantage of falling prices, we have taken advantage of THEM but a portion of it naturally needs to be ordered at the end of project like some instrumentation and those sort of equipments. So it would not BE practical to order it now and people will not give me a price holding on till delivery for next two years.

Kenin Jain: Right. One last question to Mr. Rathinam, as of today we are fairly well-positioned in terms of order book, in terms of getting finances for working capital, in terms of the milestones with the customers and we are fairly confident on our sales milestone and also in the EBIDTA margins and based on that you gave a guidance for the EPS for the next two years. I just want to understand what the challenges you foresee in clocking this EPS are and can you just give us some sense that this is the base case EPS based on your projections, that this has to come.

S. Rathinam: In my opinion the main challenge in these two EPC large contracts would be managing sub-contractors. We have large number of sub-contractors and we have to manage them well and we are well-equipped to handle these sub-contractors because this is not the first contract we are handling. We have handled many large contracts in the past 10 years and so far we have executed something like 1,000 contracts totally for the capital goods segment . Large contract itself is about half-a-dozen contracts we have closed already. So we are well-equipped and well-trained to handle large contractors. This will be a good challenge for us to handle all these contractors for these two large projects. In my opinion this is the main challenge . The funding is already tied up. The contracts are from the electricity boards, and hence payments are in place, and the mechanism for the payment is also in place. One of the contracts is backed by a letter of credit and the contract with the BTG supplier is already tied up fully and we have made the advance payment and well as open the letter of credit. So the contract is locked in and they have already started manufacturing and this is in good shape now. Wehave opened an office in China to coordinate with the Chinese vendors on a week-to-week basis and we are getting regular reports and it gives a positive impression to us. d We also visit Chinese vendors frequently. They also come to us for meetings so we are confident that these two contracts will go through smoothly without major hiccups.

Kenin Jain: Fine sir, thank you.

Moderator: Thank you Mr. Jain. The next question is from the line of Abhay Singhal from Brahma Capital. Please go ahead.

Abhay Singhal: Good morning sir. Sir I wanted to ask the 13% margin guidance which you are giving, that includes the 2% to 3% reduction in contract value is it? The benefits which would be derived out of the reduction?

P. R. Easwar Kumar: Yes.

Abhay Singhal: Okay, but have the benefits not been derived, so around 10% should we assume, sustainable margins like in the current order book?

P. R. Easwar Kumar: Without the reduction prices it would have been around 10-11%. Basically, like I said, both these contracts came together to us. In fact, when we started the ordering we were able to reduce prices because the vendors are pretty common. Most of them were getting a package of 2 or 3 instead of a single package. So there were reductions on account of this also.

Abhay Singhal: Okay in the same way you would have lost margin on the currency front, am I true on that sir?

P. R. Easwar Kumar: No.In case of the Rajasthan project, the contract itself is placed in two parts, one is the dollar part and the other is the rupee part. So the dollar part we are fully hedged. We have placed an order with the BTG supplier in dollars. So we get paid by **RVWNL** in dollars and we make the payment in dollars so there is no forex risk on that account. In the case of TNEB, Mettur project, the rate is applicable on the date of delivery at site. So there also we are fully covered because once the shipment is made by the Chinese supplier, it will take about 120 days for it to reach the site and that time we can take a forward cover and cover it.

Abhay Singhal: And this would be unit-wise delivery?

P. R. Easwar Kumar: Yes.

Abhay Singhal: Okay. And the other questions which I have sir is regarding the recent news reports in which BHEL was saying that the three bigger Chinese suppliers, BPG Package Suppliers are qualified on the basis of technology. So what would be our company's stance now for the future, because if something crops up, what is our strategy.

P. R. Easwar Kumar: One second, Mr. Ratnam would take this call.

S. Rathinam: No foreign supplier has effectively come to India for doing the power plant construction business but there are compulsions on foreign vendors, foreign contractors to come to India now because in their country there is a saturation of capacity build-up and they are looking for neighboring countries. They would like to come to India and build-up power plants. But in power plant construction in India there are a lot of logistics issues i, local issues involved. You have to deal with local contractors, you have to deal with local labor so that is why most foreign contractors so far have kept away from the Indian market and they would like to only supply equipment. They will not like to come and bid for projects and take the whole responsibility.

Abhay Singhal: True, but sir the whole issue of contention was because the technology is coming through the same European vendors to the Chinese, Dongfang, SEPCO and the third one, so apparently the agreement between the European vendors of technology and the three contractors in China was that limited to China, as BHEL has it limited to India.

S. Rathinam: Now there are two possibilities, one is subcritical second is supercritical. To our knowledge the tie-up to what you are referring to relates to Dongfang and Shanghai Electric agreement to limit to Chinese market relates to only the supercritical. I think they are entitled to supply subcriticaloutside China also. In the case of Dongfang the collaboration is not with European companies, the collaboration is with Hitachi Japan and to our knowledge they are authorized to supply at least sub critical equipment to the outside market. So this will not come in our way of execution of these two contracts because both are subcritical equipments. So we do not envisage any problem. In case of supercritical it will be a contractual issue between the Chinese companies and the collaborators. So if the Chinese companies are able to have an agreement with the European or Japanese collaborators and get permission to supply the supercritical equipment to India or other markets, they will be permitted. Or if they are not able to tie up they will be restricted to the Chinese market only.

Abhay Singhal: What's the agreement regarding a failure of delivery from our sub-contractors? What kind of penalties do we impose?

S. Rathinam: We have certain obligation to our customer. In most of the cases we try to have back to back agreements with our sub-contractors in terms of the delivery time and also in terms of the performance of the equipment and we try to have back to back agreements, so we feel that we are fully safeguarded in terms of our responsibility to customers and there will not be any net exposure to contractual obligations.

Moderator: Thank you Mr. Singhal. The next question is from the line of Renu Vaid from B&K Securities. Please go ahead.

Renu Vaid: Good morning sir.

P. R. Easwar Kumar: Good morning, Eshwar here.

Renu Vaid: Sir actually most of my queries are almost through. Just would like if you could throw some light since we are expecting that in the 2nd quarter deliveries from supplies from Chinese equipment manufacturing will start coming in, sir if you could just highlight couple of key milestones in the second half which would be in line with the revenue recognition also, say for the boiler plant, couple of milestones?

P. R. Easwar Kumar: The deliveries from Dongfang are expected to only start from September, so not much revenue would really get recognized from BTG in the 2nd quarter. It will be more from the 3rd quarter onwards.

Renu Vaid: Sir if you could just specify couple of milestones in terms of the boiler erection for the EPC project?

P. R. Easwar Kumar: Basically civil work construction at site but I am not be able to share the full information right now.

Renu Vaid: Okay, sure I will get back to you later in that case. Thank you.

P. R. Easwar Kumar: Right.

Moderator: Thank you Ms. Vaid. The next question is from the line of Lokesh Garg from Kotak Securities. Please go ahead.

Lokesh Garg: Hi sir good morning. Just wanted to refer to this discussion on Foster Wheeler, you have said the agreement is in hands of the government for review. Now would you also attempt to qualify for bulk tendering activity of NTPC and DBC which is likely to happen this year?

P. R. Easwar Kumar: Yeah, Mr. Lokesh I will give it to Mr. Ramesh Kumar he will answer this.

R. Ramesh Kumar: Hello Lokesh, how are you?

Lokesh Garg: Very good sir.

R. Ramesh Kumar: Yeah, certainly once we are through with the turbine collaboration discussion and finalization also we would certainly have a share in the bulk ordering also from NTPC.

Lokesh Garg: Because some indications suggest that the notice inviting tender might be out itself in the August to September timeline which is basically too short for BGR to get into that list of qualified vendors right?

R. Ramesh Kumar: If you see the history of bulk tender, there are number of information floating around. So many conditions are being planned and proposed. Some people attribute so many reports to Ministry of Power, PMO, CEA all that, but nothing is finalized yet. Still it is in the conceptual stage only. We are very well on target to participate in the bulk tender. I do not see it as a risk; we should be able to catch up with the schedule.

Lokesh Garg: Other thing I wanted to talk to you about is this Konaseema tender, this has been in the order book almost since the IPO time itself. Are you seeing now a seriousness in pursuing that project, because gas has run into other issues as well apart from whatever was thought initially?

R. Ramesh Kumar Yeah, just a moment, Mr. Ratnam will answer this question.

S. Rathinam: Mr. Lokesh, if you see CEA website, they have given project wise status of all the projects which are under construction and for the 11th Plan period and the Konaseema -I was there in the completed stage for want of gas for more than one year.This has been commissioned in March 09. The promoter of the Konaseema Gas Power Company has visited us recently and informed they would like to now revive all the approvals, all the sanctions for the second phase . Thye would like to consider the total EPC contract on us maybe in the current quarter. This is my knowledge.

Lokesh Garg: So maybe in FY11 you could start to have revenue booking from that project.

S. Rathinam: Yes please. In the current year it will be more of design engineering work and ordering work and in FY 2010-2011 we will book the revenue.

Lokesh Garg: Sir at this point of time we have advances from customers which have not been utilized to that extent, cash balance looks extremely good, but do you at any point of time within let us say, in the next 2-2.5 years when you execute these large projects, believe that all those working capital limits, particularly the fund based ones would get utilized and to that extent debt could actually balloon up to a very large number?

S. Rathinam: Now there are six projects concurrently being executed and each project will reach its peak borrowing situation at different periods. So the cumulative borrowing at any point of time in my opinion will not go beyond INR 1,500 crores and during the current year it may not go beyond INR 1,000 crores.During the current year and next year our networth will also grow up and we will be well leveraged to borrow adequately and money will not be a constraint for execution of our contracts & growth

Lokesh Garg: Sure, thanks a lot sir, I will come back if I have more questions.

S. Rathinam: Thank you.

Moderator: Thank you Mr. Garg. The next question is from the line of Aparna Shankar from SBI Mutual Fund. Please go ahead.

Aparna Shankar Good afternoon sir, just a small query, what configuration are we importing from Dongfang?

S. Rathinam: Dongfang for the boiler and turbine generator is 1 x 600 megawatt for the Mettur project and 2x600 megawatts for the Rajasthan project. subcritical.

Aparna Shankar Okay thanks a lot sir.

S. Rathinam: Thank you.

Moderator: Thank you Ms. Shankar. The next question is from the line of Avinash Nahata from IL&FS Investsmart. Please go ahead.

Avinash Nahata: Yeah sir, two queries, one is as you mentioned INR 1,000 crores for this year and INR 1,500 crores for the next year. This would be the peak utilization for the working capital?

S. Rathinam: Yes this will be the year end balance, in my opinion for the current year, next year.

Avinash Nahata: And what would be the average working capital utilization for this year, next year?

S. Rathinam: For the current year it could be around INR 800-850 crores.

Avinash Nahata: 800 would be the average utilization?

S. Rathinam: Yes, next year it will be about INR 1,200-1,300 crores.

Avinash Nahata: Fine sir thank you.

Mr. Ratnam Thank you.

Moderator: Thank you Mr. Ratnam. The next question is from the line of Ravindranath Nayak from Systematix Shares. Please go ahead.

Ravindranath Nayak Thank you for taking my questions. Actually I want to know you are guiding with the turnover of INR 2,000 crores in the EPC sector, you mean to say that INR 1,713 crores that we booked last year, it be going to INR 2,000 crores right?

S. Rathinam: Yes please. Mr. Ramesh would like to answer this.

R. Ramesh Kumar: Hello Ravinder, how are you?

Ravindranath NayakFine sir.

R. Ramesh Kumar: The Rs. 1700 Crore last year includes both the BOP and EPC segment. Rs 2,000 Crores, what has been indicated is only in respect of two EPC contracts, Khalisndh and Mettur. You will have to top-up with the BOP which will be about INR 700 crores. Construction segment will be about INR 2,700 crores in comparison to last year of Rs.1700 Crores .

Ravindranath Nayak: So you mean to say is that total would be INR 2,700 crores compared to last year of INR 1,700 crores.

R. Ramesh Kumar: Yes.Construction segment alone.

Ravindranath Nayak: And the capital goods, you are guiding that it will remain flat around INR 208 crores as against last year.

R. Ramesh Kumar: INR 200 to 300 crores.

Ravindranath Nayak: Okay. Sir in this Chandrapur project that you got, what is the margin you are expecting from this project, because you have mentioned that because the raw material prices have come down and when you booked the BOP contract earlier, the raw material prices were high and now what is the margin you are expecting and what is the margin you incorporating in the contract order?

R. Ramesh Kumar: Currently, the basic engineering work is on. Once the engineering is over we will capture the exact cost. Then only we will be able to guide you what is going to be the close-to-real margins.

Ravindranath Nayak: But currently can you put some sense on that. How much margin you are expecting?

R. Ramesh Kumar: Assume an EBITDA margin of 12-13% but the close-to-reality number will emerge once engineering is over.

Ravindranath Nayak: Okay, thank you sir.

Moderator: Thank you Mr. Nayak. The next question is from the line of Pranav Gokhle of Religare Please go ahead.

Pranav Gokhle: Sir a couple of confirmatory questions. This 70% which is completed and 30% which is kept open, is it for both the projects or only one project where you have kept only certain raw material open?

P. R. Easwar Kumar: Both the projects together.

Pranav Gokhle: So it is not like that Mettur booked completely and Khalisind you have kept open or something like that?

P. R. Easwar Kumar: As I said, depending upon the delivery schedules, the orders were finalized.

Pranav Gokhle: Okay. Is there a minimum PLF guarantee which we have given for either of the projects?

P. R. Easwar Kumar: No, to my knowledge there is no PLF guarantee. One second, Mr. Ramesh Kumar will answer this.

R. Ramesh Kumar: As far as our guarantee is concerned; we do not guarantee any PLF. What we guaranteed is the heat rate for the plant as a whole and the auxiliary power. . We do not guarantee PLF. PLF is purely in the hands of the operator, the State utility.

Pranav Gokhle: Okay. Would heat rate be linked to the kind of coal which we procure?

R. Ramesh Kumar: The heat rate is committed based on the quality of the coal and the parameters they set in the contract. If the characteristics of coal changes the heat rate will also change.

Pranav Gokhle: Okay effective your guarantee is based on auxiliary power?

R. Ramesh Kumar: My guarantee is two fold. One is the heat rate as well as the auxiliary power consumption.

Pranav Gokhle: Okay just a confirmation on the previous question about this Chandrapur. Could you tell us what is the scope of the project which you want when we talk about 12%-13% indicative margins?

R. Ramesh Kumar: Yeah, it is 2 x 500 mega watts balance of plant contract at the existing Chandrapur power stations., It is an expansion project and contract consists of the complete scope of balance of plant like civil, mechanical, electrical, control, and instrumentation including civil works for the main plant, that is civil work even for the boiler and turbine.

Pranav Gokhle: Okay just one more question on the boiler plant. Have you finalized on site or anything which we have done and what sort of CAPEX do we require for this boiler plant, if at all?

R. Ramesh Kumar: The boiler plant will be in the south of Chennai but we have identified a couple of locations. It will be finalized in a couple of week's time and as far as the project capex is concerned it is in the region of about INR 500 crore but currenty feasibility study is going on.Once it is ready we should be able to give you the correct number.

Pranav Gokhle: But indicative boiler capacity you are talking of?

R. Ramesh Kumar: Boiler capacity as of now we have planned 3,000-5,000 megawatt. That capacity is getting finalised now. Annual capacity, of around 3,000 megawatt will be the minimum capacity.

Pranav Gokhle: So 3,000 mega watt and indicative is INR 500 crores including land acquisition and everything?

R. Ramesh Kumar: That's right.

Pranav Gokhle Okay thank you sir.

Moderator: Thank you Mr. Gokhle. The next question is from the line of Srinivas Rao of HDFC. Please go ahead.

Srinivas Rao: Good morning sir.

R. Ramesh Kumar: Good morning Srinivas.

Srinivas Rao: My question is on this BOP market. Could you tell us on what was this market in terms of megawatt or project last year and what is your share and how is it looking this year?

R. Ramesh Kumar: I can tell you only on a global basis.

Srinivas Rao: No Indian market sir.

R. Ramesh Kumar: Indian market on a macro basis., The capacity addition per annum is about t 10,000 megawatt. Part of which will be go on EPC route, part of which is in EPC and BOP segment. It is split into two. Last year the potential was about 7,000-10,000 crore, that's a national potential for the BOP segment business.

Srinivas Rao: See the contracts are placed in many ways but BGR has been a pioneer and you are working on this concept that actually BOP being one chunk and then BTG so that is where I was trying to see a actual BOP contract. What they did last year and what was your share and what is it that we are expecting in terms of BOP projects to be finalized in the current financial year and how is BGR position?

R. Ramesh Kumar: Our desire is to become a full service EPC company. That is the overall business strategy but we will continue to retain market leadership in the BOP segment. We have been enjoying market leadership and we will continue to enjoy the position in the BOP segment also.

Srinivas Rao: Yeah that is where I was trying to understand in FY09 in terms of megawatts what was finalized in terms of BOP orders and what is it likely in this year in terms of megawatts for BOP project?

Ramesh Kumar Just a moment, Mr. Rathinam will take your question.

S. Rathinam: Last year we did not participate in all the state utilities tenders. We pick and chose the utilities and generally we are active in AP, Tamil Nadu, Rajasthan, Maharashtra, Chhattisgarh, and Madhya Pradesh. These are the 4-5 states where we would like to pick up contracts and these states have finalized about 4-5 contracts last year Current year these four to five states have planned to finalis around 10 projects. Out of 10 projects, 4 projects we already made the bids and we secured two contracts.

Srinivas Rao: So this year you are looking at about 10 projects to be finalized of which 4 have been already bid out and you have won two..

S. Rathinam Yes. One is Kothagudam and another is Chandrapur.

Srinivas Rao: And then what are the sizes sir in terms of mega watt or in terms of order value for you?

S. Rathinam: Most of the projects are around 500 to 800 megawatt and the sizes of the projects are 2x500 mega watts or 2x600 mega watts, that is the sizes that are being tendered out. In Tamil Nadu and Rajasthan it was tendering for full EPC contracts and as you know we have secured both the contracts last year. That is why I said four contracts, one in Rajasthan, one in Tamil Nadu, one in AP and another in Maharashtra, four contracts and more over most of the 11^{th} Plan projects are already completed. Now 12^{th} Plan projects will be taken up for tendering now so we expect that the 12^{th} Plan projects will get activated from the next financial year onwards.

Srinivas Rao: Okay, sir are you doing bidding for any BOP project with BHEL where they have EPC?

S. Rathinam: No because now days we are competing with BHEL so we are not bidding for any BOP contracts as a sub-contracted to BHEL.

Srinivas Rao: Okay sir thank you.

S. Rathinam: Thank you.

Moderator: Thank you Mr. Rao. The next question is from the line of Nalin Ladhiwala from Shanti Asset Management. Please go ahead.

Nalin Ladhiwala: This is regarding a proposed diversification into BTG manufacturing. This means several vendors would line up to set up such facilities in the country, what would be in your opinion the economic size of power generation it put in manufacturing capacity for India? By economic size I mean at what domestic capacity would be attain self sufficiency, we will not have to import equipment China or elsewhere?

R. Ramesh Kumar: The total capacity Pplanned by 2020 in the country is expected to be 700000 megawatt as against the current capacity of 1,40,000. That is the kind of deficit we are talking about. So to build these capacities it is going to take a long time. So even if you do a rough calculation, if you take a period of 13 years from now, we are talking of building of about more than 5 lakh capacity, that is 50,000 megawatts every year we have to build. It's a monumental task. The opportunities are going to be plenty. Even if there are more number of players, that is going to give enough opportunities for all the players.

Nalin Ladhiwala: Okay fine and what is the targeted date of commissioning of our boiler plant?

R. Ramesh Kumar: From the start of the civil work that will be 16-18 months.

Nalin Ladhiwala Okay quite interesting. Thanks so much for taking my questions. That's it.

Moderator: Thank you. Ladies and gentlemen due to time constraints we will be taking one last question from the line of Piyush Harlalka from HSBC. Please go ahead.

Piyush Harlalka: Yes sir couple of more questions. The JV with Foster with the government for scrutinizing, have you finalized on the stake that the BGR Energy will be holding in the JV?

R. Ramesh Kumar: It's a technical collaboration, so it will be 100% owned by BGR and promoter group.

Piyush Harlalka: How much by BGR and how much by promoter group?

R. Ramesh Kumar: Once the feasibility study is over, then we will take a call on that.

Piyush Harlalka: And sir the order that we received yesterday from Iraq, that is what has already been reflected in our order book?

R. Ramesh Kumar: Yes, only the change in order value is reflected now the original value was captured previously also.

Piyush Harlalka: Okay thank you very much.

Moderator: Thank you Mr. Harlalka. I would now like to hand the floor back to Mr. Misal Singh for the closing comments. Please go ahead sir.

Misal Singh: Thanks Melissa. I would like to thank the management of BGR for taking time out from their schedule and accommodating us for this call and I would also like to thank all the participants on the call, thank you sir and all the best for the subsequent quarters.

Moderator: Thank you gentlemen of the management. Thank you Mr. Singh.

R.Ramesh Kumar: On behalf of BGR Energy I would like to express our thanks to all the participants and particularly Mr. Misal Singh and Edelweiss Team and I request the participants to address any questions if they have to the company we will be pleased to answer those questions. Thank you.

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