



# MANAGEMENT OUTLOOK

## BHEL DEFIES SLOWDOWN, FORGES AHEAD ON HIGH-GROWTH PATH

**Records All-time High Turnover and Orders Inflow, Dividend for FY 08-09 at 170 per cent, International Business surges 41 per cent**

In fiscal 2008-09, Bharat Heavy Electricals Limited (**BHEL**) further built on the growth momentum achieved in the year before, with a spectacular top line growth of 31% and all-time high Turnover of Rs.280,330 Million. Despite unprecedented increase in raw material costs, the company sustained its profitability and recorded its highest-ever Net Profit (PAT) of Rs.31,380 Million, which grew around 10% over the previous fiscal. This was disclosed by Mr. K. Ravi Kumar, Chairman & Managing Director, **BHEL** at the 45th Annual General Meeting of the company, here today.

Addressing shareholders, Mr. Ravi Kumar said that **BHEL** recorded a surge in Economic Value Addition (EVA), which went up to Rs.20,080 Million from Rs.18,100 Million in the year before. A total dividend of Rs.8,320 Million – the highest ever, has been declared for 2008-09, which is 170% of the paid-up capital (including an interim dividend of 90%) as against 152.5% paid for 2007-08.

Significantly, the company surpassed its own record set in 2007-08 by securing orders worth Rs.596,780 Million, the highest-ever in a single year, despite operating under intense competitive pressure in domestic and in-

ternational markets. Utility orders amounted to 17,020 MW and Industry Sector order inflows crossed the Rs.100,000 Million mark for the first time. The confidence reposed by private sector customers is evident from the fact that Rs.133,200 Million worth of orders were placed on **BHEL** in 2008-09. With an order book position of over Rs.1,170,000 Million – the highest-ever both in physical as well as financial terms, at the close of the financial year, the company expects to achieve robust growth in 2009-10 and beyond, he said.

Outlining the trends in the global and domestic economies, the CMD said that the year 2008-09 has been a year of great turbulence – economically and politically and saw the economies of many countries on the brink of collapse with growth figures of many economies being revised downwards. The Indian economy, however, grew by 6.7% in 2008-09 according to the revised estimates of CSO – better than most analysts had expected, but lower than the 9% growth of 2007-08. The deceleration in GDP growth was particularly pronounced during the second half of 2008-09, largely due to the adverse impact of the global economic crisis. Industrial sector growth decelerated significantly to 2.6% in 2008-09 from 8.5% in the previous year, due largely to negligible or negative growth during four months in the second half of the year, he said.

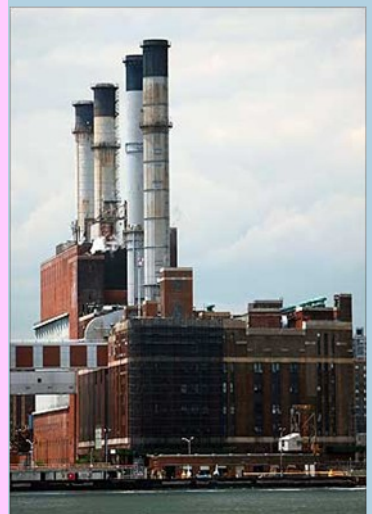
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VOLUME 4, ISSUE 1

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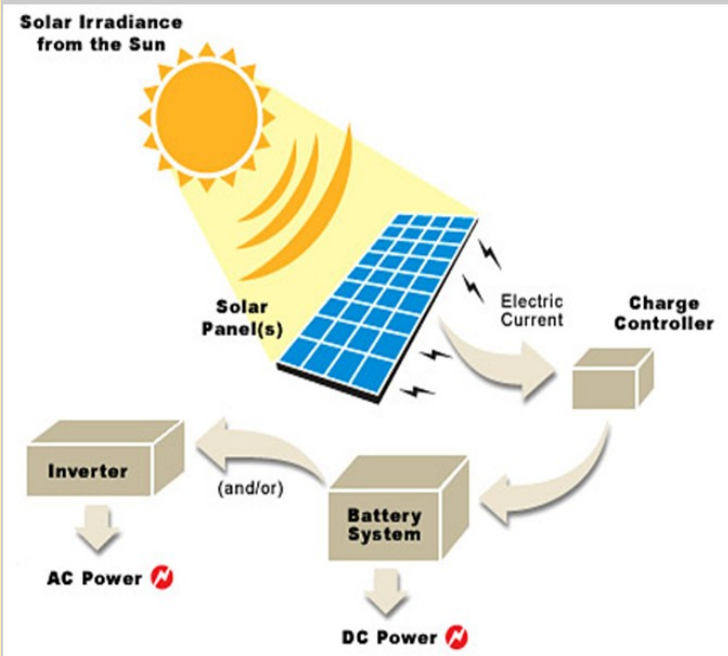
**BHEL**



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Even in such an adverse business environment, he said that the company's inherent strengths coupled with Government of India's increased focus on building infrastructure continued to be a source of growth and competitive advantage. Major highlights of the year included the first-ever orders for 2x800 MW supercritical boilers, 2x660 MW supercritical turbine

inflow of Rs.32,650 Million during the year - an increase of 41% over the previous fiscal. The year marked significant steps towards globalization with successful forays in new markets and new product areas, apart from firmly establishing the company's presence in existing export markets and areas.



**BHEL** continued to expand its international footprint by winning the largest ever export order of 2x200 MW Steam Turbine based Tishreen Thermal Power Plant from Syria on EPC basis and a long-term business tie-up in the form of a rate contract for 126 MW rated Gas Turbine generating sets with Petroleum Development Oman. Other highlights included entries in new markets of Rwanda and Senegal, besides an unparalleled achievement with the 18th consecutive order for transformers from PPC Greece, said the CMD.

generator sets, steam generators for new rating 700 MWe Nuclear sets, and retention of 100% share of the R&M market for thermal sets for the third successive year. The leading indicators of industrial production, both quantitative and qualitative, suggest that the recent downturn has been arrested and **BHEL** is optimistic about its long term prospects, said the CMD.

On the performance of **BHEL** equipment, he said that **BHEL**-built power generating sets contributed 466 Billion Units of electricity - 73% of the total power generation in the country. **BHEL**-built thermal sets achieved an all-time high Operating Availability (OA) of 88.2% with a PLF of 80% - exceeding the national average efficiency parameters by 2.6%. Significantly, all the 6 thermal power stations awarded with Govt. of India's Meritorious Productivity Awards for excellent performance are equipped with **BHEL** sets, once again reinforcing the reliability and quality of **BHEL** equipment.

Mr. Ravi Kumar apprised shareholders that India has set an ambitious target of adding generating capacity of over 1,60,000 MW till 2017 which offers attractive business opportunities for **BHEL**. On the other hand, such a market scenario also attracts increased competition. Several Indian engineering companies are in the process of setting up power plant equipment manufacturing facilities in collaboration with global OEMs. In the near future, **BHEL** will face a competitive challenge but capacity and capability building steps taken in the past will set us apart from our competition, he added.

As part of R&D efforts, Mr. Ravi Kumar said that **BHEL** spent Rs.6,900 Million on R&D programmes, 40% higher than the previous year and 2.46% of its sales turnover. Technology development efforts undertaken by **BHEL** led to filing of 213 patents and copyrights, significantly enhancing the company's intellectual capital. As part of its continuous endeavour to develop more efficient products/technologies, **BHEL** is upgrading facilities for Solar Photovoltaics to handle thinner and larger multi and mono-crystalline wafers. With this state-of-the-art facility, **BHEL** will be



Enumerating **BHEL**'s milestones in international business, he said that bucking the global recessionary trend, **BHEL** achieved a physical export order

able to offer Solar Cells of 15-16% efficiency and PV Modules up to 270 W power output from 2009-10 onwards. Capacity augmentation for fabrication of Space Quality Batteries is also underway to meet growing techno-commercial demands of ISRO for its satellite projects, he added.

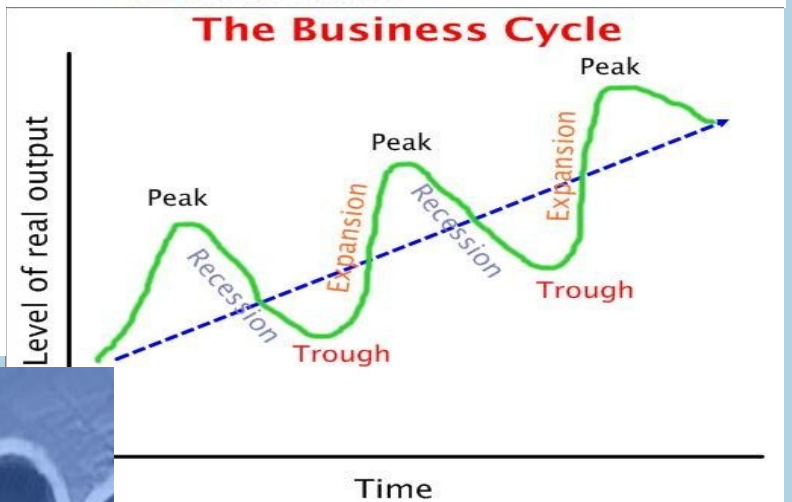
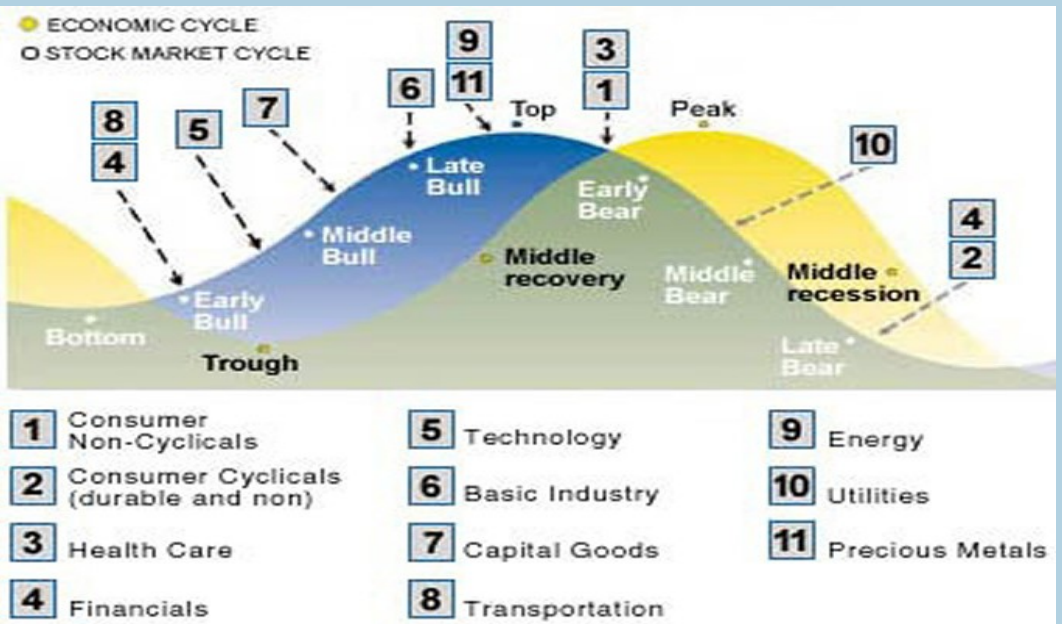
Looking to the future, he informed shareholders that as nation's infrastructure development plays a significant role in its economic growth, enhancement of power generating capacity is one of the key drivers to boost growth, and **BHEL** has a larger role to play in this. **BHEL** is working towards improving efficiency, optimising costs and meticulously planning for execution of deliverables to the desired specifications. Market dynamics continue to be unpredictable and it is prudent to remain committed to the capacity and capability building business strategy, which will enable **BHEL** to build a strong competitive edge for the foreseeable future.

Elaborating on **BHEL's** growth strategies, the CMD said that although several initiatives have been taken in order to face the future with optimism, operating in the competitive business environment will require building strategic partnerships with certain players. In line with this, **BHEL** has formed a Joint venture with TNEB for a 2x800 MW power plant at Udangadi in Tamil Nadu. Similarly, a JV has been signed with KPCL for a 2x800 MW power plant at Yeramarus and a 1x800 MW power plant at Edlapur, both in Karnataka. A MoI has also been signed with GSECL for setting up a 1x800 MW project. These strategic alliances are critical for leveraging equipment sales in the Supercritical technology domain. Similar other alliances being pursued for sourcing critical inputs, equipment, etc. include tie-ups with Kerala Electric & Allied Company Limited (KEL) and Heavy Engineering Corporation (HEC).

A 50:50 Joint Venture was formed with NTPC Ltd. to carry out EPC contracts as well as manufacture and supply equipment for power plants and other infrastructure projects in India and abroad. A MoU has also been signed with Nuclear Power Corporation of India (NPCIL) to form a Joint Venture company to carry out EPC activities on the secondary side (turbine side) of nuclear power plants of 700 MWe and above in India and abroad. **BHEL** is also in talks with probable international technology providers for 700 MWe and above nuclear turbines. Besides, a MoU has been signed with GE-Hitachi for cooperation in Nuclear island equipment for power plants to be set up by NPCIL, said the CMD.

He said that as a continuation of the strategy to pursue inorganic growth where **BHEL** has acquired BHPV as a 100% subsidiary and is reviving it with adequate managerial and financial support, the company is also pursuing opportunities in the areas of Transmission, Transportation and Renewable Energy. **BHEL** has signed MoUs with GE for Diesel Electric locomotives and manufacture of propulsion systems for these locomotives and with BEL for formation of a JV to address Solar Photovoltaic business and for setting up manufacturing facility for silicon wafers, solar cells and modules.





**BHEL's** manufacturing capacity expansion from 10,000 MW p.a. to 15,000 MW p.a. is proceeding apace and the company has decided to hike this further to 20,000 MW by the end of the XIth Plan at an investment of Rs.15,900 Million. Further, the foundation stone for a new plant at Tirumayam in Tamil Nadu has been laid for the manufacture of boiler components, he added.



Mr. Ravi Kumar assured shareholders that **BHEL's** fundamentals are in place for success and despite operating in a difficult environment, the company is approaching the challenges from a position of strength. **BHEL** will continue to make efforts to maintain its business leadership and emerge as a world class organisation.

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification