

**MINUTES OF THE ANALYSTS MEETING HELD ON 3.9.2015 BETWEEN
11.00 AM TO 12 NOON AT BEML LIMITED, BANGALORE**

PARTICIPANTS

BEML LIMITED	INVESTORS/ANALYSTS
M/s.	M/s.
<ol style="list-style-type: none"> 1. P. Dwarakanath Chairman & Managing Director 2. PR Nayak Director (Defence) 3. Aniruddh Kumar Director (Rail & Metro) 4. Sri S Venkatesan Chief General Manager (Fin) 5. Sri Iype Mathai General Manager (Fin) 6. Sri HS Ranganath General Manager (Corporate Plg) 7. Sri Sasi Kumar Dy. General Manager (Fin) 	<ol style="list-style-type: none"> 1. Kiran Sebastian - Franklin Templeton 2. Sumit Mangal - Birla Life 3. Gopal Nawandhar - SBI Life 4. Ramanan - Premji Invest 5. Kapil Agarwal - Max Life 6. Bharati Sawant - Mirae Asset 7. Amit Surekha - Bharati Axa Life 8. Sachin- Alchemy Capital 9. Dharshan- Alchemy Capital 10. Charanjith - B&K securities 11. Renjith sivaram - B&K securities 12. Deepak Agrawala from Elara Capital 13. Abhishek Ghosh, IDFC 14. Amar Kedia, Nomura Financial Advisory & Securities 15. Rajiv Mehra, JM Financial 16. Kunal Sheth, Prabhudha Lilladher 17. Sagar Gandhi, ICICI Securities 18. Ravi Swaminathan, Spark Capital 19. Chirath Shah, ICICI Securities 20. Santosh Yellapu, Angel Broking 21. John Perinchery, Emkay Global Financial Services Ltd. 22. Hitesh Dhanak, ICICI Securities 23. Abhijit Mitra, ICICI Securities 24. Nalin Nadiwala – TATA AGI 25. Sanjay Doshi – Reliance 26. Manish Patel, Peerless 27. Vijay, Novastar 28. V Ramani, Premji Investment

At the outset, CMD, BEML welcomed the participants and introduced his colleagues.

The introductory remarks of CMD was as follows:

1. For the past two years, we had difficult business environment in the Defence vertical and we have come out of the same. We fared better in the two verticals viz., Mining & Construction, Metro. Besides we controlled our expenditure, brought down interest cost and demonstrated our resilience to take any challenge.

2. We get orders through competitive bidding in respect of Mining & Construction and Rail & Metro business. Further 50% of our sales comes from in-house developed products. Hence, any policy changes in the Government will not affect our business.

2. Coming to FY 2015-16:

(i) In respect of Defence business we have started supplying backlog orders and the position is better than previous year.

(ii) Regarding Mining & Construction equipment, with the Government policy of increasing the coal production from 500 Million to one Billion Tons, the prospect in Mining & Construction field for conventional vehicles will increase. Apart from conventional equipment, we have also taken up manufacture of high end equipment in Dumper and Excavator segment and the trial evaluation reports are extremely good.

(iii) With regard to Metro business we have orders booked till 2017-18. Further orders are expected from Kolkata Metro and Delhi. Further the Ministry of Railways is contemplating introducing medium speed vehicles with average speed of 160 to 180 KMs. To meet such demand, we have already taken action to meet such demand and this line of supply is going to be good for BEML for future.

(iv) Lack of orders for railcoaches is a matter of concern. We are making concerted efforts get orders from Railways.

(v) As far as expenditure control is concerned, it has been consistently good for the last three years and this trend will continue.

4. Queries from the analysts:

1. As per Coal India internal presentation/assessment, average availability of BEML equipment is less, spare parts availability is poor. If we link this to the high spare parts inventory at the depots, what inference should we get?

PSUs are soft targets and comments like non-availability, poor performance of PSU supplies are common.

We are not privy to the internal assessment or presentation made. Secondly as per sale order, we have to ensure committed availability during warranty period. BEML takes care of this issue.

In respect of equipment beyond warranty, the coal companies have to place order for spare parts, service or maintenance. We have depots, service centres in different parts of the country to serve our customers. We provide AMC, MARC contract and other maintenance service to the customers.

We have stocked sufficient spares. We look for business for maintaining the equipment. The customers can make use of these services and improve the availability of the machines.

It should be noted that unless we ensure committed availability of our equipment, we will not be qualified to participate in future tenders. As we continue to get orders from our customers, it is testimony to the performance of our equipment. There may be some grey areas that can happen to even supplies from MNC companies.

2. What is the indigenization level of earthmoving equipment?

In respect of Dozers and conventional trucks, it is more than 95%. In respect of high end dumpers and excavators, it is more than 60 to 65%.

3. What about Rail segment?

In respect of railcoaches indigenization level is 100%. In respect of Metro we manufacture 50 to 60% of aggregates. Further, since our prices are competitive, we are getting orders. We are encouraging aggregate manufacturers to set up their facilities in India.

4. With the Coal India targeting higher production, in terms of size whether the demand for BEML equipment will increase significantly ?

To improve production, the coal companies have to gradually shift into buying high end equipment.

The real work horses are 60 to 100 T hauling equipment. The emphasis is on conventional equipment and the trend will continue for some more time. BEML has skilled manpower and it has taken up manufacture of high end equipment also. We have geared up to take the challenge.

5. Are you expecting new orders in the defence segment?

Make in India has given a great push to defence segment. We have equipments for different applications like PMS, Sarvatra Bridges, ARVs, Trucks etc for defence requirement.

6. Are you entering into any JV for defence equipment?

We are considering this option also.

7. Any prospect in aerospace side?

We have already entered missile segment. This is a great opportunity for BEML.

8. Do you expect any competition from BEL?

BEL is mainly focusing on electronics and communications aggregates. Our expertise is in the area of mechanical, heavy fabrication , machining etc. Actually we complement each other. We have supplied BEML Tatra trucks to BEL which can be used for varied applications.

9. What about margins?

In mining equipment segment, we have severe competition from MNC companies like Komatsu, Hitachi, and Caterpillar etc. But we still hold sizeable market share in dozers, dumpers and motor graders. Depending on the competition we work out our margin levels.

We are focusing on expenditure control. All our efforts are made to control cost. We have achieved success in controlling interest cost to a great extent. These cost control measures will improve our operating margin.

10. Inventory level is 9 to 10 months? What is the ideal level of inventory?

In our type of industry, we may have to hold certain level of inventory to meet the demands of our customers. The lead time for manufacturing equipment vary from 8 to 10 months. In such cases we have to maintain sufficient ready stock.

However, we are trying to compress the level of inventory. For the past two years, the FGI level has definitely come down.

12. What is the progress on missile project?

Make in India for defence will definitely give boost to BEML business. We will be entering into the missile business.

13. The coal companies are expecting to incur Rs.4000 crores in capex. How much orders are expected from the tenders of coal companies and how much is in the pipeline?

We have won reasonable numbers in line with our market share.

14. With the coal production is going to be increased to 1 Billion Tonnes, lot of MNC players will enter the field. What is its impact on BEML especially in leasing model?

Leasing out is farfetched expectation at the moment. For another 4 to 5 years there is no threat. In the leasing model, the MNCs may offer their equipment for overburden removal etc.

15. To cope with the increased demand for equipment what can be the capital expenditure requirement of BEML over the next five years period?

Except for critical components and aggregates which are done in house, rest we outsource. We are identifying private companies who have requisite skill, expertise and machinery to supply low end items like machining, fabrication thus creating a robust supply chan. What can be done outside we will not make. The supplies from these vendors will be cheaper and meet the required standard. These items will be integrated into the main system and thus achieve our targets. Hence, the capex is minimum and we invest only in special purpose machines essentially required.

16. What is the performance in export front?

We have exported approx. 110 crores worth mining equipment in 2014-15. Our focus is on African countries. In respect of rail segment, we are looking at Sri Lanka and Bangladesh.

17. How much margin do you have on defence equipment?

The prices are negotiated. We have reasonable margin.

18. In respect of defence orders, if you can give break up, how much towards Trucks, and how much from others?

Trucks more than 50%, balance comes from supply of equipment like PMS Bridge, ARVs and other aggregates.

19. Private players like Tata Motors supplied trucks for the army. How does this affect BEML business?

The private players are in 6x6 trucks and below. Our supplies in this line are less. We provide 8x8 platform which has varied applications. Our trucks are proven vehicles. It can be used for transportation of tanks, radar, bridge system, missile etc. Hence, our Trucks are robust and suited for rugged terrain.

21. For Tatra and ARV orders, whether the prices are revised?

These are legacy orders and the prices are fixed. For new orders the prices will be negotiated.

22. Railways are introducing medium speed train. How BEML sees this as an opportunity.

These types of trains are first in India. We are not qualified on our own. We are trying to have tie up with a suitable partner. These types of trains cannot be introduced overnight. Railways have to do lot of job like re-laying the tracks, signaling etc. How they are going to shape up we have to see. However, BEML is very much aware of the developments and considering our expertise in rolling stock, we stand to gain.

23. How do you improve margins from core operations?

First, we are trying to reduce manufacturing cost by outsourcing non-critical items; secondly, reduction in material cost, labour, sales and marketing expenditure will be brought down to the optimal level. It is a continuous effort.

24. In Metro supplies how FE fluctuation is going to affect the margins?

We get payment in three currencies viz., Euro, Yen and INR. As and when the money is received, the same is passed on to the respective suppliers. Hence, exchange rate variation does not affect our margins.

25. Till recently MNCs were not allowed establish shops at coalfields. Now they are trying to establish shops in India. How that will affect BEML?

Actually there was no bar on MNCs establishing manufacturing facilities in India. Establishing facilities means they have to keep back up spares, maintain equipment. All these add to their cost.

Comparatively we have service centres and spare parts depot all over the country. We can reach the customers better and give service faster. Since established facilities are already available, we have better chance of delivering. Hence, we have no problem.

26. What is the status of underground equipment?

Underground mining has not picked up in a big way. The demand is limited. We have sold 23 Nos. SDLs to Eastern Coalfields. We have also supplied Mine Cruiser to Singareni Collieries.