

DISCUSSIONS WITH GROUP OF ANALYSTS/INVESTORS HELD ON 27TH AUGUST 2015 AT
BEML SOUDHA CONFERENCE HALL

REPRESENTATIVES FROM BEML	INSTITUTIONAL INVESTORS
	M/s.
1. DIRECTOR (DEFENCE) 2. DIRECTOR (FINANCE) 3. DIRECTOR (RAIL & METRO) 4. EXECUTIVE DIRECTOR (M&C) 5. GENERAL MANAGER (FINANCE) 6. GENERAL MANAGER (CORPORATE PLANNING)	1. DEUTSCHE BANK: (i) MANISH SAXENA, (ii) JAYESH SHAH (iii) IAN LX DSOUZA 2. SBI LIFE (i) SANDIP BANSAL (ii) GOPIKRISHNA SHENOY 3. JAYESH SHROFF SBI MUTUAL FUND 4. TUSHAR PRADHAN HSBC 5. MANISH GUNWANI ICICI PRUDENTIAL 6. RAJESH SEHGAL FRANKLIN TEMPLETON 7. ROHIT SINGHANIA DSP BLACKROCK 8. ANKUR ARORA IDFC MUTUAL FUND 9. MADANGOPAL RAMU SUNDARAM MUTUAL FUND

1. Director (Finance) welcomed the investors. The representative from Deutsche Bank requested that an overview of the Company be given and based on the same further information and clarification would be sought.

2. From the Finance perspective, Director (Finance) furnished the following information:

- (i) In spite of Tatra issue, we still managed approx. Rs.3000 crores turnover in 2014-15
- (ii) We will come out of break-even scenario
- (iii) Next year we will definitely do well
- (iv) We will come out of break-even scenario
- (v) Next year we will definitely do well

3. Director (Defence) brought about the following points:

- (i) We are going to engage in the manufacture Hull for Tanks required by OFB. If we are successful in user trials, we may get more orders to the extent of 100 Nos.
- (ii) We are also expecting orders for
 - (a) T72 and T90 tanks – Hull & Transmission
 - (b) Surface Mine Clearance System
 - (c) Command Post vehicles
 - (d) Mine plough
- (iii) Our R&D is gearing up for taking up Armoured Recovery vehicle. Indian Army, CVRDE and BEML are jointly designing the vehicle and we are much ahead of the schedule.
- (iv) We are also into manufacturing SMERCH vehicle with very small turning radius.

4. Director(Rail& Metro), gave the business scenario of Rail & Metro business:

- (i) As far as Metro business is concerned there is good potential; Upcoming metro projects include Lucknow, Kolkata, Nagpur, Ahmedabad, Trivandrum.
- (ii) The Railways are focusing on medium speed trains, with world class facilities. The focus is on lesser radius, shorter length. The Railways expect that these trains will cut the travel time by 20%. This is going to be game changer as far as these coaches will improve safety, passenger comfort.
- (iii) We have participated in Kolkata Metro bid and will be participating in Nagpur Metro bid shortly.
- (iv) Our order book position as far as Metro is concerned, we have orders to be supplied till 2017.
- (v) We have created enough facilities for manufacture of metro cars and also expanded the existing facilities to take up additional load. No major capital expenditure is required.
- (vi) The matter of concern is non-receipt of orders from Railways for rail coaches due to which our production at RCII unit at KGF Complex is affected.

5. The Executive Director (Mining & Construction) furnished the following information:

- (i) We produce equipment for mining sector both coal and metal ore mining. We also produce equipment for construction segment.
- (ii) We sell these equipment amidst severe competition.
- (iii) Our market share in mining & construction business was 60 to 70%.
- (iv) During the current year in the M&C business we expect 8 to 10% growth.
- (v) In view of Government of India's plan to increase coal production from 0.5 Billion tonnes to 1 Billion tonnes by 2020 we expect our orders for mining equipment will increase

With the above introductory briefing on the outlook, the investors sought clarification.

1. What could be the orders in terms of value, import content in respect of Tatra vehicles?

No fresh orders for Tatra vehicles. However, we are clearing the legacy i.e. Back log orders.

The value-wise it would around Rs.1200 to 1500 crores over three years. During current year the executable order is Rs.521 crores.

2. What is the current inventory level of Tatra?
There is no inventory of tatra vehicles.

3. What is the percentage of indigenization of Tatra vehicles?

In respect of Tatra vehicle we have achieved indigenization of 92%. We have taken initiatives to increase the indigenization content of Tatra vehicle during the last three years. The Indian made truck is already under quality inspection of the army (DGQA) and is under stringent user trial.

4. What is the status of ARVs?

We will let you know shortly.

5. Are you importing chassis of Tatra?

We are getting kits of certain parts from Tatra. Till such time the user trial completes, we get these kits. We have already supplied 60 to 62% of the Tatra requirement.

6. Why BEML's inventory is high?

It was explained that the inventory level has been as follows:

(i)	2010-11	Rs.1900 crores
(ii)	2011-12	Rs.2400 crores
(iii)	2012-13	Rs.2100 crores
(iv)	2013-14	Rs.1900 crores

Inventory is not unique to BEML alone but our competitors also have huge inventory. There are two main reasons for high inventory levels –

- (i) There is not been much growth in mining sector
- (ii) From 2012-13 there has been delay in tendering process or finalizing the tender by Coal India Limited.
- (iii) In anticipation of orders we manufactured the equipment. However, during the current year the inventory is expected to come down further.

7. How much is the percentage of equipment and spares in total M&C turnover?

Out of M&C turnover of around Rs.1600 crores, 60% for equipment 40% for spares

8. Why spares inventory is high?

Due to competition we have to stock sufficient spares. Otherwise we may lose the customer who has the option to buy from the market.

Secondly, we have taken maintenance contract of mining equipment which is as long as 17 years for some equipment. To avoid down time and resultant penalty, we have to necessarily stock critical spares. Further, due to long lead time for procuring spares which are of imported origin ranging from 9 to 12 months, we have to stock these critical spares.

9. During last year equipment and spares sales has increased but margin has come down. Why?

Pricing of equipment and spares depends on case to case basis. When the customer buys in bulk say 60 to 70 equipment, we have to offer competitive prices to get the orders.

Due to economic scenario, the mining business did not expand and we had to carry inventory. Pricing decision was taken to liquidate the inventory.

10. What is the average availability of equipment expected?

It depends on the sale order and the customer.

11. Whether inventory carrying cost and interest cost is included in the pricing of spare parts of EM equipment?

In most of the cases the pricing include these costs.

12. What is the effect of ban of ROTEM.

ROTEM has been banned in participating JICA sponsored projects. However, wherever such ban applies we are participating independently. We have been qualified for Kolkata Metro bid.

13. What about technology absorption in respect of Metro cars?

We have adopted the Rotem technology. We have good design set up. Nearly 120 Design engineers are engaged in this field. We have an understanding with IIT Kharagpur. When need arises we will synergize the available technology and take the opportunity to carry forward.

In the manufacture of Metro cars, it is not feasible to establish complete facility. Many of the items like wheel sets, couplers, air conditioning, under frame, roof, bogie frame are sourced from reputed manufacturers.

Many of the international players are setting up facilities for manufacture of metro aggregates in India

Although assimilation of technology is there, we have to upgrade it constantly as different metro come up with different specifications.

14. What are the orders expected during 2016-17 ?

We are expecting orders for stainless steel EMU 8 sets, DEMUs 10 sets, in respect of rail coaches expecting 500 to 600 Nos.

15. What about competition from private sector?

Railcoach requirement is mainly met by ICF, RCF and BEML.

With the introduction of medium speed rail coaches, which is going to be game changer and in respect of Metro cars there will be competition from Alstom, Hitachi, Siemens , Kawasaki, Bombardier. Since many of the foreign players do not have established facilities in India, even if they get the order, they may sub-contract the same.

16. Why do you think that the medium speed rail system will be a game changer?

Because of different technology equivalent to European standards, low noise, wifi communication, seating arrangement. Everything will be of world class standard.

17. Do you expect any spares orders on metro cars?

Metro cars are covered under defect liability period of 18 months and also MTBR (Meantime between repairs) of 80000 KMs. Hence, the orders for spares are rare.

In respect of Rail coaches, EMU, OHE etc. the servicing will be taken care of by the Railways. Since Railways have identified sources certified by RDSO, the spares requirement will be sourced from these sources and they will not get the same by the supplier of coaches.

18. What is the capital expenditure plan keeping in view the future business growth?

The capex is not going to be high. To meet increased levels of turnover, we plan to develop ancillary units with requisite facilities and enter into long term agreement for three to five years and source the aggregates from them. Thus BEML need not invest heavily on expansion of business.

19. What is the sustainable level of operation?

It is around Rs.3000 crores. During the next three years we are planning to achieve a turnover of Rs.4000 crores and hope to become a debt free company.

20. What is the ideal level of manpower?

The manpower strength is coming down drastically with attrition level of 500 Nos. per year. Ideally the number should be around 8000