LEVERAGING THE 2%
A Case Study on Drawing Maximum Benefits from CSR Spending, Especially when Trouble is Brewing: with Special Reference to BHEL

1Ms.Durdana Ovais, 2Dr.A.P.Singh
1Research Scholar, CRIM–Barkatullah University Bhopal, INDIA
2Professor, Safia Arts and Commerce College Bhopal, INDIA

ABSTRACT
The case study brings to forefront the raging issues of PSU behemoth BHEL. And analysis the possibilities as to can CSR activities be directed to create employer branding strategies to return the confidence of the workforce and external visibility to brag the orders from the domestic front as to curb the growing competition.

The case also asks some thought provoking questions to the readers while stating facts. To be as unbiased as possible in their approach to let the evidence talk for itself, the authors have presented specific information.

Keywords---- BHEL, CSR, PSU, Section 135 of Indian Companies Act 2013, Strategic CSR, SWOT.

I. INTRODUCTION
One of the largest engineering companies of India in power(2/3rd of the business), industry and transportation, BHEL was accreted as a Mharatana company in 2013 entitled such status only to other 5 PSU. This technology driven company was ranked in Fortune 500’s biggest industrial giants. With presence in 76 countries, it is renowned as a renovation, services and maintenance expert in the international market.

Established in 1964 it is earning profits continuously since 1971-72 and paying dividends successively since 1976-77. BHEL was established in 1964. Heavy Electricals (India) Limited was merged with BHEL in 1974 [1] [2]. In 1982, it entered into power equipment, to reduce its dependence on the power sector. It developed the competence to manufacture an assortment of electrical, electronic and mechanical equipments for all sectors, including transmission, transportation, oil and gas and other allied industries. By the year 1991, it was transformed into a public limited company. And by the end of 1996, the company had handed over 100 Electric Locomotives to Indian Railway and installed 250 Hydro-sets across India [2].

But trouble is brewing in this paradise too. This behemoth Public Sector Unit of India is facing tough competition from international market. With order book decreasing, dues increase, stock prices slacking and investors losing confidence. The coal scam had it had by obstructing its supply of coal. Though the government had assured that the issue is resolved and promised growth for the company analyst are losing hope, resulting in a decade low trading of its shares.

BHEL has posted consecutive increasing receivable and weak gross margins too. The dues are amounting up to nearly one year of sales. Moreover the majority of Bhel’s bids that are placed for state/centre orders, requires it to place a JDU (Joint Deed of Undertaking) whereby its technology partner would provide a warranty for the equipments used, and Bhel will source a certain proportion of equipment from its technology partner, thus leading to low gross margins, says Nomura[3].

Being a public sector unit it has it has complied with the section 135of Companies act 2013 and is continuously spending towards the welfare of the society. In the forbes list it ranked at the 45th place in Indian companies spending for CSR. The case looks for possibilities as to how HR could lead from the forefront and utilise this spending more creatively and effectively. In an analysis of the Maharatna PSU regarding the CSR spending during 2009-2013 BHEL was the one with the least funds allocated for CSR as well as funds utilised for the said activities.

II. BHEL’S FINANCIAL STANDING, SHAREHOLDING PATTERN AND THE MARKET
### Table I

**Last 5 Years Financials**

<table>
<thead>
<tr>
<th>Profit &amp; Loss – Bhel Rs (In Crores)</th>
<th>Mar'15</th>
<th>Mar'14</th>
<th>Mar'13</th>
<th>Mar'12</th>
<th>Mar'11</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>12 Month s</strong></td>
<td>31103.4</td>
<td>39108.8</td>
<td>48424.7</td>
<td>47978.9</td>
<td>42246.6</td>
</tr>
<tr>
<td><strong>INCOME:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Turnover</td>
<td>31103.4</td>
<td>39108.8</td>
<td>48424.7</td>
<td>47978.9</td>
<td>42246.6</td>
</tr>
<tr>
<td>Excise Duty</td>
<td>920.42</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>NET SALES</td>
<td>30183</td>
<td>39108.8</td>
<td>48424.7</td>
<td>47978.9</td>
<td>42246.6</td>
</tr>
<tr>
<td>Other Income</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL INCOME</td>
<td>31403.4</td>
<td>40724.9</td>
<td>49546.4</td>
<td>49244.4</td>
<td>43267.2</td>
</tr>
<tr>
<td><strong>EXPENDITURE:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing Expenses</td>
<td>4136.3</td>
<td>4995.9</td>
<td>4827.42</td>
<td>4411.49</td>
<td>3890.84</td>
</tr>
<tr>
<td>Material Consumed</td>
<td>13838.5</td>
<td>18764.1</td>
<td>23743.9</td>
<td>24289.9</td>
<td>19760.1</td>
</tr>
<tr>
<td>Personal Expenses</td>
<td>5450</td>
<td>5933.78</td>
<td>5752.78</td>
<td>5465.83</td>
<td>5396.71</td>
</tr>
<tr>
<td>Selling Expenses</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>4659.4</td>
<td>4895.22</td>
<td>4710.68</td>
<td>3904.41</td>
<td>4613.54</td>
</tr>
<tr>
<td>Expenses Capitalised</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Provisions Made</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL EXPENDITURE</td>
<td>28084</td>
<td>34589</td>
<td>39034.8</td>
<td>38071.7</td>
<td>33661.2</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>2098.6</td>
<td>4519.83</td>
<td>9389.83</td>
<td>9907.24</td>
<td>8585.44</td>
</tr>
<tr>
<td>EBITDA</td>
<td>3319.09</td>
<td>6135.86</td>
<td>10511.5</td>
<td>11172.8</td>
<td>9606.08</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1077.3</td>
<td>982.92</td>
<td>953.39</td>
<td>800</td>
<td>544.12</td>
</tr>
<tr>
<td>Other Write-offs</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>EBIT</td>
<td>2241.77</td>
<td>5152.94</td>
<td>9558.15</td>
<td>10372.8</td>
<td>9061.96</td>
</tr>
<tr>
<td>Interest</td>
<td>91.65</td>
<td>132.63</td>
<td>125.27</td>
<td>51.28</td>
<td>54.73</td>
</tr>
<tr>
<td>EBT</td>
<td>2150.12</td>
<td>5020.31</td>
<td>9432.88</td>
<td>10321.5</td>
<td>9007.23</td>
</tr>
<tr>
<td>Taxes</td>
<td>720.72</td>
<td>1553.52</td>
<td>2817.71</td>
<td>3262.3</td>
<td>2994.24</td>
</tr>
<tr>
<td>Profit and Loss for the Year</td>
<td>1429.4</td>
<td>3466.79</td>
<td>6615.17</td>
<td>7059.21</td>
<td>6012.99</td>
</tr>
<tr>
<td>Non Recurring Items</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other Non Cash Adjustments</td>
<td>-10.11</td>
<td>-6.01</td>
<td>-0.44</td>
<td>-19.25</td>
<td>-1.79</td>
</tr>
<tr>
<td>Other Adjustments</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>REPORTED PAT</td>
<td>1419.29</td>
<td>3460.78</td>
<td>6614.73</td>
<td>7039.96</td>
<td>6011.2</td>
</tr>
<tr>
<td><strong>KEY ITEMS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preference Dividend</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Equity Dividend</td>
<td>226.6</td>
<td>574.96</td>
<td>1102.16</td>
<td>1312.35</td>
<td>1274.97</td>
</tr>
<tr>
<td>Equity Dividend (%)</td>
<td>46.29</td>
<td>117.45</td>
<td>225.15</td>
<td>268.08</td>
<td>260.45</td>
</tr>
</tbody>
</table>

**Figures**

**Figure I**

Shareholding Pattern as on 31st March 2015 [5]

**Figure II**

Profit Before Tax/ Profit After Tax (Crore) [5]

**Figure III**

Consolidated Financial Performance (Crore) [5]
Figure IV
Indian Capital Goods :size of the market [6]

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Market size (FY15) in $ mn</th>
<th>5 year CAGR (%)</th>
<th>3 year CAGR (%)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heavy Electrical Equipment</td>
<td>22,919</td>
<td>5.2</td>
<td>5.8</td>
<td>56</td>
</tr>
<tr>
<td>Process Plant equipment</td>
<td>3,514</td>
<td>12.3</td>
<td>0.2</td>
<td>9</td>
</tr>
<tr>
<td>Earthmoving &amp; Mining Machinery</td>
<td>3,153</td>
<td>40.0</td>
<td>7.1</td>
<td>8</td>
</tr>
<tr>
<td>Printing Machinery</td>
<td>2,849</td>
<td>13.7</td>
<td>8.0</td>
<td>7</td>
</tr>
<tr>
<td>Food Processing Machinery</td>
<td>2,270</td>
<td>5.0</td>
<td>4.0</td>
<td>6</td>
</tr>
<tr>
<td>Dies, Molds &amp; Press Tools</td>
<td>2,187</td>
<td>5.2</td>
<td>-6.3</td>
<td>5</td>
</tr>
<tr>
<td>Textile Machinery</td>
<td>1,791</td>
<td>10.7</td>
<td>5.1</td>
<td>4</td>
</tr>
<tr>
<td>Machine Tools</td>
<td>1,348</td>
<td>5.2</td>
<td>-7.6</td>
<td>3</td>
</tr>
<tr>
<td>Plastic Machinery</td>
<td>527</td>
<td>9.6</td>
<td>-9.8</td>
<td>1</td>
</tr>
<tr>
<td>Metallurgical Machinery</td>
<td>400</td>
<td>-6.3</td>
<td>-12.3</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40,967</strong></td>
<td>5.8</td>
<td>-3.6</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Ministry of Heavy Industries & Public Enterprises

Figure V
BHEL’s Growth Picture
Revenue From Operations (crore) [23]

To maintain a leading position as suppliers of quality equipment, systems, and services in the field of conversion, transmission, utilisation, and conservation of energy for application in the areas of electric power, transportation, and gas exploration and industries.

To utilise company’s capabilities and resources to expand business into allied areas and other priority sectors of the economy like defence, communication, and electronics.

Values

— meeting commitments made to external and internal customers
— foster bearing, creativity, and speed of response
— respect for dignity and potential of individuals
— loyalty and pride in the company
— team playing
— zeal to excel
— integration and fairness in all matters

Company Objectives

Growth - To ensure a steady growth by enhancing the competitive edge of BHEL in existing business, new areas, and international operations.

Profitability - To provide a reasonable and adequate return on capital employed primarily through improvement in operational efficiency, capacity utilisation, and productivity and generate resources to finance the company’s growth.

Customer - To build a high degree of customer confidence by providing increased value for his money through international standards of product quality, performance, and superior customer service

Technology - To achieve technological excellence in operations by development of indigenous technologies and efficient absorption and adaptation of imported technologies to suit business needs and priorities and provide a competitive advantage to the company.

Image - To fulfill the expectation which stakeholders like government as owner, employees, customers, and the country at large have from BHEL.

USP
An integrated power plant equipment manufacturer and one of the largest engineering and manufacturing companies in India in terms of turnover

Segment
Power Transmission Sector, Oil and Gas, Industrial Equipment, Telecommunication Area, Non-Conventional Energy

Target Group
Power distribution & Power generation companies, Oil and Gas Companies, Telecommunication Industry

III. BHEL - IN A GLIMPS

Parent Company: BHEL
Established: 1964
Type: Public Sector
Headquarter: New Delhi
Category: Electrical Equipment
Sector: Energy Power and Industrial Equipment

Vision
Becoming a global engineering enterprise providing solutions for a better tomorrow.

Mission
### IV. SWOT ANALYSIS BHEL

#### BHEL’s Strength
- Being a PSU is the strongest point for BHEL.
- Sound engineering base and ability to assimilate.
- BHEL is also fully equipped to manufacture and supply spares.
- As orders are received from the state and the center its relation and flow of demand is stable.
- Also due to this status it enjoys a dominant position in the domestic market.
- It is also well known for its capacity to set up power plants on turnkey basis, as it has got complete know-how for manufacturing the entire equipment required.
- It is also well equipped to take care of capital maintenance and servicing of power plants.
- BHEL is also known for its superior quality. A report by The Bank of America and Merrill Lynch stated that the “equipment supplied by BHEL is superior to Chinese products after accounting for parameters such as auxiliary consumption, heat rate, plant load factor and metallurgy”[17].
- BHEL is empowered with technical and commercial superiority as compared to others. That results in its customer deriving 10 percent higher free cash-flow to equity (FCFE) even after taking into account lower funding cost of Chinese plants from China EXIM [18]. In his letter to shareholders, B. Prasada Rao Chairman & Managing Director reported that 'Engineering and Technology' is our strength. And to uphold this reputation for excellence the company will continue to upgrade existing products to contemporary levels and develop new products through continuous in-house efforts as well as through acquisition of new technologies [19].
- R&D is a continuous focus of BHEL. Its investment in R&D is amongst the largest in the corporate sector in India. In the year 2012-13 alone, the company invested about Rs. 1,252 Crore in R&D, summing up to approximately 2.50% of the turnover of the company, BHEL continuously focuses on new product and system developments, to improve existing products for cost competitiveness, increasing reliability, efficiency, availability and quality [2]. Significantly, BHEL is one of the only four Indian companies and the only Indian PSU included in 'The Global Innovation 1000' of Booz & Co., a list of 1,000 publicly traded organisations which are the biggest spenders on R&D in the world [2].
- Another of its strength is the massive manpower distributed in its various units. Mr. Gopinath in the director’s speech had expressed confidence that with “state-of-the-art manufacturing facilities and a huge skilled manpower”, BHEL would be able to face all challenges [20].

#### IV. SWOT ANALYSIS BHEL

### Positioning
An umbrella organization for providing total business solution to public and private sector customers

### Presence
It has a network of 17 manufacturing units, 2 repair units, 4 regional offices, 8 service centres, 8 overseas offices, 15 regional centres, 7 joint ventures, and infrastructure allowing it to execute more than 150 projects at sites across India and abroad [7].

### No of employees
The total number of regular employee as on 31-03-2015: 44,905 [5].

### Products
- Gas and Steam Turbines, Boilers, Electric Motors, Generators, Heat Exchangers, Pumps, Switchgears, Sensors, Automation and Control Systems, Power electronics, Transmission systems etc.

### Awards and recognitions
- It is the 7th largest power equipment manufacturer in the world.
- BHEL was adjudged the Best Power Equipment Manufacturing Organisation by CBIP [8].
- The company bagged PSE Excellence Award 2014 for R&D & Technology Development.
- BHEL received the National Intellectual Property Award 2014 and WIPO Award for Innovative Enterprises [9].
- BHEL received two awards in CII-ITC Sustainability Awards 2012 from the President of India [10].
- In the year 2011, it was ranked ninth most innovative company in the world by US business magazine Forbes [12].
- The company won the prestigious ‘Green Peacock Award for Occupational Health & Safety 2011’ for significant achievements in the field of Occupational Health & Safety [13].
- It is also placed at 4th place in Forbes Asia's Fabulous 50 List of 2010 [14].

### Exports
- Exporting its power and industry segment products and services for over 40 years.
- BHEL's global references are spread across over 76 countries across all the six continents of the world.
- Their physical exports range from turnkey projects to after sales services [7].

### Competitors
1. Larsen and Turbo (L&T)
2. Suzlon Energy
3. BEML
4. Siemens

BHEL also offers sustainable solutions to its customers throughout the entire operational lifecycle of the power plants through engineering and technology inputs for dropping greenhouse gas emissions, reducing water consumption, using less auxiliary power consumption and less fuel requirement [21].

BHEL’s Weakness
- Being capital goods manufacturing a late-cycle business, the efforts put in to improve efficiency will only be visible after few quarters.
- Another of its lacuna is its inability to provide supplier’s credit, soft loans and financing of power projects which competitors are providing.
- Though technically efficient a continuous weak point is its longer delivery cycles as compare to international competitors. BHEL suffers from difficulty in keeping up the commitments on the product delivery and desired sequence of supplies [22].
- The company lacks effective marketing infrastructure.
- The financial position of state electricity boards which are the major customers of BHEL in India are not well, resulting in unsatisfactory liquidity position of BHEL [22].
- BHEL’s another problem is its low capacity which results in huge delivery delays. A delay of, say, six months to a year, can add at least 10 percent to costs. The prices of equipment costing Rs 4.5 crore per MW, can go up by at least Rs 45 lakh from this delay [18].
- Being a public sector company BHEL is suffering from sub optimality of control due to:
  1. Displacement of social objectives by political objectives, which may lead to redundant costs and also rising costs,
  2. Direct political intervention in managerial decision over an arm length relationship that would restrict government’s task of setting appropriate managerial incentive structure,
  3. Private goals that lead to budget growth and employment growth,
  4. Internal inefficiencies in bureaucratic activity.
  5. Displacement of social objectives by political objectives, which may lead to redundant costs and also rising costs [22].

BHEL’s Opportunities
- Financing of a new entrant is an area which is problematic for the newbie’s but an opportunity for giants like BHEL, because regulations require power generation companies to have a debt equity ratio of 30:70. For example if a company like Reliance wants to increase their capability by thousands of megawatts over the next two or three years, it will be difficult to raise such a huge amount at the prevailing a high interest rate [18]. As such it’s an unsaid entry barrier for the newcomers.
- To increase the sale of their power equipment and to lend teeth to their equipment suppliers, Chinese banks have started cheaper lending to Indian power sector majors. In 2010 Reliance Power had struck a deal for $1.1 billion (Rs. 5,000 crore) in loans from three Chinese banks — Bank of China, China Development Bank and the Export Import Bank of China — and the loans are tied to procuring equipment from Chinese companies. Lanco Infratech too decided to tie up around $2.64 billion (Rs. 12,000 crore) from Chinese lenders [18]. This is an opportunity for BHEL as by offering loans it would curb the competition and become more attractive than its counterparts.
- B.P. Rao (BHEL chairman) had earlier insisted the central government to impose a customs duty on Chinese imports [5]. If this is approved it will be a huge advantage for BHEL.
- After a series of incidences in power plants using products from Chinese suppliers, concerns have also been raised on the quality of these products. Insiders in the power industry say that at least six plants that were set up with Chinese technology have faced critical problems in the past three years [18]. BHEL could use its technical superiority by regaining the trust of the customers.
- After the National Democratic Alliance’s call for "Make in India" and emphasis on domestically manufactured defence equipment the sector could very well trigger the next wave of manufacturing activity in the country, thereby capturing the interest of big business groups like the Munjals of Hero, Kalyanis of Bharat Forge, Mahindra and Anil Ambani. And BHEL, which exemplify everything what the Make In India stands for, too wants a share of this pie. It is already an established supplier for defence equipment for more than 20 years and also working closely with various defence research institutes of the country for developing new products under the Make in India programme. BHEL has also taken orders of producing six submarines for Indian Navy [23].
- UDAY the government’s initiative of strengthening the state electricity boards through is expected to see order flows increasing in the transmission sector rather than generation. And as BHEL a leading player in the field with a wide range of transmission systems and products in its portfolio it has started booking in big orders in the space [3].
- Solar sector is another area where BHEL is capitalising on its knowledge in the sector. It already manufactures space grade solar panel and space grade batteries in association with ISRO. Also all Indian satellites launched by ISRO are equipped with BHEL manufactured solar panels since 2002 and batteries since 2005. Already having experience in the sector BHEL is planning to ramp up its cell & module production capacity and enhance EPC capabilities to address the domestic market demand [3].
- In railways BHEL provides electrical propulsion system and it controls and accounts for more than 40% of electric locomotives in operation by Indian Railways. BHEL is expanding its locomotive capacity and capturing the opportunity to tying up with global companies to meet the increased demand from dedicated freight corridor [3].
- It is still early for the power industrial segment to provide the next leg of growth opportunity, but BHEL is well placed to benefit from the opportunity. It is available at less than its book value, with nearly half of its market
capitalisation in cash as per last balance sheet. Also the Dividend yield at current price level is still around 1.12 per cent thus giving some more room before it becomes very attractive [3].

• Apart from other sectors in which BHEL can diversify, the nuclear power sector too could provide an opening for BHEL to grow, even though not much has moved on the ground [23].

• Having a presence in more than 76 countries it can plan to leverage its contacts abroad for business. As it is cost competitive, it has potential export opportunities [2].

• Another strategy being followed by BHEL is to take equity to the level of 26 per cent in some power projects, enabling it to get more orders. BHEL has already done this in Karnataka for two units of 800 Mw at Raichur owned by Karnataka Power Corporation. It has also made alike suggestion to other states like Andhra Pradesh, owned by Karnataka Power Corporation. It has also made

• There is a huge demand of power and hence plant equipment is expected to grow further.

• There is also a possibility that Private sector power plants may offer expanded market as utilities suffers resource crunch [22].

• Ageing power plants would give rise to more spares and services business [22].

**BHEL’s Threats**

• Increased competition both national and international.

• Delivery on schedule is a major concern for BHEL as they were hardly ever on rota. “The Chinese, because they do their business on a massive scale, are better able to stick to the delivery schedule making a huge difference for the customers” [18].

• The products supplied by BHEL require higher fixed cost as compared to their Chinese counterparts where it is possible to reduce the fixed cost from Rs. 2 to Rs 1.4 or Rs. 1.5, whereas the plants using BHEL equipment, requires to put in Rs. 2 as fixed cost and Rs. 1.2 as fuel cost for every unit of power [15].

• There is a huge variation in the rate of interest as charged by Indian and Chinese banks. Indian banks charge approximately 10 to 13 percent interests on loans whereas Chinese banks charge only 4 to 6 percent [18].

• The industry association Assocham estimated that plant equipment of around 50,000 MW worth capacity was ordered by Indian power producers from Chinese suppliers thus resulting Rs 50,000 crore loss to the domestic equipment manufacturing market. Thereby setting alarm bells ringing among the policy-makers in the power sector who suggested that there have to be some monitoring of these financing deals. “As of now, the whole system is geared in favour of the Chinese as there is no quality control in bidding and with Chinese lending, there would be an increase in companies buying Chinese products,” says T.C. Arora, senior vice president, Astonfield Renewable [18].

• Another threat for BHEL is that not everyone thinks that Chinese power equipments are sub-standard. Prakash Vaid, senior vice president at Lanco said that “by 2015, half our power equipment will be sourced from the Chinese,”[15]. According to Li Qi, chief representative of Dongfang Electric Corporation in India, the Chinese corporation did not enjoy an undue price advantage compared to Indian companies like BHEL, “the only advantage that we have is on the delivery schedule, which makes the projects that use our equipment more viable.” He said that the company will increase its capacity from 37 GW to 42 GW, making it the biggest power equipment manufacturer in China and probably in the world”[15].

• A cost comparative study report published by Bank of America and Merrill Lynch suggests that an average cost for a BTG (Boiler Turbine Generator) by Chinese vendor’s is approximately Rs. 1.6 crore per MW, the same would cost around Rs. 2.6 crore per MW when provided by BHEL. Also the lower interest rates prevailing in China, enables its companies to maintain lower products rates [16].

• The uncertainty over coal supplies has dogged the sector for too long. As a result, several projects have become un-bankable and investments have got stuck [23].

• It is expressed by analysts that BHEL wants to diversify into defence as its core business of power equipment is under severe pressure [24].

• Multilateral agencies are unenthusiastic to provide loans to power sector due to poor financial management of S.E.Bs, another threat [22].

• Level playing ground is also not available, foreign companies spending much more on business promotion tactics [22].

• It is been seen that more concessions are being given to private sector and not to government owned utilities like NTPC or S.E.Bs, as such there is a possibility that future power projects would be opened up in private sector.

**V. ISSUES**

**Losses**

BHEL reported a standalone net loss of Rs. 1,101.99 crore for the quarter ended December 31, due to higher expenses and lower revenues. From April - December 2015 BHEL had reported net loss of Rs 1,273 crore as compared Rs 530 crore profit in the same quarter last year, it had profit of Rs 1,419 crore in entire previous financial year 2014-15 [25]. This higer expenses were seen despite of a reduced manpower state [5].

**Figure VI**

**Turnover (Crore) [5]**
Poll Analysts expect another weak quarter for after considering the disappointment in preceding two quarters. Profit was seen falling 57 percent year-on-year to Rs 91 crore but revenue is possible to raise by 1 percent to Rs 6,248 crore in Q3, according to analysts polled by CNBC-TV18. It is predicted that BHEL’s operating profit may drop 73 percent year-on-year to Rs 79 crore and margin may contract 343 basis points to 1.3 percent in December quarter due to lower gross margin because of higher imported content under joint-deed undertaking [26]. Concurring, analysts add that until there are clear signs of earnings and profit increase, investors could evade exposure to both stocks. The rating on both the stocks was “underweight” by JPMorgan and it notes that while the former trades at an expensive valuation, given the muted growth outlook for FY16, the latter could face pricing pressure and decline in operating margin, due to the higher proportion of revenue being generated by super-critical projects [27].

Key problems, which have been impacting company's performance, are stumpy inflow of new orders. The biggest order of Rs 18,000 crore (Yadadri project) stuck for environmental clearances, pricing pressure, declining margin, impediment in completion due to diverse roadblocks and high valuations. Analysts say there are execution concerns for about two-thirds of its order book from the power sector. Key things to watch out for would be order inflow and employee cost [26].

BHEL is to construct 1,320-megawatt coal power plant in Rampal which is close to the Sundarbans mangrove forest. The project has faced criticism for the harmful ecological blow and the possible damage that can be caused to the biggest mangrove forest in the world [28]. Criticizing this move of noted columnist Syed Abul Maksud said that this is an attempt to put the Sundarbans in crossfire, reports news agency UNB [29].

In 2013 a news article titled “BHEL: Suppressing dissent?” by Chaitanya Kalbag was published taking up the issue of K. Ashok Rao, deputy manager in Bharat Heavy Electricals Limited, who had filed a writ petition in the Supreme Court to challenge Rule 9 of the corporation's Conduct, Discipline and Appeal Rules, 1975 which forbids workers from openly airing their grievances or criticism. The petition stemmed from BHEL’s denial to permit Rao to publish a pamphlet titled 'The Peacock's Ugly Legs', a critical assessment of another booklet written by a former BHEL chief S.V.S. Raghavan titled 'Blueprint Of A Corporate Plan With Reference To BHEL' [30].

The share prices of Bharat Heavy Electricals Limited (BHEL) has fallen to Rs 95, its lowest point ever since August 2005 on the BSE. In 2016, the stock tanked 43% as compared to 10% decline in S&P BSE Sensex on disappointing financial results.

### Table II

<table>
<thead>
<tr>
<th>Name</th>
<th>LTP*</th>
<th>52-wk high</th>
<th>% chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHEL</td>
<td>95.35</td>
<td>289.85</td>
<td>-67.10</td>
</tr>
<tr>
<td>Cipla</td>
<td>515.25</td>
<td>752.45</td>
<td>-31.52</td>
</tr>
<tr>
<td>HDFC</td>
<td>1030.00</td>
<td>1399.80</td>
<td>-26.42</td>
</tr>
<tr>
<td>ITC</td>
<td>287.55</td>
<td>409.70</td>
<td>-29.81</td>
</tr>
<tr>
<td>ICICI Bank</td>
<td>188.50</td>
<td>365.00</td>
<td>-48.36</td>
</tr>
</tbody>
</table>

*LTP: Last traded price on BSE in Rs

Source: BSE

In March 2015 the receivables of BHEL had remained high on account of the poor state of the entire power sector and stood at Rs 35,900 crore, more than its annual revenue of Rs 30,667.63 crore. Though BHEL’s administration indicated that nearly 50% of it is deferred debt will be due for collection once certain target are achieved and the remaining are collectibles, of which over Rs 10,000 crore are more than a year old ([3] Asthana, 2016). In the previous years too it had been grappling with about Rs 40,000 crore of payments due from customers. Then too it had assured that the rising trend of debtors have been [32].
• **Low Order inflows**

Another area of concern is the order book. At the end of Q3FY16 the company’s order book positions stood at Rs 109,201 crore as against Rs 112,300 crore in Q2FY16 and Rs 116,200 crore as of Q1FY16 [33]. Though Kotak Securities said that FY16 will be a strong year for Bhel with orders booked at Rs 28,300 crore , most of which are expected next year. Further to deal with the depleting order book and increasing overheads, BHEL has decided to embark on green project to reduce energy dependence and trim down energy bills. BHEL's Bhopal and Haridwar units have been chosen to take up the project forward and promote use of non-conventional source of energy [34]. These efforts have been started in September 2015.

### Table III

Orders Received [35]

<table>
<thead>
<tr>
<th>Orders Received</th>
<th>(Rs. in Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014-15</td>
</tr>
<tr>
<td>Power Sector</td>
<td>24873</td>
</tr>
<tr>
<td>Industry Sector*</td>
<td>5221</td>
</tr>
<tr>
<td>International Operations</td>
<td>720</td>
</tr>
<tr>
<td>Total Orders Booked</td>
<td>30814</td>
</tr>
<tr>
<td>Order Book outstanding at the end of the year</td>
<td>101000</td>
</tr>
</tbody>
</table>

*excludes inter sectoral orders

• **Steps towards energy conservation**

As a way to curb the increasing cost, "BHEL, Bhopal had been working in the direction of energy conservation to reduce cost since September 2015. From rooftop solar panels on most of buildings to motion sensors and timer control for switching off lights in place of work as soon as the last person moves out to holding awareness programmes; every possible step is being taken to bring down the energy consumption," [34].

• **Sluggish Demand**

Sluggish demand from the industrial sector, which accounts for 40 per cent of the total electricity demand, was cited as the reason for the muted outlook. The research agency expects electricity demand to grow by 4-5 per cent and power generation growth of 5-6 per cent in 2016-17. Pankaj Sharma, head of equities at Equities Securities, says that power equipment companies like BHEL and Crompton Greaves are getting impacted because these companies "are highly dependent on expenditure (on power generation) and private as well as government capital expenditure is not happening"[35].

• **Increasing uncertainties**

Union Heavy Industries Minister Anant Geete accepted that out of 32 public sector undertakings (PSUs) under the ministry, 12 including Bharat Heavy Electricals Limited are running in losses, he had blamed the alleged coal scam under the previous UPA government for the ill-health of BHEL. The coal scam led to short supply of the fuel which hit the power generation sector in India. “The coal scam came as a cropper and the new ventures in power didn't take place as expected," he alleged [36].

• **Increasing Competition**

After having the largest market capitalisation in the capital goods space for many years, state-owned Bharat Heavy Electricals (BHEL) has ceded its pole position to Germany’s Siemens. BHEL’s market cap at Rs 36,310 crore lags Siemens’ (Rs 40,000 crore) by a little over 10 per cent as on Wednesday. Though this is in contrast to the historical trend, what is worrisome for the analyst is the pace at which Siemens took an edge over BHEL, despite a weak earnings outlook projected for both. Weaker results from BHEL turned the tide in favour of Siemens, though a year ago its scrip had enjoyed a steeper premium (BHEL’s market cap at Rs 68,839 crore versus Rs 33,956 crore of Siemens). Over 2015, this premium was erased. In August, BHEL’s was higher by only 25 per cent, and after the September quarter results, for the first time (in November) it started trading at a discount to its German peer [27].

The table given below is taken from the annual report of BHEL which describes the risks factor analysis and the mitigation strategies to be adopted, as given by the director BHEL.

### Table IV [5]

<table>
<thead>
<tr>
<th>Risk Statement</th>
<th>Mitigation Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Order Book Reduction due to increasing competition, excess domestic manufacturing capacities and low business sentiments.</td>
<td>Focus on PPC business, Enhancing techno-commercial competitiveness, Increasing scope of offers, Improving performance parameters.</td>
</tr>
<tr>
<td>Delayed delivery of projects leading to Liabilities, penalties, and customer dissatisfaction.</td>
<td>Delaying focus to intermediate milestones, Delivery cycle reduction, e-procurement implementation, Central monitoring system, deployment of additional tools and equipment, Building agile supply chain.</td>
</tr>
<tr>
<td>Online data &amp; Information Security breach leading to loss and critical Information infrastructure breakdown.</td>
<td>Policies in place for Technical controls, Implementation of Cyber security incident capturing system across the company, Third party audit as per ISO 27001, SMS Standards, Business Continuity Plan (BCP), Incident Recovery (DR) strategy in place, Setting up of Security Operations centre, Crisis Management Grouping.</td>
</tr>
<tr>
<td>Impact of External Factors viz. Govt. Policy, Infrastructure inadequacy, constrained R&amp;D, inputs etc. may adversely impact the business.</td>
<td>Policy advocacy through Administrative Ministry &amp; Industry Associations, Liaison with key business partners.</td>
</tr>
<tr>
<td>Rising duties and shrinking order book may lead to working capital pressure.</td>
<td>Special Groups to accelerate cash collections, Swift closure of punch points with customers, Better scheduling of supplies, Taking up with financial institutions for direct payments, Flagging the issues with government in case of State Utilities.</td>
</tr>
</tbody>
</table>

### VI. BHEL CSR

<table>
<thead>
<tr>
<th>Table V</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BHEL CSR</strong></td>
</tr>
<tr>
<td><strong>CSR Vision</strong></td>
</tr>
<tr>
<td><strong>BHEL’s Mission Statement on CSR</strong></td>
</tr>
</tbody>
</table>
Objectives of the Policy:
To define CSR projects or programs which BHEL plans to undertake and which fall within the purview of the Companies Act 2013, the Companies (CSR Policy) Rules, 2014 and the prevailing DPE Guidelines;
- Modalities of execution of such CSR projects or programs;
- Monitoring process of such CSR projects or programs;
- To make the stakeholders aware about CSR practices in BHEL.
- To work keeping in mind the larger objective of sustainable development in conduct of business and in pursuit of CSR agenda.

Key words in corporate CSR web page
- Continuing commitment
- Behave ethically
- Nation’s economic development
- Quality of life
- Workforce and their families
- Local communities and society
- Moral responsibility
- Enterprise must take responsibility
- Be accountable for the social and environmental effects it has in its surroundings.
- Return back to the society
- Improve livelihood of people
- Gathering acceptance from local communities.
- Engagement of local communities
- long-term sustainability
- Enhancement of triple bottom line of People-Planet-Profit,
- Inclusive growth
- Good corporate citizens,
- preserving the environment and bettering lives of all stakeholders.

Key thrust areas
- Inclusive India
- Healthy India
- Clean India
- Educated India
- Responsible India
- Green India
- Heritage India

CSR policy Statement
BHEL, a global engineering enterprise providing solutions for a better tomorrow, is committed towards holistic welfare of the society by undertaking CSR activities within the ambit of Schedule-VII of the Companies Act, 2013, as amended from time to time.

CSR Spending
Details of CSR spend during the financial year (2014-15):
- Total amount to be spent under CSR: `165 Crore
- Expenditure incurred: `102.06 Crore
- Amount committed but unspent (Carried forward): `62.94 Crore

Annexure-B [5]

Key thrust Areas

<table>
<thead>
<tr>
<th>Inclusive India</th>
<th>Green India</th>
<th>Responsible India</th>
<th>Healthy India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitigation of hunger and poverty through livelihood promotion/ augmenting income generation, Imparting vocational Skills;</td>
<td>Ensuring environmental sustainability with emphasis on projects based on Solar Energy;</td>
<td>Women Empowerment, Setting up old age homes, day care centre and such other facilities for senior citizens, Rural Development Projects and Slum Development Projects;</td>
<td>Promoting health care including preventive health care and sports;</td>
</tr>
<tr>
<td>• Vocational Training</td>
<td>• Solar Lighting</td>
<td>• Recycling of Farm Waste for organic manure</td>
<td>• Health Camps at numerous locations</td>
</tr>
<tr>
<td>• Providing technical education in Rural Areas</td>
<td>• Conservation of Water Resources</td>
<td>• Care &amp; Support Services for elders</td>
<td>• Palliative Therapy</td>
</tr>
<tr>
<td>• Environmental Awareness Programs</td>
<td>• Landscaping</td>
<td>• Empowerment for Rural women</td>
<td>• Blood Donation Camps</td>
</tr>
<tr>
<td>• Environmental Awareness Programs</td>
<td>• Tree Plantation</td>
<td>• Awareness programs on health and education</td>
<td>• Mobile Health Care Units</td>
</tr>
<tr>
<td>• Shorthand Training Centers</td>
<td>• Sewage Treatment Plant</td>
<td>• Cataract Surgeries with Intra Ocular Lens implant</td>
<td>• Mobile Ambulances</td>
</tr>
<tr>
<td>• Training on computers</td>
<td>• Biogas Plant</td>
<td>• HIV/AIDS treatment services for migrant workers, truck drivers</td>
<td>• Constructing bore-wells, hand-pumps, etc.</td>
</tr>
<tr>
<td>• Awareness on curbing Child Labour</td>
<td></td>
<td>• Construction of Community Centers, Roads, etc.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Constructing bore-wells, hand-pumps, etc.</td>
<td></td>
</tr>
</tbody>
</table>
Promoting Sports
• Up-gradation of Medical Equipment
• Construction of Hospitals
• Cancer Treatment

Heritage India
Protection of national heritage, art and culture;
• Supporting Arts and Culture Events
• Distribution of Musical instruments to schools
• Beautification/Renovation at sites of historic importance
• Support to construction of auditorium
• Refurbishment of Swatantrata Sangram Sangrahlaya at Red Fort, Delhi

Clean India
Sanitation and making available Safe Drinking Water, Cleaning and preserving the Rivers, Clean surroundings; toilets in schools specially for girls;
• Construction of RO plants in villages
• Construction of Toilets
• Renovation of existing toilets
• Contributing to Swachh Bharat Abhiyan
• Working for the Clean Ganga Campaign.

Educated India
Promoting education with thrust on informal education to reduce dropouts at primary school level, value education, digital education;
• Scholarships to students of minority communities
• Scholarships to Disabled students
• Running full-fledged schools near establishments
• Self Empowerment for girl child
• Construction of Toilets and compounds
• Construction of Classrooms and Boundary Walls
• Separate schools for differently-abled children
• Assisting in coaching for Entrance Exams

Vision to All - BHEL’s Call
BHEL has helped society in many ways and one such initiative is Eye Donation. “Vision to all, BHEL’s Call” is an initiative by BHEL for eradication of corneal blindness by pledging one’s eyes. More than 51,000 eye donation pledges from BHEL employees and their family members have been given to eye banks to eradicate blindness from society. This is a unique attempt where such a large number of pledges have been given by an organization. BHEL also supports the cause of organ donation. It is heartening to note that through this initiative, eyesight to 552 individuals has been provided and opened for them a bright and beautiful window to the wonderful world that our Mother Nature has bestowed on us. Eye donation is considered as supreme form of charity as it helps a visually impaired person to see the world through the donor’s eyes.

*Compiled from BHEL’s Annual Report 2014-15 [5].

Reasons for delay in spending:
I. Section 135 of Companies Act, 2013 relating to expenditure on CSR activities, Schedule VII & CSR Rules came into force w.e.f. 1st April, 2014. However, throughout the year, several clarifications & amendments were issued with regard to CSR provisions in the Act as well as in the Rules.
II. The new section & Rules mandated that a CSR policy is to be formulated and recommended to the Board by a CSR Committee which shall indicate the activities to be undertaken by the Company, as specified in Schedule VII of the Act.
III. The Board thereafter was required to approve the CSR policy taking into account the recommendation of the CSR Committee.
IV. As such any expenditure on CSR activity in FY 2014-15 could only be incurred after formulation of the new policy.
V. Though BHEL was one of the first CPSEs to formulate the CSR Policy, even the on-going projects were also required to be ratified by the Board in line with the new policy.
V. Though BHEL was one of the first CPSEs to formulate the CSR Policy (in August, 2014), there was less time available for execution of the projects. Further, certain infrastructure development projects being of longer duration can only be completed in subsequent years.

Figure VIII
[37]

Chart-1
Funds allocation and utilization for CSR practices by Maharatnas in India

Reasons for delay in spending:
I. Section 135 of Companies Act, 2013 relating to expenditure on CSR activities, Schedule VII & CSR Rules came into force w.e.f. 1st April, 2014. However, throughout the year, several clarifications & amendments were issued with regard to CSR provisions in the Act as well as in the Rules.
II. The new section & Rules mandated that a CSR policy is to be formulated and recommended to the Board by a CSR Committee which shall indicate the activities to be undertaken by the Company, as specified in Schedule VII of the Act.
III. The Board thereafter was required to approve the CSR policy taking into account the recommendation of the CSR Committee.
IV. As such any expenditure on CSR activity in FY 2014-15 could only be incurred after formulation of the new policy.
V. Though BHEL was one of the first CPSEs to formulate the CSR Policy, even the on-going projects were also required to be ratified by the Board in line with the new policy.
V. Though BHEL was one of the first CPSEs to formulate the CSR Policy (in August, 2014), there was less time available for execution of the projects. Further, certain infrastructure development projects being of longer duration can only be completed in subsequent years.
VI. Moreover, BHEL being a CPSE, had to revise its CSR Policy in line with DPE Guidelines on CSR & Sustainability issued in October, 2014.

VII. Inspite of the above, BHEL allocated funds for more than the budgeted amount and was able to spend about 62% of the CSR budget of 2014-15 in 50% of time available for spending i.e. Q3 & Q4 of FY2014-15 after approval of revised CSR policy.

VIII. It is pertinent to mention that the unspent CSR amount shall not lapse and will be carried forward to 2015-16 for utilisation for the purpose for which it was allocated, in line with DPE Guidelines on CSR & Sustainability, issued in October, 2014. We, hereby, declare that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the company [5].

Table VI [5]

<table>
<thead>
<tr>
<th>Name (S/Sri)</th>
<th>Designation</th>
<th>Position in CSR Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms. Harinder Hira</td>
<td>Part-time Non-official Director</td>
<td>Chairperson</td>
</tr>
<tr>
<td>Ambuj Sharma</td>
<td>Part-time Official Director</td>
<td>Member (Up to 21.12.2014)</td>
</tr>
<tr>
<td>Rajesh Kumar Singh</td>
<td>Part-time Official Director</td>
<td>Member (Since 22.12.2014)</td>
</tr>
<tr>
<td>P. K. Bajpai</td>
<td>Director (Finance)</td>
<td>Member</td>
</tr>
<tr>
<td>R. Krishnan</td>
<td>Director (Human Resources)</td>
<td>Member</td>
</tr>
</tbody>
</table>

Table VII

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Year</th>
<th>Gross Turnover (Rs in Crores)</th>
<th>Profit After Tax (Rs in Crores)</th>
<th>CSR Sanctioned Amount (Rs in Crores)</th>
<th>Trend Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2006-07</td>
<td>18739.00</td>
<td>2415.00</td>
<td>0.37</td>
<td>1300.00</td>
</tr>
<tr>
<td>2</td>
<td>2007-08</td>
<td>23401.00</td>
<td>2859.00</td>
<td>6.32</td>
<td>1708.11</td>
</tr>
<tr>
<td>3</td>
<td>2008-09</td>
<td>28683.00</td>
<td>3138.00</td>
<td>3.00</td>
<td>810.01</td>
</tr>
<tr>
<td>4</td>
<td>2009-10</td>
<td>34154.00</td>
<td>4311.00</td>
<td>4.01</td>
<td>1083.78</td>
</tr>
<tr>
<td>5</td>
<td>2010-11</td>
<td>41337.00</td>
<td>6011.00</td>
<td>21.55</td>
<td>5824.32</td>
</tr>
<tr>
<td>6</td>
<td>2011-12</td>
<td>49510.00</td>
<td>7040.00</td>
<td>36.47</td>
<td>9056.76</td>
</tr>
<tr>
<td>7</td>
<td>2012-13</td>
<td>50156.00</td>
<td>6615.00</td>
<td>37.56</td>
<td>10259.46</td>
</tr>
</tbody>
</table>

Source: BHEL Annual Report 2006-07 - 2012-13

Table VIII

<table>
<thead>
<tr>
<th>Funds allocated and utilised for CSR activities by Maharatnas during the period from 2009 to 2013 [4]</th>
</tr>
</thead>
</table>

VII. DISCUSSION

With growing competition it is becomes imperative for any organisation to first of all increase its visibility in the market. This requires marketing tactics and of course the cost follows. Moreover with BHEL declining profits it still has to spend for the CSR activities as per the government rule. Neither can it loose its focus for doing good to the society. The question that arises is that in the short term can CSR activities and spending be leveraged to motivate the workforce. This engagement of employees in the CSR activities can not only provide an essential glue of belief in the organisation. It can also check the declining manpower.

Further the investment in CSR activities can be used to curb competition at the domestic level by appealing for the soft corner of domestic clients. The efforts to deal with the issues of high dues, low order inflows and sluggish demand will be seen only after a few quarters. But the spending on CSR activities will create the desired visibility and publicity at the moment. And may be helpful to reinstate the confidence of investors.

VIII. CRITICAL QUESTIONS

- Can the peoples issue be neglected?
- Can CSR activities be used as motivator for the intellectual capital?
- Can CSR be used as an effective measure of Internal Branding?
- Can the CSR spending be used as a tool to brag more domestic projects.

REFERENCES

[4] BHEL’s 5 Years Financial Summary