



Punj Lloyd Limited
Investor/Analyst Conference Call Transcript
February 25, 2011

Moderator: Ladies and gentlemen good day and welcome to the Punj Lloyd Limited conference call. As a reminder for the duration of this presentation 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 the opening remarks. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa of Citigate Dewe Rogerson. Thank you and over to you Mr. Desa.

Gavin Desa: Welcome everybody to this conference call wherein we propose to discuss the status of the Punj Lloyd Group's projects in Libya especially in light of the recent developments in that country and the rumours going around. We have with us Mr. Atul Punj – The Chairman of the Group. Mr. Luv Chhabra – The Director Corporate Affairs and the other members of the senior management team. Before we begin I would like to mention that some statements made during this call may be forward-looking in nature and a disclaimer to this effect has been sent to you with the conference call invitation. Also I would like to emphasize that while this call is opened to all invitees; it may not be broadcast or reproduced in any form or manner. I would now like to handover to Mr. Punj to share his opening remarks and his perspectives on the Libyan projects.

Atul Punj: Welcome everybody; the objective of this call was to try to put things in perspective and play the facts out as they are with regard to our operations in Libya. The sense we were getting was there were a lot of rumors doing the rounds without having the facts available. So, the intent is to lay out what is happening in Libya from our perspective, what the financial implications if any would be and then take any Q&A after that. At the outset, I would like to say that of our entire workforce, which is the most important concern to us, is safe and there has been some evacuation that has begun today. We expect this to gather steam over the next couple of days and hopefully in the next few days most of our people should be out of country. I will now handover to Mr. Chhabra who will just take you through the numbers as to the backlog, percentages, impact on top line and all the other cash position on the Libyan projects is. So, we will set the stage then for the Q&A and any other questions that you would like to ask.

Luv Chhabra: I will just do a one minute summary; we have been hearing a lot about how Punj Lloyd's significant order backlog has impacted as a consequence of what has happened in Libya. Most investors would be aware that out of our total order backlog of about Rs. 9,500 crore in Libya, Rs. 6,000 crore hasn't moved for over a year. In effect 6,000 crore of backlog is actually non-moving and we were waiting till June end to see if there was traction in this order and if there was no movement, we would have anyway removed it from our order backlog. So, if we remove Rs. 6,000 crore from our total order backlog in Libya,

the remaining backlog is only Rs. 3,500 crore, which constitutes about 14% of our Group's total order backlog. With that we would invite questions from investors.

Moderator: The first question is from the line of Pritesh Chheda of Emkay Global

Pritesh Chheda: Few questions on the Libya side, what is the booking that we have done on the project? What is the advance that we have got? What are the asset-based in Libya and the financial implication in terms of insurance covers on those asset-based, if you could give some details on that side?

Luv Chhabra: I will talk about the B&I projects because that is where the significant advances are. We have received a total of Rs. 480 crore as advance from these five civil infrastructure projects. The total cost incurred on these projects, including cost of all equipment deployed on the B&I sites and advances to vendors and suppliers is Rs. 215 crore. So, the net positive cash flow on these projects lying with us is Rs. 265 crore of which about Rs. 175 crore is outside Libya and the balance of about Rs. 90 crore is in Libya in JV account.

Pritesh Chheda: So Rs. 175 crore is the cash positive on Libya?

Luv Chhabra: Rs. 265 crore.

Pritesh Chheda: Sorry, Rs. 265 crore

Luv Chhabra: Of which Rs. 175 crore is lying outside Libya and Rs. 90 crore is lying in Libya in the Libyan bank because some of these projects are being executed through a JV, so part of the advances are lying in the JV account.

Pritesh Chheda: And this Rs. 215 crore is the asset bank which is your own asset bank or is there any lease arrangement?

Luv Chhabra: No. Rs. 215 crore is the total expenditure on the five infrastructure projects till date, which includes the cost incurred on the project and advances made to supplier. We have obviously incurred expenses to progress the project and the figure includes the total cost of equipment deployed on the project; there is nothing on lease, everything has been bought.

Pritesh Chheda: What is that figure?

Luv Chhabra: I can give you an approximate figure; it is about Rs. 30 crore of equipment plus / minus few crore.

Pritesh Chheda: There should be insurance on the same?

Luv Chhabra: Yes, but most insurance will not cover political risk; political risk is always an issue because the cost of political risk can be 3% to 4% of the capital cost of the equipment.

Pritesh Chheda: How much of revenues have we billed to the client?

Predeep Gupta: That is around Rs. 150 crore approximately.

Pritesh Chheda: All this is receivable or there is Rs. 480 crore advance so it stands as receivable?

Predeep Gupta: Receivables and WIP, since we have received the advance of Rs. 480 crore towards project expenses, irrespective of AR and WIP. We have Rs. 265 crore as net fund available; Mr. Chhabra has already confirmed the same to you.

Pritesh Chheda: Could you tell us by year end, what kind of revenue booking should you see for Punj Lloyd consolidated as a whole and the margins overall in the business?

Luv Chhabra: We do not give any forward-looking statements.

Moderator: Our next question is from the line of Prashant Sawant of KNG Securities.

Prashant Sawant: What is the revenue loss you see because of the problem in Libya?

Atul Punj: Next financial year of the total business plan for the coming fiscal, we were looking at Libya contributing approximately Rs. 500 to 600 crore in terms of the revenue number. So, if we take even a conservative number of let's say Rs. 10,000 crore – Rs. 11,000 crore of revenue, percentage wise it works out to be about 4% to 5%.

Prashant Sawant: Is this project a long term project that you were incorporating in your earnings for next how many years, four years?

Atul Punj: This is a five year execution cycle and since they were running a bit slow because of non-availability of right away, it was looking like it was spreading into about six years.

Prashant Sawant: Is the government also involved or it is just the private parties who are involved in this project?

Atul Punj: No, these are all government projects.

Prashant Sawant: Do you think is it going to affect because your FCCB is to redeem in a couple of months USD 50 million outstanding. Do you think that will affect the redemption on that?

Luv Chhabra: No, we have adequate cash in the bank; if you look at our December results, there is enough cash in the bank to redeem the FCCBs.

Prashant Sawant: What are the measures that you are taking at this point of time, I guess, if you would just wait and watch, but are you trying to do some kind of hedging or trying to shift your resources somewhere?

Atul Punj: At this point in time I think it is not possible to really move anything except for people out. We have taken all precautions to protect our equipments; for example we have disabled all the vehicles which are most at risk by removing the tyres, the starters and basically disabling the vehicles and moving these items like starters to another location. At this point in time, what we are seeing from the other developments on the eastern part and now on the western part is that none of the protesters are vandalizing any equipment or there is no theft going on. Instead, different peoples' committees are being formed, being led by academics and senior respected people in society, who are now beginning to take control of the social fabric of the country. So, the fears that we had in the early days of rampant, looting and violence, indiscriminate stealing of equipment is not happening. In fact in the early days we had some of our vehicles that were stolen, few were returned to us within 48 hours. So, obviously it is not ending up to be the type of mayhem that we were fearful of in the first couple of days.

Prashant Sawant: In which areas in Libya you have projects running around?

Atul Punj: Most of them are in a cluster around the Tripoli area, other than the upstream people which are in the south in the desert, quite far from any civilization, but most of them are well west of Benghazi and Misurata.

Moderator: Our next question is from the line of Atul Rastogi of Daiwa Capital.

Atul Rastogi: In your third quarter statement the breakup of revenue you mentioned Africa is Rs. 253 crore for nine months. So, would majority of that be from Libya?

Luv Chhabra: Correct, but when you look at the numbers there is also an oil and gas project, which is nearing completion. A significant portion of that came in from the oil and gas pipeline project.

Atul Rastogi: For last year FY10 if I look at Africa revenues, how much would come from Libya there?

Luv Chhabra: Almost everything would have come from Libya; we have no other revenues in Africa other than Libya.

Atul Rastogi: Because I think that FY10, I have the nine months figures that is Rs. 462 crore alone, so I guess FY10 would be upwards of Rs 500 crore in Africa?

Atul Punj: Yes, you have got to understand the difference. The oil and gas pipeline like all oil and gas projects which have a much shorter turnaround, so you would have seen more significant revenue booking on account of the oil and gas. That project is now pretty much done and what we have started working was the infrastructure project which typically in this case has a five year execution period. So, we would start seeing the annual revenue contribution from these projects of about \$100 million approximately for the year 2011-2012.

Moderator: Our next question is from the line of Sumit Kishor of JP Morgan.

Sumit Kishor: What is the strategy of Punj Lloyd going forward in the MENA region in the near term? In the Middle East also you have an order book of about Rs. 30 billion, in the December quarter conference call when it was mentioned that Punj Lloyd would be looking at Iraq as a significant geography for booking new orders, so given the unrest in the region, are you rethinking your strategy in the region?

Atul Punj: Well, fortunately for us Iraq is in phase 2 i.e. it is in a phase after the earlier regime has been toppled, so we do not see the concerns over there. But I think we need to understand the difference in the different movements that have taken place. Tunisia and Egypt clearly were against the regime that was effectively considered to be looting the economies. In the case of Libya, it has had amongst the highest per capital income in Africa but it is really a revolt against political suppression. When you look at Jordan, it has got 70% Palestinian population so there were some rumblings over there. What we are likely to see as a result of what has happened is a rush of social infrastructure project. As you may have noticed the King of Saudi Arabia only returned day before yesterday and announced USD 37 billion worth of social projects. I think increasingly we will see a real push for these types of projects rather than the iconic projects as they tended to shift towards. So, our strategy in terms of the Middle East regions insofar as the countries that we are in is that we will continue to pursue opportunities in those areas. We are not seeing any rumblings whatsoever whether it is Saudi, whether it is in Qatar, whether it is in the UAE.

Sumit Kishor: Last year we had seen the South Korean companies win a lot of orders in the MENA region including in Libya, so in hindsight I mean, how do you see the situation planning out for the South Korean companies, would they be able to deliver at the low margins they won those orders at or will you be once again seeing a shift to the European and the Indian companies for new orders?

Atul Punj: Hopefully some of the Korean contractors, example in the Abu Dhabi nuclear program, are running behind schedule. In the Qatar World Cup Soccer construction program, the interest seems to be more in European or combinations with Indian companies etc.

Moderator: Our next question is from the line of Gautam Trivedi of Goldman Sachs.

Gautam Trivedi: The question I had with respect to the other Arabic countries that you have exposure to and could potentially see other unrest. I think you partially answered the question but if you have any more incremental data, would appreciate that?

Atul Punj: To build on what I said earlier, the Iraqi situation is such that they have had elections, the government has been formed. The need for fast build out of social projects is going to increase e.g. saying that we will build 10,000 housing units a year, when the shortage is 40,000 every year; that luxury is now not available with these governments. We will see a huge push particularly, in the populated countries such as Saudi Arabia, particularly for social housing projects. So, I think we will see a big spurt of this type of opportunity in these markets. Though we will probably see a pulling back of iconic projects being constructed but we will see issues being addressed much quicker at the lowest level of the pyramid, with a sense of urgency never seen before.

Moderator: Our next question is from the line of Chavvi Agarwal of Ambit Capital.

Chavvi Agarwal: What is the total number of people that were working in Libya?

Atul Punj: There are 1,384 Indian nationals we have in the country right now. For 10 of them we did a test evacuation this morning. They successfully crossed over into the Tunisian border.

Chavvi Agarwal: Will you be deploying them to your current Indian project or have you formed any strategy of the cost to be incurred on these people?

Atul Punj: No, most of these workers are on contract for a specific project. Currently, most of them want to go home for a while and be with their families and after that we will evaluate.

Chavvi Agarwal: How do you plan to finance the equity requirement for the recently won BOT Asset which is for about Rs. 735 crore?

Luv Chhabra: Well, this project would be financed on about 85:15 or 80:20 debt-equity ratio and the equity has to be put in over a period of execution cycle which is 2 to 2.5 years with approximately 30% coming upfront and the balance over the execution cycle. This is an annuity project and it is a two lane project for strengthening and upgrading the two lanes; it is not a complex project. There are no major structures on this project and we will target an early completion of this project.

Chavvi Agarwal: Any other major projects received in oil and gas segment that you are looking at?

Luv Chhabra: The moment we will receive a project we will obviously announce it and we constantly evaluate opportunities and bid for projects in the geographies in which we are present.

Moderator: Our next question is from the line of Mayur Parkeria of Wealth Managers.

Mayur Parkeria: What would be the status of the money which we have received and also what would be the status of the impact of the amounts which have been billed on that?

Luv Chhabra: Well, the money we have received as advance is shown as advances in our account the amount is billed and not received is accounts receivable; that is the status in any normal accounting practice. Now, as to what happens in the future, well we will have to wait and see what sort of regime comes into Libya and as it is currently made out to be, respected and responsible persons are likely to come forth and may be set up some form of interim government. I would imagine that these projects will continue after a gap of few months when things normalize.

Atul Punj: Yes and most importantly on these projects we are in the money. So, these five projects are clearly comfortably positive.

Mayur Parkeria: Had we booked any profitability on these Rs. 160 crore which must have got billed because of the milestone crossing or it or it must have just been simply cost and revenue both?

Predeep Gupta: This is actually lying in the WIP.

Luv Chhabra: The revenue recognition could be a small amount and in proportion we would have booked the profit which would be at above 12 % on these infrastructure projects.

Mayur Parkeria: We had also some long term plans with respect to strategy from Saudi Aramco and I think on the other sectors and other plans. Does that get impacted because of that unrest, ultimately solve the Middle East area and as somebody also asked, overall would the Middle East region current impact change our strategy in the next one or two years?

Atul Punj: No, there is no change in the strategy and I would like you to just keep in perspective and remind you that when Dubai's real estate market went into a crisis, the general broad-brushing that happened was that Middle East is in trouble, whereas nothing could be further from the truth. It had no impact on Abu Dhabi, on Qatar, on Saudi Arabia so I would suggest we should not broad-brush the entire MENA region by these events and frankly if the whole MENA region gets impacted I can promise you the global economy itself would be in a real mess. So, I do not think we should confuse our strategies with events happening in North Africa. And I believe, as I said earlier, that all the existing regimes are taking very urgent steps, whatever they can do to, placate their population and keep them happy.

Mayur Parkeria: You had just indicated that possibly we may see a large push with respect to the lower end kind of pyramid projects, mainly social in nature rather than iconic. So, why would we like to be present there and our presence with respect to other oil and gas sectors and other kind of infrastructure projects if they are not much complex and as far as the status of Punj Lloyd goes, why would we be ready to do that, just to increase the top line or why should we be present there in that?

Atul Punj: This is an offering that we have as a Group, have been doing a significant amount of work - building infrastructure. In India we are building hospitals right now, we are building the Rajiv Gandhi Institute of Petroleum in Rae Bareilly, Sembawang has built a large percentage of HDB housing which is social housing. If these projects are profitable, the government allocations are there. We are a construction group; we are not only in oil and gas investment play, so we will take advantage of these opportunities.

Mayur Parkeria: But won't these have significantly lower margins than what a complex refinery projects would?

Atul Punj: Not necessarily at all, in fact these infrastructure projects that we were doing in Libya were all running at between 12% and 14% margin.

Moderator: Our next question is from the line of Harish KS of Tower Capital.

Harish KS: If we see as of today what is the receivable from Libyan projects and how much of it is lesser than and more than six months and because see the parties might be different is it from the same party whom the contracts are or is it with respect to the oil and gas pipeline contract that we have the receivables for. I just wanted a clarification on the receivables portion that is pending and yet to be received?

Luv Chhabra: I think we should segregate the Libyan business in two portions. We have already explained that on the infrastructure which forms the bulk of the order backlog, we are cash positive to the extent of Rs. 265 crore and this is on a cash basis. In terms of the oil and gas project, yes there are receivables from the client and there are also accounts payable to vendors, etc.

Harish KS: How much is that?

Luv Chhabra: I do not remember the exact number; we are at the tail end of the project so the net balance is typically about 20%, which could be about \$40 million to \$ 50 million which is due from the client, net of payables.

Harish KS: Do you see any concern on receiving the money once all these things settle down?

Luv Chhabra: Yes, our concern is exactly this - we are waiting for things to settle down. We have a valid contract and clearly with all these disruptions there will be significant claims that we have on the client; let us see and wait for the situation to settle down.

Harish KS: Other than this oil and gas pipeline everything is just one client or it is many clients?

Luv Chhabra: Largely one client - HIB. Of these 5 projects, some are in JV whereas the others 100% to PLL

Harish KS: The amounts that we are talking about are for our entire share?

Luv Chhabra: Absolutely, this is money in the bank, so when I told you Rs. 265 crore, Rs. 90 crore is with us in Libya and Rs. 175 crore is outside Libya.

Harish KS: In the Q3 con call we were saying that the Libyan orders have started picking up and we will likely book about 15% to 20% of the order backlog in FY12. So, in the current scenario do you think that needs a revision or is it too early to say that?

Luv Chhabra: I think it is too early to say and I should also add on one more thing that is we also have one oil tank project of about USD 60 million, and in that project we are net cash positive - we have an advance of USD 5 million – USD 6 million lying with us. As Mr. Punj said, Rs. 500 crore to Rs. 600 crore was what was budgeted as revenue or estimated as revenue for the next financial year from these projects in Libya. How much of that will ultimately be realized will depend on how the situation plays out over the next two months or the next month-and-a-half, but it is too early to give any estimate right now.

Harish KS: Normally in case of construction contracts where we have accrued some revenue and where we have incurred some expense and in respect of the advance we might be cash positive, but do we need to book any cost overruns or write off any losses or something like that because both are different, I mean that is a balance sheet item and this might be with respect to the revenue recognition and the expenses incurred?

Luv Chhabra: Yes, I think we should look at a couple of things. Firstly, this is a situation out of the ordinary, so we are really looking at a force majeure situation. Secondly, in any force majeure situation what we should be concerned about is whether we have cash or not, whether net-net we are cash positive or not. With regard to the accounting, let us see how the situation unfolds.

Harish KS: Yes because, your auditors might want you to book some losses there in case they feel that the cost have overshoot the revenue recognition or they feel that future revenue recognition is uncertain.

Luv Chhabra: If the auditors say that then we could say that by the same logic, account for all the cash lying as advances as profit in the books. Let us wait as this is all pure speculation right now.

Moderator: Our next question is from the line of Hitesh Das of Credit Suisse.

Hitesh Das: What is Punj Lloyd's debt repayment schedule? How much money has to be paid back by March 2010 and then over the next one, two, three years?

Luv Chhabra: See, a large portion of our debt is project specific, typically as projects wind down, the working capital loan for the project gets paid out. I am afraid I do not have the exact figures in hand.

Moderator: Our next question is from the line of Shekhar Singh of Goldman Sachs.

Shekhar Singh: What is the total number of employees in the company?

Atul Punj: Total number would be about 15,000.

Shekhar Singh: You mentioned that the total number of employees in Libya was around 1380 or something?

Atul Punj: Yes.

Shekhar Singh: Is there some correlation between what is the total number of employees in the project size or the size of work that you are doing there?

Atul Punj: No, it depends on the nature of work that we are doing, so if it is oil and gas, we normally have a smaller number, if it is building an infrastructure we will have a larger number. So it depends on which vertical is working in which geography.

Shekhar Singh: Also I missed the initial part of this call. You mentioned that Libya forms a smaller part of your order book. Could you please again elaborate?

Luv Chhabra: Let me just for the sake of repetition clarify that again, we have recorded an order backlog of Rs. 9,500 odd crore from Libya. However, of that Rs. 9,500 crore, Rs. 6,000 crore has not moved for over 12 months which is Sembawang's orders and we have addressed this issue in every conference call. As I had mentioned, we in any case wanted to take these orders off from our order backlog effective first quarter

of the next financial year, if there was no traction on these projects. Effectively our order backlog in Libya is only about Rs. 3,500 odd crore, which constitutes to only about 14% of our total order backlog.

Moderator: Our next question is from the line of Raj Chalimeda of Elevation Capital.

Raj Chalimeda: You said you have 1380 odd employees in Libya, are they all Indian nationals, these are the Indian nationals and do you have any foreign nationals in Libya?

Atul Punj: There are some Nepalese also in addition to this which would be about a figure of approximately 150. It is a bit more difficult to sort their issues out, which we are attempting, because currently there is no Nepalese Embassy in Tripoli and the Tunisians have agreed to receive them. We are hopeful of getting them out also and evacuating them together and we are not going to leave anybody behind simply because he is of a different nationality. But the Indian component is 1384.

Raj Chalimeda: Also we have been reading out since there is very sketchy information from Libya that the Italian companies which have a major presence there are having trouble evacuating their employees out of Libya. What kind of insurance do you have on your employees that are working there especially for situations like this?

Luv Chhabra: All our employees are covered for life insurance, workmen's compensation etc. We have all the requisites insurance.

Raj Chalimeda: And that life insurance covers political risk or I mean any situation not just?

Luv Chhabra: Yes, any situation.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Atul Punj for closing comments, please go ahead sir.

Atul Punj: Well thanks everybody for joining on this call, we hope we have addressed some of the concerns in as factual a manner as possible. We look forward to interact with you all again.