



Punj Lloyd Limited

Investor/Analyst Conference Call Transcript

August 05, 2013

Disclaimer: This transcript has been edited to ensure language correctness and proper flow and also to amend any unintentional inaccurate mention with regard to the business. It is hence not a verbatim representation of the call proceedings.

Moderator Ladies and gentlemen, good day and welcome to Punj Lloyd's Q1 FY14 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vinay Sood – Global Head, Investor Relations.

Vinay Sood Thanks. Good morning everyone and welcome to the Q1 FY14 Earnings Conference Call. Joining us today on the call are members of our senior management team, Mr. Atul Punj – Chairman, Mr. P K Gupta – Director, Mr. P N Krishnan - Director Designate (F&A), Mr. Raju Kaul - President & CFO, Mr. Shivendra Kumar, President & CEO (Energy), South Asia, Mr. Sanjay Goel, President & CEO, Punj Lloyd Engineering. I believe you have received the Investor Communication and Results. To recap, current order book stands at Rs. 20,868 crore. Consolidated revenue for Q1 stands at Rs. 3,032 crore, EBITDA at Rs. 293 crore and PBT at Rs. 10 crore.

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 already been sent with the conference call invitation. I would also like to emphasize that while this call is open to all invitees it may not be broadcasted or reproduced in any form or manner. We can now begin with Q&A.

Moderator Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Ankit Babel of Subhkam Capital.

Ankit Babel On a consolidated basis, you have reported a net loss of around Rs 8 crore before minority interest and there is some reversal in minority interest of Rs 48 crore which seems to be exceptional comparing on a sequential and YoY basis. Just wanted to understand what is this Rs 48 crore which you have put in the minority interest?



P N Krishnan In respect to every subsidiary the accounting standards require that where there is a joint venture and where we hold more than 51%; 100% of the revenues & 100% of expenditure has to be recorded on a line by line basis in the top line and then carve out the minority part below the line. This is an accounting standard requirement. Strictly speaking if we would have taken it on a pro-rata basis of 51%, line by line in one of the subsidiaries where this has occurred, then in that case, the PAT itself would have reflected Rs 40 crore profit. So, there is nothing exceptional about this.

Ankit Babel What is the current amount of receivables and inventory as on 30th June?

Raju Kaul Inventory is around Rs 6,900 crore and receivables are around Rs 3,200 crore.

Ankit Babel What is the current status on the receipt of money from ONGC?

Atul Punj It is coming close to a final conclusion now. We are hoping that within the next 60 days we should have some positive news to give you but all we can say at this stage is that it is all moving in a very positive direction.

Moderator Our next question is from Nitin Bhasin of Ambit Capital

Nitin Bhasin We have seen a decline in civil infrastructure order backlog for the last 2 quarters whereas our competitors have shown record order inflows in this quarter. Can you elaborate why we are underperforming as compared to our peers?

Atul Punj I do not believe we are underperforming. Basically, it is a question of these strategies that our company has adopted versus others. We are being very cautious about the type of projects that we take and what pricing we take them at. If you have noticed, we did not participate in that entire fever of BOT projects over the last 3-4 years and at that time, we were being criticized for not having taken any business in that area when our competitors or our peer group were doing extremely well supposedly in that space. Today, of course, I think, our strategy has borne out to have been the right one. Similarly, we are pushing very aggressively internationally and we are being very selective about the work that we do pick up over here. We do see now that there is a bit of a shake-out that is in place right now in this sector. So, we believe that the pricing will probably be more comfortable going forward. But we are not going to pick up orders just for the sake of picking up orders. In our business, it is very easy to pick up business by dropping prices, we refuse to do that.

Nitin Bhasin Sir, can you provide me some guidelines as to what are your margins in energy business in Middle East? Have those contracts been won at lower prices?

Atul Punj No, the contracts have been won at the normal pricing levels. The average margin across the board is about 10%.

Nitin Bhasin Am I correct in saying that for Energy business in Middle East there is 10% EBITDA margin.

Atul Punj Correct. You get the odd one which is high, you get the odd one which is slightly low but the average would probably be around 10 – 11%.

Moderator Our next question is from Pawan Parekh of Emkay Global.

Pawan Parekh Sir, on the minority interest, is there any change in accounting policy, the way you used to account it earlier and now, and that is why this number is coming up in the P&L?

Raju Kaul No, there has been no change in accounting policy. This figure is due to loss in a particular subsidiary. We hold only 51% in that. So, the figure is sort of getting out of proportion when you compare it with the PBT and PAT level.

Pawan Parekh Secondly, have there been any order cancellations in this quarter? Backward calculating for some of the segments we get a negative order inflow number, like infrastructure?, because if you look at order backlog for the infrastructure business, it is around Rs 8,000 crore vis-à-vis QoQ, it was Rs 8,700 crore. So, if you backward calculate it, it becomes negative?

Raju Kaul No, there have been no order cancellations. Whatever has been billed during the quarter will reduce from the order backlog.

Pawan Parekh So after you reduce that, the order inflow number, if you backward calculate, comes as a negative number.

Atul Punj Yes, there could be a slight difference on account of forex gain or loss. For the contracts outside India, there will be some plus or minus on account of gain or loss.

Moderator Our next question is from Ronald Siyoni of Sharekhan.

Ronald Siyoni Sir, you have reduced debt by about Rs 200 odd crore this quarter from about 6,700 crore to 6,500 crore at the consolidated level. But the interest expenses are still at the same level? So, wanted to know why has this happened?

P N Krishnan Primarily the interest rates have been north bound, there has been an increase in the rates and some of the loans that we had retired were low cost loans. When a project gets completed, we have the loan also getting reduced on account of that.

Ronald Siyoni So, are the new loans at higher rates?

Atul Punj There is an upward movement in the interest rates and our loans are taken effectively against a particular project. As the projects get extinguished, we have to repay those loans which in some cases were taken earlier because these are old projects. So, the new ones have been taken at slightly higher rates because of the overall banking system situation.

Ronald Siyoni Have you been able to change any forex loans into say rupee loans?

Atul Punj No, infact we have been looking to go the other way because most of our earnings are in dollars or in foreign currency, so we are looking to swap our rupee debt with some dollar debt to reduce our cost of money and we are naturally hedged over there. This is also at an advanced stage and we are hoping sometime in the very near future that should happen for part of the amount.

Ronald Siyoni Sir, there is only about Rs 6 crore operating income. So, is there any forex loss during the quarter and in Q1 FY13, in the corresponding quarter last year, was there any forex gain or loss?

Raju Kaul There is a loss of about Rs 74 crore in this quarter and there was a gain of Rs 41 crore in corresponding quarter last year.

Moderator Our next question is from Amit Sinha of Macquarie Capital Advisors.

Amit Sinha Sir, 2 quarters back, you highlighted that there is a pickup in the orders in Middle East, especially urban infra orders. Can you basically outline what is the status right now and what are the projects you are bidding in the Middle East?

Atul Punj Our outlook is pretty strong. In fact, I think the best thing that we had is on the Libya side, where 4 of our projects are being re-mobilized and money has been released by them currently to the extent of about Rs 60 odd crore and the effect of this mobilization will reflect in the later quarters in picking up intensity. Other than that, there is a lot of urban infra spend that is going on which we are targeting and hopefully we should start seeing a pickup in that business sooner rather than later.

Amit Sinha And for the forex loss which we have booked, have we booked anything above the EBITDA line?

Raju Kaul Yes. The entire amount of Rs 74 crore is above the EBITDA.

Amit Sinha What is our average interest rate for our portfolio?

Raju Kaul It is about 9.86% p.a. for the group.

Moderator Our next question is from Srinivas Rao Ravuri of HDFC Asset Management.

Srinivas Rao Ravuri Can you update on the status of the efforts to reduce interest costs?

Atul Punj As I just mentioned that we are in pretty advanced stage of replacing about S\$330 million with rupee debt to the extent of \$ 330mn

Srinivas Rao Ravuri And also any update on asset monetization plan?

Atul Punj We are going selectively. We have some mandates that are out and have some offers that are in. As and when there is a development, we will let you know.

Srinivas Rao Ravuri Second question is on Libya. Can you give us an update on what is happening there in terms of revenues?

Atul Punj Well, Libya as I said, we are currently remobilizing 4 projects. They have released about Rs 60 crore of rupees. So, the cash flow has started moving and we should start seeing some pick up in the revenues as well as the overall situation there in the next quarter. It is slower than expected but it is now moving positively.

Srinivas Rao Ravuri And any update on the Myanmar project?

P K Gupta In the Myanmar project, the gas line has been commissioned and the gas has already reached China. So, this line has been handed over. There were 2 lines – gas line and oil line. The oil line, as far as pipeline is concerned has been completed but there are 2 stations related to the oil line that are in progress and should be completed by January end next year. That is when the oil line will be completed. The delays are all attributable to CNPC because they were not able to provide the land to build the stations.

Srinivas Rao Ravuri So, your job will continue till Jan '14?

Atul Punj Yes. On a much reduced scale, for the stations.

Srinivas Rao Ravuri What has been the capex for the last quarter and what do you think it can be for the full year now?

Raju Kaul June quarter, we had around Rs 60 crore of capex which was offset by the depreciation. So, there is no major movement in that.

Atul Punj Well, we have always maintained that our capex is linked to project wins. As and when we win a project, we identify what is the incremental capex we need to execute the project? So capex would be totally dependent on which type of projects we win and which is why we do not really get into capex predictions cycles.

Srinivas Rao Ravuri In some of the projects in India, there were delays in payment. So, what is happening and what is the outlook there?

Atul Punj Well, on the oil companies, in some cases there is movement and in some cases they are kind of tending to drag it on, but overall, I do not think there are any disputes except in a couple of cases. But generally, we are starting to see some movement not as quick as we would like and that really is a result of the overall economic scenario. So, that is nothing unique to us.

Moderator Our next question is from Kaushik Poddar of K.B. Capital Markets Pvt. Ltd.

Kaushik Poddar With Indian economy experiencing slow down, are you trying to focus somewhere else, in order to pick up this kind of slack in the Indian Economy?

Atul Punj Well, we have always maintained that we have been more international than national and a lot of our problems effectively came from international particularly Libya. But that was something that was very difficult for anyone to really predict. Unfortunately, for us, we did get stuck in that situation for the last couple of years. But as I mentioned, it is now picking up. So, currently about 75% of our business is already overseas and we are trying to drive that little harder now and see how we can take that percentage higher. So, for us, this is something we have always done. We did not wait for the slowdown to start moving out. We have always been outside and we are just continuing on the same strategy.

Kaushik Poddar With Libya coming back, do you see your growth accelerating now from 5-10% range to a little higher?

Atul Punj We hope so, but in this business nothing is done till it is done. So, we are pushing aggressively there and in some other countries as well and I believe, overall our strategy should be fine. Unfortunately, Libya happened at the same time as the Indian Infra space melted down. So, we got washed with the same brush. Our problem was really not India related, it was more international related. So that is the risk you run in this space.

Kaushik Poddar And this overseas contract. I mean, L&T has on record said that overseas contracts have a lower operating profit margin, EBITDA margin. Is that the case in your case also or it is more or less in the 10% ballpark?

Atul Punj No, we stand at pretty much in the same range. So, we do not know where they are coming from. We have been at it a lot longer than them. So far we have not found any real differential.

Moderator Our next question is from Rahul Agarwal of VEC Investments.

Rahul Agarwal Any progress on asset monetisation?

Atul Punj Olive's investment has been exited already and for others we have some mandates out and some offers in. We are now in negotiations for a couple of assets. So, we will see as to what happens. We will let you know when it happens.

Rahul Agarwal Okay, so the 30% stake is already sold, right?

Atul Punj Legal formality is still on. Accounting will be carried out somewhere in mid August

Rahul Agarwal How much profit did you make on that investment?

Atul Punj We made a profit of about \$10 million.

Rahul Agarwal My second question was on Sembawang, if you could just give me some numbers for this quarter in terms of revenue and EBITDA?

P N Krishnan For this quarter, Sembawang's revenue is about Rs 300 crore and PBT is about a crore.

Moderator Our next question is from Jinesh Sheth of Arete Services.

Jinesh Sheth Referring to your debt re-alignment, how much benefit do we expect to realize due to such realignment?

Atul Punj On a standalone basis it should be around Rs 120 crore but on a consolidated basis about Rs 60 crore, annually.

Jinesh Sheth If you can throw some light as to how do we see the debt movement going forward? Do we see contraction in debt in the coming quarters or do we see spike in the same?

Atul Punj A lot of our working capital is based on new order wins and lines that we take to finance particular orders. On the overall situation, one option is to swap our debt – rupee debt with dollar debt to reflect the currencies where we work in. In addition to it, there is a lot of money that has been locked in with clients, such as with ONGC which is now starting to look like it is going to be released. So, combination of these two, we are targeting aggressively for the debt reduction in terms of our term debt. The working capital debt will rise and fall along with the wins of projects. But in terms of the pure term debt that we are carrying at a corporate level we are aggressively pursuing means to reduce that.

Jinesh Sheth Have we set any targets?

Atul Punj Well, the targets are very easy to put but then it is very difficult to execute if market situation does not hold up. Right now, we are targeting to reduce as much of it as possible, to put a specific number on it would not be prudent.

P N Krishnan If you really look at it, the term loans at the corporate level are only Rs 1,770 crore. And we are targeting to reduce that by half at least. But we also have development activities in terms of executing road projects and we are now doing residential projects, solar projects. So, those developmental activities, as they move forward, will follow the debt equity ratio of around 3:1. So, we will see term loans going up on account of the developmental projects.

Atul Punj And in these developmental projects, just to clarify, we are not taking any BOT risks. All our development projects thus far are basically those which are annuity type. So, we have a road project in Bihar which is an annuity, which is close to completion towards the end of this year. We have a police housing project which is again on a purely Aramco and Total in Saudi Arabia. So far, that company has not been doing particularly annuity basis. We have a solar project which is running on a BOT basis, which is doing very well. And we have picked up another 20 MW solar project in Punjab which is again on a developmental basis. So, these might skew the numbers a bit. But if you really look at the debt that we are running on at the corporate level, is about Rs 1,770 crore and that is very often confused when you look at the Rs 5,000 crore odd number, but the balance is all project linked working capital.

Jinesh Sheth If you can elaborate the loss for this subsidiary that you have shown in the minority interest?

Atul Punj Well, that is a project that is going on right now for a joint venture with well but we are in discussion for global settlement with the client right now. That gap actually is looking like it is going to reduce significantly. But right now, we have to report it as we did.

Jinesh Sheth Is it a quarterly blip or do we see pressure in the same, in the coming quarters?

Atul Punj No, we actually see the pressure coming off in the ensuing quarters.

Moderator Our next question is a follow up question from Amit Sinha, from Macquarie Capital Advisors.

Amit Sinha Sir, you just mentioned that the loss in the Saudi subsidiary was around Rs 100 crore. Can you give the exact amount on it?

Raju Kaul Rs 97 crore.

Moderator Our next question is from Ankit Babel of Subhkam Ventures.

Ankit Babel Just a follow up on your forex losses. You mentioned that in the first quarter, there was Rs 74 crore of forex loss. Now, is this accounted in other expenditure item line? And this is on account of your loans?

P N Krishnan Yes, it is accounted in other expenditure.

Ankit Babel Whenever there is depreciation in Indian rupee, Punj Lloyd usually reports a gain on account of translation gains from receivables. Ideally, I was expecting some forex gain in this quarter too?

Raju Kaul It is against 2 – 3 currencies – middle east currencies & Libyan dinar.

Moderator

Thank you very much. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Vinay Sood for closing comments.

Vinay Sood

Thank you very much for being on the call. We now conclude the conference call.