



## Punj Lloyd Limited Q3FY13 Post Results Conference Call February 12, 2013

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- Moderator** Ladies and gentlemen, good day and welcome to the Punj Lloyd's Q3 FY13 earnings Conference Call. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal the operator by pressing \* and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Vinay Sood, Head - investor Relations. Thank you and over to you sir.
- Vinay Sood** Welcome to the 3<sup>rd</sup> quarter FY13 earnings conference call. Joining us today on the call are members of our senior management; Mr. Atul Punj - Chairman, Mr. P.K. Gupta – Director, Mr. Raju Kaul - President and CFO. I believe you have received the investor communication and results. Just to recap, current order book stands at Rs 23,690 crore. Consolidated revenue for Q3 stands at Rs 2,881 crore, EBITDA at Rs 291 crore and PBT at Rs 8 crore. Before we begin I would like to mention that some of the statements made during this call may be forward looking in nature and disclaimer to this effect has been sent to all with the conference call invitation. Also, I would like to emphasize that while this call is open to all invitees; it may not be broadcasted or reproduced in any form or manner. I will now request Mr. Punj to make the opening remarks and then we can start the Q&A.
- Atul Punj** Good morning all. I think rather than making any opening comments we will just open it up for Q&A. So can we start with the questions please?
- Moderator** Ladies and gentlemen we will now begin the question and answer session. The first question is from Inderjeet Singh of Macquarie Capital Advisors.
- Inderjeet Singh** My first question is; has there been a restatement of other operating income number that we had compared vis-à-vis last year and what exactly is included in that?
- Raju Kaul** Till 2011, the forex gain or loss used to be included in other operating income. Last year, because there was a change of Auditors' Partner, it was restated. But this year again we have brought it back to where we have been putting it for the last 5 – 6 years. So there is a restatement yes, forex gain and loss has moved up to the other operating income.

**Inderjeet Singh** Can you share numbers as to how much of forex gain or loss is included in this?

**Raju Kaul** We have close to Rs 70 crore.

**Inderjeet Singh** What was the corresponding number last year?

**Raju Kaul** Last year it was around Rs 46 crore.

**Inderjeet Singh** Second question is on the balance sheet. Can you share some key numbers as to where our working capital and gross and net debt stands at?

**Raju Kaul** Debt for the group is close to slightly over Rs 6,000 crore.

**Inderjeet Singh** And this is gross debt?

**Raju Kaul** It is the gross debt and the shareholders fund is at around Rs 2,800 crore and payables are around Rs 6,000 crore. On the asset side, fixed asset total to around Rs 3,200 crore and inventories are around Rs 6,600 crore plus and the trade receivables are around Rs 2300 crore.

**Inderjeet Singh** Now in terms of an internal outlook, do you also sense that there is any improvement in activity especially in Middle East and in India? And what kind of bidding activity are you seeing, in terms of competitive pressure, has it only worsened or remained stable or will get any better now? And what could be your outlook for next 12 months or so?

**Atul Punj** The Indian market place continues to have very high competitive intensity and we find competitors quoting numbers which we believe are unworkable. This is really why we are reducing our exposure in India and increasing it to the Middle East, South East Asia, and Central Asia, where the outlook seems to be quite robust, for example, post the Arab Spring, the amount of spending in social infrastructure which is power, water desalination, schools, hospitals, roads etc is gaining a lot of momentum. So our focus is more and more in those markets and less so in the Indian environment. The other big challenge that we have, which is quite visible, is that the outstanding of well over Rs 2,000 crore, from clients primarily Indians, show that the sector generally is under pressure from particularly the banking sector. That is a big challenge and for us to be paying 12% interest rate on this large outstanding obviously impacts our bottom line. But going forward the Middle East is robust, India not at all.

**Inderjeet Singh** In terms of Middle East, the orders that are coming in, are typically from social infrastructure areas or even oil and gas is starting to look better?

**Atul Punj** The spending in the Middle East is across the board. Oil and gas sector continues the way that it was continuing. So there are no dramatic spurts in that sector. There is regular growth which is happening over the years which continues going forward. But on the social side, there is a huge spurt in spending and very little capability or very little supply capability to deliver these projects, that's where our opportunity lies and that's what we are focusing on.

**Moderator** Our next question is from Purna Jhavar of Emkay Global.

**Purna Jhavar** Could you indicate what the order inflow is in this particular quarter?

**Raju Kaul** It's Rs 1,300 crore plus.

**Prerna Jhavar** The announcements have been quite good but all of that do not get reflected in to the order inflows?

**Atul Punj** No, the significant orders have all been disclosed. So there is nothing which is not being disclosed.

**Prerna Jhavar** Could you indicate as to which are our major subsidiaries that are in losses?

**Raju Kaul** It's primarily the Indonesian subsidiary.

**Prerna Jhavar** And what would be the loss at the Indonesian subsidiary level?

**Raju Kaul** Close to Rs 50 crore plus.

**Prerna Jhavar** What is the 9 months loss figure?

**Raju Kaul** That is around Rs 170 crore.

**Prerna Jhavar** Could you share some outlook for the Indonesian subsidiary? How do you think it would fare going forward?

**P.K. Gupta** The loss making jobs are all over and they are completed. And now we are onto the new projects which are going on well. We are doing a power plant for Bumi Resources and Tata JV. And we are also doing some oil and gas field development for ConocoPhillips. So these are the 2 major projects which are under execution right now and they are going on well. I think we have left behind our problems and PTPLI which is the Indonesian subsidiary is on its recovery path.

**Prerna Jhavar** So by when would you expect this recovery, when will you expect the Indonesian subsidiary to break even?

**P.K. Gupta** From the next financial year.

**Prerna Jhavar** Could you give us some details as to what's happening to our offer to Macmahon Holdings for their construction business?

**Atul Punj** That's work in progress. The next few weeks will tell us what is going on.

**Prerna Jhavar** Could you give us some details on the company?

**Atul Punj** Not at this moment.

**Moderator** Our next question is from Srinivas Rao of HDFC Mutual Fund.

**Srinivas Rao** What is the change in net debt from September end to December end?

**Raju Kaul** There was an increase of around Rs 300 crore. That's primarily on account of working capital utilization having gone up.

**Srinivas Rao** Interest outgo is lower in 3<sup>rd</sup> quarter versus 2<sup>nd</sup> quarter? What explains that?

**Raju Kaul** It is more or less the same. Primarily some costly loans have been repaid. Moreover, we received inflows from Middle East and other places in the last quarter.

**Srinivas Rao** What are we doing and what is the progress made on reducing working capital or reducing debt if you can highlight what has been done and what are the other things we are doing?

**Atul Punj** One of course is to put pressure on clients to pay as and when they are supposed to pay us which continues to be challenging particularly in India. But apart from that as I mentioned last time, we have a couple of mandates on some asset divestment which hopefully we should close sooner or later. The sooner we do it the better off we will all be and the target is really to drop our debt level by at least Rs 2,500 crore which I think changes our picture dramatically. So that's work in progress and is something that's in the play right now.

**Srinivas Rao** And on the order inflows you have seen Rs 1,300 crore for the quarter. Is that correct?

**Atul Punj** Yes.

**Srinivas Rao** And also can you tell us what is happening in Africa and in Libya?

**Atul Punj** Libya is a country that continues to be in transition. In upstream drilling, one of the contracts has been restarted and that work is going on. As far as collecting our payments which are stuck there for a while is concerned, it's a bit of a jump start which ends up in a bit of an anti climax. But I think that Libya probably in the next 6 months should start settling down. However, till that happens, I think it's going to be something that we will have to live with. But in the meantime, we are not waiting on that to take whatever steps we need to cut our debt.

**Srinivas Rao** And update on Heera project?

**Atul Punj** Heera, the outside expert committee that has been established by ONGC has now had 10 meetings and they have been given an extension of another 5. We are hopeful that by April we should have all the hearings over and some kind of an award declared and after which of course it has to go through ONGC board process. But we are hoping that within let's say by June – July we should have that sorted out.

**Srinivas Rao** And what are the current equipment utilization levels overall for you?

**Raju Kaul** It's over 80%.

**Srinivas Rao** What is the CAPEX incurred in the 9 months and what do you expect in the remaining 3 months?

**Raju Kaul** CAPEX for 9 months has been around Rs 200 crore

**Atul Punj** Currently we have no plans for any additional investments because our capex is linked with project wins. So if the type or nature of a project requires us to add some equipment then we will do so, otherwise we don't really plan on adding much capex right now.

**Srinivas Rao** On order inflow can you give us some more highlights in terms of which geographies, which sector are you seeing activity outside India?

**Atul Punj** The Middle East and South East Asia are two strong areas for us. These two continue to be robust and Kazakhstan seems to be seeing a bit of a revival now,

again particularly in the infra sector. So we are seeing some good opportunities coming there as well.

- Srinivas Rao** Anything for Africa?
- Atul Punj** Africa is work-in-progress, till we have a win, there is no point talking about it. But yes, we are pursuing opportunities there.
- Moderator** Our next question is from Sundar Subramoney of Almondz Securities.
- Sundar Subramoney** Could you please tell us something more on Libya, are we bidding for more projects in Libya?
- Atul Punj** No, there is no question for bidding anymore, because right now we are looking at completing the earlier contracts that we have entered into. And unfortunately there is still a lot of conflict on the ground over there in some parts. So there are no plans for any new bids. Because the number of bids that were already in play or rather contracts that were already in play across different companies from different countries is very large. So for the Libyans to get those back on track is keeping them occupied right now. So the Libyan projects will come up with people like NE or BP, who are doing various large explorations over there. When they start having finds then the work will start in the earnest in the oil and gas sector.
- Sundar Subramoney** Out of the total order backlog of roughly Rs 24,000 crore, currently on how much we would be working and how much would be still not moving much?
- Atul Punj** Close to Rs 21,000 crore is moving. And about Rs 2,600 crore plus would be under hold right now.
- Sundar Subramoney** The projects that are moving, have we started getting our money and is the payment cycle normal?
- Atul Punj** Yes these Rs 21,000 crore is normal projects.
- Sundar Subramoney** And what is your outstanding, for Libya?
- Raju Kaul** In Libya, the total assets including the subsidiaries is close to Rs 800 crore including the fixed assets.
- Moderator** Our next question is from the line of Rajesh Agarwal of Moneyore.
- Rajesh Agarwal** Government now is de-regulating diesel and prices are to go up by Rs.0.50 every month, will it result in lot of activity explosion in the country in the future?
- Atul Punj** That's unlikely. I think diesel increase really is to reduce the subsidiary burden more than creating any additional funds for spending on E&P activity. So that is unlikely, it is a fiscal correction rather than anything to do with economics of the business.
- Rajesh Agarwal** But the oil companies being healthier, should result in explosion in activity by ONGC because their subsidy burden will get reduced?
- Atul Punj** I think right now they are doing as much exploration as they feel that they can. So I don't think that was being held back because of this price increase that they have

engineered on diesel but we don't see any particular increase in activity as a result of this 50 paisa increase.

**Rajesh Agarwal**

Suppose it is passed on the next 2 years, then after that also?

**Atul Punj**

After that it is possible, yes. But it's too early to say.

**Rajesh Agarwal**

We had an advance billing of Rs 655 crore on the liability side in the last quarter. Whether that has been billed in this quarter or it is a milestone billing?

**Raju Kaul**

It is all milestone linked, so it is still there.

**Rajesh Agarwal**

We take 6 months or 9 months cycle to bill that advance billing which shows in the liability side?

**Raju Kaul**

Now it is down to Rs 600 crore, earlier it was Rs 600 crore plus.

**Moderator**

Our next question is from Aditi Murkute from Iden advisors.

**Aditi Murkute**

I want to ask about the order book. In the presentation the backlog is about Rs 23,690 crore and the total order inflow is Rs 5,215 crore. So the total order book as of now stands at how much, Rs 28,905 crore?

**Atul Punj**

No the current order back log is Rs 23,690 crore as on December 31st.

**Aditi Murkute**

But there is another thing where you have said there is total order inflow which you have received this year?

**Atul Punj**

There is work that has been done also, so the backlog basically gets adjusted for the amount of billing that is done on every quarter.

**Aditi Murkute**

And on new ventures, in Hong Kong how far is the project reached and what are the other new opportunities you are seeing?

**Atul Punj**

Hong Kong and Singapore have a very robust social infrastructure upgrade program going on and Sembawang which is present in the region is playing a very active role in that.

**Moderator**

Our next question is from Pritesh Chedda of Emkay Global.

**Pritesh Chedda**

In the Indonesian subsidiary, which projects were we executing and what went wrong in those projects?

**P.K. Gupta**

These are the offshore projects. We were executing for Pertamina Hulu which used to be British Petroleum earlier. And these are the 2 projects which are now completed and handed over.

**Pritesh Chedda**

As on Q3, 2013 these projects have been completed and handed over. And any receipt of dues from the clients?

**P.K. Gupta**

Yes still \$6 – 7 million is yet to come from them. That is part of the cash flow. We have been sanctioned extra claims of about \$10 million. It has been agreed. Some time is being taken for their internal approval. So that should be realized within next 2 quarters. But all the losses have been already booked.

**Pritesh Chedda** What were the sizes of these projects?

**Atul Punj** The project size was to the tune of about \$70 million. Two projects, one was \$48 million and the other was \$20 million.

**Pritesh Chedda** So these were the onshore projects right?

**P.K. Gupta** No these were offshore. It was an EPC of platform fabrication and installation of the platform in the offshore.

**Pritesh Chedda** I am just wondering now \$70 million project with the Rs 170 crore loss, which has been booked in the Indonesian subsidiary, so that's a huge deviation, what went wrong there?

**P.K. Gupta** There was gathered down time. So the erection vessels moved out and then we had to remobilize and the cost of remobilization also takes time and then there was some regulation of Indonesian Government which came in between. Also the external flag vessels need special permission. So that has delayed the execution by about 3 months. Each month costs us about \$6 – 8 million. So that has really taken the hit.

**Pritesh Chedda** And lastly when you said \$6 million is yet to be received from the client and there would be another \$10 million of extra claims that you will put?

**P.K. Gupta** No that is part of that.

**Pritesh Chedda** Final claim to be received from the client would be around \$6 million or receivables of \$6 million.

**P.K. Gupta** Yes.

**Moderator** We have a follow up question from Rajesh Agarwal of Moneyore.

**Rajesh Agarwal** Can we expect some old billing be done in Libya and can we receive the money in next 2 – 3 months?

**Atul Punj** There is a lot of discussion that is going on right now but as I mentioned the Libyan side keeps reorganizing their companies. So we have to restart the discussion every 2 – 3 months for the same projects but with different people in the same company. Let's see I think in the next few months it will settle down.

**Rajesh Agarwal** Is it necessary that we have to start the work and then they will release the money or the money comes then we will start the work?

**Atul Punj** No there is discussion going on to settle our earlier claims which we had already filed, for work already done. The second is for the work that we will be restarting.

**Rajesh Agarwal** So any possibility?

**Atul Punj** That possibility is there.

**Rajesh Agarwal** And how will shale gas in US change the energy landscape of the world?

**Atul Punj** It's a billion or trillion dollar question. I think it's obviously going to have an impact that the US is going to become a net exporter rather than an importer. But at the

same time I think there will be other regions that will be increasing consumption as well. So overall I don't see too much of a change. But yes it will have an impact for sure.

**Rajesh Agarwal** Future will be gas or future will be crude oil and activity will happen in which part of the world, all infrastructure activities like pipeline and everything?

**Atul Punj** I think every developing country needs to build up its own energy infrastructure. So that's where our need will always be. Southeast Asia, the Middle East, Africa have to still build up large parts of energy infrastructure. India is also building up on its energy infrastructure since we are so far behind right now. We have got massive hydrocarbon finds particularly in Mozambique and some other places. So there is lot of activity and we have not seen any shortage of activity in that sense but what we are seeing is competitive pricing pressure and availability of financing that countries like China are able to bring to their companies which is basically the concern.

**Rajesh Agarwal** The clients are loaded with money because crude has been averaging \$100 for last 2 years. So the activity should happen in all these areas?

**Atul Punj** Yes, the oil majors are all flushed with money generally, other than people like BP who had an unfortunate hit in the Gulf of Mexico they have large settlements to be made. Other than that, the oil companies are all flushed with funds and they are carrying out their explorations and their downstream activities.

**Rajesh Agarwal** Cost-wise will we be cheaper to the North American contractors because lot of contractors may move back to those places if the infrastructure activity happens there?

**Atul Punj** Yes, we are definitely more competitive than them and yes there will be lot more diversion of focus of those companies back home rather than looking internationally.

**Rajesh Agarwal** Then the intensity of the competition in this part of the world will get reduced?

**Atul Punj** I hope so, from your mouth to God's ear.

**Moderator** As there are no further questions from the participants I will now hand the floor back to the management for closing comments.

**Atul Punj** Thank you all for coming on this call. As we mentioned we are seeing a decent outlook for our activities across the world. Pressures on finance particularly due to outstanding from clients continues to be our major concern and we are hoping that in the next few months, efforts that we are making should result in the reduction of our net debt which I think is our primary cause of concern and total focus of the management is on that.

**Moderator** Thank you very much. Ladies and gentlemen, on behalf of Punj Lloyd that concludes this conference call.