



Punj Lloyd Limited

Investor/Analyst Conference Call Transcript November 17, 2014

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Moderator Ladies and gentlemen good day and welcome to Punj Lloyd's Q2 & H1 FY15 Results Conference call. As a reminder all participants' 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 "*" then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vinay Sood – Head of Investor Relations at Punj Lloyd Limited. Thank you and over to you, sir.

Vinay Sood Good afternoon everyone and welcome to Q2 & H1 FY15 Earnings conference call. Joining us today on the call are members of our senior management team: Mr. J. P. Chalasani – Managing Director & Group CEO; Mr. Luv Chhabra – Director – Corporate Affairs; Mr. P. N. Krishnan – Director – Finance; Mr. Nidhi Narang – CFO; Mr. Dinesh Thairani – Group President – Legal & Company Secretary; Mr. Ravindra Kansal – Group President – Strategic Initiatives; Mr. R. K. Grover – CEO-Process. I believe you have received the investor communiqué and results. To recap, current order backlog stands at Rs.23,355 crore. Standalone Revenue for Q2 stands at Rs. 1,291 crore and EBTIDA at negative Rs. 89 crore.

Before we begin I would like to mention that some 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. 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 take the questions, please.

Moderator The first question is from the line of Sumit Kishore from JP Morgan.

Sumit Kishore The unbilled revenue in the balance sheet is about Rs 57 billion. Could you outline which are the key projects currently under execution where the cash realization has been delayed or deferred or stuck?

I have covered Punj Lloyd for a long time but I see that the standalone results are only being reported now. What about the consolidated results for the first half of the year including subsidiaries?



J. P. Chalasani

Like last time we mentioned, we are giving the standalone results to the stock exchanges but for management review purpose, we do an internal review of consolidated numbers. We can share the consolidated numbers this time as well.

At consolidated level, Total Income is around Rs.1,707 crore compared to Rs. 1,622 crore in the previous quarter and EBITDA is negative at Rs. 213 crore compared to negative Rs 238 crore last Quarter. Financing cost remains flat at around Rs. 255 crore. Revenues grew by about 6%, but most of the verticals have now started showing good results in terms of revenue growth. Pipeline and Tankages vertical has grown by about 23% plus this quarter. All numbers are compared to the previous quarter because of our guidance last time that taking last quarter's results as a base, one shall see gradual improvement on a quarter-on-quarter basis.

In terms of Revenue, Pipeline & Tankages went up by about 23%, Sembawang went up by about 24%; process jumped by about 100% from Rs. 125 crore to Rs. 246 crore. In power, there is 50% dip to Rs. 105 crore because most of the revenue will get booked when the supply happens in the nuclear power project. This quarter, most of it was order placement and chasing the supplies. B&I India is up by about 100% from Rs. 33 crore to Rs. 69 crore. Offshore went up by about 21% from Rs. 98 crore to Rs. 119 crore. All these put together is 6% overall growth.

N K Narang

Details of major projects comprising unbilled revenue are as per following:

- a. Rs. 900 crore in two of our projects SGTP and MBPL in Qatar
- b. Rs. 470 crore in two of our projects in Thailand
- c. ONGC Heera comprises of Rs. 940 crore
- d. Paradip is about Rs. 240 crore
- e. Deendayal is about Rs. 190 crore
- f. Haldia project is about Rs. 125 crore.
- g. WO-16 is about Rs. 120 crore.
- h. Libya is the other major chunk that is Rs. 1,365 crore

Sumit Kishore

What is the outlook on hydrocarbon orders which have been stuck for some time including Libya? What is the roadmap in terms of recovering this money and over what timeframe?

J. P. Chalasani

Other than Libya; as we move ahead gradually on the other projects, things should pick up. Regarding our claim on Heera project, we want to share the development. The second OEC was formed by ONGC and revised terms of reference were issued to them saying that they need to review the first OEC report and they should base their report on that for their recommendations.

However, unfortunately, in the last week of October, the second OEC under Mr. Shinglu gave the report in which they categorically said that they did not consider the previous OEC report because by the time the revised terms of reference came in, they had made up their mind. Therefore their report in our opinion is incomplete. We have formally rejected the recommendation. If both the parties agree, then it becomes a formal report otherwise, it does not. We have told ONGC that we now want to restart the arbitration process which is under suspended animation. We have also written to arbitration panel that we want to restart arbitration process. The arbitration panel is already formed with ONGC's arbitrator, our nominated arbitrator plus a third arbitrator and they have had one sitting. In fact, they chalked out the full program of submissions. Then it was put under suspension and this was told to the first OEC but unfortunately it did not happen in the second OEC. There were just two sittings and without bothering about the revised terms of reference they have

given their report. Therefore we are going back to arbitration and that process would now happen.

On Libya, there is no significant development from the last quarter. Except that they are now getting the budget allocations. It is moving slowly, we understand that the Government is stabilizing and they are asking us to start work. As a process, for the two projects we have a joint venture with a local partner. There is a specific scope of work identified between two of us. He wanted to start first, so we gave no objection saying that you can go ahead and start the work. So, probably towards the end of November and early December, he will start the work and based on how it proceeds we will on the back of it start our work. I am mainly talking about the infrastructure work. Out of the bills outstanding, we expect some payments to start trickling in January onwards.

There seems to be some positive movement, but we will have to wait and watch. The local partner is quite confident that he wants to go ahead and start work. There is a possibility that there could be something more to share on Libya next time we meet.

Sumit Kishore

Mr. Punj's comment in the presentation seems a bit bullish on the defence opportunities. Could you please outline what exactly are the opportunities for E&C players over the next 12 months?

Luv Chhabra

The opportunities in the defence space for us exist in two sectors. We have a manufacturing plant at Malanpur which was commissioned about three years ago. That continues to do precision machining work for some of the defense companies both domestic and foreign. They do work for defense PSU's like HAL, Ordnance Factory Board and they have now started doing work as a vendor for some of the foreign defense companies like Finken Terry, SAB etcetera. Having said that, this is a small volume business in terms of revenue, because it is a pure precision machining workshop. The bigger opportunities are obviously where Punj Lloyd is a major player or a bidder for major programs. These are longer term opportunities because from the time we bid, it typically takes four to five years for an order to be won. Trials take place over a period of two to three-and-half years. There are summer trials, winter trials and sometimes trials are repeated. This is followed by a detailed DGQA evaluation, then it goes to MOD for price bid opening and finally there are negotiations. Typically between three to five years, we will see a program being decided in a process which is bid to award.

These are longer term opportunities but they are much larger in number. The sizes of projects can vary from Rs. 300 crore to Rs. 5,000 to Rs. 7,000 crore and supplies or the product is delivered over a period of three to five years. We have bid for a couple of programs; they are in various processes of evaluations. I cannot say whether we will win one or not in the next 12 months because we have to be an L1 bidder. This is the process that is ongoing on at the moment and we hope to win at least one program in the next 12 months.

Sumit Kishore

In the Middle East, for you and other E&C companies, there has been tightening of labor localization norms in GCC countries over the past few quarters. Do you feel that it has affected the project profitability dynamics of Punj Lloyd in Middle East?

J. P. Chalasani

We have not experienced anything of that nature till now. Whether it is in the polysilicon project, what we are doing in Qatar and other places continues to be the same.

Sumit Kishore

Has hiring of Indians in the Middle East become more difficult or is it the same?



- J. P. Chalasani** We have not seen headwinds till now. If there was something of that nature; it would have come up in our internal assessments.
- Luv Chhabra** We should also recognize the fact that it's not only Indians who work for us in the Middle East but we also hire people from multiple nationalities. There could be Turkish, Pakistanis, Bangladeshis and sometimes Europeans for specialized jobs.
- Moderator** The next question is from the line of Saket Kapoor from Suyash Finance.
- Saket Kapoor** What was the position at the borrowing level, how has the borrowings been impacted at a consolidated level? What was the borrowing figure?
- P. N. Krishnan** At a consolidated level, the borrowing has been Rs. 6,590 crore as against Rs. 6,249 crore. There is an increase of about Rs. 300 crore. It is from March 2014 till now. There has not been any significant change in last quarter and this quarter.
- Saket Kapoor** We have off late witnessed few of the promoters selling their shares in the market. What should an investor read into it? What is the intent and how well are the promoters committed?
- Luv Chhabra** I would like to clarify a technicality. Mr. Atul Punj's brother Uday Punj, who is not involved in the business and has nothing to do with the Punj Lloyd Group of Companies, has sold some amount of shares. Now technically, he is categorized as a promoter but he is not involved in the business. He runs his own businesses. So he may have sold some shares. Mr. Punj has not sold any shares and has no desire or intent to sell his shares especially when we are on the path of recovery.
- Saket Kapoor** What is the update on the debt reduction exercise which has been communicated that the stake sale will come through and there will be gradual reduction? How well are we positioned and what is the roadmap as on Mach 2015?
- J. P. Chalasani** The source of funding for debt reduction comes from two sources we have mentioned. One of them is non-core asset monetization which is the Medanta stake sale and the other is barge sale. We were talking about the Medanta stake sales where we said that we have reached a full understanding with the buyers and now the documents have gone to the Company for approval and that might happen now in a week or 10 days. But then, the buyer would go to CCI for its approval. That should take about three to four weeks to get the competition commission approval. There are no more issues pending but this whole process might take up to six weeks' to conclude. And as far as the margins are concerned, it went to the vote of the investment committee of the Board or the Executive Committee of the buyer and then they wanted some additional inputs which have been provided, so hopefully we should hear from them early next week on the deal. On debt reduction by the end of this year, we are still on track; the money is flowing in towards debt reduction. We were concentrating on realization of claims. We already gave the information on the ONGC claim but as the momentum picks up in terms of the claims in Middle East as well on this. New Doha International Airport claim is settled now. In fact we received \$4 million of the retention payment, so \$19 million for the claim amount is in process and it should be released shortly. The claims with both SATORP as well as the Qatar Petroleum (QP) are now pushed forward. There was no progress in the last few quarters but it has made significant progress this quarter and they have made a special committee. In terms of QP, they are now preparing the internal report after discussions. And SATORP has put up a new committee of 14 people and they have heard us and they are now preparing the report. There is a significant movement in these two vast chunks of money and in India, we are

chasing ONGC. Whatever we can realize plus non-core monetization, we still maintain guidance in terms of the debt reduction plans.

Saket Kapoor

What have we seen in the breakup of business vertical wise revenue? Out of the total order backlog B&I forms major part of Rs. 9,000 crore whereas in the business vertical wise breakup for that H1, the execution is only to the tune of Rs. 40 crore?

J. P. Chalasani

Let us look at Rs. 23,000 crore of orders. It is better to put them in proper buckets. Rs. 7,800 crore is from Libya, where there is no movement, at least not significant enough at this stage. We will be able to give more firm guidance next time when we meet. Out of the balance, Rs. 14,000 to Rs. 15,000 crore, Rs. 8,000 crore is the order backlog of the existing set of projects which we are implementing in various verticals leaving aside Libya.

About Rs. 6,500 crore of orders which we booked recently for e.g. Rapid project, Kuwait project or the Road project. These are the ones where we will start booking revenues from next financial year onwards. Therefore, Rs. 8,000 crore and Rs. 6,500 crore is the order backlog. In addition to that we are also making it formal that we just won a road project in India. This is from the Ministry of Road Transport and Highways; this is part of the Asia Highway network road connecting Bhutan border to the Bangladesh border. We have received the LOI, it is a Rs. 666 crore order which is to be executed in about 27 months. In one LNG project, where we are subcontractors, we are expecting an award shortly.

We are also in the process of bidding for about Rs. 20,000 crore worth of road projects in India. The bids are to be submitted within next couple of months. In addition to this, two large bids for pipeline projects - one in Chile and one in Turkey are moving in the right direction. We should have results on those in about 2-3 months time. We are reasonably confident to bag at least one of the two. On the order backlog, about Rs. 7,000 crore new projects will ideally start and there are more to come in. Existing projects worth Rs. 8,500 crore excluding Libya shall contribute to revenue significantly.

Saket Kapoor

Could you pls explain the Note #4, wherein the auditors have pointed out to the encashment of performance bond to the tune of Rs. 171 crore in Thailand project.

J. P. Chalasani

This happened before our last call. We mentioned that there was an encashment of bank guarantee which was not right so we went to Court and it is now sub-judice.

Moderator

The next question is from the line of Tanuj Mukhija from Ambit Capital.

Tanuj Mukhija

What is the project pipeline in the Middle East in the hydrocarbon segment and has the competition intensity increased or decreased in the last 6 to 12 months?

J. P. Chalasani

We are right now implementing is Polysilicon in Qatar. We have got one new project in Kuwait from KNPC of about \$236 million. We have not lost any bids in the recent past in the Middle East in the oil & gas segment. In Saudi, we have put in a bid for the calcination pit coke project, but we do not know the bid result yet and we need to wait and watch.

We did not see significant pressure on margins in the oil & gas sector in the Middle East. If you have Chinese coming in, they can never work without their labor and if they are permitted to do so, that is where we will face significant pressure. There are pressures in terms of civil works in the Middle East. We are seeing a lot of people bidding aggressively whether it is a Korean or an Indian Company. In the oil & gas sector, we did not see significant pressure on margins.



- Tanuj Mukhija** What is the industry project pipeline in hydrocarbon segment in the Middle East?
- J. P. Chalasani** We are putting bids in the Middle East - Oman and Saudi Arabia
- Tanuj Mukhija** Can you give qualitative highlights on the domestic order pipeline and for the entire industry? How do you see the outlook for the industry and domestic hydrocarbon and process sectors such as the mining sector?
- R K Grover** The only job in the Hydrocarbon space which we can expect to be awarded within this financial year or first quarter of next financial year is IOCL Haldia, where one tender is already out and the second is likely to come within next month. One delayed Coker Unit and second is a Sulfur Recovery Unit. Delayed Coker Unit tender has already come out. Apart from that, we can expect some tenders coming out from Paradip refinery for their expansion into the petrochemical field. For those tenders pre-qualification process has started now. Apart from that, we can expect tenders from Barmer refinery whenever it starts. Nagarjuna Oil Company project is at a standstill. They will restart if they can come out of the financial problems.
- J. P. Chalasani** We already have the job but it is at a standstill. If it restarts, we will bid again. I do not see any other major thing coming up in the hydrocarbon sector apart from that in the next one to one-and-a-years. We are working on Paradip Refinery, Jamnagar Refinery and CPCL.
- R K Grover** Bina and Bhatinda refineries may go for some expansion but that expansion will be through revamp, so major jobs cannot be expected there.
- J. P. Chalasani** Ennore LNG is also happening which is not part of this. This is the tankage tender where we went with another party who is L1. Regasification tender will be coming out and we will be bidding there. Let us see what is the outcome.
- Ravinder Kansal** Shell Hazira is coming up and Hazira LNG expansion also.
- Tanuj Mukhija** Has the competition intensity increased in India in the hydrocarbon segment over 6 to 12 months?
- Ravinder Kansal** Not to our knowledge, it has not increased. Because not many foreign parties are willing to come in, competition remains within the same party who were there earlier.
- J. P. Chalasani** Portfolio wise, the pipeline and tankages vertical is significantly growing outside India and continues to grow. Therefore, the major portion of work in that vertical will be done outside India. We are seeing a 50/50 mix between India and outside like Shell Marine in Singapore and we are now putting a bid for Saudi Arabia and other. The infrastructure segment is moving ahead significantly as far as India is concerned. We have already won one road project. We are working on bids worth Rs. 20,000 crore. We have been putting bids between November and December. Major bidding is also going to happen in metros. In power plants, we see some projects coming up in Southeast Asia. In India, we are doing two nuclear projects and completing few of the other projects. There are a couple of opportunities coming up in power in India but these are expected to move slow till the coal and gas issue has been completely resolved.
- Moderator** The next follow up question from the line of Saket Kapoor from Shuyash Finance.

- Saket Kapoor** You were mentioning that the stake sale is going to happen in a month or two, what number should we factor in?
- J. P. Chalasani** At this stage, it is extremely critical as the issue has gone to Company's board for approval, therefore it is not right to say the number. We will have a decent enough number which will have an impact on our debt reduction plan.
- Saket Kapoor** There has been thrust by the Government on the pipeline grid laying out of the pipeline grid. What sort of opportunity does our Company envisage from the pipeline grid there for gas transportation that the Government is trying and are you getting any early indications from the Government?
- J. P. Chalasani** In the pipeline and tankages vertical, there is no shortage of order backlog. In fact, more and more new orders are expected to flow in. We have bagged very large orders in this vertical and are expecting more. In India, we are going to be cautious as the qualification criteria are highly dilutive and we have given this feedback to GAIL as well. When diluted qualification criteria are implemented, then multiple smaller parties start participating and bidding process reduces to fight for margins.
- We do not want to get into that sort of competition and erode our margins because we are not desperate for order booking in that business vertical. We gave this feedback that if GAIL makes larger stretches like what RIL did in Jamnagar or KG Basin gas pipeline, then the competition is amongst players of our level and then we are obviously going to participate. Let us wait and watch what GAIL does. The last couple of projects have been rehabilitation projects in which they wanted us to participate. However, we did not participate because they were qualifying everybody.
- Saket Kapoor** On the road projects, which you were talking about earlier, when are they expected?
- J. P. Chalasani** Bids have been announced already and different dates of launch were commissioned between November and December. Bid submissions are due in November and you should hear the results sometime in December and January.
- Moderator** Thank you. As there are no further questions from the participants, I now hand the floor back to the management for any closing comments. Thank you and over to you.
- J. P. Chalasani** We are now working towards an improving trend and it is not significant but there is a trend of improvement in this quarter compared to last quarter and you would continue to see that trend moving ahead and picking up the acceleration as well and not just remaining at the margin improvement levels. As we move forward, we are going to chase the bottom line rather than chasing just the top line. We are going to be careful with respect to projects we execute protecting our margins rather than looking at how much is the order backlog and how much is the top line.
- We have done significant amount of internal correction, the top line is going to reduce and the concentration is going to be more on the bottom line, obviously we need to relook every line item of our overheads and take corrective actions so that it adds straight to our bottom line. The new CEO for power vertical has joined, therefore the team at the top level has been strengthened and we will continue towards the recovery path. Thank you very much.

Moderator

Thank you, sir. Ladies and gentlemen, on behalf of Punj Lloyd Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

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