



Punj Lloyd Limited

Q3 & 9 Months Results Conference Call Transcript February 16, 2015

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Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Punj Lloyd's Q3 and Nine Months FY15 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and 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 would now like to 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: Thank you. Good afternoon everyone and welcome to Q3 & 9M FY15 earnings conference call. Joining us today on the call are members of our senior management team Mr. J. P. Chalasani – Managing Director and Group CEO, Mr. P.N. Krishnan – Director Finance, Mr. Nidhi Narang – Group CFO, Mr. Dinesh Thairani – President - Legal and Company Secretary, Mr. Shantanu Karkun – President and CEO B&I, Mr. Ashok Wadhawan – President Defense and Mr. Atul Jain – CEO Pipeline and Tankages.

I believe you have received investor communication and results. Just to recap, current order book stands at Rs. 23,181 crore, Revenue for Q3 stands at Rs. 1,419 crore and EBITDA at 99 crore.

Before we begin, I would like to mention that some statements made during this call maybe forward-looking nature and disclaimer to this effect has been sent to all 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 your question please.

Moderator: The first question is from the line of Saket Kapoor from Kapoor and Company.

Saket Kapoor: We do not have consolidated numbers, our questioning would have been better if you would have given us a brief about how we have done on a consolidated basis in your opening commentary.

J. P. Chalasani: On a consolidated basis, the top line is Rs. 2,018 crore which is about 18% jump on a sequential basis. The EBITDA is Rs. 115 crore which is about 6% margin, we moved from (-12%) to 6% on a sequential basis. Profit is at about Rs. (-248) crore compared to Rs. (-438) crore last quarter.

Saket Kapoor: Does the loss of Rs. 248 crore include any extraordinary item?

J. P. Chalasani: No.

Saket Kapoor: Can you clarify the figure on the interest part?

J. P. Chalasani: Interest is about Rs. 290 crore. It is basically a financing cost. It includes interest, financing cost like bank guarantee charges.

Saket Kapoor: What is the latest update on the Rs. 20,000 to 25,000 crore road and highway orders which have been floated by NHAI?

J. P. Chalasani: Regarding bidding, there has been only one project since we spoke and we are waiting for results which are expected in the next couple of weeks. Most of the other projects, which emerged at that point in time, have been shifting, some of them got shifted to February second fortnight and even that might get shifted. Still that opportunity remains the same with the same set of road projects which have been declared. We are ready to bid but the dates have been moving. But hopefully most of the bids are getting completed before the end of March.

Saket Kapoor: Will the L1 status be known after this financial year?

J. P. Chalasani: Yes, if the dates what they gave for the end of February goes through without further shifting and these bids get opened. The bid which we have put is about 2-3 weeks back, that bid should open positively before the end of the financial year and we would know the status of that. Secondly, the bids that we put in the month of February might open before March. Projects which are getting bid in March may open in April.

Saket Kapoor: What is the size of the two bids that you have done?

J. P. Chalasani: One bid only has gone in. We have already won the Ministry of Road Transport (MORT), Rs. 666 crore road project which we announced. That work is commencing now. Most of the projects we are putting in the bids for range between Rs. 600 crore to Rs. 1,000 crore. I don't want to give the order magnitude of this particular one because the bid has not yet opened. We are not bidding for smaller projects like Rs. 200 crore to Rs. 300 crore. We have put a threshold of about Rs.500 crore plus for road projects. We are ready with our short list of projects and we are doing two types of bidding - we are bidding for EPC contracts which came in from NHAI directly and with large number of BOOT projects. We are now giving bids on exclusive basis to some of the developers who are bidding for BOOT projects in addition to our own bids for some BOOT projects. Therefore, we are participating in roads as BOOT and as an EPC contractor. We are quite hopeful that there should be a good conversion ratio in the projects what we chose in addition to the some other metro projects which we would be putting in the bids for. We are more optimistic on the building and infrastructure segment both in India and outside to build our order book.

Saket Kapoor: Are you concentrating on EPC and BOOT mode?

J. P. Chalasani: No, in the BOOT mode also EPC, what happens is in BOOT, let's say (X) developer wants to put in the bid for BOOT, obviously he has to know the construction cost otherwise he cannot bid. People are saying. "You can give an exclusive quote to me and if I win the BOOT then I will assign you the construction contract".

Saket Kapoor: What does the acronym 'BOOT' stand for?

J. P. Chalasani: Build-Own-Operate-Transfer, where people own the road projects. People who are going for BOOT would need an EPC contractor because ultimately they will offload to an EPC contractor to build that road. Before they put in their bid for BOOT they would need an EPC contractor to give a quote for construction cost. In case he wins then he will assign that EPC contract to the contractor.

Saket Kapoor: On the receivable part which is getting carried forward from one quarter to another, what is the status and what is happening on ONGC?

J. P. Chalasani: In the last two to three quarters, we have on a sequential basis been improving our operations. If you take June quarter as a base, each quarter there would be an improvement as also witnessed in September quarter. We now have a positive EBITDA for the first time after three quarters. We are fixing the operations; it is a continuous process. As part of it, we are now concentrating on receivables as well, there is no big change but there is a slight change on the positive side. From March to now or the last quarter to this quarter, there is a marginal improvement in terms of receivables coming down by about Rs. 300 crore on a sequential basis. The movement has started but this is a big area for us to work on. We may not be able to show a significant change in one quarter on this but you will see a positive movement from now onwards. That is a key area because at the end of the day the operations can be fixed and then you can say that there is a lot of positive EBITDA, but unless you reduce debt and improve your receivables position, the turnaround will not happen.

Moderator: The next question from the line of Jigar Valia from OHM Group.

Jigar Valia: Which segment contributed to this EBITDA turnaround Q-o-Q?

J. P. Chalasani: Pipeline and Tankages hugely contributed to this turnaround.

Jigar Valia: When is the cash flow expected on the Medanta deal?

J. P. Chalasani: Deal is closed, money has already come and we have reduced our debt. It has gone for the intended purpose for which it was meant.

Jigar Valia: What is the current debt and this money would have come in January probably?

J. P. Chalasani: Yes, as on December 31, 2014 debt was around Rs. 6,500 crore and now it is slightly lower than Rs. 6,000 crore. The debt has come down by about Rs. 450 to 500 crore post Medanta deal.

Jigar Valia: Keeping something aside for tax purposes and we adjusted Rs. 450 to 500 crore.

J. P. Chalasani: Yes and we also need to put some into operations.

Jigar Valia: Where do we stand on claims and how much have we recovered so far in FY15?

J. P. Chalasani: Till now a big chunk has come in from NDIA (New Doha International Airport) which is about \$25 million plus we got the \$22 million from Sembawang and another \$20 - 25 million is expected shortly. Few more are expected, may be not big ticket items but a reasonable chunk is definitely expected till March. This is nowhere near our expected claims realization of Rs. 3,000 crore on a conservative basis. We are targeting to get the significant chunk in the next financial year because of ONGC. The arbitration process has now formally commenced and they have asked us to file a revised claims statement which we shall be doing. The hearings are expected to commence from April.

Jigar Valia: Can you give a breakup of your overall claims that we have into these segments?

J. P. Chalasani: We have claims of about Rs. 9,000 to 10,000 crore, but we will be able to recover about Rs. 3,000 to Rs. 3,500 crore on a conservative basis. We may not share the breakup on a conservative basis because we don't want say that we are expecting only so much.

Jigar Valia: How is the claims accrual happening on a Q-o-Q basis?

J. P. Chalasani: Our efforts and focus on the claims has substantially gone up. In the Middle East also, things have now started moving. We always think that it is going to close in 45 days but it might take three months but at least there is a movement. We have reached a stage where most of the clients are working, for example - ONGC's arbitration process has started, same thing is happening in QP. Things are moving ahead in BRPL, IOC and various places. There is movement and we have put a time table on quarterly basis.

Jigar Valia: When are these claims expected to come in?

J. P. Chalasani: There is a program for something to come in this quarter and a significant chunk is expected from Q3 of next year. There are some things in Q1 & Q2 as well but the buildup shall happen in Q3.

Jigar Valia: Is anything happening on barges?

J. P. Chalasani: Sale has not yet happened and we are in the market for chartering as well as sale. We don't want to wait for the sale alone, but we are going ahead with the chartering till the sale process begins. Few parties were looking at it but we have not reached a stage where the sale is going to happen in the next few weeks.

Jigar Valia: What do we exactly do on the defense side?

Ashok Wadhawan: In defense we are looking at projects in land systems and aviation. In land systems, our focus area is on air defense and howitzers and vehicles. There are programs where we are doing upgrades of vehicles, tanks, BMPs and we are also looking at aviation including tying up for manufacture of helicopters.

J. P. Chalasani: We are now participating in various bids. We already have a strong manufacturing base in Malanpur in Madhya Pradesh. We have been manufacturing for some time for the domestic defense organizations as well as foreign entities here. With 'Make in India', the opportunities in the defense segment have gone up significantly and we are well positioned to capture this business. We have move to the next level of prequalification but in defense the cycle is a little longer compared to normal EPC bids. This is going to be one big segment which we are going to concentrate on. We will have to wait and watch to see how much of it will flow into top line but there will be significant contribution couple of years down the line, gradually improving from next year.

Jigar Valia: Can you please update on the BOOT space?

J. P. Chalasani: We have been building into the space of infrastructure development. We just commissioned a 21 MW solar project in Punjab last week. Earlier we won a 5 MW project and now we won another 21 MW. That way, we have reached about 26 MW capacity. We are cautious and are trying to choose project which can give sustainable returns. We are growing in that area slowly.

Jigar Valia: Has the Bihar BOOT project completed?

J. P. Chalasani: Yes. In fact, we have started getting our annuity. The first annuity came in October. We also got a bonus for earlier completion of the project. NHAI is now using it for tolling.

Moderator: The next question is from the line of Amit Khurana from Dolat Capital Market.

Amit Khurana: What was the amount realized for the Medanta sales? What is the total debt?

J. P. Chalasani: We realized Rs 700 crore from Medanta and debt is Rs. 6,400 – 6,500 crore as on December 31, 2014 and post Medanta it is at Rs. 6,000 It has reduced by about Rs. 450 to 500 crore.

Amit Khurana: How is the outlook for reducing debt?

J. P. Chalasani: That is a major one which we need to concentrate on. Any amount of EBITDA we make on operations is useless unless we reduce the debt. It has reduced through the sale of Medanta and will further reduce through the sale of barges and claims. The biggest target moving ahead is going to be the claims realization towards the reduction of debt which has already reduced. The only way to reduce debt quickly is through claims realisation, otherwise it will take longer time to get reduced from operations.

Amit Khurana: Are there any new BOT projects?

J. P. Chalasani: We are now putting bids in Punjab for a solar project and are looking at a set of new road projects. But we will be cautious as we are not going to be aggressive anywhere. We will just take one or two projects and gradually build our portfolio till we reduce our debt. We will keep investing in developing infrastructure projects but in a very limited way.

Moderator: The next question is from the line of Ronald Siyoni from Sharekhan.

Arunal Sayani: This is the third quarter we have reported negative operating profit, have we booked some claims which are not received during the quarter which are impacting the standalone operating profits and margins and when do we see it becoming positive?

J. P. Chalasani: We have turned positive for the first time after three quarters and we have a positive EBITDA of Rs. 99 crore on a standalone basis, which was Rs (-89) crore last quarter. EBITDA margin has improved from (-7)% to plus 7% this time.

Ronald Siyoni: If I deduct other income of about Rs. 24 crore

J. P. Chalasani: It is still positive. As we move ahead, you will see further improvement during the March results. Our guidance remains the same, taking June quarter as the base, you will see improvement in September and December quarter and you will see further improvement in March.

Ronald Siyoni: Are you conservatively estimating Rs. 3,000 to 3,500 crore claims out of the total claims of about Rs. 9,000?

J. P. Chalasani: Correct.

Moderator: The next question is from the line of Dhaval Patel from Batlivala & Karani Securities.

Dhaval Patel: The standalone other operating income seems to be really high, what constitutes the other operating income?

J. P. Chalasani: Part of it is Forex variation and balance is on account of scrap sales, insurance realizations and interest income.

Dhaval Patel: We still have around Rs. 7,000 crore worth orders from Libya, is there any progress because the situation continues to remain bleak and are we considering removing the orders from the order back log because there is no clarity?

J. P. Chalasani: Yes, you are right. You know what is happening in Libya, but we have a little more information as our people are there on the ground. During the period since last quarter, the government has given us a very small payment order for about LYD 1.6 million and that amount is expected to hit our account in a week or 10 days, that is the first positive indication that the system is working.

Dhaval Patel: Is this of the total of USD 70 million pending claims?

J. P. Chalasani: No, this is for the LYD 1.6 million of the work that we had done in construction projects and that would only indicate that if some amount comes in, we know that the system is working but now at least the order has come and it has gone through three-four channels and it is progressing towards actual release of funds. There are talks between two groups now and unless they settle their differences and work together for the country's development things won't improve, especially with oil prices coming down. There are indications that there could be some positive developments moving ahead but nobody can really say what is going to happen there because nobody can predict. We would like to wait and watch, not withdraw from there, but while planning for next year we will assume that Libya is not going to contribute from point of view of creating a top line but we are not writing-off at this stage, because we feel that something may turnaround, when exactly, it is difficult to say.

Dhaval Patel: Consolidated losses are higher than standalone, which subsidiaries are facing major losses?

Nidhi Narang: We have recorded losses during the year in some of our subsidiaries and major one is PLOG where we have recorded about Rs. 130 crore and the next one is PLPL where we have recorded Rs. 84 crore, the rest are smaller ones.

J. P. Chalasani: PLOG is mainly because we took a different realistic number for profit margin for the project and there were certain claims which have not gone through. But there is a possibility of that getting reversed in the coming quarters

Dhaval Patel: This might actually come down?

J. P. Chalasani: Yes

Dhaval Patel: Have you taken a provision for this quarter or will the losses continue?

J. P. Chalasani: Losses won't continue, in fact it should improve. We have recorded Rs 6 crore profit in PLOG this quarter. We expect improvement in the overall situation even in the subsidiaries going forward.

Moderator: The next question is from the line of Naveen Jain from JM Financial.

Naveen Jain: Are there any other orders apart from the Libya orders which are moving slowly at least for the time being?

J. P. Chalasani: Some of the things are going a little slow in the offshore business. The ONGC project which is called B127, has a design issue in terms of the amount of coating on the pipeline. ONGC is still not able to decide for three to four months. Similarly, Hout project in Saudi Arabia is going slow where there is an issue between Saudi and Kuwait. In offshore, there is some slowness but those are not significant value projects compared to what we are talking about. Other than that I don't see any other project like this.

Naveen Jain: On the margin front you mentioned that we will see some improvement on a Q-o-Q basis from here. We have already seen some improvement in Q3, what is margin outlook for FY16?

J. P. Chalasani: There are some painful projects where we are stretched on margins. Those projects have already come to an end or are expected to come to an end in the first quarter of next year. We are actually seeing a little bit of push up in the margins than push down in large projects like Shell Marina. One of the reasons for top line not being as high as last year is because new projects that we won, didn't take off. We just started the rapid project in PETRONAS and KNPC project in Kuwait. Along with the existing set of projects, these projects would reach a reasonable level of revenues next year and at positive margins. These factors will lead to having better margins in FY16.

Naveen Jain: How much of the projects which are coming to an end where there are some issues on the margin front are left in terms of order size?

J. P. Chalasani: Miscellaneous projects to get completed maybe about Rs. 80 to 100 crore.

Naveen Jain: What are we looking at right now from an order inflow perspective?

J. P. Chalasani: We booked around Rs. 8,000 crore orders this financial year. If the dates of the bids we submitted are on schedule than we are expecting some wins because we are favorably positioned. Therefore, there will be some increase in that and in some more projects where we are putting bids now. Let's say that we are currently at Rs. 23,000 crore with Libya and at about Rs. 17,000 crore without Libya. We shall be back to Rs. 20,000 to 25,000 crore of order backlog without Libya by end of FY16.

Naveen Jain: You mentioned that our defense business will see ramp up starting next year and in the next two to three years we will have some scale in this business, what is the size of this opportunity and expected revenue?

J. P. Chalasani: Q4 will be the right time for this because quite a few developments are happening now, like we just got the FIPB license. There are some projects which are coming and even the Government of India is talking on various things. Right now our guidance is that it looks exciting and we are well positioned in the right manner because we have been in this space for quite some time. There are a lot of people who are announcing entry today but we have been there for years together. Therefore, it is an exciting area and we are reasonably confident that the defense portfolio contribution to the top line in the coming years would be significant.

Moderator: The next question is from the line of Mansi Verma from Karma Management Advisory Services.

Mansi Verma: Has the New Doha Airport settlement come in at \$22 million for the quarter? What amount has been settled and outstanding?

J. P. Chalasani: \$18 million, \$4 million was the retention payment, all put together it is about \$22 million. It is completely settled.

Mansi Verma: What other claims are outstanding?

J. P. Chalasani: Our claims are between Rs. 9,000 to Rs. 10,000 crore. Our expectation is that around Rs. 3,000 to Rs. 3,500 crore is realizable. Some part of it will happen this quarter. We have also made the plan for FY16. There shall be some realizations in Q1 and Q2 but the real ramp up is expected in Q3 and Q4 of next year. That will give us a significant chunk at that point of time including the completion of arbitration with ONGC.

Mansi Verma: Could you also give us details on your bidding pipeline in the international segment as well?

J. P. Chalasani: We are now putting large bids for a pipeline in Chile for which we are reasonably positioned but we will wait for the announcement. We have put in a bid for LNG terminal in India. There are some projects in Oman for British Gas. We are also looking at few other pipelines in trans-country. Pipeline and Tankages is one area where we are looking at internationally and the second significant area what we are looking at outside India is the infrastructure segment. Right now, we are evaluating number of projects in Middle East. We have put in the prequalification bids for some of them and at some places we have prequalified and at some other places we are waiting for prequalification. We are in the process of preparing bids and most of these bids would become due in Q1 to Q2 of next year in the Infrastructure segment.

We are also looking at the power sector outside India, because there may not be significant opportunities in India. Many of these projects are on the radar, some of them are in the prequalification stage and some of them are in qualification stage, so we are preparing the bids. There is a strong pipeline for next year, even if you have a 15-20% conversion ratio, the visibility at this stage on the order book looks quite good. Having reasonably set our operations and internal systems on the right course, our concentration now is going to be more on claims, debt reduction and new order flows. We will be able to implement both existing and new orders more efficiently. FY16 is going to be important from point of view of claims realization and debt reduction and that is going to be our target for the year.

Moderator: The next question is from the line of Saket Kapoor from Kapoor and Company.

Saket Kapoor: Are we still executing any orders for ONGC and are we getting repeat orders from them?

J. P. Chalasani: We have become cautious with them. For example, in B127 where the thickness of coating in the pipeline has gone up substantially, we told them we will settle this issue, agree to the change order and then only we will move forward. Therefore, we are taking this approach with ONGC and other public sector companies. We are saying that unless things are not settled we will not move forward. In B127, because of our insistence, ONGC is thinking of settling it and talking to us on how to resolve it.

Saket Kapoor: What is the value of the contract that we are currently executing for them and are they in the stage of implementation?

J. P. Chalasani: Yes, projects like WO16 are nearing completion now. It is about Rs. 1,500 to Rs. 2,000 crore under execution but part of it is done. Basically we are still active with ONGC, the only thing is that we are now operating in a different mode, if there is a variation in the order; we are telling them to settle rather than waiting till end of contract.

Saket Kapoor: On claims, \$22 million and \$25 million and Rs. 700 crore, the entire structure works out to around Rs. 1,000 crore whereas the debt reduction is only to the tune of Rs. 400 to 500 crore, does that mean only 50% has been attributed towards debt reduction?

J. P. Chalasani: \$25 million came in from Sembawang and has been put back into the operations. Out of Doha claim we have put some towards operations and some money has gone as margin money for bank guarantee for Rapid project.

Saket Kapoor: On the non-core assets sale part, Medanta is through, the barges are being negotiated, how much are you expecting from the sale of barges?

J. P. Chalasani: Around Rs. 500 crore.

Saket Kapoor: We are a major player in the Pipelines and Tankages, have we participated in any orders with PSL, the beleaguered company belonging to Ashok Punj? Do Punj Lloyd directors directly or indirectly have any holding in PSL?

J. P. Chalasani: Neither have we participated in any orders with PSL, nor Punj Lloyd Directors have any holdings in PSL.

Saket Kapoor: Things have lingered for around three quarters with ONGC and other players, supposing the situation deteriorates for another two quarters, does the Company have a plan B to mend the balance sheet?

J. P. Chalasani: Yes, target is to reduce debt at the end of the day so that the debt cost comes down and the money made out of operations is available for ploughing back into the Company to expand more for asset creation or in terms of the shareholders money. The medium term objective is to see that there is no drain in the operations and you continue to make a positive margin in the operations which is what we have worked in the last three to four quarters which is now gradually showing results. Secondly, we are monetizing non-core asset so that we reduce debt, to that extent Medanta has happened. Thirdly, claims are a significant portion of it which is where the Chairman himself is personally spending a lot of time in India and outside. Every single CEO is working towards that. These are the three segments. So, there are a number of alternatives which we are working on towards debt reduction. It has started showing results in the last three quarters. There is nothing to feel that things are not going to happen, meeting the deadlines or the target dates is the only issue.

Saket Kapoor: The investor interest has been up across the board over the years, is the Management contemplating infusion by a PE fund so that the balance sheet mismatch can be brought to rest and the company can focus on key areas of growth as well as on receiving the litigation fund.

J. P. Chalasani: I agree with your suggestion and in fact we discussed this last two quarters as well. We are not saying no to any of these things but one can have a different perception about the timing of it. You might feel that this is the right time and I may feel that the time is to bring some more meat back into the company before talking about PE funds infusion.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the floor back to the management for their closing comments. Over to you Sir.

J. P. Chalasani: Thank you for joining us on the call. To conclude, we are seeing the turnaround in operations, it is still work-in-progress, we are not claiming that we have completed the whole process but we are seeing positive results in terms of improvement in operations. There is no concern about the order book, looking at the projects on radar for the next few months the order book in the coming financial year will be quite strong. Our target at this stage is to reduce our receivables and realize our claims and ultimately go towards reduction of debt. While we continue to improve our operations and continue to win new projects, the maximum efforts would be towards realizing claims and reducing debt moving ahead. Thank you once again.

Moderator: Thank you very much sir. Ladies and Gentlemen, on behalf of Punj Lloyd Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.