



Punj Lloyd Limited

Q3 and 9M FY17 Earnings Conference Call

February 17, 2017

- Moderator** Ladies and Gentlemen, Good Day and Welcome to Punj Lloyd's Limited to Q3 & 9M FY17 Earnings 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. In case you need assistance during the conference call, please signal an operator by pressing "*" and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa of CDR India. Thank you and over to you, sir.
- Gavin Desa** Thank you. Good Day, everyone. And a warm Welcome to Punj Lloyd Limited's Q3 & 9M FY17 Earnings Call. We have with us Mr. Atul Punj, the Chairman of Punj Lloyd along with other members of the management team. I trust you have had a chance to go through the investor communications with the results.
- Before we begin, I would like to mention that some statements made in today's call may be forward-looking in nature, and a disclaimer to this effect has been sent along with the conference call invitation. I now invite Mr. Punj to share some opening remarks and his perspectives, after which we may enter Q&A session.
- Atul Punj** Welcome everybody to our earnings call. I think you have all seen the numbers and basically you will see that there has been a marginal improvement on the way things have moved in this last quarter. We are expecting to see the same traction going forward with a few other developments that have been almost close to achievement but not quite there yet. We expected that we would be able to give you some good news this time, but I think we are still about maybe a month away from having some such news.
- Having said that, I think overall, we are seeing a lot of traction on our core business in the construction side. Our project in Malaysia is moving along quite well as are the projects in Kuwait and Oman. We are seeing some good traction on the highways and the infrastructure side, particularly we are seeing new opening on the railways and the metros, especially for our company in third countries. So, overall I think the environment is quite positive and we expect that the same will be reflected in the numbers on an ongoing basis as the quarters rollout.
- So, thank you with that. I will open it up for new questions.
- Moderator** Thank you very much. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

- Saket Kapoor** Sir firstly, you were dwelling on the point of some news fructifying in the near future. Are you hinting towards that ONGC part, arbitration coming to a conclusion or anything other than that?
- Atul Punj** No, that is a matter in progress. But we are close to finding some resolution on our Libya and Qatar issues. So, that is what we are expecting, but I think we are now probably about a month away from that.
- Saket Kapoor** Okay. About that contract about Rs. 6,000 crore that we gave in the press release, something about that or anything on the payment front
- Atul Punj** They are outstanding payments that have been pending for a long time.
- Saket Kapoor** And could you quantify for our benefit, how much is the amount pending?
- Atul Punj** Not at this stage, because final discussions are going on, so we do not want to put any numbers in there right now.
- Saket Kapoor** But things will be settled by March is what best we can make?
- Atul Punj** If my client only has the timeline that everybody else seems to have, I would be a very happy man. I will try to say by March, but could even be middle of April. But as things stand right now, one or the other should be settled by March.
- Saket Kapoor** That means either ONGC or Libya?
- Atul Punj** Not ONGC, the ONGC is in arbitration that is going on a particular deadline.
- Saket Kapoor** You are particularly speaking about Libya part?
- Rahul Maheshwari** One of the two, either Libya or Qatar.
- Saket Kapoor** Sir, now I come to the point about this quarter numbers, sir. For investors, what should be the ideal margin setup, what should be the net margin setup, we are now working at a 2% margin. And I would also like to know the reasons why are the orders being executed at such a wafer-thin margin of 2% only sir?
- Rahul Maheshwari** It is a mix bag. The projects we generally take are different from stream to stream and vertical to vertical. We generally bid for 8% to 10% gross margin. But whatever numbers you are seeing this quarter are mix numbers; like we have executed couple of pipeline projects, couple of B&I projects. And we are completing some of the legacy projects, against which we are not getting any margins. With economy also improving, cash is also coming out in the market. In one or the other circumstances we are forced to have some negotiations with our clients and with that we had to take some adjustments in the current quarter income statement. So a combination of all these things has brought down our gross margin to 2%. Ideally we strongly believe it should be around 7% to 8%.
- Saket Kapoor** 7% to 8% are the gross or the net margins?
- Rahul Maheshwari** Gross.
- Saket Kapoor** And what should be the net margins on a sustainable basis?
- Rahul Maheshwari** It should be around 5%.

- Saket Kapoor** Sir, what is our net borrowing, I presume it is Rs. 6,500 crore?
- Rahul Maheshwari** Yes.
- Saket Kapoor** And what is the current cost of borrowing right now?
- Rahul Maheshwari** It is again a combination of Indian and overseas borrowing, so you can calculate this around 8% to 9%.
- Saket Kapoor** Sir, even at such a competitive rate of 8% to 9% could you please show the impact of the legacy part, how much till now we are burdened with the legacy issues that still now also we have to face losses in the tune of around Rs. 200 crore on quarter basis?
- Rahul Maheshwari** It is difficult to give the numbers, but yes there are couple of legacy matters to which in the earlier discussion Mr. Punj has referred, like legacy matters including Libya, Qatar, ONGC and a couple of big clients in India.
- Saket Kapoor** When are we seeing the end and a normal business code coming up for engineering concern like us?
- Rahul Maheshwari** No, as earlier told by Mr. Punj, either of the two issues will come up sometime in February or March, March or April, and we have already referred ONGC matter to the new arbitration act and we are hopeful that it will be settled in next 12 months' time.
- Saket Kapoor** And currently whatever orders we have got we are comfortable with that and we are fully funded for that also?
- Rahul Maheshwari** As of now, yes.
- Saket Kapoor** Just wanted to understand how is this crunch on the part of financial would impact our order execution going forward?
- Rahul Maheshwari** So, we need to understand that all my new projects or projects run in the last 12 months are already ring-fenced and all the bankers are providing necessary support to us along with the mobilization advance which we have received from our clients against the bank guarantees. So whatever money or funds we need for those projects we are getting regularly and those projects are running on time.
- Saket Kapoor** So, going forward there should not be any issue on account of that, this is what you are trying to tell?
- Rahul Maheshwari** Yes.
- Moderator** Thank you. We have the next question from the line of Jinesh Seth from Arete Advisors. Please go ahead.
- Jinesh Seth** Correct me if I am wrong, I heard the debt as Rs. 6,500 crore, it is Rs. 7,523 crore, right, net borrowing?
- Rahul Maheshwari** This is net borrowing after adjustment of cash available and all that.
- Jinesh Seth** Yes, I heard Rs. 6,500 crore.

- Rahul Maheshwari** No, Rs. 6,500 crore but Rs. 1,000 crore is related to our assets which we own, like couple of solar projects and one road project. So for hardcore construction business it is Rs. 6,500 crore.
- Jinesh Seth** Sir, we were expecting some outcome for judicial administration of our Singapore based subsidiary, did we get any
- Rahul Maheshwari** Just a quick brief, the last hearing has happened on 31st of January and the next is due on 3rd of March wherein the High Court of Singapore has asked judicial managers to have another round of discussion with the proposed investors and proposed companies who are looking for the revival of these two entities in Singapore. And as one of the proposed investor who is in the race of reviving the two entities, we are in close contact with them and we are hopeful of some positive results or some positive outcome in the next hearing.
- Jinesh Seth** So, this would be the final hearing or there is possibility of more hearings
- Rahul Maheshwari** No, there will be at least one more hearing after this, it might go for a couple of more hearings, but this will not be the end.
- Jinesh Seth** Okay. In terms of the positive expectation, if you can just throw some light on, if it can be quantified or in some way if you can just share something.
- Rahul Maheshwari** On what, on judicial management?
- Jinesh Seth** Yes.
- Rahul Maheshwari** The positive thing is that whatever we have proposed for financial revival is being heard and has not been rejected by the court. So it is a positive development that he has a faith on us and he believes in the proposal. Now it means that judicial manager has to deep dive, understand the complete proposals and present in a proper framework to the creditors of those entities, get their approval and then get the court sanctions. So the good thing is that they understand our proposals and they have not come out that this proposal is not viable at all. So indirectly they believe like there is something on the proposal.
- Jinesh Seth** Can you just give a brief outline on the proposal?
- Rahul Maheshwari** It would be difficult because already a confidentiality agreement has been signed among the JM, the Court and us. Until and unless it is approved or agreed by the creditors it would not be correct to disclose all those numbers. But the thing is, the outcome is, we as Punj Lloyd strongly believe in Sembawang and Punj Lloyd credentials and we strongly believe that there is still potential lying there. If these companies can be revived then we can come back again strongly in Singapore.
- Jinesh Seth** Sir, last time you had mentioned that about Rs. 13,000 crore worth project, the result of bidding was expected in a month or so. So, have we got any orders or anything on that front?
- Atul Jain** Yes, so we have been bidding especially in the space of highway and infrastructure projects. And quite a sizable number of projects have been floated in the market and we are participating, but the results are still not out. We should be booking good amount of business out of this.
- Jinesh Seth** So, how much is our bid outstanding at this point in time?

- Atul Jain** Approximately Rs. 5,000 crore. And still more number of bids are to go.
- Jinesh Seth** And sir, this Rs. 13,000 crore worth project that you mentioned in the last call where the outcome was in a month or so, so these have not yet come out ?
- Atul Jain** Yes, actually there are some overseas projects where we had submitted the bid and that is still not finalized. So that number what you are talking is including our overseas bids.
- Jinesh Seth** So, does it mean Rs. 13,000 crore plus Rs. 5,000 crore i.e. Rs. 18,000 crore
- Atul Jain** No, total Rs. 13,000 crore. I mean, Rs. 13,000 crore was a rough number, but it depends how the bids are floated. So, that was just approximation.
- Jinesh Seth** Sir, in terms of order book growth, our order book is around Rs, 19,600 crore odd, which is around Rs. 800 crore lesser than last quarter which was around Rs. 2,500 crore. So, if you can just give some visibility on the order book growth going forward? And of course, we are taking out Rs. 6,800 crore from it, so effectively it is around Rs. 13,000 crore odd.
- Atul Jain** Yes, actually we had taken a conscious decision first to focus on our execution of the current projects and whatever are the legacy projects to close that. So, we were actually going slow on bidding in last financial year. So that is why there is not much of growth in order booking, but that was a conscious decision.
- Jinesh Seth** So sir, when can we see us again bidding or adding up the orders, do we believe that once we get these claims back then probably we will be in a better shape?
- Atul Jain** Yes, of course, that is what we are saying that now once our execution is under control and we have revisited all our processes and improving the efficiency, so we have restarted the bidding. And that is how this number of Rs. 13,000 crore bids being submitted. So, this process of bidding has restarted now.
- Jinesh Seth** Sir, what is the status of debt restructuring?
- Atul Punj** That is an ongoing discussion we are having right now . So, we are trying to get some submission in these various processes that are being followed that we are already in the middle of. So, hopefully we should have some kind of proposals submitted in the next couple of weeks.
- Jinesh Seth** Sir, last time you had mentioned that with some tweaks to S4A structure it can be more doable for us. So, anything on that materialized?
- Atul Punj** Well, there have been a lot of discussions between the Department of Financial Services as well as all the banks. And the Additional Secretary requested Mr. Nair of IIFCL to submit the proposal, which he has done last week. So now we are hoping that the proposal will be taken up with RBI and some resolution happens. In the meantime, I know Chairman of SBI has also been lobbying hard for some amendments in the regulations. So let's see, one way or the other I think something should give.
- Jinesh Seth** So, are we in a position to give some timeline that when can we expect from RBI...?
- Atul Punj** No boss, if you can tell me somebody who can get a timeline from the RBI or with the banks, I would be happy to talk to you.

- Moderator** Thank you. We have the next question from the line of Shravan Shah from Dolat Capital. Please go ahead.
- Shravan Shah** Sir, I just wanted to know your debt status, as far as it is Rs. 850 crore this quarter, so what was your debt last year as on Q3 and cost of debt also if you could help me? And how has the progress been over the recoveries?
- Rahul Maheshwari** Thing is, debt I told you earlier, that interest rate is around 8% to 9% and the total net debt position is Rs. 7,500 crore at consol level. And as Mr. Punj has already mentioned initially that some good news on the realization of the old receivables in Qatar and Libya is expected to come either at the close of this financial year or early next quarter. Simultaneously, restructuring with the bankers is also on the line and we are expecting some good news from the lenders also by end of this financial year. And apart from this, the other receivable from our running projects are going as per the milestone, as per the projected schedule.
- Shravan Shah** So, what was the cost of debt in last quarter Q3 same quarter?
- Rahul Maheshwari** It is more or less on the same lines.
- Shravan Shah** And sir, could you give me the segment revenue for Q3? I have it for the nine months, for Q3 if you could help me.
- Rahul Maheshwari** It is there on the results on the website. If you go through the SEBI format results, the segment results are given for three months and nine months. But if you want to note down, the contract revenue is Rs. 867 crore, trading revenue is Rs. 131 crore, others is Rs. 411 crore, total is Rs 2,003 crore.
- Shravan Shah** And lastly, how do you see the total, like your view over the next three to four quarters on the revenue front?
- Atul Punj** We expect improvement. As we mentioned that our focus this whole financial year is to improve efficiency of our operations. So we expect definite improvement.
- Moderator** Thank you. We have a follow-up question from the line of Saket Kapoor from Kapoor and Company. Please go ahead.
- Saket Kapoor** Sir, I presume this is the standalone numbers only provided to us, could you throw some light on the consol part also, how the consolidated picture looks?
- Rahul Maheshwari** That I would request you to please ask me separately on mails, I will provide you those numbers because we have complied with the statutory requirements on the standalone numbers. But if you need some specific information on the consol, we can provide you separately.
- Saket Kapoor** Only one point is there that if you could share on the call itself, what is the picture on the bleeding part, it is more than one we have done for standalone or have we done some profits on the consol part, only that part will solve the purpose.
- Saket Kapoor** Sir, I was speaking that on a standalone basis we posted a loss of around Rs. 230 crore, so on a consol basis have the loss widened or narrowed, that is the indication I am asking?
- Rahul Maheshwari** No, it has been narrowed down.

- Saket Kapoor** So now on the consol part it is not contributing negatively to the bottom-line?
- Rahul Maheshwari** Yes.
- Saket Kapoor** Now sir, coming to this part of the legacy projects. Out of the total order book, barring Libya and this Qatar part of Rs. 6,000 crore, there is no portion of this legacy project I think so?
- Atul Jain** There is no legacy project going on in Qatar, Qatar project has already been closed, it is just the receivables we need to realize from our customers. So there is nothing lying in the order backlog, what is there is only related to Libya.
- Saket Kapoor** Sir, what is the receivable from their end, how much money is there?
- Rahul Maheshwari** Qatar is around US\$120 million.
- Saket Kapoor** And Libya?
- Atul Punj** Around EUR55 million.
- Saket Kapoor** Sir, if you could do the rational for rupee also, it would be better sir, how much in rupee terms it will be total?
- Atul Jain** Qatar is about Rs. 800 crore and Libya is about Rs. 400 crore.
- Saket Kapoor** So, roundabout we are contesting for this Rs. 1,200 crore only?
- Atul Punj** We are not contesting, it is in process.
- Atul Jain** It is actually the Qatar \$120 million, this is not against any claims, this is the outstanding contract money. And similarly, in Libya this EUR55 million, this has already been agreed by the client but unfortunately because of the situation in Libya it has delayed.
- Saket Kapoor** So, the value stuck there is Rs. 1,200 crore, that is the figure we should look going forward?
- Atul Punj** Yes, please.
- Saket Kapoor** And sir now, dwelling on this debt restructuring part, if you could speak something more about what is the quantum of debt that is involved for restructuring ?
- Atul Punj** We are looking at restructuring, it is a matter in progress, I cannot disclose the entire restructuring proposal on the call. As and when we are able to get an agreement with the banks we will definitely make it public.
- Saket Kapoor** But I was just looking for the quantum sir, how much Rupees is the restructuring?
- Atul Punj** No, we are looking to restructure the entire debt.
- Saket Kapoor** Entire, so working capital as well as the long-term debt, everything?
- Atul Punj** Yes.

- Saket Kapoor** And why are we going for working capital also to be restructured sir? We are already doing our projects
- Atul Punj** Firstly please look at our financials, you will notice that only thing dragging us down is very large interest payments that are going out. So, whatever deferment we can get on our interest overhang will help us in being able to push our projects and get our top-line and bottom-line moving upwards again quickly. So it is quite obvious that we are looking for a deferment, how much of it will we get, we do not know. But you asked the question as to what are we looking for, we are looking for a deep restructuring package across the board.
- Moderator** Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing remarks. Thank you and over to you.
- Atul Punj** Thank you, everyone. And we look forward to see you again on the Q4 and FY2016 - 2017 results. Thank you, everyone.
- Moderator** Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Punj Lloyd, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.