Punj Lloyd

Q1 FY2012 Results Conference Call Transcript
August 16, 2011

Moderator: Ladies and Gentlemen, Good day and Welcome to the Punj Lloyd Ltd. Q1 FY2012 Earnings conference call. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you require any assistance during this conference call, please signal an 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 Ms. Sameera Kedar of CDR India. Thank you and over to you.

Sameera Kedar: Thank you Melissa. Welcome everybody to Punj Lloyd's Q1 FY2012 Earnings conference call. Before we begin, I would like to mention that some statements made during this call, may be forward-looking in nature and a disclaimer to this effect has been sent to you with the conference call invitation. Also, I would like to emphasize that while this call is open to invitees; it may not be broadcasted or reproduced in any form or manner. I would now like to hand over to Mr. Anil Jain, Head - Investor Relations to introduce the management. Over to you Mr. Jain.

Anil Jain: Good afternoon everyone. On behalf of Punj Lloyd, we welcome you all to this 1st Quarter Earnings conference call, post release of quarterly financial results. With me the entire management of Punj Lloyd is here except Mr. Atul Punj, who is traveling at the moment and could not join. Let me introduce, other management team members, who are available for this call. Mr. Luv Chhabra, Director (Corporate Affairs), Mr. P. K. Gupta, Whole time Director, Mr. Sanjay Goyal, CEO- PL Engineering, Mr. S.S.Raju, President & CEO – Infrastructure, India , Mr. Atul Jain, President & Jt CEO – Middle East, Africa &CIS, and Mr. Ravindra Kansal, President & Jt. CEO – Middle East, Africa & CIS Mr. Predeep Gupta, President, (Finance & Accounts). Now, we invite investors for their queries and begin now Q&A session.

Moderator: The first question is from the line of Pritesh Chheda from Emkay Global.

Pritesh Chheda: If you could share the outlook on the order side, both locally and internationally in the Geographies that we are in; and further how do we see the scenario over the next three to four quarters?

Luv Chhabra: Pritesh, some of the data is already available for you in the Investor communication. Basically, in the first four-and-a-half months of this year, we have got new orders inflow of Rs. 5,627 crore, whereas in the entire last year, the order buildup was close to Rs. 9,978 crore. I also want to point out that there is an error in the Investor communication. The corrected figure of Orders received last year is Rs. 9,978 crore. There has been a fairly good buildup of the order book in the first four-and-a-half months of the current year, and given the level of ongoing bidding activity, we expect that this momentum will continue in the next two quarters. So the overall order outlook is of cautious optimism. You are aware, there has been significant turmoil happening in the Global market. We are also witnessing increased competitiveness in many markets and a large number of new entrants in the field. In India, particularly in the road sectors, we have seen more than 18 bidders in a single project and in some cases, even more than 18 bidders for large road projects. But having said that, given our geographical diversification and the presence in multiple segments, we do believe that in the next two to three quarters the momentum of order buildup will continue, which would reflect in the revenue generation and profitability.

Pritesh Chheda: May I know your views on the international geographies where we are present?

Luv Chhabra: Though India has had a fairly significant chunk of the order buildup in this year, we do believe that Middle East region, which has been lagging for us, will pick up in the coming quarters in this year. Lots of bidding activity is currently going on and by the law of averages, we certainly do expect some wins in that market. In Southeast Asia, the order buildup has been pretty good, particularly in Thailand.

Pritesh Chheda: Did you say we got Rs. 5,500 crore order inflow for the first five months of the year?

Luv Chhabra: In First four-and--half months, we have got Rs. 5,627 crore.

Pritesh Chheda: Whether the order backlog which we have is actually as on August?. But if I do the math, it is coming to around Rs. 3,500 crore. So are there any orders which have been cancelled?

Luv Chhabra: There is only one order of Rs. 280 crore of Dighi Port, which was cancelled. There has not been any movement on that project. So we have come to a decision that there is no point in continuing with our mobilsation on this project. And we have reached to an arrangement with the clients about the withdrawal from the project. Other than this, there is no other withdrawal.

Pritesh Chheda: We have seen a considerable improvement in the margins since last four-five quarters especially after some bad patch that we had. This quarter also the margin is at 8%. Should one take this forward and what would be the current margins on the order backlog that we have?

Luv Chhabra: On a consolidated basis, we have had some impact on margins because of Simon Carves. A large portion of that impact is due to foreign exchange fluctuation. There has been an impact of approximately GBP 4 million on this account. When we operate in a Global business, some of these impacts, like exchange risks and translation risks, are going to be there and hard to predict. But going with the current trend, the margins are likely to continue, possibly improve, at least over the next few quarters.

Pritesh Chheda: Any status update on all the accounting provisions that we had and have been carrying in the Notes to accounts?

Luv Chhabra: The big one is Heera. Heera as we mentioned also the last conference call, is not going to be resolved in the next three to six months. It is a process of arbitration which is likely to continue for at least 24 months and we will be able to know the final outcome only when the arbitration is over. The other one is Simon Carves. The company has been put into administration as opposed to liquidation. There is a difference between administration and liquidation. It is now the job of the Administrator to recover whatever assets he can in Simon Carves. Since Punj Lloyd is the largest creditor to Simon Carves., whatever the Administrator recovers, we hope to get a significant chunk of that, (more than 95%). About the rest of the provisions, as and when there is some movement, it will be adequately reflected in the accounts.

Pritesh Chheda: Is there any progress on the old held up payment? Any slippages or anything which has worked?

P. K. Gupta: Not exactly. There is nothing significant which we can talk about now. In the last concall I said that there were some outstanding from the various refinery projects which we have finished and they have been held for time extension, which is moving forward now and we hope to get extension of time from say Barauni as well as Baroda refinery within the next quarter and we hope to get funds released from there. The Bina Refinery also is being pushed in the similar way, but it will take some more time because they are not able to commission their plant as yet because of the absence of feed**.** So this is all what I can say at the moment and nothing more to it.

Pritesh Chheda : Is there any order backlog issue in Middle East.

Ravindra Kansal: There are no backlog issues in this region.

Pritesh Chheda: How much of the Rs. 24,000 crore is executable this year?

Luv Chhabra: We do not give any specific information on forward numbers. As a general guidance you can estimate that the order backlog is executed over a period of two to two-and-half years. There are some projects which are shorter execution duration and some of the infrastructure projects which are of longer duration. In the meanwhile, we also expect to increase our order book over the next few quarters as I mentioned earlier.

Pritesh Chheda: What is the debt in the balance sheet and what would be the short-term debt and long-term debt and your working capital position?

Anil Jain: As on 30th June, 2011, we have total debt level of around Rs. 4,700 core on a consolidated basis and around Rs. 3,600 crore on a standalone basis.

Pritesh Chheda: How much of the Rs. 4,700 crore is working capital, short-term loans?

Anil Jain: The major portion is obviously the working capital & short term loans, which is being renewed year after year.

Pritesh Chheda: Can you give out the net working capital figure?

Anil Jain: Net working capital will be close to around Rs. 4,900 crore on a consolidated basis.

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

Naveen Jain: I have couple of questions. One on your cash balance, at the end of FY11, you had cash in current account close to Rs. 700 crore. Is there any particular reason why you have kept so much of cash balance in the current account given the fact that we are pretty high in debt levels also?

Predeep K. Gupta: We have operations in different regions and countries - in Singapore, Abu Dhabi, Malaysia etc. and due to that funds are required to meet their business related expenditure. Apart from that, the funds are not easily transferrable to India owing to many RBI regulations. Majority of Funds are lying in SEC, Singapore PLPL Singapore, Abu Dhabi, Qatar, which is not lying idle but have been earmarked for business related expenses and to meet their operational expenditure. These are also invested in short term FDs, if there is no immediate requirement of business expenditure. These kinds of Cash & Bank Balances are close to Rs. 1,030 crores as on 30th June 2011.

Naveen Jain: Will this reduce or given the nature of your business you expect this to be at these levels going forward also?

Predeep. K. Gupta: Yes, these balances are likely to be reduced. The greater focus is on efficient use of cash. This can also be seen with reduction of balances from Rs. 1,215 crores in FY 11 to Rs.1,030 crores in Q1FY12. Thus, this trend of reduction is going to continue in times to come.

Luv Chhabra: Another point is that we operate in about 20 different countries and in many of these countries including India, there are exchange control regulations. There is no simple method by which we could sweep all the surplus cash from 20 different countries and reduce our debt. It cannot happen like that in many countries. The volume of cash balance depends on which cycle we are operating in. Sometimes there are advances from the client; sometimes on a particular project we are cash negative, in which case we need to borrow from the working capital limit. It is not a very predictable number when we are so geographically diversified.

Naveen Jain: Could you give us some sense as to which clients or which projects have debtors of more than six months where you add about Rs. 800 crore plus?

Luv Chhabra: I think Mr. Gupta had mentioned that. There are quite a few refinery projects in India that we had completed. Our problem is that some of these refineries like Bina etc. we have not been able to commission it, purely because the feed has not been provided to us by the client and only when the feed is provided and the plant is tested, do we do get the release of the balance 10% or 20% of the funds as the case may be. So that is the nature of this money that is held up by the clients.

Naveen Jain: So there is no dispute here?

P K Gupta: These are all from PSUs, and no dispute at all.

Naveen Jain: No arbitration or anything?

PK Gupta: Nothing.

Naveen Jain: I am not sure if you have already discussed this. There is a qualification about Sembawang transfer under the administration process as per UK Law and then probably one of our subsidiaries is looking to acquire some assets out of that. Could you please explain this entire transaction and what is this auditor qualification all about?

Luv Chhabra: This is not of Sembawang, it is of Simon Carves. We had disclosed sometime back, that the company was put into Administration given the sort of uncertainties in the business and the prevailing economic environment in that particular country. Once the company was placed into Administration, all significant assets of this Engineering Company like its people and its qualified engineering bench strength, all the existing contracts, some of which are with marquee clients like Dow etc., were transferred or purchased by a company which is a subsidiary of PL Engineering. The name of the subsidiary company is Simon Carves Engineering Ltd., which bought over these assets including the existing engineering contracts with Simon Carves. These are highly profitable projects with gross margins above 40%-45%, the other assets and liabilities of the company have been left behind with the Administrator. Now the company which has been left behind and put into Administration has a net asset value of approximately Rs. 134 crore. It is the job of the Administrator to sell off, recover whatever funds they can from the people who owe money to the company and since Punj Lloyd Group is the largest creditor to this entity, we hope to recover most of the money that the administrator gets. That is the process. I think over the next six months, we will get to know what that final number is.

Naveen Jain: If I look at your consolidated accounts, I understand that you have many entities within that consolidated accounts. But the current tax is about Rs. 18.9 crore and out of that Rs. 4.5 crore pertains to this standalone account. Could you please share some sense as to in which other entities you are probably paying this tax? How much tax you expect to pay through the year or how do we really see this figure because it is pretty high at about Rs. 18.9 crore?

Luv Chhabra: Yes that’s a very difficult question to answer. As I mentioned, we work in almost 20 geographies and there are different tax rates in different geographies. On top of that, many of our operations in the Middle East are through branch offices of Punj Lloyd Limited. So we have situations where in countries like Abu Dhabi, where there is a zero tax rate, but because it functions as the branch office of Punj Lloyd, it is subjected to tax at the Indian tax rates in India, when we do the consolidation of the standalone results. The tax rates in Singapore are about 17%-18%.

Moderator: The next question is from the line of Srinivas Rao from HDFC Mutual Fund.

Srinivas Rao: Can you please tell us if there are any one-time expenses or income in the quarter?

Luv Chhabra: Obviously there is some income which comes out of dividend or out of sale of scrap, etc. Though this income could be on a recurring basis, but the quantum will keep on changing on quarter-on-quarter basis.

Predeep. K. Gupta: This time, there is no substantial amount which is coming in the other income or miscellaneous income. You can see the comparison from June 2010 to June 2011. So it has come down from Rs. 132 crore to Rs. 18 crore.

Srinivas Rao: Any one-time expenses?

Predeep. K. Gupta: No, there is nothing substantial.

Srinivas Rao: Can you please tell us what will be the profitability on the new orders that you are winning versus your existing margins?

Luv Chhabra: We do not give guidance. As a general rule we say that we expect margins to be in the region of 10-12%, depending on the Geography and the Sector.

Srinivas Rao: So should we assume that new orders are in that level?

Luv Chhabra: Yes, new orders are in that level, but it is at project level.

Srinivas Rao: You have been carrying a large inventory of about Rs. 4,800 crore, Can you quantify if there is any improvement on that?

Predeep Gupta: There are no substantial changes in the Inventory levels. Inventory is within normal range except in few projects which have been pointed out by Mr. P K Gupta earlier. That project is Heera of ONGC, which is under arbitration.

Srinivas Rao: My question is on the working capital or inventory; we have been seeing this Rs. 4,500 crore of inventory level for quite some time. So I just wanted to know what the current status is and what is being done to improve?

Predeep. K. Gupta: As pointed out earlier, Inventory related to projects in Libya, few refinery projects & Heera Project etc will take time to release. However, other projects inventory is at normal level.

Srinivas Rao: My question is on inventory, not on receivables.

Anil Jain: Let me clarify here. What Mr. Gupta is trying to explain is that, the inventory comprises largely of the claims which have been held up either by ONGC or by IOCL. So this is largely the inventory composition which has been going on from quite some times. To answer your question, what would be going to be the inventory level, perhaps we will have to live with this kind of inventory levels for some more quarters until and unless these claims or cases are settled.

Srinivas Rao: What is the utilization level of equipment now including the offshore equipment?

Luv Chhabra: Right now the offshore equipment is fully deployed. The other equipments are deployed on project to project basis. Generally the equipment utilization is pretty good at the moment.

Moderator: The next question is from the line of Kalpesh Gothi from Wallfort Financial Services.

Kalpesh Gothi: What is your outlook on the order inflows for this fiscal? From which sector you are seeing a good traction and a good amount of order inflow coming from?

Luv Chhabra: About the orders buildup this year, we said we are cautiously optimistic. And we expect orders to come from a variety of geographies in multiple sectors and it is not confined to a particular sector or a particular geography. We do expect orders in almost all geographies that we operate in.

Kalpesh Gothi: What is our cost of fund currently?

Predeep. K. Gupta: Currently the cost of fund on an average basis is 10.5% approx.

Kalpesh Gothi: Are we planning to raise fund via equity during this fiscal?

Luv Chhabra: No, there are no plans to raise any further money through dilution of equity in Punj Lloyd.

Moderator: The next question is from the line of Kaushik Poddar from KB Capital Markets.

Kaushik Poddar: On a consolidated basis your EBITDA margin is down, all your profit is getting wiped away with the interest cost. Is there any way you can think of reducing interest cost?

Luv Chhabra: As the order build up increases and the revenue increases, the consequent profitability would increase and that will be used to reduce the quantum of debt on our books. So there is no instant fix, but we hope that it will happen over the next four to eight quarters.

Kaushik Poddar: Are you thinking of any placement or anything of that sort to bring in some more equity to reduce the interest component?

Luv Chhabra: Placements in?

Kaushik Poddar: Placement of equity in Punj Lloyd?

Luv Chhabra: In the main company, there are no plans to dilute any equity further.

Kaushik Poddar: And in subsidiaries?

Luv Chhabra: For the subsidiaries, it is always an open option and we at every point of time, look at the market conditions. Right now the markets are in a considerable global turmoil, so I do not believe anything is going to happen in near future.

Moderator: The next question is from the line of Harish Venkateswaran from Nomura Financial Advisor.

Harish Venkateswaran: I want to know how much is the quantum of loans that you have given to Simon Carves?

Luv Chhabra: The quantum of loans given to Simon Carves is in the region of GBP 240 million.

Harish Venkateswaran: As I see from the Annual Report of FY11, there is an outstanding liability of Rs. 1,963 crore on the Liability side and Rs.397 crore on the Assets side of Simon Carves. This is much higher than Rs. 134 crore of the assets which are mentioned here.

P**redeep . K. Gupta:** The figure that we have mentioned is of the net asset (Gross Assets reduced by gross liabilities).

Harish Venkateswaran: So it is positive for FY11 because at the end of FY11 the Annual Reports says a huge negative figure. That is what I wanted to check.

Luv Chhabra: I am not clear what specific figure of Rs. 1,963 crore you are referring to.

Harish Venkateswaran: If you look at your Annual Report for FY11, in the subsidiary companies particulars, Simon Carves, UK has been mentioned. There you have listed all subsidiaries and their key financial figures, viz. capital reserves, total assets, total liabilities, etc. So here the total assets are something like Rs. 397 crore and total liability is Rs. 1,963 crore. This is on page 58 of the Annual Report. So has it changed to a net asset figure now from a net liability figure?

Predeep Gupta: This net asset is excluding the liability of inter-group companies' worth of GBP 240 million which Mr. Chhabra is talking about.

Harish Venkateswaran: Other than this GBP 240 million, it is Rs. 134 crore of net assets?

Predeep Gupta: Yes

Harish Venkateswaran: In the worst case, assuming nothing goes right in Simon Carves, then probably the write-off could be as high as GBP 240 million?

Luv Chhabra: No, the losses of Simon Carves have already been fully provided. On one hand there are losses in Simon Carves which, if the company was to be closed, it will have a positive impact on consolidated net worth in the main Singapore entityand the other hand are the inter-company loans which will have to be written off. So I do not believe that there will be any significant impact as a consequence of this. The impact is likely to come on issues like Goodwill, deferred tax assets, etc. and how much is recovered from the net assets in Simon Carves. And as I mentioned, we will only get to know about this probably in the last quarter when this will be finalized.

Moderator: The next question is from the line of Pulkit Patni from Goldman Sachs.

Pulkit Patni: I am not really sure in terms of these GBP 240 million loans given to Simon Carves. In case if the administrator decides that there is a liability to it, why is this money recoverable?

Luv Chhabra: We said these loans will have to be written off and all the losses that have been provided for will come into reserves and surplus once the company is closed, so the two will balance each other out.

Pulkit Patni: This will be routed through P&L, or is there a way you can take it directly through the balance sheet?

Predeep Gupta: The reserves and surplus includes the previous losses of Rs. 1,600 crore incurred and write-off of intercompany loans would be adjusted against that, so net impact will not be substantial. And both the transactions will be routed through the profit and loss and impact in turn will move to balance sheet.

Pulkit Patni: I wanted to know what is the total amount of auditor qualification currently outstanding for Punj Lloyd?

Luv Chhabra: We don't have this number off hand. I just want to make one small comment that we have seen in the past, the auditors have qualified our claims and later on we have recovered our money through arbitration in almost every case and then these qualifications have been removed.

Moderator: The next question is from the line of Sneha Rungta from Sharekhan Limited.

Sneha Rungta: The new orders would be having an average operating margin of what levels, about 8% or even higher?

Luv Chhabra: The margins at project level of all the new orders vary between 10%-12% depending on the geography and the segment.

Sneha Rungta: What would be the position of our legacy orders?

Luv Chhabra: Which legacy orders?

Sneha Rungta: Simon Carves and Sembawang?

Luv Chhabra: Simon Carves has already been put into Administration. Sembawang, does not have any legacy order except for one project KP 421 which is significantly complete.

Moderator: The next question is from the line of Vaibhav Jain of Religare Asset Management..

Vaibhav Jain: You indicated that cost of debt on an average basis is currently 10.5%. What proportion of this would be domestic debt and foreign debt?

P. K. Gupta: Ratio between domestic and foreign is approximately 70:30.

Vaibhav Jain: Where do you see the cost of debt in the coming quarters? What was in Q1 and what it would be in Q2, that's what I am trying to understand?

Luv Chhabra: Significant portion of our debt is from the Indian banks and it is hard to predict what sort of policies stance the Reserve Bank of India will take for interest rates.

Moderator: Sir we have no further questions at this time.

Luv Chhabra: Thank you very much. Thank you for joining this conference call and we look forward to renewed interactions at the next conference call or even before the investors are free to get in touch with Anil, Predeep, myself, Mr. Gupta or any CEO.