

ET Q&A
ATUL PUNJ
 CHAIRMAN, PUNJ LLOYD

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Punj Lloyd Plans to Scale Back Global Business, Refocus on Domestic Market

Punj Lloyd, the Gurgaon-based construction contractor that has been making losses since 2014, is undertaking a strategic shift to scale back global operations and refocus on the domestic market. In an interview to Arun Kumar, Chairman Atul Punj says the company will return to stability this fiscal year and post significant growth next year. Edited excerpts:

Many of the big group are stressed. Since the bailout route is now closed, what is the way forward?

There is a need for really looking at overall structural issues. We need to push for to get a sector-by-sector analysis, (find out) what are the issues, why are they rising, how can they be resolved, and do that on an urgent basis.

If you want to get the country moving, then the sector to touch immediately is construction. There is a simple logic. Within two months of getting a contract, we are buying cement, steel, construction equipment and start hiring people. So, the quickest impact comes from the construction sector. There is a need to look at construction as distinct from the

infrastructure sector. But the problem is there is a blurred line between developers and contractors. Contractors are at the lower end of the food chain.

What is the biggest challenge for the construction industry?

The problem that is affecting the sector is non-realisation of our receivables. You have huge amount of arbitration. Almost all the award of arbitration is being appealed in the courts and the win rate in the appeal process by the appealing parties is around 1% statistically. Let us say you want to stretch it to 2%. That means 98% of the arbitration is upheld in the court, but after eight years. In the meantime, contractors end up paying 12% interest. All you need to do is to pass or issue an instruction that if you lose in arbitration, please pay the contractor. If you win the appeal in the court, the contractor will pay you back.

Are these government contracts?

Ninety-nine percent of these are government contracts. Private sector rarely goes to arbitrations. Now the government has put its best foot forward in amending the arbitration Act, but that is post October 23 last year. So, they have solved prospective issues. The problem is retrospective. The problem is legacy; I don't know of how many years.

In your case, what is your total debt level?

It is about ₹7,000 crore. Definitely we want to reduce it. The focus is to collect the receivables and use that money to repay bank loan. We have close to ₹3,000 crore (of receivables) that include ₹2,000 crore from India and the rest is in Qatar.

What is your order book?

Our backlog is ₹21,000 crore apart from Libya. This will be completed in the next three years as against last year figure of about ₹11,000 crore. The order backlog is the value of unexecuted orders.

What was your turnover in fiscal 2015-16?

I will not be able to give you full year number as we are in the process of compiling the result. Having said that, last year to my mind was a black year. There was a series of issues that affected us. The release of working capital limit (to the company) by Indian lenders was delayed by nine months and that affected the operation due to disruption in cash flow. All these issues were

finalised in the last 2-3 months. Many of the projects under implementation were in early phase. These projects will be completed in the next few months and that will significantly increase our billing.

There was a drop of 30% in turnover in 2014-15 and fall in the first nine month of this fiscal year...

Yes. This year we will be back to stability and next year we will be back to significant growth. We hope to get back to a ₹7,000-7,500 crore (turnover) number this year. Right now, with the work in hand, there is no reason that we don't get to that number. We will be strongly EBIDTA positive this year. We are hoping to be positive at the net level this year. Hopefully we will make it but not sure as yet.

You talk about a corrective action plan. What is that?

It is resetting your cash flows. Basically, to exit from all those non-core assets such as Medanta hospitals (by selling its stake to Temasek last year). We have sold five assets in the last 14 months. We realised ₹3,000 crore that was used for debt reduction. The average return we got is about five times in five years. We did whatever we had to do to put the money back into the company. Now that order has come in, the team is in place the organisation is ticking. We have no reason that we should not be back to reasonable happy days.

In term of revenue mix, what is the share from India and overseas?

Now it is 50:50. Earlier, 70% was coming from overseas. We are now looking more at refocusing on India, because we see there is growth happening here. The rest of the markets are fairly saturated... Next year, it (revenue) will be 70% from India and 30% from outside.

What about defence?

We have invested ₹200 crore over the last five years in defence. We have set up a very high-end machine shop in Malanpur next to Gwalior. We are doing high-end works which are quite advance in term of technologies. Then we have some programme as Tier I bidders. We are hoping to finalise a contract in the next two months... the contract would be about ₹350 crore.

Separately, we have formed a 51:49 joint venture with Israel Weapon Industries, one of the largest manufacturers of small arms. The only thing is licensing. The new policy on small arms should be out by May. Till the time we don't get the licence. We will manufacture components which will be exported to Israel.

