Punj Llyod Limited

Investor/Analyst Conference Call Transcript
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Moderator Good day ladies and gentlemen and welcome to the Punj Lloyd Limited Q1 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. 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. Gavin Desa of CDR India. Thank you and over to you sir.

Gavin Desa Thank you and good day everyone and welcome to Punj Lloyd Limited Q1 FY17 Earnings Conference Call. We have with us today Mr. Atul Punj – the Chairman of Punj Lloyd Limited, along with other members of the senior management team. I trust you have had a chance to go through investor communication and the results. 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 all along with the conference call information. I would now request Mr. Punj to make his opening remarks after which we may enter into a Q&A session.

Atul Punj Thanks Gavin and welcome everybody.

Overall I think we are seeing a significant movement now in our sector. As a company we are sitting on an order backlog of approximately Rs. 14,000-15,000 crore when you take up a Libyan element. Libya technically is a project that is still alive, so we have to show them as part of our backlog. Having said that we have executable orders now which are healthy tick. We had gone into a bit of a hiatus in terms of bidding because we wanted to consolidate our operations because we had changes in the management. I stepped back into the management a couple of months ago now we have been taking various steps to improve the overall efficiency of the company. Going back to the overall macro picture I think we have never seen so many opportunities that are presented which is particularly on the road sector. We have good portfolio of roads in our book also we are now in the process of organizing and making sure that we take advantage of this season after the monsoons to really execute those projects in the most efficient manner possible.

So I think overall we find ourselves in a good place. We are now recommencing bidding, so we will start seeing some good wins coming in and going forward. Talking about the performance for the last three months really we are seeing a significant uptick on year on year basis. I think on the EPC services side we are seeing almost a 65% increase and overall we are seeing a 36% increase in terms of our revenues. So that is the beginning of a trend that we are starting to see now and hopefully this will only improve with time. So rather than going on I will leave it to the Q&A. So I am happy to open to question and answer now.

Moderator Thank you very much. We will now begin with the question and answer session. The first question is from the line of Udit Malhotra, he is an individual investor. Please go ahead.

Udit Malhotra Sir I am a very small investor and I have been invested in this company Punj Lloyd for 5 years now and I have been following all the calls and each time I hear updates about ONGC arbitration which has been a substantial amount. So are there any updates on that?

Atul Punj Yes, ONGC arbitration if you have been following it for 5 years you will know Udit. We were in an alternate dispute resolution mode for almost 2 years at the recommendation of ONGC which turns out to be a waste of time because even a recommendation by the OEC (Outside Experts Committee) as they call themselves, of almost Rs. 1,200 crore was rejected by the ONGC Board. So we had to go back into arbitration. Arbitration proceedings are going on. We have now got a sign off from the ONGC management to migrate to the new act. The new act gives a one-year finalization on all these arbitrations being settled. So within 12 months on the outside we should have a resolution. We are hoping the same arbitrate tribunal will continue because that will cut the time period shorter. So I think now we have some clearer visibility in terms of time otherwise traditionally there was no timeline on any of these arbitrations. So hopefully soon we should have a resolution.

Udit Malhotra Sir from which date this is applicable, this 12-month period?

Atul Punj The moment both parties write to the arbitration tribunal that we are both wiling because both parties have to give their consent. So ONGC, I had meetings with the chairman, now I have agreed to migrate to the new act and hopefully that should happen within this month. So effectively within this month, 12-months will start. If the same arbitration tribunal agrees to carry on with the new timelines then of course, because a lot of arguments have already happened, it could even be 6 months.

Udit Malhotra Sir what is the expected amount because last time I think I heard was Rs. 1,900 crore. You just now mentioned Rs. 1,200 crore.

Atul Punj No, Rs. 1,900 crore is an overall claim. The earlier outside Experts Committee had awarded us Rs. 1,167. So these two numbers you are hearing come from there. One is the overall claim and the other is what was awarded. So now what the arbitration tribunal decides to award us is something I cannot second guess them but we are hoping that it should be in the zone of what we had originally got.

Moderator The next question is from the line of Saket Kapoor from Kapoor & Co.

Saket Kapoor Sir you in your opening commentary posted an optimistic scenario going forward. Would you like to dwell more on that part and guide us what are the factors that are now emerging up that is giving you that confidence that going forward things are going to be much better than what they have been for us for the last one year?

Atul Punj See there are two different aspects to that optimism. One is the legacy issues. The legacy issues really had to do with long drawn arbitrations, unending appeals of those arbitrations. The government now has been very-very forthcoming in resolving some of these issues. So one evidence of this was the amended arbitration act which now gives a finality to dispute resolution which otherwise was unending. So now we have a clear visibility on that. Separately now we are moving the government to try to get them to agree to release our money against arbitrational awards but even if the government does not agree, the law now instructs that the losing party has to deposit the amount in the court if they want to appeal it. So if the amount is going to be appealed, it has to be deposited in the court. So if we are asking the money should be given to us and if the appeal is upheld, which is less than 1% statistically, then of course we are obligated to repay that money. But the chances of it happening are under 1%. So this is to do with the legacy issues. It has not been resolved. The second is the government is very clear that the amount of public spending that is now ramping up especially in the road sector and overall infrastructure where it includes ports, Inland Waterways, the Ganga Cleaning Program, the high-speed bullet train and the railways expenditure on new projects is very-very massive. So the government spending is happening there. The disconnect so far is really on the banking system. The banking system is not really in-tune with the infrastructure sector. The government has now set up the NIIF and they are finally appointing as CEO and we hope that this NIIF (National Infrastructure Investment Fund), which has got a lot of sovereign funds looking to invest into it, will release fixed cost long term money to this sector. So overall the structural changes that are coming together along with real awards of projects. Leaders do feel that we are now out of the abyss that the sector was in and we are starting to see some serious green shoots of recovery to use the old clichéd term. So that is really the reason for the optimism.

Saket Kapoor Sir this quarter if we look at your numbers, interest component has been on the higher side. I think they were on Rs. 300 plus crore was there. Was attributed to the legacy order and how much was pertaining to the current execution cycle.

Rahul Maheshwari If you compare it with the previous corresponding quarter of 2015, it remains almost same, in fact it has little bit come down from Rs. 226 to 215 crore. What it has been telling in the past also, that the management is taking steps and we are hopeful that going forward it will come down. Further, this finance cost not only includes interest, but also all other charges that is bank guarantee and LC discounting charges etc.

Saket Kapoor But sir at the time of order booking we are factoring this as our expenses on the part and then only we are bidding for an order. So where is that disconnect happening? At the end there is red ink on the P&L.

Rahul Maheshwari Yes, we agree with you. We always include the interest or the negative cash-flow charges but primarily this interest cost is related to retention money or receivables on the legacy matters or orders which are either blocked due to arbitration or put on hold by one or another department of the government in India and overseas including Middle East region.

Atul Punj Just to add on to what was said, when you talk about factoring in this cost in our bids, you are correct we are factoring the cost to the bid but they are also reflected separately. They are not reflected as a part of bid cost. Interest, bank charges etc are reflected in a separate line item. Apart from that major cost of our interest really is to do with our legacy outstanding which is substantial. If you look at the ONGC amount alone, even if we take the value that is given to us by the outside experts committee of Rs. 1,200 crore, you are talking about a significant amount of interest on just that one claim. Now as a company we have a series of outstanding claims rather which would probably total to close to almost Rs. 4,000 crore. So we are obsessively working to try to recover and close out all those receivables because the moment we closed those out our situation changes immediately. So as I said the issues in the sectors that you are dealing with that are only legacy issues, prospectively the situation is looking very good. It is the legacy that we are fighting hard to close out as quickly as possible.

Saket Kapoor Sir so out of Rs. 4,000 crore you gave the breakup of Rs. 1,200 crore for ONGC, what are the other one that are contributing to this?

Atul Punj These are either old receivables in Middle East region. We will share with you the individual breakup of the same separately.

Saket Kapoor Anything 10% above the figure of 4000 means Rs. 400 crore plus claims from a single part?

Atul Punj Well it is not just claims. It is also you outstanding invoices which has not been paid from Qatar for example, that is a large amount. There is Libyan 55 million Euro payment that is minuted that they will pay us we are hoping to collect that soon. So these are large numbers. So the point is that we need to close out these receivables in a hurry because the faster we close them out, the quicker the company is rapidly on the course of recovery.

Saket Kapoor Sir what is the situation therefore in the Middle East and Libyan part, what kind of filler that you are getting? Whether the resolution is going to conclude or we have to fight some more? What is the key? What is your take on this?

Atul Punj My own take is I hope that within this financial year definitely we should have resolved both those issues.

Saket Kapoor This is what the other party is also feeling? He is also interested in resolving it

Atul Punj Yes, they are.

Saket Kapoor I mean you will come to a middle point and then conclude it.

Atul Punj No, there is no middle point. These are pretty clear open, shut numbers. it is just a function of debt regime allocating the money back.

Saket Kapoor But as and when this situation improves we are going to be receiving our money.

Atul Punj You can say that, yes.

Saket Kapoor And sir on the consolidated numbers can you share what the picture is right now?

Atul Punj . Consolidated revenue is around Rs. 1200 crore and the EBITDA is more or less same as of standalone which is about Rs. 35-40 crore.

Saket Kapoor And interest outgo?

Atul Punj Interest is around Rs. 250 crore.

Saket Kapoor So there is an interest outgo of Rs. 20 crore more?

Atul Punj Yes.

Saket Kapoor Means these are also not profit making orders that we are executing on the consolidated level also.

Atul Punj Those are profit making. Again, these are standalone numbers with the similar issues which we have just mentioned that there is also some legacy matter which we are taking steps to resolve those.

Moderator The next question is from the line of John Perinchery from Emkay Global.

John Perinchery Do you see these reductions in losses as a continuing trend and when are we likely to come into black? This is my first question. The second is how is the bidding landscape in EPC Power and Roads?

Atul Punj I am taking the second question first. The road project as we are reading everyday are moving very furiously. There is a lot of activity happening there. On the power and generation side we are not seeing too much activity as you all know but on the transmission and distribution side there is a frantic activity taking place. So the number of bids that we are seeing on the T&D side as we call I On the road side is very large. And the first question, can you repeat that please?

John Perinchery Do we see this reduction in losses as a continuing trend and when are we likely to come into black but sir before that can you just throw some light on the defense business also before you answer the first question?

Atul Punj Let me answer the first question first. See we are striving very hard to gain operational efficiencies. Every day we are starting overhead, we are reviewing our exposures. Our entire operation is under scrutiny on a daily basis to try to see how lean and mean we can get as quickly as possible. So we are merging different verticals. We are doing whatever we need to do to really cut cost. We have compressed that operations from have large regional offices into one large home office and all overseas operations for example run like Indian projects as project offices. So I think we have been forced by circumstances to really relook at the situation, also the fact that with slowing oil prices the oil and gas business because the primary activity overseas is generally a business which has become much more competitive so it makes sense for us to regroup into India where there is a much bigger opportunity for presenting itself. The defense side is something that is moving a lot slower than anticipated. The business that we do for supplying to the defense PSU is doing well, that is where we are supplying to HAL and OFB, etc., is doing well and continues to be robust. On the main program this decision making still seems to be running a bit slow. We are hoping now the government will expedite and start putting some fire into that activity but so far I think we have seen a lot of headlines. We are close to finalizing our first project which we have signed a contract, has been sent to the government but it is now a couple of months we are still waiting for it to come back from them. So as I said things are looking good on the DPSU side, the traditional way that we used to work. On the direct contracts we are hoping but I do not think we are ready to say right now, maybe in the next quarter we will have some positive news to show. And of course our joint venture is under implementation right now. Equipment is ordered, the factsheet is getting ready for our small arms joint venture.

John Perinchery Sir you had mentioned that the interest cost is pretty high, so what steps are we taking to reduce this interest cost and improve this working capital cycle?

Atul Punj As I said already that one is to collect our receivables which are fairly substantial. And that is like pulling teeth but I think we are getting some good traction there now. So hopefully on the outside within this financial year we should have recovered a significant amount of those, and the second of course is the operational efficiencies to cut our cost. So we are attacking from both sides and since I have been back in direct management now for about 2.5-3 months, we are moving on a daily basis in this direction.

John Perinchery And sir what can be the margin profile that we can expect on this existing order backlog?

Atul Punj See the existing order backlog is healthy, the margin at the site level is running at the 8-12% depending upon the different contracts. And we are hoping to try to find a way to improve that at the very least hold what we had bid.

Moderator The next question is from the line of Sachin Kasera from Lucky Investment Managers.

Sachin Kasera Sir my first question is regarding the margins. This quarter you have reported 4% EBITDA margin. How do you see the trend in the coming quarter? Do you think we will be able to achieve double digit margins going forward?

Atul Punj Well we are striving to improve it but at the same time as I said the needle will move very rapidly if we are able to get some of our collections that we talked about into treasury. So once we do that our main cost being interest cost, so we are really striving to find a way to drop the overall debt that we have and that is the easiest way of doing which is sitting in front to us every day is collecting our receivables from our different clients. So that is one thing that we are obsessed about and that is the single biggest way that we will move the needle in terms of interest cost, which will directly impact our margin.

Sachin Kasera Yes, but I am talking more on the EBITDA margin, finance cost is below EBITDA, I am talking about EBITDA margin?

Atul Punj Yes, that as I said we are focusing on operational efficiencies every day. We have already cut our overhead by almost 20%. We are expecting to cut it by another 10%, maybe even 15% in the next quarter. So cutting our overheads, cutting all needless expenses, cutting back everywhere and becoming as frugal and lean as possible is a daily mantra that we are living with every day.

Sachin Kasera Sure, I could understand that but at 4% sir you are still way below the industry which in the range of 9% to 12% depending on company-to-company. So have you interlinked it with any benchmark or any target date by which you would aspire to at least achieve the industry average margin in two quarters.

Atul Punj I think by December we are hoping to get up to that 8% to 9% level.

Sachin Kasera December 2016?

Atul Punj Yes.

Sachin Kasera Second, about the debt, you did mention that around Rs. 4,000 crore of renewed collections which are various arbitration money not being paid to you but in the presentation your debt borrowing is around Rs. 7,500 crore. So what if I were to remove the Rs. 4,000 crore we are still carrying almost around Rs. 3,500 crore. That is the last debt out of our balance sheet. So how do we plan to achieve that because that is also sustainable in the current topline that we are having.

Atul Punj We also have a series of other non-core investments that we have been religiously exiting, so the low-hanging fruit have all been exited but there is still probably about a Rs. 1,000 crore more that we could realize from other non-core that we are currently working on, on a 24x7 basis to try to exit. So that should add another. The balanced amount of debt would be something that would be relevant for a working capital for our projects on an ongoing basis. So that is a reasonable level. So the idea is really a combination of collection and a combination of residual non-core that we are exiting.

Sachin Kasera Sir this Rs. 1,000 crore could you elaborate one or two key investments that could be contributing a large portion to this Rs. 3,500 crore?

Atul Punj The offshore barges is one major amount that is sitting over there. The solar assets are another one. So these two are significant contributors to that.

Sachin Kasera Sir more or less in the barges it is something that we were trying to sell for almost like for a couple of years now.

Atul Punj Yes, we have been trying to sell it. As you are aware, the whole oil and gas market turned in the last 1.5 years. So we had some offers, we are now looking at some new opportunities that we are pursuing and looking how we can adapt these assets into some other applications and not to sell them with offshore oil and gas assets but as other assets. So we are being completely innovative out of the box in terms of how we approach the problem. So one way or the other we expect to get the resolution on this as I said the sooner the better.

Sachin Kasera So maybe you are looking at next 12 months, the way you have mentioned that in the next 12 months you want to collect the official part of the receivables?

Atul Punj Yes, see some will happen earlier, some will happen latter but yes 12 months is a fairly luxurious target actually.

Sachin Kasera Sir you mentioned there are a lot of activities happening on the roadside so can you give us any ideas to what is the type of ordering inflow you would expect from those in the next 12 months?

Atul Punj We are hoping to pick up another Rs. 7,000 to Rs. 10,000 crore worth of business depending on how the bidding activity happens with competitors. I think the first cut flush of projects that happened, most companies have picked up a lot of business so everybody's stomach is pretty much full. So like what we are doing is we are now looking and targeting on specific project that we are looking to get and not just using the short term approach. So now we are being much more targeted and focused on what projects we are looking for and looking at that the range of Rs. 7000 to Rs.10,000 crore is a reasonable expectation.

Sachin Kasera Only from roads?

Atul Punj Only from roads.

Sachin Kasera So in that case what is the full year ordering, I have been putting other signals that you would be looking into?

Atul Punj I think it would be safe to say that full year additional order inflow could be between Rs 12,000 and Rs 14,000 crore additional work.

Moderator The next question is from the line of Jinesh Sheth from Arete Financial Services.

Jinesh Sheth My first question is on the claims part, just to touch upon, in the last conference call you had mentioned the amount as around Rs. 5,800 crore. So you had just mentioned an amount of Rs. 4,000 crore. So if you can elaborate on the balance Rs. 1,800 crore.

Atul Punj The number of Rs. 5,800 crore is a long list, that was prepared for us by E&Y who was helping us on some restructuring and I am talking about the low-hanging fruit that I think we can close out within this fiscal. So the list is long and Rahul can happily share with you offline. I am not including this Rs. 20-30-40 crore kind of claims of which there are large numbers. And in our business claims is a moving target. You decide to file a claim at different points in time, so this 5000 number is not necessarily cast in stone. It is something that will be moving targets. Sometimes you will get a payment that number will reduce. You will file new claim and that number would increase. So that is not a firm number. Rahul can happily share that detail with you offline.

Jinesh Sheth My second question is on the latest scheme by RBI S4A. Have we put some thought on this scheme, if you can just share your thoughts on that?

Atul Punj Well S4A strictly speaking does not apply to pure construction companies thus far. We are now moving with the government and we have got some decent traction that there is possibly a chance of some one-time debt realignment that they are attempting to speak to the RBI about. So we are working on some things which unfortunately I cannot elaborate in more detail on this call but we are trying to take some steps in that direction.

Jinesh Sheth Lastly can you share the consolidated net income numbers?

Rahul Maheshwari So the total income is Rs. 1200 crore, EBITDA is around Rs. 40 crore and interest is around Rs. 250 crore.

Moderator The next question is from the line of Saket Kapoor from Kapoor & Co.

Saket Kapoor Sir you were talking about the order book intake of Rs.12,000 crore for this year.

Atul Punj Yes, as I said this road sector alone based on our targeted opportunities we are looking to Rs.7,000 to Rs.10,000 crore and I think others would probably add another Rs. 4,000 crore approximately. So I would think we should hit the year end between Rs 12,000 and Rs 14,000 crore additional order intakes.

Saket Kapoor And what is the execution for this year which we are targeting?

Atul Punj I have been told, Rahul is nodding his head that I cannot disclose that number right now.

Saket Kapoor Means what we have done in the first quarter would be the bottom, at least if we have to meet the target set?

Atul Punj Well let me let you do the mathematics. Typically, the first half of the year for us traditionally represents about 30% of our annual turnover simply being because of the inclement weather in the first two quarters we are not able to progress much at the construction sites but post-monsoon the activity really picks up. So I will leave it to you to do the calculation.

Saket Kapoor And in this order backlog after deducting that Rs. 5,000 to Rs. 6,000 of the Libya part there is no issue with the legacy part on negative EBITDA as of now the unforeseen circumstances?

Atul Punj No, that is a fair comment.

Saket Kapoor We will be positive on execution and on all the orders that are pending.

Atul Punj That is exactly what we are striving to everyday.

Saket Kapoor That is correct but at least as of now things unforeseen you cannot say but whatever are the favorable factors currently –

Atul Punj They are all good orders.

Saket Kapoor Sir what is the update on the Singapore litigation part, there was some bank guarantee being –

Atul Punj That is all history now. We are now a judicial management. We are working with a judicial manager on how to revive the company in the shortest possible period of time. So we have a 6-month window, we have another 4.5 months to go. So we are hoping that in the next 2-3 months we should have this thing sorted out.

Saket Kapoor So what is the hit we have taken on the balance sheet due to this issue?

Rahul Maheshwari There is no hit that has been taken. We are hopeful that we will be in a position to revive these companies, the two subsidiaries.

Saket Kapoor Could you explain the entire part now? I mean what has actually happened and what is in the anvil now?

Atul Punj No, as I said clearly, the detail you can discuss with Rahul offline but I will tell you simply that these were the two companies we put into judicial management. We are now working with a court appointed judicial manager to revive these companies and that scheme is being developed as we speak. I cannot give you any more details right now because that is something that is being done with the JM under Singapore Law. So that is something that is under discussion. The balance sheet hit there is none right now and we do not expect there to be any. We expect there to be only an upside but any more details Rahul can give you offline.

Saket Kapoor Sir on the non-core asset part, the barges were valued around Rs. 250 crore I think so, which you had stated in the last conference call. Is it fair to assume the price of the barges in that ballpark itself?

Atul Punj See anywhere from Rs. 200 to Rs. 300 would be a fair ballpark. Now where did dart finally hits is something we will only know when we get a deal. The value is something is only what somebody is willing to pay you for. So that is we are hoping it to be within that range and as I said we are trying to tweak it and be a bit out of box and see how we equip this for non-oil and gas operations in area where there is demand.

Saket Kapoor So is this inland water waterway development anyway will make use of these barges?

Atul Punj That is one of the areas that we are considering?

Saket Kapoor And when can we hear something about it, execution of this?

Atul Punj If it is my hands I would have told you yesterday but I think it is something we are striving to achieve and unfortunately in our business there are very few timelines that we can impose on potential buyers. But we are hoping to finish it this year.

Saket Kapoor Other than these barges, what does non-core assets have?

Atul Punj There are solar assets. There are some ex-shares in some company, there is an annuity road project, so there are a few of these that we are all talking about right now.

Saket Kapoor And that will all be on block, I mean we are interested in disposing off them, now owning them going forward?

Atul Punj Right now we are looking to do anything and everything to drop our interest cost. So obviously anything that is strictly non-core, we are happy to. Even core businesses we have actually consolidated into other verticals to drop our costs. So our focus is operational efficiency and everything that is non-core is on the block with one objective reduced interest.

Moderator We will move to our next question which is from the line of Udit Malhotra who is an individual investor.

Udit Malhotra Sir my question is on the same thing which is the non-core assets, one of the things you mentioned was the subsidiary companies like Air Works, so what is the shareholding in that company and is that company considered as non-core and you are planning to sell it?

Atul Punj An equity holding of around 15%, it is now non-core. It was core at the time when we invested. It was part of a defense play. The company in its own wisdom has taken some decisions and there are various investors that have come in at valuations that we were not comfortable with. So we did not participate at the subsequent rounds. So to my mind it is non-core. We are only bound by shareholders' agreement which we are trying to negotiate and exit from, which will allow us then to exit our holding there. So yes, it is non-core.

Moderator Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.

Atul Punj Thank you. I think we have answered pretty much all the questions. If there is anything else, Rahul is available to handle in Q&A. Having said that I think we are obsessing with what I have said already, operational efficiency, cutting our interest cost, recovering our receivables and booking high quality orders that we execute as efficiently as possible. So that really is the bottom line that we are focusing on and I hope that you know in coming quarters we should be able to show you finally after 2-3 years of pretty stressed times a general trending in a positive direction. So thank you very much for coming on the call and hope to hear you next time around. Thank you.

Moderator Thank you. On behalf of Punj Lloyd Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.