PUNJ LLOYD LIMITED

Analyst/Investor Conference Call

February 01, 2007

Moderator: Good afternoon ladies and gentlemen, I am Rita, the moderator for this call. Welcome to Punj Lloyd earnings call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Gavin Desa from Citigate Dewe Rogerson. Thank you and over to you Sir.

Gavin Desa: Thank you and very good afternoon to everybody joining on this call. We welcome you to Punj Lloyd's Q3 and 9M FY07 results conference call. We have with us Mr. Atul Punj, the Chairman, Mr. Vimal Kaushik, Managing Director, Mr. Luv Chhabra, Director – Corporate Affairs and Mr. Ravi Keswani, the Executive Director. I request Mr. Punj to make some introductory remarks post which Mr. Chhabra and Mr. Keswani will take you through some other details after which we may have question and answers.

Atul Punj: Welcome everybody to this third quarter results discussions. In the interest of time what we would do is move on straight to the presentation and I will be interested in taking Q&A session after the presentation.

Ravi Keswani: We have the brief profit and loss account on consolidated basis. First, in Q3 we have our total income of Rs. 14,635 million which includes Rs. 302 million of other income. The EBITDA was Rs. 1,214 million (before bank charges of Rs 81 mn), which works out to 8.29% EBITDA margin on total income. Financial charges (including bank charges of Rs 81 mn) for the quarter were Rs. 361 million and depreciation of Rs. 296 million. Profit before tax was Rs. 557 million, Rs. tax 80 million, and profit after tax of Rs. 477 million. This Q3 consolidated numbers are including the newly acquired subsidiaries, SEC and Simon Carves.

Some brief key balance sheet information. Shareholder's worth is Rs. 12,285 million. Debt position, term loans is Rs. 5,543 million. Working capital loans of Rs. 5,407 million. FCCB is Rs. 5,515 million. Total fixed assets at the end of this quarter on consolidated basis are Rs. 16,652 million. The net working capital at the end of this quarter was Rs. 15,771 million.

For the interest of everyone, I will give the profit and loss figure consolidated basis without SEC and Simon Carves. The total income was Rs. 8,944 million, which includes Rs. 213 million of other income. Absolute EBITDA number is Rs. 1,156 (before bank charges of Rs 23 mn), which works out to 12.92% of the total income. Financial charges for this quarter were Rs. 358 million (including bank charges of Rs 23 mn) and depreciation of Rs. 265 million. Profit before tax of Rs. 532 million, tax on this is Rs. 68 million, and the net profit after tax is Rs. 464 million.

Some of the key balance sheet figures on consolidated basis without SEC and Simon Carves. Shareholders worth is Rs. 11,389 million. Term loan is Rs. 5,543 million. Working capital is Rs. 5,407 million. FCCB is Rs. 5,515 million. Total fixed assets gross block of Rs. 13,415 million, and net working capital of Rs. 15,706 million.

The revenue for the first 9 months, 22% of the total revenue was contributed by pipeline segment, 8% by tankages, process plants contributed about 4%, and 17% was contributed by infrastructure. Balance 48% of the revenues came in from newly acquired subsidiaries, Simon Carves and SEC.

The region wise breakup, Asia Pacific contributed 8%, Caspian 5%, Middle East 8%, South Asia, which is primarily India, contributed about 31% and the rest 48% came from SEC and Simon Carves.

Segmental breakup on consolidated basis without SEC, pipeline business contributed 41%, tankages 16%, process plant 8%, infrastructure 33% and the others contributed about 2%. The region wise break up, 60% of the revenues were derived from South Asia, which is primarily India. Middle East contributed 15%, Caspian 9% and Asia Pacific 16%.

The current order backlog for the group as a whole is Rs. 14,358 crore of which 15% is in the pipeline, tankages have 14% share, process plant 22%, infrastructure again 22% and 27% is from SEC.

Order backlog without SEC is Rs. 10,038.5 crore, 20% of this is from pipeline, tankage is 19%, process 31% and infrastructure is 30%. All the information on the order backlog is available on our website, details you can get from there.

Luv Chhabra: Okay, I will just spend a couple of minutes on what is happening on our offshore engineering entity which is Simon Carves India. We do get a lot of queries on that and I thought this was a good opportunity to brief everyone on where we are.

The size of the offshore engineering market today is in the range of USD $150 to 220 billion of which India accounts for a fairly small percentage of offshore engineering in the region of 10 to 15%, but going forward if you look at estimates for the next 15 to 20 years, from 2008 to about 2015 to 2020, this market is likely to go to the size of a trillion dollars with India having the potential to capture about 15 to 20% of this market, so the opportunity for offshore engineering activities in India is tremendous.

What has happened in Simon Carves India so far? The company has been incorporated; we will be applying for STPI registration so that all the offshore activities are tax free. We have a pipeline of orders from within the Group which is about 250,000 to 300,000 man hours, and staffing has now started in a big way. We already have close to about 200 plus engineers and very aggressive recruitment is taking place right now. We are targeting people with experience in engineering background, people from G.E. etc.

Simon Carves India is headed by Sanjay Goel. Sanjay was a very senior man in Genpact, he set up GE's offshored engineering services center in Hyderabad and other markets. So tremendous wealth of experience and we have got the right guy now to head this company.

We could capture our growth drivers in 3 primary areas. First big one of course is the in-house order backlog, which is today, its total order backlog is $ 3.5 billion of which is about $2 billion to $2.5 billion, so there is a huge requirement within the group for engineering activities and this comes both from SC which is Simon Carves, SEC, and Punj Llyod. The other differentiators are we have a team of engineers either in the pipeline or already available with us which are over 200. There is a very strong brand name with Simon Carves, which is over a 100 year old company with very strong track record, and if you look across our service portfolio it covers the entire gamut of both the oil and gas and infrastructure and process industry which is really petrochemicals, gas, refinery process unit, LNG storage tanks and terminals, offshore platforms, and of course on the infrastructure side, right from power plants to roads to high quality building and high rise buildings.

Our business corner stones can be captured under 4 heads, and that is really best in class, having the process excellence across the group. The fact that we keep getting repeat orders from customers exemplifies our customer centricity and finally our endeavor is to be an employer of choice.

So that is sort of sums up what we are doing. In terms of manpower numbers our estimates are that Simon Carves India in FY08 will have in excess of 700 and 750 engineers which may ramp up in the region of 1300 to 1400 engineers in the year after that. So that is the plan in terms of having high quality engineering strength across various disciplines within Simon Carves India. We can now take question and answers.

Moderator: Thank you very much Sir. We will now begin the Q&A interactive session. Participants who wish to ask questions kindly press *1 on your telephone keypad. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. Participants are also requested to restrict to only one question at the initial round of Q&A. To ask a question kindly press *1 now. First in line we have Mr. Dey from IL&FS Investsmart Ltd. Over to you Sir.

Dey: Hi, my question pertains to the orders that you have won in the last 9 months, especially the last quarter, could you give us a sense of the margins that these orders are going to fetch especially the ONGC one, which is a big one?

Atul Punj: In the last 3 to 6 months, the orders have been coming in mostly are EPC contracts where there is a substantial amount of procurement, considerable amount of engineering and construction. So in the construction element we certainly see there is such a huge demand that on the construction side certainly margins are going upwards and they will not only be maintained but on the construction side they will certainly go higher. On the procurement and the engineering side, you cannot expect to have margins which are anywhere near what you see in construction side. No client is going to say well take 15% off from procurement, so you will overall on an overall basis, what may happen is that the total sort of project margins on a consolidated basis may come down because of a large element of procurement, but in so far is construction etc., is concerned it will continue to be robust. So we expect that on a consolidated basis, the margins would continue in the range of 12 to 13 or 13.5%.

Dey: Okay, next question is about the Saudi Arabia JV, when are the orders going to come from that side?

Atul Punj: In Saudi Arabia the process for getting commercial registration typically takes about 1 year. We managed to get ours in about 5 months. We have now started our marketing activities and we are fairly close to start seeing some results from there. Unfortunately, I cannot disclose more than that at this stage, but it is on track.

Dey: Okay, thanks a lot.

Moderator: Thank you very much mam. Next in line we have Mr. Gautam Chhaochharia from JP Morgan. Over to you Sir.

Gautam Chhaochharia: Good afternoon Sir. If you could help us out on just the numbers ex SEC particularly 9 months, revenue and EBITDA number?

Ravi Keswani: Yes, the revenue numbers without SEC is total revenues are Rs. 894.41 crore which includes Rs. 21.26 crore of other income. The EBITDA number is Rs. 115.56 crore, which works out to 12.92%. Financial charges are Rs. 35.8 crore and depreciation of Rs. 26.5. PBT of Rs 53.22 crore, tax of Rs. Rs 6.8 crore, and net margins of Rs. 46.41 crore. This is for the quarter.

Gautam Chhaochharia: Yes and for the 9 months.

Ravi Keswani: Nine months total income is Rs. 1,991 crore, which includes Rs. 48.35 crore as other income. EBITDA margin of Rs. 265.75 crore, which works out to about 13.35%. Financial charges of Rs 69.78 and depreciation Rs 65.93. Profit before tax of Rs. 130 crore, tax of Rs. 22 crore, and profit after tax of Rs. 108 crore.

Gautam Chhaochharia: What is your outlook on new bookings especially in line with your earlier guidance, and also given the huge jump in order flows, what is the execution cycle there like and what can we expect in FY08?

Ravi Keswani: The execution cycle on the current order backlog on an average will have a burn out period of on an average of about 2 years.

Gautam Chhaochharia: And for the fourth quarter compared to the guidance you had given early for the full year, do you see meeting that guidance?

Ravi Keswani: At this stage the expectations are that Q4 numbers will be better than Q3 numbers on the top line and the bottom line.

Gautam Chhaochharia: How did you see the competition, did you have to bid aggressively to win the new orders or was it quite easy to bid, you had an edge because of your association with SEC?

Luv Chhabra: No they were all bid on the competitive basis , so you know and if you see that most of these orders difference would be L1 and L2 is not very large, so yes they were fairly competitive bid, but what is happening is that size of each contract (if you would see over the last 1 year), the size of each individual contract has been ramping up pretty rapidly, so what has been happening is that our strategy is to try to reach a size of a contract where a lesser number of players in that space of contract size of you know $200 million, $300 million or $400 million contract or half a million dollar contract, Strategically we would like to move towards a situation where each individual contract is in the size of $300 million to $500 million where the number of players are lesser and competition is lesser or they don't have the balance sheet size for such large contracts. The only difference in the piece I think in the group is Simon Carves, which is such a niche player that typically they wouldn't have more than 2 or at best 3 competitors when they bid for a contract.

Atul Punj: Which is unlike the situation for Punj Lloyd and for SEC.

Gautam Chhaochharia: Thanks very much. Thank you.

Atul Punj: Thank you.

Moderator: Thank you very much Sir. Next in line we have Mr. Manish Malwani from Emkay Shares. Over to you Sir.

Manish Malwani: Good afternoon Sir. My question is regarding the E&C division, revenue seems to have doubled but margins have come down drastically, I would like to know what the reason is if you compare with 9 months and the full year.

Atul Punj: If you look at the 9 months figures, the 9 months consolidated figure without SEC is about 13.35%. If you look at Q3 it is marginally lower at 12.9 or 13%, so there is a marginal difference, but one of the reasons for the difference is in the top line of Q3, there is a certain amount of revenue recognition. We have not accounted the profitability because the progress has not been to recognize profitability.

Manish Malwani: Okay, the second question is regarding that tax implications, now the Finance Minister has come out with the statement that he will be considering infrastructure with the oil and gas pipeline project companies, so what do you think would be the impact basically, how will your tax rate come down?

Ravi Keswani: It is difficult to say anything at this stage because the announcement which the Finance Minister made was with reference to the developers who are the owners of the pipelines and that was specifically for the gas pipelines. Now, once the amendments in the Finance Act comes, we have to see the fine print how it affects the construction company whether any benefits will be available to the construction company. The announcement which you are referring was primarily for the developers or the owners of the pipeline.

Manish Malwani: Okay, thank you very much Sir.

Moderator: Thank you very much Sir. Next in line we have Mr. Gautam Bafna from B&K Securities. Over to you Sir.

Gautam Bafna: Hello Sir, my question is regarding SEC. How has your experience with SEC been so far and what are the key changes you are expecting in future with regards to SEC?

Atul Punj: Our experience with SEC really is of two types; one is their subsidiary in Manchester called Simon Carves, as was mentioned earlier that they are a very niche player in the petrochemical space in which they operate and the experience has been extremely positive.

On the SEC side, in Singapore we are now positioned to take some major projects in India as well in the Middle East, and as you know that for the 2 years before we completed the acquisition we actually were not bidding any work, so that backlog is now going to start ramping up over the next 2 months. Overall, it has been a good experience, it has given us a lot of positives, and more importantly it has demonstrated in this ONGC order that we got where we qualified on the back of an SEC company, so I think it has been a good experience thus far and we hope to make it better going forward.

Gautam Bafna: Okay and when do you see margins improving in SEC?

Luv Chhabra: We should start seeing that happen in 2008 onwards.

Gautam Bafna: Okay Sir my next question is regarding the other income that is Rs. 30 crore this quarter, Sir can you throw some light on that?

Luv Chhabra: It is Rs. 20 crore this quarter, Rs 21.8, it primarily comprises of two elements. One is of course the foreign exchange gains, and the other one is interest on the surplus funds.

Gautam Bafna: Sir, can you give me the breakup of that yield?

Ravi Keswani: Break up we can give you offline, we will have to work out that detail, but it includes the hire of ideal equipments, some interest, insurance claim and the foreign exchange fluctuation. The exact figure we can give you offline.

Gautam Bafna: Yeah, that is fine Sir, thank you very much Sir, I will come back later for follow up questions.

Atul Punj: Thank you.

Moderator: Thank you so much Sir. Next in line we have Mr. Rohit Tandon from JP Morgan. Over to you Sir.

Rohit Tandon: Good afternoon Sir. What have been the new order bookings as of YTD FY07 for SEC?

Atul Punj: For SEC? We will come back to you with that number.

Rohit Tandon: Fine Sir, and I will also like to know the historical order book of SEC, I mean the amount that's yet to be done, so these 2 numbers?

Ravi Keswani: That we can give you right now. That is there in the on the website, it is Rs. 3,900 crore total.

Luv Chhabra: I think the addition has been somewhere in the region of probably Rs. 900 to 1000 crore.

Atul Punj: SECs order backlog right now is Rs. 3,973 crore.

Rohit Tandon: Thank you Sir.

Moderator: Thank you very much Sir. Next in line we have Ms. Deepal Delivala from Citigroup.

Deepal Delivala: Hello Sir, good afternoon everybody. I missed some numbers that you mentioned earlier could you just once again go through numbers of the consolidated entity without SEC EBITDA and the total EBITDA for the company?

Ravi Keswani: Okay.

Deepal Delivala: Revenue as well as EBITDA.

Ravi Keswani: Okay, the revenue without SEC was Rs. 894.41 crore for Q3. EBITDA number Rs 115.56 crore, which works out to 12.92%.

Deepal Delivala: And Sir what is the other income you mentioned.

Ravi Keswani: Other income Rs 21.26.

Deepal Delivala: And Sir consolidated with SEC.

Ravi Keswani: Total incomes are Rs. 1463.5 crore, which includes other income of Rs. 30 crore, EBITDA number of Rs 121.39, works out to 8.29%.

Deepal Delivala: Okay Sir, thank you so much Sir.

Ravi Keswani: Thank you.

Moderator: Thank you very much mam. Participants who wish to ask questions kindly press *1 on your telephone keypad. Next in line we have Mr. Shirish Rane from SSKI Securities. Over to you Sir.

Shirish Rane: Good afternoon Sir. One question on your new engineering orders, you don't have any fabrication capacity as of now, I am talking about ONGC platform order, so how do you plan to execute the order?

Vimal Kaushik: Actually, we have already tied up a yard in Malaysia and Indonesia, and it is sort of back to back and when were bidding, we had a back up from them, so we are going to do the fabrication in these two places, Malaysia and Indonesia.

Shirish Rane: Okay, Sir essentially you will still get some sort of EPC contractor margin rather than getting a full manufacturing margin.

Vimal Kaushik: Yes definitely we will get the EPC margin.

Shirish Rane: And in future do you plan to put up a fabrication unit of your own just to when you keep on bidding for such orders and your strike rate of winning orders lately has been extremely high, so would you be investing in any manufacturing facility?

Atul Punj: You mean fabrication.

Shirish Rane: Fabrication facility, yes.

Vimal Kaushik: Yes, we have a plan.

Shirish Rane: Any I mean anything you can share right now in terms of size investments.

Atul Punj: That would depend on the future order flows you know lets see how the other order flows comes in on this and based on that we can decide on the location and the size of the facilities and based on the size of the facilities, we will determine the quantum of investment.

Shirish Rane: Okay, but as of now you have not decided on any of these issues.

Atul Punj: We are looking at it, we are examining it, but there is no decision on that as of yet.

Shirish Rane: Okay and second thing was the status on the Assam road projects, I mean can you just update us on where this Assam road projects are as of now how much they are complete?

Vimal Kaushik: We are working on that and it has been slow after the monsoon this ULFA problem started, there is lot of law and order problems, we cannot work late hours, so at the moment there is bit of a slow down.

Shirish Rane: So, just to understand, what rough percentage would be complete like 25 or 30%, 40% or even lesser?

Ravi Keswani: 20 to 35% completion.

Shirish Rane: Okay and would you have booked any profits on that or it does not reach your profit booking threshold for this particular order.

Ravi Keswani: We have booked the profits on Assam projects.

Shirish Rane: You have booked as on whatever would have completed up till whatever stage and that you would have booked the profits.

Atul Punj: The percentage completion basis.

Shirish Rane: Okay Sir, thank you very much.

Moderator: Thank you very much Sir. Next in line we have Mr. Nirav Parikh from Alchemy Shares. Over to you Sir.

Nirav Parikh: Hi Sir, post acquiring SembCorp, is ONGC the only one order that you have received. Hello.

Luv Chhabra: We have received a number of orders after the acquisition of SembCorp, I think the point that Mr. Punj was making was that the acquisition strategy has helped us in getting an order from ONGC. We have got a $300 million Haldia Refinery order with a hydro cracker and hydrogen plant, we have got a $295 million Libya pipeline contract, so the order flow has been very, very strong. We were making a specific reference to the last ONGC order where the acquisition of SEC has benefited us in getting this contract into a new area which is offshore.

Nirav Parikh: Okay and Sir about that King Abdullah City, Sir what would be the role of EMMAR Group in that?

Atul Punj: Well, I think there will be room for almost every company in the group in the King Abdullah Economic City, for example, there is going to be a large amount of water treatment, sewage treatments, lot of urban infrastructure that will be going into that project, there would be lot of construction work that will be required to be done, there will be industrial parks that will be built over there, chemical terminals will be built over there, some processing facilities are also will be coming in the area, so really there is scope for everyone of the group companies to play an active part over there.

Nirav Parikh: But Sir what would be the role of EMMAR Group.

Atul Punj: EMMAR has partnered with our partners in developing the projects, so really handling the overall design with the total control of space utilization just like, lets say DLF or EMMAR would operate to India.

Nirav Parikh: Okay, so the construction part would be given to you Sir?

Atul Punj: Well we expect to get a substantial amount of it, how much I think we will start finding out in the next 2 to 3, 4 months.

Nirav Parikh: Okay and Sir regarding the process plant in Thailand that you received, what is the size of that order?

Atul Punj: We have confidentiality, we couldn't disclose it earlier, we cannot do it now either unfortunately.

Nirav Parikh: Okay and Sir Qatar pipeline, when do you expect it to complete, as in the completion schedule.

Atul Punj: It has got about 14 months to run.

Nirav Parikh: And just one more thing, Sir in terminals.

Atul Punj: It is a pipeline.

Ravi Keswani: It is an EPC pipeline job it will take about 14 to 16 months.

Nirav Parikh: Qatar would be 14 to 16 months.

Ravi Keswani: Yes.

Nirav Parikh: And Sir that horizon terminal in Singapore, the completion schedule for that.

Ravi Keswani: Well, the horizon terminal the first phase was 30 tanks, which have been handed over, the second phase we got 6 additional tanks, which will be completed by March, and we have new order for 20 odd tanks, which is likely to be completed in FY08 in June.

Nirav Parikh: Okay and the total size of the entire project would be.

Ravi Keswani: The total will go to over Singapore $175 million.

Nirav Parikh: Okay Sir, thanks a lot Sir, thanks a lot.

Moderator: Thank you very much Sir. Next in line we have Mr. Prashant Jain from HDFC Mutual Fund. Over to you Sir.

Prashant Jain: Yes good afternoon everyone. Sir your Rs. 10,000 crore order booking without SEC, and you also mention that the average execution time is about 2 years.

Atul Punj: That is right.

Prashant Jain: Plus you will get some orders in the next 3 to 4 months part of which should also be executed next year.

Atul Punj: Right.

Prashant Jain: Since this translates to a more than Rs. 5000 crore estimated turnover for next year.

Atul Punj: Yes.

Prashant Jain: Is this thought process sound or is there some flaw in it?

Atul Punj: No, it is right, but only thing is we cannot do that math.

Prashant Jain: Okay.

Atul Punj: The thought process is correct, but we cannot make forward-looking comment, so that is how we were looking at each other when we came up with the mathematics.

Prashant Jain: I think at some point during the current year, earlier you had guided for a turn over of Rs. 33 odd hundred crore.

Atul Punj: Right.

Prashant Jain: So now you are not commenting on the guidance at all you are saying.

Ravi Keswani: Well frankly the turnover, depends on the execution, execution depends (a) on the execution capability within the company, on which we are confident, but it also depends on certain factors which are beyond control of the company, so for that reason we are not commenting on any figures, yes if you translate the order book on the time scale we should achieve the numbers which you are saying.

Prashant Jain: Okay and on the Assam projects you said you are facing delays because of law and order situation, what is going to be the impact of that on the margins or are there any escalation or compensation clauses built in?

Vimal Kaushik: We have escalation clause, and they are all cash contracts, and they are all covered under escalation NHAI.

Prashant Jain: So if there is any law and order problem, delay in work, it will not impact margins of the contractors.

Ravi Keswani: Well if you look at the total value of the Assam project vis-à-vis the total order backlog which the group has, it works out to about a single digit percentage, even if there is any change in the margins it is not going to impact the group margins on an overall basis. It is very small as compared to the total order backlog of the group.

Prashant Jain: You also mentioned that the offshore activities are tax free, is that right?

Ravi Keswani: No, I don't think we said that offshore activities are tax free, but the recent job which we got from ONGC, Heera, that is in an offshore area wherein there wouldn't be any custom duty, services tax, or the excise duty for the platform portion only.

Prashant Jain: Okay understood, what is the logic behind hiring 700engineers in Simon Carves India in FY08 and 1300 in FY09, is it for detailed engineering or something else?

Luv Chhabra: Yeah, let me just explain. I think we mentioned that we have almost $3.5 billion of order backlog in the group of which if you look at the EPC sort of work may be $2 to 2.5 billion, and there is a substantial amount of engineering content in these jobs. Simon Carves is a niche engineering co. and in the petrochemical field, their engineering cost is in the region of 40 to 50 pounds an hour, compare that with cost in India which may be on a weighted average basis across all levels from $20 to $30 an hour. So the arbitrage is large, there is a huge potential to capture margins by offshoring significant portion of the detailed engineering work out to India, for that you know system needs to be integrated, you need to have the competency level, etc., which is where I mentioned that we hired Sanjay Goel a very senior person from Genpact to come and head up this piece of the work, so that is one bit of it. And I think going forward the intent is that SCIL will just not service group, it will service other domain verticals and those will be in domains like aeronautics, aviation, telecom, etc., It is only then when we service verticals outside the Group, when we can benchmark best practices and make sure the quality of service standards are best in class etc., I said we will ramp up to about 700 in India in FY08 and next year bring it up to about 1300 to 1400, so that means there will be an addition of another 600 to 700 people in the next year, in FY09.

Prashant Jain: And would this result in the reduction in head count at Simon Carves?

Luv Chhabra: No, the idea is not to reduce head count, the idea is to grow the business aggressively, to ramp up revenues, to multiply the revenues, people are at a premium and we certainly don't want to get rid of people.

Atul Punj: Yeah other two advantage of Simon Carves India will be as Mr. Chhabra informed that the cost per man hour is about 40 to 50 pound, there is lot of detailed engineering work which cannot be sold at 40 to 50 pound per hour. With the Simon Carves India offshore operations in India we will be able to capture the detailed engineering work, which is normally available at $30 to $40 per hour. The other thing which we are looking at as a major advantage when you have the in house engineering center, a lot of emphasis is on the value engineering, wherein the savings will result in the EPC projects which we are carrying on.

Prashant Jain: Okay and longer term where do we expect margins to be, could you guide us on this SEC and Simon Carves, SembCorp and Simon Carves longer term, where do we over the next 1 to 2 years, what kind of margin improvement are we expecting?

Luv Chhabra: You know you need to understand that their PAT margin base is just breakeven, right, so if you look at the past performance they have just be marginally breaking even., (their PAT margins have been negligible). So going forward, we will see that number creeping up, it will go to about 2% and then rise after that. The focus is definitely to ramp it up pretty aggressively, but obviously it cannot approach Punj Llyod numbers overnight, it will take time to do that, but we will certainly see a healthy growth on that.

Prashant Jain: Could you share some comments on the nature of the order book pipeline where you have submitted bids or where bids have to be invited, what is the size relative to the past?

Vimal Kaushik: I mean we can make a general comment, if you see the average size of the orders you know they are ramping up, right, and that is the strategy, here the strategy is to go into sizes of orders which are in the $300 to $500 million range, you know, at any time we are always bidding for projects, it is constant ongoing process, at this point we are no wiser as to which one we will get and …

Prashant Jain: No, what I was saying is how is the pipeline of orders where you have bid or where bids are to be called compared to the last 3 to 6 months.

Vimal Kaushik: Very strong.

Prashant Jain: Okay fine, thank you.

Moderator: Thank you very much mam. Next in line we have Mr. Deepak Bakliwal from Principle Mutual Fund. Over to you Sir.

Deepak Bakliwal: Hi Sir, just a question on the other income.

Atul Punj: Yes.

Deepak Bakliwal: Yeah, you said that your other income is Rs. 48 crore for the 9 months for Simon Carves.

Atul Punj: That is right, yes.

Deepak Bakliwal: How much of it would be because of foreign exchange?

Ravi Keswani: About 22 odd crore.

Deepak Bakliwal: If I get this right, this is a provision which you are doing on your FCCB?

Ravi Keswani: No, it is a combination of FCCB and conversion of overseas operation

Deepak Bakliwal: If dollar depreciates the only way you can benefit is on your FCCB?

Ravi Keswani: No there are other elements also, because unlike the other players who have only FCCB as the only foreign income conversion which happens, but in our case there are large subsidiaries who are outside India, so it is a combination of FCCB and conversion of the overseas operations, combination of both.

Deepak Bakliwal: Okay and another way of looking at it is when the FCCBs convert, you would then write off all these gains? I am just saying that hypothetical case, then you would write it off against the P&L?

Ravi Keswani: Yes definitely.

Deepak Bakliwal: Okay, so the other income is not too recurring in nature is what I want to come at, but if I knock off your other income am I right in saying that your margins are at 10.5%.

Ravi Keswani: The other income what you are saying partially is right, if you are talking about the FCCB, as I said the total foreign exchange fluctuation is not as a result of only FCCB, you look at the dollar rate it has been quite stable in last 4 to 6 months, it is because of the foreign operations of the group that we have this income coming up in the exchange fluctuation.

Luv Chhabra: The other point is that the other income is not only foreign exchange variation, as we have explained to you the other income also includes on account of interest earnings on surplus cash, there is some amount of claims from insurance etc., so what the FCCB portion we have represented in this is only a small portion or some portion of this other income.

Deepak Bakliwal: What is the cash on the books ex Simon Carves?

Ravi Keswani: It is about Rs. 456 crore.

Deepak Bakliwal: Yeah. Rs. 456 crore.

Ravi Keswani: That is right, and including Simon Carves is Rs. 941 crore.

Deepak Bakliwal: Okay, you have been saying that the margins of Simon Carves will increase in the financial year 2008-2009, but that is not because of the arbitrage in the labor cost, am I right because you are not looking at hiving off manpower there, so could you explain to us in detail as to how we are looking at, because this quarter I think Simon Carves has done an EBITDA negative, if I am correct. Because if I look at your consolidated EBITDA and if I knock off your consolidated ex Simon Carves then I will get a negative EBITDA for this quarter for Simon Carves.

Ravi Keswani: Well the EBITDA with Simon Carves EBITDA number as an absolute number is Rs. 121.39 crore, and without Simon Carves is Rs. 115.56 crore. Simon Carves have contributed about Rs. 5.82 crore of EBITDA, and even on net profit they are positive.

Luv Chhabra: So going back to your question as I said currently they are just about breaking even and we estimate that going forward these numbers should start ramping up. Now it is a combination of a variety of things, as Mr. Punj explained earlier they were not bidding in many of the areas, they have now started bidding much more aggressively. It is also a combination of the offshoring activity that will happen for them to grow the business aggressively where part of that engineering activity will have to be offshored into the Indian entity which is Simon Carves India.

Deepak Bakliwal: Okay.

Luv Chhabra: So it is a combination of these strategies which will drive their margins upwards.

Deepak Bakliwal: Okay, any figures you would like to quote, any indicative number on lets say financial year 2009 where you foresee Simon Carves margins to be?

Luv Chhabra: Closer to March we will come back with those numbers.

Deepak Bakliwal: Okay, thank you Sir thanks a lot.

Moderator: Thank you very much Sir. Next in line we have Mr. Atul Rastogi from UBS.

Atul Rastogi: Good afternoon Sir, if you could throw some light on your investment plans for the next 2 years vis-à-vis capex or investment subsidiaries or BOT projects.

Vimal Kaushik: Well we have qualified for two of the BOT projects where we have partnered with GMR., and we have bid for the Delhi-Jaipur 6 laning highway and we have bid for one in Andhra with GMR., so that is what our immediate plans are, lets see how the bids go out on the BOT side.

Atul Punj: Our capex globally revolves around the acquisition of the projects and what type of equipment is required for the project. The only area that we will be seeing substantial investments will be basically our offshore construction business. That is currently under review right now and we see that there is a gap in terms of capability to do a lot of offshore pipelines work, which is a major focus for us having secured the Heera project, also on the completion of our Uran Trombay which we just did, so that is an area which will attract some focus, but we are really evaluating, we are in the middle of evaluating how much and where to spend right now.

Atul Rastogi: Okay but for Rs. 10,000 crore order book that you have right now…

Atul Punj: Rs. 10,000 crore order book has a large component of procurement in it, as was mentioned out of the order backlog currently about $3.5 billion, $2.5 billion is typically EPC work and of that $2.5 billion I would estimate about 40 to 50% would be pure bought out from specialist vendors, so for the balance work we really do not foresee too much capex going forward.

Atul Rastogi: And typically what would be the margins in procurement, I think they will be about 2 or 3%.

Luv Chhabra: There are single digit percentage on the procurement element and it depends on project-to-project basis but normally they are in single digit.

Atul Rastogi: And in terms of subsidiaries do you see any capital allocation there.

Luv Chhabra: It is marginal it is nothing substantial, both SEC and Simon Carves have very little equipment there, so it will not be any major investment in capex, a couple of million dollars or $3 million. It is just sort of an indicative number and as I said we will finalize that by March end we will be able to come back with the final numbers.

Atul Rastogi: Okay, thank you.

Moderator: Thank you very much Sir. At this moment there are no further questions from participants, I would like to hand over the floor back to Mr. Atul Punj, Chairman of Punj Lloyd. Over to you Sir.

Atul Punj: Well thank you all very much for participating in this call, and I hope we have answered most of your questions and we are quite confident about what we are seeing happening in the future. We believe that we are going to continue to be the leading trans-national construction company based out of India. We believe that there is a lot of value that we could bring back to the country with that approach and add a lot of the shareholder value as well. So thanks again very much and till the next time. Thank you.

Moderator: Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
