Punj Lloyd Limited

Q3 FY08 and 9M FY08 Results Conference Call
2.30 p.m., February 01, 2008

Moderator: Good afternoon ladies and gentlemen. I am Rita, the moderator, for this conference. Welcome to the Punj Lloyd conference call. For the duration of the presentation, all participant lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to handover the floor to Mr. Gavin Desa from Citigate. Thank you and over to you sir.

Gavin Desa: Thank you. We welcome everybody to Punj Lloyd's Q3 and 9M FY08 results conference call. We have with us Mr. Atul Punj, the Chairman; Mr. Vimal Kaushik, Managing Director; Mr. Luv Chhabra, Director of Corporate Affairs; Mr. Ravi Keswani, Executive Vice President; and Ms. Pratima Ram, Group President, Finance. I would request Mr. Chhabra to make some introductory remarks after which we will have questions and answers.

Luv Chhabra: Well, Good afternoon ladies and gentleman and welcome to this conference call. My colleague, Mr. Punj and Mr. Kaushik will be joining us in a couple of minutes, but we should start. So, the details of the results have probably been circulated to all of you, so without going into any further statements on the financial results, we would welcome any questions that the investors or the analysts may have.

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. To ask a question, kindly press *1 now. First-in-line, we have Mr. Pritesh Chheda from Emkay Share and Stock Brokers. Over to you sir.

Pritesh Chedda: Yes. My question pertains to that write off of Rs. 67.9 crore which we have taken, or provisioning…

Luv Chhabra: Right. Hello?

Moderator: Mr. Pritesh? I think we have lost him sir.

Luv Chhabra: Okay.

Moderator: We will take up the next question. That's Mr. Rajmohan. He is a private investor. Over to you sir.

Rajmohan: Yes, thanks for taking my call. I had a few questions. First is on the slow down in the US and the perceived impact it could have on the global commodity universe and the economies dependant on US. Though the global economy is currently seen to have tremendous amount of investment activity emanating from a few regions, we are on the brink of a highly probable US recession. Has the Company looked along the lines of how hard landing the US will impact the finances of some of the largest infrastructure spending economies, this may not be a short-term concern, but has the Company thought about this material change that could have an impact on the longer term capex investments of economies like Southeast Asia and Middle East?

Luv Chhabra: Okay, so let me answer that Mr. Rajmohan. I think the world is still grappling with what the full impact of the US melt-down, if I can call it, we don't know many others we really don't know what the effect will be, but if you look at the business profile of the Company, firstly we are heavily focused on the oil, gas and petrochemical sector. Now, there are varieties of analyst reports, but almost everyone predicts that while oil prices in the short term may come down by $ 5-10 a barrel, its unlikely that oil prices will come below $ 70-75 a barrel. Now, that be the scenario, we still see a very strong robust order flow on the oil, gas and the petrochemical side in the markets in which we are present, which is primarily Middle East, South Asia, Southeast Asia, the Caspian region, North Africa. We will see that expenses, or sorry the capital expenditure on the oil and gas side, because of a very strong demand led primarily by the Asian economies of China and India, will continue to witness heavy capital expenditure which should translate into robust order books for the Company. Lets come to the infrastructure side. I mean, we see a significant spending on the infrastructure side happening in the Middle East, South Asia, a lot in Singapore, not so much infrastructure, but related to leisure, which is you know these projects on casinos and stuff like that, and again in other parts of Southeast Asia countries, like Vietnam. Typically, if you see the cycle of infrastructure spending, again it is while there is obviously some relationship with what global investors do, but once countries like China and India have embarked on the fairly aggressive investment plan on infrastructure, its unlikely that there will be a significant change, so we may see, I am not saying we will, but we may see some marginal changes, but I don't see on an overall basis it will have any short, significant short, to medium impact on the Company's business.

Rajmohan: Okay. You did mention that oil at present, given the present circumstances, wouldn't be falling below $ 70 to 75. Has the Company done an internal estimate on the levels up to which oil prices falling will not sort of reduce, incremental petro dollar investment, one parallel could be the offshore grilling market, where it is generally perceived that oil falling up to $ 45 will not have additional investment impact. Similarly, has Punj done an internal estimate about oil falling up to what extent won't be leading to a reduction in petro dollar investments?

Luv Chhabra: So, as I mentioned, I cannot hazard a guess whether it will reach $ 70, 75 or 90. I am just quoting what analysts have predicted that it is unlikely that crude oil prices will fall below $ 75 a barrel in the short to medium term. Now, typically if you see, the marginal rate of recovery for many of the offshore fields, and this includes gas too, you know crude oil prices above $ 30, 35, 40 a barrel, they are in the money. So, you know, there is a significant gap between the $ 35-40 level and the $ 70 level. So, we won't see a slowing down, and then you know driven by the fact there is a very strong global demand which continues on the oil and gas side. Its not slackening.

Rajmohan: Okay. The third one, the next question is, has this quarter seen a larger execution of legacy orders, since the margins for overall entity have come down significantly at the EBIDTA level? The reported figure for the legacy orders last quarter was about Rs. 1,700 crore from the Sembawang side. What was the order execution from the legacy side for this quarter? And how much legacy orders are remaining to be executed in Sembawang?

Luv Chhabra: Yes, I will ask Ravi to answer that, but clearly obviously, you know, with the passage of time, the legacy orders have been wound down, and the residual amount that we see will probably get executed over the 6 to 9 months. The exact figures I think Ravi can provide you.

Ravi Keswani: The current balance outstanding in the order backlog from the legacy project is about Rs. 1040 crore. So, roughly about Rs. 550 crore to 600 crore of legacy orders have been executed during the current quarter.

Rajmohan: Okay. You also have indicated that the Company wants to raise its average order size to about $ 250 million bidding. Would it be possible to give a tentative indication of how many orders would be in the $ 250 million range currently floating in the global market?

Luv Chhabra: Yes. I don't think we can give you an answer of how many orders are in the $ 250 million range in the global market, but what we can tell you is that if you look at the top, I would say about 30 odd percent of the orders, 30 plus percent of the orders, they are all above the $ 300 million range. We are moving, I mean, directionally the alignment is towards what we wish to achieve.

Ravi Keswani: I will just clarify on this. Currently, there are 12 orders within the portfolio of Company which are exceeding $ 250 million mark, and that constitute over 50% of the current order backlog.

Rajmohan: Okay. Any order flows on the anvil from the King Abdullah Economic City project because as late as yesterday there was an announcement of a $ 5 billion dollar aluminum smelt around the city. We still haven't heard any big orders to Punj Lloyd. Anything that you could generally give us some additional on that, Punj Lloyd has bagged in that area?

Luv Chhabra: Yes. There is nothing at the moment. As I said, I think we did mention earlier that we got qualified on the oil and gas side. The next step of qualification is on the infrastructure side in South Arabia. So, we should see some traction on that happening, you know, may be around the third or fourth quarter. There is work going on in the sense that the preparations have been made for bids, etc., but typically that takes 6 months to 8 months to decide after the bids have been submitted, or preparation for bids, so we will see in FY08 to FY09, may be in the second or third quarter that we are should, we are hopeful of getting some orders.

Rajmohan: Okay. One final question. Again, coming to the same King Abdullah City, will most of the orders be executed here through the JV or will a large amount come directly to Punj Lloyd?

Luv Chhabra: No, it's a combination of both. Obviously, ultimately the aim is that the JV should, you know, should develop qualifications, but till such time those qualifications develop, significant amount of the work will be done by Punj Lloyd.

Moderator: Thank you very much sir. Next in line, we have Mr. Gaurav Chugh from Batliwala & Karani Securities. Over to you sir.

Gaurav: Sir, can you throw some light on the losses booked in the books of SEC, and I would also like to know whether this loss is a one-time loss or we can see this kind of losses going forward? And sir, what the margin outlook for SEC is going forward?

Luv Chhabra: Firstly, I don't know whether, I mean at this point of time, I don't even know if it's a loss, and the reason I say this is there are a couple of projects where the costs on the project have exceeded or are exceeding the project value, or are likely to exceed the project value. Now, these are projects that are almost 80 plus percent complete or 90 plus percent complete. Typically what happens in these projects is that these cost overruns rise because of variety of factors, principally, these are because of variation orders that the client asks us to execute or there are delays by the client in handing over work fronts, etc, etc. Small clients, or large clients typically say, well, first complete the order, then we will settle these variation orders or delays because of work fronts not being available, etc. Now, because we have exceeded the costs, or are coming close to exceeding the costs, we have made a provision. By the end of the March or sometime by mid April, when these contracts are completed, we will sit with the client and then settle the variation orders, our cost escalations because of delays in work fronts and there are a variety of reasons. Now, at that point of time, if the client pays us, as is management's expectation, then it is likely that many of these, so called losses that you say, would be reversed. On the other hand, if there is a settlement, and that client only does a partial settlement, or the client does no settlement, then we will invoke the arbitration clause, as has happened in previous cases in, you know, Mathura and Baroda, and we have done those arbitration cases, you know we will follow that route. So, as a matter of conservative accounting practices, we have made a provision. Right. But, I think, the final decision on whether this a loss or not, will come only at the time when the contract is closed and we sit with the client and settle the extra claim because of the reasons that I explained.

Ravi Keswani: Only one rider I would like to add here, that, yes, Company expects that some recoveries may be possible in respect of the variation order, but this should not be treated as a guidance, as a Company will take a new neutral stance on this particular subject whether the variation order will be received on not. It's a subjective thing.

Gaurav: Okay sir. Sir, have you made all the provisions for foreseeable losses?

Luv Chhabra: Yes. At the moment, the answer is obviously yes.

Gaurav: Okay. And sir, what is the outlook for like FY09 onwards?

Luv Chhabra: We don't give any guidance numbers. What we do provide is what the order backlog is, and the guidance that we give is very clear that, we give the margins at which Punj Lloyd is bidding Sembawang and Simon Carves is bidding and therefore, you are free to make your own judgment as to what the FY09 numbers will look for the Group.

Gaurav: Okay. And sir, what was the contribution of SEC in this quarter's revenue.

Ravi Keswani: SEC, this quarter, has contributed in revenues Rs. 832 crore.

Luv Chhabra: So, I mean, it would be when you say SEC, it is both Sembawang and Simon Carves and their subsidiaries.

Gaurav: Yes. And sir, what would be the EBIDTA and the PAT numbers?

Ravi Keswani: The EBITDA number for the quarter for SEC is Rs. 23.34 crore and the PAT number is Rs. 19.48 crore.

Gaurav: And sir, what would be the other income amount in SEC's book?

Ravi Keswani: Rs. 59.51 crore.

Gaurav: And sir, what is the status of your real estate project that is in JV with Ramprastha?

Luv Chhabra: Well, the drawings are under finalization now. We expect that in the next couple of months we will apply for building permission. Once the building permissions and approvals are obtained from the development authorities, we will then start towards master planning and construction.

Gaurav: Fine sir. And sir, how is your Simon Carves India doing, and what is the profitability of that Company.

Luv Chhabra: I think we have given those numbers in the guidance note. Well we are doing well and there are up to almost 350 engineers. They have also started getting orders from third party which are outside the Group, so the performance has been as per expectations, in fact I would say probably marginally better than expectations. The revenue that they have earned is close to about Rs. 250 million and about Rs. 9 million of this is from overseas contract, and the balance from domestic contracts.

Gaurav: And sir, what about profits?

Ravi Keswani: They are profitable. Their operations, although we never expect that first year will be profitable, but their operations are profitable.

Gaurav: Okay. And sir, what kind of ramp up are you looking for in Simon Carves India?

Luv Chhabra: I can give you the ramp up in terms of the number of engineers.

Luv Chhabra: Current expectations are that in the next financial year, which is FY09, this number of 350 is likely to go up to between 800 and 900 engineers.

Moderator: Thank you very much sir. Participants are requested to restrict at two questions at the initial round of Q&A. The follow-up questions will be taken later on. Next in line, we have Mr. Venkatesh Balasubramaniam from Citigroup Global Markets India Ltd. Over to you sir.

Venkatesh: Sir, just to clarify. First of all, a couple of house keeping questions. You mentioned that the EBIDTA on Sembawang is roughly around Rs. 23.34 crore, now in this you are obviously including the other income of Sembawang and the Rs. 37.1 crore exceptional item, right?

Luv Chhabra: That's right. Both are included.

Venkatesh: Okay sir. Now, even in that Rs. 59.5 crore other income, you are including this Rs. 37 crore and saying Rs. 59 crore, right?

Ravi Keswani: Yes.

Venkatesh: Okay sir. Now, if we actually look at your order backlog, Punj Lloyd has been growing, you know the SembawangE&C order backlog has been growing significantly, it is like up 35% YOY. But does it worry you that Punj Lloyd's order backlog actually has come up on a YOY basis by about 13-14%? Because what we understand is that the margins which you make on the Punj Lloyd side are much higher than the margins you make on the SembawangE&C side? So, is there a cause of worry, and if not how are you planning to address it? I mean, are there potential order wins which are likely to happen before the end of the year, which could help in booking sales in the next year?

Luv Chhabra: Venkatesh, I mean, you would have seen historically if you have been tracking the Company that order intake can tend to become lumpy, and the reason is that we don't have control on when the orders are decided or tenders are decided by the client. So, very often it happens that we bid for the sake of argument, you know, billion dollars' worth of jobs, and the decisions come in after 6 months or 8 months, but you know one job of, or couple jobs of $ 300 to 400 million will completely tilt the balance. So, I don't think you should look at it on a quarter-to-quarter basis because it will give you completely erroneous results. All I can tell you is that the bidding, you know the bidding activity has been significant, and you know we should see some results coming in over the next couple of quarters.

Venkatesh: Is there something like a lot of other companies give a set of orders in which they are L1? They make that announcement that we are L1 in so many orders. Do you do that?

Luv Chhabra: We, as a practice, make a declaration when we get the order, which is when we get the Letter of Intent. Without that, we don't give that information.

Venkatesh: Okay sir.

Luv Chhabra: Opening an L1 doesn't always guarantee you an order. I can tell you a variety cases where the companies have opened L1, but the clients have decided either to re-tender or change the contract. So, personally we not in favor of that practice. We only release information when we get an order.

Venkatesh: Sure sir. Now, on this Rs. 62 billion, like you said you don't give guidance on margins, on existing orders, like for example you have an order backlog of Rs. 62 billion on SembawangE&C, which has around Rs. 10 billion of legacy orders, and then on the Punj Lloyd side you have like Rs. 98 billion, what would be the rough indicative margins on the existing order backlog? I mean what have you bid at?

Luv Chhabra: I think, Venkatesh, there is no change in that. We have mentioned last quarter that most of these, or almost all of these, Sembawang and Simon Carves orders have been bid at 7 to 8% margin, and that continues. We had also said that Punk Lloyd orders had been bid at 11 to 13.5% average margin, and yes, that guidance continues.

Venkatesh: Yes, and in this guidance, does it include other income?

Ravi Keswani: Yes, it includes the other income because all the other incomes which are reported in the financial statement, except for the gain on the disposal of real estate by Sembawang, they are all directly related to the core business of the Company, which is Engineering Construction.

Luv Chhabra: Ravi, I think, we need to be a bit careful about that. I guess, it doesn't, I mean, there could be hypothetical questions when it does not include that, I mean if we have made an investment, and that investment has turned around 4 times, does it include the sale of that investment? No, it obviously doesn't. This is income related to the primary business of the Company.

Venkatesh: Sure sir. One last question. Now, if you actually look at your order backlog and revenue mix, it seems like revenues from South Asia are around 44%, order backlog 38% from South Asia. Now South Asia would be basically India, right? Or does it have anything else?

Luv Chhabra: No, it is only India.

Venkatesh: Now, why is it that given the fact the India is going through massive capex build-out, you know for expected $ 500 billion capex in the next five years and that capex is unlikely to stop, why is it that, you know, Punj Lloyd as an entity stands out in, you know, it seems to be winning more orders outside India whereas, you know, is it like, is it out of choice that you prefer orders outside India? Or is it because Punj Lloyd is failing to win orders in India? Because our own understating is generally if you bid in India, you might end up making higher margins than outside India?

Luv Chhabra: I am not sure where you got that analysis from Venkatesh. On the contrary, I would say that a company that is very competitive and is able to deliver and get orders in the international market, you know, indicates, is a very strong indicator of a couple of things. One is obviously on quality, the other is on health, safety and environment, because clearly it has established beyond any doubts that customers, particularly international oil companies and petrochemical companies are very discerning on these two aspects. So that's the fundamental point. I think the second point is, which you are completely missing out Venkatesh is please also look at the amount of investment coming in the Middle East region, the Caspian region, and Southeast Asia on the very same aspects that you are talking of. So, you look at the investments coming in Singapore, for example. Just on the build-out on the casinos, its massive. You look at the investments coming in Middle East on oil and gas, petrochemicals, etc., it is substantially higher, so we are, what we are seeing is we will go to markets which afford and provide best returns to share holders, and yes we will leverage our opportunities in these markets.

Venkatesh: Point taken sir, and all the best for your next quarter and the next year also.

Moderator: Thank you very much sir. Next in line, we have Mr. H.R. Gala from Quest Securities. Over to you sir.

Gala: Hi congratulations for a good set of numbers.

Luv Chhabra: Thank you.

Gala: Yes, just a clarification that this Sembawang provision of Rs. 68 crore that is what we have made in Q3. Cumulatively how much provision have we made till 9 months?

Ravi Keswani: I think, the provisions, we keep on making, and some of the provisions we keep on releasing once the defect liability periods are over.

Gala: Okay. So, that's an ongoing process. This was exceptional item on the, which was not normal, that we had to keep a provision of about Rs. 68 crore in this quarter on some of the legacy projects, where because of the cost overruns, the margin percentage has fallen down and the margins already booked are being reversed. So, that's an ongoing process that we keep on, keeping the reserves and the contingencies for the defect liability period.

Gala: So that should be treated as the normal provisioning that we make in any E&C Company?

Ravi Keswani: Only exceptional item is the Rs. 68 crore.

Gala: My second question pertains to, can you give breakdown of Rs. 99 crore other income that we have in 9 months against Rs. 63 crore in the corresponding period of last year? Rough breakup?

Ravi Keswani: Okay. 9-month breakup, the major items included in this are unspent liabilities and the provisions written back, which accounts for about Rs. 45 crore, out of which almost Rs. 37 odd crore relates to the real estate investment, which we disposed off during the current quarter.

Gala: I think Rs. 37 crore is I think what we are showing as exceptional item.

Ravi Keswani: Yes. That's included in the unspent liabilities part, of Rs. 45 crore which I told you. The other major element is roughly about Rs. 42 odd crore from foreign exchange fluctuations. Rs.20 odd crore is the interest. Rest are other items which will include scrap sale, insurance claims, rent, small amounts on profit on sale of assets or sale of investments, some dividends, etc.

Gala: Okay.

Ravi Keswani: These are the three major items.

Gala: Okay. Do you see going ahead, as you said, that the mix of the operating profit margin which we have quoted, will see the overall margins for the Company also to go up?

Ravi Keswani: What we have been witnessing in last 1 or 2 years that there is upward pressures in the margins because of the lack of availability of the construction contractors in the market. Internally, we feel that every year, for the industry as a whole I am giving a generic statement, there should be a 25 to 50 basis point improvement in the margin for the industry as a whole. That's what we feel internally. Every 12 months, if this investment scenario continues. We are hopeful that further improvement in the margins would happen for the entire industry.

Gala: Okay, and probably on the Sembawang side also, if we can improve upon the margin, I think our blended margin should be much better. Is it simply because we are not into those simple road and tunnels type of projects? You know, we are more into the special nature projects of oil and gas and other things where I think the margins ought to be higher?

Ravi Keswani: There is a fundamental difference between the business strategy of Sembawang and Simon Carves compared with Punj Lloyd. Sembawang and Simon Carves do design engineering procurement and construction management. They don't do construction themselves, which is being subcontracted to third parties. So the construction margins are captured by third parties which is outside the Group. While in case of Punj Lloyd, even the construction is done in-house. So because of that difference, there will be always a gap between the margins in Punj Lloyd as compared to margins in Sembawang and Simon Carves.

Gala: Okay. But what I was trying to say was that the blended margins which are looking a bit depressed because of the legacy orders, once those get over, I think our overall blended margin should look up?

Luv Chhabra: No, undoubtedly, you know that the new projects that we have bid in, that have we have bid by Sembawang and Simon Carves are in the 7 to 8% range margins at project level, which is substantially higher than what the legacy orders have been earning.

Gala: Okay. Now this Rs. 16,000 crore order backlog, which we have, within how many years will this be executable?

Luv Chhabra: Well, I mean, it depends. There are some projects, which will get executed over a period of 9-12 months. There are others that may carry on for about 30 to 36 months. So, as a general guidance, I would imagine 24 to 26 months is a fairly reasonable estimate.

Gala: 24 to 26 months. An in order that these orders get executed, how much more capital expenditure we will have to do? In this year and the next few years?

Luv Chhabra: That's a, you know, that's a capital budget that goes to the board every year, and at the start of the financial year, or just before the start of the financial year, the board takes a view on what this expenditure will be, and so far, that expenditure has been in the region of Rs. 250 to Rs. 300 crore a year.

Gala: Okay, even in the current year we will spend that much?

Luv Chhabra: It is likely to be in that range, but a part of it would be on equipment and a part of it would be on real estate, so it depends, so that is the view, you know that we will finalize before the start of the financial year.

Gala: Okay. Anyway, thank you very much. All the best.

Moderator: Thank you very much sir. Participants are requested to restrict at two questions at the initial round of Q&A. Next in line, we have Shreya Doshi from Enam Securities Ltd. Over to you ma'am.

Shreya: Sir, I would just like to understand if in the standalone Punj Lloyd orders, would there be any which are lagging behind schedule, similar to what happened in the SEC?

Luv Chhabra: I am not sure what you mean by the lagging behind schedule. I don't think the issue in SEC was orders lagging behind schedule. What the issue there was, in Simon Carves and SEC, was there were certain projects where the cost has gone up and we have made provisioning for those because the costs have increased. Now, it is only when the project comes to an end that the Company would sit across the table with the client and arrive at a settlement right? But it does not mean that the orders are lagging behind schedule.

Shreya: Yes sir, but in that case would there be in any case where the cost overrun has been there in the standalone Punj Lloyd orders?

Luv Chhabra: So, if there was, I mean, if in standalone Punj Lloyd orders there were some surprises or there were some areas where, you know, the cost was running over, there would be provisioning that is made; none has been made, so this, you know, they are going generally in line with expectations.

Shreya: Do you expect any such provisioning to come in, in quarter 4?

Luv Chhabra: Unlikely. Doesn't seem like it.

Shreya: Alright. And sir, just wanted to know the balance sheet numbers in terms of cash, what is the amount on the books?

Ravi Keswani: Total cash on the books is Rs. 927 crore.

Shreya: And working capital cycle would be?

Ravi Keswani: 106 days.
Shreya: This is on a consolidated basis?

Ravi Keswani: Consolidated.

Shreya: Okay sir. And sir, and just one more question on SEC revenues, Rs. 832 crore, what would be the breakup between process and infrastructure segments?

Ravi Keswani: I have been answering this thing. It is actually difficult to give that number because there is some process business, which has been captured under the name of Sembawang as well. So, roughly I can say that just a ball-park figure, 60% of that will be infrastructure, rest will be process side.

Shreya: I didn't get you sir, captured under Sembawang meaning?

Ravi Keswani: Because some of the projects on process and petrochemical side, which are being executed in Singapore and Southeast Asia, they are bagged in the name of Sembawang, and they are being executed in the name of Sembawang. So, there is an overlap, but it is not that all process side is being captured in Simon Carves.

Shreya: Sir, I mean by SEC itself, the total Rs. 832 crore.

Ravi Keswani: About 60% in infrastructure and 40% process side.

Shreya: Okay, which would be inclusive of Simon Carves?

Ravi Keswani: Yes.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Pritesh Chheda of Emkay Share and Stock Brokers. Over to you sir.

Pritesh Chedda: Yes, my question pertains to, in the balance legacy orders that we have now, is there a scope of such cost overruns to happen? One, when I look at this, the provisioning which has been made in the current quarter, is it a non-cash provisioning in lieu of expected cost overruns on the project, or it is the actual booking of expenditure of cost overruns which have happened? What is this nature of transaction?

Luv Chhabra: The nature of the transaction is the reversal of profitability that was booked in previous quarters and now as a consequence of the cost of overrun and the current estimate of project completion that these have been reversed.

Pritesh Chedda: Okay. These have been reversed.

Luv Chhabra: The current estimate of profitability has been taken into account, and, I mean, there was profitability provided, or a larger amount of profitability provided in earlier quarters based on best estimates at that point of time, those have been reversed.

Pritesh Chedda: Okay. Second question pertains to your legacy orders of Rs. 1,000 crore now, which are left in Sembawang. What is the experience now over there in terms of our assessment of cost overruns or one can see these specials coming in subsequent quarters with the balance Rs. 1,000 crore?

Luv Chhabra: We don't see that happening.

Pritesh Chedda: Okay.

Luv Chhabra: Right? I mean if we did expect something like this to happen, we would have made a provision for this.

Pritesh Chedda: And the older provisioning, the entire provisioning has been done in the current quarter?

Ravi Keswani: Whatever was the current estimate of the profitability on those orders.

Pritesh Chedda: Has been fully provided?

Ravi Keswani: Has been fully provided for as per the current estimate.

Luv Chhabra: And as I explained to you Pritesh, I think we will, once the project closes, and there are discussions with clients on closures of variation orders, delays, etc., that is when you actually estimate, you know,

Pritesh Chedda: The true impact.

Luv Chhabra: Yes.

Pritesh Chedda: Okay.

Luv Chhabra: Now, it depends on how the settlement goes with the client.

Pritesh Chedda: Correct.

Luv Chhabra: But what I have said is that in the event that the client, you know, does not come to an amicable settlement, we will go for, or we are likely to go for the, you know, appropriate provisions in the contract, which may include arbitrations, etc.

Pritesh Chedda: But the historic experience is that probability of recovering is higher? Or the probability of recovering is lower?

Luv Chhabra: I think, every contract is separate. All we are saying is that we had, in prior cases, for example Mathura and Baroda, we believed that we had a good case. We went to arbitration and we won it.

Pritesh Chedda: Okay. Yes, now in the orders for instance which have been bid in India, based on SEC and say Simon Carves pre qualification, where exactly those orders are shown in the order backlog? Is it built-in in SEC or is it shown elsewhere?

Ravi Keswani: Currently, in the order backlog, there are no orders for Sembawang and Simon Carves in India.

Pritesh Chedda: Okay.

Ravi Keswani: It is not there. Once, whichever entity wins the order, it will be shown with that entity's order backlog.

Pritesh Chedda: Not in SEC's or Simon Carves order backlog?

Luv Chhabra: No, if Simon Carves wins the order in India, it will be shown as their order backlog.

Pritesh Chedda: Okay.

Luv Chhabra: Not Punj Lloyd's order backlog.

Pritesh Chedda: Okay. And, just want to understand in the JV what is happening now with the Ramprastha Group JV? Could you just provide some more detail on this?

Luv Chhabra: We just explained that a couple of questions ago, Let me give you an update on that. The sort of, layout plans and drawing are now being finalized. The detailed plans are now being finalized. They will, in the next 6 to 8 weeks, be submitted to the development authorities for approval for commencing construction. Right? Once that happens, apparently the authority, it appears the authority will take two months thereafter to approve these drawings and then we will start the process of construction.

Pritesh Chedda: Okay. Now, could you just share what is the total developmental area, just that particular element in Ramprastha Group and what is the scope for further addition?

Ravi Keswani: The current area being developed at Eastern side of Delhi is about 3.5 million square feet. Future potential depends on how much land we are able to bring in to the JV that again is a factor at how much we are ready to invest in this venture. As regards the potential is concerned, Ramprastha Group themselves has about 1200 acres of land in NCR which will have total developable area of roughly about 60 to 70 million square feet.

Pritesh Chedda: Okay.

Luv Chhabra: So that's the potential, but definitely we don't have that kind of deep pockets that we can invest for 1200 acres of land which they own. So, it will depend on the kind of investments we make into the JV.

Pritesh Chedda: Okay. But the JV currently houses 3.5 million square feet developed?

Luv Chhabra: That is 29 acres of land.

Pritesh Chedda: Okay.

Luv Chhabra: So, the quantum that can be built on that is approximately 3.5 million square feet of residential.

Pritesh Chedda: Any decision on whether it is going to be finally a leased out property or it will be fully developed and sold out?

Luv Chhabra: It will be developed and sold out.

Pritesh Chedda: Okay.

Luv Chhabra: It is residential property, it is not commercial.

Pritesh Chedda: Okay. Many thanks to you sir, and all the best for the future.

Moderator: Thank you very much sir. Next in line, we have Ms. Madhuchanda Dey from Kotak Securities PMS. Over to you ma'am.

Dey: Yes. My question pertains to your legacy order book, which you mentioned is about Rs. 1,200 crore out of the Rs. 6,238 odd crore of SEC order. Wanted to understand what is the execution period of this order book?

Luv Chhabra: Yes, the figure was Rs. 1,040 crore, not 1200.

Dey: Okay, Rs.1,040 crore? So what is the execution period of this order book?

Luv Chhabra: We expect a significant amount of this order backlog will rundown in the first 2 quarters of the next financial year.

Dey: So, by H1FY09, you will be almost done with that.

Luv Chhabra: Yes, I don't think the figure will come down to zero, but we would see a significant rundown of this figure.

Dey: My second question is on the margin on the standalone Punj Lloyd numbers. There is a sequential decline. Any particular reason?

Ravi Keswani: Well, actually you should not look at standalone. The company and the group has to be evaluated or seen on consolidated numbers.

Dey: Yes, I very appreciate that sir, but I just wanted to understand any particular reason, any change in the mix, or what is that you want to attribute this to?

Ravi Keswani: Well, one of the reason because standalone numbers have slightly gone down. I will give you the EBIDTA numbers, FY07, 9 months it was Rs. 11.73 crore, FY07 full year it was Rs. 12.23 crore and 9 months FY08, its Rs. 11.38 crore. One of the reasons for that is that we are a Company having operations globally in about 16 countries and having head quarters in India. Now, operation size globally is increasing, and similarly, the head quarter strength and head quarter overheads are also increasing. So, there is a stretch on the standalone numbers because all the overheads or the corporate costs sit in the standalone entities. So that is the major reason for it.

Dey: And sir, in the backlog that you have shown on the infrastructure, that must be including your road projects, right?

Ravi Keswani: That's right.

Dey: Yes, are they all operational at this point in time?

Ravi Keswani: They are all operational.

Dey: Okay, and the last house-keeping question, after the conversion of everything, what will be the fully diluted equity of your Company?

Ravi Keswani: Roughly about 32 crore shares.

Luv Chhabra: 320 million shares of Rs. 2 each.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Sumeet Agrawal from HSBC Securities and Capital Markets. Over to you sir.

Sumeet: Just wanted to know about the profitability of Sembawang. If we remove the other income and the losses, what would the numbers look like?

Ravi Keswani: Well, I'll give you all the numbers, you can do the math. The PAT of Sembawang for 9 months is Rs. 53.86 crore, which includes the other income, which I call other income exceptional item, is the real estate profit, which is Rs. 37 crore and for the quarter the number of PAT was Rs. 19.48 crore and the other income from real estate was Rs. 37 crore.

Sumeet: Okay. Also sir, I just wanted to know in the infrastructure projects, you had few road projects, which were earlier plagued with non-availability of the right of way, what is the status of those road projects?

Vimal Kaushik: Actually, in Assam, there is still a problem of right of way. It is getting slightly better, but there is not too much of improvement. W are still taking up with NHAI on a regular basis, so these projects will be a little stretched. There is a provision for escalation and everything is there. Then, we have claims. We are filing claims regularly on NHAI for our cost overruns or whatever comes in.

Sumeet: Sir, what is the total size of this Assam project altogether?

Ravi Keswani: It will be less than 5% of the Group's order backlog.

Moderator: Thanks you very much sir. Next in line, we have Mr. Kaushik Poddar from K B Capital Market. Over to you sir.

Poddar: What will be the stable state margins? Say, two years down the line, when all the legacy orders will be over, what is the kind of margin you are looking at, that is EBIDTA margin, that is my first question? Number two, is you have this Medicity, any progress on that?

Luv Chhabra: Poddar, it is hard to tell you today what the margins will be 2-1/2 years later. What we can tell you is, and we have said this earlier, that the current projects that have been booked, that have been bid in the Sembawang and Simon Carves and the projects that have been bid on the Punj Lloyd, the margins that they have been bid at, the range of margins. You know, new project bids two years later, we don't know what the comparative scenario will be. We don't know which way the markets will move, so we don't want to hazard a guess at this moment.

Poddar: The Medicity, you have some stake in that company, isn't it?

Luv Chhabra: That is correct.

Poddar: What is the status of that expansion, or when will the project be coming through?

Luv Chhabra: Well, we expect in the financial year FY08-FY09, the project will be commissioned. So, it is progressing well. You must also realize that when that project will be commissioned, it will be over a 1000 beds. There is no hospital in India so far that has been commissioned with over a 1000 beds. So, it is almost the largest, it is without any doubts the largest hospital project that has ever been done in India.

Poddar: Okay. And is it only the hospital, or there is some residential development around or commercial complexes around also in that?

Luv Chhabra: There is about 50% of the area is the hospital complex, and the other 50% is residential, commercial, hotel, etc.

Poddar: Okay. How much is Punj Lloyd's stake in the project?

Ravi Keswani: 17%.

Moderator: Thank you very much sir. Next in line, we have Mahesh Vaze from Blackstone Group. Over to your sir.

Mahesh: This provision that we made, what was the size of the topline for which this provision was made?

Ravi Keswani: Roughly, the orders on which this provision has been made, the size in dollar terms would be about, just an approximate number, will be about $ 500 to 600 million size of projects.

Mahesh: Okay. So broadly, we are just looking at loss of profit here, not out of pocket?

Luv Chhabra: That is correct. So, this is reversal of some of the profitability. It is significantly one of the profitability in one of the large orders that is being partly or fully reversed.

Mahesh: Okay. Secondly, couple of times for earlier questions you mentioned that there will be some sort of settlement and if not we will pursue legal alternatives. Okay? So, if you think that you are on a strong legal ground, what is the logic of making a provision there?

Luv Chhabra: I think you have to look at the accounting standard. Unless and until the client approves the payment or extra payment, that revenue cannot be recognized.

Mahesh: Okay. Sir, okay you are talking of the earlier profits. And secondly, you have answered this question many times. You seem to suggest that it is quite a routine kind of a business matter, right? But at the same time the provisions have not been that routine. This is like one of the few times when you are providing such a large amount. So what, in terms of the process, what was different this time if it is a routine matter?

Luv Chhabra: Nothing is different. I think, when you execute projects of the size of $ 300 to 400 million and they are, and some times you know clients have a lot of changes in their ownership or have changes in their staff, they approve variation orders or they have a settlement at the end of the project. Some clients do the settlement during the course of the project, so it depends on the clients, depends on the project.

Ravi Keswani: And one more thing which was peculiar in this provisioning which we have done, as we said this provisioning is the reversal of margins which have been booked in the earlier periods, and the earlier period for some of this amount relates to the period for which the company was not under our management because these projects were started under the previous management and the profits were booked when the companies were owned by the previous management.

Mahesh: So, for how long are these projects?

Luv Chhabra: Many of these projects are for durations of 30 months.

Luv Chhabra: When you have large projects on you know the petrochemical side or the infrastructure side, the execution cycle can be 30 months.

Moderator: Thank you very much sir. Next in line, we have Abhishek from Matrix Advisors. Over to you sir.

Abhishek: I would like to know about the export element that is the foreign collection from the overseas projects, from the total sales?

Luv Chhabra: For the Group?

Abhishek: Yes, for the consolidated sales.

Ravi Keswani: Roughly about 61% to 62% of the total revenues for this quarter have been earned from outside India.

Abhishek: And, taking forward the dollar and rupee controversy, what are the plans regarding falling dollar rates?

Luv Chhabra: But we didn't say that all these revenues are in dollars. You have come to that inference. There are orders in U.K. which are in pounds. There are orders in Kazakhstan, which are partly in Kazakhstan Tenge, and there are orders in Libya, which are in Libyan Dinar.

Vimal Kaushik: Euro and Libyan Dinar.

Luv Chhabra: So don't presume that they are all in US dollars.
Vimal Kaushik: Very few are in US dollars. In Middle East all are in local currencies.

Abhishek: So your stake in Indian currency is going to rise?

Luv Chhabra: I don't want on that comment. I suggest you should ask the bank that.

Abhishek: Okay. Any plans demerge Indian and overseas operations?

Luv Chhabra: What do you mean demerge Indian and overseas operations?

Abhishek: That is your Punj operations and Sembawang operations?

Luv Chhabra: What do you mean demerge? I mean Sembawang operations are being done through Sembawang Engineers and Constructors, Simon Carves operations are being done through Simon Carves. Punj Lloyd's operations are being done through Punj Lloyd, Punj Lloyd Kazakhstan, PT Punj Lloyd Indonesia, so I am not clear what, Punj Lloyd Pte. Ltd, Singapore, so what really is the question?

Abhishek: Okay. Fine. I was not aware about it. Thank you very much.

Moderator: Thank you very much sir. Next in line, we have Deepak Bakliwal from Future Capital. Over to you sir.

Deepak: I just wanted to understand that the cost escalation in Sembawang legacy orders, was this predominantly a commodity price rise? Or will you attribute most of it to surprise in commodity prices?

Ravi Keswani: There are variety of reasons for this. One obviously is the commodity price increase. Others are some of the re-work engineering changes which have happened, the escalation cost, some of the projects got extended, so there is extended period cost, so there are variety of reasons. I cannot say that entire amount of provisioning or the cost overrun is attributable to one single factor. There are a variety of reasons for it.

Deepak: Taking this question now to the consolidate Punj Lloyd entity, as maximum of the contracts, I presume, would be fixed, there will be no escalation clauses as these are international contracts, would you face the same fashion, may be as an analyst would we see volatility in the EBIDTA margins based on commodity prices?

Ravi Keswani: Well, what you need to understand firstly is that legacy orders were being executed at a very thin margin of 1.2% or 1.3%. While Punj Lloyd orders, on an average, we have been saying that current order backlog is being executed at upward of 11.5% margin. The variation to the extent of 1% happening in any project cost is not a surprise element. It can happen in any project, but within Punj Lloyd, since the margin percentage is substantially higher, we are able to absorb plus or minuses of 1% in the projects, but legacy orders, because they were at very thin margin, such kind of reversal of margins or change in margin, can impact substantially.

Deepak: Sorry, to stretch this question, but is the nature of business quite different between India and international? Let's say, you don't have any escalation clause in the contract? So, what I meant was that in case of commodity price fluctuation, would the surprise element just be to the limit of 1-2% or it could be more?

Luv Chhabra: Let me answer that question. Firstly, there are a variety of contracts. Right? In some of the contracts, like road contracts, we are protected against changes in commodity prices, such as diesel, cement, steel, etc., right? So, there could be similar contracts in Singapore where there is certain degree of protection on commodity prices. There could be contracts which, though on a lump sum turnkey basis, there would be provisions which says that there are certain fixed rate items, which are paid extra by the client. So, it is very hard to give a broad brush and say 'well, are you on lump sum turnkey fixed price contract for 100% of your order book?' the answer is definitely no. So #2, when we bid for a project, there is a very elaborate risk process that goes through. Right? One of the factors that goes into that is commodity pricing. There is a model that we follow, which is a Monte Carlo simulation, when we estimate variations or we estimate, we provide for contingencies or we provide for risk on a project. So, there is a pretty, you know, rigorous amount of work being done when projects are bid. Now, we all realize that we live in a world of tremendous uncertainties, and there has been in the past, and there probably will be in the future, considerable amount of volatility. It may be in commodities, it may be in oil prices, and it may not happen. Right? So, the idea is that you have a very strong risk mitigation process by which you try to mitigate the risk against the volatility, and that is what the endeavor of the management of all good companies is to take care of this risk. But you know, you can never be 100% protected. So, if there is a completely ridiculous escalation on prices, and we have seen that in the past when steel prices in a year went up by 70-80%. Now, those are hard to estimate. And those spikes will hit almost every E&C player.

Deepak: Okay. So risk mitigation is by predicting to the best of our knowledge these commodity prices, but these commodities don't have a hedge, like steel doesn't have a hedge. So?

Luv Chhabra: No, that's not true. There are ways by which you can hedge, and that is by getting, if the total, the whole purpose of consolidating or going for global sourcing is where we enter into long-term contracts with suppliers, right? And link prices based on certain indices. So, there are variety of methods by which you can do it. I am just giving you one example of how, you know, companies do it, but there are many other methods.

Deepak: And coming to the currency thing, what is the policy of the Company, as in we have subsidies in Kazakhstan, Indonesia and so on? So, how do we hedge currency risk?

Luv Chhabra: The policy of the Company is not to be a trader in currency. The policy of the Company is that we must mitigate and hedge our cross currency exposure. So, therefore, on a Group basis, I mean if there is, just to give you very simple example, if there revenues are in US dollars and there is an expenditure that is going to happen 9 months later in Euros right? Then, we will cover that and we will hedge that one. Okay? We are not active currency traders. We are conservative, passive and we mitigate our risk.

Deepak: And you keep the profits in the local currency and the local subsidies? Or is there a policy of dividend post a year? How do you manage all that?

Luv Chhabra: You know, if there is a gain or loss on account of foreign currency, this will reflect in that particular company, and if there is a translation risk, meaning a translation gain or loss, it will happen in consolidation.

Moderator: Thank you very much sir. Next in line, we have Mohnish Katre from Wealth Managers (India) Pvt. Ltd. Over to you sir.

Mohnish: I have one question regarding your order book. The order backlog is showing that the Caspian region constitute close to 2% of the total order book. We are seeing a slowdown, I mean, of the orders coming from this particular region? As the answer for one of the previous questions is that the investments are on very high growth part in Southeast Asia and the Caspian region. So can you throw more light, what exactly is happening on that part because even the absolute number is very small considering the total order book?

Vimal Kaushik: Actually, in Southeast Asia, we are following up some projects, which are taking little time, and it will take still little more time to decide, but we have not lost or anything on that. And about Kazakhstan, actually the major player, had a problem with the Government of Kazakhstan, and they had a showdown with each other, and there was nothing moving in the last 4-5 months, but recently they have reached an agreement. Actually, it was sharing of the money on the oil revenues. Now, they have come to an agreement, and the things have started moving, and I think in the next quarter or two, they will be, again it will be on line and we will have much better prospects. This is a temporary phase.

Mohnish: So, I think, nothing like, that the Company's focus has changed, and I mean from region wise, they have changed their focus to different regions, nothing like that?

Vimal Kaushik: No.

Mohnish: Okay. And sir, another question is that regarding the Pipavav Shipyard, we have stated in a press release that the company has filed draft a draft red herring prospectus. Can you just throw some light on how much the company is planning to raise from the market?

Ravi Keswani: The understanding we have is that we are planning to raise roughly between $ 150 to 200 billion through this IPO, and that depends on the market condition and what are the recommendations of the book runners to the company.

Mohnish: Sir, do you see now that you have acquired the stake in Pipavav Shipyard, do you see any impact on the ship building activity itself because of the slowing of the trade movement if the US is impacted significantly?

Luv Chhabra: Yes, I think the right person to answer this question will be Mr. Nikhil Gandhi or Mr. Bhavesh Gandhi, but our investment in shipyard has not been, I think we have explained this earlier too, that it is much more strategic. It is to support the oil and gas upstream efforts of the Group. So, we see that, so that is one fundamental reason, and the other reason is of course, it will provide a good location to have fabrication facilities to support the downstream business from the Group, both on the oil and the gas and on the petrochemical side. So, cyclicality in the ship building industry will continue. I mean, just because we have made an investment, it won't change the cyclicality of the industry. Right? I guess there are people who are projecting that the up-cycle on the shipping will continue for another 3 years or 4 years or 5 years, or it may continue for another, you know, 1 year. I don't have an answer to that, but Punj Lloyd's investment in the shipyard is not just, per se, looking at the shipbuilding industry, it is much more strategic to its core business.

Moderator: Thank you very much sir. At this moment, I would like to handover the proceedings back to Mr. Luv Chhabra for the final remarks. Over to you sir.

Luv Chhabra: Well, thank you all ladies and gentleman. It has been very nice addressing all your queries and questions. It gives us an idea on the sort of queries or the sort of issues that the market has at the moment. All I can say is that feel free to contact us whenever you have any questions. Ravi is available. Ms. Pratima Ram is available, and going forward we continue to see a very robust growth story both on the oil and gas and on the infrastructure side. When I say oil and gas, I mean oil, gas, and petrochemicals. So, you know the outlook, certainly from our perspective, continues to look very good. 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 and have a nice day.
