PUNJ LLOYD LIMITED

Analyst/Investor Conference Call

June 01, 2007

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 participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over the floor to Mr. Gavin Desa from Citigate. Thank you and over to you sir.

Gavin Desa: Thank you and a very good afternoon to everybody joining us on this call. We welcome you to Punj Lloyd Q4 and FY2007 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, Executive Director. I request Mr. Punj to make some introductory remarks post which Mr. Keswani will take you through other details, after which we may respond to questions and answers. Thank you. Over to you sir.

Atul Punj: Thanks and welcome everyone to this conference call. We are pleased with the way the year has turned out and I would like to say that the company now has all the building blocks in place to make sure that we maintain this trajectory going forward. We are quite bullish about the prospects, about the new acquisition that was done last year, which were Sembawang Engineers and Constructors as well as its subsidiary Simon-Carves. Punj Lloyd itself is very well positioned now, especially with the recent entry into the offshore space with an order for offshore platform fabrication work, which so far was the domain of L&T. We also believe that the large amount of investments going in the upstream sector and the revamp of the old facilities plus the new facilities that are planned by all the offshore oil companies throws up a massive opportunity going forward. So without dwelling further on this subject and I will open the floor to questions needed to be answered after Ravi takes you through just the salient highlights of our results that have already been reported.

Ravi Keswani: Good afternoon everyone. I will give the salient features of the results for FY07. The details are already with you and we will take up the questions you have on the numbers later. For FY07, the consolidated revenues have increased by 203% and were at Rs. 5,206 crore. The consolidated EBITDA and PAT have shown a strong growth of 120% and 263% respectively and the numbers are at Rs. 489 crore and Rs. 196 crore for FY07. The consolidated EPS is Rs 7.44. The order backlog, which is the unexecuted portion of the orders in hand as on 1st of April 2007 and the new orders that we have received after that date, is Rs. 15,944 crore. The board has recommended a dividend of 15%. There are the highlights of FY2007 results. We can take up specific questions now.

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. Jonas Bhutta from HDFC Securities. Over to you sir.

Jonas Bhutta: Hello good afternoon sir, this is Jonas Bhutta from HDFC Securities.
Sir just two questions - what was SEC's contribution to the consolidated top line during the quarter and what margins did it enjoy for the quarter and the 10 months ended 2007?

Ravi Keswani: Jonas, the SEC contribution on the top line for Q4 is Rs. 657 crore, they have contributed in the quarter Rs. 29 crore (PAT Margin) and during the year for the period, which the SEC has been a part of the Punj Lloyd Group, (10 months), and their total revenues are Rs. 2,152 crore.

Jonas Bhutta: Another question was again going through your investor brief we see that Mr. Scott Bayman joins you as a director on board, could you just explain what would be his capacity at Punj Lloyd sir?

Atul Punj: Scott Bayman headed up GE in India for the last 14 years. Yesterday, he retired from GE and he is joining us as independent and I believe with the opportunities that will emerge specifically in the power and water sectors, going forward, he will provide contribution to the group add because that has been a very important brief for him in the last few years. We welcome him and we feel that he is going to definitely add value and stature to the board that we have right now.

Jonas Bhutta: Alright sir thanks a lot sir.

Atul Punj: You are welcome.

Moderator: Thank you very much sir. Next in line is Mr. Lokesh Garg from Kotak Securities. Over to you sir.

Lokesh Garg: Hi good afternoon sir, Lokesh Garg here from Kotak Securities. Just wanted to ask you a question on Sembawang, for the first 9 months Sembawang had contributed almost nil at the PAT level, now in the Q4 it has contributed Rs. 29 crore, is there any component of other income in the Q4 results of Sembawang?

Ravi Keswani: No, not a substantial amount, I think it is in line with what they have contributed in the earlier quarters.

Lokesh Garg: Sir my next question is on balance sheet, In the press release you have shared with us, net current assets are of about Rs. 1,527 crore, and also I saw a release on Bloomberg which said that you have cash of about Rs. 1,000 crore, so this net current effects include that cash right?

Atul Punj: That is right.

Lokesh Garg: Okay so your actual working capital investments today are about Rs. 500 crore.

Atul Punj: Not today, that was the position as of 31st March.

Ravi Keswani: I do not think Lokesh your interpretation is exactly correct because the majority of the cash is not free cash; they are project specific cash against which there are some committed liabilities also. So, the entire Rs. 1,000 crore cannot be treated as free cash available.

Lokesh Garg: Okay, and sir in the Q3 you had shared that part of the cash actually belongs to issuance which could only be utilized for specific business purposes and that is why it stays as cash, is that the situation right now also?

Ravi Keswani: Yes, some part of the cash is the FCCB money still unutilized.

Lokesh Garg: And sir you have shared these numbers which I believe are consolidated for Sembawang, would you be able to share the same balance sheet numbers for Punj Lloyd exclusive of Sembawang?

Luv Chhabra: That is very tough to do and let me explain why. Sembawang and its subsidiary Simon-Carves etc., structurally fold up into an entity called Punj Lloyd Pte. Ltd. Limited Singapore, which also has the operations of Punj Lloyd in Singapore, The group has multiple entities all over, they would end to match up the results of any one entity vis-à-vis sort of 55 or 60 entities that are in the Group, becomes very difficult to do.

Ravi Keswani: In consolidation we have about 63 entities, and to have the permutation and combination of various entities is very difficult. What we can give you is the consolidated and SEC numbers separately, which are coming from the audited numbers of SEC and Punj Lloyd consolidated.

Lokesh Garg: Those numbers if you could share with us, which is SEC as a standalone entity or as a consolidated entity that would be good.

Atul Punj: We have just advised SEC numbers in the previous question, and we can quickly go through the numbers again for the whole year. What numbers you want for SEC?

Lokesh Garg: Sir those would be balance sheet numbers like net current assets, debt?

Ravi Keswani: Net current assets for SEC is negative at Rs. 55 crore, somewhere around that figure.

Lokesh Garg: Okay.

Luv Chhabra: Rs. 50 to 55 crore is the net current assets for the SEC.

Lokesh Garg: Okay sir, it is actually a very working capital light sort of company.

Atul Punj: Yes, correct.

Lokesh Garg: Okay, these were my questions sir; I will come back to you later on with more questions if I have.

Moderator: Thank you very much sir. Next in line we have Mr. Devang Patel from IL&FS Investsmart. Over to you sir.

Devang Patel: Good afternoon sir.

Atul Punj: Good afternoon Devang.

Devang Patel: Sir if you could throw some light on the domestic opportunities in the pipeline sector, kind of quantify that?

Atul Punj: Well, I think the opportunities in the pipeline sector can be broken up into two distinct components; one is the onshore piece and the other is the offshore piece. What we have is a large growth on the onshore side, especially fueled by the Reliance project that is currently under way in which we have now started playing a significant role. The other opportunities for us is in the offshore pipeline space as well as platform erection space, and to target a greater piece of this pie we have now decided to invest in a deeper water pipe lay barge than the one we have right now. Our asset base takes us up to about 40 meter water depth and the new one will take us to about 100 meter water depth. This is an area where there is a large opportunity on account of the replacement of the old lines in Bombay high and south basin sea as well as all the new builds that are coming from the new gas lines that we are reading about every other month. In terms of opportunity the spend on the offshore development by upstream companies would probably be close to about $10 billion. We hope to gather significant part of that overall offshore spend. And on the onshore side again I think once gas fields are coming into production, there will be greater distribution networks that would be required. Having said that, you need to recognize that we are not only an Indian player, as a company we operate in almost every country in the Middle East barring Kuwait. The opportunities between North Africa, the Middle East Region, India, South East Asia and central Asia, are extremely large. I wouldn't want to venture a guess as to what the size of that is, but it is just significant.

Devang Patel: Definitely, on the Reliance orders how big would that order size coming through next year would be?

Vimal Kaushik: They have given us about 200 kilometers of 48 inch line for construction at the moment, and value should be around Rs. 300 crore plus, and they have asked us again to bid for some more pipe which earlier which was being build by Chinese and the Russians, so they are going to give us more of that.

Devang Patel: Sir and just one more question was that between domestic and export market how the thrust would be going forward, basically you know percentage of revenues, how would they be tilted going forward, you made rapid move in the international markets this year, I was just looking forward.

Atul Punj: Well the order backlog as on date is about 60% international and about 40% is in India, You cannot look at us in comparison with any one else in the peer group, but we see a significant shift happening on the overseas side, and I don't think it would be wrong to guess that in the near future the split would become 75:25 from the current 60:40.

Devang Patel: And on margins how do they compare?

Atul Punj: Margins are fairly decent across the board. We are able to pick and choose our projects so we do not compromise on margins. If we really look and see as to what is happening and over the next year or two, the Punj Lloyd margins in terms of EBITDA levels are still healthy over the 11.5% range, which I still believe would be higher than most of our peers. The two other companies Simon-Carves and Sembawang, have now started turning the corner, and we are now hoping that their margin numbers will also start coming up and coming closer to where the PLL numbers are, but in any case the Sembawang and Simon-Carves generally will definitely rise from 1% or 2% to at least a 7.5% number in terms of EBITDA.

Ravi Keswani: The EBITDA numbers and the PBT numbers (SEC) will be same because they do not carry any debt or assets on their books.

Moderator: Thank you very much sir. Next in line we have Mr. Venkatesh Balasubramaniam from Citigroup. Over to you sir.

Venkatesh Balasubramaniam: Sir congratulations on a fantastic set of fourth quarter numbers. I was just wondering you mentioned this number of around Rs. 29 crore of EBITDA (This figure is of PAT and not EBIDTA) in Semb in the current quarter and you said other income would be similar to the previous quarter, and I remember in the third quarter SembCorp's other income was roughly around Rs. 9 crore, so would it be reasonable to assume that same number of around Rs. 9 crore of other income this year?

Ravi Keswani: I will give you the specific figure for SEC the other income is Rs. 5 crore 20 lakhs for Q4, and total for the year is about Rs. 20 odd crore.

Venkatesh Balasubramaniam: Okay sir, and the sales number which you are saying of around Rs. 570 crore (The correct number is Rs. 652 crores of sales for Q4 without other incomes) and Rs. 2,150 crore (The correct figure without other income is Rs 2132 crores and with other incomes its Rs 2152 crores) for the full year, this also does not include other income.

Ravi Keswani: This includes the other income.

Venkatesh Balasubramaniam: Okay that also includes, okay sir. And lastly, now this actually implies that in the fourth quarter SembCorp has actually turned around, now is this sustainable, I mean that means like you know roughly it has made around 2% to 3% margins, which is a fantastic thing, now going forward Mr. Punj was talking about you know SembCorp can be pulled up to margins of around 7% or so easily, now this is over what kind of timeframe would this be feasible?

Atul Punj: Well if you look at the order booking and the quality of order booking of Simon-Carves in the recent past, it has been extremely good, The LDPE plan that they are executing in the UK, the wheat to bioethanol plant which is the world's largest is being executed in UK, and we are now starting to execute, the LDPE plants in Thailand as well as in Saudi. I think I can safely say that these will come in at about 7.5% EBITDA margins. Now the period that the revenue and margins will come in will actually will be linked with the period of the construction of these projects, which typically is about 24 months, and we are about 2 to 3 months into these projects now, so I will leave it to do the math yourself. Coming to the Sembawang opportunity, again we are now close to some finalization of the orders which unfortunately I am not allowed to talk about, but I think we would not be far off by saying 7.5% should be reasonable to expect.

Luv Chhabra: Just to add to what Mr. Punj had said, you know there are two sets of orders in Sembawang & Simon Carves. There are the legacy orders which are pre - acquisition which will continue to give between 1.3% to 1.5% EBITDA margin, and there are the new orders which we won post acquisition which as we explained will be upwards of 7% to 7.5%, Over a period of time the legacy orders will get executed along with the new orders, and as you can observe the effect has been visible in the fourth quarter. Going forward you will see the margins creeping up from the old legacy levels of about a percent or a percent and a half to the 7.5% level.

Venkatesh Balasubramaniam: Yes sir, as a follow up you said order backlog of around Rs. 159 billion, could you give us the break up SembCorp and PLL ex Punj Lloyd ex SembCorp, the breakup of that order backlog, and also in the SembCorp numbers how much of legacy orders are still there?

Luv Chhabra: About 50-55% would be legacy orders in terms of backlog for SEC.

Venkatesh Balasubramaniam: And how much would that number be full number for SEC?

Atul Punj: Now, let us just elaborate this, the backlog of orders of SembCorp and Simon-Carves is currently about Rs. 4,900 crore; of this Rs. 2,600 crore is legacy.

Luv Chhabra: Roughly about 55% would be legacy orders, and the rest is the new orders that have come. And second thing is that figure of Rs. 29 crore that Mr. Keswani told you is earnings after tax numbers, it is not EBITDA number.

Venkatesh Balasubramaniam: Okay earnings after tax, okay, sir and one last question what is the gross block of the entire consolidated entity at the end of 2007, gross block and net fixed assets?

Ravi Keswani: Gross block of the consolidated entity, we have Rs. 1,882 crore and the net block is Rs. 1,247 crore.

Venkatesh Balasubramaniam: Okay sir, thanks a lot, once again for the fourth quarter I hope you would take this forward. Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Vikas Gupta from B&K Securities. Over to you sir.

Vikas Gupta: Sir I just wanted to know do you have any fund raising plans, any warrant issue, or some equity.

Atul Punj: Yes, if you see the size the way the order book has grown you know obviously there will be requirements to raise funds. The specifics haven't been decided as yet by the board, so at an appropriate time as and when we get closer to the event, clearly we will disclose that.

Vikas Gupta: Okay sir, and just wanted to check my understanding for SEC standalone Q4 numbers you said sales was Rs. 657 crore and EBITDA was Rs. 29 crore.

Atul Punj: No, I said earnings after tax were Rs. 29 crore.

Vikas Gupta: Okay sir, and how much will be EBITDA?

Ravi Keswani: I can give you the exact figure for Q4, the EBITDA for SEC for Q4 is Rs. 22.63 crore, and PBT is Rs. 21 crore, there is some reversal of taxation, and there are some tax benefits because of which the PAT number is Rs. 29 crore.

Vikas Gupta: Okay sir and next thing is there are some talks of a tie-up with a foreign company for nuclear power plants.

Atul Punj: We see power as being the huge opportunity going forward. The components in the power space effectively comprise of hydel, nuclear, thermal, and gas, apart of course from the renewable like wind etc. Now we would obviously like to position ourselves in the sectors of our area, which are construction intensive. Hydel and nuclear are the most construction intensive projects that we have, the least intensive for people like us is gas-based plant. So while we expect to play a role in these projects, the alliance that would be required, provided the Indo-US nuclear deal goes through, is essentially to be done with major manufacturers of equipment for these plants, such as GE etc., We have started our discussion with various people, it is premature to say who we would tie up with or when it will actually fructify, but it is more of a strategic shift into this sector in a slightly more aggressive manner than we currently have been focusing.

Vikas Gupta: What is the status of BOT projects bid with GMR?

Vimal Kaushik: Nothing right now. It has been delayed we have not bid yet.

Moderator: Thank you very much sir. Next in line we have Mr. Sujit Jain from Pinc Research. Over to you sir.

Sujit Jain: Good afternoon sir and congratulations for excellent set of numbers, just one question, for our results of 2007 have we taken any section 80IA benefit into account?

Atul Punj: No, there is none.

Sujit Jain: Okay.

Luv Chhabra: We have clarified this even earlier that we have not been taking this benefit.

Sujit Jain: Okay, because the effective tax rate has gone down to 26% versus 31%.

Ravi Keswani: The reason for the lower tax rate as compared to the tax rate applicable in India is that we are working in geographies outside India like Singapore that has effective maximum tax rate of 18%, some of the other geographies where we are working is the maximum tax rate is in the range of about 28% to 30%, so that has pulled down the tax rate to 26%. In addition to that, in India there have been large investments in fixed assets which have brought the current tax rate down, not the overall tax rate but the current tax for that period is slightly lower.

Sujit Jain: Okay sir thanks.

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

Rohit Tandon: Sir congrats on a great set of numbers, just a couple of questions. Sir first thing Q4 on Q3 basically Q on Q revenues are up according to my calculations by 19% and net profit is up by 85%, so has there been some orders which reached the threshold level and which have been booked or some orders that have been completed that have been booked or it is you know continuous basis?

Atul Punj: You know repeatedly I have been maintaining from the time that we went out on the road shows that we are not a company that you can look at us on Q1 and Q2 basis. We are a company that has a project backlog that we have to build out over a project schedule, where that schedule falls on a particular date line is something we have no control over. Historically, which I have also mentioned in the last couple of calls, the first half of the year typically represents about 30% to 40% of our annual numbers, and this is something which I think was met with a lot of skepticism earlier. We now found this is the same thing repeating itself.

Ravi Keswani: In each quarter you will find some projects, which have started, but they have not reached a stage where you can determine the outcome of the project. In such cases we do not book any profits and the profit for those projects are booked in the quarter in which the stage is reached where you can reasonably estimate the outcome. These are normal things, which will keep on happening on quarter-to-quarter basis.

Rohit Tandon: Sure sir. I mean I was just looking at Q4 2006, is that a good way of looking at it or it is not, like Q4 2006 comparison with Q4 2007 comparison?

Atul Punj: Well my opinion is our company should not be looked at on quarter-to-quarter comparison.

Vimal Kaushik: Actually year to year basis, and I told you the best season the maximum productivity you get during the last quarter, for example, December to March is the best period for working for construction industry.

Luv Chhabra: I think the other thing you need to analyze and look at is which are the type of projects executed in various segments, in the sense that if there is a huge amount of infrastructure or road build out in a particular quarter vis-à-vis lets say a pipeline in another quarter or the order mix has changed significantly in favour of oil and gas, we are likely to see higher profitability in the latter situation. So, when you are looking at FY 2006 and compare with FY 2007, you will find that the revenue from infrastructure/ roads in the total revenue generations high in FY2006 whereas in FY 2007, the revenue from pipelines and oil and gas projects is much more significant.

Rohit Tandon: Thank you sir, just an update on the Assam road projects which I guess were probably held up due to some problems beyond the company's control, any updates on them?

Vimal Kaushik: Yes actually it is going very slow, there are lot of problems for the right of way from NHAI side, and that is the main reason it is going slow, plus there are some disturbances like bandhs and things like that happening quite often in that area. Otherwise we are well established and well set. We have an escalation clause built in to the contract so our margins are protected and we are pushing NHAI very strongly.

Rohit Tandon: Okay sir, sir just wanted to understand one more thing on SembCorp, sir you have earlier also explained SembCorp gets I mean SembCorp has a great amount in its order book of procurement, so do you sort of hedge all your raw material contracts. What do you do exactly with that, just wanted to get an understanding of that sir?

Atul Punj: Well on the petrochemical projects there is a fair amount of procurement to be done. Typically when a bid is submitted, we obtain valid bids from vendors that have been approved, so in that sense the risk is fairly minimal. It is not that we are putting an arbitrary number on an assumption that we are going to buy at a price, it is all part of the project cost estimate build up.

Rohit Tandon: Okay sir, and just wanted to understand what do you see as recurring capex, I mean you are going into fabrication, probably buying a bigger barge and all that, what do you see as a capex number for say the next 2 to 3 years?

Atul Punj: We will probably maintain about the same level that we are at right now, which is about Rs. 400 to 500 crore a year, $100 million investment for about $1.2 billion Group is fairly a reasonable number, and we will keep enhancing capabilities within the Group.

Rohit Tandon: Sir any problems as far as getting the right people on running that facility or such? We generally hear that the industry as such is having some problems on that, anything that you are facing?

Atul Punj: You are right, it is a problem that everybody is confronted with. The Retention, at senior levels is not a problem and we are not facing much attrition there. It is at a lower levels that we find a fair amount of attrition, a lot of which is caused by the herd mentality of Indian business. Now our solution to this is that we are raising the average ticket size of our contract. Our average order size used to be about $30 million last year and it is now over $100 million, and we are hoping to raise that average to about twice that number in the future. That is our endeavor and we need the same set of people that could earlier do a $30 million contract and are now doing a much larger value contract and hopefully we should increase the average contact size to gradually to $150 million, $200 million, and $250 million in the next year. That is one of our solutions to addressing this problem.

Rohit Tandon: Okay sir, the last question from my side for now would be sir what do you see as the order book outlook for FY08, will it be you know like FY07 or will it be significantly different, are you looking at some other new verticals or something of that sort?

Atul Punj: I would say that we expect to maintain the same trajectory going forward, and hopefully not disappoint your community.

Luv Chhabra: Without going into specifics if you look at oil prices, they are continuing to remain very robust, above the $60 barrel level, ever when hitting peak summers in many of the regions, It is fair to assume that oil prices will remain at this level which would mean that the spends by the major oil companies both upstream and downstream will continue to be robust. This will translate into robust orders for the Group.

Rohit Tandon: Okay sir, thank you very much.

Moderator: Thank you very much sir. Next in line we have Mr. Sumit Agarwal from HSBC Securities. Over to you sir.

Sumit Agarwal: Sir congratulations for good sets of numbers. Sir just wanted to know that you have made an announcement of that you may be borrowing Rs. 5 billion, can you suggest the means of funding whether it would be debt or FCCB or what?

Atul Punj: No, that is incorrect.

Luv Chhabra: To execute the large order books, we have to take working capital loans, which are reflected on our balance sheet. There are loans, which are project specific loans to take care of the mismatch between cash inflows and cash outflows. This is an ongoing process for new projects that we execute.

Atul Punj: As I said the capex that we are expecting to incur is about Rs. 500 crore in the current year.

Sumit Agarwal: Also sir just wanted to know what is the status of your FCCB, how much is yet to be converted and it has anything been converted for FCCB's?

Luv Chhabra: Nothing has been converted as yet, it is $125 million FCCB and which is to convert over a period of 5 years, and FCCB was taken last year in the month of April.

Sumit Agarwal: So in that case what would be the translation gain in terms of the appreciating rupee that you would have booked as other income?

Atul Punj: The balance money left from FCCB is only about $10 or $15 million, so it could not be very significant.

Sumit Agarwal: Okay, sir just wanted to know what is the status of your Medicity project that you have in tie up with Dr. Trehan?

Atul Punj: The project is under construction and it should be commissioned sometime next year. The specifics of the overall completion will depend on some other decisions that the client company which is Global Health, will take, especially around the finishing and the equipment, but I assume that in light of recent developments it would be expedited and not delayed.

Sumit Agarwal: Okay fine sir, thanks from my side.

Moderator: Thank you very much sir. Next in line we have Ms. Aparna Shanker from Sahara Mutual Fund. Over to you maam.

Aparna Shanker: Congratulations on good set of numbers sir. You mentioned about fund raising that specifics have not yet been decided, but we have any rough figure I mean any figure which you can reveal to us.

Luv Chhabra: Well as and when it is decided, we will certainly let you guys know.

Atul Punj: It is too premature right now, so I think it would be not correct for anybody to warrant any number.

Aparna Shanker: Okay, thanks a lot sir.

Moderator: Thank you very much maam. Next in line we have Mr. Bhavin Vithlani from Enam Securities. Over to you sir.

Bhavin Vithlani: Good afternoon sir. Please give the breakup of the other income on the consolidated basis?

Ravi Keswani: I do not have the specific breakup but I can tell you the components which are included in the other income, there is the interest element of about Rs. 30 odd crore, there is exchange fluctuation of about Rs. 24 crore, besides that there are unspent liabilities and some recovery of about Rs. 6.64 crore and scrap sales of Rs. 7 crore, there is a rental income of Rs. 2.9 crore, and insurance claims of Rs. 2.7 crore.

Bhavin Vithlani: Okay.

Atul Punj: But all this other income that we talked about is really to do with our business. It does not include sale of shares or some other investment or building or anything of that sort. It is all to do with the nature of our business and to that extent I think you should derive comfort that it is all business related.

Ravi Keswani: And all the other income as Mr. Punj said specifically relates to the construction activity, even the interest income that we have earned. In the previous question Mr. Punj indicated that all the funds of a projects are ring fenced in branch office or subsidiary overseas and the surpluses coming from the project are temporarily parked in interest earning securities, so we are not doing any investing activities by which we earn the interest. They are project temporary surplus, which are parked in interest bearing securities. Since we have large exposure on overseas, more than 75% of the revenues are derived from projects outside India, so we have the forex translation differences coming up, All the other income directly relates to the core construction activities of the company.

Bhavin Vithlani: Okay sir, fine, in the current order backlog what is the execution timeframe and out of the current backlog what could be the deliverable over FY2008?

Atul Punj: Typically the execution cycle is approx. 24 to 30 months depending on which verticals you are talking about. The roads or the heavy infrastructure project would be a bit longer, and oil and gas should be a bit shorter.

Bhavin Vithlani: The promoter warrants has not been subscribed, any reason for this?

Atul Punj: Basically the issue is that at that time there was a possibility that we might do a QIP and we did not want to dilute the promoter level below a particular point, since we have not exercised that so far. It was decided to drop that option, but it does not mean that that would not be revived at some point, whenever there is a dilution event.

Bhavin Vithlani: Thank you very much sir.

Moderator: Thank you very much sir. Next in line we have Mr. Kailesh Sharma from Asian Market Services. Over to you sir.

Kailash Sharma: Hello sir, this is Kailesh Sharma from Asian market. Just wanted to know the debt level of the company as of now?

Ravi Keswani: On consolidated basis the debt is close to about Rs. 1,710 crore, which includes the FCCB also which is classified as debt of Rs. 542 crore.

Kailash Sharma: Okay and sir just wanted to know what are the biggest risk or challenges you see going forward?

Atul Punj: The risk really as somebody mentioned earlier is around the human resource piece, which seems to be managed reasonably well compared to the industry, and otherwise we are at a comfortable place.

Kailash Sharma: So should we expect the same type of growth as you make this year should be sustainable over next 2 years sir?

Atul Punj: We are hoping to strive towards that end.

Kailash Sharma: And sir just you mentioned, can you just tell us something about the margins in different verticals you have like power or hydrocarbon or infrastructure?

Ravi Keswani: Actually it is difficult to give the margins sector wise or project wise, as Mr. Chhabra indicated earlier in new orders of SEC should have a margin of close to about 7% to 7.5%, and legacy orders of Sembawang should be in the range of 1.3% to 1.5% margin, and Punj Lloyd without SEC the current order backlog should have a margin upward of 11.5%.

Kailash Sharma: Okay, but vertical wise you said oil and gas is the most promising one?

Ravi Keswani: Oil and gas margins are better on a generalized basis.

Kailash Sharma: Right, okay sir, thanks.

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

Prashant Jain: Congratulations on the good numbers. I have few questions. Did you mention that this interest income in this other income was Rs. 50 crore?

Ravi Keswani: No, I said Rs. 30 crore.

Prashant Jain: Rs. 30 crore okay, sir can you just give the total outstanding borrowings as on March 2007 on a consolidated basis roughly? Total debt?

Atul Punj: Debt is Rs. 1,710 crore, it includes FCCB of Rs. 542 crore.

Prashant Jain: So about Rs. 1,200 crore is other debt.

Atul Punj: Yes.

Prashant Jain: Okay which is interest bearing, and you mentioned about total order book is about Rs. 16,000 crore and you mentioned that the average execution period is 2 years.

Atul Punj: We said 2 to 2-1/2 years.

Prashant Jain: 2 to 2-1/2 years, so this Rs. 16,000 crore should get executed over the next 2 to 2-1/2 years.

Atul Punj: Yes, correct.

Prashant Jain: Okay, your operating margins on a consolidated basis if you remove the other income, but if we add it, it is okay, it is about 9%.

Luv Chhabra: No, I think we explained that the other income is also related to our operations.

Prashant Jain: That is why I am saying you have been including the other income is about nine odd percent.

Atul Punj: Yes that is correct, that includes SEC on a consolidated basis.

Prashant Jain: Rs. 450 crore PBIDT on Rs. 5,100 crore total income.

Ravi Keswani: PBIT is about Rs. 489 crore, Rs. 5,206 crore.

Prashant Jain: So, it is about 9%.

Luv Chhabra: Yes, about 9%.

Prashant Jain: Yes you have seen a significant improvement in the operating margins in the industry, I mean when you look at even players like Larsen & Toubro or even in the construction space and that is mainly because order booking situation is comfortable. Are you also seeing that?

Ravi Keswani: I think that is reflective in the results for Q4 and on overall basis you will agree that there is improvement in the profit margins reflected in the Q4 results.

Prashant Jain: Sir if I may ask you mentioned that the new orders in Sembawang are at about 7.5% OPM, that is where we are bidding right now, so assuming there is no execution of legacy orders where do we see the OPM of this whole business put together, assuming 2 years from today there are no legacy orders being executed as we are bidding today.

Ravi Keswani: Way forward, we will be comfortable if they(SEC) continue to earn about 7.5%, Punj Lloyd margins will be upward of 11.5%. The average depends upon how the growth happens between these two entities separately which will determine the margins but it will be in between these numbers.

Prashant Jain: Of this Rs. 16,000 crore order book how much pertains to Punj Lloyd at 11.5% and how much would be the Sembawang part of the order book?

Ravi Keswani: Sembawang order backlog beside this Rs. 4,904 crore and rest is Punj Lloyd, which is about Rs. 11,000 odd crore.

Prashant Jain: Is it correct to say that the Rs. 11,000 crore out of Rs. 15,000 crore order book is roughly at 11 odd percent, and the balance like of the Rs. 5000 crore half is legacy, half is non-legacy.

Luv Chhabra: We had explained that 55% to 60% is legacy order and 40% is new orders in the case of SEC. We said Punj Lloyd order backlog will have a margin upward of 11.5%.

Prashant Jain: Sure, and did you mention a capex of Rs. 400 crore per year?

Luv Chhabra: That is what Mr. Punj said. The question asked was that going forward what do you expect the capex to be. And his response was that at current revenues of about 1.2 billion, 100 million is a reasonable capex. It is the manageable figure and considering the shortage of equipment all over the world.

Prashant Jain: So you would expect Rs. 400 odd crore to be spent in capex per year over next 2 to 3 years.

Luv Chhabra: That are the indications right now.

Vimal Kaushik: Yes depending upon how much we have to do every year, you see depending upon the order backlog and how much we are able to execute.

Prashant Jain: Okay, and what would be the I mean order of magnitude of the dilution that could be likely in the next or what is the scale of the fund raising that you would potentially look at over the next 1 year or so?

Atul Punj: Yes, I think as we mentioned earlier that we have to finalize the numbers and there is no point speculating on it at the moment, we could give you some number of the top of the hat which could change, so it is better that we wait till we finalize the numbers and we will come back to the market and disclose those numbers.

Prashant Jain: Okay sir, thank you very much.

Moderator: Thank you very much sir. Next in line we have Mr. Sunil Jain from N B Research. Over to you sir.

Sunil Jain: Good afternoon sir. Sir out of this order book how much is fixed price and how much will be the variable cost, and what will be the impact of increase in the steel prices if they are on a fixed price contract?

Luv Chhabra: Very difficult, we have not done those numbers so I cannot give you an exact number, but basically on all the road contracts we are compensated for price increases for commodities.. For all major EPC contracts, bids from vendor are in place for at least 60% to 70% of the procurement items, so those prices get locked in as soon as we get an order.

Sunil Jain: Okay.

Luv Chhabra: Our exposure is, on the balance 20% or 30% of items, which depends on detailed design and engineering, and these are ordered as engineering gets done.

Sunil Jain: You mean to say only 20% to 30% is variable cost?

Luv Chhabra: For EPC contracts. For road contracts, which are cash contracts, there are compensation mechanism for any price escalation in diesel, bitumen, cement and steel that is provided for in the NHAI tender.

Sunil Jain: You mean to say major of the contracts are on fixed price only?

Luv Chhabra: Not fixed price, there is a mechanism to compensate in the road cash contract.

Sunil Jain: No this road project contribution is any how not so big in your order book.

Luv Chhabra: Right.

Sunil Jain: So rest all are more or less only except this 20% to 30%.

Luv Chhabra: If you take a pipeline contract for example where the client is supplying the pipelines, you know the material component is minimal; it is mainly consumable and there is also exposure on diesel price.

Sunil Jain: Okay.

Luv Chhabra: It depends on which segment you are looking at. We mentioned that when you are analyzing EPC contracts, when the order is received by us we already have bid for a significant portion of procured items (may be 60% or 70% in that order of magnitude) so those prices are locked in and orders for there items are placed within a short period of getting the contract.

Sunil Jain: Okay fine, so means this increase in this steel prices may not have major impact on your margins.

Luv Chhabra: It would not be that significant, there is obviously some exposure and we have ways and means of mitigating the risk.__.

Sunil Jain: Okay, and sir second thing, can you give us some detail about this engineering service any development is happening in the Indian subsidiary and all.

Luv Chhabra: Yes we are up to almost 300 engineers. The work has started on, a lot of the new projects. The new projects, which have been taken by Simon-Carves in UK, have in the project built in a certain amount of engineering that would be offshored into Simon-Carves India. As time passes, the capability of Simon-Carves India will grow significantly and we will see that in the next couple of years, Simon Carves India will be doing work not only for the Punj Lloyd Group but also for third parties.

Sunil Jain: 300 engineers are all placed in India.

Luv Chhabra: In Gurgaon.

Sunil Jain: Gurgaon, okay fine, and sir can you give us this ethanol plant which you had got the order, how big this opportunity can be in future?

Luv Chhabra: Around the world in countries like United States and almost every country in Europe has now mandated that within a certain time period over the next 4 to 5 years, compulsorily 10% blending of bio-ethanol has to take place in gasoline and diesel. Which countries like Brazil, for example, are surplus in bio-ethanol, but their own fuel requirements are going up and their blending percentages are also going up. Europe on the other hand is extremely short on bio ethanol right now, so there is a pretty large opportunity for investors putting up bio ethanol plants in Europe, which would obviously translate into significant opportunity for Simon-Carves to set up more and more, of these plants on an EPC basis. We will see plants coming up not only in UK but in many other countries in Europe.

Sunil Jain: This you had planned for wheat, this is based on wheat.

Luv Chhabra: The one in UK which Mr. Punj mentioned uses wheat as a feedstock, UK is surplus in wheat and that wheat is not good for human consumption it is good as animal feed, so what happens is that this 2 or 3 million tons of surplus wheat in UK will be used to produce bio ethanol, and the by products from the bio ethanol plant can be used as feed for animals or as fuel for power generation.

Sunil Jain: But you got the capability to set up the ethanol plant using other feedstock also?

Atul Punj: Yes, different countries and regions have different feedstock, like in Brazil you have sugarcane, in the US you have corn, and UK you have wheat, in western Europe you will have sugar wheat, and South East Asia we will have palm oil.

Sunil Jain: But Punj Lloyd can take up those projects.

Atul Punj: Yes.

Sunil Jain: Okay, and sir last question, can you give me 10 month SEC EBITDA number?

Ravi Keswani: For 10 months SEC EBITDA number is Rs. 42.43 crore.

Sunil Jain: Okay sir, thank you very much.

Moderator: Next in line we have Mr. Venkatesh Balasubramaniam from Citigroup. Over to you sir.

Ventakesh: Yes, sir, I was just clarifying because I had earlier asked you this question - what is the gross block of the company and you mentioned a figure of Rs. 1,288 crore, is that the gross block or the net block?

Luv Chhabra: Rs. 1,882 crore was the gross block and Rs. 1,247 crore was the net block.

Ventakesh Balasubramaniam: Sir because why I am getting confused is last year when you did not have around SembCorp the gross block was around Rs. 890 crore approximately, so I assumed that you would have done at least around Rs. 200 crore capex this year, so this time when you include SembCorp also SembCorp does not have a big gross block?

Ravi Keswani: SEC has contributed about Rs. 500 crore to the gross block, which includes about Rs. 125 crore of goodwill as well, plus there are some real estate properties, they do not have any construction equipment on their balance sheet, but the gross block contributed by SEC acquisition is about Rs. 500 crore.

Ventakesh Balasubramaniam: Okay sir, one final last question, you have a massive order backlog of around 159 billion or so which is perhaps the second largest in the sector after say Larson & Toubro, now as you had told that you know it takes around 24 to 30 months to execute, but if you could also give some kind of idea that how much of this 159 billion can be booked in the current year, because you know we are still little unsure about how much of this road projects in Assam how much percentage is still a part of this gross block, because it is a little difficult to calculate this sales number for the next year if you do not know how much of it is still you know there are problems and things like that.

Ravi Keswani: The order backlog includes about Rs. 800 crore or Rs. 850 crore of the Assam project. It is fairly insignificant number as compared to the total order backlog.

Ventakesh Balasubramaniam: Okay sir, thanks a lot.

Moderator: Thank you very much sir. Next in line we have Mr. Amit Ganatra from Lotus India AMC. Over to you sir.

Amit Ganatra: Yes good evening sir, my question relates to more of your strategy, sir what is the change that you have brought about with Sembawang getting turned around, I mean why a company which was making 1% EBITDA margin can now actually make 7% EBITDA margin, what is the change that you have brought about?

Atul Punj: Well I think it is to do with management retention. You have to recognize that this company was in sell mode for almost 3 years and for about 3 years they would not take any projects with any element of risk or financial exposure and not move into newer market etc. In line with the Punj Lloyd philosophy, we basically opened up the doors for them in various different markets across the world, and they are really realizing the potential that they could have realized even otherwise. Our involvement has pushed Sambawang to be more aggressively than would have happened otherwise. Effectively the timing was right for us to go for the acquisition and the price we paid was extremely attractive. What we have got is now proving to have been a good bet, and I think you would see the same positive ness across the board now kicking in.

Amit Ganatra: Okay sir, one more question is on the margins that I mean with your enhanced capabilities over last 1 year don't you think that with all new orders that you get basically in the I mean refinery segment and all those segments, I mean margin should be typically much higher?

Atul Punj: We are really giving you some guidelines on what to expect, it is our job to try and improve on that, so I would just leave it at that.

Amit Ganatra: Okay, that is it sir, thanks.

Moderator: Next in line we have Mr. Shakti Kapadia from SSKI Securities. Over to you sir.

Shakti Kapadia: Sir you had proposed a fund raising plan and for which you were going to subscribe warrants which as you rightly said since the dilution did not happen you did not subscribe to warrants. My question pertains to the use of funds, what was the proposed dilution plan for, was there an acquisition or something which did not happen or I mean what was the proposed use?

Atul Punj: Yes I think you are right in your guess, we were looking very seriously at a potential acquisition, when we passed the enabling resolution, but we realized when we went into details of that particular opportunity that it was not worth pursuing and that is why we dropped it.

Shakti Kapadia: Okay, so it had no impact on your regular recurring business, I mean what I am trying to get at is that money-raising exercise was nothing to do with your regular recurring business?

Atul Punj: We were building up cash essentially to go after this particular entity, which we finally decided to drop.

Shakti Kapadia: Fine, and one last question on the Reliance order when you said roughly you have got about Rs. 300 crore worth of first order, is this only a service component or it has pipe supplies included in the order?

Atul Punj: It is only construction.

Shakti Kapadia: It is only the service component as in the laying of the pipelines.

Atul Punj: Yes.

Shakti Kapadia: Okay sir, thank you very much sir.

Moderator: At this moment I would like to hand over the floor back to Mr. Atul Punj, Chairman of Punj Lloyd Limited, for the final remarks. Over to you sir.

Atul Punj: Thank you ladies and gentlemen for attending this call. We hope we have answered most of your questions. In case if you have any more details that you would require you can contact Mr. Ravi Keswani or just drop us a mail on the web and we will be happy to respond to it. In conclusion once again I would like to say that we see a robust future for all of us and we trust that we shall be able to only surprise you positively going forward. Thank you all for being here.