PUNJ LLOYD LIMITED

Analyst / Investor Conference Call

November 6, 2006

Presentation Session

Moderator: Good afternoon ladies and gentlemen. I'm Johnson, moderator for this conference. Welcome to the Punj Lloyd conference call. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Nitin Tandon of Citigate.

Nitin Tandon: Thank you and a very good afternoon to everybody joining on this conference call, for discussing Punj Lloyd's H1 results for FY07. We have with us Mr. Atul Punj, Chairman, Mr. Luv Chhabra, Director, Mr. Anil Aggarwal, CFO and Ravi Keswani, Executive Director of Punj Lloyd Ltd. We will begin with some open remarks from the Punj Lloyd management team, following which they will be glad to take up questions and discussions with you. With this I'd like to now invite Mr. Atul Punj, for his opening remarks. Thank you.

Atul Punj: Good afternoon everybody and welcome to this conference call. We are here today to discuss the H1 results, the details of which I will leave to my colleagues. What I would like to say is that we are fairly excited about the prospects going forward. To put things in perspective, when we went on our road shows last year, I think in the month of December, our order backlogs stood at Rs.3,700 crore. That number is now up to around Rs.11,427 crore approximately, which shows the rapid growth that we are witnessing in all the sectors that we are present and most of the countries and geographies that we are present in. We also feel that the quality of the order book is improving, on an ongoing basis. There is a severe constraint of service providers like us to project or infrastructure space, which puts us in a unique position, and essentially our focus is on how we are going to capitalize on this going forward. So with that, I personally would like to open it up for the Q & A. So let's roll with it.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing # key.

Our first question comes from Ms. Madhuchanda Dey of IL&FS.

Madhuchanda: Good afternoon Sir. My question pertains to your operating margin. While I understand as you had discussed previously also that the consolidated margin has been impacted by the SEC acquisition, there has been a consequential drop also in the standalone margin, if you could throw some light on that?

Atul Punj: Well, I will leave the details to my colleagues to answer. But I'd just like to bring one thing to the attention of everybody on the call. You have to understand that we are in a business of construction and what we find is that almost every contract, the target moves. So it is not possible for us, for example, being a fertilizer company where you can determine what your gas cost is, what your transportation cost is and all your other utility expenses. Every project for us really is an independent project. So it's impossible to have one fixed number. We can have a range that we talk about, which we do internally when we estimate and bid on projects. At the same time, sometimes you will go in for a project to enter a particular new sector; you will take what you call an entry price to build a pre-qualification. Largely, now that phase, we find is behind us. We have qualifications in almost all the areas that we are interested in going forward and with that I will hand it over to Anil, he can throw some more light on the specific question that you asked.

Anil Aggarwal: With regard to the stand-alone numbers, what happens is that we carry on various projects under, either branch office or through the subsidiaries. In this particular quarter we have transferred the entire business of our Singapore branch to a wholly owned subsidiary in Singapore and therefore a large revenue coming from that branch has shifted to the consolidation. The right way to look at our Company is on a consolidated basis and not exactly, on a stand-alone basis..

Madhuchanda: Yes, I got the point. The second question is, of this Rs.11,427 crore order backlog that you are having what percentage of it would be typically inherited from SEC and would therefore have very low margin? Could you throw some light on that?

Anil Aggarwal: The order backlog from SEC is Rs. 37 billion as of 30th September.

Madhuchanda: Rs.37 billion as on September?

Ravi Keswani: Rs.3,700 crore as on 1st October.

Madhuchanda: Okay what could typically be the margin of the rest of the order book excluding this Rs. 3,700 crore?

Anil Aggarwal: As we had mentioned earlier and Atul also mentioned just now, each contract is a specific contract; it has its own component of engineering procurement, construction work. What we say is that on the basis of order book the range of EBITDA margin should be between 12% to 14%.

Madhuchanda: What is the total execution period for this entire order book of Rs.11,427 crore?

Anil Aggarwal: Again it depends on which segment of order book we are talking about. In pipelines generally it is a short-term duration.

Madhuchanda: Yes, Sir I wanted the blended execution period. I understand that different projects would have different execution period, ball park what is the blended execution period?

Anil Aggarwal: Slightly above 24 months.

Madhuchanda: If you could also give me the sectoral breakup of this particular order book?

Ravi Keswani: That Madhu is available on our website and you can check it there.

Madhuchanda: Okay Sir, I will do that, thanks a lot Sir.

Moderator: Our next question comes from Mr.Venkatesh Balasubramaniam of Citigroup.

Venkatesh: Hello Sir, just a small question. Your EBITDA without other income is roughly around Rs. 697 million for both Punj Lloyd and SembCorp consolidated and your profit is Rs. 334 million. Could you just give a breakup of these two along with Punj Lloyd and SembCorp separately; the EBITDA and the profits?

Anil Aggarwal: You are asking for this quarter?

Venkatesh: Yes Sir, for the quarter.

Anil Aggarwal: EBITDA for Punj Lloyd without SembCorp will be Rs. 81.38 crore including other income. Other income is Rs. 9.44 crore.

Venkatesh: What would be the profit for Punj Lloyd consolidated alone?

Anil Aggarwal: PAT is Rs. 35.58 crore.

Venkatesh: Does that mean we have made some losses on SembCorp side in this quarter Sir?

Anil Aggarwal: That's right. With the SembCorp combined it is Rs. 33.68 crore.

Luv Chhabra: I just want to point out to you that the minor loss that you see is because all the financial facilities had to be taken over from the parent - SembCorp Industries for SEC so there was a financial charge which was really a one-time charge for the up-front fee, which was paid to the bankers. So if you knock that off, then they are marginally profitable.

Venkatesh: Okay Sir. On the order backlog of SembCorp**, which** is roughly around Rs.3,700 crore, are there any incremental orders that have been won this year?

Atul Punj: There have been some amount of small orders that have been received both in Simon Carves and SembCorp**,** but they are small orders. I think the big ones are expected in the second half of the year.

Venkatesh: Okay Sir, thank you.

Moderator: Our next question comes from Mr. Ashish Sharma of Darashaw & Company.

Ashish Sharma: Good afternoon Sir. Congratulations on a good set of numbers. My question pertains to your entry to the BOT project. You mentioned in your last conference call that you may be going forward and take to the BOT project, are there any developments on this front?

Atul Punj: Generally it is our belief that we are a construction company and not necessary developers in the shape of GMR etc. It has been our preference not to really lock up capital in these road BOT type projects and we've been basically trying to look now for cash contracts which are generally financed by the ADB, World Bank etc. and now what we find is that the real opportunity is in making good profitable numbers on road projects, not BOT, are really outside India. So we are now starting a shift of our marketing strategy on the civil side to take that business overseas as well. We are likely to re-visit the opportunity for development but unlikely to focus on the highway sector. There are other areas where we could potentially look at becoming developers going forward, but unlikely to be in the road sector.

Ashish Sharma: Okay Sir. Regarding the development on the SEZ side, right now there is some sort of confusion as to what would be the future. What is your strategy on that Sir?

Atul Punj: In Sembawang we have the unique position of having worked on a large number of industrial parts and SEZs all those that were developed by the Singapore Government within Singapore as well as in China, was really done by this subsidiary of ours. So we find ourselves in a unique position where I think probably we are the only group in the country that has overall master planning down to individual construction expertise on all the SEZs that have been approved. So we currently are in the process of disclosing our capabilities to a lot of the developers. We have identified I think 20 of them and we are currently knocking on their doors. So we do see that something will start happening, how quickly it happens is something that is not really in our control. But we do believe that sometime next year we should start seeing some of the orders coming in.

Ashish Sharma: So no new developments in Q3 and Q4 on SEZ.

Atul Punj: I think it is premature right now because a lot of them are still firming up, what their own plans are, what really they would like to put in place. I think the only exception to that probably would be the Reliance Bombay SEZ the rest I think are still pretty much in the planning stage.

Ashish Sharma: Thank you Sir. I will come back for a follow-up question if there is time.

Moderator: Our next question comes from Mr. Alex Kwok of Thames River.

Alex: Can you describe to us your recent conversations regarding the Saudi JV and whether you still feel that you are on course to win orders from that entity to be realized in the next year's revenue?

Atul Punj: The entity has just now received its commercial registration. As you know in the Kingdom it normally takes about 18 months to be able to start commercial activity, we've got it in about 4 months and so we are on track now. Things were very slow in the Middle East because of the Ramzan period, which got over on the 24th of last month. We now have a series of visits over there and yes, I think we are on track to achieve what we set out to achieve. So we are quite comfortable on that.

Alex: Okay thank you.

Moderator: Thank you Sir. Our next question comes from Mr. Rakesh of Rare Enterprises.

Rakesh: Good afternoon Sir. Sir, my question is, you have such large volumes of orders and you are now looking at say a turnover of $ 2.5 billion or so. Sir, do you think you will have some additional need for capital? How are you preparing yourselves to execute such large orders?

Atul Punj: Good questions. Firstly, yes we are very comfortable on the order backlog and we are not currently looking for additional capital, if we are we will pick up the phone and call you first. Secondly, the biggest challenge for a Company like ours in the construction space today is to retain talent and get new talent to come in. The other way of resolving this question is rather than going for small size of orders we are now raising the level to go in for larger single orders so the same project team that would execute a $30 million order will be able to achieve say a $300 million order. So at minimum threshold of single orders we have now raised internally, so we feel that is one immediate way of resolving this issue going forward. The other initiative that we have taken is that now we have started hiring a lot of multinational workforce especially at the management level. We currently have about 11 nationalities working in the Company and we see that, that is going to be a trend that will be true for almost all companies in our space in India.

Rakesh: Sir another question I have is, what are the orders that you have in the pipeline? Do you have some large orders in the pipeline?

Atul Punj: Yes we do. But I don't think I would be allowed to disclose them. We are low-bidders on a substantial amount of work and I think you will start seeing some disclosures coming in the next couple of weeks.

Rakesh: Thank you Sir.

Moderator: Our next question comes from Mr. Nitish Ojha from Taurus Mutual Fund.

Nitish Ojha: Good afternoon gentlemen. Sir a lot of your revenues come in the form of foreign exchange, are you actively managing your forex exposure?

Anil Aggarwal: What we do is, at the time of taking the order, we try to match the revenue and cost in a particular currency and whatever exposure remains there, that is actively managed through the hedging covers.

Nitish Ojha: I see. Roughly how much of your foreign exposure would be hedged? About 30% or 80%?

Ravi Keswani: Basically if you look at our operations in the Middle East, Middle East currency is pegged with the dollar, so the expenditure is either in dollars or in the local currency so there is no hedging requirement in the Middle East region. For the rest of the regions where we are working in, the currencies in which our contract value is specified and the expenditure in different currency, in those case to case basis, we do take the requisite hedging covers.

Nitish Ojha: Okay. Sir, my second question is, a lot of your input costs over the past 18 months have been increasing steadily – cement, steel; do you see any fall out on your EBITDA margin going forward?

Atul Punj: This was one of the risks that we ran when we were doing a lot of the annuity and BOT type projects where the cost is fixed. Consciously we moved away from that. In all the road projects that we have right now, the input costs are passed through to the clients. So we have really moved away from that fixed price contract regime into where we are able to pass through cement, steel, diesel etc. increases to NHAI or RITCO for example in Rajasthan. Though that was a deliberate move; after we suffered last year, as you all know, all companies suffered.

Nitish Ojha: The last question, Sir, your order book has grown from Rs.3,500 to Rs. 11,400 crore over a short period of time, can we have a broad guideline as to what is the rate at which your order book is growing?

Atul Punj: Well it is difficult to put a percentage number on that. But all that we can say is that we see an extremely strong deal flow and for the first time in my working life I find the company being sought after by clients to actually bid on projects, because companies are having real problem finding credible contractors that can deliver projects to quality, to safety and on time. So it is a sweet spot that we are in right now, you see the environment is very robust and I don't want to go into any more predictions than that.

Nitish Ojha: Okay great, thanks.

Moderator: Our next question comes from Mr. Ruchit Mehta of HSBC Asset Management.

Ruchit Mehta: Hi Sir. I just wanted to understand in terms of your SembCorp subsidiary how do you see profitability improving over there? Can you just outline the steps that the Company has taken to improve the margin and profitability? In the fiscal year 2008 will SembCorp continue to be a drag or you will see it improve substantially?

Atul Punj: Well what you need to remember is that this company was in sell-mode for almost 3 or 4 years. So when you have a company in that kind of situation for that long, it's obviously going to have a negative impact. Having said that, now since we have moved in and we have been spending a fair amount of time with them we have now been pushing them to get more aggressive and we have also raised the bar on the minimum margin that they would get projects on. We are lucky that we acquired this business at a time when the opportunities are as large as at this hour in the world. So, we see that this would definitely improve. Having said that it is difficult to really say that it will really happen in the next quarter or the next half year, because as you know you bid a project, to finalize it would take typically about 5 to 6 months and by the time it starts turning into revenue it will take another 6 months. I would really say that you would start some impact of this in 2008 on a realistic basis. But it will not be a drag, I am quite confident that it will start contributing sooner rather than later.

Ruchit Mehta: But Sir if you were to sort of put it quite differently, like I want to bring SembCorp's margin up to my company's level, what time frame would you expect that by Sir?

Atul Punj: As I said you would probably start seeing that happening by 2008 results.

Ruchit Mehta: Okay and you would expect to bring it to at least the Indian entities' margins?

Atul Punj: No, the nature of their business is different so I think you will start seeing that more in the 8% to 10% range. But overall it will obviously make a big difference to our numbers. There is the subsidiary in Manchester, which is Simon Carves I think that you would probably start seeing also in the 8% to 10% range, so that generally is our objective. We are working hard to achieve that objective in the shortest possible period of time. But it really depends on the order in-take.

Ruchit Mehta: Okay. Sir on your working capital cycle, what's the consolidated working capital requirement including SembCorp?

Ravi Keswani: Normally, the working capital requirement is between 110 to 120 days. The working capital was about Rs. 14 billion i.e. the net current asset position, consolidated was about Rs. 14 billion as of 30th September.

Ruchit Mehta: Okay. Sir, then if you are executing almost Rs. 11,000 crore worth of orders over the next 24 months, we are looking at almost close to Rs. 3,000 odd crore of working capital requirement. So the balance, this gap that you have of almost Rs. 1600 to Rs. 1800 crore, you would more or less be able to fund it through internal accruals?

Atul Punj: Well you know most of our funding for projects is project specific where a project is taken to a bank or a set of banks and you ring sense that particular project for funding which typically takes your working capital requirement up and down as the project cash flow moves. So typically, we find that we are in a reasonably comfortable position to manage that kind of funding and of course in terms of accruals are also likely to kick in and contribute to a fairly decent extent.

Ruchit Mehta: What will be your typical fixed capital requirement?

Anil Aggarwal: As you might have seen that we have been spending on the construction equipment in the last 1 or 2 years. Whatever we had planned investment, that we have almost finished either for replacement or for new projects in new geographies; when requirement comes, we'll have to do justice to that project, so it is very difficult to give numbers.

Ruchit Mehta: Okay. In terms of numbers what is your asset turnover ratio Sir? I mean Re. 1 of asset will deliver what Rs. 10 or Rs. 7 of revenues?

Ravi Keswani: Numbers for this year, we are expecting to be close to about 4.

Ruchit Mehta: 4 times?

Atul Punj: Yes, 4 times. But in the past we were criticized for having a poor asset turnover ratio but now we find that the availability of construction equipment is just not there because of the amount of activity going on in this space. So we find that has become one of our biggest advantages the fact that we have a large asset base for clients is now an extremely positive factor.

Ruchit Mehta: Okay. Sir, just one last final house-keeping question, can you let us know what is the cash, the debt, and the capex for fiscal 2007. The cash and debt as on date and the capex for fiscal 2007.

Anil Aggarwal: Cash as on 30th September was Rs. 857 crore. The debt was Rs. 1,400 crore.

Ruchit Mehta: Okay, capex fiscal 2007?

Ravi Keswani: We are likely to add about Rs. 550 crore in the current year.

Ruchit Mehta: Okay. Thank you very much and wish you all the best.

Moderator: Our next question comes from Mr. Dipan Mehta of Dipan Mehta Shares.

Dipan Mehta: Congratulations on a good set of numbers. I just wanted to understand in the acquired SEC, I think one of the considerations would have been the man power and the construction equipment which is there. My question relates to the human resources which are present in SEC. Given that at this point of time in the industry you and all other players are facing a shortage of qualified man power, how easy is it to leverage the technical man power as in SEC for existing products of Punj Lloyd or that is not possible at all?

Atul Punj: Manpower is a challenge across the whole country in almost every sector. So that is a function on which we are on a 24X7 basis, and I think top management is spending 50% its time on basically recruitment of people. So that is going to be a reality, going forward I would expect, at least for the next 8 to 10 years, as we are seeing things happening in the areas that we are working. The challenge in front of us is to raise the single value of contract, from our average of $ 33 million right now, to a level of minimum $ 200 million per single order. This transitioning from where we are today to that would probably take us about a year-and-a-half to actually achieve and start showing up in numbers and that's one of the biggest objectives of the McKinsey studies that is going on right now, this whole program that we are in the middle of right now. So there is going to be an issue but I think we are ahead of it, our attrition levels I understand from what I was told by our HR people are among the lowest in the industry as on date. So I guess we are doing something right and at the end of the day we have to empower the same set of people with a larger single-size project which I think is the simple answer.

Dipan Mehta: Sir, my question is related to, does SEC have spare capacity, not just equipment but even man power, which you can leverage and use.

Atul Punj: Yes, SEC does have man power that we are using right now in a lot of bids that are going in especially on the metro systems, on the airports etc. which we are now actively pursuing with them. So the manpower assets that they have, the resources that they have are a big advantage to us. In terms of construction equipment if you remember, SEC and Simon Carves are both asset light companies, which is why the fit was perfect. They were in a business of basically outsourcing their construction part and Punj Lloyd is in the business of construction, so that's where the fit was perfect. So the combination is beginning to work well when we present ourselves to clients like Exxon Mobil or to the new airport operators, it is going very well with them. So we do see that the combination in the resources of the 2 companies or 3 companies is a very strong add on.

Dipan Mehta: Okay. Just one quick question Sir, in your presentation of your web site you had given a forecast of $ 1608 million as the projected revenue, are you sticking by that or is there any change in the revenue?

Anil Aggarwal: We haven't given any such numbers

Dipan Mehta: On the website there is a presentation, Investor presentation.

Anil Aggarwal: I think that is an extended line based on the total of what we have given as a guideline for PLL. We had given Rs. 3,200 to Rs. 3,500 crore as the expected revenue for 2007. Then we had also separately stated that the acquired business has done about a billion Singapore dollars last year, so what has been given there is just an addition of these numbers.

Atul Punj: I think what that presentation actually shows is that assuming that it is on a full calendar year basis, but as you know SEC and Simon Carves were acquired only in the month of June, so it is not a 12-month consolidation for them.

Dipan Mehta: So what is your guidance for the group as a whole for the current year?

Anil Aggarwal: We have only guidance for Punj Lloyd, which is Rs. 3,200 to Rs. 3,500 crore and 10 month's revenue for SembCorp would be something like Rs. 2,300 crore or thereabout and that would take us to some $1.2 billion and that's the estimate.

Dipan Mehta: Okay, thank you. I have some more questions, I will get back later.

Luv Chhabra: There was one question on the total debt; I just wanted to clarify that. When the figure of total debt was given, in that, there is a $ 125 million FCCB component, which we expect will convert, so in effect the true debt will come down by that amount.

Moderator: Thank you Sir. Our next question comes from Mr. Sohas Naik of IL&FS Limited.

Sohas Naik: Good afternoon Sir. I just wanted to understand the activity level in SembCorp, in terms of what is the pipeline there, are we now aggressive in terms of bidding there, or are we still in the process of re-structuring the operation?

Luv Chhabra: There is no need really to re-structure the operations. The companies under the SembCorp group are all robust companies. They are sort of world leaders in every field in which they operate. As Mr. Punj mentioned they have done substantial airport work, MRT, LRT work, so the bidding process is going on as normal. What's happened now is that there is a much stronger parent now, which understands the engineering and construction business. Simon Carves as has been the practice earlier continues to bid for petrochemical projects,SEC's field that is Sembawang Engineers and Constructors field of operation has been expanded quite substantially. They are now aggressive players in the Indian sub continent and as and when the Saudi Arabia operations start they will also be aggressive players in the Middle East particularly in the Saudi Arabian market. So there is no great re-structuring that is going on. We are taking the group to new robust markets and that process is on at the moment.

Sohas Naik: Okay. And in terms of the new areas where you are focusing right now, where do you think the kind of momentum will be? In the airports, or ports or whichever new areas you are focusing right now?

Atul Punj: Well clearly I think India is going to be a robust opportunity as well as be the Middle East. And also we are finding now the Libyan opportunity is looking very good. What is happening is that we find that almost every developing country now understands that unless you fix the infrastructure there is going to be no movement in the economy. Countries like Libya that were under sanctions for 25 years but were exporting oil are sitting on bundles of cash and now that the sanctions have been lifted they are seeking to build out their infrastructure very rapidly. So across the board when you look at Saudi Arabia today I was reading there is another economic city that's been announced, a $ 26 billion investment. These are all great opportunity for us. If you look at the opportunity on the SEZs alone in India where we have a unique positioning, again there is going to be a large opportunity. So across the board we feel there is a robust pipeline of opportunity, how much of it we convert will depend on really the margin that individual project will give us because we are not wanting to bottom fish. We want to make sure that we are a Company that delivers, takes in its fair margins and deliver the project to time and quality expectations.

Sohas Naik: Okay, thank you.

Moderator: Our next question comes from Ms. Shreya of Enam Securities.

Shreya: Good afternoon Sir. I just wanted a clarification on SembCorp's operating margins for this quarter, if I go by the numbers that you gave me, the EBITDA number Rs. 81 crore excluding SembCorp, and then it is amounting to Rs. 2.2 crore loss in SembCorp?

Atul Punj: As was mentioned earlier that really the reason for the loss in SembCorp was the one-time financial charge which we had to replace the bank guarantees that had been issued by the earlier parent of SEC. So it is a one-time hit and if you take that out, it was a minor margin, but not a loss.

Shreya: Okay, what was the one-time charge Sir, if you could give the numbers?

Atul Punj: About a million dollars, about Rs. 4.5 to Rs. 5 crore.

Shreya: What is the margin working out to in that case?

Anil Aggarwal: The independent SembCorp operation for this quarter has resulted to about Rs. 11 crore of EBITDA with a margin of 1.79%.

Shreya: All right Sir. Sir one more thing, on the capex numbers you just mentioned, if you could re-mention them?

Atul Punj: We expect to spend about Rs. 550 crore on additional capex.

Luv Chhabra: If you look at the 2 financial years, let's just club the 2 financial years, which is the last financial year and this financial year the number will be in the range of about Rs. 650 to Rs. 670 crore or thereabouts.

Shreya: All right Sir, thank you.

Moderator: Our next question comes from Mr. Kaushik of KB Capital Market.

Kaushik: I just want a clarification on this SEC; you are talking of the current margin of 1.7% being ramped up to 8% to 10% in 2, 3 years?

Atul Punj: I think by 2008 we should see that trend emerge. As I explained a little earlier, the time line to qualify a new project, to build a project, to bid it, then mobilize it and then start generating business that itself is like a 9 to 12 months cycle. It has begun only 2 months ago. So by the time it really converges to revenue, converge into numbers that you all will witness I think realistically speaking, we are talking by 2008, it will not be right to promise anything earlier.

Kaushik: Okay. On the Medicity project can you comment something?

Atul Punj: Well, Medicity's construction is under full swing, we are looking to having it commissioned in 18 months. It is going well, I think it is a good investment, we have already seen a huge upside on the real estate values itself over there. As you know that the medical city is one part, there is a large commercial hotel, service department, residential piece in there also which I think is almost 20 acres. What we are also witnessing is the fact that now it is being converted into SEZ brings its own upsides in terms of construction costs, we'll take out the excise, sales tax, and all those elements will get removed. We also see that there is a lot of attention coming in from biotech companies that want to now put up facilities in there for research, so I think it's been a good call that we have made all round.

Kaushik: Okay, thank you.

Moderator: Thank you Sir. Our next question comes from Mr. Gautam Bhupal of UTI Asset Management Company.

Gautam: Hello good afternoon Sir. Sir if you can tell us what kind of PAT margins you can expect this year and my second question is based on your order book, what kind of growth can we expect in 2008 over 2007?

Ravi Keswani: It will be difficult to comment anything on the PAT margin. But as we have earlier given the guidance that Punj Lloyd without SEC, the margins will be in the range of 12% to 13.5%, EBITDA margin.

Gautam: Okay. And Sir what kind of growth one can expect next year?

Atul Punj: We don't want to get into too much of predictions over here, because every time I talk I get rapped on my knuckles by the finance boys here. But all I can say is the trend is quite clear, we see that there is almost a 3 time increase in the order backlog in 1 year having taken into account a fair amount of execution that is gong on as we speak. So it is seeing a fairly aggressive trend going forward. The key is not to overtrade. The key for us is as I said we have to now start making sure that we retain our reputation for delivering projects on or before time. So that is our focus and I think the opportunity is large enough out there for us to be able to maintain this philosophy. In a way we can cherry pick.

Gautam: Okay, thank you very much Sir.

Moderator: Our next question comes from Ms. Srividhya Rajesh of Sundaram BNP.

Srividhya: Good afternoon Sir. I just wanted to check if it is possible to outline the road map of how the operating margins will expand in your SEC business going forward.

Atul Punj: As I mentioned earlier, this is a business in which we are very uniquely positioned to take advantage of. We are seeing a lot of opportunities whether it is in the logistics space, that is building warehousing, perishables, transportation, airports, MRTs and because the size of the opportunity is as large as it is, when you start looking at the Middle East as well, we feel that we are in a position to start moving them up and that really happens at the bidding stage. When you bid a project taking into account all costs, contingencies potential risks etc. and you put a number on top of that we are seeing that the market is allowing us to really bid projects successfully by adding those numbers up. So that clearly is the way to move the operating margins upwards. We are also in the process of setting up a large back office to provide engineering services both to Singapore and Manchester as we speak. I think we are up to 200 people right now, and we expect that to grow to about a thousand people and we find that our costs in India are about one fourth of what they are in the U.K. and about half of what they are in Singapore. So we see that also as being a part of the strategy to start bumping the numbers upwards.

Srividhya Team: Sir one more question, in the pipeline business now there has been a trend in India to actually give the business to foreigners and there was a report of Reliance giving it to Chinese players can we just know what the trend out there would be?

Atul Punj: This comes back to our de-risking strategy as a company. We decided many years ago that we would never be dependant on any one economy. The fact that we are now present in about 14 or 15 different geographies allows us to cherry pick. The issue of that particular project you mentioned is one of price; there was a particular point below which we were not prepared to go. If we were only an India player, okay then we may have been forced into dropping our prices to that extent. But the fact that we are present in Abu Dhabi in the pipeline space in Libya we have a major project, in Indonesia we have 2 large projects signed in we don't need to get desperate about taking projects at any price. The Chinese as we all know are not always in an economic mode when they bid projects, because they are state owned companies; they have different agendas behind their pricing. So frankly, in most places if I find that a Chinese company has qualified we don't even waste our time bidding. So the trend that you talked about I don't believe is something that's going to stay, I think it is pretty much a one of opportunity and I don't believe it's going to sustain itself. Having said that the fact that we are in so many countries, we have the ability to pick and choose without getting desperate for pricing.

Srividhya Team: And Sir, in terms of the breakup for the capital investment, could you tell us how much of that money would be spent within India and how much would be outside and would it also include your own investment that is in Medicity?

Atul Punj: It does not include the Medicity investment and the investments really would be for Punj Lloyd companies because Punj Lloyd is the only Company within the group that actually does its own construction. The spend would be for projects in different countries that Punj Lloyd does operate in. It would include Qatar, it would include Saudi, it would include Libya and it would include Yemen as well and Indonesia.

Ravi Keswani: I think this question is irrelevant because most of our equipment is mobile equipment and they get shifted from one project to another project.

Srividhya Team: Sir, the point, which I was trying to make, was that because you are present in so many countries, is there some minimum investment that you need to make in each of these countries?

Atul Punj: No. These are projects that we execute. We go and do the construction and we get out if we do not have another project. But typically the geographies that we select are the areas where we feel that we will have continuous work going forward. So for example on the Libya project on the construction equipment side we are not proposing to buy any great amounts of equipment because it is dove tailing with the completion of some of the other projects we are doing with India and Indonesia. Similarly in Yemen we are finding the same strategy going forward and Qatar again is going to be another such opportunity. So to the maximum extent required we are going to move our existing equipment fleet and basically focus on top ups where we need to.

Moderator: Our next question comes from Mr. Nayan Mehta of Techno Shares and Stocks.

Nayan Mehta: Congratulations on the good set of numbers for the first half year ended September. Most of my questions have been answered. However, I would like to know about the consolidated break up of order back log in case you can give some insight on SEC's contribution to the order backlog of Rs. 11,400 crore.

Atul Punj: Well out of the Rs. 11,400 crore I think the number of SEC is Rs. 3, 700 crore so you will see the majority of the order backlog is within the Punj Lloyd itself. This is going to be worked off I would presume over the next 18 months or so. That's pretty much the break up, Rs. 3,720 crore is the precise number out of Rs.11,427 crore.

Nayan Mehta: Okay. Could you also give us the same figure last year?

Atul Punj: Of Punj Lloyd?

Nayan Mehta: No, SEC.

Atul Punj: SEC last year's number we would not have privy to, but having said that there's not been too much order intake that's happened since we acquired it. So this is really an inheritance that we have. The Punj Lloyd number on a standalone basis is approximately Rs. 7,698 crore. That has grown from Rs. 2,800 crore at the time we went to the market.

Nayan Mehta: Okay. Geographically if you can give some break up of this current order backlog, what could be the geography of that?

Atul Punj: I am talking about Punj Lloyd alone now, out of Rs 7,698 crore, 55% is India, Abu Dhabi is 4.45%, Qatar is 4.41%, Yemen is 4.18%, Libya is 17.52%, Singapore is 4.3%, Indonesia is 5.4% and Kazakhstan is 4.67%.

Nayan Mehta: Okay. Thank you so much.

Moderator: Our next question comes from Mr. Rana and team from Kotak PMS.

Rana & Team: Hello, I just wanted to get a sense of the order back log that you have right now would that be of higher margin than the orders which you had been taking freshly would be of higher margin and consequently your margins in the subsequent quarters would be better?

Atul Punj: I don't know how specific I can get on that answer but all I can say is that the quality of the order book has definitely improved. So I don't want to get into too many specifics, as I said, I have the threat of my finance boys rapping my knuckles every time I get off course.

Rana & Team: Sure. In terms of mix between overseas and Indian business, is the overseas business less remunerative or margins are equivalent?

Atul Punj: We find that the margins are generally the same, similar. The advantage in the overseas business is that the quality of the work that we need to do is of a much higher order than India expects, so it keeps the organization at a cutting edge of what is going on globally. So to qualify for companies like Exxon Mobil, Chevron Texaco or Total is not easy. So the fact that we are there really puts us in league with the top boys in this space.

Moderator: Our next question comes from Mr. Puneet Jain of Kotak Securities.

Puneet Jain: Good afternoon, I just wanted a break up of the working capital of Rs. 14 billion in terms of inventory, in terms of debtors and this Rs. 14 billion is it net working capital or is it just total current asset?

Anil Aggarwal: Puneet can I send you that on an email separately? I don't have it right away.

Puneet Jain: Okay. And also, you have a cash of Rs. 8.57 billion and a debt of Rs. 14 billion, any reason for having cash and debt simultaneously?

Anil Aggarwal: Well, part of it is FCCB money, which we cannot use for general purposes because it has specific uses condition attached to it and it is kept in deposits outside the country. That is the largest chunk of total cash. Some cash is here as advance against some procurement that needs to be done.

Puneet Jain: How much investments have been made in SembCorp till date?

Anil Aggarwal: We have taken 100% of the company at 38 million Singapore dollars.

Puneet Jain: Okay. Thanks a lot.

Moderator: Thank you Sir. Our next question comes from Mr. Pinkesh of Way 2 Wealth

Manish Goyal: I am Manish Goyal here, Sir would it be possible to give us break up of revenues, because in the press release you had given a break up of revenues between the 4 businesses and SEC? So would it be possible to give a consolidated break up of revenues between the 4 areas of businesses.

Atul Punj: For SEC?

Manish Goyal: If you can give it for SEC, it will be fine.

Ravi Keswani: I will give you for SEC. Out of the total revenues of SEC for the quarter, 16% of the revenues came from infrastructure in Singapore and about 13% came from infrastructure outside Singapore. Petrochemicals for Simon Carves within U.K. contributed about 29% outside U.K. contributed about 42% of their revenues.

Manish Goyal: Sir, you have indicated a turnover of $1.2 billion for current year. Looking at the order book your order book in infrastructure is at 41% of the total order book. So can we expect that in the current year you're revenue composition would also tend towards the percentage of order books like 41% in infrastructure and 26% in pipelines and things like that? Can you give us some sense how the break up of revenue will look like at the end of the year, for consolidated?

Ravi Keswani: Well the revenues mix, if we exclude SEC for the time being, because SEC on a whole is not contributing anything substantially to the margin. Without SEC we should expect about 65% to 70% of the revenues coming from oil and gas sector and about 30 odd percent will be from the infrastructure side.

Atul Punj: I think you should realize that the build out of infrastructure projects is typically much longer than the oil and gas projects. So you may have a backlog of infrastructure, which is 40%, 41% or 45% or whatever the number is. Typically this would get executed from periods ranging from 24 months to 30 months whereas the oil and gas ones would get executed anything from 9 months to 18 or 20 months, which is why it accounts for a higher proportion of oil and gas.

Manish Goyal: Okay. And would it be possible to give us some indicative operating margins for say for oil and gas sector and for infrastructure projects? Like what are the margins? You will definitely know in oil and gas you have a higher margin, but what would be the band and what would be the band for infrastructure?

Atul Punj: I think we should not get into specifics, but you said it yourself. You yourself answered the question by saying that oil and gas margins tend to be higher than the infrastructure margin. That is generally the trend.

Manish Goyal: Yes. Probably for our own calculation purpose we just wanted to know for infrastructure what kind of operating margins you would be getting?

Ravi Keswani: It is very difficult to give the margin for this. But each project will have different margins. But I guess the general trend is that oil and gas margins are better than the infrastructure margins.

Manish Goyal: Okay. The infrastructure margins would be of higher single digits Sir or more than that?

Ravi Keswani: It will range from a higher single digit to a low double digit.

Manish Goyal: Okay, thank you very much.

Moderator: Thank you Sir. Our next question comes from Mr. Karthi Keyan of StratCap Securities.

Karthi Keyan: Good afternoon. A couple of questions, could you give us a break up of the other income and how does one read these numbers because there is some amount of fluctuation on a quarter on quarter basis?

Atul Punj: Let me answer your second question first, the first one we will take up later. The fluctuation is something that I would like to mention again. We are in a project business and our numbers really roll out based on project schedules. So you will always see a fluctuation and typically over the years we found that H1 typically represents about 30% of our annual and that is the trend that continues this year as well. Unfortunately we are not blessed with summer seasons meant for cool drinks or air conditioners or other white goods or a Christmas season or a festive season. So we have a backlog, which translates itself into revenue over a period of the project schedule. Like we found in the earlier part of this financial year some of the projects got shifted because of 'right of way' problems. For example first time in our history we had floods in Rajasthan where we have a cluster of road projects so obviously we did get impacted. But those issues are behind us and we are on track to come up to our original schedule.

Karthi Keyan: Would this impact directly bear on other income also?

Anil Aggarwal: Well the other income basically comprises of interest from FCCB. In Q2 we had Rs.3 crore interest on the FCCB deposit. Besides this amount other income is on account of various operational matters. It could be sale of scrap it could be insurance claims. They are all related to the construction business, only Rs.3 crore is the interest from FCCB deposit.

Karthi Keyan: Okay. I had one more question if I may?

Atul Punj: Go ahead.

Karthi Keyan: This is regarding SEC's role in bagging orders in India. In case SEC bags an order in India, how exactly would the job be divided between the subsidiary and the parent?

Atul Punj: Well the unique thing about this acquisition was that SEC does not do any construction work themselves. They do construction management. So they would continue with their original philosophy of doing the engineering and the overseas procurement, Punj Lloyd would do the construction and the domestic procurement. So that is the obvious bit that we will do. Similarly with Simon Carves if they work in the Middle East, North Africa, India or South East Asia that again will be a split where they would do the engineering and the procurement piece and Punj Lloyd would come in on the construction piece.

Karthi Keyan: And any part of your current order back log that includes orders received from the subsidiaries.

Atul Punj: Well we have involved them on Medicity where they are providing a lot of project management-type activity. It is not an order that has come for them; it is something that Punj Lloyd has passed on to them. Similarly we have large power project in Rajasthan, the Chhabra power project for Rs. 800 odd crore and there the project and construction management, we are giving to them. So there are different roles that we are carving out in different areas, but that will only increase going forward, and it will be more relevant like we are bidding on the metro project, the tunneling project jointly now, but we have a role cut out separately. Every project will be cut out separately.

Karthi Keyan: Would you be bidding jointly? You were answering a part of my question. Would you be bidding jointly or would one of the entities bid and the other gets the orders contracted? How exactly does it work?

Atul Punj: It depends on the client's pre-qualification requirements. Sometimes we may not qualify independently so we'll bid jointly as Punj Lloyd. At other times, they may quote individually. For example there is a large petrochemical project for almost $ 550 million in Singapore, where we have been qualified jointly with Simon Carves. The client over there, because he feels such a constraint on construction capabilities now, the fact that we bring that expertise to Simon Carves, puts us in a very sweet spot with Exxon Mobil. So we are finding that it is being taken very well by our clients.

Karthi Keyan: Would it be reasonable to assume that jointly you are more competitive than you would have been independently? I am saying from a cost and profitability perspective.

Atul Punj: Well, we hope so that is part of the reason why we went after these companies.

Karthi Keyan: If you had to impose this on the pipeline orders would you still be equally confident?

Atul Punj: No. Pipeline is an area where SEC does not really bring in much capability. That's really something that is true to Punj Lloyd. In pipeline very rarely you find EPC pipeline. Normally a client will get it engineered by somebody and gets the procurement done themselves.

Karthi Keyan: No, when I meant pipeline, I meant the pipeline of orders in the offing, I didn't mean the pipeline industry.

Atul Punj: Sorry, just repeat the question again for me please.

Karthi Keyan: I meant you mentioned about a large pipeline where you are L1, I was just asking you whether these were because of the fact that you bid jointly or you came together or has that helped improve your competitiveness?

Atul Punj: The ones we are now looking at finalizing in the next few months were all projects that were bid out before this acquisition got complete. So the activity in the last two months really had kicked in where we had been bidding on some projects jointly.

Karthi Keyan: Okay, fine thank you so much.

Moderator: Our next question comes from Ms. Roshni of CNBC research.

Roshni: Hello, Sir Can you clarify on your revenue guidance for FY2007 and FY2008 and what percent of this would come from SEC.

Atul Punj: We don't want to get too predictable in what we indicate but I will let Ravi take that question.

Ravi Keswani: We expect that about Rs. 3,000 to 3,200 crore of revenue coming from Punj Lloyd without SEC and about Rs. 2,200 crore of revenue which will be 10 months revenue post consolidation up to March 2007 coming from the SEC group. It will be difficult to give any kind of guidance on 2008 number at this moment.

Roshni: Okay thank you Sir.

Moderator: There is a follow-up question from Mr. Ruchit Mehta of HSBC AMC.

Ruchit Mehta: Sir could you let us know what the fully diluted equity is?

Ravi Keswani: It will be about Rs. 0.56 billion.

Ruchit Mehta: And Sir just for clarification, the order book excluding SembCorp would it be having margins which is around 12% to 14%? Is that correct what I heard?

Atul Punj: Yes.

Ruchit Mehta: Okay thanks.

Moderator: Our next question comes from Mr. Kaushik of KB Capital Market.

Kaushik: This question is on Medicity once again. You talked about this being granted an SEZ or something of that sort. Can you speak a little more on this issue?

Atul Punj: Well you know in this new policy of the government, the Medicity which is a 43-acre development, had applied when the policy came out to be converted into a special economic zone and this would cover medical it would cover biotech, genetics in that whole space. That clearance came through, if I am not wrong, about 2 weeks ago, so that brings to the project all the benefits that would be accorded to special economic zones and we obviously would ride that upside as well. Because not only do we have the construction contract, we also have about 16% equity stake in the company called Global Health which is the developer.

Kaushik: Okay and where is this place?

Atul Punj: This is in Gurgaon just opposite sector 32, very well located so that is good.

Kaushik: And this is how many acres project you said?

Atul Punj: 43 acres, out of which the hospital is about 23 acres and 20 acres is development for all other activities around the Medicity.

Kaushik: Okay, thank you.

Moderator: There is a follow-up question from Mr. Rana and team of Kotak PMS.

Rana & Team: This question is relating to the Saudi Joint Venture, to get an idea of what sort of revenues or construction activity would start maybe in the next 6 months or so, since you have got that commercial registration which you received.

Atul Punj: Well, I expected we should start finalizing contracts in the next 3, 4, 5 months. The conversion into revenue I believe would really happen in the next fiscal it won't be anything significant in this fiscal.

Rana & Team: Right and how large is this project and over what time frame?

Atul Punj: It is a $35 to $40 billion project, it is a green field city that is coming up, and again how large it is, I've been told I can't get specific, but we expect substantial work in that one site.

Rana & Team: Right and what about margins from such projects would be construction since it is into a joint venture how would things be shared?

Atul Punj: Well, it really will be passed through to Punj Lloyd or SEC depending on what the contract is. So the Joint Venture will acquire the contract and then farm it back to any of our group companies.

Rana & Team: Okay, so may be over the next six months we will start hearing about it?

Atul Punj: You will hear about orders but you will not see the revenue numbers till 2008.

Rana & Team: Okay fine.

Moderator: Thank you Sir. Our next question is a follow up, which comes from Ms. Madhuchanda of IL&FS.

Madhuchanda: I have got a follow-up question. As you mentioned the Rs. 3,700 crore SEC order book you are having, how much of that will come into revenue in the second half of 2007?

Anil Aggarwal: As we said, we are not giving any guidance on numbers. We just gave an indication that based on the last year's 1 billion Singapore dollars turnover we expect on a pro rated basis about Rs. 2,300 crore up to March 2007. That will comprise of the past order book and any new orders which we receive this year. But we are not giving any guidance on SEC numbers.

Madhuchanda: Okay and one last question. If you could give an update on the two road projects from NHAI that you have, the 2 big ones, Assam and Rajasthan?

Atul Punj: Well they are on track, both of them got affected by the inclement weather and right of way issues and those issues are now pretty much resolved. There is no pre-engineering work being done in the Rajasthan project to cater to the floods, but generally we find that they are bang on track now.

Madhuchanda: When will they come to revenue for you?

Atul Punj: They will start coming in the rest of the fiscal year and we will start seeing revenues from those projects

Ms. Madhuchanda: Okay thanks a lot.

Moderator: Our next question comes from Mr. Sohas Naik of IL&FS Limited.

Sohas Naik: Sir, can we expect any further improvement in the working capital cycle, the interest cost coming down?

Atul Punj: I wish interest costs would come down.

Anil Aggarwal: As we mentioned that the working capital cycle normally is about 110, 120 days in our line of business, definitely when we execute the contracts we try to see that working capital is managed efficiently and we don't have to put in a lot of money in the inventory and the work in progress. But in India normally it is not just-in-time inventory which is practiced, so we find that we have to carry a lot of working capital but we are working on that and it should come down to the level of 110 - 120 days.

Ravi Keswani: In totality if you see the size of operations for the organization is increasing and so also the size of working capital requirement will also increase in that proportion and the interest rates will continue as per the market trend, which has been rising for the last few months.

Sohas Naik: If you actually look at interest as a percent of your OPM it is around 20% and if you compare it with your peer groups, it may be around 15% typically. So it looks like there is scope for improving that, that's why I asked.

Anil Aggarwal: We also mentioned there was a one-time charge because of taking over of the bank guarantees. So if you break it up into interest on working capital and other charges, we are fine. We are also carrying a lot of equipment so interest is also on the loans taken for the capital equipment.

Sohas Naik: So there is not a substantial scope for improving the working capital cycle that's what I said.

Anil Aggarwal: The scope is there, but your second question was on the interest, so I was giving you the break up of the interest.

Sohas Naik: Yes, thank you.

Moderator: Thank you Sir. There are no further questions. Now I hand over the call to Mr. Atul Punj, Chairman of Punj Lloyd Limited for closing comments.

Atul Punj: Well, thanks everybody for coming on this call and spending your time. We hope we that we are going to have more and more exciting calls going forward and we look forward to the next one which I guess would be sometime in the first week of February. So with that thank you all and look forward to hearing from you all again.

Moderator: Ladies and gentlemen this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you, have a pleasant evening.
